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THE DEBT MANAGEMENT–DMFAS PROGRAMME



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CONTENTS

1. INTRODUCTION	3
2. DMFAS COUNTRY ACTIVITIES	4
3. CAPACITY-BUILDING AND TRAINING	7
4. COLLABORATION WITH OTHER ORGANIZATIONS	11
5. SYSTEMS.....	13
6. DOCUMENTATION, PUBLICATIONS AND WEBSITE.....	16
7. DEBTNET	17
8. DEBT MANAGEMENT CONFERENCE AND DMFAS ADVISORY GROUP	18
9. WORLD ASSOCIATION OF DEBT MANAGEMENT OFFICES.....	19
10. FINANCIAL SITUATION AND FUNDING	19

Tables

Table 1	Status of DMFAS implementation.....	22
Table 2	Operational status of DMFAS in countries.....	24
Table 3	Summary of Helpdesk enquiries by country for the period 1 January–31 December 2005	27
Table 4	Overview of DMFAS activities from 2003 to 2005	28
Table 5	Debt Management–DMFAS Programme summary of yearly expenditures by source	30
Table 6	DMFAS financial report	31
Table 7	Expenditure for the Debt Management–DMFAS Programme central operations..	36
Table 8	Bilateral donors' contributions, 1996–2005.....	37

Figures

Figure 1	2005 Expenditures for the Debt Management–DMFAS Programme's central operations, by source.....	38
Figure 2	Bilateral donors' contributions to the Debt Management–DMFAS Programme's central operations, 1998–2005.....	39

Annex	Country information.....	41
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1. INTRODUCTION

UNCTAD, through the Debt Management–DMFAS Programme, has established itself since the beginning of the eighties as the leading international organization in providing debt management technical assistance.

The assistance given under the Programme includes:

- Development and maintenance of a software (DMFAS) designed to meet the operational, statistical and analytical needs of debt managers and bodies involved in elaborating public debt strategies, and training in its use;
- Advisory services, including needs assessments and advice on technical, administrative, legal and institutional debt management issues, assistance in software installation and maintenance; and
- Capacity-building in debt data validation, statistics, debt analysis and debt strategies, as well as basic debt management skills.

The Programme is integrated within the Debt and Development Finance Branch of UNCTAD's Division on Globalisation and Development Strategies, allowing, thus, full synergy between analytical work and technical assistance.

The importance of technical assistance in debt management has been explicitly and continually acknowledged in numerous UN General Assembly resolutions as well as the Monterrey Consensus on Financing for Development. In December 2005, the United Nations General Assembly adopted a new resolution on external debt crisis and development (A/C.2/59/L.53) welcoming further *the efforts of, and further calling upon the international community to support institutional capacity-building in developing countries and countries with economies in transition for the management of financial assets and liabilities and to enhance sustainable debt management as an integral part of national development strategies*" (para. 22). The same resolution also *"invites the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and other relevant multilateral financial institutions, to continue cooperation in respect of capacity-building activities in developing countries in the area of debt management* (para 23).

UNCTAD Member States have reconfirmed the contribution UNCTAD should make in debt management in the UNCTAD XI Sao Paulo Consensus which states that areas to which UNCTAD should give special attention at the national level include continuing assistance in debt management (paragraph 29). And in this sense, paragraph 31 states: *Based on its analytical work, UNCTAD should continue to provide technical assistance and support developing countries in building national capacities in the area of debt management through the Debt Management and Financial Analysis System (DMFAS) Programme, and for their participation in multilateral negotiating processes and international decision-making. Maximum synergy should be sought between analytical work and technical assistance.*

At the end of December 2005, the number of countries to whom UNCTAD's Debt Management–DMFAS Programme had so far provided direct technical assistance at the national level, through country-specific projects, had risen to 65, with discussions for five new countries on-going. The Programme was also very active on the regional and international level. Not only had it co-organized several regional workshops on debt management during the year, in June it organized UNCTAD's Fifth Inter-regional Debt Management Conference, attended by more than 250 participants from 83 countries as well as from international institutions and civil society. The 2005 Conference also hosted the third and final round of consultations of the Multi-stakeholder Dialogue on Debt, as follow-up to the Monterrey Consensus. In addition, the Programme contributed to debt management events organized by other organizations and continued to work closely with the World Bank and the IMF, along with other organizations, for the continuous improvement of international practices in debt management. It also launched an electronic forum in debt management, DebtNet.

A Programme of the size and importance of the Debt Management–DMFAS Programme needs to be funded on a predictable basis. For this reason, in June 2001, a decision was taken to create a multi-donor, multi-year DMFAS Trust Fund, which would be replenishable, upfront by bilateral donors, and which would be subject to mid-term reviews. The Trust Fund would allow funds to be co-mingled, and would also allow for cost sharing contributions by beneficiary countries. In 2005, donors commissioned a Mid-Term Review (MTR) for the period 2002-2005 as called for by the DMFAS Trust Fund Agreement. Conclusions of the Review were presented to the Fifth DMFAS Advisory Group Meeting, which took place in June 2005, following the Debt Management Conference. The two main objectives of the review were to evaluate a) the effectiveness and outcomes of the Debt Management–DMFAS Programme and b) the functioning of the programme and its delivery of technical assistance in relation to the needs and requirements of beneficiary countries. The broad conclusion of the Review points to the *remarkable performance of DMFAS, which has continually strived to respond with efficiency to the needs of its customer base...*

The Review, which also makes a number of recommendations, will serve as the basis of discussion between the Programme and Donors for the Programme's funding and strategy for the forthcoming years, along with the lessons the Programme has learnt through the implementation of projects in its beneficiary countries.

The present report reviews the activities undertaken by the Debt Management–DMFAS Programme in 2005. More detailed information about the Programme and activities in each of its client countries can be found in the Annex.

2. DMFAS COUNTRY ACTIVITIES

Country projects

Channelling the Programme's expertise, capacity-building/training activities, advisory services and debt management software to DMFAS client institutions is mostly done through the implementation of country projects – the administrative and financial framework through which most technical cooperation activities are carried out.

DMFAS country projects encompass a wide range of activities beyond installation of the DMFAS software and training in its use. Most projects assist governments in the development of appropriate legal, administrative, technical and organizational environments in which the system operates. Other areas of assistance may include database building, the defining of external borrowing strategies, the establishing of appropriate communication and information flows, financing techniques, credit analysis and debt renegotiation. The Programme also organizes country participation in national and regional workshops as well as study tours and international meetings. The Programme's technical assistance does not stop with the completion of each new country project. The Programme provides a continuing "maintenance service" to DMFAS client countries. This includes the provision of system updates and enhancements in order to keep pace with rapid developments in international financial practices and information technology as well as documentation. It should also be noted that the system and related services are provided, where possible, in five languages (English, French, Spanish, Russian and Arabic).

An overview of the status of DMFAS country project implementation in 2005 is provided in table 1. Three new countries (including five new institutions) joined the Programme in 2005 (Algeria, the Democratic Republic of Congo and Iraq), bringing the total of countries that have now used or use the DMFAS system to 65, of which 98 institutions.

The demand for the DMFAS system and related services remains very strong and the expansion of the number of countries and institutions will most likely continue with an average of three new institutions per year. In parallel, the Programme has in previous years received requests from non-traditional clients, such as parastatals and local governments (such as provinces), which might well continue to be the case in the future. Presently, there are DMFAS installations in three Argentinean provinces, in addition to its central government.

At the end of 2005, the Programme was managing a portfolio of around 40 projects that could be considered ‘active’, in the sense that they had country-specific activities being implemented or about to be implemented. In addition, discussions/negotiations were also being undertaken for projects with five new countries, Cambodia (Ministry of Finance), Cape Verde (Central Bank), Comoros (Ministry of Finance), Morocco (Ministry of Finance) and Uruguay (Ministry of Finance and Central Bank). Discussions for one new institution in a current client country, Philippines (Central Bank) were also being undertaken and follow-up projects were being negotiated or had been finalized for a large number of current user institutions/countries, including Albania (Ministry of Finance), Algeria (Ministry of Finance and Central Bank), Argentina (Provinces), Bangladesh (Ministry of Finance and Central Bank), Burundi (Ministry of Finance), Central African Republic (Ministry of Finance), Chad (Ministry of Finance), Costa Rica (Ministry of Finance), Djibouti (Ministry of Finance), Ecuador (Ministry of Finance and Central Bank), Georgia (Ministry of Finance), Haiti (Ministry of Finance and Central Bank), Indonesia (Ministry of Finance and Central Bank), Iran (Central Bank), Madagascar (Ministry of Finance and Central Bank), Nicaragua (Ministry of Finance and Central Bank), Pakistan (Ministry of Finance), Romania (Ministry of Finance and Central Bank), Rwanda (Ministry of Finance and Central Bank), Togo (Ministry of Finance), Turkmenistan (Central Bank), Venezuela (Ministry of Finance), Viet Nam (Ministry of Finance) and Yemen (Ministry of Finance, Central Bank and Ministry of Planning and International Cooperation).

Debt management offices and their location

DMFAS client countries range from low income and structurally weak countries to more advanced middle-income developing countries. This variety of client-type further accentuates the diversity and scope of the technical assistance provided by the Debt Management–DMFAS Programme. The matrix below provides the breakdown of DMFAS client countries according to country income group, for 2005.

Low-income	Lower-middle-income	Upper-middle-income	High-income	Total
28	28	9	–	65

Source: World Development Indicators database, World Bank ¹

Debt management offices (DMOs), in which the DMFAS system is installed, are usually found in the ministry of finance or the central bank (or in some cases the ministry of planning, local government, or an export-import bank).

The exact location of the debt office within the institution itself, however, often varies and the mandate of each debt office can therefore differ from one office to another according to its organizational location. In central banks, for example, the debt office can be situated in the Balance-of-Payments/Statistics Division (Egypt, Romania). In ministries of finance, the debt office is usually the Public Debt or Public Credit Department, but can also be part of the Treasury Department (Philippines), the External Relations Division (Bangladesh) or the Budget Administration Division (Indonesia). In certain cases it is located in the Accountant General’s Office (Zimbabwe). In general, countries are moving towards the centralization of public debt management (external and domestic debt), with the debt management office located in the ministry of finance, in order to have a more efficient administration of public liabilities. In addition, DMOs, in particular where the debt management system is integrated within a larger financial management system tend to be at a higher level within the institution’s organizational structure. They usually comprise back, middle and front-office functions and are closer to the decision-making process. The development of the DMFAS system has helped in this regard.

¹ Economies are divided among income groups according to 2004 gross national income (GNI) per capita, calculated using the World Bank Atlas method. The groups are: low-income, \$825 or less; lower-middle-income, \$826–\$3,255; upper-middle-income, \$3,256–\$10,065; and high-income, \$10,066 or more. Classification by income does not necessarily reflect development status.

Similarly, different institutional combinations can be found with regard to debt recording: sometimes this takes place in both the ministry of finance and the central bank, with each having different database access rights for this purpose. In other countries, one of the two institutions may only have reading access (i.e. no recording).

***DMFAS and HIPC*s**

In 2005, the Debt Management–DMFAS Programme pursued its cooperation with 21 out of the 38 countries considered under the Enhanced HIPC Initiative. Besides regularly providing to these countries the latest versions of the DMFAS software which assists debt managers in establishing and maintaining an accurate, up-to-date and complete debt data base, the Debt Management–DMFAS Programme fielded training missions and organised regional workshops to strengthen the debt offices' debt management capacities, with a particular focus on improving the implementation and the follow-up of debt relief.

Among the 18 countries that reached their completion point by the end of 2004, ten (Bolivia, Burkina Faso, Ethiopia, Honduras, Madagascar, Mauritania, Nicaragua, Rwanda, Uganda and Zambia) are active users of the DMFAS system. The support provided by the Programme will help these countries in tracking the full relief now obtained under the initiative. Among the ten countries that were at decision point at the end of 2005, DMFAS was collaborating with four of them (Burundi, Chad, Democratic Republic of Congo and Guinea-Bissau). In the Democratic Republic of Congo, the Programme's training in DMFAS and its assistance in helping the country build up its debt database actively contributes to the country's ability to reach its completion point as a computerized debt management system is one of the triggers for obtaining this. In Burundi and Chad, new DMFAS projects were elaborated in 2005 with financing identified and activities scheduled to start in 2006. The support provided by the Programme will help these countries in tracking the interim relief obtained from the participating creditors.

As at the end of 2005, ten countries remained to be considered under the Initiative. DMFAS has continued to provide training in debt management to four of them (Congo, Côte d'Ivoire, Sudan and Togo) and new projects are being negotiated with two others (Central African Republic and Comoros). The Programme has also continued to provide support to the Côte d'Ivoire despite the difficult local circumstances and will strive to provide assistance to remaining HIPC countries not yet at decision point as soon as local conditions become more permissive for technical assistance (Liberia, Myanmar and Somalia).

As in 2004, the Programme's support for HIPCs in 2005 has increasingly focused on capacity building in the area of debt data validation, debt statistics and debt strategy issues with the objective of empowering debt offices to play an active role under the HIPC initiative, particularly through encouraging their participation in national debt committees. General capacities in these areas are still relatively weak and the Programme's interventions aim at ensuring that debt offices are fully aware of the amounts of relief obtained or to be still obtained from the participating creditors and understand the financial and macroeconomic principles involved under the debt relief initiative. In addition, the Programme is reinforcing its assistance in institution building as HIPCs still face important needs in this area. The latest version of the DMFAS system (version 5.3) addresses countries' needs in the area of reporting and, through the new classification introduced in version 5.3, ensure that their reports follow international standards. The training curriculum that the Programme has developed in the area of debt statistics will ensure that the needed capacities in this area are strengthened.

The Programme's assistance to the HIPCs is not only targeted to their country-specific needs but is also coordinated in line with World Bank and IMF recommendations regarding external debt management in HIPCs. Through the Programme's annual visit to these institutions' headquarters, these institutions' participation in DMFAS advisory group meetings and through regular meetings held in regional workshops, the Programme participates in improving the coordination among the providers of technical assistance in debt management in HIPCs. The Programme is also keenly following the latest

developments within the Bretton Woods institutions on introducing improved approaches in the area of analysing debt sustainability in low-income countries.

The Programme's collaboration with Pôle-Dette, which has 15 HIPC countries among its 16 member countries, was officialised in April 2005 when both institutions signed a formal cooperation agreement. See Section 4 on collaboration with international organizations.

3. CAPACITY-BUILDING AND TRAINING

The overall objective of the Debt Management–DMFAS Programme is to strengthen the capacity of developing countries to manage their debt in an effective and sustainable way. The role of the Programme has always been to provide debt offices with a standard debt management system aimed at producing reliable debt information. Implementation of the system, however, is specific to each country and, as already mentioned, only part of how the Programme helps countries build their capacity in debt management. Demands from countries for DMFAS services continue to evolve beyond the sole use of the DMFAS system and as mentioned previously, increasingly include other training and capacity building activities in such areas as debt statistics reporting, debt portfolio analysis, domestic debt, debt sustainability analysis as well as institutional and coordination issues.

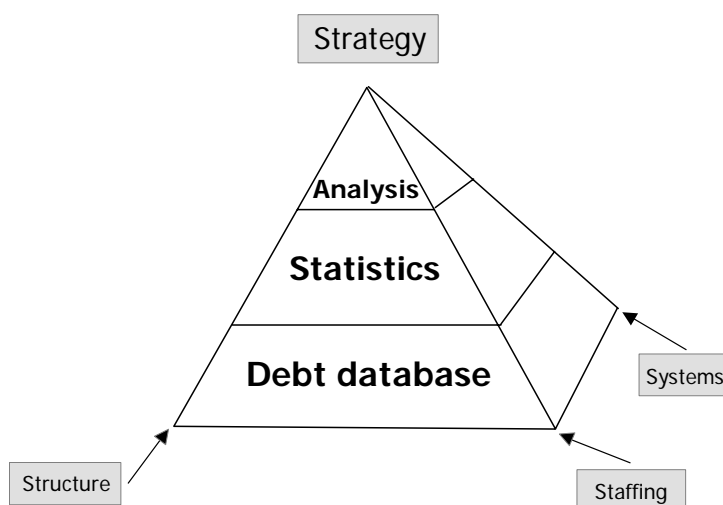
DMFAS approach to capacity-building

The DMFAS approach to capacity building in debt management is based on the framework provided in the Programme's Capacity-building Pyramid, (see box 1 next page). The DMFAS follows a systematic bottom-up approach based on the fact that pyramids cannot be constructed unless one starts with the fundamentals.

Capacity building modules in data validation, debt statistics and debt portfolio analysis.

Based on the pyramid concept above, the Programme has started to apply a new modular approach to delivering results-oriented training and support in building debt management capacity. It has already developed capacity-building (training) modules in debt data validation and debt statistics, the first versions of which were released in 2005. Towards the end of the year, work on a new module – debt portfolio analysis – also commenced. Training conducted through the latter module will provide the middle and high-level officials of the DMOs with the needed capacity to analyze the statistical tables produced and published in their statistical bulletin, as a result of the module on debt statistics. The training on debt portfolio analysis will focus on providing the debt office with the needed capacity to properly read the tables' figures and provide them with the necessary tools to measure and analyze the debt information. The module will also strengthen the countries' overall ability to elaborate and publish both external and domestic public debt information, with an analysis of its evolution, in a consistent and periodic manner. Once this module is finalized, the Programme may become involved in the development of a risk module, as recommended by the Mid-term Review.

Box 1. Debt management capacity building



Capacity building in debt management can be compared to the construction of a pyramid. As depicted in the above diagram, there are three visible corners at the base, namely *Structure*, *Staffing* and *Systems*. These are the cornerstones for capacity building. At the top of the pyramid is *Strategy*.

In order to develop a debt strategy, one has first to establish a *Debt database*, produce relevant *Statistics* and, finally, undertake relevant *Analysis*. These three layers are the building blocks towards strategy and policy-making.

Building capacity in sovereign debt management can take several years, and country situations vary widely. They are shaped by the type of financing available to the Government (i.e. bilateral and multilateral official loans, private loans, capital markets, financial derivatives), the exchange rate regime, the quality of macroeconomic and regulatory policies, the overall institutional capacity, the country's credit standing and its objectives for public debt management. Thus, there cannot be a set of binding practices or mandatory standards or codes. It is important to emphasize that the pyramid can be built in different ways. However, it will need the cornerstones and building blocks referred to above.

The main features of the capacity-building modules are:

- They offer a complete cluster of services. These modules are generally delivered via

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