



### Case-studies on Scoring Selected Indicators

#### **Objective of the exercise:**

The following case studies are intended to illustrate and resolve common problems in the scoring of indicators DPI-2, 12, and 14.

For each indicator, information is provided on the state of affairs as found in a typical debt management (DeM) Performance Report. The group will assess the relevance and adequacy of the information provided, and agree on the score for each indicator or dimension in accordance with the requirements of the DeMPA Tool (February 2008) and Guide (February 2008).

#### **Required:**

Each group needs to:

1. Judge if the information provided is sufficient for scoring of each dimension and indicator and identify any information gaps;
2. Make its assessment of the score for each indicator, citing the evidence for that score.

Each group should report back their findings at the plenary session. All cases should be prepared, as reports will be made in turn by each group, indicator by indicator, and other groups will be invited to comment (computers available on request).

**Group Number:**

**Facilitator:**

**Room No:**

## Case Study A

### DPI-2 Managerial Structure

The Central Bank of Erehwon (CBE) has played a lead role in debt management (DeM). Recently, the roles of the Ministry of Finance (MoF) and the CBE in debt management have been clarified with the enactment of the Public Debt Management Law No. IXVI. The law specifies that all debt management functions should be consolidated within the Department of Public Credit (DPC) at MoF, although CBE will still have the lead role on several debt management functions related to external debt. Accordingly, the capacity of DPC is being strengthened to handle the new responsibilities. For the time being DeM functions are shared by the two agencies in the following manner:

1. DPC deals with all decisions relating to domestic debt management and the negotiation of external loans. It has set up a front, middle and back office structure<sup>1</sup> and is building capacity to develop the domestic debt market. It works in consultation with CBE. In terms of domestic debt, CBE in its capacity of financial agent to the government, conducts the auctions for government treasury bills/bonds but the decision to borrow and the cut-off level for bids in the auction to be accepted are determined by MoF. There is an agency agreement in place.
2. CBE helps to manage the external debt, including providing inputs for loan negotiations, debt analysis, recording and reporting of external debt.

To implement debt management there are two committees: (i) the Technical Committee; and (ii) The Financial Operations Committee.

The first is chaired by the Deputy Minister of Finance and Public Credit, and its members are the General Manager of CBE, Deputy Minister of Industry, a representative of the National Audit, a representative of the Foreign Affairs Ministry, and the Director of the Public Investment System. The core function of the technical committee is to elaborate the debt strategy (currently in draft form).

The second is the Financial Operations Committee that executes the borrowing strategy. This committee has members from DPC, Treasury, Office of Fiscal and Economic Affairs, and Legal Department and is chaired by the Minister of Finance. This committee has broad terms of reference including among others, deciding the cut-off on auctions. All the borrowings and debt-related transactions are decided by this committee and debt information is shared among entities that closely coordinate their respective activities.

All government guaranteed debt has to be authorized by a Presidential accord and ratified by the National Assembly (Public Debt Management Law No. IXVI). Once the loan guarantees are approved, the MoF is responsible for monitoring all guarantees.

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<sup>1</sup> The *back office* centralizes all operations of public debt related to (i) registration, monitoring and control of disbursements; (ii) execution and management of debt service operations; and (iii) production of statistical information. The *middle office* is responsible for (i) undertaking research and analysis (including debt sustainability analysis); (ii) reviewing the debt portfolio; and (iii) providing advice on the debt management strategy with a view to managing risk prudently. The *front office* functions are mobilizing financial resources required to meet government's financial needs.

**Score:**

**Required**

1. Is it possible to rate this indicator? Is there sufficient evidence? If not, what additional evidence should be obtained?
2. If the evidence is sufficient, what is your rating?

<b>Dimension</b>	<b>Score</b>
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.	
<b>Overall Score</b>	

## DPI-12 Debt Administration and Data Security

All original signed copies of loan and debt-related agreements are properly stored. There are complete loan administration records and a Procedures Manual, but the procedures to maintain the integrity of data in the debt recording system are outdated. The staff entering data also have the authority to delete or change data in the system.

All debt and debt-related payment advices/invoices from donors are checked against internal records and payments made by the date authorized for payment.<sup>2</sup> The payment request prepared by Department of Public Credit (DPC) is sent in physical form to the Central Bank of Erehwon after a minimum two-person authorization process. The Central Bank of Erehwon checks the payment request and processes payment through SWIFT<sup>3</sup>, which has as a standard feature ‘two-person’ authorization requirement.

There are no documented procedures for controlling access to central government debt databases. There is a DeMCoM<sup>4</sup> user manual. There is active management and control over individual access to DeMCoM, including written instruction to the IT Department whenever access rights are modified<sup>5</sup>. The Excel files containing domestic and guaranteed debt data are not secured in this way. Back-ups of external data in DeMCoM occur weekly, with a duplicate set of back-ups stored in a dedicated disaster recovery location. Back up of domestic debt occurs in an ad hoc fashion and without the assistance of the IT department.

### Required

1. Is it possible to rate this indicator? Is there sufficient evidence? If not, what additional evidence should be obtained?
2. If the evidence is sufficient, what is your rating for the following dimensions?

Dimension	Score
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, and 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.	

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<sup>2</sup> DPC is in the process of formulating a policy of reconciling payment advices/invoices from donors with internal records before making payment. Differences will be investigated and payment will not be made until these differences have been reconciled (currently, payments are made based on donor advices/invoices). This policy is expected to be implemented within the next 6 months.

<sup>3</sup> Society for Worldwide Interbank Financial Telecommunication

<sup>4</sup> Debt Management Control and Management System

<sup>5</sup> Two staff members have editing privileges, while the rest have read-only access.

4. Frequency and off-site, secure storage of debt recording/management system back-ups.	
<b>Overall Score</b>	

## DPI-14 Debt Records

DPC validates central government debt data as and when transactions need to be processed,<sup>6</sup> or whenever a creditor submits a portfolio statement to the authorities.<sup>7</sup> There is no formalized, documented procedure for carrying out at least an annual reconciliation of the entire database. All central government domestic, external and guaranteed debt is recorded electronically, in separate database. External debt data is registered in DeMCoM, including debt restructurings,<sup>8</sup> while domestic debt and on-lending information is registered in an Excel file.<sup>9</sup>

Central government domestic debt is also recorded in an Excel file, pending the incorporation of the domestic debt module in DeMCoM. The Central Bank of Erehwon records domestic data in the official registry system (an in-house application) and reconciles the information with the participating banks on a monthly basis. Validation of domestic debt information between the two entities is carried out on at least a quarterly basis.

Publicly guaranteed external debt data (specifically DOD) is subject to a lag of up to one year for some creditors; although for all other creditors the lag is limited to three months. As local government units cannot borrow (except from the central government), the total public and publicly guaranteed debt is in effect total central government debt. State-owned enterprises (SOEs) do not hold any non-guaranteed debt, either domestic or external. The Department of Public Credit (DPC) is not aware of any short-term borrowing in the domestic market by SOEs.

The registry system is operated by the Central Bank of Erehwon on behalf of the government according to Public Debt Management Law No. IXVI. The system is a two-tier system whereby banks licensed to conduct securities trading act as custodians for their customers. In this case, the bank has two securities accounts with the Central Bank of Erehwon, one for its own purposes and one aggregate account for its clients. Investors participating directly in the auctions are required to have a securities account directly in the registry system. Since many investors participate in the auctions through the non-competitive facility<sup>10</sup>, they also have accounts in the registry system. Thus, the number of investors registered in the system is quite large amounting to approximately 8,000. The system generates payment instructions to the accounting department in the Central Bank of Erehwon, which performs the actual transfer of funds from the Treasury Single Account (TSA) to the investors' accounts for redemption of capital amounts and payment of interest. The system works without Delivery vs Payment (DvP), but the Central Bank of Erehwon is planning to introduce this functionality soon.

### Required

1. Is it possible to rate this indicator? Is there sufficient evidence? If not, what additional evidence should be obtained?

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<sup>6</sup> Each individual validation is signed.

<sup>7</sup> Such as IDA, which sends monthly statements.

<sup>8</sup> For ex Paris Club rescheduling.

<sup>9</sup> On-lent loans are denoted in DeMCoM as such.

<sup>10</sup> Non-competitive bids are submitted by retail investors that are not eligible to bid directly and executed at the average of the prices paid in all the competitive bids accepted by the CBE/MoF.

2. If the evidence is sufficient, what is your rating?

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