

Public Debt

General Policies and Best Practices

PDC agreement

Sofia Meeting, 2005

Preparation of a document as the starting point of a research on:

- general policies, and
- best practices in debt management

Content

- 1 General Policies
- 2 Best management practices
- 3 Transparency and accountability
- 4 Auditing

1 General Policies

Eight principles:

First: allocation of credit;

Second: priorities;

Third: generational equilibrium;

Fourth: debt structure on sustainability criteria;

Fifth: sound legal framework;

Sixth: best management practices;

Seventh: operational transparency, and

Eighth: thorough process auditing.

1 General Policies

Conceptualization

The term general policies means the group of principles deemed necessary to correctly implementing a decision.

1 General Policies

First principle: the allocation of credit

This principle requires the responsible justification of the borrowing.

There are two main trends:

- when one counts on room for decision and action and the final destination of the credit can be planned, and
- when the situation is volatile, risky or crisis-prone and the only objective of the credit is to temporarily save the situation.

1 General Policies

Second principle: priorities

Obligation to assign priorities for public and social necessities requiring loans and act upon them.

1 General Policies

Third principle: generational equilibrium

Present welfare should not compromise future generations' economic growth and social wealth.

1 General Policies

Fourth principle: debt structure and sustainability

- Structuring debt according to sustainability
- Establishing and implementing a strategy in order to attain desired objectives
- Getting the fix financial amount with a sustainable risk and cost
- Relating debt management to a clear macroeconomic framework

1 General Policies

Fifth principle: sound legal framework

- Organizing a group of regulations containing general policies in its broadest sense.
- Existence of sufficient regulation of management, accountability and public debt auditing.

1 General Policies

Sixth principle: best management practices

Best practices must :

- ensure the fulfillment of acquired commitments;
- reduce vulnerability before financial hindrances;
- offer quality information for decision making, and
- ensure the accomplishment of the loans' goals.

1 General Policies

Seventh principle: operational transparency

Fulfillment of disclosure guaranties as expected by citizens from the governments when hiring and managing debt. There are no hidden liabilities or opaque zones in debt hiring and management.

Three conditions:

- contribute to creating a predictable economic environment.
- foster government best practices.
- promote responsibility and democracy.

1 General Policies

Eighth principle: auditing

- Debt contracting and management must be subject to an external and independent assessment.
- Independent audits, the outcomes reports must be delivered to Congress and the public.
- Promote responsibility in debt contracting and management.
- Adoption of corrective measures.
- External and independent auditing and transparency guarantee of citizens' trust.

2 Best practices

- Conceptualization
- Criteria on best practices
- Executive management
- Operational management
- Accountable entity

2 Best practices

Conceptualization

Best debt practices are those that have allowed countries to reach equilibrium between their debt level and their payment capacity, thus increasing their credit supply.

2 Best practices

Criteria

A sensible practice is that debt contracting is strictly carried out within the macroeconomic framework.

Besides, the establishment of a solid operational structure encompassing the clear and specific responsibility allocation.

2 Best practices

Management

A sensible public debt management practice must pay special attention to contingencies prevision.

It is necessary to adopt accountability norms satisfying principles of transparency and fiscal risks management.

Sensible debt practices imply that control activities are implicit within every area of each management phase.

2 Best practices

Executive management

This practice encompasses three functions:

- a) political;
- b) ruling, and
- c) allocation of material and human resources.

2 Best practices

Operational management

These functions are performed in an active and a passive way.

The active functions includes operations for debt contracting as well as operation control functions, involving coordination and supervision.

The passive functions are related to register and analysis.

2 Best practices

Accountable entity

There are three models:

- an office in the Ministry of Finance
- an office in the Central Bank
- an autonomous body

3 Transparency and accountability

Transparency

Amartya Sen: Society operates on trust.

Transparency guarantees are related to the needs of openness that citizens expect to be satisfied.

Transparency is the trust that makes social interaction possible as well as the fulfilling of disclosure guarantees expected from the rulers by citizens.

3 Transparency and accountability

Accountability

- Obligation of reporting on a conferred responsibility
- Relation based on the government obligation to show its performance and assume the corresponding responsibility
- Justification of the use of power over decisions

3 Transparency and accountability

Auditing

There are documents of international organizations that deal with practices that governments must use in order to avoid opacity areas and make their performance transparent:

- *Code of Transparency Practices for Monetary and Financial Policies: Principals Declaration*, IMF
- *Manual on Fiscal Transparency*, IMF
- *Special Debt Dissemination Standard* , IMF
- International Public Sector Accounting Standards (IPSAS 19), IASC

3 Transparency and accountability

Accountability

Timely reports on public debt help avoiding irregularities and the safeguard of assets.

4 Auditing

The legislative branch exercises external control through superior audit institutions.

- accounts control
- exam of legal compliance of revenues and expenses
- revision of transparency
- figure reliability
- ensuring attained outcomes related to the proposed goals
- ensuring that implemented solutions observe the principles of effectiveness, efficiency and economy

4 Auditing

Superior audit institutions perform different types of auditing processes as well as several methodologies created to cover the many aspects of these problems.

Audit classification according to revision objectives:

- Regularity Audits
- Management Audits
- Human resources audits
- Information systems audits
- Performance audits

4 Auditing

Performance audits

INTOSAI Public Debt Committee

Moscow, June 2004. Presentation of a document on reference terms for carrying out a public debt performance audit

Sofia, June 2005. Endorsement of this document titled “Public Debt Performance Audit and its Reference Terms” as an official product of the Committee

This document will be translated into the five official languages and distributed to all INTOSAI members for their comments. Once they have been taken into account, it will be published and presented during the XIX INCOSAI.

Performance audits

Six guidelines:

- 1 Key terms
- 2 Legal framework
- 3 Best practices
- 4 Vulnerability and sustainability
- 5 Auditors competency
- 6 Transparency and accountability

Performance audits

Vulnerability: key indicators

Vulnerability indicators are useful to measure and prevent any situation compromising the payment of the government's debt.

Total debt indicators:

- Debt / GDP
- Deficit / GDP
- Debt costs / GDP
- Fiscal revenue / GDP
- Fiscal revenue / debt
- Total income / debt

Performance audits

Vulnerability: key indicators

External debt indicators

- External debt / GDP
- Debt service / exports incomes
- Debt in foreign currency / total debt
- International reserves / short-term external debt
- Estimated debt average rate
- Structure indicators: External debt composition in market and contracted debt; composition regarding type of instruments and maturity dates.

4 Auditing

Performance audits

Vulnerability: key indicators

Internal debt indicators:

- Internal debt / GDP
- Foreign holders' internal debt / indexed debt or linked to exchange rate
- Less-than-one-year debt
- Estimated average term
- Estimated average debt rate

Performance audits

Vulnerability. Indicators monitored by the IMF

Indicators on external and internal debt:

- Maturity profiles, payment calendar
- Sensibility towards interest rates
- Foreign currency composition of the debt
- Foreign debt, exports and GDP
- Indicators on reserves sufficiency
- Indicators on financial solidity

Performance audits

Debt sustainability analysis:

- The present value of all future revenues is higher than that of the expenses, including debt service.
- Exercises that simulate the dynamic debt behavior before problematic scenarios or stress situations.
- Sustainability measurements are intended to acknowledge whether the government may keep the same expenses and incomes trend.

4 Auditing

Performance audits

Debt sustainability analysis is designed to respond questions such as:

Is it feasible to maintain the current fiscal policy without generating an increase of public debt without limit?

Does the government require to increase taxes or to reduce its expenditures to avoid a debt explosive behavior?

Final considerations

First

It is important that this Committee's members may reflect on the eight principles sustaining general public debt policies and offer us their concepts, whether perfecting them, eliminating those not appropriate, or proposing those which, at their best knowledge, were omitted.

Final considerations

Second

There is a wider consensus on best debt management practices, however there is not any structured document proposing a logic guide for better supporting whether debt operators follow the best practices. We will very much appreciate your help in this chapter.

Final considerations

Third

Transparency, accountability and auditing are themes already known by you. Your considerations will help us to deepen our analysis of these concepts.

Final considerations

Fourth: chronogram

- (1) Deadline for the reception of your first reactions to this document: October 31, 2006.
- (2) The received comments would be included in the document; this second version would be sent no later than January 31, 2007.
- (3) Deadline for the reception of your reactions to this second version: April 30, 2007.
- (4) A consolidated version would be presented during the next meeting of this Committee, in June 2007, for your endorsement and last corrections.
- (5) The final draft of the document would be prepared in June, 2007.
- (6) The final document would be sent, at the latest, on July 31, 2007 to all INTOSAI members so they could send their comments no later than September 15, 2007.
- (7) In November 2007, the final version would be presented during the XIX INCOSAI.