DEBT MANAGEMENT PERFORMANCE ASSESSMENT (DEMPA) TOOL

Revised December 2009

Economic Policy and Debt Department (PRMED)

Banking and Debt Management Department (BDM)

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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
DSA	Debt Sustainability Analysis
IMF	International Monetary Fund
N/R	not rated or assessed
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
PRMED	Economic Policy and Debt Department (World Bank)
T-bills	Treasury bills
T-bonds	Treasury bonds
UNCTAD	United Nations Conference on Trade and Development

ACKNOWLEDGMENTS

The Debt Management Performance Assessment (DeMPA) Tool was prepared under the leadership of Vikram Nehru and Gloria Grandolini by the Economic Policy and Debt Department (PRMED) and the Banking and Debt Management Department (BDM) of the World Bank. The core Bank team included Tomas I. Magnusson (BDM), Abha Prasad (PRMED), and Francis Rowe (PRMED). External consultants Ian Storkey and Per Olof Jonsson provided central contributions throughout the development and testing of the indicators. The DeMPA indicators benefited from written comments by the Monetary and Capital Markets, Fiscal Affairs, and Statistics Departments of the International Monetary Fund (IMF); Debt Relief International (DRI); the Debt Management Financial Analysis System (DMFAS) Programme of the United Nations Conference on Trade and Development (UNCTAD); the Debt Management Division of the Commonwealth Secretariat; and the Overseas Technical Assistance Division of the U.S. Treasury Department.

Valuable contributions were made by officials in the five countries where the indicators were field-tested: Albania, The Gambia, Guyana, Malawi, and Nicaragua. Comments received from peer reviewers Phillip Anderson (BDM), Frans Ronsholt (Public Expenditure and Financial Accountability Secretariat), and Nihal Kappagoda are gratefully acknowledged. A number of valuable comments came from seminar participants at the First Annual Organisation for Economic Co-operation and Development (OECD) Forum on African Public Debt Management, Amsterdam, December 2006; the Fifth Inter-regional Debt Managers Seminar, London, September 2007; UNCTAD's Sixth Debt Management Conference, Geneva, November 2007; the Inter-agency Task Force on Finance Statistics, March 2007; and the In-reach Seminar, IMF, October 2007.

Members of the Bank's Debt Management Technical Working Group provided detailed comments and analysis at each step of the development process.[1] Colleagues in BDM and PRMED, especially Thor-Jurgen Loberg, Lars Jessen, and Antonio Velandia, provided comments throughout the process. Finally, Dana Weist's (PRMED) guidance, support, and outstanding commitment to this project deserves special recognition. Without her tireless efforts, the DeMPA indicators would still be just a good idea at the concept stage.

1. Members of the technical working group were Marcelo Andrade, Sara Calvo, Ibrahim Levent, Sandeep Mahajan, Deepak Mishra, Alia Moubayed, and Hiroshi Tsuboto (World Bank) and Allison Holland (IMF).

1 INTRODUCTION

The World Bank is developed a program, in collaboration with other partners,[2] to assist developing countries in improving debt management. The objective of the program is to help strengthen capacity and institutions in developing countries so that they can manage government debt in an effective and sustainable manner in the medium to long term. A cornerstone of the program is the Debt Management Performance Assessment (DeMPA) Tool, a methodology for assessing performance through a comprehensive set of performance indicators spanning the full range of government debt management (DeM) functions. The indicator set is intended to be an internationally recognized standard in the government DeM field and may be applied in all developing countries.

The DeMPA highlights strengths and weaknesses in government DeM practices in each country. Performance assessment facilitates the design of plans to build and augment capacity and institutions tailored to the specific needs of a country. The DeM performance report will not, however, contain specific recommendations or make assumptions as to the potential effect of ongoing reforms on government DeM performance. The DeMPA also facilitates the monitoring of progress over time in achieving the objectives of government DeM in a manner consistent with international sound practice.[3]

The DeMPA is modeled after the Public Expenditure and Financial Accountability (PEFA) indicators. It can be considered a more detailed and comprehensive assessment of government DeM than is currently reflected in the PEFA indicators.[4] The two frameworks are complementary: the DeMPA can be used to undertake a detailed assessment of the underlying factors leading to poor PEFA ratings in the area of DeM; alternatively, if the DeMPA exercise precedes a PEFA assessment, the latter can use the DeMPA results to inform its assessment of the relevant indicators.

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2. The Debt Management Performance Assessment Tool has been developed through a broad collaborative effort involving consultation with international and regional agencies and donors involved in DeM capacity building, as well as government authorities during country-level field-testing. The World Bank is grateful to the government of Norway for providing generous financial support to this work through the Norwegian Trust Fund for Debt Sustainability, Volatility, and Relief.
3. Issued with the DeMPA document is the "Guide to the Debt Management Performance Assessment Tool," which provides supplemental information, key questions to ask during an assessment, and detailed descriptions of individual indicators.
4. The links between the PEFA and the DeMPA indicators are set out in the "Guide to the Debt Management Performance Assessment Tool."

2 ASSESSMENT METHODOLOGY

2.1 SCOPE AND COVERAGE OF THE FRAMEWORK

The scope of the DeMPA is central government DeM activities and closely related functions such as issuance of loan guarantees, on-lending, and cash flow forecasting and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt, including debts of state-owned enterprises if these debts are not guaranteed by the central government. The indicators, however, are flexible and can be broadly applied to assess DeM performance in sub-national governments. However, because of the normal obligation of central government to report total nonfinancial public sector debt and loan guarantees, these liabilities are included in the Debt Management Performance Indicator (DPI) titled "Debt Reporting" (DPI-15) and in the indicator titled "Coordination with Fiscal Policy" (DPI-6) as it relates to debt sustainability analysis.

2.2 DEBT MANAGEMENT PERFORMANCE INDICATORS

A set of 15 DPIs aim to measure government DeM performance and capture the elements that are indispensable to achieving sound DeM practices (table 1). Each indicator in turn comprises dimensions for assessment that reflect established sound practice. The assessment is incorporated into a Debt Management Performance Report.

The performance indicators encompass the complete spectrum of government DeM operations, as well as the overall environment in which these operations are conducted. Although the DeMPA does not specify recommendations for reforms or capacity- and institution-building needs, the performance indicators do stipulate a minimum level that should be met under all conditions (see section 2.3). Consequently, an assessment showing that the DeMPA minimum requirements are not met clearly indicates an area requiring reform or capacity building or both.

Table 1 Debt Management Performance Indicators

Number	**Title**
Governance and strategy development	
DPI-1	Legal Framework
DPI-2	Managerial Structure
DPI-3	Debt Management Strategy
DPI-4	Evaluation of Debt Management Operations
DPI-5	Audit
Coordination with Macroeconomic Policies	
DPI-6	Coordination with Fiscal Policy
DPI-7	Coordination with Monetary Policy
Borrowing and Related Financing Activities	
DPI-8	Domestic Market Borrowing
DPI-9	External Borrowing
DPI-10	Loan Guarantees, On-Lending, and Derivatives
Cash Flow Forecasting and Cash Balance Management	
DPI-11	Cash Flow Forecasting and Cash Balance Management
Operational Risk Management	
DPI-12	Debt Administration and Data Security
DPI-13	Segregation of Duties, Staff Capacity, and Business Continuity
Debt Records and Reporting	
DPI-14	Debt Records
DPI-15	Debt Reporting

2.3 Scoring Methodology

The DPIs have one or more dimensions linked to the subject of the DPI. Each of these dimensions should be assessed separately.

The scoring methodology will assess each dimension and assign a score of A, B, or C, depending on the criteria listed. If the minimum requirements set out in C are not met, then a score of D should be assigned. If a dimension cannot be assessed, a designation of N/R (not rated or assessed) should be assigned.

Special attention was given to the consideration of the C scores for each dimension in each indicator. A score of C indicates that a minimum requirement for that dimension has been met. A minimum requirement is considered the necessary condition for effective performance under the particular dimension being measured. A score of D, which indicates that the minimum requirement has not been achieved, signals a serious deficiency in performance, requiring priority corrective action.

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

2.4 Debt Management Performance Report

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

The report is a concise document (10–20 pages) that has the following structure and content:

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

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

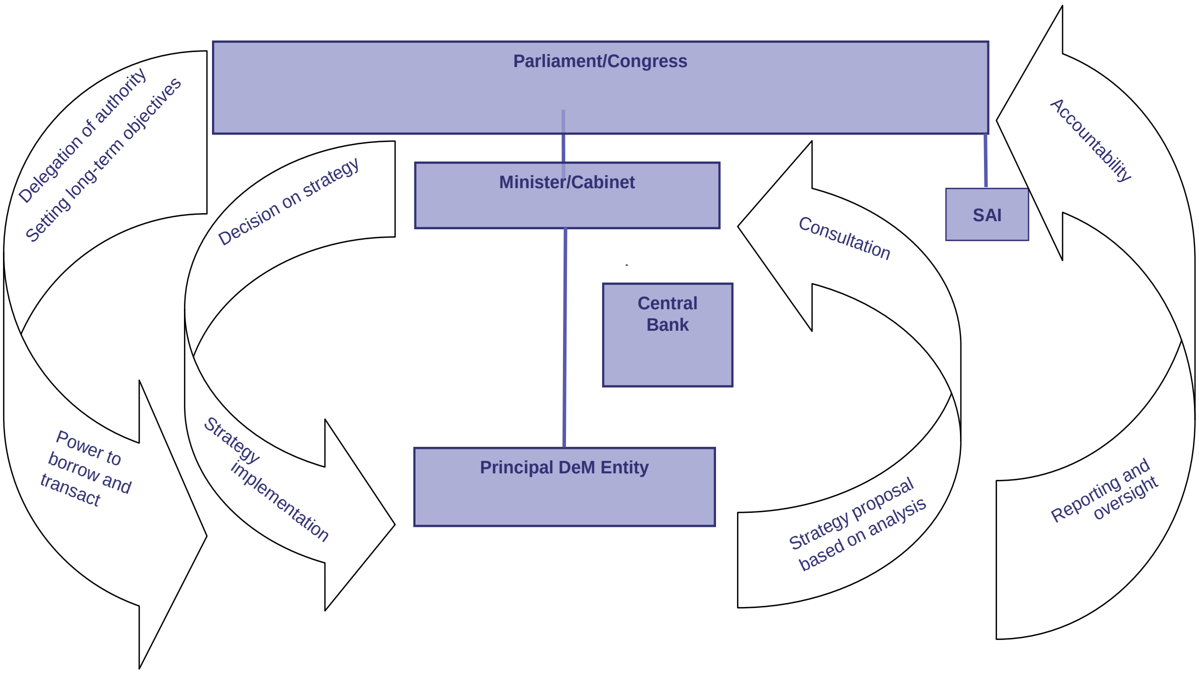
3 DEBT MANAGEMENT PERFORMANCE INDICATORS

3.1 GOVERNANCE AND STRATEGY DEVELOPMENT

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

A simplified governance structure is illustrated in figure 1.

Figure 1 Governance Structure



The principal DeM entity (or more commonly, the debt management office) is the government entity with overall responsibility for the execution or implementation of the DeM strategy through borrowing, derivatives, and other debt-related transactions. With this structure, it is acceptable that some DeM activities are conducted by other entities as agents for the principal DeM entity (for example, a central bank to undertake government securities auctions in the domestic market or a saving directorate to issue government saving certificates in the domestic retail sector). In these cases, the rights and obligations of the parties should be clarified, preferably in a formalized agency agreement, in the secondary legislation, or in both.

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

Realizing that many countries do not have a principal DeM entity, the DeMPA is neutral with regard to the structure of DeM entities. If a country has multiple DeM entities, however, it is essential that these entities closely coordinate their DeM activities, which also is reflected in the governance indicators.

In many countries where the daily DeM activities have been delegated to a principal DeM entity (or to different DeM entities)—and particularly when the entity (or entities) is located within a ministry (normally the ministry of finance)—the minister or the deputy minister will commonly retain the power to approve formally any borrowing and to sign the loan agreements.[5] This approach is acceptable within the structure described earlier, provided no undue political interference exists.[6]

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

When criteria for a specific score require that certain legislation and procedure manuals are in place, they must be followed. If that is not the case, these laws or instructions should be considered nonexistent for the purpose of the scoring. The

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

6. For guidance on this approach, refer to the "Guide to the Debt Management Performance Assessment Tool," section 3.1, DPI-2.

same principle applies to the requirement of a DeM strategy to steer daily borrowings and other DeM activities. When the strategy document in practice has lost its meaning and is not respected, the strategy should be considered nonexistent.

DPI-1 LEGAL FRAMEWORK

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

The legal framework should preferably include the following:

- Primary legislation: Clear authorization by the parliament or congress to the executive branch of government (to the cabinet or council of ministers, to the president, or directly to the minister of finance) to approve borrowings and loan guarantees on behalf of the central government[7]
- Secondary legislation: Clear authorization within the executive branch of government to one or more DeM entities to undertake borrowing and debt-related transactions (for example, currency and interest rate swaps)
- Secondary legislation: Clear authorization within the executive branch of government to one or more guarantee entities to issue loan guarantees after the political decision to support a certain activity by the use of loan guarantees has been made[8]
- Primary legislation: Specified borrowing purposes[9]
- Primary legislation: Clear DeM objectives
- Primary legislation: Requirement to develop a DeM strategy

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

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

9 Examples are presented in the "Guide to the Debt Management Performance Assessment Tool."

- Primary legislation: Mandatory reporting to the parliament or congress of DeM activities—on an annual basis—covering evaluation of outcomes against stated objectives and the determined strategy
- Primary legislation: Requirement for external audit

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

Legislation must be followed. If that does not occur, the following indicators should be read as if the legislation were not in place.

Dimensions to Be Assessed

The existence, coverage, and content of the legal framework (Table 2) should be assessed.

Table 2 Assessment and Scoring of Legal Framework

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

DPI-2 Managerial Structure

The managerial structure should ensure a clear division between the political level (the parliament or congress, the cabinet or council of ministers, or the minister of finance) that sets the overall long-term DeM objectives and strategy and the entities responsible for implementing the strategy. It is desirable to leave overall responsibility for the execution of the strategy to one principal DeM entity with the mandate and skill (a) to transact in the markets within the parameters established at the political level and (b) to propose a feasible DeM strategy for the total debt that is based on its analyses of the market conditions and the cost and risk of the debt. With this structure, it is acceptable if some DeM activities are conducted by other entities as agents for the principal DeM entity (for example, a central bank may undertake government securities auctions in the domestic market or a saving directorate may issue government saving certificates in the domestic retail sector). In these cases, the rights and obligations of the parties should be clarified, preferably in a formalized agency agreement, in the secondary legislation, or in both.

Loan guarantees (contingent debt) are typically issued to financially support a certain beneficiary or project or a specific sector of the economy. Because this decision is a political one, use of these guarantees should be approved at the political level and before any guarantee can be issued. However, as with debt transactions, it is desirable to leave overall responsibility for the preparation and issuance of the loan guarantees to one entity (the principal guarantee entity) with the mandate and skill to (a) assess and price the credit risk, (b) mitigate the financial effects of a default or trigger event, (c) monitor this risk during the term of the guarantee, (d) coordinate the borrowings of the guarantee beneficiaries with central government borrowing, and (e) record these guarantees properly. With this structure, it is acceptable if certain loan guarantees are issued by other entities as agents for the principal guarantee entity (for example, a designated guarantee entity to issue individual loan guarantees to support farmers under a certain guarantee scheme). In these cases, the rights and obligations of the parties should be clarified, preferably in a formalized agency agreement, or in the secondary legislation, or in both.

When the principal DeM entity has the overall responsibility to prepare and issue loan guarantees, it also becomes the principal guarantee entity.

Dimensions to Be Assessed

The following dimensions should be assessed (Table 3):

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

Table 3 Assessment and Scoring of Managerial Structure

Score	Requirements
A	1. The borrowings and debt-related transactions are steered by a formalized DeM strategy and undertaken by the principal DeM entity without undue political interference. 2. Loan guarantees are prepared and issued by the principal DeM entity.
B	1. The minimum requirement for score C is met. In addition, the borrowings and debt-related transactions are steered by a formalized DeM strategy and undertaken without undue political interference. 2. Loan guarantees are prepared and issued by a principal guarantee entity that, in cases in which there is a principal DeM entity, closely coordinates its activities with the principal DeM entity.
C	1. Borrowings and debt-related transactions are undertaken either by the principal DeM entity or, if there is no principal DeM entity, by the DeM entities that regularly exchange debt information and closely coordinate their respective activities. 2. Loan guarantees are prepared and issued by one (the principal guarantee entity) or more government entities that regularly exchange information and closely coordinate their respective activities both between themselves and, when there is a principal DeM entity, this principal DeM entity.
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met.

DPI-3 DEBT MANAGEMENT STRATEGY

The principal DeM entity or, when there is no principal DeM entity, the DeM entities jointly should develop in an open and transparent manner 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. It is desirable that the strategy development process include consultation with the central bank for consistency with monetary policy and that the strategy ultimately be approved at the political level (for example, by the cabinet or council of ministers).

The strategy document should preferably include the following:

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

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

Although the strategy should be specified for the medium term, it should be reviewed periodically to assess whether the assumptions still hold in light of changed circumstances. Such a review should be undertaken annually, preferably as part of the budget process, and if the existing strategy is viewed as appropriate, the rationale for its continuation should be stated.

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

DIMENSIONS TO BE ASSESSED

The following dimensions should be assessed (Table 4):

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

Table 4 Assessment and Scoring of DeM Strategy

Score	Requirements
A	1. The requirements for score B are met. In addition, the target levels for the risk indicators are based on a thorough analysis of costs and risks, identifying the vulnerability of the debt portfolio to shocks in market rates, and these analyses are clearly described, clarifying the assumptions used and limitations of the analyses. 2. The decision-making process and publication of the DeM strategy meet the requirements for score B. In addition, the strategy is updated annually, following the same procedure described for scores C and B.
B	1. The strategy includes the minimum requirement described for score C. In addition, it has realistic target levels for indicators of the interest rate, refinancing, and foreign currency risks, reflecting the specific country environment. 2. The decision-making process and publication of the DeM strategy meet the minimum requirement for score C. In addition, if the proposal is not accepted, the rationale for this is presented in the strategy document. Also, the strategy is updated at least every third year, following the procedure described for score C.
C	1. There is a medium-term (three- to five-year) strategy covering at least 90 percent of the existing and projected central government debt, based on DeM objectives. The strategy is expressed at least as guidelines for the preferred direction of evolution of specific indicators for interest rate, refinancing, and foreign currency risks. In addition, if applicable, the strategy document contains the minimum target of the grant element in external borrowing, as well as a description of measures aimed at supporting domestic debt market development. 2. The strategy proposal is prepared by a principal DeM entity or, if there is no principal DeM entity, jointly by the DeM entities. The views of the central bank are formally obtained, the strategy is approved by the cabinet or council of ministers or the minister of finance, and the strategy is made publicly available.
D	1. The DeM strategy does not meet the minimum requirement for score C. 2. The decision-making process does not meet the minimum requirement for score C.

DPI–4 EVALUATION OF DEBT MANAGEMENT OPERATIONS

A policy-based DeM framework steered by long-term DeM objectives and a strategy to achieve these objectives must be complemented by an accountability process. This process involves publication of an annual report covering DeM activities, evaluation of outcomes against stated objectives, and compliance with the government's DeM strategy.

The report will include information on the costs and risks of the debt portfolio, performance (such as compliance with the DeM strategy), and performance relative to benchmarks or limits (or both) that may have been set in the strategy document. The following process should preferably be used for reporting government DeM operations.

A written report is sent at least annually to the cabinet or council of ministers, including an internal evaluation on how the borrowings, derivatives, and other debt-related transactions have complied with the requirements set in the strategy. If there is a principal DeM entity, this report is prepared and sent by this entity. If there is no principal DeM entity, the DeM entities either prepare this report jointly or send separate reports covering their respective activities.

The cabinet or council of ministers sends a comprehensive report to the parliament or congress presenting the chosen strategy and the rationale behind it and explaining in what way the strategy decision has assisted in achieving the government's DeM objectives.

DIMENSIONS TO BE ASSESSED

The following dimension should to be assessed (Table 5): Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes against stated objectives, and compliance with the government's DeM strategy.

Table 5 Assessment and Scoring the Evaluation of DeM Operations

Score	Requirements
A	The requirements for score B are met. In addition, the report contains an evaluation of outcomes against stated DeM objectives, the chosen DeM strategy and rationale behind it, and compliance with the strategy, and it is made available publicly.
B	The minimum requirement for score C is met. In addition, the annual report contains an evaluation of how the government DeM activities have complied with the government's DeM strategy.
C	A report providing details of government DeM activities and outstanding central government debt is submitted annually to the parliament or congress.
D	The minimum requirement for score C is not met.

DPI-5 AUDIT

Accountability for government DeM is strengthened by introducing 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) of government DeM activities in relation to (a) reliability and integrity of financial and operational information; (b) effectiveness and efficiency of DeM operations; (c) safeguarding of public funds; (d) compliance with laws, regulations, and contracts; and (e) when applicable, compliance with the DeM objectives and strategy.

The goal of internal and external auditing is to promote accountability in debt contracting and management. In addition, mechanisms should allow the adoption of corrective measures, according to audit reports and the appropriate responses from the relevant decision makers, to ensure that the outcomes from audits are addressed. Sound practice in this area suggests that the transparency of DeM operations is enhanced when the results of external audits are made available to the public.

DIMENSIONS TO BE ASSESSED

The following dimensions should be assessed (Table 6):

1. Frequency of internal and external audits of central government DeM activities, policies, and operations, as well as publication of external audit reports, and
2. Degree of commitment to address the outcomes from internal and external audits.

Table 6 Assessment and Scoring of DeM Audits

Score	**Requirements**
A	1. The requirements for score B are met. In addition, the external audits are conducted at least every two to three years, and the external audit reports are made available to the public within six months of completion of the audit. 2. The relevant decision makers have a strong and immediate commitment to addressing the outcomes from internal and external audits of government DeM activities, policies, and operations.
B	1. The minimum requirement for score C is met. In addition, there are frequent (at least every three to five years) external audits, as well as annual internal audits of government DeM activities, policies, and operations. 2. The relevant decision makers have a strong commitment to addressing the outcomes from internal and external audits of government DeM activities, policies, and operations.

C	1. An external audit of government DeM activities, policies, and operations has occurred within the past five years. 2. The relevant decision makers have a commitment to addressing the outcomes from internal and external audits of government DeM activities, policies, and operations.
D	1. The minimum requirement for score C is not met. 2. There has been no response to the outcomes from internal and external audits.

3.2 Coordination with Macroeconomic Policies

The debt managers, fiscal policy advisers, and monetary policy authority (for example, the central bank) should share an understanding of the objectives of government DeM and fiscal and monetary policies. Because of these interdependencies, it is important to understand how the policy instruments operate, how they can reinforce one another, and how policy tensions can arise. Clarity in the roles and objectives for government DeM and monetary policy can minimize potential conflicts. For example, the central bank may prefer that the government issue inflation-indexed bonds or borrow in foreign currency to bolster the credibility of monetary policy. The debt manager may believe that the market for such inflation-indexed debt has not been fully developed and that foreign currency debt introduces greater risk onto the government's balance sheet. Coordination is necessary to formulate DeM objectives and strategy within the context of the government's fiscal and monetary policy framework.

DPI-6 COORDINATION WITH FISCAL POLICY

For effective fiscal policy (budget formulation and execution), total debt service forecasts under different scenarios should be available with the fiscal authorities. In addition, fiscal authorities should be informed on a timely basis if any emerging debt sustainability problems are encountered in the efforts to sell government securities in the markets at a reasonable price. The principal DeM entity (or the relevant DeM entities) should be in direct contact with market participants. The entity's observation of investor behavior in the primary and the secondary markets, as well as its discussions with market participants, may provide useful insights into the willingness of investors to hold that debt.

The appropriate DeM strategy depends ultimately on the government's tolerance for risk. The extent of debt-related risk that a government is willing to take may vary over time, depending on the size of the government debt portfolio and the government's perception regarding vulnerability to economic and financial shocks. In general, the larger the debt portfolio and the vulnerability of the country to economic shocks is, the larger the potential risk of loss from financial crisis or adverse developments will be.

For a proper analysis of the cost and risk of the debt portfolio, it is important that key macro variables are available and that an analysis of debt sustainability has been undertaken. These key macro variables typically include actual outcomes and forecasts of real, monetary, external, and fiscal variables, including explicit contingent liabilities, that will allow users to assess the sustainability of the fiscal position and its sensitivity to changes in the economic environment. The outlook on these variables defines the environment in which the debt managers operate and is essential for the DeM strategy development.

It is paramount that the government have the capacity to prepare the key fiscal variables (actual outcomes and forecasts) and to conduct a debt sustainability analysis (DSA) without external assistance. Moreover, the results of the DSA should be used to inform macro policy.

DIMENSIONS TO BE ASSESSED

The following dimensions should be assessed (Table 7):

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

Table 7 Assessment and Scoring of Coordination with Fiscal Policy

Score	Requirements
A	1. The requirements for score B are met. In addition, the forecasts include scenario analysis, including a worst-case scenario.

	2. A DSA is undertaken or updated annually by the government.
B	1. The minimum requirement for score C is met. In addition, the forecasts include sensitivity analyses of the base case to interest and exchange rate shocks. 2. A DSA is undertaken or updated by the government at least once every two years.
C	1. As part of the yearly budget preparation, forecasts are provided on total central government–debt service. 2. Key macro variables (actual outcomes and forecasts) and a DSA that has been undertaken by the government within the past three years are shared with the principal DeM entity (or DeM entities).
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met.

DPI-7 COORDINATION WITH MONETARY POLICY

Clarity and transparency regarding the objectives and accountabilities of monetary policy operations and government DeM are important—particularly when the central bank both implements monetary policy through open market operations and acts as debt manager by issuing government securities in the same market.

It should be clear to the market participants whether a central bank's transaction in the domestic market is aimed at meeting its monetary policy objectives or whether the central bank transacts as the DeM agent. For instance, when the central bank conducts an open market sale of government securities as part of monetary policy implementation, the purpose is to contract the money supply and thereby increase the short-term interest rate. However, if the central bank issues government securities as a debt manager, the sole purpose is to meet the borrowing requirement of the government. Provided that the government immediately spends this money, this last transaction will have no effect on the money supply. For enhancement of the signaling effect of the monetary policy transaction and for facilitation of pricing of the government securities, it must be clear to the market for which purpose these transactions are undertaken.

In addition, it is essential that DeM decisions are not perceived to be influenced by inside information on interest rate decisions at the central bank. Moreover, the central bank must aim to avoid perceptions of conflict of interest in market operations.

Preferably, insofar as the central bank acts as a DeM agent, this agency relationship between the central bank and the central government should be specified in an agency agreement and be published.

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

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

DIMENSIONS TO BE ASSESSED

The following dimensions should be assessed (Table 8):

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

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

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

Table 8 Assessment and Scoring of Coordination with Monetary Policy

Score	Requirements
A	1. The requirements for score B are met. In addition, the agency agreement between the central bank and the government is publicly available. 2. The requirements for score B are met. In addition, there is at least weekly information sharing on current and future debt transactions and the central government's cash flows with the central bank. 3. Direct access to financing from the central bank is—by law—limited to emergency situations in which other funding operations are not viable and, when used, the tenor is limited to two weeks.
B	1. The minimum requirement for score C is met. In addition, the agency relationship between the central bank and the central government is specified in a formal agreement. 2. The minimum requirement for score C is met. In addition, there is information sharing at least every two weeks on current and future debt transactions and the central government's cash flows with the central bank. 3. The minimum requirement for score C is met. In addition, access to financing from the central bank is—by law—limited to a tenor of not more than three months.
C	1. Monetary policy operations are kept formally separate from DeM transactions insofar as the central bank carries out DeM transactions as an agent of the central government. In addition, the central bank keeps the government and the market informed when transactions are undertaken for monetary policy purposes and when it transacts in the market as an agent on behalf of the central government. 2. When relevant for monetary policy implementation, there is at least monthly information sharing on current and future debt transactions and central government cash flows with the central bank. 3. Access to financing from the Central Bank has a ceiling limit imposed by legislation.
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met. 3. The minimum requirement for score C is not met.

3.3 BORROWING AND RELATED FINANCING ACTIVITIES

DPI-8 DOMESTIC MARKET BORROWING

Local capital markets are important to obtain stable funding sources in domestic currency for both public and private sectors and to allow liabilities to be more closely matched to the revenues that will service them. In addition, well-developed domestic markets enhance the efficiency and stability of financial intermediation, provide a broader range of assets, and facilitate better risk management. To the extent possible, debt issuance should use market-based mechanisms, including competitive auctions, tap issues, and syndications.

Also, debt issued to retail investors should preferably be at market rates. In cases where the government intends the retail instruments to achieve social protection objectives by offering higher yields on these instruments than is necessary to meet the borrowing requirements, the savings placed with these instruments are generally not those of the most vulnerable sectors of the community, but instead those sufficiently prosperous to maintain substantial deposits. A more effective and transparent means of directing government subsidies to people in need would be to pay direct grants to the poor. Realizing, however, that some governments might prefer using a part of retail borrowing for this purpose or for promoting household savings in general, the requirement of market-based borrowings in this indicator is limited to 90 percent of the total projected borrowing amount in the domestic market.[10]

In some cases, the interest rate on retail debt may be slightly below market rates because it may be set at a margin below wholesale rates to cover the higher administrative costs of running the retail program.

The principal DeM entity (or the DeM entity responsible for borrowing in the domestic institutional or wholesale market) should maintain an ongoing dialogue with market participants and monitor market developments so as to react quickly when circumstances require. Operations in the domestic primary market should be transparent and predictable, including publishing borrowing plans well in advance and acting consistently when issuing new securities in the wholesale market, regardless of the mechanism used for borrowing.

The terms and conditions of new issues should be publicly disclosed and clearly understood by investors. Documented procedures for borrowing in the domestic market—for example, for auctioning Treasury bills and bonds (T-bills and T-bonds)

10. For the purposes of this indicator, domestic borrowings relate to instruments issued in the domestic market and in local currency. See the "Guide to Debt Management Performance Assessment Tool," Section 3.3, DPI-8.

should exist. Such documentation can include an information memorandum or prospectus for each instrument and published operational procedures. If primary dealers have been introduced, it is important that the incentives and obligations, as well as eligibility criteria, be well defined and disclosed.

All borrowing in the domestic market should be done in accordance with the government's DeM strategy.

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

Dimensions to Be Assessed

The following dimensions should be assessed (Table 9):

1. The extent to which market-based mechanisms are used to issue debt; the publication of a borrowing plan for T-bills and T-bonds; and the preparation of an annual plan for the aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets
2. The availability and quality of documented procedures for local currency borrowing in the domestic market

Table 9 Assessment and Scoring of Domestic Market Borrowing

Score	Requirements
A	1. The requirements for score B are met. In addition, the borrowing plan for T-bills and T-bonds is extended to at least three months. 2. The terms and conditions, borrowing procedures, and criteria for access to the primary market for all T-bills and T-bonds, as well as for at least 90 percent of the total projected borrowing amount in the domestic market, are publicly available on the central government and or central bank Web sites.
B	1. The minimum requirement for score C is met. In addition, the borrowing plan for T-bills and T-bonds includes indicative borrowing amounts. Also, an annual plan for the projected aggregate amount of borrowing in the domestic market—divided between the wholesale and retail markets—has been prepared. 2. The minimum requirement for score C is met. In addition, the terms and conditions, borrowing procedures, and criteria for access to the primary market for all T-bills and T-bonds are publicly available in print media or on the central government or the central bank Web sites.
C	1. The central government accesses the domestic market, using market-based instruments (for example, T-bills and T-bonds by auction, tap issue, or syndication and retail securities issued at

	market rates) to fund at least 90 percent of the projected borrowing amount in this market and prepares and publishes a borrowing plan for T-bills and T-bonds at least one month ahead that contains issue dates and instruments. 2. Terms and conditions for each instrument, borrowing procedures, and criteria for access to the primary market are available on request.
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met.

DPI-9 External Borrowing

For many developing countries, borrowing from foreign or external sources is primarily from multilateral and bilateral sources. Countries will be eligible for funding on either concessional or market-based interest rates, depending on their respective borrowing status. The primary tasks of the principal DeM entity (or the DeM entity responsible for external borrowing) are (a) to liaise with the government entity responsible for formulating the project; (b) to identify the creditor that can offer the most beneficial or cost-effective terms and conditions for the external borrowing; (c) to negotiate the terms and conditions of the loan with that creditor (including currency, maturity, interest rate, and fees); and (d) to finalize all loan documentation. During the disbursement period of the loan, coordination with each creditor must occur to ensure that disbursements are completed in accordance with the loan terms and conditions.

If a government is able to access international capital markets, the primary task of the principal DeM entity (or the DeM entity responsible for external borrowing on commercial terms) is to undertake market analysis and consultation to identify the choice of market and instrument, as well as the loan terms and conditions, including price, currency, maturity, and interest rate. An investor relations program—involving "road shows" and discussions with financial institutions, rating agencies, and investors—is normally required before any public issue. The finalization of the pricing terms and conditions and timing of issuance will be agreed on when market conditions are acceptable for the public issue. The post-issue period will involve the completion of all loan documentation and receipt of loan proceeds.

Once the loan contract has been signed, the debt manager who participated in negotiating the financial terms and conditions of the loan should, without undue delay, prepare and sign a terms sheet for all financial terms. This sheet will be used as a reference for future loan negotiations and also form an important document, together with the loan contract, for the transaction data entries into the debt recording and management system. With this procedure, the debt data recording unit will be in the position to validate the entries on the terms sheet, which will reduce the risk that some financial terms in the loan agreement are not fully understood and, thus, entered incorrectly into the system.[11]

Documented procedures should exist for all external borrowings, covering all creditors and market-based funding sources. All borrowings should be in accordance with the DeM strategy.

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

The documented procedures referred to in dimension 2 must be followed. If that is not the case, the indicators under dimension 2 should be read as if the documented procedures are not in place.

Dimensions to Be Assessed

The following dimensions should be assessed (Table 10):

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

Table 10 Assessment and Scoring of External Borrowing

Score	Requirements

11. An example of the financial information needed in a terms sheet is presented in the "Guide to the Debt Management Performance Assessment Tool," section 3.3, DPI-9.

A	1. The requirements for score B are met. In addition, assessments of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets are undertaken before the start of each loan negotiation. 2. The requirements for score B are met. In addition, the terms sheet is prepared no later than one week after conclusion of the loan negotiation. 3. Legal advisers are involved from the first stage of the negotiating process to the conclusion of the legal agreements related to the borrowing.
B	1. The minimum requirement for score C is met. In addition, the borrowing plan, including the underlying assessment, is updated frequently during the year. 2. The minimum requirement for score C is met. In addition, the terms sheet is prepared no later than two weeks after conclusion of the loan negotiation. 3. Legal advisers are involved during a substantial part of the negotiating process of concluding the legal agreements related to the borrowing.
C	1. A yearly borrowing plan for external borrowing is prepared, which includes assessments of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets. 2. Internal documented procedures exist for all external borrowings, including preparation of a terms sheet (physical or electronic) by the debt managers who participated in the loan negotiation for all financial terms of the loan transaction no later than three weeks after conclusion of the loan negotiation. 3. Legal advisers are involved before concluding the negotiating process of the legal agreements related to the borrowing.
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met. 3. The minimum requirement for score C is not met.

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

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

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

The following formal, documented policies and procedures must be followed. If that does not occur, the following indicators should be read as if the policies and procedures are not in place.

Dimensions to Be Assessed:

The following dimensions should be assessed (Table 11):

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

Table 11 Assessment and Scoring of Loan Guarantees, On-lending, and Derivatives

Score	Requirements
A	1. The requirements for score B are met. In addition, these policies and procedures contain a requirement to calculate a guarantee fee covering the credit risk, as well as a requirement for the guarantee entity to monitor the risks during the life of the loan guarantee. 2. The requirements for score B are met. In addition, these policies and procedures contain a requirement to calculate an on-lending charge covering the credit risk, as well as a requirement for the on-lending entity to monitor the risks during the life of the on-lending. 3. The requirements for score B are met. In addition, the terms sheet is prepared no later than two business days after conclusion of the derivative transaction.
B	1. The minimum requirement for score C is met. In addition, these

	policies and procedures contain a requirement to assess the credit risks before the decision has been made to support a certain activity by loan guarantees, as well as guidelines on how this assessment would be conducted. 2. The minimum requirement for score C is met. In addition, these policies and procedures contain a requirement to assess the credit risks before the decision has been made to support a certain activity by on-lending, as well as guidelines on how this assessment would be conducted. 3. The minimum requirement for score C is met. In addition, the documented procedures include rules for managing the counterparty exposure risk, and all risks connected with the derivatives are monitored by a separate unit responsible for risk monitoring and compliance.
C	1. There are documented policies and procedures for the approval and issuance of loan guarantees. 2. There are documented policies and procedures for the approval and lending of borrowed funds. 3. There is a DeM system with functionalities for handling derivatives. In addition, there are documented procedures for the use of derivative transactions, including (a) the purposes of derivative transactions, (b) a clear decision-making process, (c) preparation of a terms sheet (physical or electronic) by the debt managers who negotiated the terms of the transaction for all financial terms not later than one week after conclusion of the transaction, (d) rules for debt database entry and accounting, and (e) involvement of legal advisers from the first stage of the negotiating process of concluding the legal agreements with the counterparty.
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met. 3. The minimum requirement for score C is not met.

3.4 Cash Flow Forecasting and Cash Balance Management

DPI-11 Cash Flow Forecasting and Cash Balance Management

The principal DeM entity (or the DeM entities) requires information on the aggregate level of overnight cash balances, or float, to determine borrowing and debt-related activities and to ensure that the float is in accordance with the level or range set by government policy. The entity therefore requires accurate and timely forecasts of central government cash flows and the end-of-day account balances.

If there is an excess pool of liquidity in government accounts, it will be available for investment or buyback of domestic debt through transactions such as entering into reverse repurchase agreements or the buyback of T-bills. To the extent that the government has a credit facility at the central bank (that is, ways and means or overdraft facility[ies]), the float should include the credit facility balance.

Dimensions to Be Assessed

The following dimensions should be assessed (Table 12):

1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts
2. Effectiveness of managing the aggregate cash balance in government bank accounts, including the integration with the domestic debt borrowing program

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

Score	Requirements
A	1. Reasonably reliable, rolling 30-day forecasts of the aggregate level of overnight cash balances in central government bank accounts are provided daily to the principal DeM entity (or the DeM entities). 2. The central government undertakes transactions (such as the issuance and buyback of T-bills or entering into repurchase or reverse repurchase agreements) daily to ensure that the float is in accordance with the level or range set by government policy.
B	1. The minimum requirement for score C is met. In addition, reasonably reliable weekly forecasts of the aggregate level of overnight cash balances in central government bank accounts are provided to the principal DeM entity (or the DeM entities) by the start of the relevant week. 2. Central government undertakes transactions (such as issuance or buyback of T-bills) weekly to maintain the cash balance target set by the government.

C	1. Reasonably reliable monthly forecasts of the weekly aggregate level of cash balances in central government bank accounts are provided to the principal DeM entity (or the DeM entities) by the start of the relevant month. 2. The central government manages its cash in excess of the target on at least a monthly basis through investment in the market or with the central bank at market rates.
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met.

3.5 Operational Risk Management

DPI-12 Debt Administration and Data Security

Government DeM operations involve the processing and recording of all borrowing and debt-related transactions and maintenance of systems and procedures required for effective and secure debt administration. A procedures manual for all debt administration, including procedures for the processing of debt service, for debt data recording and validation, and for storage of agreements and debt administration records, should be readily accessible.

Processing and controlling payments to effect settlement of government debt and debt-related transactions are key responsibilities. This settlement involves accurate, timely, and secure processing with minimum errors. The payment notifications normally received from lenders or counterparties should be checked against internal records before the payment is effected. Payments should be made on the due date. In addition, there should be procedures for monitoring payment arrears and measures for controlling the level of arrears. All payments should be subject to a minimum two-person authorization process.

The procedure for debt data entries should include a separate check of the accuracy of these entries. Debt data should constantly be validated against received payment notifications. In addition, a preferably independent confirmation of all data should be conducted annually with external creditors and the major domestic investors.

An original signed copy of each loan and derivative agreement should be stored in a secure location that will protect the documents from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these records. A copy of each agreement should be available with the principal DeM entity (or the DeM entities). All correspondence with the lender or counterparty during the life of each loan or derivative (referred to as "debt administration records) should be kept in a secure filing system.

There should be clearly documented authorities and controls around access to the DeM system, with active management of permissions and passwords of individual access. Preferably, the systems should be able to produce audit trails that show who has accessed the system and the level accessed.

A copy of the debt data (backups) should be made frequently and stored in a secure location outside the building in which the debt database is located. The storage location of the backups should be protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these backups

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

Dimensions to Be Assessed:

The following dimensions should be assessed (Table 13):

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

Table 13 Assessment and Scoring of Debt Administration and Data Security

Score	Requirements
A	1. The requirements for score B are met. In addition, the internal payment orders are prepared and issued electronically by straight-through processing. 2. The requirements for score B are met. In addition, an independent confirmation of all data is annually conducted with external creditors and the major domestic investors. 3. The requirements for score B are met. In addition, the systems produce audit trails that show who has accessed the system and the level accessed. 4. The requirements for score B are met. In addition, debt recording and management system backups are made daily and stored in a secure filing system before they are moved to the separate secure location at the end of the week.
B	1. The minimum requirement for score C is met. In addition, the internal payment orders are prepared electronically, and the procedures manual is updated at least every second year. 2. The minimum requirement for score C is met. In addition, the procedures manuals are updated at least every second year. 3. The minimum requirement for score C is met. In addition, the documented procedures are frequently updated whenever staff changes occur. 4. Debt recording and management system backups are made at least once per week and stored in a separate secure location where the backups are protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these backups.
C	1. There is a readily accessible procedures manual for the processing of debt service, which requires that (a) all payment notifications be checked with internal records before payments are made, (b) internal payment orders be subject to a minimum two-person

	authorization process, and (c) the payments be made by the due date. 2. There are readily accessible procedures manuals for debt data recording and validation, as well as for storage of agreements and debt administration records, which require that (a) accuracy of debt data entries be separately checked before the entries are deemed to be completed; (b) debt data be constantly validated against received payment notifications; (c) all original, signed copies of loan and derivative agreements be stored and filed in a secure location where the documents are protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these records; and (d) all debt administration records be kept in a secure filing system. 3. There are documented procedures for controlling access to the central government's debt recording and management system. 4. Debt recording and management system backups are made at least once per month and stored in a separate secure location where they are protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these back-ups.
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met. 3. The minimum requirement for score C is not met. 4. The minimum requirement for score C is not met.

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

An efficient organizational structure should be in place across the principal DeM entity (or the DeM entities) to maintain security and control over government borrowing and debt-related transactions, as well as the use of public funds. The organizational structure should support clear separation between the debt managers with the authority to negotiate and contract on behalf of the central government and those responsible for settlement of the transactions, including arranging of payments, bank account management, and recording in the government accounting system (referred to as "segregation of duties"). In addition, there should be a risk monitoring and compliance function within the principal DeM entity (or the DeM entities) to monitor whether all government DeM operations are within the authorities and limits set by government policies and whether they comply with statutory and contractual obligations. This function could be overseen by an individual staff member or, more ideally, a specialized unit with this role and the associated responsibilities.

The organizational structure and management policies should support sound human resource management practices with a sufficient and adequately trained staff, formal job descriptions, individual training and development plans, and performance assessments. Furthermore, the debt managers should be subject to code-of-conduct and conflict-of-interest guidelines. Preferably, these guidelines should be reviewed and updated at least annually.

A strong emphasis should be placed on mitigation and control of operational risks defined as "the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events." There should be a business-continuity and disaster-recovery plan to cover the adverse effect of major operational risks. Preferably documented guidelines for overall operational risk management should also be in place.

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

Dimensions to Be Assessed

The following dimensions should be assessed (Table 14):

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

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

Score	Requirements
A	1. There is clear organizational and physical separation between the debt managers with the authority to negotiate and contract, those responsible for arranging payment, and those responsible for recording and accounting for these transactions. The staff members entering data and checking data entries in the debt recording system are organizationally separate. There is also a separate unit responsible for risk monitoring and compliance that reports directly to the head of the relevant DeM entity. 2. The requirements for score B are met. In addition, there are individual training and development plans and yearly performance assessments for key debt management staff. 3. Documented guidelines exist for operational risk management, including a business-continuity and disaster-recovery plan incorporating relocation to an operational recovery site that is tested at least annually.
B	1. There is clear organizational separation between the debt managers with the authority to negotiate and contract, those responsible for arranging payment, and those responsible for recording and accounting for these transactions. The staff members entering data and checking data entries in the debt recording system are organizationally separate. There are dedicated staff members responsible for risk monitoring and compliance. 2. The minimum requirement for score C is met. In addition, there are code-of-conduct and conflict-of-interest guidelines that are reviewed and updated periodically. 3. There is a written business-continuity and disaster-recovery plan that identifies a recovery site and that has been tested in the past three years.
C	1. There is clear separation between the debt managers with the authority to negotiate and contract, those responsible for arranging payment, and those responsible for recording and accounting for these transactions. The staff members entering data and checking data entries in the debt recording system are different. At least one staff member is responsible for risk monitoring and compliance. 2. There are sufficient and adequately trained staff members with

	formal job descriptions that are reviewed and updated periodically. 3. There is a written business-continuity and disaster-recovery plan.
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met. 3. The minimum requirement for score C is not met.

3.6 Debt Records and Reporting

DPI-14 Debt Records

Sound practice requires comprehensive debt management systems that record, monitor, settle, and account effectively for all central government debt and debt-related transactions, including past debt relief and debt restructuring (such as Paris Club rescheduling). These systems should provide for an accurate, consistent, and complete database of the domestic, external, and guaranteed debt.[12]

The holders of government securities issued in the domestic market require the accurate recording of the holders of each security. This requires having in place an efficient and secure central depository (registry) system. The registry system should provide accurate and timely information on all holders of government securities. A registry agreement between the issuer and registrar is normal practice.

Most registry systems allow nominee accounts (that is, accounts in the name of a local custodian bank holding the securities on behalf of its clients). For these nominee-registered securities, beneficial ownership can be determined only from the books of the custodian. For reporting and statistical purposes, someone (normally the central bank) must possess the power to require the domestic custodians to share information on the amounts held by foreign investors. In the following indicator, "holders of government securities" do not include the end investors in the case of nominee accounts.

Dimensions to Be Assessed:

The following dimensions should be assessed (Table 15):

1. Completeness and timeliness of central government debt records
2. Complete and up-to-date records of all holders of government securities in a secure registry system

12. The dimensions for assessing this indicator and the following indicator on debt reporting draw heavily on the Data Quality Assessment Framework for External Debt Statistics, an internationally accepted framework to assess the quality of data, including good practices for data compilation and dissemination. Additional details on the framework are provided in the accompanying "Guide to the Debt Management Performance Assessment Tool" for the indicators.

Table 15 Assessment and Scoring of Debt Records

Score	Requirements
A	1. There are complete debt records within a one-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring. 2. The registry system has up-to-date and secure records of all holders of government securities, which are subject to an annual audit.
B	1. There are complete debt records within a two-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring. 2. The registry system has up-to-date records of all holders of government securities, which have been audited within the past three years.
C	1. There are complete debt records within a three-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring. 2. The registry system has up-to-date and secure records of all holders of government securities.
D	1. The minimum requirement for score C is not met. 2. The minimum requirement for score C is not met.

DPI-15 DEBT REPORTING

The government should report both central government and total nonfinancial public sector[13] debt and loan guarantees outstanding to meet statutory or contractual reporting obligations or both. Externally, this will include reporting to international financial institutions, stock exchanges, and foreign regulatory authorities, where applicable.[14]

A debt statistical bulletin (or its equivalent) covering domestic and external central government debt and loan guarantees should be prepared. This bulletin could be in the form of regular central bank publications, statistical tables produced by a bureau of statistics, or tables published in the government financial accounts. The bulletin should be published at least annually (preferably quarterly or semiannually) and provide information on central government debt stocks (by creditor, residency classification, instrument, currency, interest rate basis, and residual maturity); debt flows (principal and interest payments); debt ratios and indicators; and basic risk measures of the debt portfolio.

DIMENSIONS TO BE ASSESSED:

The following dimensions should be assessed (Table 16):

1. Meeting of statutory and contractual reporting requirements of central government debt to all domestic and external entities
2. Meeting of statutory and contractual reporting requirements for total nonfinancial public sector debt and loan guarantees to all domestic and external entities
3. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt

13. The nonfinancial public sector consists of the central government (budgetary, extra-budgetary, and social security funds); the state and local governments; and the nonfinancial public corporations. Therefore, it excludes financial public corporations, including state-owned banks, and the monetary authority.

14. The accompanying "Guide to the Debt Management Performance Assessment Tool" provides the key international references governing sound practice in the area of debt data reporting. Examples include the *External Debt Statistics: Guide for Compilers and Users* and the *Government Finance Statistics Manual.*

Table 16 Assessment and Scoring of Debt Reporting

Score	Requirements
A	1. Reporting of central government domestic and external debt fully meets all statutory and contractual reporting requirements, with debt data that are within one month of the reporting period. 2. Reporting of total nonfinancial public sector debt and loan guarantees fully meets all statutory and contractual reporting requirements, with data that are within three months of the reporting period. 3. A debt statistical bulletin (or its equivalent) covering central government debt, with all the categories listed in DPI-15, is published at least semiannually, with debt data that are not more than three months old from the date of publication.
B	1. Reporting of central government domestic and external debt fully meets all statutory and contractual reporting requirements, with debt data that are within two months of the reporting period. 2. Reporting of total nonfinancial public sector debt and loan guarantees fully meets all statutory and contractual reporting requirements, with data that are within six months of the reporting period. 3. A debt statistical bulletin (or its equivalent) covering central government debt, with all the categories listed in DPI-15, is published at least annually, with debt data that are not more than three months old from the date of publication.
C	1. Reporting of central government domestic and external debt fully meets all statutory and contractual reporting requirements, with debt data that are within three months of the reporting period. 2. Reporting of total nonfinancial public sector debt and loan guarantees fully meets all statutory and contractual reporting requirements, with data that are within nine months of the reporting period. 3. A debt statistical bulletin (or its equivalent) covering central government debt, with all the categories listed in DPI-15 (with the exception of the basic risk measures of the debt portfolio), is published annually, with debt data that are not more than six months old from the date of publication.
D	1. The minimum requirement for score C is not met.

	2. The minimum requirement for score C is not met. 3. The minimum requirement for score C is not met.

Reference

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

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