

tee, including those for recoveries; and monitoring requirements, including information-sharing obligations of the beneficiary and penalty for noncompliance.

Develop Institutional Mechanisms

- **Develop a policy framework.** A government policy on guarantees, specifying when and for what purposes guarantees can be considered, should be developed.
- **Integrate decisions on guarantees with the budget process.** The approval process should require a mandatory consultation with the ministry of finance. The ministry of finance should examine guarantee proposals for their appropriateness, cost-effectiveness, and fiscal impact.
- **Develop capacity to evaluate guarantees.** Ministries of finance should develop capacity to measure guarantee exposure precisely and to adopt approaches to accounting, reporting, and budgeting that properly reflect this exposure. They should be able to cost guarantees and determine the guarantee fees to be charged. They should also develop guidance on the methodologies and assumptions to be used when analyzing guarantees.

Appropriately locating the risk management function is important. Typically, government debt managers are better equipped to conduct risk assessment. They deal with credit risk assessment in the context of debt and investment management and are expected to possess the required expertise. They are also interested in monitoring the government's overall creditworthiness, which guarantees can affect. Moreover, the pricing of a guaranteed debt can be an indicator of the pricing of government's own debt. Debt management units are often also responsible for recording and monitoring guarantees as part of their back-office functions.

- **Establish adequate budgetary mechanisms for meeting the payment obligations when they arise.** While cost-based budgeting would be ideal, at a minimum, countries should estimate likely payments and provide for them in the budget. Countries with sizable exposure could consider building a guarantee reserve fund.
- **Strengthen the link between the guarantees management framework and the oversight of state-owned corporations and subnational govern-**

ments, which are typically the main beneficiaries of government guarantees.

- **Centralize the recording and monitoring of data on guarantees.** A centralized database of guarantees—supported by an information system that ensures data security and traceability—is useful in ensuring the availability of up-to-date information, and facilitates monitoring.
- **Ensure regular disclosure.** Information on the government's exposure from guarantees and other contingent liabilities should be routinely submitted to the legislature and published at least annually.