UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE DEBT MANAGEMENT–DMFAS PROGRAMME

ANNUAL REPORT 2003

UNCTAD/GDS/DMFAS/2004/1

UNITED NATIONS

New York and Geneva, 2004

THE DEBT MANAGEMENT–DMFAS PROGRAMME
ANNUAL REPORT 2003

CONTENTS

1. INTRODUCTION 3
2. DMFAS COUNTRY ACTIVITIES 4
3. SYSTEM SUPPORT, MAINTENANCE AND DEVELOPMENT 7
4. DEBT STATISTICS AND ANALYSIS 8
5. TRAINING 10
6. DOCUMENTATION, PUBLICATIONS AND WEBSITE 11
7. WORLD ASSOCIATION OF DEBT MANAGEMENT OFFICES (WADMO) 12
8. DMFAS ADVISORY GROUP AND TRUST FUND 13
9. FINANCIAL SITUATION AND FUNDING 13

Tables

Table 1 Status of DMFAS implementation 16
Table 2 Operational status of DMFAS in countries 18
Table 3 Overview of DMFAS activities from 2001 to 2003 21
Table 4 Debt Management–DMFAS Programme summary of yearly expenditures by source 23
Table 5 DMFAS financial report 24
Table 6 Expenditure for the Debt Management–DMFAS Programme central operations 29
Table 7 Bilateral donors' contributions, 1996–2003 30

Figures

Figure 1 2003 Expenditures for the Debt Management–DMFAS Programme's central operations, by source 31
Figure 2 Bilateral donors' contributions to the Debt Management–DMFAS Programme's central operations, 1997–2003 32

Annex Country information 33

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, 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 2003, the Programme had projects with 62 low- and middle-income countries, including 88 institutions, and projects with three new institutions about to start. The debt stock of these countries accounts for more than $500 billion of outstanding public and public guaranteed long-term debt, an amount that represents approximately 40% 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. It is worth noting that in December 2003, the United Nations General Assembly reinforced its existing resolution on debt and, in its resolution 58/203, invited ***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 2003. The year was particularly successful for the Programme, which saw an exceptional international debt management conference in November and the finalization of a significantly improved edition of its software, DMFAS version 5.3. The latter includes a new bonds module, new functionalities for reporting and producing statistics, new security features, and a revised classification and coding system for debt instruments – a revision that greatly simplifies compliance with international standards for the production of debt statistics.

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.

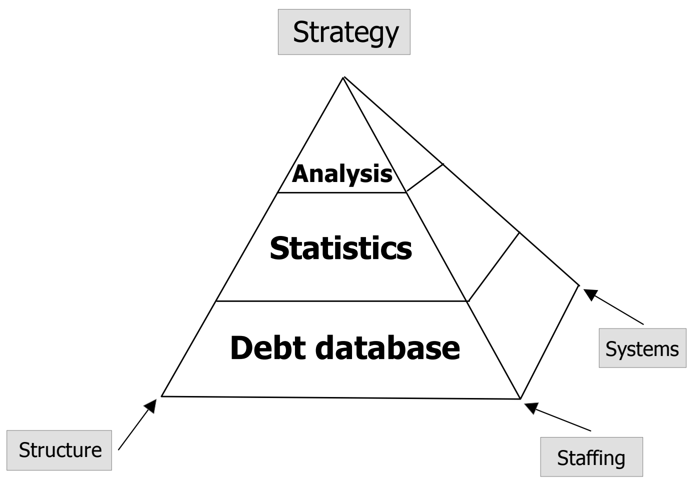
[1] *Global Development Finance*, World Bank, 2002

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 with 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 underline that the pyramid can be built in different ways. However, it will need the referred-to cornerstones and building blocks.

Number of user countries and institutions

An overview of the status of DMFAS country project implementation is provided in Annex table 1. At the end of 2003, the Debt Management–DMFAS Programme was collaborating with 62 countries. Over the next three years, it is expected that there will be approximately three new countries joining the Programme each year.

The total number of new user institutions within the existing countries is also expected to increase by two or three new institutions annually.

The Programme currently manages a portfolio of around 40 active projects. In addition to projects for new institutions, follow-up projects are also being prepared for a large number of current user institutions/countries (including the Central African Republic, Costa Rica, El Salvador, Ethiopia, Guatemala, Honduras, Mauritania, Nicaragua, Pakistan, Paraguay, Romania, Rwanda and Sao Tome and Principe).

Furthermore, the Programme has continued to receive requests from non-traditional clients, such as local governments (provinces and municipalities). In Argentina, the central government has already implemented the system in a number of provinces and has provided training and support under the guidance of the Programme.

Location of debt management offices

In 2003, five additional institutions adopted the DMFAS software: two are located in new client countries, namely Chile (Central Bank) and the Republic of the Congo (Ministry of Finance); and three are located in current client countries, namely the Dominican Republic (Ministry of Finance), Indonesia (Central Bank) and Trinidad and Tobago (Ministry of Finance).

At the end of 2003, the DMFAS software was installed, or was soon to be 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 31 low-income countries, 22 lower-middle-income countries and 9 upper-middle-income 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	16	12	4	–	32
Finance Ministry	27	17	7	–	51
Other	1	2	5	–	8
Total	**44**	**31**	**16**	**–**	**91**

Source: World Development Indicators database, World Bank (July 2002)[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 2001 gross national income (GNI) per capita, calculated using the World Bank Atlas method. The groups are: low income, $745 or less; lower middle income, $746–2,975; upper middle income, $2,976–9,205; and high income, $9,206 or more.

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 the 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 current DMFAS version (5.2) is now installed in 76 of the institutions and in 50 DMFAS user countries. Three institutions are still using DMFAS version 4.1 Plus (Central African Republic, Egypt and Ethiopia), but they are expected to convert to a later version of DMFAS in 2004.

At the end of 2003, DMFAS was not operational in nine of the countries in which it was installed. Six of these countries were experiencing operational difficulties due to institutional, staffing, political or technical problems (Central African Republic, Guinea-Bissau, Kazakhstan, Sao Tome and Principe, Senegal and Uzbekistan). Three others were using their own system (Colombia, Peru 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

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, Paraguay and Venezuela. 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. SYSTEM SUPPORT, MAINTENANCE AND DEVELOPMENT

Improvements to the DMFAS system

Version 5.3

Important efforts were undertaken during the year to finalize the design and development of the new version of DMFAS, 5.3, which was officially released at the end of 2003. It will be installed in a number of institutions during 2004. DMFAS 5.3 will give increased emphasis to capital market instruments through its enhanced bonds module. In addition, it contains new features for reporting and producing statistics, local government debt, revolving credit, and the capitalization of interest, as well as for handling Asian Development Fund loans. It also features a revised classification and coding system for debt instruments – a revision that greatly simplifies compliance with international standards for the production of debt statistics. DMFAS 5.3 was successfully tested in Geneva on a simulated database in November 2003, allowing the Programme's technical team to go ahead with its testing on a real debt database (Ministry of Finance, Argentina) one month later. This 'beta testing' allowed the Programme to ensure that all functions were working correctly, to discover eventual errors and to receive final improvement suggestions by the users themselves.

As with all versions of the software, DMFAS 5.3 will exist in English, French and Spanish. However, for the first time, it will also exist in Arabic. Both the English and Spanish versions were completed by December 2003. The Arabic and French versions were to be completed during the first semester of 2004. A Russian version of DMFAS 5.2 is also being worked on.

Version 6.0

A long-term objective of the Programme is the development of a completely redesigned version of the DMFAS system that is also web-enabled. To be called DMFAS 6.0, its development will begin after the release of DMFAS 5.3. The Programme plans to undertake a survey soon on user requirements for version 6.0, which will be followed by a feasibility study in order to evaluate the human and financial resources needed for its development.

Support, maintenance and distribution of the DMFAS system

The DMFAS system is continually being adapted and perfected to respond to client needs. In March, a maintenance version of DMFAS 5.2 was released, incorporating bug fixes and many enhancements. This maintenance upgrade also facilitates conversion to the new version of DMFAS, 5.3.

Keeping track of all the technical details pertaining to the different versions of the system installed in each country/region is a major challenge for the Programme. In 2003, the DMFAS Helpdesk resolved this difficulty by introducing new procedures for systematically recording each new installation detail. Assistance and advice on functional and technical issues related to the system are provided by the DMFAS helpdesk.

The DMFAS system is distributed to new and current users through missions to client institutions, through remote access support from Geneva, and through self-service installations.

4. DEBT STATISTICS AND ANALYSIS

Capacity building in statistics and analysis

In order to ultimately strengthen the analytical capacity of debt management offices, the Programme is intensifying its support to countries in the areas of debt statistics and analysis. For example and as already mentioned, DMFAS 5.3 contains a new coding system and reporting facilities for producing statistics that greatly simplifies compliance with international standards for the production of debt statistics.

Also, in May, the Debt Management–DMFAS Programme officially became co-owner of the World Bank's Debt Sustainability Model, the DSM+. This software is one of the few tools available today for the development of debt strategies and for conducting debt sustainability analysis. The new co-ownership agreement amends the original Partnership Agreement signed between UNCTAD, the World Bank and the Commonwealth Secretariat in 1998, and it strengthens the Programme's position concerning development of the tool.

In 2003, the Programme undertook country-specific training missions in debt strategy formulation and debt sustainability analysis, using DSM+, to Angola, Jordan, Panama and Yemen. In addition, it participated in the elaboration of future DSM+ training activities in Indonesia, Pakistan, Panama and Viet Nam. In June, a regional workshop on the development of debt strategies and debt sustainability analysis, using DSM+, was co-organized in Lesotho by the Commonwealth Secretariat, MEFMI, UNCTAD and the World Bank.

During the year, the Programme also worked on the development of new training modules in debt statistics preparation, debt portfolio analysis, debt strategy formulation and debt sustainability analysis.