-Debt Management Performance Assessment

(DeMPA)

Dominica

August 2018

WORLD BANK GROUP

The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 14 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information for the use of the indicators.

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

Contents

Abbreviations

AGO	Accountant General's Office
ATM	Average time to maturity
BO	Back office
CDB	Caribbean Development Bank
CSD	Central Securities Depository
CS-DRMS	Commonwealth Secretariat Debt Recording Management System
DeMPA	Debt Management Performance Assessment
DeM	Debt Management
DMS	Debt Management Strategy
DMU	Debt Management Unit
DoA	Director of Audit
DPI	Debt Performance Indicator
DPR	Debt Portfolio Review
DSA	Debt Sustainability Analysis
DSS	Dominica Social Security
ECCB	Eastern Caribbean Central Bank
ECSE	Eastern Caribbean Securities Exchange
ECCSR	Eastern Caribbean Central Securities Registry
ECCSD	Eastern Caribbean Central Securities Depository
FO	Front office
FS	Financial Secretary
GoD	Government of Dominica
IMC	Internal Monitoring Committee
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
MoF	Ministry of Finance
MO	Middle office
MTDS	Medium Term Debt Management Strategy
NBD	National Bank of Dominica
N/A	Not applicable

N/R	Not rated
PPG	Public and Publicly Guaranteed
PSIP	Public Sector Investment Program
RGSM	Regional Government Securities Market
SOE	State-Owned Enterprise
T-bill	Treasury bill
USD	United States Dollar
XCD	East Caribbean Dollar

Executive Summary

The World Bank and the Eastern Caribbean Central Bank (ECCB) undertook a comprehensive assessment of the debt management (DeM) functions of the Government of Dominica (GoD) from June 18 to 22, 2018. The team comprised of Per-Olof Jonsson (WB), Ying Li (WB), Juletta Edinborough (ECCB) and Miryam Augustin (ECCB). Lilia Razlog (WB) provided oversight of the evaluation remotely from Washington DC. The 2015 Debt Management Performance Assessment (DeMPA) methodology was applied to conduct the evaluation.

As part of the assessment, the team met with officials from the Ministry of Finance (MoF), the Office of the Director of Audit, the Dominica Social Security (DSS), the National Bank of Dominica (NBD) as well as representatives from state-owned enterprises (SOEs). The mission also had detailed email exchanges with representatives from the Chambers of the Attorney General (see Annex 1 for a list of meetings).

The main outcomes of the debt management performance assessment are as follows:

Governance and strategy development

The assessment indicates that legal framework includes clear authorization for the Minister of Finance to borrow and issue loan guarantees on behalf of the Government. However, authorization to issue bonds in the regional market is not clearly defined. The legal framework is fragmented and does not include borrowing purposes. The Debt Management Unit (DMU) is the principal guarantee entity but the borrowing operations involve more entities and are not well coordinated. The staff capacity is developed for producing regular debt management strategy (DMS) and prepare debt statistical bulletin. However, both documents have not been approved or published.

Coordination with macroeconomic policies

Reasonably reliable debt service forecasts are produced by the DMU, but in-house debt sustainability analysis (DSA) is not undertaken. A staff in Macroeconomic Unit within the MoF has received training in the use of DSA framework and plans to undertake the exercise in-house in the coming fiscal year. Cash flows are forecasted on a monthly basis, but not submitted to the ECCB for liquidity management purposes.

Borrowings and Related Financing Activities

The Government has access to a well-developed Regional Government Securities Market (RGSM), but the potential has not been fully reaped, since Treasury bills (T-bills) are also issued locally with less advanced techniques, implying significant exposure to operational risks. The roll-over policy is not implemented in a cost-effective manner, as similar borrowings result is very different costs. There is no assessment of terms and conditions provided by different creditors and markets.

Cash Flow Forecasting and Cash Balance Management

Monthly detailed cash flow forecasts are prepared by the Accountant General´s Office (AGO) which could be used to guide upcoming budget allocation and short-term T-bill issuance for cash management purposes. The utility of the cash flow forecasts would be enhanced if the monthly

forecasts were updated for the remainder of the fiscal year based on the year to date actuals and other information. The cash flow forecasts are not used for calibrating the issuance of short term instruments.

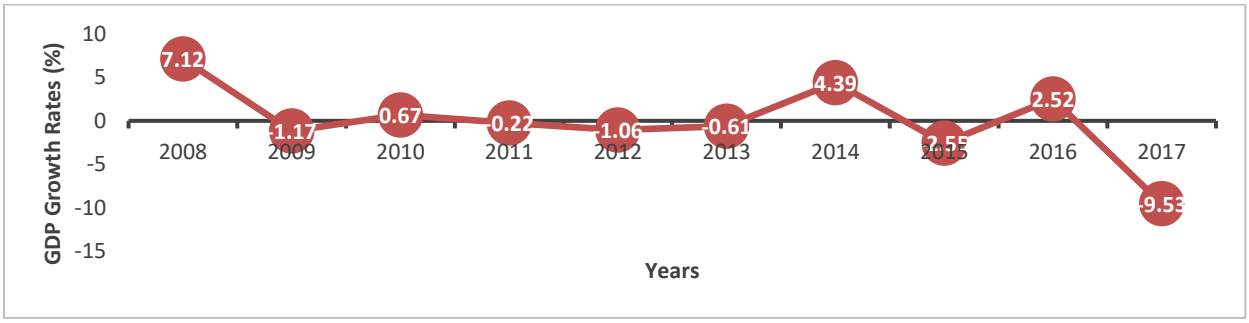
Debt Recording and Operational Risk Management

The DMU is maintaining complete government debt and guarantees' records which are updated quickly due to well-developed contacts with creditors and projects. The backup procedures were tested and found to be working after hurricane Maria, when the server keeping the debt system and the debt records was destroyed. Since the backups were not kept securely also these records could easily have been destroyed but fortunately this did not happen. Going forward it is important that the new server room and backup site have standard security features. The DMU has developed a draft procedures manual but it does not cover all DeM procedures and it has not been finalized. The DMU staff capacity is not sufficient and the work is not organized with adequate segregation of duties.

Country Background

Dominica is a small open economy that is still heavily reliant on agriculture and tourism. Given its lush mountainous rainforest and many natural waterfalls, springs and rivers, the economy has been diversified into tourism, primarily cruise and eco-tourism. In recent years, the economy has suffered tremendous setbacks from the ravages of natural disasters. In August 2015, tropical storm Erika hit the island causing severe damage, estimated at 96 percent of GDP. Real GDP growth contracted by 2.5 percent as a result, this following a rebound in economic activity during the following year. Dominica was on the path to recovery from tropical storm Erika, when Category 5 hurricane Maria made landfall on September 18, 2017.

Chart 1: GDP Growth Rates (2008 – 2017)



Source: Dominica Central Statistical Office (CSO) and ECCB

This was the worst natural disaster for Dominica; the region has never experienced a hurricane of such magnitude before. Hurricane Maria resulted in more than thirty deaths and the destruction it caused is estimated at 226 percent of GDP[1]. Consequently, economic activity declined by 9.5 percent in 2017; such decline in growth have not been witnessed since 1979, when the island was struck by hurricane David. Agriculture, which is the largest sector, declined by almost 20 percent in 2017, influenced by the destruction of crops and limited access to farms in the wake of hurricane Maria. Activity in the tourism industry also contracted as a result of significant damage to tourism infrastructure, particularly in the accommodation sector and due to limited air access. There was major damage to cruise ship infrastructure, tourist attractions and associated services that led to the cancellations of cruise calls in the last quarter of the year which is traditionally the start of the cruise season. Consistent with the decline in activity in most of the primary productive sectors, performance in the supporting sectors was impeded.

In line with the reduction in growth, a collapse in tax revenues led to a sharp deterioration in fiscal performance. After the hurricane, tax revenue declined by 23 percent while expenditure increased 24 percent, mainly due to rehabilitation costs and public investment. Fiscal operations resulted in a preliminary overall deficit of East Caribbean Dollar (XCD) 87.9 million (5.8 percent of GDP), in contrast to the overall surplus of XCD 508.5 million (33.5 percent of GDP) recorded in 2016. A build-up of deposits from the buoyant Citizenship by Investment program over the years, a surge in grants and the receipt of an insurance payout of XCD 20.6 million from the Caribbean Catastrophe

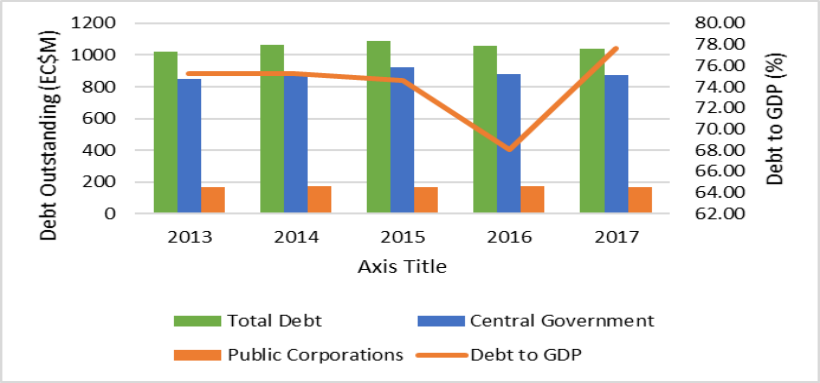
[1] World Bank estimate

Risk Insurance Facility (CCRIF) have assisted the government to cover its financing needs, avoiding recourse to debt financing.

Government Debt

According to the draft 2017 Debt Portfolio Review, Dominica's public and publicly guaranteed (PPG) debt amounted to XCD 1,041.2 million at the end of December 2017. This reflected a 1.5 percent decrease in the amount of the debt when compared with the end December 2016 (XCD 1,057.2 million), see chart 2. The fall was mainly due to repayment of debt and lower disbursements on external debt commitments due to delays in implementation of loan funded projects. Central government debt accounts for 83.7 percent of total debt (PPG) and government guaranteed debt represents 16.2 percent of total debt. Debt as share of GDP decreased during 2015 (74.6 per cent) and 2016 (68.0 per cent) reflecting the recovery in economic activity. However, the debt levels increased sharply in 2017 to 77.6 per cent of GDP due to the devastating effect of hurricane Maria on economic activity in Dominica[2].

Chart 2: Debt Levels (2013 – 2017)



Source: MoF and ECCB

Debt from external creditors constitutes the main funding source for the Government, accounting for 70 percent (XCD 726.96 million) of the portfolio in 2017. The majority of external debt[3] has been contracted on concessional terms from multilateral and bilateral sources. Fifty percent of external debt is owed to multilateral creditors; with main creditors represented by the Caribbean Development Bank (CDB) and the World Bank's International Development Association (IDA), (chart 3).

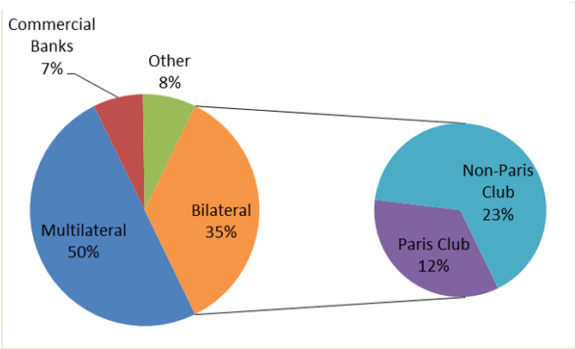
2 Debt Ratios were calculated using the official numbers for current GDP at market prices compiled by the CSO, Dominica and the ECCB and the nominal debt stocks reported by the DMU. These numbers are different from those reported in the 2017 Debt Portfolio Review.

[3] As per the IMF Debt Statistics Guide, classification of external and domestic debt is by residency, not currency. Therefore part of the regional market borrowing is classified as external and part is domestic. In the DeMPA analysis the regional market borrowing is included in the domestic borrowing section.

Bilateral creditors hold 35 percent of the debt, of which Non-Paris Club members 23 percent and 12 percent by Paris Club members. The remaining 15 percent is shared among holders of restructured bonds and commercial banks. The maturity profile of the debt indicates that 53 percent of the debt matures within 5 years, while 24 per cent matures in the next 5 to 10 years. The remaining 23 percent is longer term loans that mature beyond 10 years.

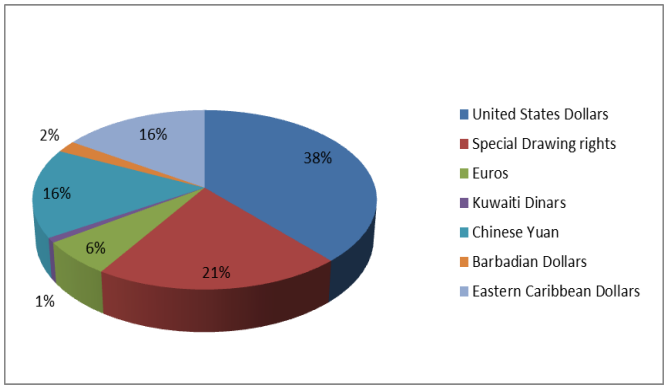
External debt is denominated in four main currencies, United States Dollar (USD), Special Drawings Rights (SDR), Chinese Yuan (CNY) and the XCD, see chart 4.

Chart 3: External Debt by Creditor Category, end of 2017, MoF



Source: MoF

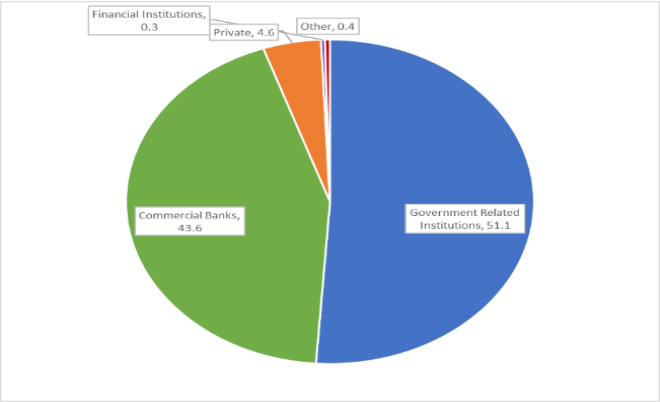
Chart 4: External Debt by Currency, end of 2017, MoF



Source: MoF

The currency composition of the external debt has been relatively stable with USD being the dominant currency accounting for 38 percent of the debt. SDR, for which the USD is also the dominant currency, accounts for 21 percent; while each of the CNY and XCD account for 16 percent.

Chart 5: Domestic Debt by Holder Group, end of 2017 (source MoF)



Source: MoF

Most of domestic borrowings are held by Government related institutions, predominantly the Dominica Social Security (DSS). At the end of 2017, 50.1 percent of domestic debt was outstanding to this creditor; with debt instruments comprised of bonds and loans. Commercial Banks hold 43.6 percent of domestic debt. The National Bank of Dominica (NBD) is the dominant bank holding 39.4 percent of domestic debt comprising loans, securities and commercial bank overdrafts.

The joint IMF-World Bank debt sustainability analysis (DSA) concluded in 2017 notes the increasing debt level and classifies Dominica at high risk of external debt stress. The analysis indicates

ambitious fiscal consolidation needs to be implemented to set public and external debt on sustainable path. The outlook of debt sustainability is subject to the risks of failure to advance with the fiscal consolidation; unexpected drop in revenue and further weakening of donor grants, as well as natural disaster.

Debt Management Performance Assessment

The DeMPA 2015 methodology comprises a set of 14 debt performance indicators (DPIs), which aim to encompass the complete spectrum of government DeM operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building, the performance indicators do stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this clearly indicates an area requiring attention and a priority for reform.

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

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

Summary of Performance Assessment

Performance Indicator		Rating
DPI-1	1. Legal Framework	D
DPI-2	1. Managerial Structure: Borrowing and Debt-related Transactions	D
	2. Managerial Structure: Loan Guarantees	C
DPI-3	1. Debt Management Strategy: Quality of Content	D
	2. Debt Management Strategy: Decision-Making Process	D

DPI-4	1. Debt Statistical Bulletin: Quality and Timeliness	D
	2. Evaluation of Debt Management Operations	D
DPI-5	1. Audit: Frequency	D
	1. Audit: Appropriate Response	N/A
DPI-6	1. Fiscal Policy: Provision and Quality of Debt-Service Forecasts	C
	2. Fiscal Policy: Availability and Quality of Information on Key Macro Variables and DSA	D
DPI-7	1. Monetary Policy: Clarity of Separation between DeM and Monetary Policy Operations	N/A
	2. Monetary Policy: Regularity of Information Sharing	D
	3. Monetary Policy: Limited Access to Central Bank Financing	D
DPI-8	1.Domestic Borrowing: Market-Based Mechanisms and Preparation of a Borrowing Plan	D
	2. Domestic Borrowing: Availability and Quality of Documented Procedures	D
DPI-9	1. External Borrowing: Borrowing Plan and Assessment of Costs and Terms	D
	2. External Borrowing: Availability of Documented Procedures	D
	3. External Borrowing: Involvement of Legal Advisers	C
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/A
DPI-11	1. Effective Cash Flow Forecasting	D
	2. Effective Cash Balance Management	D
DPI-12	1. Debt Administration: Availability and Quality of Documented Procedures for Debt Service	D
	2. Debt Administration: Availability and Quality of Documented Procedures for Data Recording and Storage	D
	3. Data Security: Availability and Quality of Documented Procedures for Data Recording and System and Access Control	C
	4. Data Security: Frequency of Back-Ups and Security of Storage	C
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

DPI-14	1. Debt Records: Completeness and Timeliness	A
	2. Debt Records: Registry System	D

Performance Indicator Assessment

Governance and Strategy Development

DPI-1 Legal Framework

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

The Government legislation on debt and related transactions is fragmented. The mission identified a total of 17 legislative acts on central government borrowing and guarantees' issuance in Dominica[4], (see Annex 2 for full list). On one hand, there is general legislation that has broader coverage and applications; on the other hand, separate legislation has been issued to address specific instrument(s), borrowing for specific purposes or projects, in certain markets or from certain creditors. Some of the instruments or projects for which the law was enacted are not used or have expired. However, since legislation has not been repealed, they remain in force.

The instruments that have actively been used in recent years include domestic and external loans, T-bills and bonds issued on the regional market and T-bills issued locally. The relevant legislation that are often referred to in practice are listed below:

i) Finance (Administration) Act, 1994

ii) Loans Act, Chapter 64:05

iii) Loans (Amendment) Act, 1996

iv) Bond and Securities Act, Chapter 64:04

v) Treasury Bills Act, 2010

The Finance (Administration) Act, 1994, provides for the control and management of public funds that are "raised and received for the purpose of the Government". On public debt, the Act refers to other general or specific loan acts for authority to borrow or to issue guarantees (Section 36 and 37). Section 36(1) specifies the use of overdrafts as means of borrowing. The limit of outstanding overdrafts is prescribed annually by a resolution of the House of Assembly. Due to a constrained cash position, the Government is often in breach of the limit.

The Loans Act, 1974, and Loans (Amendment) Act, 1996, are general pieces of legislation that apply to a broad range of borrowing instruments. The Minister of Finance is empowered to borrow from "approved sources" and issue guarantees to statutory and public corporations (Section 3(1)),

[4] The mission could not secure a meeting with the Attorney General's Office but instead prepared a list of detailed questions and written response was received from the Attorney General's Office.

subject to authorization of a resolution passed by the House of Assembly. Approved sources comprise friendly governments, banks and other reputable financial institutions. The authority to borrow under the Act is exercisable by creation and issuance of securities such as stocks, bonds, certificates, debentures etc. as prescribed by Section 5 of the Law.

T-bills are issued in both the regional market and locally (see DPI8). The power to issue T-bills is vested in the Minister of Finance, under the Treasury Bills Act, 2010. The Minister of Finance can authorize the issuance of T-Bills within and outside of Dominica (Section 3(1)), and the Financial Secretary (FS) may roll over the T-Bills with written authorization and direction of the Minister (Section 3(2)). The outstanding stock of T-bills is capped at XCD 60 million unless a resolution passed by the House of Assembly increases the limit (Section 3(3)). The issuance of T-Bills is not subject to a resolution of the House of Assembly.

Three issues of bonds are floated in RGSM. There is no dedicated legislation for such bonds. The prospectus published on the RGSM indicates the Bonds and Securities Act, Chapter 64:04 as the legislation defining legislative authority. However, the Bonds and Securities Act, Chapter 64:04 addresses special bonds issued through the Treasury and Post Office, and National Saving Bonds. The Loans Act is supposed to apply to bonds, which implies that authorization by a resolution of the House of Assembly is required for issuance. Past bond issuances were approved by the Minister and Cabinet, but a resolution was not passed by the Assembly.

Regarding borrowing purposes, borrowings can be raised for "general development purposes and other purposes" under the Loans Act and its amendment (Section 3.1)). Section 3(5) defines what are deemed to be development purpose with a list of sectors or undertakings specified in a schedule. Nevertheless, "other purposes" are not specified in the Act. In similar fashion, borrowing purposes for T-bills are not specified in the Treasury Bill Act.

Thus, the legal framework in Dominica provides clear authority to the Minister to borrow and issue guarantees through most instruments that have been utilized. Authorization to issue bonds in the regional market is not clearly defined however. And borrowing purposes are not specified. The minimum requirement for the indicator is therefore not met and a score of D is assigned.

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	C

Dimension 1

The MoF includes the following main departments/divisions:

- Macroeconomics Unit;
- Budget Unit, which includes debt management, budget management and Information Technology (IT) Unit;
- Customs and Excise Division;
- Inland Revenue Division;
- Accountant General's Office;
- Central Statistical Office;
- Financial Services Unit (FSU);
- Computer Centre

Many functions of Government DeM are conducted by the Debt Management Unit (DMU), e.g. front office (FO) functions related to participating in external multilateral loan negotiations and developing the prospectuses for borrowing in the regional market (the latter together with the Macroeconomics Unit); middle office (MO) functions for analysis of borrowing and guarantee proposals, and back office (BO) functions for the external debt. The Accountant General's Office (AGO) is responsible for part of FO and BO functions for borrowing domestically, including overdrafts from local banks. Important FO functions rest with the Financial Secretary (FS) being directly in contact with external and domestic creditors.

The DMU is located within the Budget Unit and reports to the Budget Controller, who in turns report to the FS. It is consisting of three staff positions- of which one position is shared by two officers. Two main coordination mechanisms among different units exist in the MoF. The Internal Monitoring Committee (IMC) serves as a general management group for the entire MoF. The meetings are held once a month, chaired by the FS. The DMU's reports to this committee are focused on actual debt composition and disbursements. The reports also contain some forward-looking information in the form of projected disbursements. There could be approximately 20 people present at the meetings. In addition, there is a weekly meeting of the Budget and Debt Committee, also chaired by the FS, with representatives from Budget and AGO. This meeting is focused on expenditure management. DeM operations are not effectively coordinated within this framework and neither is that the purpose. In addition, there are no formal Terms of References (ToRs) for these committees. Thus, since there is no principal DeM entity and the DeM coordination is not effective the Government does not meet the minimum requirements for the first dimension of this indicator, and a score of D is assigned.

Dimension 2

Government guarantees, external or domestic, are managed by the DMU. The beneficiaries, through the line ministries, submit the proposals to the FS who submits them to the DMU for preparation, according to the procedures documented, but not approved, in the procedures manual. No credit risk analysis is conducted. The MoF instead relies on analysis conducted by the creditors. All guarantees are channeled this way. Thus, the DMU is the principal guarantee entity and therefore the Government meets the minimum requirements for the second dimension of this

indicator, and a score of C is assigned. Requirements for higher scores are not met, since there is no formalized guarantee framework or government guarantee policy in place.

DPI-3 Debt Management Strategy

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

Dimension 1

The preparation of a DMS is not a legal requirement for the GoD; however, the GoD has produced three DMS over the years to guide its borrowing operations. All three DMSs were based on the GoD's high-level objective, as specified in the DMSs, "to ensure that Government's financing needs and obligations are met on a timely basis, to do so in a way that minimizes cost over the medium to long term while taking account of risk; and, subject to that, to develop over time a range of financing options".

The first strategy was produced in December 2010, covering the financial years 2010/2011 to 2012/2013 and the second in July 2013 and covered the five-year period 2013/2014 to 2017/2018. The 2010 debt management strategy was developed with technical assistance from the Commonwealth Secretariat and the 2013 strategy was the responsibility of the DMU with support from the Macroeconomics unit in MoF and the Debt Management Advisory Service (CANEC/DMAS) at the ECCB. Both strategies were approved by the National Assembly and the 2013 strategy was published on the Government's website.

In June 2016, the GoD produced the third DMS, covering the five-year period 2016/2017 to 2020/2021. The process was led by the DMU in collaboration with the CANEC-DMAS at the ECCB and the International Monetary Fund (IMF). Both the 2013 and the 2016 debt management strategies were developed using the IMF and World Bank's Medium Term Debt Management Strategy (MTDS) framework which includes an analytical toolkit for evaluating costs and risks of various alternative strategies. The choice of the preferred strategy is guided by the analysis of the results. The 2016 DMS document provides an analysis of the portfolio including the cost and risk indicators, description of the key macroeconomic projections, pricing assumptions and the potential sources of financing.

The DMS for both 2013 and 2016 included three quantitative targets: (1) Average Term to Maturity (ATM) >9 years; (2) Fixed rate debt as a percentage of total debt >85.0%; and (3) Non-USD debt as a percentage of total debt (excluding SDR) <20.0%. The 2016 DMS provided a review of the 2013 strategy against these targets. The analysis showed that only one of the three quantitative targets was breached – the ATM, which recorded 8.7 years at the end of the strategy period. Four borrowing strategies were presented in the 2016 DMS. All the strategies were exposed to various shocks and the cost and risk results for the various strategies were presented. In comparing the two DMS, the main difference is that the preferred strategy for 2016 had more reliance on external financing, particularly from bilateral sources. In the 2013 and 2016 DMS, 31

and 52 percent respectively were ear-marked to come from bilateral creditors. The refinancing risk and debt maturing in one year was low given the long maturities of 15 to 20 years for debt from bilateral creditors. This was also expected to result in a longer ATM which would bring the portfolio in line with that quantitative target.

In terms of the quality of the DMS, the content of the strategy covers the core elements required to guide funding requirements of the Government in order to achieve the desired cost and risk of the debt portfolio and the debt management objectives of the Government. The DMU should be commended for its efforts to develop the 2016 DMS. The strategy however remained in draft form as it had not yet been reviewed by the FS for onward submission to the Cabinet for approval. The strategy would also need to be revised to reflect changes in macroeconomic conditions following the devastating effects of hurricane Maria on the economy of Dominica in September 2017. Thereafter, the DMS would need to be updated annually and integrated into the macroeconomic framework and the budget process to inform policy making.

Given that the strategy is still in draft form and has not been updated since June 2016, the Government does not meet the minimum requirements for this dimension and a D score is assigned.

Dimension 2

As discussed in dimension 1, the latest DMS was prepared by the DMU in collaboration with the ECCB and the IMF in June 2016. Although there are no legal or regulatory requirements for approval of the DMS, the prior two strategies prepared in 2010 and 2013 were approved by Cabinet and subsequently tabled in Parliament. The 2013 strategy report was also published on the GoD's website.

The 2016 DMS has not followed the same governance process as the prior two strategies, as it has not yet been reviewed by the FS. The draft report has therefore not been submitted to Cabinet for formal approval and publication. A score of D score is assigned to this dimension since the minimum requirements are not met.

DPI-4 Debt Reporting and Evaluation

Dimension	Score
1. Publication of a statistical bulletin on debt, loan guarantees, and debt-related operations	D
2. The presentation and content of an annual report to the parliament or congress on DeM activities, central government debt, evaluation of outcomes against stated objectives and general performance	D

Dimension 1

The MoF produces several reports on Government DeM activities and outstanding debt: the Debt Portfolio Review (DPR), the DMS and sections of the Budget Address and the Budget Estimates. Of these, the DPR meets several DeMPA requirements for a statistical bulletin.

The DPR is an annual report prepared by the DMU with input on the overview of the economy from the Macroeconomics Unit. It reports on debt management objectives, domestic and external central government debt, loan guarantees, debt servicing and risk analyses. The report proves to be very comprehensive with the composition of debt stock categorized by residency, economic sector, instrument type and creditor category, currency, interest rate basis, original, and residual maturity; debt flows in relation to principal and interest payments; debt ratios and indicators; and basic risk measures of the debt portfolio. It also highlights new borrowing activity and the government's transactions on the RGSM. Although the quality of the DPR content and presentation is of a high standard, it is less comprehensive regarding loan guarantees. The analysis of loan guarantees should include decomposition by type of loans and also basic risk measures such as ratio of guaranteed debt to GDP. More importantly is that the DPRs (2016 and 2017) were never submitted to Cabinet and published.

The score for this dimension is D given that the DPR has not been published. In addition, the loan guarantees are not analyzed sufficiently. To meet the minimum requirements and qualify for a higher score, the DMU would need to ensure that future DPRs include more information on loan guarantees and that the report is made public, preferably on a relevant internet site.

Dimension 2

The Budget Address includes a summary of the debt performance for the previous year which highlights the total public sector debt outstanding decomposed by residency, outstanding loan guarantees to SOEs and basic risk measures such as debt to GDP and debt to revenue ratios. Additionally, the accompanying Estimates provide a very thorough listing of the stock of central government debt and government guarantees. However, neither the Budget Address nor the Estimates provide details on DeM operations.

Thus, the score for this dimension is D. To attain the minimum requirement, a comprehensive report should be prepared on DeM activities including information on central government debt. The report should also be published on the GoD website.

DPI-5 Audit

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

Dimension 1

The Audit Act No. 5 of 1994 guides the operations of the Office of the Director of Audit. Section 5 of the Act specifies the role and responsibilities of the Director of Audit that encompasses undertaking examinations and preparing and submitting reports as required by the Constitution and the Audit Act. The auditors should also make an examination of the financial statements required by the Finance Administration Act, 1994, and express an opinion on whether the financial statements fairly represent information in accordance with stated accounting policies of the Government. Section 6 of the Act refers to reporting. The section proscribes that the Director of Audit shall submit a report to the Minister at least once a year for transmission to the House of Assembly.

The last audited financial accounts completed by the Director of Audit was for financial year 2014/15 using INTOSAI standards. It was tabled in Parliament in May 2018. The most-recently completed public financial statements were submitted by the AGO to the Director of Audit in May 2018; the audit of these financial statements are expected to commence soon. The financial audit would encompass debt stock and debt servicing figures. However, the auditing basically ensures that the data from AGO's accounting system (SmartStream) is verified against numbers from the DMU. No creditor confirmations were required to confirm accuracy and completeness of numbers.

A performance audit of DeM activities has not been conducted. However, such an audit is included in the department's work plan for fiscal year 2018/19 following a debt management performance audit workshop conducted by the ECCB in October 2017. The internal auditors of the Ministry of Finance confirmed that the unit has never conducted a compliance or internal audit of the debt management function.

The score for this dimension is D, given that the latest external financial audit of DeM transactions is outdated by two years and external compliance or performance audits have not been conducted so far.

Dimension 2

The audit report of the financial accounts for 2014/15 which was submitted in 2018 did not include any findings on DeM to be addressed by the Government. The auditors did not recall any other audits having findings on DeM either. Given that no recommendations in relation to debt management have been made, the degree of commitment to address the outcomes from the audit cannot be assessed. A rating of N/A is thus assigned.

Coordination with Macroeconomic Policies

DPI-6 Coordination with Fiscal Policy

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

Dimension 1

As part of the yearly budget preparation, the DMU forecasts domestic and external central Government debt service with a breakout of both interest and principal payments. The DMU also prepares and submits to the Budget Controller and AGO central government debt service, by month, for the fiscal year. The annual forecast is reflected in the yearly Budget Estimates. The DMU also liaises with the Public Sector Investment Program (PSIP) unit in the Ministry of Planning and Economic Development for information on project implementation progress and upcoming disbursements as a basis for the forecasts, and then provides the Macroeconomics Unit and Budget Unit with reasonable debt service estimates. This practice is followed annually and in a timely manner. The forecasts do not include any sensitivity analyses.

When debt service forecasts are compared with the actual payments over the past three years, a significant variance (over 10 percent) was found for principal payments in the year 2016/17. The explanation provided by the DMU was that a one-year T-bill (USD 10.7 million) that was budgeted for redemption was in fact rolled-over[5]. For analytical purposes, the principal flow for this T-bill was isolated from the total principal forecasts to assess the variance against actuals. The variance was then deemed relatively insignificant at 4.7 percent for the principal and 1.0 percent for total debt service. (Figures in brackets represent variance after isolation).

Variance (%) Schedule			
	2014/2015	2015/2016	2016/2017
Principal	-7.1%	8.2%	-32.1% (-4.7%)
Interest	0.4%	-5.7%	4.7%
Total Debt Service	-4.2%	3.1%	-17.5% (-1.0%)

[5] Standard practice is to consider a short term instrument rollover as a combination of redemption and new borrowing. This makes it relatively straightforward to forecast the redemptions as part of the total debt service. However, GoD is following a practice where a rollover is simply not included in the redemptions and new issuances. Thus, the debt servicing for the principal is more difficult to forecast since it involves an assessment of the willingness of both the investor and the Government to continue rolling over the security.

Thus, in view of the special difficulties in forecasting whether or not a short-term instrument should be rolled over, the debt service forecasts are considered reasonably reliable and the minimum requirements are therefore met for this dimension, and a score of C is assigned. To achieve a higher score the DMU should conduct and present a sensitivity analysis of interest and exchange rate shocks of the base scenario.

Dimension 2

The Macroeconomics Unit of the MoF is responsible for the macro-fiscal framework presented by the Government. In practice the unit compiles the macro and fiscal actuals together with the Dominica Statistical Office whereas the Dominica Country Economist at ECCB conducts the forecasting on the basis of the actuals presented by the GoD. The Macroeconomics Unit contributes e.g. to the annual Economic and Social Review and to the DMS.

The GoD has not conducted an in-house debt sustainability analysis (DSA) during the last six years. Reliance has been placed on the DSA prepared by the IMF during the Article 1V missions. The staff within the MoF has received training in the use of DSA framework and most recently in the revised IMF/WB LIC DSA template. During the mission, the Head of the Macroeconomics Unit confirmed the importance of undertaking in-house DSAs and indicated the Unit's plans to undertake the exercise in the new fiscal year using the revised template.

Due to the absence of an in-house DSA during the last three years, the GoD is not able to meet the minimum requirement for this dimension and thus the score is D. In addition, the Macroeconomics Unit does not undertake macro forecasting to inform medium term policy decisions but rely on forecasts from ECCB instead.

DPI-7 Coordination with Monetary Policy

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

Dimension 1

The Eastern Caribbean Central Bank (ECCB) conducts monetary policy on behalf of the eight member states of the Eastern Caribbean Currency Union (ECCU), including Dominica. DeM activities at the ECCB are limited to policy advice and the role of fiscal agent to the participating

governments. This comprises facilitation of the operations of the regional government securities market (RGSM).

Pursuant to Article 1 of the Fiscal Agent Agreement between the ECCB and the GoD, the role of the ECCB as fiscal agent includes the following:

- Assist in collaboration with the Participating Government in the preparation and implementation of an Education and Awareness Programme for the Governments Securities Market;
- Facilitate the issue of Securities by the Participating Government in the member states of the Eastern Caribbean Central Bank;
- Facilitate the collection of funds arising from the purchase of securities issued by the Participating Government;
- Inform subscribers of the failure or success of their subscription or bid as well as their settlement obligations;
- Deliver statements to successful subscribers upon completion of settlement obligations;
- Facilitate payments of principal and interest by the Participating Government to security holders, when such payments fall due;
- Facilitate the registration of owners of securities issued by the Participating Government; and
- Do such other things as may be agreed as necessary for the proper functioning of the Governments Securities Market.

In addition, the ECCB advises governments on the most appropriate instruments to issue within the context of sound debt management practices, as well as the most appropriate time to issue securities on the regional primary market.

In March 2003, the Monetary Council of the ECCB, which comprises the Ministers of Finance of all member territories, agreed to the establishment of fiscal benchmarks to guide the fiscal operations of member countries. This was based on the view that fiscal rules can play an important role in helping to strengthen public finances, support fiscal consolidation and ensure debt sustainability. As a result, a fiscal target of a 60 percent debt/GDP ratio was established.

Because the ECCB does not implement monetary policy through open market operations, the dimension is not applicable; the score is N/A.

Dimension 2

The DMU informs the ECCB on its current and historical debt stocks and debt service flows on a monthly basis. A back up of the CS-DRMS database as well as excel files containing data not recorded in this database is sent regularly via email. This information covers the central government debt and guarantee portfolio.

The Government is also required to submit a prospectus to the Banking and Monetary Operations Department (BMOD) of the ECCB by September of every year for planned issuances on the RGSM.

Thus, the information sharing regarding current and future debt transactions is fairly accurate. The actual cash flow data is also shared with the ECCB through the Macroeconomics Unit. However, the cash flow forecasts that are produced by the AGO are not shared with the ECCB. The bank is instead conducting its own cash flow forecasting. Thus, the GoD does not fully meet the minimum requirements for this dimension; a score of D is assigned.

Dimension 3

The GoD has several domestic, regional and external financing instruments. The facility to borrow from the ECCB includes overdrafts, T-Bills and temporary advances. Long term financing is possible through debentures. These however, must be within approved limits set annually by the ECCB Board.

The ECCB Agreement Act, 1983, regulates the relations with the governments and includes indicative limits on credits to the governments based on the historical revenue performance. However, the limits indicated in the act shall be reviewed by the Board annually and approved or varied either generally or specifically in respect of any Participating Government.

In practice the GoD is following a very prudent approach regarding borrowing from the ECCB. The balance on the GoD overdraft account with the ECCB was zero at the end of calendar years 2015 and 2016 respectively. At end of calendar year 2017, the balance was XCD 0.54 million, well below the short-term credit allocation of XCD 39.41 million for that period.

However, since the legislation only imposes a "soft" limit on borrowing from the ECCB the minimum requirements for the third dimension are not met and a score of D is assigned.

Borrowing and Related Financing Activities

DPI-8 Domestic Borrowing

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

Dimension 1

The domestic debt[6] portfolio of GoD includes regional T-bills and bonds, privately placed T-bills, bonds created from previous restructuring and loans from Dominica Social Security (DSS) or commercial banks. Currently, the Government has no active domestic borrowing program, i.e. it does not use this market to cover its net financing needs. Domestic borrowings are instead conducted passively through the rollover of existing securities issued in the regional and the local markets. Overdraft facilities are available for the government provided by commercial banks. Due to a shortage of cash, the Government has constantly been in an overdraft position and sometimes beyond the overdraft limit of XCD 31.5 million approved by the House of Assembly. The interest rate for the overdraft is negotiated yearly between MoF and commercial banks. The current rate is set at 7 percent if below a certain threshold, whereas an additional penalty rate of up to 2 percent is charged if the threshold is breached[7].

Market-based instruments are limited to those issued on the RGSM. A prospectus for T-bills jointly prepared annually[8] by the Macroeconomics Unit and the DMU and signed by the FS and the Minister is submitted to the ECCB and made public on the website of the Eastern Caribbean Securities Exchange (ECSE). The prospectus among others contains an issuance calendar for the coming year – including the auction dates, amount, tenor and interest rate ceiling proscribed by the Government. The Government has not been an active player on the market and only has four issues in the market consisting of three issues of 5-year bonds and one issue of 91-day T-bills which has been rolled over since it was originally launched.

The RGSM utilizes the platform of the ECSE for its primary and secondary market activity. Auctions are held according to the regional issuance calendar, which is updated monthly. The securities are auctioned using a uniform price format. The interest rate cap is proscribed in the prospectus by the Government, while the final rate is determined by a competitive bidding process.

Auctions are held from 9:00 am to 12:00 noon according to the calendar. The bidding process is open, i.e. the intermediaries can see all bids. An investor can only provide one bid, which could be modified (discount rates decreased) with certain restrictions. Securities on the RGSM are open for purchases by all potential investors. The minimum bid amount on the RGSM is currently set at XCD 5,000, with a bid multiplier of XCD 1,000. However, only licensed intermediaries are allowed to bid in the RGSM auctions. Thus, all applications for participation in auctions should be submitted through one of the licensed broker dealers (intermediaries). The intermediaries are responsible for settling clients' successful bids. They therefore require the clients to deposit funds in advance. A list of licensed broker dealers is available on the ECSE website.

The ECSE and its subsidiaries, the Eastern Caribbean Central Securities Registry (ECCSR) and the Eastern Caribbean Central Securities Depository (ECCSD) provide the infrastructure for the trading, clearance and settlement of securities on the RGSM. Securities on the RGSM are issued

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[6] DMU records and reports the debt by residency so part of the RGSM securities are classified as external debt and part as domestic debt. For the purposes of this report, RGSM instruments are discussed under DPI8 on domestic borrowing.

[7] The interest rates are not confirmed by the commercial bank.

[8] The most recent prospectus was substantially delayed due to hurricane Maria.

in a book-entry format. Settlement takes place at T+1, one day after the auction date. The secondary market for securities issued on the RGSM is not very active.

There are three categories of locally placed T-bills: ordinary, open market and special, all of which are 91-days instruments except two issues of 1-year instrument. Ordinary instruments are privately placed with statutory entities, local banks or companies and special ones are issued to insurance company to fulfill their investment requirement for statutory deposits. The open market T-bills have been issued publicly but the issuing mechanism used is currently not completely clear. Most of the local instruments were issued some time ago and some have been rolled over for more than 20 years. At time of roll-over, a certificate is printed and signed by FS for exchanging the expiring one and instructions given to AGO for conducting the transaction. The investor may request to redeem the paper but it does not happen often. The terms were usually determined in the past, and are automatically rolled over. The average interest rate on the instruments is around 4 percent, whereas for some creditors the rate is as high as 6.5 percent, compared with 2 percent from the most recent auction in the RGSM.

The Government has taken loans from commercial banks and DSS. The terms on commercial bank loans are comparable with what are offered to other bank customers. The loans with DSS are negotiated by the FS on behalf of the government. The interest rate is not clearly market-based.

Except for the RGSM calendar there is no annual plan for domestic borrowing with projected borrowing by source or instrument.

Thus, since the local T-bills are not market based instruments and an annual borrowing plan for domestic borrowing has not been developed, the Government does not meet the minimum requirements for the first dimension of this indicator, and a score of D is assigned.

Dimension 2

The prospectus for T-bills prepared by the Government is published on the website of ECSE. It outlines the terms and conditions for the securities issued on the RGSM. There are no similar documents for the locally issued T-bills. There are no documented internal procedures and guidelines for domestic borrowing. The Government does not hold regular meetings with market participants in the RGSM, and communication is mainly through the broker, who informs the potential investors of the upcoming issuances. An investor relationship program is under development by the ECCB.

A procedures manual for the work undertaken by AGO existed, but the only hard copy was destroyed during hurricane Maria and no soft copy is available. A procedures manual for the DMU is under development but not finalized and approved. It covers the preparation of a prospectus and a brief description of the domestic borrowing process. Thus, the minimum requirements for the second dimension are not met, and a score of D is assigned.

DPI-9 External Borrowing

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

Dimension 1

The Government borrows from multilateral and bilateral creditors for investment projects and budget support. For project financing, the Public Sector Investment Program (PSIP) Unit in the Ministry of Planning and Economic Development is responsible for project preparation, management and monitoring. Resource mobilization for both project funding and budget support is with the Ministry of Finance. For nontraditional lenders that Government has not worked with in the past, initial contact and communications are established by the Minister and FS. The main front office tasks are undertaken by FS, who identities and approaches the creditor, and leads a negotiation team incorporating the project implementing ministry. A draft loan agreement is shared with the Attorney General's Office and the DMU for feedback. The DMU provides comments in writing on the financial terms and repayment schedule. Recently the DMU has been invited to negotiations regarding multilateral borrowing. Loan agreements, signed by Minister of Finance, are sent to the Attorney General's Office for the issuance of a legal opinion at the request of creditor. The DMU drafts the resolution with amounts, terms and conditions, and forwards through the FS and Minister to the House of Assembly for authorization.

There is no consolidated external borrowing plan developed for the annual budget including expected new borrowings. There is a table on the debt portfolio in the Budget document including expected disbursements for signed and finalized loans. For this, the DMU collects disbursement projections from the PSIP unit, and makes some adjustment according to previous experience[9]. Other tables in the Budget include estimated financing by source for public sector investment programs by ministry and by project, including those that financings are not yet identified and negotiated

The Government mainly borrows externally from multilateral institutions that they have worked with traditionally, or from friendly foreign governments. The Government approaches the creditors based on assessments of the availability of funds and area of specialty. However terms and

[9] For example, the projections made by the PSIP on project implementation tend to be overly optimistic.

conditions including interest rate, currency, grace period and maturity offered by each potential creditor are not documented.

An external borrowing plan is not developed on an annual basis. Assessments of terms and conditions identifying the most beneficial and cost-effective borrowing from potential creditors are not undertaken. The minimum requirements for the dimension are not met, and a score of D is assigned.

Dimension 2

There are no procedures for external borrowing documented, identifying organizational entities involved and their functions, and describing key steps in the process. Thus, the Government does not meet the minimum requirements for the second dimension, and a score of D is assigned. It should be noted that a debt management procedures manual is under development in the DMU that outlines the institutional framework and organizational structure and processes for debt management activities.

Dimension 3

The Attorney General's Office is not consistently represented in the negotiation team for multilateral and bilateral loans. The involvement of a legal advisor is therefore usually at the end of the negotiation process. FS shares the draft loan agreement with the Attorney General's Office and requests comments and feedback in writing. In addition, upon signing the loan agreement, the Attorney General's Office issues a legal opinion upon request by the creditor.

The legal advisor provides written comments on draft loan agreement before signing the loan agreement and provides a legal opinion upon signing. This meets the minimum requirement for this dimension and a score of C is assigned. To reach a score of B, the legal advisor should be consulted earlier during the negotiation process.

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/A

Dimension 1

The Minister of Finance may guarantee loans to statutory corporations or public corporations in Dominica with the authorization of the House of Assembly by passing a resolution under the Loans Act (Section 3(1)).

The establishment acts of the corporations require the approval of the Minister of Finance for any borrowing undertaken by the corporation and annual reporting of financial statements. A formal request for borrowing accompanied by authorization from the corporation's board, approval of the line ministry, information on amount to be contracted and proposed terms and conditions, and cash flow forecast for the corporation, should be submitted to MoF through the line ministry for considerations. The FS may advise on terms and conditions or alternative creditors. If approved, a "No Objection" letter would be issued by MoF to the creditor.

A creditor, domestic or external, may ask for an explicit guarantee by the government. A draft guarantee agreement is shared by the creditor with FS. The borrowing request and the draft guarantee agreement are forwarded to the DMU for assessment of the impact of the guaranteed debt if called on government debt stocks and implementation of the debt strategy[10]. The final guarantee agreement is signed by Minister of Finance and sent to the DMU for recording and for drafting a resolution submitted to the House of Assembly for final authorization. During the project implementation stage, the DMU actively collects disbursement information on guaranteed loans from the beneficiary or from the creditor directly.

Local commercial banks offer overdraft facilities to public entities and request Government guarantees for security. On an annual basis, a resolution passed by the House of Assembly caps overall public entities' overdrafts that may be guaranteed by the Government during the year. The limit has been fixed at XCD 5 million in recent years. The commercial banks actively monitor overdrafts to corporations to ensure that the limit is not breached.

The Government is seeking to avoid issuing guarantees. In one case, the Government cancelled a guarantee issued to DSS on behalf of Dominica AID Bank and instead requested the borrower to provide a certificate of title to land as collateral as a measure of credit enhancement.

Guarantees have been issued according to the laws by the GoD. Due to the fact that procedures for approving and issuing loan guarantees have not been documented, the minimum requirements for this dimension are not met, and a score of D is assigned. Furthermore, no credit risk analysis is conducted by the Government. Instead the Government relies on the analysis conducted by the creditor.

Dimension 2

On-lending is a substitute for government guarantees, and more often used if the lender is a foreign creditor. On-lending is not conducted very frequently and may sometimes be classified as guarantees instead. The mission believes that at least one transaction should be classified as on-

[10] One of the targets prescribed by the 2016/17 – 2020/21 strategy is that guaranteed debt should be no more than 17 percent of total debt.

lending instead of guaranteed loan. In this case the loan agreement identified the Government as borrower who was responsible for servicing the debt; and a project implementing entity – a statutory body – was identified as executing agency. No subsidiary loan agreement was signed between the Government and the implementing entity and the loan has been serviced directly by the executing agency in original terms without the involvement of the DMU. The process to contract this loan was very similar to contracting other Government external loans except that implementing entity participated in the negotiation and signed the loan agreement.

No formal on-lending procedures exist in the Ministry of Finance. Thus, the minimum requirements for this dimension are not met, and a score of D is assigned.

Dimension 3

The Government has not entered any derivatives transactions. Thus, this dimension is not applicable for the GoD (N/A).

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. Decision of an appropriate cash balance (liquidity buffer) and effectiveness of managing the aggregate cash balance in government bank accounts (including the integration with the domestic debt borrowing program, if required)	D

Dimension 1

The AGO within the Ministry of Finance is responsible for cash management and cash flow forecasting functions. Cash management is implemented through a consolidated bank account at the National Bank of Dominica (NBD) that serves as a Treasury Single Account. All budgetary revenues are accumulated and current expenditures are made through this account. Online banking service is provided to the AGO making it possible to access information about transactions in the main bank account. Balances are therefore monitored on-line on a daily basis. The bank has provided an overdraft limit to the government for this account and this facility is utilized by the Government as the main funding source in the execution of daily payments. The interest rate on this facility currently stands at 7 percent per annum and a penalty interest of 200 basis points is charged if the utilization of the facility exceeds the limit, which is currently the case. A Budget and Debt Committee chaired by the Financial Secretary and comprising the Accountant General and the Budget Comptroller meets weekly for expenditure planning, and also considers the cash position and the cash forecasts for the month.

Based on the budget figures, an economist in the AGO prepares monthly detailed forecasts for the financial year for main revenue and expenditure categories. The forecasts, facilitated through an excel-based model, are based on historical trends and seasonality patterns; the forecasts on debt service are sourced from the DMU. The budgeted amount is revised, and a new monthly pattern for the year calculated, if there are any changes in Government policy during the year; the GoD e.g. granted a waiver on import duty following the passage of hurricane Maria.

The forecasts are updated for the upcoming month based on the actual information retrieved from the accounting system (SmartStream) and forecasts received from the line ministries. This information is provided to both the Accountant General and the Financial Secretary at least one week prior to the start of the forecasted month. This information, together with a report on the current cash position, is a key determinant in deciding the priorities for budget execution. The cash flow forecasting economist also prepares a monthly report analysing the sources and uses of cash and the change in the cash balance. The report also provides a detailed comparative analysis between the approved budget for the fiscal year and the accumulated expected outturn based on the actual year-to-date figures. The cash flow forecasts are not used to inform the short-term issuance of T-bills; therefore, the information is not shared with the DMU.

Given that the monthly forecasts are not consistently updated for the remainder of the fiscal year the Government does not meet the minimum requirements for the first dimension of this indicator, and a score of D is assigned. The variances between the monthly forecast and monthly actuals are also significant.

Dimension 2

The short-term instruments available for the Government, in the form of RGSM T-bills and local T-bills, are issued following a strict roll-over policy at the time of each redemption. Thus, the issuance does not provide support for a smooth execution of the Budget. The cash flows are instead managed mainly through the overdraft facility at the NBD, and the Government is effectively running a negative cash balance. The cost of using the overdraft facility is currently over 500 basis points above the 91-day T-bill rate on the RGSM.

Since issuance of short term instruments is not planned according to the underlying cash flows, the Government does not meet the minimum requirements for the second dimension of this indicator, and a score of D is assigned.

Debt Recording and Operational Risk Management

DPI-12 Data Administration and Data Security

Dimension	Score
1. Availability and quality of documented procedures for the processing of debt related payments and receivables	D

2. Availability and quality of documented procedures for debt transactions, data recording and validation as well as storage of agreements and debt administration records.	D
3. Availability and quality of documented procedures for controlling access to the central government's debt data recording system	C
4. Frequency and off-site storage of debt recording and management system backups	C

Dimension 1

The first step in payment processing is the report on debt service forecasts for two months ahead extracted from CS-DRMS by the DMU and submitted to the AGO, in preparation for coming payments. The DMU receives payment advices from the creditors for external loans via the FS. The BO staff checks the advices with the forecast produced by the system. If there are significant differences, the head of the DMU will be informed and reasons for the differences investigated. Following acceptance of the payment advice, it will be scanned and submitted to the AGO for payment processing. AGO processes external payments through the SWIFT Lite application, debiting its own operational account with the ECCB and crediting the bank account used by the creditor. When ECCB confirms the payment to the AGO, it will in turn send information to the DMU for recording in the CS-DRMS.

In addition to payments on external debt initiated from the DMU, the AGO receives information from ECSE on pending payments on the instruments listed on the RGSM. The AGO checks with internal records (Excel) before payment through SWIFT Lite. The AGO also services locally issued T-bills, following presentation of the physical bills to the AGO. AGO will pay through cheques. The physical bills will be checked with the information in the manual ledger on issued T-bills and the debt service will be recorded in the ledger and signed by two staff members.

The DMU debt servicing procedures are included in the draft procedures manual. The AGO had a procedures manual, but it was lost during hurricane Maria, and no soft copies have been found. Due to the absence of a documented and approved procedures manual, the Government does not meet the minimum requirements for this dimension, and a score of D is assigned.

Dimension 2

The DMU maintains records of all Government debt and guarantees in the CS-DRMS with the exception of overdrafts in local banks that are maintained in Excel. Loan agreements are received from the FS, a term sheet is prepared by the BO staff and the data is entered in CS-DRMS. The data entry is confirmed in the system by the head of the DMU. Disbursements are captured from creditors´ notifications. For the CDB the DMU has access to its portal and updates the disbursements based on this information. Outstanding credits under loan guarantees are updated based on creditor disbursement advices submitted by borrowers and also directly from creditors (CDB).

For transactions on the RGSM, the DMU updates records based on information from the ECSE after the auctions. For domestic transactions, the BO staff has access to the accounting system and

updates the CS-DRMS based on information posted there. For overdrafts, the DMU has on-line access to its bank account with the main overdraft facility in the National Bank of Dominica and updates the records in an Excel application. For other overdrafts the DMU gets information from the AGO. Validation of the debt records are conducted at the time of debt servicing.

Loan agreements are scanned and maintained in shared folders. During the recent hurricane the server keeping the shared folders was destroyed and the scanned documents also. They were not subject to appropriate backup procedures so the files could not be recovered. The original loan agreements are also stored in the premises of the DMU in a cabinet protected from fire, flooding and theft, and these documents were not destroyed during the hurricane. Administrative correspondence is kept in good order in ordinary cabinets in the same office.

Most of the procedures are documented in a procedures manual but the manual has not been formally approved. Thus, the Government does not meet the minimum requirements for the second dimension under this indicator and a score of D is assigned. Finalizing and approving the procedures manual is important. The draft procedures manual would benefit from incorporating the procedures into the main DeM processes, i.e. strategy, planning, contracting, recording, debt servicing and reporting and showing the procedures required for achieving high internal control, e.g. confirmation of data entry and separating data entry from payment initiation. The procedures manual should cover the entirety of DeM procedures, not only the procedures where the DMU is involved. Thus, the procedures manual should cover DeM activities conducted by the AGO and the FS also.

Dimension 3

The CS-DRMS is used by the DMU and is accessible from the work stations of DMU staff. The DMU office is housed within the Government complex in Roseau having physical access control at the entrance as well as on the floor where the DMU is located. The CS-DRMS application is protected through passwords to the network and also to the application itself. The password procedures are documented in an IT policy document stating e.g. the necessary characteristics of the passwords and the frequency of changing the passwords. The CS-DRMS system administrator in the IT unit administers access to the application. The administrator has assigned full rights to the DMU staff.

The Government meets the minimum requirements for the third dimension of this indicator and a score of C is assigned, but not higher requirements since the IT policy has not been updated since it was approved in 2010.

Dimension 4

The MoF server room used to be located in the premises of the AGO. During hurricane Maria the building and the server room was flooded. The CS-DRMS server was destroyed but the backup server in the same server room was not damaged since it was placed higher up, and above the water level, on the server rack. Thus, the application and the data could be successfully restored onto a new server. As a consequence of the hurricane, the AGO and the servers were relocated to the main Government complex, and in fact to the same office. In this office the servers are not well

protected from fire and flooding and they are not located in a separate locked room. This is a temporary solution. AGO will soon be relocated to its previous premises and so will the servers.

There are two main backup procedures. On a monthly basis the CS-DRMS database is copied to the ECCB, for its own use and for backup purposes. The excel files containing overdrafts will also be sent to the ECCB. On a daily basis a backup of the CS-DRMS is sent to a backup site in the hospital through fiber connection. The backup used to be located in a separate building together with the hospital's own servers. However, due to water leakage the servers have been relocated to an ordinary unlocked room in the hospital without any fire or flooding protection.

Due to the monthly backup procedure with the ECCB the Government meets the minimum requirements for this dimension, and a score of C is assigned, but not higher requirements since the backup site within the hospital does not provide a secure location for the backups. Going forward it is important that the new server room within AGO premises and the new backup site within the premises of Inland Revenue Division will have standard security features.

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 operational risk monitoring and compliance functions	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

Dimension 1

The head of the DMU participates in multilateral loan negotiations but not in other loan negotiations. The DMU instead receives the loan agreement from the FS and the BO staff enters the transaction in CS-DRMS. The head of the DMU confirms the entry. The same BO staff who enters the transaction in the system also checks the payment advice with the records before submitting the payment to the AGO for processing. Thus, typically there is a clear separation between FO and BO staff, but separation is not sufficient between transaction recording and checking payment advises with internal records. The staff checking the payment advises with internal records should not have system authorization for recording and confirmation of the data. Thus, the Government does not meet the minimum requirements for the first dimension of this indicator and a score of D is assigned.

Dimension 2

The DMU has one head and one permanent staff member, with focus on FO and MO activities in her job description. In addition, there is a BO position that is shared by two alternate officers. The latter arrangement may not be ideal and limits capacity building in BO functions. In practice the other DMU staff and the head are actively involved in BO activities. The DMU has acquired

capacity in MTDS and DMS development, and has also produced debt portfolio review reports with strong similarities to a debt bulletin. A staff has been nominated for Debt Management Practitioners' Program (DMPP) for 2019 sponsored by the Debt Management Facility (DMF). However, currently the FO capacity is weak and as a result the FS is herself actively involved in FO activities. Thus, staff capacity is not sufficient for the envisaged FO activities by the DMU, e.g. maintaining relationships with investors and maintaining surveillance of the market. Moreover, the job descriptions of the FO/MO staff are not accurately reflecting actual tasks. The Government does not meet the minimum requirements for the second dimension of this indicator and a score of D is assigned.

Dimension 3

The MoF IT unit has prepared a draft Business Continuity and Disaster Recovery Plan but it covers the Internal Revenue Department only and not the DMU or the whole of the MoF. In addition, drafting is still ongoing and the document has not been approved. The recent experiences of Dominica show the importance of proper planning of how to mitigate catastrophic events. Thus, the Government does not meet the minimum requirements for the third dimension of this indicator and a score of D is assigned.

DPI-14 Debt and Debt-related Records

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

Dimension 1

The DMU maintains complete debt and loan guarantee records in the CS-DRMS and in an Excel application for overdrafts. Currently, no bilateral loans are disbursing. Disbursements from multilateral creditors are recorded swiftly, within a couple of days from when the transaction took place. DMU uses the CDB web portal to access data on disbursements from the bank. Disbursements from the World Bank are retrieved from the projects within a couple of days after the payments are made. Auctions at the RGSM are recorded quickly based on reports from the ECSE. Domestic debt is recorded based on information from the AGO. The outstanding credits under loan guarantees are reported by the beneficiaries directly after disbursement or repayments. The mission investigated a sample of debt and guarantee transactions to obtain evidence of how quickly the records were updated, and found that all debt and guarantee transactions studied were recorded with a time lag of no more than one month. The Government therefore meets the highest requirements for the first dimension of this indicator and a score of A is assigned.

The mission noted that some external guarantees may be misclassified and should be reported as direct debt with on-lending arrangements instead. However, the transactions are reported as part

of total government debt and the possible misclassification should therefore not disqualify the Government from meeting the A requirements for this dimension.

Dimension 2

The Government is using two government securities registries. One is the system used by the ECSE and its subsidiaries. It is a modern registry system and is therefore expected to meet high security requirements. However, the mission did not have the opportunity to investigate this issue for further detail. The ECSE and its subsidiaries (of which one is maintaining the registry) is subject to an annual audit of the consolidated financial accounts. This is a traditional audit and does not qualify for being an audit of internal controls and management of operational risks as required by the DeMPA tool for meeting the minimum requirements under this dimension.

The other registry system used by the Government is the manual ledger registry of locally issued T-bills maintained by the AGO. In this ledger the individual owners of the locally issued T-bills are recorded. The domestic T-bills are not dematerialized as the securities listed at the ECSE. They are instead physical, but registered securities. Since the T-bills are registered the investor could request to get a new security should the original security be lost in e.g. fire. It is therefore crucial that the registry is secure, but it does not meet basic security requirements. As stated above it is a manual ledger stored in the AGO office without being subject to any specific security features.

Thus, as the locally issued T-bills are not dematerialized and cannot be considered incorporated into a secure registry system the Government does not meet the minimum requirements on the second dimension for this indicator and a score of D is assigned. In addition, the ECSE system is not subject to sufficient audit of internal controls and operational risks.

Annex 1: DeMPA Meeting Schedule

Dominica DeMPA 2018 - Meeting Attendees			
Meeting	***Name***	***Job title***	***Ministry/Unit***
Monday 18 June, 2018			
Meeting with Debt Management Unit	**Desrie Pascal**	Economist - Debt Manager	DMU - Ministry of Finance
	Shannon Bedminister	Assistant Debt Officer	DMU - Ministry of Finance
Meeting with Head Macroeconomic Policy Unit	**Collin Robinson**	Senior Economist	Macroeconomic Policy Unit - Ministry of Finance
Tuesday 19 June, 2018			
Meeting with the Social Security Board	**Jo Ann Lancelot**	Chief Financial Officer	Dominica Social Security
	Augustus C. Etienne	Deputy Director	Dominica Social Security
Meeting with Financial Secretary	**Rosamund Edward**	Financial Secretary	Ministry of Finance
Meeting with Debt Management Unit	**Desrie Pascal**	Economist - Debt Manager	DMU - Ministry of Finance
	Shannon Bedminister	Assistant Debt Officer	DMU - Ministry of Finance
Wednesday 20 June, 2018			
Meeting with Accountant General/Internal Auditors	**Beverley Bernard**	Accountant General	Ministry of Finance
	Gerald Fregiste	Economist (Cash Mgmt & Treasury)	Ministry of Finance
	Shevon Jno. Baptiste	Accounts Clerk (Debt)	Ministry of Finance
	Donald Langford	Internal Auditor	Ministry of Finance
	Solange Eusebe	Internal Auditor	Ministry of Finance
Meeting with External Auditor – Director of Audit	**Laurel Darroux**	Auditor - Finance	Office of the Director of Audit

	Maylina Jno. Ville	Director of Audit	Office of the Director of Audit
Meeting with Information Systems Administrator for CS-DRMS and Swift Lite	**Kelvin Woodman**	Manager	
	Aretha Dublin	Assistant System Analyst	
	Nathanael Toussaint	Assistant System Analyst	
	Dilean Thomas	Senior System Administrator	
Meeting with Budget Unit/Budget Comptroller	**Francisca Pascal**	Budget Controller	Ministry of Finance
	Rosillia Lawrence-Valerie	Budget Analyst	Ministry of Finance
	Portia Burke-Vital	Budget Analyst	Ministry of Finance
Thursday 21 June, 2018			
Meeting with SOE (AID Bank)	**Matilda John-Rose**	General Manager(Acting)	AID Bank
	Martha Abel	Head of Credit (Acting)	AID Bank
	Marisca Joseph	Accountant	AID Bank
Meeting with SOE (DOWASCO)	**Juliana Boston**	Financial Controller	DOWASCO
	Bernard Ettinoffe	General Manager	DOWASCO
Meeting with National Bank of Dominica	**Linda Toussaint-Peter**	Chief Financial Officer	NBD
	Joel C. Denis	Executive Manager - Credit & Business Development	NBD
Friday 22 June, 2018			
Follow-up meeting with Debt Management Unit	**Desrie Pascal**	Economist - Debt Manager	Ministry of Finance
	Shannon Bedminister	Assistant Debt Officer	Ministry of Finance
Wrap-up meeting , Ministry of Finance Officials	**Rosamund Edward**	Financial Secretary	Ministry of Finance
	Francisca Pascal	Budget Controller	Ministry of Finance

Annex 2. Legislation on Government borrowing and guarantee issuing

1. Finance (Administration) Act 1994
2. Loans Act (1974) Chap 64:05
3. Loans (Amendment) Act No. 4 of 1996
4. Bond and Securities Act Chap 64:04
5. Treasury Bills Act, 5 of 2010
6. General Local Loan Act Chap 64:02
7. General Local Loan (Amendment) Act, 5 of 2005
8. General Loan and Dominica Stock Chap 64:01
9. Development Loan Act Chap 64:70
10. Local Loans (General Development No. 1) Act chap 64:71
11. Local Loans (General Development No. 2) Act Chap 64:72
12. Local Loans (Purchase of Geneva Estate) Act Chap 64:73
13. Loans (Caribbean Development Bank) Act Chap 64:40
14. International Financial Organisations Act Chap 63:50
15. International Financial Organisations (Amendment) Act No. 10 of 1991
16. Securities Act, 21 of 2001
17. Eastern Caribbean Partial Credit Guarantee Corporation Agreement Act,1 of 2018