Debt Management Performance Assessment (DeMPA)

Mongolia

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ECONOMIC POLICY AND DEBT DEPARTMENT
Sound Economics for Growth and Poverty Reduction

TREASURY
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The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 15 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA Program, please visit our website at: http://www.worldbank.org/debt

GOVERNMENT DEBT MANAGEMENT PERFORMANCE REPORT– MONGOLIA

EXECUTIVE SUMMARY

A World Bank mission visited Ulaanbaatar April 3-11, 2008. The team consisted of Lars Jessen and Eriko Togo, World Bank Treasury. The objective was to undertake a comprehensive assessment of debt management operations using the Debt Management Performance Assessment tool (DeMPA) that was developed with a focus on Low Income Countries (LICs). A main reason for applying the tool in Mongolia was the opportunity to take stock of the progress in the debt management area achieved under the debt management sub-component of the World Bank Governance Assistance Program (GAP).

The mission met with government officials from various departments in the Ministry of Finance, including the Debt Management Division, Bank of Mongolia, Mongolia National Audit Office, the State Audit and Inspection Committee, and a private bank.

Mongolia scores relatively high on indicators related to governance and strategy development, coordination with macroeconomic policies, strategy implementation, and recording and reporting. Weaknesses reside in the areas of cash flow forecasting and cash management, and operational risk management. The latter include debt administration and data security, and segregation of duties, staff capacity and business continuity.

On-going reforms

A sub-component of the GAP program aims at building capacity in public debt management focusing on the Debt Management Division (DMD) of the Treasury Department in the Ministry of Finance (MoF). A Needs Assessment for Public Debt Management performed by the World Bank Treasury in January 2006 provided the basis for the reform plan for debt management. The main priorities of the reforms are: 1) Institutional issues: a review of the allocation of the responsibilities for debt management within the MoF, in particular the tasks related to overseeing the implementation of projects; 2) The development of a formal debt management strategy; and 3) Capacity building within the DMD. Apart for some support for systems upgrades, the assistance mainly comes in the form of local and international consultants.

In general, staff capacity in the DMD is relatively high. However, the tasks and staffing size, in combination with substantial turnover, implies a high risk that the outcome of the debt management sub-component of the GAP will fall well short of what should reasonably be expected. Currently, a substantial part of the tasks of the DMD are project related, and this implies a significant resource burden. Project-related tasks, like field trips to ascertain procurement compliance, implementation compliance, and project performance follow-up, are all very important, but not core debt management tasks. In the current situation, the focus of the DMD of project-related tasks prevents the building of capacity in public debt management.

This DeMPA would provide useful input to the audit of the debt management area planned by the MNAO for the second half of 2008.

II. Summary of Performance Indicator Assessment

The DeMPA comprises 15 debt management performance indicators (DPIs), which encompass the complete spectrum of government debt management operations as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity building, the performance indicators do stipulate a 'minimum level' for the individual DPIs.

The scope of the DeMPA is central government debt management activities and closely related functions such as issuance of loan guarantees, on-lending, and cash flow forecasting and cash balance management.

The scoring methodology assesses each dimension and assigns a score of either A, B, C, or D, based on the criteria listed. The evaluation starts by checking whether the minimum level for that dimension has been met, corresponding to a score of C. In cases where a dimension cannot be assessed, a N/R (not rated or assessed) score is assigned. The A score reflects sound practice, while the B score is a score between the minimum level and sound practice.

The individual areas scored are not weighted, and a total score cannot be calculated.

Performance Indicators		Score
Governance and Strategy Development		
DPI-1	Legal Framework	B
DPI-2	Managerial Structure	B
DPI-3	Debt Management Strategy	C
DPI-4	Evaluation of Debt Management Operations	C
DPI-5	Audit	C
Coordination with Macroeconomic Policies		
DPI -6	Coordination with Fiscal Policy	B
DPI -7	Coordination with Monetary Policy	C+
Borrowing and Related Financing Activities		
DPI-8	Domestic Borrowing	B
DPI-9	External Borrowing	C
DPI-10	Loan Guarantees, On-Lending and Debt-Related Transactions	B
Cash Flow Forecasting and Cash Balance Management		
DPI-11	Cash Flow Forecasting and Cash Balance Management	D
Operational Risk Management		
DPI-12	Debt Administration and Data Security	D
DPI-13	Segregation of Duties, Staff Capacity and Business Continuity	D
Debt Records and Reporting		
DPI-14	Debt Records	A
DPI-15	Debt Reporting	C

III. THE PUBLIC DEBT OF MONGOLIA

The public debt at the end of 2007 was approximately 40 percent of GDP. The debt is almost exclusively in foreign currencies, and mostly long term with concessional terms. Domestic debt is very limited, at very short maturities. Overall, taking into account the cash accounting principle applied, implies that the risk of the debt, i.e. the exposure of the budget to changes in market rates, is very limited.

While the debt management strategy states that secondary market development for government securities is a priority, domestic borrowing is very limited.

A joint World Bank/IMF Debt Sustainability Analysis from May, 2008, concluded that strong growth in recent years in combination with large mineral resources makes a situation of debt distress unlikely under historical risk scenarios. However, it was noted that a large issuance of external sovereign bonds at market terms, which is being considered, could raise concerns over debt sustainability.

IV. PERFORMANCE ASSESSMENT

The following sets out the assessment for each performance indicator together with the overall score for the indicator.

GOVERNANCE AND STRATEGY DEVELOPMENT

DPI – 1 LEGAL FRAMEWORK

DPI-1 Legal Framework	
Dimension	Score
1. The existence, coverage and content of the legal framework.	B

The Government's authority to borrow is governed under the Public Sector Management and Finance Law (2002). The Law defines the authority of the State Great Khural (Parliament) to approve state funding, the Government's authority to issue securities upon the approval of the State Great Khural, and the minister of finance's authority to approve borrowings on behalf of the government.

The Law on Coordination of Foreign Loans and Grant Aid (2003) lays out the legal framework for external borrowing on concessional terms and for receiving grant aid, specifically from international organizations and bilateral donors. It regulates in detail the processes and procedures for contracting loans and grants, beginning from development of the project proposal, review of the proposal, presentation of the project to the government and obtaining approval from the parliament, presentation of the project proposal to the lenders and donors, negotiations and contracting, oversight, monitoring

and reporting of project implementation as well as debt recording. The Law also specifies that loan funds can be on-lent to the project implementation agency on a basis of a contract, and that the government will approve the procedures and pro-forma contract of domestic on-lending.

The Government's authority to borrow in the domestic debt market is governed by the Securities Law of 2002. Provision 4.2 states that "the government under the permission of the State Great Khural, and the Mayors of the aimags and the capital city under the permission of citizens Representative's Meeting, can issue a security. A security issued by the government and by the aimag and City Mayors shall be registered at the Securities and Exchange Commission and at the Stock Exchange as any other securities". The Procedures on Issuing and Making Payments for Treasury Securities (2005) regulates the processes and procedures for domestic debt issuances.

Article 40 in Chapter 4 of the Public Sector Management and Finance Law (2002) lays out the requirement for reporting by State Budgetary Bodies. It states that "State budgetary bodies shall prepare financial statements on semi-annual and annual basis". It states that the annual financial statement should include a balance sheet, an income statement, a statement of cash flows, and a statement of changes in net assets of the budgetary body.

Chapter 7 of the Public Sector Management and Finance Law (2002) is on audit. It states the authorities of the state audit body to conduct certification audits of the annual financial statements of the budgetary bodies. It also enables the audit body to contract out parts of its work to other audit companies, and also specifies the role of the State Professional Inspection Agency to conduct internal financial inspection of the Government.

Overall the primary legislation provides clear delegation of authority from Parliament to the minister of finance to borrow on behalf of the government and to manage debt. However, the legal framework is fragmented, and collectively, the laws are oriented towards the functional aspects of financing the government from year-to-year and ensuring that such borrowing is duly authorized. In addition, it has clear mandatory annual reporting to Parliament and a requirement for external audits of debt management activities. These elements underscore a scoring of B. However, at present there are no objectives stated in laws for managing the public debt, or legal requirement for a medium term debt management strategy. Due to the absence of these elements, the scoring for DPI-1 cannot be higher than B.

DPI – 2 MANAGERIAL STRUCTURE

DPI-2 Managerial Structure	
Dimension	Score
1. The managerial structure for central government borrowings and debt-related transactions	B
2. The managerial structure for preparation and issuance of central government loan guarantees	NR
Overall Score	B

Borrowing is undertaken in accordance with the National Development Strategy, that outlines the long-term development targets of Mongolia, and the Public Debt Management Strategy. In practice, there are very few choices available regarding the financial terms of external borrowing, and domestic borrowing is very limited.

The National Development Strategy approved by the parliament for the period 2008-2023 forms the basis for determining the project and financing them. The Strategy identifies priority sectors, with a focus on regional, social, and infrastructure development. Financing on concessional terms is maximized. The government decides which projects they want to implement and the type of financing appropriate for each project (concessional, aid, PPP, or budget). Following these decisions, financing from lenders is sought.

Bi- and multilateral borrowing is typically linked to projects, and undertaken by the Loan and Aid Coordination Department (LACD), of the MoF. The department is responsible for managing the process of selecting loan and grant proposals; negotiating foreign loans (to the point of ratification in Parliament – all foreign loans needs parliamentary approval); calculating the grant element; and implementing foreign grant proposals (monitoring, compliance, and disbursement). The process from the first presentation of the project until final approval can be quite long (2-3 years). Neither the Legal Department of the MoF, nor the DMD are involved in the loan negotiations process. From time to time, the DMD is requested to provide input regarding the calculation of the concessionality of a loan, and the Legal Department is asked to provide comments at the end of the loan negotiations.

Domestic borrowing is planned and executed by the DMD.

The mission was informed that a high level coordination committee for loans and aid has recently been established (strictly speaking, this committee is being re-established, and will replace the Foreign Loan and Grant Regulation Council that had ceased to function). While a formal debt management strategy is in place, choices regarding financial terms are limited, and for external borrowing, taken outside the DMD.

On the basis of a regular exchange of information and coordination between the various entities involved in borrowing, the score for the first dimension is a B. It is not higher, as decisions related to the financial terms on external borrowing are taken outside the DMD.

The second dimension is not rated, as guaranties are not issued.

DPI – 3 DEBT MANAGEMENT STRATEGY

DPI-3 Debt Management Strategy	
Dimension	Score
1. The quality of the debt management strategy document.	C
2. The decision-making process, updating and publication of the debt management strategy	C
Overall Score	C

A Public Debt Management Strategy Paper, 2007-2009, was approved by the minister of finance in May, 2007. This was sent to Parliament for approval, but Parliament decided that an approval by the minister of finance was sufficient. The strategy covers external and domestic direct debt, and it is stated that the strategy will be revisited on a regular basis.

The debt management strategy was prepared by the DMD, and provides background and summarizes the main risks, and outlines the desired direction for debt management, i.e. an increase in the share of domestic debt, longer domestic maturities, reduction of the foreign exchange rate risk etc. The strategy does not specify targets for risk indicators, resulting in the C-score for the first dimension.

The strategy was formally approved by the minister of finance, input was provided by the Bank of Mongolia (BoM), and it is available on request (but not published). The score for the second dimension meets the minimum level, but is not higher due to lack of formalities regarding the preparation of the strategy.

DPI – 4 EVALUATION OF DEBT MANAGEMENT OPERATIONS

DPI-4 Evaluation of Debt Management Operations	
Dimension	Score
1. Level of disclosure in an annual report or equivalent of government DeM activities, central government debt, evaluation of outcomes against stated objective and compliance with the government's debt management strategy.	C
Overall Score	C

An annual report, that has a main focus on the budget, but contains information on debt, is submitted to Parliament and Cabinet. The report provides data on outstanding debt and debt transactions, but no evaluation of the outcomes against stated objectives and compliance with the debt management strategy. A quarterly report, describing the loans

outstanding, disbursements, and debt service, is submitted to Cabinet, and a similar report is produced for the MoF with a monthly frequency.

Reporting satisfies the minimum level to evaluate debt management operations, but does not contain any evaluation of debt management activities, which is required for a score of B. Therefore the scoring for DPI-4 is a C.

DPI – 5 AUDIT

DPI-5 Audit	
Dimension	Score
1. Frequency of internal and external audit of central government debt management activities, policies and operations, and publication of external audit reports.	C
2. Degree of commitment to address the outcomes from internal and external audits.	C
Overall Score	C

The Mongolian National Audit Organization (MNAO) is the supreme audit institution of Mongolia and is governed by the Constitution, the State Audit Law (2003), and the Public Sector Management and Finance Law (2002). It is directly answerable to the Parliament and receives annual appropriation separate from the regular budget process to ensure independence and integrity of its audit functions. Its main function is to conduct financial and performance audits. The financial audit incorporates broader issues on compliance with existing laws and regulations. In recent years, specialized audits, such as environmental and IT audits, have been carried out. An audit of the debt management area is planned for the second half of 2008.

In the recent past, four audits have been conducted in the debt management area[1] and comments and recommendations have been sent to the MoF and Ministry of Foreign Affairs. Compliance with the existing accounting and data reporting rules and guidelines is also closely monitored.

Follow-up to the audits are conducted through different avenues: the audit report is submitted to the parliament; the audit report is made available to the public through the web site; and the audit report is submitted to the audit entity requesting their feedback with a specified deadline. The MoF have in general responded and provided feedback elaborating actions taken or planned to address the issues raised in the audit reports. If the issue is very important, there may be a second round of audit to ensure that remedial actions have been taken.

[1] The State Audit and Inspection Committee (former name of MNAO) conducted 2 times (in 1999 and 2001), and the MNAO audited 2 times (in 2003, 2006) the utilization of loans, aid and donations from international organizations, Governments and people of foreign countries to the Government of Mongolia

The State Professional Inspection Agency (SPIA) is a centralized audit agency that audits line ministries, including the MoF. The SPIA was created by centralizing the internal audit functions of all ministries. The SPIA sends the audit reports to the ministries, but reports to the Deputy Prime Minister's Office, and therefore does not constitute an internal audit. The SPIA has not audited the debt management area, rather they leave that to the MNAO and it sees itself as auditors of the debt in state owned entities and other budget entities.

Due to the lack of internal audits of the debt management function, the first dimension does not score higher than C. Similarly, for the second dimension, the absence of internal audit does not allow the authorities to respond to both internal *and* external audits, and therefore scores a C.

COORDINATION WITH MACROECONOMIC POLICIES

DPI-6 COORDINATION WITH FISCAL POLICY

DPI-6 Coordination with Fiscal Policy	
Dimension	Score
1. Coordination with fiscal policy through the provision of accurate and timely forecasts on total debt and debt service under different scenarios.	C
2. Availability of a fiscal strategy and/or an analysis of debt sustainability, and the frequency with which these are undertaken.	A
Overall Score	B

Within the overall umbrella of the National Development Strategy, and in accordance with the Public Sector Management and Finance Law (2002), a rolling three-year Medium Term Fiscal Framework and annual Socio-Economic Guidelines are prepared. Under the framework provided by these plans, the annual budget is prepared.

The DMD uses the DMFAS debt recording system as the basis for preparing forecasts of debt, and expected interest and principal payments are provided to the Fiscal Policy and Coordination Department as input to the budget. Assumptions regarding interest rates and exchange rates are provided to the DMD from the Department of Economic Policy (DEP). No sensitivity analysis regarding future debt payments are carried out as part of the process, resulting in a score of C for the first dimension.

With input from the FPCD and the DEP, the DMD prepares debt sustainability analyses on an annual basis, resulting in a score of A.

DPI-7 COORDINATION WITH MONETARY POLICY

DPI-7 Coordination with Monetary Policy	
Dimension	Score
1. Coordination with monetary policy implementation through information sharing on debt transactions and government's current and future cash flows	B
2. Extent of a limit to direct access of resources from the Central Bank	C
Overall Score	C+

In March 2008, a joint decree of the minister of finance and the Governor of Bank of Mongolia (BoM) was signed. The decree formalizes the exchange of information between the two institutions, including cash flow forecasts, and establishes a joint working group to ensure that monetary and fiscal policy is well coordinated. The group is to meet monthly. Furthermore, the decree mentions the need for coordination when issuing BoM-bills for monetary policy purposes, and government securities for debt management purposes.

At the moment, BoM is issuing bills with the purpose of mopping up excess liquidity. Recently, it has been decided to focus the issuance in 28 week bills, that are issued every 4 weeks. BoM bills are issued at auctions held by the BoM. BoM does not have any role when it comes to issuing government securities. In recent years, the government has been issuing domestic debt irregularly, and only linked to specific purposes (housing projects). The government issues Treasury bills at auctions held at the Stock Exchange. The combination of the fact that the MoF only issue securities infrequently, and that they are issued through the stock exchange implies that market participants do not have problems in separating BoM and MoF securities-issuance.

According to Article 18 of the Law of Mongolia on Central Bank (Bank of Mongolia) (2001), BoM can provide temporary credit to meet seasonal liquidity needs. Such short term loans are to be repaid before the end of the fiscal year (calendar year). The credits cannot exceed 10 percent of the three last years of domestic budget revenues. While the Central Bank Law establishes clear guidelines for managing the access to overdraft in the BoM, a stricter time limit of the tenor of such overdrafts would have to be in place to score higher than C. In recent years, due to the favourable budgetary situation, there has been no need for the MoF to overdraw its account in the BoM.

BORROWING AND RELATED FINANCING ACTIVITIES

DPI-8 DOMESTIC BORROWING

DPI-8 Domestic Borrowing	
Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt, the publication of a borrowing plan for T-bills and T-bonds, and the preparation of an annual plan for aggregate amount of borrowing in the domestic market divided between the wholesale and retail markets.	B
2. The availability and quality of documented procedures for borrowing in the domestic market.	B
Overall Score	B

On the basis of budget surpluses, domestic borrowing has been very limited in recent years. The government has been issuing relatively small amounts at short maturities, and on an irregular basis, to support specific purposes (housing).

The regulation guiding domestic borrowing is The Procedures on Issuing and Making Payments for Treasury Securities (2005). The regulation states that borrowing can take place to finance current deficits, seasonal discrepancies in cash flows, as well as investment projects. An annual limit for domestic borrowing is approved by Parliament, and translated into a borrowing plan that is published. Furthermore, Parliament approves an order that specifies the securities types, nominal value, maturity, etc. The information is disclosed to the public on the website of the Treasury Department, and through mass media. The Stock Exchange conducts multiple price auctions on behalf of the government, with the cut-off rate being decided by the DMD. Typically, less than five commercial banks will take 99 percent of the securities auctioned.

As discussed under DPI-7, a memorandum of understanding has been signed between the BoM and the MoF specifying that the two institutions will collaborate to develop the domestic yield curve. However, with the limited funding need and high inflation environment, the issuance of maturities longer than 1 year has been very uncommon.

Government securities are issued through a market based mechanism, but the borrowing is ad hoc as there is no budgetary reason to issue domestic debt. As discussed in DPI-7, overdraft facility from the BOM has not been utilized and direct financing from the banking sector has been discontinued. Therefore, market based financing constitutes 100 percent of domestic borrowing and the borrowing plan is published at least one month ahead meriting a scoring of B for the first dimension. The Procedures on Issuing and Making Payments for Treasury Securities is quite comprehensive, and is available on the website of the Treasury, resulting in a score of B.

DPI-9 EXTERNAL BORROWING

DPI-9 External Borrowing	
Dimension	Score
1. Degree of assessment of the most beneficial/cost effective borrowing terms and conditions (lender or source of funds, currency, interest rate and maturity)	D
2. Availability and quality of documented procedures for borrowing in foreign markets.	A
3. Availability and degree of involvement of legal advisors.	D
Overall Score	C

Currently, all external borrowing is from bi- and multilateral sources, and linked to specific projects. The LACD is responsible for the project identification, determining financing sources, and obtaining clearance from the Cabinet and approval from the Parliament for foreign loans.

The Law on Coordination of Foreign Loans and Grant Aid (2003) covers loans and grants from multilateral institutions and bilateral borrowing. The law specifies that the foreign loans and grants must be consistent with the National Development Strategy and the state budget, and have concessional terms. This law is very detailed and practically serves as the procedures document for borrowing from external sources.

The LACD is responsible for ensuring that the loans are in compliance with the state budget, investment plans, priority sectors, social and economic impact, and policies and procedure of the counterpart organizations. The legal advisor is not actively involved in the entire loan negotiation process but is responsible for ensuring compliance with existing law and regulations.

As part of the evaluation of a project, the MoF will evaluate the concessionality of new loans, but no regular analysis of available financial terms is performed, limiting the score for the first dimension to the minimum level. The second dimension is an A, as debt information is added to the debt recording system immediately following completion of loan negotiations. Furthermore, the Law for foreign borrowing is extremely detailed, and in practice functions as a procedures manual for external borrowing. The third dimension score a D, as legal advisors are not involved in the borrowing process.

DPI-10 LOAN GUARANTEES, ON-LENDING AND DERIVATIVES

DPI-10 Loan Guarantees, On-lending and Derivatives	
Dimension	Score
1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees.	N/R
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds	B
3. Availability of a debt management system with functionalities for handling derivatives, and availability and quality of documented procedures for the use of derivatives.	N/R
Overall Score	B

Of the USD 1.8 billion borrowed from multilateral institutions and bilateral lenders, approximately 60 percent are on-lent. One third of the on-lent portfolio is non-performing[2]. To remedy this, in recent years the procedures for on-lending have been changed, so all on-ending now goes through private banks. Therefore, the burden of credit risk assessment is now limited to a few commercial banks. These banks in turn, are responsible for lending to the end-borrowers in accordance with the loan agreement.

The Procedures on Foreign Loans to be On-Lent Domestically is a very detailed document that outlines the processes and procedures for managing on-lending transactions. The purpose of the procedures document is to define the requirements and terms for on-lending from the MoF to the borrowers under an agreement, to provide for the performance of contractual obligations, and to administer supervision so that loans are repaid in line with the Law on Foreign Loans and Grant Aid. It specifies the types of borrowers, which may be state owned legal entity, private legal entity, and partially state-owned entity. It specifies that the conditions for on-lending shall be included in a proposal to lenders and in all stages of foreign loan negotiations. The on-lending agreement shall be concluded with the borrower as required in the Law on Foreign Loans and Grant Aid. It also has an explicit clause that the borrower is responsible for bearing the exchange rate risk. In the case of non-repayment, the regulation requires that the MoF take actions to deduct from sales proceeds generated from the utilization of assets funded with the loan, foreclosure and sale of assets, for project loans, deduct from domestic financing, take the pledge on assets, and/or exercise third party guarantees.

[2] The government has inherited a legacy on-lending portfolio, most of which were entered in the 1995-96s period. Many of them have no contracts or supporting documents with the borrower which specified the amounts, terms and conditions, or the use of funds. In 2000, information on on-lending was gathered into a database and after 2001 the extent of the problem was understood. A working group was established by order of the Minister of Finance to clean up the on-lending portfolio, and the non-performing loans were transferred to an asset recovery agency.

The terms of on-lending are differentiated by type of borrower, with the more generous terms going to the budget supported state-own legal entities, and harder terms to private sector entities. These are specified in The Procedures on Foreign Loans to be On-Lent Domestically.

	Maturity	Interest rate and commission
Budget-financed state owned legal entities	Up to 5 years before the maturity of foreign loans	Same as interest rate of foreign loans
Self-financed production entities and legal entities with state ownership	Up to 10 years before the maturity of foreign loans	Libor plus a commission of up to 1.5%
Private legal entities	Up to 15 years before the maturity of foreign loans	Libor plus a commission of up to 3.5%

The profit generated from difference between the borrowing rate and the on-lending rate is placed in a revolving fund and is used to pay down the balance should there be delays in the principal repayment from the on-lent entities.

Overall, the policies and procedures for on-lending has been significantly strengthened and modernized. The reason for not scoring higher than B on the second dimension is the absence of policies requiring the calculation of and charging of a fee for credit risk. Only the second dimension is scored, as the Government is not issuing guarantees, and not using financial derivatives.

CASH FLOW FORECASTING AND CASH BALANCE MANAGEMENT

DPI-11 CASH FLOW FORECASTING AND CASH BALANCE MANAGEMENT

DPI-11 Cash Flow Forecasting and Cash Balance Management	
Dimension	Score
1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D
2. Effectiveness of managing the aggregate cash balance in government bank account(s), including the integration with the domestic debt borrowing program	D
3.Where the Principal DeM Entity or the DeM entities operate their own bank accounts, the frequency of reconciliation of these bank accounts	NR
Overall Score	D

A Treasury Single Account (TSA) has been established in the BoM, and the TSA is remunerated at below-market rate (currently 2 percent). There is not target for a minimum amount of cash in the TSA. Previously, it was very common for ministries and

government entities to keep substantial amounts in accounts with private banks. However, except for small transactions, this has been discontinued.

Systematic cash forecasting has not been implemented. In practice, to the extent forecasts are prepared, they are focused on monthly cash flows, by dividing the annual budget into 12, without taking into account historical or seasonal patterns. The new MoF-BoM coordination committee is expected to result in improved cash forecasting.

The DMD is delivering forecasts of cash flows on the debt as input to the budget process, but is not involved in broader cash forecasting efforts.

OPERATIONAL RISK MANAGEMENT

DPI-12 DEBT ADMINISTRATION AND DATA SECURITY

DPI-12 Debt Administration and Data Security	
Dimension	Score
1. Availability and quality of documented procedures for the processing of debt service.	D
2. Availability and quality of documented procedures for debt data recording and validation, and storing of agreements and debt administration records.	D
3. Availability and quality of documented procedures for controlling access to the central government debt recording/management system and payment system.	D
4. Frequency and off-site, secure storage of debt recording/management system back-ups	C
Overall Score	D

While there are very detailed procedures manual related to project identification, performance etc., no such procedures exist for debt data recording and validation. Each officer in DMD is responsible for recording the debt data in their sector or type of borrowing. All staff in the DMD has access to DMFAS, and has received (internal and in some cases UNCTAD-provided) training in using the system.

There are no documented procedure for processing debt service. After receiving an invoice from the lenders on interest or principal payments due, the responsible officer checks this invoice against entries in DMFAS. If the numbers do not match, then the officer contacts the lender to reconcile the numbers. If they match, then a note is sent for approval and signature by the Director General. The signed note is then sent to the Payments and Settlements Division, who will make the payments to the lenders. If there is no invoice, then payments are authorized based on records in DMFAS. If lenders notify there is a discrepancy after the payment is made, then reconciliation is carried out in the next payment, unless the lender requires immediate payment.

For disbursement of on-lent funds, the project implementation unit sends an application for withdrawal. This application is checked against DMFAS records, then sent to the Director General for signature, and instruction for payment is sent to the Payments Division.

For disbursement of funds to on-going investment projects, the staff in the DMD is responsible for verifying that the project has been implemented satisfactorily by visiting project sites. Once it is deemed satisfactory, the information is transmitted to the LACD who will then authorize payment to the project to the Payments Department.

Data entries are not formally checked at entry, but there are ex-post checks within the DMD. Also, it is ensured that payments are effected on time and that there are no arrears. An independent confirmation of data is conducted by the external auditor, MNAO, once every two years. Backup data is stored and consolidated with the Government Financial Management Information System every two weeks. The data is stored in a disc and taken to the Tax Department, located within walking distance from the MoF. MoF is considering purchasing another server to enable daily backup.

The original signed loan documentation is scanned and stored in the server. Each officer responsible for the loan also has a copy. The original copy is delivered to the archives office located on the fourth floor of the MoF building which is fire proofed. After a few years, this is then transferred to the state archive. There is no risk monitoring and compliance functions in DMD. Also, there are no business continuity and disaster recovery arrangements.

While procedures in general appear sound, the absence of documented procedures lead to the very low scores for this indicator.

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

DPI-13 Segregation of Duties, Staff Capacity and Business Continuity	
Dimension	Score
1. Segregation of duties for some key functions, and the presence of a risk monitoring and compliance function	D
2. Staff capacity and human resource management	D
3. Presence of an operational risk management plan including business continuity and disaster recovery arrangements	D
Overall Score	D

Currently, to the extent the DMD performs debt management functions, the focus is on back office functions, i.e. debt recording and processing of payments. Front office functions for contracting debt are performed in the LACD. Payments are effected in the Payments Division. Therefore, there is segregation of duties between those responsible to

negotiate and contract, those responsible for authorizing the payments, and those responsible for arranging the payments.

There is no one responsible for risk monitoring and compliance. There is relatively high rotation among the officers in DMD. One staff, who is the longest serving, has been in DMD for seven years. The next longest serving staff has worked in the DMD for three years, and the rest have been there for less than three months. The average service time at the DMD is three years. Most staff is new graduates, and after three years, tend to go to study abroad funded by the MoF. They are obliged to return to the MoF, but generally do not return to the same department. Local consultants are often hired over a one year period to supplement staff shortages.

When joining the department, the officer signs a contract with the Director General of the department. There is a written job description. All staff are subject to the civil servants law and internal regulations of the MoF, and the code of conduct is governed by these.

According to the ROSC – Data module, a comprehensive performance evaluation system has been introduced for civil servants. It involves the signing of annual contracts with supervisors that establish detailed outputs to be produced. A semiannual review of staff performance is conducted based on these contracts, and good performers are awarded cash bonuses. In addition, the Administration Department of the MOF evaluates on a monthly basis performance at the department level.

Despite segregation of duties, the absence of staff responsible for risk monitoring and compliance leads to the score of D on the first dimension. Similarly, the second dimension is a D score, as staff size does not seem adequate taking into account the responsibilities of the DMD. Finally, the absence of a disaster recovery plan implies a D for the third dimension.

DEBT RECORDS AND REPORTING

DPI-14 DEBT RECORDS

DPI-14 Debt Reporting	
Dimension	Score
1. Completeness and timeliness of central government debt records within three months lag	A
2. Completeness and up-to-date records of all holders of government securities in a secure registry system.	A
Overall Score	A

For debt recording, UNCTAD's DMFAS version 5.3 is used. All debt transactions of the central government are captured, including domestic debt and on-lending transactions. Once a loan agreement is signed, data is not entered immediately, but the responsible officer waits for the lender's web site to be updated with their information. The

maximum period for the data to be entered and reconciled is one month. In terms of data for on-lending, the Procedures on Foreign Loans to be On-Lent Domestically specifies that the data on on-lending loan agreement must be input into the loan database within 4 working days after the agreement is signed. Overall, the records can reliably be used for analysis and reporting, no later than one month after the loan has been contracted, resulting in a score of A for the first dimension.

Records of government securities holders are updated and controlled every time a security transaction is made. The registry is with the Securities Clearing House & Central Depository, and is audited by an external auditor twice per year. The score for the second dimension is A.

DPI-15 DEBT REPORTING

DPI-15 Debt Reporting	
Dimension	Score
1. Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities	C
2. Meeting statutory and contractual reporting requirements for total non-financial public sector debt and loan guarantees to all domestic and external entities.	C
3. Quality and timeliness of the publication of a debt statistical bulletin or equivalent covering central government debt	C
Overall Score	C

The PSMF Law (2002) requires that the financial statements of the Government include a balance sheet. Until 2004, the statements included information on budget execution only. From 2004, the total amount of public debt, split between foreign and domestic, is disclosed. The quarterly debt statistics report compiled for the Cabinet are an integral part of the budget process. It describes the debt by creditor, currency composition, share of project loans, road loans, program loans, and IMF loans. It provides flow information on disbursement, principal payment, interest payment, and debt service, as well as the outstanding amount at the end of the period.

An Annual Report (*Budget Outturn*) is compiled which includes a table with a breakdown for revenues, expenditures, and financing, as well as a large number of other tables with detailed budget execution information. The financing table provides information for central government, local governments, and general government. A summary of the text and selected tables are posted on the MoF's website (www.MOF.pmis.gov.mn) and are printed in hardcopy. According to the ROSC-data Module report (p.61), while central government debt data are compiled, they are not disseminated in the annual report.

Data sources for the general government sector and its sub-sectors are timely. The monthly report is prepared by the seventh day of the following month. Budgetary

agencies must submit their reports by the second day and the aimags by the fifth day. Reporting units are aware of the deadlines set for reporting, and the timetable is usually met. While reporting on debt is timely and very detailed, it does not entail indicators for risks, implying a C score for the third dimension.