



Department of Finance

Debt Management Procedure Manual

November 2022

Debt Management Procedure Manual

Version	Comment	Authorised	Date
1.0	Draft for comment		30/6/22
2.0	Final approved version	Novena Itsimaera Secretary for Finance	18/11/22
		Nauru Cabinet (Resolution 090/2022)	21/11/22

ABBREVIATIONS

AUD	Australian Dollar
CA	Chief Accountant
DoF	Department of Finance
EXIM	Export Import Bank
FMIS	Financial Management Information System (Finance One)
GDP	Gross Domestic Product
GoN	Government of Nauru
IMF	International Monetary Fund
JPY	Japanese Yen
MoU	Memorandum of Understanding
NITF	Nauru Intergenerational Trust Fund
NPRT	Nauru Phosphate Royalties Trust
NSDS	National Sustainable Development Strategy
PAD	Planning and Aid Division (DoF)
PO	FMIS-based Purchase Order
ROC	Republic of China (Taiwan)
RONPHOS	Republic of Nauru Phosphate
SOE	State-owned Enterprise
TD	Treasury Division (DoF)
USD	US Dollar

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1. Introduction

The Debt Management Procedure Manual (DMPM) documents the procedures that the Department of Finance (DoF) will use to manage public debt in Nauru. The DMPM will provide a reference guide to the officers responsible for debt management to perform their day-to-day duties. These procedures cover the key public debt management activities as set out in the Financial Instruction: Liabilities dated August 2021.

The Financial Instruction: Liabilities provides guidelines on the methodology for the management of Government of Nauru (GoN) liabilities including public debt, provision of loan guarantees, and other liabilities. The Instruction is applicable to all officers that undertake the management and have responsibility for GoN liabilities including Heads of Departments and Executive Management of Government Agencies and SOEs.

The DMPM has been prepared by the Treasury Division (TD) of DoF and can be updated each year. As the Government of Nauru is in the process of reforming the management of public debt and associated risks, the DMPM will be updated when new debt management activities are introduced and/or existing procedures are amended.

For each debt management activity, there is section covering:

- a description of the activity
- workflow summary setting out the steps to be followed with the activity
- an activity description of each step to be followed that includes an input, an action, and an output. It also shows who has the responsibility to undertake the action, key indicators which show that the action was performed, and finally it shows if the action implies a report or output, or if any data is being produced as a result of the activity taking place.

2. Budget Formulation and Debt Strategy Report

General Description

Consistent with Nauru's medium term fiscal strategy to achieve macro-economic stability and inclusive economic growth, the GON's medium term debt strategy is to target a 'low risk' IMF debt sustainability rating through: (1) responsible fiscal policy settings; (2) no new public debt arrangements for the foreseeable future; (3) reduce the debt to GDP ratio to sustainable levels over the medium term and external debt to GDP of less than 15%; and (4) where new debt is considered, it must be concessional – either a minimum 35% grant component, or supported by back to back grant funding to support principal and interest payments.

The GON's objective is to ensure that the government's financing needs and payment obligations are met at the lowest possible cost, consistent with a prudent degree of risk, relative to Nauru's capacity to pay. In addition, liquidity and fiscal sustainability risks are mitigated and managed.

The DoF will prepare a debt strategy report (DSR) as an accompaniment of the Budget to include the following information:

- Overview of public debt and the implementation of the Debt Action Plan including Bank of Nauru liquidation and any other relevant debt repayment programs
- Stock of domestic and external debt in AUD: actual for past 2 fiscal years and projected for the next 3 fiscal years
- Total debt service principal and interest payments in AUD: actual for past 2 fiscal years and projected for the next 3 fiscal years
- Total government liabilities and net debt in AUD: current and past 2 years
- Total government guarantees in AUD
- A cost and risk analysis to set appropriate targets or limits for each of the risk categories
- Risk indicators covering exchange rate, interest rate, and refinancing risks in accordance with the following international standard risk indicator matrix:

Risk Indicators (for year ending 30 June 2021)		External Debt
Total Public Debt (in million AUD)		5.284
Nominal Public Debt as % of GDP		3
PV of Public Debt as % of GDP		3
Interest Payment as % of Government Revenue		0.06
Cost of Debt	Interest Payment as % GDP	0.08
	Weighted Average Interest Rate (%)	1.75
Refinancing Risk	Average Time to Maturity (ATM) in years	3.80
	Debt Maturing within 1-year (% total debt)	12.5
Interest Rate Risk	Average Time to Refixing (ATR) in years	0.04
	Debt Refixing within 1-year (% total debt)	100
	Fixed Rate Debt (% of total debt)	0
FX Risk	Foreign Currency Debt (% total debt)	100

Definitions:

Average Time to Maturity

The Average Time to Maturity (ATM) gives information on the length of the debt's life, i.e. average residual maturity. No account is taken of interest payments in the calculation of ATM, and future repayments are taken at nominal value at the date they are maturing, no present value calculation is undertaken. ATM is a measure for rollover risk because it considers in full the residual maturity of floating rate loans/bonds. In the calculation of ATM, the weights are the nominal repayments of principal at the date they fall due.

The formula for ATM is:

$$\text{Average time to maturity} = \sum_{t=0}^T \left(\frac{t \times P_t}{DOD_0} \right)$$

where:

- P_t = payment of principal at time t
 DOD_0 = total debt outstanding at time t_0

Average Time to Re-fixing

The Average Time to Re-fixing (ATR) gives information on the exposure of the debt portfolio to changes in interest rates. High ATR will indicate low risk, because this will imply that a relatively low share of the debt portfolio will have the interest rate reset in a short period of time.

$$\text{Average time to re-fixing} = \sum_{t=0}^T \left(\frac{t \times RF_t}{Nom} + \frac{t_0 \times RV}{Nom} \right)$$

where:

- RF_t = redemptions of fixed rate debt at time t
 RV = total outstanding variable rate debt at time t_0
 Nom = total nominal amount of debt outstanding at time t_0

Workflow Summary

TD will undertake a cost-risk analysis to prepare the Debt Strategy Report (DSR) on a fiscal year basis prior to the start of each fiscal year that is set within the context of the Government's medium term macroeconomic framework and fiscal strategy. TD will coordinate with other divisions within DoF, and where necessary with Line Ministries, SOEs and/or Project Agencies. Debt service forecasts will be generated in the preparation of the DSR.

The DSR will be signed-off by the Deputy Secretary Treasury. It will be submitted to the Minister for consideration and approval by the Cabinet. The DSR is stand-alone document that will accompany the Budget documents and posted to the DoF website.

DoF has established a process which will include the following steps:

Step 1 – 3: Prepare debt data and inputs to the DSR

1. TD prepares the following information for input to the DSR:
 - Public debt stock and debt service forecasts/projections
 - Macroeconomic and fiscal framework projections covering (i) medium-term economic and fiscal projections and/or scenarios; (ii) exchange rates; (iii) interest rates; (iv) debt issuance; and (v) cash flow projections
 - External finance to align funding priorities, project utilization and expected schedule of loan

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disbursements, and pipeline for new project and budget loans

2. Review the macro-market environment for debt management in Nauru covering (1) policy and budget environment; (2) market environment covering exchange rate and interest rate developments; and (3) vulnerabilities, risks and structural constraints
3. Review the development of the debt portfolio covering (1) existing portfolio and trends; and (2) composition of debt portfolio

Step 4 – 7: Formulate scenarios, undertake cost-risk analysis, and draft DSR

4. TD develops the debt strategy including cost-risk analysis and preparation of the table of cost and risk indicators for existing debt portfolio and financing strategies
5. TD undertakes analysis and strategy selection covering (1) analysis, assumptions, and forecasts; and (2) selected financing strategies
6. TD prepares recommendations based on the costs and risks identified for the selected financing strategies
7. TD drafts the DSR incorporating the following information:
 - objectives and scope of the debt strategy
 - background and development of the debt portfolio covering (1) existing portfolio and trends; and (2) composition of debt portfolio
 - analysis of risks in the public debt portfolio with the cost-risk matrix and discussion refinancing, interest rate and exchange rate risks
 - external sources of financing for future needs
 - macro-market environment for debt management in Nauru covering (1) policy and budget environment; (2) market environment covering exchange rate and interest rate developments; and (3) vulnerabilities, risks and structural constraints
 - analysis and strategy selection covering (1) analysis, assumptions and forecasts; and (2) selected financing strategies
 - recommendations based on the costs and risks identified for the borrowing strategies
 - ratios or targets for each risk set out in the cost and risk matrix

Step 8 – 10: Submit DSR for approval and publication

8. Draft DSR is submitted to the Deputy Secretary Treasury for sign-off
9. Final DSR is submitted to the Minister for consideration and approval by the Cabinet
10. Approved DSR is incorporated with the Budget documents and posted to the DoF website

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Activity Description

Step 1 to 3	Prepare debt data and inputs to the DSR			
Activity Description	Preparation of debt data along with macroeconomic and fiscal parameters required for the DSR			
Inputs:	List the inputs for this activity			
	Input Name	Description	Source	Format
	Data required for DSR	Data requirements include: <ul style="list-style-type: none"> • Public debt stock and debt service forecasts / projections • Macro Framework projections covering (i) medium-term economic and fiscal projections and/or scenarios; (ii) debt issuance; and (iii) cash flow projections • Financing priorities, project utilization and expected schedule of loan disbursements, and pipeline for new project and budget loans • Information on the current and future interest rates, and foreign exchange rates 	DoF Line Ministries, SOEs and/or Project Agencies	Excel
Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format
	Macro-economic and fiscal policy environment	Review the macro- economic and fiscal policy environment for debt management in Nauru covering (1) policy and budget parameters; (2) market environment covering projected exchange rates and interest rates; and (3) vulnerabilities, risks and structural constraints	TD	Excel
	Development of debt portfolio	Review the development of the debt portfolio covering (1) existing portfolio and trends; and (2) composition of debt portfolio	TD	Excel
Executed By:	Treasury Division (staff prepare and sign-off by the Deputy Secretary Treasury)			
Documents	List the documents produced by or required for this activity			
	Document Name	Document Description	Document Format	Document Frequency
	DSR Excel spreadsheet	Excel spreadsheet set up for cost-risk analysis	Excel	Annual
	Debt service forecast Excel spreadsheet	Excel spreadsheet linked to forecasts of existing debt and projected new debt		

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Step 4 to 7	Formulate scenarios, undertake cost-risk analysis, and draft DSR			
Activity Description	Formulate financing strategies, undertake cost-risk analysis and draft DSR			
Inputs:	List the inputs for this activity			
	Input Name	Description	Source	Format
	DSR Excel spreadsheet	DSR Excel spreadsheet set up for cost-risk analysis Public debt stock and debt service forecasts / projections	TD	Excel
Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	
	Cost-risk analysis and draft DSR	Analyze the cost and risk of the existing debt and projected new debt Undertake analysis and strategy selection covering (1) analysis, assumptions and forecasts; and (2) selected financing / borrowing strategies Prepare recommendations based on the costs and risks identified Draft DSR	Deputy Secretary Treasury	
Executed By:	Treasury Division (staff prepare and sign-off by the Deputy Secretary Treasury)			

Step 8 to 10	Minister/Cabinet approval and publication of DSR			
Activity Description	Submit DSR for review, approval, and publication			
Inputs:	List the inputs for this activity			
	Input Name	Description	Source	Format
	Draft DSR	Submit draft DSR for sign-off by the Deputy Secretary Treasury	TD	Word
	Draft DSR	Submit DSR for consideration by the Minister and approval by the Cabinet	Deputy Secretary Treasury, Minister, Cabinet	Word
Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format
	Approved DSR	Approval of the DSR by the Minister, Cabinet, and Parliament & inclusion in the Budget documents	Budget documents	Word/PDF
	Approved DSR	Post DSR to DoF website	DoF Website	PDF
Executed By:	Treasury Division			

3. Raising of Loans

General Description

With the repayment of the Samurai bonds (Series B & C) held by Firebird at the end of March 2021 plus expiry of the other Samurai bonds, the only public debt is the EXIM loan to the GON that is on-lent to RONPHOS. A further loan to the GON is currently planned for funding the cost of leasing aircraft for the national airline. Both loans will be fully serviced by ROC Taiwan though until 31 December 2022.

GoN can only raise a government loan if such borrowing has been incorporated in the budget as submitted by the Cabinet and approved by Parliament. Details are set out in Section 4 of the Financial Instruction: Liabilities.

Current Government policy is for no new loans to be agreed. Any proposal for a new loan must be authorised by Parliament, Cabinet, and the Minister for Finance, and be consistent with the Fiscal Strategy. Loans are only likely to be agreed in exceptional circumstances, and must be on concessional terms and/or offset by direct budget support from donors.

Workflow Summary

The process to be followed for raising of a loan is set out in Section 4 of the Financial Instruction: Liabilities. DoF has established a process which will include the following steps:

Step 1 – 5: Loan Formulation and Authority to Negotiate

1. Upon receipt of a borrowing proposal, DoF will undertake the initial appraisal to ensure that each project meets the necessary requirements and complies with GoN policies such as stipulated in the National Sustainable Development Strategy and Fiscal Strategy. The DoF will also undertake informal discussions with potential development partners (lenders or donors) to agree on the funding source to meet repayments if this has not already been identified.
2. DoF will form a negotiation team comprising the Minister, Deputy Minister, Secretary for Finance, Deputy Secretary for Treasury, and representatives from the relevant Line Ministry(s) and Legal (Department of Justice) to undertake loan negotiations.
3. DoF will prepare a report to be signed-off by the Deputy Secretary Treasury and Secretary for Finance and submitted to the Minister and the Cabinet to agree to proceed with loan negotiations.
4. The Minister will submit a “Leave of the House to Move a Motion in regard to raising a loan” to Parliament, setting out the basic terms and conditions of the loan. Parliament will provide authority to the Minister, Secretary for Finance, and other Officers of Government to do all that is required to give effect to the Motion to raise a loan including executing agreements with the lender.
5. TD will prepare a letter, signed-off by the Deputy Secretary Treasury and Secretary for Finance, for the Minister to formally notify the lender along with the list of the negotiation team.

Step 6 – 7: Loan Negotiations and Approval

6. DoF through the Secretary of Finance will lead contract negotiations, while involving the Minister and Deputy Minister when required, to:
 - agree technical components of the project
 - agree loan terms and conditions and conclude the loan agreement
 - negotiate and agree legal documentation
 - prepare loan agent's warrant/power of attorney (if the Minister cannot sign)
 - finalize all documentation including a letter to the lender confirming agreement to the project subject to approval by the Cabinet
 - forward to the Minister for agreement and submission to the Cabinet for approval

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7. DoF in consultation with the Department of Justice will ensure that all legal and loan documentation is completed.

Step 8 – 11: Loan Signing, Ratification, Effectiveness and Recording

8. Upon approval from the Cabinet, the Minister or an appointed loan agent under a warrant or power of attorney will sign the agreement(s) and associated documents.
9. DoF will initiate the ratification process whereby the signed agreements are sent to the Chairman of the Cabinet for signing.
10. Department of Justice will prepare the legal opinion, which is then sent to the DoF, Line Ministry and lender for effectiveness.
11. Upon signing of all loan documentation, DoF will record all the loan details in Tech1: Finance One (the Financial Management Information System (FMIS)) that is operated in the Treasury Division and signed off by the Deputy Secretary of Treasury.

Activity Description

Step 1 to 5	Loan Formulation and Authority to Negotiate			
Activity Description	Initial appraisal, pre-consultations with development partner or funding agency, forming negotiation team and Ministerial approval			
Inputs:	List the inputs for this activity			
	Input Name	Description	Source	Format
	Project proposal	Initial appraisal to ensure project meets the necessary requirements and complies with GoN policies Informal discussions with Development Partner(s) on the project proposal	DoF Line Ministry SOE Project Agency Development Partner(s)	Word
	Negotiation team	Formation of negotiation team	DoF Line Ministry Department of Justice	MoU
Loan negotiation report	Draft loan negotiation report seeking approval to proceed with loan negotiations	DoF	Word	

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Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format
	MoU	Formalization of loan negotiation team	Minister	Word
	Negotiation report	Report signed-off by the Deputy Secretary Treasury and Secretary for Finance and submitted to the Minister and Cabinet to agree to proceed with loan negotiations	Minister Cabinet	Word
	Motion of Parliament	Submission of “Leave of the House to Move a Motion in regard to raising a loan” to Parliament, setting out the basic terms and conditions of the loan	Parliament	Word
Notification letter	Minister to formally notify the lender along with the list of the negotiation team	Lender	Word PDF	
Executed By:	Department of Finance			

Step 6 to 7	Loan Negotiations and Approval				
Activity Description	Loan negotiations with development partner or funding agency, submission of loan agreement to the Minister for signature, signing of agreements, ratification, effectiveness, and recording of the loan				
Inputs:	List the inputs for this activity				
	Input Name	Description	Source	Format	
	Project proposal & loan negotiation	DoF through Secretary for Finance leads negotiations to: <ul style="list-style-type: none"> • agree technical components of the project • agree loan terms and conditions and conclude the loan agreement • negotiate and agree legal documentation • prepare loan agent’s warrant / power of attorney (if Minister cannot sign) • finalize all documentation including a letter to the lender confirming agreement to the project subject to approval by the Cabinet 	DoF Line Ministry SOE Project Agency Ministry of Justice	Word	
	Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format	
Loan documents	Loan documents forwarded to the Minister for agreement and submission to Cabinet for approval	Cabinet	Word		
Executed By:	Department of Finance				

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Step 8 to 11	Loan Signing, Ratification, Effectiveness, and Recording																				
Activity Description	Loan agreement signed by the Minister, ratification by Cabinet, legal opinion from Ministry of Justice, and loan recording and effectiveness																				
Inputs:	List the inputs for this activity																				
	<table border="1"> <thead> <tr> <th>Input Name</th> <th>Description</th> <th>Source</th> <th>Format</th> </tr> </thead> <tbody> <tr> <td>Loan documents</td> <td>Loan agreement and associated documents sent to the Minister for signing</td> <td>Minister</td> <td>Word</td> </tr> <tr> <td>Legal opinion</td> <td>Ministry of Justice ensures that all legal and loan documentation is completed and prepares legal opinion</td> <td>Ministry of Justice</td> <td>Word</td> </tr> <tr> <td>Ratification</td> <td>Signed agreements sent to the Chairman of the Cabinet for signing</td> <td>Cabinet</td> <td>Word</td> </tr> </tbody> </table>	Input Name	Description	Source	Format	Loan documents	Loan agreement and associated documents sent to the Minister for signing	Minister	Word	Legal opinion	Ministry of Justice ensures that all legal and loan documentation is completed and prepares legal opinion	Ministry of Justice	Word	Ratification	Signed agreements sent to the Chairman of the Cabinet for signing	Cabinet	Word				
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Executed By:	Treasury Division																				

4. Provision of Loan Guarantees

General Description

DoF is responsible and participates in the process for assessing, approving, and monitoring loan guarantees. All government agencies and SOEs seeking a government guarantee must submit a request to the DoF setting out details of the loan to be guaranteed along with both a technical and financial plan for the investment project/program. In addition, they must ensure that the:

- financial plan provides (1) analysis of cash inflows (net revenue) and outflows (operational expenses, depreciation, taxes, interest costs, and other payables), (2) analysis of capacity to service debt obligations (principal, interest and fees/expenses), and (3) analysis of sources of investment capital (including owner capital, borrow capital) and the capacity to repay the obligations of the project.
- guarantee complies with the laws and regulations of Nauru.
- project benefiting from the guarantee has been chosen in the normal planning process, and the firm undertaking the project has been chosen in a fair competition.
- guarantee does not breach any budget limits.
- guarantee has greater net benefits for Nauru than alternative uses of the government's money, including other kinds of subsidy.
- guarantee is as transparent as is consistent with good targeting, and the guarantee contract will be made public, along with a description of its possible fiscal implications.

DoF will review the loan guarantee proposal and if it meets all the necessary criteria, obtain the necessary approvals and signing of the loan guarantee agreement. If a guarantee fee is applicable, TD will notify the guarantee enterprise of the fee due and for the amount to be credited to the designated GoN bank account.

Workflow Summary

Step 1 – 3: Review of Loan Guarantee by Department of Finance

1. Upon receipt of a loan guarantee proposal, DoF will undertake the initial appraisal to ensure that:
 - guarantee proposal submitted by the government agency or SOE provides all the necessary documentation and meets the criteria set by the GoN.
 - loan guarantee has been assessed in the context of the GoN's public and publicly guaranteed debt levels and the associated foreign currency and interest rate risks.
 - GoN has acted to limit the cost and risk of the guarantee and, if appropriate, will charge a fee for the guarantee.
2. DoF will prepare a report (prepared by staff in TD and signed-off by the Deputy Secretary Treasury and Secretary for Finance) to submit to the Minister with a recommendation to agree to or decline the loan guarantee proposal. If the Minister agrees, the proposal will be submitted to Cabinet for approval.
3. The Minister will submit a "Leave of the House to Move a Motion in regard to providing a government loan guarantee" to Parliament, setting out the basic terms and conditions of the loan guarantee. Parliament will provide authority to the Minister, Secretary for Finance, and other Officers of Government to do all that is required to give effect to the Motion to provide a government guarantee including executing loan guarantee agreements with the lender.

Step 4 – 5: Loan Guarantee Negotiations and Approval

4. DoF through the Secretary of Finance will participate in loan guarantee contract negotiations, while informing the Minister and Deputy Minister when required, to:
 - agree technical components of the project
 - agree loan guarantee terms and conditions and conclude the loan guarantee agreement
 - negotiate and agree legal documentation
 - prepare loan agent's warrant/power of attorney (if Minister cannot sign)
 - finalize all documentation including a letter to the lender confirming loan guarantee agreement for the project
 - forward to the Minister for submission to the Cabinet for approval
5. DoF in consultation with the Department of Justice will ensure that all legal and loan guarantee documentation is completed.

Step 6 – 9: Loan Guarantee Signing, Ratification and Recording

6. Upon approval from the Cabinet, the Minister or an appointed loan agent under a warrant or power of attorney can sign the loan guarantee agreement(s) and associated documents.
7. DoF will initiate the ratification process whereby the signed agreements are sent to the Chairman of Cabinet for signing.
8. Upon signing of all loan guarantee documentation, DoF will record all the loan guarantee details in Tech1: Finance One (FMIS) that is operated in the Treasury Division and signed off by the Deputy Secretary of Treasury.
9. If the loan guarantee is subject to a guarantee fee, staff in TD will prepare an invoice and signed-off by the Secretary for Finance to send to the guaranteed entity setting out the guarantee fee amount and due date(s).

Step 10 – 12: Loan Guarantee Monitoring and Reporting

10. TD will monitor the outstanding amount of each guarantee covering the disbursed amounts and repayment profiles.
11. The guaranteed entity is required to submit a report to TD for the period ending 30 June and 31 December (within one month of the end of the period) setting out all loan guarantees, the amount outstanding under the loan guarantee, and loan disbursements and repayments over the preceding six-month period.
12. DoF will prepare a report (prepared by staff in TD and signed-off by the Deputy Secretary Treasury) at least annually and submit to the Minister covering:
 - GoN's gross financial exposure and, where feasible, an estimate of the likely fiscal cost of called guarantees
 - payments made, reimbursements, recoveries, financial claims established against beneficiaries, and any waivers of such claims
 - guarantee fees or other revenue received
 - forecast of new guarantees to be issued in the budget year

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Activity Description

Step 1 to 3	Review of Loan Guarantee by Department of Finance			
Activity Description	Initial appraisal, preparation of a report and Cabinet approval			
Inputs:	List the inputs for this activity			
	Input Name	Description	Source	Format
	Appraisal of loan guarantee proposal	Initial appraisal to ensure proposal provides all the necessary documentation Assess risk of loan guarantee and charge of guarantee fee if appropriate	DoF Line Ministry SOE	Word
	Preparation of loan guarantee report	Draft report seeking approval to proceed with loan guarantee negotiations	DoF	Word
Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format
	Loan guarantee report	Report signed-off by the Deputy Secretary Treasury and Secretary for Finance and submitted to the Minister and Cabinet to agree to proceed with loan guarantee negotiations	Minister Cabinet	Word
	Motion of Parliament	Submission of "Leave of the House to Move a Motion in regard to providing a government loan guarantee" to Parliament, setting out the basic terms and conditions of the loan guarantee	Parliament	Word
Executed By:	Department of Finance			

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Step 4 to 5	Loan Guarantee Negotiations and Approval							
Activity Description	Loan guarantee negotiations, submission of loan guarantee agreement to the Minister for submission to Cabinet for approval							
Inputs:	List the inputs for this activity							
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Loan guarantee approval	Loan guarantee documents forwarded to the Minister for agreement and submission to Cabinet for approval	Cabinet	Word					
Executed By:	Department of Finance							

Step 6 to 9	Loan Guarantee Signing, Ratification, and Recording											
Activity Description	Loan guarantee agreement signed by the Minister, ratification by Cabinet, and loan recording and effectiveness											
Inputs:	List the inputs for this activity											
	<table border="1"> <thead> <tr> <th>Input Name</th> <th>Description</th> <th>Source</th> <th>Format</th> </tr> </thead> <tbody> <tr> <td>Loan guarantee documents</td> <td>Loan guarantee agreement and associated documents sent to the Minister for signing</td> <td>Minister</td> <td>Word</td> </tr> <tr> <td>Guarantee fee</td> <td>TD to determine whether guarantee fee will be charged, and to prepare invoice and signed-off by the Secretary for Finance to send to the guaranteed entity</td> <td>Secretary for Finance</td> <td>Word</td> </tr> </tbody> </table>	Input Name	Description	Source	Format	Loan guarantee documents	Loan guarantee agreement and associated documents sent to the Minister for signing	Minister	Word	Guarantee fee	TD to determine whether guarantee fee will be charged, and to prepare invoice and signed-off by the Secretary for Finance to send to the guaranteed entity	Secretary for Finance
Input Name	Description	Source	Format									
Loan guarantee documents	Loan guarantee agreement and associated documents sent to the Minister for signing	Minister	Word									
Guarantee fee	TD to determine whether guarantee fee will be charged, and to prepare invoice and signed-off by the Secretary for Finance to send to the guaranteed entity	Secretary for Finance	Word									

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Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format
	Loan guarantee signing	Minister or an appointed loan agent under a warrant or power of attorney signs the agreement(s) and associated documents	Cabinet	Word
	Ratification	Signed documents sent to the Chairman of the Cabinet for signing	Chairman of the Cabinet	Word
	Loan recording	DoF records all the loan details in Tech1: Finance One (the Financial Management Information System (FMIS)) that is operated in TD and signed off by the Deputy Secretary of Treasury	TD	Data entry Excel
Guarantee fee	Invoice sent to the guaranteed entity	Guaranteed entity	PDF	
Executed By:	Department of Finance			

Step 10 to 12	Loan Guarantee Monitoring and Reporting			
Activity Description	TD will monitor the outstanding amount of each guarantee covering the disbursed amounts and repayment profiles.			
Inputs:	List the inputs for this activity			
	Input Name	Description	Source	Format
	Loan guarantee information	The guaranteed entity submits a report to TD for the period ending 30 June and 31 December	Guaranteed Entity	PDF
Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format
	Loan guarantee report (at least annually)	TD report signed-off by Deputy Secretary Treasury covering: <ol style="list-style-type: none"> 1. GoN's gross financial exposure and, where feasible, an estimate of the likely fiscal cost of called guarantees 2. Payments made, reimbursements, recoveries, financial claims established against beneficiaries, and any waivers of such claims 3. Guarantee fees or other revenue received 4. Forecast of new guarantees to be issued in the budget year 	Minister	Word PDF
Executed By:	Treasury Division (staff prepare and sign-off by the Deputy Secretary Treasury)			

5. Debt Service Payments

General Description

Debt servicing activities cover the payment of principal, interest and other charges associated with all external and domestic loan obligations of the GoN. The payment process is initiated by TD, which is responsible for recording government debt obligations.

There must be available appropriation to cover any principal and interest payments under Head 12. For those payments that are met by donor budget support payments, the expected revenue and outlay should be recorded in the budget.

TD will track actual debt service costs against the budget allocation (forecast) on a monthly basis, noting the reasons for any variances.

Workflow Summary

Step 1 – 4: Debt Service Payments

1. For external loans, payment advices are received by TD from the development partner or lender. TD will check with their debt recording system the amount to verify and if there is any discrepancy, they should contact the development partner or lender to reconcile the difference.
2. TD will prepare a payment order, which is checked by the Deputy Secretary Treasury and approved by the relevant authority and sent to the Director of Processing (Payments) to arrange payment through Bendigo Bank.
3. Once payment has been made, the Director of Processing (Payments) will notify TD that will update the public debt records and GoN's public accounts in the Finance One (FMIS).
4. For domestic loans or securities, TD will prepare a payment order, which is checked by the Deputy Secretary Treasury and approved by the relevant authority and sent to the Director of Processing (Payments) to arrange payment through Bendigo Bank.

Step 5: Debt Service Tracking and Reporting

5. TD will be responsible for tracking actual debt service payments against the budget provision and to identify the expected outcome for the fiscal year. If there is a large unexpected variance, TD will prepare and submit a report for the Deputy Secretary Treasury to submit to the Secretary for Finance and the Minister.
6. A debt service report will be prepared at the end of each quarter, checked by the Deputy Secretary Treasury, and submitted to the Minister. The report will include the variances against the budget provision along with an explanation for the variances.

Activity Description

Step 1 to 4	Debt Service Payments			
Activity Description	TD will process the payment advice received from the development partner or lender, check against the debt data, and prepare the payment order.			
Inputs:	List the inputs for this activity			
	Input Name	Description	Source	Format
	Payment advice	TD receives payment advice: <ul style="list-style-type: none"> • checks against debt database • if payment advice does not match, contact the development partner or fiscal agent to identify difference • prepares payment order which is checked by Deputy Secretary Treasury 	Development Partner or Lender	PDF

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Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format
	Payment order	Payment order approved by the relevant authority is sent to the Director of Processing (Payments) to arrange payment through Bendigo Bank	Director of Processing (Payments)	PDF Finance One (FMIS)
Executed By:	Treasury Division (staff prepare and sign-off by the Deputy Secretary Treasury)			

Step 5 to 6	Debt Service Tracking and Reporting			
Activity Description	TD will be responsible for tracking actual debt service payments against the budget provision and to identify the expected outcome for the fiscal year.			
Inputs:	List the inputs for this activity			
	Input Name	Description	Source	Format
	Debt service tracking	TD will monitor debt service out-turn compared to budget forecast at the end of each month Any large unexpected variances will be notified to the Secretary for Finance and the Minister	Finance One (FMIS)	Excel
Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format
	Debt service report (quarterly)	TD debt service report will be prepared at the end of each quarter, checked by the Deputy Secretary Treasury, and submitted to the Minister The report will include the variances against the budget provision along with an explanation for the variances	Minister	Word PDF
Executed By:	Treasury Division (staff prepare and sign-off by the Deputy Secretary Treasury)			

6. Debt Reporting

General Description

DoF is responsible for preparing all public debt reports which are prepared by staff in TD and signed-off by the Deputy Secretary Treasury. In addition to the debt strategy report as set out in Section 2, DoF will also prepare a mid-year debt report as at 31 December each year to include the following information:

- Overview of public debt and changes for the first 6-months of the fiscal year
- Stock of domestic and external debt as at 31 December
- Total debt service principal and interest payments: for the period 1 July to 31 December
- Total government liabilities and net debt as at 31 December
- Total government guarantees as at 31 December
- Risk Indicator matrix with comparison with the targets or limits set for each of the risk categories covering foreign exchange, interest rate, and refinancing risks

TD will publish the debt reports on the DoF's website.

Workflow Summary

Step 1 – 6: Debt Reporting

1. TD will generate the debt data from the Excel spreadsheet, reconciling with creditors if needed.
2. TD will prepare the debt reports including the mid-year debt report as at 31 December.
3. TD will submit the reports to the Deputy Secretary Treasury for sign-off.
4. TD will arrange for submission or distribution of the debt reports.
5. TD will arrange for publication of the debt reports on the DoF website.

Activity Description

Step 1 to 6	Debt Reporting			
Activity Description	TD will prepare all public debt reports including the mid-year debt report as at 31 December each year, which are signed-off by the Deputy Secretary Treasury			
Inputs:	List the inputs for this activity			
	Input Name	Description	Source	Format
	Debt reports	TD will: <ul style="list-style-type: none"> • generate debt data from Excel spreadsheet • prepare the debt reports including the mid-year debt report as at 31 December • submit the reports to the Deputy Secretary Treasury for sign-off 	TD	Excel
Outputs:	List the outputs for this activity			
	Output Name	Description	Destination	Format
	Debt reports	TD will: <ul style="list-style-type: none"> • submit or distribute the debt reports • publish the debt reports on the DoF website 	Deputy Secretary Treasury Website	Word PDF
Executed By:	Treasury Division (staff prepare and sign-off by the Deputy Secretary Treasury)			