

The World Bank's Program on Debt Relief, Debt Sustainability and Debt Management

Debt Relief

The World Bank's Economic Policy and Debt Department (PRMED) work program on debt relief relates to the implementation of the **Heavily Indebted Poor Countries (HIPC) Initiative** (and the **Multilateral Debt Relief Initiative - MDRI**), and the administration of the **Debt Reduction Facility (DRF) for IDA-only countries**. The **HIPC Initiative** is a comprehensive approach to reducing the debt of HIPCs pursuing adjustment and reform programs. Countries graduating from the HIPC Initiative process also benefit from a 100 percent debt relief on eligible debt from major multilateral creditors under the MDRI. Debt relief provided under both initiatives aims to bring: (i) debt burdens of HIPCs down to manageable levels, and (ii) additional resources to help them reach the Millennium Development Goals (MDGs). The **DRF** is a key instrument to catalyze commercial creditors' participation in the HIPC Initiative.

Debt Sustainability Framework (DSF)

PRMED is also in charge of coordinating the implementation of the **DSF**. This joint Bank-International Monetary Fund framework aims to support low-income countries' (LICs') efforts to achieve their development goals without creating future debt problems. It also aims to keep countries that have received debt relief under the HIPC Initiative and the MDRI on a sustainable track. Its forward-looking approach allows creditors to tailor their financing terms in anticipation of future risks and helps clients balance the need for funds with the ability to repay their debts. IDA bases its financing decisions (grant-loan mix) based on the country's risk of debt distress assessed under the DSF.

Debt Management

PRMED's work program on debt management has two components: the **Debt Management Performance Assessment (DeMPA)** tool and technical assistance in designing and implementing **Medium-Term Debt Strategies (MTDS)**. The **DeMPA** is a methodology for assessing debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. Its objectives include: (i) assessing debt management performance in LICs and monitoring it over time, (ii) enabling the design of actionable reform programs, and (iii) enhancing donor harmonization based on a common understanding of priorities. The DeMPA is modeled after the **Public Expenditure and Financial Accountability (PEFA)** indicators on public financial management. On **MTDS**, PRMED supports a harmonized approach tailored for LICs jointly with the IMF. A toolkit, comprising a guidance note on debt management strategy formulation and spreadsheet tools for cost-risk analysis, underpins the technical assistance (TA) offered by PRMED in partnership with the World Bank Treasury and the IMF.

As the focus gradually shifts from debt relief to debt sustainability, there is broad support for the World Bank to play an active role in advancing the agenda for strengthening debt management. PRMED is also discussing with relevant stakeholders the establishment of a multi-donor trust-fund facility, the Debt Management Facility for Low Income Countries (**DeMFLIC**). The facility when established will, on a demand-driven basis, support TA projects to strengthen debt management in LICs.