Capacity Building Needs in Debt Management: Responses from International Organizations

by

Mr. Gerry Teeling

Chief, Debt Management and Financial Analysis System (DMFAS) Programme, UNCTAD

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Capacity Building Needs in Debt Management: Responses from International Organizations

UNCTAD’s DMFAS Programme
• About the DMFAS Programme
• Problems addressed and solutions provided
• Results and impact
• Lessons learned
• Conclusions
UNCTAD’s DMFAS Programme

• Technical assistance in public debt management

• Multi-partite initiative: shared costs and responsibilities with supported countries, donors, UNCTAD

• Supporting 116 institutions (CB, MoF) in 75 countries since 1981

Our mission:

Assist countries in strengthening Governments’ capacity to manage their debt effectively and sustainably, in support of poverty reduction, development, transparency and good governance
Countries supported

DMFAS services used by 61 countries

Income distribution of DMFAS users

Supported by France, Germany, Ireland, the Netherlands, Switzerland and the European Union
Importance of Debt Management

• Debt-based finance a key component of countries’ financing strategies
• National capacity for sound debt management is critically important for sustainability
• Availability of comprehensive, accurate and timely information on public debt is essential

However:

➢ Serious concerns about the overall outlook for external debt sustainability in developing countries
➢ Debt data transparency is a major concern
➢ Many countries lack the capacity for effective debt management

Monitoring and prudent management of liabilities an important element of comprehensive national financing strategies and critical to reducing vulnerabilities

Addis Ababa Action Agenda

85% of DMFAS countries consider that debt management is very important (was 75% in 2013)

Source: DMFAS user surveys 2013, 2022
Challenges we help countries face

**Increasing complexity of debt landscape**
- Constrained access to credit
- New, more complex debt instruments
- Evolving composition of the public debt portfolio

**Demands for more transparency**
- External: International community, Investors
- Internal: policy makers, civil society

**Weak legal and institutional frameworks**
- Legal frameworks do not provide support sufficient for debt management
- Institutional frameworks inadequately defining and enforcing responsibilities
Challenges we help countries face

**Incomplete or unreliable debt databases**
- Despite improvements, still significant problems with quality of public debt data
- Problems with timeliness, accuracy and completeness of recording
- Limited coverage of public debt is common problem

**Weak debt reporting and transparency**
- Limited information flows and access to debt data
- Inadequate knowledge of reporting standards
- Weak debt transparency undermines country’s capacity to effectively manage its finances and limits ability of international community to provide support
Challenges we help countries face

Low capacity to adapt to changes

• High staff turnover

• Low staff capacity and limited access to capacity-building

• Inadequate information technology and low capacity to keep up with changes

54% of DMFAS countries reported in 2022 that Staff Turnover threatens operations, 38% said it was a serious threat*

* Source: DMFAS user survey 2022
Current data quality situation

Debt Data and Reporting Readiness of Current DMFAS Countries at the end of 2022

Legend: Debt data and reporting is:
- **Green**: Complete and of high integrity
- **Red**: Significantly incomplete and inaccurate
- **Yellow**: High standard with minor problems
- **Orange**: Fair quality, but gaps and reconciliation problems
- **Gray**: Insufficient data at the time of elaboration

Source: Ratings are based on Performance Indicator 17(1) of the latest Public Expenditures and Financial Accountability (PEFA) national assessment publicly available, supported by publically available Debt Management Performance Assessment (DeMPA) reports and records of UNCTAD's Debt Management and Financial Analysis (DMFAS) Programme.
Consequences of low-quality debt data

- Damaged reputation
- Poor planning & decision-making
- Lack of information
- Weak coordination

- Debt distress
- Increased vulnerability
- Higher cost of borrowing
- Difficulty securing funding

Consequences of low-quality debt data
Growing demand for technical assistance

**International community**

- ‘Encourages ... to scale up technical assistance in debt management, including debt data recording and reporting’

- ‘... continue efforts to increase support, including financial and technical assistance, for institutional capacity-building in developing countries to enhance sustainable upstream and downstream debt management’


**Developing countries**

- 93% of DMFAS countries consider that building debt management capacity is very important/important

- 98% consider Debt Management Software and support are very important/important and 94% responded similarly for Training in debt management

  (SOURCE: DMFAS user Survey 2022)
DMFAS solutions

• Providing of public goods for debt recording, monitoring, reporting
• Integrating international standards and best practices
• Synergy and cooperation with other organizations
• Commitment to continuous and adaptable response to countries’ evolving need
• Focusing on areas of comparative advantage – downstream debt management
Focus on downstream debt management

**UPSTREAM**
- Debt recording & operations
- Debt reporting, debt statistics and debt portfolio analysis
- Integration with IFMIS
- Operational risk management

**DOWNSTREAM**
- Medium-Term Debt Strategy
- Debt Sustainability Framework
- Diagnostics (DeMPA) and Reform plans
- Guidelines and best practices

MFAS
DMFAS helps countries to climb the debt management ladder through:

- Provision of DMFAS software
- Portfolio of proven capacity-building services
- Traditional, virtual, hybrid training
- National, regional and international events
- Customized technical assistance projects

DMFAS advisory services

DMFAS capacity-building

DMFAS specialized debt management software

Integration of debt database with IFMIS

Operational procedures

Data security & data backup and recovery

Analysis of the debt portfolio

Reliable debt statistics

Effective processing of debt management operations

Comprehensive debt database

Fully functional debt management system
“[DMFAS] strategic planning is based on both constituent priorities and informed by the latest innovation, good practice, ... and feedback from key stakeholders at other agencies.”

MOPAN 2019 Assessment of UNCTAD
Current priorities

- Strengthening debt **data transparency**
- **Expanding coverage** to General Government Debt & all debt instruments
- Implementing of latest **reporting** standards
- Improving **operational risk** management
- Upgrading to latest **technological developments**
- Providing major new version of software, **DMFAS 7**
- **Expanding capacity** development framework
Results & Impact of DMFAS’ work

Outputs

• Government information systems for effectively managing complete, up-to-date and reliable debt databases
• Increased knowledge of debt management procedures/best practices
• More effective debt reporting and improved accessibility/availability of debt information
• Strengthened operational risk management
• Increased integration of debt management within PFM
• Facilitated debt analysis

Outcomes

• National debt management offices better record, process, monitor, report, disseminate and analyse the countries public debt in a sustainable manner
• Enhanced transparency of debt information
• Improved debt sustainability analysis
• Improved medium-term debt strategies

Impact

• Governments manage their debt effectively and sustainably in support of poverty reduction, development and good governance
• Enhanced transparency of debt information
• Improved debt sustainability analysis
• Improved medium-term debt strategies

SDGs supported

Direct:
Target 17.4 Assist long-term debt sustainability in developing countries through coordinated policies

Indirect:
Target 1  No poverty
Impact: Increased debt database coverage

In 2022

93% of user countries have complete external central government and government guaranteed debt records in DMFAS

76% of user countries have complete domestic debt records in DMFAS
Impact: Increased debt statistics bulletins publication

In 2022

42 countries publish debt statistics bulletins
Impact: Increased debt portfolio reviews production

In 2022

35 countries regularly produce debt portfolio reviews

Debt portfolio reviews

- Debt portfolio reviews
- Debt portfolio analysis workshops (initial cumulative)
Lessons learned

• Clear benefits from having a **participative, inclusive approach to TA provision**
• Critical importance of **focus on areas of comparative advantages**
• **Synergy and cooperation** with other organizations necessary to avoid duplication and ensure effectiveness and efficiency
• Importance of a **continuous and adaptable response** to countries’ evolving needs
• COVID crisis demonstrated **need to invest in improving operational risk management** for DMOs
• Importance of appropriate **mix of in-person and remote training** and support
• Comprehensive, coordinated approach needed to **expanding debt coverage**
Conclusions

- Continued strong need and demand for technical assistance in debt management
- Effective Technical Assistance proven to provide concrete results
- Major improvements but developing countries continue to face major challenges
- Support must cover all aspects of both Upstream and Downstream debt management
- Strengthening capacity for debt data recording and reporting particularly important
- TA providers should cooperate and coordinate to avoid gaps and duplication
- Sufficient financing from international community a prerequisite for effective TA

Sustainability requires a long-term continuous, iterative process of learning and adapting to change!
Thank you!

Visit us at unctad.org/dmfas
Our solutions

- Provide **concrete, practical solutions** for **Recording, Reporting, Operational, Statistical and Analytical** management:
  
  - **Debt management software** – DMFAS
  
  - **Capacity-development services**: Data Recording, Validation, Reporting, Statistical Bulletins, Portfolio Analysis, Operational Risk Management
  
  - **Advisory services** e.g. IFMIS integration

- **Integrate best practices & standards** into our solutions for strengthening staffing, structure and systems

- Focus on **downstream debt management** – support governments to strengthen the **foundations for effective debt management**
Strategic Plan 2020-2023

- **Expanded scope of debt coverage** to provide the comprehensive coverage of public sector debt needed for debt data transparency, tailored for individual country circumstances

- **Extended scope of types of debt instruments** covered to include all traditional and non-traditional debt instruments

- **Major new development of DMFAS software – DMFAS 7**

- **Expanded capacity-building framework for debt data recording, reporting and monitoring**

- **Implementation of new data quality assessment framework - Debt-DQA**
Performance in publishing statistics

76 countries assessed under the WB debt transparency heat map, of which 33 DMFAS user countries.

DMFAS countries performs significantly better on:
- Instrument coverage
- Time range

DMFAS countries perform at about same level on:
- data accessibility
- sectoral coverage
- instrument coverage
- Periodicity

Between the 2020 and 2021 assessment, 15 DMFAS countries improved their public debt reporting

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Feedback from developing countries

85% of DMFAS countries consider that debt management is very important (increase from 75% in 2013)

(Source: DMFAS user surveys 2013, 2022)

Sound debt management initiatives can play a key role in liberating resources that should be directed towards activities consistent with the eradication of poverty … and with the promotion of sustained economic growth and development and the internationally agreed development goals, including the Sustainable Development Goals

UN General Assembly 12/2021