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Request n° 2015/366005/1

Support to the Public Debt Management
Department of the Armenian Ministry of Finance.

PROGRESSION REPORT NR 4

MARCH 2017



Project financed by the European Union



Project implemented by DFC and
Alternative Consulting

Support to the Public Debt Management Department of the Armenian Ministry of Finance.

Request n° 2015/366005/1

Progression Report nr. 4.

March 2017

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DISCLAIMER

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Glossary of acronyms

AFP	Annual Financing Plan
AMD	Armenia Drams
BC(D)P	Business Continuity (and Disaster Recovery) Plan
BO	Back Office
CBA	Central Bank of Armenia
DBPM	Department of Budget Process Management
DeMPA	Debt Management Performance Assessment
DMFAS	Debt Management and Financial Analysis System
DMOSB	Department of Management of Obligations to the State Budget of RA
DMP	Department of Macroeconomic Policy
DSA	Debt Sustainability Analysis
EUD	European Union Delegation (in Yerevan)
FO	Front Office
GoRA	Government of the Republic of Armenia
ICD	International Cooperation Department
IMF	International Monetary Fund
MO	Middle Office
MOF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoJ	Ministry of Justice
MTDS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
ORM	Operational Risk Management
PD	Primary Dealer
PDMD	Public Debt Management Department
PIU	Project Implementation Unit
RA	Republic of Armenia
SRC	State Revenues Committee
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

1. Introduction.

1.1. Project Data.

Name of the Project:

ARMENIA: Support to Public Debt Management Department of the Ministry of Finance (Yerevan).

FWC BENEFICIARIES 2013-LOT 11: Macro-economy, Statistics and Public Finance Management.
EuropeAid/132633/C/SER/multi.

Execution of the Project:

DFC Consortium.

Maximum budget available: € 300,000.00

Working days: 205 working days for 2 Experts (1 Team Leader, 105 working days & 1 Public Debt Management Expert, 100 working days).

The exact days of the assignment will be determined after consultations with the PDMD and the EU Delegation.

Location:

Yerevan (Armenia), apart from the study tours (the study tours and the visiting countries will be organized as agreed with the PDMD and the EUD).

Duration:

1/1/2016 to 31/12/2017.

Key Stakeholders:

Ministry of Finance (PDMD)
EU Delegation in Armenia.

General Purpose:

Supporting the Government of Armenia (Ministry of Finance, Public Debt Management Department-PDMD) to overcome the shortcomings revealed by the Debt Management Performance Assessment of 2013 (DeMPA), to fulfil the strategy objectives in order to strengthen public debt management capabilities, having regard to the specific needs of the PDMD.

Specific Objectives:

- (i) Improving the legal and institutional debt management framework,
- (ii) Enhancing the capacities of the Middle Office of the PDMD,
- (iii) Deepening the market for Government's securities.

1.2. Status of the Project at the Time of Reporting.

Fifth mission in Yerevan by the 2 Experts: 21/2 (Mr. Steylaers: 22/2) to 8/3/2016 (Mr. Scipioni: 3/3).

- The fifth mission has focused on the following issues:

- Drafting amendments for the PDM legal framework: review of the articles to be changed in the current PDL and assessment of market authority.
- Operational Risks Monitoring Framework (includes Business Continuity Planning - BCP): identification of risks (first step).
- Budget Cash Flows Forecasts: preparation of the 2 workshops with SRC and other major stakeholders (to be organized during the June mission).
- Internal documented procedures for debt management main activities (includes "Procedures for negotiating external loans", "Procedures for issuance of bonds in international markets" and "Procedures for all external borrowings,...")
- First steps for the preparation of the second study tour (to Spain; tentatively scheduled end September).

1.3. Preparation of the Report.

Progression Report nr. 4 has been prepared by Jean-Luc Steylaers (Team Leader) and Alessandro Scipioni (Public Debt Management Expert).

Date: 8/3/2017.

2. EXECUTIVE SUMMARY & RECOMMENDATIONS.

2.1. Executive Summary.

The fifth mission has been taking place in Yerevan from 21/2 to 7/3/2017.

The programme of the mission was:

- Drafting amendments for the PDM legal framework: review of the articles to be changed in the current PDL and assessment of market authority.
- Operational Risks Monitoring Framework (includes Business Continuity Planning - BCP): identification of risks (first step) and of the critical processes.
- Budget Cash Flows Forecasts: preparation of the 2 workshops with SRC and other major stakeholders (to be organized during the June mission).
- Internal documented procedures for debt management main activities (includes "Procedures for negotiating external loans", "Procedures for issuance of bonds in international markets" and "Procedures for all external borrowings,...")
- First steps to prepare the second study tour, scheduled end September and to be hosted by the Spanish Treasury in Madrid (Spain).

Some documents delivered by the mission are set in Annexes 1 to 5 of this Report.

The mission met on a daily basis with Mr. Arshaluys Margaryan, Director of the Public Debt Management Department of the Ministry of Finance and his team, and takes the opportunity to thank all of them for their availability and suggestions.

Agenda and other logistic issues were efficiently managed by Mr. Artur Hambardzumyan, Head of the Middle Office, and Samvel Khanvelyan, Head of the Front Office, to whom the mission would like to convey special thanks.

The mission has consisted in broad and more focused discussions with PDMD staff on (i) Operational Risk Management and Business Continuity Plan, (ii) drafting processes and internal documented procedures for debt management main activities (including "Procedures for negotiating external loans", "Procedures for issuance of bonds in international markets" and "Procedures for all external borrowings,...") for the FO, BO & MO and (iii) Public Debt Law.

The mission has also met with the IT Department of the Ministry of Finance to discuss IT issues related to operational risks management and business continuity plan.

The Mission has also met with:

- Mrs. Laura Bailey, WB Country Director and her team,
- Mr. Ludovic Ciechanowski, EUD Macro-Economist.
- Mr. Arman Potikyan, Head of Financial Department, CBA.
- Mrs. Teresa Daban-Sanchez, Resident representative of the IMF in Armenia, and Mr. John Zohrab, Regional Advisor, Central Asia, Caucasus, Kazakhstan and Iran, of the IMF.

2.2. Preparation of the Report.

- The following missions will be focusing on specific areas where support is needed by the PDMD to achieve the overall objectives and outputs required of the Programme, according to the tentative calendar approved by PDMD.

They will be designed as specific technical assistance where support is necessary (examples: reviewing the public debt law, implementing Treasury daily accurate forecasts methods and tools, drafting working procedures, tackling the overall issue of operational risk, etc....).

- The revised PDL will be drafted in order to tackle the shortcomings revealed by the 2013-2014 DeMPA Analysis (see below).

- However, the following missions will dedicate a part of their time, if necessary, to the follow-up of the previous missions.

2.3. Recommendations.

No specific recommendation.

2.4. Period covered by the report.

Progression Report # 4 covers the period from 1/1/2017 to 8/3/2017.

3. REVIEW OF PROJECT DESIGN

3.1. Policy and Programme Context

The Republic of Armenia (RA) started to accumulate its public debt since 1991. In the early years of independence, the Government of the Republic of Armenia (GoRA) attracted funds from external sources on market terms to assure energy and food security.

Armenia became in 1992 a member of International Financial Institutions (IMF, WB) and was able to attract long-term concessional loans mostly to develop economic infrastructures.

In 1995, the Government initiated the establishment of its domestic debt market by issuing T-bills.

Since 2000, 2004 and 2007, the GoRA has issued mid-term, long-term government bonds and saving bonds respectively.

As of the end of 2014, the public debt of RA consisted of three components: external loans (mostly concessional), Eurobonds and domestic debt (stemming mainly from the issuance of domestic government securities).

Public debt management issues in Armenia became evident since 2009, when according to the international financial crisis, Armenia has sharply increased foreign and domestic borrowings in order to support the economy.

As a result, at the end of 2009, public debt to GDP ratio reached 41% and 43.6% at the end of 2014, while it was only 16.4% at the end of 2008.

Before 2009, the foreign debt was concessional and almost 100% was in fixed rate.

The situation has changed dramatically after borrowing on non-concessional terms, and many issues became apparent. The deterioration of the debt outlook occurred while Armenia was in the process of graduating out of concessional lending with the IFIs due to its pre-crisis macroeconomics achievements. The Ministry of Finance needs to adapt to this new situation, including by strengthening its debt management capacity as the decisions on the financing mix become more complex.

The Government is aware of the challenges stemming from the higher debt burden and reduced access to concessional lending. In order to address the need for enhanced debt management capacity, and consistently with the commitment taken with the IMF in October 2009 under the Stand-by Arrangement, the Ministry of Finance formally adopted a time-bound Action Plan for debt Management Reform in March 2010 ("the Action Plan").

The general objective of the Action Plan was to formulate and implement a fully-fledged medium-term debt strategy by the end of 2013 with the help of advisors on public debt management.

Significant progresses have been achieved since the adoption and later implementation of the Reform Plan for public debt management that included:

- (i) purchasing and implementing the Debt Management and Financial Analysis System (DeMFAS, developed by UNCTAD; the purchase of a system was a condition under the Macro Financial Assistance with the EU),
- (ii) revising the organization of the Public Debt Management Department (PDMD) in order to introduce a Front, Middle and Back Offices structure,
- (iii) drafting a Medium Term Debt Strategy (MTDS) for the domestic debt and
- (iv) enhancing the PDMD reporting system.

Decisive support for the implementation of the Action Plan was provided by the WB and by the EU Advisory Group in 2009-2012.

During 2012, the EU provided support to the PDMD through a framework contract that included improving the following areas: Debt Recording and Management System, PDMD internal organization, debt reports and MTDS.

However, the capacity of the PDMD needs to be further enhanced in order to meet the objectives set in the MTDS.

In addition, Armenia faces presently debt management challenges, as external sources of concessional loans are diminishing and there is a need of investigating and developing alternative sources of financing, as well as there is need for strengthening the PDMD capacity in public debt risks management in order to ensure fiscal and debt sustainability.

The WB and the IMF have conducted a Debt Management Performance Assessment (DeMPA) mission at the end of 2013. The results have been disclosed during 2014.

DeMPA comprises a set of 15 debt performance indicators (DPIs), which aim to encompass the complete spectrum of government debt management operations, as well as the overall environment in which these operations are conducted.

According to the DeMPA results, there are many areas in Armenia's public debt management that require attention and priority for reform.

Furthermore, the GoRA has approved the 2017-2019 Medium Term Debt Strategy, that is part of the Medium-Term Expenditures Framework for the coming here years and highlights the major debt management objectives and identifies the principles, the milestones and the measures by the Government, under which the fiscal sustainability will not be put at risk.

In order to achieve the objectives of the public debt management set by the strategy, a number of actions should be implemented.

The current programme is aimed at improving the public debt management according to the deficiencies stated in the 2013 DeMPA and to the specific needs of the PDMD.

To the best of the knowledge of the mission, no other assistance is provided to the PDMD by other International or Private Partners/Donors in the areas where the mission will be working.

3.2. Objectives to be achieved

General Objective:

Supporting the Government of Armenia (Ministry of Finance, Public Debt Management Department-PDMD) to overcome the shortcomings revealed by the Debt Management Performance Assessment of 2013 (DeMPA), to fulfil the strategy objectives in order to strengthen public debt management capabilities, having regard to the specific needs of the PDMD.

Specific Objectives:

(i). To revise the legal framework for PDM operations and to propose amendments to the legislation in order to approximate it to best EU/OECD practices, particularly in relation to the authority to borrow and the procedures for negotiating and contracting external loans. While all provisions are being followed, more clarity is needed with regard to legal requirements and procedures for commercial borrowing on behalf of the Government.

(ii). To promote the deepening of the domestic market by: assessing the potential demand derived from the reform of the pension system – including demand for new instruments, and assessing the benefits of issuances techniques (such as tap auctions), of revising the rights and obligations of the primary dealers and assessment of their activities, of trading new instruments (such as repos, overnight deposits and indexation-linked bonds), of proposing a revision of the market regulations/drafting new market regulations accordingly, plus supporting the PDMD in the designing of the electronic retail system referred to the international good practices that will allow to sale Government securities via internet.

Specifically, in the strategy, it was specified that it was necessary to recalculate the deficit financing by government securities taking into account pension and insurance reforms.

The debt management strategy identified the development of the primary and secondary markets, as well as the development of retail market of the government securities and installation of an electronic retail system as a top priority.

(iii). **To further enhance the capacity of the newly established middle office** in relation to the identification and the quantification of the risks of the portfolio, tools and processes for the MTDS formulation, the monitoring of the risks and the implementation of Treasury cash forecasts. Enhancing the capacity of the middle office to identify and quantify the risks associated with debt management, was specified as one of the priorities in debt management strategy as was enhancing the MO's capacity of monitoring operational risks.

While there is an understanding of operational risks, a formal operational risks management framework is lacking. Business continuity and disaster recovery plans that would provide guidelines to keep the PDMD functioning in case of an emergency are also lacking. There is a need to develop documented procedures for debt management activities.

Results:

- Having found robust solutions for the debt management's shortcomings listed in the 2013 DeMPA Report as covered by the areas of competences of the mission.
- Having answered to the specific needs formulated by the PDMD.

3.3. Activities covered by Progression Report # 4

The mission has had many broad and other more focused discussions with the PDMD (4 divisions: FO, MO, BO and Treasury Direct) and staff mainly focusing on ORM, BCP and the institutional side of debt management (PDL, PDs).

The mission has also met with the IT Department of the Ministry of Finances and with the CBA to discuss issues related to operational risk management and business continuity plan, mainly to assess the possibility (i) of systematic back up of PDMD data and (ii) for PDMD to share the recovery site of the CBA. Responses from the interlocutors were encouraging.

Specific activities covered by this mission are the followings:

I. Operational Risk Management and Continuity Planning.

- Two introductory presentations on Operational Risk Management (ORM) and Business Continuity Planning (BCP) have been presented to the staff of the PDMD (see Annexes 1 and 2).

The goal of the presentations was raising awareness among PDMD staff of the necessity to establish a framework to identify and monitor operational risks, and to discuss the essential steps to design a Business Continuity Plan (BCP).

Previously, several deficiencies were identified in the DEMPA report and the preliminary assessment report of the EU technical assistance, which showed there is a lot of room for improvement in the management of operational risks associated with the business activities of the PDMD.

In particular, PDMD does not have a BCP at the moment. Additionally, many procedures are not written, and the operational risks associated with these procedures are not identified or listed. It means risks of failure in the daily operations of the PDMD are not negligible and ensuring the continuity of its activities in case of major disruption would represent an important challenge.

- The mission has drafted the list of the critical processes and systems of PDMD and has described several procedures and critical processes in collaboration with the 4 PDMD divisions on a 1-to-1 basis.

PDMD has agreed to complete the description of the critical processes, that are the following:

#	Theme	Business Process	Current Responsible
1	external debt	Payment process for external debt	BO
2	domestic debt	Payment process for domestic debt	BO
3	ext/dom. debt	Loan agreement registration	BO
4	external debt	External Loan Disbursement	BO
5	external debt	Negotiation and signing of external loans	FO
6	external debt	Issuance of Eurobonds	FO
7	analysis	Planning Cash flows	FO
8	domestic debt	Issuance of Domestic Treasury Bonds	FO
9	analysis	Forecasting Monthly Cash flows	MO
10	analysis	Forecasting Weekly Cash flows	MO
11	analysis	Preparing and approving MTDS	MO
12	analysis	Preparing the Annual Debt Report	MO
13	domestic debt	Securities purchasing at the Service Center	Treasury Direct
14	domestic debt	Payment of Interest and Reimbursement	Treasury Direct

The mission will validate the descriptions of the critical processes during its next mission to Yerevan (June 2017).

Concerning the procedures, the mission has already described 4 procedures in collaboration with the PDMD (FO: (i) Issuance of Eurobonds and (ii) contracting external loans; BO: (i) payment procedure for the domestic debt and (ii) payment procedure of the external debt).

PDMD has also agreed to complete the description of all its procedures in order to allow the mission to validate them during the June mission.

The mission has written an Aide-Mémoire “Operational Risks Management and Business Continuity Plan: Methodology” (see Annex 3) to help PDMD to complete the processes and procedures. The Aide-Mémoire has been extensively discussed with the 4 Divisions of PDMD.

The mission has also met with the IT Department of the Ministry of Finance, in order to assess what are the possibilities in terms of BCP, data back-ups and recovery site for the PDMD.

The mission has drafted a first report, “*Assessment of and Preliminary Recommendations for Technology Issues for Business Continuity*” (see Annex 4) in order to provide some food for thought to the PDMD in awaiting the June mission.

II. Public Debt Law.

The Public Debt Law of 26 May 2008 has been translated in English.

Following extensive discussions with PDMD staff, the mission has proposed amendments to the PDL, based on the principles that have been discussed with PDMD (see Annex 5). These principles are:

- (i) excluding the guarantees granted by the Government from the amount of the public debt,
- (ii) retiring the debt of the CBA from the outstanding of the public debt,
- (iii) streamlining the drafting and the role of the MTDS in external borrowing (bi-, multilateral and commercial) in order to strengthen the role of the Minister of Finances, and
- (iv) strengthening the regime of Government's guarantees to avoid it spiralling out of control.

The proposed amendments to the PDL will be reviewed in depth by the PDMD and the next mission in June will, hopefully, be able to finalize a draft of Revised Public Debt Law, taking into account all comments to be formulated by PDMD. This will represent the completion of a major output of the programme.

III. Cash Management.

The mission has largely discussed cash management with the PDMD.

It has been agreed that the mission would organize a half-day workshop at the beginning of the June mission, with the State Revenues Committee (SRC, which is in charge of collecting the revenues in Armenia) and the CBA.

The situation today is that PDMD does not receive forecasts for the revenues; SRC does not make the information available to PDMD. And this is a major obstacle for PDMD drafting accurate Treasury forecasts, even if the Department has developed in-house sophisticated methods to forecast yearly revenues on an historical basis.

However, as some SRC staff have recently left and as minds seem to have changed, it might be time for an awareness-raising workshop with SRC, in order to promote some kind of collaboration between the 2 entities.

IV. Study Tour.

The mission has started the first steps of the organization of the second study tour included in the programme.

The Spanish Treasury has agreed in principle to host the second study tour in Madrid, Spain (tentative calendar: end of September 2017).

EUD approval has been requested.

The finalization of the study tour will be done during the next (June) mission, subject to EUD approval.

3.4. Resources and Budget

The following table summarizes the execution of the budget as of 31/12/2016, i.e. after completion of the first half of the programme.

	Budgeted	Used as of 31/12/2016	Remaining
Working days			
- Team Leader	105	53	52
- PDM Expert	100	47	53
Per diems			
- Team Leader	147	56	91
- PDM Expert	140	58	82
Flights			
- Team Leader	7.200 €	3.496,41 €	3.703,59 €
- PDM Expert	7.200 €	2.624 €	4.576 €
Study Tours	12.000 €	6.375,72 €	5.624,28 €
Translation & Interpretation	12.968 €	1.692,72 €	11.275,28 €
Printing	5.000 €	0 €	5.000 €
Visibility	2.500 €	1.837,45 €	662,55 €
Final Seminar	2.500 €	0 €	2.500 €
Per diems in Ireland	8		N/A

3.5. Assumptions and risks

Assumptions	Risks	Consequences	Probability	Gravity
Financial situation of Armenia remains stable in the ST-MT	Financial situation of Armenia gravely deteriorates in the ST-MT	Emergency of the situation overshadows the reforms-crisis	Low to medium	Very high

		management		
Policy makers agree on the reforms of the (new/amendments to) Public Debt Law	Policy makers do not agree on the (proposed) reforms	Reforms (partially) blocked	Medium	High
Minister of Finance agrees on the proposed reform of the PDMD	Minister of Finance does not agree on the proposed reforms	Reforms (partially) blocked	Medium	Medium to high
Central Bank agrees on the proposed reforms for cash management	Central Bank does not agree	Reforms (partially) blocked	High	High
Minister of Finance agrees on the proposed reforms for the primary and secondary markets	Minister of Finance does not agree	Reforms (partially) blocked	Medium	Medium to high
The mission will be able to address all issues listed in the programme	Unforeseen bottlenecks/overwhelming technical difficulties appear	All reforms cannot be implemented-shortcomings in the programme	High (the devil is in the details)	Medium to high
A Treasury Direct internet platform can be implemented for Saving Bonds selling	Development, security and maintenance costs associated appear to be prohibitive	The implementation should be abandoned	Medium to high (the devil is in the details)	Low
Medium-Term Debt Strategy (MTDS) is effectively applied by authorities	MTDS document is prepared and published, but authorities do not comply with it	Debt Management Strategy remains a wishful list of recommendations	High	High
Business Continuity Plan is comprehensively implemented by authorities	Business Continuity Plan is limited to IT backups due to high implementation costs	Continuity of Ministry's activities in case of major disruptions might not be fully granted	Medium to high	Medium to high
Ministry of Finance decides terms and conditions of external borrowing	Line Ministries decide funding terms for their projects and Ministry of Finance does not have any leverage on financing decision	Ministry of Finance cannot apply its Debt Management Strategy	High	High
Internal Procedures and Guidelines are sustainable	Drafted Procedures and Guidelines do not survive to a future reorganization of the Treasury	Drafted Procedures and Guidelines are approved and then abandoned	Low	Medium
Duration of the programme is shortened	Impossible to reach all programme's objectives	ToR are not fulfilled	High	High
PDMD starts drafting Treasury Forecasts on a daily basis	Revenue Agencies and Line Ministries do not provide quality data	Treasury Forecasts not reliable	High	Medium

3.6. Management and Coordination Arrangements

Project Team.

In accordance with the ToR Section 3, the Contractor has engaged the following experts (hereinafter referred to as the *Project Team*) to carry out the project activities:

Expert 1: Team Leader,	Mr. Jean-Luc Steylaers	105 working days
Expert 2: Public Debt Management	Mr. Alessandro Scipioni,	100 working days

The experts shall ensure the delivery of all requested services. Where necessary, the Contractor (DFC Consortium) shall provide supplementary support / expertise through backstopping.

In accordance with ToR Section 4, the experts may plan several missions for successful execution of the project.

However, the number of missions may vary according to the demands of PDMD, which has expressed during the first mission a desire to limit the missions to 2 weeks each (exceptions may apply).

PDMD has approved the tentative calendar for the 2017 missions. More missions in Yerevan will be necessary than originally scheduled but the overall travel budget should remain unchanged.

In the role of the Team Leader, the Expert 1 shall act on behalf of the Contractor before the Contracting Authority and the Public Debt Management Department and will be responsible for organising and managing the project activities, including:

- Ensuring overall planning of the project activities and internal coordination;
- Guaranteeing that quality assurance procedures are applied to all activities and outputs of the project;
- Ensuring that the reporting obligations are timely fulfilled under the highest standards of quality.

Mr Steylaers is contracted through his own company, SPRL PUFICO, of which he is the sole employee.

Project Management Arrangements

Pursuant to the TOR sections 4.3, 5.1 and 6.8, the following project management arrangements are in place and implemented during the reporting period:

<i>Inception Report as a planning tool</i>	Prior to the start of the implementation phase, the Project Team prepares an Inception Report. The report shall be first approved by the PDMD and thereafter by the Contracting Authority.
<i>Facilitation of project implementation</i>	The PDMD shall actively participate in all activities in order to facilitate the implementation of the project.
<i>Intermediation</i>	The Contracting Authority shall deal with any issue that will arise on the daily management level, if the Contractor considers it necessary for the Contracting Authority to intervene.
<i>Progress reporting</i>	The Contracting Authority may ask for the reports / briefing notes during the time of the assignment. Progress meetings may be held to brief on the project progress.

3.7. Financing Arrangements

The project **eligible expenditure** falls under the following categories according to the project TOR (section 6.2):

- Per diems for each overnight stay on the mission in the beneficiary country and they cover all subsistence costs of the experts including meals, housing and intra-city transportation costs,
- International travel costs,
- Translation and interpretation services,
- Printing services,
- Services related to organization of 1 final dissemination seminar,
- Services related to organization of 2 study trips to Europe for 3-4 staff members in each trip,
- Visibility of the action.

The budget for reimbursable costs may not be used for the purchase of equipment.

3.8. Monitoring, Review and Evaluation Arrangements

The contract will be regularly monitored with site visits by the EU Project Manager and on the basis of the reports submitted to the EU Delegation.

Furthermore, specific performance measures will be the following:

- Outputs submitted in a timely manner (the EU Delegation has agreed that the Inception Report be submitted 10 days after the 22/2-4/3/2016 mission given exceptional circumstances).
- Satisfactory quality of the output.
- Administrative progress reports submitted regularly on the basis of the template provided.

3.9. Duration of the Programme

The initial duration of the Programme was 2 years, spanning from 1/1/2016 to 31/12/2017.

The duration has been validated and approved by all major stakeholders (EUD, Beneficiary, Consortium, Experts) in all Inception and Progression Reports.

However, the Consortium has been notified by the EUD in January 2017, after approval of Progression Report #3, that the programme will be terminated as of 31/10/2017. This statement was totally unexpected.

Consequences of shortening the programme by two months are the following:

- (i) Cancellation of the December, 2017 mission (i.e. 12.5% of the length of the programme),
- (ii) Important risk that all the mission's objectives, as stated in the ToR, cannot be reached,
- (iii) Impossibility to support the PDMD in drafting the 2018-2020 MTDS and the 2018 Funding Plan, that are usually established by mid-December.
The MTDS and the funding plan are two major building blocks of this programme.
- (iv) Impossibility to prepare and to attend the public presentation of the MTDS and the funding plan at the end of the year (has it has been the case in 2016 – see December event).

After discussing the issue with the EUD during this mission, the team has been told by EUD that an extension of the programme might be possible.

However, the EUD recommends assessing the situation again during the next mission (June). A request for extension could be filed at this moment if necessary.

However, given the uncertainty as the end of the programme, the Experts will review the 2017 missions' calendar in coordination with the beneficiary, in order to minimize the potential consequences of an earlier termination.

4. Work Plan for the Next Period.

4.1. Tentative Calendar and Topics for 2017 Missions

The tentative calendar and list of topics for the 2017 missions have been approved by PDMD and is the following:

PERIOD	TOPICS (REFERENCE TO TOR 2.4 REQUIRED OUTPUTS).	EXPERTS
21/2 to 3/3.	<p>(1). Drafting amendments for the PDM legal framework: review of the articles to be changed in the current PDL and assessment of market authority.</p> <p>(4). Analysis of the PDs Agreement and draft new regulations.</p> <p>(10). Operational Risks Monitoring Framework (includes (14) BCDP): identification of risks (first step).</p> <p>(11). Budget Cash Flows Forecasts: preparation of the 2 workshops with SRC and other major stakeholders (to be organized during the June mission).</p> <p>(12). Internal documented procedures for debt management main activities (includes (2) "Procedures for negotiating external loans", (3) "Procedures for issuance of bonds in international markets" and (13) "Procedures for all external borrowings,...")</p>	JLS & AS
5 to 16/6.	<p><u>Follow-up of the March mission:</u></p> <p>(1). Draft legislative amendments (new PDL) for legal framework and (6) for issuance techniques and new instruments.</p> <p>(10). Update of Operational Risks Monitoring Framework.</p> <p>(11). Cash Flows Forecasts: organization of 2 workshops.</p> <p><u>New Topics:</u></p> <p>(7). Report about designing the electronic retail system and web page.</p> <p>(9). MTDS and 2017 Funding Plan monitoring.</p> <p>(16). Preparation of 2d. Study Tour.</p>	JLS & AS
6 to 19/9.	<p><u>Follow-up of the June mission:</u></p> <p>(7). Finalization of the Report about designing the electronic retail system and web page.</p> <p>(10). Update of Operational Risks Monitoring Framework.</p> <p>(11). Cash Flows Forecasts: drafting of a working procedure.</p> <p>(16). Finalization of the preparation of the 2d. Study Tour.</p>	JLS & AS

	<p><u>New Topics:</u></p> <p>(5). Update of assessment report of the impact of the reform of the pension system on the demand of government securities and assessment of the liquidity of the system.</p> <p>(15). Specific code of ethics and conflict of interest guidelines for PDMD.</p>	
September or October	2 nd . Study Tour (Spain?)	3 PDMD staff JLS & AS
6 to 17/11.	<p><u>Follow-up of the September mission:</u></p> <p>(9). Drafting 2018-2020 MTDS and 2018 Funding Plan.</p> <p>(10). Update of Operational Risks Monitoring Framework.</p> <p><u>Other Topics:</u></p> <p>- Overall follow-up and completion of all required topics.</p> <p>- Final Report.</p>	JLS & AS

4.2. Resource Schedule and Budget

See 3.4.

4.3.Updated Risk Management Plan

Not applicable.

4.4. Special Activities to Support Sustainability

Not applicable.

Annexes:

• Monitoring and Evaluation Plan, including revised overall targets
Not applicable.

• Updated Annual Work Plan for second year.
See 4.1.

• Updated Annual Resource Schedule and Budget.
See 3.4.

5. Annexes.

Annex 1: Operational Risk Management.



Operational Risk Management

Presentation to the Ministry of Finance,
EUD Mission to Armenia,
Scipioni, Alessandro
Yerevan, February 2017.

What is operational risk?

"The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events"
Definition from Basel II, 2004

- Originally applied to the banking industry, but used for government debt management as well
- Operational risk touches a wide range of DMO's activities

Examples of risks associated with processes

Operational Risk Exposure	Possible Consequences
Poor process design (i.e. absence of controls, lack of validation against creditors records, etc.)	Process failure (errors in payments, penalties, etc.)
Lack of policy guidance	Poor decisions that affect the performance of the DMO
No specified delegations	Execution of unauthorized transactions
Unclear procedures manuals or administrative practices	Processing errors (errors in interest calculation, wrong settlement instructions, etc.)

- Failed internal processes may not only lead to financial losses, but also loss of confidence in government actions

Examples of risks associated with people

Operational Risk Exposure	Possible Consequences
Key person risk	Human error when key person is absent
Poor training or inadequate supervision	Human error and/or poor performance
Absence of code of conduct or conflict of interest guidelines	Execution of unauthorized transactions
Fraud, theft or other dishonest practices	Failure to comply with laws and regulations

- Human error is not the only consequence, reputation of the Ministry can be affected and it may even lead to legal claims against the State

Examples of risks associated with systems

Operational Risk Exposure	Possible Consequences
Personal Computer damaged	loss of important data
IT systems failure	Impossible to process critical payments
Network failure	No access to e-mail, to bank accounts at the Central Bank, etc
Obsolete hardware and/or software	Processing errors, incapacity in dealing with complex transactions

- Losing debt data or limiting the capacity of the DMO to achieve complex transactions are not the only consequences. Financial losses, reputation...

Examples of risk associated with external events

Operational Risk Exposure	Possible Consequences
Fire / Gas Explosion	Impossible to access the building, to process critical payments, loss of original contracts
Earthquake / Flooding	The whole area is blocked
Civil Protests	Damages to Ministry's facilities, staff injured
Hacking against IT systems of the Ministry	Confidential data stolen, disruption of critical business activities

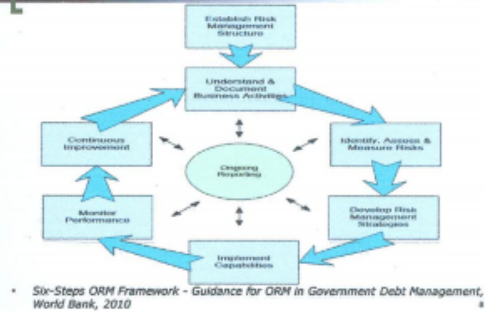
- External events can cause major disruptions in the activities of the Ministry and lead to important financial losses if there is no BCP/DRP

How to manage operational risk?

- Above all, it is important to raise awareness of senior management. Too often operational risk is not a priority because:
 - "It will not happen to us"
 - No regulations to enforce risk management
 - Inadequate resources allocation (staff and budget)
- Create a risk management culture. ORM is not simply an IT responsibility
- Establish a framework to manage operational risk → Operational Risk Management (ORM) Framework
- Prepare a Business Continuity Plan (BCP) and review it on a regular basis

7

Operational Risk Management Framework



8

Step 1: Understand and document business activities

- What are the main objectives of each units of the DMO? How are these objectives contributing to achieve DMOs' goals?
- What are the main activities, processes and systems used by the DMO?
- Describe processes. Using flowcharts?
- Update procedures manuals
- Document risks associated to the unit's activities
- How to document activities, processes, systems and risks? No one-size-fits-all solution

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Step 2: Identify, assess and measure risks

- List operational risks associated with DMOs' business
 - Assess the risks identified: What is the impact?
 - Reputation (loss of confidence, media coverage, etc.)
 - Financial Loss (in cash, in terms of staff dealing with issue)
 - Budget variance (higher debt service)
 - Delays in outputs
- Assess the risks identified: How severe is the impact?
- Assess the risks identified: What is the probability of the risk to materialize?
- Assessment must be consistent across the units of DMO and reported to the management
- Measure the risks identified: qualitative vs. quantitative
- Measurement can be improved overtime with experience

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Step 3: Develop Risk Management Strategies

- Prevention or avoidance**, where the probability of an event occurring is reduced or eliminated
- Transference**, where risks are passed to third parties such as insurance or outsourcing
- Containment**, where the potential impact of an event occurring is limited in the early stages using controls or other techniques
- Acceptance and recovery**, where an event or disruption might well occur but debt management operations can be resumed successfully using the disaster recovery plan

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Step 4: Implementation of the ORM Framework

- Appoint an **ORM champion** to oversee implementation of measures approved by senior management:
 - training program
 - raising awareness
 - introducing ORM into service level agreements
 - developing control tools and mitigation strategies
 - developing reporting requirements
 - maintaining ORM/BCP and annual testing

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Step 5: Monitor Performance

- Ongoing monitoring activities (i.e. monitor delays in outputs, deviations from targets) are the responsibility of the Head of Unit
- In coordination with the risk monitoring and compliance unit (Middle Office)
- Regular Risk Report to senior management (Director of the DMO or Risk Committee)
- "No blame" Culture is important. Many incidents are caused by inadequate controls rather than individuals

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Step 6: Continuous Improvement

- Identifying operational risks is a difficult task. Start with critical activities and enlarge coverage overtime
- Keeping track of historical incidents allows developing quantitative measurement of risks
- Building up databases of risk events and their impact on reputation, financial losses, budget can improve ORM
- Improving ORM comes at a cost (in terms of budget and resources allocation)

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Annex 2: Developing and Implementing a Business Continuity Plan.




Developing and Implementing a Business Continuity Plan

Presentation to the Ministry of Finance,
EUD Mission to Armenia,
Scipioni, Alessandro
Yerevan, February 2017.

What is a Business Continuity Plan (BCP)?

"Business continuity plan enables critical services or products to be continually delivered to clients [...] to ensure survival, avoid causing injury, and meet legal or other obligations of an organization"
Definition from Public Safety Canada, 2013

- Focus on **continuous** delivery of critical services and products and deals with any kind of disruption
- Disaster Recovery Plan (DRP) focuses on recovering business activities interrupted by a disaster

BCP is part of Operational Risk Management

- Business Continuity should cover all the operations of the DMO, but at least critical processes
- BCP (DRP) is a written document that must be reviewed and tested on a regular basis.
- Business Continuity is not only a responsibility of the IT Department. All the units should participate.
- Middle Office is generally in charge of the BCP. DMOs tend to appoint a person responsible for the BCP (often the ORM Champion)

BCP/DRP Framework

- Document business activities and critical processes, systems and staff
- Undertake business impact analysis to assess probability of occurrence and impact of the event
- Develop BCP/DRP
- Implement and update BCP/DRP
- Training to imbed BCP into the day-to-day operations of the DMO
- Regular (annual) testing and updating

Critical systems, processes and staff (1)

- Listing critical systems, processes and staff:

	System	Critical Time (minutes, hours, days)	Server location (primary site)	Data Backup (time and location)	Alternate Site (alternate data center)
1	DMFAS				
2	IFMIS				
3	Auction System				
4	etc...				

Critical systems, processes and staff (2)

- Listing critical systems, processes and staff:

Critical Process number 1: External Loan Servicing	
Activity	Preparing and sending Payment Order
Resources	IFMIS
Staff	Key staff
Equipment	PC with Interface to IFMIS
Technology characteristics	Web interface
Telecommunication	E-Mail, Direct Phone Line
Registry	Payment Authorization, Confirmation files from Central Bank
Associated Processes	External Loan Contracting, External Loan Mobilisation
Others	

Business Impact Analysis (BIA)

Business Impact	Business Impact	Business Impact	Business Impact
Very High	Loss of critical services Loss of critical information Loss of critical assets, e.g. data primary data Business media coverage High-level operational capacity for regulation	Significant impact on government's financial performance Significant amount of time spent dealing with issue (i.e. greater than 10 person-days)	Significant delay in achieving outputs (i.e. greater than 10%)
High	Partial operational capability Significant loss of critical services Moderate media coverage Moderate capacity	Significant impact on government's financial performance Large amount of time spent dealing with issue (i.e. between 10 and 20 person-days)	Significant delay in achieving outputs (i.e. between 10% and 20%)
Moderate	Reduced operational capability Partial operational capability Minor loss of critical services Minor media coverage Minor capacity	Significant impact on government's financial performance Moderate amount of time spent dealing with issue (i.e. between 10 and 20 person-days)	Moderate delay in achieving outputs (i.e. between 10% and 20%)
Low	Minimal operational capability Minimal loss of critical services Minimal media coverage Minimal capacity	Minimal impact on government's financial performance Minimal amount of time spent dealing with issue (i.e. less than 10 person-days)	Minimal delay in achieving outputs (i.e. less than 10%)

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Operational Risk Matrix (Impact/Probability)

	Low Impact	Medium Impact	High Impact	Very High Impact
Very High Probability	(1;4)	(2;4)	(3;4)	(4;4)
High Probability	(1;3)	(2;3)	(3;3)	(4;3)
Moderate Probability	(1;2)	(2;2)	(3;2)	(4;2)
Low Probability	(1;1)	(2;1)	(3;1)	(4;1)

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Develop the Business Continuity Plan (1)

- Once the business impact analysis has been completed, the DMO should focus on high risks (red part of the matrix in the previous slide)
- DMO will develop strategies to increase its resilience and mitigate as much as possible high risks

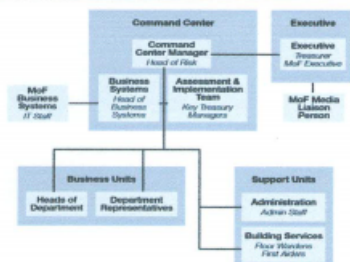
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Develop the Business Continuity Plan (2)

- Ideally, the BCP Document should contain:
 - List of risks, critical processes and systems
 - Business Impact Analysis
 - Risk Mitigation Strategies
 - Institutional structure to implement the BCP
 - DRP with protocol in case of major disruption
 - Alternate Sites descriptions
 - Staff training requirements
 - Testing timeframe

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Example of structure to implement BCP/DRP



ORM and BCP for Modern State Treasuries, IMF Technical Notes, Ian Storkey, 2011

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Staff training on BCP

- Middle Office (Risk Champion) should be responsible for managing BCP trainings
- All the staff of the DMO should undertake trainings
- Trainings should include:
 - Provision of a training manual
 - Awareness presentations to employees
 - Interactive training
- Alternate site could be used to facilitate trainings (if DMO has an alternate site)

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Regular testing and updating

- Timeframe Example for maintenance and testing:

Maintenance	Timeframe
BCP/DRP documentation review and update	six monthly
Technology recovery testing	six monthly
Staff familiarity testing	annually
Scenario (white board) testing	annually
Full test (simulated incident)	annually

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Scenario 1: Building Evacuation

- In the morning, municipal authorities require the evacuation of the Ministry building due to a risk of gas explosion. Staff of the PDMD is immediately evacuated from the building and brought outside of the area. Authorities do not know how much time will be needed to solve the incident, but they do not expect any solution in the next 24 hours. Incident takes place the day of an important external debt service payment.

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Scenario 2: Network Failure

- IT Department informs PDMD that Intranet and Internet went down. For Internet, the disruption comes from the network provider who is experimenting a major failure which will not be solved in the next 48 hours. For Intranet, IT Department expects to solve the problem in 24 hours. Incident takes place the day of a T-Bonds issuance.

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Annex 3: Operational Risks Management and Business Continuity Plan: Methodology.

Terms of Reference of the Programme.

One of the three specific objectives of the project is to further enhance the capacity of the newly established middle office of the PDMD in relation to:

- Identify and quantify the risks of the portfolio, tools and processes for the MTDS formulation, monitoring of the risks and implementing cash forecasts;
- Enhancing the capacity of the middle office to identify and quantify the risks associated with debt management was specified as one of the priorities in debt management strategy;
- Enhancing the capacity of Operational Risk Management. While there is an understanding of operational risk, a formal operational risk management framework is lacking;
- Drafting business continuity and disaster recovery plans that would provide guidelines to keep the Debt office functioning in case of an emergency are also lacking. There is a need to develop documented procedures for debt management activities.

Methodology.

In order to reduce PDMD operational risk, the mission's team has introduced a methodology to tackle in parallel emergencies on several specific issues and the time-consuming task of identifying wide-ranging operational risks and their impact on business activities, as well as listing critical processes, staff and systems.

It is worth noting that, in this methodology, a distinction is made between "processes" and "procedures" which are defined respectively:

- **Processes** are a collection of activities necessary to transform an input into an output. Only the processes that constitute the core business activities of the PDMD will be considered. Processes are less detailed than procedures and critical processes will be part of the BCP.
- **Procedures** are a detailed description of the steps and tasks that need to be undertaken by the staff to reach a desired result (or output). Procedures are not part of the BCP but will be used to identify operational risks and to mitigate them.

Two standard templates to identify critical processes, staff and systems of a Debt Management Office have been presented and discussed:

- One template for critical systems.
- Another template for processes and staff.

The templates are attached in Annex.

The team has described one Procedure and one Critical process during one-to-one meetings with the four divisions of PDMD.

It has been agreed with the Heads of the divisions that each division will fill in a template for every critical process of the division.

All processes templates should be filled in by the next mission (scheduled early June 2017) to allow experts to review them.

In the process template, it is necessary that the activities be detailed quite extensively (this would make drafting the procedures later more easier).

Once completed, the processes templates will constitute the part of the BCP describing critical processes and staff. It is worth mentioning that staff will identify the operational risks associated with each process and list them in the template.

This will give a first draft list of operational risks that should be validated by the heads of units and the experts during the next mission.

Workplan and Timeline.

To summarize the methodology described in the previous section and to explained the next steps towards the design of a BCP, the following timeline is suggested:

February Mission

1. Seminars to raise awareness among PDMD staff of the necessity of a BCP and ORM framework.
2. Agree on templates to use to document processes, systems and critical staff.
3. Discuss and fill in a template example of critical process and staff.
4. Meet with IT Department and CBA to discuss business continuity.
5. Review critical processes, systems and staff during meetings with PDMD units.
6. Prepare a preliminary list of the critical processes identified and submit it to PDMD.
7. Prepare a draft written procedure to be used as reference.

Between February and June Mission

8. PDMD staff should complete the templates for critical processes and staff.
9. PDMD staff should prepare a list of identified operational risks (associated with critical processes).
10. IT Department and Head of units should complete the templates for critical systems.
11. IT Department could provide written information on backups structure.

June Mission

12. Review and validate the templates, list of critical processes and list of identified operational risks.
13. Elaborate a table with possible impact of operational risks.
14. Elaborate matrix of probability and impact of risks.
15. Develop mitigation strategies for risks associated to critical processes.
16. Discuss possible structure to monitor operational risks (ORM champion, technical working group, etc).
17. Integrate IT Department information about backups structure in the BCP.
18. Discuss with PDMD and IT Department possibilities for the future alternate site.

In between missions

19. PDMD staff will write mitigation strategies for risks associated to critical processes.

September Mission

20. Review and Validate matrix of probability and impact of risks.
21. Review and Validate mitigation strategies for risks associated to critical processes.
22. Review and Validate possible structure to monitor operational risks (ORM champion, technical working group, etc) and possibilities for alternate site.
23. Draft BCP document and submit it to the PDMD.
24. Staff and experts to continue writing procedures.

Until End of October

25. PDMD staff should provide comments to the draft BCP document, before final approval in Octobre

Templates.

Template 1: Critical Process & Staff Description.

Critical Process # X:	
Activities	1.
Inputs	1.
Outputs	1.
Resources	1.
Staff	
Equipment	
Technology characteristics	
Telecommunication	
Associated Processes	
Risks identified	
Others	

Template 2: Critical System Description.

	System	Critical Time (minutes, hours, days)	Server location (primary site)	Data Backup (time and location)	Alternate Site (alternate data center)
1	DMFAS				
2	IFMIS				
3	Auction System				
4	Treasury Payment System				
5	etc...				
6	etc...				
7	etc...				
8	etc...				
9	etc...				
10	etc...				
11	etc...				
12	etc...				

Annex 4: Assessment of and Preliminary Recommendations for Technology Issues for Business Continuity.

Following their meeting with the IT Department during the mission held in February 2017, the experts would like to make several comments and suggestions regarding PDMD business continuity.

CURRENT SITUATION

The servers of the Ministry of Finance are based in the main building of the Ministry (Melik Adamyan Str.). They are backed up at the end of the day on a virtual server.

However, the Ministry has no alternative data center with physical backup servers. IT Department is planning to set up such data center in Dilijan by the end of the year. To do this, the Ministry will need to go through a tender process to select the IT solution provider.

What is a virtual server? Basically, IT engineers can convert one physical server into multiple virtual servers which are independent. In doing so, it reduces the hardware costs. Of course, it wouldn't make sense to build two virtual servers performing the same application on the same physical server. If the physical server were to crash, both virtual servers would also fail. Therefore, IT engineers usually create redundant virtual servers on different physical machines (servers).

Currently, the IT Department runs 37 applications on the virtual server, including DMFAS.

Storage

To allow PDMD units backing up their files, the IT Department has dedicated a capacity of 2 Terabytes of storage on the virtual server. Thus, PDMD can use the network of the Ministry to do backups of the databases and store them (NAS, network attached storage).

However, the IT Department does not provide any staff to perform backups and storage tasks. This has to be done by the staff of the PDMD, otherwise there will be no backups. This kind of tasks can be quite time-consuming, especially if PDMD wants to perform it daily.

Disruption

In case of a major incident that prevent PDMD staff to access the computers at their usual working place (PDMD is located in the Tigran Mets Avenue building), it would be very difficult to ensure business continuity because PDMD does not have dedicated computers in others Ministry's buildings. Although, theoretically, PDMD staff could connect to the Ministry network and run their activities from another building of the Ministry, in practice it would be very difficult.

It must be said that Ministry network is not accessible remotely (from outside of the Ministry buildings). In these conditions, operational risk exposure is quite high and it can be said that PDMD staff would have hard time in ensuring business continuity in case of a major incident.

RECOMMENDATIONS

While the establishment of an alternative data center in Dilijan – which we understand will also be a recovery center with workstations where critical staff could work in case of severe disaster – will certainly improve the situation, PDMD needs to take additional measures to ensure business continuity:

1. PDMD should request the IT Department to have at least 2 computers reserved in the main building of the Ministry (Adamyan Str.) with full access to the Ministry network and containing the applications necessary to perform critical processes of the PDMD.
2. PDMD database backups should be performed automatically on a daily basis.
If it is technologically impossible, PDMD should request support from IT Department to perform these tasks.

In the mean time, the backups should be manually performed at least on a weekly basis, and the backup support (hard disk, flash disk,...) must be stored outside of the premises of the Tigran Mets building.

3. Considering it is certainly difficult to justify an IT staff dedicated entirely to the PDMD, one could consider having an IT staff assigned to different Departments of the Treasury, including the PDMD.
Other Departments of the Treasury are likely to face the same problem of automatic backups, then “pooling” one IT staff amongst all the Departments makes sense.
4. This IT specialist could be trained to become also the DMFAS database administrator.
5. PDMD should liaise with the IT Department to make sure that the future Dilidjan recovery center will take into account the specific needs of the PDMD with regard to the continuity of its critical processes. It is always useful to raise the awareness of the deciders.

AS/JLS
1/3/2017.

Annex 5: Review of the Public Debt Law: Some Principles.

1). Should guarantees be included in the (amount of) Public Debt?

Answer: **NO**.

Reason: “Contingent liabilities are obligations that do not arise unless a particular, discrete event(s) occurs in the future. A key difference between contingent liabilities and liabilities (and public sector debt) is that one or more conditions must be fulfilled before a financial transaction is recorded. With contingent liabilities, there is typically uncertainty over whether a payment will be required or not, and its potential size” (IMF, « Public Sector Debt Statistics-Guide for Compilers and Users », 2011, p. 47, 4.5).

How to manage guarantees (and other contingent liabilities)?

Contingent liabilities are usually disclosed as a memorandum item to Public Debt figures, including the amount provisioned in the budget if any.

Issuing a fiscal risk statement (FRS) is a good practice to report on fiscal risks in general, including contingent liabilities.

It usually takes the form of a document presented as an appendix to the Government's annual financial reporting or to the budget law and the MTDS. It outlines the country's exposure to fiscal risks and is intended to inform the National Assembly and the public about these various sources of risk, and how to maintain fiscal sustainability in case of unfavorable events.

The document should first list the various sources from which risks arise: projections of GDP; vulnerability to external macroeconomic shocks, inflation or exchange rate movements; poor borrowing choices; weak financial position of public corporations which the government owns and require subsidies or guarantees; or fiscal risks stemming from PPPs.

In a second part, the document should explain the government's mitigating strategies to deal with those risks in the event that they realize. Such a document does not need, at first, to identify and provide a cost for every contingent liability and detailed solutions on how to tackle risks: it is progressively enhanced with experience (Source: J. Gardner, J.L. Steylaers et al., « Vietnam: Strengthening Public Debt Management: Legal Framework and Functions », IMF, June 2016).

See Example below for a model of Fiscal Risk Statement.

2). Is the Central Bank Debt Part of the Public Debt?

Answer: **NO**

Reason: According to ESA (European System of Accounts) 2010, Public debt is the debt of the general government sector (S.13), which consists of institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth (see ESA 2010, p. 44).

According to the Protocol nr. 5 to the Maastricht Treaty, the General Government sector comprises 4 sub-sectors:

- Central Government,
- State Government (federated entities – States, in the USA; Régions in Belgium, Länder in Germany and Austria, etc...),
- Local Government (municipalities, “local communities” for Armenia – cities, like Yerevan, or Marz, like Vayots Dzor),
- Social Security Funds (not really applicable in Armenia).

On the other hand, the Central Bank sector is a sub-sector (S.121) of the sector (S.12) of Financial Corporations; the central bank subsector consists of all financial corporations and quasi-corporations whose principal function is to issue currency, to maintain the internal and external value of the currency and to hold all or part of the international reserves of the country (see ESA 2010, p. 38).

Consequently, the debt of the Central Bank is not a part of the debt of the Public Sector and should not be included in the Public Sector debt.

3). Proposals for the Scope of the (Revised) PDL.

The definition of public debt for debt management purposes (hereinafter called public debt) should be distinguished from that for fiscal policy and international reporting standards. Guarantees are contingent liabilities, and would not be included within debt management unless a guarantee is called and the resulting debt serviced from the budget.

In this sense, the PDL should cover only the debt of the central government (sub-sector S 13.1 according to ESA 210). In the law: Government debt (exclusion of CBA debt and of local communities' debt).

However, the mission recommends that the Minister responsible for debt management ("authorized body", according to the Armenian lexicology) be granted a right of veto (= the power to say NO and to enforce the NO), or at least the power to impose conditions, to the borrowings of the local governments (sub-sector S 13.3), for two major reasons:

- If local governments engage in borrowing transactions and, at the end of the day, fail to repay their debt, the obligation of repayment will fall on the government (implicit contingent liability).
- On top of this, local governments ("communitie"és, according to the Armenian lexicology) are integrated in the Treasury Single Account system. When they borrow on their own, the service of their debt will have an immediate impact on the TSA and on the overall State's cash management.

Example of Outline for a Fiscal Risk Statement.

Foreword: detailing country policy objectives such as poverty reduction or economic transformation and a summary of the main risks highlighted in the FRS.

I. Introduction: definition of fiscal risks and international experiences underlining the interest of disclosing those to promote early and smoother policy response – association with greater sovereign bond rating and access to international capital market can also be mentioned.

II. Description of fiscal risks:

- Summary the main sources of fiscal risks such as volatility on commodity prices or exchange rates or changing composition of external aid and borrowing.
- Macroeconomic and fiscal performance in the recent years.
- Development on key fiscal risks stemming from macroeconomic environment
- Development on specific fiscal risks such as sustainability of public debt, PPPs or SOEs and SNG

Appendix can provide additional information as PPP contracts or level of debt of public corporations.