A Handbook on Public Debt Transparency

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The Commonwealth
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Preface

A Handbook on Public Debt Transparency, produced by the Commonwealth Secretariat’s Debt Management Unit, provides a practical blueprint to assist debt managers and stakeholders to improve transparency in debt management operations through the implementation of a wide range of activities.

The Handbook provides information on key debt transparency issues relevant to both developing and advanced economies based on the Commonwealth Secretariat’s long history of providing technical assistance and capacity-building to debt managers, senior officials and policy-makers in member countries and for stakeholders. The Commonwealth Secretariat’s debt management programme strives to promote sound practices in debt management, including the provisioning of a debt management system since 1983. The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS), an integrated tool for recording, analysing and reporting public sector debt, has evolved into the flagship Commonwealth Meridian, a comprehensive solution that promotes effective and proactive debt management.

The Handbook was prepared by Dev Useree under the Commonwealth Secretariat Debt Management Unit’s project on Promoting International Sound Practices in Public Debt Management. The Secretariat’s Debt Management Unit team of Pamella McLaren, Mac Banda, Delia Cox, Sanjay Kumar, Mohamed Aazim, Difie Boakye-Mensah and Stanislau Nkhata made significant contributions. Special thanks go to external peer reviewers Michele Robinson (International Debt Management Consultant), Luke Beveridge (Australian Office of Financial Management) and Shreya Shah (UK Debt Management Office) for useful suggestions and comments. The team factored in observations received from staff of the International Monetary Fund and the Inter-American Development Bank in structuring and refining the contents of this Handbook.

The Handbook is intended to serve as a reference and practical guide for debt managers and stakeholders worldwide. It provides useful insights with regard to understanding debt transparency, and the steps needed to implement concrete activities to improve public debt transparency in member countries and interested debt agencies, including the Commonwealth Meridian reporting standards and assessment for improved transparency.
# Acronyms and abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>CLM</td>
<td>Contingent Liability Module in Commonwealth Meridian</td>
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<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations of the Treadway Commission</td>
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<tr>
<td>CS-DRMS</td>
<td>Commonwealth Secretariat Debt Recording and Management System</td>
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<td>CS-SAS</td>
<td>Commonwealth Secretariat Securities Auctioning System</td>
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<td>Debt-DQA</td>
<td>Debt Data Quality Assessment</td>
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<td>DeMPA</td>
<td>debt management performance assessment</td>
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<td>DMO</td>
<td>debt management office</td>
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<td>DRMS</td>
<td>debt recording and management system</td>
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<td>DSA</td>
<td>debt sustainability analysis</td>
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<td>e-GDDS</td>
<td>Enhanced General Data Dissemination System</td>
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<td>FX</td>
<td>foreign exchange</td>
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<td>GDDS</td>
<td>General Data Dissemination System</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<tr>
<td>IAO/U</td>
<td>internal audit office/unit</td>
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<td>IFMIS</td>
<td>integrated financial management information system</td>
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<td>IIF</td>
<td>Institute of International Finance</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>INTOSAI</td>
<td>Organisation of Supreme Audit Institutions</td>
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<tr>
<td>IPSGS</td>
<td>insurance, pension and standardised guarantee schemes</td>
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<tr>
<td>IT</td>
<td>information technology</td>
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<tr>
<td>MPA</td>
<td>IMF/World Bank multipronged approach to address emerging debt vulnerabilities</td>
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<tr>
<td>MTDS</td>
<td>medium-term debt strategy</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PAC</td>
<td>public accounts committee</td>
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<td>PDTS</td>
<td>Public Debt Transparency Standards</td>
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<td>PFM</td>
<td>public financial management</td>
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<td>PPP</td>
<td>public–private partnership</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>PSDS</td>
<td>Public Sector Debt Statistics</td>
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<td>SAI</td>
<td>sovereign audit institution</td>
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<td>SDDS</td>
<td>Special Data Dissemination Standard</td>
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<td>SDRs</td>
<td>Special Drawing Rights</td>
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<tr>
<td>SOE</td>
<td>state-owned enterprise</td>
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<td>TSA</td>
<td>treasury single account</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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Executive summary

Transparency is one of the major anchors of debt sustainability, ensuring that all stakeholders, including policy-makers, creditors and investors, can take optimal decisions on a country’s debt obligations, based on fully disclosed, reliable and timely information. The issue of debt transparency became more prominent following the discovery of hidden debts in some debtor countries, and the increasing diversity and complexity of debt structures in recent years has renewed the interest of various stakeholder groups in greater transparency pertaining to debt information to make effective economic and financial decisions. Greater openness in the debt cycle and timely reporting of debt are of paramount importance in transparent debt practices.

In recent years, although there has been an appreciable improvement by a number of countries reporting on their public debt, there have still been concerns regarding the comprehensiveness, accuracy and timeliness of these reports. For instance, the reporting of debt in many countries falls short of sound practice as it is limited to a few debt instruments, notably loans, and excludes other instruments. Moreover, the coverage of implicit contingent liabilities is narrow even though such liabilities pose a major fiscal risk and dilute the effectiveness of decisions made on ensuring debt sustainability. There have also been several reported instances of hidden debt, whereby countries have either failed to disclose some public debts or reported only partially and at times revealed debt obligations as memorandum items of government fiscal reports. All these undisclosed debts and liabilities impede optimal policy choices and decisions on debt and overall fiscal management, which could culminate eventually in debt crises.

The Commonwealth Secretariat, along with other international financial institutions, has been promoting transparent debt management practices, in both the contracting of new debt and the reporting of debt data. Creditors have also been encouraged to play their part through full disclosure and to provide comprehensive details of debt instruments extended to countries. The Secretariat’s commitment to supporting countries with comprehensive debt management systems dates to the early 1980s. A total of 63 client countries, including 17 non-Commonwealth countries, use the Secretariat’s debt management system. The external debt portfolio coverage of countries using the system amounts to over US$600 billion, and the combined public debt portfolio to over US$2.500 billion.

The Commonwealth Secretariat promotes the adoption of sound debt management policies and practices as prerequisites for debt sustainability and effective public financial management. Borrowers therefore have the primary responsibility for ensuring transparent debt management practices. Governments must adopt sound legal and regulatory frameworks that support good governance and institutional structures for effective public debt management, to contribute to success on emerging issues such as innovative financial initiatives and debt restructuring. In this regard, each country should have a clearly identified law governing debt management processes. Such a law must specify the authority to borrow on behalf of the country, typically bestowed on the minister responsible for finance, and the role of the debt management office (DMO), ideally established to conduct debt management. Equally, the mandates of all the oversight bodies, including parliament and external and internal audit, must be clearly identified and documented.

The DMO has the operational mandate to ensure transparency in its processes from contracting and management of debt instruments, to monitoring and the reporting of debt data. It is therefore important that its operations are fully recognised and supported by legal frameworks, with functions and responsibilities defined to the extent of establishing clarity. The DMO must be central in the contracting of all types of debt by the government and must report fully on all contingent liabilities emanating directly from central government operations and state-owned enterprises (SOEs) or other public institutions. The DMO must also have a good internal structure that ensures that there are efficient checks and balances in its operations. Finally, the DMO must be fully equipped with the right skill sets, system infrastructure and resources to help in the effective delivery of its assigned mandate.
One of the building blocks of debt transparency is ensuring full and comprehensive debt coverage. As discussed earlier, it is important that debt reporting is far-reaching enough to cover all explicit and implicit contingent liabilities. These include all government guarantees issued to either public or private institutions, on-lent instruments and debt taken by SOEs and public–private partnership projects. The DMO must also have oversight of all transactions that could result in debt, including arrears on the payment of goods and services by government and those arising from litigations against the government. The DMO must record, monitor and report all these liabilities comprehensively. The comprehensiveness of debt needs to go beyond the conventional coverage of central government debt as mostly reported, and not exclude important public debt issuers such as SOEs, local and subnational governments, and extrabudgetary bodies. In advanced statistical compilation arrangements, the coverage of public debt comprise the debt securities and loans to a fully comprehensive definition covering Special Drawing Rights, currency and deposits, other accounts payable and insurance, pensions and standardised guarantee schemes.

Effective debt reporting is key to ensuring debt transparency, and governments must therefore resource and strengthen the capacity of the DMO to perform all its functionalities. A good debt recording system is needed for effective debt reporting and transparency and debt management decisions, and complements the achievement of debt management objectives. In recent years, with governments increasingly resorting to market-based financing, the importance of comprehensive and timely information has become evident. Meanwhile, the role of the DMO has evolved to include good investor relations programming, with frequent interaction and dialogue with stakeholders to disseminate information and to address any uncertainties around debt and other government policies. Investor engagement has taken on greater importance as a factor in transparency in countries where market access and credit rating remain part of the debt strategy.

The dissemination of debt information by country authorities through publications including official web portals should adhere as a minimum to the disclosure requirements outlined in various global debt reporting and dissemination standards. Country authorities are encouraged to ensure that dissemination of debt information is carried out with greater frequency. Dissemination on a quarterly basis or more often between reporting cycles is encouraged. Information coverage needs to be recent, and within a single quarter if possible. The shorter the gap with dissemination, the timelier and more relevant the information will be for effective decision-making, and the more helpful to countries in terms of their benefiting from competitive price structures and avoiding speculation. This is particularly the case for market access countries.

The main elements of debt transparency and reporting are as follows:

**Comprehensiveness:** All government debt and contingent liabilities should be incorporated in debt coverage.

**Accuracy:** Debt numbers should be reported in full. The debt recording function must be strengthened and harmonised. Additionally, the debt valuation method should be clearly outlined and adhered to. Debt data should also be validated and reconciled with creditors to ensure accurate debt records and reports.

**Timeliness:** Reports must be well sequenced, and the DMO must ensure that reporting frequency is established and reports are published on time. This will reduce speculations around delays in debt publications and potential market disruptions.

**Accessibility:** Every stakeholder group should be able to access the published data with ease, and data must be targeted to address the needs and understanding of specific stakeholder groups.

**Comparability:** The reports must meet international standards.

This handbook guides debt managers and stakeholders on how to incorporate transparent debt practices into DMO operations. It also presents a self-assessment tool that they can use to assess their level of openness, operational benchmarks and measures to upgrade debt transparency.

Greater transparency in debt operations gives credibility to government policies and helps ensure debt and fiscal sustainability. It is therefore important to prioritise and put in place an enabling environment for sound debt management practices. DMOs around the globe and all stakeholders should put in place initiatives towards promoting public debt transparency as a part of standards of practices to withstand ever-present debt management challenges.
1. Introduction and background

1.1 Context

The global economic growth is forecast to slow from 6.2 per cent in 2021 to 3.4 per cent in 2022 and 2.9 per cent in 2023. Slowing economic activity compounds debt challenges as debt distress is widespread in vulnerable emerging market economies and many low-income countries. The tighter global financing conditions could worsen debt distress in countries where public finances remain weak. Progress towards orderly debt restructuring through the G20’s Common Framework for the most affected low-income countries is urgently needed to avert a wave of sovereign debt crisis. In defining orderly debt restructuring efforts, it is not enough to identify the magnitude of the debt stress, particularly among emerging market and developing economies. Initiating effective global responses, predominantly depends on the level of transparency and the reliability of information regarding the debt exposure of a majority of these economies.

Co-ordinated global efforts to address the debt distress of vulnerable frontier and emerging market economies and many low-income countries are constrained by a lack of debt transparency, which is seen to be a major risk to fiscal policy planning and implementation. Additionally, debt transparency has far-reaching consequences with regard to defining concentrated global action to alleviate debt distress. Economies that access financial markets may also struggle to establish investor confidence and source resources at low cost as a result of debt transparency considerations. It is for this reason that the Commonwealth Secretariat has made debt transparency an important pillar of its debt management programme delivery.

In the aftermath of the COVID-19 pandemic, the international financial institutions and the G20 countries are continuing to emphasise the need for greater clarity and openness on actual debt liabilities. This is particularly important at a time when all stakeholders globally are being called upon to contribute to a comprehensive solution to deal with the emerging debt burden. To help in taking decisive and meaningful action, there is a need to access and assess comprehensively information on the public debt of either affected or vulnerable countries on a case-by-case basis. As is discussed later, any hidden debt or transactions that are not properly disclosed have a tendency to invalidate any action plans or decisions made to keep debt at sustainable levels.

While the myriad initiatives on debt transparency and accountability put forward by the international community have been welcomed, the onus to achieve debt transparency rests mainly with borrowing governments and their agencies. It is worth noting that all governments must always adhere to the basic principles of sound debt management, embrace a culture of transparency and be fully committed to achieving greater public debt openness and accountability across the borrowing cycle in both normal and distressing times. However, it is also incumbent on creditors to be transparent in their lending operations. Cases of hidden debt and non-disclosure of debt in some countries owe partly to creditor practices that are not aligned with debt transparency best practice standards.

Countries are gradually recognising and embracing debt transparency as central to implementing an effective public financial management (PFM) programme. Most developing countries are making strides towards more open debt management practices in the areas of legislation, governance and debt reporting. When a government is more transparent about the country’s debt, this helps users of public debt data make more informed decisions, which increases the government’s credibility in its policies and borrowing operations. Notwithstanding these developments, though, recent assessments have pointed to continued key gaps in debt transparency in many countries. The call for more bold and decisive action thus remains pertinent.

Lack of debt transparency has proven a key source of risk to governments and the entire financial market and therefore warrants joint action by all key stakeholders to ensure greater openness to support government’s policy credibility and a

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well-functioning financial market. It is, therefore, imperative that countries establish a sound legal and regulatory environment; build adequate capacity along the borrowing cycle to record, monitor and report public debt data; and further carry out supporting functions such as audit, internal control and business continuity planning.

One of the purposes of this Handbook is to provide guidance on the legal and institutional framework necessary to achieve debt transparency and to highlight some functions that governments and key oversight bodies need to perform in order to promote greater accountability and openness within their operations. It brings to the fore the need for a comprehensive framework in which the whole public debt management operation, couched within the government’s PFM, is presented in a transparent and accountable manner.

In addition, the Handbook proffers a checklist of activities as well as the minimum standards required for achieving public debt transparency. It is hoped that the range of benchmarks discussed herein will give an insight into goals that a government must aspire to in achieving public debt transparency. At the same time, they will be able to draw on benchmarks to initially assess and identify gaps in their existing structures and as required, seek support from development partners. Governments and key oversight bodies will be able to use the handbook to agree upon an improvement plan for implementing targeted activities for achieving greater public debt transparency, in compliance with internationally agreed practices.

1.2 What is public debt transparency?

Although, there is no globally accepted definition of public debt transparency, the term can be defined using commonly agreed characteristics. Therefore, public debt transparency refers to the dissemination of timely, comprehensive, accurate, accessible and intelligible debt data, policies and operations. Reporting and publishing debt information may, therefore, not always imply being fully transparent.

Some countries, in recent years, have adhered to some form of reporting of debt data. However, the World Bank Debt Transparency Monitor shows that global public debt transparency is well below the desired benchmark. This is because merely reporting and publishing basic debt information may not always imply being fully transparent. Many reporting gaps exist because many countries are capturing and reporting on only basic forms of debt liabilities, while key components of public sector debt remain missing in various government reports. For instance, a new World Bank analysis has found that nearly 40 per cent of low-income developing countries – many of which are facing record-high debt levels exacerbated by COVID-19 – have never published debt data on their websites - nor have they updated their data in the past two years. The report also notes that, when debt data are available, these tend to be limited to central government loans and securities, excluding other public sector components and debt instruments.

It can be quite complex for a country to attain full transparency in its debt operations and several actors are required to play a complementary role in realising this. As such, all stakeholders need to play their parts in ensuring greater transparency effectively. The onus to achieve greater debt transparency lies with the borrowing countries themselves, though creditors also play their part. The government’s foremost responsibility is to provide a clear and sound legal and regulatory framework that enforces a good governance and institutional structure to support transparent debt practices. Additionally, the debt management office (DMO) must be mandated by law to be more transparent in its debt contracting processes and to publish accurate and timely debt data and reports. These include debt management strategies, annual borrowing plans, securities issuance calendars and the various debt bulletins. These reports should be accessible to the media, civil society, investors/creditors, parliament and citizens.

As most governments regularly tap domestic and international borrowing to fund economic and social development, transparency around public debt practices is critical. This will ensure government finances are well utilised and satisfy accountability and openness goals in PFM. Greater accountability backed by responsible borrowing will provide certainty to creditors about the basis upon which they are lending and allow effective risk management by the government and creditors for sustainable borrowing and lending practices.

2 World Bank (2021a) Debt Transparency in Developing Economies, World Bank, Washington, DC.
Governments therefore have a key responsibility to show transparency in all public sector borrowing operations, which must be part of an approved and accountable debt contracting process. Likewise, governments must endeavour to report as accurately and comprehensively on all debt data and contingent liabilities and make this reporting accessible to all stakeholders. Lastly, governments must establish adequate capacity along the borrowing cycle to record, monitor and report public debt data and further carry out supporting functions such as audit and internal control. As discussed later, making full use of a comprehensive debt recording and management system (DRMS) with adequate tracking, monitoring and reporting functionalities will strongly support openness and accountability.

Multilateral institutions, bilateral creditors and private sector agencies must take specific action to ensure their lending is more transparent. By specifically promoting greater transparency around the procurement of projects financed by their loans, these creditors can ensure accountable and responsible debt management. Creditors should also avoid using non-disclosure clauses in debt contracts that inhibit the disclosure of material information, as these undermine debt transparency. Creditors are one of the stakeholder groups that ultimately bear the brunt of less transparent debt practices, and it is therefore key that they contribute to ensuring greater debt transparency. Creditor reporting on national debt serves as a check on the accuracy of reports by borrowing countries to fulfil the role of stakeholder checks and balances.

1.3 Benefits of public debt transparency

Public debt transparency can bring significant gains to all parties, including borrowing countries, creditors and investors in debt securities as well as citizens and the wider public. The 2020 Statement of the G7 Finance Ministers and the 2022 World Bank Group’s Debt Management Facility reviews signify the importance of making debt transparency the epicentre of more accountable borrowing practices.\(^3\)\(^4\)

There are various reasons why public debt transparency has become important and is seen as generating wider benefits.

**Citizens and the wider public:** The public require information on debt status to hold the government to account on its fiscal policies and decisions – hence enabling citizens’ participation in active governance and potentially acting as a safeguard against corruption. Citizens are one of the most important stakeholders, given that it is they who bear any costs related to loss of public service but also taxation. As such, citizens are concerned about the fiscal burden that may arise as a result of a lack of debt transparency. Also, citizens are particularly keen on obtaining sufficient information to gauge whether their government’s borrowing decisions are leading to any loss of confidence from investors. Any action that undermines government credibility with regard to raising new funding will heighten public sensitivity to any threat to the provision of public goods and service delivery. Greater openness about public debt therefore creates a win-win situation for borrowing governments, lenders and investors/creditors as well as citizens.

**Creditors and other stakeholders:** Transparency is also good for other stakeholders who have an interest in debtor countries. It provides lending agencies more certainty on the borrowing country’s ability to service existing debt and any new debt they may decide to issue. Armed with detailed data, investors who purchase government securities can make better-informed decisions on a country’s debt situation before deciding to bid for any new issuances. Such stakeholders, including development partners, creditors and rating agencies, will require debt data to be promptly available. Drawing on such information, they will be able to carry out different types of assessments such as gauging financing needs, and ascertaining levels of creditworthiness and deciding on how to price debt instruments.

**Borrowing countries:** Greater transparency in debt management policy and operations and in debt statistics can only help with countries’ own policy credibility, accountability and predictability. To enable well-informed decision-making on borrowing, policy-makers in borrowing countries need to make full use of comprehensive and reliable debt information instead of relying on piecemeal or partial data. Comprehensive data allow them to carry out more meaningful debt portfolio risk

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assessments and make informed and responsible borrowing decisions to achieve debt sustainability and macroeconomic stability.

Operationally, openness in debt management (both analysis and plans) can result in improved market efficiency, thereby reducing government’s borrowing costs. Debt transparency is therefore critical for all governments that borrow directly or depend on the market to finance their budget and other development needs. Further, it is important for governments to be more transparent in debt contracting and negotiation processes. For instance, transparent negotiation of the terms of asset-backed loans will reduce the pressure on authorities to provide unnecessary concessions or cede control of sovereign resources to aggressive creditors and accept unfavourable conditions.

Debt transparency also facilitates quick debt resolution, especially in times of distress. Debt restructuring processes are often preceded by debt validation and reconciliation between a debtor country and its creditors. Where information on public debt is not comprehensive and accurate, it takes much longer for a borrower and creditors to reconcile debt statistics, thereby prolonging the debt resolution process. This is particularly applicable to borrowers that have not implemented a good debt reporting system to help facilitate the frequent publication of debt reports.

Debt transparency also enables parliamentarians to fulfill their oversight function of public resources. The legislature requires information on public debt so it can hold the executive accountable on the use of borrowed resources. Where this information is not available or comprehensive, it becomes difficult for the legislature to scrutinise public sector borrowing operations, which may lead to abuse of public resources. Lack of scrutiny undermines the role of parliament and erodes the confidence of stakeholders in PFM systems.

A note on the benefits of debt transparency in the context of emerging issues

The importance of debt transparency initiatives has gained further momentum as climate and innovative finance instruments, including climate swaps and environmental, social and governance bonds, have gathered pace and importance both in financing structures and as a mode to address debt vulnerabilities, at least on a small scale. The increasing uncertainties, including climate and external shocks, to which countries are exposed also remain a reason for adhering to best debt transparency practices. Transparent and timely disclosure of comprehensive debt information and open processes can prevent (or at least make it more predictable) the exposure of borrowers to sudden spikes in debt servicing and financing costs. Additionally, transparent practices can enable countries to benefit from continuous and predictable flows of resources in conventional modes while allowing them to explore innovative modes of finances.

Absence of debt transparency not only drags down best efforts towards debt restructuring but also stalls attempts to continue required financing initiatives and to diversify resource mobilisation in the form of innovative funding. Delays in debt restructuring further aggravate debt burdens and create speculation on the comprehensiveness of debt coverage. Prolonged delays in debt restructuring and spikes in debt serving and financing flows have a significant bearing on the lives of people.

1.4 Public debt transparency: some country cases

Lack of debt transparency gives rise to uncertainty, which presents a risk for governments and all stakeholders. For instance, surprises on debt liabilities emerging earlier than anticipated have been proven to lead to an asymmetric rise in credit risk premia, which very often leads to higher borrowing costs and may even affect borrowing countries’ ability to access certain markets. Instances of ‘hidden’ debt liabilities that are subsequently unveiled, as seen in some countries, have not only affected borrowing costs but also seriously undermined the credibility of concerned governments and their agencies.

Many countries have traditionally relied on state-owned enterprises (SOEs) to promote investment and growth, using government guarantees to raise borrowing. Unfortunately, loosely defined or unclear procedures for assessing the performance of public enterprises and insufficient reporting of SOE debt have generated significant concerns about direct and, at times, hidden contingent liabilities. In many countries where non-traditional creditors have taken centre stage, the opacity of the terms and conditions of debt offers has become more prominent and compromised efforts towards transparency. Uncertainty about countries’
debt levels can prompt creditors to increase the cost of borrowing or pull their resources from such destinations.

1.5 Gaps in public debt transparency

How equipped are countries to fully adhere to transparency principles regarding their borrowing? As debt management itself is evolving and highly scrutinised by creditors and other stakeholders, particularly in the case of market access countries, there have been commendable efforts to embrace greater transparency and accountability in public debt management. For instance, Robinson (2021) showed positive instances of reporting of debt strategy and annual debt reports by several countries in the Caribbean. It also showed ample room for improvement. Of the 12 countries surveyed, 9 had prepared debt reports, 7 had submitted them to parliament, 6 had produced a debt management strategy and 2 had put in place single, consolidated debt management legislation that mandated debt reporting.

Several Commonwealth countries have made good use of the public debt bulletin template produced by the Commonwealth Secretariat in regularly producing their own debt bulletins/reports. These include The Bahamas, Ghana, Guyana, Kenya, Maldives and Samoa.

Cameroon has made progress in covering SOE debt and carrying out regular official audits and reports but findings suggest there is further room for improvement. Ghana has also started strengthening SOE governance and oversight. Improvement in the legal framework has been seen in Cameroon, Malawi and Mozambique. Grenada has enacted a new public debt law and put in place fiscal responsibility legislation. Since 2019, Ethiopia has been producing more detailed annual and quarterly debt reports covering guarantees and debt of SOEs. In 2019, Togo began to design the country’s first public debt portal, consolidating on one website all of Togo’s debt-related information — including debt statistics, debt-related documents and an issuance calendar. Grenada, Lesotho, Mauritius, Papua New Guinea, Sri Lanka, Tanzania and Uganda are among the countries producing a medium-term debt strategy (MTDS). Angola, Georgia and Kosovo have started producing and publishing, on an annual basis, their MTDS - with Georgia also releasing annual and quarterly debt bulletins.

Notwithstanding such worthy developments, several gaps in debt transparency have been revealed by recent assessments of countries’ debt management frameworks, including reviews by the Commonwealth Secretariat, the World Bank, the IMF, the Organisation for Economic Co-operation and Development (OECD), the United States Agency for International Development (USAID), the Organisation of Supreme Audit Institutions (INTOSAI) and other agencies. Such gaps have direct implications on those countries’ ability to embrace and incorporate best practices of transparency in debt management operations.

The World Bank/IMF reviews discuss the broad range of approaches that countries use to address debt challenges. They look at policy reforms to strengthen country capacity for debt management and sustainability, proposals to increase debt transparency and debt resolution mechanisms. Pazarbasioglu and Reinhart (2022) for the IMF highlight that many emerging market and developing economies amassed debt to fight the pandemic. To complicate matters, the extent of many emerging market and developing economy liabilities and their terms is not fully known; the authors conclude that the transparency gaps are particularly acute and widespread among emerging market and developing economies. The risks of not addressing these gaps promptly are both significant and rising rapidly.

Some key limitations that international agencies have found in debt transparency consist of big gaps in global and national systems for tracking debt in low-income countries and, with debt burdens at record highs, lack of debt transparency could

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endanger economic recovery in these countries, particularly in the aftermath of pandemic-driven economic downturns.

International agencies report a number of gaps in debt transparency, and these are not limited to the drawbacks listed below.¹⁰

- **Incomplete public debt recording:** Limitations have been recorded in many countries in terms of completeness and timeliness of debt data recorded. Debt of public enterprises and the extent of contingent liabilities are not properly recorded and analysed. More widely, incomplete data have been seen on account of limited coverage of (i) instruments (currency and deposits; debt securities; loans; insurance, pension and standardised guarantee schemes (IPSGS); Special Drawing Rights (SDRs); and other accounts payable) as well as (ii) institutions (as defined in the IMF Public Sector Debt Statistics Guide). Other issues include debt recorded only at face value – with no computation of marketable debt at the market value – and usage of a cash-based accounting standard in lieu of accrual-based accounting.
- **Insufficient focus on government guarantees:** Limited procedures to assess the issuance of government guarantees and to carry out the subsequent monitoring of guarantees issued have been reported.
- **Absence of risk monitoring and compliance functions:** Lack of monitoring and compliance units in DMOs/departments was found in over 50 per cent of countries assessed.
- **Weak debt reporting and evaluation:** Limitations in debt reporting and evaluation of debt management operations were found in over two-thirds of countries assessed.
- **Limitations of prevailing legal frameworks in terms of promoting openness and clarity:** Frameworks in over 50 per cent of countries surveyed failed to define the delegation of authority to borrow and to elaborate on how to undertake debt management activities.
- **Quality of debt management policy and institutions still falling short:** The World Bank’s Country Policy and Institutional Assessment has shown that the quality of the debt management policy and institutions in many low and lower-middle-income countries continues to fall short of what is considered to be ‘adequate’.
- **Lack of compliance audits:** Debt management performance assessments (DeMPAs) conducted by the World Bank and its partners found that hardly any countries were conducting debt management performance audits. While a few countries had undertaken external financial audits on an annual basis, follow-up on audit findings had been weak.
- **Poor data administration and internal control:** Only a few countries have internal control systems in place to ensure accurate, timely and secure processing, with minimal errors, of public debt transactions. Data security in documented procedures, to control access to the data recording system, is also weak in most countries, according to DeMPAs conducted since 2007.
- **Insufficient human capacity:** Operationally, debt reporting and transparency have been constrained in most countries by a deterioration in capacity to handle the required debt management functions. The gaps have been particularly prominent with regard to compiling comprehensive debt information from different sources and covering the whole public sector debt, the recording of such information in debt systems and the ability to fully use all features in DRMS available in debt offices.

### 1.6 Debt transparency initiatives and standards

Debt transparency has received international attention because of the existence of hidden debt and the underreporting of public debt, which has compounded fiscal pressures in some developing countries.¹¹ Public debt transparency was, rightly, a key part of the international community’s commitments in 2015 under the Addis Ababa Action Agenda for Financing for Development to

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¹⁰ World Bank (2021a) Debt Transparency in Developing Economies, World Bank, Washington, DC.

Box 1.1: Transparency and accountability – the Guidelines for Public Debt Management

**Clarity of roles, responsibilities, and objectives of government institutions responsible for debt management**

- The allocation of responsibilities among the ministry of finance, the central bank, or a separate debt management agency, for debt management policy advice and for undertaking primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trade in government securities should be publicly disclosed.

- The objectives for debt management should be clearly defined and publicly disclosed, and the measures of cost and risk that are adopted should be explained.

**Public availability of information on the reporting of debt management strategies and operations**

- Materially important aspects of debt management operations should be publicly disclosed. Easy public access to the documentation describing the legal basis for debt management policy and operations should be ensured.

- The legislature and the public should be informed, through an annual report, on the context in which debt management operates and on the outcomes of the debt management strategy.

- The debt manager/government should regularly publish information on the outstanding stock and composition of its debt liabilities and financial assets, and, where they exist, contingent liabilities, including their currency denomination, maturity, and interest rate structure.

- If debt management operations include derivatives, the rationale for their use should be disclosed, and aggregate statistics on the derivatives portfolio should be published periodically, conforming to recognized accounting practices. The government is likely to benefit from a function within the debt management office that deals regularly with the main debt stakeholders and produces investor-friendly reports with debt statistics and other relevant information.

**Accountability and assurances of integrity by agencies responsible for debt management**

- Debt management activities should be audited annually by external auditors. Information technology (IT) systems and risk control procedures should also be subject to external audits.

- In addition, there should be regular internal audits of debt management activities, and of systems and control procedures.


meet the Sustainable Development Goals. The statement for this stressed ‘the need to strengthen information-sharing and transparency to make sure that debt sustainability assessments are based on comprehensive, objective and reliable data.’ In this light, signatories made a commitment to ‘work towards a global consensus on guidelines for debtor and creditor responsibilities in borrowing by and lending to sovereigns, building on existing initiatives.’  

[https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf](https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf)

Several international initiatives, including some that have recently become known, are worth highlighting here. Shared principles and common standards governing transparency can become useful benchmarks that all countries can look up to and gradually embrace.

**1.6.1 IMF/World Bank Guidelines for Public Debt Management**

The Revised Guidelines for Public Debt Management (2014) originally aimed at guiding policy-makers to adopt sound practices when designing, implementing and operationalising a
debt management strategy.13 Besides promoting important principles encouraging countries to adhere to high-quality public debt management processes, the revised guidelines continue to emphasise transparency and accountability. Box 1.1 presents further details.

1.6.2 UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing

In 2012, the United Nations Conference on Trade and Development (UNCTAD) launched the Principles on Promoting Responsible Sovereign Lending and Borrowing, highlighting the importance of debt transparency. The launch followed a UN General Assembly Resolution of 2010 on external debt sustainability in the aftermath of the global financial crisis in 2007/08. The Resolution emphasised the role of both debtors and creditors in ensuring long-term debt sustainability and transparency.

Specifically, the Principles state that governments have a responsibility to obtain financing through a transparent process, anchored by a sound legal framework that outlines the procedures, responsibilities and accountabilities of the various agencies involved in debt management. In addition, ‘relevant terms and conditions of a financing agreement should be disclosed by the sovereign borrower, be universally available, and be freely accessible in a timely manner through online means to all stakeholders, including citizens.’14

1.6.3 G20 efforts on promoting public debt transparency

To enhance public debt transparency, particularly in developing countries, the G20 recently requested the IMF and the World Bank to prepare concrete suggestions15 on (i) supporting borrower countries’ capacity-building in public debt recording, monitoring and reporting; and (ii) enhancing the role of the IMF and the World Bank in strengthening public debt transparency, including through debt data collection and dissemination, public debt analysis and their support to sustainable lending.

The G20 has endorsed the recommendations issued in 2018 by the IMF and the World Bank, ready for implementation by concerned countries. The note on ‘Improving Public Debt Recording, Monitoring and Reporting Capacity in Low and Lower Middle-Income Countries’16 provides a succinct description of the key functions that will strengthen public debt management while also highlighting the gaps in debt management operations found in recent assessments carried out by the IMF and the World Bank. The G20 Finance Ministers and Central Bank Governors launched the IMF–G20 Data Gaps Initiative17 as an effort towards debt transparency in 2009, to close the policy-relevant data gaps identified following the global financial crisis. This initiative helped advance the compilation and dissemination of sectoral balance sheets data as well as public sector debt statistics and securities statistics, among other data areas.

Amid rising debt risks in low- and lower-middle-income country and emerging markets, the IMF and the World Bank have been implementing a multipronged approach (MPA) to address debt vulnerabilities. The amplification of debt risks owing to COVID-19 has upped the urgency to implement the MPA and highlights the importance of debt sustainability and transparency for long-term financing for development.18 Both the G20 Finance Ministers and G20 leaders have endorsed the suggested approach and pointed to the importance of joint efforts undertaken by borrowers and creditors, official and private, to improve debt transparency and secure debt sustainability.” During the IMF/World Bank spring meetings in 2023, the Global Sovereign Debt Roundtable proposed to enhance the predictability of debt exposures through collaborative efforts among all stakeholders.

1.6.4 G20 Operational Guidelines for Sustainable Financing diagnostic tool

Focusing on public lenders, the G20 in 2017 agreed upon the operational guidelines for Sustainable Financing. These aim to ‘enhance access to sound

financing for development while ensuring that sovereign debt remains on a sustainable path by fostering information-sharing and cooperation among borrowers, creditors, and international financial institutions, as well as learning through capacity building. To implement the Operational Guidelines, the IMF and the World Bank launched a voluntary diagnostic of creditors in 2018.

The G20 operational guidelines include a standardised diagnostic tool and a set of practices for five key dimensions and principles to allow bilateral creditors, including their agencies, to evaluate their performance and their level of compliance. The five key dimensions and principles are adequacy of financing, information-sharing and transparency, consistency of financial support, co-ordination of stakeholders, and promoting contractual and financial innovation and minimising litigation issues to strengthen resilience. It is understood that G20 governments have started conducting self-assessments on how well they are implementing the operational guidelines and are gradually embracing the assessments.

1.6.5 The Institute of International Finance’s Voluntary Principles on Debt Transparency

The Institute of International Finance (IIF) in 2019 announced principles for its member banks to disclose details of loans to 68 low- and middle-income countries on a public registry. Focusing on the private sector, the principles are designed to complement G20 and other public sector initiatives aimed at improving transparency in public sector borrowing (while avoiding duplication). However, progress on such disclosures remains weak. Robust implementation of such guidelines by both public and private sector creditors will be an essential element of the quest for better transparency in sovereign debt markets.

The voluntary disclosure principles apply to financial transactions, including loans, debt securities, securities repurchase agreements (repos), asset-backed lending and commercially equivalent arrangements if secured by commodities revenues. Also included are Islamic financing transactions, which are debt-related, as well as financial transactions with private parties in public–private partnership (PPP) projects.

1.6.6 OECD Debt Data Transparency Initiative

In March 2021, the OECD, with the support of the UK government, launched a Debt Transparency Initiative to collect, analyse and report on debt levels of low-income countries in alignment with the IIF’s Voluntary Principles on Debt Transparency. In bringing together multilateral institutions, central banks, finance ministries, civil society organisations and commercial banks, this multi-phased project aims to allow any interested stakeholder to benefit from a better understanding of the debt levels and conditions of vulnerable countries. In particular, a digital platform is to be developed to both receive and disseminate data on sovereign debt of low and emerging market countries. A preliminary data matrix has been made available on the OECD website.

1.6.7 IMF Fiscal Transparency Code and other standards

Section 2.4 below deals with the practical linkages between fiscal and debt management, especially on transparency, but it is important to highlight here certain features of the IMF’s Fiscal Transparency Code. That framework is based on four general principles aimed at capturing the following pillars of fiscal transparency: clarity of roles and responsibilities; public availability of information; openness of budget preparation, execution and reporting; and independent assurances of Integrity.

The Fiscal Transparency Code mentions that fiscal reports cover all public revenues, expenditures and financing. The coverage of the fiscal reports differs based on the practice level. At a basic level, fiscal reports cover cash revenues, expenditures and financing. At intermediary level, fiscal reports should cover cash flows, and accrued revenues, expenditures and financing. At the advanced level, fiscal reports cover cash flows, accrued revenues, expenditures, financing and other economic flows.


The recommendations of the Public Sector Debt Statistics Guide state that “cash-based accounting can result in misleading disclosure and facilitate opaqueness.” As such, countries should strive to make accrual accounting the minimum requirement to support debt transparency, given that the use of the accrual basis resolves some key drawbacks of the cash accounting method. That is, accrual accounting determines the time of recording flows and especially the recording of interest to capture the cost of carrying a particular debt burden more accurately.

The Code of Good Practices on Transparency in Monetary and Financial Policies makes a case for transparency in public debt, because (i) the debt office’s effectiveness is strengthened if the policy goals and instruments are known to the public and if the authorities can credibly commit to meeting them; and (ii) transparency can enhance good governance through greater accountability of public entities involved. The Enhanced General Data Dissemination System (e-GDDS) provides a framework for countries to

(i) encourage member countries to improve data quality; (ii) provide a framework for evaluating needs for data improvement and setting priorities in this respect; and (iii) guide member countries in the dissemination to the public of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic statistics.

Regarding debt, the e-GDDS recommends that the data cover: (i) the public and publicly guaranteed external debt, broken down by maturity; and (ii) private external debt not publicly guaranteed, disaggregated by maturity.

The Special Data Dissemination Standard (SDDS), aimed at countries that have access to international capital markets, requires subscriber countries to make available their economic and financial data to the public. Countries must disseminate external debt data every quarter. The Fiscal Transparency Evaluations have recently “confirmed weaknesses in debt reporting and revealed a broader deficiency in fiscal reporting and risk disclosure.”

The Tenth Review of the IMF Data Standards Initiatives, approved by the IMF Executive Board in 2022, expanded the government debt data that countries are encouraged to publish under the e-GDDS, SDDS and SDDS Plus, focusing on more granular data by creditor.

1.6.8 Implementing public debt transparency initiatives

With the help of the international community, including the Commonwealth Secretariat, there is merit for borrowing countries to look at how to implement these international initiatives on public debt transparency most effectively. By implementing them, borrowers can further enhance accountability and improve their credibility vis-à-vis their different stakeholders and especially investors.

It is hoped that greater consensus will be achieved to bring in a wider group of creditors, including those under the non-Paris Club and from the private sector, to embrace initiatives for greater transparency in their lending operations. Collective initiatives need to be attempted to make the G20 Operational Guidelines for Sustainable Financing and the IIF Voluntary Principles for Debt Transparency fully operational, thereby making the creditor community more accountable. Unfortunately, recent evidence has shown that the use of confidentiality clauses in debt contracts imposed by certain creditors is becoming more restrictive. Sometimes, those provisions require borrowers to keep transaction-related documents confidential. This goes against the essence of the transparency principles being pushed forward globally.

While noting the importance of implementation of transparency initiatives, the rest of this handbook describes the different elements that will assist in putting in place a strong framework for public debt transparency by sovereign governments in their debt management practices.

24 The e-GDDS superseded the General Data Dissemination System in 2015, explicitly encouraging countries to publish not only metadata and development plans (as was the case under the GDDS) but also the recommended data.
26 The same applies to the countries in the highest tier of the IMF Data Standards Initiatives, SDDS Plus.
28 IMF (2022c) IMF Executive Board Concludes the Tenth Review of the IMF Data Standards Initiatives. Press Release, 16 March. IMF, Washington, DC.
2. Supporting public debt transparency

The role of the government is to provide a supporting environment and extend policy facilitation towards achieving greater public debt transparency. This is supported by having a sound legal and regulatory framework as well as well-structured governance and institutional frameworks.

2.1 The legal and regulatory framework to support debt transparency

The bedrock of debt transparency is a sound legal and regulatory framework that mandates all debt management operations, supports good governance and the institutional structure, and clearly spells out the measures for enforcement and sanctions. A sound legal framework can therefore control potential abuses of power while at the same time promoting good governance and the required accountabilities for managing public debt liabilities. All government borrowing operations must be regulated by an act passed by parliament. In most countries, the public debt management act and similar legislation typically mandates the minister of finance to borrow on behalf of the sovereign. The act further allows the minister to operationally delegate specific powers and responsibilities related to the management of public debt to the DMO.

It is imperative that legislation that governs borrowing brings clarity in terms of the roles and responsibilities related to all functions of debt management, including recording, monitoring and reporting all components of public debt in a routine/regular manner. A robust legal framework must encourage broad consultation and prudence in the government’s borrowing decisions to ensure a high level of transparency and accountability in the borrowing process. Additionally, a sound legal framework must establish an adequate level of oversight in the choice and utilisation of borrowed funds. Figure 2.1 highlights the elements that must be present in the legal and governance framework for public debt management.

The legislation must be broad enough to cover borrowings by various entities: the central government, SOEs and public sector enterprises as well as subnational governments. Debt financing has evolved over the years, with new innovative financing structures such as PPPs increasingly gaining traction in most counties to support infrastructure and other public investment. There is therefore a need for a separate law (such as a PPP act) to govern such financing structures. Such a law should, however, recognise the complementary role of the DMO. The mandate within the legal and regulatory framework will allow the DMO to monitor and assess all direct debt obligations as well as contingent liabilities covering the whole public sector while also explicitly defining agencies that will be responsible for such functions. Legislation covering the issue of government guarantees, criteria and procedures for their approval and subsequent monitoring must also be factored in.

Put succinctly, legislation for enhancing public debt transparency must cover the following: (i) responsibility of the DMO for the compilation and reporting of debt statistics; (ii) a well-articulated definition of public debt so as to include debt of broader public sector entities; (iii) clear legal backing for the collection of debt statistics from public sector units by the DMO; (iv) provision for the auditing of debt management functions; and (v) clear prescription for formulating and publishing the medium-term debt management strategy.

Oversight functions and overall scrutiny of borrowing operations must be well defined in the legal framework. Parliament will enact the required legislation, delegate responsibilities to the executive and make the government and concerned officials accountable for the design and implementation of debt management strategy. Legislation will make it mandatory that parliament regularly receive reports on debt management activities to make it possible to rigorously evaluate outcomes against stated objectives in the debt strategy. Dedicated public debt acts or PFM legislation must explicitly explain audit requirements. Audit reports from the supreme
audit institutions (SAIs) must be tabled in parliament and scrutinised, for instance by the public accounts committee (PAC), in a timely manner. The legislation should require the execution of internal audits of all government operations, including public debt, to ensure compliance with established policies and standards.

The legal framework will cover different levels of legal text, especially primary and secondary legislation. Borrowing laws must therefore be supported by regulations and procedures that, among other things, define the explicit roles of different agencies involved in debt operations at all stages of the borrowing cycle for each category of borrowing instruments. Because borrowing is related to other aspects of economic and financial management, it is not uncommon to have several legal instruments that together provide the legal fabric and backing for all debt management functions and operations.

It is not uncommon to see countries also enacting fiscal responsibility legislation that can further solidify the accountability framework on debt and fiscal management. The practice of passing legislation to establish independent fiscal institutions is another noteworthy tool to enhance the transparency of debt management operations. Though many countries have not yet established such entities, they are being recognised as a key source of independent and non-partisan information to both the executive and parliament during the budget process. Some countries have also promulgated specific laws on access to public information, which are vital to enhance the transparency of public sector operations, including debt management. Box 2.1 summarises those essential components of an effective legal framework to support greater transparency and accountability.

2.2 Institutional framework for effective debt transparency

In addition to an effective legislation, having a sound institutional framework for debt management is critical. Conceptually, such institutional arrangements will cover those policies, systems and processes that can be used to legislate, plan and manage debt and other related activities efficiently while at the same time effectively co-ordinating with other stakeholders to fulfill the agreed mandate.

The DMO must have a legal mandate to carry out its functions, which include raising adequate financing for government, managing the debt at sustainable levels and developing the domestic debt market. Irrespective of its size, the DMO must be structured to ensure clearly defined roles, segregation of duties and separation of power among the functional units – front, middle and back offices – with an effective functioning system of internal control. This helps build a check and balance on the work of the units. This structure could be

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**Figure 2.1 Legal and governance framework for public debt management**

- **Parliament/National Assembly** (incl. parliamentary committees)
  - Enacting laws
  - Delegate power to borrow and transact
  - Set objectives
  - Transparency and accountability
  - Reporting and oversight
  - Scrutinise debt policy and operations
- **Minister of Finance/Cabinet**
  - Further delegation
  - Decisions on strategy taken
- **Debt management office/dept**
  - Implement and report on debt strategy and operations
- **Central bank**
- **Outsourcing**
- **Propose strategy from analysis**
  - Ongoing consultation
- **Debt committee**
- **Front office**
- **Middle office**
- **Back office**
  - Implement and report on debt strategy and operations

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Box 2.1 summarises those essential components of an effective legal framework to support greater transparency and accountability.

- **Enacting laws**
- **Delegate power to borrow and transact**
- **Set objectives**
- **Transparency and accountability**
- **Reporting and oversight**
- **Scrutinise debt policy and operations**

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The DMO must have a legal mandate to carry out its functions, which include raising adequate financing for government, managing the debt at sustainable levels and developing the domestic debt market. Irrespective of its size, the DMO must be structured to ensure clearly defined roles, segregation of duties and separation of power among the functional units – front, middle and back offices – with an effective functioning system of internal control. This helps build a check and balance on the work of the units. This structure could be
### Box 2.1 Components of a legal framework to support transparency and accountability

1. **Oversight**: Clearly defined role of parliament and its committees, such as the PAC. While parliament is not expected to approve individual borrowing, it would review and endorse the borrowing plan and the MTDS and be apprised of the levels of government guarantees provided as well as the extent of PPP obligations taken by the government.

2. **Authority to borrow**: Clarity in the delegation of responsibilities to the executive with a clear mandate on the borrowing entity, broad responsibility to track and monitor the whole public sector debt, and the agency being given such responsibility.

3. **Purpose of borrowing**: A clear statement to the executive on the specific purpose of borrowing, which will guard against the risk of abuse.

4. **Debt management objectives**: Clear objectives of borrowing, which will be used to assess performance and enhance accountability.

5. **Mandatory preparation of a debt management strategy which is seen by parliament**: A sound governance process supported by a good debt management strategy. To provide legitimacy to the strategy and its implementation, approval is by high-level authorities such as the minister of finance or the cabinet.

6. **Core functions of debt management**: A legal and regulatory framework that provides a clear mandate for comprehensive recording, monitoring and reporting of public debt.

7. **Reporting to parliament**: Parliament to receive specific reports from the minister of finance at an agreed frequency and covering the whole public sector debt. These must also cover an evaluation of the debt management operations, including levels of government guarantees issued and outstanding, government PPP obligations and levels of exposure to contingent liabilities.

8. **Audit functions**: Audit functions, including external audit of debt management operations, to be produced and submitted to parliament.

9. **Definition of public debt**: Guidance on the definition of debt and debt instruments such as loans, SDRs, debt securities, currency and deposits, IPSGS and other accounts payable.

10. **Transparency**: Disclosure of debt and related statistics and reports to the public, parliament and other stakeholders.

11. **Guarantees/on-lending framework**: Outline of arrangements for issuance and management of government guarantees, including responsibilities.

*Source: Roy and Williams (2010)*

Adapted for small island developing states with small debt offices and low staffing that still wish to meet minimum requirements for effective debt management. For example, in smaller countries with limited staff resources, it is common to find a simpler organisation with only two sections: one combined front- and middle-office section and one separate back-office section.

The main advantage with this model is that it will, if properly adhered to, reduce operational risks, ensuring that each functional unit delivers effectively on its assigned role. Once the above structure or an effective alternative for a small debt office is fully operational within a dedicated debt office or department, the government will be able to carry out mandated functions related to the whole public debt. A key element within the suite of functions will be preparing a medium-term debt management strategy as well as the annual borrowing plan. These are implemented once they have been reviewed and approved by high-level authorities, including parliament, the cabinet and/or the minister of finance.
Also, backed by strong legislation with an in-built enforcement mechanism, the DMO must be fully equipped to monitor central government and subnational debt and borrowing by SOEs, as well as guarantees and other contingent liabilities. With debt management being a key element of financial risk management, policies and arrangements must be in place to track and manage such risks, especially those emerging from different forms of guarantees, liabilities from public enterprises and contracts governing PPPs.

The functional organisation of the DMO into the front, middle and back offices is recommended for the optimal delivery of its mandate. This structure supports the effective and efficient delivery of the diverse debt management responsibilities while strengthening internal controls and accountability. In countries where the debt management functions are split across different offices/agencies, an effective co-ordination mechanism is necessary to ensure effective and efficient delivery.

**Front office:** The front office makes the major decisions on contracting foreign and domestic debt based on the fiscal plan and the approved borrowing strategy. It also takes responsibility for on-lending, government guarantee operations, and hedging and derivative transactions. It communicates regularly with markets, creditors and rating agencies.

The front office is at the fore of the borrowing cycle, and it is important that it is transparent in the borrowing process. Accordingly, the process of contracting new debt should be clearly outlined to promote greater transparency. Additionally, the front office and all other institutions/departments that are involved in the debt contracting process must ensure that all new liabilities signed are duly passed onto the back office to ensure that the debt system captures these new debt instruments.

Ideally, government funding transactions must be brought together under one unit to enable the proper design and implementation of a consolidated funding strategy. Operationally, one expects other parties to be consulted, such as the central bank on domestic funding, and the conduct of a debt securities auction.

The front office must be capacitated to conduct debt negotiations effectively, including to get terms that promote debt transparency. Solid negotiation skills and techniques are required to engage with creditors, who often have knowledgeable and skilled negotiators. Weak negotiation capacity in the front office can lead to debt agreements with clauses that undermine debt transparency, such as non-disclosure clauses. The front office must therefore scrutinise all the terms of borrowing and their implications for debt transparency. Refer to Appendix C for detailed functions of the front office.
Middle office: The middle office performs monitoring and analytical functions that support decision-making in the front office. It aims to achieve the most suitable balance between cost and risk in meeting the government’s debt financing. It must be bestowed with the right legal mandate to extend monitoring functions to SOE debt and PPP-related liabilities. The middle office will develop a risk management strategy, undertake portfolio analyses, develop borrowing scenarios and track/compare the emerging debt indicators with agreed benchmarks. It must be able to identify and quantify exposures of contingent liabilities and design strategies that allow the DMO to monitor such exposures. As mentioned in Section 2.1 above, the middle office must prepare a debt management strategy and other analytical reports regularly and make these publicly available in order to improve debt transparency. Refer to Appendix C for detailed functions of the middle office.

Back office: The back office is responsible for recording debt contracted by the front office in the debt recording system. In addition to monitoring and follow-up on disbursements, it effects debt service payments based on creditor statements that are cross-checked with its database. All transactions – disbursements, debt service payments – from each debt instrument will be accurately recorded and kept up to date.

Other tasks of the back office include preparation of accounting and other reports required by creditors and the government for various purposes and managing the debt information system. The back office is the principal anchor of debt transparency within the debt office and must endeavour to ensure timely and comprehensive reporting of debt data to support middle office analysis as well as making same available for wider stakeholder groups. Refer to Appendix C for detailed functions of the back office.

2.3 Public debt, public financial management and fiscal transparency
2.3.1 Debt within public financial management

Public debt management does not operate in a vacuum. Its linkages with other aspects of policy-making within a broader framework help promote accountability and transparency. Besides being intrinsically linked to macroeconomic and financial sector policies, debt management must be connected to a clear macroeconomic framework to ensure greater coherence between debt management and fiscal, monetary and financial sector policies.

Effective debt management is critical to implementing a sound PFM framework, which also helps promote overall good governance. Meanwhile, debt management policies and operations are more effective in a sound PFM framework. This is especially true when it comes to the budget process and in carrying out other key functions such as cash management (current and future cash flow needs), financing priority investments and meeting social and economic development targets, among others. As Section 3 shows, the broader PFM framework is also useful for the DMO to extend its own intervention, in co-ordination with other agencies, when dealing with other liabilities such as those emerging from the SOE sector and PPPs, usually handled elsewhere within government. Co-ordination with other agencies also promotes information-sharing and ultimately enhances debt transparency through the publication of comprehensive, accurate and timely debt reports.

2.3.2 Debt and fiscal transparency

The fiscal policy transparency underlines the importance of openness in public debt activities. The Fiscal Transparency Code notes that fiscal transparency covering 'the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present and future state of public finances is critical for effective fiscal management and accountability.' Fiscal transparency has been consistently identified as a key feature of efficient fiscal policy and a prerequisite of good public governance. It allows governments to have an accurate picture of their finances when making important economic decisions, including those related to the costs and benefits of policy prescriptions and risks to public finances. When it comes to holding the government to account, it also provides key

Accurate and comprehensive debt statistics not only represent a cornerstone of sound borrowing and lending practices but also enhance overall fiscal transparency.
3. Building blocks for enhanced public debt transparency

DMOs are technically accountable to several stakeholders, which include the minister of finance, a diverse group of policy-makers, the legislative apparatus (parliamentary committees and parliament), investors, sovereign auditors, internal auditors and, more widely, the public. These stakeholders are keen to assess the quality of debt operations, including new borrowing plans and performance in managing the debt portfolio. With more countries tapping international capital markets and deepening their domestic securities markets, enhanced communication with these diverse groups of investors is essential, while transparency about the government’s financing and borrowing activities has been shown to create an efficient market for such debt.

This section focuses on the building blocks for promoting public debt transparency. Drawing on the legal and institutional arrangements described in Section 2, it elaborates further on those basic activities that remain a priority to achieve the government’s mandate and fully satisfy the needs of different stakeholders while at the same time creating credibility and greater openness in the government’s borrowing and debt management strategy.

3.1 Transparency guidelines for debt coverage

Debt reporting coverage must be widened to cover a wide range of debt instruments and transactions of the government, other quasi-government and private sector entities that can potentially affect the debt burden whether explicitly or implicitly. Widened debt coverage also implies that all forms of hidden debt have been properly disclosed, and this helps strengthen and give more credibility to government analysis, including assessment of fiscal risks and debt sustainability, and contributes to fiscal and monetary policies that are substantively interconnected on debt levels. Public debt should, where applicable, be widened to include central government debt and guarantees issued by the government to SOEs and private enterprises, which implies that all contingent liabilities need to be monitored and reported accordingly.

The recent findings by international agencies highlight the existence of certain debt-creating arrangements that have given rise to additional debt transparency issues, especially relating to ‘off-balance-sheet’ exposures such as from collateral and collateral-like debt and PPPs. Therefore, emphasising the need for DMOs to monitor all components of public sector debt is one aim of this handbook.

According to the PSDS Guide for Compilers and Users,31 countries are encouraged to compile and report on debt of the entire public sector, as defined by international statistical standards (summarised in Figure 3.1).

The PSDS Guide recommends complete coverage of public debt, comprising all six instruments: debt securities, loans, SDRs, currency and deposits, IPSGS and other accounts payable, which can be referred to as pending bills or short-term technical arrears. The IMF and World Bank’s Public Sector Debt Definitions and Reporting in Low Income Developing Countries32 acknowledges that coverage by sectors and instruments in countries will happen incrementally from the most common instrument group (debt securities and loans) to the highest (IPSGS) and from the lowest institutional sector (budgetary central government) to the highest (public financial and non-financial institutions).

Though these are not defined as debt, provision has been made to report on contingent liabilities as a memorandum item. These include explicit contingent liabilities such as guarantees granted by the government to SOEs and implicit contingent liabilities (e.g., future obligations of a social security system; government financial interventions to ensure solvency of the banking sector during financial crisis; debt of public sector units without

Handbook of Public Debt Transparency

government guarantee, which the government will need to assume in case of default).

As pointed out by the G20, strengthening public debt recording, monitoring and reporting is critical to achieving debt transparency. The next sections detail some of the practical arrangements for the DMO to adopt under these core functions.

### 3.2 Transparency guidelines for contracting new debt

The process of contracting new debt starts the debt cycle, and it is therefore important that measures to promote transparency begin with the contracting process. As a first measure, it is important that borrowing countries clearly outline the process of contracting new debt. This gives clarity to all stakeholders in the debt contracting process. At the outset, the global amount to be borrowed annually must be clearly indicated in the approved budget documents. Once it is approved, the DMO must play a key role in the assessment and negotiating of any form of debt or any transaction that is contingent on the public debt and provide an objective assessment for management decision-making.

It is common to find in some countries that functions of the front office are split across different units: the debt management unit, the external resource mobilisation unit and the central bank. These institutions outside of the DMO may, however, take independent borrowing decisions that may not be in line with the approved borrowing strategy, thereby making it difficult for the government to achieve its overall debt management goals. It is therefore important that the DMO is mandated to carry out all core front-office functions or be fully integrated in the process where such functions are split across multiple agencies/offices. On domestic debt, the agency agreement, usually signed by the ministry of finance and the central bank, must explicitly define how the DMO and its counterparts in the central bank will jointly and effectively deal with issues related to the domestic securities market infrastructure, instruments to be rolled out, the issuance calendar and the means to communicate with the market.

In recent years, new financing products have emerged, notably blended finance and structured finance products such as collateralised debt obligations or asset-backed securities. The debt office must be equipped with the right skill set and mandate to scrutinise and give its opinion on such transactions. Borrowing decisions of this nature or any transaction that is contingent should not be left solely to agencies providing the concerned

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**Figure 3.1 Target for public sector debt statistics – the public sector and its sub-sectors**

Source: IMF and World Bank (2020)
3. Building blocks for enhanced public debt transparency

3.2.1 Government guarantees

Countries must have in place proper guidelines for the issuance of government guarantees. This needs to be well defined and fully complied with by the DMO and other parties involved. The guidelines must be supported by strong legal backing. This must cover:

- When government guarantees will be provided;
- The purpose of guarantees;
- What type of agencies can be extended such guarantees;
- The established review process of approving guarantees to be followed;
- The explicit role of cabinet and parliament related to review or approval of government guarantees;
- Criteria for assessing issuance of government guarantee;
- Provision for possibly charging a guarantee fee from beneficiaries;
- The establishment of quantitative limits on the levels of total guarantees to be provided at any point in time; and
- Reporting requirements.

Some countries have expanded further to produce dedicated documented procedures related to the management of sovereign guarantees. This will equip the DMO to effectively carry out its role in the management of all government guarantees. One of the key components of these procedures is a requirement for the DMO to assess the credit risk of guarantees. This is particularly important for determining the current and future ability of a guaranteed entity to repay its debt. It also ensures that the cost of a guarantee is known at the time of issuance and that budgetary provisions are made in the event the guarantee is called. Such information must be made available in the debt reports and budget documents for the purposes of debt and budget transparency.

3.2.2 State-owned enterprises

In countries where public investment relies heavily on SOEs, the legal framework must require such entities to submit regular information to the DMO showing their borrowing plan, the amount of the debt being contemplated, the disbursement profile for each instrument and the amount of repayment of principal, interest and related fees related to each such borrowing.

The onerous nature of SOE debt liabilities and their impact on the government’s finances makes it imperative for the ministry of finance (and the DMO) to have a complete view of the management of SOE debt obligations and to keep their borrowing operations in line with the overall government risk tolerance limits. More information flow has become necessary to allow the DMO to assess each SOE’s ability to service its debt without difficulty. In this regard, it is important for the DMO to work closely with the agency in charge of supervising SOEs to provide its opinion on whether the level of liabilities contracted by each SOE is sustainable and affordable and can be adequately serviced using the resources generated by the business in question. The DMO must conduct a credit risk assessment to assess the SOE’s creditworthiness. Both the front and the middle office must carry out the exercise of appraising and looking closely at the financial performance indicators of each SOE.

3.2.3 On-lending

As in the case of sovereign guarantees, a sound legal framework must guide the government’s on-lending operations. The relevant laws must state mandates, approvals, processes and purposes. Borrowing entities requiring on-lending have to adhere to the same procedure as every other project seeking public funding. This includes preparation of detailed financial and economic risk assessment in accordance with any operational guidelines that will be in place. On-lending policies and guidelines need to be produced and must be adhered to by all relevant parties. Concerned departments of the ministry of finance as well as the DMO must give their opinion on any on-lending agreement before it is signed by authorities. The beneficiary of on-lent funds can be a public enterprise or a statutory body. Beneficiaries of on-lent funds are required to provide financial

information to the DMO for ongoing monitoring of risk and ongoing creditworthiness.

3.2.4 Public–private partnerships

PPPs are an innovative financing arrangement for use by government to fund major capital projects while leveraging the technological know-how and the investment availability of the private sector to support its infrastructure development. PPP projects can lead to a series of financial commitments that can entail different types of payments from the government to the private sector over the life of the contract. These are potential contingent liabilities to the government, and there is a need to put in place robust legal and institutional frameworks that promote transparency over the PPP cycle.

First, there is a need for separate legislation to govern PPP structures, which must recognise the role of the DMO, especially reporting the associated contingent liabilities. The PPP legislation and guidelines that countries usually develop expect the DMO to be involved in giving its opinion during the whole PPP cycle. This can include assessing the level, conditions and terms of liabilities/guarantees; estimating the costs of these commitments; assessing projects’ affordability; and supporting the preparation and negotiation of contractual clauses related to these liabilities. International agencies have developed specialised tools to deal with such assessment and analysis.\(^\text{35}\) Skills of DMO to enable staff to handle PPP reviews and evaluations also need to be identified and strengthened.

Second, it is important to strengthen co-ordination among the institutions that are responsible for managing PPPs. There is a growing trend in many countries of setting up PPP units in the ministry of finance or other related ministries and departments. Given the role of the DMO in managing public debt, it needs to co-ordinate with these units to ensure comprehensive and timely reports by the DMO. Along with the relevant units, the DMO must also monitor the performance of PPP arrangements to detect any potential risks to the government under certain circumstances. For example, a build, own, operate, transfer scheme could be established to assign the risks and rewards of ownership to the government, with the private partner treated as the provider of a financial lease. This type of PPP contract can give rise to debt liabilities for the government in the form of an imputed loan.\(^\text{36}\)

3.3 Transparency guidelines for debt recording

To effectively support the debt transparency mandate, the back office must be equipped with a widened role, as defined in Section 2.2.2, to enable it to record different debt liabilities of the public sector. These will cover the full suite of government domestic and external debt instruments, maintaining a database of government guarantees approved, on-lent liabilities, any debt contracted by SOEs (with the right mandate for this in place) and debt and other liabilities originating from PPP contracts (in line with agreed arrangements with the PPP directorate established in the ministry of finance). Countries need to adhere to a practice of just-in-time data so that all new types of borrowing, disbursements, debt service and other transactions are promptly recorded.

The widened institutional procedures under the front office described in the previous section must allow the back office to carry out its expanded recording functions. On government guarantees, once the front office has completed the approval process, the unit within the ministry of finance that advises on legal matters should draft the guarantee agreement and forward it to the approval committee and the DMO. The latter should prepare the term sheet based on the agreement and record it in the debt recording system. Recipients of guarantees such as SOEs may be required by legislation to provide to the DMO data on all debt that they have been contracting – with or without government guarantees. Each borrowing entity should fill out specially designed forms containing instrument details as well as disbursement and debt service transactions related to each active loan on a quarterly basis. Once it has received these, the back office should use these to complete the recording of such liabilities.

Similarly, the on-lending agreement should specify the amount of the debt instrument, the interest rate payable, service fees, late payment interest


3. Building blocks for enhanced public debt transparency

Payable in the event of the borrower’s default, the grace period and the period for principal repayment. The back office should capture these details and related transactions in the debt database. When beneficiaries of an external debt instrument via on-lending repay the proceeds to the consolidated fund, those debt service payment details are made available to the DMO for recording accordingly.

On PPPs, there must be an entity within the ministry of finance to maintain a record of direct and contingent commitments – both project by project and globally at the portfolio level. In consultation with the PPP directorate (which most governments have established), arrangements will be made for the back office to receive details on debt and other guarantees provided under every PPP contract signed. These will be recorded in the database.

3.4 Transparency guidelines for debt monitoring

3.4.1 Monitoring tasks for ensuring existing and new debt are well under control

Among the different functions of the middle office, as highlighted in Section 2.2.2, the constant monitoring of different types of debt operations is recognised as essential to public debt transparency. Attention must be paid to monitoring of debt management operations and public debt stocks and flows in line with the MTDS and borrowing plans. It is also crucial to monitor contingent liabilities from SOEs and PPPs. Frequent monitoring provides early warning signs to alert policy-makers of any looming vulnerabilities to the debt portfolio. In addition, the middle office should track arrears, ensure adherence with the debt strategy that has been approved by parliament or the cabinet, and ascertain compliance with terms and conditions of debt operations that have been approved by, for instance, the front office. Reports on the performance of the debt management strategy and implementation of the annual borrowing plan and other related debt functions must be published regularly in line with the relevant legislation to enhance debt transparency.

3.4.2 Control function

Furthermore, the middle office needs to carry out a controlling function to ensure operational compliance with the DMO’s approved policies and established benchmarks. This will entail co-ordinating the operational activities of the DMO across departments by ensuring they comply with any agreed ‘code of standard practice’ to be established and defined in approved processes, policy, and procedures manuals and guidelines. Sound internal control systems will further ensure debt management policy and related operational functions are effective and efficient. Where slippages are noticed, corrections are immediately brought in, after management has been alerted accordingly. Publishing the DMO’s level of compliance with approved policies in an annual report to parliament or other established committees that are accountable to the public will contribute to improved debt transparency.

3.5 Transparency guidelines for debt analysis

Transparency relies heavily on the analytical work carried out by the middle office. For instance, regular analysis of debt and debt service trends, to alert on cost and risk dangers and any threat of the overshooting of debt ceiling targets set in public debt acts, and the tracking of debt indicators are important functions of the middle office that the monitoring unit can utilise. Also, the middle office must regularly produce and publish the annual debt portfolio analysis, covering different types of debt liabilities. On the fiscal commitment front, basic external debt and debt service costs related to each type of borrower (central government, public enterprises) will be analysed. Domestic debt exposures and related sensitivities to inflation, interest rates and other monetary variables must be assessed as well. The analysis of fiscal risk will allow the middle office to cover factors such as refinancing risk, using average time to maturity and redemption profile, and interest rate exposure, using average time to re-fixing, as well as to gauge the implications of exchange rate risks over the public debt portfolio. The middle office will be analysing consolidated debt levels of SOEs that have obtained government guarantees as well as those that have undertaken borrowing without such guarantees. Fiscal exposure from PPP projects has become an important area into which the debt office must extend its analytical remit.

Furthermore, analysis carried out under the MTDS and plans on future borrowing is a key requirement for every DMO. It is appropriate for the middle office to regularly undertake internal debt sustainability analysis, using the standard Excel-based template...
provided by the World Bank and the IMF, without waiting for assessment initiated for periodic reviews. Provision must be made for timely analysis to capture different components of public debt as well as contingent liabilities, privatisation proceeds, etc. Though many countries still do not publish debt portfolio analysis reports, MTDS and DSA, efforts must be made to share the content of such analytical work routinely to enhance debt transparency.

3.6 Transparency guidelines for debt reporting

The DMO must commit to the timely publication of reports that meet the demands of the various stakeholder groups. Reports must largely follow a standard reporting format while being customised to specific stakeholders. It is important to clearly establish the frequency of the publication of each type of report, and the DMO must commit to timely publication of reports per the specified timelines. Protracted absence of officially published debt reports or publishing outside the agreed time could increase market uncertainties and speculations. This could lead to the market (investors and creditors) forming a negative opinion of the public debt and debt profile, which could adversely affect government financing costs (yields/interest rates) and access to financing, with a subsequent spiral effect on other macroeconomic variables.

Meaningful and comprehensive reporting can take place only when the DMO complies with the recording, analysis and monitoring functions discussed above. Strengthening public debt transparency by disseminating debt data, publishing public debt analysis and enhancing creditor outreach must be backed by legislation and become a key debt management objective for every country. The quality and coverage of public debt to be reported therefore depends on how efficient the debt office has been in securing and implementing its debt management mandate while fully complying with other functions related to scrutiny, audit and the all-important internal controls. In the absence of this, the quality of reporting is bound to be sub-standard.

Generally, the content of such reports will serve specific purposes, though one expects to see more granular details on the terms and conditions of each borrowing and a breakdown on the composition and structure of the public debt, including currency, maturity and interest rate profile. At the same time, non-sensitive information on policy and strategy needs to be made widely available – including in an MTDS – to alert other stakeholders of the government’s borrowing intention over the medium term. In line with enhancing transparency and accountability, it is important to develop procedures for reporting on exposure to fiscal liabilities through different channels – the budget, government accounts, analytical reports, a website, etc.

Besides producing internal reports covering cost and risk to different policy-makers – dealing with issues ranging from macroeconomics, budget and planning to financial and central banking – targeting reporting to meet specific user needs will be essential in enhancing transparency. For instance, to support the oversight function, parliament and parliamentary committees require reports with the right details, in line with established legislation. Reports for the domestic and international market, including for investors and rating agencies, must routinely be made available. As seen already, the publication of an expanded MTDS covering not only debt management decisions and operations of government but also policies regarding the issuance and size of guarantees and fiscal risks from SOEs and PPPs will increase transparency while also allowing other stakeholders to appreciate the costs and risks facing the public debt portfolio.

Operational reports, including the annual borrowing plan and the issuance calendar, are required by market participants and other users. The regular publication of expanded annual debt reports and quarterly debt bulletins and the posting of debt information on the official website and in other formats will make it possible for civil society and the wider public to become more aware of how government has been carrying out its borrowing operations and assist them in taking a view on how effectively taxpayers’ money is indeed being used.

At a minimum, some key foundations need to be addressed to enhance debt transparency. These include (i) the timeliness of reports in terms of periodicity and time lags; (ii) the quality and accessibility of websites (some websites are extremely difficult to navigate); (iii) the comparability of reports and the importance of using internationally accepted public debt definitions; and (iv) the intelligibility of reports – in effect, the need to write content in a manner that is understood by the final audience and that does not effectively obscure public debt information.
4. The essentials of debt transparency for Commonwealth countries and beyond

Building on the legal and institutional framework and the functions related to debt contracting, recording, monitoring and reporting described so far, this section focuses on those areas that are critical for supporting the drive towards greater accountability and transparency in managing public finance and public debt within Commonwealth countries and beyond. It dwells on ways to fully support and crystallise the building blocks of public debt transparency already seen in Section 3 - with countries optimising the use of a comprehensive DRMS while also ensuring that debt data quality is assessed and improved. Ideally, countries must be able to publish the quality ranking of their debt database using the in-built tool provided. There is ample room for further improving the additional factors within the public debt transparency framework that countries need to embrace more fully. These include (i) communication and engagement with market players; (ii) support to oversight functions that the legal framework has encouraged; and (iii) regular scrutiny of debt management operations through internal controls, internal audit and especially external audit.

The section goes on to summarise the essential elements of public debt transparency covered extensively in this Handbook in the form of a checklist of Public Debt Transparency Standards (PDTS). Countries can use this checklist to find out where they stand on public debt transparency and what else they need to do to further upgrade their own framework and performance. Furthermore, to help the DMO make this judgement, the minimum requirements or benchmarks that countries must achieve to secure a satisfactory rating on terms of each of the PDTS have also been defined here. Given the gaps that still prevail across nations in terms of fully complying with accountability and transparency standards, the Handbook points out how debt management systems can be particularly useful in supporting countries in the advancement of a much-needed culture of openness and accountability within their institutions while further improving their own public debt transparency framework and practices.

4.1 The need for a comprehensive debt recording and management system

4.1.1 A debt recording and management system with wide-ranging features

Public debt recording, monitoring and reporting functions that are essential for achieving transparency will benefit from a comprehensive DRMS that is fully equipped to handle the whole suite of debt-related functionalities. Backed by a strong legislative mandate and a comprehensive data collection framework, countries must have a system that can help provide an accurate, consistent and comprehensive database of domestic and external debt for the public sector.

The DRMS must have the ability to capture and manage a wide variety of debt instruments that countries are using to contract borrowing as well as to handle debt-related transactions. Domestically, the recording functions will cover all instrument types, tenors (short to long term) and categories of investors. Externally, the system must be able to handle all instruments from official creditors (bilateral, multilateral) and commercial sources (bonds, syndicated loans, trade credits, as well as hybrid/blended instruments). Related transactions such as derivatives and embedded options – currency and interest swaps – must also be covered, as well as the tracking of arrears incurred, issuance of government guarantees and monitoring of contingent liabilities, while the DRMS must also be able to handle transactions from any
Some of the core functions expected in the DRMS will be the following:

- Ability to capture liabilities defined under public sector debt statistics;
- Flexibility to handle terms and conditions on an instrument-by-instrument basis from all types of borrowing;
- Allowing the user to drill down on the structure and composition of the concerned debt, including breakdown by currency and interest type, creditor composition, original and remaining maturity, level of concessions using defined thresholds, etc.;
- Individual and aggregate debt servicing schedules (principal, interest, other fees) across various categories of debt;
- Internationally defined portfolio cost and risk indicators, such as exposure to variable interest rates, domestic–external debt mix, average time to re-fixing, average time to maturity, exposure to exchange rate risk (proportion of foreign currency debt in portfolio), etc.;
- Different types of alerts to debt managers, such as notices of payment due, arrears being incurred and related charges, breaches of debt thresholders, etc.;
- Linkages with other systems. Countries have introduced different types of financial management systems within their PFM frameworks; the DRMS must allow clear interface with these platforms. Linkages with integrated financial management information systems (IFMIS) will allow seamless sharing of information on financial flows, such as on loan disbursement and securities issuance, debt service scheduled and actual transactions, as well as on related budget formulation and execution flows. Within the treasury, it is also expected that all cash flows from government revenue, expenditure, donor funds, debt issuance and amortisation (all flows, including external debt) are fully integrated into the treasury single account (TSA) system. Adequate interface by the DRMS with IFMIS and TSA will therefore help deal with cash and debt management operations;
- In-built features to support the improvement of data quality and enhance data transparency;
- Data security.

4.1.2 The Commonwealth Meridian Debt System

While countries are using different debt systems, the Commonwealth Secretariat has a comprehensive DRMS that is available for countries within and outside the Commonwealth. A key component of this, the Meridian debt system, has recently been released and rolled out, replacing the previous CS-DRMS, which had met countries’ needs since the 1980s. Its development has particularly considered the significant transformation and development of the public debt management arena, with, for instance, a stronger emphasis on deriving risk indicators, awareness-raising on risk management, the management of contingent liabilities, new reporting standards and improved transparency.

In summary, Commonwealth Meridian is a comprehensive solution that promotes effective and proactive public debt management. It allows seamless functions and features to record, manage and analyse public and publicly guaranteed debt, lending portfolios and private sector external debt. Along with its wide-ranging operations, it fosters accountability and transparency, especially through its data-driven workflow. Appendix A provides more details on the debt system, while the specific facilities available to support different aspects of debt transparency are pinpointed below.

4.1.3 Commonwealth Meridian and debt transparency

Commonwealth Meridian contains dedicated features to handle the different building blocks of public debt transparency. The boxes below highlight some of the features as they relate to debt transparency elements.
Box 4.1 Commonwealth Meridian and the legal framework

Each country’s laws entrust the debt office with the authority to borrow. Commonwealth Meridian makes provision to record these regulations and other information, including legal limits on overall borrowing and annual gross borrowing requirements, as well as the agreed annual borrowing plan. These provisions are provided through the Policy and Planning module, which includes the following features:

- **Act**: Record the act details, including limits and benchmark indicators authorising the government to borrow, lend or guarantee.
- **Mandate**: Record and maintain details of the mandate given by the government to the DMO. Instruments can then be linked to the mandate under which it has been contracted.
- **Annual Plan**: Define and record the timing and volume of government borrowing, lending and guarantee portfolios within the year.
- **Linked Instruments**: Link instruments in Meridian to the Mandate, Act or Annual Plan under which they were contracted to allow for planning, monitoring and analysis on the performance of the relevant legal and institutional frameworks.

Box 4.2 Commonwealth Meridian and the contracting of borrowing

Commonwealth Meridian manages the contracting process of the instrument/agreement and its activation. It provides for features to support the DMO to record and manage all the activities and documents from the planning and negotiation to the contracting of the instrument. These features include:

- A Debt Analysis module to analyse the current debt portfolio with possible borrowing scenarios to compare borrowing, guaranteeing or lending offers;
- A facility to record and track key decisions during negotiations;
- A feature to record and process international offers for securities during book building;
- A facility to record and analyse new offers (borrowing, lending guarantees) before finalising the contract of the instrument;
- A facility to upload documents from negotiations and link them to the relevant instruments.

Box 4.3 Commonwealth Meridian and recording functions

Based on the definition of public debt, Commonwealth Meridian is designed to record the following classification of debt instruments: loans, debt securities, other accounts payable, currency and deposits, SDRs and IPSGS.

Besides managing the debt portfolio, it also provides for managing other categories of debt and asset portfolios, as follows:

- **Lending**: Government lending in the form of loans/securities to other public or private entities;
- **Contingent liabilities**: Other institution borrowings that are explicitly guaranteed by government;
- **Subnational debt**: Guaranteed and non-guaranteed borrowings of public entities other than the central government;
- **Private sector debt**: External borrowings by private sector entities.

Commonwealth Meridian is designed to allow for the recording of financial instruments in the system to gives rise to a financial asset and a liability. As such, both lenders and borrowers can use the system.
4.2 Public debt data quality

4.2.1 Formal approach to promote and maintain data quality

A key debt management function that helps promote credibility and public debt transparency is the compilation and publication of quality and accurate debt data. Data quality refers to the reliability of debt data collected and compiled by debt offices for reporting, dissemination, analysis and policy-making.

Weaknesses in debt recording may lead to erroneous debt data, which can easily flow from one system to another, degrading the quality of data across all financial systems. Weaknesses in debt recording and reporting will subsequently affect debt transparency. As debt databases integrate with other financial management information systems.
4. The essentials of debt transparency for Commonwealth countries and beyond

4.2.2 The Debt Data Quality Assessment framework

Developed jointly by the Commonwealth Secretariat and UNCTAD, the Debt Data Quality Assessment (Debt-DQA) framework aims to identify data errors, gaps or ‘bad data’ and to measure their impact on the overall quality of the database. This information is of value to all stakeholders and pinpoints areas needing improvement, especially but not exclusively in the back office.

The Debt-DQA framework assesses and monitors the quality of data recorded in the database throughout the entire life cycle of a debt instrument, from its inception to maturity, in addition to its related reference data. Debt managers can perform a six-point data quality self-assessment of their databases, identify risks and weaknesses, and formulate short- and long-term plans to remedy them. The framework consists of:

#### Box 4.6 Commonwealth Meridian and various reporting functionalities

Commonwealth Meridian contains extensive features to support different types of reporting requirements:

- **Standard reports**: Pre-formatted fixed reports to support both internal and external reporting requirements;
- **Dashboard**: An interactive workspace that allows users to monitor/undertake their day-to-day debt management functions or view a summary of the portfolio;
- **Dynamic data query tool**: A business-friendly entity model that allows users to extract data from the system, using drag and drop functionality;
- **End-user reporting tool**: Provides capabilities for users to design and create their own reports as well as to copy and modify existing standard reports;
- **Data exports**: Specific pre-defined templates available in Commonwealth Meridian for exporting data to other debt management tools:
  - World Bank/IMF Public Sector Debt Reporting;
  - World Bank/IMF Debt Sustainability Analysis for Low-Income Countries;
  - World Bank/IMF Debt Sustainability Analysis for Market Access Countries;
  - World Bank/IMF MTDS;
  - World Bank/IMF Quarterly External Debt Statistics for GDDS countries;
  - World Bank/IMF Quarterly External Debt Statistics for SDDS countries;
  - World Bank Debt Reporting System;

such as IFMIS, electronic data exchanges of debt records need to be assessed and checked for accuracy to contain any operational risks arising for the overall system. Additionally, it is important to recognise that new and complex debt instruments and debt dissemination requirements concerning debt coverage are continuously leading to larger and more complex amounts of data being recorded and maintained in debt databases. This increase in the size and complexity of debt databases combined with the proliferation of information systems has amplified the magnitude of data quality issues and its associated risks.

At the national government level, and as seen already, a comprehensive and quality debt database is essential for effective budgeting, timely debt service operations, producing reliable information on debt stocks and flows and supporting the audit function. Moreover, the availability of reliable and timely debt statistics affects the quality of debt analysis and policy-making for achieving sustainable debt levels. Therefore, as governments strive for higher efficiency, transparency and good governance, DMOs require tools and resources to ensure the highest standards of debt data quality.

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The data validation process – an ongoing, comprehensive process to review and correct the recording and monitoring function of a DMO and to ensure the reliability of data. This consists of data cleansing and reconciliation and ultimately reveals the status of the database in terms of completeness, accuracy and timeliness.

Database quality assessment – an important sub-activity of the data validation process via the Debt-DQA tool integrated in the debt management software. The Debt-DQA tool offers a structured approach to data validation. Based on a set of components and indicators, it measures the accuracy, timeliness and coherence of the data recorded in the database.

The framework thus offers a structured approach to data validation that ultimately enhances the quality of debt reporting. In the spirit of transparency, there is merit for countries to publish the results of the assessment and rating of their debt databases. Debt managers admittedly have control of the outcome of the data quality self-assessment of their own databases, and a decision on publishing such data would be made following internal consultation.

4.3 Communication and investor relations

A well-designed investor relations programme is key to enhancing debt transparency and ensuring success in government debt financing operations. Active engagement with investors can become a strong avenue to attract new funding opportunities. With the diverse nature of debt portfolios, debt managers are expected to communicate with a broad range of stakeholders both locally and internationally. Questions related to government debt operations, extent of contingent liability exposures, and risks and costs incurred attract the attention not only of investors and rating agencies but also of those involved in providing oversight and scrutiny on how public money is being spent. These include parliament and sovereign auditors as well the public. In this light, the mandate of a modern DMO will be incomplete without a proper communication strategy in place. Such a strategy will equally serve the needs of creditors when they decide to make their lending offering.

Government can benefit markedly by maintaining regular contacts with investors, constantly sharing information on the government financing plan and on related issues. When facing uncertainties, being more transparent may well help operations within both the primary and the secondary markets, allowing both the debt issuers and their external counterparts to understand and manage costs and risks.

4.3.1 Dealing with investors domestically

Countries that are seeking to develop and/or deepen their domestic securities market need to establish a formal channel of communication with market players. That way, they can ensure the prompt provision of any clarifications required by investors, for instance on new instruments being rolled out. As part of the process of reactivating its domestic debt market from the early 2000s onwards, Nigeria successfully set up a Bond Steering Committee to interact regularly with domestic market players. The investor relations programmes of both Brazil and Mexico provide information through many distribution channels, including emails, websites, meetings, conference calls and dedicated roadshows.
part of these programmes, other relevant reports are disseminated, including country economic programmes, public finances and debt, debt issuance and data releases.

Lack of debt reporting and transparency itself can lead to uncertainty and speculation in the market, as, for instance, Zambia found out in 2018. Estevão et al. (2022) note that, with reporting in Zambia taking longer than planned, uncertainty on debt coverage and speculation on debt levels crept up and prompted the market’s repricing of the country’s credit risk. A spike in Zambia’s Emerging Market Bond Index spread in April 2018 ensued. This was subsequently reversed when the government did release its annual economic report, in which the market found the required clarity on the country’s debt situation. Market correction swiftly followed thanks to the release of the required information.\(^{38}\)

### 4.3.2 Investor relations when raising international sovereign bonds

Besides interacting with investors during an international bond issue, countries must put in place an investor relations programme to continue interacting with market players, especially investors. Such communication channels may well help improve market perception, reduce the yields of bonds trading on the secondary market and increase appetite for a potential new bond from the concerned borrower.

Many countries are beginning to focus on such continuous engagement with the market even when they are not actively preparing for new bond issues. For instance, Ghana’s investor relations website has up-to-date information for investors on the country’s economic programmes, public finances, debt issuance calendars, medium-term debt management strategies, investor presentations, and annual public debt reports and statistical bulletins.\(^{39}\)

### 4.3.3 Rating agencies

The importance of having bonds issued by countries rated by independent credit rating agencies is well known. But these agencies also play a more vital role in influencing the perception of the market on governments’ political, economic and financial situation. They are therefore an important vehicle for debt managers in communicating to the market. Given the wider remit of rating agencies in assessing the broader economic and financial situation, a general commitment to transparency across government will certainly help. Besides using a wide variety of data to assess the overall risk of a particular borrower country, rating agencies have clear criteria and lists of information they use to assess cost and risks related to the country’s bond issue. Debt managers must be available to make such information available in a routine manner. When the DMO regularly produces key reports and is readily available to carry out investor presentations on the country’s debt and macro settings, these no doubt help increase transparency and allow stakeholders easy access to the key information. In addition to making the data and reports available, officials must be prepared to respond to queries and attend to regular interactions and periodic and ad hoc reviews.

### 4.4 Oversight and scrutiny

#### 4.4.1 Parliamentary oversight

In the spirit of achieving greater accountability, it is widely agreed that debt management decisions naturally taken by the executive branch need to be scrutinised by parliament. In most jurisdictions, members of parliament are expected to fully exercise their legislative and oversight role on different pertinent issues related to public debt before and after allowing the executive to take management and operational decisions. However, in other countries, a mandatory approval by parliament for all borrowing may not be applicable. For example, the executive is granted broader authority for borrowing but is subject to other controls, such as aggregate ceilings or ex-post control for emergency lending.

Backed by legislation highlighted in Section 2.1 above, parliamentarians have a key role in establishing the legal framework for public debt and debt management while also overseeing its implementation. With respect to the legislative role, parliament is, as seen already, responsible for supporting, reviewing and passing a debt management framework that clearly sets out the authority (and sometimes limits) to borrow,
undertake debt-related transactions and issue guarantees.

Legislators can retain certain controls depending on the arrangements put in place, for instance:

• Some control by parliament on the borrowing/debt level;
• Restrictions on borrowing power delegated within the annual net borrowing limit;
• Mandatory approval of parliament for exceptional borrowing needs;
• At times power to ratify treaties rather than loan agreements per se; or even
• Overall decisions/discussions within the legislature before accessing international capital markets.

There are many reasons to improve the structure to ensure such oversight roles are in place and fully complied with. For many developing countries, the oversight function of public debt needs to be enhanced through capacity-building of policymakers and legislators.

4.4.2 Role of debt and budget committees and the public accounts committee

Related to the oversight and scrutiny role, specialised parliamentary committees such as budget and finance committees will ensure the accountability of government to parliament through a detailed review of measures planned and undertaken. Among other things, they must be mandated to look at issues related to borrowing, including debt financing plans.

If properly mandated to play its ex-post oversight role, the PAC is expected to review the findings of external audits carried out by SAIs and summon specific departments/agencies for review and assessments. Examples of activities carried out to probe into debt-related areas include gauging whether public debt statistics in financial statements have been presented comprehensively and accurately; critically assessing and questioning borrowing and on-lending activities, issuance of guarantees, levels of PPP and risks taken; and, more broadly, checking whether the agreed debt management process has been fully complied with and if debt management functions do meet a prior set cost and risks objectives.

4.5 Audit and internal control

Like any function under the PFM framework, all debt management operations must be constantly subjected to different types of controls and, on an ex-post basis, allow internal audit (where in place) and external audit to carry out their essential audit functions. Recognised as key pillars for promoting transparency in debt management operations, these are functions that are not always taking place as expected, and they therefore need to be bolstered in many countries.

4.5.1 Internal control and internal audit

With internal control considered a key management responsibility, a sound internal control system must be put in place to assist various parts of the DMO in meeting its targets. Reviews of PFM and debt management systems have shown significant weaknesses in this area. Even in cases where internal control guidelines have been established, it will not be sufficient if they are not fully embraced and practised by all parties. Merely bringing in stronger standards, imposed by legislation or parliament, will not necessarily resolve issues of poor internal control. Factors such as lack of managerial integrity within the concerned agencies, gaps in oversight roles, limited operational resources and insufficient professional competence must specifically be dealt with.

Once these are in place, the internal control system will ensure that debt management policy and related operational functions are effective and efficient. Where slippages are noticed, corrections are immediately brought in. At the same time, the system will make it possible to ensure that any internal and external reporting mechanism put in place is reliable. All along the implementation of debt management policy and operations, care will be taken so that all activities are in full compliance with existing laws and regulations.

DMOs should be subject to scrutiny by an internal audit function. Essential support functions, such as internal audit, are sometimes integrated into the DMO; in other cases – particularly when the DMO is located within the ministry of finance – they are located outside the DMO, serving other units.40 The scope of internal audit will be wide.

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enough to cover all debt management policies and operations in their entirety within the DMO as well as the internal control systems in place. The way debt management systems handle the different debt management operations also needs to be scrutinised. Audit activities developed under an audit plan, for instance, must ensure the DMO objectives are achieved in an efficient and effective manner. At times, these functions are not given sufficient attention as in, for instance, external audit (below), but they are equally critical to supporting openness and greater accountability. The findings and recommendations of internal audits must be discussed at a high level and corrective measures implemented in a timely manner.

4.5.2 External audit of debt management operations

Besides internal audit, independent oversight of public debt management undertaken by SAIs is critical to ascertain how effective the government has been in managing its biggest portfolio – public debt liabilities. Results from such audits need to be publicly reported. A copy of audit reports must, in compliance with the legal framework, be submitted to parliament. Findings and irregularities are usually reviewed by parliamentary committees, especially the PAC, as reported in Section 4.4.2.

Financial, compliance and performance audits related to pertinent public debt management operations should be conducted. The external audit can also verify the quality of the legal framework for debt management and comment on how effective the government has been in establishing the necessary governance, audit, reporting and accountability processes.41

According to the INTOSAI handbook on the audit of public debt management for SAIs:

The objectives of internal audit are different from those of external audit. However, both internal and external audit promote good governance through contributions to transparency and accountability for the use of public resources, as well as economy, efficiency, and effectiveness in public administration. This offers opportunities for coordination and cooperation and the possibility of eliminating duplication of effort. Where an internal audit office unit (IAO/U) exists and performs audit of public debt-related operations, it is good practice for the internal and external auditors to understand and discuss their respective audit scope, methodology and audit plan, and to agree on the exchange of and access to audit reports. This will facilitate the auditor’s work, preclude redundancies and conflicts, and ensure improved effectiveness of the audit process.

The SAIs’ reliance on the work performed by the IAO/U is, however, influenced by the competence, objectivity and nature of work performed by the IAO/U.42

Another type of debt scrutiny that can enhance public trust in debt management operations and contribute towards openness and transparency is a citizen public debt audit. According to Fattorelli (2013):

The citizen debt audit is a tool that clears a path for a series of activities involving social mobilization, such as periodic tracking of changes to public debt and its impact on the economy, the environment, and the life of the people... The goal is to empower and train society so that it can conduct audits of the Debt System, and thus enable the identification of the debts generated illicitly and irregularly, for such liabilities to be repudiated in sovereign acts, as demonstrated by the experience of Ecuador.43

Such audits can become a powerful platform for citizen assessment of debt and its impacts. Besides enhancing citizens’ participation in public finance governance, they can contribute towards increased accountability and transparency in debt management operations. Public authorities must be prepared to make necessary public debt information available to support any request for undertaking citizens’ debt audits. This is possible if there are relevant laws that support citizens to request information from the government to conduct debt audits.

4.6 Checklist of essential requirements for public debt transparency

The previous sections have defined and elaborated upon a wide range of requirements for supporting

41 Ibid.
42 Ibid.
Box 4.8 Commonwealth Meridian and audit operations

The audit features in Commonwealth Meridian facilitate both internal control audit and performance audit of public debt by way of view screens and reports. The auditing function provides for features to assist auditors conduct a debt audit in the following major components of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework:44

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication;
- Monitoring activities.

As part of operational risk management, Commonwealth Meridian will keep records of all authorisations/rejections of entry and amendments made in the debt system.

4.7 Benchmarks for public debt transparency: minimum requirements

In addition to the checklist provided in Table 4.1, the Handbook needs to define certain acceptable minimum requirements under each of the elements of public debt transparency. Table 4.2 highlights the minimum requirements or benchmarks that countries will have to achieve to secure a satisfactory rating in compliance with agreed public debt transparency standards. Countries will be able to use these benchmarks to self-assess where they are currently in terms of basic debt recording, reporting and monitoring. These essential functions will make a big difference to the quality and comprehensiveness of public debt statistics being made widely available.

4.8 Supporting countries’ efforts at embracing greater transparency

The checklist and benchmarks defined in Section 4.6 and Section 4.7, respectively, can help put countries on the right track in ascertaining where they are in terms of complying with essential public debt transparency standards. In practice, these may not be enough. The Commonwealth Secretariat, as well as other development partners, is aware that targeted support is required on this front. In response to the G20, the World Bank and the IMF have highlighted capacity-building efforts in their updated MPA to address debt vulnerabilities, to support countries to upgrade their public debt transparency frameworks. In collaboration with other development partners, the Commonwealth Secretariat will also step up its efforts to address areas related to reducing debt-related risks as well as promoting debt transparency considerations within countries’ debt management operations.

44 Developed in 1992, the COSO Framework for evaluating internal controls has been generally accepted as the model for internal control. The underlying principles are widely recognised as the definitive benchmark against which organisations evaluate the effectiveness of their internal control systems.
### Table 4.1 Checklist of essential requirements for public debt transparency

<table>
<thead>
<tr>
<th>#</th>
<th>Essential requirements for public debt transparency</th>
<th>Status of self-test</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td><strong>Debt management linked to macro, fiscal and PFM framework</strong></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Debt management is central to government’s PFM framework: Is debt management fully integrated within the broader PFM?</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Is debt management effectively co-ordinated with other macroeconomic policies?</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Debt and fiscal transparency: Is debt management a key part of the fiscal framework?</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td><strong>Legal framework and oversight</strong></td>
<td></td>
</tr>
</tbody>
</table>
| 4. | Legal: Does the primary and secondary legislation governing debt management mandate the debt office to monitor/handle public debt? In particular, does the legal framework/ legislation enhance debt transparency clearly:  
   (i) Assign the responsibility for compilation and reporting of debt statistics to the debt office;  
   (ii) Articulate the definition of public debt in the legislation to include debt of broader public sector entities;  
   (iii) Provide legal backing for collection of debt statistics from public sector units by the debt compiler;  
   (iv) Include a provision for auditing of debt management functions;  
   (v) Prescribes for formulating and publishing the medium-term debt management strategy? |                     |
| 5. | Is clear scrutiny and legislative oversight over debt management activities in place? Is there a PAC?                   |                     |
| III| **Institutional and organisational framework**                                                                       |                     |
| 6. | Are the responsibilities for public debt operations clearly defined as part of a sound institutional framework management (i.e., front, middle and back office)? |                     |
| 7. | Are information flows effective, including co-ordination between the different institutions involved in debt management, such as sub-nationals and SOEs? |                     |
| IV | **Contracting, recording and monitoring**                                                                           |                     |
| 8. | Are documented organisational arrangements for debt contracting in place?                                            |                     |
| 9. | Are debt liabilities sufficiently monitored and analysed?                                                              |                     |
| 10. | Does the DMO produce and publish an MTDS, annual borrowing plan and securities issuance calendar?                      |                     |
| 11. | Are guarantees properly issued and monitored?                                                                        |                     |
| 12. | Are PPPs and other contingent liabilities monitored effectively?                                                      |                     |
| 13. | Does the DMO have strong recording and monitoring systems – linked to IFMIS and other government systems – and documented procedures in place? |                     |
| 14. | Is there a debt database with comprehensive coverage of the country’s debt, available for monitoring, reporting and analysis? |                     |
| V  | **Internal control and audit**                                                                                        |                     |
| 15. | Is the DMO compliant with internal control and internal audit principles?                                              |                     |
| 16. | Is the DMO compliant with external auditing principles?                                                                |                     |
| VI | **Reporting and communication**                                                                                        |                     |
| 17. | Are national and international reporting requirements adhered to? Is there national capacity to adhere to international reporting and statistical standards? |                     |
| 18. | Does the DMO actively communicate with investors? Does the DMO have a communications strategy and an investor relations plan to guide its communications with investors? |                     |
| VII| **Institutional and human resource capacity**                                                                         |                     |
| 19. | Is the DMO well staffed and equipped with strong capacity, with a professional cadre in place to manage back-, middle- and front-office functions? |                     |
### Table 4.2 Minimal requirements for each element governing public debt transparency

<table>
<thead>
<tr>
<th>#</th>
<th>Areas to support debt transparency</th>
<th>Benchmarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Debt management, macro, fiscal and PFM framework</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Debt management and PFM</td>
<td>(i) Comprehensive information on debt-related financing is included in budget documentation.  &lt;br&gt; (ii) There is predictability and control in budget execution, which covers recording and management of cash balances, debt and guarantees.  &lt;br&gt; (iii) Reliable monthly aggregate forecasts of cash inflows and outflows and cash balances on central government bank accounts are produced for the budget year provided to the debt office. In addition, there are regularly updated (monthly) cash balance forecasts.</td>
</tr>
<tr>
<td>2.</td>
<td>Debt management and macroeconomic policies</td>
<td>(i) There are sound macroeconomic and financial sector policies to form the basis of debt management and ensure the level and rate of growth in public debt are sustainable.  &lt;br&gt; (ii) There are synergies among the objectives of debt management, fiscal, monetary and financial sector policies given the interconnections and interdependencies between their respective policy instruments.  &lt;br&gt; (iii) There is clarity of separation between monetary policy operations and debt management transactions and co-ordination with the central bank through regular information sharing on current and future debt transactions and the central government’s cash flows;  &lt;br&gt; (iv) There are updated key macro variables (actual outcomes and forecasts) to drive the DSA being undertaken by the government.</td>
</tr>
<tr>
<td>3.</td>
<td>Debt and fiscal transparency</td>
<td>(i) There are sound public debt management operations that regularly contribute towards achieving fiscal transparency.  &lt;br&gt; (ii) As part of the yearly budget preparation, forecasts are provided on total central government debt service and other liabilities;  &lt;br&gt; (iii) The debt office contributes to the DSA, the fiscal risk matrix and the fiscal risk statement.</td>
</tr>
</tbody>
</table>

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45 Some of the proposed benchmarks are drawn from diagnostic tools, including the World Bank’s DeMPA methodology.
II  **Legal framework and oversight**

4.  **Legal framework**

   (i) There is definition of debt instruments (i.e., debt securities, loans, SDR, currency and deposits, IPSGS and other accounts payable).

   (ii) Legislation (primary and secondary) explicitly provides clear authorisation (a) to borrow and to issue new debt, (b) to undertake debt-related transactions (where applicable), including compilation and reporting of debt statistics, (c) to issue loan guarantees (where applicable), all on behalf of the central government, and (d) carry out audit of debt management functions by eligible agencies.

   (iii) Primary legislation specifies the purposes for which the executive branch of government can borrow and defines public debt so as to include debt of broader public sector entities.

   (iv) There is executive monitoring of all key public debt liabilities, including SOE debt and contingent liabilities from PPP projects.

   (v) The law prescribes formulation and publication of the MTDS.

   (vi) The law prescribes formulation and publication of the DSA.

5.  **Scrutiny and legislative oversight**

   (i) A report (or section of a wider report) providing details of outstanding government debt and debt management operations is submitted annually to parliament and also made publicly available.

   (ii) The audit report is tabled in parliament and scrutinised by the PAC.

III  **Institutional and organisational framework**

6.  **Public debt management and operations**

   (i) Borrowings and debt-related transactions are undertaken by a main debt office. Where debt functions are split among different units, they regularly exchange debt information and closely co-ordinate their respective activities through formal institutional mechanisms.

   (ii) An annual plan for external borrowing is prepared and assessments of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets are conducted annually.

   (iii) The central government raises funds domestically using market-based instruments to fund the projected borrowing requirement.

   (iv) An annual borrowing plan for the projected aggregate amount of domestic borrowing – divided between the wholesale and retail markets and other sources – is prepared.

   (v) A borrowing calendar that contains issue dates and instruments for wholesale securities for the following month is prepared and published at least one week ahead of the start of the month.
### Areas to support debt transparency

<table>
<thead>
<tr>
<th>Areas to support debt transparency</th>
<th>Benchmarks</th>
</tr>
</thead>
</table>
| 7. Effective information flows and coordination | (i) There is clear separation between staff responsible for debt negotiation and preliminary contract data entry and those responsible for (a) confirmation of contract information and finalisation of records in the system and (b) initiating and processing payments.  
(ii) The debt office has access to information on debt and contingent liabilities from SOEs and PPP projects. |

### IV Contracting, recording and monitoring

| 8. Debt contracting | (i) A medium-term debt management strategy is in place covering all existing and projected central government debt, based on the debt management objectives.  
(ii) Adequate and readily accessible internal documented procedures exist for all external borrowings, including from international capital markets, and contain the requirement to enter all financial terms of the debt transaction into the debt recording system within three weeks of signing.  
(iii) Procedures for all domestic borrowing as well as terms and conditions and criteria for access to the primary wholesale market and retail market are provided in print media or on the central government or the central bank websites.  
(iv) There are documented policies and procedures for the approval and issuance of guarantees and the approval and on-lending of borrowed funds.  
(v) There are documented policies and procedures for handling PPP guarantees for borrowing and assessing contingent liabilities.  
(vi) There are documented procedures for the use of derivative transactions. |

| 9. Monitoring and analysis of all debt liabilities | (i) Availability and quality are assured of documented procedures for the debt office to monitor all types of public debt liabilities — central government, sub-national, public enterprise as well as contingent liabilities.  
(ii) There is a clear mandate to conduct analysis of the debt portfolio, test the risk profile on an ongoing basis, etc. |

| 10. Formulation, publication, and implementation of MTDS, annual borrowing plan and securities issuance calendar | (i) An MTDS is formulated, published and implemented.  
(ii) An annual borrowing plan is regularly produced, updated and actively used to guide borrowing to meet financing needs.  
(iii) Securities issuance calendars are regularly updated and published. |

(Continued)
11. Issuance and monitoring of guarantees

(i) There are adequate and readily accessible internal documented procedures for the approval, issuance and monitoring of guarantees.

12. Monitoring of PPP/contingent liabilities

There is an adequate and readily accessible procedures manual for tracking PPP guarantees and other contingent liabilities.

13. Documentation, recording and monitoring systems

(i) There are adequate and readily accessible internal documented procedures for debt data recording and validation, as well as for storage of agreements and debt administration records.

(ii) There are adequate and readily accessible documented procedures for controlling access to central government’s DRMS.

(iii) DRMW backups are made at least once per month, and the backups are 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 backups.

(iv) Debt data are recorded in accordance with international standards and best practice.

14. Debt database

(i) There are complete 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.

(ii) Government securities are dematerialised and kept in a central registry that has up-to-date and secure records of all holders of government debt. This is subject to an audit of internal controls and management of operational risk every two years.

(iii) If government securities are not dematerialised, they should be properly filed, stored and secured from fire, flood and other events. An electronic checklist of the physical listing should be prepared to increase accessibility.

(iv) The quality of debt data in the database has been assessed in the past three to six months – using, for instance, Debt-DQA or a similar toolkit.

V Internal control and audit

15. Internal control and internal audit

(i) Annual internal audits are conducted.

(ii) A sound internal control system has been developed.

(iii) The internal control system is being used to assist different parts of the DMO in meeting their targets.

16. External audit

(i) An external financial audit of debt management transactions is undertaken annually.

(ii) External compliance and performance audits have been conducted in the past two years.

(iii) Audit reports are publicly available within six months of completion of the audit.

(iv) The relevant decision-makers produce a management response to address the outcomes of the internal and external audits of government debt management activities.

(Continued)
### Areas to support debt transparency

#### VI Reporting and communication

<table>
<thead>
<tr>
<th>Reporting and statistical standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) A debt statistical bulletin (or its equivalent), with the main categories 46 including terms of new debt issuances and basic risk measures 47 of the debt portfolio, is published annually. The debt data used are not more than six months old at the date of publication.</td>
</tr>
<tr>
<td>(ii) An annual report publishes debt management outcomes and activities against established targets in the public debt legislation, debt strategy and other guiding documents.</td>
</tr>
<tr>
<td>(iii) Reports are accessible, comparable and intelligible.</td>
</tr>
</tbody>
</table>

#### Communication with investors

<table>
<thead>
<tr>
<th>Communication with investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) The DMO has established a communications strategy to interact with a broad range of stakeholders both locally and internationally.</td>
</tr>
<tr>
<td>(ii) To deal with investors, especially in the international capital market, an investor relations plan has been included within the overall communications strategy.</td>
</tr>
</tbody>
</table>

#### VII Capacity

<table>
<thead>
<tr>
<th>Business continuity, institutional and human resource capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Human resources: There are sufficient and adequately trained staff members with formal job descriptions reflecting their current tasks.</td>
</tr>
<tr>
<td>(ii) Institutionally: There is a written business continuity plan as well as a disaster recovery plan in place, which has been tested in the past three years.</td>
</tr>
</tbody>
</table>

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46 The debt statistical bulletin should provide information on central government debt stocks (by creditor, residency classification, instrument, currency, interest rate basis, original, and residual maturity); debt flows (principal and interest payments); debt ratios and indicators; and basic risk measures of the debt portfolio. Guarantees should also be decomposed by type of debt (for example, creditor, residency classification, instrument, currency, interest rate basis, original, and residual maturity), clarifying how much has already been amortized (extract from World Bank (2015) ‘Debt Management Performance Assessment (DeMPA) Methodology’. Washington, DC: World Bank).

47 Basic risk measures include various categories of debt as a percentage of GDP (and in relation to other parameters); debt service as a percentage of revenue (and against other measures such as exports); ratio of guaranteed debt to GDP; guaranteed debt in foreign currency as a share of total guaranteed debt; and the proportion of guarantees triggered over the past five years. See also other pointers on risk analysis in Section 3.5 of this Handbook.
In practical terms, after encouraging countries to make full use of this Handbook, the Commonwealth Secretariat will, at their request, work closely with member countries and beyond – including with those that are using the Commonwealth Meridian debt system – to further enhance essential elements that will contribute towards greater public debt transparency. After identifying gaps and weaknesses in the current legal and institutional framework governing the borrowing cycle as well as limitations in debt coverage, a dedicated programme of support will be developed together with each concerned country to address identified gaps. Dedicated interventions can then be planned and delivered to enable each concerned agency to gradually upgrade procedures, processes and capacity for broadening their recording, analysis, monitoring and scrutiny.

In so doing, countries will be able to enhance their reporting of different types of public sector debt as well as contingent liabilities and carry out more regular and better communication with different stakeholders. The aim will be for each country to gradually and fully comply with all the requirements defined in this Handbook. Though admittedly not everything can happen overnight, this is, nevertheless, a laudable objective worth pursuing by all governments and their agencies.
References


References


Appendix A: Commonwealth Meridian

Commonwealth Meridian is a comprehensive solution that promotes effective and proactive public debt management. Commonwealth Meridian was launched in 2019 to replace the previous system, the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) that has been used since the 1980s in over 60 countries.

Using the latest technology, Commonwealth Meridian is fully web based and runs in a browser. Fully compliant with the IMF and World Bank Public Sector Debt Guide, it provides wide coverage of the different types of debt instruments being actively used by countries and ensures that those debt instruments are captured and reported according to the agreed statistical methodology. Besides working with the Commonwealth Secretariat Securities Auctioning System (CS-SAS) and capability to interface with other auction systems used by countries, Commonwealth Meridian also allows for the development of links with government-wide IFMIS.

The different facilities made available in Commonwealth Meridian can assist countries in upgrading their public debt transparency frameworks. The extensive recording, monitoring, analytical and reporting facilities have been specifically developed to meet openness and accountability standards. The important function of audit of public debt management is equally supported by the dedicated facility made available in the system. To help countries improve the quality of their debt database, Commonwealth Meridian comes with the Debt-DQA toolkit in-built, for use in assessing the quality of data recorded in the system through a set of standardised performance indicators.

The Commonwealth Meridian offers the following functions and features:

- Public and publicly guaranteed debt, lending portfolios and private sector external debt can be recorded, managed and analysed.
- Customisable deployment of the solution permits centralised, decentralised and hybrid environments as defined by member countries’ IT and institutional infrastructure.
- It is configurable around the delivery to key stakeholders, for example ministries of finance, DMOs, central banks and various funding and project implementing agencies, thus streamlining the information flow between the entities.
- It is able to model any workflow arrangement and/or institutional structure for debt management.
- It provides flexibility in adding and maintaining a wide range of financing products, including any future financing products, through the use of instrument templates.
- It is organised around a central repository of data from which key stakeholders can access information to ensure real-time data are always available even to remote offices.
- It is driven by alerts and notifications, integrated with mail exchange systems to support the business workflow process.
- It fosters accountability and transparency through a data-driven workflow.
- It integrates with external systems to provide straight-through processing and accurate data to stakeholders.

The diagram below gives a high-level overview of the features available in Commonwealth Meridian.
### Figure A1: Commonwealth Meridian features.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Web-based technology</td>
<td>Increased scope of instruments</td>
</tr>
<tr>
<td>Loans, swap, SDR</td>
<td>Increased focus on risk management and contingent liabilities</td>
</tr>
<tr>
<td>Increased scope of instruments</td>
<td>Improved dashboard for senior management monitoring</td>
</tr>
<tr>
<td>Meso stock valuation (face value, nominal value, present value, fair value)</td>
<td>Analysis now on a wider spectrum of instruments (not only loans)</td>
</tr>
<tr>
<td>Workflow-based process with alerts and notifications</td>
<td>Easy upload of time series data</td>
</tr>
<tr>
<td>Easy upload of time series data</td>
<td>Integration with other financial systems</td>
</tr>
<tr>
<td>Integration with other financial systems</td>
<td>Increased user and date auditing features</td>
</tr>
<tr>
<td>Meso stock valuation (face value, nominal value, present value, fair value)</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: Monitoring functions in Commonwealth Meridian

The following features in Commonwealth Meridian will assist debt managers to conduct several monitoring tasks.

Checking trends on whole public debt stocks and flows, including contingent liabilities from SOEs and PPPs

In addition to recording government debt and lending portfolios, Commonwealth Meridian is designed to also allow for recording instruments where the government is neither the creditor nor the borrower but is guaranteeing the borrower’s financial obligations. The in-built Contingent Liability Module (CLM) allows users to record and monitor government exposure to explicit guarantees. The module also includes a facility to record and manage claims on payments made by the government on behalf of the guaranteed borrowers.

CLM provides for the recording and management of the following contingent liability agreements, based on the relevant instrument:

- Government guarantees or counter-guarantees (issued as letters of comfort, formal guarantees) for non-sovereign borrowing:
  - Loans;
  - Securities;
- Trade credit guarantees;
- Exchange rate guarantees;
- Minimum revenue guarantees through PPP projects;
- Minimum purchase guarantees;
- Other guarantees.

The guarantee can be for cash flows and/or stock values and can be a full (100 per cent) or a partial guarantee (less than 100 per cent). The system provides for recording the guarantor(s) and type of guarantee (e.g., letter of comfort).

Tracking arrears, ensuring compliance with approved debt strategy, ascertaining compliance with terms and conditions of debt operations approved by, for instance, front office, management, etc.

Commonwealth Meridian includes a dashboard feature that provides an interactive workspace for users to undertake their day-to-day debt management functions or view a summary of the portfolio. The dashboard is as an operational workspace for users with about 25 different and highly customisable components. The components are designed to provide the following details on the active portfolio as the current day:

- Creditor outline: Information on the portfolio from the creditor categories perspective and allowing users to drill down to specific creditors;
- Borrower outline: Information on the portfolio from the borrower categories perspective and allowing users to drill down to specific borrowers;
- Currency composition: Portfolio’s currency composition for both reserves management and cash management projections;
- Interest rate composition: Breakdown of the portfolio based on instrument type and interest rate type and providing for drilling down into specific instruments;
• Sustainability analysis: Provides information to assist debt managers to undertake analysis of the portfolio based on debt analysis themes (i.e., liquidity, solvency);

• Debt evolution: Provides a view of the debt over the short and long term and classifies the debt based on several dimensions/measures (e.g., debt stock, level of arrears, average time to maturity, redemption profile);

• Debt sustainability benchmark values (both targets and risk limits) for the portfolio indicators (e.g., average time to maturity, average time to re-fixing, etc.) and ratios (e.g., debt/GDP, etc.) on a daily basis;

• Debt service summary, including any existing arrears at any point in time.

Controlling function fully active to ensure operational compliance with DMO’s approved policies, processes and established benchmarks, guidelines, performance measures, etc.

Commonwealth Meridian includes a Policy and Planning module that makes provision for the recording of regulations and other information, for example legal limits on overall borrowing (acts, mandates), annual gross borrowing requirements and the agreed annual borrowing plan. DMOs are bound by these parameters and are required to plan and undertake the borrowing within them. Through Meridian, debt managers can monitor the active portfolio against these benchmarks for compliance.

Operational risk analysis

As part of operational risk management, Commonwealth Meridian includes the following functions:

• Records of all authorisations/rejections of entry and amendments of data. These will be used to monitor and report on exceptional delays (e.g., approval delays, late entry of transactions, late payments, rejected approval requests, etc.), among others;

• Benchmarks to monitor breach of risk limits;

• A facility to allow for seamless backup of the database for safekeeping;

• Role-based user security, including individual login names and passwords;

• A dedicated Audit module to facilitate both internal audit control and performance audit.
Appendix C: Detailed roles and responsibilities of the functional units in the DMO

Front office

- **Securities & issuance**
  - Determine governments borrowing needs
  - Determine amounts and timing of bond issues based on government financing needs including production of issuance calendar
  - Evaluate funding options for government financing
  - Execute government borrowing programme
  - Collaborate with central bank in conduct of securities auction
  - Deal with domestic market players especially accredited dealers and market makers in government bonds
  - Undertake has required debt restructuring
  - Guide government in sourcing funding from international financial markets

- **Market development**
  - Drive the process of securities market development and deepening in liaison with the central bank
  - Design instruments based on investor appetite
  - Build and deepen investor base for government bonds at all levels of the economy and society aimed at creating diversity in the holding of government papers
  - Organise distribution channels for government securities
  - Develop securities market regulations for issuance and trading of government securities
  - Liaise with local and international institutions including rating agencies

- **External debt**
  - Execute external borrowing programme in line with country’s debt strategy
  - Lead external debt negotiations
  - Draft/ vet terms and conditions of loan agreements
  - Involved as appropriate with strategy to attract more funds to the country
  - Evaluate funding alternatives from international sources
  - Engage in restructuring of existing debt
  - Monitor, track and report on performance of projects funded by borrowing
  - Monitor, track and report on government on unsecured debt and contingent liabilities including contractor or supplier arrears

- **Other liabilities**
  - Process loan guarantees for all the borrowers within the public sector as per agreed guidelines
  - Review applications for government guarantees issuance guarantees and conclude agreements with borrowers
  - Process applications for on-lending borrowed funds and conclude agreements with borrowers
  - Work closely with middle office which formulate policies for the issuance of government guarantees and on-lending borrowed funds
  - In line with countries PPP guidelines participate in assess in PPP projects and terms being offered
  - Liaise with middle office when having to assess fiscal affordability of PPP projects at different stages of the PPP cycle
### Middle Office

#### Strategy
- Promotes coordination between debt management and order public policies.
- Underwrites debt portfolio risks and debt sustainability analysis.
- Develops and monitors debt strategies within macroeconomic framework.
- Strengthens front office operations by setting operational and regulatory standards and defining boundaries and measures.
- Recommends policies for approval of debt coordination committee.
- In developing or modifying DMO’s debt strategy, liaises with other agencies and/or departments on macroeconomic policy formulation, planning, and public investment, cash management, budgeting, monetary policy, and BOP.
- Performs regular analysis of debt portfolio within the macroeconomic framework, debt sustainability targets, cost risk paradigms, fiscal sustainability, and scenario analysis using specialized tools.
- Determines funding gaps and project borrowing needs within the context of fiscal and monetary targets and sustainable debt levels.

#### Monitoring & Compliance
- Unit plays a key role in ensuring DMO’s plays attention to M&E, especially on all potential operational risks.
- Ensures and monitors compliance with established benchmarks and performance measures.
- Ensures compliance with approved debt strategy.
-按时与M&E制定的业绩报告与部门管理人员，包括但不限于债务指标和其经济结构。
- Monitors key economic indicators to guide assessment of debt sustainability.
- Provides useful feedback to management on plans and policies.

#### Analysis & Reporting
- Unit is involved with various analyses of debt statistics and dissemination of reports.
- Analyses debt stocks and flows.
- Analyzes information on loan-by-loan basis on various trends such as currency composition, interest and monetary structure.
- Completes statistics and economic indicators including gauging key debt indicators and trends used by DMO to track performance.
- Generates internal debt report of periodic public communication to DMO.
- Makes available up-to-date information on status of debt portfolio (stocks and flows) to relevant government agencies and other users.
- Prepares and presents period public debt statistics bulletins and debt management reports.
- Rollout distribution programme for diffusion of debt statistics and economic information generated by DMO.

#### Risk Management
- Risk considerations cannot be ignored whatever the structure of the debt portfolio.
- Instruits with medium-term debt strategy, undertakes sensitivity analysis to capture the volatility of debt service and debt service targets on external and domestic debt mixes as well as debt amortisation plans.
- Designs and manages cost-risk policy.
- Designs and manages risk management framework.
- Workouts and proposes debt management targets such as currency composition of external and domestic debt and amortisation profiles.
- Evaluates risks of public debt portfolios using PDOS and in context of assets and liabilities using an AAL framework (target to be gradually completed).

### Back Office

#### External and Domestic Debt Recording
- Records all details related to different categories of domestic and external debt.
- Ensures all data is recorded in a timely manner.
- Maintains physical records of debt data and related information via an adequate filing system (electronic or otherwise).
- Maintains reliable databases on government borrowings and guarantees provided to public sector entities.
- Produces statistical information to all users.
- Registers all public debt operations.

#### Recording Order Liabilities
- Tracks all operations besides domestic and external debt.
- Uses institutional arrangements to track and record all debt liabilities.
- Tracks and monitors all financial and non-financial debt including on-lending.
- Tracks, registers, and monitors non-guaranteed private sector debt.
- Tracks, registers, and monitors contractors’ guarantees.

#### Debt Service Operations
- Verifies the accuracy of debt information to ensure that debt service payments are promptly and accurately executed to ensure that debt service payments are prompt and accurate.
- Ensures that the debt is recorded in the debt management systems and monitored for compliance.
- Checks accuracy of credit agreements and debt service payments against the DMO’s own records and forecasts.
- Ensures security approval for verified claims and batch them for debt recording section.
- Debt service payments (both external and domestic) to facilitate the DMO’s servicing process debt budgetary provision approval within DMO, mandate from the Accountant General’s office, servicing settlement, and externalisation by central bank.
- Undertakes reconciliation of debt with creditors.

#### Settlement and Externalisation
- Ensures accurate and timely externalisation of debt service, amortisation of external debts and settlement and servicing of domestic debt.
- Ensures budgetary provisions for servicing and redemption of both external and domestic debt is done in a sufficient and timely manner. As appropriate, it also makes provision for contingent liabilities.
- Secure mandates for debt service and amortisation from the Accountant General’s office.
- Make payments of interest and redemption of domestic debt as and when due.

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Appendix C: Detailed roles and responsibilities of the functional units in the DMO.