GUIDE TO THE DEBT MANAGEMENT PERFORMANCE ASSESSMENT (DeMPA) TOOL

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Economic Policy and Debt Department (PRMED)

Banking and Debt Management Department (BDM)

TABLE OF CONTENTS

Abbreviations and Acronyms **4**
Acknowledgments **5**
1 Introduction **6**
2 Assessment Methodology **6**
2.1 Performance Indicators 6
2.2 Link between DeMPA and PEFA 7
2.3 How to Score the Performance Indicators 10
3 Performance Indicators **12**
3.1 Governance and Strategy Development 12
DPI-1 Legal Framework 12
DPI-2 Managerial Structure 15
DPI-3 Debt Management Strategy 18
DPI-4 Evaluation of Debt Management Operations 20
DPI-5 Audit 21
3.2 Coordination with Macroeconomic Policies 23
DPI-6 Coordination with Fiscal Policy 23
DPI-7 Coordination with Monetary Policy 25
3.3 Borrowing and Related Financing Activities 27
DPI-8 Domestic Market Borrowing 27
DPI-9 External Borrowing 29
DPI-10 Loan Guarantees, On-lending, and Derivatives 31
3.4 Cash Flow Forecasting and Cash Balance Management 34
DPI-11 Cash Flow Forecasting and Cash Balance Management 34
3.5 Operational Risk Management 36
DPI-12 Debt Administration and Data Security 36
DPI-13 Segregation of Duties, Staff Capacity, and Business Continuity 39

3.6 Debt Records and Reporting 42

DPI-14 Debt Records 42

DPI-15 Debt Reporting 44

Annex **46**

ABBREVIATIONS AND ACRONYMS

BDM	Banking and Debt Management Department (World Bank)
DeM	debt management
DeMPA	Debt Management Performance Assessment (Tool)
DMFAS	Debt Management Financial Analysis System
DPI	Debt Management Performance Indicator
DRI	Debt Relief International
DRP	disaster recovery plan
DSA	debt sustainability analysis
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
N/R	not rated or assessed
PEFA	Public Expenditure and Financial Accountability (Program)
PI	Performance Indicator (PEFA)
PRMED	Economic Policy and Debt Department (World Bank)
SAI	supreme audit institution
T-bill	Treasury bill
T-bond	Treasury bond
UNCTAD	United Nations Conference on Trade and Development

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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 (DeM) performance, using the Debt Management Performance Assessment (DeMPA) Tool. The DeMPA is a methodology used for assessing public DeM performance through a comprehensive set of 15 performance indicators spanning the full range of government DeM functions. It is based on the principles set out in the International Monetary Fund (IMF) and World Bank's *Guidelines for Public Debt Management,* 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 as a user-friendly tool for undertaking an assessment of the strengths and weaknesses in government DeM practices. This "Guide to the Debt Management Performance Assessment Tool" (Guide) provides additional background and supporting information so that a non-specialist in the area of DeM 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 and evidence required, and the questions that could be asked for the assessment.

The Guide principally provides detailed background information and rationale for each Debt Management Performance Indicator (DPI). 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 the central government to report on total public debt, total nonfinancial public sector debt and loan guarantees are included in DPI-15, titled "Debt Reporting." It

1. The *Guidelines* are available on the Web sites of the World Bank, http://treasury.worldbank.org/, and IMF, http://www.imf.org.

2. In addition, a list of key references is provided in the annex.

should be noted that the DeMPA does *not* assess performance in managing the wider public debt if that debt 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 DeM 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, including all critical activities, while ensuring that the assessment and the number of indicators are manageable. The DeMPA performance indicators encompass the complete spectrum of government DeM operations and 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 (see section 2.3). Consequently, an assessment showing that the minimum requirements are not met clearly indicates an area requiring reform, capacity building, or both.

2.2 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. As a practical first step, the assessor should determine whether a PEFA assessment has been undertaken in the country. If so, the assessor should contact the PEFA Secretariat for any publicly available information on the results. Alternatively, if a DeMPA assessment precedes a PEFA assessment, the assessor should convey the results if publicly disclosed by the country 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 macro variables and a debt sustainability analysis, and the frequency with which it is 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: Complete and up-to-date records of all holders of government securities in a secure registry system DPI-15: Debt Reporting Dimension 1: Meeting of statutory and contractual reporting requirements of central government debt to all domestic and external entities Dimension 2: Meeting of 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 Additional references include the following: DPI-8: Domestic Market 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 auditing 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
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 auditing 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.

If a dimension cannot be assessed, a designation of N/R (not rated or assessed) should be assigned. 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 the necessary condition for effective performance under the particular dimension being measured. It is therefore recommended that the assessor begin with a score of C in each indicator when undertaking an assessment.

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

Having ascertained whether the minimum requirement has been met, the assessor then determines 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 lies between the minimum requirement and sound practice for that aspect.

3 PERFORMANCE INDICATORS

3.1 GOVERNANCE AND STRATEGY DEVELOPMENT

DPI-1 LEGAL FRAMEWORK

RATIONALE AND BACKGROUND

The first rationale for DPI-1 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 currency and interest rate swaps), and issue loan guarantees.

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). 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. 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.

The main reason to include borrowing purposes in the primary legislation is to safeguard against borrowing for speculative investments and borrowing to finance expenditures that have not been included in the annual budget or approved by the parliament or congress in some other fashion. If the executive branch of the government were allowed to borrow to finance expenditures not approved by the parliament or congress, the whole budget process would be meaningless, and eventually the parliament or congress would be forced to raise taxes or cut expenditures to service the debt contracted to finance such expenditures.

Another common constraint 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 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 implementing 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.

It is important that the line of delegation is clear, both for internal control and for due diligence purposes. 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. Loan guarantees normally cannot be issued by the executive without approval by the parliament or congress. In the rare cases when these guarantees can be issued constitutionally by the executive 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.

Undertaking of debt-related transactions such as swaps normally does not require the approval of the parliament or congress.

The second rationale for DPI-1 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 the parliament or congress; and a requirement for an external audit of the DeM activities, policies, and operations.

Specific examples of borrowing purposes found in legislation are to finance budget and cash balance deficits; refinance and prefinance outstanding debt; finance investment projects approved by the parliament or congress; finance honoring of outstanding guarantees; fulfill requirements by the central bank to replenish foreign currency reserves; 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 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-term or long-term perspective, the risks in the debt portfolio be kept at acceptable levels, and the development of the domestic debt market be promoted. These goals should have certain robustness in order to serve as anchor for the DeM strategies. It is preferable and increasingly common to specify the central government's DeM goals and objectives in the primary legislation. This approach 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 existing 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. In the area of central government borrowing, the reporting requirement is augmented by the fact that the parliament or congress delegates its borrowing power to the executive and, consequently, has a legitimate interest in knowing how the executive has used this power and whether the goals have been achieved—or at least that the strategy eventually will lead to this achievement.

The requirement for external audit is normally found in the general public audit act, not in the specific DeM legislation or in the budget laws.

The key requirement for DPI-1 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 may not be fully enforced.

Supporting Documentation

The following supporting documentation should be available:

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 Web sites of the government, ministry of finance, principal DeM entity or with the other DeM entities, or central bank. If the list is extensive (for example, more than 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

The following questions could be asked:

- Is there clear authorization in primary legislation to approve borrowings and loan guarantees on behalf of the central government assigned to the cabinet or council of ministers or directly to the minister of finance? If so, which legislation provides authorization and what sections or clauses?
- Is there clear authorization in secondary legislation from the executive branch of government to the implementing entities to undertake borrowing and debt-related transactions and to issue loan guarantees on behalf of the central government? If so, which legislation provides authorization and what sections or clauses?
- What sections or clauses in the legislation cover the following?
    - Specified borrowing purposes
    - Clear DeM objectives
    - Requirement to develop a DeM strategy
    - Annual mandatory reporting 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 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

The rationale for DPI-2 is to ensure that the managerial structure for debt management is clearly divided between the political level (the parliament or congress, the president, the cabinet or council of ministers, and the minister of finance) that sets the overall long-term central government DeM objectives and approves the strategy and the entities responsible for implementing the DeM strategy. The advantage of this approach 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 structure also decreases the risk that fiscal policy advisers view DeM policy as an opportunity to reduce debt service costs and thereby reduce the budget deficit in the short term by increasing market risks in the debt portfolio (that is, 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). The budget debt service costs could possibly be reduced even further with the help of derivatives such as 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 adviser (at the political level) are involvement in the discussions of 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, however, 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 T-bond and T-bill auctions.

Another rationale for DPI-2 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 aspect 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*.

Loan guarantees are typically issued to support a certain beneficiary or 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. However, once the political decision has been made to leave preparation and the actual issuance of the loan guarantees to a professional entity (a principal guarantee entity), it is desirable 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 when undertaking 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 does not make much difference. In both cases, the credit risk is the same, and consequently, the credit risk premium would be similar. However, 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, as compared to an orderly coordination of their market operations. In addition, coordination is important in some legal clauses (for example, waiver of sovereign immunity), which should preferably be drafted similarly whether they are included in the terms and conditions of a central government loan or bond issue or in the terms and conditions of a central government loan guarantee.

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 made. Apart from the technical skill normally found at the principal DeM entity, this approach also would ensure proper coordination with central government borrowing. In countries without adequately trained staff in finance, this managerial structure is particularly relevant, as is reflected in the highest score.

In the DeMPA Tool, loan guarantees do not include export credit guarantees.

Supporting Documentation

The following supporting documentation should be available:

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).

Indicative Questions to Ask

The following questions could be asked:

- 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 or 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 the entities closely coordinate their respective activities to avoid overborrowing 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 loan guarantees 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 DPI-3 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 expected content of 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 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 to containing the risks to the debt portfolio will probably be meeting of the concessionality requirements, currency composition, amount of debt that must be refinanced over a particular time, and monitoring of debt sustainability.

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 implementing DeM entities prepare a feasible strategy proposal, the central bank checks that the strategy will not conflict with monetary policy implementation, and the cabinet or council of ministers or the 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.

The key requirement for DPI-3 is to identify whether a formal DeM strategy has been produced. If so, it is necessary to identify what the strategy covers, what the process for formulating and approving the strategy was, how frequently the strategy has been produced, and whether the strategy is publicly available.

Supporting Documentation

A copy of most recent DeM strategy should be available.

Indicative Questions to Ask

The following questions could be asked:

- Has the government prepared a DeM strategy? If so,
    - How was the strategy produced?
    - Which 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 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 DPI-4 is to ensure that the principal DeM entity (or DeM entities) is accountable for its activities by evaluating outcomes against stated objectives and ensuring compliance with the government's DeM strategy. This approach promotes transparency in DeM operations and good governance through greater accountability of the principal DeM entity (or DeM entities).

Likewise, because of both the delegated structure described under DPI-1 and the ability to increase transparency and accountability, it is common for the executive branch to send a yearly report to the parliament or congress describing the chosen strategy and the rationale behind it and explaining the way in which the strategy decision has assisted in achieving the DeM objectives. This report can be part of budget reporting.

The key requirement for DPI-4 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 include information on debt and DeM activities. However, these documents normally focus on financial information, and little, if any, information on performance or compliance with the DeM strategy is included.

SUPPORTING DOCUMENTATION

Copies of the annual evaluation reports should be available.

INDICATIVE QUESTIONS TO ASK

The following questions could be asked:

- Is an annual report on DeM activities prepared by the principal DeM entity (or the DeM entities) and sent to the cabinet or council of ministers or the minister of finance? If so,
    - Does this report contain an evaluation of how the DeM activities have complied with the government's DeM strategy?
    - Is this report submitted to the parliament or congress?
    - Is this report made available publicly?

DPI-5 Audit

Rationale and Background

The rationale for DPI-5 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 DeM can also be strengthened by public disclosure of audit reviews of DeM operations conducted 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 DPI-5 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] or, as in many countries, the office of the auditor general) have been undertaken, and if so, what was the nature of these audits, who undertook the audits, and what was the response to address the outcomes or findings of the audits.

It is recommended that the assessment include a meeting with a representative of the SAI (normally the auditor general). In addition to receiving answers to the following questions, the meeting must also aim to gain an understanding of the legal status and independence of the SAI, 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

The following supporting documentation should be available:

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

A copy of any performance audits of DeM activities undertaken within the past five years, and

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

The following questions could be asked:

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

- What is the status of the auditing of the government's financial statements? (This information can be useful even though it is not assessed because it often explains why in many cases most of the resources are fully committed to financial audits and little or no time or resources are available for performance audits.)
- Have any external audits (performance or special 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?
  - 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 any internal audits (performance or special audits) been 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 elements (debt management and fiscal and monetary policies) have policy interdependencies and inter-linkages 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 rationale for DPI-6 is to identify the level of coordination and the quality and frequency of information sharing 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 (a) each authority's perspective on the level and effectiveness of coordination; (b), where possible, examples of information that is provided to and from each entity and with other government entities; and (c) details about the frequency or regularity of information sharing.

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

Sensitivity tests are normally used to assess the effect of change in *one* variable (for example, a large upward shift in the yield curve or a significant depreciation of the foreign exchange rate) on the stock of debt and debt service.

Scenario tests include simultaneous moves in *several* variables (for example, foreign exchange rates and interest rates) based on some historical measures or risks perceived in the current environment. Also, this could comprise a sudden or prolonged severe economic downturn. The aim is to assess the effect on the stock of debt and debt service.

It is also important to track key fiscal variables that set out the government's high-level fiscal strategy in the medium term. For example, these variables include the medium-term fiscal policy objectives and total central government expenses, revenues, and debt level, as well as the medium-term plan (three or more years) for total expenses and revenues. The fiscal strategy is focused on the medium- to long-term implications of fiscal policy and allows users to assess the sustainability of the fiscal and external position and its sensitivity to changes in policy.

A debt sustainability analysis (DSA) is often undertaken by external agencies such as the World Bank or IMF. Such an analysis would not be sufficient for a C score because the requirement for Dimension 2 is that the DSA be undertaken by the government. It is also important to understand whether the results from the DSA are used to inform fiscal policy making (that is, budget-making and debt management strategy).

Supporting Documentation

The following supporting documentation should be available:

A copy of information shared among the principal DeM entity and the fiscal policy or budget authorities

A copy of the most recent document detailing key macro variables—actual outcomes and forecasts—(for example, central government revenues, expenditures, primary balance, and central government direct and guaranteed debt), the analysis of debt sustainability that is shared with the debt management entities, or both.

INDICATIVE QUESTIONS TO ASK

The following questions could be asked:

- What debt and other information is shared between the principal DeM entity (or the DeM entities) and the fiscal or budget authorities? How frequently is this information shared?
- 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 it 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 baseline 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 macro 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?
- 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? How was the output used?

DPI-7 COORDINATION WITH MONETARY POLICY

RATIONALE AND BACKGROUND

The rationale for DPI-7 is to ensure the clarity of separation between monetary policy operations and DeM transactions and the coordination of DeM with monetary policy implementation through information sharing on current and future debt transactions and the government's 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 and which are for DeM purposes. 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 of monetary policy objectives or for DeM purposes.

The central government should avoid borrowing directly from the central bank, except in exceptional circumstances,[3] 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 effect and, in a developing country, also imposes constraints on development of the domestic debt market.

SUPPORTING DOCUMENTATION

The following supporting documentation should be available:

A copy of information shared between the principal DeM entity (or the 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

The following questions should be asked:

3. These circumstances relate to financial emergencies triggered by, among others, episodes of financial distress, market panics, and liquidity squeeze.

- What debt and other information is shared between the principal DeM entity (or the DeM entities) and the central bank? How frequently is this information exchanged?
- Is the relationship between the central government and the central bank specified in an agency agreement? Is this a formal agreement? Is it publicly available? Has it been adhered to in the past? Does the central bank maintain 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 does it use? What are the de facto and the 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 Market Borrowing

Rationale and Background

The rationale for DPI-8 is to ensure that borrowing activities in local currency in the domestic market—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 from providing market participants and investors with details of borrowing plans and other market activities well in advance and then acting consistently when issuing new T-bonds or undertaking other activities (such as buyback of government T-bills and T-bonds). This approach can lead to lower costs by providing investors certainty, increasing liquidity, broadening the investor base, and creating a level playing field for investors.

The key requirement for DPI-8 is to identify the instruments that are issued in the domestic market and the mechanisms that the government uses to issue securities (T-bills and T-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 with whom the price of the securities is arrived at 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. 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 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.

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.

Sometimes, governments also borrow directly from local banks, particularly in the short term. This type of borrowing, documented by the signing of a loan contract, is not covered under this indicator.

Supporting Documentation

The following supporting documentation should be available:

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 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

Indicative Questions to Ask

The following questions could be asked:

- 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, institution or staff roles and responsibilities, and timetable for conducting auctions of T-bills and T-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 the market
  - Settlement of the auction
- What are the processes, institution or staff roles and responsibilities, and timetable for issuing T-bills and T-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 DPI-9 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 DPI-9 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/.

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

A third key requirement concerns the time taken to capture any loan contracted into the debt recording or management system. Ideally, such recording should be done at the time of loan contracting or signing, but often a delay can result from the time it takes to forward loan documentation to the principal DeM entity (or relevant DeM entities). Direct input into the debt recording or management system of the loan contracted by staff members responsible for loan negotiation and contracting (the front-office staff), which is then independently validated by settlement staff members (the back-office staff), is sound practice. However, particularly in low-income countries, this practice is not common. Therefore, the preparation of a terms sheet (physical or electronic) by the relevant front-office staff without undue delay is a minimum requirement. Table 2 contains the financial information that should appear on a terms sheet for an external loan.

Table 2 Terms Sheet Financial Information for an External Loan

Effective or/start date	Maturity date	Grace period
Instrument	Currency	Principal amount
Interest rate	Interest payment frequency	Interest calculation basis
Fees	Complimentary benefits	Lender or 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

The following supporting documentation should be available:

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

The following questions could be asked:

- 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 a borrower is eligible for concessional funding, what are the reasons for borrowing on a non-concessional basis?
- 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, and how much value or experience do they provide?
- Are technical evaluations carried out for new borrowing proposals to analyze the 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?
- 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 document completed, and when is it made available to those responsible for entering the loan details into the debt recording or management system?
- Who is responsible for entering the loan details into the debt recording or management system? What data source is used? Who validates the data?
- Are there guidelines and limits for non-concessional external borrowing?

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

RATIONALE AND BACKGROUND

The rationale for DPI-10 is to ensure that strong controls and clear operational guidelines exist 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 effect 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 DPI-10 is to assess how loan guarantees and government on-lending are controlled and monitored (in particular, assessing what entities or people are responsible for monitoring and how they monitor the risks, especially credit risk). To cover credit risk and administration charges, 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. It is also important to assess whether documented policies and procedures exist for loan guarantees and government on-lending and whether these cover the elements identified in the 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 are 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.

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, and to change the original borrowing currency to another currency, are not considered derivative transactions in the DeMPA Tool.

SUPPORTING DOCUMENTATION

The following supporting documentation should be available:

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

The following questions could be asked:

- 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 fee 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 fee 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 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?
- 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 document prepared or made available to those entering details into the debt recording or management system?

- Who is responsible for entering derivative transactions into the debt recording or management system? What data source is used? Who validates the data?
- Who is responsible for accounting of derivatives, and what accounting rules are applied?
- Does 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 members 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 DPI-11 is to ensure that cost-effective cash management policies are in place to enable the authorities to meet with a high degree of certainty their financial obligations as they fall due. Doing so requires accurate and timely forecasts of the 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 T-bills.

The key requirement for DPI-11 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 issuing or buying back of T-bills or entering into repurchase or reverse repurchase agreements.

Supporting Documentation

The following supporting documentation should be available:

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

The following questions could be asked:

- 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?
- What 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 OPERATIONAL RISK MANAGEMENT

DPI–12 DEBT ADMINISTRATION AND DATA SECURITY

RATIONALE AND BACKGROUND

The rationale for DPI-12 is to ensure that strong controls and well-documented procedures exist for settlement of transactions, maintenance of the financial records, and access to the DeM system. The debt data in the debt recording or management system must be secure; the system is located in a locked area, and access to the system by users and information technology specialists is tightly controlled through access permissions and password controls. All loan and derivative agreements and debt administration records must also be secure. 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 a minimum two-person authorization process is used to validate and process payments.

The key requirement for DPI-12 is to assess the efficiency and control over loan administration and payment activities. This requirement involves the following:

- Maintenance of loan documentation in a secure location that will protect the documents from incidents such as theft, fire, or flood or other incidents that may damage or destroy any of these records
- 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 or authorization on an electronic payment system)
- The off-site storage of debt recording or management system backups
- Maintenance of 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. The key test is to determine how the principal DeM entity (or DeM entities) is able to preserve or restore loan documentation, loan administration records, and debt recording or management system data that may be lost, damaged, or destroyed by an incident covered under operational risk. Maintaining records and data in multiple locations and both in electronic form and as physical records will to a large extent mitigate this risk.

Most principal DeM entities (or DeM entities) will have a debt recording or management system with accompanying user and technical manuals. These elements are not sufficient to meet the requirements under DPI-13 because they are generic to the system and not necessarily to the DeM operations in that country.

SUPPORTING DOCUMENTATION

The following supporting documentation should be available:

A copy of the procedures manual

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 or management system backups (the assessors should verify the location)

Indicative Questions to Ask

The following questions could be asked:

- How and when the loan and derivative agreements are made available to the principal DeM entity?
- Where are original signed loan and derivative agreements stored? Is this location considered to be a secure location in order to protect these records from incidents such as theft, fire, or 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?
- How often does the principal DeM entity (or DeM entities) reconcile loan data with creditor advices?
- Are debt data entries checked for accuracy 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 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?
- Does 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 or 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 that access the debt recording or management system? Do these persons also enter data into the system?
- Are audit trails produced for the debt recording or management system and payment system? 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 DPI-13 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, managing the bank account, and recording in the government accounting system (that is, referred to as segregation of duties). Strong operational controls and well-articulated responsibilities for staff members can 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 management of operational risk, including business continuity, is very important for DeM activities.

The key requirement for DPI-13 is to identify the organizational structure and individual roles and responsibilities of those responsible for DeM and assess whether they meet the criteria set for the DeMPA dimensions to be assessed. It is important to get supporting information for this DPI. For example, each staff member likely may have a job description, but it 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).

There should be a risk monitoring and compliance function within the principal DeM entity (or the DeM entities) with one or more staff members responsible for this function. Ideally, it should be a separate unit within the middle-office and report directly to the head of the principal DeM entity (or relevant DeM entities). The primary function is to monitor whether all government DeM operations are within the authorities and limits set by government policies and comply with statutory and contractual obligations. Support for this function will be evident from the organizational structure and staff job descriptions.

Staff members involved in DeM should be subject to code-of-conduct and conflict-of-interest guidelines regarding the management of their personal financial affairs. These guidelines 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. For example, if staff members buy or sell government securities, this activity could be perceived as equivalent to insider trading because they may have access to budget and other government information. These guidelines will help to allay concerns that staff members' personal financial interests may undermine sound DeM practices.

Business-continuity planning allows an organization to prepare for future incidents that could jeopardize its core mission and its long-term health. 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 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 DeM operations.

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 the potential impact (financial and reputation) 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.

Supporting Documentation

The following supporting documentation should be available:

- 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

The following questions should be asked:

- What are the roles and responsibilities for all 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 arranging payment and accounting for the debt transactions? Are these functions performed by different staff members, separate divisions, or both?
- Are staff members entering data into the debt recording or management system and those checking the data entries organizationally separate?
- 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 with regard to 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 policy 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?
- 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?
- Are there documented guidelines for operational risk management? What risks are covered in these guidelines?
- 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 to monitor operational risk? If so, where is it located, how many staff members 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 DPI-14 is to ensure that secure systems exist to maintain an accurate, consistent, and complete debt database covering central government domestic and external debt, debt-related transactions, and loan guarantees. Such systems include the registry system for government securities issued in the domestic market.

The key requirement for DPI-14 is to assess the effectiveness and completeness of the debt recording or 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 or management system should interface with the government's financial management information and accounting systems.

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 the amount of domestic debt held by foreigners is available for statistical reporting purposes. Also, the registry should ensure that the records are regularly reconciled and audited.

Supporting Documentation

The following supporting documentation should be available:

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

Indicative Questions to Ask

The following questions could be asked:

- What debt recording or management systems are used?
- Does the debt recording or management system capture all debt transactions for central government debt and government loan guarantees?
- Does the debt recording or management system record all categories of debt and loan guarantees of the central government??
- What is the time period or lag from the when the debt records are inputted and validated and when the 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 DPI-15 is to ensure that the government regularly publishes information on the stock and composition of its debt, including the 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 in a manner consistent with international reporting standards.[4]

The key requirement for DPI-15 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 (including 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

The following supporting documentation should be available:

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

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4. For example, countries report data to the World Bank's Debtor Reporting System, the IMF's Special Data Dissemination System, and so forth, and, at times, also benchmark with the IMF's Data Quality Assessment Framework 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 publication of the stocks and flows of total nonfinancial public sector debt and loan guarantees.
- A copy of the most recent debt statistical bulletin or its equivalent

INDICATIVE QUESTIONS TO ASK

The following questions could be asked:

- 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 it 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 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?

ANNEX

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