Chapter 2

Addressing the Trade-Related Constraints of Non-Graduates: A Focus on Facilitating Infrastructure Investments in Mozambique*

2.1 Introduction

For the best part of the past ten years, Mozambique has seen gross domestic product (GDP) growth exceeding that of the average for its income group. Much of this is attributable to investments in the extractives and oil/gas sectors. Nevertheless, significant levels of poverty, unemployment, regional and gender inequality and vulnerability to climate and environmental shocks remain. The good news is that the solution to many of these issues lies in the hands of the Mozambique government.

Mozambique can mitigate its susceptibility to external (exogenous) shocks by diversifying its export offerings. Agriculture employs the most people of all sectors yet has received much less foreign direct investment (FDI) than sectors whose contribution to GDP is less. If targeted investments were made to improve technology and capacity related to agriculture, linkages could be made to other sectors and within-sector value could be improved, such as through agro-processing. Such a strategy would have an appreciable effect, given that over 70 per cent of the population work in agriculture. It would also help reduce levels of poverty and improve resilience.

Mozambique's vulnerability to climatic and environmental changes could be reduced if it refocused its investment strategies on spending better – and not necessarily more. For example, development with resilience in mind could save on costly periodic maintenance and improve the quality of life of many, especially the most vulnerable. Although vulnerability is found primarily among those living in rural areas, urban areas should not be overlooked. This is because an increasing number of people are moving to the cities to increase their job prospects. Some of them live in informal dwellings that do not have the appropriate land registration and, in many cases, do not adhere to building codes.

In February 2018, in-country research was conducted in Mozambique on the country's framework with regard to infrastructure, – that is, policies, laws and regulations – with a view to developing a toolkit to assess the implications of this for the attractiveness of financing infrastructure investment projects. The framework confirmed that many aspects of Mozambique's infrastructure development processes/procedures have commonalities with those of other countries (Commonwealth and otherwise) and that the Principles of the Charter of the Commonwealth could be used as a basis to determine the extent to which the framework is effective. The mission was funded under the UK government's "kickstarter" programme with a focus on least developed country (LDC) transition.

The research obtained information and data from a number of sources, including:

- Meetings with representatives of a number of institutions (see Annex 2.1);
- World Bank Worldwide Governance Indicators, with 2016 as the most recent year;[1]
- World Bank Doing Business Report 2016;
- International Monetary Fund (IMF) Capital Account Openness 2016;[2]
- World Economic Forum (WEF) Global Competitive Index 2017;
- World Bank Benchmarking Public Procurement 2017;[3]
- Institutional Profiles Database 2016;[4]
- World Bank data;[5]
- Various laws/regulations and policies of Mozambique.

The first step in assessing the implications of the infrastructure framework for attracting financing involve identifying the key components of infrastructure to be assessed and the means of doing this. For this purpose, the Global Infrastructure Hub (GIH) InfraCompass toolkit was employed.[6] InfraCompass takes into account six assessment categories:

1 **Governance** – institutional, governance and legal environment for infrastructure investment;

2 **Regulatory** – openness to investment and the extent to which regulation and competition frameworks support infrastructure delivery;

3 **Permits** – efficiency of the planning and licensing procedures for the issuance of permits and acquisition of land required for infrastructure development;

4 **Plans** – ability of government to plan, coordinate and select infrastructure projects;

5 **Procurement** – extent to which procurement processes and bid management frameworks are standardised, transparent and non-onerous to bidders;

6 **Delivery** – track record of delivery and quality of infrastructure assets.

Modifications were made to InfraCompass to remove evaluation criteria that made reference to Organisation for Economic Co-operation and Development (OECD) data, since these would not be applicable to non-OECD countries such as Mozambique. Meanwhile, two additional categories were included:

7 **Contingent liability and state-owned entity** – effectiveness of risk management framework for contingent liabilities deriving from state-owned entities as well as natural disasters;

8 **Macro-economics and financial market development** – financial stability, depth/efficiency of domestic market, debt sustainability and levels of financial innovation.

Application of the GIH toolkit to Mozambique, a Commonwealth LDC, is detailed later in this case study. The rest of the case study is organised as follows: Sections 2.2 and 2.3 provide an overview of salient factors and key macro-economic and demographic indicators in Mozambique. Section 2.4 looks at the public and private sector and the environment supporting investments. Section 2.5 discusses issues related to debt management and Section 2.6 the effectiveness of local content in Mozambique. Section 2.7 reviews the importance of building for resilience and Section 2.8 the depth of the financial market. Section 2.9 provides an overview of the rule of law and its relevance to infrastructure development. Section 2.10 offers a rationale for the development of a Commonwealth Charter for Infrastructure Development (CCID). Section 2.11 concludes.

2.2 Country overview

Mozambique lies in south-eastern Africa between South Africa and Tanzania, and also borders Malawi, Swaziland, Zambia and Zimbabwe. Approximately 67 per cent of the population (as of 2016) live in rural areas and the population was around 28.8 million as of 2016.[7] The country's endowments include a relatively large agricultural land percentage,[8] natural gas, oil, coal, mineral sands and hydropower.

The UN classifies Mozambique as an LDC because of its severe structural impediments to sustainable development. The country is highly vulnerable to economic and environmental shocks and has low levels of human assets. Mozambique ranks as having low human development (a value of 0.418), with a Human Development Index ranking of 181 of 188 countries (UNDP, 2016). World Bank data suggest the literacy rate is around 50.6 per cent.

Table 2.1 presents the sectors contributing the most to GDP. Agriculture is a large contributor not only to GDP but also in terms of the percentage of the labour force employed, which accounted for 75 per cent as of 2017 (Balchin et al., 2017). Employment in services accounted for 21 per cent, and industry/manufacturing for 4 per cent.

Approximately 60 per cent of exports are attributable to aluminium smelting, natural gas and coal production and heavy sands mining (UNDP, 2016). This suggests Mozambique is not diversified in its export offerings, as there is concentration across just a few sectors.

Table 2.1 GDP contribution of main sectors

Sector	Percentage of GDP
Agriculture including livestock, hunting, forestry and fisheries	25.2%
Industry/manufacturing	21.5%
Services	53.3%

Source: WTO (2017).

2.3 Macro-economics and demographics

Over the period 2010-2014 (and even before), GDP per capita growth was over 7 per cent, the result mainly of export-driven mega-projects,[9] primarily within the extractives industry. Infrastructure (specifically transport) has been built to facilitate access to and from these mega-projects to neighbouring countries. However, there has been less in the way of infrastructure development for rural areas. This means that many in the population derive little benefit from the improved transport infrastructure, which also limits their competitiveness.

The population growth rate has averaged around 2.9 per cent per annum and both per capita GDP and gross national income (GNI) (at current prices) have trended downwards over the past few years. This owes in part to falling commodity prices and the effects of regional drought but also to a falloff in FDI and official development assistance (ODA) following Mozambique's revelations of US$1.4 billion of undisclosed debt and subsequent default on part of its external debt obligation.

Unemployment remains stubbornly around 25 per cent of the total workforce as of the end of 2016, despite the mega-project investments. Further, the informal economy, which is estimated at between 68 and 95 per cent of the total labour force, absorbs many of the new entrants to the labour market on an annual basis (Balchin et al., 2017). Further, vulnerable employment[10] has remained at around 83 per cent.

Headline inflation was around 16 percent by July 2017, down from a high of 26 per cent as of November 2016, and the lending rate was around 27 per cent. These indicators will have had a negative impact on the affordability of domestic credit for both retail and micro, small and medium-sized entities.

Increasing current account deficits coupled with a slowdown in FDI/ODA and relatively low levels of reserves (especially in 2015, when reserves were less than three months of imports) have contributed to the depreciation of the metical. This has in turn contributed to an increase in the debt to GDP ratio.

2.3.1 Reliance on FDI

Analysis of FDI flows over the past few years shows that the ratio of FDI to gross fixed capital formation (GFCF) increased up to 2013 and dropped sharply from 2015, for reasons mentioned earlier. However, looking at the magnitude of the ratio (among other indicators) reveals that FDI was key to financing much of the infrastructure expenditure for 2012 through to 2015. As of 2015, mega-projects accounted for around 70 per cent of FDI inflows (Table 1.3 of WTO, 2017). An overview of selected macroeconomic indicators for Mozambique is provided in Table 2.2.

Table 2.3 provides details of a sample of private sector participation in infrastructure projects for Mozambique.

Table 2.3 provides a summary of a range of diverse infrastructure projects involving private sector participation in Mozambique based on data collected by the World Bank. It shows that public sector expenditure amounted to approximately 27 per cent of the total over the period shown in the table. Although just a sample, the table indicates that private sector participation (comprising mainly foreign investors) in

Table 2.2 Select macro-economic indicators in Mozambique

	2010	2011	2012	2013	2014	2015	2016
GDP at market prices (US$ millions)	10,154.24	13,131.17	14,534.28	16,018.85	16,961.13	14,798.44	11,014.86
Population ('000s)	24,221.41	24,939.01	25,676.61	26,434.37	27,212.38	28,010.69	28,829.48
Per capita GDP at current prices	419.23	526.53	566.05	605.99	623.29	528.31	382.07
GNI per capita (Atlas method) (current US$)	460	480	520	590	620	580	480
Unemployment, total (% of total labour force), ILO	23.5	23.3	22.6	23.3	25.3	25.3	25
Inflation (CPI, % change)	12.70	10.35	2.09	4.21	2.29	2.39	9.97
Official exchange rate (Mt/US$) period average	33.96	29.07	28.37	30.10	31.35	39.98	63.06
Total reserves in months of import	5.21	3.89	2.82	3.20	3.24	2.81	3.13
Broad money to total reserves	1.73	1.91	2.11	2.14	2.62	3.23	2.69
Short-term debt to total reserves (%)	26.64	10.12	11.63	21.44	13.60	29.19	34.76
FDI (% GDP)	12.39	27.90	38.77	41.81	29.47	26.14	28.40
Domestic credit to private sector (% GDP)	24.33	23.29	24.52	28.19	32.00	35.11	34.50
Net ODA (% GNI)	19.80	15.96	14.30	14.49	12.57	12.52	14.23
Net ODA and official assistance (current US$ millions)	1,943.13	2,065.47	2,071.70	2,312.70	2,106.01	1,814.74	1,531.40
Concessional debt (% of total external debt)	72.00	78.89	77.58	68.94	71.32	66.65	69.48
Lending interest rate (%)	19	19.07	15.53	14.88	14.68	16.27	27.04
Vulnerable employment, total (% total employed)	83.80	83.60	83.40	83.10	82.90	82.60	82.5
Poverty headcount ratio at national poverty lines (% of population)					46.1		
GFCF (current US$)/GDP (current US$) (%)	107.13	73.01	40.58	36.68	28.84	38.37	67.72
FDI/GFCF (%)	11.57	38.22	95.54	113.98	102.19	68.13	41.94

Source: Data: https://data.worldbank.org/country/mozambique

Table 2.3 Top private sector participation of infrastructure projects

Project	Sector	Amount (US$ millions)	Year of closure	Private %
Nacala Corridor	Rail/Port	2,730	2017	100%
South Africa Gas Pipeline	Energy/Gas	1,200	2003	50%
Movitel	Telecoms	494	2010	100%
N4 Toll Road Mozambique–South Africa	Roads/Toll	426	1997	100%
Vodacom Mozambique	Telecoms	393	2003	100%
Ressano Garcia Gas-Fired Plant	Electricity	200	2014	100%
Telecomunicaçoes Móveis de Moçambique	Telecoms	160	1997	26%
Companhia dos Caminhos de Ferro da Beira	Transport/Rail	153	2004	51%
Maputo Port	Ports	150	2003	51%
Kuvaninga Energia Power plant	Electricity	99	2013	100%
Mucuba Solar PV Plant	Electricity	84	2017	52.50%

Source: https://ppi.worldbank.org/

infrastructure projects is very high (from a financial contribution perspective) in comparison with public sector contributions.

Table 2.4 provides details of bilateral and multilateral support for the various projects. Private sector investment far exceeds the amount of support provided by both multilateral and bilateral providers of financing.

2.3.2 Poverty

Results of the fourth national poverty assessment released by the Ministry of Economy and Finance in 2016 indicate that poverty incidence had reduced by 5.6 per cent to 46.1 per cent at the national level.

Table 2.4 Details of multilateral/bilateral support (US$ millions)

Project	Multilateral loans	Multilateral guarantees	Bilateral loan
Nacala Corridor	N/A	N/A	N/A
South Africa Gas Pipeline	230	102	0
Movitel	0	0	0
N4 Toll Road Mozambique–South Africa	0	0	0
Vodacom Mozambique	0	0	0
Ressano Garcia Gas-Fired Plant	0	0	0
Telecomunicaçoes Móveis de Moçambique	0	0	0
Companhia dos Caminhos de Ferro da Beira	110	0	0
Maputo Port	0	7	0
Kuvaninga Energia Power plant	0	0	23
Mucuba Solar PV Plant	63	0	0

Table 2.5 Poverty headcount (P0 measure) using the PLEASe methodology (%)

Area	IAF96	IAF02	IOF08	IOF14
National	69.7	52.8	51.7	46.1
Urban	61.8	48.2	46.8	37.4
Rural	71.8	55.0	53.8	50.1
North	67.3	51.9	45.1	55.1
Centre	74.1	49.2	57.0	46.2
South	65.5	59.9	51.2	32.8
Niassa	71.9	48.3	33.0	60.6
Cabo Delgado	59.1	60.3	39.0	44.8
Nampula	69.4	49.1	51.4	57.1
Zambezia	67.6	49.7	67.2	56.5
Tete	81.9	60.5	41.0	31.8
Manica	62.4	44.7	52.8	41.0
Sofala	87.8	41.3	54.4	44.2
Inhambane	83.0	78.1	54.6	48.6
Gaza	64.8	55.4	61.0	51.2
Maputo Province	65.6	59.0	55.9	18.9
Maputo City	47.1	42.9	29.9	11.6

Source: WIDER (2016).

Table 2.5 indicates that poverty reduction has not been equitable across the country, with urban areas benefiting from a larger reduction (9.4 per cent) than that experienced by rural (only 3.7 per cent). There were also stark differences in poverty reduction between the north, south and central regions, with improvements in the south and centre but deterioration in the north. Notwithstanding the overall improvement in poverty incidence, absolute numbers of people in poverty remain fairly constant, at approximately 11.3 million.

The above results suggest that, while reductions in poverty may have been achieved in various parts of the country, inclusive growth still eludes Mozambique as a whole.

2.3.3 Gender issues

The adult literacy rate for females is around 36 per cent and that for males around 67 per cent.[11] Regional inequality levels in poverty reduction discussed earlier mean women are more vulnerable than men in various parts of Mozambique (as well as in general).[12]

There are no specific gender equality laws in Mozambique or laws that speak to discrimination in the workplace or access to employment. Given the increased vulnerabilities of women and the fact that the majority of investments are in infrastructure (which employs far fewer women), there is a need for policies/initiatives that are geared towards ensuring more inclusive and equal treatment of women.

2.3.4 Youth

Data from the World Bank suggest that around 10 per cent of the youth population[13] are not in education, employment or training. Further, around 42 per cent are unemployed.[14] These youth are at risk of social exclusion if nothing is done to improve their chances of employment. The government's National Youth Policy (NYP) aims to address this issue by facilitating the mainstreaming of youth issues into wider government policies. Full details of the NYP implementation plan have yet to be finalised and released. What is clear is that it is necessary to link youth training to strategic areas of growth to enable Mozambique to capitalise on opportunities to transition into sectors/sub-sectors with greater value added.

2.4 The private and public sectors

The private sector contribution to GDP stands at around 65 per cent, compared with around 84 per cent for developed countries (Santos et al., 2017). Less than 0.1 per cent of business enterprises in Mozambique are medium-sized (employing between 50 and 100 workers). Further, less than 8 per cent of the population are employed in enterprises that are either small or micro-sized. With such low numbers employed in the formal sector, the sustainability of private sector growth could prove a challenge.

At present, there is no national code on corporate governance that is applicable to both public and private sector enterprises.[15] It has long been generally accepted that investors tend to prefer investing in countries with good corporate governance, as information asymmetries are reduced and financial returns are less volatile, which in turn improves access to lower-cost finance.

A proxy for private sector access to credit is given by domestic credit to the private sector (percentage of GDP). Table 2.2 shows that this figure was around 35 per cent at the end of 2016 – appreciably less than for the Southern African region (45.6 per cent)[16] although higher than for LDCs (27.5 per cent). Such a low level is indicative of correspondingly low levels of private sector participation (via domestic credit) in infrastructure projects.

The lending rate was around 27 per cent at the end of 2016, reducing to 19.5 per cent at the end of 2017. Although the latter trend in interest rates is moving in the right direction, the level of the rates may act as a deterrent to borrowing in the local markets and provide a comparative advantage to entities that are able to borrow in foreign currency (from overseas sources). This is particularly relevant for projects that require financing (e.g. costs of imports) in foreign currency and where revenue sources are also in foreign currency. Given local capacity constraints and the structure of micro, small and medium enterprises (MSMEs) (i.e. very few with more than 50 workers), it is more likely that foreign companies will benefit from the current monetary policy framework, resulting in the prevailing interest and foreign exchange rates.

In recognition of the various issues highlighted above, the government has developed the National Financial Inclusion Strategy 2016-2022. This sets three financial inclusion measures for 2022: 1) 60 per cent of the population having access to financial services offered through a formal financial institution; 2) 100 per cent of

districts with at least one access point to formal financial services; and 3) 75 per cent of the population with one financial service access point within 5 km of their place of work or residence. At the time of writing, details were not available as to levels of achievement of these measures.

In April 2013, Mozambique passed Law 10/2013 (the Competition Law) to provide a framework for the management of competition. This law also created the Competition Regulatory Authority (CRA) as the enforcement authority. In 2014, the regulations supporting the law were developed. At present, the CRA is not fully operational, and its Board has not been constituted.

In relation to the public sector, it is understood that the government has taken steps to introduce a state-owned entity law and a decree to enhance the framework to contract public debt and issue guarantees (IMF, 2017). This latter initiative is in response to governance failures in relation to public sector enterprises, related to revelations (in April 2016) of undisclosed borrowings (backed by state guarantees) by Proindicus and Mozambique Asset Management (MAM). The combined borrowings of these entities amounted to a total of US$1.4 billion or around 11 per cent of 2015 GDP. Revelations about undisclosed loans ($0.85 billion) to a third state-owned entity, Ematum, had emerged earlier in 2014. It transpires that all three companies were headed by the same CEO and were incorporated just prior to the borrowings that took place. Following the news of the undisclosed borrowings, donor budget and other support measures reduced significantly; in the case of IMF, funds were suspended.

Given that much of the FDI invested in infrastructure projects in Mozambique is associated with state-owned entities, this failure of appropriate risk management (e.g. risks associated with contingent liabilities) and governance has had a negative impact on investor perceptions of the country's bankability. The ratio of FDI to GDP had more than halved at the end of 2017 to a value of around 12.1 per cent.

2.5 Debt policy

Standard & Poor's has assigned a credit rating of selective default for both Mozambique's long- and short-term debt. Moody's has assigned ratings of Caa3, with a negative outlook for the country's long-term foreign currency debt. These ratings were assigned in the aftermath of the undisclosed loans (and subsequent payment default) and have dropped from levels of B2 (negative) under Moody's and B- under Standard & Poor's in 2015.

The first default took place in May 2016 by MAM when it was unable to make a scheduled US$178 million payment (owing to the Russian bank VTB) and the government failed to step in. A subsequent default by MAM occurred in January 2017 when it failed to make a payment of $59.8 million, again to VTB. A third default then occurred in March 2017, when Proindicus failed to make a payment of $119.2 to Credit Suisse.

At the end of 2016, the sovereign debt to GDP ratio reached 128.3 per cent, of which domestic debt was around 24.6 per cent of GDP, and has been on the rise (IMF, 2017).

This increase in the use of domestic debt is a cause for concern (following reductions in FDI and ODA) as the level of interest rates is significantly higher than what would be obtained via concessionary financing and the maturity is much shorter (with most domestic debt having a maturity less than five years (USAID, 2017)).

The domestic debt market in Mozambique is in its infancy, and all government securities are listed on the Mozambique Stock Exchange (Bolsa de Valores de Moçambique (BVM)). As of September 2017, outstanding government debt securities to GDP were around 4 per cent, with the most liquid component being the Treasury bill, with sizes of US$10–20 million issued the first two Wednesdays of every month (BVM, 2017). The maximum maturity of the bills is one year.

The primary underwriters of government securities (primary dealers) typically hold on to debt securities (i.e. a hold to maturity strategy), which implies there is little to no secondary market trading. Given the relatively short maturity of government securities as compared with the length of infrastructure projects (which can exceed 20 years), the government is exposed to refinancing risk, as it is required to roll over its domestic debt quite frequently.

Discussions with representatives from the Debt Management Unit in Mozambique suggest there is no accounting for sovereign guarantees in this unit's analysis and reporting of debt. Further, the Medium-Term Debt Strategy (MTDS), which is meant to identify the possible risk and cost of debt under various scenarios, also does not incorporate estimates of contingent liability such as those arising from government debt guarantees. Further, there does not appear to be any legal requirement (as might be contained in a public financial management law) of the risk quantification of contingent liabilities and its reporting (by type of contingent liability) to Parliament as part of wider fiscal risk management strategies and reported on in a medium-term budget.

Based on the latest Article IV documents from the IMF (2017), "Mozambique's external debt rating is in 'in distress', and total public debt is on an unsustainable path". All debt burden indicators with the exception of external debt service to exports breach threshold limits (ibid.).

Mozambique needs to produce a debt restructuring plan that is viewed to be credible by its private sector creditors. Unless and until such a plan is produced, confidence in the repayment capacity of the country is unlikely to be restored to pre-default levels.

2.6 Local content

Local content (LC) can be defined as the extent to which a foreign company has used local know-how, resources, etc. to facilitate the production of a particular good or service. Thus, beyond a direct contribution to value added, LC seeks to enhance the sustainability of economic growth by enhancing inclusivity through economic diversification and employment opportunities.

A country could employ numerous types of LC strategies, ranging from simple restrictions on trade imports to those involving the creation of forward and backward

integration within as well as across related sectors. For example, moving from the importation of downstream oil products to the refinement and distribution of oil to locations where it is sold could provide opportunities for forward integration (for existing enterprises) as well as entry into transport logistics (for either existing or new enterprises). Another example of an LC strategy is to mandate that specific types of projects must have a minimum level of local (in practice typically government) ownership. The procurement laws/policies of any country are key to determining the extent to which LC can be effectively achieved.

Although not shown in Tables 2.3 and 2.4 above, the vast majority of private sector investors have been foreign and several can be classed as multinational corporations (MNCs). These types of enterprises generally leverage their existing supply chain in the provision of their services. Given the inherent complexity of some of the types of infrastructure developments on-going and proposed for Mozambique, the MNCs could also provide a valuable source of knowledge transfer required for building productive capacities. However, unless such requirements are embedded in either project contracts or laws/regulations, then such opportunities may be forgone.

2.6.1 The impact of donor policies

Donors sometimes provide funds to aid in capacity-building as well as directly to support trade infrastructure. A review of Aid for Trade (AfT) to Southern African countries by the EU and its member states suggests that trade-related infrastructure make up the largest component, with a much smaller contribution towards building productive capacity. The figure shows that Mozambique was the second largest recipient of aid in the region.

Donor procurement policies can also have an impact on the extent to which LC can be effective. For example, donors often place restrictions on the extent to which state-owned enterprises can participate in bidding. This could have a big impact on Mozambique since the vast majority of its private sector enterprises are small and could have problems competing with international organisations.

Most donors support the idea of national experts and knowledge transfer (and use it in their scoring system for evaluating bids) but measuring the extent of these is not straightforward. For example, in the preparation of a bid, it is likely that many bidders would have included use of a local expert (e.g. a local enterprise) as part of a project team. However, in the absence of rigorous methods of evaluating the quality and extent of knowledge transfer, a foreign entity could "arbitrage" the bidding system by being awarded points for LC while such content is ineffective.

2.6.2 Mozambique procurement laws

In 2016, the government passed new legislation relating to the tender of public works, the supply of goods and the provision of services to the state (Decree 5/2016). The law is applicable to all bodies, entities and institutions of the state of Mozambique. The entity responsible for monitoring application of the regulations is the Public Procurement Oversight Authority.

The regulations require that procurement procedures fulfil a number of criteria, including legality; public interest; transparency; openness; information; equality; competitiveness; impartiality; and good financial management, as well as other public law principles. Further, LC is facilitated by way of either a restriction in favour of the nationality of a bidder or provision of a preferential margin to national bidders.

2.6.3 Local capacity constraints

As discussed earlier, unemployment stands at around 25 per cent in Mozambique, illiteracy levels are relatively high and local private sector enterprises are, in the majority, small and without deep institutional experience of complex infrastructure. These characteristics do not bode well for an effective LC environment at present but implementation of more inclusive development strategies should help reduce these vulnerabilities in the years to come. Such strategies should aim to both increase diversification into high-productivity industries such as those characterised by the mega-projects and increase linkages with other sectors, such as agriculture and fisheries and tourism. Increased capital expenditure in agriculture is vital, as the sector supports the majority of people in the country, and improvements in financing should help improve resilience.

Given time limitations, the research did not obtain details of the extent to which local entities have been beneficiaries of contracts by way of either the new regulations or donor funding, especially where mega-projects are concerned. However, for reasons discussed earlier concerning the size and capacity of the local market, it is not envisaged that the extent of LC has been significant. In 2011, mega-projects accounted for around 36 per cent of all goods imported into Mozambique, and this was projected to be around 16 per cent as of the end of 2017 (IMF, 2017). This improvement, however, owes largely to the reductions in FDI/ODA associated with the mega-projects and hence the need to import.

As it relates to job creation, it is unlikely that things would have radically changed since 2010, when mega-projects accounted for only 5 per cent of total employment despite accounting for over 72 per cent of all capital expenditure over 1992-2010 (OECD, 2013).

LC can also be extended to cover the extent to which the local market participates in the ownership of infrastructure projects. The main means for local participants to achieve this (for large/mega-projects) is by way of the stock exchange, as per Law 15/2011 (often cited as the Mega-Projects Law). Article 33 1(a)(i) states that Mozambican natural persons can participate in the share capital of projects guaranteed by, among other things, "the State or other public entity appointed thereby, in a percentage not less than 5% nor greater than 20% of the referred capital".

In discussions with representatives from the local stock exchange, it appears that the law is not being strictly applied for projects that commenced prior to 2011, in that those entities are not listed on the stock exchange. Even if such listings were prevalent on the exchange, it is unlikely that many local people would have sufficient discretionary income to make investments, given the relatively low GNI per capita and savings rate.

Given all this, it seems that lack of local capacity (i.e. knowhow) coupled with high levels of poverty and unemployment and a relatively low savings rate makes effective implementation of LC difficult for Mozambique in relation to infrastructure projects requiring high skills levels. As a consequence, the framework to enable effective LC should consider, among other things:

- Strategies/plans to include youth in particular (but also others) in strategic growth areas, including those covered by mega-projects, through the provision of vocational training (with qualifications leading to a recognised certification). Such training could be either incorporated into existing vocational offerings or part of new educational establishments. Any new physical establishments should also consider the distance people need to travel to access the facilities; to the extent possible, online courses should also be provided. The government could consider policies to encourage investors to contribute to the development and maintenance of these establishments as part of their corporate social responsibility activities.
- Strategies to increase the savings rate – for example low- or no-tax savings products to encourage people to save. Monetary strategies could also be used, such as a reduction in the central bank's deposit reserve ratio (for deposit-taking institutions), which in turn should lead to reduced interest rates for borrowers.

2.7 Building with resilience in mind

The Mozambican government, in its 2015-2019 Five-Year Plan, wishes to "ensure sustainable and transparent management of environment and natural resources". The country is prone to natural disasters and ranks third in terms of loss of life as a result of such disasters.[17] According to the African Development Bank, around 17 per cent of GDP is lost as a result of early economic loss arising from environmental degradation and poor use of natural resources (Santos et al., 2016). The United Nations further finds that preventative expenditure amounts to just 9 per cent of GDP, yet, over the period 2007–2014, just 1.4 per cent of GDP was spent on the environment.

It is important that the Mozambican authorities do not consider investments in climate resilience as an option in its portfolio of investment possibilities. Such investments should be mandatory and a function of the potential amount of losses (both economic and human) that is or could be suffered over the long term. From an economic perspective, national infrastructure development plans should account for the amounts of expenditure necessary to upgrade existing infrastructure, to make them more resilient, as well as to invest in the development of bespoke resilient artefacts.

Improved infrastructure resilience would help reduce the likelihood of increased risks to those who are most vulnerable, specifically women and girls but also youth and the elderly. From a practical perspective, plans for infrastructure development should factor in likely changes in climate, environmental and other potential disasters and should mainstream gender, youth and other areas that give rise to inequity and non-inclusive growth. Addressing these issues in a more holistic manner would help Mozambique towards achieving Sustainable Development Goals (SDGs) 9 (Build

resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation) and 11 (Make cities and human settlements inclusive, safe, resilient and sustainable).

It is a common misperception that spending more on infrastructure implies more resilience. As discussed earlier, Mozambique has seen a reduction in its overall poverty rate (following increased FDI) yet major inequalities exist between the north and south of the country. Establishing greater inclusive links with communities would help in understanding the views of the various components of the demographic. Hence, maintenance (or bespoke) expenditure that does not increase resilience could be argued to be an inefficient use of funds.

Given the increased reliance on the extractive industries, the government could also consider the possibility of using environmental taxes as a means of supporting resilience by way of a natural disaster fund. The fund would be used to help in building back better and also act as a first line of defence against exogenous shocks such as those caused by natural and environmental disasters. In essence, the fund is a form of self-insurance.

Infrastructure development is best viewed from a network or systems perspective (see Refocus, 2015). A systems perspective seeks to analyse a proposed infrastructure project in terms of how it will interact with other existing/proposed artefacts incorporating evaluation of social, environmental and other impacts.

The Equator Principles Financial Institutions (EPFI) has emerged as one of the most prominent standards used by financial institutions, worldwide, to ensure that projects they advise on "are developed in a manner that is socially responsible and reflects sound environmental management practices" (see the Equator Principles, in Equator Principles Association, 2013). All the major projects and sectors in Mozambique are examples of areas that would be covered by project financing[18] under the EPFI.

In the provision of project financing, an EPFI will seek independent assurance that a country has conformed to relevant environmental and social laws and regulations. An EPFI will not provide project financing or project-related corporate loans where a client is not able to show it is able to comply with the principles. Further, complying with relevant laws and regulations depends on whether the host country (i.e. where the development is taking place) is classified as designated or non-designated. A designated country is one whose laws meet the requirements of environmental and/or social assessments (Principle 2), management systems and plans (Principle 4), stakeholder engagement (Principle 5) and grievance mechanisms (Principle 6).

For the purpose of the application of the Equator Principles, Mozambique is considered a non-designated country,[19] which implies its laws/regulatory frameworks and institutional capacity are not considered robust enough to provide the level of protection of its people and natural environment that would accrue to that of a designated country. Hence, aligning itself with the Equator Principles would help Mozambique increase the likelihood of prospective investors (seeking financing from an EPFI) obtaining financing for large infrastructure projects.

2.8 Financial market depth

Table 2.6 shows the composition of the financial sector in Mozambique as of 2015.

Despite the number of financial institutions, as of 2015 approximately 60 per cent of the population were not part of either formal or informal financial services (Ministry of Economy and Finance, 2016). As previously discussed, private sector access to credit for Mozambique lags the average for the region.

2.8.1 Eligible collateral

There is no private ownership of land in Mozambique: the state owns all land. Therefore, land cannot be sold, mortgaged or alienated in any way. Restricting ownership of land has provided benefits to communities and vulnerable persons who may not have been in a position to own land but have the ability to reside on land under various conditions as detailed in Land Law 19/1997. This benefit, however, also has the consequence that it limits the variety of what lenders would consider to be eligible collateral as a means of securing debt financing. Many at the lower end of

Table 2.6 Financial sector composition

Credit institutions	Numbers
Banks	18
Micro-banks	11
Credit unions	9
Electronic money institutions	2
Investment corporations	2
Financial corporations	
Venture capital corporations	1
Group purchases management corporation	1
Credit card issuing or management corporations	2
Bureaux de change	15
Savings and loans organisations	12
Microcredit operators	330
Insurance market	
Insurers	18
Micro-insurers	1
Reinsurers	1
Brokers	59
Business agents	10
Social security and pensions funds	
Basic social security	1
Mandatory social security	2
Pension funds	8
Pension funds management companies	6
Capital markets	
Stock exchange	1
Stock exchange operators	9

Source: Ministry of Economy and Finance (2016).

the income scale are not in a position to offer other forms of collateral, and this also restricts their access to credit.

The government's access to credit is usually channelled through bilateral (typically sovereign entities) and multilateral lenders (e.g. IMF, World Bank, African Development Bank) but also increasingly through the domestic debt market. The Bank of Mozambique and the central government both issue debt securities by listing them on the local stock exchange; however, liquidity of such issuances is rather limited as brokers have a buy and hold strategy. Also, volume sizes are relatively low compared with the size of mega-/large projects. Further, the maturities are relatively short, which limits their usefulness as a sustainable means of financing long-term infrastructure.

2.8.2 Financial innovation

In discussions, representatives of two of the largest banks in Mozambique – Standard Bank and Barclays Bank – expressed an appetite for the creation of unitised/mutual funds that could be linked to a portfolio of infrastructure projects. However, they also expressed concern over the lack of clarity regarding regulatory rules for the treatment of such investment fund products. Such funds provide the ability for banks to offer diversified exposure to infrastructure projects, and access could be either by way of the stock exchange or over the counter. An additional advantage of listing such products would lie in allowing international investors (through prime brokers) the opportunity to obtain exposure to infrastructure cash flows remotely. This would not only help improve on the sources of financing for infrastructure projects but also facilitate a secondary market in securities linked to infrastructure.

The subject of the securitisation of infrastructure cash flows was also discussed, in particular the issuance of debt securities whose cash flows are linked to those of the underlying project. In order to enhance the chances of success of the issuance of such securities, a credit rating would very likely need to be obtained from a major credit rating agency. Such ratings could cost a minimum of US$100,000 – but the potential returns of some projects mean this would be worthwhile.

Financial innovation, while at a relatively low level, continues to grow in Mozambique with the increasing use of mobile banking solutions. A significant benefit is that a banked client can transfer money from their account to any mobile phone, allowing the owner of the phone to collect cash at an ATM without having a bank account or credit card. However, less than 5 per cent of mobile phone users make use of mobile money (FinMark, 2016).

2.8.3 Mozambique Stock Exchange

There is a lack of sufficient equity issues, with only five companies currently listed, representing market capitalisation to GDP of 4 per cent (BVM, 2017). This figure is below the average for the region (15 per cent).

Many of the largest companies in Mozambique are either state-owned entities or foreign-owned and already listed abroad. The government has not shown much appetite for listing the largest group of its companies on the exchange.

The government has identified three main groups of companies over which it has some control/ownership. The first group comprises large/mega-project companies related to infrastructure and for which the government has 100 per cent capital ownership. Revenues for some of these entities exceed US$200 million per annum, and their size would make them good candidates for listing. However, the government has preferred to enter into joint ventures with partners willing to buy a minority stake.

The second group comprises those entities that were privatised in the 1990s, which, in many instances, are in need of restructuring, as they are in poor financial condition. These companies are not good candidates for listing unless and until their fortunes have turned around for a period of time.

The third group of companies comprises those where the government has an equity participation. The revenues from these entities are around US$5 million. The government has yet to disclose its plans for privatising this group.

The outstanding government debt securities to GDP ratio amounted to roughly 4.3 per cent as of September 2017, far less than in neighbouring countries. This represents a small portion of the government's borrowing needs and far less than what it has received from FDI/ODA, which has been its primary source of financing. If, however, Mozambique is to build financial resilience, it needs to further develop its government domestic bond market. In fact, the lack of development of this market has a spill-over effect on that of the corporate bond market, which is also in its infancy. This said, 13 companies have listed corporate debt on the BVM, but the banks undertake the bulk of corporate lending.

Lack of sophistication among investors has been cited as a deterrent to investments in the BVM (BVM, 2017). However, poor investor protection and enforcing of contracts is also likely to have a negative impact. Based on the World Bank Doing Business Report 2018, Mozambique ranks 138 and 184 out of 190 with respect to protecting minority interests and enforcing contracts, respectively.

At present, the BVM is regulated by the central bank as governed by the Securities Market Code of 2009. There are, however, various alternatives to stock exchange regulation, as implemented by some other Commonwealth countries: the Securities and Exchange Board – India; the Financial Services Commission – Jamaica; and the UK Financial Conduct Authority. All those bodies are independent organisations whose roles include regulation of the stock exchange.

The Strategic Plan of the BVM points to several areas in the legal/regulatory framework where changes would be required in order to make the exchange more effective (BVM, 2017). Those most pertinent to infrastructure include:

- No clear legal framework for several asset classes, e.g. investment funds.
- No requirement for the financial infrastructure to comply with international standards set by the International Organization of Securities Commissions, such as the Principles for Financial Market Infrastructures – for example central securities depositories and securities settlement systems. Adherence to such standards would help signal to potential international investors that the risks facing an investor (in securities on the exchange) would be managed according to the international norms to which they are accustomed.

2.9 Rule of law

Rule of law can have an impact on the effectiveness of infrastructure development. It captures people's perceptions of the extent to which they comply with and have confidence in the rules of society. Examples include the protection of individual property rights, the enforcement of contracts, the speed of the judicial process, the protection of intellectual property rights and employment or market access for vulnerable persons.

Mozambique has enacted numerous laws in relation to corruption: Public Ethics Law 16/2012, Money Laundering Laws 14/2007 and 14/2013 and Whistle-Blowing Law 15/2012 are examples. Further to this, Decree 5/2016 (public procurement regulations) and Law 10/2013 (competition legislation) are meant to prevent collusion and increase competition, respectively. Despite this, it appears that enforcement of such laws is weak in Mozambique (BICA, 2016).

2.10 Rationale for a Commonwealth Charter for infrastructure development

The specific components of the framework (e.g. legal, regulatory, financial) supporting the delivery of infrastructure vary across Commonwealth member countries. This is not surprising, given that members are at different stages of political, economic and social development. However, there are commonalities (such as the different stages involved in the development) in the process supporting infrastructure development.

The previous sections, focused on case study analysis of Mozambique, have discussed aspects such as governance, rule of law, gender equality and protection of the environment (among others) as having an impact on the perception of either the quality of infrastructure or the extent to which an aspect can influence whether an infrastructure investment is bankable or not. These aspects are also related to Principles of the Charter of the Commonwealth.

SDGs 9 and 11 are "Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation" and "Make cities and human settlements inclusive, safe, resilient and sustainable", respectively.

Without effective infrastructure, it will be difficult for an LDC to transition with momentum and hence to maintain a transition that is not only smooth but also sustainable. The rationale for leveraging the CCID follows from the above arguments: the CCID can be adapted to support investments in infrastructure, as it includes such principles as:

- Support for the rule of law;
- Good governance;
- Sustainable and resilient developments that support economic growth and human well-being;
- Protection of the environment;

- Human rights and gender equality;
- The importance of young people and civil society;
- Recognition of small and vulnerable states.

As noted above, the GIH's InfraCompass toolkit contains the following components:

- **Governance** – institutional, governance and legal environment for infrastructure investment;
- **Regulatory** – openness to investment and the extent to which regulation and competition frameworks support infrastructure delivery;
- **Permits** – efficiency of the planning and licensing procedures for the issuance of permits and acquisition of land required for infrastructure development;
- **Plans** – ability of government to plan, coordinate and select infrastructure projects;
- **Procurement** – extent to which procurement processes and bid management frameworks are standardised, transparent and non-onerous to bidders;
- **Delivery** – track record of delivery and quality of infrastructure assets.

Tables 2.7 and 2.8 provide details of the score for each category/criteria for Mozambique. This assessment excludes the additional criteria (e.g. contingent liabilities) recommended, based on case study analysis of Mozambique.

Other than the providers of ODA, there are two main types of investors in infrastructure: service providers[20] and passive investors.[21] The potential investors

Table 2.7 Governance, regulatory and permits

Category	Criteria	Score
Governance	Control of corruption index score, –2.5–2.5 (best)	–0.87
	Rule of law index score, –2.5–2.5 (best)	–1.02
	Cost of enforcing contracts, as % of claim	119%
	Recovery rate, cents on the dollar	31.50%
	Shareholder governance index, 1–10 (best)	3
	Extent of conflict of interest index, 1–10 (best)	5.3
	Dedicated PPP unit (1 = yes, 0 = no)	1
	Post-completion reviews (1 = yes, 0 = no)	1
Regulatory	Capital Account Openness Index, 0–1 (best)	0
	Regulatory quality index, –2.5–2.5 (best)	–0.7
	Prevalence of foreign ownership, 1–7 (best)	4.5
	Strength of insolvency framework index, 1–16 (best)	10
	Effect of taxation on incentives to invest, 1–7 (best)	3.5
Permits	Dealing with construction permits, no. of days	118
	Number of procedures to start a business	10
	Registering property, no. of days	40
	Quality of land administration index, 1–30 (best)	9.5
	Time required to start a business, no. of days	19
	Cost to start a business, % of GNI per capita	18.10%

Note: The scoring system is detailed on the GIH website at: https://www.gihub.org/

Table 2.8 Plans, procurement and delivery

Category	Criteria	Score
Plans	Preparation of PPPs, 0–100 (best)	50
	National/sub-national infrastructure plan (1 = yes, 0 = no)	0
	Pipeline projects in national/sub-plans (1 = yes, 0 = no)	0
	Guidelines for infrastructure appraisal (1 = yes, 0 = no)	1
Procurement	Procurement of PPPs, 0–100 (best)	73
	Bid evaluation, 0–100 (best)	43
	Publish guidelines for procurement of projects (1 = yes, 0 = no)	1
	Post award management of procurement, 0–100 (best)	64
	Degree of transparency in public procurement score, 0–4 (best)	1
	Calling for tenders, 0–100 (best)	54
	Average procurement duration (in months)	13
Delivery	Infrastructure quality, 1–7 (best)	2.5
	GFCF % of GDP (5–year average)	34%
	Private finance of infrastructure, % of GDP (5–year average)	21%

that the infrastructure assessment toolkit is aimed primarily at are service providers and passive investors (hereafter called investors).

There are potentially numerous criteria that could make a country attractive for investments for any one investor. The criteria detailed above for the toolkit capture those attributes viewed as important based on the results of a principal component regression analysis conducted by the GIH.

There is no generally accepted value (other than for simple yes or no criteria) that any of the above criteria should take to be investable. In fact, an investor may decide either not to invest or to invest based on a single category or otherwise depending on what they deem to be of utmost importance. For the purpose of determining whether a country is attractive, we assume that the average of the permissible range of criteria scores denotes the marginal or minimum level of attraction.[22]

The square root of the sum of the weighted normalised[23] variance of the difference between the actual and marginal scores is calculated for all criteria. A similar calculation is undertaken by assuming that the actual scores correspond to criteria lowest values. The ratio of the former to the latter calculation then determines the extent to which the framework surrounding the delivery of infrastructure is **not attractive**. Hence, the level of attraction is given by 1 minus this ratio.

In the case of Mozambique, the square root of the sum of the weighted variances was 0.85 and the value for the worst case was 1.54. The ratio of 0.85 to 1.54 is approximately 55 per cent, which implies a level of attraction of 1-55 per cent = 45 per cent.

The value of 45 per cent suggests that the policies, regulations/laws, etc. surrounding the development of infrastructure for Mozambique **make it 45 per cent marginally attractive for investment**. This does not necessarily imply that the country is not suitable for investment, as we know that a fair amount of investment has taken place in the country over several years, as evidenced from the roughly average 7 per cent

GDP growth. Such investments have, however, been in select sectors, such as the energy/extractive sectors, and have been aimed at the regional market. These have attracted service providers more than passive investors but have contributed limited value added to LC and have not resulted in appreciable export diversification or equitable reductions in poverty.

Rather than using the "GIH weights", as detailed in Annex 2, suppose one assumes that the weights are equal for all criteria within a category, to see what the difference would be in the attractiveness score. Application of this equal weight strategy results in an attraction score of approximately **49 per cent**. The difference is not particularly significant, suggesting that the equal weights can be used to approximate the "true" score. Note that these equal weights would not be used in general but just in this special case, to facilitate extension of the GIH model.

Extending the analysis to include the additional criteria results in an attractiveness score of **35 per cent**.[24] So the new criteria could be incorporated into the model, they were first mapped to one of the six categories and the weights adjusted to accommodate the increased number of criteria (see Annex 2.3).

Going forwards, precise weights will be calculated for the enhanced model, which incorporates the contingent liability and other criteria. In order to calculate these weights, an analytical method like principal component regression analysis will be explored. However, just like in the GIH approach, data for all criteria will be required across a number of countries (i.e. as many Commonwealth countries as possible where data exist).[25]

In applying the GIH scoring toolkit to Mozambique, no explicit account was made to incorporate the impact of criteria on gender, youth, inequity of poverty, etc. (e.g. the principles of the Charter of the Commonwealth). However, it is to be noted that, whereas some criteria affirm particular principles, several do not, and even compromise them. Therefore, in applying the principles, one would adjust the individual criteria scores (downwards) where these compromises exist.

2.11 Conclusions

Evaluating the quality of Mozambique's infrastructure framework on the basis of the amount of FDI received or the GDP growth rate means using inadequate metrics/indicators of quality, since such growth could occur at the expense of rule of law, gender equality, equity, poverty reduction, etc. A more holistic approach is required that assesses the extent to which such indicators contribute towards improvement in these core principles. This assessment approach is embodied in the CCID.

The GIH InfraCompass toolkit (and its adaptation) provides an analytical basis (via a regression model) on which to use data to determine the nature of the relationship between the infrastructure development process and the quality of infrastructure. As with any regression analysis, the model can be used to determine the sensitivity of its output with respect to changes in the input parameters. As a consequence, questions such as "By how much should financial innovation improve so as to increase the level of attractiveness?" can be answered.

From the data and analysis presented, it is apparent that most investments in infrastructure in Mozambique have been made by way of FDI. These investments have amounted to around 70 per cent of total capital invested in infrastructure projects, with ODA contributing more than 50 per cent of the residual. Reductions in the supply of FDI and ODA could, therefore, have a significant impact on Mozambique's ability to finance its strategic infrastructure priorities. The need to diversify its sources of financing is urgent, and the focus should be on development of the domestic capital market, specifically institutional and regulatory frameworks to support a more effective stock exchange and domestic debt market.

The type of investor that Mozambique has attracted is the service provider as opposed to the passive investor. This type of investor brings capacity (knowhow) and capital that can be employed to extract raw natural resources, which are then exported to generate foreign earnings. These service providers typically receive compensation in the form of payments under a concession agreement that covers the cost of funds and other operating/maintenance costs. The motivation for investment for a service provider is different from that of a passive investor as the latter is more concerned with the efficiency of financial markets and their ability to obtain liquidity when they want to buy or sell securities and to earn a positive rate of return. This suggests the possibility that two different models may be more suitable for assessing the attractiveness of infrastructure.

The extent to which LC can be effective in Mozambique is fairly limited. The limitation derives from shortages in capacity in high-skilled activities related to strategic projects, lack of sufficient infrastructure to support capacity-building at a national level for such projects, lack of availability of discretionary financial resources for making investments at the retail level and lack of sufficient numbers of large local firms that could participate in the supplier value chain for the larger strategic projects.

In order to increase the resilience of Mozambique to exogenous shocks, two main initiatives are required: 1) increase the amount of capital expenditure on productive capacity for the agriculture sector and 2) adopt a systems approach to infrastructure development so as to mainstream climate/environmental impacts and gender/youth and other sources of vulnerability. The result will be an approach that seeks to spend better, not necessarily more, with a view to adopting a more risk-based strategy to addressing developmental needs.

According to the criteria that determine the applicability of the LDC category by the UN system, economic vulnerability is induced through natural shocks, victims of natural disasters and trade shocks, which increase the instability of goods and services. Infrastructure is a critical enabler of export diversification processes, which reduce economic vulnerability. In order to expedite these processes and reduce economic vulnerabilities, leveraging principles from the CCID could support infrastructure development. Economic vulnerability can be alleviated through infrastructure investments better aligned with sustainable development objectives, in line with the CCID.

This case study has assessed the GIH's InfraCompass toolkit (a G20 initiative) and found this to be more suited to types of investors that provide FDI and facilitate service delivery. This is as opposed to the passive investor interested in the financial returns provided by a bankable infrastructure project. In addition, application of the GIH framework is at the country rather than the individual project level. Therefore, greater disaggregation and additional indicators are needed in order to effectively assess whether a country has attractive or "bankable" investment projects, including on an intra-Commonwealth basis.

Commonwealth members tend to invest three times as much with each other compared with other partners in greenfield investments, which includes infrastructure (Commonwealth Trade Review, 2018). However, currently, the extent to which infrastructure investments are aligned with the principles of the CCID are unknown. Applying the principles of the CCID could assist in the creation of a pipeline of bankable intra-Commonwealth infrastructure investments. Such an approach would assess the extent to which LDC frameworks for infrastructure development meet international best practice, benchmark standards and also uphold principles of the CCID.

Such an approach would be aligned with the GIH's InfraCompass, which is a global benchmark for the assessment of infrastructure quality. However, because the GIH framework lacks an effective assessment of economic vulnerabilities that may emerge related to the management of contingent liabilities, and other issues related to debt sustainability, the findings presented in this case study suggest it needs some adaptation within the context of LDCs.

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Notes

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1 http://info.worldbank.org/governance/wgi/#home

2 http://www.imf.org/external/datamapper/datasets/CL/1

3 http://bpp.worldbank.org/

4 http://www.cepii.fr/institutions/en/ipd.asp

5 https://data.worldbank.org/indicator

6 The GIH is an initiative of the G20 whose remit is to "grow the global pipeline of quality, bankable infrastructure projects": https://www.gihub.org/about/about/

7 https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?view=map

8 This was approximately 63.5 per cent as of 2015: https://data.worldbank.org/indicator/AG.LND.AGRI.ZS

9 Mega-projects refer to large-scale projects as defined within Law 15/2011 with a size greater than US$500 million.

10 The International Labour Organization (ILO) defines vulnerable employment as the sum of own-account workers and contributing family workers.

11 https://data.worldbank.org/

12 Human Development Index 2016: http://hdr.undp.org/en/2016-report

13 A youth is defined as a person between the ages of 15 and 24. Note that the ratio mentioned also accounts for those in the age group 15–29.

14 Based on ILO figures.

15 The Institute of Directors produced a code on corporate governance in 2011 but this is not mandatory.

16 These data, taken from the World Bank database, exclude any high-income countries.

17 https://www.preventionweb.net/english/countries/statistics/index_region.php?rid=1

18 This is a form of financing whereby the cash flows/revenue from a project is the primary source used to pay back financing. The assets of the project are also used as security for financing.
19 See list of designated countries: http://equator-principles.com/designated-countries/. Designated countries have laws/regulations at least as good as those of the International Finance Corporation Performance Standards on Environmental and Social Sustainability and the World Bank Group Environmental, Health and Safety Guidelines.
20 This would include those that provide services under a concession or other arrangement for a fee in return for also financing parts of infrastructure development.
21 This would include those that invest purely to receive an economic return from the revenues generated from the infrastructure but are not part of its operations.
22 This method is applied to all criteria with the exception of yes/no criteria, in which case the average value is 1.
23 Normalised here is achieved by dividing the variance by the square of the absolute largest possible score for some criteria. The result of such a normalisation produces a value between 0 and 1. The weights are those detailed in Annex 2.3.
24 The following sources were used to evaluate the new criteria: the WEF Global Competitive Index, IMF Article IV – 2017, the PPP Law, the World Bank database and in-country meetings. The Contingent Liability Scoring Framework (CLScoreF) is based on work by the Commonwealth Secretariat and is detailed in Annex 2.4.
25 Undertaking this type of analysis is outside of the scope of the kickstarter project.
26 The regression analysis comprised data from 49 countries.
27 Note that scores can take on whole numbers such as 1, 2 or 3 as well as midpoints between 1, 2 and 3.
28 https://www.worldbank.org/en/topic/debt/brief/dempa-2015
29 Bank for International Settlements Principles for the Sound Management of Operational Risk, June 2011.
30 Adapted from Bank for International Settlements Enhancements to the Basel II Framework, July 2009.
31 Bank for International Settlements Principles for the Management of Credit Risk, September 2000.

Annex 2.1 Institutions Interviewed

Ministry of Trade

Bolsa de Valores de Moçambique (Stock Exchange)

PPP Unit (Ministry of Finance)

Debt Management Unit (Ministry of Finance)

Agency for Investment and Export Production

Barclays Bank

Institute for the Promotion of Small and Medium Enterprises

Ministry of Public Housing and Hydro Resources

Directorate of Economy and Planning

Institute for the Management of State Holdings

Standard Bank

National Industry Directorate

Energy & Hydrocarbon

UK High Commissioner

Annex 2.2 GIH InfraCompass weights

Category	Criteria	Weight
Governance	Control of corruption index score, –2.5–2.5 (best)	15.80%
	Rule of law index score, –2.5–2.5 (best)	15.10%
	Cost of enforcing contracts, as % of claim	13.80%
	Recovery rate, cents on the dollar	13.60%
	Shareholder governance index, 1–10 (best)	13%
	Extent of conflict of interest index, 1–10 (best)	12.30%
	Dedicated PPP unit (1 = yes, 0 = no)	10%
	Post-completion reviews (1 = yes, 0 = no)	6.40%
Regulatory	Capital account openness index, 0–1 (best)	18.30%
	Regulatory quality index, –2.5–2.5 (best)	16.60%
	Prevalence of foreign ownership, 1–7 (best)	13%
	Strength of insolvency framework index, 1–16 (best)	11.60%
	Effect of taxation on incentives to invest, 1–7 (best)	11.50%
Permits	Dealing with construction permits, no. of days	20.50%
	Number of procedures to start a business	19.30%
	Registering property, no. of days	18.60%
	Quality of land administration index, 1–30 (best)	17.90%
	Time required to start a business, no. of days	16.80%
	Cost to start a business, % of GNI per capita	6.90%

Note that the sum of the weights under each category should add up to 1. Under the regulatory category, the weights do not add up to 1 since these correspond to criteria that were not included in the analysis. This does not affect the attractiveness score since this is equivalent to saying that the individual score has 0 variance from the average value.

The weights shown in the above table and to follow were derived, by the GIH, on the basis of employing a principal components regression analysis[26] of a much longer list of criteria and reduced to those with larger contributions to the output variables. These output variables are the criteria under the delivery category.

Category	Criteria	Weight
Plans	Preparation of PPPs, 0–100 (best)	45.40%
	National/sub-National infrastructure plan (1 = yes, 0 = no)	31.70%
	Pipeline projects in national/sub-plans (1 = yes, 0 = no)	21.30%
	Guidelines for infrastructure appraisal (1 = yes, 0 = no)	1.60%
Procurement	Procurement of PPPs, 0–100 (best)	18.20%
	Bid evaluation, 0–100 (best)	16.70%
	Publish guidelines for procurement of projects (1 = yes, 0 = no)	15.80%
	Post award management of procurement, 0–100 (best)	13.80%
	Degree of transparency in public procurement score, 0–4 (best)	14%
	Calling for tenders, 0–100 (best)	11.80%
	Average procurement duration (in months)	9.70%
Delivery	Infrastructure quality, 1–7 (best)	33.33%
	GFCF % of GDP (5–year average)	33.33%
	Private finance of infrastructure, % of GDP (5–year average)	33.33%

The weights for each criteria of the delivery category (i.e. the output variables from the principal components regression) are equal since no preference is expressed between them.

Annex 2.3 Equal weights updated model

Category	Criteria	Weight
Governance	Control of corruption index score, –2.5–2.5 (best)	9.09%
	Rule of law index score, –2.5–2.5 (best)	9.09%
	Cost of enforcing contracts, as % of claim	9.09%
	Recovery rate, cents on the dollar	9.09%
	Shareholder governance index, 1–10 (best)	9.09%
	Extent of conflict of interest index, 1–10 (best)	9.09%
	Dedicated PPP unit (1 = yes, 0 = no)	9.09%
	Post-completion reviews (1 = yes, 0 = no)	9.09%
	Management of contingent liabilities/state-owned entities	9.09%
	Domestic market efficiency & depth	9.09%
	Adoption of best practice corporate governance	9.09%
Regulatory	Capital account openness index, 0–1 (best)	7.14%
	Regulatory quality index, –2.5–2.5 (best)	7.14%
	Prevalence of foreign ownership, 1–7 (best)	7.14%

Category	Criteria	Weight
	Strength of insolvency framework index, 1–16 (best)	7.14%
	Effect of taxation on incentives to invest, 1–7 (best)	7.14%
	Framework for incentives	7.14%
	Imposition of fees	7.14%
	Sustainable debt	7.14%
	Financial innovation facilitation	7.14%
	Stable macro-economics	7.14%
	Financial market development	7.14%
Permits	Dealing with construction permits, no. of days	16.7%
	Number of procedures to start a business	16.7%
	Registering property, no. of days	16.7%
	Quality of land administration index, 1–30 (best)	16.7%
	Time required to start a business, no. of days	16.7%
	Cost to start a business, % of GNI per capita	16.7%
Plans	Preparation of PPPs, 0–100 (best)	25.00%
	National/sub-national infrastructure plan (1 = yes, 0 = no)	25.00%
	Pipeline projects in national/sub-plans (1 = yes, 0 = no)	25.00%
	Guidelines for infrastructure appraisal (1 = yes, 0 = no)	25.00%
Procurement	Procurement of PPPs, 0–100 (best)	12.50%
	Bid evaluation, 0–100 (best)	12.50%
	Publish guidelines for procurement of projects (1 = yes, 0 = no)	12.50%
	Post award management of procurement, 0–100 (best)	12.50%
	Degree of transparency in public procurement score, 0–4 (best)	12.50%
	Calling for tenders, 0–100 (best)	12.50%
	Average procurement duration (in months)	12.50%
	Local content – effectiveness	12.50%
Delivery	Infrastructure quality, 1–7 (best)	33.33%
	GFCF % of GDP (5–year average)	33.33%
	Private finance of infrastructure, % of GDP (5–year average)	33.33%

Annex 2.4 Contingent Liability Scoring Framework

The Contingent Liability Scoring Framework (CLScoreF) consists of a numerical evaluation of the quality of a country's contingent liability governance (as embodied in its acts of parliament and practices). It comprises components grouped under a number of categories.

For most components of the scoring framework, a score between 1 and 3[27] will be allocated on the basis of how well the legal framework conforms to that of the evidence factors highlighted in the scoring rationale. A scoring rationale is a table providing details of the evidence required for the allocation of a particular score.

The components, and to an extent the evidence factors, are influenced by the IMF Working Paper on designing legal frameworks for public debt management (Awadzi, 2015) as well as existing and emerging better practice. Awadzi notes that there are other assessment tools that cover aspects of legal frameworks and guarantees, most notably that of the World Bank Debt Management Performance Assessment (DeMPA).[28] The key difference between the DeMPA and the CLScoreF approach is 1) the latter's focus is on contingent liabilities (going beyond guarantees) and 2) the

latter has an emphasis on reducing the propensity for various forms of risk and hence is a more risk-based approach.

Although not scientifically proven, there is much anecdotal evidence and converging consensus to suggest that reductions in the levels of operational and other risks associated with the management of contingent liability reduce the propensity for fiscal surprises. In turn, these reductions imply a lowering of the likelihood of debt unsustainability, which affects other aspects of development. As a consequence, it is expected that there will be a positive and monotonic relation between increases in the value of the CLScoreF and levels of sustainability.

The approach advocated in this annex contributes towards enhanced country sustainability. However, given its risk-based style, it also facilitates its integration into wider enterprise risk-management efforts.

Introduction

The CLScoreF assessment tool has been developed with a specific view to providing a numerical basis for evaluating the quality of the governance surrounding the management of contingent liabilities. The following table provides a description of the components for the CLScoreF tool.

The table shows there are 4 categories comprising 16 groupings and 41 components (i.e. CP-1 through to CP-41). Scores are allocated to each component on the basis of evidence gathered in analysing the component.

The supporting documents (for assessing components) would include primary and secondary legislation, regulations, official policies, budgets, auditor-/accountant-generals reports, consolidated annual statements/reports and other documents evidencing practice.

Where evidence is supported by the constitution or primary legislation, this will attract a higher score than if such evidence is in the form of secondary legislation. As a rule, secondary legislation will attract a higher score than regulations/policies unless the effect of this would be to render the evidence as attracting the lowest score, in which case an average or middle score (whichever is the largest) should be used.

Defining contingent liabilities

Recognition and requirements of contingent liabilities

CP-5	Recognition of implied contingent liabilities
CP-11	Purpose for which contingent liabilities will be issued
CP-18	Justification of the need for the issuance of a contingent liability

Approval process

Authority to create contingent liabilities

CP-1	Legal framework clearly provides the authority for the government to create contingent liabilities
CP-2	Clarity as to which act takes priority or relates to specific forms of contingent liabilities
CP-3	Instruments (e.g. indemnities, guarantees, etc.) that can be used to create a contingent liability

CP-4 Instruments not to be treated as giving rise to contingent liabilities

Eligibility

CP-8 Entities eligible for sovereign guarantees and/or indemnities

CP-9 Entities not eligible for sovereign guarantees and/or indemnities

Institutional clarity

CP-10 Basis for issuance of guarantees when eligibility is wide or narrow

CP-13 Public sector entities, such as local governments, state-owned entities and statutory bodies undertaking guarantees

CP-24 Role of the debt management office

Parliamentary and delegated authority

CP-12 Delegation of authority to create a contingent liability

CP-14 Parliament, cabinet or some other legislative body involvement in approving contingent liabilities

CP-15 Approval by parliament/cabinet (or other legislative body) prior to or after issuance of guarantee

Committees

CP-32 Existence of fiscal risk committee

CP-33 Frequency of meetings

CP-34 Key performance indicators

Performance management

Reporting disclosure

CP-6 Explicitly detailing the exposure of contingent liabilities and performance monitoring requirements

CP-7 Reporting of contingent liabilities in financial statements

CP-22 How fees from guarantees are to be accounted for so they provide a consistent view when accounting for the contingent liability

CP-27 Reporting of total debt to include guaranteed debt

CP-28 Computerised record to be kept of all contingent liabilities

Website

CP-29 Updating of website

CP-30 Ease of accessing/navigating website

CP-32 Ease of downloading details

Budget

CP-37 Forward-looking projections

CP-38 Current liability amounts

CP-39 Called liabilities

Auditor-general

CP-35 Annual report of auditor-general

CP-36 Unresolved matters in auditor-general report

Risk management

Risk assessment

CP-25 Classification of events leading to realisation of contingent liabilities as being low- or high-impact (or equivalent) categories

Risk sharing

CP-19 Percentage share of a contingent liability that a sovereign (or relevant liability provider) will assume

CP-20 Conditions under which contingent liabilities can be terminated when it is deemed no longer a requirement

CP-21 The requirement that beneficiaries post collateral

Risk management process

CP-16 Details as to the risk management to follow for the management of contingent liabilities

CP-17	Requirement for the payment of contingent liability fees
Contingency reserve	
CP-26	Contingency reserved used to meet calls on contingent liabilities
Limits management	
CP-23	Explicitly limits for contingent liabilities
Fiscal	
CP-40	Debt to GDP
CP-41	Weighted average cost of debt

The next section provides high-level details of the structure of the scoring methodology applied to various components, and subsequent sections detail the scoring for each component.

Scoring methodology

Individual component scores

Some components will be assessed as having a score of 1, 2 or 3 of the following form:

Score	Evidence factors
3	Criteria for a score of 3
2	Criteria for a score of 2
1	Criteria for a score of 1

Other components will be assessed as having a score of 1 or 2 of the following form:

Score	Evidence factors
2	Criteria for a score of 2
1	Criteria for a score of 1

For each of the above forms, the highest score is shown in decreasing order. Adjacent to each score are the criteria (or evidence) that should be observed in order for the score to be allocated. In the eventuality that there is no evidence to substantiate a minimum value of 1 (i.e. no data to support a score as high as 1) then a value of 0 is permissible.

In addition to the above, it is proposed that scores be awarded on the basis of 0.5 increments. This approach makes it possible to determine intermediate grades/scores for components and hence adds a finer level of granularity to the analysis. For example, there may be evidence to suggest that a score should be at least 1 but less than 2. Depending on the strength of the evidence (i.e. official documents and practices observed) in support of a score, values may be given as 1 or 1.5 but not including 2. The increment of 0.5 was chosen as it facilitates capturing "average" values, for example 1.5.

From a formal mathematical perspective, the scores are as follows:

Scores
3
[2,3)
[1,2)
[0,1)

Aggregate sovereign score

The aggregate score for a sovereign will be the sum of the individual component scores. This method implies that each category/grouping has equal importance. Based on the distribution of scores, the minimum and maximum scores for a sovereign are 0 and 112, respectively. A score of 112 does not, necessarily, imply that the likelihood of risks occurring is 0 but that it is likely to be very low. Similarly, a score of 0 does not imply that the likelihood of risk occurrences is 1 but that it is more likely than not to occur.

The minimum/maximum scores will be transformed so that the range of the aggregate score is from 0 to 1. This is achieved by multiplying the score by $\frac{1}{112}$.

In addition to the aggregate score, a separate score will be given for each category, also on the basis of a score between 0 and 1. In this way, individual category performance can be analysed separately.

It is important to note that, although it may appear that all factors are prevalent for a score of 3 or 2, this score could be reduced as a result of evidence that actual operational practices differ or are inconsistent with acts/regulations or best/emerging practices. Non-public disclosure will also result in reductions in scores even if operational practice supports a higher score.

Scoring details

This section provides details of the components and scores detailed earlier in this document.

CP-1 Approval entity

Does the public debt management legal framework clearly provide the authority for the government to create contingent liabilities?

Scoring rationale

Score	Evidence factors
3	A single at of parliament identifies an individual (e.g. minister of finance) as being responsible for either committing the sovereign to contingent liabilities or making referrals to an executive/legislative body for issuance of same.
2	The authority is given across multiple acts to an individual (who may or may not be the same as the individual for the score of 3) to issue or make referrals. As an alternative, authority is given to a body (not an individual) for issuance or making referrals.
1	High-level statement in acts of parliament allowing the government to commit the sovereign to contingent liabilities without identifying a specific responsible individual or body.

The above scoring system is geared towards encouraging sovereigns to clearly identify the entity responsible for committing to contingent liabilities. This approach fosters greater accountability and traceability/auditability of the contingent liability

approval process. As a consequence, it serves to reduce the likelihood of operational risks associated with assuming contingent liabilities.

CP-2 Clarity with multiple acts

In the presence of multiple acts of parliament, is it clear as to which act takes priority or relates to specific forms of contingent liabilities?

Scoring rationale

Score	Evidence factors
2	The latest act(s) makes it clear as to which sections of previous acts are still in force (if covering similar forms of contingent liability) as well as the specific form of other contingent liabilities covered by the newer act(s). Further, all relevant acts (subject to prioritisation) are mutually consistent.
1	Any factor highlighted for the higher score is not present.

The above scoring system is geared towards reducing potential inconsistency between laws that are meant to be in force at the same time. As a consequence, it serves to reduce the likelihood of operational and reputational risks.

CP-3 Instruments creating contingent liabilities

Does the framework clarify which instruments (e.g. indemnities, guarantees, etc.) or events can be used to create or lead to a contingent liability?

Scoring rationale

Score	Evidence factors
3	Within the same act identifying the responsible entity for issuing contingent liabilities, the specific instruments (e.g. guarantees, indemnities) or events that can be used to create (or lead to) contingent liabilities are detailed. In addition, contingent liability disclosure via way of annual reports/financial statements or auditor-generals' reports detail contingent liabilities consistent with those identified under the relevant act.
2	As above but where there are multiple acts relating to the authority to create or events leading to contingent liabilities.
1	Where specific instruments (or events) giving rise to contingent liabilities have not been detailed and/or instruments (or events) are detailed but there is evidence that other contingent liabilities are being quantified (e.g. as in the annual report, auditor-general's report, etc.) or existing but not mentioned in enabling acts of parliament.

The above scoring system is geared towards encouraging clear and complete list of contingent liabilities that a sovereign is willing to either commit or is subject to. It serves to reduce uncertainty regarding whether particular forms of assurances (or otherwise) are to be regarded as giving rise to a contingent liability. As a consequence, the system is aimed at reducing operational risk.

CP-4 Instruments not creating contingent liabilities

Does the framework clarify which instruments (or events) are not to be treated as giving rise to contingent liabilities?

Scoring rationale

Score	Evidence factors
3	Within the enabling act a list of the instruments not considered to give rise to contingent liabilities is detailed. Further, disclosure of contingent liabilities does not include instruments that are part of the list within the act.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where specific instruments not giving rise to contingent liabilities have been detailed but these are inconsistent with those being disclosed.

The above scoring system is geared towards encouraging a clear and complete list of instruments that the sovereign is not willing to accept as giving rise to a contingent liability. It serves to reduce uncertainty regarding whether certain instruments will lead to a contingent liability. As a consequence, the system is aimed at reducing operational risk.

CP-5 Enabling act for contingent liabilities

Does the framework recognise implied contingent liabilities?

Scoring rationale

Score	Evidence factors
3	The enabling act explicitly mentions specific forms of implied contingent liabilities, how these may arise and (where possible) how these can be converted into explicit contingent liabilities.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where there is just a high-level mention of implied contingent liabilities.

The above scoring system is geared towards encouraging sovereigns to carefully consider the types of contingent liabilities that may not arise owing to contract but based on moral suasion or repeated practice of previous governments. Empirical evidence suggests the largest fiscal surprises (associated with contingent liabilities) arise from those that are implied, and these generally have higher levels of uncertainty than those associated with explicit exposures. As a consequence, the system strives to reduce levels of risk and uncertainty surrounding potential contingent liability exposures and hence to reduce operational risks.

CP-6 Exposure quantification and reporting

Irrespective of the accounting treatment for contingent liabilities, does the framework explicitly require detailing the exposure of these liabilities and performance monitoring requirements?

Scoring rationale

Score	Evidence factors
3	The enabling act either speaks to how contingent liability exposure will be quantified or makes reference to mandatory guidelines/regulations governing derivation of exposures. Further, the act would make mention of the means by which exposures are reported, the constraints associated with the reporting and the entities to which such reports are required to be made.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where there is just a high-level mention of the quantification of exposure for contingent liabilities.

The above scoring system is geared towards encouraging sovereigns to quantify and report on contingent liability potential exposure. Knowledge of such potential exposures helps manage expectation surrounding the variability of the fiscal budget. This system thus aims to reduce levels of operational risks.

Even if the factors supporting a score of 3 (or 2) are evidenced, the score could be lowered if:

- Analysis of guidelines/regulations/act reveals inadequacies in the methods or practice used to quantify contingent liability exposure. In determining the adequacy of exposure quantification methods, reference will be made to established or emerging better practice as a benchmark.
- It is found that the specified exposure methods (even if they are adequate) are not being actively employed in practice.

If either of the above two cases occurs, then the score should be reduced to 1.

CP-7 Financial statements reporting

Does the framework explicitly require the reporting of contingent liabilities in financial statements?

Scoring rationale

Score	Evidence factors
3	The enabling act explicitly states that details of contingent liability exposures are to be documented in financial statements or annual reports and that these are to be presented to parliament or other legislative body. Further, the act specifies each type of contingent liability that is to be reported on individually as well as in the aggregate. Further, there is no evidence of late reporting of financial statements.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where there is just a high-level mention of the reporting of contingent liabilities.

The above scoring system seeks to encourage sovereigns to provide timely and enhanced disclosure to relevant legislative/executive bodies. This serves to reduce the likelihood of reputational risk owing to potentially conflicting opinions being expressed by other members of the parliamentary framework (not party to a decision to issue a contingent liability) as well as operational risks.

Even if the factors supporting a score of 3 (or 2) are evidenced, the score could be lowered if:

- Analysis of the act reveals there are contingent liabilities not part of the list detailed in the act.
- The financial statements, auditor-general's report or other official documents reveal inconsistencies between the statements and the act.

If the first occurs and there are no inconsistencies between the act and operational practice, then a score of 1.5 should be given; otherwise, the score should be reduced to 1.

CP-8 Explicit entities eligible for guarantees and/or indemnities

Does the framework explicitly state which entities are eligible for sovereign guarantees and/or indemnities?

Scoring rationale

Score	Evidence factors
3	The enabling act explicitly states which entities (i.e. makes reference to persons, corporate entities, etc.) are eligible for sovereign guarantees and/or indemnities. Further, there is no evidence to suggest that entities other than those listed have been the beneficiary of guarantees/indemnities.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where there is a lack of congruence between the type of beneficiaries and those listed in the act(s).

The above scoring system seeks to make it very clear which entities a government can issue guarantees/indemnities to and that there should be congruence between the law and operationalisation of the law. This serves to reduce the likelihood of reputational and operational risks.

CP-9 Explicit entities non-eligible for guarantees and/or indemnities

Does the framework explicitly state which entities are not eligible for sovereign guarantees/indemnities?

Scoring rationale

Score	Evidence factors
3	The enabling act explicitly states which entities are not eligible for sovereign guarantees/indemnities (or expresses conditionalities) even if it is with reference to saying "if not listed as being an eligible entity". Further, there is no evidence of lack of congruence between the law and its operationalisation.

Score	Evidence factors
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where there is a lack of congruence between the type of beneficiaries and those listed in the act(s).

The above scoring system seeks to make it very clear which entities a government cannot issue guarantees/indemnities to and that there should be congruence between the law and operationalisation of the law. This serves to reduce the likelihood of reputational and operational risks.

CP-10 Basis for issuance of guarantees

Does the framework provide a clear basis for issuance of guarantees when the eligibility is wide or narrow?

Scoring rationale

Scoring	Evidence factors
3	When the scope of the defining act is wide the framework should provide a basis for allocating guarantees among the eligible entities in a manner that serves to reduce fiscal risks. For example, the risks of guarantees to public sector entities should not be treated the same as loans to individuals or private corporations. When the scope is narrow (e.g. only guarantees for public debt) the framework should provide a basis for how unforeseen circumstances (e.g. acts of god, severe economic contraction) would be handled, e.g. through use of insurance or a contingency fund/reserve.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where, irrespective of the scope, there is only high-level mention of how potential risks will be managed.

The above scoring system seeks to ensure that sovereigns carefully manage the potential risks that could occur as a consequence of adopting a wide or narrow focus towards the management of contingent liabilities. This serves to reduce levels of operational risks.

CP-11 Purpose of contingent liability

Does the framework explicitly state the purpose for which contingent liabilities will be issued?

Scoring rationale

Scoring	Evidence factors
3	The enabling act may explicitly state, for example, that guarantees will only be given for guaranteeing investment projects. Further, there is no evidence of lack of congruence between the act and its operationalisation.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where the operationalisation of the law is incongruent to the letter of the law.

The above scoring system seeks to ensure that sovereigns extend contingent liabilities for the intended reasons as stated in law and that such reasons are clear and known to all. It also serves to reduce the likelihood of operational and reputational risks.

A score of 2 could be given for the case where the law has a general statement along the lines of guarantees being given for "any purpose" but makes reference to specific exclusions.

CP-12 Delegated authority for contingent liabilities

Does the framework provide a clear basis for the delegation of authority to create a contingent liability?

Scoring rationale

Score	Evidence factors
3	Evidence of this is where the enabling act either explicitly states that only a single specified body/person may create contingent liabilities or it identifies those bodies/persons that may act in delegated authority for the primary authority. Further, there is no evidence that such delegated authority results in a different governance framework (with detrimental consequences) than what would transpire with the primary authority.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where only high-level details are provided.

The above scoring system seeks to ensure that only authorised individuals can commit the sovereign to contingent liabilities on a delegated basis. It serves to help in the management of the proliferation of contingent liabilities and auditability of the issuance process. This system serves to reduce operational risks.

CP-13 Oversight of public sector contingent liabilities

Does the framework clearly state whether public sector entities, such as local governments, state-owned entities and statutory bodies can undertake guarantees?

Scoring rationale

Scoring	Evidence factors
3	Evidence of this would include, e.g., explicit mention of which entities are allowed to issue guarantees and other contingent liabilities as well as which ones are not allowed. The framework should state how such liabilities are to be approved (at the public sector entity level) and communicated to the "main authority" for approving such liabilities. Further, there is no evidence that operationalisation of the law is incongruent from the letter of the law.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where only high-level details are provided.

The above scoring system seeks to determine the total sources from which contingent liabilities can originate with a view towards ensuring consistency between law and operations. Hence, it serves to minimise the likelihood of underreporting of contingent liability exposures. This serves to reduce levels of operational risks.

CP-14 Requirement for parliament/cabinet to approve

Does the legal framework explicitly detail whether parliament, cabinet or some other legislative body is required to approve contingent liabilities?

Scoring rationale

Scoring	Evidence factors
3	Evidence would include (in primary act), e.g., clear description of the process for approval including mention of whether approval is prior to issuance or retrospective. Further, the act mentions any constraints on issuance prior to formal approval (assuming prior approval is required) or maximum period of elapsed time after issuance of guarantee (assuming that issuance can take place prior to parliamentary approval).
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where there are high-level details stating that parliamentary/cabinet approval is required but no details of the process.

The above scoring system seeks to ensure that knowledge and approval of contingent liabilities do not reside in few hands but that facilities exist for accommodating potentially diverse opinions. Hence, it serves to reduce the likelihood of reputational risk.

A score of 1.5 can be achieved if a process is described but does not contain level of detail for a score of 3.

CP-15 Timing of any parliamentary approval

Is approval by parliament/cabinet (or other legislative body) prior to or after issuance of guarantee?

Scoring rationale

Scoring	Evidence factors
2	Where approval is required by parliament or other legislative body prior to issuance of contingent liability. In the alternative, if prior approval is not required but a parliamentary limit on contingent liabilities is used as a basis for managing liability risks and there is no evidence of breaches of the limits.
1	If there is incongruence between operationalisation of the law and the letter of the law.

The above scoring system seeks to ensure that approval authorities are notified in a timely manner and hence to reduce reputational and operational risks.

CP-16 Risk management process of contingent liabilities

Does the framework provide details as to the risk management process to be followed for the management of contingent liabilities?

Scoring rationale

Scoring	Evidence factors
3	Evidence would include, e.g., details of the risk management process to be followed and/or some reference to other detailed risk documents. The framework should clarify the "main authorities" role in ensuring that the appropriate skills, processes and systems are in place to manage risks. The framework and/or risk documents should, where appropriate, require assessing the impact of changes to market, credit and other relevant factors on contingent liability exposures.
2	As above but where there are multiple acts relating to the authority to create contingent liabilities.
1	Where only high-level details are provided.

The above scoring system seeks to ensure that there is a framework for the risk management of contingent liabilities and that the sovereign has the requisite capacity to measure and manage the risks.

A score of 2.5 (for what would otherwise be a score of 3) could be obtained if minor details, for example lack of specifics on skills, are omitted. Similarly, a score of 1.5 would result for the case where a score of 2 would have been appropriate. Finally, a score of 1.5 (where there is a single act) could be obtained where some level of detail is provided beyond high level but insufficient to result in a score of 2.5.

CP-17 Fees imposed by the ministry of finance

Does the legal framework require the payment of contingent liability fees or authorise the minister of Finance (or other responsible person/body) to charge fees?

Scoring rationale

Scoring	Evidence factors
3	Evidence would include, e.g. (in law), details of the fees and/or any authority to charge fees by the minister or other relevant bodies. Ideally, those determining the fees should not be the same as those issuing or authorising contingent liabilities. Further, there is no evidence that fees are not always being paid/collected by/to the responsible body. In addition, there should be some statement as to how fees are to be used in the risk management of the liabilities and that fees are derived based on the risk posed by the specific contingent liability.
2	Where there is no law but practice is to charge fees.
1	Where there is incongruence between operationalisation of the law and the letter of the law.

The above scoring system seeks to ensure that the sovereign is aware of the expected or likely costs of meeting the costs of contingent liabilities and seek compensation via way of a fee. This serves to reduce levels of liquidity risks.

If evidence exists of fees but those fees are not directly related to the result of a risk analysis, then the score is capped at 2.

CP-18 Need for contingent liability

Does the framework explicitly require justification of the need for the issuance of a contingent liability?

Scoring rationale

Score	Evidence factors
2	Evidence would include, e.g., legal requirement to prove that funding could not be obtained (by beneficiary) without issuance of the contingent liability; there are *a priori* risks where the benefits of the liability outweigh the magnitude and costs of the risks. Additional evidence would include, e.g., guidance/laws on how to conduct cost-benefit analysis.
1	If evidence does not include all the above factors.

The above scoring system seeks to ensure that the sovereign is aware of the rationale for the contingent liability and that there is not an alternative (less risky/cheaper) option. This seeks to reduce levels of operational and liquidity risks.

CP-19 Risk sharing

Does the framework/policy delineate cases for determining the percentage share of a contingent liability that a sovereign (or relevant liability provider) will assume?

Scoring rationale

Scoring	Evidence factors
3	Evidence would include, e.g., explicit percentages against contingency type; percentages based on beneficiary risk rating, etc. In addition, there is no evidence to suggest there is a lack of congruence between the operationalisation and the letter of the law.
2	As above but where percentages are not broken down into the varying types of contingent liabilities.
1	Where there is incongruence between operationalisation of the law and the letter of the law.

The above scoring system seeks to ensure that the sovereign avail itself of risk mitigation strategies via sharing of risks. The intention is that the entity in the best position to manage a particular silo of risk should bear the responsibility for the majority of that risk management.

CP-20 Termination of contingent liabilities

Does the legal framework provide conditions under which contingent liabilities can be terminated when it is deemed to no longer be a requirement?

Scoring rationale

Score	Evidence factors
2	Evidence would include, e.g., explicit inclusion in law allowing the termination of contingent liabilities.
1	Where there is incongruence between operationalisation of the law and the letter of the law.

The above scoring system encourages sovereigns to make use of the option to terminate a contingent liability given that it is no longer needed. This serves to reduce liquidity risks.

A score of 1.5 can be awarded if it can be shown that there is no law but regulation/policy and practice is to include termination options in all contingent liabilities where applicable.

CP-21 Collateral requirements

Does the framework permit for the requirement that beneficiaries post collateral?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., reference to a law detailing eligible collateral, valuation mechanisms, etc.
2	Some evidence exists but only in high-level terms where the types of eligible collateral have not been detailed.
1	Where there is incongruence between operationalisation of the law and the letter of the law.

The above scoring system seeks to ensure that sovereigns identify eligible collateral and that a rational basis exists for its valuation. This seeks to reduce exposures owing to credit and market risks.

Even if the evidence factors exist for a score of 3, there may not be sufficient details regarding how collateral is to be valued. In such cases, a score of 2.5 could be given.

CP-22 Accounting for guarantee fees

Does the framework provide details as to how fees from guarantees are to be accounted for so that they provide a consistent view when accounting for the contingent liability?

Scoring rationale

Score	Evidence factors
2	Evidence would include, e.g. (in the primary act), not accounting for the fee as revenue if not accounting for the liability as an expense. An alternative would be to budget for the full cost of the liability.
1	If budgeting is not as above.

The above scoring system seeks to ensure that sovereigns properly account for expenses given that they may be recognising the benefits of contingent liability premiums. This seeks to reduce operational risks.

CP-23 Limits management

Does the framework explicitly detail limits for contingent liabilities?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., limits for the amount of contingent liabilities that can be assumed in any year; limits could be expressed as percentage of GDP, stock of debt, etc. In addition, evidence would include, e.g., any changes to established limits would require approval from parliament or relevant legislative body. Further evidence would include, e.g., limits cannot be breached without prior approval from parliament or other legislative body.
2	Where not all of the above factors are evident but there are no breaches of identified limits.
1	Where there have been breaches of limits.

The above scoring system seeks to ensure that the sovereign can place a cap on the maximum amount of outstanding and individual exposures in relation to contingent liabilities. In this respect, the system seeks to reduce the propensity for liquidity risks.

CP-24 Role of debt management office

Is the role of the debt management office detailed in the framework?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., details of how the debt management office is involved in the analysis and monitoring of contingent liabilities (i.e. its role, reporting requirements, etc.). Evidence that the creation of the MTDS (by the debt management office) incorporates contingent liabilities (as a requirement in law). In addition to the above, there is no evidence that the letter of the law and its operationalisation are incongruent.
2	As above but where the debt management office does not incorporate contingent liabilities in the MTDS.
1	Where only high-level details are provided or there is a lack of congruence between the letter and operationalisation of the law.

The above scoring system seeks to reward situations where a sovereign has a dedicated debt management office with expertise in the management of contingent liabilities. This serves to enhance the level of analysis (hence reducing operational risks) of such liabilities. Further, since incorporation of the contingent liability into the MTDS is expected to occur, the system also rewards practices that attempt to reduce the likelihood of liquidity risks.

CP-25 Classifying contingent liability events

Does the framework explicitly require classification of events leading to realisation of contingent liabilities as being low or high impact (or equivalent) categories?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., act requiring that outputs of a risk assessment classify liabilities into low- or high-impact events. Further, the result of these assessments is disclosed in publicly available documents. In addition, there is no lack of congruence between the letter and operationalisation of the law.
2	If classification occurs but it is not mandated by law.
1	If there is a lack of congruence between the law and its operationalisation.

The above scoring system seeks to reward situations where a sovereign has quantified the likelihood of a contingent event occurring and its corresponding impact. The benefit of such analysis would be to put the sovereign in a position to be able to quantify its potential costs. This serves to aid the overall risk management process and provides more clarity to the budgeting process and helps reduce operational risks.

Even if the evidence factors exist for a score of 3, the actual risk assessment method may have flaws. The risk assessment methods will be compared against best and emerging better practice. In such cases, depending on the severity of the flaws, the score could be reduced to a value ranging between 2.5 and 0 (i.e. a completely ineffective assessment framework). Similarly, a score that might otherwise result in a value of 2 could be modified to a value between 1.5 and 0.

CP-26 Contingency reserve

Does the framework facilitate the maintenance of a contingency reserve that could be used to meet calls on contingent liabilities in exceptional circumstances?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., laws specifying how such a reserve is to be endowed and utilised and the portion specifically allocated to contingent liabilities. In addition, there is no lack of congruence between the letter and operationalisation of the law.

Scoring rationale

Score	Evidence factors
2	If there is a contingency reserve but no specific laws relating to contingent liabilities but there is evidence that the fund is used to meet contingent liability costs.
1	There is a lack of congruence between the letter and operationalisation of the law.

The above scoring system seeks to reward situations where a sovereign is able to show how utilisation of a contingency reserve serves to manage the risk of contingent liabilities. If properly managed, the contingency reserve can be used to mitigate the severity of fiscal surprises and hence liquidity risks.

CP-27 Reporting total debt

Does the framework explicitly require the reporting of total debt to include guaranteed debt?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., definition (in the act of parliament) of what constitutes total debt or subsets like total public debt as including debt guarantees. In addition, there is no evidence that the letter and operationalisation of the law are not congruent.
2	Where there is no mention in law of what constitutes total debt, etc. but practice is to report total debt as comprising direct obligations plus publicly guaranteed debt.
1	If there is a lack of congruence between the law and its operationalisation.

The above scoring system seeks to reward sovereigns for clarity of disclosure. Such disclosures serve to reduce the likelihood of reputational risk.

CP-28 Recording of contingent liabilities

Does the framework explicitly require a computerised record to be kept of all contingent liabilities?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., a requirement in the public debt management requiring a specified body/entity to record the contingent liability. Further, the act would specify that a computerised system is to be used to log these liabilities. In relation to called contingent liabilities, the system would also record those that have been assumed to be called by the grantor of the contingent liability. In addition, there is no evidence of lack of congruence between the letter and operationalisation of the law.

Score	Evidence factors
2	There is no legal requirement but practice is to record such liabilities on a computerised system.
1	There is a lack of congruence between the letter and operationalisation of the law.

The above scoring system seeks to reward sovereigns for maintenance of electronic records. This serves to reduce operational and reputational risk in the management of contingent liabilities.

A score of 2 would be obtained in the case where all evidence factors for a 3 exist but there is no recording of called most contingent liabilities (e.g. only recording guarantees). A score of 1.5 would be obtained where a similar case exists when there is no legal requirement.

CP-29 Updating of website

Does the framework explicitly provide for the details of contingent liabilities and associated risk assessments to be disclosed via an official government website that is freely accessible to members of the general public and updated on a frequent basis?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., laws specifying that details of contingent liabilities (including risk assessments) must be disclosed on an official government website freely accessible to members of the public and updated on a frequent basis. In addition, there is no lack of congruence between the letter and operationalisation of the law.
2	Where information on contingent liabilities is detailed on an official government website but there are no laws mandating such practice.
1	There is a lack of congruence between the letter and operationalisation of the law.

The above scoring system seeks to reward sovereigns for public disclosure of contingent liabilities. This serves to reduce the likelihood of reputational risk.

A score of 2.5 would be obtained in the case where all evidence factors for a 3 exist (comprising disclosure for most contingent liabilities) but there is either no or just high-level disclosure of others (few in number and not considered potentially materially significant in magnitude). The score is reduced further (to a minimum of 1) if more and/or material liabilities are not disclosed. In the case where the evidence factors exist for a 2, the score could be reduced further on the basis of the extent to which all main contingent liabilities are not disclosed, with the lowest score being 0.

In either the case of a 3 or a 2, irrespective of the completeness of the information, if details on the website are stale in that they do not reflect up-to-date information then scores should be reduced accordingly. As a rule of thumb, data are stale if they are for more than a month from when they are supposed to have been

officially disclosed or produced (whichever is later). Naturally, the frequency of data production will affect whether disclosure (or lack thereof) is to be considered stale. For example, annual reports on contingent liabilities are considered current until the official disclosure/production of the next report. In circumstances where no official date is provided but practice has been to release the data on a periodic basis then that basis should be used as the period. When no regular periodic basis exists, stale is considered in the context of better and emerging practice. Irrespective, no data should be considered current that are more than one year from last disclosure.

CP-30 Ease of access/navigating website

Does the website facilitate accessing/navigating to the relevant areas to view details of contingent liabilities?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., landing page on which navigation to pages on contingent liabilities is clearly identified. In addition, the website is reliable and not down for significant periods of time.
2	Where there is no landing page with reference to contingent liabilities and navigating to a page with such details is not immediately obvious but a page exists.
1	Where there is no page for contingent liabilities but such details are contained in other reports/documents maintained online.

The above system seeks to reward sovereigns for providing ease of access to relevant data of contingent liabilities on an official government website. This serves to reduce the likelihood of reputational risk.

Even if evidence factors exist for a 3/2, the score could be reduced to 0 if the relevant page is ineffective. That is, the page link does not work.

CP-31 Ease of downloading details

Does the website facilitate downloading details of risk analysis relating to contingent liabilities?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., individuals being able to download PDF/Excel/Word or other electronic documents containing risk analysis of contingent liabilities.
2	Where information on contingent liabilities is detailed on an official government website but there is no ability to download details or the details do not contain a risk assessment.
1	There is no reference to contingent liabilities.

The above system seeks to reward sovereigns for providing downloading facilities for risk analysis relating to contingent liabilities. This serves to lower the likelihood of reputational risks.

CP-32 Existence of fiscal risk committee

Is there a fiscal risk committee (analysing the risk of contingent liabilities) comprising individuals from representative ministries whose area of responsibility covers key contingent liability risk silos?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., laws/regulations specifying the composition and responsibility of the committee, term of members, qualifications, frequency of meetings, reporting requirements, etc. Further, there is no evidence of lack of congruence between the letter and operationalisation of the law and the key contingent liability silos are covered.
2	As above, but where there is no law/regulation but a committee exists that fulfils the operational requirement of a fiscal committee.
1	There is a lack of congruence between the committee and the letter of the law.

The above system seeks to mitigate a number of risks, including liquidity, credit, market, operational and reputational risk.

Even if the evidence factors exist for a 3/2, the score could be reduced if it is found that the committee was not effective as a result of any number of factors, including the level of analysis, oversight, coverage, etc.

CP-33 Frequency of meetings

Does the fiscal risk committee meet at least quarterly?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., laws/regulations specifying the frequency of meetings to be at least quarterly. Further, there is no evidence of lack of congruence between the letter and operationalisation of the law.
2	Where there is no law/regulation but a fiscal committee exists that meets at least quarterly.
1	There is a lack of congruence between the committee and the letter of the law.

The above system seeks to ensure that the government has met sufficiently often to provide increased opportunities to better understand the varied nature of risks

affecting the government. As such, the system seeks to reduce levels of all risk types.

CP-34 Key performance indicators

Are key risk indicators disclosed and monitored for the performance of the committee?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., laws/regulations specifying the key risk factors. Further, there is no evidence of lack of congruence between the letter and operationalisation of the law.
2	Where there is no law/regulation but key risk factors are disclosed and applied.
1	There is a lack of congruence between the committee and the letter of the law.

The above system seeks to reduce levels of operational risk in the management of contingent liabilities.

Even if evidence exists for a 3/2, the score could be reduced if there is evidence that key performance indicators are ineffective.

CP-35 Annual report of the auditor-general

Is the report of the auditor-general published annually and does it contain disclosures on contingent liabilities?

Scoring rationale

Score	Evidence factors
3	Evidence would include, e.g., laws/regulations specifying that the auditor-general's report is to be disclosed yearly and that it contains details of contingent liabilities. Further, there is no evidence of lack of congruence between the letter and operationalisation of the law.
2	Where there is no law/regulation but practice is to produce the report annually.
1	There is a lack of congruence between the disclosure practices and the letter of the law.

The above system seeks to reduce levels of operational risk.

Even if evidence factors exist for a 2, the score could be reduced if the report is not produced annually.

CP-36 Unresolved matters in auditor-general's report

Does the report contain matters relating to contingent liabilities that have been unresolved as of the previous report date?

Scoring rationale

Score	Evidence factors
2	Where there are no unresolved matters having a potentially negative fiscal impact.
1	There is a lack of congruence between what is reported in the auditor-general's report and operational practice.

The above system seeks to reduce levels of operational risk.

CP-37 Forward-looking budget projections

Does the budget provide details on forward-looking projections of contingent liabilities covering likelihood of liability events, severity amounts and other risk statistics?

Scoring rationale

Score	Evidence factors
2	Where there are forward-looking projections covering likelihood of severity of contingent liabilities and other statistics.
1	Where only partial details of forward projections, e.g. severity levels without likelihoods of occurrence.

The above system seeks to reduce the likelihood of a combination of risks including operational and liquidity.

CP-38 Details on current contingent liability amounts in budget

Does the budget provide details on the current stock/amount of contingent liabilities?

Scoring rationale

Score	Evidence factors
2	Where the budget provides details of amount of contingent liabilities broken down by type of liability.
1	Where only partial details of contingent liabilities are provided.

The above system seeks to reduce the likelihood of reputational risks.

CP-39 Details of called contingent liabilities in budget

Does the budget provide details of realised contingent liabilities?

Scoring rationale

Score	Evidence factors
2	Where the budget provides details of realised contingent liabilities by type.
1	Where only partial details of contingent liabilities are provided.

The above system seeks to reduce the likelihood of reputational risks.

CP-40 Debt to GDP

Is debt to GDP in the current period less than that in the previous period?

Scoring rationale

Score	Evidence factors
2	Where the change is negative
1	Where there is no change

The above system seeks to assess the impact of debt management policy on GDP. A reduction in the value of the ratio may suggest an improved liquidity position.

A score of 0 is obtained where the change is either positive or no data are provided.

CP-41 Weighted average interest cost

Is the weighted average cost of debt in the current period less than that in the previous period?

Scoring rationale

Score	Evidence factors
2	Where the change is negative
1	Where there is no change

The above system seeks to assess the impact of credit and market risks associated with the total amount of public debt stock.

A score of 0 is obtained where the change is either positive or no data are provided.

Risk definitions

Operational risk:

"Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk."[29]

Liquidity risk:

The definition of liquidity risk provided here is non-standard but serves to illustrate the nature of liquidity associated with contingent liabilities:

Liquidity risk is defined as the ability of the government to be able to meet fiscal objectives/obligations in the presence of the realisation of contingent liabilities as and when due.

The term "ability" in the above definition can be linked to the notion of probability that is, the probability of meeting planned expenses, etc., in the light of the occurrence of a contingent liability.

Reputational risk:

Reputation risk can be defined as the risk arising from negative perception on the part of creditors, rating agencies, parliament and others that can adversely affect a sovereign's ability to maintain existing, or establish new, business relationships and continued access to sources of funding.[30]

Market risk:

The following standard definition of market risk is used: market risk is defined as the risk of losses owing to adverse movements in market prices.

Credit risk:

"Credit risk can be defined as the potential that a borrower or counterparty will fail to meet obligations in accordance with agreed terms."[31]