Strengthening Debt Management: Support from the International Community

by

Ms. Lea Hakim

The World Bank

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
DEBT MANAGEMENT CAPACITY BUILDING — EXPERIENCE FROM THE DEBT MANAGEMENT FACILITY

Léa Hakim | Program Manager, Debt Management Facility, and Senior Economist | World Bank

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OUTLINE

I. About the Debt Management Facility
II. Current Context
III. Key findings and results
IV. Lessons learned and way forward
The DMF is a multi-donor trust fund, launched by the World Bank in 2008, and administered in partnership with the International Monetary Fund since 2014 which provides assistance on debt management.

It seeks to strengthen debt management to reduce debt related vulnerabilities through the development and implementation of analytical tools, technical assistance and tailored advisory and peer-to-peer learning.

It covers IDA eligible countries as of 2008 (= 84 countries)
THE DMF HAS EXPANDED ITS OFFERINGS OVER TIME TO ADAPT TO COUNTRIES’ NEEDS AND SUPPORT A SUSTAINED ENGAGEMENT

DMF Offerings

- DMF launched by the WB
  - Debt Management Performance Assessment (DeMPA)
  - Debt Management Reform Plans
  - Medium-Term Debt Management Strategy (MTDS)
  - Debt Managers’ Network (DMN)
  - Debt Managers Practitioners’ Program (DMPP)
  - Knowledge Products
  - Outreach and Training

- DMF II launched with WB-IMF partnership
  - Low-Income Country Debt Sustainability Framework (DSF) training
  - Domestic Debt Market Development
  - Risk Management
  - Cash management
  - Annual Borrowing Plans
  - International Capital Market Access
  - Guarantee Framework

A Country’s Debt Management Reform Process

1. Assessment / Diagnostic
   - DeMPA

2. Reform Program
   - Debt Reform Plan

3. Reform Implementation
   - Capacity Building Programs

“The DMF recognizes that capacity development is a longer term endeavor that requires a sustained engagement over time.” DMF Guiding Principle
THREE TYPES OF COMPLEMENTARITIES SERVE TO STRENGTHEN THE IMPACT OF DEBT MANAGEMENT CAPACITY BUILDING UNDER THE DMF

DMF Offerings

- Technical Assistance and Tailored Advisory
- Training
- Peer-to-Peer Learning

Programming

DMF offerings are complementary to:
- TA under World Bank projects ex. PFM
- World Bank operations that support debt management
- Training and TA provided by other debt management TA providers

Coordination among TA providers

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- TA under World Bank projects ex. PFM
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Additional organizations involved:

- WB
- IMF
- DMF
- COMSEC
- JICA
- IMF
- MEFMI
- DRI
- AUT
- WAIFEM
- DMFAS/UNCTAD
DEBT VULNERABILITIES IN DMF COUNTRIES ARE RISING

**Public Debt in DMF countries**
(in percent of GDP)

- 2001: 85.0%
- 2003: 80.0%
- 2005: 75.0%
- 2007: 70.0%
- 2009: 65.0%
- 2011: 60.0%
- 2013: 55.0%
- 2015: 50.0%
- 2017: 45.0%
- 2019: 40.0%

**Evolution of Risk of External Debt Distress**
(in percent of total)

<table>
<thead>
<tr>
<th>Year</th>
<th>Low</th>
<th>Moderate</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>10</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>2007</td>
<td>12</td>
<td>38</td>
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<td>2008</td>
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<tr>
<td>2009</td>
<td>16</td>
<td>34</td>
<td>50</td>
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<tr>
<td>2010</td>
<td>18</td>
<td>32</td>
<td>50</td>
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<tr>
<td>2011</td>
<td>20</td>
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<tr>
<td>2012</td>
<td>22</td>
<td>28</td>
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<td>2013</td>
<td>24</td>
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<td>50</td>
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<tr>
<td>2014</td>
<td>26</td>
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<td>50</td>
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<tr>
<td>2015</td>
<td>28</td>
<td>22</td>
<td>50</td>
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<tr>
<td>2016</td>
<td>30</td>
<td>20</td>
<td>50</td>
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<tr>
<td>2017</td>
<td>32</td>
<td>18</td>
<td>50</td>
</tr>
<tr>
<td>2018</td>
<td>34</td>
<td>16</td>
<td>50</td>
</tr>
<tr>
<td>2019</td>
<td>36</td>
<td>14</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: WEO October 2019

Source: World Bank as of end-September 2019
The financing landscape has become more challenging for debt managers. The table below illustrates the changes:

<table>
<thead>
<tr>
<th>Period / Characteristic</th>
<th>DMF I</th>
<th>DMF III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors</td>
<td>Official</td>
<td>Non-PC, Commercial</td>
</tr>
<tr>
<td>Instrument</td>
<td>Loans</td>
<td>Bonds, Guarantees</td>
</tr>
<tr>
<td>Size</td>
<td>Many and Small</td>
<td>Few and Big</td>
</tr>
<tr>
<td>Interest</td>
<td>Concessional</td>
<td>Market</td>
</tr>
<tr>
<td>Speed of Debt Accumulation</td>
<td>Slow</td>
<td>Fast</td>
</tr>
<tr>
<td>Macroeconomic and Fiscal Framework</td>
<td>Weak</td>
<td>Deteriorating</td>
</tr>
<tr>
<td>Number of Countries at High Risk of Debt Distress</td>
<td>Declining</td>
<td>Increasing</td>
</tr>
<tr>
<td>Contingent Liabilities/Hidden Debt</td>
<td>Hidden</td>
<td>Increasing/Resurfacing</td>
</tr>
<tr>
<td>Debt Management Capacity</td>
<td>Weak Analytical,</td>
<td>Stronger Analytical,</td>
</tr>
<tr>
<td></td>
<td>Weak Implementation</td>
<td>Weaker Implementation</td>
</tr>
</tbody>
</table>

This table highlights the shift in the financing landscape for debt managers, with a focus on changes in creditors, instruments, size, interest, speed of debt accumulation, macroeconomic and fiscal framework, number of countries at high risk of debt distress, contingent liabilities/hidden debt, and debt management capacity.
KEY FINDINGS AND RESULTS
THE DMF HAS RESPONDED TO INCREASED DEMAND AND SCALED UP DELIVERY OVER TIME

Trainings

New TA Activities

Source: DMF Secretariat, DMF Annual Reports; DMF funded activities as of end-June 2019.
DMF HAS PROVIDED TA TO MORE THE 75 COUNTRIES AND 15 SUBNATIONAL GOVERNMENTS; SSA BENEFITED MOST

Characteristics DMF Countries

- Sub-Saharan Africa, 48%
- South Asia, 9%
- Middle East and N. Africa, 3%
- Latin and Caribbean, 11%
- Europe and Central Asia, 11%
- East Asia and Pacific, 18%

DMF TA Activities by Region, DMF I and II

- Sub-Saharan Africa, 61%
- South Asia, 7%
- Middle East and N. Africa, 2%
- Latin and Caribbean, 7%
- Europe and Central Asia, 13%
- East Asia and Pacific, 10%

Source: DMF Secretariat, DMF Annual Reports, DMF funded TA from inception until end-2018.
DEMPA RATINGS HAVE IMPROVED...

Score (C or higher) by category, latest and previous DeMPA

Source: DMF Secretariat
Results from 2015-2016 World Bank’s Debt Management Performance Assessment (DeMPA) in LICs and LMICs show significant gaps in

- debt recording (41% of countries meet minimum requirements)
- debt reporting and evaluation (35%)
- monitoring of guarantees (33%)

and broader problems in debt management governance:

- weak legal frameworks
- lack of audits
- poor data administration and internal control
- low staff capacity

with limited and uneven progress over time.

DeMPA Scores Evolution

Source: G20 Note: Improving Public Debt Recording, Monitoring and Reporting Capacity in Low and Lower Middle-Income Countries: Proposed Reforms. June 2018. Based on 37 countries that have received at least two DeMPA assessments 2008-2015.
ACHIEVING MINIMUM DEMPA REQUIREMENTS REMAINS A HURDLE; HOWEVER PROGRESS IS GREATER THAN CAPTURED BY DEMPA SCORES.

Scores of most recent DeMPAs

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>N/R, N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7%</td>
<td>6%</td>
<td>20%</td>
<td>57%</td>
<td>10%</td>
</tr>
</tbody>
</table>

DeMPA Sub-Categories

- The strategy proposal is prepared by the principal debt management (DeM) entity or, if there is no principal DeM entity, jointly by DeM entities.
- The view of the central bank are obtained.
- The strategy is formally approved.
- The strategy is made publicly available.

Example of DPI subcomponents

Share of countries meeting requirements of indicator

Source: DMF Secretariat
DEBT TRANSPARENCY INDICATORS IMPROVED

DeMPA Debt Transparency Indicator
(% of C Scores or Better)

- 3.2. Decision making process and publication of DMS
  - 40%
  - 30%
  - 20%
  - 10%
  - 0%

- 14.1. Completeness and timeliness of debt records
  - 40%
  - 30%
  - 20%
  - 10%
  - 0%

- 5.2. Commitment to address the outcomes of audits
  - 4.1. Quality and timeliness of a debt statistical bulletin
  - 4.2. Reporting to the registature

- 5.1. Audits of government debt management operation

Source: DMF Secretariat

Publication of Debt Management Strategies
(Number)

Source: World Bank
DMF SUPPORT ON MTDS OR REFORM PLAN TA INCREASED LIKELIHOOD OF REFORMS

Source: DMF Secretariat administered survey to DMF-eligible DMOs, Annual Reports, Reform efforts self-reported by DMF Countries.
THE DMF HAS PLAYED AN IMPORTANT ROLE IN INFORMING COUNTRIES’ REFORM EFFORTS

DMPP and Reforms

Reforms and DMF Support (% of responses)

Source: DMF Secretariat administered survey to DMF-eligible DMOs, Annual Reports, Reform efforts self-reported by DMF Countries.
KEY LESSONS LEARNED IN DEBT MANAGEMENT CAPACITY BUILDING

On TA offerings

- Tools MTDS are used beyond DMF-eligible countries (Jamaica, Jordan, Gabon, Lebanon)
- Demand for new areas of TA takes time to pick up
- Addressing debt transparency gaps will require tailored TA
- More support is required to address debt-related contingent liabilities and fiscal risks

On TA delivery

- Sequencing of activities may differ among countries, depending on the country’s priorities and capacity
- Providing a sustained stream of support, rather than one-off missions, often produces better results and enabled country-tailored TA to support the implementation of needed reforms that are undertaken by country authorities
- The programmatic approach can help to strengthen ownership and accountability, sustain reforms and deliver better results
KEY LESSONS LEARNED IN DEBT MANAGEMENT CAPACITY BUILDING

On other capacity building programming

• Decision-making on borrowing is made at a high-level, beyond the scope of technical staff; debt management audits and Parliamentary oversight remain weak
• Peer-to-peer learning programs can be a successful impetus for reform

On diagnostic and monitoring

- The DeMPA has become a monitoring tool
- The revision of the DeMPA methodology would complement ongoing efforts to strengthen debt transparency
- This revision will allow to better capture reform progress
THE THIRD PHASE OF THE DMF III EXPANDS OFFERINGS TO ADDRESS EVOLVING COUNTRY NEEDS

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- Guarantee Framework

2019
DMF III launched at Bank-Fund Spring meetings
- Debt reporting and monitoring
- Institutional frameworks
- Debt-related contingent liabilities and fiscal risks
- Bilateral support on LIC DSF and MAC
- Expanded peer-to-peer activities ex. Debt Managers Workshops
- Enhanced coordination of debt management TA providers → Implementing Partners Council
- Programmatic engagements
- Increased outreach to decision-makers on debt management, including Parliamentarians and auditors
Thank you

Léa Hakim
DMF Program Manager and Senior Economist
lhakim1@worldbank.org
www.dmfacility.org