New Funding to Help Poor Countries Manage Debt

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A successful multi-donor trust fund launched a new phase today with commitments from donors for close to US$20 million. The Debt Management Facility II (DMF II) program builds on previous success in debt-management advisory work and marks the beginning of a new partnership between the World Bank and the International Monetary Fund (IMF). The partnership will be dedicated to strengthening the capacity of developing countries to manage their debt in a manner that is sustainable and encourages economic development.
The facility expects to raise $40 million, and the new pot of money will extend the work of the first DMF, a US$22 million trust fund that the World Bank launched in November 2008.
The initiative was born out of a recognition that low-income countries graduating from debt-relief programs, such as the Heavily Indebted Poor Countries (HIPC), might continue to struggle. There was a worry that they might fall into a vicious cycle of debt and assistance.
"An ounce of prevention is worth a pound of cure, said Jonathan Rothschild, senior advisor to World Bank Executive Directors who was a senior economist with the Canadian International Development Agency (CIDA), a donor to the first DMF. "Its a great example of getting in early on with an initiative to prevent things from getting out of control.
The sovereign debt world can be complex, and the World Bank realized that developing countries could improve their chances of staying on track with training on how to assess risks, better negotiate loan terms, and recognize the risks of borrowing from non-traditional creditors. This acumen, in turn, could help the recipient countries spend their money in more productive ways: building infrastructure, providing access to clean water, and performing other functions essential to economic growth and poverty-reduction. Indeed, details that may seem mundane or insignificant at smaller level - an extra year in the maturity of a loan or a fraction of a percentage point lower on an interest rate - can, for a country, make the difference between providing electricity to a village or funding a school.
In five years, the DMF has reached out to more than 70 countries. It has provided training to more than 600 client country officials. The work of the trust fund ranges from technical trainings for debt managers to expert guidance on formulating debt management reform plans. It also funds country-based assessments of debt management performance and helps countries develop robust debt management strategies.
"It's targeted, it's versatile, and it's very accessible for our clients in developing countries," said Jeffrey Lewis, director of the World Banks Economic Policy, Debt and Trade Department.
The DMF is currently funded by seven countries, the European Union, and the African Development Bank. In addition to its in-country trainings, it also allows debt managers from developing countries to work side-by-side with debt experts at the World Bank during three-month mentorships in Washington, DC.
Stella Rusine, a debt manager in the Rwandan government, has participated in several DMF-sponsored trainings, and is in the middle of the Washington, DC mentorship program. She said the training and tools offered through DMF have been useful for helping Rwanda to be disciplined about its level of debt and better prepared to answer investors questions. Through the DC-based program, she has traveled with World Bank debt experts to Madagascar, and she said learning about other countries experiences has been illuminating.
"You work with countries that might go through the same issues as your country, and you learn how they deal with them,Rusine said. "Being exposed to different cases helps broaden your view.
In addition to improving the public officials technical skills, the training and exposure to experts also empowers them to avoid unreliable creditors and resist pressure from political leaders. One African debt manager told Abha Prasad, a senior debt specialist at the World Bank who manages the trust fund, that DMF-funded training helped him systematically assess the costs and risks of a non-traditional loan from a high-profile creditor. The debt manager was well-armed to inform the countrys policy-makers that the loan terms were unfavorable. He was able to show the political leaders how the terms did not conform to the nations already-published debt management strategy, a document that DMF-funded technical assistance helped them create. The country rejected the offer and avoided going down a path of unsustainable debt.
"We have come a long way -- in many ways, I think that we have made a difference, Prasad said. "But there is still a long way to go.
Through DMF II, the World Bank, in partnership with the IMF, will expand the program and offer new services. The landscape in which developing countries borrow money has changed a great deal since the beginning of the DMF, said Prasad. Developing countries now have access to many sources of credit, not just concessional loans from multilateral organizations. Increasingly, countries are issuing bonds on international capital markets, such as Eurobond markets, a process that brings with it a new level of complexity. Governments also are looking to borrow money domestically. In recognition of these trends, the DMF II will offer assistance and training on these processes and help debt managers execute them in a manner that benefits their countries.

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