1. Preamble

GUIDELINES issued by the Minister in charge of the subject of Finance in accordance with the authority vested in him by Section 7 of the Public Debt Management Act No 33 of 2024 (hereinafter referred to as the "Act"). The Guidelines are structured in two parts as follows:

Part I: Guidelines Governing the Operations of the Public Debt Management Office

Part II: Guidelines on Loan Guarantees and On-Lending Operations

The Public Debt Management Office shall comply with these Guidelines in the exercise of its powers and the performance of its functions and duties as conferred under the Act.

Anura Kumara Dissanayake
The President
19/09/2025

2. Abbreviations

BO	: Back Office
CBSL	: Central Bank of Sri Lanka
DCMC	: Debt and Cash Management Committee
DCS	: Department of Census and Statistics
DMIS	: Debt Management Information System
FO	: Front Office
Minister	: The Minister in charge of the subject of Finance
MO	: Middle Office
MTDS	: Medium Term Debt Management Strategy
EBITDA	: Earnings Before Interest, Taxes, Depreciation and Amortization
ERD	: External Resources Department
GFN	: Gross Financing Needs

IRU	: Investor Relations Unit
ISB	: International Sovereign Bonds
MoF	: Ministry of Finance
NPD	: Department of National Planning
ODA	: Official Development Assistance
PDCC	: Public Debt Coordinating Committee
PDMO	: Public Debt Management Office
PIC	: Public Investment Committee
PIP	: Public Investment Programme
SOFR	: Secured Overnight Financing Rate
TOD	: Treasury Operations Department

Part I – Guidelines Governing the Operations of the PDMO

3. Establishment of the Public Debt Management PDMO

1) The Public Debt Management Office (hereinafter referred to as the "PDMO") referred in Section 4 of the Act, is established within the Ministry of Finance. The PDMO is headed by a Director General.

2) The PDMO comprises three main mandatory divisions, namely "Front Office", "Middle Office" and "Back Office". Each of these divisions is headed by an Additional Director General. Any other division could be determined by the Director General of the PDMO as per the requirement.

3) The organizational Structure of the PDMO may be as per the Schedule 1.

4) The "Front Office" of the PDMO shall comprise three units namely, "Domestic Borrowing Unit (DBU)", "External Borrowing Unit (EBU)" and "Investor Relations and Market Development Unit (IRU)". Each of these units is headed by a Director.

5) The "Middle Office" of the PDMO shall comprise three units namely, "Policy and Analysis Unit (PAU)", "Credit Risk Analysis and Monitoring Unit (CRAU)" and "Risk Control and Compliance Unit (RCU)". Each of these units is headed by a Director.

6) The "Back Office" of the PDMO shall comprise three units namely, "Debt Recording Unit (DRU)", "Debt Servicing Unit (DSU)" and "Debt Statistics and Reporting Unit (DSRU)". Each of these units is headed by a Director.

7) The Secretary to the Treasury shall appoint two committees under chairmanship of a Deputy Secretary to the Treasury to facilitate in the process of Government Domestic Securities issuance. The Committees should report to the Secretary to the Treasury's consideration and approval.

   (i) The Debt and Cash Management Committee(DCMC) to determine the volume, composition, and maturity structure of domestic debt issuance and to decide on the borrowing programme and cash management strategy in the immediate future, considering the Treasury's cash flow requirements, while adhering to budgetary limits, fiscal sustainability, and prevailing market developments.

(ii) The DCMC meets monthly or more frequently if necessary. The Auction Steering Committee (ASC) to determine the maturity-wise volume to be issued and the cut-off point to accept Government domestic debt securities at each auction, taking into account the developments in the market and facilitating Treasury's borrowing requirements at the lowest possible cost and prudent level of risk. The ASC shall convene immediately upon receipt of the results of each and every debt securities auction.

4. Responsibilities and Functions of the PDMO

8) The PDMO is responsible for (i) the management of the debt of the Government, (ii) the issuance and management of loan guarantees (iii) the management of on-lending operations; and (iv) the recording and reporting of public debt.

9) The duties, functions and the responsibilities of the PDMO have been defined in Section 6 of the Act. The PDMO guidelines intend to provide clear directives for the implementation of defined duties and functions of the Act, and define the institutional organization of the PDMO. The officials of the PDMO should adhere to these guidelines when performing assigned duties and function.

Organization, responsibilities and functions of the Front Office (FO)

5. Domestic Borrowing Unit (DBU)

5.1 Contribute to the Development of the Annual Borrowing Plan

10) Participate in the formulation of the Government annual budget (in coordination with relevant departments), providing inputs on market absorption capacity, potential financing sources and guidance from the MTDS.

11) Identify the most recent annual gross financing needs and its in-year cash flow profile.

12) Identify borrowing instruments in coordination with relevant departments.

13) Consult with market participants about their investment plans and demand for domestic government securities.

14) Contribute to the MO for the preparation of the annual borrowing plan consistent with the MTDS.

15) Based on approved budget, contribute to the preparation of a more detailed ABP consistent with intra-year cash flow projections.

16) Assist the MO for the monitoring and periodic reviews of ABP and assist for assessing the eventual/extraordinary need to publish a revised plan.

17) Implementation of the ABP.

18) Preparing and publishing the domestic securities Auction Calendar

19) Prepare the auction calendar of T-Bills and T-Bonds for a three months period in rolling basis and updated monthly including the following information: i) auction dates; ii) instruments including their tenors to be auctioned; iii) indicative volumes. In case of T-Bills, the aggregate or instrument-wise volumes may be included in the auction calendar.

20) Publish the monthly updated domestic securities auction calendar in three month rolling basis upon approval by Debt and Cash Management Committee (DCMC) in the MoF's and the PDMO's websites not later than two (02) weeks ahead of the beginning of the applicable period.

5.2 Undertaking T-Bills and T-Bonds auctions

21) Identify in collaboration with relevant counterparts [TOD, CBSL] potential short-term cash shortages, money market developments and market liquidity projections to define offered amounts.

22) Arrange monthly pre-bid meetings with Primary Dealers and Licensed Commercial Banks and other relevant auction participants not later than the 25th day of the month. For the auction which for a pre-bid meeting is not realized, consult Primary Dealers, Licensed Commercial Banks and other relevant auction participants about their expected demand for the auction, by phone and or e-mail.

23) Prepare auction announcement, obtain approval by the head of the PDMO, and publish it on the MoF's and PDMO's website and relevant communication channels, not later than two business days ahead of the auction.

24) Announce the auction on the auction system on the offering date.

25) Extract bids from the auction system immediately after the closing of the auction, prepare relevant information for decision-making, and convey the recommendation of the Technical Evaluation Committee (TEC) which is headed by the Director (DBU) to the Auction Steering Committee (ASC), for the decision of the cut-off rate/volume.

26) Release auction decision through the auction system to auction participants.

27) Prepare auction outcome and publish in the MoF's and PDMO's website immediately after the each phases of auction. In the case of non-competitive auction subsequent phases of T-Bonds are opened, a preliminary result should

be published only after the close of such phases, followed by the publication of aggregated results upon the completion of subsequent phases.

28) Prepare and share consolidated information of auction results with BO, MO, TOD, CBSL including LankaSecure (depository).

29) Enter auction data in the DMIS.

5.3 Undertaking auctions of foreign currency denominated government domestic debt instruments including Sri Lanka Development Bonds

30) Define target volume and tenor of debt instrument to be offered, in consultation with DCMC.

31) Prepare and send "Express of Interest Letters" form to PDs and Licensed Commercial Banks.

32) Appoint Designated Agents (DAs) and Payment Agents (PAs), upon receiving the EoI Letters.

33) Assess prospect demand of DAs for the auction.

34) Prepare and publish advertisement, offering document and brochure on the relevant channels (e.g. newspaper and website).

35) After the auction announcement, the procedure outlined in the procedure manual shall be followed.

5.5 T-Bills, T-Bonds and foreign currency denominated government domestic debt instruments direct placements

36) Direct placements are exceptionally facilitated when the required funds are not raised fully through the auction and/or at times of market volatilities, with the prior approval of the Cabinet of Ministers, through T-bills and T-bonds in LKR and foreign currency denominated government domestic debt instruments, by subscription by applicable auction participants.

37) Direct placements are assessed, against relevant price references in the government securities market, and should consider, amongst other:

    I. Government short and medium-term financing needs;
    II. Domestic government securities market conditions;
    III. Target risk indicators defined in the MTDS and/or in the ABP;
    IV. Borrowing cost

38) The tenor, applicable yield rates and the instruments are considered in line with applicable most recent auction weighted average yield rates (WAYRs). In the absence of the most recent WAYR, relevant price references in the government securities market are assessed.

39) Direct placements may be undertaken through the auction system where applicable.

40) Allocation arrangement should be regulated and follow Cabinet of Minister's approval.

41) Placement details and payment instructions are facilitated through the auction system, where applicable, or prepared and shared with relevant parties (MO, BO, LankaSecure and the auction participant).

42) Publish direct placement outcome in the PDMO website no later than the close of business on the day of the placement.

5.6 Primary Dealers (PDs) System Management

43) Develop and publish a primary dealers' framework that defines the criteria for the appointment and potential exclusion (and sanctions) of PDs and the duties and privileges of PDs. The framework should be reviewed periodically

44) Monitor and evaluate PD's performance against their duties and monthly share with them and with CBSL information about their absolute and relative performances. The periodic publication of a ranking of the best performers shall be considered.

45) Maintain permanent information exchange channel with PDs and hold periodic meetings with them.

46) Maintain an updated list of PDs in the website of MoF and PDMO.

5.7 Domestic market monitoring and reporting

47) Monitor the daily evolution of the primary and secondary government securities and related markets to provide inputs for auctions and other related transactions.

48) Produce [internal] daily and monthly reports of developments on the primary and secondary government securities and related markets.

49) Provide inputs related to primary and secondary domestic government securities for relevant committees, meetings with market participants, credit rating agencies, debt management planning, and any other relevant objective.

5.8 Domestic loan guarantees

50) Receive guarantee request from the relevant counterpart (line Ministry/Implementing Agency), including requested information defined by regulations and Part II of this guideline.

51) Assess the all-in cost of associated domestic loan, against relevant price references in the government securities market.

52) Consult relevant departments of MoF and CBSL about the potential impact of the requested guarantee on their areas of responsibility, including the MO of PDMO for credit risk assessment, consistency with MTDS and proposal of risk mitigation mechanism in line with credit risk assessment methodology and part II of the guideline.

53) Prepare a comprehensive analysis, including a recommendation for granting or not the requested guarantee, based on inputs received and produced.

54) Obtain the relevant approval for the issuance of the guarantee and prepare the guarantee contract or prepare a negative response to the requestor in the case that is for not providing the guarantee.

55) Enter the guaranteed domestic loan data to DMIS and share details on guarantee with the relevant parties (BO and MO) and the signed agreement with BO for record keeping and monitoring.

5.9 Domestic on-lending

56) Similar process as guarantees, but the contract to be prepared and needed approvals to be obtained for the sub-loan agreement.

5.10 Domestic non-marketable borrowing (commercial loan)

57) Engage with potential domestic lenders bilaterally or by sharing a request for proposal with them to raise loans in LKR or in foreign currency, according to guidelines provided by the ABP and developments on its implementation.

58) Assess all-in cost of the domestic loan, against relevant price references in the government securities market, and convenience of contracting the loan. The assessment should consider, amongst others:

    I. Government short and medium-term financing needs;
    II. Domestic government securities market conditions;
    III. Target risk indicators defined in the MTDS and/or in the ABP;
    IV. Borrowing cost;
    V. Disbursement and repayment profile

59) Prepare a recommendation for the Head of the PDMO for contracting the loan, also considering inputs received from other departments of MoF and from the CBSL.

60) Obtain the approval of the Cabinet of Ministers for the term and conditions of the loan and prepare the loan agreement.

61) Share signed loan agreement and associated information with the relevant parties for recording, monitoring, accounting, disbursements and payments.

5.11 Liability Management Operations (LMOs)

62) In consultation with IRU, identify the operational parameters such as target securities, amounts, pricing, settlement timing for the LMOs and submit to the PAU to conduct cost and risk analysis and execute the approved LMOs.

6. External Borrowing Unit (EBU)

6.1 Issuance of ISBs

63) Issuance of ISBs is carried out through Pre-Transaction, Transaction, and Post-Transaction processes. In cases where the responsibility for carrying out relevant tasks by divisions (other than the FO) within the PDMO, or other institutions are indicated in the Standard Procedure Manual.

Pre –Transaction

64) Monitor the financial market and macroeconomic developments in both domestic and external fronts through market intelligence, debt portfolio analysis, resource availability, and investor engagements to identify market access opportunities.

65) In coordination with IRU, engage with rating agencies, where appropriate, to maintain regular rating reviews.

66) Present to the PDCC a proposal to seek approval from the Minister of Finance to access international financial markets and initiate coordination within the MoF, and with CBSL, Attorney General Department and outside institutions.

67) Initiate calling for the appointment of the Lead Manager or Joint Lead Managers and all Third Parties as required for the transaction through a transparent competitive process in accordance with local law.

68) Obtain the approval from the Minister of Finance to appoint the selected Lead Manager or Joint Lead Managers and all Third Parties.

69) Arrange the Kick-off call with the Lead Manager or Joint Lead Managers and Third Parties.

70) Pre-transaction due diligence, documentation including the publicity restrictions as applicable to MoF, and other required institutions.

71) Attend required processes of Road Show/ Net Road Show/ Voice Cuts and Offering Circular.

Transaction

72) Transaction announcement, investor call and initial price guidance in consultation with the Lead Manager or Joint Lead Managers.

73) Rating announcements (if required), market monitoring and book building.

74) Follow-up investor calls and any further price guidance, if required.

75) Pricing decision in consultation with the Lead Manager or Joint Lead Managers and with the Head of the PDMO.

Post – Transaction

76) Announcement of the transaction outcome.

77) Execution of Required Documentations and Legal Opinion, including trust deeds, paying agency agreement, legal documents, etc. (in coordination with the Attorney Generals Department, Legal Counsels).

78) Bring down due diligence call.

79) Transaction settlement, confirmation of wire transfer (Settlement Bank) and listing arrangements, in coordination with the BO.

80) Information sharing with MO and BO.

81) Transaction closing formalities (closing call release of securities, delivery of executed documents including for recording in the BO).

82) Evaluation of Transaction and post transaction communication to the PDCC.

6.2 External Syndicated Loans/ Term Financing Facilities

83) Issuance of Syndicated Loans and Term Financing Facilities follow arrangements close to the processes of ISBs through Pre-Transaction, Transaction, and Post-Transaction initiatives. Transaction execution shall differ to what applies for the issuance of ISBs considering the latter is always a marketable tradable security. A syndicated loan/ term financing facility is a loan extended by an institution or group of institutions (a loan syndicate).

84) Process involving the appointment of the Lead Arranger or Lead Arrangers and all Third Parties shall be carried out through a transparent competitive process or direct proposal reviews in line with debt strategy and approval of the Cabinet of Ministers.

6.3 External non-marketable borrowing

85) Provide inputs on the mode of financing at the PIC for the selection of Public Investment Projects from the PIP for the annual budget in line with the MTDS

86) Receive proposals from NPD and submit initial recommendation to ERD on source of financing and financing terms (fixed/floating, concessional, non-concessional etc), based on cost and risk management strategies stipulated in MTDS to coordinate with potential lenders.

87) Assess financing proposals of the lenders submitted through ERD.

88) Prepare a cost and risk analysis of the financial proposal received from the lender, jointly with the MO.

89) Negotiate financial terms and conditions of the financial proposal with the lender.

90) Make recommendation to the Minister as per the Section 17 of the Act and facilitate for the relevant approval process.

91) Enter the details of the loan to DMIS after concluding the loan agreement and handover the original loan agreement to BO for recording.

6.4 External Loan guarantees

92) Assess eligibility criteria of the beneficiary as defined in the Part II of this guidelines and provide necessary inputs needed to extend the guarantee to the MO to undertake the credit risk assessment.

93) Follow the same process defined in 50-55.

6.5 External On- Lending

94) Receive request from the relevant counterpart.

95) Similar process as guarantees, but the contract to be prepared and shall be obtained the necessary approvals for the sub-loan agreement.

6.6 Non- Guaranteed Foreign Currency denominated Borrowing of SoE

96) Receive the request from the SoE with the required information as defined in Part II Section 2.3 of this guideline.

97) Assess the terms and conditions of proposed borrowing.

98) Analyze cost and risk based on the debt reduction objective, the current and project fiscal, financial and debt environment.

99) Make recommendation to the Minister to approve the borrowing proposal, after consulting other relevant government entities.

6.7 Liability Management Operations

100) In coordination with IRU identify the potential market opportunities for the LMOs and submit the PAU for conducting cost and risk analysis and Execute the approved Liability Management Operations

7. Investor Relations and Market Development Unit (IRU)

101) Define an Investor relation and communication policy, a strategy for the publication of public debt-related information and investor relations activities, as well as an annual investor relations plan considering disclosure channels, target audience and coordination within the government.

102) Establish and maintain active and regular contact with investors of Government debt securities (domestic and external), creditors, financial intermediaries, credit rating agencies and credit research analysts and provide complete and timely information about the economic and financial situation, perspectives of the country and about the public debt, and promote transparency.

103) Arrange meetings with local market participants and intermediaries, maintain PDMO web page/ web site, PDMO mail distribution list, arrange or facilitate roadshows (deal or non-deal), in coordination with other units in PDMO.

104) Prepare PDMO and PDMO related communications by MoF to directly address investor concerns and to receive current financial market views.

105) Improve investor relations practices and engage in investor relations surveys.

106) Arrange investor calls based on the semi-annual debt report.

107) Take actions to reduce asymmetric information across Government debt securities market participants for better risk evaluation by the investors.

108) Design effective policies and practices for the development of government debt securities market.

109) Facilitate stakeholder coordination with a range of government agencies and market participants, other regulatory institutions such as Central Bank, Securities Exchange Commission, etc., to develop the domestic debt securities market and financial market infrastructure.

110) Develop effective investor relations practices and diversification of the investor base.

111) Undertake a (self) assessment on the stage of market development to identify gaps and key constraints in line with PDM objectives and develop a timebound action plan.

112) Review existing Government debt securities for improvements in features and other required modalities.

113) As the requirement and suitability of the environment, explore opportune market conditions to introduce new Government debt securities.

114) Provide input to develop securities market regulations for issuance and trading of government securities in collaboration with other institutions. (PDMO, CBSL, Colombo Stock Exchange, etc).

115) Compile and publish daily actual and quote-based government securities and secondary market information and conduct market surveys.

Organization, responsibilities and functions of the MO

8. Policy and Analysis Unit (PAU)

The mandate of the Policy and Analysis unit is to develop the debt management strategy, borrowing plans and financial risk management guidelines, and to produce analytical reports.

8.1 Debt management strategy, borrowing plans and input to fiscal risk reports

116) Prepare the MTDS as per Section 11 of the Act, aligned with the Medium-Term Fiscal Framework (MTFF), in close coordination with the Fiscal Policy Department and other relevant departments within the MoF and with the CBSL.

117) Analyze how government gross borrowing requirements will be met, and the financial risks of the resulting debt portfolio by undertaking the cost and risk analysis under different scenarios of interest and exchange rate assumptions and the growth projections for annual Gross Financing Needs (GFN) to estimate the volatility of debt servicing costs and to support the setting of desired currency composition, interest rate risk level, and the amortization profile of the debt portfolio.

118) Submit the prepared MTDS for the review of PDCC and obtain the approval of the Minister and the Cabinet of Ministers.

119) The MTDS should be reviewed and updated annually, and published together with the Budget Document and shall be also published as a standalone document in the websites of MoF and PDMO.

120) Obtain the approval of Cabinet of Ministers if there are any updates of the MTDS within the relevant fiscal year that are warranted by substantial changes in macroeconomic conditions, financial needs or developments in the financial markets.

121) Together with the FO, prepare the Annual Borrowing Plan (ABP), as per Section 15 of the Act. Ensure its consistency with the first-year projection of the MTDS.

122) Published the ABP as a standalone document on the website of MoF and of PDMO.

123) Review and update the ABP at least semi-annually and if there are any updates obtain the approval of the Cabinet of Ministers and publish the revised ABP in the website of MoF and of PDMO.

124) As part of the preparatory work for the annual Budget Documentation, prepare debt service forecasts based on both outstanding and forecasted debt, including sensitivity analysis on how the forecasts would change based on alternative currency and interest rate scenarios and Gross Financing Needs GFN growth rate scenarios.

125) Provide input for the preparatory work for the annual Budget Documentation on market debt absorption capacity and potential alternative financing sources and provide advice on the realism of securing financing for the proposed appropriation considering the gross financing needs.

126) Provide input to the Budget, Economic and Fiscal Position Report. The report should contain;

   I. Estimates relating to government borrowing, including sensitivity of the currency, interest rate and GFN growth movements as specified above, to the changes which may occur in connection with the economic or other basis used in the preparation of such estimates, in the prescribed format for the Budget Economic and Fiscal Position Report, in relation to the next financial year and the two succeeding financial years.
   II. Analysis on whether the planned budget deficit (if any) can be financed by borrowing in the domestic market and/or in external markets without excessive cost, and whether there is risk of crowding out of borrowing by the private sector.

127) Provide input for the Mid-Year Fiscal Position Report.

128) Provide input to the Statement of Fiscal Risks on risks concerning the government debt portfolio, such as sensitivity of liabilities to changes in market conditions.

129) Formulate the Debt Sustainability Analysis in collaboration with Department of Fiscal Policy, other relevant departments of the Treasury and the CBSL and publish it in the websites of Ministry of Finance and of the PDMO

130) In consultation with the Fiscal Policy Department and other relevant departments and the CBSL, develop a time plan for when each report and preparatory tasks and activities should be completed.

8.2 Coordination with cash management

131) Provide monthly information on projected cash-flows of debt, expected called guarantees and on-lending operations to the TOD.

132) Together with the TOD re-calculate the government short-term and long-term gross borrowing requirement (primary balance plus debt service) at least monthly.

8.3 Debt analysis and financial risk management

133) Formulate internal risk management guidelines and procedures and develop detailed key risk and performance indicators to expand on those set in the MTDS and ABP for approval by the Minister of Finance to support the effective implementation of the PDMO's tasks and responsibilities and meeting its objectives.

134) Identify and prioritize LMOs based on debt portfolio risk indicators such as refinancing, interest rate, exchange rate risk and Conducting cost-risk analyses of proposed LMOs, ensuring consistency of LMO with MTDS and strategic targets.

135) Monitor, in collaboration with FO, domestic and international financial markets and economic environment on an ongoing basis to identify trends and events that could impact the level of risk and costs of government debt management and provide an overview of the market situation to senior management on a monthly basis or as and when required.

136) Analyze and monitor, in collaboration with FO, government debt securities secondary market trends and developments in changes in yield levels, trading activity and investor composition to support the unit's tasks and responsibilities.

8.4 Reporting in cooperation with the Front and Back PDMOs

137) Prepare and publish an Annual Report of the PDMO to Parliament providing details of the government's debt management activities, evaluation of outcomes against stated debt management objectives, the chosen debt management strategy and the rationale behind it, compliance of debt management activities with the debt strategy, outstanding loan guarantees and on-lending operations, an overview of the credit quality of the guarantees and on-lending portfolio, and an overview of the debt of the government, of the local governments and of state owned enterprises.

138) Provide inputs to the debt bulletin to BO on the trend of public debt in line with the macro-economic indicators.

8.5 Arranging meetings for the Public Debt Coordinating Committee

139) Arrange PDCC meetings by sending materials to the members for upcoming meetings, keeping minutes, and carrying out other tasks and responsibilities as the Secretariat to the Committee.

8.6 Government Security issuances related activities

140) On request of FO, recommend T-bills and T- bonds maturity mix for the respective auction.

141) Recommend T-bond tenures for the Primary Auction Calendar.

142) Provide feedback to the FO on coupon rates offered on New T-bonds.

8.7 Coordination with monetary policymaker

143) Share information on planned and realized borrowings and debt management activities with the CBSL, on the frequency and details required.

9. Credit Risk Analysis and Monitoring Unit (CRAU)

The mandate of the Credit Risk Analysis and Monitoring unit is to manage the credit risk of the on-lending and guarantee portfolio.

9.1 Credit risk assessment and pricing for guarantees and on-lending operations

144) Assess the credit risk of a borrower before issuing any loan guarantee or entering in any on-lending operation and prepare a detailed report on the method used for the assessment and the results thereof. There should be no extending of new guarantees or on-lending or further extensions if the beneficiary borrower is in financial difficulty based on the credit risk assessment as per Sections 19(3) and 20(3) of PDMA, including if they are in arrears/default on existing arrangements.

145) Propose the level of a guarantee fee to reflect the credit risk and the interest rate for an on-lending operation to cover the funding cost, currency risk and credit risk, in consultation with the FO.

146) Propose risk mitigating measures or covenants for guarantee and on-lending agreements, such as the borrower's obligation to comply with financial ratios (e.g., maximum permitted level for net debt/EBITDA), to seek pre-approval for any new borrowing or the sale of large assets, to restrict distribution of dividends when the borrower is in financial difficulty or distress, as well as an obligation to provide financial statements, quarterly reports on the compliance with the agreed covenants and any other information requested by the PDMO.

147) Prepare a credit risk report for each individual guarantee and on-lending request to inform decision making by the Minister of Finance and the Cabinet of Ministers, including an overview of key risks and the results of the risk assessment, proposed risk-based guarantee fee/interest rate, and suggested covenants or other conditions for risk mitigation.

9.2 Monitoring the credit quality of guarantee and on-lending portfolio

148) Carry out regular analysis of the financial condition of borrowers (both the recipients of on-lent loans and the beneficiaries of guaranteed debt) to update the assessment of the borrower's credit risk. In addition, prepare an overview of the credit quality of the total guarantee and on-lending portfolio and report any changes in the risk profile to senior management of the PDMO. Recommend when predefined risk mitigation measures (e.g. suspension of new guarantees, collateral increase call, extra fee, etc) should be triggered.

149) Provide input to the Statement of Fiscal Risk in respect of risks arising from contingent liabilities, including potential calls on loan guarantees and non-payment by beneficiary of the loans extended under on-lending arrangements.

9.3 Non-performing on-lent loans and guarantee calls

150) Develop processes and prepare procedures for managing guarantee calls so that relevant units in the PDMO and departments within the MoF (e.g., Legal and Treasury Operations departments) are able to take timely action to ensure the payment of any guarantee calls and, subsequently, claim back the respective amount from the defaulted borrower (the recourse claim).

151) Develop processes and prepare procedures for non-performing on-lent loans so that relevant units in the PDMO and departments within the MoF (e.g., Legal and State-owned Enterprises departments) are able to take timely actions to recover the amounts due or reschedule the loans, when a borrower defaults in its payment obligations.

9.4 Assessments of alternative financing options

152) In cooperation with the FO, prepare assessments of the cost and risk for the government in entering into supplier's credit agreements or finance lease agreements as per Sections 21 and 22 of the Act, considering government's borrowing cost.

153) Conduct a credit risk assessment of SOEs in the case of non-guaranteed FX borrowing and submit the result to the EBU of FO to analyze the cost and risk of the proposed borrowing.

10. Risk Control and Compliance Unit (RCU)

The mandate of the Risk Control and Compliance unit is to promote a culture of integrity, high ethical standards, and strong risk awareness.

10.1 Financial risk monitoring and compliance

154) Monitor the performance of the debt portfolio against the approved MTDS and ABP and its compliance with annual borrowing and guarantee limits, and the appropriation for interest costs, along with any other key risk and/or performance indicators on a monthly basis and report it internally to the head of the MO and the head of the PDMO to support their managerial decisions and communicate to the FO of any deviations observed.

155) Prepare an early warning system to alert the heads of FO and of the MO of any looming risk of breaching limits, in particular statutory limits, so that appropriate measures can be taken by the PDMO in a timely manner.

156) Prepare a monthly Risk Report of the performance of the debt portfolio and compliance of key risk indicators and approved limits and include reasons for deviations and limit breaches, if any. Present the report to the head of the PDMO and the members of the Debt and Cash Management Committee and if required for the consideration of the Public Debt Coordinating Committee.

10.2 Operational risk management in cooperation with other units and MoF departments

157) Develop the operational risk management policy and the crisis management plan. Operational risk is defined as a risk that results from external factors, technology, or deficient functioning of personnel, the organization or processes. Review and update as needed on an annual basis.

158) Support PDMO units in carrying out their process risk assessments and, based on the identified risks, in improving their operative processes and in developing their internal policies, procedures, manuals and IT documents to mitigate and control the identified operational risks.

159) Carry out regular information security assessments (including the security of documents and IT systems) in close cooperation with the IT Administrator and, based on the identified risks, define actions to improve the IT systems and operative processes and implement them in close cooperation with the IT Administrator, and develop internal procedures and manuals to mitigate cyber threats and other vulnerabilities.

160) Develop and test regularly business continuity plans to ensure that the PDMO is able to respond to and recover from disruptions in a controlled manner and it has a safe and secure working environment.

161) Compile descriptions of realized operational risk events and 'close-calls' and related financial losses per risk category defined as part of the risk management framework.

162) As part of the unit's monthly Risk Report, report about progress in managing operational risks and any changes in the risk profile; provide an overview of registered operational risk events and related financial losses and information on any emerging and evolving non-financial risks related to the PDMO's operating environment.

10.3 Coordination with internal and external auditors

163) Coordinate with the Internal Audit Department of the MoF and the National Audit Office in carrying out their independent reviews of government debt management processes, financials, and performances.

164) Oversee the addressing of audit findings and recommendations within the PDMO and report on it to the head of the PDMO.

10.4 Compliance and Integrity

165) Develop a code of conduct for staff, provide regular training and enforce the policy.

166) Ensure data handling and restrict access to market sensitive transaction information to prevent breaching through information systems, a data system security report shall be prepared by an independent and qualified third party in a timely manner.

167) Conduct monthly monitoring and validation of all data entries to ensure completeness, accuracy, and consistency in the DMIS against published debt reports.

168) Ensure that debt reporting are performed as per the publication calendar and alert the relevant unit if there is any risk of compliance to the time targets.

169) Ensure the compliance to the procedure manual in performing duties and responsibilities assigned to each units.

170) Conduct a system audit periodically.

Organization, responsibilities and functions of the Back PDMO

11. Debt Recording Unit (DRU)

171) Keep records of and monitor all debt instruments and debt transactions related to domestic and external debt including borrowing, debt servicing, disbursements, as well as loan guarantees and on-lending, and non-guaranteed debt of state owned enterprises, provincial councils and local authorities in the debt database [DMIS] or in appropriate databases.

172) Validate the terms and conditions of debt instruments entered and authorized by the FO. This procedure should be carried out for all types of instruments, for example bonds, bills, loan contracts, swaps and guarantees.

173) In coordination with the FO and ERD and by subscribing lenders' web portals, record foreign loans disbursements by transactions, reconciling with development partners and loan beneficiaries in disbursed currency terms.

174) For reconciliation, obtain and record corresponding rupee equivalent of such disbursement from relevant entities including line ministries, TOD, CBSL or Escrow agent within fifteen (15) days following the end of the month in which the transactions were made.

175) Calculate rupee equivalent of corresponding disbursement amount of capitalized payments using indicative exchange rates prevailed of the transaction date as published by the CBSL.

176) Obtain and record corresponding rupee equivalent of actual foreign debt payments of each month from the CBSL at the transaction.

177) Keep track and record government receivables related to performing and called guarantees and performing and non-performing on-lent loans, and inform senior management and MO in the event of non-performance.

178) Validate all debt transactions by crosschecking own records with the relevant counterparties (financial institutions, creditors etc.) at least once a month.

179) Reconcile all debt transactions on annual basis with data sources (FO, Debt Servicing Unit, creditors etc.).

180) Monitor and capture all events affecting the cash flows including changes in the financial parameters of debt instruments and reflect them to the DMIS and inform to senior management.

181) Record of macroeconomic data such as GDP, Forex reserve, revenue, obtained from relevant entities to derive debt related ratios such as Debt/GDP, Debt

service ratio, Debt service/ Interest Payments/ Public Debt to revenue ratio, External Debt to Exports, etc.

182) Record of Variable interest rates.

183) Keep records on the guarantee fees collected to the consolidated fund.

184) Follow the procedures to facilitate the accounting of government debt, and guarantees and on-lending transactions.

185) Maintain files containing agreements, correspondence with lenders, the receipt of funds, lenders' periodic debt statements, disbursement notifications, correspondence with lenders and auditors, and other relevant documents both electronic format and hardcopies for a period as required by prevailing laws.

186) Manage debt management information system [DMIS] Defining, maintaining, and monitoring the authorizations related to DMIS access/users and their roles.

187) Manage operational risks relating to data security (e.g., debt data back-ups, disaster recovery), training and system continuation procedure.

11.1 Provide input to loan negotiations

188) Provide inputs to FO on the operational aspects of the terms/conditions of the agreements during loan negotiations, for example, realism of payment timeline, or lenders' obligation to provide timely information required by the PDMO.

189) Notify FO of issues arising from loan agreements and debt portfolio monitoring.

190) Provide inputs to FO on other related matters for the functions of the BO those are required to highlight at the loan negotiations..

12. Debt Servicing Unit (DSU)

12.1 Initiation of debt servicing transactions

191) Monitor upcoming debt servicing amount (Daily/weekly/monthly/yearly).

192) Prepare, control, and issue payment instructions for domestic and external debt including principal and interest payments and relevant fees (i.e., commitment fee, administration fees, management fees, agent fees for SLDBs, annual administration fees for ISBs etc.).

193) Initiate the debt servicing process and ensure the timely settlement of all obligations, including interest payments, other charges, payments under derivative contracts (if any), and principal repayments on their respective due dates.

194) For each debt service payment, communicate and deliver the payment instruction to the relevant counterparties (CBSL and SAD) and make the necessary data sharing with relevant systems.

195) Ensure timely and accurate debt servicing of called guaranteed debt.

196) Monitor the relevant treasury bank account balances in coordination with CBSL.

197) Ensure that payments are recorded in the DMIS properly.

12.2 Disbursement and debt service forecast

198) Prepare disbursement and debt service forecasts for government debt and guaranteed debt, and on-lending for inclusion in government budget.

199) At the end of each month, prepare projected cash flows of on-lending operations and government debt service of the existing debt, covering rolling 12 months or any other time period, as agreed, and send them to the FO / MO and relevant counterparties (TOD, CBSL).

12.3 Providing inputs to the Annual Report

200) Provide inputs to the DSRU for the preparation of annual report.

13. Debt Statistics and Reporting Unit (DSRU)

13.1 Compilation, update, and publication of debt statistics

201) Prepare and publish Government debt statistics on the MoF and PDMO website, in coordination with the MO.

202) Provide external public debt data as input for the Sri Lanka's gross external debt statistics and send to CBSL.

203) Prepare other debt statistics as required by law.

13.2 Compiling debt statistics in line with international standards

204) Prepare data on Government debt stock and other debt related liabilities under the Special Data Dissemination Standards (SDDS) and transmitting it to the IMF.

205) Prepare Government debt securities stock statistics for the CBSL to send to the Bank for International Settlements (BIS).

206) Compile the public debt data for the Quarterly External Debt Statistics (QEDS) and submitting to the World Bank.

207) Compile Debtor Reporting System (DRS) statistics and submitting them to the World Bank.

208) Compile Quarterly Public Sector Debt Statistics (QPSDS) and submitting to the World Bank.

209) Follow international standards on debt statistics and carry out harmonization work.

210) Generate tailored (in required) domestic and external debt stock and other reports using reporting facility of DMIS. Debt stock position and debt flows shall be reported using indicative exchange rates published by CBSL when reporting in a currency other than the loan denominated currency.

13.3 Public Debt Management Reports

211) Provide inputs for the preparation of the Annual Report of the PDMO prepared by PAU, MO.

212) Prepare and publish Quarterly Debt Bulletin in collaboration with the FO and MO.

213) Prepare and publish semi-annual debt report in collaboration with FO and MO.

13.4 Other Reports, Bulletins, and Presentations

214) Provide inputs to the MO to prepare the debt related report for the MoF's Annual Report, Performance Report, and Fiscal Position Reports.

215) Prepare public debt stock and cash flow reports on the debt of the Government, debt service reports, management reports, presentations and information sets.

216) Prepare the monthly debt bulletin, which presents data on the Government debt stock, realization figures and debt service projections.

217) Prepare tables/charts comparing Sri Lanka's debt stock statistics to peer countries.

Part II: Guidelines on Loan Guarantees and On-Lending Operations

1. Introduction

1.1 Scope

1) The scope of these guidelines shall be limited to loan guarantees and on-lending provided by the Government, as defined in the Public Debt Management Act No. 33 of 2024 (hereinafter referred to as the "Act"). Other guarantees, including those provided under Public Private Partnership schemes, shall not fall under these guidelines.

1.2 Definitions

"Applicant" refers to eligible entities applying for Government loan guarantees or on-lending, as defined in Section 19 and 20 in part IV of the Act.

"Financial difficulty" is based on a credit risk assessment and means that an entity is deemed: (i) unable to pay its debts as they become due in the normal course of business; or (ii) when the value of the entity's liabilities and stated capital is greater than the value of its assets; or (iii) when the entity is in arrears to the Government or has been in arrears to the Government in the twelve months prior to the intended date of application for a loan guarantee or on-lending; or (iv) when the entity incurred losses resulting from negative net income during the past three years and no agreed-upon corrective or remedial actions taken in coordination with the Government.

"On-lending" means that the Government lends funds to eligible entities using borrowed financial resources under the agreement that the beneficiary shall repay the loan.

"Beneficiary" refers to the eligible recipient of a loan guarantee or on-lending after the Cabinet/Parliament approval.

"Loan guarantee fee" refers to the financial charge imposed by the Government on the beneficiary of a loan guarantee, as stipulated in the Section 19(4).

"Premium" refers to the additional spread over the Government's on-lending terms that the beneficiary of on-lending shall pay.

"PDMO" refers to the Public Debt Management Office, established within the Ministry of Finance under the Act.

"Credit risk" refers to the financial loss the Government may occur when the beneficiary of a loan guarantee or on-lending fails to fulfill their contractual obligations to repay a loan.

"Bank" refers to any Licensed Commercial Bank or Licensed Financial Institution which is eligible to host the beneficiary's project account.

"Project account" refers to the designated financial account that is used to track and manage the funds and expenses associated with loan guarantees and on-lending to state-owned enterprises.

2. General Provisions

2.1. Eligibility Criteria

2) The Act determines the entities eligible for loan guarantees and on-lending. As stipulated in the Section 19 and 20 of the Act, eligibility for loan guarantees and on-lending is restricted to a provincial council, local authority, state-owned enterprises, or any other entity, where the any other entity is an entity established under the Companies Act. No. 07 of 2007 or any other written law and approved by Parliament to receive Government loan guarantees or on-lending funds.

3) According to the Public Debt Management Act No. 33 of 2024, applicants who are in financial difficulty based on a credit risk assessment shall not be eligible for a loan guarantee or on-lending.

4) Due consideration should be given to reforms agreed with IMF-EFF program. Accordingly, the Government guarantees for foreign currency loans to state-owned enterprises are limited to loans from sovereign lenders and International Financial Institutions and to enterprises with at least 20 percent of revenue denominated in foreign currency.

2.2. Policy Objectives

5) Loan guarantee or on-lending agreements are required to promote the economic development of Sri Lanka in accordance with the Public Debt Management Act No. 33 of 2024. A loan guarantee or on-lending agreement is deemed to be consistent with this policy objective if the intended usage of funds is to finance capital expenditure and if the underlying project is approved in accordance with the Public Financial Management Act, No. 44 of 2024.

6) The financial terms of the guarantee/on-lending request, including the maturity and currency, are required to be consistent with the targets set out in the approved Medium Term Debt Management Strategy.

2.3 Required Documentation for Requests

7) The minimum required documentation from entities intending to make an application for a loan guarantee or on-lending is listed below:

   I. Audit report and audited annual financial statements of the past three years, where the audit for the immediate past year has not been completed, unaudited financial statement for the immediate past financial year.

II. Most recent interim financial statements of the applicant.
III. Business plans and key financial and non-financial targets for the next three years, approved by the competent authority as applicable
IV. Debt service projections for the entire term of the borrowing underlying the request.
V. Cashflow projections of the entity and the project for the entire term of the borrowing underlying the request.
VI. Detailed breakdown of outstanding debt stock (guaranteed, non-guaranteed and on-lent, by currency, by creditor) of the applicant.
VII. Terms and conditions (including maturity and interest rate) of each outstanding debt.
VIII. Feasibility study report of the investment project approved by the competent authority as applicable.
IX. For state-owned enterprises and any other entities: commitment by the applicant to open a project account and to use the project account for making debt payments should the request be approved.
X. Board resolution for the application if applicable.
XI. The relevant Cabinet Memorandum and its approval
XII. Any other information that might be deemed necessary by the PDMO to conduct credit risk assessment.

2.4. Applicable Ceilings

8) For loan guarantees, the applicable limit is the aggregate stock of outstanding Government guarantees as stipulated and defined in Section 17 of the Public Financial Management Act No. 44 of 2024.

9) On-lending shall be provided in line with the requirements of Section 10 of the Public Financial Management Act No. 44 of 2024 to ensure that public debt is maintained at a sustainable level.

2.5 Credit Risk Assessment

10) PDMO is required to assess the credit risk of entities during the appraisal process (pre-approval) and periodically during the life of the loan guarantee or on-lending (post-approval). The credit risk ratings are used to assess whether a guarantee or loan can be granted, determine risk mitigation measures including fees and premium and estimate fiscal risk.

11) PDMO shall develop appropriate methodologies to assess the creditworthiness of existing and potential beneficiaries of loan guarantees and on-lent funds. The methodologies shall be based on international best practices.

12) The methodologies shall establish the techniques and procedures to categorize and rank beneficiaries with respect to their likelihood of servicing and repaying their debt obligations and assign risk ratings to beneficiaries.

13) PDMO shall establish risk rating thresholds to determine if the applicant is unable to pay its debts as they become due in the normal course of business and the minimum risk rating categories that shall be required from entities to be eligible for loan guarantees or on-lending.

14) PDMO shall submit the credit risk assessment methodologies to the Cabinet of Ministers for approval.

15) Following the approval by the Cabinet of Ministers, adopt and implement the methodologies.

16) The methodologies shall be reviewed when necessary and shall be re-submitted for the Cabinet of Ministers' approval. In case the review results in methodological revisions that imply a change in the risk rating of at least one Beneficiary, it should be brought to the notice of Cabinet of Ministers

2.6 Credit Risk Quantification

17) PDMO shall develop credit risk quantification methodologies to calculate the expected losses the Government would incur should the credit risk materialize.

18) PDMO shall submit the methodologies to the Cabinet of Ministers for approval.

19) Following the approval of the methodologies by the Cabinet of Ministers, adopt and implement them.

20) The credit risk quantification methodologies shall be reviewed regularly and shall be re-submitted for the Cabinet of Ministers' approval in case the review results in methodological revisions that imply a change in the risk rating of at least one Beneficiary.

2.7 Fees for Loan Guarantees

21) The Minister shall require beneficiaries of loan guarantees to pay fees. PDMO shall provide the underlying technical analysis.

22) Fees shall either be paid upfront (as a percentage of the amount of debt guaranteed under the agreement) or on an annual basis (as a percentage of the total outstanding debt guaranteed). Fees shall be based on PDMO's credit risk assessment. Fees shall cover the expected losses to the Government from the guarantees.

23) The Minister shall determine if fees are to be paid by the Beneficiary upon signature of the agreement, annually, or both.

2.8 Premium for On-lending

24) PDMO shall require beneficiaries of on-lending to pay a premium over the interest rate of the original loan to cover for funding cost, currency risk and credit risk associated with the beneficiaries.

2.9. Eligible Financial Institutions for the Project Account

25) Any Licensed Commercial Bank or Licensed Financial Institution will be the eligible financial institutions to host the beneficiary's project account.

3. Approval and Issuance

3.1 Appraisal and Approval of Requests

Submission

26) The applicant shall submit a loan guarantee or on-lending request to the relevant line ministry with the documents stated in 2.3.

27) The line ministry shall submit the loan guarantee or on-lending request to PDMO after eligibility was confirmed.

Verification of Eligibility

28) PDMO shall verify that the applicant is eligible for a loan guarantee or on-lending in line with the provisions of 2.1.

Verification of Policy Objectives

29) PDMO shall verify that the objectives underlying the loan guarantee or on-lending request are in line with the provisions of 2.2.

Required Documentation

30) PDMO shall verify that the loan guarantee or on-lending request is accompanied by the required documentation in line with 2.3.

Evaluation against Ceilings and Limits

31) PDMO shall verify that the loan guarantee or on-lending request is in accordance with the limits laid out in 2.4.

Compliance with the debt reduction objective

32) PDMO shall assess whether the loan guarantee is subject to the debt reduction objective in relation to the Public Financial Management Act No. 44 of 2024

Finalization of the Appraisal Process

33) 3.2 shall only be relevant for cases where the appraisal process laid out in 3.1 was satisfactory.

34) If the application has been declined on the account of non-eligibility, lack of required documentation, excess of debt limit and/or weak credit risk assessment, PDMO shall inform the line ministry in writing.

3.2 Structuring of the Agreements and Issuance

Determination of the Size

35) PDMO shall recommend the size of the loan-guarantee or on-lending in accordance with 2.4.

Determination of Fees or Premium

36) PDMO shall recommend the loan guarantee fees in accordance with the provisions of 2.7.

37) PDMO shall recommend a premium for the on-lending in accordance with the provisions of 2.8

Issuance

38) PDMO shall prepare and share with the Minister the draft loan guarantee or on-lending agreement and include the following items:

    I. The guaranteed or on-lent amount
    II. The fees for Loan Guarantees and Premium for On-lending
    III. Beneficiary's agreement to indemnify for any amounts paid under a Loan Guarantee if called, and to fully disclose any information required.
    IV. The terms and conditions of the subsidiary loan agreement, including the rate of interest.
    V. Beneficiary's agreement to make debt service payments in accordance with the debt payment plan in the agreement, meet terms and conditions of the loans, repay any amount paid by the Government under a guarantee if called and pay penal interest if applicable.
    VI. Beneficiary's agreement to comply with reporting requirements in accordance with 4.7.
    VII. For SOEs and Any Other Entities, the name of the bank that will host the Project Account and its expected functions (including ensuring the conformity of fund withdrawing documents, monitoring of the account balance and reporting to the Ministry)

39) The Minister shall share the draft loan guarantee or on-lending agreement, the result of the risk assessment, the method used in the assessment, and the proposed risk mitigation mechanisms (including recommended fee or premium) as well his recommendations in writing with the Cabinet of Ministers for consideration.

40) Loan guarantees and on-lending to any entity other than Provincial Councils, local authorities or state-owned enterprises shall further be subject to approval by Parliament.

41) After approval by the Cabinet of Ministers/ Parliament as required, the Minister shall issue the loan guarantee or on-lending and notify the Cabinet of Ministers and Parliament, where relevant.

4. Management of Loan Guarantees and On-lending

4.1. Opening of a Project Account

42) Following the issuance of the guarantee or the on-lending and if the Beneficiary is a state-owned enterprise, or any other entity the Beneficiary shall open a project account at the selected bank specified in the loan agreement within 30 days from the date of the loan guarantee issuance. The Beneficiary shall forward the details of the bank's project account to PDMO.

43) The project account shall be utilized for the receipt of the guaranteed or on-lent loan; the withdrawals of the funds, the payment of debt (principal, interest, and relevant fees), and revenues and expenses related to the project.

44) A project account shall cover one or several projects of a Beneficiary that are financed by a guaranteed or on-lent loan granted by the Government.

45) The bank shall commit to monitor the balance of the project account.

46) If the Beneficiary is a Provincial Council or a Local Authority, it shall not be required to open a project account.

4.2. Use and Withdrawal of Funds

47) The Beneficiary shall withdraw and use the loan in line with the borrowing plan set in the loan agreement and the implementation progress of the project that is being financed by the loan.

48) For a loan guarantee, the bank shall send a notification of operations of deposit of borrowed funds in the project account to the PDMO immediately after the receipt of the funds. Notifications received from the bank shall be documented by the PDMO.

49) For on-lending, the PDMO shall monitor the use of the loan made by the Beneficiary by reviewing the disbursement documents.

50) The PDMO shall be entitled to request any additional information from the Beneficiary in relation to the use of the loan.

4.3. Debt Records

51) The Beneficiary shall maintain books and records of the guaranteed and on-lent loan portfolio. Records shall be sufficiently detailed to enable accurate calculation of debt payments and related charges in line with the terms of the loan agreement.

52) The PDMO shall maintain a centralized and complete register of the guaranteed and on-lent loan portfolio in the Debt Management Information System (DMIS) or any other database of the PDMO.

53) The PDMO shall ensure debt data security and traceability.

54) The PDMO shall update monthly debt records in the debt recording and management system of the PDMO.

55) The PDMO shall check and verify the outstanding debt with the Beneficiary and the lender (for the guarantee) on an annual basis. It shall also convene meetings with the stakeholders to reconcile debt data, if deemed necessary.

56) The PDMO shall retain the original loan agreement in a safe place and store electronically a scanned copy of the agreement.

57) The PDMO shall retain records in accidence with the provisions of the relevant written laws.

4.4. Collection of Fees and Premium

58) If a guarantee fee or a on-lending premium is charged as set in the loan agreement, it shall be payable from the date of the first withdrawal of funds. It shall be charged on the outstanding principal amount of the loan in the currency of the loan in accordance with 2.7 and 2.8.

59) The premium shall be calculated in the currency of the loan for a foreign-currency denominated loan.

60) The fee and the premium shall be credited to the Consolidated Fund in accordance with the loan agreement.

61) Any fee or premium that is not paid on the relevant due date may be subject to an additional late payment charge as defined in the agreement.

4.5. Repayment of Debt

62) The Beneficiary shall pay the debt service in full and on time to the lender.

63) Debt service payments shall include principal repayment and the payment for interest, premium or fee (if relevant) and any commitment charges (if relevant).

64) As a state-owned enterprise, the Beneficiary of a guaranteed or on-lent loan shall use the project account to repay the loan and related charges.

65) As Provincial Councils and local authorities, the Beneficiary shall make debt service payment from the Provincial Fund.

66) All payments due to the Government shall be credited to the Consolidated Fund.

67) Foreign currency payments shall be made using the selling rate indicated by the Central Bank of Sri Lanka at the time of making the payments.

68) If a project account has been opened in a bank, the latter shall commit to:

   I. Request from the Beneficiary to make a fund transfer, while informing in writing the PDMO, if the project account's balance is insufficient to cover the incoming debt service due ten (10) days prior to the debt service payment date; and
   II. Make the debt service payments to the lender in line with the loan agreement and following instructions received from the PDMO.

4.6. Reporting Requirements

69) If the Beneficiary is a state-owned enterprise or any other entity, it shall provide the following documentations to the PDMO in respect of the issuance of each guarantee and on-lent loan during the life of the loan and in accordance with the following relevant closing date:

   I. Quarterly report on executed debt transactions not later than 45 working days after the end of each quarter. The report shall include information and data on the debt outstanding, fund withdrawals, debt repayments and related payments of charges.
   II. Semi-annual report on the project execution that is being financed with the loan within the first ten (10) days of January and July. The reports shall include information and data on physical and risk issues and financial progress.
   III. Report on the termination of the loan agreement after paying the guaranteed loan in full within twenty (20) days.
   IV. Draft and audited copies of the annual financial statements within 20 days following their respective issuances.
   V. Quarterly interim (unaudited) financial statements within 30 days following the end of the respective quarter.
   VI. Annual Report within 20 days following its issuance.

70) The Beneficiary as a Provincial Councils and local authorities shall provide the following documentations to the PDMO in respect of the issuance of each guarantee and on-lent loan during the life of the loan and in accordance with the following relevant closing date:

   I. Quarterly report on executed debt transactions not later than forty five (45) working days after the end of each month. The report shall include information and data on the debt outstanding, debt repayments and related payments of charges

II. Semi-annual report on the project execution that is being financed with the loan within the first ten (10) days of January and July. The reports shall include information and data on physical and risk issues and financial progress

III. Report on the termination of the loan agreement after paying the guaranteed loan in full within twenty (20) days

IV. Copy of the annual report within twenty (20) days following it issuance; and

71) The Beneficiary shall provide accurate information on the debt transactions related to the loan and a true and fair value of its overall financial performance for the accounting period ending on that financial statement date to the PDMO.

72) In the case of changes or events that may influence the project execution, the debt repayment capacity of the Beneficiary, the Beneficiary shall inform the PDMO within ten (10) days from the occurrence of the changes or events.

73) The Beneficiary shall send immediate notification to the PDMO of any potential event of default likely to occur and demonstrate its inability to meet the debt service obligations at least sixty (60) days prior the payment due date.

74) The PDMO shall at any time request ad hoc reports. The Beneficiary shall submit the requested information to the PDMO within ten (10) working days upon receipt of the notification.

75) Failure to send the requested information and data on time, the PDMO shall contemplate imposing a fine as defined in the Act.

76) The PDMO shall set the required format of the expected reports from the Beneficiaries.

77) If a Project Account has been opened and for the guaranteed loan, the Bank shall commit to send:

I. Notification in writing of the deposit of borrowed funds in the project account to the PDMO within five (5) days of receipt of the funds; and

II. Semi-annual report to the PDMO on the Beneficiary's loan performance.

4.7. Supervision and Evaluation

78) The PDMO shall regularly:

I. Examine whether the Beneficiary is discharging its repayment obligations, interest obligations, guarantee fee and loan premium as per the terms of the loan agreement and subsidiary agreement; and

II. Gather information on the use of funds withdrawals with a view to ensuring they correspond to the intended purposes stated in the loan agreement (guaranteed debt).

79) The PDMO shall annually:

   I. Obtain report on the progress of the project that is being financed by the loan from the Department in-charge of the subject of project management and monitoring;
   II. Analyze the financial performance of the Beneficiary; and

80) The PDMO shall adopt a risk management framework to monitor and control risks arising from guaranteed and on-lent loans, including allowing for an early identification of borrowers that shall fall under scrutiny and possible transaction impairment.

81) All reviews and analyses carried out by the PDMO shall be documented.

82) The PDMO may carry out ad-hoc inspections if deemed necessary.

83) The Minister shall be promptly informed of any anomaly found in the use of the on-lent funds.

4.8. Provisioning for Risks

84) The PDMO shall estimate the required annual budget provisioning for possible guarantee calls.

85) The annual budget provision shall reflect the annual debt service due excluding expected recovery from the beneficiaries

86) Budget provision may be made for expected loan guarantee calls. These are the guarantee calls that have a probability of realization greater than 50 percent.

87) Budget reserves may be made for unexpected guarantee calls in the annual budget reserve for the financial year.

88) The PDMO shall document the estimation process of the provisioning.

4.9. Guarantee Activation

89) A demand by a Beneficiary for debt payment from the Government shall be made in writing and sent to the PDMO.

90) If the Beneficiary is a state-owned enterprise, the PDMO shall confirm that the project account does not hold sufficient funds upon receipt of the demand.

91) If funds are insufficient, the PDMO shall pay the Beneficiary directly by transferring funds from the Consolidated Fund to the project account for a state-owned enterprise and local authorities and Provincial Councils.

92) The payment shall constitute a discharge by the PDMO of its liability under the loan agreement.

4.10 Sanctions

93) Following a guarantee activation or the non-repayment of on-lent debt, the PDMO shall require in writing from the Beneficiary to regularize their situation. The Beneficiary shall have sixty (60) days to regularize its situation.

94) If the situation is not regularized within the time frame allowed, the Minister shall have the right to pursue any actions necessary to recover any money owed to the Government from the borrower. The proceeds shall be transferred to the Consolidated Fund to finance the payment of the guaranteed debt.

95) Following a guarantee activation or the non-repayment of on-lent debt, the PDMO shall contemplate imposing sanctions. They may include a penalty fee that shall not exceed two (2) percent of the outstanding amount and the suspension and/or dismissal of any application for new guarantees or on-lending until the entity becomes recovered to the level of satisfaction by the PDMO.

4.11. Disclosure Requirements

96) The PDMO shall disclose data and information on the guaranteed and on-lent loan portfolio in the annual report on public debt. It should include a list of outstanding loan guarantees and on-lending operations of the Government issued to Provincial Councils, local authorities, state- owned enterprises and any other entities, including the name of the borrowers and creditors, an assessment of the credit risk in the outstanding stock, the amount of the debt and the currency denomination of the debt.

97) The PDMO shall also disclose data and information on the guaranteed and on-lent loan portfolio in the quarterly statistical bulletin. The outstanding stock of guarantees and on-lending operations and the names of the borrowers shall be disclosed.

98) The PDMO shall submit the Department of Fiscal Policy the risks arising from the guaranteed debt and on-lending portfolio to be included in the Fiscal Risk Statement within the Fiscal Strategy Statement published under Public Financial Management Act No. 44 of 2024.

99) The PDMO shall contemplate to enrich the annual report of the Public Debt Management Office by providing information and data, when feasible, on the nature and intended purpose of the financial instruments, magnitude of new issuance, possibility of any recovery, historic data on guarantee calls and payments received, any fees/premium charged, and outstanding arrears.

100) The Minister shall review the draft annual report and submit it to the Cabinet of Ministers for their approval, table the approved annual report before Parliament not later than hundred and eighty days following the end of the preceding financial year.

101) The reports discussed in paragraphs [96,97 and 98,] shall be made publicly available and be posted on the website of the PDMO.

102) The PDMO shall also be entitled to publish on its website these Guidelines as well as any other information that the PDMO deems relevant to the guaranteed and on-lent debt portfolio subject to the provisions of each relevant loan agreement.

4.12. Transfer of a Loan Guarantee

103) The transfer of a loan guarantee to another Beneficiary shall require approval of the Cabinet of Ministers and Parliament if the Beneficiary falls under any other entity. The request for such transfer shall be accompanied with the following documents:

I. The application for transfer, which shall include the following contents: reasons for transfer, details of the transferee, and certification that the transfer shall not result in any increase in obligations for the Government;
II. The original written approval/consent for the transfer of the loan by the Beneficiary; and
III. The draft agreement on transfer of a loan, which shall state that the new Beneficiary of the loan guarantee shall inherit all obligations and responsibilities as previously defined in the loan agreement.

104) Following a credit risk analysis of the new beneficiary, the PDMO shall give a written response within sixty (60) days. In the case where the new entity is newly established one and where the financial statements of last three years are not available, the credit risk assessment of the entity shall be conducted by referring to the business continuity plan and with the entity's available information at the time of performing the credit risk assessment.

105) It should be mentioned in the agreements the beneficiary's requirement to inform the guarantor if there is any change of the ownership.

4.13. Extending the Repayment Period of On-lending

106) If the Beneficiary shall face temporary financial difficulties due to external factors, which have had a negative impact on the implementation of the project being financed by the loan and/or its overall financial performance, it may request an extension of the maturity period of the loan to the PDMO.

107) The Beneficiary shall submit a report to the PDMO explaining the reasons of the difficulties along with a proposed restructuring plan; and audited financial statements of the last three (3) financial years.

108) Based on a review of the documents and an assessment of the Beneficiary's financial situation, and in particular its liquidity position, which shall reflect the extension of the maturity, the Cabinet of Ministers may consider a revision of the

repayment period and/or the grace period on the basis of a reasoned opinion from PDMO.

4.14. Partial or Full Debt Write-off of On-lending

109) If the Beneficiary has been facing financial difficulties for a longer period of time due to external factors, which have had a negative impact on the implementation of the project being financed by the loan and/or its overall financial performance and have led to financial losses during the past five [5] consecutive years or more, the Beneficiary may request a partial debt write-off to the Minister of Finance.

110) The Beneficiary should submit a report to the PDMO explaining the reasons of the difficulties along with a plan showing repayment of the debt while reflecting the partial debt write-off; and annual audited financial statements of the last five (5) years.

111) Based on a review of the documents and an assessment of the Beneficiary's financial situation, and in particular its solvency position, which shall reflect the proposed partial debt write-off, the Cabinet of Ministers shall consider the write-off based on a reasoned opinion from PDMO. The debt write-off (partial or full) may cover interest payments, late payments, and principal due.