Debt Management Facility (DMF) III

Supporting sustainable public debt management in Low-Income Countries

Debt management plays a central role for sound public finances and macroeconomic stability. While it does not prevent a government from becoming insolvent, prudent debt management can reduce the costs and risks of borrowing and increase the resilience against shocks. Against this background, the DMF provides Low-Income Countries with expert advice to strengthening debt management capacity and institutions through a number of tools that help countries assess and plan their debt. SECO is supporting the DMF since its inception in 2008.

Country/region
Global

Executing agency
World Bank Group

International Monetary Fund

Duration
2020-2024 (Phase III)

Total budget
USD 40’000’000

SECO contribution
CHF 5’000’000

DEBT MANAGEMENT FACILITY

Rationale

Starting in the mid-1990s, many of the world’s poorest countries received debt-reliefs, first in the context of the Heavily Indebted Poor Countries (HIPC) Initiative and later the Multilateral Debt Relief Initiative (MDRI). These initiatives have brought down public debt levels and created new borrowing space. To respond to the post-HIPC technical assistance needs in Low-Income Countries, the Debt Management Facility (DMF) was launched in 2008. However, despite some marked improvements, capacity constraints remain acute in many low-income countries, and ensuring long-term debt sustainability is an increasing challenge. Debt management is also becoming more complex, as countries gain access to new external and domestic sources of funding and become more exposed to international capital markets.

Objective

The overall objective of the DMF is to strengthen debt management capacity and institutions particular in low-income countries, with the goal to enable governments to finance their public sector borrowing prudently with an appropriate cost-risk mix; thereby contributing to macro-economic stability and to ensuring sustainable debt levels over the long term.

The initiative has the following specific objectives: (1) systematic assessment of countries’ debt management capacity with the Debt Management Performance Assessment (DeMPA) tool; (2) support governments in designing debt management reform plans and Medium-Term Debt Management Strategies (MTDS); (3) training of country authorities on the Debt Sustainability Framework and the Debt Sustainability Analysis, which represent the international standard to assess developing countries’ debt sustainability; (4) support to develop domestic debt markets and access international capital markets, (5) strengthen risk management capacities; (6) improve debt monitoring, reporting and transparency; (7) assistance to identify and manage previously unknown sources of debt (so called “fiscal risks”); and (8) promote knowledge sharing and peer learning among debt management practitioners.

Governance Structure

The DMF is a multi-donor trust fund and administered by the World Bank. It is guided by a Steering Committee comprising the donors, the World Bank, and the IMF. The Steering Committee is supported by a Panel of Experts whose role is to ensure the quality and relevance of DMF activities. DMF activities are carried out either by the WB, the IMF or jointly both institutions, in collaboration with Implementing Partners, including ADB, Agence UMOA-Titres, CEMLA, Commonwealth Secretariat, DRI, JICA, MEFMI, WAIFEM, and UNCTAD/DMFAS. The implementing partners form an Implementation Coordination Group (ICG). The initiative is managed by a program secretariat.

DMF complements other debt management initiatives supported by SECO, in particular: (1) the Debt Management and Financial Analysis System – a IT-based system for countries to register and manage their debt – developed by UNCTAD; and (2) the Government Debt and Risk Management Program implemented by the World Bank which focusses on middle-income countries.

Results so far

Since its inception in 2008, the DMF has responded to demands from 75 countries and 15 subnational governments via more than 290 technical assistance missions.

In the 37 countries where at least two standardised assessments ("DeMPAs") were undertaken, the results show strong improvements in the quality of legal frameworks for public debt management, coordination with monetary policy, managerial structure, and publication of debt reports. Today, more countries prepare and publish debt management strategies; the quality of debt records of government debt has improved; and many countries have improved the organization of their debt management institutions and coordination with fiscal policies through alignment with medium term fiscal frameworks. A 10-year evaluation of the DMF found a positive correlation between DMF interventions in a country and the country's debt management capacity.

The DMF has made a significant global contribution to strengthen debt management capacities at the individual and institutional level.

Outlook

In Phase III, the DMF will put particular focus on helping countries improve debt transparency and identify and manage "hidden" sources potential public debt, called "fiscal risks". Moreover, the DMF will transition to a so-called "programmatic approach" in countries that display particularly strong demand and need for technical assistance. Under this approach, the DMF and the government agree on a multi-year strategy to build debt management capacity. This approach will improve sustainability of the DMF assistance.

How to get involved

DMF follows a demand-driven approach. It is open to low income countries (84 IDA-eligible and PRGT countries as classified by the World Bank and the IMF). To qualify for support, country requests must be submitted directly to the DMF Secretariat.

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