DEBT MANAGEMENT AND THE PERFORMANCE OF AN ENTERPRISE. A CASE STUDY OF MOTOR CARE UGANDA

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCE IN PARTIAL FULLFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS DEGREE IN BUSINESS ADMINISTRATION (ACCOUNTING AND FINANCE) OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I **Mwesigwa Ruth,** declare that this research is my own piece of work which has never been submitted for any ward of degree, certificates or a diploma in any university or higher institution of learning. Acknowledgement has been made where some other works were quoted and referred to.

SIGNATURE ..... **DATE:** 2nd / Feb / 2015

MWESIGWA RUTH

APPROVAL SHEET

This research report has been carried by the student and submitted for examination with my approval as the Candidate's University Supervisor.

SIGNATURE..... DATE: 2ND february 2015

MRS IRAU FLORENCE (SUPERVISOR)

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I am grateful to God who has been with me throughout the whole period when pursuing the course.

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ABSTRACT

This research report discussed debt management and the performance of an enterprise in motor care Uganda limited. Debt management is the process of establishing and executing a strategy for managing the company's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals the Company may have set, such as developing and maintaining an efficient market for Company securities.

In the section two it looked at the literature review in regards to the research objectives that were stressed out by the researcher.

Under the methodology it described necessities in addressing the set objectives. The chapter is organized under the following subsection. Where by the analysis was found out that the established sample size will be 164 respondents from population of 280 and this will be a enough guide in effective data collection on the topic under study.

In the statistics of the findings of the study are analyzed and presented according to the research questions and study variables. That 16.51% had been working with company for 4-6 years, 1.52% of the respondents had been working with company for over six years, 28.04% of the respondents had been there for 2-4 years and 1.2% of the participants had been working with company for 1- 2 years and none of the respondents had been there for less than a year.

In conclusion and recommendation the Treasury should ensure appropriate key performance indicators for debt management are applied across government. Departments and agencies should be required to report performance in this area to their Boards and in their annual reports and accounts.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study will discuss debt management and the performance of an enterprise in motor care Uganda limited. This chapter presented the background to the study, statement of the Problem, Purpose, Objectives, Scope, Research Questions and the significance of the study.

1.1 Background of the Study

1.1.1 Historical Perspective

Motorcare Uganda Ltd. is a company registered in Kampala, Uganda holding the national distribution rights in the country for Nissan and BMW vehicles and Suzuki motorcycles. The company was established in 1992 and has been very successful. The service workshop is one of the best in the country, with ultra-modern equipment, the latest diagnostic and repair equipment, an express service facility, satellite servicing facility and a professional team of technicians. The management approach is value-based and is adhering to the "Triple Bottom Line" principle, which ensures that decisions are made with equal balance between financial results and social and environmental responsibilities. Motorcare is a proud member of the United Nations Global Compact.

Debt management is the process of establishing and executing a strategy for managing the company's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals the Company may have set, such as developing and maintaining an efficient market for Company securities.

Poorly structured debt in terms of maturity, currency, or interest rate composition and large and unfunded contingent liabilities have been important factors in inducing or propagating economic crises in many countries throughout history. For example, irrespective of the exchange rate regime, or whether domestic or foreign currency debt is involved, crises have often arisen because of an excessive focus by Companys on possible cost savings associated with large volumes of short-term or floating rate debt. This has left Company budgets seriously exposed to

changing financial market conditions, including changes in the country's creditworthiness, when this debt has to be rolled over. Foreign currency debt also poses particular risks, and excessive reliance on foreign currency debt can lead to exchange rate and/or monetary pressures if investors become reluctant to refinance the company's foreign-currency debt. By reducing the risk that the company's own portfolio management will become a source of instability for the private sector, prudent Company debt management, along with sound policies for managing contingent liabilities, can make countries less susceptible to contagion and financial risk.

Performance Management began around 60 years ago as a source of income justification and was used to determine an employees wage based on performance. Enterprise used Performance Management to drive behaviours from the employees to get specific outcomes. In practice this worked well for certain employees who were solely driven by financial rewards. However, where employees were driven by learning and development of their skills, it failed miserably. The gap between justification of pay and the development of skills and knowledge became a huge problem in the use of Performance Management.

1.1.2 Theoretical Perspective

Two theories that have been advanced by the researcher to explain the link between debt management and the performance of an enterprise. Maslow's hierarchy of needs(1943) is primary based on people's inner states as a basis for debt management. Maslow's hypothesized that within every human being, there exist a hierarchy of five needs physiological, safety, esteem and self-actualization as each of these needs becomes sustainably satisfied the next become dominate Robbins et at (2010).

The two factor theory developed by Fredrick Herzberg which became fruitful during 1950s could also under pin this study. He argues that Hygiene factors for debt control towards the performance of the enterprise in nature. Robbins et atal (2010), Tibamwenda (2010)

1.1.3 Conceptual perspective

The dependent variable in this study the performance of an enterprise form time to time. The debt management is conceptualized as independent variable which includes Human resource skills. Leads to shortage of equipments, Leads to increased development of the community, Increased standard of living , Increased savings, It encourages investment, Provides working capital which has helped in operation of and enterprise. Tetty (2005)

1.1.4 Contextual Perspective

The survival and performance are due to mainly the presence of microfinance Institutions which have always stood as financial resolutions to their financial problems by giving these enterprises credit inform of loans. Therefore, the major role played by MFIs in the performance of small scale enterprises is the provision of micro-credit facilities, which include delivery to clients, savings mobilization and payment services, the provision of startup capital inform of credit enables them to startup businesses or increase their working capital for those with already existing business setting.

The other role played by MFIs in the performance of SSEs include the provision of social intermediation services such as group formulation, development of self confidence in clients, training and equipping members of the group with knowledge of financial literacy and management capabilities.

Considering the above, it's evident that the micro credit funds offered by MFIs have significant role in the performance of SSEs. This was asserted by (Ledger Wood, 1998 World Bank report) "microfinance isn't simply banking, it's a development tool." The development program by government to liberalize the financial sector has largely facilitated the performance and the growth of SSEs in Motor care through micro credit funds offered by MFIs despite the fact that the formal sector is still being characterized by lack of adequate fund capital available for lending (Graham Wright et al 1997).

However, MFIs not requiring extensive infrastructure development to reach the rural potential borrowers in Motor care seemed a good alternative, but this has not been the case. Not all small scale businesses have access to micro credit facilities since poverty extension of short term credit

is given to registered members who on applying for loans already have running, thus needs funds to expand the scale of their operations, This is evident with Uganda Motor care Ltd.

1.2 Statement of the problem

A company's debt portfolio is usually the largest financial portfolio in the country. It often contains complex and risky financial structures, and can generate substantial risk to the company's balance sheet and to the country's financial stability. As noted by the Financial Stability Forum's Working Group on Capital Flows, "recent experience has highlighted the need for Companys to limit the build-up of liquidity exposures and other risks that make their economies especially vulnerable to external shocks. Therefore, sound risk management by the public sector is also essential for risk management by other sectors of the economy "because individual entities within the private sector typically are faced with enormous problems when inadequate sovereign risk management generates vulnerability to a liquidity crisis." Sound debt structures help Companys reduce their exposure to interest rate, currency and other risks. Many Companys seek to support these structures by establishing, where feasible, portfolio benchmarks related to the desired currency composition, duration, and maturity structure of the debt to guide the future composition of the portfolio.

Several debt market crises have highlighted the importance of sound debt management practices and the need for an efficient and sound capital market. Although Company debt management policies may not have been the sole or even the main cause of these crises, the maturity structure, and interest rate and currency composition of the company's debt portfolio, together with substantial obligations in respect of contingent liabilities have often contributed to the severity of the crisis. Even in situations where there are sound macroeconomic policy settings, risky debt management practices increase the vulnerability of the economy to economic and financial shocks. Sometimes these risks can be readily addressed by relatively straightforward measures, such as by lengthening the maturities of borrowings and paying the associated higher debt servicing costs (assuming an upward sloping yield curve), by adjusting the amount, maturity, and composition of foreign exchange reserves, and by reviewing criteria and governance arrangements in respect of contingent liabilities.

1.3 Purpose of the Study

The purpose of the study will be to examine the debt management and the performance of an enterprise in motor car Uganda limited.

1.4 Research Objectives

The study was guided by the following objectives;

- To examine the consequence of debt in which it Pressure off your monthly budget at Motor care limited
- To examine how debt management can be a Manageable payment for each month in Motor care limited.
- To examine the concept of debt management towards the Stressful, trying to keep up with several debts each month with Interest and charges which could be frozen at Motor care limited.
- To examine the repaying debts and how it contributes to the growth of the company.

1.5 Research Questions

- What are the consequences of debt management in which it Pressure off your monthly budget at Motor care limited?
- What way does debt management be a manageable payment for each month in Motor care limited?
- What is the concept of debt management towards the Stressful, trying to keep up with several debts each month with Interest and charges which could be frozen at Motor care limited?
- What measures can debt management carry the repaying debt and how it contributes to the growth of the company?

1.6 Scope of the Study

1.6.1 Geographical Scope

The study will be covered from Motor Care Uganda Limited Plot 95, Jinja road, Box 12704, Kampala. Tel: +256 312238100 Email: nissan@ug.motorcare.com/aftersales@ug.motorcare.com

1.6.2 Content Scope

The study will focus on the debt management as to ensure that the company's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

1.6.3 Time Scope

The study will be covered in the duration of December 2014-Febuary 2015

1.7 Key definitions

A duty or obligation to pay money, deliver goods, or render service under an express or implied agreement. One who owes, is a debtor or debitor; one to whom it is owed, is a debtee, creditor, or lender.

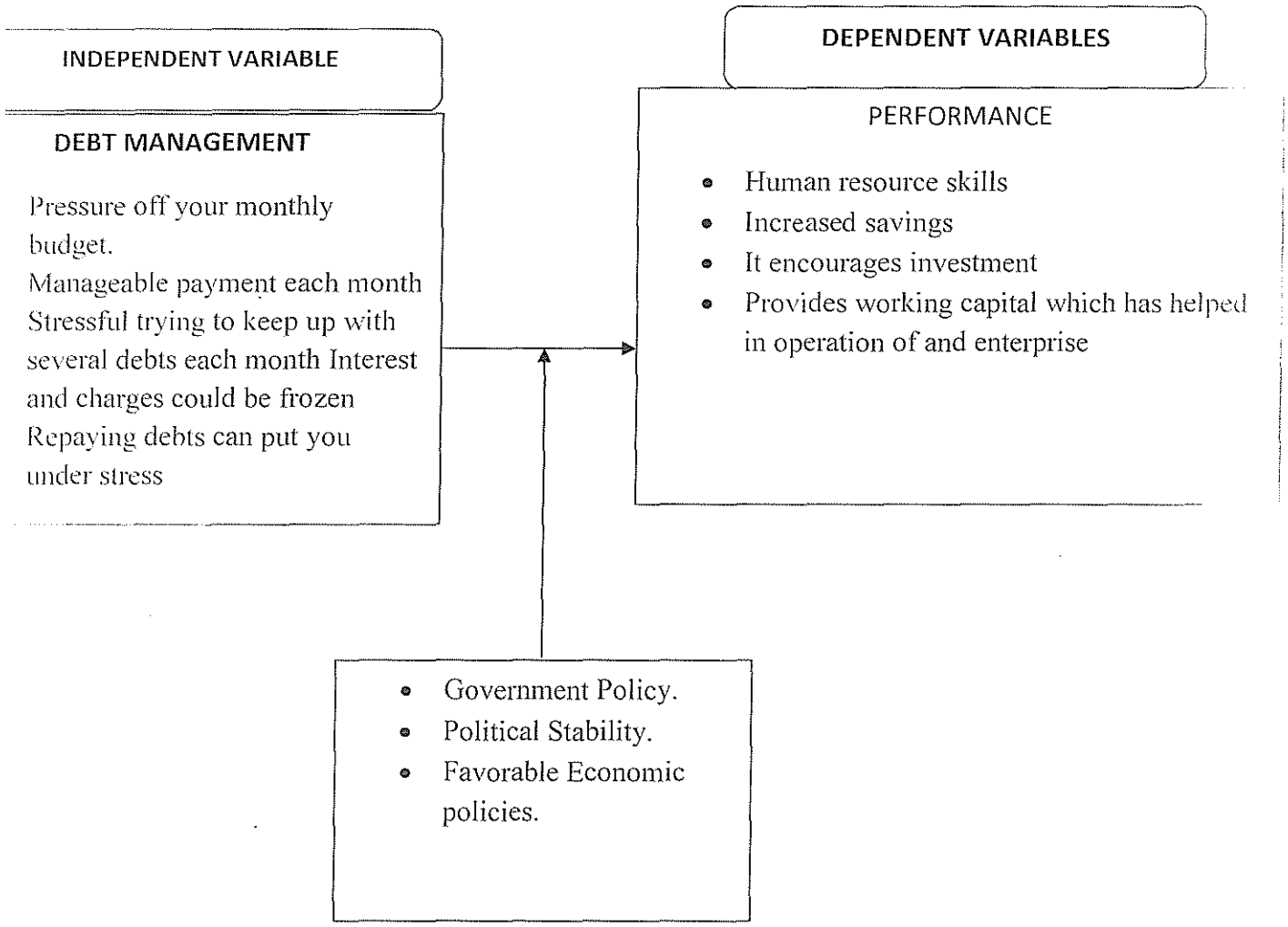
A debt generally refers to money owed by one party, the debtor, to a second party, the creditor. Debt is generally subject to contractual terms regarding the amount and timing of repayments of principal and interest. The term can also be used metaphorically to cover moral obligations and other interactions not based on economic value.

Debt management is a debt solution that can help people who are struggling to repay their unsecured debts. Unsecured debts are debts that are not secured against your home, like credit cards and personal loans. Debt management is an agreement between lenders and a borrower who needs to lower their repayments.

Performance. This is to do something up to a standard, to succeed and to excel.

1.8 Conceptual Framework

Figure 1: Showing the Conceptual Framework



Source: *"Debt- and Reserve-Related Indicators of External Vulnerability" (SM/00/65), IMF, 2000.*

1.9 Significance of the Study

The research will benefit all the enterprises in the country especially distribution companies, retail and wholesale outlets on how to improve on debt management system that are in the market in order to achieve their set objectives.

The study findings will help managers in charge of debt management that are engaged in production to understand how timely distribution of products is done such that the best supplier can be selected for quality materials depending on the types of materials.

The study will add more knowledge to the existing literature on debt management and distribution of products and will further be used by future academicians who would wish to expound more on the area of study for reference.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter will look at the literature review in regards to the research objectives

2.1 Debt management

A unique strategy developed to help a debtor manage their debt. This strategy is usually developed and implemented by an outside company or organization on behalf of the debtor, usually because the debtor is unable to sufficiently manage their debt on their own, due to lack of knowledge or because they are overwhelmed by the amount of debt. Debt can easily get out of hand, and may become unmanageable more quickly than you thought possible.

A debt management plan could allow you to make one affordable monthly payment that reflects your financial situation, bringing your finances back under control.

However, it is important to understand whether or not a debt management plan is really right for you, so we will now take a look at some of the advantages and disadvantages of debt management.

Bear in mind that debt management plans are available from various financial organizations, and different organizations may operate in different ways.

2.2 Benefits of debt management towards performance

One of the biggest benefits of a debt management plan is that it lets you clear your problem debts at a pace you can manage, which can take a lot of pressure off your monthly budget. Although, because you are paying less every month, it may take you longer and cost you more to repay your unsecured debts.

can be a good deal for your unsecured lenders too. A debt management plan is an informal agreement, and your lenders are under no obligation to accept any of the terms they are offered.

However, if they do accept the plan, they can be confident the borrower's doing what they can to pay all of the money back (even though it takes longer).

You make one manageable payment each month

It can be so stressful trying to keep up with several debts each month - and this can be much worse if you can't stretch your budget enough to afford them.

Debt management would combine all of your monthly payments to your unsecured debts into a single monthly payment, which is set at a level you can afford. It would mean you're not sticking to your original payment agreements, so your credit rating would suffer - but that might be unavoidable if you can't afford to repay your debts the way you said you would.

Your secured debts, like your mortgage, would not be included in a debt management plan, so you'd need to make sure you pay these yourself, along with things like your Council Tax, petrol and food.

That's why, when you apply, a debt expert will work with you and help you figure out your household budget. They'll need to look at things like your bills and income to make sure they have an accurate idea of what you can afford to pay each month without using the money you need for life's essentials.

Once you've both figured out exactly how much you pay each month towards your essentials, you can look at what's left over and calculate how much should go towards your unsecured debts. This is what you can pay into your debt management plan.

Interest and charges could be frozen

During negotiations, we will also ask lenders to freeze any interest and charges on your debts.

There is no guarantee they will agree. But we will talk to them about this for you - because this will stop your debts growing while you're repaying them.

If they don't agree, however, paying your debts back more slowly means that interest will have more time to grow - so you'll end up paying more.

Contact with lenders handled by us

Repaying debts can put you under stress, especially if you have various lenders contacting you about different issues.

Once you're on a debt management plan with Gregory Pennington, however, all contact with your lenders can be handled by our professionals.

They'll stay in touch with your lenders, making sure they've all received your payments, and address any issues that may arise.

Your lenders are still legally allowed to contact you, but if you receive any phone calls, you can tell them to get in touch with us. And if you receive any letters, you can put them in prepaid envelopes and send them straight over to us.

Flexibility of debt management

A debt management plan isn't a legally binding solution.

It's quite flexible. So if, during your debt management plan, you receive a pay-cut or an unexpected expense - or your expenditure goes up - your debt management payments could be reduced accordingly, helping you make sure you can still afford them.

This reduction would have to be negotiated again with your lenders - and there is a chance they'd reject it - so we'll do our best to show them it's your best way to keep on making your payments.

On the other hand, you might receive a pay rise - in which case your debt management payments can be increased. This would allow you to clear your unsecured debts more quickly!

Continued support

Throughout your debt management plan with Gregory Pennington, your Personal Finance Manager will be there to provide help and advice. They are your dedicated port of call when it comes to any questions or queries you might have.

They're the person you should contact if you find you're struggling with your debt management plan - and they'll do everything they can to help. Your Personal Finance Manager will know about your debt management plan and your finances in general, so they'll be well placed to help you find the best way forward each time.

On a debt management plan, you could reduce your monthly outgoings and make just one monthly payment, based on what you can afford today, rather than what you could afford when you took on your debts in the first place.

Debt management plans can be flexible. If your circumstances change and you start finding payments difficult to make, then your debt adviser may be able to re-assess your situation and negotiate with your creditors again, asking them to accept lower monthly payments.

Lose your eligibility to receive federal financial aid in the future

Lose the ability to make payments on your loan, as the entire loan will be due in full

Risk incurring collection costs (up to 25% of your student loan)

Damage your credit history for up to seven years, which could prevent you from purchasing a car or a home

Risk garnishment of wages, which means your employer could be required to forward 15% of your wages to your lender

Risk losing income tax refunds, which could be withheld and forwarded to your lender

Debt Basics

Debt financing means borrowing an upfront amount in a loan that you must repay with principal and interest over time. Similar to consumers, companies have credit ratings that lenders use to determine credit worthiness. The better your credit, the more favorable the rates and terms available to you. Companies typically turn to debt financing to generate working capital for meeting short-term expense obligations, or for long-term acquisitions such as property, plant and equipment. Banks, savings and loans, commercial finance companies, and the U.S. Small Business Administration are common sources of debt financing, according to the Maryland Department of Business & Economic Development.

Benefits

A primary advantage of debt financing relative to equity financing is ownership retention. When you sell shares to raise funds, you turn over fractional ownership and voting rights in the company. With debt, you lose no ownership retain similar control overall strategic decisions and business matters. Raising debt is also less complicated to perform and monitor than selling shares, indicates the FindLaw website. Debt financing at a reasonable interest rate also makes for less expensive financing over time.Drawbacks

Debt poses more risk to the company, as it is required to pay back the debt plus interest. When you sell part of the company, which you already own, you have no ongoing financial obligation other than what shareholders earn from their shares. Debt financing makes positive cash flow critical so you can make the repayment requirements. Additionally, high debt leverage overwhelms the business and makes it difficult to obtain further financing in the future.

Leverage Ratios

Debt and equity are the two primary sources of financing that companies can turn to when looking to generate capital. Each has pros and cons. Debt financing is acquisition of loans where equity financing involves the sale of shares of stock in the company in exchange for funds.

Management of internal operations

Risks of Company losses from inadequate operational controls should be managed according to sound business practices, including well-articulated responsibilities for staff, and clear monitoring and control policies and reporting arrangements.

Debt management activities should be supported by an accurate and comprehensive management information system with proper safeguards.

Staff involved in debt management should be subject to a code-of-conduct and conflict-of-interest guidelines regarding the management of their personal financial affairs.

Sound business recovery procedures should be in place to mitigate the risk that debt management activities might be severely disrupted by natural disasters, social unrest, or acts of terrorism.

Debt Management Strategy

The risks inherent in the structure of the company's debt should be carefully monitored and evaluated. These risks should be mitigated to the extent feasible by modifying the debt structure, taking into account the cost of doing so.

In order to help guide borrowing decisions and reduce the company's risk, debt managers should consider the financial and other risk characteristics of the company's cash flows.

Debt managers should carefully assess and manage the risks associated with foreign-currency and short-term or floating rate debt.

There should be cost-effective cash management policies in place to enable the authorities to meet with a high degree of certainty their financial obligations as they fall due.

Risk Management Framework

A framework should be developed to enable debt managers to identify and manage the trade-offs between expected cost and risk in the Company debt portfolio.

To assess risk, debt managers should regularly conduct stress tests of the debt portfolio on the basis of the economic and financial shocks to which the Company--and the country more generally--are potentially exposed.

Risky debt structures are often the consequence of inappropriate economic policies--fiscal, monetary and exchange rate--but the feedback effects undoubtedly go in both directions. However, there are limits to what sound debt management policies can deliver. Sound debt management policies are no panacea or substitute for sound fiscal and monetary management. If macroeconomic policy settings are poor, sound sovereign debt management may not by itself prevent any crisis. Sound debt management policies reduce susceptibility to contagion and financial risk by playing a catalytic role for broader financial market development and financial deepening. Experience supports the argument, for example, that developed domestic debt markets can substitute for bank financing (and vice versa) when this source dries up, helping economies to weather financial shocks.

Debt Management Objectives and Coordination

Prudent risk management to avoid dangerous debt structures and strategies (including monetary financing of the company's debt) is crucial, given the severe macroeconomic consequences of sovereign debt default, and the magnitude of the ensuing output losses. These costs include business and banking insolvencies as well as the diminished long-term credibility and capability of the Company to mobilize domestic and foreign savings. Box 1 provides a list of the main risks encountered in sovereign debt management.

Box 1. Risks Encountered in Sovereign Debt Management

Risk	Description
Market Risk	Refers to the risks associated with changes in market prices, such as interest rates, exchange rates, commodity prices, on the cost of the company's debt servicing. For both domestic and foreign currency debt, changes in interest rates affect debt servicing costs on new issues when fixed-rate debt is refinanced, and on floating-rate debt at the rate reset dates. Hence, short- duration debt (short-term or floating-rate) is usually considered to be more risky than long-term, fixed rate debt. (Excessive concentration in very long-term, fixed rate debt also can be risky as future financing requirements are uncertain.) Debt denominated in or indexed to foreign currencies also adds volatility to debt servicing costs as measured in domestic currency owing to exchange rate movements. Bonds with embedded put options can exacerbate market and rollover risks.
Rollover Risk	The risk that debt will have to be rolled over at an unusually high cost or, in extreme cases, cannot be rolled over at all. To the extent that rollover risk is limited to the risk that debt might have to be rolled over at higher interest rates, including changes in credit spreads, it may be considered a type of market risk. However, because the inability to roll over debt and/or exceptionally large increases in Company funding costs can lead to, or exacerbate, a debt crisis and thereby cause real economic losses, in addition to the purely financial effects of higher interest rates, it is often treated separately. Managing this risk is particularly important for emerging market countries.
Liquidity Risk	There are two types of liquidity risk. One refers to the cost or penalty investors face in trying to exit a position when the number of transactors has markedly decreased or because of the lack of depth of a particular market. This risk is particularly relevant in cases where debt management includes the management of liquid assets or the use of derivatives contracts. The other form of liquidity risk, for a borrower, refers to a situation where the volume of liquid assets can diminish quickly in the face of unanticipated cash flow obligations and/or a

	possible difficulty in raising cash through borrowing in a short period of time.
Credit Risk	The risk of non performance by borrowers on loans or other financial assets or by a counterparty on financial contracts. This risk is particularly relevant in cases where debt management includes the management of liquid assets. It may also be relevant in the acceptance of bids in auctions of securities issued by the Company as well as in relation to contingent liabilities, and in derivative contracts entered into by the debt manager.
Settlement Risk	Refers to the potential loss that the Company, as a counterparty, could suffer as a result of failure to settle, for whatever reason other than default, by another counterparty.
Operational Risk	This includes a range of different types of risks, including transaction errors in the various stages of executing and recording transactions; inadequacies or failures in internal controls, or in systems and services; reputation risk; legal risk; security breaches; or natural disasters that affect business activity.

Companys should try to minimize expected debt servicing costs and the cost of holding liquid assets, subject to an acceptable level of risk, over a medium- to long-term horizon. Minimizing cost, while ignoring risk, should not be an objective. Transactions that appear to lower debt servicing costs often embody significant risks for the Company and can limit its capacity to repay lenders. Developed countries, which typically have deep and liquid markets for their company's securities, often focus primarily on market risk, and, together with stress tests, may use sophisticated portfolio models for measuring this risk. In contrast, emerging market countries, which have only limited (if any) access to foreign capital markets and which also have relatively undeveloped domestic debt markets, should give higher priority to rollover risk. Where appropriate, debt management policies to promote the development of the domestic debt market should also be included as a prominent Company objective. This objective is particularly relevant for countries where market constraints are such that short-term debt, floating rate debt, and foreign currency debt may, in the short-run at least, be the only viable alternatives to monetary financing.

Debt management should encompass the main financial obligations over which the central Company exercises control. These obligations typically include both marketable debt and non-market debt, such as concessional financing obtained from bilateral and multilateral official sources. In a number of countries, the scope of debt management operations has broadened in recent years. Nevertheless, the public sector debt, which is included or excluded from the central company's mandate over debt management, will vary from country to country, depending on the nature of the political and institutional frameworks.

Domestic and foreign currency borrowings are now typically coordinated. Moreover, debt management often encompasses the oversight of liquid financial assets and potential exposures due to off-balance sheet claims on the central Company, including contingent liabilities such as state guarantees. In establishing and implementing a strategy for managing the central company's debt in order to achieve its cost and risk objectives and any other sovereign debt management goals, the central Company should monitor and review the potential exposures that may arise from guaranteeing the debts of sub-central Companys and state-owned enterprises, and, whenever possible, be aware of the overall financial position of public- and private-sector borrowers. And, the borrowing calendars of the central and sub-central Company borrowers may need to be coordinated to ensure that auctions of new issues are appropriately spaced.

Coordination with monetary and fiscal policies

Debt managers, fiscal policy advisors, and central bankers should share an understanding of the objectives of debt management, fiscal, and monetary policies given the interdependencies between their different policy instruments. Debt managers should convey to fiscal authorities their views on the costs and risks associated with Company financing requirements and debt levels.

Policymakers should understand the ways in which the different policy instruments operate, their potential to reinforce one another, and how policy tensions can arise. Prudent debt management, fiscal and monetary policies can reinforce one another in helping to lower the risk premia in the structure of long-term interest rates. Monetary authorities should inform the fiscal authorities of the effects of Company debt levels on the achievement of their monetary objectives. Borrowing

limits and sound risk management practices can help to protect the company's balance sheet from debt servicing shocks. In some cases, conflicts between debt management and monetary policies can arise owing to the different purposes--debt management focuses on the cost/risk trade-off, while monetary policy is normally directed towards achieving price stability. For example, some central banks may prefer that the Company issue inflation-indexed debt or borrow in foreign currency to bolster the credibility of monetary policy. Debt managers may believe that the market for such inflation-indexed debt has not been fully developed and that foreign currency debt introduces greater risk onto the company's balance sheet. Conflicts can also arise between debt managers and fiscal authorities, for example, on the cash flows inherent in a given debt structure (e.g., issuing zero-coupon debt to transfer the debt burden to future generations). For this reason, it is important that coordination take place in the context of a clear macroeconomic framework.

Where the level of financial development allows, there should be a separation of debt management and monetary policy objectives and accountabilities. Clarity in the roles and objectives for debt management and monetary policy minimizes potential conflicts. In countries with well-developed financial markets, borrowing programs are based on the economic and fiscal projections contained in the Company budget, and monetary policy is carried out independently from debt management. This helps ensure that debt management decisions are not perceived to be influenced by inside information on interest rate decisions, and avoids perceptions of conflicts of interest in market operations. A goal of cost minimization over time for the company's debt, subject to a prudent level of risk, should not be viewed as a mandate to reduce interest rates, or to influence domestic monetary conditions. Neither should the cost/risk objective be seen as a justification for the extension of low-cost central bank credit to the Company, nor should monetary policy decisions be driven by debt management considerations.

Debt management, fiscal, and monetary authorities should share information on the company's current and future liquidity needs. Since monetary operations are often conducted using Company debt instruments and markets, the choice of monetary instruments and operating procedures can have an impact on the functioning of Company debt markets, and potentially on the financial condition of dealers in these markets. By the same token, the efficient conduct of monetary policy requires a solid understanding of the company's short- and longer-term financial

flows. As a result, debt management and fiscal and monetary officials often meet to discuss a wide range of policy issues. At the operational level, debt management, fiscal, and monetary authorities generally share information on the company's current and future liquidity needs. They often coordinate their market operations so as to ensure that they are not both operating in the same market segment at the same time. Nevertheless, achieving separation between debt management and monetary policy might be more difficult in countries with less-developed financial markets, since debt management operations may have correspondingly larger effects on the level of interest rates and the functioning of the local capital market. Consideration needs to be given to the sequencing of reforms to achieve this separation.

Transparency and Accountability

18. As outlined in the *Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles* (MFP Transparency Code), the case for transparency in debt management operations is based on two main premises: first, their effectiveness can be strengthened if the goals and instruments of policy are known to the public (financial markets) and if the authorities can make a credible commitment to meeting them; second, transparency can enhance good governance through greater accountability of central banks, finance ministries, and other public institutions involved in debt management.

Clarity of roles, responsibilities and objectives of financial agencies responsible for debt management

The allocation of responsibilities among the ministry of finance, the central bank, or a separate debt management agency, for debt management policy advice and for undertaking primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trade in Company securities, should be publicly disclosed. Transparency in the mandates and clear rules and procedures in the operations of the central bank and ministry of finance can help resolve conflicts between monetary and debt management policies and operations. Transparency and simplicity in debt management operations and in the design of debt instruments can also help issuers reduce transaction costs and meet their portfolio objectives.

They may also reduce uncertainty among investors, lower their transaction costs, encourage greater investor participation, and over time help Companys lower their debt servicing costs.

The objectives for debt management should be clearly defined and publicly disclosed, and the measures of cost and risk that are adopted should be explained. Some sovereign debt managers also publicly disclose their portfolio benchmarks for cost and risk, although this practice is not universal. Experience suggests that such disclosure enhances the credibility of the debt management program and helps achieve debt management goals. Complementary objectives, such as domestic financial market development, should also be publicly disclosed. Their relationship with the primary objective should be clearly explained.

Clear debt management objectives are essential in order to reduce uncertainty as to the company's willingness to trade off cost and risk. Unclear objectives often lead to poor decisions on how to manage the existing debt and what types of debt to issue, particularly during times of market instability, resulting in a potentially risky and expensive debt portfolio for the Company and adding to its vulnerability to a crisis. Lack of clarity with respect to objectives also creates uncertainty within the financial community. This can increase Company debt servicing costs because investors incur costs in attempting to monitor and interpret the company's objectives and policy framework, and may require higher risk premia because of this uncertainty.

Debt management activities should be audited annually by external auditors. The accountability framework for debt management can be strengthened by public disclosure of audit reviews of debt management operations. Audits of Company financial statements should be conducted regularly and publicly disclosed on a preannounced schedule, including information on the operating expenses and revenues. A national audit body, like the agency responsible for auditing Company operations, should provide timely reports on the financial integrity of the central Company accounts. In addition, there should be regular audits of debt managers' performance, and of systems and control procedures.

Negative consequences of debt management

Your debts could take longer to pay off as you are repaying smaller amounts each month. Also, the interest could cost you more in the long run, as you are repaying your debt over a longer period of time.

Your creditors aren't legally obliged to accept any new repayment terms. However, if they believe that agreeing to the new terms is the best way of getting their money back, then they are likely to agree.

Capital reduction

The process of decreasing a company's shareholder equity through share cancellations and share repurchases. The reduction of capital is done by companies for numerous reasons including increasing shareholder value and producing a more efficient capital structure.

After a capital reduction, the number of shares in the company will decrease by the reduction amount. In some capital reductions, shareholders will receive a cash payment for shares cancelled - but, in other situations, there is minimal impact on shareholders.

Increases Performance

Impersonating clients. If you impersonate the original caller to access a backend database, a connection pool is created per unique user identity. This consumes resources and reduces scalability. Connection pooling is most effective if you use a trusted subsystem model and access the database using a fixed service account such as the application's process identity. For more information, see the "Security" section in this chapter.

Calling single-threaded apartment (STA) components. All calls to and from the STA component can only be serviced by the thread that created or instantiated it. All callers sharing an STA object instance are serialized onto the same thread; there is also a thread switch from the calling thread to the apartment's single thread. For more information, see "Avoid STA Components" later in this chapter.

Performing long running transactions. Long running transactions retain locks and hold expensive resources such as database connections for prolonged periods. This reduces throughput and impacts scalability. Alternative approaches such as compensating transactions can be appropriate for scenarios where you cannot avoid long running transactions. For more information see "Transactions" later in this chapter.

Using inappropriate isolation levels. High isolation levels increase database integrity but reduce concurrency. Using inappropriate isolation levels can unnecessarily hinder performance. Choose an appropriate isolation level for your components depending on the type of create, read, update, and delete operation you need to perform. For more information, see "Transactions" later in this chapter.

Using stateful components. Stateful components limit application scalability and increase the likelihood of data inconsistency. Use a stateless programming model with Enterprise Services.

Using encryption unnecessarily. Encrypting your data twice Is unnecessary from a security standpoint and unnecessarily impacts performance. For example, there is no point using packet privacy authentication to encrypt communication to and from serviced components if your application is deployed inside a secure data center that already protects its inter-server communication channels, for example, by using Internet Protocol Security (IPSec) encryption. For more information, see "Security" later in this chapter.

Failing to release resources quickly enough. Failing to release shared resources such as database connections and unmanaged COM objects promptly, impacts application scalability. For more information, see "Resource Management" later in this chapter.

Failing to pool resources. If you do not use pooling for objects that take a long time to initialize for example because they need to access resources such as a network or database connections, these objects are destroyed and recreated for each request. This reduces application performance. For more information, see "Object Pooling" later in this chapter.

Specifying too large a minimum pool size. If you set the minimum pool size to a large number, the initial call request can take a long time to populate the pool with the minimum number of

objects. Set the pool size based on the type of resource that your objects maintain. Also consider manually starting the application to initialize the pool prior to the first live request.

Using inappropriate synchronization techniques. If you are building a high-performance multithreaded application to access your serviced components, deadlocks and race conditions can cause significant problems. Use the declarative COM+ synchronization attribute to manage concurrency and threading complexities. For more information, see "Synchronization Attribute" later in this chapter.

Using unneeded services. Each additional service your component is configured for affects performance. Make sure each component is configured only for those specific services it requires.

Clients failing to release reference quickly enough. Clients that bind early and release late can increase server resource utilization and quickly create performance and scalability problems.

Clients failing to call Dispose. Clients that do not call Dispose on service components create significant performance bottlenecks.

Debt Management Strategy

The risks inherent in the company's debt structure should be carefully monitored and evaluated. These risks should be mitigated to the extent feasible by modifying the debt structure, taking into account the cost of doing so. Box 2 summarizes some of the pitfalls encountered in sovereign debt management. A range of policies and instruments can be engaged to help manage these risks.

39. Identifying and managing market risk involves examining the financial characteristics of the revenues and other cash flows available to the Company to service its borrowings, and choosing a portfolio of liabilities which matches these characteristics as much as possible. When they are available, hedging instruments can be used to
move the cost and risk profile of the debt portfolio closer to the preferred portfolio composition.

Box 2. Some Pitfalls in Debt Management

Increasing the vulnerability of the company's financial position by increasing risk, even though it may lead to lower costs and a lower deficit in the short run. Debt managers should avoid exposing their portfolios to risks of large or catastrophic losses, even with low probabilities, in an effort to capture marginal cost savings that would appear to be relatively "low risk."

- Maturity structure. A Company faces an intertemporal tradeoff between short-term and long-term costs that should be managed prudently. For example, excessive reliance on short-term or floating-rate paper to take advantage of lower short-term interest rates may leave a Company vulnerable to volatile and possibly increasing debt service costs if interest rates increase, and the risk of default in the event that a Company cannot roll over its debts at any cost. It could also affect the achievement of a central bank's monetary objectives.
- Excessive unhedged foreign exchange exposures. This can take many forms, but the predominant is directly issuing excessive amounts of foreign currency denominated debt and foreign exchange indexed debt. This practice may leave Companys vulnerable to volatile and possibly increasing debt service costs if their exchange rates depreciate, and the risk of default if they cannot roll over their debts.
- Debt with embedded put options. If poorly managed, these increase uncertainty to the issuer, effectively shortening the portfolio duration, and creating greater exposure to market/rollover risk.
- Implicit contingent liabilities, such as implicit guarantees provided to financial institutions. If poorly managed, they tend to be associated with significant moral hazard.

Debt management practices that distort private vs. Company decisions, as well as understate the true interest cost.

- Debt collateralized by shares of state-owned enterprises (SOE) or other assets. In addition to understating the underlying interest cost, they may distort decisions regarding asset management.

- Debt collateralized by specific sources of future tax revenue. If a future stream of revenue is committed for specific debt payments, a Company may be less willing to undertake changes, which affect this revenue, even if the changes would improve the tax system.
- Tax-exempt or reduced tax debt. This practice is used to encourage the placement of Company debt. The impact on the deficit is ambiguous, since it will depend upon the taxation of competing assets and whether the after-tax rate of return on taxable and tax-exempt Company paper are equalized.

Misreporting of contingent or guaranteed debt liabilities. This may understate the actual level of the company's liabilities.

- Inadequate coordination or procedures with regard to borrowings by lower levels of Company, which may be guaranteed by the central Company, or by state-owned enterprises.
- Repeated debt forgiveness for lower levels of Company or for state-owned enterprises.
- Guaranteeing loans, which have a high probability of being called (without appropriate budgetary provisions).

Use of non-market financing channels. In some cases the practice can be unambiguously distortionary.

- Special arrangements with the central bank for concessional credit, including zero/low interest overdrafts or special treasury bills.
- Forced borrowing from suppliers either through expenditure arrears or through the issuance of promissory notes, and tied borrowing arrangements. These practices tend to raise the price of Company expenditures.
- Creating a captive market for Company securities. For example, in some countries the Company pension plan is required to buy Company securities. In other cases, banks are required to acquire Company debt against a certain percentage of their deposits. While some forms of liquid asset ratios can be a useful prudential tool for liquidity management, they can have distortionary effects on debt servicing costs, as well as on financial market development.

Improper oversight and/or recording of debt contracting and payment, and/or of debt holders. Company control over the tax base and/or the supply of outstanding debt is reduced.

- Failing to record implicit interest on zero-interest long-term debt. While helping the cash position of the Company, if the implicit interest is not recorded, the true deficit is understated.
- Too broad an authority to incur debt. This can be due to the absence of parliamentary reporting requirements on debt incurred, or the absence of a borrowing limit or debt ceiling. However, the authority must ensure that existing debt service obligations are met.
- Inadequate controls regarding the amount of debt outstanding. In some countries a breakdown in internal operations and poor documentation led to more debt being issued than had been officially authorized.

Onerous legal requirements with respect to certain forms of borrowing. In some countries, more onerous legal requirements with respect to long maturity borrowings (relative to short maturity borrowings) have led to disproportionate reliance on short-term borrowings, which compounds rollover risk Some emerging market Companys would be well served to accept higher liquidity premia to keep rollover risks under control, since concentrating the debt in benchmark issues at key points along the yield curve may increase rollover risk. On the other hand, reopening previously issued securities to build benchmark issues can enhance market liquidity, thereby reducing the liquidity risk premia in the yields on Company securities and lowering Company debt service costs. Companys seeking to build benchmark issues often hold liquid financial assets, spread the maturity profile of the debt portfolio across the yield curve, and use domestic debt buybacks, conversions or swaps of older issues with new issues to manage the associated rollover risks.

Some debt managers also have treasury management responsibilities. In countries where debt managers are also responsible for managing liquid assets, debt managers have adopted a multi-pronged approach to the management of credit risk inherent in their investments in liquid financial assets, and financial derivatives transactions. In countries where credit ratings are widely available, debt managers should limit investments to those that have credit ratings from independent credit rating agencies that meet a preset minimum requirement. All Companys,

however, should set exposure limits for individual counterparties that take account of the company's actual and contingent consolidated financial exposures to that counterparty arising from debt and foreign exchange reserves management operations. Credit risk can also be managed by holding a diversified portfolio across a number of acceptable financial counterparties and also through collateral agreements. Settlement risk is controlled by having clearly documented settlement procedures and responsibilities, and often placing limits on the size of payments flowing through any one settlement bank.

In order to help guide borrowing decisions and reduce the company's risk, debt managers should consider the financial and other risk characteristics of the company's cash flows. Rather than simply examining the debt structure in isolation, several Companys have found it valuable to consider debt management within a broader framework of the company's balance sheet and the nature of its revenues and cash flows. Irrespective of whether Companys publish a balance sheet, conceptually all Companys have such a balance sheet, and consideration of the financial and other risks of the company's assets can provide the debt manager with important insights for managing the risks of the company's debt portfolio. For example, a conceptual analysis of the company's balance sheet may provide debt managers with useful insights about the extent to which the currency structure of the debt is consistent with the revenues and cash flows available to the Company to service that debt. In most countries, these mainly comprise tax revenues, which are usually denominated in local currency. In this case, the company's balance sheet risk would be reduced by issuing debt primarily in long-term, fixed rate, domestic currency securities. For countries without well-developed domestic debt markets, this may not be feasible, and Companys are often faced with the choice between issuing short-term or indexed domestic debt and foreign currency debt. Issues such as crowding out of private sector borrowers and the difficulties of issuing domestic currency debt in highly dollarized economies should also be considered. But the financial analysis of the company's revenues and cash flows provides a sound basis for measuring the costs and risks of the feasible strategies for managing the company's debt portfolio. The asset and liability management approach is summarized in Box 3.

Some countries have extended this approach to include other Company assets and liabilities. For example, in some countries where the foreign exchange reserves are funded by foreign currency borrowings, debt managers have reduced the company's balance sheet risk by ensuring that the

currency composition of the debt that backs the reserves, after taking account of derivatives and other hedging transactions, reflects the currency composition of the reserves. However, other countries have not adopted this practice because of considerations relating to exchange rate objectives and the institutional framework, including intervention and issues related to the role and independence of the central bank.

Debt managers should carefully assess and manage the risks associated with foreign-currency and short-term or floating rate debt. Debt management strategies that include an over reliance on foreign currency or foreign currency-indexed debt and short-term or floating rate debt are very risky. For example, while foreign currency debt may appear, ex ante, to be less expensive than domestic currency debt of the same maturity (given that the latter may include higher currency risk and liquidity premia), it could prove to be costly in volatile capital markets or if the exchange rate depreciates. Debt managers should also be aware of the fact that the choice of exchange rate regime can affect the links between debt management and monetary policy. For example, foreign currency debt may appear to be cheaper in a fixed exchange rate regime because the regime caps exchange rate volatility. However, such debt can prove to be very risky if the exchange rate regime becomes untenable.

Short-term or floating rate debt (whether domestic or foreign currency-denominated), which may appear, ex ante, to be less expensive over the long run in a positively-sloped yield curve environment, can create substantial rollover risk for the Company. It may also constrain the central bank from raising interest rates to address inflation or support the exchange rate because of concerns about the short-term impact on the company's financial position. However, such actions might be appropriate from the viewpoint of macroeconomic management and, by lowering risk premiums, may help to achieve lower interest rates in the longer run. Macro-vulnerabilities could be exacerbated if there is a sudden shift in market sentiment as to the company's ability to repay, or when contagion effects from other countries lead to markedly higher interest rates. Many emerging market Companys have too much short-term and floating-rate debt. However, over reliance on longer-term fixed rate financing also carries risks if, in some circumstances, it tempts Companys to deflate the value of such debt in real terms by initiating surprise inflation. Any such concerns would be reflected in current and future borrowing costs. Also, unexpected disinflation would increase the ex-post debt-servicing burden

in real terms. This could create strains in countries, which because of an already heavy debt burden, have to pay a higher risk premium.

Box 3. Asset and Liability Management

Some Companys are seeking to learn from companies that have successfully managed their core business and financial risks. Financial intermediaries, for example, seek to manage their business and financial risks by matching the financial characteristics of their liabilities to their assets (off- as well as on-balance sheet), given their core business objectives. This approach is known as asset and liability management (ALM). For example, a life insurance company is in the business of selling life insurance policies, which have a relatively stable expected long-term payment structure as determined by actuarial tables of expected mortality. To minimize its financial risk, a life insurance company will invest the proceeds of its policy sales in long-term assets to match the expected payout on its policies.

In some ways a Company resembles a company. It receives revenues from taxpayers and other sources, and uses them to pay operating expenses, make transfer payments, purchase foreign exchange, invest in public infrastructure and state-owned enterprises, and meet debt-servicing costs. A Company may also make loans and provide guarantees, both explicit and implicit. These various Company operations may be undertaken to fulfill a broad range of macroeconomic, regulatory, national defense, and social policy objectives. However, in the process a Company incurs financial and credit risks, which can be managed by considering the types of risks associated with both its assets and liabilities.

There are also important differences between the role of the Company and that of private companies. While some Companys have attempted to produce a balance sheet quantifying the value of their assets and liabilities, and more Companys may attempt this in the future, this is not essential for the ALM approach. Instead, the objective of the ALM approach is to consider the various types of assets and obligations the Company manages and explore whether the financial characteristics associated with those assets can provide insights for managing the cost and risk of the company's liabilities. This analysis involves examining the financial characteristics of the asset cash flows, and selecting, to the extent possible, liabilities with matching characteristics in order to help smooth the budgetary impact of shocks on debt servicing costs. If full matching is

not possible, or is too costly, the analysis of cash flows also provides a basis for measuring the risks of the liability portfolio and measuring cost/risk tradeoffs.

Using a conceptual ALM framework for the debt management problem can be a useful approach for several reasons. At a minimum, it grounds the cost/risk analysis of the company's debt portfolio into an analysis of the company's revenues which will be used to service that debt, which, in most cases are denominated by the company's tax revenues. It enables the Company debt managers to consider the other types of assets and liability portfolios the Company manages, besides its tax revenues and direct debt portfolio. Assessing the main risks around these portfolios can help a Company design a comprehensive strategy to help reduce the overall risk in its balance sheet. The ALM approach also provides a useful framework for considering governance arrangements for managing the company's balance sheet. This could, for example, involve deciding whether the Company should maintain an ownership interest in producing particular goods and services, and the best organizational structure for managing the assets it wishes to retain.

The ALM approach to managing the company's exposure to financial risks is discussed in more detail in the forthcoming World Bank publication *Sound Practice in Sovereign Debt Management*.

If a country lacks a well-developed market for domestic currency debt, a Company may be unable to issue long-term, fixed-rate domestic currency debt at a reasonable cost, and consequently must choose between risky short-term or floating rate domestic currency debt and longer-term, but also risky, foreign currency debt. Even so, given the potential for sizeable economic losses if a Company cannot roll over its debt, rollover risk should be given particular emphasis, and this risk can be reduced by lengthening the maturity of new debt issues. Options to lengthen maturities include issuing floating-rate debt, foreign currency or foreign currency-indexed debt and inflation indexed debt. Over the medium-term, a strategy for developing the domestic currency debt market can relieve this constraint and permit the issuance of a less risky debt structure, and this should be reflected in the overall debt management strategy. In this context, gradual increases in the maturity of new fixed rate domestic currency debt issues may raise cost in the short run, but they reduce rollover risk and often constitute important steps in

developing domestic debt markets. However, debt structures which entail extremely "lumpy" cash flows should, to the extent possible, be avoided.

There should be cost-effective cash management policies in place to enable the authorities to meet with a high degree of certainty their financial obligations as they fall due. The need for cost-effective cash management recognizes that the window of opportunity to issue new securities does not necessarily match the timing of planned expenditures. In particular, for Companys lacking secure access to capital markets, liquid financial assets and contingent credit lines can provide flexibility in debt and cash management operations in the event of temporary financial market disturbances. They enable Companys to honor their obligations, and provide flexibility to absorb shocks where access to borrowing in capital markets is temporarily curtailed or very costly. However, liquid assets are a more secure source of funds than unconditional, contingent credit lines, since financial institutions called upon to provide funds under these lines may attempt to prevent their exposures from expanding by withdrawing other lines from the Company. On the other hand, some Companys that do have secure access to capital markets prefer to minimize their holdings of liquid financial assets and instead rely on short-term borrowings and overdraft facilities to manage day-to-day fluctuations in their revenues and cash flows. Sound cash management needs to be supported by efficient infrastructure for payments and settlements, which are often based on dematerialized securities and a centralized, book-entry register.

Sound cash management by its nature combines elements of debt management and monetary operations. Particularly in some developing countries where it is not given a high priority, poor or inadequate cash management practices have tended to hamper efficient debt management operations and the conduct of monetary policy. Notwithstanding the desirability for a clear separation of debt management and monetary policy objectives and accountabilities, the search for liquidity creates a challenge for cash managers that might be more easily dealt with if debt and cash management functions are integrated in the same institution or work in close collaboration. Where cash and debt management functions are separately managed, for example by the Central Bank and Treasury or Ministry of Finance, respectively, close coordination and information flows, in both directions, are of paramount importance to avoid short-run inconsistencies between debt and monetary operations. A clear delineation of institutional

responsibilities, supported by a formal service agreement between the central bank, Treasury and debt management officials, as appropriate, can further promote sound cash management practices.

Appropriate policies related to official foreign exchange reserves can also play a valuable role in increasing a company's room for maneuver in meeting its financial obligations in the face of economic and financial shocks. Box 4 summarizes some macroeconomic indicators that can be used as a starting point for assessing a country's external vulnerability. More broadly, the level of foreign exchange reserves should be set in accordance with the company's access to capital markets, the exchange rate regime, the country's economic fundamentals and its vulnerability to economic and financial shocks, the cost of carrying reserves, and the amount of short-term foreign currency debt outstanding. Companys lacking secure access to international capital markets could consider holding reserves that bear an appropriate relationship to their country's short-term external debt, regardless of whether that debt is held by residents or nonresidents. In addition, there are some indicators specific to the company's debt situation that Companys and debt managers need to consider. Ratios of debt to GDP and to tax revenue, for example, would seem to be very relevant for public debt management, as would indicators such as the debt service ratio, the average interest rate, various maturity indicators, and indicators of the composition of the debt.

Risk Management Framework

A framework should be developed to enable debt managers to identify and manage the trade-offs between expected cost and risk in the Company debt portfolio. The cost of Company debt includes two components: (1) the financial cost, which typically is considered to be the cost of servicing the debt over the medium- to long-run (and may be measured in terms of its impact on the company's fiscal position), and (2) the potential cost of real economic losses that may result from a financial crisis if a Company has a particular strategy for managing the portfolio, debt servicing costs can be projected forward over the medium- to long-term, based on assumptions of future interest and exchange rates and future borrowing needs. To minimize bias in choosing among different strategies, some Companys use "market neutral" assumptions of future interest and exchange rates; e.g., based on market measures of forward rates, or on simple assumptions

that rates will remain unchanged, etc. The expected cost can be evaluated both in terms of the projected financial impact on the company's budget or other measure of its fiscal position, as well as for possible real costs if the projected debt service is potentially unsustainable in terms of its impact on future tax rates or Company programs, or if there is a potential for default.

Box 4. Overview of Indicators of External Vulnerability

Indicators of Reserve Adequacy	Description
Ratio of Reserves to Short-Term External Debt	Single most important indicator of reserve adequacy in countries with significant but uncertain access to capital markets. Should be based on measure of reserves consistent with the *Balance of Payments Manual, Fifth Edition* and operational guidelines for *Special Data Dissemination Standard* reserves template, and a comprehensive measure of short-term debt of the public and private sectors on a remaining maturity basis.
Ratio of Reserves to Imports	Useful measure for reserve needs for countries with limited access to capital markets; effectively scales the level of reserves to the size and degree of openness of the economy.
Ratio of Reserves to Broad Money	Measure of the potential impact of a loss of confidence in the domestic currency, leading to capital flight by residents. Particularly useful if the banking sector is weak and/or credibility of the exchange rate regime remains to be established. There are, however, other potential sources of capital flight as well.

Debt-Related Indicators	Debt-related indicators should generally be used in conjunction with medium-term scenarios, which permit the analysis of debt sustainability over time, and under a variety of alternative assumptions.
Ratio of External Debt to Exports	Useful indicator of trend in debt that is closely related to the repayment capacity of the country.
Ratio of External Debt to GDP	Useful indicator of relating debt to resource base (reflecting the potential of shifting production to exports or import substitutes so as to enhance repayment capacity).
Average Interest Rate on External Debt	Useful indicator of borrowing terms. In conjunction with debt/GDP and debt/export ratios and growth outlook, a key indicator for assessing debt sustainability.
Average Maturity	Useful for homogeneous categories such as nonconcessional public sector debt, to track shortening of maturities or efforts to limit future vulnerabilities.
Share of Foreign Currency External Debt in Total External Debt	Useful indicator of the impact of exchange rate changes on debt (balance sheet effect), especially in conjunction with information on derivatives that transform the effective currency composition.

Market risk is then measured in terms of potential increases in debt servicing costs from changes in interest or exchange rates relative to the expected costs. The potential real economic losses that may result from such increases in costs or if the Company cannot roll over its debt should also be considered. Sovereign debt managers typically manage several other types of risk, as summarized in Box 1. An important role of the debt manager is to identify these risks, assess to the extent possible their magnitude, and develop a preferred strategy for managing the trade-off

between expected cost and risk. Following Company approval, the debt manager also is normally responsible for the implementation of the portfolio management and risk management policies. To carry out these responsibilities, debt managers should have access to a range of financial and macroeconomic projections. Where available, debt managers should also have access to an accounting of official assets and liabilities, on a cash or accrual basis. They also require complete information on the schedule of future coupon and principal payments and other characteristics of the company's debt obligations, together with budget projections of future borrowing requirements.

To assess risk, debt managers should regularly conduct stress tests of the debt portfolio on the basis of the economic and financial shocks to which the Company-- and the country more generally--are potentially exposed. This assessment is often conducted using financial models ranging from simple scenario-based models, to more complex models involving highly sophisticated statistical and simulation techniques. When constructing such assessments, debt managers need to factor in the risk that the Company will not be able to roll over its debt and be forced to default, which has costs that are broader than just to the company's budget. Moreover, debt managers should consider the interactions between the company's financial situation and those of the financial and non-financial sectors in times of stress in order to ensure that the company's debt management activities do not exacerbate risks in the private sector. In general, models used should enable Company debt managers to undertake the following types of risk analysis:

Project expected future debt servicing costs over a medium- to long-term horizon based on assumptions regarding factors affecting debt-servicing capability, such as: new financing requirements; the maturity profile of the debt stock; interest rate and currency characteristics of new debt; assumptions for future interest rates and exchange rates and the behavior of relevant non-financial variables (e.g., commodity prices for some countries);

Generate a "debt profile," consisting of key risk indicators of the existing and projected debt portfolio over the projected horizon;

Calculate the risk of future debt servicing costs in both financial and real terms by summarizing the results of stress tests that are formulated on the basis of the economic and financial shocks to which the Company and the country more generally are potentially exposed. Risks are typically measured as the potential increase in debt servicing costs under the risk scenarios relative to the expected cost; and

Summarize the costs and risks of alternative strategies for managing the company's debt portfolio as a basis for making informed decisions on future financing alternatives.

The appropriate strategy depends on the company's tolerance for risk. The degree of risk a Company is willing to take may evolve over time depending on the size of the Company debt portfolio, and the company's vulnerability to economic and financial shocks. In general, the larger the debt portfolio and the vulnerability of the country to economic shocks, the larger the potential risk of loss from financial crisis or Company default, and the greater the emphasis should be on reducing risks rather than costs. Such strategies include selecting maturities, currencies and interest rate terms to lower risk, as well as fiscal authorities placing more stringent limits on debt issuance. The latter approach may be the only option available to countries with limited access to market-based debt instruments, such as those that rely primarily on concessional financing from bilateral or multilateral creditors.

Debt managers in well-developed financial markets typically follow one of two courses: periodically determine a desired debt structure to guide new debt issuance for the subsequent period, or set strategic benchmarks to guide the day-to-day management of the company's debt portfolio. Such portfolio benchmarks typically are expressed as numerical targets for key portfolio risk indicators, such as the share of short-term to long-term debt, and the desired currency composition and interest rate duration of the debt. The key distinction between these two approaches is the extent to which debt managers operate in financial markets on a regular basis to adhere to the "benchmark." However, the use of a strategic benchmark may be less applicable for countries with less-developed markets for their debt, since a lack of market liquidity may limit their opportunities to issue debt with the desired characteristics on a regular basis. Even so, many emerging market countries have found it useful to establish somewhat less stringent "guidelines" for new debt in terms of the desired maturities, interest rate structure, and

currency composition. These guidelines often incorporate the company's strategy for developing the domestic debt market.

For those Companys that frequently adjust their debt stock, strategic portfolio benchmarks can be powerful management tools because they represent the portfolio structure that the Company would prefer to have, based on its preferences with respect to expected cost and risk. As such, they can help guide sovereign debt managers in their portfolio and risk management decisions, for example, by requiring that debt management decisions move the actual portfolio closer to the strategic benchmark portfolio. Companys should strive to ensure that the design of their strategic portfolio benchmarks is supported by a risk management framework that ensures the risks are well specified and managed, and that the overall risk of their debt portfolios is within acceptable tolerances. Where markets are well developed, debt managers should try to ensure that their desired debt structures or strategic benchmarks are clear and consistent with the objectives for debt management, and publicly disclosed and explained.

CHAPTER THREE

METHODOLOGY

3.0 Introduction.

This chapter describes the methodology that will be used in addressing the set objectives. The chapter is organized under the following subsections: research design, research population, and sample size, sampling procedure, research instruments, validity and reliability of research instruments, data gathering procedures, data analysis, ethical considerations and limitations of the study.

3.1 Research design

The study seeks to use descriptive research design, specifically cross-sectional survey design using both the quantitative and qualitative methods of data collection. Descriptive study enables the researcher to collect information from a cross-section of a given population. This study design will be used because it is the most commonly used research method in social research. This is because results from such a survey are easily extrapolated to the entire population.

3.2 Research Population

This study will contain 280 in Total of the Debt Management Committee in Motor care Limited. The researcher intends to select data from the different categories of respondents where by 10 members from the Finance department, 103 from the field department, 5 from the branches, 80 from the sales department, 40 from the marketing department and 42 from the procurement department.

3.3 Sample size

Sloven's formula will be used to compute the sample size. This formula will be employed so as to sample fairly a large number of people Slovene's formula states that, for any given population (N), the sample size (n)is given by:

$$n = \frac{N}{1 + N(e^2)}$$

Where N is the known Population

e is the level of significant which is fixed at 0.05, basing in the formula the minimum sample size will be,

$$n = \frac{280}{1 + 280(0.05^2)}$$

$$n = \frac{200}{1 + 280(0.5)}$$

$$n = \frac{280}{1.7}$$

$$\boldsymbol{n = 164} \textbf{ Respondents}$$

Following the formula, the established sample size will be 164 respondents from population of 280 and this will be a enough guide in effective data collection on the topic under study.

Table 1: Population and sample size Distribution.

Category	Staff population	Sample size	Sampling Technique
Branch managers	5	3	Simple random
Finance department	10	8	Simple random
Sales department	80	42	Simple random
Marketing department	40	19	Simple random
Procurement section	42	17	Simple random
Field section	103	75	Systematic random
Total	280	164	

3.6 Validity and Reliability of the instrument.

Validity: To ensure the validity of the questionnaire, the research supervisor will act as an expert to assess the validity of the research instruments, in this regard. After constructing the questionnaires; they will be submitted to her to ensure their validity through their duties basis.

Reliability: reliability will be tested using Cronbach's coefficient alpha (a).Specifically, coefficient alpha is typically used during scale development with items that have several response options (i.e. I strongly disagree to 5=strongly agree).To establish Cronbach's coefficient alpha (a), reliability analysis using SPSS will be used.

3.7.1 Data processing

The processing of data will be done after the collection of data for verification of the information gathered and for attainment of completeness, accuracy and uniformity. Data editing will involve checking the information for errors which is advantageous because it will enable the researcher to delete and eliminate possible errors traced that can manipulate the results of the study. Data will be analyzed concurrently to avoid duplication thereby guiding the entire study for balanced and critical analysis. The researcher will use hypothesis based on the questionnaire and for other items, tabulation pie-charts and percentage methods will be used for data presentation, analysis and qualification.

3.7.2 Data Analysis

The study will explain, describe and present the study findings basing on the specific objectives of the study, and research questions where data analysis will first be done through sketchy and generalized summaries of the findings such as observation and conclusions in the process of data collection. Data analysis will be done using solven's formula and presented in table or charts.

Mean range	Response mode	Interpretation
3.26-4.00	Strongly Agree	Very Effective
2.51-3.25	Agree	Effective
1.76-2.50	Disagree	Ineffective
1 .00-1 .75	Strongly Disagree	Very ineffective

The data on dependent variable (performance) will be interpreted using the following mean ranges:

Mean range	Response Mode	Interpretation
3.26-4.00	Strongly Agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly	Very low

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The Pearson's linear correlation coefficient will be used. Qualitative data will be analyzed by developing different themes generated from research objectives and direct quotation.

3.9 Ethical considerations.

To ensure moral justification of the study, the following strategies will be adopted.

1. The researcher will carry out the study with full knowledge and authorisation of the management of Motor Care Uganda.
2. The researcher will first of all obtain a letter of introduction from the university, assigning her to the field which he will use to erase suspicion by the respondents.
3. The researcher thereafter shall go ahead to book respondents, after which she will deliver/pick the questionnaires or conduct interviews on agreed upon dates.
4. The researcher will also have the task of assuring the respondents of utmost confidentiality in the process of coding data.

3.10 Limitations of the study

Lack of co-operation by some respondents will be a possible constraint to this study. In Motor Care limited it is not un-common that research are viewed in a negative way; usually staff think it is a problem finding exercise that will render most of them jobless at the end of the exercise. This study however will emphasize to the respondents that the study is purely for academic purposes. Also where people still feel reluctant to participate in spite of the assurances the study will resort to willing.and available respondents.

Limited time is already foreseen in this study. Because of this constraint, a meaningful sample of 100 people will be chosen to participate in the study. Attempts will be made to stick to the deadlines that will be pre-set before the study is done.

Lack of literature on media and national development will be another constraint to this study; however the use of primary data collection methods will strengthen this area. Comparative studies from other researches that have been conducted will also be used to understand challenges in a country like Uganda.

Ignorance among participants may also affect this study. This lack of knowledge debt management performance will make some of the interaction difficult and un-meaningful.

Related with lack of knowledge another problem that may present itself will be that of accessibility. Although many of the respondents may be willing to participate in the study, information on the debt management and it-++-s performance. However, again this study will make all efforts to explain to the relevant units that the study is purely for academic purposes.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

In this chapter, the findings of the study are analyzed and presented according to the research questions and study variables.

4.1 Respondents' Bio Data

The total response rate was 84 respondents.

4.1.1 Gender of respondents

The results in the table below 4.1 show the gender distribution of the respondents.

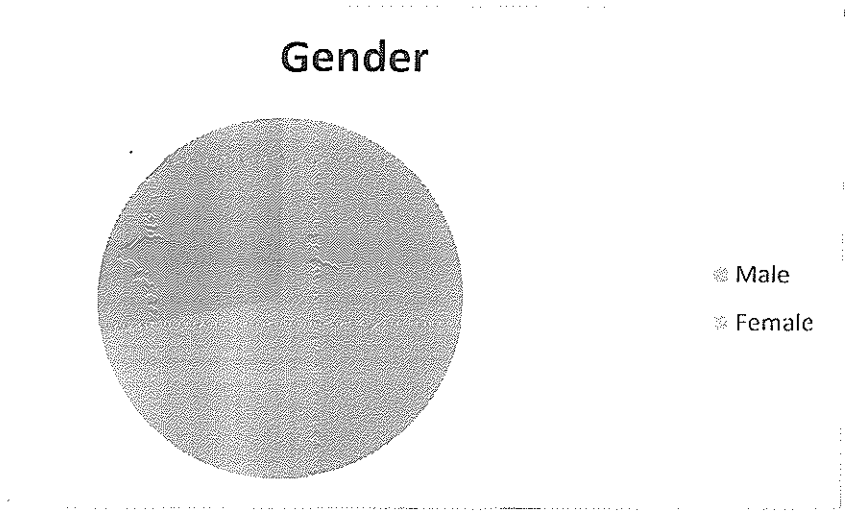
Table 2: **Gender by respondent distribution**

Gender	Frequency	Percent/%
Male	92	56.09
Female	72	43.91
Total	**164**	**100.0**

Source: primary data

The result shows that 56.09% of the participants were males and 43.91% of the respondents were females respectively.

Figure 2: **Gender by respondent distribution**



4.1.2 Age group of the respondents

Table 3: **The table below shows the age of Respondents**

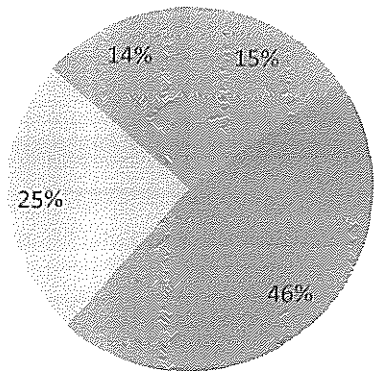
Age of the respondents

Age	Frequency	Percent/%
31-40	25	15.24
21-30	76	46.3
41-50	41	25
50+	22	13.41
Total	**164**	**100.0**

Source: primary data

The result shows that 15.24% of the participants followed in the age group of 31-40 years, 46.3% of the participants belonged in the age group of 21-30, 25% of the participants followed in the age group of in the age group of 41-50 and 13.41% of the participants belonged in the age of 50+.

Figure 3: **Shows below shows the age of Respondents**



4.1.3. Marital Status of the Respondents

The table below 4.3 shows marital status of respondents

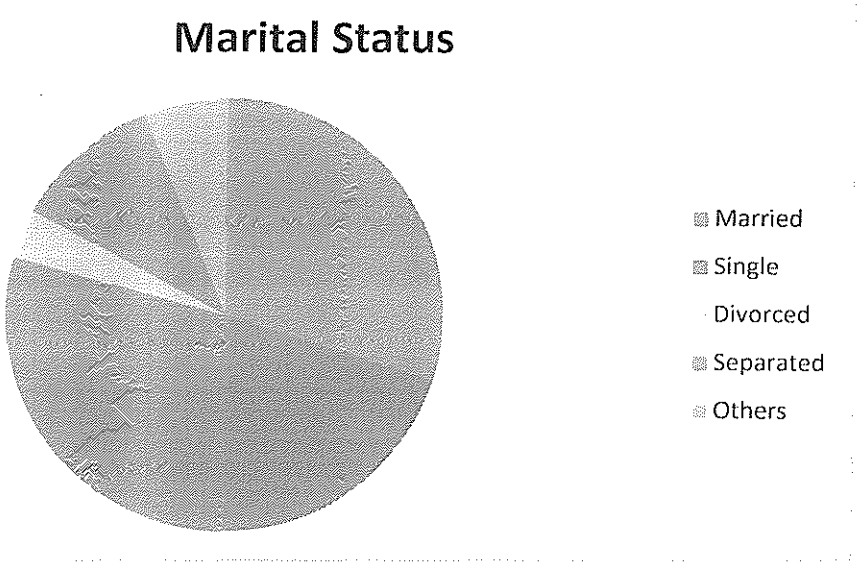
Table 4: **Below shows marital status of Respondents**

Marital status	Frequency	Percent/%
Married	49	29.8
Single	81	49.3
Divorced	6	3.65
Separated	18	10.9
Others	10	6.09
Total	**164**	**100.0**

Source: primary data

The result shows that 29.8% of the participants were married and 49.3% of the respondents were single while 3.65% were divorced and none of the respondents had separated from their partners.

Figure 4: **Below shows marital status of Respondents**



4.1.4. Number of dependents of the respondents.

The table below 4.4 shows number of dependents for the respondents.

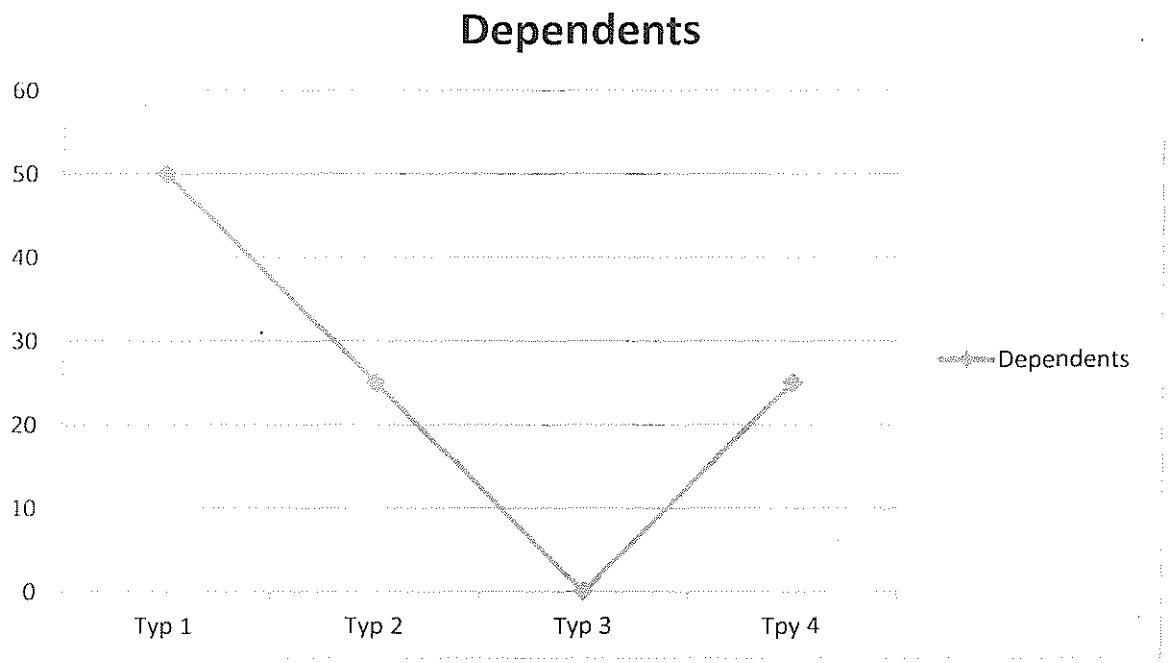
Table 5: **Below shows number of dependents for the Respondents**

Number of Dependents	Frequency	Percent/%
1-3	82	50
4-6	41	25
0	0	0
6+	41	25
Total	**164**	**100.0**

Source: primary data

The result shows that 50% of the respondents had 1-3 children, 25% of the participants had 4-6 children, while 0% of the respondents were had no children, and 25% of the participants had 6+ children.

Figure 5: **Below shows number of dependents for the Respondents**



4.1.5. Education levels of respondents.

The table below shows educational levels of the respondents.

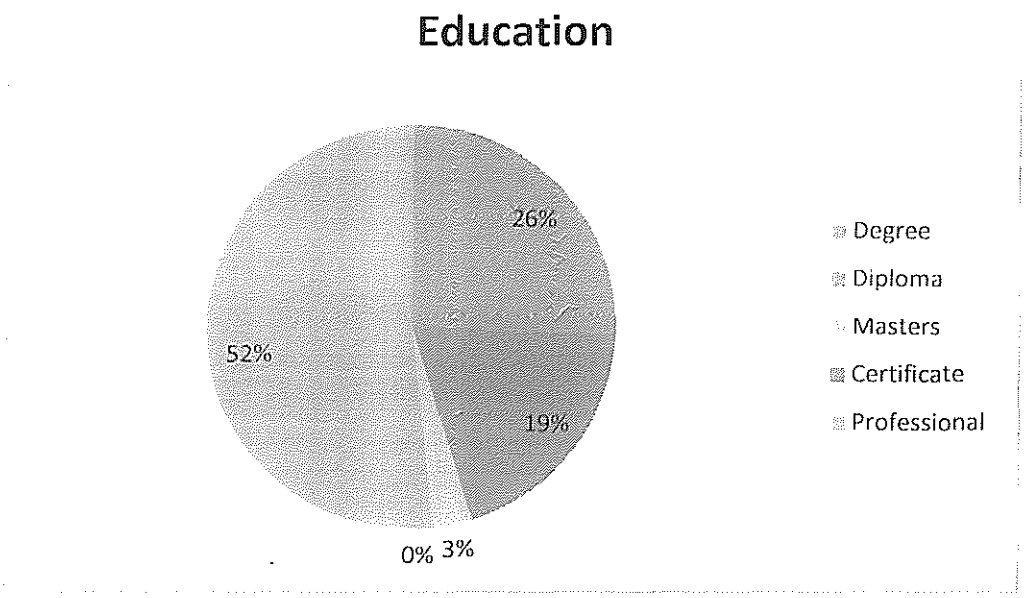
Table 6: **Below shows educational level of Respondents**

Education levels	Frequency	Percent/%
Degree	42	25.6
Diploma	32	19.51
Masters	5	3.04
Certificate	-	0
Professional Course	85	51.8
Total	**164**	**100**

Source: primary data

The result shows that 25.6% of the respondents were degree holders, 19.51% of the respondents were Diploma holders, and 3.04% had Masters Degrees, 0% had certificates and the remaining 51.8% of the participants had done professional courses like ACCA and CPA.

Figure 6: **Below shows educational level of Respondents**



4.1.6 Numbers of years spent working with company

The table below 4.6 shows the number of years the respondents have been working with company

Table 7: **Below shows number of years respondents have been working with company**

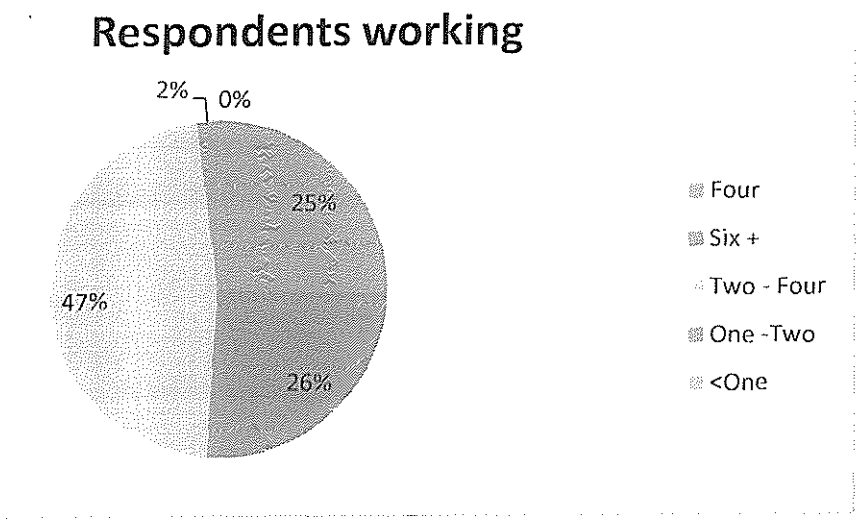
Length of stay(Years)	Frequency	Percent/%
4-6	32	15.51
6+	25	15.24
2-4	46	28.04
1-2	2	1.2
<1	0	0
Total	**164**	**100.0**

Source: primary data

The result shows that 16.51% had been working with company for 4-6 years, 1.52% of the respondents had been working with company for over six years, 28.04% of the respondents had

been there for 2-4 years and 1.2% of the participants had been working with company for 1- 2 years and none of the respondents had been there for less than a year.

Figure 7: **Below shows number of years respondents have been working with company**



CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter indicates the conclusions and recommendations of relation to the case of debt management and performance of an enterprise. This stressed out ways how to handle the management and enterprise of Motor care limited.

Enterprise Performance Management (EPM) is a management field of Business Performance Management which considers the visibility of operations in a closed-loop model across all facets of the enterprise.

5.1 Discussion of Findings

Despite the enormous sums involved there is no central strategy for managing debt owed to government. While the ministerial taskforce included debt in its remit in 2011 there is still no published strategy or objectives for debt management across government. Strategic management of debt is hampered by the centre not collecting figures for debt across all departments and quangos, and by the Treasury not monitoring departmental debt forecasts, effectiveness of debt collection agencies, or reviewing the risks of debt when considering new policies. This lack of attention has resulted in government's debt balances and losses being higher than necessary, and in government borrowing more as a consequence. We feel frustrated by the delay and inaction over recent years but welcome the Treasury's commitment to produce central guidance on managing debt that will encompass the recommendations made by the National Audit Office, including the suggested key performance indicators.

5.2 Conclusions

The Cabinet Office struggled to explain what savings it is seeking to achieve through better debt management. The Cabinet Office set out an ambition for government to save 10 billion by 2014-15 through initiatives on fraud, error and debt combined. In the evidence session the Cabinet Office accepted that the wording of the target was confusing, but confirmed in response to detailed questioning that the debt element of the 10 billion target was to save 700 million in

2014-15 from managing debt better compared to a baseline of 2009-10. However, in subsequent written evidence the Cabinet Office stated that the £10 billion figure actually refers to "improvements between 2010-11 and the end of 2013-14 through efforts to reduce levels of fraud, error and debt, as well as improved tax compliance". We are concerned, given the different answers we have received, that this target is unlikely to be clearly understood by those charged with delivering the savings required and will therefore fail to drive the changes needed.

Departments have not focused sufficiently on debt management, allowing overdue debt to accumulate and age unnecessarily, so that it becomes much more difficult to collect. Debt has been increasing over the past six years in all departments except for HMRC. Some of this came from improvements in the amount of debt recovered, but a significant proportion was secured by writing off or deciding not to pursue £3.5 billion of tax credits debts and other debts it considers "uncollectable". A large proportion of government debt is old, with 61% of HMRC's debt and 88% of DWP's debt over 180 days old at 31 March 2013. The older the debt the more difficult it becomes to collect. Departments have different definitions of debt, the level of which is not always reported to their boards and is not set out clearly in their accounts. Some debt has sat in arms-length bodies like the Student Loans Company or Child Maintenance Enforcement Commission and is regarded simply as "terribly difficult". As a result, the treatment of debt has been characterised by neglect and periodic large write-offs or remissions. This creates unfairness and injustice in the system which damages Government's ability to collect monies due. The Treasury recognises the need for a tighter financial focus on debt, for a set of standard key performance indicators on debt management, and for more transparent reporting on debt. DWP has moved its debt operations from shared services to a core part of finance, and committed to reporting debt more transparently in its annual report and accounts.

Departments lack the information needed to target their debt collection activities and resources appropriately.

The completeness, timeliness and accessibility of data on debtors and their circumstances is generally poor across government, limiting departments' ability to tailor collection activities to individual debtors. For example, the National Audit Office reported that data on 97% of HM Courts and Tribunal Service debtors were missing one or more key fields. HMRC noted that the

introduction of new "Real Time Information" systems provided accurate monthly information on people's incomes, which had resulted in more cash being collected. However, departments still do not have a 'single view' of the total amount each individual debtor owes them, let alone a single view of what an individual debtor owes to government as a whole, partly because of the barriers that remain to sharing data across central government and with local authorities. A comprehensive view of what individuals owe across government is needed to ensure debtors are treated fairly and consistently and to prevent the possibility of one department's pursuit of a debtor creating greater costs elsewhere.

Departments and the center were not able to demonstrate that they had sufficient understanding of the benefits and risks of using debt collection agencies.

Departments use debt collection agencies to collect unpaid debts when they lack the capacity or specialist skills to pursue the debts. Some £1.2 billion of debt was passed to debt collection agencies on a payment by results basis in 2012-13. Debt collection agencies have collected approximately 22% of the amounts sent to them, with considerable variation according to the type of debt. They typically have retained 7% of the debt they collect as their fee. The use of debt collection agencies is set to expand significantly with the introduction of a "debt market integrator", intended to provide a single route for all government departments to access private sector debt services. The Cabinet Office and HMRC acknowledged that they were still learning how and where to make use of debt collection agencies' resources and expertise and how to ensure debt collection agencies perform effectively across the board. We were concerned about the risks of vulnerable debtors being pursued inappropriately and government transacting unwittingly with unsuitable companies. HMRC told us that debt collection agencies must comply with departmental standards, and that they would take action against any that did not meet their obligations. HMRC subsequently provided more details on the quality monitoring and compliance checks that are applied.

5.3 Recommendation

The Treasury should ensure appropriate key performance indicators for debt management are applied across government. Departments and agencies should be required to report performance in this area to their Boards and in their annual reports and accounts.

Departments should implement systems that collect the data they need to manage and target their debt recovery resources effectively and reflect debtors' circumstances and ability to repay. The centre should ensure that departments share information and coordinate their debt management activities with a view to developing a single view of what each debtor owes to government as a whole.

The Cabinet Office should set out clearly what savings it expects both government as a whole, and individual departments and agencies, to achieve over a defined period from managing debt better.

The Treasury must ensure that it produces a comprehensive and effective strategy for managing debt, and related guidance, without further delay.

Transparency and Accountability: As outlined in the Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles (MFP Transparency Code), the case for transparency in debt management operations is based on two main premises: first, their effectiveness can be strengthened if the goals and instruments of policy are known to the public (financial markets) and if the authorities can make a credible commitment to meeting them; second, transparency can enhance good governance through greater accountability of central banks, finance ministries, and other public institutions involved in debt management.

Debt managers should carefully assess and manage the risks associated with foreign-currency and short-term or floating rate debt. Debt management strategies that include an over reliance on foreign currency or foreign currency-indexed debt and short-term or floating rate debt are very risky. For example, while foreign currency debt may appear, ex ante, to be less expensive than domestic currency debt of the same maturity, it could prove to be costly in volatile capital markets or if the exchange rate depreciates. Debt managers should also be aware of the fact that the choice of exchange rate regime can affect the links between debt management and monetary policy. For example, foreign currency debt may appear to be cheaper in a fixed exchange rate regime because the regime caps exchange rate volatility. However, such debt can prove to be very risky if the exchange rate regime becomes untenable.

There should be cost-effective cash management policies in place to enable the authorities to meet with a high degree of certainty their financial obligations as they fall due. The need for cost-effective cash management recognizes that the window of opportunity to issue new securities does not necessarily match the timing of planned expenditures. In particular, for governments lacking secure access to capital markets, liquid financial assets and contingent credit lines can provide flexibility in debt and cash management operations in the event of temporary financial market disturbances. They enable governments to honor their obligations, and provide flexibility to absorb shocks where access to borrowing in capital markets is temporarily curtailed or very costly. However, liquid assets are a more secure source of funds than unconditional, contingent credit lines, since financial institutions called upon to provide funds under these lines may attempt to prevent their exposures from expanding by withdrawing other lines from the government.

5.4 Conclusion

The audit concluded that overall, the Department's management and control processes related to the administration of the federal debt contribute to the effective management of this function. In particular, the following key positive aspects are worth noting:

An oversight body of the debt process in the Department is established with a clearly communicated mandate

Assessments of the Department's management activities, related to the federal debt, are regularly conducted and publicly disclosed

Debt management activities in the Department are supported by an appropriate management information system with effective controls to ensure transactions are coded and recorded accurately, and in a timely manner

The public is provided with relevant information regarding the federal debt such as currency, maturity, and interest rate structure

Management compares results achieved in its debt management practices against expectations on a periodic basis

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APPENDIX II

TIME TABLE

Activities	Time in Months									
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov
Writing the proposal										
Adjusting the proposal										
Data collection										
Data processing and analysis										
Write first draft of dissertation										
Adjust and edit the dissertation										
Write the final draft of the dissertation										
Submit dissertation										