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THE DEBT MANAGEMENT–DMFAS PROGRAMME

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1. INTRODUCTION

UNCTAD's Debt Management–DMFAS Programme aims to help developing countries and countries with economies in transition build their capacity to manage debt effectively. By working directly with countries and with international and regional organizations involved in debt management, the Programme tries to identify best debt management practices and then helps countries build the capacity to adopt them. Best practices are shared with countries through international and regional conferences and seminars and through country-specific technical cooperation projects.

Technical cooperation project activities cover the installation of the Programme's specialized debt management software, the Debt Management Financial and Analysis System (DMFAS), as well as training and assistance in its effective use. In particular, the system enables debt officers to establish a complete and up-to-date debt database and to provide timely and accurate debt statistics. Project activities also cover maintenance and system support, advice on institutional and procedural issues, participation of government officials in DMFAS training seminars in Geneva (or at a regional location), study tours for government officials to other DMFAS user countries, and assistance in debt analysis and in the development of debt management strategies. An important feature of the DMFAS software is its interface with the World Bank's Debt Sustainability Model Plus (DSM+), an analytical tool designed to assist country officials in formulating a debt strategy – incorporating debt relief or new borrowing alternatives – that is both cost-effective and sustainable, and consistent with long-term macroeconomic policies.

At the end of December 2004, the Programme had projects with 62 low- and middle-income countries, including 91 institutions, and projects with two new countries, including three new institutions about to start. The debt stock of these countries accounts for more than US$ 500 billion of outstanding public and public-guaranteed long-term debt, an amount that represents approximately 40 per cent of the total long-term debt of all developing countries.[1]

The Programme's role in helping countries strengthen their debt management can be seen against the background of UN resolutions on debt, the Millennium Development Goals and the Monterrey Consensus, which highlight the importance of international cooperation in dealing with debt issues. In December 2004, the United Nations General Assembly adopted a new resolution on external debt crisis and development (A/C.2/59/L.53), ***welcoming the efforts, 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. 16). It also reinforced its invitation to ***UNCTAD, IMF and the World Bank, in cooperation with the regional banks, regional commissions and multilateral institutions, to study the possibility of creating a consultative group on external debt management aimed at developing best practices and strengthening the institutional capacity of developing countries in debt management, taking into account work that has already been done*** (para. 17).

The present report reviews the activities undertaken by the Debt Management–DMFAS Programme in 2004. During the year, the Programme successfully implemented the new version of its debt management and analysis software, DMFAS version 5.3. Released at the end of 2003, it had already been installed and made operational in 12 DMFAS countries and 16 institutions by the end of 2004. This new version of the software incorporates important functional and technological improvements in response to client requests and in line with international standards and best practices.

The activities and the funding of the Programme are reviewed annually by the DMFAS Advisory Group, which is composed of technical representatives of interested UNCTAD member States, including donors and beneficiaries, as well as the UNCTAD secretariat. More detailed information about the Programme and activities in each of its client countries can be found in the Annex.

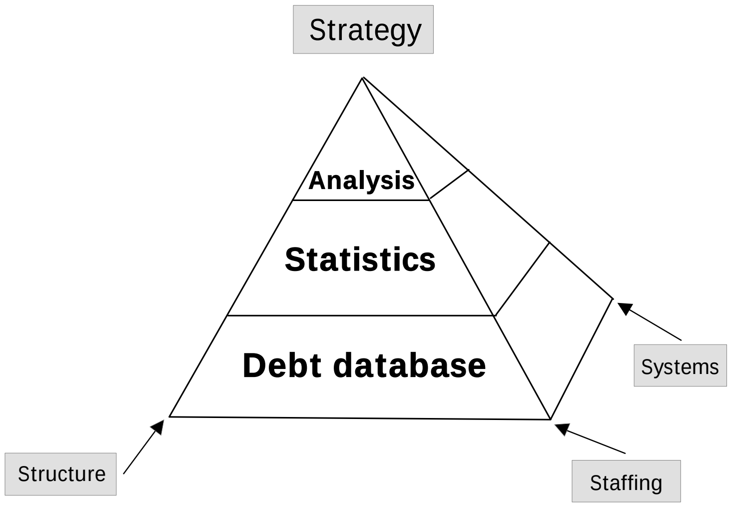
[1] *Global Development Finance*, World Bank, 2004.

2. DMFAS COUNTRY ACTIVITIES

Capacity building in debt management

The role of the Programme has always been to provide debt offices with a standard system. Implementation of the system in the country, however, is specific to each country project and is part of how the Programme helps countries build their capacity in debt management (see box 1).

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.

Number of user countries and institutions

An overview of the status of DMFAS country project implementation is provided in table 1. After increasing regularly over the previous 10 years, with an average of approximately five new countries joining the Programme each year, the number of countries using the DMFAS system remained stable during 2004. However, the number of user institutions using DMFAS within existing countries has continued to rise. For the biennium 2004–2005, a target number of 90 user institutions had been set against a baseline of 85. At the end of December 2004, the biennium target had been surpassed, with 91 institutions using DMFAS. Furthermore, negotiations were being undertaken for four new countries – Algeria (Ministry of Finance), Cambodia (Ministry of Finance), Comoros and the Democratic Republic of the Congo (Debt Management Office).

The Programme currently manages a portfolio of around 40 active projects. In addition to projects for new countries and institutions, follow-up projects were being prepared for a large number of current user institutions/countries, including Bangladesh (Ministry of Finance), Costa Rica (Ministry of Finance), Côte d'Ivoire (Ministry of Finance), Ecuador (Ministry of Finance and Central Bank), Honduras (Ministry of Finance and Central Bank), Mauritania (Ministry of Finance), Nicaragua (Ministry of Finance and Central Bank), Paraguay (Ministry of Finance), the Republic of Moldova (Ministry of Finance and Central Bank), Romania (Ministry of Finance and Central Bank), Sao Tome and Principe (Central Bank), Sudan (Central Bank) and Venezuela (Ministry of Finance).

Location of debt management offices

At the end of 2004, the DMFAS software was installed in debt offices in 91 institutions in 62 countries. These offices 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). They are in 40 low-income country institutions (28 countries), 35 lower-middle-income country institutions (25 countries) and 16 upper-middle-income country institutions (nine countries). The matrix below provides the location breakdown of DMFAS installations according to country income group and institution type.

Institution	Low-income	Lower-middle-income	Upper-middle-income	High-income	Total
Central bank	15	13	4	–	32
Finance Ministry	24	20	8	–	52
Other	1	2	4	–	7
Total	**40**	**35**	**16**	**–**	**91**

Source: World Development Indicators database, World Bank (August 2004).[2]

The exact location of the debt office within the institution itself often varies. In central banks, for example, the debt office can be situated in the Balance-of-Payments/Statistics Division (Egypt, Romania) or in the International Department (Dominican Republic). In ministries of finance, the debt office is usually part of the Public Debt or 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). The mandate of each debt office can therefore differ from one office to another according to its organizational location.

[2] Economies are divided among income groups according to 2003 gross national income (GNI) per capita, calculated using the World Bank Atlas method. The groups are: low-income, $765 or less; lower-middle-income, $766–3,035; upper-middle-income, $3,036–9,385; and high-income, $9,386 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 installations, one of the two institutions may only have reading access (i.e. no recording).

In 21 countries, the system is set up in both the ministry of finance and the central bank, and the number of countries where these two institutions are electronically linked through DMFAS (on a wide area network) is increasing. See tables 1 and 2.

Operational status of DMFAS implementation

Table 2 provides an overview of the operational status of DMFAS installations around the world. As can be seen, the new version of DMFAS (5.3) has already been installed in 17 institutions and in 12 DMFAS user countries. DMFAS 5.2 is installed in 40 countries and in 60 institutions. Three institutions are still using DMFAS version 4.1 Plus (Central African Republic, Egypt and Ethiopia); however, one of these (Egypt) has now converted to DMFAS 5.2 and continues to only use 4.1 in parallel for certain loans.

At the end of 2004, DMFAS was not operational in 13 of the institutions in which it was installed, and in 10 of the countries in which it was installed. Six of these countries were experiencing operational difficulties owing to institutional, staffing, political or technical problems (Bangladesh, Central African Republic, Guinea-Bissau, Kazakhstan, Sao Tome and Principe, and Uzbekistan). Four others were using their own system (Colombia, Peru, Senegal and Ukraine).

As can be seen from the table, the Programme attempts to monitor the extent to which the system is being used by the institutions concerned. The following stages have been differentiated:

Stage 0 System installed, but not used

Stage 1 Database regularly kept up to date and validated

Stage 2 System used for monitoring and internal reporting

Stage 3 System used for the publication of statistical bulletins and/or other periodical publications

Stage 4 Staff have received (basic or advanced) training in the use of DSM+ for debt analysis

In some cases, the system has been installed, but the database is still being developed. Where this is the case, Stage 1 (with comments) has been indicated.

These stages correspond to the various levels of the pyramid concept outlined in box 1 and its three broad categories – debt data, debt statistics and analysis.

The performance indicators related to the use of the system have to be integrated into a broader framework in order to evaluate the overall performance or capacity of an institution and/or country in the area of debt management. One should therefore also look at the structure and staffing of the debt offices, as well as other relevant elements, for example the existence and regular meeting of a debt strategy committee.

Integrated financial management systems and DMFAS

The trend for countries to link DMFAS with their own integrated financial management systems (IFMS) is expected to continue. One of the most important features here is the support that the Programme can provide on the operational level of debt management (mainly to debt offices located in ministries of finance). By facilitating the automated preparation of payment orders and disbursement operations, the system allows for transparency in the servicing of debt obligations and in the execution of the budget. Through electronic links covering the full cycle of the debt service operation, DMFAS helps to ensure the safe flow of operations through cash management in the treasury module, execution of the budget in the budget module and registration of transactions in the accounting module. This process eliminates manual handling during the operational process of repaying public debt, which has always been one of the key areas of risk.

DMFAS user countries building or planning to build integrated systems are chiefly located in Latin America, namely Argentina, Bolivia, the Dominican Republic, Ecuador, Guatemala, Honduras, Nicaragua, Panama and Paraguay. Other countries that have built links or are planning to do so are located in Africa: Angola, Burkina Faso, Chad and Côte d'Ivoire. Concerning the building of such systems, the Debt Management–DMFAS Programme focuses mainly on providing advisory services to the national teams through workshops or by providing technical assistance in building and maintaining the relevant links.

Scope of country projects

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 workshops and study tours, and participates in national, regional and training seminars.

Consultants and/or central staff carry out the installation of DMFAS and any relevant training during missions to the country institution. In certain projects, advisers are fielded for longer periods to provide continued on-site support and debt management advisory services. A list of country project activity missions undertaken during the reporting period is provided in table 3.

3. DMFAS AND HIPCs

The Debt Management–DMFAS Programme is cooperating with 21 out of the 38 countries considered under the Enhanced HIPC Initiative. The major element of this cooperation is the implementation of the DMFAS software, which assists debt managers in establishing and maintaining an accurate, up-to-date and complete debt database, in providing statistical reports and in undertaking debt analysis.

Among the 15 countries that had reached their completion point by the end of 2004, eight (Bolivia, Burkina Faso, Ethiopia, Madagascar, Mauritania, Nicaragua, Senegal and Uganda) 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. Of the 12 countries that were at decision point by the end of 2004, DMFAS was collaborating with seven of them (Chad, Democratic Republic of the Congo, Guinea-Bissau, Honduras, Rwanda, Sao Tome and Principe, and Zambia). The majority have now centralized and computerized their debt portfolio information. For two of these countries (Democratic Republic of the Congo, and Sao Tome and Principe), DMFAS had new projects in the pipeline. The support provided by the Programme will help those countries in tracking the interim relief obtained from the participating creditors. As at the end of 2004, 11 countries remained to be considered under the Initiative and DMFAS had provided training in debt management to six of them. In three of these (Congo, Sudan and Togo), training activities were actually reinforced in 2004 as they strove to reach decision point. By the end of the year, the Programme was negotiating the start of activities in one additional HIPC country (Comoros).

As in previous years, the Programme's support for HIPCs in 2004 increasingly focused on capacity building in the area of debt statistics and debt strategy issues with the objective of empowering debt offices to play an active role under the HIPC Initiative, particularly by encouraging their participation in national Debt Committees. General capacities in these areas are still relatively weak and the Programme's interventions were aimed at ensuring that debt offices were fully aware of the amounts of relief obtained or still to be obtained from the participating creditors and understood the financial and macroeconomic principles involved under the debt relief initiative. The release of DMFAS version 5.3 will address these 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 also ensure that the requisite capacities in this area are strengthened.

The importance of a full automatization of the HIPCs' debt management system has been fully recognized by the Bretton Wood institutions as this has become in some cases a trigger point for reaching the completion point under the Initiative. Recently, projects funded by the World Bank have increasingly provided financing for DMFAS technical assistance projects in HIPCs.

The Debt Management–DMFAS Programme's assistance to HIPCs is also coordinated in line with World Bank and IMF recommendations in the field of external debt management in HIPCs. Through the Programme's annual visit to these institutions' headquarters, through participation in DMFAS advisory group meetings and through regular meetings held at regional workshops, the Programme participates in improving the coordination among the providers of technical assistance in debt management to HIPCs. The Programme is also keenly following the latest developments within the Bretton Woods institutions regarding introducing improved approaches in the area of analysing debt sustainability in low-income countries.

In collaboration with Pôle-Dette, which has 15 HIPCs among its 16 member countries, the Debt Management–DMFAS Programme also provides regional assistance through the organization of joint workshops benefiting the sub-Saharan HIPCs. During the year, the Programme continued to cooperate with Pôle-Dette regarding the idea of setting up a regional DMFAS support unit at Pôle-Dette's headquarters in Yaounde, Camaroon. The final approval for this initiative was obtained in November 2004 from the Banque des Etats de l'Afrique Centrale (BEAC), and it is expected that an official cooperation agreement will be signed in early 2005. This would allow for the implementation of a DMFAS regional support unit by the end of 2005.

In 2004, participants from four HIPC countries were also trained in the use of DSM+ through regional workshops organized in collaboration with MEFMI in Namibia. The new version of DSM+ developed in coordination with the World Bank (see section on Analysis) is a major upgrade of the analytical tool. It incorporates domestic debt and budget information in order to improve the development of portfolio reviews, debt strategies and debt/fiscal sustainability analysis in the context of public debt, and in particular, to support the analytical work of HIPC countries.

4. SYSTEMS