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Managing public debt

Public debt is often a country's largest liability: This is particularly true in developing countries, where a considerable amount of national revenue is spent repaying such debt. In the Philippines, for example, external debt servicing in 2004 totalled \$1.62 billion, close to 10.25% of the government's total expenditure for that year.

Many poor countries, in particular in Africa, resort to external borrowing to finance their public development programmes as domestic savings alone are not sufficient. Between 1970 and 2000, the African continent received \$540 billion in loans and paid back some \$550 billion in principal and interest. But at the end of this period it still owed \$295 billion.

High debt servicing has thrown developing countries into a "debt trap", depriving them of the resources needed to secure long-term economic development and build up strong social and physical infrastructures. In recent decades, unsustainable debt – mostly external – has brought country after country into deep economic crisis, with dramatic social consequences for their populations. Sometimes these crises have taken on regional or even global dimensions.

Although good debt management will not by itself guarantee against future debt crises, which are often beyond government control, it can reduce a country's financial vulnerability to external and internal shocks.

Proper debt management should ensure that a government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, and that debt is assumed with a prudent degree of risk. The challenges governments face differ from country to country according to their levels of development. In some cases, access to concessional borrowing – low-interest loans with long payback periods – and debt restructuring take priority. In others, access to capital markets is more important. But in all cases, governments must have the ability to manage debt effectively.

UNCTAD and its contribution to debt management

The Debt Management – DMFAS Programme

UNCTAD's Debt Management – DMFAS Programme is a leading technical assistance provider in this area. The programme now works with 65 low- and middle-income countries. Together, these countries hold more than $500 billion of government-incurred or government-guaranteed long-term debt – about 40% of the total long-term debt of all developing nations.

Governments themselves request this assistance.

What the programme does

Activities include the development and implementation of special debt management software: the Debt Management Financial and Analysis System (DMFAS). The software can be used to manage external and domestic public debt as well as private debt and grants. It enables debt officers to establish a complete and up-to-date debt database and to access timely and accurate statistics for reporting and analysis. DMFAS can also be integrated into other financial management systems used by governments.

The programme provides governments with system training, support and maintenance, as well as training in all relevant debt management procedures. It advises on institutional issues and gives help in analysing debt and developing debt management strategies. It also organizes UNCTAD's inter-regional conference on debt management, which takes place every two years and features discussions of pertinent topics, including international policy issues. The conference is attended by experts from national and international institutions, as well as representatives from a large number of countries, regardless of whether or not they are DMFAS users.

The activities and funding of the programme are reviewed annually by the DMFAS Advisory Group, which is composed of technical representatives of interested UNCTAD member States, donors, beneficiaries, and representatives of the UNCTAD secretariat. Donors contribute to the DMFAS Trust Fund, which is supplemented by individual country projects.