

International Efforts to build Debt Management Capacity

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ECONOMIC POLICY AND
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Sound Economics for Growth and Poverty Reduction



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Outline

1. Why strengthening Debt Management
2. What the WB offers
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4. The way forward

1. Why strengthening Debt Management

Development needs of developing countries are large

How to finance these needs at low cost with a prudent degree of risk, especially at a time when conditions in financial markets are severely constrained?

Domestic debt markets are often shallow in developing countries

How can potential benefits from developing domestic markets be exploited at a low cost and prudent degree of risk?

Many governments have strengthened their balance sheets over the past decade

How to protect these sounder public debt structures and avoid exacerbating the crisis?

Improved debt management practices

- Help to address these questions
- Contribute to macroeconomic stability
- Facilitate maintaining debt sustainability
- Protect government's reputation

2. What the WB offers

PRMED, the **WB Treasury**, and the Securities Markets Group of the Global Capital Markets Development Department (**GCMSM**) offer a wide range of debt management advice and support

- **Diagnostic tools** for public debt management and debt market development
- **Advisory services** grounded on international sound practices and expertise in the areas of:
 - ✓ Governance
 - ✓ Debt strategy design and risk management
 - ✓ Debt sustainability analysis
 - ✓ Capital market access strategy and implementation
 - ✓ Domestic government debt market development
 - ✓ Design of sequenced reform plans
- **Public goods:** DeMPA tool; MTDS toolkit; DSF for LICs; publications on international sound practices
- **Other services:** Training; outreach events, including conferences and seminars

Timely and responsive assistance

World Bank assistance, especially for **low-income countries**, is being scaled up at a critical time

Financial crisis and global recession create particular **urgency** for low-income countries

- Export earnings are declining
- Capital inflows and remittances are contracting
- Official funding sources are limited and volatile
- Contingent liabilities may increase
- Debt levels may be rising in countries providing fiscal stimulus

Crisis implies substantial macroeconomic adjustments

- Debt management strategy should reflect the new reality

3. The WB's Assistance under the DMF

- The Debt Management Facility (DMF) finances technical assistance to strengthen debt management capacity and institutions through
 - Systematic application of the Debt Management Performance Assessment (DeMPA)
 - Medium-term debt management strategies (MTDS), developed in partnership with the IMF
 - Design of reform programs
 - Training of regional debt management providers and country authorities
 - Knowledge sharing and peer learning initiatives, such as the Debt Management Practitioners' Program and the Debt Managers Network
 - Research and development
- The DMF focuses on low-income countries, is demand-driven and most activities financed under the DMF are implemented with our Implementing Partners, including CEMLA, Commonwealth Secretariat, DRI, DMFAS Programme of UNCTAD, MEFMI, Pôle Dette and WAIFEM
- The DMF will be fully operational after May 2009

Debt Management Performance Assessment (DeMPA)

- Is a comprehensive methodology for assessing public debt management through a comprehensive set of performance indicators
- It can help guide the design of actionable reform programs, facilitate monitoring of performance over time, and enhance donor harmonization based on common understanding of priorities
- It has been implemented across 27 countries since April 2007

Medium Term Debt Management Strategy (MTDS)

- The MTDS provides a framework for formulating and implementing a debt management strategy for the medium term
- It has been developed and is jointly implemented with the IMF
- It is useful for illustrating a government's cost and risk tradeoffs associated with different debt management strategies
- It has been undertaken in 6 countries

Linkages between DeMPA, MTDS and Debt Sustainability

- A DeMPA can form the basis for drafting a detailed and sequenced reform program. It can also identify the strengths and weaknesses of all functions of debt management that will ultimately have an impact on the government's ability to effectively formulate and implement a credible MTDS.
- An MTDS focuses on determining the appropriate composition of the debt portfolio, taking into account macro-economic indicators and the market environment. The macro framework underlying the MTDS and the DSA should be the same.
- While DeMPA and MTDS are targeted debt management frameworks focused on how the composition of debt is managed, a debt sustainability analysis focuses on the long-term sustainability of debt, which is influenced by both its level and composition
- While each has its own particular focus, the approaches complement each other
- These interdependencies imply that a PDM framework must be consistent with a fiscal framework that ensures public debt sustainability

4. Way Forward

Low-income countries

- Under the DMF, the Bank's debt management work program for low-income countries is scaled up to apply per year
 - the MTDS framework in up to six new countries
 - reform plans in up to six new countries
 - up to 20 DeMPA assessments
- More training activities on DMF related activities will be provided
- Implementation of the Debt Management Practitioner's program and the Network for Debt Managers

Middle-income countries

- Work program for middle-income countries will continue at full strength
- In the near term, governments are likely to put priority on assistance in responding to the crisis environment
 - Accessing international markets and further developing domestic markets
 - Scaling up operations to manage growing debt stocks and contingent liabilities
 - Staying on track to achieving preferred portfolio compositions, despite a more difficult environment for strategy implementation

All countries

- Research and develop of new knowledge products will continue

Thank you.

**For more information, please visit
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