DEBT MANAGEMENT FACILITY

Debt Management Performance Assessment (DeMPA) Subnational Government

La Paz Municipality (Bolivia)

AUGUST 2023

THE WORLD BANK
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The Subnational DeMPA (SN DeMPA) is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. The SN-DeMPA tool presents the 13 debt indicators along with a scoring methodology. The tool is complemented by a guide that provides supplemental information for the use of the indicators.

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

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Glossary

ABP	Annual Borrowing Plan
ASFI	Financial Sector Regulator (*Autoridad de Supervisión del Sistema Financiero*)
BBV	Bolivia's Stock Exchange (*Bolsa Boliviana de Valores*)
BCB	Central Bank (*Banco Central de Bolivia*)
BOB	Bolivian Boliviano (local currency)
CAF	Development Bank of Latin America
CB	Central Bank
CG	Central Government
CEMLA	Center for Latin American Monetary Studies
CRIOCP	Certificate of registry of commencement of public credit operations (*Certificado del Registro de Inicio de Operaciones de Crédito Público*)
D.E.	Decree *Edil* (*Decreto Edil)*
DFAF	Directorate of Funding and Financial Analysis (*Dirección de Financiamiento y Análisis Financiero*) – The main DMO
DGFPC	Financial Management Directorate (*Dirección de Gestión Financiera*)
DM	Debt Management
DMO	Debt Management Office
DMS	Debt Management Strategy
DPI	Debt Performance Indicator
DSA	Debt Sustainability Analysis
DTM	Municipal Treasury Directorate (*Dirección del Tesoro Municipal*)
DVP	Delivery-versus-Payment
EDV	*Securities Deposit Entity (Entidad de Depósitos de Valores)*
GAMLP	Autonomous Government of the City of La Paz
GDP	Gross Domestic Product
HR	Human Resources
IADB	Inter-American Development Bank
IT	Information Technology
MEFP	Ministry of Economy and Public Finance
MPP	Procedures' Manual (*Manual de Procesos y Procedimientos*)
MTDS	Medium-Term Debt Management Strategy
MTI/EMFMD	Macroeconomics, Trade and Investment/ Global Debt, Macro and Growth team
PFM	Public Finance Management
SAIDS	Subnational Debt Management and Information System *(Sistema de Administración e Información de Deuda Subnacional)*
SIGADEMU	Municipal Debt Management and Administration System *(Sistema de Gestión y Administración de la Deuda Municipal)*
SIGEP	Financial Management System *(Sistema de Gestión Pública)*
SMFIN	Municipal Finance Secretary (*Secretaría Municipal de Finanzas*)
SN-DeMPA	Subnational Debt Management Performance Assessment
SNG	Subnational Government
SIODEX	Integrated System for External Operations *(Sistema Integrado de Operaciones de Deuda Externa*)

SOE	State Owned Enterprise
TSA	Treasury Single Account
TIGA	Information and Technology Directorate (*Tecnología de la Informacion y Gobierno Abierto)*
TTL	Team Task Leader
US$	US dollar
VIPFE-MPD	Vice-ministry of Public Investment and External Financing of the Ministry of Planning and Development
VTCP	Vice Minister of Treasury and Public Credit
WB	World Bank

1. Executive Summary

The DeMPA assessment for the Autonomous Municipal Government of La Paz (*Gobierno Autónomo Municipal de La Paz*) – GAMLP was undertaken by applying the 2016 methodology[1] available for local governments at the time of the mission.[2] The main counterpart for the assessment was the Municipal Finance Secretary (*Secretaria Municipal de Finanzas*) - SMFIN and the Directorate of Funding and Financial Analysis (DFAF), which is the main DM office for the municipal government.

This report is divided in 4 sections, including this Executive Summary. Section 2 briefly describes the economic background of the country, and more specifically of the Municipality of La Paz (including challenges and changes brought by COVID-19 pandemics) and presents an overview of the local government debt portfolio. Section 3 summarizes the applied methodology for the assessment and discloses assigned scores for each of the 13 Debt Performance Indicators and the 31 sub-indicators. Finally, section 4 provides details for each assessed sub-indicators, pointing for the requirements that are met for the assigned score, and what is missing for the GAMLP achieving improved scores in a future assessment. The section aims to make it clear not only the reasons for the scores, but also pointing for potential reforms and their extension (some scores can be improved in the short-term with not too much effort).

The legal framework is comprehensive and includes complementary primary and secondary legislation. Roles and responsibilities are well defined under Law 482/2014, Decree Edil 003/2017 and a Procedures Manual for the Credit Public System. However, the requirement for the government developing a debt management strategy is currently not met, and there is not legal command to produce debt reports for the legislature (even though periodical reports are produced to this end). Managerial structure is clearly defined and DFAF is the main actor on debt management within the Municipal Government.

GAMLP has developed a Debt Management Strategy (DMS) for the period 2017-2021 but it has never been published or updated since then. An updated Sustainable Financing Strategy for 2023-2027 has started to be drafted, but the DMS analysis is still to be initiated, which for authorities have requested WB technical assistance.

Debt Reporting and its timeliness and multiple debt-related information is published mostly under two reports: the monthly debt bulletin and the yearly financial dossier. Basic debt risk indicators are still missing, but DFAF indicated plans to fill this gap soon. While the annual budget report for the Municipal Council covers public debt aspects, it has not been published.

Debt service estimates are produced and included in the budget process, whereas macro-fiscal variables needed for the confection of these projections are built based on information provided by the central government. Debt service estimates for the coming 10 years are published on the debt bulletin and could potentially be extended for the full extension maturity profile. No sensitivity analysis for these projections

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[1] https://documents1.worldbank.org/curated/en/768161474369807939/pdf/108372-WP-SNDeMPASepfinal-PUBLIC-ABSTRACT-SENT.pdf

[2] A World Bank mission undertook an assessment of the government's debt management capacity and institutions in the city of La Paz - Bolivia during May 9-13, 2022. The assessment team comprised Leandro Secunho (TTL), Andre Proite - both Senior Debt Specialists (MTI/EMFMD), Ximena Talero – Lead Counsel – LEGAS, and Leonardo Somarriba – WB consultant.

is performed, and a debt sustainability analysis is also not currently produced, both being possible areas for improvement.

Domestic and external borrowing are carried out under a constrained environment where debt can only finance capital expenditures. Infrequent bond issuances are undertaken through a competitive (up to) 6-month window process, and more information about them could be published on SMFIN's website. Domestic loans are hired with local banks for specific project financing, and DFAF plays an active role in searching for the most favorable terms and conditions. External financing is legally limited to on-lending from the central government, with limited decision power given to the municipal government, despite of the participation of its legal advisers in the negotiation process.

Cash Flow forecasts are comprehensive, reliable and cover the budget year. Estimates are broken down by month, and by week for the coming month. This process has been recently created with the establishment of a dedicated Treasury Directorate within SMFIN in 2022. Cash balances held at the state-owned, Banco Union, are not remunerated and SMFIN cannot use short-term securities to cover temporary cash shortages.

Debt payments follow most of sound practices and no payment delays have been occurred. It includes clear separated duties and is well formalized by yearly updated procedures' manual. Debt recording is timely although debt data is recorded in multiple systems. Debt data are complete and with some degree of protection. A Business Continuity Plan and a risk monitoring and compliance function need to be established. SMFIN keeps track of bond holders supported by *Entidad de Depósitos de Valores* – EDV associated to the Bolivian Stock Exchange. Personnel is capable and frequently evaluated.

In summary, DFAF has well established processes and procedures and capable staff. Gaps to improve debt management practices were identified, some of them with possible short-term solutions (in red), others dependent on legal and regulatory changes. Table 1 below identifies the main strengths and areas for improvements.

Table ES1 – Strengths and Areas for Improvements

Strengths	Areas for Improvement
1. Governance and Strategy Development	

• Legal Framework
  • **Comprehensive debt-related legislation (authorization to borrow, borrowing purposes, requirement to develop a debt strategy)**
 	
• Managerial structure
  • SMFIN/DFAF is the only entity in charge of Debt Management
  • Robust formalization of responsibilities
 	
• Debt Reporting
  • Monthly debt bulletin with one month lag is published at SMFIN website
  • Financial dossier is yearly published, including debt data
  • The annual budget report contains a section on debt data and operations and is sent to the municipality council
 	
• Auditing
  • Internal audits (2020) have not identified any concerns with debt management activities
	• Legal Framework
	  • No requirement to prepare debt annual reports to the legislature
	  • Some provisions have not been implemented, such as the development/update of a debt strategy (under elaboration)
	
	• Managerial structure
	  • Borrowing and debt-related transactions are not guided by a debt management strategy
	
	• Debt Management Strategy
	  • A strategy is not produced since 2017 (2017-2021) and the previous has not been formalized and published.
	
	• Debt Reporting
	  • Debt bulletin does not include cost-risk indicators
	  • The report sent to the municipality council is not published.
	
	• Auditing
	  • Current legal framework does not require external audit of debt management activities

2. Coordination with Fiscal Policy	
• Reasonable debt service projections used on the budget • Macro and financial variables are included on the budget estimates (coordination with the Central Government) • Debt service projections are published	• There is no sensitivity analysis for debt projections • DSA is not currently conducted (to be prepared)

3. Borrowing and related financing activities	
• Domestic bond issuances are publicly announced and competitive. • Domestic and external borrowing procedures manual are formalized and annually updated. • SMFIN perform a comparative analysis of terms and conditions offered by domestic potential lenders. • Legal advisors of GAMLP are involved on the external borrowing (on-lending) negotiations from the beginning of the process.	• SMFIN does not publish an Annual Borrowing Plan • There is no formal assessment of most beneficial conditions offered by potential creditors • Information about bond issuances is not published on SMFIN's website • Procedures' manual does not include the bond issuance execution process (beyond the preparation) • Procedures' manual for external borrowing does not specify a time limit for the registration of new contracts
4. Cash flow forecasting and cash balance management	
• The Treasury forecasts the cash flow for the full year (monthly breakdown and updates, and weekly breakdown for the coming month) • Estimates are reasonably reliable and covers 100% of revenues and expenditures	• Cash flow forecast with daily breakdown for the coming month is not prepared • The TSA is not remunerated • SMFIN cannot use short-term bills to manage cash balances
5. Debt Recording and Operational risk management	

• Debt related operations are kept in complete and updated different debt management systems
• Payment processes are well defined
  o Separation of duties
  o Procedures' manual
• The IT infrastructure supports DFAF operations
  o There are monthly backups
  o Remote work has been adopted during the pandemic
• Staff are trained and can perform all debt-related functions
• Personnel is evaluated yearly
	• Business Continuity plans do not exist
	• There is not a risk and monitoring function at DFAF
	• Backups are kept in the same building as DFAF
	• No formal procedures manual for debt recordings and validation

2. Background and Government Debt

2.1. Economic Background

The Bolivian economy is gradually recovering from the pandemic-induced recession. After years of expansionary fiscal, monetary, and financial policies, Bolivia struggled to deal with the pandemic, which caused the economy to contract by 8.7 percent in 2020. However, growth returned in 2021 to the tune of 6.1 percent, thanks to improving external conditions, easing mobility restrictions, and recovering public investment and domestic credit. Moreover, urban unemployment declined from a peak of 11.6 percent in July 2020 to 5.4 percent in December 2021, back to pre-pandemic levels.

After the commodities boom between 2005–2014, economic growth was sustained by high levels of public investment and stimulus for domestic credit. Although these policies supported economic growth until the pandemic and contributed to the ongoing recovery from the pandemic-led recession in 2020, they did not address structural problems such as a steady decline in gas export volumes, low private and foreign investment, and productivity losses. The non-financial public sector deficit averaged 7.5 percent of GDP between 2015 and 2019 and, after reaching a historical peak of 12.7 percent in 2020, amounted to 9.3 percent in 2021. This deficit increased non-financial public sector debt from 38 percent of GDP in 2014 to 81 percent in 2021 and reduced public sector deposits at the Central Bank from 24 to 12 percent of GDP in the same period. On the external front, despite substantial external financing to the public sector, international reserves dropped from 46 percent of GDP in 2014 to 11 percent in 2021, owing to sizable current account deficits and unregistered dollar outflows related to smuggling, unrecorded private capital outflows, and increasing cash dollar demand.

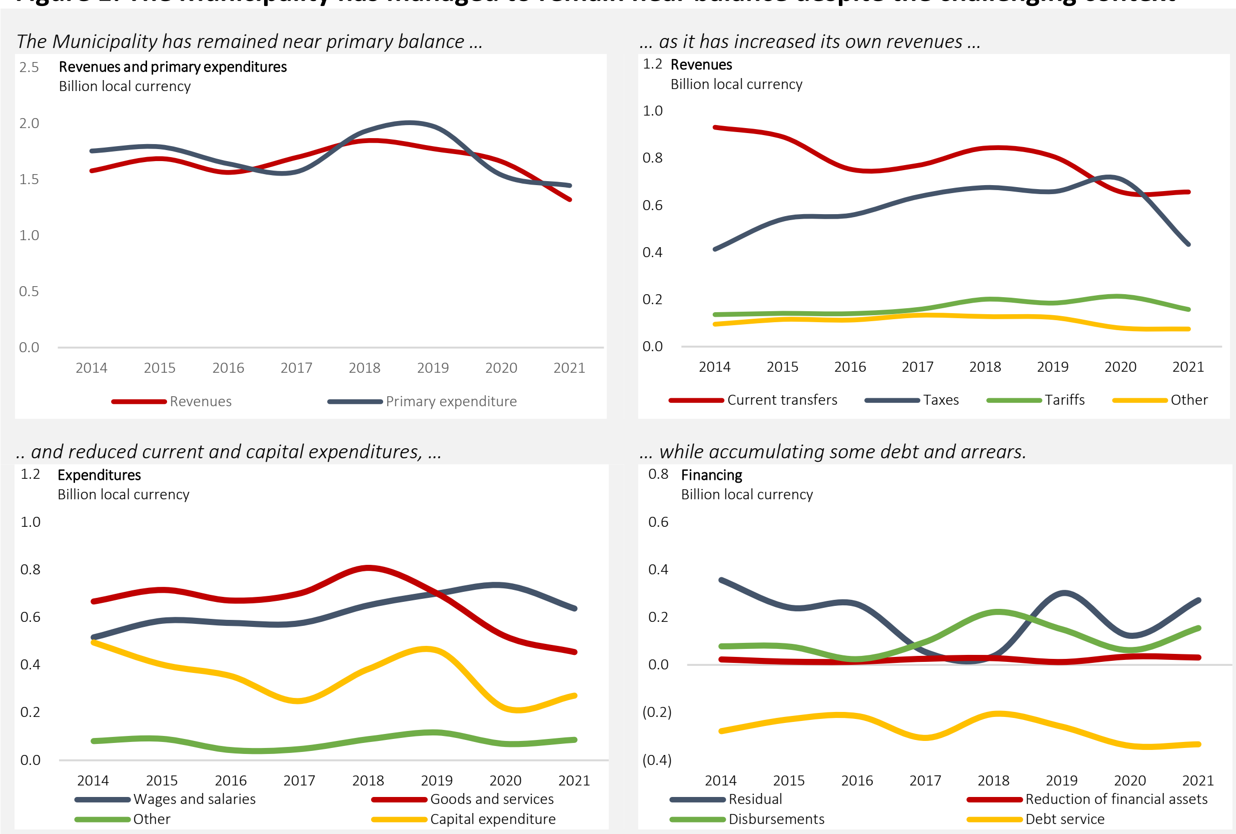
Economic growth has contributed to reducing poverty after the commodity boom and reverting the spike caused by the pandemic. Positive growth reduced poverty (i.e., the share of the population with an income up to US$5.5 per day, measured in 2011 international dollars) from 25 percent in 2014 to 20 percent in 2019. Despite almost-universal emergency transfers provided during the national lockdown, poverty increased from 20 percent in 2019 to 21.6 percent in 2020 due to an economic contraction. However, the ongoing recovery reduced poverty to an estimated 20.2 percent in 2021.

However, low hydrocarbon revenues have led to a contraction of transfers to subnational governments. Hydrocarbon revenues have decreased from 12.1 percent of GDP in 2014 to 3.9 percent in 2021 due to low international oil prices and the secular decline of gas exports to Brazil and Argentina, affecting subnational governments, which are highly dependent on hydrocarbon revenues sharing. Although municipalities made efforts to increase their fiscal revenue collection, their total revenues decreased from a peak of 9.0 percent of GDP in 2014 to about 6.0 percent in 2021 due to lower hydrocarbon revenues. However, municipalities have remained near balance as, with limited fiscal buffers and access to external and domestic financing, they were forced to cut their expenditures, mainly capital expenditure—public investment carried out at the municipal level dropped from 3.7 to 1.0 percent of GDP between 2014 and 2021.

La Paz Municipality primary balance has fluctuated near balance as this Municipality managed to cushion the decline in hydrocarbon revenues and the pandemic. The current transfers received from the Central government have declined since the end of the commodity boom in 2014 on the back of lower gas export prices and volumes. However, the exposure of this Municipality to changes in hydrocarbon revenues has been traditionally low (7.7 percent of revenues excluding debt in 2021) as hydrocarbon revenue sharing tends to favor municipalities in gas producer and low-population departments. Moreover, at the beginning of this period, the Municipality managed to offset this shock by increasing its own revenues from property and vehicle tax, applying some tax amnesties, and rationalizing capital expenditure. La Paz municipality has traditionally been more effective than other municipalities in collecting revenues from property and vehicle taxes. Additionally, while some external and domestic financing, including a domestic bond issuance, allowed to increase capital expenditures in 2018 and 2019, the pandemic and limited access to additional funding induced a contraction of capital expenses in recent years. Similarly, although allowing the taxpayers to advance their 2021 payment assisted GAMLP to finance emergency expenditures arising from the 2020 COVID-19 outbreak, it reduced revenue collection and generated pressure on the Municipal balance in 2021. The Municipality, however, has managed to partially offset the effect of this new shock by implementing specific actions to promote tax collection culture y the implementation of measures to reduce operational costs, including its wage bill and goods and service purchases, and keeping relatively low capital expenditure.

With a low fiscal deficit, the Municipality has maintained its debt under control. Between 2014 and 2021, the government has gotten some external funding to finance specific investment projects, issued domestic bonds, and received some central government financing to deal with the pandemic.

Figure 1: The Municipality has managed to remain near balance despite the challenging context



Source: GAMLP: Dossier de Finanzas Públicas Municipales.

Lower Central Government transfers could cause some stress on the Municipal balance in 2022. Transfers from the Central Government related to tax co-participation represented around 30 percent of the Municipality revenues in 2020 and remained relatively stable in 2021. However, the participation of these transfers in 2022 is expected to decrease, given the projected increase on its own-generated revenues.

Operational (primary) results have on average amounted around BOB 1.3 billion in 2017-2020, but has decreased to slightly higher than BOB 1 billion in 2021 as a consequence of important tax revenues reduction.[3] Capital expenditures (as a consequence of lower current revenues) have been adjusted to smaller levels (from around BOB 1.5 billion in 2018 and 2019 to approximately BOB 1.1 billion in 2020 and 2021), given the constrains to raise taxes in the short-term, and/or creating new debt to finance current expenditures.

2.2. Subnational Debt

At the end of 2021, the present value of debt with respect to the average of the current revenues for the last four years falls well below the threshold established by a law and a ministerial resolution. The estimated level for 2021 was calculated in 116.5 percent which falls below the limit established at 200 percent, but reflects an increase compared to the end of 2018, when the ratio was 103.1%. The increase might be explained by two factors. First, the stock of debt in relation to 2018 has increased 8.2 percent in nominal terms or the pandemic had its toll on the level of current income due to the overall economic downfall during that period. Despite the increase of this indicator, the level is well below the parameter established; consequently, the subnational government still has space to borrow to finance further capital investments.

Debt service with respect to the average current income for the last four years continues to fall below the current threshold. The existing normative requires for this indicator to be below or equal to 20.0 percent. At the end of 2021, the level was calculated to be 9.8 percent representing an increase of 4.1 percentage points in relation to the end of 2018[4]. As mentioned before, the increase could be driven by the effects of pandemic which took its toll on the national economy. In addition, the increase of the stock of debt has been driven by domestic debt which tends to be more costly than external debt financing. From 2018 until 2021, domestic debt financing increased by 51.4 percent in nominal terms. On the contrary, external debt decreased by 7.8 percent in the same period[5].

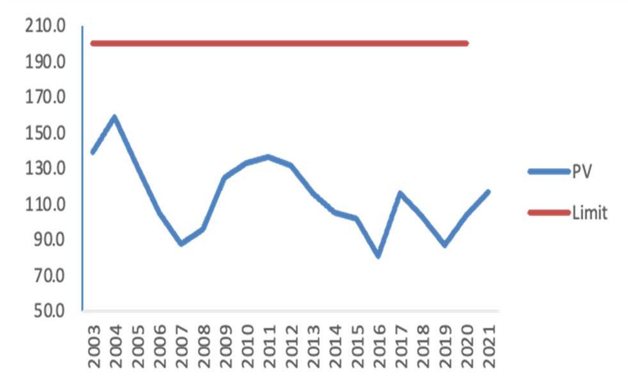
[3] Source: Aesa Ratings, associated to Fitch Ratings – *Calificación de Riesgo Bonos GAMLP Mar22*

[4] According to the April 2022 Statistical Bulletin the ratio was projected at 10.62 percent at end of that month.
[5] According to the authorities, the central government has prioritized external funding for project financing in the national level, leaving less room for subnational project financing with external sources.

Figure 2

Present Value of Debt/Current Revenue [1]

(percentage)



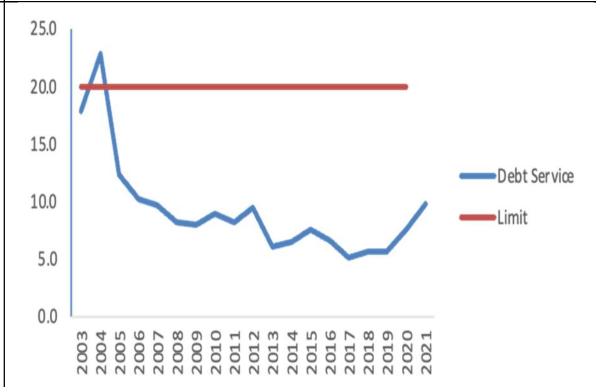
Source: GAMLP

1 - Current revenue is the average of the last 4 years (*Resolución Ministerial No 307, de 09/09/2021*) [6]

Figure 3

Total Debt Service/ Current Revenue [1]

(percentage)



Source: GAMLP

1 - Current revenue is the average of the last 4 years (*Resolución Ministerial No 307, de 09/09/2021*)

In the last five years, the composition of the debt stock has changed. Since 2017, the participation of the internal debt in relation to total debt has increased from 8.7 percent to 37.9 percent at the end of 2021. At the end of 2017, external debt accounted for 91.3 percent of total debt stock, currently it represents 62.1 percent. In 2021, the stock of external debt decreased 4.7 percent compared to the previous year. On the contrary, domestic debt increased 18.8 percent during the same period.

Table 1 - Stock of Debt[7] *(US millions)*

Concept	2017	2018	2019	2020	2021
Domestic	11.1	41.0	53.0	52.2	62.0
External	116.8	110.0	109.1	106.3	101.4
Total	127.9	150.9	162.2	158.5	163.4
			Composition (%)		
Domestic	8.7	27.1	32.7	32.9	37.9
External	91.3	72.9	67.3	67.1	62.1
Total	100.0	100.0	100.0	100.0	100.0

Source: GAMLP

[6] Discount rate not lower than 6 months LIBOR, according to Basic Rules of Credit Public System, defined annually by the Ministry of Economy and Public Finance.

[7] Domestic debt must regulatorily be in local currency and external debt on-lent from the CG is mostly in USD.

Domestic debt is held by the private sector. At the end of 2021, Banco BISA held 57.4 percent of the total debt outstanding. Holders of the 2018 bond issuance represented 24.7 percent. The remaining part of domestic debt was held by other commercial banks with 17.9 percent. In the last five years, the composition has changed, in particular after the bond issuance in 2018. For example, in 2017, there were only two creditors, Banco de Crédito de Bolivia (65.1%) and Banco BISA (34.9%). It is worth mentioning that Banco de Crédito de Bolivia only held 6.1 percent of the debt outstanding at the end of 2021.

External debt composition in the last five years has remained relatively stable. All external funding comes from the central government through on-lending operations. The main creditor is the Interamerican Development Bank (IADB) which accounts for 70.8 percent at end of 2021, followed by the World Bank Group with 25.8 percent. In nominal terms, external debt stock has been reduced by USD15.4 million since 2017.

Table 2 - External Debt Composition (%)

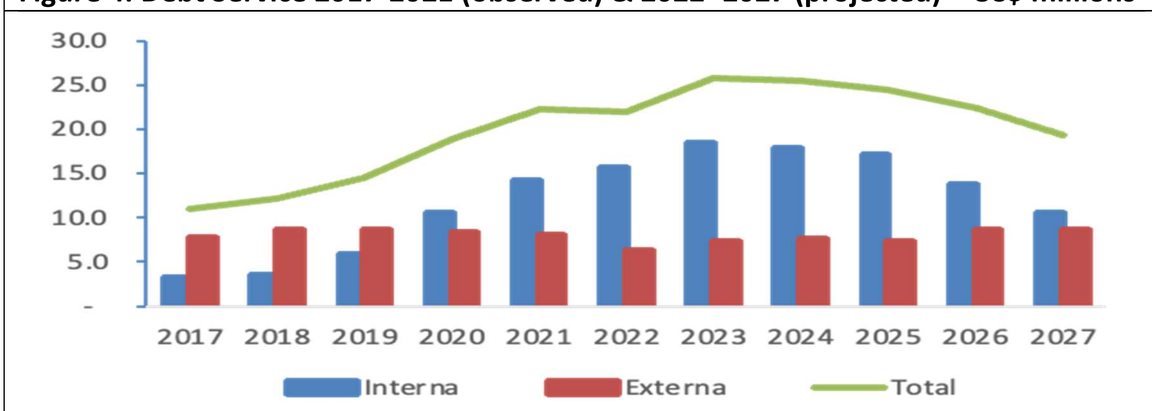
	2017	2018	2019	2020	2021
Banco Interamericano de Desarrollo	61.2	62.8	66.7	68.1	70.8
CAF-Banco de Desarrollo de América Latina	12.5	10.7	8.1	5.7	3.4
Banco Mundial	25.7	25.9	25.2	26.1	25.8
República Popular de China	0.6	0.6	-	-	-

Source: GAMLP

More than 90 percent of total disbursements in 2021 came from domestic debt financing. Two commercial banks accounted for most of these disbursements; Banco BISA (60.3%) and Banco Mercantil Santa Cruz (32.3%).

Debt maturing in 2023 amounts to 12 percent of the total stock. According to the debt bulletin od April 20022, while domestic debt maturing next year corresponds to 24.9 percent, external debt represents only 4.6 percent. External debt has been helpful in extending maturities but given the recent trend to contract more domestic debt in recent years, domestic debt payments outweigh external debt ones from 2020 onwards.

Figure 4: Debt Service 2017-2021 (observed) & 2022- 2027 (projected) – US$ millions



Source: GAMLP

3. Debt Management Performance Assessment (DeMPA) Subnational

3.1. DeMPA Methodology

The DeMPA Subnational 2015 methodology comprises a set of 13 debt performance indicators (DPIs), which encompass the complete spectrum of government debt management operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building, the performance indicators are based on sound practices and stipulate a minimum level that should be met. Consequently, if the assessment shows that the minimum requirements are not met, this indicates an area requiring attention and priority for reform. A complete description of the methodology can be found online.

A DeMPA for GAMLP was undertaken in 2016 by the Center for Latin American Monetary Studies – CEMLA using the same methodology developed by the World Bank and followed in the current assessment. The assessment carried out on that occasion was shared with the mission team and provided helpful historical inputs for the current assessment, however it is not considered for comparison for the purpose of this report, given that the WB has not taken part of this previous exercise.

3.2. Summary of Performance Assessment

Performance Indicators		Score
DPI-1 Legal Framework	1. The existence, coverage, and content of the legal framework for authorization to borrow, undertake other DM activities, and issue loan guarantees.	C
	2. The extent of a limit to direct access to financing from the central bank	A
DPI-2 Managerial Structure	1. The managerial structure for SNG borrowings and debt-related transactions	C
	2. The managerial structure for preparation and issuance of SNG loan guarantees	NA
DPI-3 DeM Strategy	1. The quality of the DM strategy document	D
	2. The decision-making process and publication of the DM strategy	D
DPI-4 Debt Reporting and Evaluation	1. Publication of a statistical bulletin on SNG debt, loan guarantees, and debt-related operations	C
	2. Reporting to local assembly and central government	D
DPI-5 Audit	1. Frequency of financial audits, compliance audits, and performance audits of the effectiveness and efficiency of SNG DM operations, including the internal control system, as well as publication of the external audit reports	D
	2. Degree of commitment to address audit outcomes	NA
DPI-6 Coordination with Fiscal and Budgetary Policy	1. Supporting fiscal policy makers through the provision of accurate and timely forecasts on total SNG debt service under different scenarios	C
	2. Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken	D
DPI-7 Domestic Borrowing	1. The preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the debt securities and other sources; and the publication of an auction calendar for securities	D
	2. The availability and quality of documented procedures for domestic borrowing	D

DPI-8 External Borrowings	1. Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan	D
	2. Availability and quality of documented procedures for external borrowings	D
	3. Availability and degree of involvement of legal advisers before signing of the loan contract	A
DPI-9 Loan guarantees, On-lending, and Derivatives	1. Availability and quality of documented policies and procedures for approval and issuance of loan guarantees	NA
	2. Availability and quality of documented policies and procedures for approval and issuance of SNG on-lending	NA
	3. Availability of a DM system with functionalities for handling derivatives, and availability and quality of documented procedures for the use of derivatives	NA
DPI-10 Cash Flow Forecasting and Cash Balance Management	1. Effectiveness of forecasting the aggregate level of cash balances in SNG bank accounts	B
	2. Effectiveness of managing this cash balance in SNG bank accounts (including the integration with any domestic debt borrowing program, if required)	D
DPI-11 Debt Administration and Data Security	1. Availability and quality of documented procedures for the processing of debt-related payment	B
	2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records	D
	3. Availability and quality of documented procedures for controlling access to the SNG's debt data recording and management system and audit trail	D
	4. Frequency and off-site, secure storage of debt recording and management system backups	D
DPI-12 Segregation of Duties, Staff Capacity, and Business Continuity	1. Segregation of duties for some key functions, as well as the presence of an operational risk monitoring and compliance function	C
	2. Staff capacity and human resource management	C
	3. Presence of an operational risk management plan, including business continuity and disaster recovery arrangements	D
DPI-13 Debt and debt-related Records	1. Completeness and timeliness of SNG records on its debt, loan guarantees, and debt-related transactions.	A
	2. Complete and up-to-date records of all holders of SNG securities in a secure registry system, if applicable.	A

4. Performance Indicator Assessment

4.1 Governance and Debt Management Strategy

DPI 1 - Legal Framework

DPI	Score
1. The existence, coverage, and content of the legal framework for authorization to borrow, undertake other Debt Management (DM) activities, and issue loan guarantees	C
2. The extent of a limit to direct access to financing from the central bank	A

DPI 1.1 - The existence, coverage, and content of the legal framework for authorization to borrow, undertake other DM activities, and issue loan guarantees.

Institutional Aspects

1. The primary legal framework has a clear authorization to borrow. The Municipal Council approves indebtedness, and the Major of the Municipality enters into debt agreements that have been approved by the former. This is provided in National Law 482 of January 9, 2014, on Municipal Autonomous Governments (Law 482/2014) which regulates the organizational structure and functioning of Municipal Autonomous Governments. Article 16 (23) and (20) provides that the Municipal Council approves indebtedness that commits the revenues of the Municipal Autonomous Government, and that the Municipal Council approves issuance of securities. Article 26(25) of the same Law provides that the Major of the Municipality is responsible for entering into agreements and contracts (see DPIs 7 and 8 for borrowing authorization needed from the central government).

2. The requirement for the Municipal Council to approve indebtedness is reiterated in the secondary legislation. The *Decreto Edil* No 003 of 2017 (D.E. 003/2017) approved the *Specific Regulation of the Public Credit System of the Autonomous Municipal Government of La Paz* (La Paz Public Credit Regulation). Article 11(a)(i) of this regulation provides that the Municipal Council authorizes the commencement of negotiations and the entering into internal and external indebtedness. Article 11(b)(i) provides that the Municipal Major decides the debt strategies and other aspects of the indebtedness of the Autonomous Municipal Government.

3. The secondary legal framework includes clear borrowing purposes. La Paz Public Credit Regulation, approved by D.E. 003/2017, provides in Article 16 that the purpose of the public credit operations of the Autonomous Municipal Government of La Paz is to obtain internal or external financing to finance investment projects and programs without affecting the fiscal or financial sustainability of the Autonomous Municipal Government.

4. The primary legal framework includes clear DM objectives. The Supreme Resolution No. 218041 of July 29, 1997, contains the *Basic Norms of the Public Credit System*. Article 3 provides that the basic principles of the Public Credit System are (a) Sustainability, which should ensure that the public debt does not threaten the general stability of the economy; (b) Efficiency, which determines that the public credit operations must be executed taking into account the best available interest rates, terms and conditions that are most favorable to the State; (c) Centralization, which provides that public debt related decisions have centralized approval procedures even though the negotiation, contracting, use, service and registry can be done at a decentralized level; and (d) Opportunity, transparency and validity of the information, which facilitates decisions related to collecting, assigning and management of financial resources obtained from public indebtedness, thus minimizing risks and/or high cost resources.

5. **These clear DM objectives are also reflected in the secondary legislation**. The GAMLP Public Credit Regulation approved by D.E. 003/2017 includes in Article 3 these same principles: a) Sustainability, must ensure that at debt does not threaten financial stability; (b) Efficiency, which determines that debt must be incurred taking into account the most favorable financial conditions for the Autonomous Municipal Government of La Paz, (c) Centralization (same as above), and (d) Opportunity, transparency and validity of the information, which facilitate decision making to minimize risks related to contracting debt.

6. **There is no mandatory annual reporting of DM activities covering evaluation of outcomes against stated objectives and the approved strategy to a local assembly or similar body**. Neither the Primary Legislation nor the secondary legislation require a mandatory annual reporting of DM activities.

7. **Secondary legislation requires the development of a Municipal Debt Management Strategy.** The GAMLP Public Credit Regulation approved by D.E. 003/2017 requires a Debt Management Strategy. Article 11(c)(iii) provides that the Municipal Secretary of Finances (SMFIN) is responsible for developing a debt management strategy, based on the characteristics, financial capacity, and flow of funds of the Autonomous Municipal Government of La Paz, and submitting it to the Municipal Major for review and approval. Article 11(b)(iv) provides that the Municipal Major is responsible for approving the debt management strategy, and for sending it for information to the Municipal Council.

8. **The Municipality of La Paz is considered legally restricted from issuing guarantees in favor of a third party**. National Law 2042 of 1999 (the National Budget Management Law) provides in Article 13 that granting of loans is prohibited between public sector entities (except for financial institutions created expressly for this purpose). This legal restriction expressly applies to loans and is interpreted by the Municipality to extend to the granting of loan guarantees.

Implementation Aspects

9. **The mission assessed that most core provisions from the legal framework are implemented.** The legal framework includes authorization to borrow, borrowing purposes, clear debt management objectives, requirement to develop a debt management strategy, and a restriction on issuing loan guarantees.

10. **There is no legal requirement for reporting on DM activities, and the DMS is outdated. Therefore, the score is a C.** The legal framework does not require an annual reporting of DM activities to the Municipal Council. Ideally, such reporting requirement would cover evaluation of outcomes against

stated objectives and the approved strategy. Although there is no legal requirement to do so, the DFAF prepares an annual budget execution report on public debt and financing and presents it annually to the Municipal Council. The most recent debt management strategy has expired, applying to the period 2017-2021, so the annual budget execution report that is prepared and presented does not evaluate outcomes against stated objectives and an approved strategy.

DPI 1.2 - The extent of a limit to direct access to financing from the central bank

Institutional Aspects

11. **The Autonomous Government of the Municipality of La Paz does not have access to financing by the central bank**. National Law No. 1670 of October 31, 1995 (the Central Bank Law), introduces limited flexibility to the restriction included in the National Budgeting Law prohibiting granting of loans between public sector entities. Article 22 of the Central Bank Law allows the Central Bank (CB) to lend to the National Treasury, on an exceptional basis, funds in case of public calamity, or for transitory liquidity needs. The flexibility does not extend to the Municipality of La Paz.

Implementation Aspects

12. **Direct access to financing by the CB is -by law- prohibited. Therefore, the score is an A.** The Central Bank and the Government of the Municipality of La Paz comply with the legal restrictions prohibiting access by the Municipality to financing by the central bank.

DPI 2 - Managerial Structure

DPI	Score
2.1 - The managerial structure for Subnational Government (SNG) borrowings and debt-related transactions.	C
2.2 - The managerial structure for preparation and issuance of SNG loan guarantees.	NA

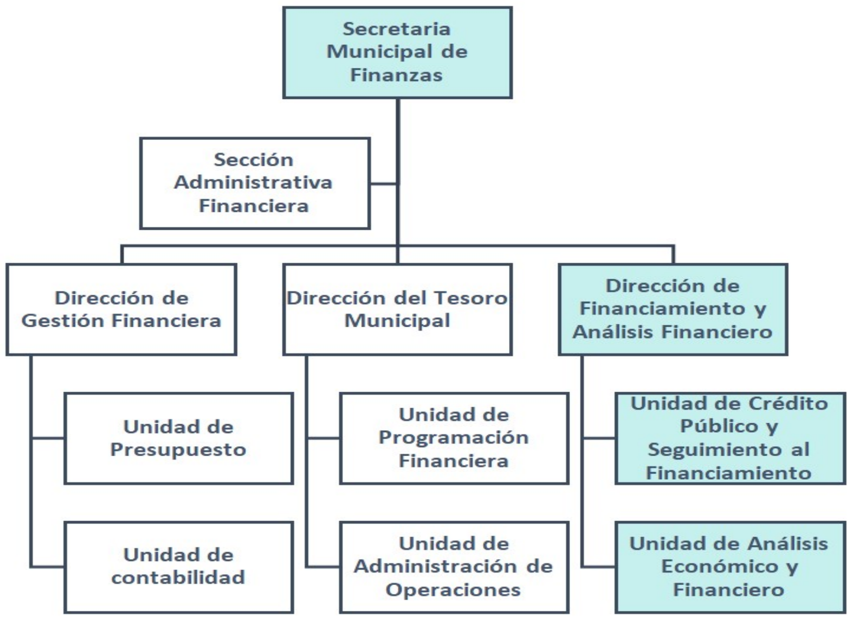
DPI 2.1 - Managerial Structure for Debt

13. **The Municipal Secretariat of Finances (*Secretaría Municipal de Finanzas* or SMFIN) is responsible for the debt management activities of the Municipality**. SMFIN is comprised of 3 directorates: Financial Management Directorate, Municipal Treasury Directorate, and Financing and Financial Analysis Directorate. The Municipal Treasury Directorate is responsible for aggregating all the Municipality's revenues and expenses, and for managing its cash flow. This includes responsibility for servicing the Municipal debt. Debt management activities are handled by the Financing and Financial Analysis Directorate (DFAF).

14. **Debt management activities are handled by one single directorate, the Financing and Financial Analysis Directorate**, through two different units. The Economic and Financing Unit is responsible for all economic, fiscal credit and sustainability analysis, and for handling processes needed to contract external

and domestic debt (middle and front office). The Public Credit and Financing Supervision Unit is responsible for following up on, controlling, and registering Municipal debt that has been incurred (back office).

Figure 5 – SMFIN Current Managerial Structure (simplified version)



15. **There is good and formal coordination between the 3 directorates of SMFIN**: Financial Management Directorate, Municipal Treasury Directorate, and Financing and Financial Analysis Directorate. In addition, Article 10 of the GAMLP Public Credit Regulation (approved by D.E. 003/2017) requires coordination among the Municipal public credit system, National public investment programs, Municipal budget systems, Municipal treasury systems, Municipal accounting systems, and Government control system.

16. **Borrowing is undertaken by a principal DM entity that is responsible for undertaking all subnational debt transaction and management. However, these transactions are currently not steered by a formalized Medium-Term Debt Management Strategy (MTDS), which is currently being updated. Therefore, the score for this dimension is a C.** If an MTDS is developed, adopted, and published, the score would be an A.

DPI 2.2 - Managerial structure for issuing guarantees and on-lending operations

17. **The Municipality of La Paz is considered legally restricted from issuing loan guarantees or on-lending (see DPI 9). Therefore, this DPI is not applicable.** National Law 2042 of 1999 (the National Budget Management Law) provides in Article 13 that granting of loans is prohibited between public sector entities

(except for financial institutions created expressly for this purpose). This legal restriction is interpreted by the Municipality to extend to the granting of loan guarantees.

DPI 3 – Debt Management Strategy

DPI	Score
3.1 The quality of the DM strategy document	D
3.2 The decision-making process and publication of the DM strategy	D

DPI 3.1 – The quality of the DMS document

18. GAMLP has developed a Debt Management Strategy (DMS) for the period 2017-2021 but it has never been published. The document named as "Sustainable Financing Strategy" was produced under the technical assistance support of *Centro de Estudios Monetarios Latinoamericanos* – CEMLA for SMFIN/DFAF on early 2017 and has not been updated since then. It is a comprehensive report that mixes debt sustainability analysis and macro-fiscal projections, with a debt management strategy described in the last quarter of the document.

19. The 2017-2021 DMS describes three different alternative strategies and indicate a preferred one. The strategy was developed using the WB/IMF jointly developed MTDS framework and indicates targets for three risk indicators: i) minimum average time to maturity; ii) minimum share of fixed rated debt over total debt; and iii) maximum share of foreign currency debt over the total debt. The preferred strategy is justified by the comparative analysis of cost and risk indicators of the three simulated strategies at the end of the strategy period, under a deterministic scenario. While the exercise has been performed under the MTDS framework, there is no reference of shock scenarios used to potentially measure strategies associated risks. A separation of the DSA and the DMS in different stand-alone documents is advisable.

20. GAMLP has started to develop a similar Sustainable Financing Strategy for 2023-2027 but the DMS analysis is still to be initiated. The GAMLP has requested support from the WB to develop capacity in the team to design and update the DMS, building on initial training delivered by CEMLA as abovementioned.

21. The score for this dimension is a "D", considering that there is no updated DMS. A DMS to be considered in the DeMPA assessment needs to be annually updated.

DPI 3.2 – The decision-making process and publication of the DMS

22. The DMS has not been prepared since 2017 and therefore the decision-making process and publication are not institutionally in place, though formally regulated. DFAF's Operations Manual establishes the Department's responsibility of developing a medium-term debt management strategy, its monitoring and update. Moreover, Processes and Procedures Manual of Credit Public System (*Manual de*

Procesos y Procedimientos del Sistema de Crédito Público) includes one detailed procedure regarding the elaboration of a DMS and a DSA, including the formal approval, but not mandating the strategy publication.

23. **The budget framework does not embrace a DMS since there is not a formalized one.** The budget just considers borrowing operations already legally approved, which are limited to project financing, and are not informed by a DMS.

24. **GAMLP does not elaborate an Annual Borrowing Plan (ABP).** Since debt financing is limited to financing projects, the Territorial Plan for Integral Development (*Plan Territorial de Desarrollo Integral – PTDI*) would be the starting point for the DMS and for the ABP. The PTDI defines the borrowing needs and projects priorities and must be aligned with central government development plans (*Plan de Desarrollo Económico y Social para las gestiones 2020 – 2025*).

25. **Considering the lack of updated and published DMS and ABP, the score is a "D".** The decision-making process is formally prescribed in the referred manuals, however the process is not implemented. Once these plans are developed and formally approved, they should be consistent with the budget framework and mandatorily published.

DPI 4 – Debt Reporting and Evaluation

DPIs	Score
4.1 - Publication of a statistical bulletin on SNG debt, loan guarantees, and debt-related operations	C
4.2 - Reporting to local assembly and central government	D

DPI 4.1 – Publication of a statistical bulletin on SNG, loan guarantees, and debt-related operations

26. **A statistical debt bulletin is monthly prepared by the DFAF and published on the local municipality's website[8].** The debt management office within the Municipal Finance Secretary elaborates a statistical debt bulletin with one month lag. During the mission, the authorities shared the bulletin with data corresponding to April 2022. The report includes the following information:

- Total debt stock in local currency
- Composition of debt stock by original maturity
- Evolution of debt stock by creditor 2013-April 2022
- External debt stock and composition by creditor
- External debt service for 2018-2021 and accumulated debt service for January-April 2022

[8] https://lapaz.bo/boletines-smfin/

- External debt disbursements for January-April 2022 and accumulated disbursements from 2003 to April 2022
- Domestic debt stock, composition by creditor, including bond issuance
- Domestic debt service for April 2022 and accumulated debt service for January-April 2022
- Credit rating for local bond issuance
- Observed debt service 2018-April 2022 and projected for May and June 2022
- Evolution of debt service 2018-April 2022 by creditor
- Evolution of debt service 2018-April 2022 by principal and interest payments
- Public debt indicators for municipal debt (present value and debt service in relation to total revenues)
- Projected debt service 2022-2031 [9]

27. **The Finance Secretary of the local municipality prepares a financial dossier[10] which is publicly available on the website of the municipality.** Within the report, the DFAF, prepares a chapter related to public debt. The latest published dossier, chapter 4, contains the following sections:

- General financing conditions offered by all creditors
- Total debt stock at December 2021
- Total debt service 2003-2021
- Observed total debt disbursements 2003-2021
- Public debt indicators for municipal debt (present value and annual debt service in relation to total revenues)

28. **The information required to meet minimum standards is available within both reports, and both documents are published on the website, therefore, the score is "C"[11].** To improve the score, some basic risk measures of the portfolio need to be incorporated. It was informed that the debt bulletin with data from May will follow a new format that complies with sound practices, incorporating risk indicators. In reference to the timeliness, the municipality complies with the highest standard since it has information monthly updated and published with a time lag shorter than two months.

DPI 4.2 – Reporting to local assembly and central government

29. **The DFAF, through its public credit unit (*Unidad de Crédito Público y de Seguimiento al Financiamiento*), prepares an annual budget execution report on public debt and financing.** Each year, the report is presented to the local assembly, but it is not publicly available. As part of the current evaluation, the DFAF provided the mission with the latest report which covers fiscal year 2021. The content of the report is the following:

[9] It is recommended that debt service projections cover the full extension of the maturity profile.
[10] http://lapaz.bo/dossier2021/
[11] Considering that the local municipality cannot issue guarantees and there is no stock, the reports do not cover data on this regard.

- Introduction
- Financial resources received
- Uses for financial resources
- Total debt service
- Total debt stock
- Public debt indicators for municipal debt (present value and annual debt service in relation to total revenues)

30. **Currently, there is no updated debt strategy in place within the Municipal Finance Secretary therefore the existing debt report does not include a section describing the DM performance.** The report does include some relevant information in relation to debt composition by creditor and by original currency. In addition, the financial conditions for local debt are described in the report. In general, the document provides local authorities with general information to analyze the evolution of the debt stock.

31. **The level of debt transparency within the Municipal Finance Secretary is acceptable but currently the report described above is kept internally.** To meet the minimum requirement, the debt report would have to be publicly available. Given the current practice followed, the minimum required is not met, and a score of "D" is assigned. For higher scores, the debt report would have to include a description of DM performance once a debt management strategy is in place.

DPI 5 - Audit

DPI	Score
5.1 - Frequency and comprehensiveness of financial audits; compliance audits; performance audits on the effectiveness and efficiency of SNG DeM operations, including the internal control system and its effectiveness; and publication of the external audit reports	**D**
5.2 - Degree of commitment to address audit outcomes	**NA**

DPI 5.1 - Frequency and comprehensiveness of external and internal audits (financial, compliance, performance) and their public disclosure

32. **The Municipality of La Paz is not required under applicable law to undertake external audits.** This is derived from Law No 1178 of 1990 on Government Administration and Controls which legislates how public assets must be managed and controlled, and Decree Supreme 23215 on the Controller's Regulations which regulates how the National Controllers Office (*Contraloría General de la República*) performs its duties. The Municipality is required to prepare internal audits (Law 1178, Article 15) and submit them to the General Controllers Office (*Contraloría General del Estado*, or Controllers) (Law 1178, Article 42(b)). The General Controllers Office is the supreme audit authority in the country and can decide to undertake an external audit of the Municipality or can demand that an external audit be done by an independent third party (Law 1178, Article 42).

33. **External audits have been performed periodically, but not recently.** External audits were performed by PricewaterhouseCoopers S.R.L in 2005 (for financial statements as of 31 December 2004), 2010 (for financial statements as of December 31, 2009 and 2008), and 2015 (for financial statements as of December 31, 2014 and 2013).

34. **The Municipality's internal audits have not identified any concerns with debt management activities.** The Examen de *Confiabilidad de Registro y Estados Financieros del GAMLP* as of December 31 2020 concluded that debt management processes are an area of strength of the Municipality and that control risks are low. Internal audit worksheets for this period (*Planilla de Puntos Fuertes – Deuda Pública (Interna y Externa)*) identify as areas of strength the public debt related regulatory framework, management framework, IT systems, and records. Internal audit worksheets for 2021 and 2020 conclude that debt service-related entries (amortization, interest and charges) are reliable. Internal audit work sheets do not identify debt-related areas that need attention or improvements.

35. **Considering that external audits have not been conducted for a number of years, the score is a "D"**. For a higher score, external financial, compliance and performance audits must be done on the effectiveness and efficiency of the Municipality's debt management operations, including the internal control system and its effectiveness; and these audits should be published on the website. External audit should be consistent with international standards.

DPI 5.2 - Degree of commitment to address audit outcomes

36. **There have not been any recent external audits of the Municipality's DM activities, so it is not possible to assess the degree of commitment to address audit outcomes. Therefore, this sub-DPI is not applicable.**

4.2. Coordination with Macroeconomic Policies

DPI 6 - Coordination with Fiscal Policy

DPI	Score
6.1 - Supporting fiscal policy makers through the provision of accurate and timely forecasts on total SNG debt service under different scenarios	C
6.2 - Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken	D

DPI 6.1 - Provision of debt service forecasts

37. **The DFAF prepares, for budget-formulation purposes, estimates on debt service that cover total debt of the municipality.** The debt service estimates that populate the budget are based on the debt database. The budget also includes forecasts for external and domestic debt disbursements, programmed

domestic debt issuances and consider budget financing needs. In La Paz, the SMFIN houses both the DMO (DFAF) and the newly created Treasury Department (TRE) responsible for financial programming. The two directorates constantly share information related to the cash flows derived from debt refinancing and fiscal funding.

38. **For each year, the budget preparation starts in May, when the DFAF compiles the future debt service under the baseline assumptions.** For that, the DFAF uses a data set that is updated monthly to consider maturity dates, volumes, budget classification, sensibilized by key macro variables such as the foreign exchange and interest rates. Although there is no scenario analysis, the team adds up to the projections a margin to cope with adverse fluctuations on the exchange and interest rates that may affect the actual debt service.[12] There is a macro-unit in the Central Government providing estimates of main macro-fiscal variables for all government-related entities.

39. **The DFAF uploads detailed debt service into the Public Financial Management System (SIGEP) and the estimates are reasonably reliable.** Evidence was provided and estimates deviated 3.64% (average) from observed figures between 2018-21 (budget figures). Debt estimates are broken down into long and short term, external and domestic debt, where the system shows the budget updated releases and executed payments. After the pandemic, the budget has been revised throughout the year given the rise in cash needs to offset the crises, but that did not significantly affect the debt service estimates.

Table 3 – Debt Service Estimates: Deviations between Budget vs Execution

BOB million	-			
Long Term Debt	**2018**	**2019**	**2020**	**2021**
A: Interest *Budget – Paid*	4,540,942	2,597,224	1,226,785	496,272
B: Amortization *Budget - Paid*	793,361	2,006,034	3,009,784	184,195
A+B: Total Deviation *Budget - Paid*	5,334,303	4,603,258	4,236,569	680,466
Total Deviation/Executed %	**5.64%**	**4.47%**	**3.21%**	**0.45%**

Source: DFAF (Sigep), WB Staff elaboration.

40. **The legal framework does not allow the government to create debt for budget support and the authorization to create debt is a lengthy process.** Hence, debt service oscillation mostly derives from relatively lower disbursements coming from project execution, which is out of control of the debt office. When that happens, SMFIN frees up budget resources and reallocates for other spending initiatives. For

[12] A +10 basis points (bps) is applied to the FX-rate debt. For the floating interest rate instruments, DFAF uses the assumption of + 200bps fluctuation. In both cases the cushions have proven sufficient in the past 2 years.

instance, the pandemic substantially increased the need to support health services, but the government could not issue short-term securities debt to finance that.

41. The debt service estimates generated by the DFAF cover the whole municipal debt, populates the budget, and are reasonably reliable. The score is a "C". The score could be a "B" if the authorities were to undertake sensitivity analysis for both exchange and interest rates.

DPI 6.2 - Availability of key macro and fiscal variables and DSA

42. Key macro and fiscal variables are shared from the Ministry of Finance (sovereign level) to municipal finance secretaries through the budget cycle, but the municipal government has not prepared a debt sustainability analysis (DSA) on their own. The preparation of a DSA, which covers municipal debt, is a basic requirement. GAMLP does project how the debt is expected to behave over the next five years in the context of the CRIOCP and the legal provisions that require Debt Service over Revenues below 20 percent and Debt Stock (present value) over Revenues below 200 percent, for the hiring of new debt.

43. Law 2042/99 provides guidance on budget and fiscal management and sets those two key indicators to assess debt sustainability. Ministerial resolution 307/21 has updated how such indicators should be calculated and, to the extent they are useful to monitor the debt size and cost within certain limits, they do not qualify as a macro-based debt sustainability analysis as required by the Subnational DeMPA methodology. The indicators cited are calculated as follows:

$$\boxed{SD = \frac{K + I + C + CLGC}{PICR_{4\ años}}\ x\ 100}$$

$$\boxed{VPD = \frac{VP + CL + PSC}{PICR_{4\ años}}\ x\ 100}$$

Where:

SD: Debt Service
K: Amortization
I: Interest Payments
C: Fees
CLGC: Local Government contribution to project expenses for joint project with the Central Government
PICR: Average Recurrent Revenues

VPD: Debt Stock Present Value
VP: Cash Flow Present Value
PSC: Liabilities without a defined cash flow (50%)
CL: Total or Balance Local Government contribution project expenses for joint project with the Central Government
PICR: Average Recurrent Revenues

Source: S

44. The GAMLP regularly publishes debt service forecasts for the next 10 years. The monthly debt bulletin[13] shows future debt service estimates that are broken down into principal and interest by each of the 18 outstanding loans (from the IADB, CAF, WB, local banks), and the single outstanding local bond. However, the published forward-looking statistics refer to flows, but not a projected debt stock path as typically described by DSA's estimates.

[13] See DPI 4.1.

45. Because of the lack of a DSA preparation in the last three years, the score is a "D". The Subnational DeMPA requires a macro-based DSA to be prepared based on macroeconomic variables for the minimum requirement.

4.3. Borrowing and Related Financing Activities

DPI 7 - Domestic Borrowing

Dimension	Score
7.1 – The preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the debt securities and other sources; and the publication of an auction calendar for securities	**D**
7.2 – Availability and quality of documented procedures for domestic borrowing	**D**

DPI 7.1 - Preparation of an ABP for domestic funding and publication of an auction calendar

46. GAMLP does not prepare an ABP for the projected aggregate amount of domestic borrowing. Domestic debt can be hired through direct loans with local commercial banks, or by the issuance of municipal bonds in the local market. In either case, borrowing proceeds need to be used for project financing, with no flexibility to finance budget deficit or temporary cash shortfalls. Domestic borrowing requires central government approval (given by the Vice Minister of Treasury and Public Credit – VTPC of the Ministry of Economy and Public Finance - MEFP).

47. Bond issuances are carried out under an issuance program approved by the Municipal Council (legislature), the Financial Sector Regulator (A*utoridad de Supervisión del Sistema Financiero* - ASFI) and the Bolivian Stock Exchange (*Bolsa Boliviana de Valores* - BBV). The program must identify a portfolio of projects to be funded and shall include up to three bond issuances. Before seeking the issuance program authorization, GAMLP needs to hire a broker firm (*agencia de bolsa*) who will support the communication with ASFI, BBV and potential investors. However, for each bond issuance authorizations from the three entities are further required, as well as the launch of a risk classification statement for the bond to be issued from a specialized rating agency (a Fitch branch, in the case of GAMLP bonds). MEFP issues a certificate of registry of commencement of public credit operations (*Certificado del* Registro *de Inicio de Operaciones de Credito Publico* – CRIOCP)[14], and ASFI and BBV authorize the registration of the issuance. Lastly, before a bond issuance, GAMLP and the hired broker firm go in a roadshow with potential investors, and finally announce the transaction once conditions are favorable.

[14] The CRIOCP is issued if the Municipality's debt indicators considering the additional requested indebtedness are within limits established by law (present value of debt stock over average revenues of the last 4 years below 200%, and annual debt service over the same denominator below 20%).

48. La Paz municipal bonds are issued on a very low frequency, therefore publishing an auction calendar would not be needed. By the time of the mission, the latest bond issuance had been in 2018 and before that in 2008. La Paz municipal bonds are issued through a competitive mechanism, similar to an auction (or a book building), but under a time window that remains open for up to 180 days. The government publishes an announcement in the press 2 days before the expected window opening, specifying the transaction and instrument terms and conditions, but the date of the window opening to receive bids is not disclosed in the formal document. The broker hired by the issuer and BBV communicates informally with market participants when bids start to be accepted.

49. Bond issuance results were published on the day after the transaction was closed[15]. On the latest bond placement in 2018, demand exceeded the supply and GAMLP has managed to close the transaction on a single day (few minutes). Once the issuance was closed, the issuer's broker and BBV have communicated bilaterally with investors but neither GAMLP nor BBV have published the results with accepted conditions on their websites. Instead, a press conference was held on the day after giving ample disclosure of these terms. Ample disclosure of bond issuances results on these entities webpages should be done ideally on the issuance date and kept available for broader historical consultation (not restricted to participating investors on bilateral basis and for a short period).

50. Domestic borrowing from commercial banks follows different steps from the process for bond issuance, but required authorizations are similar. The process described below is followed:

1) the Municipal Council authorizes the commencement of negotiations and the entering into direct local indebtedness;

2) negotiations with potential lenders are done by SMFIN/DFAF;

3) the sectorial portfolio of projects that will be financed with the loan proceeds is predetermined[16]/prioritized;

4) the Municipality requests from VTPC the CRIOCP;

5) the CRIOCP is issued if the Municipality's debt indicators are within limits established by law, as referred before;

6) legal departments review draft legal agreement; negotiations are finalized, and debt agreement is executed by the Mayor;

7) the legal agreement is sent to the Municipal Council for its approval, through a Municipal Order (*Ordenanza Municipal*).

[15] Considering the transaction carried out in 2018 as what would be regular practices (given the very low issuance frequency).

[16] ASFI regulations limit banks to bilaterally finance the government just for investment projects (mainly construction).

51. There is no periodical assessment of most beneficial domestic borrowing terms and conditions. However, as specified above, DFAF negotiates contracts terms and conditions with potential creditors and select the one that offers the most favorable ones. It is noted that the negotiation process is not defined in the *Manual de Procesos y Procedimientos del Sistema de Crédito Público* - MPP and its inclusion could be considered.

52. Even though the publication of an auction calendar is not applicable for the low frequency issuances of GAMLP, the inexistence of a domestic Annual Borrowing Plan defined the score for the dimension as a D. Upon the possible future publication of the ABP, for higher scores GAMLP should also consider reviewing the practices on publishing bond issuances announcements and results, as described above, as well as formalize the assessment of most beneficial conditions offered by potential creditors when directly borrowing from the banking sector.

DPI 7.2 – Availability and quality of documented procedures for domestic borrowing

53. Procedures for obtaining the needed authorization and registration of domestic borrowing is contemplated under the MPP, however the manual does not include procedures for bond issuances. Once the bond issuance is authorized, all procedures for the preparation, execution, decision-making and results publication should be defined in the MPP. MPP is annually (formally) updated. As mentioned before, the negotiation process of domestic loans is not included in the MPP either.

54. GAMLP publishes a public offer announcement (*Aviso de Oferta Pública*) with the terms and conditions of the bond to be issued, however few information is made available regarding the criteria for accessing the primary market. There is no information on how and timeframe for interested investors present their bids, the date of the issuance opening window, etc. The announcement just informs the broker responsible for the issuance, placement and complementary prospect elaboration, as well as the need for investors to be registered at the Securities Depositary Entity (*Entidad de Depósito de Valores – EDV*) system.

55. DFAF does not periodically meet with market participants to exchange views on borrowing plans and the domestic market, except in the case of specific purposes. Prior to a bond issuance, the government goes in a roadshow with its hired broker, but this interaction tends to be very scattered considering the low issuance frequency. General Assemblies with bond holders are, however, annually held with an important exchange of information, including government fiscal situation.

56. Considering identified gaps in the procedure's manual for domestic borrowing, as well as the room for improvement on the publication of criteria for investors accessing the primary market, the score is a D. However, it is important to note the great practices of having a detailed procedures manual formally updated on annual basis, as well as the elevated transparency of the information disclosure of bonds issuances on the assemblies with bond holders, and regulatory requirements associated to these issuances.

DPI 8 - External Borrowing

DPI	Score
8.1 - Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan	**D**
8.2 - Availability and quality of documented procedures for external borrowing	**D**
8.3 – Availability and degree of involvement of legal advisers before signing of the loan contract	**A**

DPI 8.1 - Documented assessment of the most beneficial or cost-effective borrowing terms and conditions and a borrowing plan

57. GAMLP does not borrow from external sources unless on-lent from the Central Government (CG). Negotiations for external debt are done by the Vice-ministry of Public Investment and External Financing of the Ministry of Planning and Development (VIPFE-MPD). Even though in this case assuming a liability against the CG, the authorization and hiring process is very similar to the one followed in the case of domestic loans hired with the banking sector, and follows the steps below:

1) the Municipal Council authorizes the commencement of negotiations and the entering into direct local indebtedness;

2) negotiations with potential lenders are done by VIPFE-MPD[17];

3) the Municipality requests from VTPC the CRIOCP;

4) the operation is sent to the line Ministry to issue the sectoral prioritization;

5) the CRIOCP is issued if the Municipality's debt indicators are within limits established by law, as referred before;

6) negotiations of debt agreements are finalized, a Supreme Decree is issued authorizing the execution of the debt agreement, and the debt agreement is executed;

7) the legal agreement is approved by National assembly through a law;

8) a subsidiary agreement is executed between the Ministry of Planning and Development (MPD), Ministry of Economy and Public Financing (MEFP) and the Municipality;

[17] See DPI 8.3 for more details on the participation of GAMLP in the negotiation process.

9) the subsidiary agreement is sent to the Municipal Council for its approval.

58. An annual borrowing plan for external borrowing is not prepared. Considering that external financing must be fully used to project financing, that the CG is the one directly seeking for loans with potential creditors (and approving the borrowing request), and the somehow cumbersome and slow approving process, GAMLP needs to deal with considerable uncertainty to design an ABP. In any case, the development, formal approval and publication of such a plan will enhance transparency, and periodical reviews within year can (and should) be done in case initial plans are not to be materialized.

59. Assessment of the most beneficial or cost-effective terms and conditions for external borrowing that can be obtained by potential creditors does not apply under the current limited environment that GAMLP operates. Restriction to external borrowing only through on-lending with no participation of the municipal government on the definition of terms and conditions makes this assessment meaningless.

60. The absence of an ABP for external borrowing results in a "D" score for this dimension. The lack of periodic assessment of the terms and conditions obtained by potential creditors is not considered in the assessment, given the current legal and administrative arrangement to limit external borrowing through on-lending.

DPI 8.2 - Availability and quality of documented procedures for external borrowing

61. The MPP of Credit Public System includes procedures for external borrowing authorization, registering and hiring, and is formally updated on annual basis. However, the manual is silent on the maximum time lag to entering terms and conditions into the debt recording system. The Central Bank of Bolivia registers the new loans at *Sistema Integrado de Operaciones de Deuda Externa* - SIODEX (see DPI 11) and *Sistema de Gestión y Análisis de la de Deuda Externa* - SIGADE[18] and DFAF also have a two-folded registration process: the Directorate registers the loans at *Sistema de Administración e Información de la Deuda Subnacional* - SAIDS (managed by MEFP) and at S*istema de Gestión y Administración de la Deuda Municipal* - SIGADEMU (its own in-house system).

62. The need to enforce a limited time lag of 3 weeks for new external loans registration results in a "D" score. The comprehensive and updated MPP would entail a score A to GAMLP, however the procedures manual needs to include the referred requirement for a score improvement. It is also worth noting that MPP is annually updated on a pre-defined timeframe.

DPI 8.3 - Availability and degree of involvement of legal advisers before signing of the loan contract

63. A legal expert from GAMLP participates in the negotiation process between the CG and the external borrower for the loans to be on-lent to the municipal government. The participation of this

[18] According to article 5 of *Resolucion de Directorio Nº 123/2010 (Reglamento para el registro de la deuda externa pública de Bolivia*).

legal representative is registered in meeting minutes shared with the mission team, occasions when they are given the opportunity to comment on the clauses of the legal agreement.

64. **A legal opinion for negotiation opening and another one for the subscription of the subsidiary agreement between the CG and GAMLP are issued by SMFIN legal advisor.** Both documents mostly touch upon the legal compliance/authorization of GAMLP on engaging in the new external debt.

65. **The score for this indicator is an "A" considering that legal advisors are consulted from the first stage of the negotiating process to the conclusion of the legal agreements related to the external debt on-lent from the CG to GAMLP.**

DPI 9 - Guarantees, On-lending, and Debt-related Transactions

DPI	Score
9.1 - Availability and quality of documented policies and procedures for approval and issuance of loan guarantees	**NA**
9.2 - Availability and quality of documented policies and procedures for approval and issuance of SNG on-lending	**NA**
9.3 - Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives	**NA**

DPI 9.1 - Issuance of loan guarantees

66. **The legal framework for the GAMLP does not provide authorization for the issuance of government guarantees to municipal related entities**. Current interpretation of Law 2042 of 1999 (Article 13) restricts the authorities to grant guarantees to government related entities. The SMFIN follows the financial conditions of SOEs and other government related entities and is aware of current low creditworthiness of such entities, which would prevent them to issue guarantees even if the legal framework were to support that[19].

67. **There are no outstanding guarantees nor has been any transaction in the past, which confirms that guarantees cannot be legally issued. The score is not applicable "NA".**

[19] Although Law 1178/90 and corporate statues of municipal SOEs theoretically allow those entities to borrow backed by guarantees, SMFIN is not allowed to undertake such transactions given the current understanding of Law 2042 of 1999.

DPI 9.2 - On-Lending Operations

68. Analogous to the case above, the legal framework does not allow the GALMP to undertake on-lending credit to municipal related entities. **There is no outstanding on-lent credit nor has been any transaction in the past. The score is not applicable "NA".**

DPI 9.3 - The Use of Derivatives

69. The DFAF has not conducted any derivative transactions. Furthermore, there is no intention to use such instruments in the near future, the score is NA.

4.4. Flow Forecasting and Cash Balance Management

DPI 10 - Cash Flow Forecasting and Cash Balance Management

DPI	Score
10.1 - Effectiveness of forecasting the aggregate level of cash balances in SNG bank accounts	B
10.2 - Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in SNG bank accounts (including the integration with any domestic debt borrowing program, if required)	D

DPI 10.1 - Cash Flow Forecasting

70. Cash flow estimates are updated monthly by the Municipal Treasury Directorate – DTM (*Dirección del Tesoro Municipal*) and covers the totality of municipal government expenditures and revenues. The municipality does not have parafiscal structures such as off-the-budget funds (*fideicomisos*). The flow of revenues and expenditures are fully captured through the PFM system (SIGEP). In the last 5 years, on average, about 50 percent of the revenues come from the municipality's own base, consisting of taxes; patents; fees and contributions; and services offered to the public. On the other hand, around 40 percent come from constitutional transfers from the central government. Due to existing legal controls to borrow, below the line financing cannot cover eventual revenue losses (see DPIs 1.1 and 7.1). The wage bill and other current expenditures correspond to the largest share of spending, while debt service in the last 5 years accounted on average for around 6.1 percent only. GAMLP holds a Treasury Single Account in a national state-owned bank- *Banco Unión*.

71. The main inputs for the estimates are based on past time series, while expected changes in behavior are informed by the main spending units, municipal agencies and the internal revenues service. The DTM was formally created in 1H21, kicking off its activities in 2022, and rapidly started to produce monthly cash flow estimates for the whole fiscal year, which are broken down by week for the next month. The DTM uses historical data to calibrate the estimates initially set by the budget, and whenever there are significant shortfalls in the revenues side, fiscal programing constraints expenditures to respect budget limits. Updated forecasts are presented monthly to a fiscal programming committee which includes the central bank (BCB) and the Ministry of Finance.

72. Estimates are reasonably reliable and the deviation between estimates and observed values pointed to roughly 15% in the past 12 months. Although the time series for expected revenues and expenditures are relatively short, the DTM shared evidence showing that each type of revenue, which consist mostly of 11 sources, are relatively stable.[20] Expenditures are tracked in detail, and for each of them financial limit (*cuotas de caja*) conditional to the performance of revenues is assigned. They are broken-down by 57 spending units following pre-defined budgetary coding by program.

73. Cash flow estimates are updated monthly, and cover all revenues and expenditures, and are broken down by month for the next 12 months, and further broken down by week for the following month. Estimates are reasonably reliable, and the score is a "B". It can't be an A because cash flow projections are not further broken down by day for the following month.

DPI 10.2 - Cash Balance Management

74. The government has a Treasury Single Account (TSA) held at *Ban*co *Unión* but the government does not earn any interest rate on the cash balance. Article 4 of the Law 331/12 (*Ley de Entidad Pública Bancaria*) requires all public sector units to keep their accounts at *Banco Unión* and municipal governments are not authorized to invest outstanding cash balances, considering the lack of specific regulation for this purpose.

75. There is good coordination between cash management and debt management but that is limited to the incorporation of debt service estimates in the complete cash flows. Short-term bills (like any debt instrument) cannot not be used to close the gap between revenues and expenditures, which leaves the DTM with limited room to provide the correct amount of cash at the right time to the spending units that need the most. It is impractical to set a credible cash balance target because the GAMLP currently does not have the appropriate tools to meet the target. However, the Treasury department informally keeps a cash reserve seeking to cover one month ahead (of total expenditures) while implementing the financial programming. The Treasury monitors the revenues performance and adjustments on financial execution are mostly done by freezing, or postponing, or canceling spending.

76. Considering that the TSA is not remunerated, and that the government cannot use short-term bills to manage cash balances, the minimum requirements are not met, and the score is a "D". For a "C" score, the government should earn market-base interest rates on the TSA.

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[20] Current transfers from the central government to fund the health system have observed a break in the historical trend due to changes in the rule for that particular revenue.

4.5. Debt Recording and Operational Risk Management

DPI 11 - Debt Administration and Data Security

DPI	Score
11.1 Availability and quality of documented procedures for the processing of debt-related payment	B
11.2 Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records	D
11.3 Availability and quality of documented procedures for controlling access to the SNG's debt data recording and management system and audit trail	D
11.4 Frequency and off-site, secure storage of debt recording and management system backups	D

DPI 11.1 Availability and quality of documented procedures for the processing of debt-related payment

77. A processes and procedures manual for payments is available and updated each year. To initiate the payment process, the Director of Financing and Financial Analysis sends the public credit unit (back office - *Unidad de Crédito Público y Seguimiento al Financiamiento*) a copy of the debt service schedule for internal debt payments. In addition, all relevant information related to each creditor is included in the documents received. The entire process is first revised by a technical staff within the public credit unit, a technical report is prepared, second, the unit chief validates the payment and finally the director of DFAF approves the payment. In practice, there is a three-step validation process in place.

78. All payments are validated, confirmed, and recorded in the debt management recording system, *Sistema de Administración e Información de la Deuda Subnacional* (SAIDS). In addition, all debt payments are registered in two other systems, S*istema de Gestión y Administración de la Deuda Municipal* (SIGADEMU) and *Sistema de Gestión Pública* (SIGEP). Debt payments are registered in all three systems and all debt obligations are paid in due time. Also, payment requests are checked against internal records. The entire payment cycle takes 20 days, this applies to both internal and external debt operations.

79. A similar process is followed for domestic payments related to bond issuance. However, before each payment, the DFAF receives payment information related to bond holders from the Securities Deposits Entity. In addition, bond holders must send a formal letter to GAMLP requesting principal and coupon payment, a few days before payments are due[21]. Once the payment request is validated and

[21] This is a cumbersome process not aligned with sound international experiences where investors receive the due payments with no need to priorly request them. The Clearing, Settlement and Depositary (CSD) entity acting as a government agency is the one identifying the current holders and informing the payment agent to make the payments upon the issuer's authorization.

confirmed, an authorization for payment is issued from DFAF to the correspondent bank. All payments are prepared electronically and are made in real time, T+0.

80. **External debt service payments are initiated at the back office and are subjected to a three-person authorization process.** A processes and procedures manual is available to guide the activities required to make external payments, and the manual is updated each year. To initiate the payment process, the public credit unit (back office) receives a copy of the debt service schedule for external debt payments, from the director of DFAF. In addition, all relevant information related to each creditor is included in the documents received. The entire process is first revised by a technical staff within the public credit unit, a technical report is prepared, second, the unit chief validates the payment and finally the director of financing and financial analysis approves the payment. All payments are generated and confirmed in the *Sistema Integrado de Operaciones de Deuda Externa* (SIODEX), system operated by the Central Bank of Bolivia.

81. **All external debt service payments are validated, confirmed, and recorded in the subnational debt management and information system, SAIDS**. Also as mentioned above, all debt payments are registered in two other systems, SIGADEMU and SIGEP. Debt obligations are paid in due time, and are also checked against internal records. Also, the central bank has a system called SIODEX that records the operations.

82. **As described above, a processes and procedures manual for both internal and external debt payments are updated each year.** In addition, there is a three step-validation for all debt-related payments. Moreover, payment orders are prepared electronically but payments are not executed by a straight-through processing, a requirement needed to achieve the highest score. The score assigned is "B".

DPI 11.2 Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records

83. **Ministerial Resolution Nº 315 (8/8/2011) issued by the Ministry of Economy and Public Finance, approved in 2011, that defines the role and responsibilities for those involved in the administration and usage of the debt management system, SAIDS.** Article 6 of the regulation defines the following obligations that should be registered in the system:

- Bonds issued by the national treasury
- Municipal bonds
- Debt contracts
- Real state contracts
- Loan agreements
- Loan repayment agreements
- Debt recognition agreement
- Debt restructuring agreements

- Subsidiary agreements
- Letters of exchange
- Other debt-related transactions

84. Article 7 of the resolution states that all debt obligations detailed inn Article 6, with maturities longer than one year, should be recorded in the debt recording system. The implementing agency is responsible for this task.

85. There is a user's manual (*Manual del Usuario del SAIDS)* in place that describes all the steps required for the registration of all new debt. All relevant information needs to be incorporated, such as financial conditions and legal information. In addition, all inputs have to be created, validated and approved by at least three people.

86. The processes and procedures manual (*Manual de Procesos y Procedimientos – Sistema de Crédito Público – Gestión 2022*), approved annually, has a detailed description of steps required to provision for future debt service payments. To initiate this process, the Finance Secretary of the Municipality sends a copy of the debt obligation, signed debt contract, to the Director of Financing and Financial Analysis. Within the directorate, the documents are revised and validated by the public credit and financing monitoring unit head and his technical staff. Based on the information received, a projected cash flow is prepared for the next three months, the funds are accumulated daily in a special account denominated *Cuenta Adminstración del Servicio de la Deuda.* This account is solely used to accumulate funds for debt-related obligations.

87. Based on the information reviewed and based on monthly reports available, it can be implied that all debt-related transactions are recorded in the debt management system. In addition, the processes and procedures manual clearly state that all debt obligations are sent to the Directorate of Financing and Financial Analysis. The current subnational DeMPA methodology requires a procedures manual to be in place in relation to debt data recording and validation. At the time of the mission, this procedure was not available. In addition, the procedure should include a section in reference to the storage of debt instruments and debt administration records. Given the current practice followed, the score assigned is "D". To improve the score, a process related to debt data recording and validation should be included in the processes and procedures manual approved each year. The process should include domestic debt, including bond issuance, external and any debt-related transaction.

11.3 Availability and quality of documented procedures for controlling access to the SNG's debt data recording and management system and audit trail

88. Within the local municipality, the SAIDS is the main debt management system used to administer debt-related operations. It should be mentioned that the SAIDS is administrated by the MEFP, and the local municipality is a user. To access the system, users need a username and password, both are assigned by the technical support team from the information system department. In addition, all debt-related transactions are registered in two other systems, SIGADEMU and SIGEP. It was communicated to the mission that all three systems contain the same information. Also, a fourth system is used to administer the external debt within the Central Bank of Bolivia (SIODEX).

89. The roles and responsibilities for the use of the systems are defined according to job descriptions. Evidence was provided that audit trails are allowed in the SAIDS system. The audit trail allows for the administrator, the MEFP, to view all the changes made by the user.

90. Debt related bulletins and debt related analysis are extracted from the debt management system. According to the user's manual for SAIDS, the system is able to generate the following reports:

- Total disbursements
- Total debt stock
- Total debt service
- Aggregated reports

91. According to the information described by the authorities during the mission, the municipality has a process in place to create a user profile for all users. Once the profile is created, users can access the systems and perform certain tasks depending on their roles and responsibilities. Currently, the subnational DeMPA methodology requires (to meet the minimum requirement) that a procedure's manual for controlling access to the subnational government's debt recording and management system is in place. A user's manual for SAIDS was provided but the methodology specifically indicates that a user's manual is not sufficient to comply with the requirement. A procedures manual to access the system would have to be in place to meet this indicator. Therefore, a score of "D" is assigned. To improve, a process can be incorporated into the processes and procedures manual that is updated yearly. In addition, once incorporated, the maximum score could be obtained since the SAIDS does allow audit trails to be conducted.

11.4 Frequency and off-site, secure storage of debt recording and management system backups

92. The debt management system used by the local municipality, SAIDS, is backed up on a monthly basis by the municipality. According to the information provided, digital copies of GAMLP's information inserted in the system are stored in a server room on another floor within the same building. The server room has the minimum requirements needed to secure the information stored. For example, access is limited, the room temperature is controlled, and the room is protected against fire and flooding.

93. As stated above, the SAIDS is administrated by the MEFP so backups are possibly done more regularly. In addition, it was informed that MEFP's backups of the system are stored in a separate location outside of the Ministry's main building. It was communicated that the system is backed up frequently and stored at the Controller's office. At the time of the mission, this information could not be confirmed.

94. Current practice followed by the municipality complies for the most part with the requirements outline in the methodology. Backups are made monthly and are kept in a safe location and secure server room. Access to enter server room is controlled and monitor. Despite the good practices followed, backups are not in a separate location, a requirement that needs to be met to obtain the minimum score.

Therefore, the score assigned is "D". If evidence can be obtained from the administrator in relation to the frequency of backups and server room location, then the score could improve. Finally, backups need to be tested to assure the information can be used in case of an incident.

DPI 12 - Data Segregation of Duties, Staff Capacity, and Business Continuity

DPI	Score
12.1 -Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function	**C**
12.2 Staff capacity and human resource management	**C**
12.3 Presence of an operational risk management plan, including business continuity and disaster recovery arrangements	**D**

DPI 12.1 - Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function

95. Within the DFAF, there is clear separation between those who initiate debt negotiations (*Unidad de Análisis Económico y Financiero - Front Office*) and those in charge of entering the contracts information into the system (*Unidad de Crédito Público y Seguimiento al Financiamiento - Back Office)*. Additionally, payments are initiated by the back office.

96. The DFAF is the division in charge of all debt-related transactions. As mentioned above, the division has two key areas that undertake all debt management activities. The front and middle office are under the umbrella of *Unidad de Análisis Económico y Financiamiento* and the back office is under the U*nidad de Crédito Público y seguimiento al financiamiento*.

97. Given the current structure in place, there is a clear division of the responsibilities within the DFAF, therefore, the score obtained is "C". To improve the score, the methodology requires a person within the DFAF to undertake the role of risk monitoring and compliance. Additionally, to obtain the highest score, a separate unit would need to be placed to undertake the risk monitoring and compliance task.

DPI 12.2 - Staff capacity and human resource management

98. Currently, the DFAF has adequate personnel to undertake all debt-related transactions. Personnel within the division are well trained and have been with the municipality for some time. During the mission, it was evident that all personnel interviewed had the experience and the knowledge to perform their debt functions without any delay.

99. The personnel in the DFAF have proper job descriptions which are approved every year. Human resources Directorate prepares an annual operations program for each position (*Programa Operativo Anual Individual - POAI*). The program encompasses the following information:

- Identification of the position
- Description of the position
- Requirements for the position

100. There is a code of ethics approved and implemented within the municipality. In 2001, the mayor approved a municipal ordinance that contained the code. All the personnel within the municipality have a copy of the code and in practice it is followed. The objective of the code is to institutionalize the values, principles and ethical norms. Article 10 of the code states that all employees have to accept and follow the code, which is part of the contractual agreement between the employer and employee.

101. Personnel from the DFAF are evaluated each year by the human resources department. The evaluation process is well established by an municipal order approved in 2008 and a supreme decree from 2001. The document presented to the mission contains a detailed list of capacity building areas. Currently, the plan does not include debt management activities.

102. Current practices followed by the municipality comply with the minimum standard required by the methodology, therefore a score of "C" is assigned. The annual evaluation process for all the personnel meets the highest standard but to move from the current score to the next level (B) the personnel would have to be trained every second year in the code of ethics. Also, conflict-of-interest guidelines would have to be in place.

DPI 12.3 - Presence of an operational risk management plan, including business continuity and disaster recovery arrangements

103. There are no business continuity and disaster recovery plans available at the local municipality. It was communicated during the mission that during the pandemic personnel from the DFAF were able to work from home without any interruptions. During the mission, the IT Director was fully aware of the challenges faced within the local municipality. Alternative sites were being considered to assure the continuity of business operations, but budget restrictions prevail.

104. A business continuity plan and a disaster recovery plan are not in place; therefore, the score is "D". Formal plan needs to be prepared and tested successfully to improve this score.

DPI 13 – Debt and Debt Related Records

DPI	Score
13.1 - Completeness and timeliness of SNG records on its debt, loan guarantees, and debt-related transactions	A
13.2 Complete and up-to-date records of all holders of SNG securities in a secure registry system, if applicable	A

DPI 13.1 - Completeness and timeliness of SNG records on its debt, loan guarantees, and debt-related transactions

105. All debt-related operations are registered in a debt management system within a one-month lag. The local municipality keeps its debt records in the SAIDS and SIGADEMU. Within the SAIDS, there are domestic and external debt recordings. External debt records correspond to subsidiary agreements signed between the municipality and the MEFP. Currently, there are no direct contracts with external creditors. At the time of the mission, the records were complete and debt reports are prepared using updated information from the system. The information available is produced within one-month lag.

106. Debt service projections and debt indicators are produced using the information from the subnational debt management system (SAIDS[22])[23]. These indicators are presented in the monthly debt bulletins. Also, the financial dossier recently updated extracts information from the SAIDS. Based on information obtained from the authorities, all debt-related transactions are recorded in the system (SAIDS), including new contracts, disbursements and payments, for example. To provide the mission with some evidence, the authorities presented a screen shot of the stock of debt register in the system.

107. Current practice followed by the municipality falls in line with the best practices. The score assigned is "A", considering that there are complete debt records within a one-month lag

DPI 13.2 Complete and up-to-date records of all holders of SNG securities in a secure registry system, if applicable

108. Municipal bonds of GAMLP are issued in electronic form (dematerialized). The *Entidad de Depósitos de Valores* (EDV) – Securities Depositary Entity is the central custodian for these bonds. Before the due date of principal and interest payments, information is provided to SMFIN on the bond holders' identity. In addition, bond holders send a letter to the municipality to request payment. As mentioned during the mission, this is not a good practice to follow and could deter the appetite for new bond issuance.

109. It was informed that EDV provides clients with statements of their holdings at least annually. In addition, the DFAF also confirms debt holding on a yearly basis and is fully aware of the largest bond holders. The registry system managed by EDV meets the highest standard and it is deemed secure.

110. External and internal audits are conducted each year. Based on the external audits carried out each year several reports are produced. Financial and operational audits are part of these reports. In addition, an audit is performed on the debt management system that contains the information on the bond holders. Found that EDV's cyber platform was better than 93 percent of the total universe of those evaluated.

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[22] Sistema de Administración e Información de la Deuda Subnacional

[23] SIGADEMU allows for greater analytical work and is used to generate debt indicators.

111. **Payments to bond holders are made on a delivery versus payments (DVP) basis**. The authorities confirmed that all payments are made in T+0. Currently, bonds are dematerialized and payments have been made on the due date without any delays. Current practice meets the highest standard.

112. **Based on the available information and information provided by the authorities, the score assigned is "A".**

Annex 1: Staff met during the DeMPA mission (May 2022)

Name	Organization	Position
José Antonio Rivera	SMFIN	Secretary
Reynaldo Díaz Albarracín	SMFIN/DFAF	Director
Carlos A. Aramayo Chávez	SMFIN/DFAF	Back Office Head
Raul Sixto Mendoza Patiño	SMFIN/DFAF	Front/Middle Office Head
Rodolfo A. Siñani Arias	SMFIN/DFAF	Analyst – Back Office
Melissa Martínez Durán	SMFIN/DFAF	Analyst – Front/Middle Office
Miguel Angel G. Murillo	SMFIN/DFAF	Analyst – Front-Middle Office
Nestor Fabian Castro López	SMFIN/DFAF	Analyst – Back Office
Pamela Wendy M. Lelarge	SMFIN/DFAF	Analyst – Back Office
Constancia J. Espinoza Llanqui	SMFIN/ DGF	Director
Ruben Viscarra Siñani	SMFIN/DGF	Budget Analyst
Maria Eugenia Soria Sánchez	SMFIN/DGF	Accounting Unit Head
Antonio M. Saraiva Flores	CrediBolsa	General Manager - CEO
Katharine Von Borries	CrediBolsa	-
Roger Vásquez	HR	Director
Omar Sadud	HR	Legal Assistant
Mauro Rojas	DTIGA	Director
Richard Quispe Surco	SMFIN	IT Analyst
Maria del Carmen Rocabado	Mun. Planning Secret.	Secretary
Jacques Alcoba	Mun. Planning Secret.	Director
Claudia Córdoba	Internal Audit	Internal Auditor
Zenón Padilla	Internal Audit	Internal Audit Supervisor
Isabel Pantoja	EDV	General Manager (CEO)
Guido Franco	EDV	Legal Manager
Derry Morales	EDV	Operations Manager
Luis Alberto A. Lara	EDV	Integral Risk Manager
Javier Aneiva	BBV	General Manager (CEO)
Ana Maria Pacheco	BBV	Operations Central Manager