Debt Management Performance Assessment (DeMPA)

Lesotho

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THE WORLD BANK

Economic Policy and Debt Department (PRMED)
Poverty Reduction and Economic Management Network (PREM)

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

ADF	African Development Fund
AGOA	African Growth and Opportunity Act
CBL	Central Bank of Lesotho
CMA	Common Monetary Area
CSD	Central Securities Depository
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DeMPA	Debt Management Performance Assessment
DPI	Debt Performance Indicator
EU	European Union
IDA	International Development Association
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
IRS	International Reporting System
LSL	Lesotho Loti
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MoFDP	Ministry of Finance and Development Planning
MoF	Ministry of Finance
MoP	Ministry of Planning
MTFF	Medium Term Fiscal Framework
NSDP	National Strategic Development Plan
OAG	Office of the Auditor General
PDAMCD	Public Debt and Aid Management Coordination Department (expected)
PDMD	Public Debt Management Division (old)
PFM	Public Finance Management
PFMA	Public Finance Management Act
SACU	Southern African Customs Union
SADC	Southern African Development Community
SOE	State Owned Enterprises
WB	World Bank

CONTENTS

1. Executive Summary

From September 21 to September 28, 2012, a joint World Bank and MEFMI team visited Maseru, Lesotho to undertake a comprehensive assessment of debt management functions. The team used the Debt Management Performance Assessment (DeMPA) tool[1]. As part of the assessment, the mission met with officials from the Ministry of Finance, the Office of the Auditor General, the Central Bank of Lesotho, commercial banks, pension and insurance entities, as well as donors present in Lesotho. (See Annex 1 for a complete list of officials interviewed).

The main findings of the assessment are:

In the governance and strategy area, there is a clear delegation to the Minister of Finance for borrowing and issuance of guarantees, but the mechanisms for coordination are not well developed. As a result, policies are inconsistent and debt records are incomplete. There is no debt management strategy and no other explicit policy document in the area of debt management.

The coordination with macroeconomic policies generally meets the minimum requirements even though there is no clear separation with monetary operations.

Cash management is not actively conducted despite very large cash balances in the CBL. There is no cash flow forecasting and no interest is earned on government cash balances.

Strengths have been identified in **the operational risk management area**. There is a duality requirement for recording of both domestic and external loans. The information backup procedures are well developed. Staff capacity is also generally regarded as sufficient. There are, however, areas with substantial room for improvement. The debt management division is not organized in accordance to the sound practice and as a consequence there is insufficient segregation of duties. There are neither procedures manuals nor business-continuity and disaster-recovery plans.

The debt records are not complete as domestic guarantees generally are not recorded. The treasury bonds and bills are recorded by the PDMD with an average lag of three months.

[1] The mission team comprised Lilia Razlog, Team Leader, Per-Olof Jonsson, Consultant, Stephen M Vajs, Consultant, (all from Economic Policy and Debt Department, World Bank) and Lekinyi Mollel, Programme Officer (MEFMI).

2. Background

2.1 Country Background and Macro Situation

Lesotho is a small, mountainous, land-locked country, enclosed by South Africa. The economy of Lesotho is closely linked to South Africa and its currency, the Loti[2] (LSL), is pegged (at one-to-one) to the Rand, which also serves as legal tender in the country. Lesotho, a highly open economy, is a member of the Southern African Customs Union (SACU), the Common Monetary Area (CMA), and the Southern African Development Community (SADC).

Lesotho is classified as lower-middle-income country with a GNI per capita of US $1,220.00 in 2011. Notwithstanding, it faces enormous human and social development challenges. Lesotho ranks 160th out of 187 countries on the UNDP Human Development Index. Among all countries, Lesotho has one of the highest levels of inequality, one of the highest rates of HIV/AIDS prevalence among adults, and one of the lowest life expectancies at birth.

Lesotho experienced impressive economic performance prior to the recent global economic recession, recording average real GDP growth rates of 4.5 per cent between 2006 and 2008. This was supported mainly by favorable external conditions that resulted in large fiscal and current account surpluses and a significant accumulation of gross international reserves. In the wake of the global financial crisis and economic recession, economic growth slowed to 0.9 per cent in 2009, with unemployment rising, while Southern African Customs Union (SACU) revenue declined. In addition, there was a decline in exports and reduced inflows from development partners. In 2010, Lesotho's economic growth improved, with GDP rising to 2.4 per cent. The forecasts by the International Monetary Fund show the economy will accelerate further to 3.1 per cent in 2011 and 4.1 per cent in 2012. These forecasts are premised on the resurgence of the diamond mining industry following the global recovery of diamond prices.

Despite the initial turn around and the promising forecasts, Lesotho's economy is vulnerable to both internal and external shocks. The textile industry, which traditionally has been one of the major drivers of growth and employment creation, is likely to be affected adversely by the conclusion of AGOA's preferential access to the United States of America market. The appreciation of the South African Rand against the US dollar erodes the competitiveness of textile exports in regional and international markets. Other shocks include the after effects of the 2011 floods and the hike in oil prices.

In response, the authorities have implemented fiscal reforms, such as containing the growth of non-priority current expenditures and mobilizing domestic taxes revenues, to mitigate the impact

[2] In the plural, Maloti.

of the sharp fall in trade revenues. The budget deficit is expected to narrow in the coming fiscal year with the recovery of SACU transfers.

In the meantime, the Government is committed to consolidating the recent gains by revamping infrastructure using both local and foreign sources of financing. The Government has just signed a contract for US$15 billion to commence Lesotho's Highlands Water Project. The Government with the assistance of commercial banks is launching the Maloti 50 millions Partial Guarantee Fund to provide training in entrepreneurship to its citizens. To finance these projects, the Government has begun to use semi-concessional loans from multilateral donors and commercial loans from China. Such borrowing requires prudent debt management in order to minimize the associated risks and costs.

In view of the above, the Government of Lesotho invited the World Bank to assess the public debt management (DeM) framework. The review would serve as the basis for identifying reform areas and improving public debt management.

2.2 Debt Status in Lesotho

The Debt Sustainability Analysis conducted in March 2012[3] concluded that Lesotho remained at a moderate risk of debt distress. The debt ratios are expected to rise moderately in the medium term but appear to be manageable should SACU revenues recover, and stabilize at 20 percent of GDP in the medium term.

The central government debt stood at Maloti 5,744 million (USD 846 million) at end of 2010/11, representing 35.2 percent of GDP (Table 1). In ratio to GDP, the total government debt declined from 50.6 percent of GDP recorded in FY2008/09. This was driven mainly by a significant appreciation of the maloti against the US dollar in 2009 and 2010.[4] More than three quarters of the total debt was owed to multilateral creditors, mainly the International Development Association (IDA), the International Monetary Fund (IMF), and the African Development Fund (ADF). The domestic debt is composed of treasury bills and treasury bonds.

[3] Joint WB/IMF Debt Sustainability Analysis, March23, 2012
[4] WB, PER, August 2012

Table 1. Lesotho Government Debt Outstanding at end-2010/11

	Amount Million Maloti	Amount Million USD	In percent of total debt	In percent of GDP
Total debt	5,744	846	100.0	35.2
Domestic debt	786	116	13.7	4.8
External debt	4,958	730	86.3	30.4
Multilateral	4,446	655	77.4	27.3
Other	512	75	8.9	3.1

Source: Ministry of Finance and Development Planning

2.4 On-going Technical Assistance to the Ministry of Finance

Since 2005 there have been on-going efforts supported by development partners to improve different aspects of Public Finance Management (PFM) reform in Lesotho. The Ministry of Finance of Lesotho has benefited from technical assistance support from IMF, EU and US Treasury.

The Government with the assistance of IMF, WB and EU have agreed on a Performance Assessment Framework 2011-13 to measure progress in growth and macro-economic performance; improvements in public financial management and governance; and enhancements of human development and social protection, with the meeting of targets for the continued provision of budget support. Progress is reviewed quarterly. In addition, there is a PFM Improvement Reform Steering Committee whose task will be to determine the priorities for future PFM reform activities.

2.5 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 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 "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 those 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.

2.6 Summary of Debt Management Performance Assessment for Lesotho

Performance Indicator		Score
Governance and Strategy Development		
DPI-1	1. Legal Framework	D
DPI-2	1. Managerial Structure: Borrowing and Debt-Related Transactions	D
	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	C
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	D
DPI-7	1. Monetary Policy: Clarity of Separation between Debt Management and Monetary Policy Operations	D
	2. Monetary Policy: Regularity of Information Sharing	C
	3. Monetary Policy: Limited Access to Central Bank Financing	C
Borrowing and Related Financing Activities		
DPI-8	1. Domestic Borrowing: Market-Based Mechanisms and Preparation of a Borrowing Plan	D
	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	B
DPI-13	1. Segregation of Duties	D
	2. Staff Capacity and Human Resource Management	D
	3. Operational Risk Management, Business Continuity, and Disaster Recovery Plans	D
Debt Records and Reporting		
DPI-14	1. Debt Records: Completeness and Timeliness	D
	2. Debt Records: Registry System	B
DPI-15	1. Central Government Debt Data: Statutory and Mandatory Reporting Requirements	D
	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	D

As part of the public finance management reform, a new comprehensive public finance act, the Public Financial Management and Accountability Act of 2011, has been approved recently. According to the law, "The Minister, with the prior consent of Cabinet, shall approve any borrowings of funds or other assets for the public purposes of Government and of local authorities. Loan agreements on behalf of the Government shall be signed by the Minister only, after consultation with Cabinet. It is also states that "the Minister may guarantee the repayment of loans on behalf of Government."

The law requires that the budget documents for presentation to the Parliament shall include a limit on total guarantees and borrowings in the budget year and the following two years. The mission could not find any evidence of such limits in the most recent budget, that of the 2012/13 fiscal year.

The new public finance act repealed the previous Finance Order of 1988 but no other specific debt laws. Thus, the Loans and Guarantees Act of 1967 states that the Minister may raise funds outside Lesotho within a limit of the recurrent revenue for the last three years. In practice, this clause currently does not impose any restrictions on borrowing. It also states that the Government may issue guarantees for domestic or external loans by a local authority or a body corporate or individual. The Minister shall approve the purpose of the loan and the terms and conditions of the loan.

The Local Loans Act authorizes the Government to borrow domestically up to a limit of one third of the recurrent revenue for the last three years. The Loans (Statutory Bodies) Act of 1975 states that no statutory body shall borrow either domestically or externally without obtaining the prior approval of the Minister of Finance.

The Governor of the Central Bank of Lesotho (CBL) has been given the authority by the Minister to issue treasury bills for monetary policy purposes within a limit of LSL 700 million. Treasury bills are currently not issued for budgetary purposes. Government bonds were introduced in 2010 to finance both development projects and the budget deficit. The CBL has been given, through a Cabinet decision, the mandate to manage the process of issuing, recording, and settling government bonds. The Governor requests the approval from the Minister before issuing bonds and the Minister signs the bond prospectuses.

As the new Public Finance Management Act did not formally repeal previous debt legislation, the legal framework lacks consistency. The new law has not been implemented fully with its intended limits on debt and guarantees in the budget. It seems clear, however, that the Minister has been given the authority, with consent of the Cabinet, to borrow and issue guarantees on behalf of the Government. He can also delegate his mandate further and he has chosen to delegate the authority to borrow in the form of treasury bills for monetary policy purposes to the Governor of CBL. Such bills are liabilities of the government with the proceeds maintained in a special account at the CBL.

The authority to borrow and issue guarantees on behalf of the Government is clear, but as the primary legislation does not specify the purposes for which the Minister may borrow, the legal framework for debt management in Lesotho does not meet the minimum requirements.

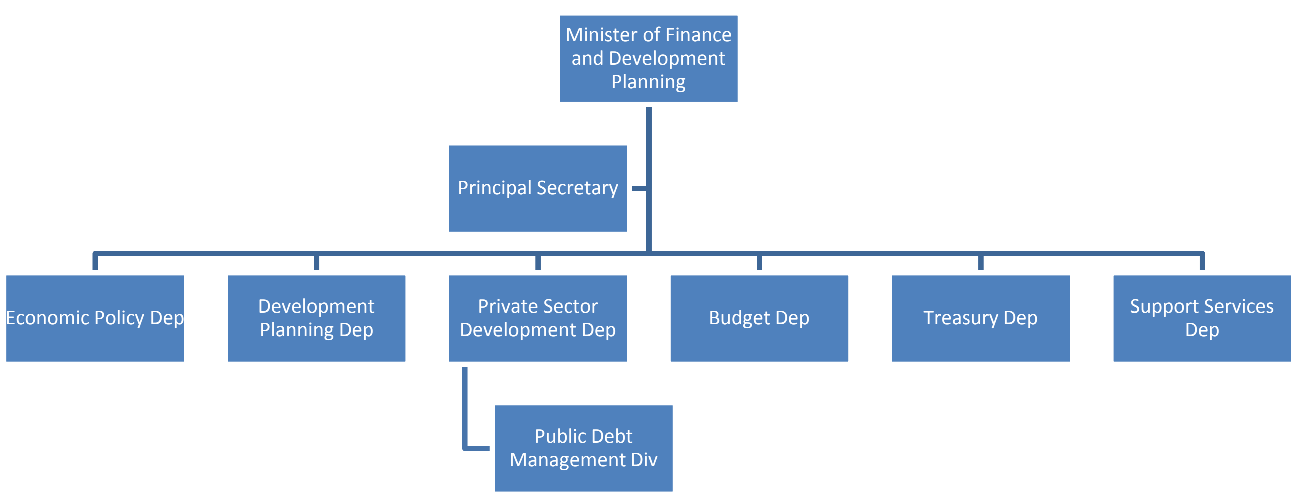
DPI-2 Managerial Structure

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

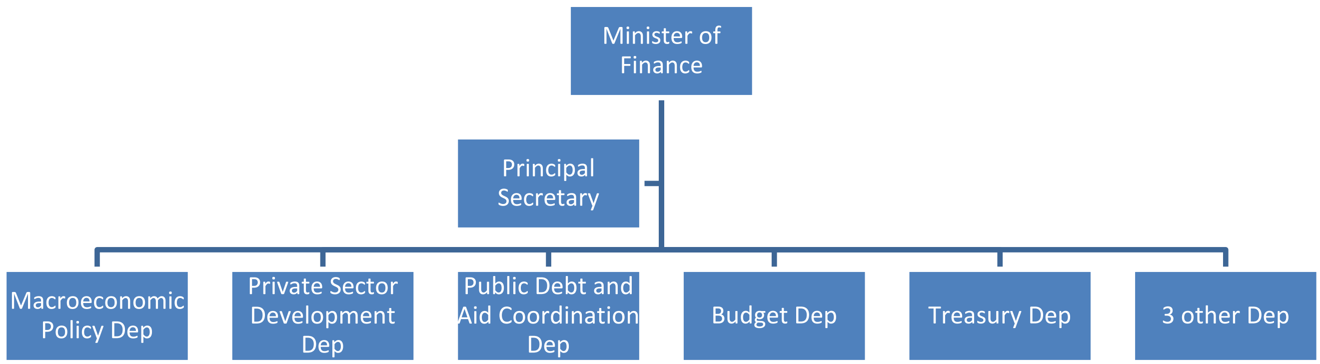
Dimension 1

The previous Ministry of Finance and Development Planning (MoFDP) has been split into two ministries after the recent elections: the Ministry of Finance (MoF) and the Ministry of Planning (MoP). The reorganization is on-going and the detailed distribution of duties and responsibilities and staff has not been finally approved by the Public Service Commission. Because of the reorganization, the current Public Debt Management Division (PDMD) in the Private Sector Development Department in MoF will be upgraded to a department. It will also assume an additional task for aid coordination. The new department will be called Public Debt and Aid Coordination Department (PDACD).

The Organization Chart of previous MoFDP



The Organization Chart of the new MoF



As far as the mission could ascertain, the new organization will not change significantly the managerial structure of debt management. Thus, the assessment outcome will be the same irrespective of the intentions behind the reorganization yet to be implemented.

According to its formal duties, PDMD should be the main debt management entity within the Government. It is, both in the previous organization and in the proposed one, responsible for external and domestic debt management, debt strategy formulation, debt analysis and issuance, and monitoring of guarantees. In the new organization, the development of capital markets has been added to its duties along with aid coordination. Even though domestic borrowing is part of PDMDs duties, it is not active in this area. Instead, the CBL is the main debt management entity for domestic debt, regularly issuing treasury bills and government bonds.

Debt management coordination is facilitated by two committees formally in place, the Debt Management Committee, headed by the Minister, and the Technical Debt Management Committee, headed by the director of PDMD. These committees, however, have not been functioning during the last years. Instead, some basic coordination in the budget preparation phase is achieved within the Macro working group, headed by the Macro division in the Macroeconomic Policy Department of the Ministry of Finance. The Macro working group consists of representatives from the Macro division, PDMD, Budget, Revenue authority, and CBL. The CBL is represented in the Macro working group by the Research Department but without representation of the Financial Markets Department, which deals with government borrowing. The group meets monthly to discuss the macro-fiscal framework produced by the Macro division including how to finance the borrowing requirement. The discussions on domestic borrowing seem to take place once a year as input to the budget. The Macro working group advises the Minister on domestic and external borrowing; who in turn advises the Cabinet sub-committee for the Budget, which provides aggregate figures for domestic and external financing in the tables included in the annual budget law.

Domestic debt borrowing is largely managed by the CBL. Treasury bills are issued by the CBL without consultation with the Minister. For government bonds, the CBL requests a formal approval from the Minister specifying the bond tenor for issuance and the respective volume. It is unclear how this request is processed within the ministry as the mission was informed that PDMD is not consulted. After each auction, the CBL provides the auction results to the PDMD.

The PDMD has a key role in external borrowing and normally leads the loan negotiating teams. Cases had occurred, however, where the PDMD was informed afterwards that a loan negotiation had been conducted and finalized.

Thus, there is no principal debt management entity and the coordination among the entities involved is not well developed. Consequently, the minimum requirements for the first dimension are not met.

Dimension 2

Although the Loans (Statutory Bodies) Act of 1975states that no statutory body shall raise a loan domestically or externally above a limit of LSL 1 million without having obtained the prior approval of the Minister, the Act has been interpreted as if the Government should provide a government guarantee. Consequently, the Minister has issued many domestic guarantees for SOEs. The domestic guarantees for SOEs are generally not prepared by the PDMD, but directly by the Principal Secretary. With the exception of guaranteed loans to the parliamentarians, most of the domestic guarantees are not recorded by the PDMD.

As for guarantees of external loans, the mission was informed about the existence of one outstanding loan guarantee for the Lesotho National Development Corporation. The loan and guarantee were presented to the PDMD for final preparation together with the MoF legal department and thereafter presented to the Minister for approval.

The procedures for issuing guarantees do not ensure that the PDMD is always involved in the preparation and issuance process and sometimes the PDMD is not even notified about guarantees being issued. For example, the PDMD recently became aware of a guarantee that had been issued to a local bank for a development project without its knowledge.

Thus, there is no principal guarantee entity and the coordination among the entities involved is not well developed. Consequently, the minimum requirements for the second dimension are not met.

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 debt management strategy	N/R

Dimension 1

A debt management strategy has never been developed in Lesotho. The existing legal framework does not require producing a debt management strategy or any other policy document in the area of public debt management. To the extent that aid and concessional debt is maximized, the implicit strategy has been on cost minimization.

The debt management objectives of the Government are not described or documented in any public document. The mission was informed that currently the primary debt management objective is to mobilize low cost funding to finance public investments while domestic borrowing is used to conduct monetary policy operations, deficit financing and market development.

Presently, external government borrowing is contracted on concessional terms from multilateral and bilateral lenders and on commercial terms from other entities, e.g. EXIM Bank of China. Domestic borrowing is conducted for monetary policy purposes and for developing the domestic market. Domestic borrowing is also conducted for fiscal purposes but since the government deposits in the CBL are large, the government is currently not dependent on domestic borrowing for financing purposes. The rationale for conducting domestic borrowing under these circumstances is not documented and it was not clear to the mission whether there exists any policy at all in this matter.

Furthermore, the mission did not identify any cost/risk analysis undertaken by either the MoF or the CBL prior to taking decisions on external and domestic borrowing.

In summary, the government has not prepared a debt management strategy. Thus, the minimum requirements for Dimension 1 have not been met.

Dimension 2

The MoF intends to develop a debt management strategy, see box 1. It has requested the WB for technical assistance including hands on training on the use of the MTDS toolkit. Due to the current lack of strategy, dimension 2 cannot be rated.

Box 1: What is a Debt Management Strategy?

A debt management strategy is a plan that the government intends to implement over the medium term to achieve a desired composition of the government debt portfolio and that captures the government's preferences with regard to the cost-risk trade-off. It will make operational the government's debt management objectives—e.g. commonly ensuring that the government is financing needs and payment obligations are met at the lowest possible 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. In particular, a debt management strategy identifies how cost and risk vary with the composition of debt.

Benefits of producing and publishing an explicit debt management strategy:

1. **Evaluate the cost-risk trade-offs**: Setting clear medium-term strategic goals will help debt managers avoid poor decisions made solely based on 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 countries are 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 monetary management, helping to reconcile various objectives and constraints, including on domestic debt market development and balance of payments issues. **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**. **Cost**: A debt management strategy can potentially lower the cost of debt servicing, as an effective and transparent strategy will ensure that individual borrowing decisions are incorporated into an overall portfolio framework aimed at minimizing cost with due regard to the risks involved. The debt management strategy will also support domestic debt market development, 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.

DPI-4 Evaluation of Debt Management Operations

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

As part of the yearly budget submitted to the Parliament, the Government presents a background paper that elaborates on various aspects of the budget in more detail than in the Budget speech. The background paper includes a brief presentation of financing and borrowing operations during the last couple of years as well as an overview of the outstanding debt, historical figures, and the expected development during the coming years. This meets the minimum requirements for this indicator. Only the minimum score is awarded since there is no evaluation of the actual development against debt management strategy as required in the DeMPA.

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

According to the Public Financial Management and Accountability Act, 2011, the Office of the Auditor General is responsible for the annual auditing of the government accounts, assets and liabilities, and abstract of receipts and payments. The Public debt audit outcomes are reported under the liabilities part of the annual audit report.

According to the legal framework, the Auditor General submits the certified copy of the audited annual financial statement to the Minister for Finance, whose responsibility is to bring it to the attention of the Parliament "at the first available opportunity." Thus, the primary focus of the Office of the Auditor General is to verify the government financial statements. No audits of government activities, policies, and operations have been conducted so far owing to the lack of skills to conduct such auditing.

Moreover, the latest audit report of financial statements of the Government was for the budget year 2008-2009. It was submitted to the Minister for Finance only in spring 2012; it is still pending a formal submission to the Parliament. According to the OAG, the delays in submitting audited accounts are due to delays in submission of the accounts from the Accountant General to the OAG. In addition, the data presented to the auditors by the Accountant General often have low quality. Therefore, the latest audited financial accounts, including the debt, made public are from fiscal year 2007/08.

The Internal Audit division of the MoF exercises internal control and monitoring functions. The internal audit reports are generally focused on the financial accounts. The internal audit division has not conducted any auditing of activities, policies, and operations of PDMD.

Due to the absence of an external performance auditing of operations, the government does not meet the minimum requirement on the first dimension.

Dimension 2

Since no external or internal audits of debt management activities, policies, and operations have been conducted, it is not possible to assess the authorities' commitment to address the outcomes from any such audit. Thus, the second dimension is not rated.

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 central government–debt service under different scenarios.	C
2. Availability of key macro variables and an analysis of debt sustainability, and the frequency with which it is undertaken	D

Dimension 1

The PDMD prepares a forecast of the expected government debt stock and debt servicing costs and provides this information as part of the annual budget preparation. The forecast of the increase in the stock of debt outstanding is derived from the preliminary forecast of the budget deficit. The forecast of debt service costs is based on current debt service costs and expected costs for new debt. As the actual issuance of specific tenors and the timing of debt issuance have been delegated to CBL, and as the information flow from CBL to MoF is not timely, the forecast is based on limited information. The PDMD forecast for domestic debt servicing is based on historic trends and simple projections of issuance and on the likely interest rates to be obtained rather than on firm borrowing plans. Yet, the PDMD forecasts, integrated with the Government's annual budget process, have often been close to the actual outturn.

The score for this dimension is C because an annual forecast of debt service is prepared. A higher score would require that the forecast includes analysis of the sensitivity to changes in interest rates and exchange rates.

Dimension 2

PDMD prepared, with assistance from MEFMI, a debt sustainability analysis in 2010. The product was the result of a workshop that aimed at developing a DSA while conducting training. The PDMD has not prepared another debt sustainability analysis since then.

The economic policy office of MoF prepares annual forecasts of key variables and monitors actual outcomes. These data are shared within the Macro Working Group in its monthly meeting. The background paper to the budget contains macro and fiscal outcome and projection until 2014/15.

Had the PDMD staff completed the debt sustainability analysis on its own, even though it was in 2010, a score of C could be given. The use of outside assistance reduces the score to a D.

DPI-7 Coordination with Monetary Policy

Dimension	Score
1. Clarity at separation between monetary policy operations and debt management transactions.	D
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.	C

Dimension 1

The Central Bank of Lesotho (CBL) has been delegated by the MoF to manage all domestic borrowing on behalf of the central government. The Central Bank Law of 2000 and the Legal Notice No.49 of 2009: Local Loans (Government Treasury Securities), (Trading) Regulations of 2009 cite the authority of the CBL to issue debt on behalf of the Government of Lesotho with the obligation for payment of principal and interest falling on the consolidated fund of the government. No agency agreement exists between MoF and CBL outlining roles and responsibilities.

The purposes of this borrowing, are for both deficit financing and monetary policy implementation. Although there is no formal distinction made by the type of instruments issued, an internal policy holds that treasury bills are used for liquidity management by the Central Bank and treasury bonds (of three to ten years' maturity) are issued for deficit financing. This distinction was stated in the CBL's annual report for 2010 in section 3.6.3 on domestic government borrowing. The proceeds from treasury bills issuance are deposited in a special CBL account that is not accessible by the MoF.

It is not clear, however, that this distinction is generally recognized by the market participants. No mention of the different uses of the two instruments is included in the offering announcements for either bills or bonds. Further, in the past, bills were issued for fiscal purposes.

Even if the distinction were clearly recognized by the market participants, it is not clear to the mission that treasury bills are indeed issued solely for monetary purposes. Between March 2011 and March 2012, the CBL net claims on the government increased with LSL 910 million.[5] In the absence of monetary operations through T-bills the CBL would have extended even larger net credits to the government. Treasury bill issuance during the period, although formally undertaken as monetary policy operations, were therefore in fact a means to finance part of the government deficit in the market.

Due to absence of clarity of the distinctions between monetary policy and debt management activities, the score for this dimension is D.

Dimension 2

The macro and fiscal tables produced by MoF and CBL, and which are discussed at the monthly meetings within the Macro Working Group, include a large number of economic indicators, including commodity prices, production, investment, employment, consumer prices, monetary aggregates, banking, and credit. The tables also contain monthly outcomes and forecasts of government receipts, expenditures, net claims, and financing for the fiscal year. There is a regular exchange of information on the debt service cash flow with the CBL.

Because the Central Bank meets with the Ministry of Finance monthly and because of the scope of the fiscal data and debt service data that is exchanged, a score of C is assigned.

Dimension 3

The Central Bank Law, section 42 (2) limits borrowing by the government from CBL to 5% of the government's actual revenues from the previous year. The credit shall be repaid within 93 days from the end of the Government's financial year.

The limit on the government's access to the credit at the Central Bank justifies a score of C. Since the potential credit term extends beyond 90 days, a higher score cannot be assigned.

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	D

[5] For comparison, the total domestic debt at end of March 2012 amounted to LSL 1 114 million. Cf. CBL Quarterly Review March 2012

of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets.	
2. The availability and quality of documented procedures for local currency borrowing in the domestic market.	A

Dimension 1

The CBL, through its Financial Markets Department, regularly issues treasury bills and government bonds through auctions. Both instruments are liabilities of the central government, even though the former are said to be issued for monetary policy purposes. The latter are for budgetary purposes, but have also been issued for market development purposes.

At each auction, treasury bills are offered in tenors of 91,182, 273 and 364 days. The auctions are conducted every second week. Government bond auctions are held every second month. There are 3-, 5-, 7-, and 10-year bonds outstanding, but current issuance has been limited to 7- and 10-year bonds.

The auctions follow a preannounced calendar for the entire year. The calendar lists the dates of issue for treasury bills and government bonds. For treasury bills, the current calendar shows that all maturities will be issued each time. For bonds, the calendar does not show what maturities and instruments are to be issued. The auctions are announced to the market one week in advance. The volumes for the treasury bills are determined by the CBL Liquidity Forecasting Committee. The tenors and volumes for the bonds are proposed by the CBL to the Minister in the days before the auction announcement. The PDMD is not involved in the preparation of the bond issue. Currently, the policy is to issue 7- and 10-year bonds. The budget background paper contains a forecast on how much to issue externally and domestically, both of treasury bills and of government bonds. The volume proposal is also influenced by market development objectives. Since the MoF has large, if lately reduced, excess deposits with the CBL(above deposits due to blocked T-bill proceeds), the auction volumes are not influenced by any immediate cash balance considerations.

The auctions are open to all investors and are conducted as single price auctions. Banks and larger institutional investors can bid electronically through the new Central Securities Depository (CSD) system. The system is capable of automated bidding, trading, and settlement for both bills and bonds. The CSD also serves as a depository system for government and corporate securities. Bidders can provide both competitive and non-competitive bids. Small investors can provide bids in physical format directly to the CBL. Settlement takes place T+0 for banks through automatic debiting of the accounts in the CBL. Other investors settle through their respective commercial bank. For banks, the settlement procedure follows the Delivery versus Payment principle (DvP), i.e. at the time the cash is withdrawn from their accounts their securities accounts in the CDS will be credited. The same procedure is followed at redemption when the securities accounts will be debited and the accounts in CBL credited.

The proceeds of treasury bills issuance are credited to a blocked Government account in CBL. The proceeds of bonds issuance are credited to the normal Treasury account in the CBL. As a principal or coupon payment approaches, the CBL informs the PDMD so that it can produce the necessary payment order for the T-bills and bonds.

Secondary market transactions between banks are facilitated through the CSD and settled on a DvP basis. In practice, however, there is no secondary trading. The CBL offers a facility whereby it will buy back securities after 75% of their time to maturity has elapsed. The interest rates are computed based on the spread to comparable South African securities.

The domestic borrowing procedures are, in many aspects, well developed. An auction calendar is made public and the bidding and settlement procedures are highly automated. However, the borrowing plan for the T-bonds does not include the instrument types. Therefore, the minimum requirements for the first dimension are not met. In addition, the auction calendar does not indicate the maturity of the government bonds to be issued.

Dimension 2

Prospectuses for both bonds and bills, containing the terms and conditions for each security being offered, are available on the CBL website. The general borrowing procedures are documented in the Legal Notice No.49 of 2009, Local Loans (Government Treasury Securities), (Trading) Regulations, 2009. The document clarifies that any person or entity may purchase the securities. This document is also available on the CBL website. This meets the requirement for an A on 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

Dimension 1

External borrowing is conducted mainly for project financing purposes. Some projects are initiated by the line ministries, some are initiated by the ministries together with donors, and some are initiated directly by donors. The project proposals are required to align with the national development plan[6] and are supposed to be scrutinized by the MoP. Formally, an appraisal committee with representatives from MoP, line ministries and PDMD is in place, but this committee is currently not functional. If creditors have not been identified, it is the responsibility of PDMD to find potential donors to contribute with investment funds. Usually, the PDMD staff takes part in the negotiation team.

The PDMD should calculate whether loan proposals are concessional or not. No annual borrowing plan, however, is produced and there is no assessment of the most beneficial terms and conditions that could be obtained from the potential creditors; see box 2 on why concessionality analysis is not a sufficient technique for assessment of the terms and conditions

[6] At this point, the national plan is still in draft form.

of a loan. Thus, the Government does not meet the minimum requirements for the first dimension.

Dimension 2

The Permanent Secretary or the PDMD director usually leads the loan negotiating teams. These teams include representatives from the line ministry concerned and legal advisors from the MoF, and, sometimes, the Attorney General. At the completion of negotiations, the loan agreement is signed by the Minister or his delegate. The loan agreement is entered into the CS-DRMS by a debt officer and is approved by an administrator. No terms sheet is produced by anyone participating in the loan negotiation and there is no procedures manual. Thus, the Government does not meet the minimum requirements for the second dimension.

Dimension 3

Legal experts from the MoF Legal Department participate in the loan negotiations from the beginning of the process, that is, when the first draft is submitted by the creditor to the Government. The Legal Department is regularly consulting with the Attorney General's office and sometimes the office takes part in the loan negotiations. After the loan is signed, but before it becomes effective, the Attorney General provides a legal opinion. Thus, legal experts are involved during the entire loan negotiating process. This meets the highest requirements for this dimension.

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 debt management system with functionalities for handling derivatives, as well as availability and quality of documented procedures for the use of derivatives.	N/R

Dimension 1

According to the Loans and Guarantee Act, the Minister has sole authority to approve the purpose of a loan for which a government guarantee is proposed. The same law grants the authority to the Minister regarding approval of the terms and conditions of each loan to an individual that is proposed to be guaranteed by the government. In addition, the Public Finance Management and Accountability Act (PFMA) states that the Minister for Finance shall be satisfied that the beneficiary of a guarantee has the capacity to repay the amount involved, including interest, according to the terms and conditions for the credit.

The Loans (Statutory Bodies) Act of 1975 establishes that all domestic borrowing by statutory bodies, SOEs and other government institutions, in amounts that exceed LSL 1 million should be approved by the Minister. In practice, the Minister also issues a guarantee as part of the approval process. Since this applies to domestic borrowing even in the form of overdrafts, it is probable that there are many domestic guarantees outstanding. Such domestic guarantees are usually issued without involvement of the PDMD and the PDMD generally does not record these guarantees.

The team was also informed of the existence of domestic guarantees for loans to farmers as well as to members of the Parliament. The latter are recorded by the PDMD since the Government is subsidizing the interest on these loans.

Box 2: Concessionality analysis

Concessionality analysis in many developing countries is the main technique for analyzing borrowing proposals. However, it is not an adequate technique for that purpose. As the name suggest concessionality is calculated from the donor's perspective and it is not directly linked to whether a borrowing proposal is beneficial from the debtor's point of view.

The concessionality concept was initially developed by OECD in order to provide a framework for analyzing whether trade credits included some sort of concession on behalf of the creditor. A model was therefore developed where credit offerings were discounted based on the prevailing donor government borrowing costs in terms of interest rate plus a spread. The difference between the net present value and the nominal value is regarded as the concessional element of the credit. As a result donors providing credits in some currencies may require relatively high interest rates which are still regarded concessional since the market interest rates in that currency are high without necessarily implying that the currency in question is expected to depreciate. Clearly, a borrowing proposal regarded concessional, according to OECD definitions, can imply high borrowing costs on behalf of the debtor.

The concessionality concept is also often included in IMF programs, in which case the concessionality for long-term credits is calculated not with current government yields as basis but with 10-year average government yields. Clearly, a borrowing proposal could, with this definition, be calculated as very concessional just on the basis of high historical interest rates even though the offered interest rate is high compared with alternative options.

Thus, as a method for assessing the most beneficial terms and conditions offered by creditors the concessionality approach is of limited value. The debt manager is not interested in analyzing the terms and conditions for the funding of the creditor. Instead, the borrowing proposals should be analyzed in terms of lowest possible cost with due regard to the risks involved. Equally important as the terms and conditions of the loan are the conditions for the procurement made under the credit. If the procurement is not open for all potential providers the increased cost of the goods and services should be included in the analysis. Should e.g. the expected costs of the procurement lead to 10% higher prices than what could have been achieved in a fully open procurement process the higher price should be included in the analysis of the terms and conditions of the loan proposal. For commercially viable projects, the total return of the projects, including financing costs, should be calculated.

For external loans, there appears to be just one outstanding loan guarantee: for the Lesotho National Development Corporation. The loan and guarantee proposal were presented to the PDMD for final preparation, including an analysis of concessionality, and to the MoF legal department. The completed package was forwarded to the Minister for signature. The guarantee was not subject to a credit risk analysis, but the guarantee was issued before the PFMA was approved.

The procedures do not ensure that the PDMD is always involved in decisions on loan guarantee issuance. No procedures have been developed on how to conduct the credit risk assessments required by the PFMA. The operational procedures have not been documented and there are no identified policies for issuing loan guarantees. In conclusion, the minimum requirements for the first dimension are not met.

Dimension 2

The regulations do not distinguish between credits provided by the Government financed from borrowing or financed from other sources. The PFMA states that the Minister may extend a loan if it is included in the appropriation act. Before approving a loan, the Minister shall be satisfied that the beneficiary has the capacity to repay the loan, including interest, according to the terms and conditions for the credit. The credit agreement may include the right of the Minister to require, in the event of default, full repayment of the loan prior to the maturity.

Government on-lending of funds may include an additional premium in the interest charged to the beneficiary. Recent on-lending to the Lesotho telecommunications entity included a margin of 1percentage point on the interest. The premium was not due to credit risk considerations, but as a compensation for the fixed exchange rate offered in the on-lending contract.

On-lending considerations are often introduced late in the loan negotiation process. This can make it difficult for the PDMD to undertake a thorough analysis. Sometimes formal on-lending contracts are not entered into between the Government and the beneficiary.

No procedures exist on how to conduct the credit risk assessments required by the PFMA. The operational procedures are not documented, and there are no policies for on-lending. As a result, the minimum requirements for the second dimension are not met.

Dimension 3

The Government has not entered into any derivative contracts. Thus, the third dimension is 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	D

government bank accounts.	
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
The government of Lesotho manages its recurring expenses through centralized disbursement. Payments for capital projects are managed by the line ministry responsible for the project. The government's cash balances for meeting recurring expenses are held in an account at CBL. Funds for capital programs are released from the treasury to the sponsoring ministries in accordance with the projects' work plans. The line ministries hold these funds in accounts at commercial banks. There are approximately 300 accounts scattered among the four commercial banks[7] in the country.

There is no forecast of cash balances on a weekly basis created within the finance ministry. The macro and fiscal tables contain forecasts of the cash balances, but only on a monthly basis. Cash balance information is limited to daily reports of closing balances of the government's accounts in CBL. Although there is a requirement for monthly reporting by the line ministries on funds held in commercial banks, the adherence is poor, according to MoF. Early exhaustion of quarterly budget allotments is dealt with by budget advances. The government cash balances in the CBL amounted to 15% of GDP (12% if the blocked T-bills proceeds are excluded) at end of March 2012.[8] Due to the large cash balances, debt issuance, particularly of short-term securities, is not tied to expected cash balances.

Due to the absence of any forecast of cash balances on a weekly basis, the score for this dimension is D.

Dimension 2
The Accountant General (AG) has responsibility for treasury operations. All funds in the consolidated fund are held in CBL. Section 40(2)(c) of the Central Bank Act of Lesotho of 2000 forbids the payment of interest on government deposits. The same law, in section 40(1) states that the government may maintain balances with any other bank under such terms as the government and CBL may find agreeable. The AG does not, however, move balances out of the government's accounts at CBL and place them in commercial banks for deposit at interest when it is prudent to do so. (Certain line ministries do maintain commercial bank accounts, but these arrangements provide no benefit to the treasury.) This represents a loss of potential earnings on idle cash balances. However, it should be kept in mind, that since CBL is a wholly owned entity of the government, the profits generated by CBL accrues to the benefit of the government via dividends.

There is no target set for the size of the government cash balances.

For the absence of any target cash balance and lack of remuneration of cash balances in the CBL, a score of D is given.

[7] The banks are the Standard Bank of Lesotho, First National Bank (FNB), Nedbank, and the Lesotho Post Bank.
[8] CBL Quarterly Review March 2012

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	B

Dimension 1

PDMD is responsible for processing government external debt service payments. The MoF is using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to record and service external debt and external government guarantees. Some categories of domestic debt, mainly the subsidized[9] guaranteed loans from commercial banks to the Parliamentarians are also recorded in the CS-DRMS. The treasury bonds and bills are recorded in spreadsheets after receiving auction results from CBL. It has however, been noted that there is an average lag of three months in capturing auctions results by the PDMD.

The CSD is also used to auction securities and it is linked to the major participants, mainly commercial banks, of the debt market. The bidding by the linked participants is done electronically, whereas small investors' bids are delivered manually and keyed into system by the CBL staff a day prior to the auction date. Details of the transactions are recorded automatically after the auction results, in which the successful bidders from the linked participants are informed on real time. Settlement with the major creditors is T+0. As a condition, the small bidders are required to maintain accounts with adequate balances with the commercial banks and are informed of successful bids through their commercial banks.

Processing of external debt service payments has three levels of approval within the PDMD. After reconciling projections from CS-DRMS with creditor billing statements, a written instruction is sent to the IT officer in the Management Information System (MIS) department for uploading into IFMIS.[10] If, subject to available funds, IFMIS allows the transaction, PDMD sends a written instruction to the CBL to process external debt payments.

The PDMD is not involved directly in servicing all categories of domestic debt. On the redemption or interest payment date, the central bank debits the Government account in favor of the domestic debt instrument holder. The funds for redeeming treasury bills are sourced from a

[9] These are loans from local commercial banks to the Parliamentarians, in which the Government pays interest while borrowers repay the principal amount.

[10] The interface is unidirectional in that it allows only uploading debt service payments into IFMIS. Within IFMIS there are loan keys corresponding to all loan agreements recorded in CS-DRMS. Upon uploading to IFMIS, they are matched directly to the respective loans. This forms another check before the transaction can go through.

blocked account maintained with the CBL, whereas the interest portion is paid through the consolidated Government account also maintained with the CBL. For Treasury bonds, the CBL debits the consolidated government account and notifies the Ministry of Finance accordingly. The ministry captures the transactions after being receiving the debit advise from the CBL and during reconciliation of accounts. Consequently, the PDMD may not have timely information on actual domestic debt service payments due to time lag between the actual transaction date and date of receiving and recording the debt advise or reconciliation date. This imposes risks, as the payment process does not follow the prudential approval procedures followed with external debt in the MoF.

The processing of external debt service payments, although done prudently, is not backed by any documented procedures.[11] With respect to the first dimension, on availability and quality of procedures to process debt service, the score is thus D. Payment orders are not prepared electronically, an element which is necessary to achieve a score of B or higher.

Dimension 2

In capturing new loan agreements, the loan is first interpreted by identifying the terms of borrowing and recording them in data-entry sheets for filing. The data-entry sheets act as physical back up of the loan terms. The details are then captured in the CS-DRMS. The transaction is then submitted for approval to the system administrator within the PDMD.[12] Entries of disbursements are also systematically verified by the system administrator.

Generally, the external debt database is updated systematically. The PDMD has three major mechanisms of reconciling records. First, the department authorizes applications for disbursement, the process in which a ledger of all applications is prepared for reconciliation with actual disbursements. Second, the major creditors provide online access to the loan statements that provide a basis for reconciliation. For other creditors, the PDMD periodically requests information for reconciliation. Third, the most used data sources are the billing statements from creditors that summarize the previous transactions of the particular loan to the closing balance on the date of the bill. The source of disbursement information is the creditor. There are no mechanisms in place to require that project implementation units submit actual disbursements information to the MoF.

The original external loan agreements are stored in wood cases located in the office of the director of the PDMD. These wooden cases are not locked. Copies of loan agreements are stored in their respective files in one of the offices used by officers of the PDMD. The copies of loan agreements are filed together with a summary of loan terms extracted during the recording of the loan agreement and with other correspondence between the PDMD and the creditors. The files contain the transaction documents as well as payment orders.

As indicated in dimension 1, with an exception of some guarantees, records of domestic debt within PDMD are scanty. The Central Bank of Lesotho has complete information on the T-bills and bonds data.

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[11] Although a procedures manual was prepared with a support of MEFMI, it was never approved for implementation and is now outdated. The PDMD is currently reviewing the procedures manual with the intention of updating it.

[12] The PDMD in Lesotho is among the very few countries' debt offices that have activated the CS-DRMS approval feature.

Due to the absence of secure storage of loan agreements and administration records and the lack of documented procedures, the minimum requirements for the second dimension are not met.

Dimension 3

In terms of data security, access to the CS-DRMS in the MoF and to the CSD at the CBL is restricted through passwords, with user rights assigned to staff depending on their roles. There are no password policies in place to access CS-DRMS in PDMD, and no access controls to the offices where the physical agreements are stored. Within PDMD, two staff members have administrative rights to approve transactions. Nine staff have rights to edit the database. The director has browser rights only. These rights and responsibilities are assigned by the IT department after receiving instructions from the director of the PDMD. The IT department has been designated to support CS-DRMS.

Passwords do not have a set expiration date. There is no password policy in place and no documented procedures for controlling access to the public debt management and recording system. For these reasons, the score for this dimension is D.

Dimension 4

In the MoF, the MIS office backs up the CS-DRMS, together with other systems used in the Ministry of Finance, on weekly basis.[13] The tapes with the back-ups are stored in fireproof safes located in a secured room in a separate building.[14] Given the mountainous terrace of the country, and particularly the city of Lesotho, the building where the back-ups are stored is not prone to floods. Access to the room is secured, it has an automatic fire alarm, has firefighting equipment. The Ministry, in line with government policy, plans to procure back-up servers to be located within the Ministry of Communication. The back-up servers will be linked electronically in real time with the servers within the MoF.

At CBL, all domestic debt data within the CSD are backed up electronically in real time to off-site servers located at the temporary disaster recovery site.

The backing-up of debt management records weekly within the MoF and in real-time within the CBL is above the minimum requirements for the fourth dimension. The score given is B.

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	D
3. Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements	D

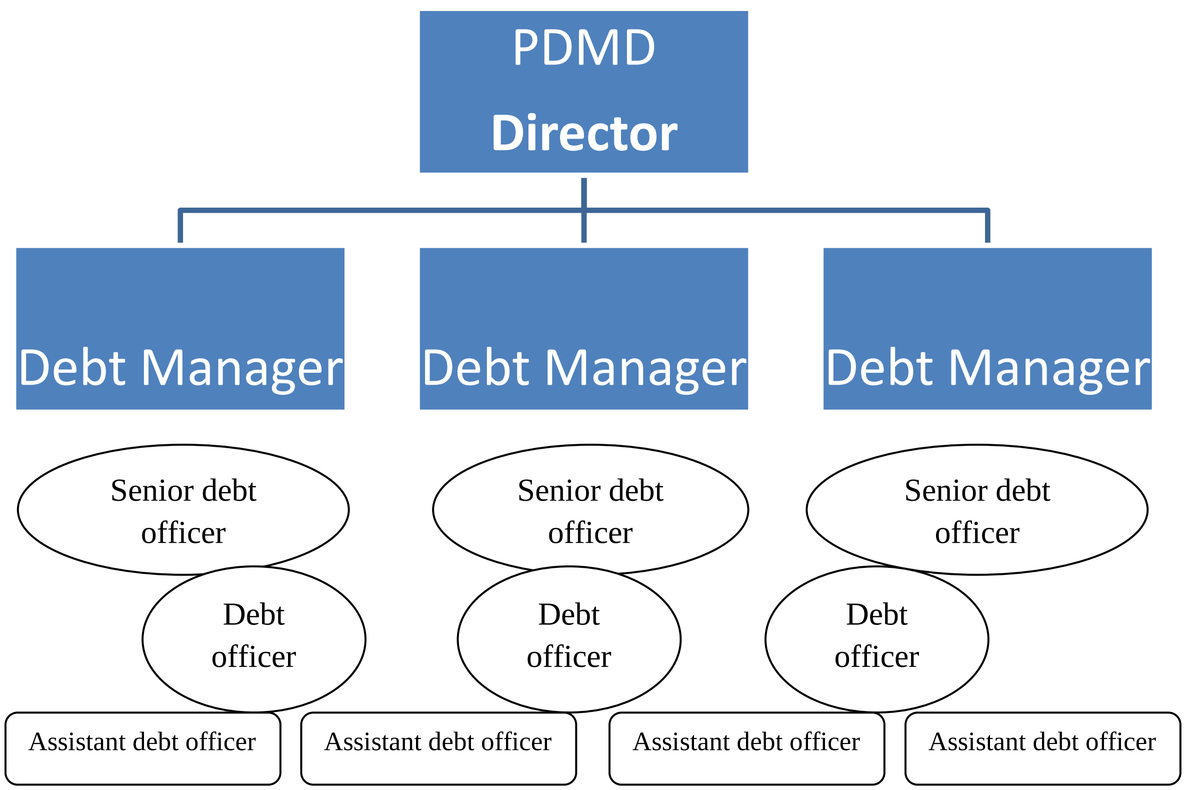
[13] The server room is located within the space of another ministry. It was a conscious management decision of the MoF to locate it there. The room is well secured with electronic access control.
[14] There is a separate building on the Government compound.

Dimension 1

The PDMD is organized with a director and three debt managers, each sharing front, middle, and back office duties. On the next level, senior public debt officers are also fulfilling a mixture of front, middle and back office duties. For debt officers reporting to the senior public debt officers, the duties are more focused on back office and system-related duties. The distinctions in duties are even more carefully maintained among the lowest level, that of assistant public debt officers.

Because the duties of the senior staff overlap, the rights and authorities in the CS-DRMS necessarily have not been set up with a proper segregation of duties. For example, one of the debt managers who regularly participates in the loan negotiation process is one of the key administrators of the system and, as such, can approve the entry of loan agreements and disbursements made by the editor staff. Ideally, it should be the opposite; the front office enters the loan agreement into the system and the back office confirms the details. Nor is there any separation between the functions of initiating payments and recording in the system. The editors perform both duties. They prepare the bills due for payment and enter information on disbursements in the system. There is no staff responsible for risk monitoring and compliance and these duties are not explicitly part of the director's duties.

In the CBL, there is a clear separation between front and back office staff. In addition, there is both an overall risk management group and a risk management unit within the Financial Markets Department.



In the PDMD, there is no clear separation between staff with the authority to negotiate and staff responsible for recording of transactions. There is no clear separation between staff responsible for arranging payments and staff responsible for recording them. There is no staff responsible for risk monitoring and compliance. The minimum requirements for the first dimension are therefore not met.

Dimension 2

PDMD has 12 staff positions, of which one is vacant. The department plans to increase its overall staff level when the transfer of aid coordination duties and their assigned staff to the department is implemented. The plan is to increase the number of staff cautiously. Both the director of the PDMD and the mission are of the opinion that the department is sufficiently staffed and that the staff overall is adequately trained for the operations actually conducted. However, especially in front and middle office functions PDMD should be more active and this will require increased capacity. The staff also have generic job descriptions, but these job descriptions are not regularly reviewed and updated. In the CBL, the situation for staff working with domestic securities is the same. Here also, the job descriptions are not regularly reviewed and updated.

The minimum requirements are not met for the second dimension, because the job descriptions are not reviewed or updated regularly.

Dimension 3

The MoF does not have a business-continuity and disaster-recovery plan. Access to CS-DRMS in case of an emergency is not secured through the establishment of a recovery site. At the CBL, a business-continuity plan is expected soon to be approved by the Board, but not such plan is currently in place. The CBL has a recovery site where critical systems such as the CSD are housed. The current recovery site is temporary and is located 3 to 4 km from the main building. This is too close to function effectively as a recovery site. A new recovery facility to be located at a safer distance is still at the planning stage.

The minimum requirements for the third dimension are not met.

3.6 Debt Records and Reporting

DPI-14 Debt records

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

Dimension 1

The PDMD uses the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to record and manage external government debt, on-lending, and guarantees.

For central government external debt, the basic details of new loans and the terms of debt service payments are entered into CS-DRMS as soon as agreements have been concluded with the creditors. Actual debt service transactions, however, are recorded upon receiving confirmation of payment from CBL. Disbursements are recorded after receiving confirmation of withdrawals from creditors. There has been a problem of delays in getting disbursement information from the creditors.

On average, external debt records are reconciled every six months. This reconciliation involves comparing the debt records in CS-DRMS with information that is contained in the creditor billing statements, including disbursements, amortization, interest payments, and other charges. In case of discrepancies, the PDMD upon satisfactorily confirming that their data are correct, communicate with the creditor for final reconciliation.

The details of new guarantees, when and if the details are submitted to the PDMD, are also recorded immediately after the Minister for Finance has concluded the agreement with creditors/borrowers. The timing of recording transactions relating to guarantees and the on-lent loan in the CS-DRMS is similar to that of central government external debt records as explained above. It was noted, however, that not all domestic guarantees are recorded; this is a particular problem in the case of loan guarantees to parastatals and public entities.

The PDMD also maintains an Excel-based domestic debt database with aggregate information on debt instruments. The database is correct subject to a lag of up to three months. The main database for domestic debt, however, is the CSD and it is updated whenever changes in holdings occur.

The score for dimension 1 is D because the recording of government guarantees is incomplete and disbursement information for central government debt is recorded with a time lag of three to six months.

Dimension 2

The Financial Markets Department in the CBL uses a Central Securities Depository (CSD) system to record and manage government securities: the Treasury bills and bonds. The CSD is also used for securities auctions and for settlement of payments. In the CBL, the records are secured with real time back-ups to the offsite temporary disaster recovery center. The CBL shares domestic debt records with the MoF PDMD, where it is recorded in an Excel database. This database is backed-up with the similar frequency as the CS-DRMS.

The recent CBL system audit, performed by the internal audit division of the CBL, also included an audit of the securities holders' registry and confirmed the reliability of the system and correctness and timeliness of the recorded information. The score for dimension 2 is, therefore, B. A higher score 'A' could have been earned if system audit is done on annual basis.

DPI-15 Debt reporting

Dimension	Score
1. Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities	D

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
The PFMA requires annual reporting of assets and liabilities to the Auditor General for subsequent reporting to the Parliament by the Minister for Finance. Despite this statutory requirement, the latest audit report[15] was for FY2008/09. The PDMD reports debt stocks in the budget background paper, but this is not a statutory requirement. Apart from the reporting requirement in the government audit report, there are no other statutory reporting requirements that the mission could ascertain.

The PDMD reports debt data externally to the World Bank annually through the International Reporting System (IRS) and to the IMF monthly. The government meets its contractual reporting requirement to the World Bank. The score for the first dimension, however, is D since the statutory reporting requirement to the Parliament is not fulfilled on time.

Dimension 2
It is the understanding of the mission that there are no statutory or contractual reporting requirements on nonfinancial public sector debt and guarantees. Thus, this dimension is not rated.

Dimension 3
There is no publically available information on the government debt on the MoF website or elsewhere, with exception of the brief debt presentation in the background paper to the budget. A standard debt statistical bulletin is expected to present information outlined in Box 3. The management of the MoF is considering developing and publishing a public debt bulletin starting next fiscal year.

The score for this dimension is D. To meet the minimum requirements, the bulletin should be published at least annually and provide information on central government debt stocks (by creditor, residency classification, instrument, currency, interest rate basis, and residual maturity); debt flows (principal and interest payments); debt ratios and indicators; and basic risk measures of the debt portfolio.

[15] Yet to be tabled to the Parliament at the time of the mission.

Box 3. Standard Requirement of a Debt Statistical Bulletin[1]

A debt statistical bulletin (or its equivalent) covering domestic and external central government debt and loan guarantees could be in the form of regular central bank publications, statistical tables produced by a bureau of statistics, or tables published in the government financial accounts.

The bulletin should be published at least annually (preferably quarterly or semiannually) and provide information on

1. central government debt stocks (by creditor, residency classification, instrument, currency, interest rate basis, and residual maturity);
2. debt flows (principal and interest payments);
3. key debt ratios and indicators;
4. basic risk measures of the debt portfolio.

Basic risk measures would include the following:

- Share of fixed rate to floating rate debt
- Share of short-term to long-term debt
- Average time to interest rate re-fixing
- Share of foreign currency to domestic debt
- Currency composition of foreign currency debt
- Average maturity of the debt
- Maturity profile of the debt

[1]This box draws from the DeMPA Guide.

Annex 1: List of Contacts

	Name	Directorate/Department/Unit	Title
		Ministry of Finance	
1	Mr.Tšeliso Nteso	PDMD	Director
2	Mr. Khotso Moleleki	PDMD	Manager
3	Ms. ’Makampong Tšolele	PDMD	Manager
4	Ms ‘Mantelali Majara	PDMD	Senior Debt Officer
5	Ms ‘Mamakhakhe Makhakhe	PDMD	Senior Debt Officer
6	Ms ‘Marethabile Hlaahla	PDMD	Senior Debt Officer
7	Ms ‘Makubutu Rakubutu	PDMD	Debt Officer
8	Mr Mosito Ntema	PDMD	Debt Officer
9	Ms ‘Makhotso Nkoko	PDMD	Assistant Debt Officer
10	Ms Keletso Matšela	PDMD	Assistant Debt Officer
11	Ms ‘Makamohelo Mofilikoane	Legal	Senior Legal Officer
12	Ms Morongoe Nkisi	Legal	Senior Legal Officer
13	Ms ‘Malelingoana Sekonyela	HR	Director
14	Mr T.N. Molapo	Pension	Manager
15	Mr Thabo Ramochela	Pension	Manager
16	Ms ‘Mabasia Lepota	System Support	Administrative Officer
17	Ms LitemosoThatho	System Support	Public Relations Officer
18	Ms Keletso. M. Hlelesi	MIS	Information Security Manager
19	Ms ‘Masebili Masia	Internal Audit	Internal Audit Manager
20	Mr Habofanoe Makopela	Planning Unit	Chief Economic Planner
21	Mr Mosa E. Macaskill	Treasury	Deputy Accountant General
22	Ms Libako M. Leisanyane	MPM	Chief Economist
23	Mr David N. K. Nchela	PPAD	Director - Procurement Policy and Advisory Department
24	Mr Khethisa Mosito	PS	Principal Secretary
25	Ms ‘Mantšoanelo Monyobi	SSD	Chief - Executive Support Services Department (SSD)
26	Mr Richard T. Letsoela	Treasury	Deputy Accountant General
27	Ms Motšeoa Masheane	Treasury	Accountant General
28	Ms Puleng L. Lekholoane	PSD	Director - Private Sector Department (PSD)

29	Ms Reitumetse Elias	PSD	Manager
30	Mr. Thabo Rasilemane	Internal Audit	Senior Internal Audit
31	Ms Ntsoaki Leisanyane	Human Resource	HR Officer
32	Ms Mabaene Kotoka	Human Resources	Acting HR Manager
33	Ms Libako Leisanyane	Macro.Policy & Mgt	Chief Economist
34	Mr Senei Molapo	Macro.Policy & Mgt	Economist
35	Mr Moepi Sematlane	Macro.Policy & Mgt	Consultant
36	Ms Maselone Thite	Macro.Policy & Mgt	Chief Economist
37	Ms ‘Masentle Mpobole	Budget	Chief Budget Officer
38	Mr. Tom Mpeta	Budget	Dep. Budget Controller
39	Mr. Tsibolana Mosoloane	Budget	Chief Budget Officer
40	Ms. Maleshoane Lekomola	Budget	Senior Budget Officer
41	Mr. Khosi Letsie	Budget	Budget Controller
42	Mrs. ‘Mamahao Leuta	Budget	Dep. Budget Controller
43	Ms Selibe Tšepe	Budget	Chief Budget Officer
44	Ms Tholoana Masupha	MIS	Director – Management and Information System (MIS)
45	Ms ‘Mamotebang Pali	MIS	DataBase Administrator
46	Ms ‘Mannosoa Mosesane	MIS	Support Officer
47	Mr Tšoloane Lehloba	MIS	Support Officer
48	Ms Kambule Deliwe	Deputy Minister’s Office	Secretary
49	Ms Masebetšeli Makhele	PDMD	Debt Manager
50	Ms Motena Tsolo	Economic Policy	Chief Executive

Office of the Auditor General

Ms Lucy Liphafa	Auditor General	Auditor General
Mr Kopano ‘Mou	Auditor General	Ass. Auditor General
Ms Monica Besetsa	Auditor General	Dep. Auditor General

Central Bank of Lesotho

Mr. Bafokeng Noosi	Research	Senior Economist
Mr. Mookameli Fuma	Research	Senior Economist
Ms Lintle Rantšo	IT	
Mr Mothetsi Sekoati	Ent Risk Mgt	Acting Head Business Continuity
Ms Mamotlohi Mochebelele	Fin Markets	Senior Dealer
		Acting Director Financial Mkts
Mr. Bohlale Phakoe	Fin Markets	

Domestic Debt Market Participants

Mr. Khotso Moji	Standard Lesotho Bank	Forex trader

Mr. Motseare Tšosane	Standard Lesotho Bank	Money mkts & FI trader
Mr. Khotso Matloebe	Lesotho Post Bank	Management Accountant
Mr. Malegon Dibakwane	First National Bank	Head of Finance
Mr. Nare Matsaha	First National Bank	Treasury Dealer
Mr. Teboho Shelile	Nedbank	Head of Treasury
Ms Nkomoti Motsapi	Lesotho Post Bank	Financial Accountant

Annex 2: Mission Agenda

Friday September 21, 2012		
10.00 - 11.00	Meeting with Director, Public Debt Management	Director PDMD; WB (team)
11.00 – 12.00	Meeting Public Debt Management Division officials	Public Debt Management Division staff; WB
14.00 – 16.00	Legal and organizational framework, PDMD	Public Debt Management Division staff; WB
16.00-17.00	Legal Department, MoF	Ministry of Finance, WB
Monday September 24, 2012		
09.00-11.00	Meeting Public Debt Management Division officials	Public Debt Management Division staff; WB
11.00 – 12.00	Domestic debt, T-Bills and Bonds	Public Debt Management Division staff; WB
14.00-16.00	Meeting Public Debt Management Division officials	Public Debt Management Division staff; WB
16.00-17.00	Office of the Auditor General	Auditor General; WB
Tuesday September 25, 2012		
08.00-09.00	MoF Management Meeting	MoF officials, WB
09.00-10.00	Meeting with Human Resource Department, Ministry of Finance	MoF officials, WB
10.00 – 11.00	Ministry of Finance/Accountant General officials dealing with cash management	MoF officials; WB
11.00-12.00	Meeting with IT department, Ministry of Finance	Ministry staff, WB
14.00 –	Ministry of Finance	Ministry staff, WB

15.00		officials dealing with budget	
15.30 - 16.30		Internal audit /Control department?	Ministry staff, WB
16.30- 17.30		Policy Economic Department, Macro	Ministry staff, WB
Wednesday September 26, 2012			
09.00 – 10.00		Central Bank officials dealing with : government	CB staff; WB
10.15- 11.30		Central Bank officials dealing with monetary policy	CB staff; WB
13.30 – 14.30		Central Bank officials dealing with debt data records and reporting	CB staff; WB
14.45- 15.30		Risk Management unit/ Department, Central Bank	CB staff; WB
16.00 - 17.00		Registry system in Central Bank	CB staff; WB
Thursday September 27, 2012			
10.00 – 12.00		Market participants dealing in government debt (2 key players)	WB
14.00 – 15.30		Team meeting	WB
16.00 – 18.00		Meeting with PS, MoF	Ministry staff, WB
19.00 - 20.00		Donor Meeting	WB, Donor representatives
Friday September 28, 2012			
09.00 – 10.30		Meeting with Public Debt Management Division staff and CB staff – DeMPA evaluation and assessment discussion	PDMD staff; WB
11.00 - 12.00		Pre Wrap-up meeting	Ministry of Finance officials, CBL officials, Auditor General officials, WB