Debt Management Performance Assessment

(DeMPA)

Kyrgyz Republic

OCTOBER 2015

WORLD BANK GROUP

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 14 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a 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 Tool, please visit our website at: http://www.worldbank.org/debt

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Abbreviations

ATS	Automated Trading System
ARD	Accounting and Reporting Department, NBKR
BMC	Bilateral and Multilateral Cooperation Division
BPD	Budget Policy Department, MoF
COA	Chamber of Accounts
DeM	Debt Management
DeMPA	Debt Management Performance Assessment
DMS	Debt Management Strategy
DPI	Debt Performance Indicator
DTS	Debt Tracking System
DVP	Delivery versus Payment
DSA	Debt Sustainability Analysis
GDP	Gross Domestic Product
IMF	International Monetary Fund
IT	Information Technology
KGS	Som, the currency of the Kyrgyz Republic
LS	Legal Support Division
MoF	Ministry of Finance
MOD	Monetary Operations Department, NBKR
MTDS	Medium Term Debt Management Strategy
NBKR	National Bank of the Kyrgyz Republic
PDD	Public Debt Department of the MoF
PDM	Public Debt Management Division, PDD
PDS	Public Debt Statistics Division, PDD
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PITAD	Public Investment and Technical Assistance Department
PIP	Public Investment Project Division
SOE	State Owned Enterprise
TSA	Treasury Single Account
WB	World Bank

Executive Summary

During October 15-22, 2015, a World Bank (WB) team composed of Lilia Razlog, Signe Zeikate (WB GMFDR), Lars Jessen (WB FABDM) and Marie-H. Le Manchec (WB consultant) travelled to Bishkek, Kyrgyz Republic, to undertake an assessment of government's debt management capacity and institutions, using the Debt Management Performance Assessment Methodology (DeMPA, 2015). The mission team was supported by Meerim Sagynbaeva (CMU).

The main objective of the DEMPA mission was to assess, jointly with the Ministry of Finance (MoF) and other public entities, current debt management performance in the Kyrgyz Republic. The revised 2015 DeMPA methodology, applied for the evaluation, provides a comprehensive set of indicators spanning the full range of debt management (DeM) functions. During the mission, the team met with government representatives involved in debt management, including officials from the MoF, the National Bank of the Kyrgyz Republic (NBKR), the Chamber of Accounts (COA), two local commercial banks, and other partners (see Annexes 1 and 2 for a complete list of meetings and officials met). The team would like to express its appreciation for an efficient and productive cooperation with the staff of Public Debt Department (PDD) under the management of its Director Mr. Bakyt Sydykov.

The mission team noted that MoF has been implementing a series of reforms of public finance management (PFM) supported by the WB, and plans a follow up technical assistance in this area. In addition, the latest Public Expenditure and Financial Accountability (PEFA) assessment in the Kyrgyz Republic was completed during 2014.

The DeMPA and PEFA evaluations are expected to help the authorities to take stock of the current situation across the PFM system, and design a complementary and well-sequenced medium-term priority reforms in line with identified areas for improvement.

The assessment revealed the following main highlights across the five core debt management functions:

STRENGTHS	**AREAS FOR IMPROVEMENTS**
GOVERNANCE AND STRATEGY	
The legal framework clearly establishes government DeM responsibilities through the Debt Law and related decrees and decisions. The authorization to borrow is with the MoF. The purposes for borrowing are specified. Latest debt management strategy (DMS) covering period of 2015-2017 was approved by the Government and published online. Monthly debt statistics bulletin is prepared and published on the MoF website.	There is fragmentation of DeM entities, although PDD has been set as main DeM entity with a front (for domestic debt), middle and back office roles. The current debt law does not include clear DeM objectives and requirements to: prepare medium term DMS, and submit annual reporting of DeM activities to the Parliament.

PDD prepares an annual report on government DeM, which is submitted to Parliament as part of budget execution report. COA conducts annual financial and compliance audits of the government debt management.	Basic analysis is carried out to assess portfolio risks and part of the DMS development, but not included in debt statistics publications.
COORDINATION WITH MACRO POLICY	
There is clear separation between monetary policy and debt management operations. PDD shares debt service forecasts and monthly auction calendars with the NBKR. PDD receives macroeconomic forecasts and government borrowing requirements from the Budget Policy Department (BPD). The fiscal agency role of the NBKR is formalized in bilateral agreements with the MoF. Access to financing from the NBKR is prohibited.	The debt sustainability analysis (DSA) is not carried out. No sensitivity analysis of debt service forecasts is undertaken. Cash flow forecasts are not formally developed and/or shared with the NBKR.
BORROWINGS AND RELATED ACTIVITIES	
A monthly auction calendar is prepared The legal advisers are involved in loan negotiations. There are documented procedures for government on-lending operations.	There are no documented procedures for external and domestic borrowings. Analysis of cost-effectiveness of financial terms of external borrowings is not undertaken.
CASH FLOW FORECASTING AND CASH BALANCE MANAGEMENT	
There are bi-weekly meetings between MoF and NBKR technical experts to analyse government financial plans and progress in budget execution. MoF is using a Treasury Single Account (TSA) at the NBKR to conduct its financial transactions.	The monthly forecasts of weekly aggregate cash balances are not prepared. Surplus cash is not invested at market rates.
DEBT RECORDING AND OPERATIONAL RISK MANAGEMENT	
There are complete and accurate records of external and domestic government debt. Informal processes for data recording, validation and reporting, storage of loan agreements, and debt service payments are adequate.	There are no documented procedures for debt servicing, disbursements and reporting There is no comprehensive DeM recording system in place. Front and back-office functions are not separated sufficiently

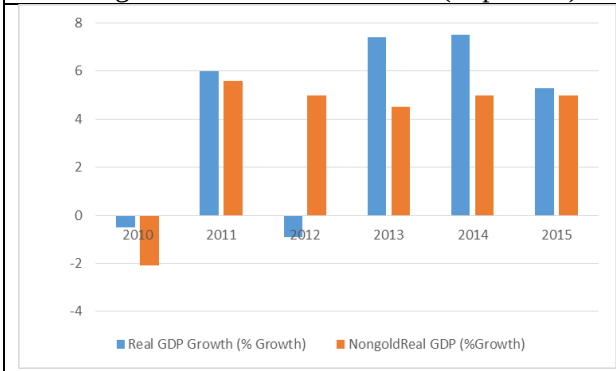
The data are cross-checked internally and with external creditors regularly. Detailed job descriptions exist for staff, and there is adequate capacity in DeM units. There are daily backups of debt data files, which are sent to a separate location.	There is no business continuity or disaster recovery plan nor a formal operational risk management framework.

Background

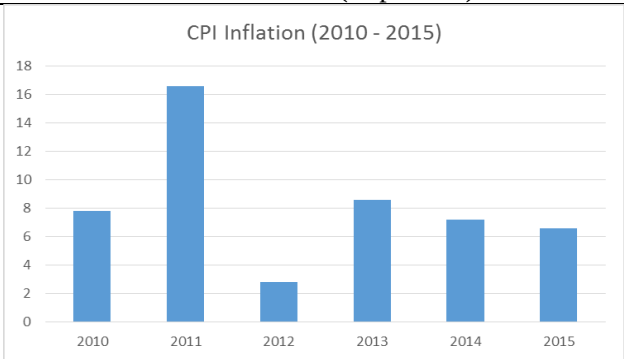
The Kyrgyz Republic became a parliamentary democracy in 2010 following political turmoil and ethnic unrest. Kyrgyz Republic's economy has been resilient; however, the growth momentum of the past few years has been declining due to the difficult global economic environment and regional conflicts' spillover effects on the country. While the shift provided a drive for critical fiscal reforms, financial sector reforms turned out to be challenging.

The country successfully completed a three-year arrangement under the Extended Credit Facility in 2014. During the period, macro-economic stability was restored, and growth picked up. Inflation was kept below 10 per cent throughout the program. However, deepening economic crisis in Russia, adverse weather and the initial impact of the accession to the Eurasian Economic Union were the key contributing factors to the worsening outlook in 2015. Weaker demand in Russia and Kazakhstan adversely affect the exports and re-export sectors. Remittances from workers in Russia and Kazakhstan, which contribute about 30 percent of the country's economy, have slowed down, and are expected to decline by more than 10 percent in 2015.[1] Consumption is projected to decline further as well (Figure 1).

Figure 1a. Real GDP Growth (In percent)



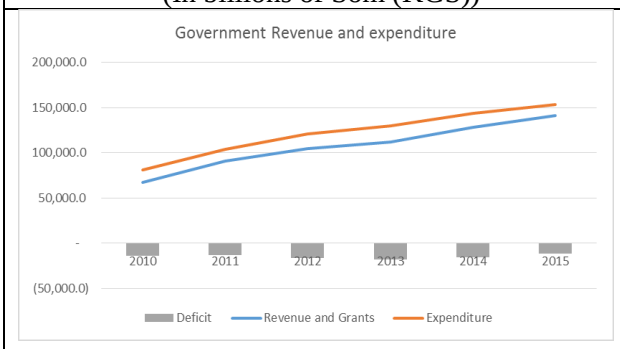
1b. Inflation (In percent)



Source: International Monetary Fund (IMF) Country Report No. 13/175.

[1] The IMF Kyrgyz Republic: page 3 "Letter of Intent, Memorandum of economic and Financial Policies and technical Memorandum of Understanding."

Figure 2. Government Revenue and Expenditure
(In billions of Som (KGS))



Source: IMF Country Report No 13/175.

The fiscal position has improved slightly from 2013 due to an increase in revenues (Figure 2). The 2015 fiscal deficit is expected to widen compared to initial estimates driven mainly by the implementation of large foreign-financed investment projects. Implementation of such projects is totaling to 8 per cent of GDP, and represents a 4-percentage point increase compared to 2014.[2]

Government Debt Portfolio

The Kyrgyz Republic's nominal public debt has been growing due to the recent currency depreciation (about 20 per cent against the U.S. dollar over the past 12 months) and the implementation of the large public investment program. The public debt-to-GDP ratio accounted for 54 percent or US$3.6 billion in 2014. External debt dominates the public debt portfolio, and reached 94 percent over the last five years. (Figure 3) The largest external creditors are China (32 percent), followed by the WB (20 percent) and the Asian Development Bank (17 percent; Figure 4).

The Kyrgyz Republic has made significant investments in infrastructure, including in the energy sector, by borrowing externally, mainly from China. China's investments are helping the Kyrgyz Republic close the infrastructure gap. Another potential boost to the economy is the $1 billion Russia-Kyrgyz Development Fund, which has been recently set up. Loans from Russia accounted for about 9 percent of external debt portfolio as of end 2014.

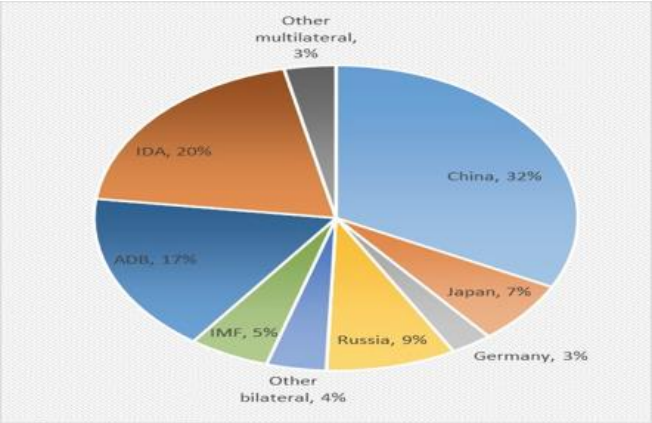
Figure 3: Public Debt Structure 2010-2014
(In millions of U.S. dollars; and external debt expressed in percent of total debt)

Sources: Authorities data; WB staff estimates.

[2] The IMF Kyrgyz Republic: page 4 "Letter of Intent, Memorandum of economic and Financial Policies and technical Memorandum of Understanding."

Domestic debt has remained stable at around 6 percent of total public debt over the past five years. It is predominantly composed of Government securities (Figure 5). Treasury bonds with maturities between 2 and 5 years represented 64 percent of total domestic debt, while treasury bills accounted for about one quarter. For more discussion on domestic debt see the debt performance indicator (DPI) 8.

Figure 4. External Debt Portfolio 2014
(In percent)

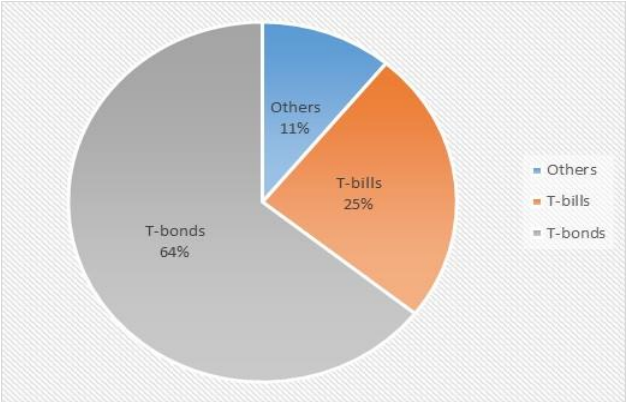


Sources: Authorities data; WB staff estimates.

Almost all of the debt (98 per cent) has fixed interest rates. Average interest rate on external debt is 1.4 per cent, reflecting its concessional nature, while for domestic debt it is 10.4 per cent. Average time to maturity is 11.2 years for external debt and 1.2 years for domestic debt. This implies high exposure to refinancing risk on domestic debt. However, the stock of domestic debt remains low relative to total debt. External debt is predominantly denominated in U.S. dollar (Figure 6).

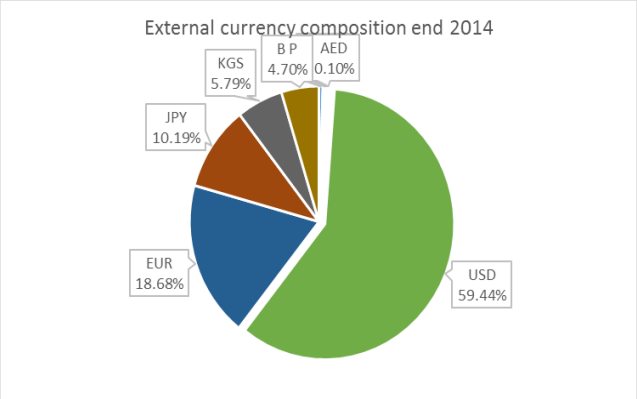
The debt burden indicators have been deteriorating. Faster-than-anticipated disbursements of public investment-related loans from China, the depreciation of the som (the currency of the Kyrgyz Republic) vis-à-vis the U.S. dollar and the regional economic slowdown have resulted in a significant rise in external public debt indicators. This said, the Kyrgyz Republic continues to face moderate risk—albeit rising—of debt distress.

Figure 5: Domestic Debt Portfolio as at end 2014
(In percent)



Sources: Authorities data; WB staff estimates.

Figure 6. External debt: currency composition
(In percent)



Source: Debt Management Reform Plan, 2015.
Note: Kyrgyz SOM (KGS), British Pound (BP), United Arab Emirates Dirham (AED), Euro (EUR) and Japanese Yen (JPY).

The debt burden indicators are expected to rise further in the near future, but the outlook should remain manageable. The underlying macroeconomic assumptions included fiscal consolidation over the medium term and prudent debt management as the basis for sustaining growth. The debt service is expected to be manageable throughout the DSA period due to the high concessionality of the outstanding debt. Domestic debt is expected to increase, and play a more important role in financing the budget deficit in the long term. Under stress tests, the debt remains particularly sensitive to shocks that reduce real GDP growth or a failure to consolidate the fiscal position.[3]

Debt Management Performance Assessment

The DeMPA 2015 methodology comprises a set of 14 DPIs, which aim to encompass the complete spectrum of government DeM 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 and institution building, the performance indicators do stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this clearly indicates an area requiring attention and a priority for reform.

The DeMPA focuses on central government DeM activities and closely related-functions, such as the issuance of loan guarantees, on-lending, cash flow forecasting, and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt portfolio, including implicit contingent liabilities (such as liabilities of the pension system) or the debt of state-owned enterprises (SOEs), if these are not guaranteed by the central government.

Each DPI has one or more dimensions linked to the subject of the DPI, and each dimension is assessed separately. 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 requirement for that dimension has been met, corresponding to a score of “C”. Meeting the minimum requirements is the necessary condition for effective performance under the dimension being assessed. If the minimum requirements set out in “C” are not met, then a score of “D” is assigned. The “A” score reflects sound practice for that particular dimension of the indicator. The “B” score is an intermediate score, falling between the minimum requirements and sound practices. In the cases where a dimension cannot be assessed (a) due to the dimension is not applicable (for example there are no derivatives), then a score of “N/A” (not applicable); or (b) due to insufficient information, the dimension is difficult or impossible to assess, then a score of “N/R” (not rated or assessed) is assigned.

[3] The IMF Country Report No. 15/113, page 38, 42 and 43, “Request for a Three Year Arrangement under the Extended Credit Facility-Staff Report”; and Press Release.

Summary of Performance Assessment

Performance Indicator		Scores
DPI-1	1. Legal Framework	C
DPI-2	1. Managerial Structure: Borrowing and Debt-related Transactions	C
	2. Managerial Structure: Loan Guarantees	N/A
DPI-3	1. Debt Management Strategy: Quality of Content	D
	2. Debt Management Strategy: Decision-Making Process	C
DPI-4	1. Debt Statistical Bulletin: Quality and Timeliness	D
	2. Evaluation of Debt Management Operations	C
DPI-5	1. Audit: Frequency	C
	1. Audit: Appropriate Response	B
DPI-6	1. Fiscal Policy: Provision and Quality of Debt-Service Forecasts	C
	2. Fiscal Policy: Availability and Quality of Information on Key Macro Variables and DSA	D
DPI-7	1. Monetary Policy: Clarity of Separation between DeM and Monetary Policy Operations	B
	2. Monetary Policy: Regularity of Information Sharing	D
	3. Monetary Policy: Limited Access to Central Bank Financing	A
DPI-8	1.Domestic Borrowing: Market-Based Mechanisms and Preparation of a Borrowing Plan	D
	2. Domestic Borrowing: Availability and Quality of Documented Procedures	D
DPI-9	1. External Borrowing: Borrowing Plan and Assessment of Costs and Terms	D
	2. External Borrowing: Availability of Documented Procedures	D
	3. External Borrowing: Involvement of Legal Advisers	B
DPI-10	1. Loan Guarantees: Availability and Quality of Documented Policies and Procedures	N/A
	2. On-lending: Availability and Quality of Documented Policies and Procedures	C
	3. Derivatives: Availability and Quality of Documented Policies and Procedures	N/A
DPI-11	1. Effective Cash Flow Forecasting	D
	2. Effective Cash Balance Management	D
DPI-12	1. Debt Administration: Availability and Quality of Documented Procedures for Debt Service	D
	2. Debt Administration: Availability and Quality of Documented Procedures for Data Recording and Storage	D
	3. Data Security: Availability and Quality of Documented Procedures for Data Recording and System and Access Control	D
	4. Data Security: Frequency of Back-Ups and Security of Storage	A
DPI-13	1. Segregation of Duties	D
	2. Staff Capacity and Human Resource Management	C
	3. Operational Risk Management, Business Continuity, and Disaster Recovery Plans	D
DPI-14	1. Debt Records: Completeness and Timeliness	B
	2. Debt Records: Registry System	A

Performance Indicator Assessment

Governance and Strategy Development

DPI-1 Legal Framework

Dimension	Score
1. The existence, coverage, and content of the legal framework on authorization to borrow, undertake other DeM activities, and issue loan guarantees	C

According to article 4 of the "Law on Public and Non-Public Debt of the Kyrgyz Republic," henceforth "the Debt Law" public borrowing may be undertaken for the following purposes: (i) to finance budget deficit; (ii) to finance state investments; (iii) to cover expenses related to state debt and debt refinancing; and (iv) for other purposes stipulated in the legislation of the Kyrgyz Republic.

Article 5 of the Debt Law[4] specifies that the MoF is a sole agent of the government on public debt management matters, for contracting external debt and issuing loan guarantees. Furthermore, the Minister of Finance is authorized to sign domestic, external loans and guarantee agreements.[5]

In addition, Article 15 of the "Law on Main Principles of Budget Formulation in the Kyrgyz Republic" provides that the Minister of Finance has a sole power to contract external and domestic loans, provide credits, and issue loan guarantees.

The total level of external and domestic debt is approved annually by the Parliament in the annual state budget law.

Although the MoF prepares a monthly debt report and sends it to the Parliament, there are no legal requirements for mandatory annual reporting to the Parliament on DeM activities and strategy implementation (see DPI 4).

Relatedly, there is no legal requirement to develop a medium term DMS. Such provision is included in the functions of PDD of the MoF, but not in the legal framework. Nevertheless, the DMS for FY2015-2017 was prepared and approved by the Cabinet in June 2015.

The legal framework meets the minimum requirements, score C, for effective debt management, since the primary legislation includes clear authorization from the legislation to the Minister of Finance to

[4] Article 5 of the Debt Law "On Basic Principles of Public Borrowing and Issuance of Guarantees."

[5] Articles 7; 8; 9, of the Law "On Public and Non-Public Debt of the Kyrgyz Republic."

borrow, and issue debt and loan guarantees on behalf of the state. The Debt Law also specifies the purposes of public borrowing.

For a higher score, the legal framework should also include (i) clear DeM objectives;[6] (ii) a requirement to prepare a DMS; and (iii) a mandatory reporting to the Parliament on DeM activities.

DPI-2 Managerial Structure

Dimension	Score
1. The managerial structure for central government borrowings and debt-related transactions	C
2. The managerial structure for preparation and issuance of central government loan guarantees	N/A

Dimension 1

Debt management activities in the Kyrgyz Republic are divided between the Public Investments and Technical Assistance Department (PITAD) and PDD of the MoF and the NBKR as an agent of the government. Therefore, there is no one principal debt management entity. Both departments report to the Deputy Minister of the MoF for Coordination of External Financial Assistance and Public Debt Servicing. Several functions related to issuance of state securities are delegated to the NBKR (see Figure 7).

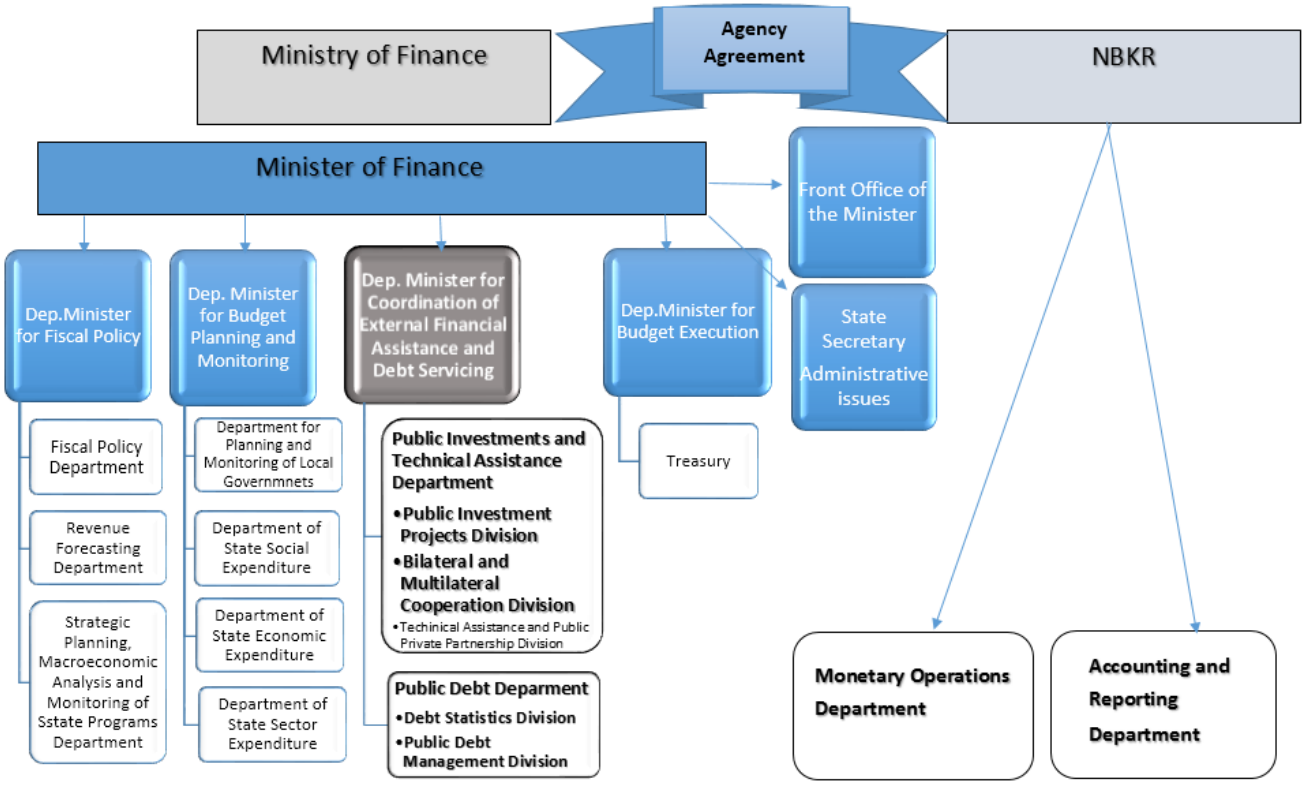
The Public Investment Projects Division (PIP) and the Bilateral and Multilateral Cooperation Division (BMC) of the PITAD are responsible for mobilizing external financing and conducting external loan negotiations. They fulfill the front office functions for the external borrowings related to public investment projects and budget support, respectively. Both Divisions request the PDD's opinion on the terms of external loans. In practice, the latter verifies the concessionality level of external loans and that the overall indebtedness falls within certain debt thresholds. After concluding the loan agreements, a copy of the loan contract is shared with PDD.

PDD is in charge of front office functions for the borrowing in the domestic market. Some of the functions have been delegated to the NBKR through the agency agreements. PDD is also responsible

[6] Article 6 of the Debt Law specifies tasks in the area of public DeM, but there is no specific article on DeM objectives. Thus, Article 6 partially refers to DeM objectives. As an example, it requires the MoF to prepare and implement measures to: (i) optimize the public debt portfolio, including the structure of government securities; (ii) restructure debt; and (iii) manage risks of government debt. Currently, the DeM objectives are specified in the DMS document, but not by law.

for the middle and back office functions for domestic and external borrowings as well as for the issuance of loan guarantees.

Figure 7: Organizational Structure for Debt Management



PDD consists of two divisions: (i) the Public Debt Statistics Division (PDS) and (ii) the Public Debt Management Division (PDM). PDS should be mainly responsible for the back office functions, but in reality they also contribute to analytical work of the middle office. According to functional description, PDS is responsible for: (i) implementing the debt management strategy; (ii) recording, monitoring and servicing public debt of the Kyrgyz Republic; and (iii) fulfilling other functions.

PDM is in charge of middle office functions, e.g. portfolio analysis and monitoring as well as loan guarantees. The main functions of this Division are (i) preparing and implementing the public debt policy; (ii) preparing and implementing the public DMS; (iii) preparing government policy for issuance of loan guarantees; and (iv) fulfilling other functions.

NBKR, as an agent of the government, organizes auctions, holds the registry of the government securities, and processes government debt service payments. This work is regulated by formal agency agreements, which are adhered by the Monetary Operations Department (MOD) and Accounting and

Reporting Department (ARD). These two departments are the MoF's agents for conducting government securities auctions and keeping registry of government securities.

Although the organizational structure for debt management is not fully consolidated, the minimum requirements for effective debt management are met due to adequate exchange of information and coordination of respective activities, score C. These functions are also specified in the MoF Resolutions and formal agency agreements with NBKR, and they are implemented and followed in practice.

For a higher score, debt management activities should be steered by a formalized medium term DMS, and undertaken without undue political interference. A DMS for 2015-2017 was approved at end-June 2015, and therefore for the first half of FY2015 the debt management activities where not based on a formal DMS. In addition, the borrowing decisions have not always been neutral from political interference.

Dimension 2

The assessment of the managerial structure for the preparation and issuance of loan guarantees—the second dimension of the DPI 2—is not applicable (N/A) because the authorities have not issued any loan guarantees since early 2000s. The debt management strategy prohibits the issuance of loan guarantees although there are no legal restrictions for such activities.

DPI-3 Debt Management Strategy

Dimension	Score
1. The quality of the debt management strategy document	D
2. The decision making process and publication of the DeM strategy	C

Dimension 1

According to the Debt Law, MoF is responsible for government borrowing and debt management, under the legal provisions of the Annual Budget Law and the Parliamentary decisions. There is, however, no legal mandate or requirement for the MoF to develop a DMS in the existing legal framework (see DPI 1).

A medium term DMS covering 2012-14 was approved by Cabinet, and published in 2012. An updated strategy covering the period of 2015-17 was approved by Cabinet on June 29, 2015, and was made subsequently publicly available on the MoF web site. The strategy is a two-page document that specifies the debt management objectives and scope. For external debt, guidelines are defined for the minimum concessionality of loans (35 percent), and a maximum exposure of 50 percent of the external debt to one creditor. On the domestic side, the strategy aims to increase the maturity of the debt, and to increase the

relative share of T-bonds. The strategy includes a statement that neither state guarantees will be issued, nor will borrowing in the international capital markets be undertaken. In addition, targets for the size of the debt are specified. While such targets can play an important role in supporting debt sustainability, they are not good debt management targets, since meeting them is outside the control of the debt manager.

While there are areas that can be approved and expanded, the fact that a strategy has been developed and published is commendable.

Since the DMS does not include all the required guidelines for the preferred composition of the government debt, the score for dimension one is D. For a higher score, a target ranges for indicators of the interest rate, refinancing, and foreign currency risks have to be defined, as per the required guidelines.

Dimension 2

The analysis providing the foundation for the 2015-17 DMS was undertaken by PDD using the Medium Term Debt Management Strategy (MTDS) Toolkit. Macro data was provided by BPD, and the analysis of alternative borrowing strategies was shared with entities within the MoF and NBKR for comments. The debt management strategy was drafted by PDD, approved by Cabinet, and published on the websites of the Government and MoF.

The strategy development process is not closely coordinated with the budget process, and the debt management strategy not well integrated in the budget document or the medium term budget framework. A main reason for that is the stand-alone nature of the debt management strategies so far (the current strategy followed a strategy covering 2012-14). Going forward, the plan is to update the strategy annually, and it will be natural to coordinate the update with the budget cycle.

Since the debt management strategy is prepared by PDD and shared with NBKR for comments, and since the strategy is formally approved by Cabinet and published on the website of the MoF, the score for dimension two is C. For a higher score, the strategy has to be well integrated with the budget document and the medium term budget framework.

DPI-4 Debt Reporting and Evaluation

Dimension	Score
1. Publication of a statistical bulletin on debt, loan guarantees, and debt-related operations	D

2. The presentation and content of an annual report to the parliament or congress on DeM activities, central government debt, evaluation of outcomes against stated objectives and general performance	C

Dimension 1

Despite the lack of a consolidated debt recording and management system, PDS produces monthly government debt statistics, which are formally submitted to the Parliament, President, Prime Minister, Statistical Department and State Security Agency. It is also published on the MoF web page, but this publication is limited to information about the nominal outstanding government debt.

The information included in the monthly publication covers the nominal values of domestic and external debt, composition of domestic debt by instruments, external debt by creditors, concessional versus non-concessional external debt, monthly debt service expenditures and external debt disbursements. For the time being, such monthly bulletin does not include information on the residency classification, but de facto corresponds to the domestic versus external currencies of debt portfolio. It also does not cover original and residual maturity, nor does it include any portfolio risk indicators.

In order to prepare monthly statistics, PDD conducts data reconciliation with the NBKR[7] and PITAD, which provides information on external debt disbursements and domestic debt transactions. As for the government guarantees, there are no outstanding obligations to be reported by the government (see DPI 10).

Submission of monthly debt statistic usually takes place by the 25th of the following month, but may be delayed for a week or so.

Despite the fact that the statistical report includes several characteristics of the current government debt portfolio, and is produced on a monthly basis, this dimension does not meet the minimum requirements; score D. In order to achieve a higher score, the bulletin should include at least additional information on residual maturity and interest rates, as well as be available in the public domain on a regular basis.

Dimension 2

There are several types of debt statistics and reports submited to Parliament by the MoF. It includes: monthly government debt statistics, debt management report annexed to the annual budget execution report and add-hoc reports as required by the parliamentarians.

[7] The NBKR submits external debt data monthly based on the bilateral agreement with MoF from January 15, 2013, forms 22 and 23.

The monthly government debt statistics bulletin includes main characteristics of the outstanding government debt portfolio and debt service costs, as mentioned above.

The latest annual report on government debt management was included as an annex in 2014 Budget Execution Report. The 2014 report includes detailed information on government debt stock by creditors, currencies, interest rates, domestic and external borrowings/disbursements during the fiscal year, evolution of debt service costs, comparison between planned and actual budget provisions, and description of debt management operations during the budget year. For the time being, the analysis of the debt management strategy implementation is not part of such annual reporting. The report is publicly available on the MoF Treasury website.

Given that a comprehensive annual debt management report is annexed to the annual budget execution report, and is formally submited to the Parliament, as well as available in the public domain, the score for this dimension is C.

In order to achieve a higher score, the debt management report should include an analysis on compliance with the DMS.

DPI-5 Audit

Dimension	Score
1. Frequency of financial audits, compliance audits, and performance audits (of effectiveness and efficiency of government DeM operations, including the internal control system), as well as publication of external audit reports	C
2. Degree of commitment to address the outcomes from audits	B

Dimension 1

Chamber of Accounts (COA) is established under the national constitution (Article 107, 109) as a state entity in charge of independent state audit. Its Head is appointed by the President. The COA presents annual reports of its activities to the President and Parliament.

According to the article 3 of the Law N° 117 of 13/09/2004 on the Chamber of Accounts, it is an independent legal entity of the Kyrgyz Republic. Article 4 of the same law determines the main objectives of the COA, which include the audit of the use of public funds and the efficiency and effectiveness aspects of the budget execution as well as the audit of use of extra budgetary funds. COA is also responsible for monitoring of implementation of the audit recommendations. In addition, it has the right to audit activities of SOEs (article 5).

Chapter IV article 32 of the COA Law describes the different types of external audit related to the management of government debt and use of credit resources. Thus, COA has authority to:

- Conduct audit of the government debt management and debt service;
- Correct and ensure efficient use of external borrowing, other loans, humanitarian aid and government guarantees;
- Ensure efficient on-lending of borrowed funds; and
- Review government lending operations and grants.

COA prepares annual audit reports on budget execution at the republican level, which are approved by its Council and published on its website. By the first of September of the following fiscal year, a final report is submitted to the Parliament for examination as well as to the President for information.[8]

Audit report on government debt management activities is done separately as a stand-alone audit, but presented to Parliament together with the annual audit report of budget execution. Starting with 2013, annual audit report includes both financial and compliance audits of government debt management.

In addition, in accordance with the Internal Audit Law from January 26, 2009 N° 25, all central government ministries have introduced an internal audit function. Internal audit section in the MoF has been introduced in late 2011, and is reporting directly to the Minister. It includes five staff members. The unit operates based on a three-year work program (currently covering the 2015-2017 period), which forms a basis for the annual internal audit plan approved by the Minister. The priorities and frequency of internal audits are defined based on the risk matrix prepared by the audit section. It is also in charge of monitoring the implementation of internal and external audit recommendations. The internal audit of debt management functions was not yet conducted.

Similarly, the NBKR has an Internal Audit Division, which reports directly to the Governor of the Bank. Is also operates based on a three-year audit plan (2015-2017), which is then operationalized in the annual plans. Such plans are based on the internal risk matrix of the processes and procedures implemented by the NBKR. The division conducted audit on external debt statistics in 2012, audit of transactions with government securities in 2014, and audit of payment services on government accounts in 2015. Implementation of the internal audit recommendations is monitored on a regular basis.

As there are annual financial and compliance audits on government debt management conducted by the COA since 2013, also available in the public domain within the six months following its completion, the minimum requirements for dimension 1 are met. The score is therefore C. For a higher score, a performance audit of government debt management is required.

[8] In 2015, the presentation of the report to the Parliament was postponed due to the general elections. The audit report will be presented when new members of Parliament are elected.

Dimension 2

Final audit report on budget execution includes recommendations for the budget users and indicative time limits for very specific recommendations, while general recommendations may have no specific time line. Comments and recommendations for the finding in the area of debt management are part of this report.

Based on such recommendations, the Government adopts a formal decision with the list of expected measures for addressing identified mistakes or weaknesses. Specific corrective actions are proposed for each line ministry based on the auditors' findings.

In line with such government decision, MoF develops an internal action plan with activities to be implemented by individual departments and the expected timeline. COA recommendations are addressed mainly within the agreed time period, but might be delayed from time to time.

PDD and other line departments of the MoF are in charge of fulfilling the audit recommendations as per the agreed action plan. The internal audit section of the MoF is responsible for monitoring of implementation of the consolidated action plan, as well as gathering of the information and providing the feedback to the COA.

The management's responses to the COA recommendations in a consistent manner as well as the development of the annual action plans meet the requirements of the score B on the DeMPA for dimension 2. A higher score requires that all recommendations be implemented within the indicated timeline.

Coordination with Macroeconomic Policies

DPI-6 Coordination with Fiscal Policy

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

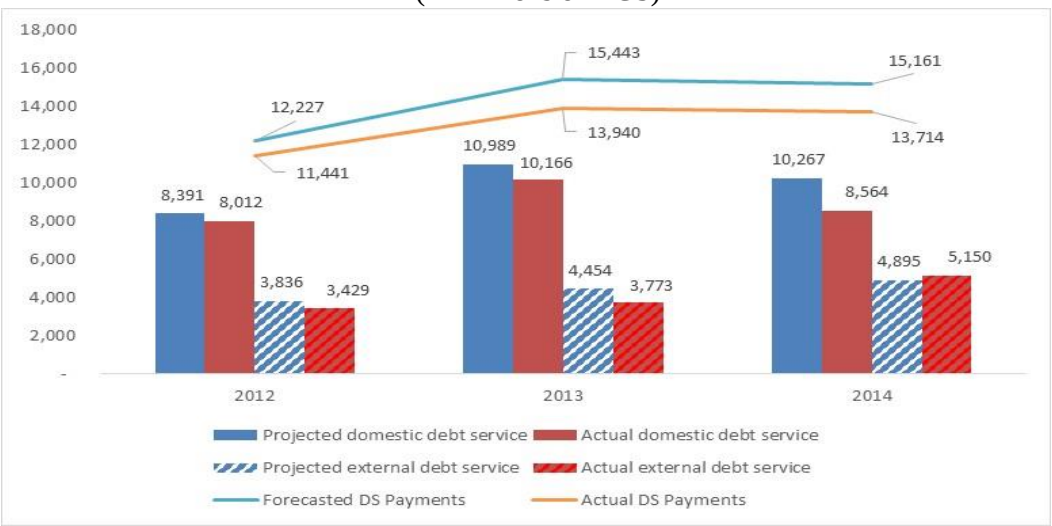
Dimension 1

The MoF Order[9] on the medium term budget framework and the annual budget preparation specifies the budget calendar and responsibilities of MoF departments with respect to state budget preparation process. As an example, the Macroeconomic Analysis Department[10] is required to provide medium-term macroeconomic forecasts to PDD. They provide information on projected foreign currency exchange rates; inflation; GDP and exports, among others. PITAD and BPD have to submit information on expected external loan disbursements and required amounts of domestic financing to be raised through issuance of government securities, respectively. PDD in return has to provide debt service forecasts to BPD.

In addition, there is a formally established working group on Macro-Fiscal Issues that includes representatives from PDD, Macroeconomic Analysis Department, PITAD, BPD, Budget Revenue Department and Fiscal Policy Department. The Macro-Fiscal working group is another platform to exchange information and discuss outstanding issues related to budget preparation.

According to BPD, the PDD submits total debt service forecasts on time i.e. in compliance with the approved budget preparation calendar. As shown in Figure 8, the debt service forecasts for the 2012-2014 periods were reasonably accurate. The difference between forecasted and actual total debt service outturn was within 10 percent over the past three years (see Table 1).

Figure 8: Debt Service Payment Projections and Outturn
(In millions of KGS)



Sources: MoF data; WB staff estimates.

[9] MoF Order Nr. 11-17 "On the Medium Term Budget Preparation for FY2016-2018 and the Budget Preparation for FY2016," January 29, 2015.
[10] Strategic Planning, Macro Analysis and Monitoring of National Programs.

Table 1: Actual Versus Forecasted Debt Service Payments

Year	2012	2013	2014
Domestic debt service payments	-5%	-7%	-17%
External debt service payments	-11%	-15%	5%
Total Debt Service	-6%	-10%	-10%

Sources: staff calculations, MoF data

The minimum requirements for effective coordination of debt management policy with the fiscal policy are met, and the score is C, because PDD provides timely and reasonably accurate debt service payment forecasts as part of the annual budget preparation process. For a higher score, debt service payment forecasts should include sensitivity and scenario analysis, which is not currently practiced.

Dimension 2

MoF provides macroeconomic and debt data to IMF to prepare DSAs, but there is little involvement from the ministry's side in the actual DSA preparation. It should be noted that the conduct of DSA is included in the current functions of PDD. The latter prepares a simplified DSA, mainly estimating solvency indicators under a baseline macroeconomic framework over the next six years.

The second dimension does not meet the minimum requirement, and scores D, as the macroeconomic variables are available and shared with PDD and BPD, but there is no full DSA undertaken by the government over the past three years.

DPI-7 Coordination with Monetary Policy

Dimension	Score
1. Clarity of separation between monetary policy operations and DeM transactions	B
2. Coordination through regular information sharing on current and future debt transactions and the central government's cash flows with the central bank	D
3. Extent of the limit to direct access of resources from the central bank	A

Dimension 1

As a fiscal agent for the Government, the NBKR issues T-Bills and T-Bonds for financing government expenditures. While T-bills are auctioned every Thursday, T-bonds are issued on Fridays. NBKR issues short- term securities for monetary policy purposes with maturity of seven days, and conducts its auctions on Tuesdays. Therefore, the purpose of issuance is clear, and investors are well informed about the scope of NBKR securities' issuance and MoF issuances of government debt instruments.

Also, all the decisions on the volumes and cut-off price for government securities are taken by the management of the MoF based on the recommendations of PDD. NBKR does not interfere in the decision making process.

Formally, the fiscal agency role of the NBKR is defined in the bilateral agreements from 28.08.2009 for T-bills and 02.10.2009 for T-bonds (see DPI 8 for more details).

Since the government securities are issued only for budget-financing purposes, there is a clear separation of monetary and fiscal monetary policy operations, which was confirmed by local investors. Also, the fiscal agency role of the NBKR is clearly established in the bilateral agreements with the MoF. Thus, the requirements for the score B are met.

For a higher score, it is required that agency responsibilities of the national bank in government debt management be publicly disclosed. Such information is partially available on the NBKR website, however not included in the MoF website.

Dimension 2

The MoF has regular formal and informal information exchanges with NBKR. The monthly domestic auction calendar is prepared and submitted to the NBKR for coordination and publication purposes. The quarterly external debt service forecasts are also submitted on a regular basis through a formalized process.

Also, there are bi-weekly coordination meetings of MoF and NBKR experts, which include representatives of budget, revenue, treasury and debt management departments of the MoF and economic and monetary policy operations departments of the NBKR. During the month, one meeting is conducted at the technical experts' level, while the second is for managerial level. At such meetings, a monthly financing plan, prepared by the MoF, is discussed and amended as needed. Also, the team discusses expected cash flow fluctuations, although formal cash flow forecast is not prepared or shared. However, the NBKR has all the information on the actual cash flows due to its role of banking agent of the MoF Treasury and in charge of TSA operations.

In summary, bi-weekly technical committee meetings, sharing of financing plans, debt issuance and debt service forecasts are effective coordination mechanisms to support monetary policy formulation. However, due to the fact that cash flow forecasts are not prepared, there is no formal information exchange on the future cash flows. Thus, the score for the second dimension is D. The higher score would require development and information exchange of cash flow forecasts.

Dimension 3

Article 24 of the NBKR Law N° 59/1997 states that the Bank is prohibited to grant loans to the Government of the Kyrgyz Republic. This legal provision is complied with.

Thus, the score for this dimension meets the highest requirements, and the score is A.

Borrowing and Related Financing Activities

DPI-8 Domestic Borrowing

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities	D
2. The availability and quality of documented procedures for local currency borrowing in the domestic market and interactions with market participants	D

Dimension 1

Parliament, through the annual budget, sets limits on domestic borrowing. These annual limits are typically around 1 to 2 percent of GDP, reflecting perceived relatively high cost of domestic borrowing. The domestic debt is dominated by T-Bills, with maturities between 3 and 12 months and 2- and 5-year bonds. In 2013-14, a new 3-year bond was issued, but so far, only in limited amounts.

Since 2012, all government securities have been issued at electronic auctions held by NBKR functioning as a fiscal agent to the MoF. Cut-off prices are determined by MoF without any interference from NBKR. Until 2013 a primary dealer system was in place, under which only authorized financial institutions could participate in auctions. In an effort to increase interest in taking part in the government securities market, all commercial banks and financial institutions can now participate in the primary auctions. Currently 22 banks as well as the National Social Fund and the Deposit Insurance Agency are authorized to participate in auctions. There are no bidding requirements. Individual investors can place bids through authorized dealers free of any charges.

While no annual borrowing plan is published, PDD is publishing monthly auction calendars that specify auction dates and targeted amounts, as well as maturities and coupon rates. In general, the borrowing plans are implemented as announced. The exception was 2015, when limited demand has forced the MoF to issue less than announced. Auction results are announced on the same day as the auctions. The monthly borrowing plans are published before the start of the month, but sometimes only the day before the first auction of the new month.

Meetings with market participants to discuss issuance plans—among other things—are organized by PDD, but on an irregular basis. NBRK normally participates in these meetings

Since there is no annual borrowing plan, and since the monthly auction calendar is published less than 1 week before the start of the new month, the score for this dimension is D.

Dimension 2

As mentioned above, auctions are held by NBKR, and the auction set-up and decision-making process is clearly described and working well. Detailed descriptions of the government securities and access to auctions are available on the website of NBKR ("Market for government securities," undated). This public information provides details on the individual securities and calculation of interest, among others. In addition to T-bills and T-bonds, it describes restructuring bonds and "Rollover Treasury Bills" issued in favor on NBKR. It also refers to the information about 16 Primary Dealers in the domestic market.

Regulation N° 556 dated of 2008, "On approval of the issuance, placement, circulation and redemption of government securities", provides information on government securities similar to the information available in "Market for government securities."

Procedures and characteristics (such as the type of securities and access to auctions) are well described in the "Market for government securities" document, but the references to a primary dealer system that was abolished in 2013 and to restructuring bonds and variable rate bonds that matured in 2008 demonstrate that the documented procedures are substantially out of date. The same applies to Regulation N° 556. The score for this dimension is, therefore, D. A higher score would require that procedures be updated to reflect the current situation.

DPI-9 External Borrowing

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

Dimension 1

External borrowing is mainly related to investment projects, and also includes some budget support loans. The Government of the Kyrgyz Republic has not issued bonds in the international capital markets, and there are no plans to do so in the medium term. Project-related borrowing is undertaken by PIP, while budget support is handled by BMC, both falling under the PITAD of the MoF. The planned disbursements in 2015 for project loans and budget support was US$380 million and US$160 million, respectively. It should be noted that budget support tends to be volatile from year to year.

New external borrowing is, to a large extent, driven by availability of the donor funding. For all loan proposals, PIP and BMC will provide loan terms to PDD that will check if the minimum level of concessionality (35 percent) is met as well as the financial terms in general.

An annual borrowing plan is not prepared, but the annual budget includes a loan-by-loan list of all the external borrowing planned for the year. There is no process in place whereby alternative lending sources and financial terms are analyzed, and compared in a systematic fashion.

The score for this dimension is D, since no assessments of the most beneficial or cost-effective terms and conditions.

Dimension 2

The process of negotiating and signing external loans is well established, and is identical for external borrowing through PIP or BMC. Staff involved is experienced and familiar with all elements of the process, including the coordination with entities outside of PIP and BMC, respectively.

Once there is agreement in principle on a specific project and/or loan between the donor and government, a loan negotiation delegation is established through a government decision. For budget support the delegation will comprise of representatives from MoF (including the Legal Support Division), Ministry of Foreign Affairs, Ministry of Justice, and Ministry of Economy. For project loans, the line ministry also participates in the negotiation process.

Loans are entered into the external debt recording application immediately after signing of the loan (even if the loan falls under the status of international treaty, and therefore needs Parliamentary approval, delaying the formalization of the loan).

The second dimension is scored D, as adequate internal procedures for external borrowings are not available.

Dimension 3

The Legal Support Division (LS) in the MoF comprises 9 staff. With regard to external borrowing, LS is involved in all loan negotiations as a member of the task force (see above), and provides a legal opinion for all loan agreements. Sometimes LS will join negotiations right from the start of the process, other times only later. From the point of view of LS, the process is the same whether the loan is project-related or budget support. In addition to LS, the Ministry of Justice sometimes participates in parts of the negotiation process.

Legal advisors participate in substantial parts of the negotiation process, and are consulted when needed. Therefore, the score for this dimension is B. An A score would require that legal advisers are consulted from the first stage of the negotiating process to the conclusion of the legal agreements related to the borrowing.

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/A
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds	C
3. Availability of a DeM system with functionalities for handling derivatives, and availability and quality of documented procedures for the use of derivatives	N/A

Dimension 1

Since early 2000s, the central government has not issued any guarantee. In that context, there are no documented policies and procedures regulating their approval and issuance, apart from the legal authorization granted to the Minister of Finance to issue them (see DPI 2).[11]

The score for this dimension is N/A. There are no outstanding loan guarantees in the public debt portfolio, and there are no plans to issue any, as indicated in the current DMS (see DPI 3).[12]

Dimension 2

On-lending has been the preferred choice of the government to provide financing to SOEs, private companies and individuals. On lending activities are managed by the State Fund for Economic Development, which falls under the umbrella of the deputy Minister in charge of budget formulation in the MoF. There are about 1,300 agreements in the current portfolio amounting to KGS 76 billion or 17 percent of GDP.[13] All of the outstanding on-lent funds come from external sources. Debt service payments amount to KGS 3.3 billion in 2015 or 2.6 percent of domestic revenues. On-lending is

[11] Draft policies and procedures exist, but they have not been signed.
[12] In addition, the new draft budget code prohibits the issuance of guarantees.
[13] Data refer only to the amount of debts being contracted by the central government, and exclude budget financing that was on-lent.

extensively used for development (notably in the agricultural and infrastructure sectors) and strategic purposes (energy sector).

Policies and procedures governing on-lending are specified in two government regulations. Regulation N°114 of 2012 and Regulation N°656 of 2014 regulate the accounting and the on-lending mechanisms, respectively. The latter stipulates—among other matters—(i) the purpose of the on-lending; (ii) the issuance of a government resolution signed by the Prime Minister for the allocation of the funding; (ii) the obligation for the beneficiaries to submit financial information during the life of the on-lent funds; and (iii) the obligation to monitor the use of the resources in order to ensure that they are directed to the original financing purposes. No charge is added on the interest rate applied for on-lending; the government provides to the beneficiary the same financial terms that he had negotiated with its external creditors. In case of a payment default, the legal steps are defined in the Civil Code. Current practices follow the policies and procedures.

The second dimension scores C. There are adequate and readily accessible internal documented procedures for the approval and provision of on-lending, and they are followed.

A higher score (the B score) would require that policies and procedures contain a mandatory requirement that the credit risks be assessed systematically before a decision is made to provide such funds, as well as provide the guidelines on how this assessment would be conducted.

Dimension 3

The third dimension is not assessed (N/A), as the government does not use financial derivatives.

Cash Flow Forecasting and Cash Balance Management

DPI-11 Cash Flow Forecasting and Cash Balance Management

Dimension	Scores
1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D
2. Decision of an appropriate cash balance (liquidity buffer) and effectiveness of managing the aggregate cash balance in government bank accounts (including the integration with the domestic debt borrowing program, if required)	D

Dimension 1

The Treasury Department of MoF is responsible for cash forecasting and cash management. The government will typically start out the year with substantial cash holdings. Often there will be a cash

shortage during the year due to the strong seasonality of the economy. In such cases Treasury is rationing and delaying expenditures.

No formal system for cash forecasting is in place, and there appears to be substantial challenges with projections due to strong seasonality and unpredictability in certain inflows and payments. Cash forecasts are sometimes prepared, and shared at the bi-weekly meetings between MoF and NBKR. These forecasts are on a weekly basis and one month forward looking. From time to time the forecasts go three months ahead. The quality of the forecasts was described as "not always good." Treasury does not prepare cash forecasts that are shared internally.

Since annual cash forecasts are not prepared, and shared with PDD, the score for this dimension is D. The requirement for a C-score is reasonably reliable annual cash forecasts on a monthly basis for cash balances on central government bank accounts, and that these forecasts are updated monthly.

Dimension 2

The issuance of government securities over the year is stable from month to month, including the issuance of T-bills. No cash forecasts are shared with PDD for the purpose of adjustment of issuance volumes for short term securities. Therefore, the issuance of government securities is not linked with the cash needs during the year.

Cash is held at NBKR without remuneration. Treasury have suggested moving cash holdings to commercial banks, but NBKR have resisted such a move.

As short-term government borrowing is not planned according to cash needs, and as the cash holdings of the government are not remunerated, the score for second dimension is D.

Debt Recording and Operational Risk Management

DPI-12 Data Administration and Data Security

Dimension	Scores
1. Availability and quality of documented procedures for the processing of debt related payments and receivables	D
2. Availability and quality of documented procedures for debt transactions data recording and validation as well as storage of agreements and debt administration records.	D
3. Availability and quality of documented procedures for controlling access to the central government's debt data recording system	D
4. Frequency and off-site storage of debt recording and management system backups	A

Dimension 1

PDD and NBKR are responsible for servicing external and domestic debt. The debt service payment process is as follows:

- In regard to external debt, PDD receives payment advices from creditors. PDS incorporates them into a monthly budgetary plan after checking the amounts against their records, and converting them into local currency. The debt servicing report for the coming month—which also includes domestic debt payments—is submitted subsequently to the Treasury department. Two days before the payment date, PDS prepares two orders: (i) a budget order; and (ii) a payment order.[14] The head of PDD (or in his absence, the head of PDS) signs both documents. They are submitted to the Treasury (Banking Operations Division), which verifies and validates the amounts. While the budget order follows both an automated payment process, and is submitted in hard copy, the payment order is only submitted in hard copy.[15] Subsequently, the Treasury sends the payment order to NBKR (Bank Settlement section), which verifies again the information, and proceeds with the payment on the day of the due date. It debits the Treasury account for the corresponding amount, and submits the banking statement to the Treasury (in local currency using the prevailing exchange rate).
- For domestic debt (T-bills and T-bonds), the process is very similar. PDS prepares the budget and payment orders two days before the due date. After validation, Treasury sends the payment order to the ARD at NBKR. The latter executes the payments, credits the bank accounts of securities holders, and debits the Treasury account. It subsequently informs Treasury about the payments.
- NBKR sends actual debt service payment report to PDD on a monthly basis, which allows the latter to reconcile its data. If any discrepancy arises (which happens on rare occasions), PDD issues a reconciliation act after investigating the reasons, and sends it to Treasury for its signature. PDD staff can see at any moment the amount of debt service paid on a specific loan/security by consulting the Treasury Accounting System.

The practice appears to be adequate, and all debt service payments are made on time. PDD completes the debt-related payment process relying on its institutional memory, while NBKR holds a procedure manual for the settlement of domestic debt payments (called the procedures for depository accounting of government securities).

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[14] PDD issues budget and payment orders for all external public debt, except for debt service payments related to balance of payment support, which are serviced directly by NMBK.

[15] The implementation of automated payment system for budget orders is a recent development (about one year ago). There are ongoing discussions to make the payment order process automatic as well.

The dimension 1 scores D. Although the procedures themselves are adequate and well-working, the absence of documented procedures for the processing of debt service in PDD implies a D score.

Dimension 2

There are no documented procedures for debt data recording and validation or for storage of agreements and debt administration records. Like the debt-related payment process, organizational memory guides the practices.

The external debt records are maintained in an Access application called the Debt Tracking System (DTS). PDS receives copies of loan agreements signed by the central government and related-disbursement notifications from PITAD. PIP prepares information and data related to project financing, while BMC prepares information and data on direct budget support (see DPI 2). The Balance of Payments division of NBKR sends also information and data on balance of payments support so that PDD can maintain a consolidated external public debt database. Data published on some multilateral creditors' websites (e.g., the WB, the Asian Development Bank, and the Islamic Development Bank) and payment advices are also used to update the DTS. All information or updates are recorded in the DTS within a day.

The domestic debt records are maintained in two distinct databases. Data on Treasury bonds are recorded in an Access application, and data on Treasury bills in an Excel file. Following the auction of treasury securities, the winning bids are entered on the same day into the appropriate application. The registry system—called the Automated Trading System (ATS) and located at NBKR—is automatically updated (see DPI 14).

Debt records are systematically checked. The head of PDS checks all external debt data entries, while staffs in charge of external debt validate the domestic debt transactions' entries.[16] The quality of the recorded data is further secured through different reconciliation processes. External debt data are reconciled against creditors' records annually (unless serious doubts prompt for an earlier verification) and recent external debt transaction data (signature of new loans and new disbursements) are reconciled monthly with PITAD. Data on treasury securities are reconciled monthly with the Financing and Securities Placement Division of NBKR.

PDD stores the copies of all loan documents (including agreements and debt administration records) in a filing cabinet located in the office of PDS. The documents are stored in good order, and kept in a secure filing system. Access to the files is restricted to five staffs. Other staffs are requested to ask for permission to consult the documents, and retrieval is documented. The files are, however, not protected against fire and flooding. PITAD holds a soft and a hard copy of all the agreements and the soft copies are saved on MoF data server (see dimension 4 of this indicator). Original external loan documents are kept at the Ministry of Foreign Affairs.

[16] The head of PDD validated external debt data entries until recently as the head of PDS has only joint the department two months ago.

The dimension 2 scores D. The procedures themselves for the data recording and validation seem adequate, and PITAD holds soft copies of all external loan agreements. However, the minimum requirements for this dimension include the availability and quality of written recording and validation procedures for external and domestic debt, which do not exist, and secure storage of all debt administration records.

Dimension 3

Regarding controlling access to the debt databases, the head of PDD controls it tightly for the two Access applications. Access permissions have been granted to five staff members (the head of the department and the four staff of PDS). Access to the Excel file, which captures data on T-bills, is however not controlled. The file is not protected with a password.

There is only one instruction manual covering access to the DTS. But it is, however, part of the user manual of the system.

Each staff member has a password. But it is rarely changed.

The dimension 3 scores D. The T-bill database is not secure, and there are no documented procedures for controlling access to the debt data applications. The acquisition of a debt management system—as the authorities envisage it—will strengthen access control, including with the availability of audit trails.

Dimension 4

The Information Technology and Modernization Department of MoF performs backup of all electronic files twice a day. The data are saved on a server in a data center located across the street from MoF. The data center is locked and fitted with its own generators and air conditioning, protected from all types of disasters, including fire and earthquake. There is also a backup data center located 40 kilometers away from the primary center. There are virtual private network connections between PDD and NBKR.

The Information Technology (IT) system of NBKR, including the registry system, is regulated tightly, and controlled by the Information Security Division. Data are backed up daily. The backups are stored in two different geographical locations in Bishkek. The facilities are identical and linked by a fiber connection, which allows for instant synchronization of files. The servers are located in secure places, including protected against flood and fire, and placed inside earthquake resistant constructions. Access to the IT system, including the server, is guided by written procedures, and external audits are conducted annually on the IT system.

This last dimension scores A. The debt database backups at MoF and NBKR are made, at least once a day, and the backups are stored in two distinct secure inter-linked locations.

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

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

Dimension 1

PDS records debt-related transactions—for both domestic and external debt—in the three existing databases regardless of the nature of the transactions (e.g., from preliminary contract data to settlement). The current practice can be reiterated as follows:

- Regarding external debt, PITAD negotiates loan agreements, and sends all the information to PDD, including disbursement notifications. PDS (either the specialist involved with multilateral debt or that with bilateral debt) records the information in the DTS, and arranges external debt service payments in coordination with Treasury (see Figure 9 for the organizational structure of PDD).
- As for domestic debt, PDS acts as both front and back offices. It is in charge of issuing government securities in the domestic market, in cooperation with NBKR; recording information in the databases; and carrying out payments (see also DPI 2).

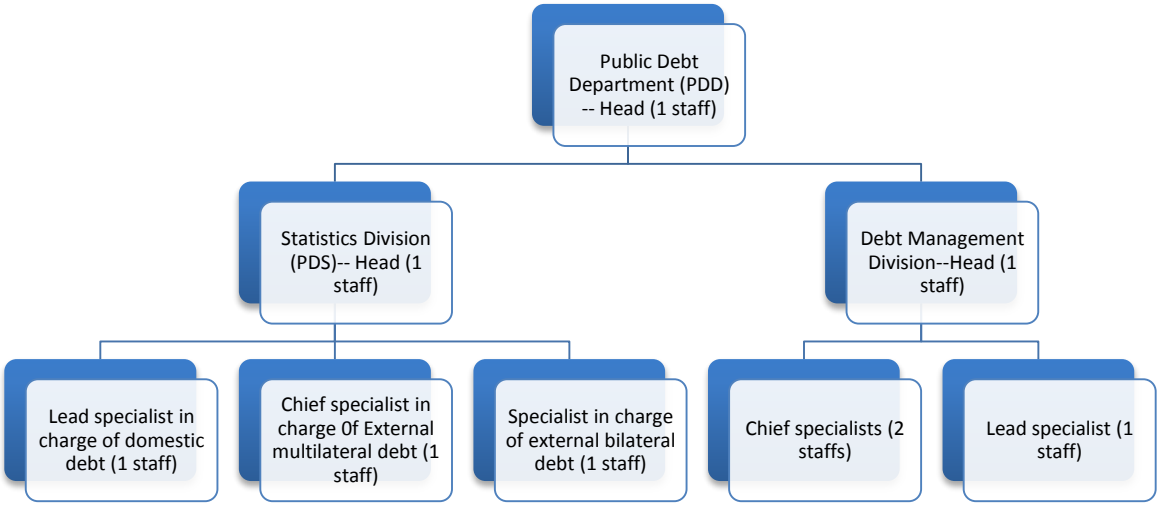
The head of the department and its deputies (the two division chiefs) monitor operational risks and ensure that staffs comply with rules and policies (clearly stipulated in their functions). There is no staff member (nor dedicated unit) responsible for risk monitoring and compliance.

All data entries are confirmed, and follow the four eyes principles. The staff responsible for external debt-related back office activities validates domestic debt data, while the head of PDS confirms external debt data entries. The staff members entering data and that checking the data entry are thus different. However, operational risks remain important as the staff members checking the data have also editing rights to the databases.[17] In addition, while the heads of PDD and PDS do not themselves enter data into the databases in practice, they are both responsible for checking data entries and approving payment orders (see DPI 12).

[17] The Excel file containing T-bills data is not protected. The two staffs of PDS in charge of confirming domestic debt data entries have access to it, and can edit the content.

The first dimension scores D. The same staff members in PDS perform some of the functions of front office (e.g., preliminary contract data entry) and all the functions of back office (e.g., confirmation and finalization of contract information and transaction settlement). In addition, the staff members responsible for checking the accuracy of data entry have also editing access to the databases; and the staff members responsible for approval of debt service payments have also editing right to the databases. All these aspects endanger security and control over public borrowing.

Figure 9. Organizational Structure of PDD



Dimension 2

Regarding staff adequacy within the three debt management units of MoF, the current situation is as follows:

- In PDD, there are nine staff members (including the Director). All positions are filled, and the Director believes that the number of his staff is adequate relative to the level of activity. In general, staff members appear competent, holding university degrees, and well-aware of their duties, which are formally described. The staff turnover rate is low (⅔ of the staff present at the 2011 WB-IMF MTDS mission remains today in the department), and the department enjoys high prestige allowing it to attract new staff easily. Staffs appear to work with enthusiasm, and expand progressively their analytical knowledge and deepen their analyses (e.g., an example is the DMS, see DPI 3).
- Within PITAD, there are six staff members in PIP and five staff members in BMC (including the heads of the divisions). There is one vacancy in BMC. All staff members have formal job

descriptions. Staffs in PIP appear somehow stretched with work, as they are both responsible for identifying external financing and acting as the focal point on the monitoring of the implementation of projects.[18] On average, 18 project loans per year were signed over the past three years. The activity in BMC from a debt management angle is further confined with an average three budget-support loans signed per year over the same period of time.

With respect to training, civil servants are entitled to a minimum of 72 hours of training every three years according to a State order issued by the Ministry of civil service. This is coupled with a recent decision of MoF to provide additional training based on identified needs by heads of departments. This training will be organized on a regular basis. PDD staffs have already expressed interest in participating in an Advanced Excel and basic public finance training.[19] In addition, PDD and PITAD staffs have attended several workshops organized by international institutions, including on the conduct of DeMPA, DSA, and DMS and on the recording of debt statistics over the past years.

Finally, staffs' performance is assessed on a quarterly-basis, and a rating is assigned (this is a recent development) in line with the guidelines of the Ministry of Civil Service. Staffs' duties are listed at the beginning of each quarter, and their completions are reviewed at the end of it. All appraisals are submitted to the Human Resources Department of MoF.

There are no code-of-conduct and conflict-of-interest guidelines covering the entire civil service, but there are no separate guidelines specifically for the staff of the debt management units.

The second dimension scores C. The environment appears conducive for working and learning. There are sufficient and adequately trained staff members with formal job descriptions reflecting their current tasks.

A higher rating would warrant the elaboration and implementation of a code-of conduct and conflict-of-interest guidelines directed towards debt management.

Dimension 3

There is no plan for business-continuity and disaster-recovery at MoF. The IT and Modernization Department has elaborated an action plan for ensuring uninterrupted work, which is to be adopted by the Minister of Finance soon. In addition, the recovery of data is guaranteed by the existence of these two data centers (see DPI 12).

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[18] Currently PIP is following 80 projects. The investment plan will include soon 15 additional projects to monitor, for which the financing-related external loans are in the course of being ratified by Parliament.

[19] While the Excel training has already been organized, and sessions have been offered (one staff of PDS was attending the training during the course of the mission), the public finance training will be organized and delivered as of next year.

The third dimension scores D. There are no written business continuity and disaster-recovery plans at the MoF.

DPI-14 Debt and Debt-related Records

Dimension	Scores
1. Completeness and timeliness of central government debt, loan guarantees, debt-related transactions	B
2. Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable	A

Dimension 1

PDS records all new external loan agreements and related transactions (e.g., disbursement and repayment) in the DTS within a day upon receiving the information from PITAD or external creditors (using for instance payment advices and the creditors' web platform). Information on project-related disbursements is shared reliably, while the process is not as smooth for the notifications of direct budget support-related disbursements. PDD needs to remind BMC of the need to share that information. Taking into consideration that imperfection in the data-sharing mechanism, the recording of disbursements is subject to a maximum of 55 days delay.

PDS maintains the record of the medium to long-term domestic debt instruments (T-bond) and the short-term debt instruments (T-bills) in two different databases. All domestic debt-related transactions (e.g., issuance-related transaction and settlement) are recorded on the day of the transactions.

In addition, there are several reconciliation mechanisms, which help also maintain the accuracy of the three databases (see DPI 12).

The first dimension scores B. The central government has complete records of its debt and debt-related transactions within a two-month lag.

A higher score would require the availability of complete records within a one-month lag.

Dimension 2

The ARD located at NBKR administers the registry system of government securities (ATS). The system operates on the Delivery versus Payment (DVP) principle in both primary and secondary market transactions with T+1 and T+2 settlements for T-bonds and T-bills, respectively. The process is conducted as an automatic debiting process of the winning banks' bank accounts in NBKR (with

authorization from the banks) and crediting process of the Treasury's bank account. At the same time the banks' securities accounts in the ATS are credited. All market participants have access to the ATS, and are in a position to verify their holdings and balances at any moment in time. The ATS is audited by the internal audit department of the NBKR every year. All operations of NBKR are audited annually by an external audit, but the registry is not part of the regular audit.

The second and last dimension is rated A. Government securities are dematerialized and kept in a central registry that has up-to-date and secure records of all holders of government debt. It is subject to an audit of internal controls and management of operation risk annually. In addition, settlement for government securities is made on a DVP basis.

Annex 1: DeMPA Meeting Schedule

Thursday, October 15, 2015		
9.30 - 11.00	Meeting with Head of PDD, MoF - technical introduction meeting	Director, heads of divisions; WB
11.00 – 12.30	**Mission Launch Meeting** (**MoF**, Head of Treasury, Head of Budget, Head of Internal Audit, Head of Debt; Head of IT, Head of HR) **Central Bank** (Vice Governor, Head of Financial market Department, Head of Macroeconomics, and Statistics Department) **External Audit** – State Audit Office	MoF staff; Central Bank; Other officials; State Audit Office; WB
14.00 – 17.30	Legal and organizational framework for debt management Structure of Debt Department, staffing, procedures (MoF staff, Debt management unit)	PDD, MoF; WB
Friday, October 16, 2015		
09.00 – 12.30	MoF, PDD, external and domestic debt issues	PDD/PDS, MoF; WB
14.00 – 15.30	MoF officials dealing with budget preparation	MoF Budget; WB
15.30 -17.00	MoF, Meeting with Debt and IT to discuss debt recording system	MoF; WB
15.30 -17.00	MoF, officials from Human Resource Department, Ministry of Finance	MoF, Human Resource Department; WB
Monday, October 19, 2015		

9.00-10.00	Meeting at NBKR, Monetary Policy issues.	NBKR; WB
10.0 0- 11.00	NBKR officials dealing with: government debt/domestic debt markets, auctions	NBKR; WB
11.0 0- 12.00	NBKR officials dealing with debt data records and reporting Registry system at the Central Bank	NBKR; WB
14.00 – 15.00	Internal control/Audit department of NBKR	NBKR; WB
15.00 - 16.00	Meeting with PIP	MoF; WB
16.00 - 17.00	Meeting with on-lending department	MoF; WB
15.00 - 17.30	Market participants dealing in government debt	
Tuesday, October 20, 2015		
9.00-10.00	MoF officials dealing with economic affairs – macro projections	MoF; WB
10.00 – 11.00	Team meeting	Head of PDD; WB
11.00-12.30	Meeting with Legal department	MoF; WB
14.00 -15.00	Internal audit department /Control department	MoF; WB
14.00 -15.30	NBKR – Registry system/ IT	MoF; WB
15.00-16.00	MBC	MoF; WB
15.30 -17.00	State Audit Office	State Audit Office; WB
17.00 – 18.00	Meeting with officials dealing with cash management	MoF treasury department; WB
Wednesday, October 21, 2015		
09.00 – 12.00	**Final technical meeting with the Debt Management unit**	**PDD; WB**

14.00- 15.30	Donor Community and Development Partners meeting	WB CO (Big conference room 1st floor)
16.00-17.00	Meeting with CM, WB	WB CO (CM's room)
Thursday, October 22, 2015		
09.00 – 12.00	Follow-up meetings, MoF, Ministry of Justice	PDD; WB
14.00-15.30	Closing high level meeting	Similar to the mission opening: Government; WB
16.00 -18.00	Follow-up, final meetings	PDD, MoF; WB

Annex 2: The List of Participants in the Mission

№	*Name*	*Organization*	*Title*
1	Baketaev Almaz	MoF	Deputy Minister -Director of the Central Treasury
2	Sydykov Bakyt	MoF	Head, Public debt Department, MoF
3	Isabekova Nazik	MoF	Head, Public Debt Management Division, Public debt Department, MoF
4	Sharsheev Azamat	MoF	Head, Public Debt Statistics Division, Public debt Department, MoF
5	Irina Kim	MoF	Head, Department of Strategic Planning, Macroeconomic Analysis, and Monitoring of the National programs, MoF
6	Parhomenko Nadejda	MoF	Head, HR Department, MoF
7	Tynybekova Asiya	MoF	Head, Medium-term fiscal forecasting Division, Budgetary Policy Department, MoF
8	Isakov Nurlan	MoF	Head, Technical Support Division, IT Department, MoF
9	Jumaev Ulukbek	MoF	Head, Modernization Sector, IT Department, MoF
10	Kyljiev Samat	COA	Chief of Staff, Accountants Chamber
11	Ibraimova Chinara	COA	Analyst, Research and Methodology Division, Accountants Chamber of the KR

12	Chynhojoev Emil	NBKR	Lead Economist, BoP and External Debt Division, Financial Statistics Department, NBKR
13	Omorov Erkin	NBKR	Head, International Cooperation Division, NBKR
14	Alybaev Avtandil	NBKR	Head, Macroeconomic Analysis and Financial Market Analysis Division, Economic Department, NBKR
15	Svetlana Alelekova	Japan International Cooperation Agency	
16	Talay Asylbekov	European Bank for Reconstruction and Development	
17	Larisa Manastirli		
18	Dmitriy Engelgardt	EDB	
19	Altynai Valikhanova	Kreditanstalt für Wiederaufbau (KfW)	
20	John McGregor	Organization for Security and Co-operation in Europe	
21	Nargiza Kasymalieva		
22	Tomas Dembski		
23	Damir Bisembin	Swiss Embassy	
24	Johannes Madsen	European Union	
25	Shamsh Kassin Lakha	Aga Khan Development Network	

Annex 3: Laws and Regulations Pertaining to Debt Management

1. "Law on Public and Non-Public Debt of the Kyrgyz Republic" September 21, 2001.
2. "Law on Main Principles of Budget Formulation in the Kyrgyz Republic" June 11, 1998.
3. "Law on International Agreements" April 24, 2014.
4. "Law on the National Bank of the Kyrgyz Republic" July 29, 1997.
5. Resolution of the Cabinet N° 424 "Strategy for Managing the National Debt of the Kyrgyz Republic for 2015-2017" June 29, 2015.
6. Resolution of the Cabinet N° 556 "On Issuance, Placement, Circulation and Repayment of State Securities of the Kyrgyz Republic" October 2, 2008.
7. Agreement N° D-3-0/0749 "On Placement, Circulation, Recording and Repayment of Government Treasury Bills by the National Bank of the Kyrgyz Republic" August 28, 2009.
8. Agreement N° 10-1/28 "On Placement, Circulation, Recording and Repayment of Government Treasury Bonds by the National Bank of the Kyrgyz Republic" October 10, 2009.
9. Resolution of the MoF N° 207 "On Public Debt Department of the Ministry of Finance," "On Public Debt Management Division," and "On Public Debt Statistics Division" April 26, 2013.
10. Resolution of the MoF "On Public Investments, Technical Assistance Department."
11. Resolution of the MoF "On Public Investment Projects Division."
12. Resolution of the MoF "On Bilateral and Multilateral Cooperation Division."
13. Resolution N°114 "The State Fund of Economy Development at the Ministry of Finance of the Kyrgyz Republic" February 20, 2012.
14. Resolution N°656 "Procedures on Allocation, Accounting and Securing the Payment of Government Borrowing" November 18, 2014.