DEBT MANAGEMENT PERFORMANCE ASSESSMENT TOOL

(DEMPA)

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Economic Policy and Debt Department (PRMED)

Banking and Debt Management Department (TRE-BDM)

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ABBREVIATIONS AND ACRONYMS

BDM	Banking and Debt Management Department
DeM	Debt Management
DeMPA	Debt Management Performance Assessment Tool
DPI	Debt Management Performance Indicator
DRI	Debt Relief International
DSA	Debt Sustainability Analysis
Guide	Guide to Debt Management Performance Assessment
IMF	International Monetary Fund
LICs	Low-Income Countries
N/R	Not Rated or Assessed
OECD	Organization for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability (Program)
PRMED	Economic Policy and Debt Management Unit
STP	Straight-Through Processing
T-bills	Treasury Bills
T-bonds	Treasury Bonds

ACKNOWLEDGMENTS

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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. Lastly, 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 are Marcelo Andrade, Alia Moubayed, Ibrahim Levent, Deepak Mishra, Sandeep Mahajan, Sara Calvo, Hiroshi Tsuboto (all World Bank), and Allison Holland (IMF).

1 INTRODUCTION

The World Bank is developing a program to assist developing countries improve debt management in collaboration with other partners.[2] The objective of the program is to help strengthen capacity and institutions in developing countries to 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 Tool (DeMPA), a methodology for assessing performance through a comprehensive set of performance indicators spanning the full range of government debt management (DeM) functions. The intention is that the indicator set will be an internationally recognized standard in the government debt management 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 debt management performance report will not, however, contain specific recommendations or make assumptions as to the potential impact of ongoing reforms on government DeM performance. The DeMPA also facilitates the monitoring of progress over time in achieving the objectives of government DeM 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 debt management 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 debt management; alternatively, if the assessment using the DeMPA framework 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 DeMPA has been developed through a broad collaborative effort involving consultation with international and regional agencies and donors involved in debt management 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 a Guide to the Debt Management Performance Assessment (Guide), 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.

2 ASSESSMENT METHODOLOGY

2.1 SCOPE AND COVERAGE OF THE FRAMEWORK

The scope of the DeMPA is central government debt management 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 debt of state-owned enterprises if these 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 indicator "Debt Reporting" and in the indicator on "Coordination with Fiscal Policy" as it relates to debt sustainability analysis.

2.2 DEBT MANAGEMENT PERFORMANCE INDICATORS

A set of 15 performance indicators aim to measure government DeM performance and capture the elements recognized as being indispensable to achieving sound debt management practices. 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 on reforms or capacity- and institution-building needs, the performance indicators do stipulate a minimum level that should be met under all conditions (see section 2.3). Consequently, if the assessment shows that the DeMPA minimum requirements are not met, this will clearly indicate an area requiring reform or capacity building or both.

	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 Debt Management Performance Indicators (DPIs) have one or more dimensions linked to the subject of the DPI. Each of these dimensions should be assessed separately. An aggregate score of each indicator is then based on the assessments for the individual dimensions of the indicator.

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

The A score reflects sound practice for that particular dimension of the indicator. The B score is an in-between score, lying between the minimum requirements and sound practice for that aspect.

For DPIs that have two or more dimensions, an aggregate score can be determined by averaging the scores for individual dimensions of an indicator and referring to the conversion tables below.[5] Although the dimensions all fall within the same performance indicator, progress on individual dimensions can be made independently of the others and without logically having to follow any particular sequence. The steps in determining the overall or aggregate indicator score are as follows:

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

[5] N/R scores should not be included in this aggregation.

CONVERSION TABLES

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

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

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

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 (using the DPIs) that provides an aggregate performance assessment of government debt management
- A section on the government DeM reform process that briefly summarizes recent and ongoing reform measures implemented by 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 based on the DPIs

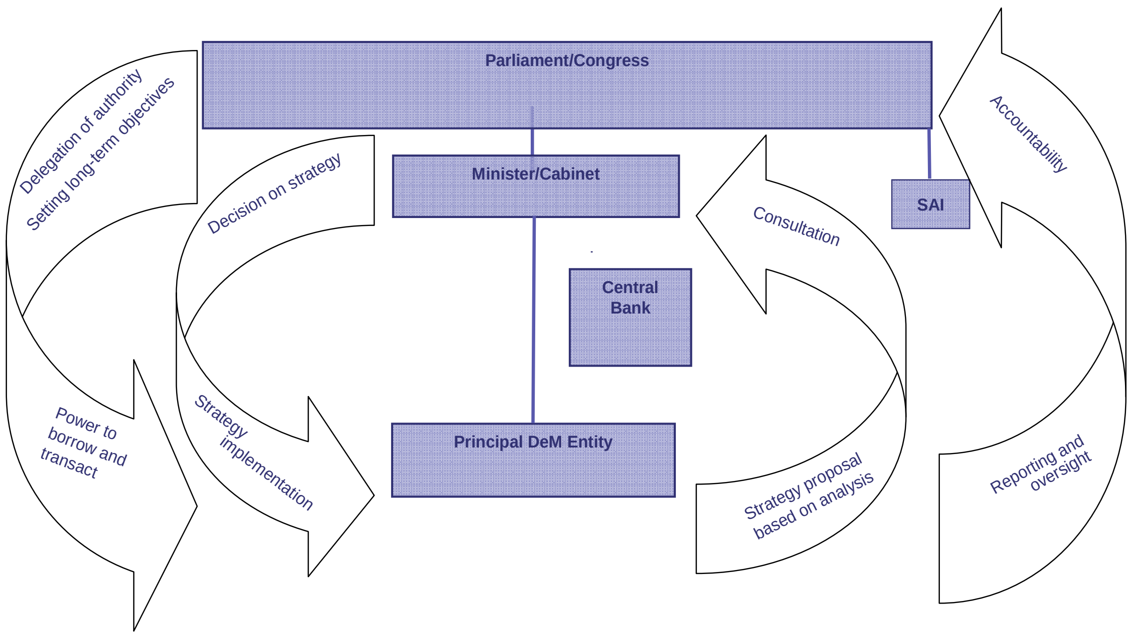
As mentioned above, the report is a statement of current government DeM performance and does not include recommendations for reforms nor action plans. If the views of the assessment team and the government on the findings of the report differ, all opinions would be reflected in the report.

3 DEBT MANAGEMENT PERFORMANCE INDICATORS

3.1 GOVERNANCE AND STRATEGY DEVELOPMENT

In the context of government debt management, "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 on) 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 below:



The Principal DeM Entity (commonly called the "debt management office") is the government entity with overall responsibility for the execution/implementation of the debt management strategy through borrowing, derivatives, and other debt-related transactions. With this structure, it is acceptable that some debt management activities are conducted by other entities as "agents" for the Principal DeM Entity (for example, a Central Bank to undertake auctions in the domestic market or a "Saving Directorate" to issue 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 or in the secondary legislation or 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 debt management objective is to raise the needed funds with little priority to the risks in the overall debt portfolio. However, where the focus on government debt management is more on cost/risk trade-offs in the debt portfolio, promotion of domestic debt market development, strategy development, accountability, and coordination with fiscal and monetary policies, it becomes increasingly difficult and inefficient to keep this fragmented managerial structure.

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

In many countries where the daily debt management activities have been delegated to a Principal DeM Entity (or to different DeM entities), and particularly when those are located within a ministry (normally the Ministry of Finance), it is common that the Minister or the Deputy Minister has retained the power to approve formally any borrowing and to sign the loan agreements.[6] This is acceptable within the structure described above, as long as there is no undue political interference.[7]

The managerial structure should ensure that there is a clear division between the political level (Parliament/Congress, the Cabinet/Council of Ministers, or the Minister of Finance) that sets the overall long-term DeM objectives and strategy and the entity(ies) 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 impact on the budget, taxes, government spending programs, or other such fiscal indicators—with political decision makers while allowing technical professionals to seek the optimum risk-adjusted outcome within those parameters.

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[6] 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 taken within the agency.

[7] For guidance on this, refer to the Guide to the Debt Management Performance Assessment Tool, section 3, DPI-2.

DPI-1 LEGAL FRAMEWORK

The legal framework for government debt management comprises both primary legislation (laws enacted with approval of Parliament/Congress) and secondary/delegated legislation (executive orders, decrees, ordinances, and so forth) determined by the executive branch of government.

The legal framework should preferably include the following:

- Clear authorization by Parliament/Congress to the executive branch of government (the Cabinet/Council of Ministers, the President, or directly to the Minister of Finance) to approve borrowings and loan guarantees on behalf of the central government[8]
- 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)
- 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 taken[9]
- Specified borrowing purposes[10]
- Clear debt management objectives
- Requirement to develop a debt management strategy
- Mandatory reporting of DeM activities—on an annual basis—covering evaluation of outcomes against stated objectives and the determined strategy
- Requirement for external audit

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[8] After delegation by Parliament/Congress to the executive branch to approve single borrowings, it is acceptable for the Parliament/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 (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) that is governed by international law.

[9] As explained in the introductory remarks under "Governance and Strategy Development" above, it is acceptable with 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 case of loan guarantees, should preferably be delegated to the relevant DeM or guarantee entity.

[10] Examples are presented in the Guide to the Debt Management Performance Assessment tool (DeMPA)

It goes without saying that the legislation must be adhered to. If that is not the case, the indicators below should be read as if the legislation were not in place.

DIMENSIONS TO BE ASSESSED:

1. The existence, coverage, and content of the legal framework

Score	Requirements
A	The requirements for score B are met. In addition, primary legislation includes requirement to develop a debt management strategy, and mandatory annual reporting of the debt management activities to Parliament/Congress covering evaluation of outcomes against the debt management objectives.
B	The minimum requirement for score C is met. In addition, primary legislation includes clear debt management objectives; mandatory annual reporting to Parliament/Congress covering the debt management activities and issued loan guarantees; and a requirement for external audits of debt management 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), on behalf of the central government and for specified purposes.
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 (Parliament/Congress, the Cabinet/Council of Ministers, or the Minister of Finance) that sets the overall long-term DeM objectives and strategy, and the entity(ies) 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 debt management strategy for the total debt, based on its analyses of the market conditions and the cost/risk of the debt. With this structure, it is acceptable that some debt management activities are conducted by other entities as "agents" for the Principal DeM Entity (for example, a Central Bank to undertake auctions in the domestic market or a "Saving Directorate" to issue 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 or in the secondary legislation or both.

Loan guarantees (contingent debt) are typically issued to support financially a certain beneficiary/project or a specific sector of the economy. Because this is a political decision, the approval of the use of these guarantees should be taken 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 single entity (the Principal Guarantee Entity) with the mandate and skill to assess and price the credit risk, mitigate the financial effects of a default/trigger event, monitor this risk during the term of the guarantee, coordinate the borrowings of the guarantee beneficiaries with central government borrowing, and to record these guarantees properly. With this structure, it is acceptable that 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 both.

DIMENSIONS TO BE ASSESSED:

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

Score	Requirements
A	1. The borrowings and debt-related transactions are steered by a formalized debt management 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 debt management strategy and undertaken without undue political interference. 2. Loan guarantees are prepared and issued by the Principal Guarantee Entity that, in the case 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 more than one government entity that regularly exchange information and closely coordinate their respective activities both between themselves and, in the case in which there is a Principal DeM Entity, with 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 in the case in which there is no Principal DeM Entity, the DeM entities jointly should develop in an open and transparent manner a debt management strategy that is based on the longer-term debt management 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 is ultimately approved at the political level (for example, by the Cabinet/Council of Ministers).

The strategy document should preferably include the following:

- Description of the market risks being managed (currency, interest-rate, and refinancing/rollover risks) and the historical context for the debt portfolio.
- Description of the future environment for debt management, 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 debt management strategy, clarifying the assumptions used and limitations of the analysis.
- Recommended strategy and its rationale. This 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 in the form of guidelines to indicate the direction in which certain key indicators are expressed 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 debt management objectives is to promote development of the domestic debt market, the strategy should include measures to support such development.

While 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.

DIMENSIONS TO BE ASSESSED:

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

Score	Requirements
A	1. The requirements for score B are met. In addition, the target levels for the risk indicators are based on 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 debt management strategy meet the requirements for score B, and in addition it 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 debt management strategy meet the minimum requirement for score C. In addition, if the proposal were 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 debt management objectives. The strategy is expressed at least as guidelines for the preferred direction 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/Council of Ministers or the Minister of Finance, and the strategy is made publicly available.
D	1. The debt management 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 debt management framework steered by long-term debt management objectives and a strategy to achieve these objectives must be complemented by an accountability process. This involves publishing an annual report covering DeM activities, evaluation of outcomes against stated objectives, and compliance with the government's debt management 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/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. In the case in which there is a Principal DeM Entity, this report is prepared and sent by this entity; in the case in which there is no Principal DeM Entity, the DeM entities either jointly prepare this report or send separate reports covering their respective activities.
- The Cabinet/Council of Ministers sends a comprehensive report to Parliament/ 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:

1. 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 debt management strategy

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 the rationale behind it, and compliance with the strategy, and is made available publicly.
B	The minimum requirement for score C is met. In addition, the annual report contains an evaluation on how the government DeM activities have complied with the government's debt management strategy.
C	A report providing details of government DeM activities and outstanding central government debt is submitted annually to the Parliament /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 debt management operations; (c) safeguarding of public funds; (d) compliance with laws, regulations, and contracts; and (e) when applicable, compliance with the debt management objectives and strategy.

The goal of internal and external auditing is to promote accountability in debt contracting and management. In addition, there should be mechanisms allowing 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:

1. Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports
2. Degree of commitment to address the outcomes from internal and external 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. There is a strong and immediate commitment from the relevant decision makers to address 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. There is strong commitment from the relevant decision makers to address the outcomes from internal and external audits of government DeM activities, policies, and operations.
C	1. There has been an external audit of government DeM activities, policies, and operations within the past five years. 2. There is commitment from the relevant decision makers to address the outcomes from internal or 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 advisors, and monetary policy authority (for example, the Central Bank) should share an understanding of the objectives of government DeM, fiscal, and monetary policies. Given their 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 debt management objectives and strategy within the context of government's fiscal and monetary policy framework.

DPI-6 COORDINATION WITH FISCAL POLICY

The Principal DeM Entity (or the DeM entities jointly) should provide fiscal authorities with total debt service forecasts under different scenarios. The Principal DeM Entity (or the DeM entities) should also inform the fiscal authorities on a timely basis of any emerging debt sustainability problems that it encounters in its efforts to sell the government securities in the markets at a reasonable price. The Principal DeM Entity (or the relevant DeM entities) is (are) in direct contact with market participants, and their observation of investor behavior in both the primary and secondary markets, as well as their discussions with market participants, may provide some useful insights into the willingness of investors to hold that debt.

The appropriate debt management strategy depends ultimately on the government's tolerance for risk. The degree of risk that a government is willing to take may evolve over time, depending on the size of the government debt portfolio and the government's vulnerability to economic and financial shocks. In general, the larger the debt portfolio and the vulnerability of the country to economic shocks, the larger the potential risk of loss from financial crisis or government default, and the greater the emphasis should be on reducing risks.[11]

To analyze the cost and risk of the debt portfolio properly, it is important that the debt manager(s) has (have) access to key fiscal variables and an analysis of debt sustainability. These key fiscal variables typically include actuals and forecasts of total expenditures, revenues, primary balance, the levels of total debt, and explicit contingent liabilities.[12] That will allow users to assess the sustainability of the fiscal position and its sensitivity to changes in policy. The debt sustainability analysis includes variables such as the level of total public and publicly guaranteed debt, GDP, export earnings, and government revenues and expenditures. Both the key fiscal indicators and the debt sustainability analysis determine the environment in which the debt manager(s) will operate, which is essential for the debt management strategy development.

It is essential that the government has the capacity to prepare the key fiscal variables (actuals and forecasts) and to conduct a debt sustainability analysis without external assistance. Moreover, the results of the DSA should be used to influence macro policy.

DIMENSIONS TO BE ASSESSED:

1. Coordination with fiscal policy through the provision of accurate and timely forecasts on total debt service under different scenarios

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[11] However, in a high-risk-category country—meaning that even under baseline macroeconomic assumptions, the debt burden is expected to pose a serious threat of debt distress emerging—cost reduction might be the only alternative left.

[12] The key fiscal variables would ideally be found in a fiscal strategy.

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

Score	Requirements
A	1. The requirements for score B are met. In addition, the forecasts include scenario analysis, including a worst-case scenario. 2. Analysis of debt sustainability 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. Analysis of debt sustainability 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. The Principal DeM Entity (or DeM entities) has (have) access to key fiscal variables (actuals and forecasts), and an analysis of debt sustainability that has been undertaken by the government within the past three years.
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

In a developing country context in which the level of financial development may not allow for a clear separation between debt management and monetary policy objectives and accountabilities, transparency and sharing of relevant information are necessary. It should be clear for the market participants whether a Central Bank transaction in the domestic market is aimed to meet its monetary policy objectives or whether the Central Bank transacts as the debt management agent. It is essential that debt management 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 conflicts of interest in market operations. Likewise, debt management objectives should be prudently understood and not override the Central Bank's formulation of monetary policy objectives. For example, a goal of cost minimization over time for the government's debt, subject to a prudent level of risk, should not be viewed as a mandate to reduce interest rates or to influence domestic monetary conditions. Neither should the cost/risk objective be seen as a justification for the extension of low-cost Central Bank credit to the government.

In this regard, it is important for the Central Bank to be informed about the central government's current and future cash flows because of the size of the flows. In addition, because both the central government and the Central Bank transact in the domestic market, good information sharing of the borrowing and debt management activities is essential.

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 and, in addition, is detrimental to domestic debt market development.

Dimensions to be Assessed:

1. Clarity of separation between monetary operations and debt management transactions, and coordination through regular information sharing on debt transactions and central government's current and future cash flows with the Central Bank

2. Extent of a limit to direct access of resources from the Central Bank

Score	Requirements
A	1. The requirements for score B are met. In addition, there is at least weekly information sharing on debt transactions and central government cash flows with the Central Bank. 2. 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, there is at least bi-monthly information sharing on debt transactions and central government cash flows with the Central Bank. 2. 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. In the case in which the Central Bank acts as a debt management agent, monetary operations are kept separate from debt management transactions. In addition, the Central Bank keeps the government and the market informed when its transactions are undertaken for monetary policy purposes and when the Central Bank transacts in the market as a debt management agent on behalf of the central government. There is at least monthly information sharing on debt transactions and central government cash flows with the Central Bank. 2. 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.

3.3 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.

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. There should be documented procedures for borrowing in the domestic market (for example, for auctioning Treasury bills and bonds (T-bills and T-bonds). This 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, are well defined and disclosed.

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

DIMENSIONS TO BE ASSESSED:

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 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

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 government/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/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, containing 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 task of the Principal DeM Entity (or the DeM entity responsible for external borrowing) is to liaise with the government entity responsible for formulating the project, identify the creditor that can offer the most beneficial/cost-effective terms and conditions for the external borrowing, negotiate the terms and conditions of the loan with that creditor (including currency, maturity, interest rate, and fees), and finalize all loan documentation. During the disbursement period of the loan, there is a need to coordinate with each creditor 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 is normally required before any public issue, involving "road shows" and discussions with financial institutions, rating agencies, and investors. 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. Post issue 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 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/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.[13]

There should be documented procedures 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 the design of important provisions of debt instruments, such as clearly defining events of default, especially if such events extend beyond payment defaults on the relevant obligations (for

[13] Example of a terms sheet is presented in the Guide to the Debt Management Performance Assessment tool (DeMPA).

example, cross-defaults and cross-accelerations); the breadth of a negative pledge clause; inclusion of collective action clauses; and 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 below must be adhered to. 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:

1. Degree of assessment of the most beneficial/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 advisors before signing of the loan contract.

Score	Requirements
A	1. The requirements for score B are met. In addition, assessments of the most beneficial/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 not later than one week after the loan negotiation was concluded. 3. Legal advisors are involved from the first stage of the negotiating process of concluding 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 not later than two weeks after the loan negotiation was concluded. 3. Legal advisors 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/cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets. 2. There are internal documented procedures for all external borrowings, including preparation of a terms sheet (physical or electronic) by the debt manager(s) who participated in the loan negotiation for all financial terms of the loan transaction not later

	than three weeks after the loan negotiation was concluded. 3. Legal advisors 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

There should be operational guidelines for approval and issuance of loan guarantees and government on-lending. These guidelines should provide details of how the credit risk should be assessed, along with measures to minimize the budget effect of a default/trigger event. This risk assessment should be undertaken before the decision has been taken 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 are transacted within a clear risk management framework and backed by sound legal documentation and that there are systems in place for proper recording and accounting of these transactions.

The formal documented policies and procedures referred to below must be adhered to. If that is not the case, the indicators below should be read as if the policies and procedures are not in place.

DIMENSIONS TO BE ASSESSED:

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 debt management system with functionalities for handling derivatives, as well as availability and quality of documented procedures for the use of 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 not later than two business days after the derivative transaction was concluded.
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 taken 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 taken 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 debt management 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 manager(s) who negotiated the terms of the transaction for all financial terms not later than one week after the transaction was concluded, (d) rules for debt database entry and accounting, and (e) involvement of legal advisors 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) require(s) information on the aggregate level of overnight cash balances or "float" to determine borrowing and debt-related activities and ensure that the float is in accordance with the level or range set by government policy. This requires accurate and timely forecasts of central government cash flows and end-of-day account balances. If there is an excess pool of liquidity in government accounts, this will be available for investment or buyback of domestic debt through transactions such as entering into reverse repurchase agreements or buyback of T-bills. To the extent that the government has a credit facility at the Central Bank (that is, ways & means or overdraft facility[ies]), the float should include the credit facility balance.

The government entity(ies) responsible for settlement of all debt-related transactions must ensure that these are processed through bank accounts that provide a high level of security and control. Direct responsibility will be with the government entity that manages the government account(s) at the Central Bank and other bank accounts necessary for the processing of debt-related transactions. This may be the responsibility of the Central Bank, the Accountant General, the Comptroller General, or the Principal DeM Entity (or the relevant DeM entity) directly. All bank accounts that are used for debt-related transactions should be reconciled regularly and cash balances monitored.

Dimensions to be Assessed:

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 account(s), including the integration with the domestic debt borrowing program
3. Where the Principal DeM Entity (or the DeM entities) operate(s) its (their) own bank accounts, the frequency of reconciliation of these bank accounts

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 to the DeM entities). 2. The central government undertakes transactions (such as issuance/buyback of T-bills or entering into repurchase/reverse repurchase agreements) on a daily basis to ensure that the float is in accordance with the level or range set by government policy. 3. All bank accounts operated directly by the Principal DeM Entity (or the DeM entities) are reconciled on a daily basis.
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 to the DeM entities) by the start of the relevant week. 2. Central government undertakes transactions (such as issuance/ buyback of T-bills) on a weekly basis to maintain the cash balance target set by the government. 3. All bank accounts operated directly by the Principal DeM Entity (or the DeM entities) are reconciled at least weekly.
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 to the DeM entities) by the start of the relevant month. 2. The central government invests its cash in excess of the target on at least a monthly basis in the market or with the Central Bank at market rates. 3. All bank accounts operated directly by the Principal DeM Entity (or the DeM entities) are reconciled at least monthly.
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.

3.5 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, debt data recording and validation, and storing 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 involves accurate, timely, and secure processing with minimum errors. The payment notifications normally received from lenders/counterparties should be checked with internal records before the payment is effected. Payments should be made on the due date; in addition, there should be procedures to monitor payment arrears and measures to control 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 correctness 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/counterparty during the life of each loan/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 debt management system, with active management of individual access permissions and passwords. 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 frequently be taken and stored in a secured location outside the building where the debt database is located. The location where the back-ups are stored should protected from incidents such as theft, fire, flood or other incidents that may damage or destroy any of these back-ups

The documented procedures referred to below must be adhered to. If that is not the case, the indicators below should be read as if the procedures manuals are not in place.

DIMENSIONS TO BE ASSESSED:

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 storing of agreements and debt administration records
3. Availability and quality of documented procedures for controlling access to the central government debt recording/management system and payment system
4. Frequency and off-site, secure storage of debt recording/management system backups

Score	Requirements
A	1. The requirements for score B are met. In addition, the internal payment orders are prepared and issued electronically via straight-through processing (STP). 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/management system backups are taken daily and kept 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/management system backups are taken at least once a 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 back-ups.
C	1. There is a readily accessible procedures manual for the processing of debt service, including (a) all payment notifications are checked with internal records before payments are made, (b) internal payment orders are subject to a minimum two-person authorization

	process, and (c) the payments are made by the due date. 2. There are readily accessible procedures manuals for debt data recording and validation, as well as storing of agreements and debt administration records, including (a) correctness of debt data entries is separately checked before the entries are deemed to be completed, (b) debt data are constantly validated against received payment notifications, (c) all original signed copies of loan and derivative agreements are stored and filed in a secure location 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 are kept in a secure filing system. 3. There are documented procedures for controlling access to the central government debt recording/management system. 4. Debt recording/management system backups are taken at least once a month 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 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 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 comply with statutory and contractual obligations. This could be 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 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 should all be reviewed and updated at least annually.

There should be a strong emphasis on mitigation/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 impact of major operational risks, and preferably also documented guidelines for overall operational risk management.

Dimensions to be Assessed:

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

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/accounting for these transactions. The staff 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. There are documented guidelines for operational risk management, including a business-continuity and disaster-recovery plan incorporating relocation to an operational recovery site, which 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/accounting for these transactions. The staff entering data and checking data entries in the debt recording system are organizationally separate. There are dedicated staff 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 business-continuity and disaster-recovery plan that identifies a recovery site, which 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/accounting for these transactions. The staff entering data and checking data entries in the debt recording system are different. There is at least one person responsible for risk monitoring and compliance. 2. There are sufficient and adequately trained staff with formal job descriptions that are reviewed and updated periodically. 3. There is a 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 to 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.[14]

The holders of government securities issued in the domestic market require 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. It is normal practice to have a registry agreement between the issuer and registrar.

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 indicators below, "holders of government securities" do not include the end investors in the case of nominee accounts.

DIMENSIONS TO BE ASSESSED:

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

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[14] The dimensions for assessing this indicator and the following indicator on debt reporting draws heavily on the Data Quality Assessment Framework (DQAF) 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 DQAF are provided in the accompanying Guide to the indicators.

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[15] 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.[16]

A debt statistical bulletin (or its equivalent) covering domestic and external central government debt and loan guarantees should be prepared. This 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/indicators, and basic risk measures of the debt portfolio.

DIMENSIONS TO BE ASSESSED:

1. Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities
2. Meeting 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

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[15] 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 (among which are state-owned banks) and the monetary authority.

[16] The accompanying Guide to the DeMPA Tool indicators 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 (GFSM)*.

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 equivalent covering central government debt, with all the categories listed in the introductory section above, 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 the introductory section above, 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 the introductory section above (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.