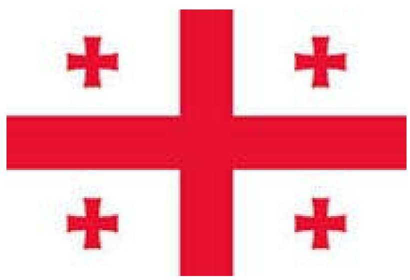
Debt Management Performance Assessment (DeMPA)

Georgia



August 2013

PREM
POVERTY REDUCTION AND ECONOMIC MANAGEMENT

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

Abbreviations

BCP	Business Continuity Plan
CD	Certificates of Deposit
CSD	Central Securities Depository
DeM	Debt Management
DeMPA	Debt Management Performance Assessment
DMPP	Debt Management Practitioners Program
DPI	Debt Performance Indicator
DRI	Debt Relief International
DRP	Disaster Recovery Plan
DSA	Debt Sustainability Analysis
eDMS	Electronic Debt Management System
eTreasury	Electronic Treasury System
FAPDM	Financial Advisory and Public Debt Management (Department of World Bank)
GDP	Gross Domestic Product
GEL	Georgian Lari
GoG	Government of Georgia
HR	Human Resources
IAS	Internal Audit Service
IFAD	International Fund for Agriculture and Development
IFIs	International Financial Institutions
IIPEID	International Investment Projects and Eurointegration Division
IMF	International Monetary Fund
MOJ	Ministry of Justice
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
NBG	National Bank of Georgia
N/R	Not Rated or Assessed
PC	Paris Club
PDEFD	Public Debt and External Financing Department
PDD	Public Debt Division
PEFA	Public Expenditure and Financial Accountability
PIU	Project Implementation Unit
PRMED	Economic Policy and Debt Department (of World Bank)
SAO	Supreme Audit Office
RTGS	Real Time Gross Settlement System
SOEs	State Owned Enterprises (SOEs)
TA	Technical Assistance
T-bills	Treasury Bills
T-bonds	Treasury Bonds
WB	World Bank

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1. Executive Summary

From June 17-26, 2013, a World Bank team[1] undertook a comprehensive assessment of debt management (DeM) functions and practices of the Government of Georgia based on the methodology developed in the World Bank's Debt Management Performance Assessment tool (DeMPA)[2]. As part of the assessment, the mission worked closely with the main counterparts in the Public Debt and External Financing Department (PDEFD) at the Ministry of Finance (MoF) and met with relevant government entities (see Annex 1 for a detailed list of meetings).

The mission benefited from excellent cooperation from the DMEFD of the Ministry of Finance of Georgia and would like to express its appreciation to all the staff of the MoF involved in the evaluation process.

There are several strengths in the institutional and operational framework for DeM in Georgia and a strong focus on development of secure IT environment and systems. The findings of the assessment, grouped by the six core debt management functions as stated in the DeMPA tool, are summarized below:

Governance and Strategy – The legal framework clearly establishes that MoF is the only government entity with an authority to undertake borrowing operations and issue state guarantees on behalf of the Government of Georgia. However, other elements of a comprehensive debt management legal framework are missing, such as the statement of borrowing objectives and legal requirement for development of a medium term debt management strategy. Also, the requirement to report to the Parliament on the aggregated debt management portfolio and operations is very limited.

Coordination with Macroeconomic Policies – The debt service forecasts prepared for the annual budget formulation process, as well as for the medium term budget expenditure framework, are generally reliable. However, no sensitivity analysis is undertaken during the debt service forecasting exercise. The debt management department prepares an independent Debt Sustainability Analysis (DSA) at least every second year, which includes several scenarios and stress tests.

MoF and the National Bank of Georgia (NBG) closely coordinate debt management activities; although a formal fiscal agency agreement covering all relevant aspects is not in place. New lending by the NBG to the Government is prohibited by current legislation, and the historic government debt held by the NBG is gradually being converted into tradable securities.

[1] The mission team comprised Memes/ Messrs. Lilia Razlog (PRMED), Elizabeth Currie (FABDM), Per-Olof Jönsson (consultant, PRMED) and Michel Vaugeois (DRI). Mr. Bakyt Sydykov (PRMED) joined the team as part of the Debt Manager's Practitioner's Program (DMPP).

[2] Based on the December 2009 version of the DeMPA tool

Borrowings and Related Activities – Domestic borrowing is supported by a well-developed infrastructure for primary and secondary market transactions. Domestic borrowing procedures are well documented, which is not the case for external borrowing procedures. There is limited analysis of external borrowing proposals. No credit risk assessment is performed prior to on-lending.

Cash Flow Forecasting and Cash Balance Management – MoF has implemented a Single Treasury Account, which is functioning very well. Cash flow forecasts are produced on a monthly basis for the full year. At the same time, no active cash management is practiced due to considerable cash surpluses accumulated at the MoF current account in the NBG. Such cash surpluses are not invested either with the NBG or any other financial entity.

Operational Risk Management – The procedures are generally well developed but documentation is lacking. The backup procedures are well developed with separate secure data recovery sites and recent implementation of a department for Information Security, separate from the IT department. A formal business continuity and disaster recovery plan has not yet been approved by the Minister.

Debt Recording and Reporting – All statutory and contractual reporting requirements are met by the MoF on time. The Government securities registry meets international standard and best practices. Although the existing debt statistics are reliable, an overall public debt statistic bulletin is not prepared at present.

As the MoF is planning to engage in reforms in the area of DeM, possible areas to consider during the reform plan formulation process are: to improve the legal framework, strengthen DeM institutional arrangements with proper segregation of duties, formulate the medium-term DeM strategy, improve analytical capacity in both external and domestic borrowing, improve communication with domestic financial market participants, enhance cash management practices, conduct an independent assessment of the functionality of the new eDMS, develop documented procedures, improve debt statistics reporting and assess exposure to indirect contingent liabilities (SOEs).

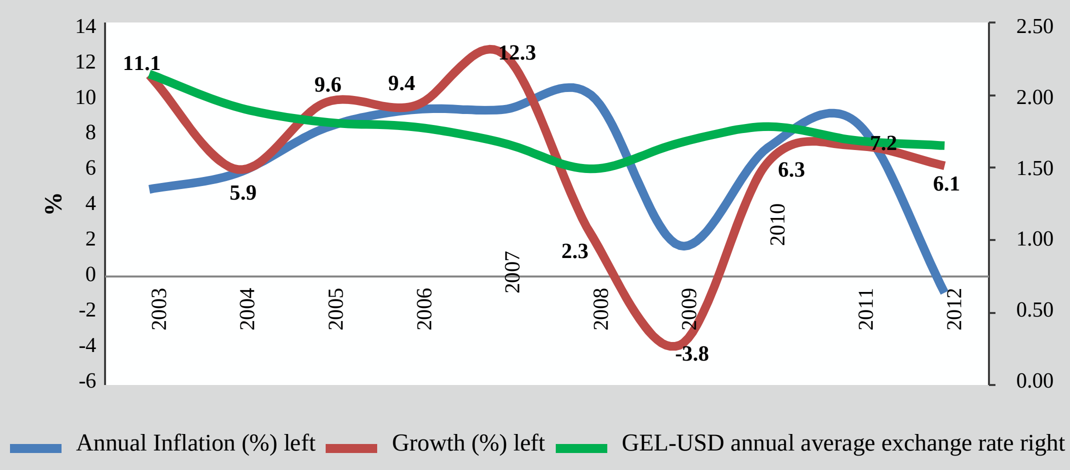
2. Background

2.1 Country Background

After a prolonged economic downturn in the early 1990s Georgia has succeeded in improving economic performance. The Government of Georgia undertook large-scale reforms that encouraged increased output growth. Over the period 2003-2012 the Georgian economy grew at an average annual rate of 6.6 percent. Privatization, new simplified tax codes introduced in 2005 and 2010 which reduced the complexity and number of taxes, the cancellation of import duties on approximately 90 percent of goods, and an 88 percent reduction in the number of licenses for doing business resulted in increasing foreign investment inflows into the country. Foreign direct investment flows amounted to 10.4 percent of GDP on average during 2004-2012. Georgia's principal economic sectors are agriculture, manufacturing, construction, trade services and repair services, transport and storage, public administration and defense, and healthcare and social services. The geographical location of the country allows the pipelines that traverse Georgian territory to generate sizable transit fees, and hence transport services are one of the key export drivers.

As a sovereign issuer Georgia has been rated by S&P, Fitch, and by Moody's. At the end of 2012 its ratings of it was BB- Stable by S&P and Ba3 Stable by Moody's were affirmed. Fitch
S&P affirmed Georgia's BB- Stable rating in June 2013 and Moody's affirmed Ba3 Stable in August 2013.

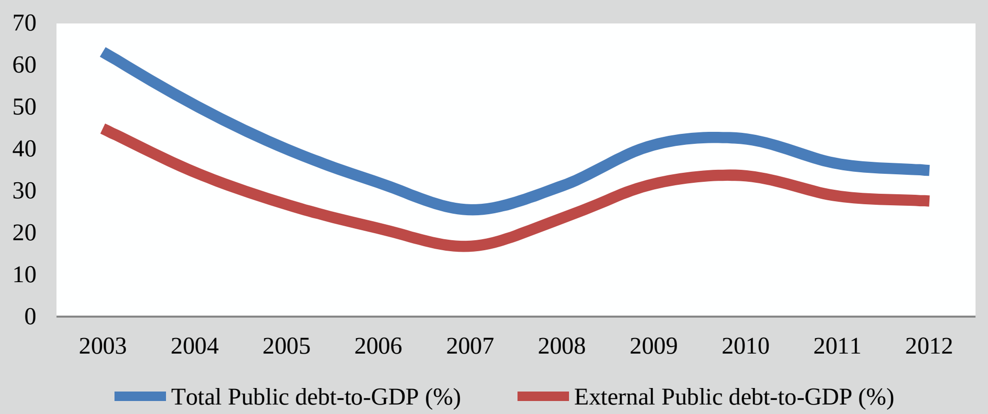
Figure 1. Growth, Inflation and Exchange Rate evolution



2.2 Debt Evolution

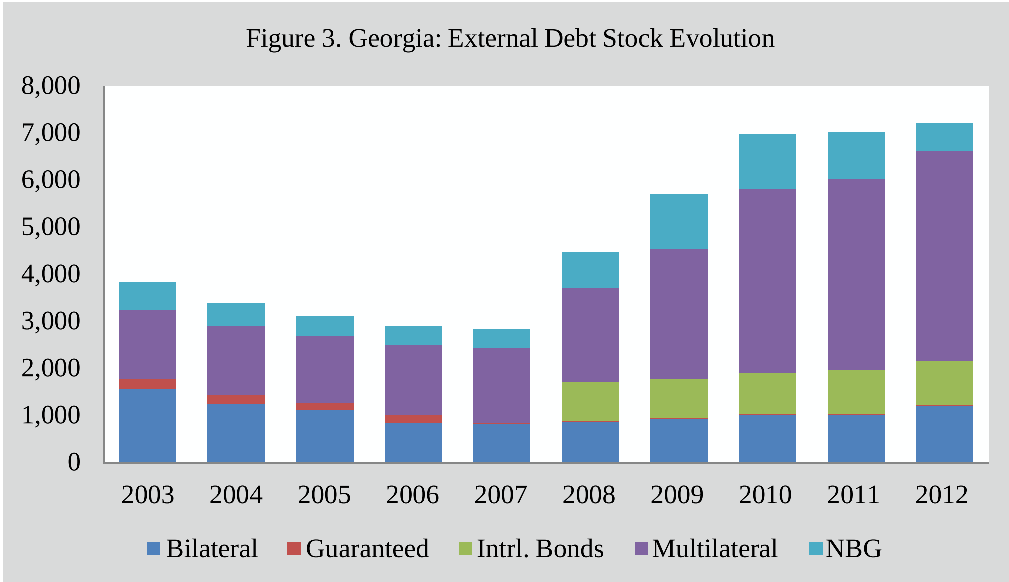
Large external public borrowing to finance energy imports during the first years of independence resulted in a quick accumulation of external debt stock, which exceeded 80 percent of GDP by the end of 1994. As a result of strong performance in 1996-1998 when the country's economy grew at 10 percent annually on average, the external debt declined sharply to below 58 percent of GDP. However, depreciation of the Lari against the US dollar during the Russian crisis diminished these achievements. The declining of the debt-to-GDP ratio resumed in 2000. In 2001 Georgia reached an agreement with the Paris Club to consolidate its USD 50 mn principal payments falling due in 2001 and 2002. The consolidated amounts were rescheduled under Ad- Hoc terms[3]. In 2004 the Paris Club rescheduled Georgia's USD 160.6 mn. bilateral debt arrears as of May 2004 as well as debt service obligations falling due from June 2004 to December 2006 under the Houston Terms[4].

Figure 2. Georgia: Public Debt-to-GDP evolution



[3] The rescheduling is provided on the following terms: repayment of ODA loans over 20 years, including at 10-year grace period, at interest rates at least as concessional as the original rates of those credits; non ODA loans had to be repaid within 20 years, with the 3-year grace period.

[4] Consolidated debts were treated as follows: ODA debts had to be repaid over 20 years, including a 10-year grace period, at interest rates at least as concessional as the original rates of those debts. Non ODA credits are to be repaid within 20 years, with a 5 year period of grace, at interest rates at least as favorable as the interest rates set in the previous bilateral agreements. The remaining 50 percent of the arrears will be repaid over 3 years.



As of end 2012, total amount of public debt of Georgia (including the debt of the National Bank of Georgia to IMF) was GEL 8.5 bln (34.9 percent of GDP). Public external debt amounted to GEL 7.5 bln. (or 78 percent of the total public debt), see figure 3. Domestic debt was GEL 1.9 bln (7.3 percent of GDP). The domestic debt is dominated by government securities, both short- term and long term, whose share amounted to 65 percent of the domestic debt stock at end 2012. The remaining part of the domestic debt is represented by accounts payable to individuals (so called "historical domestic debt"). These payables are mainly individuals' banking and insurance savings and other claims that were recognized by the Georgian government after the collapse of the Soviet Union. The size of these claims is highly uncertain.

PEFA Assessment

PEFA assessments of Georgia have been undertaken twice: in 2008 and 2012. The 2012 PEFA assessment was conducted in close collaboration with the Ministry of Finance, which led the self-assessment of the indicators by the respective Government entities. The 2012 PEFA self-assessment served as a means for taking stock of the reform efforts undertaken over the last five years, including of the introduction of the medium term expenditure framework (MTEF), program budgeting, the roll-out of the Treasury system, and reform efforts in areas of procurement, and external control. The World Bank provided quality assurance for and validation of the self-assessed indicators, and prepared a complete assessment report.

According to the results of the 2012 PEFA[5] the PI 17 is evaluated at the highest score for the quality of debt recording and guarantees.

[5] Final version of PEFA report was published in September, 2013

2.3 Debt Management Performance Assessment

The Debt Management Performance Assessment (DeMPA) comprises a set of 15 debt performance indicators (DPIs), which aim to encompass the complete spectrum of government debt management operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity 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 priority for reform.

The DeMPA focuses on central government debt management 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”, or “C” 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. In the cases where a dimension cannot be assessed, a score of “N/R” (not rated or assessed) 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.

The performance assessment in this report is based on the Debt Management Performance Assessment (DeMPA) Tool, December 2009, World Bank.

2.4 Summary of Performance Assessment

Performance Indicator		Score
Governance and Strategy Development		
DPI-1	1. Legal Framework	C
DPI-2	1. Managerial Structure: Borrowing and Debt-Related Transactions	C
	2. Managerial Structure: Loan Guarantees	D
DPI-3	1. Debt Management Strategy: Quality of Content	D
	2. Debt Management Strategy: Decision-Making Process	N/R
DPI-4	1. Evaluation of Debt Management Operations	D
DPI-5	1. Audit: Frequency	D
	1. Audit: Appropriate Response	N/R
Coordination with Macroeconomic Policies		
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	B
DPI-7	1. Monetary Policy: Clarity of Separation between DeM and Monetary Policy Operations	C
	2. Monetary Policy: Regularity of Information Sharing	C
	3. Monetary Policy: Limited Access to Central Bank Financing	A
Borrowing and Related Financing Activities		
DPI-8	1. Domestic Borrowing: Market-Based Mechanisms and Preparation of a Borrowing Plan	A
	2. Domestic Borrowing: Availability and Quality of Documented Procedures	A
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	A
DPI-10	1. Loan Guarantees: Availability and Quality of Documented Policies and Procedures	D
	2. On-lending: Availability and Quality of Documented Policies and Procedures	D
	3. Derivatives: Availability and Quality of Documented Policies and Procedures	N/R
Cash Flow Forecasting and Cash Balance Management		
DPI-11	1. Effective Cash Flow Forecasting	D
	2. Effective Cash Balance Management	D
Operational Risk Management		
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
Debt Records and Reporting		
DPI-14	1. Debt Records: Completeness and Timeliness	A
	2. Debt Records: Registry System	A
DPI-15	1. Central Government Debt Data: Statutory and Mandatory Reporting Requirements	C
	2. Public Sector Debt Data: Statutory and Mandatory Reporting Requirements	N/R
	3. Debt Statistical Bulletin: Quality and Timeliness	D

3. Performance Indicator Assessment

3.1 Governance and Strategy Development

DPI-1 Legal Framework

Dimension	Score
1. The existence, coverage and content of the legal framework.	C

Government debt management - and related operations such as guarantees and on-lending - are implemented within the legal framework defined by the Constitution of Georgia; the State Debt Law of Georgia of 1998 (amended in 2011); the Law of International Treaties of 1997; the Budget Code; the annual Budget Law; the Central Bank of Georgia Act, the Law of Restructuring of Tax Repayments and Government Loans of 2004; the Economic Freedom Act; the General Charter of the Ministry of Finance (MoF) and the Ministerial Order No.824 of 2008 of the Minister of Finance, together with its 2012 amendment (Amendment 270).

According to the State Debt Law, with the President’s consent and in concurrence with the NBG, the MoF is authorized to sign loan agreements, issue short, medium and long-term securities, extend guarantees to Georgian and foreign entities of loans made to Georgian economic agents (Art.2.2) and on-lend (Art.9). The MoF is also responsible for servicing external debt, negotiating with external creditors and registering the loans (Art. 2.3).

In the case of external loans from other sovereigns and International Financial Institutions (IFIs), as well as guarantees, the MoF borrowing proposal should be reviewed by the line ministries, the Ministry of Justice (MoJ) and the National Bank of Georgia (NBG), approved by the Cabinet of Ministers. The Minister of Finance signs the definitive loan agreement, which must then be ratified by the Parliament. (Art 2.1)[6]. This process is described in detail in the write up of DPI-9, which covers more detailed steps and procedures defined under law on international agreements. (Box on Procedures for New Borrowing).

Before the request for new external borrowing is sent for Presidential pre-approval, the MoF sends NBG –as well as the other entities mentioned above- loan documentation for comments and they participate in the negotiations. Afterwards the negotiated package is circulated again and NBG sends a letter with additional comments or a confirmation

[6] External loans from international organisations are considered international treaties and so have additional treatment in the Law of International Agreements. They also require ratification from Parliament. This law provides further details on the procedure that must be followed for such agreements.

that they agree with the package. The similar letter is received from other ministries. After this president's authorization for singing the agreement is obtained and once the agreement is signed the MoF notifies NBG that the loan is signed and registered in the debt database.

In the case of Eurobonds, the process is similar as that described above, but there is no need for Parliament's ratification. The President's decree authorizes the MoF to issue the Eurobonds and authorizes the Minister of Finance to determine the final terms of issuance and sign all relevant documents.

For domestic Government of Georgia (GoG) securities, the net borrowing is defined in the annual Budget Law. The Minister has authorized an Auction Committee (AC) to decide on, for example, the cut-off rates. The AC is headed by the Minister, with the participation of the Deputy Minister responsible for debt management, two other Deputy Ministers, and the head of the Public Debt and External Financing Department (PDEFD).

Within the MoF, the General Charter establishes the general functions of all its departments. This is complemented by a delegation of functions to the PDEFD for external and domestic debt management (Order No.824 of the Minister of Finance of 2008). The Amendment 270 of 2012 introduces a new name for the public debt management department, as well as a new structure based on two divisions and also new functions, in particular those related to domestic debt management, which formerly were assigned to the Treasury.

The State Debt Law also sets out borrowing purposes, which in the case of domestic debt is covering budget deficits and cash management needs (Art.12); and in the case of foreign debt, using it for goals established in the Budget Law (Art.23). In turn, the Budget Law of 2013 includes a precise list of the purposes of long-term investment and concessional external loans. Although most of the funding is oriented to infrastructure development, some of the projects have a more social orientation[7]. The State Debt Law also establishes general purposes of foreign borrowing for financing investments or imports[8].

The Budget Law establishes the debt ceiling in terms of flow and stock at the end of the year, both for external and domestic debt and also sets the ceiling for guarantees. The mission was also informed of the Economic Freedom Act, which restricted the level of public debt to a maximum of 60 percent of GDP – and the maximum annual fiscal deficit to 3 percent of GDP.

[7] For example, First East-West Highway Improvement Project (Agaiani-Igoeti, Rikoti Tunnel Rehabilitation) (WB); Borjomi Water Project (EBRD); Avian Influenza Control and Human Pandemic Preparedness and Response Project (WB).

[8] Namely, i. to create new jobs and support government and private enterprises based on economic and social priorities defined by Georgia indicative plan; ii. to manufacture export or import substitute products and provide service; iii. to finance investment projects in order to develop infrastructures (including those social services); and iv. for other goals defined by the Government

The only mention in the State Debt Law of reporting to the Parliament is that the MoF in its report to Parliament on the execution of the national budget should inform on the volume and composition of direct and indirect GoG liabilities.

The Organic Law of NBG establishes that before submitting to Parliament the draft state budget, the Minister of Finance should consult with NBG on the main budget parameters, including plans on domestic and foreign loans for the next financial year, and that NBG should then provide its opinion. According to Art.7 of the State Debt Law, MoF has the responsibility to define next year's domestic and foreign debt volume and financial terms in consultation with NBG. The borrowing plan, as part of the Budget, is discussed and agreed with the NBG. It is fair to say that the law gives the NBG a very significant role in public debt management, beyond that of fiscal agent.

The Organic Law of the NBG authorizes it to issue its own securities for monetary policy purposes (Art.27) in addition to acting as fiscal agent to the GoG for issuance of Treasury securities. It also establishes coordination measures with MoF (see DPI-2).

This indicator complies with the minimum requirements – score C- for efficient debt management as the legislation (primary and secondary) provides clear authorization from Parliament to the Executive -through a clear line of delegation involving the President, the Cabinet of Ministers, the Minister of Finance and the Public Debt and External Financing Department- to borrow and issue loan guarantees on behalf of the central government. In addition, primary legislation specifies the purposes for which the government can borrow.

A score of B is not applicable because the legislation does not specify debt management objectives, nor is there a mandatory annual reporting back to the Parliament with details on debt activities and guarantees. In addition there is no mandatory legal requirement for carrying out external audits of debt management activities, policies and operations.

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.	D

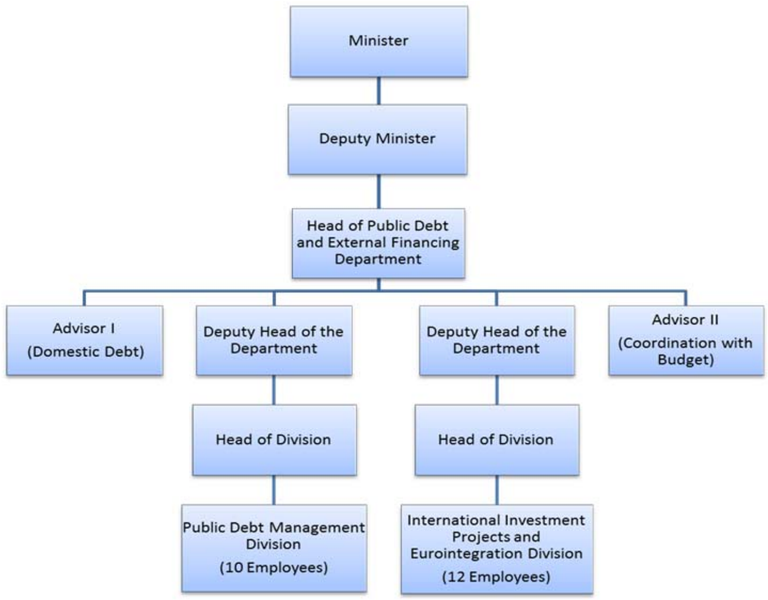
Dimension 1

There are two institutions involved in government debt management, namely, the MoF and the NBG.

In the MoF debt management functions of both external and domestic debt are carried out by the PDEFD under the responsibility of one of the Deputy Ministers of Finance.

The PDEFD - with a total of 28 staff - performs multiple front, middle and back office activities corresponding to external and domestic debt management functions (the latter were added in 2012)[9]. It has two main divisions (Chart 1) each led by a Deputy Head of Department and a Division Head, namely: i) the Public Debt Division (PDD) and ii) the International Investment Projects and Eurointegration Division (IIPEID)[10].

Chart 1: Organizational Chart of Public Debt and External Financing Department



Source: Ministry of Finance

Public Debt Division (PDD)

The PDD is responsible for implementing multiple functions of both external and domestic debt management. Its main front office activities include participating in the preparation of the domestic debt issuance calendar[11]; issuing bonds in the international markets; negotiating donor-funded direct budget support; and analyzing loan terms of multilateral funding. Its principal middle office or analytical functions involve providing input for the financing plan for the annual gross borrowing requirement; coordinating with the rating agencies; preparing reports and presentations e.g. for investors; carrying out the DSA exercise for MoF management, as well as

[9] Previously domestic public debt management was under the responsibility of the MoF Treasury
[10] The new organizational chart of the PDEFD, with the two advisors, and with division heads under the deputy head position, are approved in fall 2013
[11]The Head and the Deputy Head in charge of Public Debt Division of Public Debt and External Financing Department participate in the Auctions Commission that takes the final decisions on the cutoffs of the domestic securities auctions

stress testing; monitoring secondary markets; calculating domestic and external public debt service forecasts for the budget (joint back office function). Lastly, the main back office functions include debt registration and accounting of i) external and domestic debt, ii) on-lending, and iii) guarantees[12]; initiating servicing of all debt; monitoring compliance with requirements established in on-lending and guarantee agreements, and managing defaulted (and restructured) on-lent loans and guarantees.

It is important to note that the functions do not include preparation and risk assessment of guarantees (i.e. the analytics), only their registration, accounting. This means that after Amendment 270 of 2012 there is uncertainty about which MoF unit is responsible for this function. It should be also admitted that there was not any guarantees ussued since 1998.

International Investment Projects and Euroaintegration Division (IIPEID)

The IIPEID is focused more on front office activities related to funding for investment projects, including preparing and participating in multi- and bilateral negotiations with donors and IFIs extending loans or grants, as part of a team including other government and central bank representatives. The IIPEID staff monitor the projects' progress so as to track their financial implications e.g. disbursements. Although the unit may calculate the degree of concessionality, it does not evaluate the financial terms of the project funding; this is done by PDD. IIPEID participates in preparation and drafting of loan and grant agreements between MoF and the IFIs/ bilateral donors, and coordinates the corresponding domestic legal procedures. It also provides support to draft and negotiate project implementation agreements/on-lending/funds transfer agreements among the MoF, line ministries and Project Executing Agencies. Another responsibility is tracking the aid pledged and/or disbursed by the European Union (EU) and keeping non-government organizations (NGOs) and donors posted of updates. Lastly, it is a member of the working group for preparation of the program budget planning in MoF, participating in annual and medium-term budget planning (e.g. disbursements under multi and bi-lateral funding and grants).

National Bank of Georgia (NBG)

The other main institution involved in debt management is the NBG, more specifically i) the Financial Markets Department (FMD) responsible for some of the debt management front and middle office functions and ii) the Payment Service Department in charge of back office functions, including debt servicing, as instructed by the MoF Treasury. The FMD coordinates with MoF in its role as fiscal agent to the government's domestic debt program, which implies a series of debt management responsibilities, the most important being the periodic implementation of the GoG's T-Bill and Bond auctions through FMD's domestic front office.

[12]There is only one small guarantee left, issued over 15 years ago.

However, the final decision on the bids is taken at MoF, by a Commission created for this purpose by a specific delegation. The Commission for Regulating the Issuance of Treasury Securities was created in March of 2011 and its members are the Finance Minister, three Deputy Ministers and the Head of PDEFD. Its functions include analyzing the domestic financial markets; monitoring and making potential amendments to the T-Bills calendar, if necessary; and defining the auctions' cut-off point. An Aide Memoire is signed by all the members after the decision is taken[13].

The NBG participates in the GoG's negotiation team for multi and bilateral debt, which includes the Ministries of Finance, Economy, Justice, Foreign Affairs and the relevant line ministry; all of these institutions must formally document their agreement with the terms obtained in the negotiation.

In addition, the NBG provides its opinion on fiscal and debt management policy, including the overall level of debt and the development of the financing plan. As mentioned in DPI-1, by law the NBG must provide an opinion to Parliament on the main budget parameters including the planned debt for the next year; likewise, by law MoF defines the debt volume and terms for the next year in consultation with NBG, as reflected in the Borrowing Plan. The significant role played by NBG may reflect the past more than the present, as it is only in the past few years that the MoF has become actively involved in domestic debt market development.

The first dimension achieves the minimum requirements as borrowings and debt-related transactions are undertaken by two main DeM entities - MoF (PDEFD) and the NBG (primarily the departments of Financial Markets and Payments Service), which regularly exchange debt information and closely coordinate their respective activities. A higher rating cannot be considered since the operations are not steered by a DeM strategy.

Dimension 2

The MoF is legally mandated as the institution responsible for issuing loan guarantees - even though de facto government policy during the past 15 years has been to not grant guarantees - yet there is no formal delegation of this activity by the Minister of Finance to a MoF unit. Such a delegation had been in place until 2008, but with Amendment 270 the delegation for preparation and risk assessment of guarantees disappeared. This creates confusion about which MoF unit could legally prepare guarantees, if it should choose to do so in the future. Thus, the Government does not meet the minimum requirements for the second dimension.

[13] The Commission can take a decision if at least 3 members are participating; if the decision is split half and half, the Finance Minister decides. Members have equal rights in the discussion

DPI-3 Debt Management Strategy

Dimension	Score
1. Quality of the debt strategy document.	D
2. The decision making process, updating, and publication of the DeM strategy.	N/R

Dimension 1

Currently, the Government of Georgia does not have a formal debt management strategy in place.

The strategic document of *Government of Georgia Basic Data & Directions for 2012-2015*, written in 2011, has a public debt section that is focused exclusively on debt sustainability. It mentions the desired maximum level of 60 percent of GDP[14], and a mid-term goal of the consistent reduction of the sovereign debt to 25 percent of GDP from its level of 42 percent of GDP in 2011. An important goal of the above plan is to keep the share of foreign debt service to a maximum of 9 percent of the state budget by 2015.

Also, in mid-2011 the NBG proposed a *State Securities Strategic Plan of Development*, which had as its objective the plan for development of the financial markets, with the government securities market as an essential foundation. The strategic goals laid out were to i) develop the domestic market and in the long term replace external foreign currency funding; ii) increase the volume of issuance of the securities an annual rate of 15-25 percent until reaching a stable level of 10 percent of GDP, as a minimum level to be permanently maintained; and in parallel, reduce foreign debt so as not to increase the level of debt/GDP; any remaining growth of government securities would depend on the need to finance the budget deficit; iii) achieve an average maturity of at least 2 years for the domestic debt, taking into account the foreign debt profile so as diminish aggregate refinancing risk; iv) re-open previous issues so as to create benchmark issues with higher volumes and greater liquidity; v) have NBG support the liquidity of the government securities by accepting them as collateral for its transactions with the financial sector, and by its purchase of a sufficient amount of government securities in the secondary market so as to enable a gradual transition to its use of repurchase agreements (repos) with government securities as the main open market operation (OMO) mechanism; and lastly, to promote investment by non-resident investors who could buy large volumes of government paper, as well as non-bank local investors. A draft strategy was discussed with the MoF, but it was not formalized.

[14] Planned in line with the Economic Freedom Act that established that the budget deficit should not exceed 3percentofGDP

The GoG has an implicit debt management strategy as reflected in the annual financing plans which prepared by the MoF in consultation with the NBG. The plan takes into account the existence of a pipeline of projects and their respective debt. The multi- and bilateral debt represents by far the largest part of the debt portfolio and GoG continues to seek concessional debt and co-financing grants, which will probably become less available with time as Georgia is already classified as a blend country. Nonetheless, the preference for concessional external financing may continue for some time, in spite of potential currency risk.

Informally, the GoG is seeking to maintain the composition of variable rate interest, at 30 percent of total external debt, although this is not based on any explicit analysis**.** At end April 2013, 53 percent of the foreign currency debt portfolio was denominated in SDR[15], in the USD 28 percent, the EUR 16 percent and other currencies (JPY, KRW, KWD) another 3 percent; by decomposing the SDR, the currency structure is USD 50 percent, EUR 36 percent and other currencies 14 percent. There is no formal target to avoid bunching of amortizations in any one period. The next three years represent a certain amount of concentration because of the need to repay the IMF budget support loan.

Thus, there is no public debt management strategy in place in terms of the desired composition of the debt, defined by taking into account cost-risk trade-offs, as well as coordination with macroeconomic policy and financial market and other funding restrictions. The score for dimension 1 is therefore D.

Dimension 2

Since there is no formal debt management strategy in place it is not possible to evaluate the institutional process leading to the debt management strategy. The second dimension is therefore not rated.

[15] Currently (from Dec. 2010), the value of one SDR is equal to the sum of 0.423 euros, 12.1 yen, 0.111 pounds, and 0.66 US Dollars

.**Box 1: What is a medium term debt management strategy?**

A medium-term debt management strategy is a rolling plan for how the government intends to achieve a desired composition (and therefore risk exposure) of the debt portfolio, and which captures the government's preferences with regard to the cost-risk trade-off. It operationalizes the debt management objectives—e.g. commonly ensuring that the financing needs and payment obligations are met at the lowest cost consistent with a prudent degree of risk. A debt management strategy has a strong focus on managing the risk exposure embedded in the debt portfolio—specifically, potential variations in the cost of debt servicing and its impact on the budget.

Benefits of producing and publishing an explicit medium-term debt management strategy include:

1. **Evaluate the cost-risk trade-offs**: Setting clear medium-term strategic goals for the preferred structure of the debt portfolio will help debt managers avoid poor decisions made solely on the basis of cost, or for the sake of short-term expediency.
2. **Identify and manage risk**: The debt management strategy helps identify and monitor key financial risks, and establish strategies that ensure that the borrower is well placed to take advantage of new borrowing opportunities, in an informed and risk conscious way.
3. **Coordination**: The debt management strategy facilitates coordination with fiscal and cash management, helping to reconcile various objectives and constraints.
4. **Identification of constraints**: It helps identify the constraints that affect the debt managers' choices, allowing where possible steps to be identified to ease those constraints.
5. **Cos**t: A medium-term debt management strategy can potentially lower the cost of debt servicing by identifying the most cost effective borrowing options. An effective and transparent strategy will also support and facilitate the relationship with investors, creditors and rating agencies.
6. **Transparency**: A formal and explicit debt management strategy can help build broad-based support for responsible financial stewardship, enhancing governance and accountability.

The time-horizon for a debt management strategy is typically 3-5 years, and it is updated annually.

DPI-4 Evaluation of Debt Management Operations

Dimension	Score
1. Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes against stated objectives, and compliance with the government's debt management strategy.	D

The MoF submits a quarterly and annual report to Parliament and other stakeholders on Budget Execution, in compliance with the Budget Code, which includes a small section on public debt. However, the information provided is limited to outstanding stocks of debt, debt servicing and debt distribution by creditors. There is no information regarding DeM activities.

Thus, the minimum requirements for this indicator are not met.

According to the DeMPA methodology, an annual report covering debt management activities should be prepared and published. The report should include, among others, an evaluation of outcomes against stated objectives, and compliance with the government's debt management strategy. It should also include information on the costs and risks of the debt portfolio, and performance relative to benchmarks or limits (or both) that may have been set in the strategic document.

DPI-5 Audit

Dimension	Score
1. Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports.	D
2. Degree of commitment to address the outcomes from internal and external audits.	N/R

Dimension 1

The Organic Law N° N880-RS from December 26, 2008 on the State Audit Office of Georgia (as amended on November 24, 2011, N 5294), defines the status and guarantees of independence for the State Audit Office of Georgia (SAO), and its authority, operation and organizational structure.

SAO is the supreme audit institution of Georgia, which benefits from an operational independence granted by the above Law. Its mandate is to facilitate the legal, efficient and effective spending of public funds and management of property of state, autonomous republics and local authorities, as well to contribute to improvement of public finance management. The SAO is a member of the INTOSAI and is using the methodological guidance recommended by the INTOSAI in performing audits of the use of public funds.

The SAO has the authority to extend its auditing activities in a number of areas, including, among others, "formation and management of public debt, extension of public loans".

The SAO is entitled to undertake financial, compliance and performance audits. According to the Art.25 of the Law, all the audit reports shall be publicly available. Finalized audit reports can be found at the SAO webpage in Georgian language. Audit reports of budget execution are also published online. The latest available report is the audit of the 2012 budget execution.

In 2011 SAO started to undertake performance audits. It piloted 2 performance audits in 2011 and undertook 3 full sector specific performance audits in 2012. There has to date been no audit of debt management efficiency and effectiveness. At the same time, the 2012 audit report of budget execution had a broader scope and included a chapter on liquidity management, external funding and debt management, with specific recommendations related to improvement of certain areas of accounting for debt transactions, quality of DSA, as well as development of the debt strategy. Even though the audit was slightly broader than just a financial audit it does not qualify as a performance audit.

The MoF follows up on the recommendations included in the audit report as instructed by the Parliament. The SAO also looks at the level of compliance with the recommendations during the following year audit process.

On the side of Internal Audit, the Georgian government is in the process of implementing an internal audit function across the line ministries, in accordance with the provisions of the Law on internal audit Nr 2839-IG of March 26, 2010, as updated in 2011. Also, in 2010, the MoF created the Central Harmonization Unit and the Internal Audit Division, which are supporting the implementation of the reform across the central government entities. So far, the internal audit division of the MoF has performed only financial and compliance audits. No separate audit of the debt management activities has been undertaken since 2010.

At the NBG, there is an Internal Audit Service (IAS), whose activities are based on the NBG Law and the internal audit manual. The IAS reports on its activities direct to the NBG Governor. The NBG started to develop the internal audit function in the beginning of 2000, thus it is more advanced than the government. The IAS develops annual audit plans, which are based on a three years´ audit plan. The audits are performed mainly on a risk basis. The activities/processes are classified in three risk groups, which is in turn determine the frequency of the audit. The work plans and outcomes of the audit activities are reported to the NBG Board and the Governor of the Bank. The IAS has undertaken regular audits of the IT systems, including the Central Securities Depository (CSD) system used for registry and settlement of Government securities' transactions. This audit, although a performance audit, had a too narrow scope to be considered a performance audit of DeM activities, policies and operations.

This dimension does not meet with the minimum requirements within the DeMPA framework and the score “D is given. Although financial and compliance audits of the use of the public funds and budget execution are conducted on a regular basis, no performance audits of the state debt operations have been carried out.

Dimension 2

Since no performance audits have been conducted the authorities' commitment to address the outcomes of the audits cannot be assessed.

3.2 Coordination with Macroeconomic Policies

DPI-6 Coordination with Fiscal Policy

Dimension	Score
1. Coordination with fiscal policy through the provision of accurate and timely forecasts on total debt and debt service under different scenarios.	C
2. Availability of key fiscal variables and/or an analysis of debt sustainability, and the frequency with which debt sustainability analysis is undertaken.	B

Dimension 1

For the annual budget preparation and revisions, the PDEFD submits to the Budget Department debt service projections and the expected evolution of the government debt stock. The forecasts are prepared by the Public Debt Division (PDD) and approved by the head of the department prior to being sent to the Budget Department. The budget formulation process includes forecasting for the following fiscal year, as well as forecasting for the following 3 years (as part of the medium term budget framework preparation-MTBF).

The debt service projections of external debt include amortization and interest payments and are based on the current disbursement plan. These projections, usually prepared for the first time in June/July and reviewed in September for the following calendar year, are submitted in two currencies: USD and Lari (GEL). The exchange rates for USD/GEL, as well as other macroeconomic variables, are estimated by the Fiscal Forecasting Department for the budget formulation purposes. For other currencies PDD makes its own conservative estimates. The debt service forecast is reasonably reliable, although often actual expenses tend to be lower than the initial forecast. Discrepancies appear to reflect the assumption of higher interest/exchange rates, as well as unsettled debt claims from two Paris Club (PC) creditors (Kazakhstan, Turkmenistan), which are included in the payment schedule in line with PC agreement.

Debt service projections of domestic debt are provided in the local currency in accordance with the outstanding commitments and expected net issuance. The difference between the planned and actual debt service payments are largely due to a lower than projected net increase in domestic debt issuance.

After the budget approval, any budget revision process during the fiscal year involves reassessment of the debt service forecast in line with the actual that time.

Since reasonable and timely debt service projections are provided for the preparation of the annual budget, the requirements for a score of C for the first dimension are met. Since no sensitivity analysis is conducted a higher rating cannot be considered.

Dimension 2

Key macroeconomic outcomes and forecasts are regularly produced by the Fiscal Forecasting Department and presented to stakeholders within the MoF, including the PDEFD. The Debt Sustainability Analysis is prepared by the PDEFD staff on a regular basis. According to the information shared with the mission, PDEFD was undertaking the DSA on an annual basis during 2009, 2010, and 2011. DSA analysis is usually shared with the management of the MoF. In 2012, an overall DSA was not prepared, but a narrower portfolio analysis was done based on the management request. Macroeconomic assumptions used for the DSAs are customized by the PDEFD to reflect their views for the possible evolution of key indicators.

They often include a combination of the IMF macro forecasts, the Fiscal Forecasting Department macro forecasts, and reference to historic trends in exchange rate and interest rates evolutions. The stress tests include interest rate and exchange rate shocks, as well as macroeconomic shocks. Key ratios presented in the DSA include Debt Service to Budget revenues; Debt to GDP; External debt service to exports; External debt service to net international reserves, etc. Usually, these ratios are calculated for two assumptions: with and without the new borrowing.

Currently, the PDEFD is planning to undertake a DSA for the fiscal year 2013.

Thus, macroeconomic analysis undertaken by the Fiscal Forecasting Department is shared with the PDEFD on a regular basis, and the DSA in prepared at least on a biannual basis. The score for this indicator is therefore B.

DPI-7 Coordination with Monetary Policy

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

Dimension 1

The NBG conducts auctions of T-bills and T-bonds on behalf of the Government. It also conducts auctions of Certificates of Deposit (CD) on its own behalf. The outstanding stock of CDs is currently larger than the outstanding stock of Government securities. The CD is a short term discount instrument similar to T-bills, but they are issued with short maturities (3 and 6 months) and can be purchased by banks only. Government T-bills have a maturity of 12 months. The T-bonds issued have maturities of 2, 5 and 10 years. The NBG also sells part of its converted Government obligations in the market. In addition the NBG conducts various other operations in the market e.g. refinancing loans, overnight loans and deposits, intra-day credits and foreign exchange (FX)-operations. The costs of its monetary operations are affecting its profits and hence the dividend delivered by the NBG to the Budget.

It is clear from the auction announcements whether the transactions are carried out on behalf of the Government or the NBG, even though the headings on the NBG website are somewhat confusing[16] and that distinction is also clear for the flow of funds and in the accounting for the transactions. Thus, there is a formal separation of monetary policy and DeM transactions as required by the DeMPA.

[16] Information on Government transactions are presented under Monetary Operations in the NBG website and the result of the CD auctions are presented under Government Papers

However, since MoF traditionally has favored external borrowing, the Government's overall debt and budget operations have resulted in excess liquidity in the economy forcing the NBG to undertake sterilization operations, including the selling of CDs. The MoF has also issued more Government securities than needed to finance its expenditures and has therefore gradually built up large surplus funds during the last couple of years amounting to close to 4 percent of GDP on its accounts in the NBG earning no interest. The surplus funds are substantially larger than the stock of Government securities.

In a situation with large surplus funds earning no interest, there are clearly no fiscal reasons for continuing to issue Government securities. Among possible reasons for continued borrowing are for monetary policy purposes, since liquidity needs to be mopped up, and for supporting the development of the Government securities market. Both institutions also refer to the need for developing the domestic market as a reason for undertaking the operations. On the MoF website it is stated that the domestic issuance is conducted "to facilitate development of domestic financial and capital markets and to diversify sources of budget financing by attracting stable, domestic currency denominated capital." In its annual report, the NBG also states the need for developing the Government securities market as a way to improve the efficiency of monetary policy implementation. To that is added that the Government securities issuance also contributes to mopping up liquidity in the market. " .With the purpose of increasing market liquidity it is important to raise issuance of Treasury securities, which will also contribute to reducing risks related to contraction of external debt for budget deficit financing."

Thus, the purpose of domestic borrowing is not for immediate fiscal policy but for the purpose of building a domestic securities market that could be used for budget financing in the future. In the meantime it appears that the domestic securities market is important for the implementation of monetary policy as well.

Since the coordination process includes a basic formal separation, that is also generally known by the market participants; the borrowing decisions are made by the MoF and in the sense that the NBG clarifies that it acts on behalf of the MoF when conducting Government securities auctions the minimum requirements are fulfilled[17].

The agency relation between the MoF and the NBG is documented in several separate documents via SWIFT[18], the Real Time Gross Settlement System (RTGS) and the Central Securities Depository (CSD The agreements on the RTGS and the CSD are similar to the corresponding agreements between the NBG and other users of the systems and the FX agreement is similar to corresponding agreements between commercial banks and their clients. The agreements are not public.

[17]NBG annual report 2011
[18] Society for Worldwide Interbank Financial Telecommunication

Regarding Government bank accounts, Treasury has a TSA (RTGS account) and a SWIFT account with subaccounts in several foreign currencies in the NBG. There is no agreement regarding these bank accounts concerning e.g. currencies for the FX accounts or fees or interest. In practice the accounts are not remunerated and the NBG is not charging any fees. Since the bank account services are a significant part of the relations between the NBG and the Treasury and there is no agreement covering these issues the requirement for a higher rating than the minimum level is not met.

Dimension 2

In spite of the frequent operational contacts between the NBG and the MoF on borrowing matters there are no formal, regular meetings between the institutions where policy issues are discussed. A minimum coordination is achieved through the forecasts for Government cash and debt flows provided by the Budget Department to the NBG. This annual cash flow forecast on a monthly basis is produced at the beginning of the year and it is updated at least monthly and distributed to the NBG as a basis for its overall liquidity forecasting framework. The NBG breaks down the monthly figures into a weekly liquidity forecast based on historical patterns. The coordination between the MoF and the NBG meets the minimum requirements for the second dimension but not higher requirements since more frequent updates of the cash flow forecasts only are conducted on an ad hoc basis, mainly at the end of the fiscal year.

Dimension 3

The organic law of the NBG clarifies that the bank is the fiscal agent for the Government. The bank shall not financially assist the Government. The bank is prohibited from extending loans to the Government and public institutions and may purchase government securities only on the secondary market. This meets the highest requirements for the third dimension.

3.3 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 publication of a borrowing plan for T-bills and T-bonds, and the preparation of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets.	A
2. The availability and quality of documented procedures for local currency borrowing in the domestic market.	A

Dimension 1

The domestic debt consists of T-bills and T-bonds, debt to NBG in the form of securitized former bank credits[19] and the so called "historical" debt, which is a legacy of the past, consisting of frozen savings on bank accounts and other accumulated debt to the public of Georgia. There are no details of the historical debt and only a rough estimate is presented in the annual Budget Law.

Currently borrowings only consist of T-bills and T-bonds regularly issued by the NBG on behalf of MoF. An annual borrowing plan on a monthly basis for the Government securities is produced by the PDEFD as part of the budget preparation phase. The borrowing plan is not based on cash flow estimates, reflecting the large cash balances. The borrowings are instead allocated relatively smoothly across the planned auctions. In the Budget the net amount of domestic borrowing is presented. The borrowing plan, in line with the Budget, is discussed and agreed with the NBG. Approximately one week before the end of the year a borrowing plan for the following quarter, containing date, security, maturity and indicative volume is made public on the MoF and NBG websites. Five days before the auction the borrowing announcement is made, which almost always follows the plan[20]. A new borrowing plan is presented every quarter in line with this procedure.

The borrowing policy is to issue one year T-bills once a month, 2 and 5 year T-bonds twice a quarter and 10 year T-bonds once a quarter. Both T-bills and the T-bonds are reopened. Thus, T-bills are issued once a month but only redeemed every second month. For T-bonds a new bond is normally issued twice a year and in between these bonds are reopened. This policy reduces the amount of security identities outstanding, which should have a positive effect on the liquidity of the securities.

In the auctions only banks (10 banks are active; there is no Primary Dealer agreement) can participate, but they can provide bids on behalf of their clients. The bids are provided through the Bloomberg trading system in the form of yield. Almost all banks have Bloomberg terminals. The others may provide the bids through the banks having Bloomberg. The auction is conducted as a multi-price auction. The auction application ranks the bids and the information, without the names, is sent to the MoF where a committee, headed by the Minister, formally decides on the allocation. The decision is submitted to the NBG which presents the overall auction result and informs the winners about the settlement details. Settlement is done T+1. The NBG automatically debits the bank accounts of the winners and credits the Government Treasury account and conducts

[19] In March, 2006 the Government of Georgia and the National Bank of Georgia signed an agreement on measures to cover Government debt owed to the National Bank of Georgia. According to the agreement, part of the GEL 832.9 million debt of government, as of May 17, 2006, is re-arranged into bonds (with 16-60 months duration) every year. The debt will be fully covered by 2030. The bonds can be used by the National Bank for open market operations

[20] The auction announcement almost always follows the plan. However, after the election in the autumn of 2012 the auctions were reduced compared with the plan. This seems to be an exception. Changes in the borrowing volumes compared with the annual plan developed in the beginning of the year are otherwise included in the quarterly auction plans.

the corresponding operation in the CSD. The operations are conducted according to the Delivery-versus-Payment (DvP) principle. Secondary market transactions are managed accordingly after matching the information provided by buyers and sellers. It is possible to conduct secondary market transactions with the settlement in the CSD and RTGS. All banks have access to these systems.

Currently the interest on the 1 year T-bill and the 2 year T-bond is around 5%-6%; for the 5 year T-bond the interest is around 8% and the interest on the 10 year T-bond is around 10%. This is low compared with the Lari short term deposit rate of around 10 percent[21]. The Government securities are therefore not very attractive for non-bank investors and their participation in the market is quite low. For banks the situation is different. They can finance their purchases through the refinancing loan facility in the NBG at a current cost of 4 percent. The demand from banks is therefore substantial and the auctions are generally significantly oversubscribed. The secondary market activity is however very limited. The banks are supposed to quote buying and selling yields on the Bloomberg system. The spreads are significant, between 1-2 percentage points, and the number of trades small. So far during 2013 approximately two secondary market transactions a week have been conducted.

In summary, the publication of a borrowing calendar with detailed information on the offerings on a quarterly basis together with the production of an internal annual borrowing plan meets the requirements for an A on the first dimension.

Dimension 2

The document "Regulation of the issue, circulations, registration and redemption of treasury bills and treasury notes issued by the Ministry of Finance of Georgia" together with the announcement of the auction contain all the information required regarding terms and conditions for each instrument, borrowing procedures, and criteria for access to the primary market. The information is available on the NBG website. This meets the highest requirements for the second dimension.

DPI-9 External Borrowing

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

[21] The financial sector in Georgia is to a significant degree dollarized and the demand for longer term products in Lari is very limited

Dimension 1

External borrowing remains the key source of financing the Government's development and overall budget needs. Although, there is no official borrowing policy that stipulates a minimum grant element, the Government seeks to maximize concessional lending which is reflected in the debt structure of its portfolio. In addition to traditional fixed rate concessional financing, about 30 percent of the external debt carries variable rates where concessional terms have been accomplished even from traditional non-concessional lenders. In 2011, the Republic of Georgia, through the Ministry of Finance, issued a USD 500 million Eurobond in the international capital market with the purpose of prepaying a large share of the previous 2008 Eurobond.

All institutions involved in contracting new external borrowing in the form of an international agreement follow the process described in the State Debt Law of Georgia and the Law on Contracting International Agreements.

The contracting of external borrowing must follow the procedure described in the box below (see Box 2-Borrowing Procedures.

PDEFD prepares an annual borrowing plan that is included in the State Budget Law and approved by Parliament. Although PDD computes the grant element (based on forecasted disbursements) and average maturity for each loan before negotiation, the division does not prepare a cost effectiveness assessment of its creditors, nor compute basic risk analysis, nor analyze other elements (for example, comparative advantage or value for money to determine the choice of its source of borrowing). It seems that the main criterion for selecting the creditor is the loan concessionality. Furthermore, if the lender provides concessional financing, there is no attempt to compare its terms with other potential lenders. Therefore, the minimum requirements for the first dimension are not met.

Dimension 2

The policies and processes related to external borrowing are well stipulated in the State Debt Law of Georgia and the Law on International Agreements.

In particular, the Law on International Agreements, in Article 2, covers the procedures for signing the international loan agreement and Article 3 overviews the procedures of registering, keeping the original and publishing of the international agreements.

However, the law only applies to certain types of credits and does not include borrowing procedures as international bonds. For this type of financial instrument, the Ministry of Finance has elaborated Charter 17 entitled Regulation for Issuing Foreign Denominated Government Bond as per the State Debt Law of Georgia (Article 2, Section 41). For other types of non-international agreements (such as the ones with the Kuwaiti Fund for budget support), the Ministry of Finance follows the same procedures contained in the Law on International Agreements. However, there is no internal document such as the one on issuance of international bonds detailing the process, institutional or staff roles and responsibilities.

Box 2 – Borrowing Procedures

A line ministry approaches the MoF with a project proposal to be financed by external borrowing sources to obtain the authorization to continue the dialogue with the potential creditor. In case of budget support programs MoF initiates the process. In accordance with procedures stated under the Law on International Agreements,,prior to the negotiations, the MoF sends a package of documents (which includes a draft loan agreement and other supplementary documents) to the Ministry of Foreign Affairs or MoFA to initiate preapproval procedures. The package is reviewed by relevant line ministries, Ministry of Justice and National Bank of Georgia that are also invited to particpate in the negotiations. After the completion of the initial review MoFA sends the package to the President's administration. Presidential Decree is issued authorizing the Ministry of Finance of Georgia to negotiate. with the lender. After conclusion of negotiations thegreed draft of the loan agreement and supplementary documents once again undergo the same reviewing procedures with relevant line ministries, MoJ and NBG. The package is again submitted to through MoFA to the President of Georgia for authorization to sign the agreement. After the signature by the Minister of Finance of Georgia the loan agreement through MoFA is submitted to the Parliament for ratification. After ratification MOJ issues a Legal Opinion. For non-international agreements, the Ministry of Finance follows similar procedures as defined by the law on State Debt. The MoFA is no longer involved in the procedures and the submissions to the President's Administration and the Parliament are conducted through the Cabinet of Ministers.

Although the laws provide general procedures that assign responsibilities to the various institutions involved in debt management, no procedure manuals have been elaborated that further details the implementation of the law.

Lastly, terms sheets of financial information for an external loan are not formally or systematically prepared by the staff participating in the loan negotiation.

As there is no procedure manual and no term sheet is prepared after each negotiation, the minimum requirements for the second dimension are not met and the score D applies.

Dimension 3

The Legal Department of the Ministry of Finance is associated on an ad-hoc basis during the loan negotiation process. However, all draft loan agreements are sent to the unit to be reviewed and commented on before the loan is signed. Also, MoF involves the Ministry of Justice from the beginning of the negotiation process through consultation and it is asked to review and comment on the draft agreement (and other legal documents) throughout all the stages (pre and post negotiation). Furthermore, a representative of the Ministry of Justice participates as one of the country's negotiating team members. Additionally, the Investment Project Division has a lawyer as one of its staff whose responsibility is also to review the legal documentation.

As the legal advisers are involved from the first stage of the negotiating process to the conclusion, all the requirements for the dimension are met. Consequently the rating is A.

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

Dimension 1

Due to previous failures of the borrowers whose debts were covered by government guarantees, no sovereign guarantees have been issued by Georgia since 1998. The outstanding stock of publicly guaranteed debt of Georgia therefore consists of only one guarantee amounting to USD 3 mn or one-tenth percent of the total public external debt as of end 2012.

The overall policies and procedures for the approval and issuance of central government loan guarantees are set out in the State Debt Law of Georgia. The law provides the MoF with authority to issue government guarantees (though to be agreed by the National Bank of Georgia) and keep records of the guarantees. According to the law a government guarantee can be issued for externally and domestically borrowed public and private loans. The State Debt Law specifies the main policies for issuing guarantees; guarantees on domestic loans are mainly provided for Georgian companies that deliver services to budgetary/public institutions and guarantees on external loans are issued only for projects within the first priority for Georgia. An annual limit on guarantees is included in the Budget.

Beside of the overall policies for issuing loan guarantees the State Debt Law also provides relatively detailed descriptions of the procedures to follow when issuing guarantees. Business plans, audited accounts, project descriptions and cash flow forecasts should be provided to MoF. No entities with tax debts could seek a government guarantee. The MoF should conduct a risk analysis and calculate the corresponding risk fee to be paid into a risk fund.

The legal requirements on the loan guarantees are also specified in the Debt Law, stating e.g. the right for the MoF to get control of bank accounts of the defaulting entity.The overall procedures between the MoF, the President and the Parliament are also included in the State Debt Law. However, there is no clarity of which unit in the MoF should be responsible for the preparation of the guarantees and there are no other regulations clarifying this issue. The minimum requirements for the first dimension are therefore not met.

Dimension 2

The MoF is active with on-lending of externally borrowed sources. At present, the on-lending portfolio of the Ministry of Finance consists of 43 loans, of which 7 are classified as "problem loans". On-lending sources are provided mainly to SOEs and municipalities although on-lending to private companies has also been conducted. The PDEFD is responsible for on-lending of external funds. The Budget department could provide credits in domestic currency but this is not on-lending.

Only financially viable projects are subject to on-lending, but credit risk analysis is not conducted. For on-lending transactions, a formal on-lending contract is drafted. Normally the terms and the conditions of the original loan agreement are transferred to the on-lending contract. The IIPEID is responsible for the negotiation and drafting of the on-lending contract. The contract is signed by the Minister and the beneficiary, and entered into the debt management application used, the DMFAS. The PDD is responsible for sending invoices, recording and monitoring the payments from the beneficiaries. The procedures are not documented. Thus, the minimum requirements for the second dimension are not met.

Dimension 3

The Government has not entered into any derivative contracts. The third dimension is therefore not rated.

3.4 Cash Flow Forecasting and Cash Balance Management

DPI-11 Cash Flow Forecasting and Cash Balance Management

Dimension	Score
1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts.	D
2. Effectiveness of managing the aggregate cash balance in government bank account(s), including the integration with the domestic debt borrowing program.	D

Dimension 1

Budget execution is conducted through the Treasury system, an application developed locally in Georgia covering all line ministries. When the Budget is approved the line ministries provide an annual budget execution plan on a quarterly basis to the Budget Department of the MoF. After reviewing the proposals the Budget Department uploads quarterly appropriations in the system allowing the line ministries to commit and spend Government funds. The line ministries send the payment requests to the Treasury for further payment processing through the NBG.

The payment requests must be within a global expenditure ceiling for the month. This ceiling is based on a cash flow forecast by the Treasury. The forecast includes opening cash balances, expected revenues and expenditures and closing cash balances. The figures are just totals for the month. The forecast is based on information from the Budget, the PDEFD and the fiscal forecasting department. No forecasts have been requested from the line ministries. The forecast is approved by the Minister. The expected expenditures are entered into the Treasury system as an aggregate spending limit for all line ministries. The spending limit cannot be breached. Should the actual expenditures indicate a potential breach of limit the Minister is approached for revising the limit.

Treasury is not further developing the cash flow forecast into weekly or daily forecasts since there is no need for this information within the Treasury. The budget execution works more or less automatically, reflecting the cash surplus and there is no active investment of cash surpluses. The Budget department is, producing an annual expenditure forecast on monthly basis for internalu use. This forecast is primarily produced for the NBG liquidity management purposes, but it is also used by Treasury as an input in its monthly cash flow forecast. As far as the mission understands this forecast is not used for other purposes, e.g. udget department allocation of quarterly appropriation or the borrowing plan produced by the PDEFD. The Budget department uses monthly revenue forecasts from the fiscal forecasting department, information from PDEFD and line ministries and historical time series for its cash flow estimates. The mission did not get the opportunity to review the forecasts but the NBG did not have any complaints on their reliability.

Thus, since there are no forecasts for the weekly cash flows and balances the minimum requirements for the first dimension are not met.

Dimension 2

Treasury is responsible for cash management within MoF. Cash management is regulated by the Budget Code, which states that the Treasury should have a unified account in the NBG. It also stipulates that the Treasury is also authorized to open additional bank accounts in other banks. With the purpose of receiving additional budgetary revenues, the Treasury is authorized to deposit free and available funds in commercial banks. The NBG act clarifies that the bank's permission is necessary when other financial institutions accept deposits from the Government.

In practice the MoF has chosen to keep all its surplus funds, amounting to close to 4 percent of GDP, in current accounts in the NBG even though no interest is earned. The bank is not legally prohibited from remunerating the Government accounts. However no such arrangement has been made. The Treasury produced a draft guideline on liquidity management in 2009 according to which the Treasury should deposit funds in commercial banks. After initial discussion with the NBG the process has halted.

Thus, since the MoF is not investing its surplus cash in the market or receiving a market interest rate in the NBG the minimum requirements for the second dimension are not met.

3.5 Operational Risk Management

DPI-12 Data Administration and Data Security

Dimension	Score
1. Availability and quality of documented procedures for the processing of debt service.	D
2. Availability and quality of documented procedures for debt data recording and validation, 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 and management system.	D
4. Frequency and off-site, secure storage of debt recording and management system backups.	A

External debt is recorded in three applications: in DMFAS 6, in an Access application and in the newly developed and not fully functioning (in particular with regard to external debt reporting) eDMS. The DMFAS contains all loan agreement basic information (name of creditors, amount, and financial terms) and all transactions (disbursements and interest and principal repayments) on a loan by loan basis. The Access database, which was created by a PDEFD staff member, provides the same type of information, but allows the users to better monitor the financial execution of the project by registering information on the details of the projects and disbursements by certain categories and recipients. The eDMS which is being developed by FAS combines both previous systems into one database (see Box below). However, the DMFAS is considered the official database of the country.

The eDMS is fully operational for domestic debt and is currently being used by the PDD. Regarding the external debt component, information recorded in the DMFAS has been transferred to the eDMS, after Investment Projects Division has inputted the basic loan information. Currently IIPEID is responsible for recording loan agreements and new disbursements while the PDD registers debt service payments. FAS is still in the process of developing the analytical tool. FAS expects to start the pilot phase in September 2013 and to have the full debt management system operational from the beginning of 2014. Future plans include automatically generating payment orders to e-Treasury from eDMS.

Box 3 – The Electronic Debt Management System (eDMS)

The Financial Advisory Service has developed a recording system entitled Electronic Debt Management System or eDMS to provide a single location to store State debt, grants and loans. The system is supposed to be fully integrated with eTreasury and eBudget. The eDMS contains five modules with the following subdivisions:

- Domestic Debt Module
  - Auctions
  - Debt to the National Bank of Georgia
  - Analytical Tool
- Project Module
  - Investment
    - Basic Information
    - Disbursements
    - Financial Operations
  - Budget Support
  - On-Lending
- Eurobond
  - Basic Information
  - Disbursements
  - Financial Operations
- Grants
- Lending from Budget

Dimension 1

External payment invoices from donors are checked with the records in DMFAS. Floating interest rates are checked with information on generally available websites. A monthly debt service report is produced. After checks, the payments are entered into the Treasury system. The system requires duality in recording the payment. The payment is approved within the system by the Head of the PDEFD or the Deputy Minister, without any supporting documents, and submitted to the Treasury for further electronic processing to the NBG and from the bank to the final beneficiary through SWIFT. Before the payment is submitted a fund transfer from the TSA account to an FX account through the Treasury system is generally needed. Payment is done not later than on the due date. The NBG confirmation of the payment is submitted to the Treasury system. The payment is recorded in the DMFAS, in Access and in eDMS.

Domestic debt is only recorded in the eDMS. The eDMS initiates payments of domestic debt service for Government securities and for debt owed to the NBG. The payment order is registered and processed in the Treasury system following similar procedures as for external debt service. Instead of being processed through SWIFT the domestic payment is processed through the RTGS. Treasury has access to the RTGS and participates through the RTGS in the NBG clearing. The plan is to establish an electronic link between eDMS and the Treasury system replacing the current manual data entry. Independently of the MoF payment order the CSD in the NBG will on due dates, after two-person approval, automatically credit the bank accounts of the holders of the securities registered in the system.

The NBG procedures are documented. The MoF procedures related to the Treasury system are documented as well. Other payment procedures are not documented in PDEFD. Therefore the minimum requirements are not met for the first dimension.

Dimension 2

The external debt records in the DMFAS and in the Access application are updated separately by different staff members within the PDMD. The staff member updating the Access application is also updating the eDMS. Loan agreements are received from the IIPEID. This division receives disbursement requests coming from the PIUs and after checks sends them back to the PIU, which submits them to the donors. The disbursements are entered into the DMFAS, the Access application and the eDMS based on disbursements advices submitted by the donors to the IIPEID and which in turn are handed over to PDMD. The data entry into the DMFAS is done by one staff member and checked by another. The data entry confirmation functionality in DMFAS is not activated. In the eDMS IIPEID is entering the loan agreement and is expected to also enter disbursements into the system.

The information in the DMFAS and the Access is regularly reconciled. The databases are also reconciled with statements submitted by the donors.

The domestic debt records in the eDMS are updated following the auctions. The system has a duality requirement when entering data. The CSD in the NBG is automatically updated through auctions and secondary market transactions as well as when debt service is conducted. The only manual data entered refers to data on the banks, new participants, address etc. The have access to the system where they can monitor their holdings.

External loan agreements regarded as international agreements are stored by the Ministry of Foreign Affairs. External loan agreements not regarded as international agreements, e.g. Eurobonds and bank credits, and all administrative records are stored in the premises of the PDEFD. The original loan agreements are stored in ordinary cabinets in the PDMD. Administrative records are also stored in ordinary cabinets. The mission did not get the chance to review the storage facilities in the MoF. All loan documents and other official documents are scanned and stored electronically by the departments.

Thus, since the loan documents are not stored in a secure way and since the procedures for debt data recording are not documented the minimum requirements for the second dimension are not met.

Dimension 3

The Financial Analytical Service (FAS) is a separate legal entity functioning as an IT department for the MoF. It has developed the Treasury system and is also developing the eDMS. The latter is fully functional for the domestic debt. The external debt data have been entered into the system also but the final testing has not been conducted yet. DMFAS is the main administrative system for external debt for the time being.

FAS is the database administrator for both eDMS and the DMFAS. The head of the PDEFD authorizes rights in the systems to the staff and the FAS execute the decision. FAS manages the access control to the MoF premises as well as to the IT applications. In order to enter the premises the staff has to present an ID. There is no special physical access control to the offices where the DMFAS and eDMS applications are housed.

The ID should also be used to enter into a work station, but so far this has not been universally implemented in MoF. Instead the users within PDEFD enter a password, which is required to be changed every month to access the workstations. For the DMFAS application the access control is based on a traditional password, which is only required to be changed with long intervals, one year. The eDMS is a cloud based application so it is accessible anywhere. The eDMS should require that the user identifies him or herself through a digi-pass and a password, but this security feature is still not implemented. So far the eDMS application is accessed through a password.

The information security is planned to undergo improvements. An Information Security Department within MoF has formally been established but no staff has been appointed yet. This department should be responsible for IT security, including access control, and issue guidelines and policies for the FAS and the other departments to follow. FAS has already developed IT security proposals, with the assistance of an consultant, but the implementation of the IT security, including documented access control is still pending the work of the Information Security Department. There are therefore currently no documented procedures for access control in MoF.

The CSD in the NBG is subject to rigorous controls including access controls. The procedures are documented. However, since the systems in MoF including DMFAS are not well protected through documented access control the minimum requirements for the third dimension are not met[22].

Dimension 4

The procedures for debt data backups are well developed in both the MoF and the NBG. Backups are taken daily in MoF and stored in the server room. The server room is well protected against intrusion, fire, flooding and climate changes. The main problem is that it is located in the basement of a large building. The plan is to reallocate the server room to another building. The backups are also daily automatically copied to a server in another building.

[22] The team was informed that after the mission completion the FAS started working to document the access control to the DMFAS system.

As part of the Treasury system project a separate data backup center has been implemented 30 km away from the MoF premises. It includes all important IT applications, including DMFAS and the eDMS. It is linked with fiber optic connections to the main server room in the MoF building and updated in real-time. The backup center is well protected from fire and flooding. .

In NBG the server room is in another building, the cash center. It is linked to a recovery site 10 km away where all key IT applications are mirrored in real time. The systems are well protected from fire and flooding and other threats. NBG is planning to implement a recovery site in another area of Georgia soon. Georgia is exposed to earth-quakes.

Since the backup procedures are well developed in both MoF and the NBG the highest requirements are met for the fourth dimension.

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

Dimension	Score
1. Segregation of duties for some key factors as well as the presence of a risk monitoring and compliance function.	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

Segregation of duties between front office (negotiations) and back office (recording debt and debt service payments) varies between purposes of borrowing. There is a clear separation between the front office and back office functions for external financing of investment projects. The International Investment Projects and Eurointegration Division (IIPEID) primarily acts as the front office for external borrowing, while the PDD is responsible for middle and back office functions. For budget support borrowing, some staff in PDD are involved in both front and back office functions. For domestic debt, all the functions are within the same unit in PDD and certain staff are involved in both functions (for example in a supervisory role with access to the database).

Furthermore, a distinction does not exist between the function of inputting data and initiating payments. PDD arranges external debt service payments in cooperation with Treasury and records debt and debt service payments in the various databases (DMFAS, eDMS, Access). For domestic debt, the PDD, in cooperation with the National Bank of Georgia, acts as the front office for issuing government securities in the local capital market. The division is also responsible for carrying out payments relating to treasury securities and maintaining the database for domestic debt. Thus, PDD does not allocate different staff for the two functions.

Data entry and verification functions are performed by different staff in PDD. For example staff entering data in the DMFAS system verifies entry on the Access database and vice-versa.

Furthermore, the output of both databases is reconciled in order to determine that there are no discrepancies between them. For domestic debt, data entry is verified by the staff of PDD. In NBG, as per the operational procedures manual, two staff are required to perform any transactions.

There should be a risk monitoring and compliance function with one or more staff responsible for it. The primary role is to monitor whether all government debt management operations are within the authorities and limits set by government policies and comply with statutory and contractual obligations. Within PDEFD, there is no dedicated unit or staff member responsible for risk monitoring and compliance. In the National Bank of Georgia, there is such unit within the Financial Market Department.

As there is no risk monitoring and compliance staff dedicated to this function and no segregation of duties between debt servicing and debt recording, the first dimension does not meet the minimum requirements and is scored D.

Dimension 2

All entities involved in debt management in Georgia appear to have sufficient and very well trained staff with appropriate educational backgrounds to perform the required debt management activities. There are 27 staff members in PDEFD (including the Head of the Department, two Deputy Heads, and two advisers). The Public Debt Division is composed of 10 employees and the International Investment Projects and Eurointegration Division employs 12 staff. The Department has not suffered from high staff turnover. Currently, there is one vacancy in PDMD and, the remaining positions allocated to the Department are filled.

However, as part of the reforms being implemented in the Ministry of Finance, staff who have been recruited on a non-competitive basis in the past will have to re-apply to their position and compete with other potential candidates. As part of this process, in 2012, PDEFD staff were asked to write the functions and duties that they were performing. These job descriptions have been validated by the Head of the Department and submitted to the Human Resources Department of MoF. Furthermore, staff have also been required during the fiscal year 2013 to re-write them in an electronic format. The Human Resources Department will use these job descriptions to recruit or re-employ existing staff during the competitive recruitment process which should start on October 1st of this year.

The Human Resource Department offers some training program. Civil servants can apply to the offered courses. However, the courses offered are not specifically related to debt management. Additionally, there is no annual performance review conducted within the Department or within the Ministry.

Staff members involved in debt management activities should be subject to code of conduct and conflict of interest guidelines regarding the management of their personal financial affairs.

These guidelines should set out the rules that staff member are required to follow, the activities that they are or are not permitted to undertake or transact, and the requirements to disclose personal investments and financial activities. Although both the Ministry of Finance and the National Bank of Georgia have some regulations on rules of conduct, neither one of them have elaborated conflict of interest guidelines for their staff involved in debt management.

The second dimension meets the minimum requirements and scores a C as there is sufficient and well trained staff involved in debt management activities with a job description. In order to score a B, both institutions should have code of conduct and conflict of interest guidelines specialized for staff involved in debt management activities.

Dimension 3

Business continuity planning (BCP) allows an organization to prepare for future incidents that could jeopardize its core mission. Disaster recovery is the process of regaining access to the data, hardware and software necessary to resume critical business operations after a natural or human-induced disaster. A disaster recovery plan (DRP) should also include plans for coping with the other external events such as an unexpected or sudden loss of key personnel or denial of access to the main premises.

Both institutions involved in debt management have invested substantial money to have sites outside the city of Tbilisi where data are back-upped simultaneously and can be recovered immediately or within two hours (see DPI-12). Both MoF and NBG have also recruited external assistance to help them in developing business continuity and disaster recovery procedures.

The Financial Analytical Service (FAS) (which functions as the IT Department of the Ministry of Finance) has recruited Janus Associates, an American consulting firm specializing in this field, to conduct a risk assessment and provide policies, standards, and procedures. The consulting firm submitted their final report in 2012. It covered vulnerability assessment, internal and external penetration testing and information security policy development. As a result, FAS received detailed analysis of internal vulnerabilities, information security policies, procedures and standards together with recommendations about tools to support their implementation and further monitoring. However, these policies, standards, and procedures have not been formally approved (although some are being implemented) nor has an overall business continuity and disaster recovery plan been elaborated. The Ministry of Finance has just recently created the Information Security Department whose mandate will be deal with these issues. The process of recruiting the Director is being started which will be followed by the recruitment of the staff and the creation of the Information Security Council (ICS). ICS, which will be composed of the Deputy Minister, IDS, FAS, and other units, will have the function of formalizing and approving such plans.

The process described above suggests that BCP/DRP is heavily focused on data and IT. The DRP should identify critical processes, systems and resources that will be needed in the event of an accident that affects the business. This is normally assigned to the middle office under operational risk. The National Bank of Georgia, through a working group headed by NBG CEO, has elaborated and approved such plans and procedures after a risk evaluation. NBG started the process about a year ago and finalized its recovery strategy and procedures during 2013. As of now, the implementation phase has not been started, and the procedures have not been tested.

As the business continuity and disaster recovery plan at MoF has not been officially formulated, the minimum requirement is not met, and the dimension is scored D.

3.6 Debt Records and Reporting

DPI-14 Debt Records

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

Dimension 1

As per the State Debt Law of Georgia (Article 6), the Ministry of Finance is responsible for maintaining the National Debt Register and the Register of State guarantees for Credits. This function is assigned to the Public Debt and External Finance Department (PDEFD) through the Public Debt Management Division.
PDD keeps complete and updated records on central government external debt (multilateral and bilateral debt as well as Paris Club rescheduling and Eurobonds issued by the State of Georgia) and state guarantees (there is one state guarantee to KFW) on three different recording systems (DMFAS version 6, Access database, and eDMS).

Loan agreements are recorded, with a maximum delay of one day when the division receives the legal document from IIPEID. Transactions (disbursements and debt service payments) are inputted in the various databases on the same day as payment notifications are received from creditors. PDD receives debt service payments notification directly from the creditors and through IIPEID for disbursements. On average, PDD is able to obtain all the information required with a time lag of one month. On certain occasions, PDD has experienced a delay of up to two months due to International Fund for Agriculture and Development (IFAD) being late to send the information (two loans representing less than one percent of the total public debt outstanding. All databases are reconciled between themselves and with creditors to ensure accuracy.

PDD also records all government securities (T-bills and T-bonds) transactions in the eDMS. It also keeps records of historical debt and securitized debt owed to the National Bank of Georgia. Auction results are registered on the same day of the auction whereas settlement is recorded upon confirmation of the payment through Electronic-Treasury or e- Treasury (with a maximum time lag of one day).

The National Bank of Georgia, through the Balance of Payments Division, also maintains an external debt database on Excel for balance of payments and foreign reserves management purposes. The division records its own debt (owed to the IMF), central government debt based on information provided by PDD on a monthly basis, public enterprises debt (which have to report to the NBG on a quarterly basis), and private external debt.

As MoF maintains complete records within a one month lag for central government domestic, external, and guaranteed debt including debt related transactions, with the exception of the relatively insignificantly debt to IFAD, the dimension meets all the requirements and is scored A.

Dimension 2

The National Bank of Georgia has invested substantial effort and resources in sophisticated and state of the art systems that meet international standards and best practices to undertake the issuance and recording of government securities. The Financial Market Department the NBG is responsible as registrar of Government securities. Since 2011, CSD has been fully integrated with the Bloomberg system (used to conduct auctions and secondary market transactions) and the payment system.

After the auction has been concluded and the successful bidders have been selected, CSD downloads the information from the Bloomberg system, and credits and debits the respective accounts of the Government and bond holders to update the system. On settlement day, the system automatically generates messages of the payments that need to be made the same day. After verification from Department staff, the system transmits the payment orders to the RTGS. After notification from the payment system that the transaction has occurred, CSD credit (bond holder) and debit (government) the respective accounts. All transactions are done electronically without human intervention. For secondary market transactions, the systems operate in the same way following transaction recording in the Bloomberg system.

As the Central Securities Depository meet the international standard and the registry is annually audited, and the integrity of the database thus ensured, by the Internal Audit Department of NBG and external auditors, the second dimension is also rated A as all the requirements are fulfilled.

DPI-15 Debt Reporting

Dimension	Score
1. Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities	C
2. Meeting of statutory and contractual reporting requirements for total non financial public sector debt and loan guarantees to all domestic and external entities	N/R
3. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt	D

Dimension 1

According to the State Debt Law of Georgia (Article 7), the Ministry of Finance must provide the National Bank of Georgia with information about the national debt and those credits for which State guarantees are issued. Although the law does not specify a time period, PMD provides central government and guaranteed debt statistical information on a monthly basis to NBG. The report is produced one week after the end of the previous month. The same report is also submitted to Parliament, the President's office, and other institutions.

Under the Budget Execution Report, PDEFD prepares the section on public debt to report to Parliament as required by law. The section provides information on the stock of public debt, increase in liabilities, disbursements and debt service payments on an aggregated basis and by types of creditors and instruments for both domestic and external debt. The report also gives information on planned versus realized. The Budget Execution Report is submitted to Parliament on a quarterly and annual basis. The annual report is submitted to Parliament by March of the following year.

As for all World Bank member countries, Georgia is required to submit public and publicly guaranteed external debt on a loan by loan basis to the Bretton Wood Institutions within a three month time lag from the reporting period. In collaboration with NBG (which submits information on state-owned enterprises external debt). PDD submits the required information in timely fashion and, as reported by World Bank, is of good quality.

As the reporting requirements fully meets all statutory and contractual reporting requirements within three month of the reporting period, the minimum requirements are met and the dimension is rated C. For a B, the time lag should be two months, whereas for an A, it should be one month.

Dimension 2

PDD does not record or monitor state-owned enterprises debt (neither external nor domestic), with the exception of the Eurobonds issued by the energy and the railway companies. As stated above, NBG is able to capture state owned enterprises´ external debt (SOEs must report to NBG on a quarterly basis their external debt) and monitors domestic loans from the banking sector. Although there is no requirement for publishing such data, monitoring and recording SOEs total debt would enable the government to have a better picture of the country's public and publicly guaranteed debt, as defined by the Bretton Woods institutions, and its potential contingent liabilities.

However, there is no requirement (statutory or contractually) to report on public non-financial sector debt. Thus, the dimension 2 is not rated.

Dimension 3

Countries should prepare periodically debt statistical bulletins or equivalent that should include the following:

- information on central government debt stocks (by creditor, residency classification, instruments, currency, interest rate basis, and residual maturity);
- debt flows (principal and interest payments);
- debt ratios or indicators or both; and
- basic risk measures of the debt portfolio.

Although, the MoF does not publish a debt statistics bulletin, it provides some information on central government, state guaranteed, and NBG external debt on its website, as well as the auction results of government securities by instruments. Information that can be obtained is the country's public debt as defined by MoF by creditor type, creditors and the currency of lending (from which the user can derive the currency composition). However the information obtained on the website is very limited. No information is provided on the domestic debt stock by instruments and total, on external debt flows (net flows and net transfers), the schedule of debt service payments, or interest rate and maturity structure of the country's portfolio. Although one debt indicator is made public (debt to GDP along with the comparison with developed nations), certain liquidity indicators such as debt service to exports and revenues are not calculated nor are any basic risk indicators. Lastly, aggregated data on central public government debt (external plus domestic debt) was also not available at the time of the mission.

NBG also publishes debt statistics on its websites. It provides information on the results of the auctions of T-bills and T-bonds, but does not provide any information on the stock outstanding by instruments nor on future debt service payments. The institution also makes available public information on gross external debt (by central government, non-financial sector and private sector), but only on aggregated basis. The debt service payment schedule is also available on the website. The information is provided on the same format as the debt stock. NBG updates its information monthly.

As the debt statistics provided on the websites of the two institutions do not provide all the required categories (even after excluding the basic risk indicators required for a B) listed above, the minimum requirements for the third dimension are not met and is rated D.

Annex 1: DeMPA Mission Visit – List of Officials met

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