



**United  
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Department of  
Economic and  
Social Affairs

CEPA strategy guidance note on

## **Long-term public debt management**

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The [United Nations Committee of Experts on Public Administration \(CEPA\)](#) has developed a set of principles of effective governance for sustainable development. The essential purpose of these voluntary principles is to provide interested countries with practical, expert guidance on a broad range of governance challenges associated with the implementation of the 2030 Agenda. CEPA has identified 62 commonly used strategies to assist with the operationalization of these principles. This guidance note addresses long-term public debt management, which is associated with the principle of intergenerational equity and can contribute to strengthening the inclusiveness of institutions. It is part of a series of such notes prepared by renowned experts under the overall direction of the CEPA Secretariat in the Division for Public Institutions and Digital Government of the United Nations Department of Economic and Social Affairs.

In reading this guidance note, individuals in government ministries and agencies who are less familiar with the topic will be able to understand the fundamentals. Those who have perhaps taken initial steps in this area with limited follow-through or impact will be able to identify how to adjust elements of their practice to achieve better results and to better embed and institutionalize the strategy in their organizations. Those who are more advanced in long-term public debt management will be able to recognize the practices which contribute to its success.

## Understanding the strategy

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### Introduction

By the end of 2019 it became clear that progress towards the 2030 Sustainable Development Goals (SDGs) was uneven, both among countries and in terms of individual targets, and that meeting the goals would be a challenge mainly because of a lack of funding. The advent of the COVID-19 pandemic has made this prognosis a near-certainty. According to the International Monetary Fund (IMF), unless the international financial community and other stakeholders can come up with exceptional measures, achieving the SDGs is likely to be delayed by a decade or more.<sup>1</sup>

Success in meeting the 2030 Agenda will depend on the development of strategies to effectively mobilize and use available financial resources, while maintaining debt at sustainable levels. This unparalleled situation puts long-term public debt management in the spotlight.

Financial flows to low- and middle-income countries consist principally of debt and equity. Debt (which represents roughly 50 percent of aggregate net financial flows) has been and remains an important source of funding. All countries, irrespective of their income levels, resort to borrowing. However, the reasons and the extent for doing so, as well as the sources and types of funding they access will inevitably differ. For instance, eligibility for official development assistance (ODA) will depend on a country's income level while access to international financial markets will depend to a large degree on a country's credit rating.

Governments borrow for various purposes<sup>2</sup> including the need to address liquidity and cash management requirements; stimulate or cool down the economy (by adopting so-called countercyclical policies); finance large public infrastructure projects and implement social programmes; mitigate the impact of negative shocks; or refinance existing debt. Borrowing is thus important to meet governments' short-term funding requirements as well as to achieve global and national long-term economic and social development objectives and intergenerational equity.<sup>3</sup>

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<sup>1</sup> Benedek, D., E. Gemayel, A. Senhadji and A. Tieman (2021). "A Post-Pandemic Assessment of the Sustainable Development Goals," IMF Staff Discussion Note, available at <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2021/04/27/A-Post-Pandemic-Assessment-of-the-Sustainable-Development-Goals-460076>

<sup>2</sup> Fatas, A., A. Ghosh, U. Panizza and A. Presbitero (2019). "The Motives to Borrow," IMF Working Paper WP/19/101, available at <https://www.imf.org/en/Publications/WP/Issues/2019/05/10/The-Motives-to-Borrow-46743>

<sup>3</sup> This guidance note refers mainly to long-term public debt management, as opposed to short-term borrowing, given that long-term debt is most likely to have an impact on intergenerational equity. Short-term borrowing may also influence long-term funding, especially in the domestic market. It is worth noting that borrowing by the private sector can also have an impact on intergenerational equity. However, these aspects fall outside the scope of this note.

## CEPA strategy guidance note

### Long-term public debt management

Debt must be prudently managed bearing in mind both its long-term sustainability and its composition, which will give rise to different levels of cost and risk. Contracted as part of a coherent macroeconomic policy mix, borrowed resources can be transformative and contribute to the fight against poverty, uphold sustainable and inclusive economic growth, and raise living standards. However, failure to adopt prudent debt management policies is bound to result in unsustainable debt burdens that will most likely translate into financial crises with significant economic and social costs.

Both the 2030 Agenda for Sustainable Development and the Addis Ababa Action Plan recognize the challenges that financing development pose. With respect to borrowing, the two documents stress the need to strengthen domestic resource mobilization and secure external financial resources from a variety of sources, including the use of ODA and private international capital flows (especially foreign direct investment). The two documents also emphasize the need for developing countries to attain and maintain long-term debt sustainability through “fostering appropriate debt financing, debt relief, debt restructuring and supporting sound debt management, as appropriate.”<sup>4</sup>

It should be noted, however, that viewed from the context of the 2030 Agenda, sustainability is a much wider concept than just ensuring that countries can pay back their debt obligations. It involves ensuring that “future generations will be able to enjoy the same resources and natural wealth as the present one, in a more equal, inclusive, and enduring fashion”<sup>5</sup>—a direct reference to intergenerational equity. There is also a likely trade-off between the pledge of the 2030 Agenda to “leave no one behind” and the principles of intergenerational equity: in trying to adhere to the pledge, countries that are unable to widen the tax base or increase tax for the wealthy may over-rely on debt and thus compromise future generations. Therefore, the way the SDGs are financed is a matter for careful consideration. In that vein, the growing importance of environmental, social and governance (ESG) considerations in lending and investment decisions, discussed under public sector situation and trends, emphasizes the important relationship between long-term public debt management and the achievement of sustainable economic and social development, including intergenerational equity.

The role of the international financial community will be crucial in achieving the goals set in the 2030 Agenda, especially the need for developed countries to fully implement their ODA commitments and achieve the ODA/Gross National Income target of 0.7 percent, an

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<sup>4</sup> Addis Ababa Action Agenda, Monitoring Commitments and Action, Inter-Agency Task Force on Financing Development, Inaugural Report, United Nations (2016) available at [https://developmentfinance.un.org/sites/developmentfinance.un.org/files/Report\\_IATF-2016-full.pdf](https://developmentfinance.un.org/sites/developmentfinance.un.org/files/Report_IATF-2016-full.pdf)

<sup>5</sup> Engaging with Investors on Environmental, Social and Governance (ESG) issues, a World Bank Guide for Sovereign Debt Managers, World Bank (2020) available at <https://treasury.worldbank.org/en/about/unit/treasury/client-services/sustainable-finance-advisory>

objective that has been met by only a handful of countries.<sup>6</sup> The international financial community will also need to support countries already in debt distress, such as Highly Indebted Poor Countries (HIPC), through the provision of additional financing and concerted debt restructuring and relief.

This guidance note discusses the role of long-term public debt management as a strategy to promote sustainable development and intergenerational equity within the context of the 2030 Agenda. The specific objectives of the note are to provide countries and their administrations with an understanding of public debt management; an appreciation of how the economic and financial environments within which public debt management takes place are evolving; an awareness of best public debt management practice; and the avenues that are available for countries to strengthen their debt management capacity.

### **What is public debt management?**

The Revised Guidelines for Public Debt Management<sup>7</sup> define it as “the process of establishing and executing a strategy for managing the government’s debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.” While the amount to be borrowed is determined by a country’s fiscal and budgetary policies, public debt management focuses on the composition of borrowed resources—in terms of sources of funding, costs, currency, and maturity, among others. The above definition has been adopted by many countries as their main public debt management objective. Another common objective is the development of the domestic market for government securities, which is important for domestic resource mobilization.

It is important to distinguish between long-term public debt management and the two other financial tools at the disposal of governments: fiscal and monetary policy. The aim of fiscal policy is to minimize the distorting effects of budgetary policy, improve the allocation of resources and achieve the government’s distributive objectives. This is achieved through taxing and spending measures that are included in the budget. Monetary policy, which is a core responsibility of central banks, focuses on price stability by targeting inflation or exchange rates. The promotion of equitable fiscal and monetary policy is one of the strategies for leaving no one behind and is considered in a separate note in this series.

There are several trade-offs and interdependencies among long-term public debt management and fiscal and monetary policy. For example, while the amount to be borrowed is determined

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<sup>6</sup> According to the IMF, “gradually building donor support toward the United Nations’ recommended official ODA target of 0.7 percent of gross national income (GNI) over the next decade would release some \$200 billion (in 2020 United States Dollars) for development...that would fill more than two-thirds of LIDCs’ average SDG needs gap after pursuing reform.” See Benedek, D., E. Gemayel, A. Senhadji and A. Tieman (2021) “A Post-Pandemic Assessment of the Sustainable Development Goals,” IMF.

<sup>7</sup> Revised Guidelines for Public Debt Management, IMF and WB (2014) available at <https://www.imf.org/external/np/pp/eng/2014/040114.pdf>

by fiscal policy (taxation and revenues), the debt structure will in turn affect the cost of borrowing and hence fiscal sustainability. Also, exchange rate and interest policies determined by a country's central bank will have a bearing on the amount of debt that can be raised in foreign currency and at floating interest rates. While the three policies must be managed independently, there is a strong need for coordination to prevent or reconcile conflicts that may arise.

Another area of coordination is between public debt management and cash management. Cash management arises from the mismatch between revenue and expenditure which may lead to temporary funding shortfalls and cause governments to resort to short-term borrowing to meet payment obligations. This can happen even if there are idle cash balances in government accounts. There is therefore a need to coordinate debt and cash management and many countries have fully integrated the two activities to improve cost-effectiveness, reduce risk and support other financial policies.

Public debt management takes place within a country's overall macroeconomic and public financial management frameworks. Most governments have in place long-term national visions, strategies and policy documents that articulate their development aspirations, including the desire to achieve sustainable and inclusive growth and meet global development targets. These policies generally have a time horizon of 20 years or more. An essential requirement to achieve these long-term goals is adequate financing.<sup>8</sup> For financial planning purposes, and given the timeframes involved, countries need to break long-term funding requirements into more manageable medium and short-term periods. Many countries have thus adopted medium-term budget frameworks (MTBFs) that allow finance ministries to bridge the gap between annual budgets and multiyear financial planning.<sup>9</sup> Similarly, countries develop medium-term debt management strategies that are updated annually to factor in borrowing requirements arising from the annual budget.

### **Public debt management and intergenerational equity**

The concern for the impact of today's public debt on future generations is not new. There are different views on the relationship between debt levels and its effect on future generations.<sup>10</sup> For example, it has been argued that debt would have a low intergenerational fiscal and welfare cost if interest rates are lower than growth rates and the marginal product of capital is also

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<sup>8</sup> It is therefore important for such policy documents to be accompanied by a financing plan that needs to be reviewed and updated through regular monitoring and evaluation exercises.

<sup>9</sup> For a discussion of MTBFs, see Cangiano, M., T. Curristine and M. Lazare (2013) "Public Financial Management and Its Emerging Architecture," IMF.

<sup>10</sup> For a discussion of the theoretical relationship between debt and intergenerational equity, see Otaki, M. (2015) "Public Debt as a Burden on the Future Generation: A Keynesian Approach," The Institute of Social Sciences, The University of Tokyo, available at [https://file.scirp.org/pdf/TEL\\_2015102714212456.pdf](https://file.scirp.org/pdf/TEL_2015102714212456.pdf)

low.<sup>11</sup> However, other research has clearly demonstrated a negative correlation between high debt burdens and economic growth, although causality is difficult to establish.<sup>12</sup> Nevertheless, certain types of borrowing—especially long-term debt used for development projects and programmes—will have a direct impact on intergenerational equity, given that loans contracted today will become a liability when they need to be repaid in the future. Therefore, governments need to ensure that the impact on intergenerational equity is positive. This is only possible if borrowed resources are spent on projects that generate positive returns.

In Singapore for instance, the Government’s position is that “borrowing for expenditure will only be permitted for long-term infrastructure investment which have benefits across generations while recurrent spending needs such as healthcare and education, must be funded by recurrent revenue streams such as taxes.”<sup>13</sup> Pawa and Gee further infer that “consideration therefore should be given to what debt is used for,” assuming that “the use of debt to finance productive public investments will likely also contribute to GDP growth.”

The contribution of long-term debt to intergenerational equity can therefore be considered as *implicit*, if a country maintains debt at sustainable levels<sup>14</sup> and borrowed funds are used productively. In situations where a country’s debt level has become unsustainable, action needs to be taken to restore sustainability. Such measures, which have formed part of global initiatives such as the HIPC initiative, emphasize the role external donors and creditors play in assisting countries achieve intergenerational equity. This role encompasses the need for lenders to adopt responsible lending practices and develop coherent, fair, and efficient debt workouts, as advocated by the United Nations Conference on Trade and Development (UNCTAD).

It must be emphasised, however, that long-term public debt management on its own is not enough to achieve intergenerational equity as the latter is a cross-cutting issue. Other important contributors include sound fiscal policy (including the need to maintain intergenerational equity in taxation) and adherence to strong public financial management practices. Nevertheless, effective public debt management is important for intergenerational equity for two main reasons: it transfers the positive effects of sound public debt management

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<sup>11</sup> See Blanchard, O. (2019) “Public Debt and Low Interest Rates,” PIIE Working Paper 19-4, Peterson Institute for International Economics, available at <https://www.piie.com/publications/working-papers/public-debt-and-low-interest-rates>

<sup>12</sup> For a discussion of the relationship between debt and growth, see Fatas, A., A. Ghosh, U. Panizza and A. Presbitero (2019) “The Motives to Borrow,” IMF Working Paper WP/19/101, Section IV.

<sup>13</sup> Pawa, K. and C. Gee (2021) “Public debt and intergenerational equity in Singapore,” Working Paper 38, Institute of Policy Studies, available at [https://lkyspp.nus.edu.sg/docs/default-source/ips/working-paper-38\\_public-debt-and-intergenerational-equity-in-singapore.pdf](https://lkyspp.nus.edu.sg/docs/default-source/ips/working-paper-38_public-debt-and-intergenerational-equity-in-singapore.pdf)

<sup>14</sup> The IMF considers a country’s public debt as sustainable “if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default.” See Hakura, D. “What is Debt Sustainability?” Finance and Development, September 2020, available at <https://www.imf.org/external/pubs/ft/fandd/2020/09/pdf/what-is-debt-sustainability-basics.pdf>

for future generations or, conversely, it mitigates the risks of transferring the negative effects of poor public debt management, such as unsustainable debt, or the loss of financial resources through poor decisions when contracting or guaranteeing debt (e.g., contingent liabilities, collateralised debt).

The growing awareness of ESG issues by creditors and investors is likely to reinforce the link between public debt management and its contribution to intergenerational equity. ESG has its origins in the 1990s. Events and initiatives such as the United Nations-supported Principles for Responsible Investment (PRI) initiative (2006), the Paris COP21 agreement and the 2030 Agenda have maintained and increased the focus on the need to integrate ESG aspects in long-term public debt management.

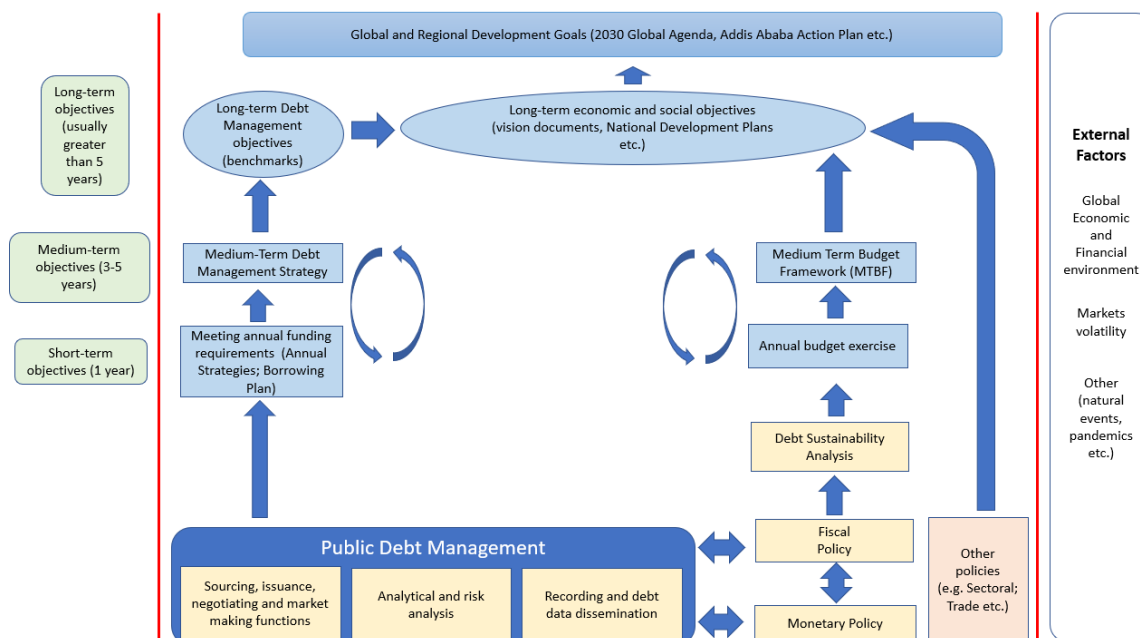
### **How does public debt management contribute to intergenerational equity?**

As indicated above, public debt management ensures that a government's annual borrowing requirement is contracted at the minimum cost within an acceptable level of risk, in conformity with the country's debt management strategy. In doing so, the debt manager will be confronted with short, medium, and long-term objectives. Over time, these cycles are meant to contribute to the country's long-term socio-economic objectives and outcomes as shown in Figure 1.

In view of the timeframes involved, the achievement of long-term economic and social outcomes will be largely dependent on the economic and financial environment. Some shifts in policies (e.g., those driven by the democratic process) may bring about positive changes that can benefit current and future generations, for example through different spending and taxation measures. Alternatively, shocks ranging from natural disasters to pandemics and global recessions, may severely affect progress. The impact of the COVID-19 pandemic on the global economy is proof of how damaging external factors can be.

To a large extent, public debt management must also maintain coherence between short and medium-term objectives and longer-term goals. In practice, many debt management offices will develop long-term benchmarks, which they will try to meet through the implementation of medium-term debt management strategies (typically covering a three- to five-year period) that are updated annually and feed into annual borrowing plans.

**Figure 1. How public debt management contributes to long-term economic and social outcomes**



Source: The author

## Public sector situation and trends

Public debt management is a fast-evolving discipline that has witnessed significant changes over the past decades in three main areas: the financing landscape; risk management; and best practices.

### Changes in the financing landscape

Since the mid-2000s, domestic borrowing has become more prominent in many developing countries due to efforts to promote domestic resource mobilization. The 2030 Agenda recognizes that mobilizing and effectively using domestic resources are central to the pursuit of sustainable development, including achieving the SDGs (see Goal 17.1 and Paragraph 66 of the 2030 Agenda—Means of Implementation and the Global Partnership).

Improved access to domestic borrowing has been beneficial in many ways. It has reduced dependency on external debt and related market risks, especially foreign exchange risk; contributed to long-term investments in many sectors, including infrastructure; and has also helped mobilize domestic savings by providing an avenue for long-term institutional



investment (such as pension funds). Many developing countries have successfully issued long-term domestic securities with maturities of up to 30 or 40 years. However, as countries have allowed access by non-residents to participate in the local currency market, the distinction between external and domestic borrowing is sometimes blurred.

On the external debt front, countries have been able to tap into a wider range of borrowing sources and loan products. Noticeable trends include the increase in borrowing from new private and bilateral partners, such as the BRICS group of countries (Brazil, Russia, India, China, and South Africa) and the increase in the number of plurilateral lenders.<sup>15</sup> Concurrently, an increasing number of developing countries have successfully accessed the Eurobond market. This has been made possible because of several factors including reduced debt burdens due to debt relief initiatives, which have resulted in improved credit ratings; a high level of international liquidity since 2009, which has made investors willing to take more risk in pursuit of higher returns; and even the discovery of natural resources by some countries. As in the case of domestic bonds, countries have also been able to issue longer maturities in the international markets. Given their size and maturity structure,<sup>16</sup> international bonds generally need to be rolled over. This can pose significant market risk and intergenerational equity repercussions should the domestic or international economic environments deteriorate at maturity.

In mobilizing resources to finance the SDGs, debt managers are likely to be confronted with even more products, generally classified under the umbrella term of “innovative finance.”<sup>17</sup> Innovative finance has its roots in efforts to try and mobilize additional resources to meet the Millennium Development Goals (MDGs). These instruments can help mobilize public or private funding (or both, as in the case of public private partnerships, or PPPs); tap into specific markets (e.g., through the issuance of Diaspora bonds); raise funding and investment for a wide range of sectors including infrastructure and nature conservation (e.g., green, development and social impact bonds); and even help mitigate certain risks (such as sovereign State-Contingent Debt Instruments).<sup>18</sup> However, certain innovative arrangements, such as collateralized debt, can introduce major risks for intergenerational equity. These are arrangements under which payments of principal and/or interest are backed by revenue on

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<sup>15</sup> The term plurilateral creditor refers to “official lenders with more than one shareholder that extend non-commercial credit to other sovereigns and that do not have universal/open memberships.” Financing for Development, Progress and Prospects, United Nations (2018). For a list of plurilateral creditors, see Macroeconomic Developments and Prospects in LIDCs, IMF (2018), Appendix III.

<sup>16</sup> Eurobonds tend to be more than USD500 million and are often repaid in a single lump sum, which may require the government to roll over the debt.

<sup>17</sup> See Bhinda, N., S. Attridge and S. Sumaria (2014) “Innovative Finance for Development: a Commonwealth Toolkit,” Commonwealth Secretariat and Ketkar, S. and D. Ratha (2009) “Innovative Finance for Development,” World Bank.

<sup>18</sup> For further discussion please see “State-Contingent Debt Instruments for Sovereigns,” IMF (2017).

specified assets or future income streams from the sale of commodities or natural resources. This type of debt can create future repayment obligations over long periods of time.

While the increase in borrowing sources and instruments has opened new opportunities, it has also made the task of the debt manager more difficult, especially when comparing funding possibilities. Debt management offices must therefore exercise prudence when contracting new loans.

### **Risk management**

In addition to evaluating the cost of borrowing, debt management strategies need to focus on the risks involved. Debt portfolios can include several types of risk including market risk (which arises because of volatility in foreign currency, interest movements or commodity prices) and refinancing risks (which refer to the likelihood and cost of accessing new funding as current debt matures). Certain transactions, such as the provision of government guarantees, on-lending and PPPs also carry significant risks, which may at any point in time, have an impact on the fiscal balance.

In addition to managing debt portfolios, debt management offices have also been concerned with the risks associated with contingent liabilities. The Public Sector Debt Statistics Guide<sup>19</sup> defines contingent liabilities as “obligations that arise from a particular discrete event(s) that may or may not occur.” It is customary to distinguish between explicit liabilities (i.e., those that are recognized by law or in a contract) and implicit liabilities (which may not be legally binding, but which would be recognized by a government on moral grounds or the high costs to its citizens). The fact that contingent liabilities are generally treated as “off balance sheet” means they cannot be readily identified or monitored in government finances unless specific reporting measures are put in place. However, the most important challenge is the uncertainty about the timing, magnitude, and fiscal risks that they pose.

Guarantees extended to public enterprises and subnational entities are a common source of explicit contingent liabilities, should the beneficiary default. Inaccurate assessment of the performance of state-owned enterprises and inadequate reporting of their debt have generated significant concerns about direct and, at times, hidden contingent liabilities for a government’s balance sheet. Another source of debt-related contingent liability is on-lending. Conceptually, governments on-lend to public sector entities because the sovereign is normally able to borrow at a lower cost and this savings can be passed on through on-lending. However, default by the beneficiary can result in the government having to service the debt.

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<sup>19</sup> The Public Sector Debt Statistics – Guide for Compilers and Users is available at <http://tffs.org/PSDStoc.htm>.

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Public-Private Partnerships are yet another potential source of contingent liability. PPPs are long-term contractual arrangements for the delivery of public services in sectors ranging from transport and energy to water and telecommunications. Such agreements can be very complex and necessitate specialized skills when being negotiated. PPPs typically include a risk-sharing mechanism between the government and the private partner, and a poorly structured agreement exposes the former to contingent liabilities. These often occur because of the incentives offered to attract the private investor, which can take the form of various government guarantees such as minimum revenue levels or exchange rate compensation agreements. It is therefore important to bring PPPs into the public debt and financial management frameworks so the fiscal risks that they pose can be adequately quantified and managed.

Many governments have also put in place policies and practical measures related to the granting of sovereign guarantees and on-lending operations including legislation to assess and monitor risks. It is also possible to mitigate the impact of such liabilities by setting up sinking funds that can be used to buffer the fiscal impact should a guarantee be called for or should the beneficiary of an on-lent loan default. The management, valuation, disclosure, and mitigation of contingent liabilities is still a work in progress in many countries. However, it is an area that governments need to pay attention to in order to gauge the long-term effects and possible impact on intergenerational equity.

### Overall public sector situation and trends in public debt management

The increase in the number of funding sources and types of borrowing instruments available depicted above (the “supply side”) has resulted in both opportunities and challenges for debt managers. Although countries have benefitted from wider access to funding, this has also made the task of debt managers more difficult in terms of choosing between alternatives and/or negotiating optimal terms. In the case of non-traditional creditors, the sometimes opaque terms provided and unconventional conditions attached to loan offers have made it difficult for debt managers to adequately compare actual costs and risks thereby compromising transparency. Also, growing numbers of non-traditional and plurilateral creditors could potentially complicate debt resolution exercises.

On the “demand side,” in addition to the need to finance the SDGs and key sectors, such as infrastructure, developing countries continue to be faced with sporadic external challenges, such as the global financial crisis of 2019 and the on-going COVID-19 pandemic, which have led to sudden increases in financing needs. The international financial community must therefore develop agile responses to these situations such as the Debt Service Suspension Initiative (DSSI) which, since its launch in May 2020, has delivered more than USD5.0 billion

in relief to more than 40 eligible countries.<sup>20</sup> More substantial debt relief may be required depending on the medium to long-term impact of the pandemic on the global and national economies.

### **Evolution of good practices in public debt management**

The way countries organize themselves to manage debt and the skills required to do so have also been adapted in response to the above-mentioned changes and to keep in line with good practice.

The governance architecture as well as the tools and frameworks used for public debt management have evolved in response to the above-mentioned changes as well as the evolution in good practice. The overall trend can be summarized as one of consolidation (of the legal framework but also of institutional arrangements). A more rigorous approach to the statistical measurement of debt and a standardization of tools for analysis and strategy determination can also be discerned.

To some extent, changes brought about in public debt management have been prompted by lessons learned from the successive debt crises of the last few decades. For example, the Mexican debt crisis of the early 1980s underlined the importance of having comprehensive data on the debt situation. In the following years, many countries set out to build more comprehensive debt databases with the support of technical assistance programmes. During the 1980s, several countries of the Organisation for Economic Co-operation and Development (OECD) initiated comprehensive reforms that have helped shape good practice in public debt management. The East Asian financial crisis of 1997-1998 prompted a re-assessment of the international financial architecture and by the early 2000s, several good practice documents were published to strengthen public debt management.

Two seminal publications on good practices in public debt management were published in 2003. The Guidelines for Public Debt Management,<sup>21</sup> published by the IMF and the World Bank (WB) after considerable consultation with debt practitioners from around the world, was the first attempt to bring together “a set of principles as well as guidance on institutional and operational arrangements of public debt management that would still be relevant to a wide range of countries, at various stages of development.”

The other publication, External Debt Guide for Compilers and Users, was published by the Task Force on Financial Statistics (TFFS),<sup>22</sup> which was set up in 1992 under the United

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<sup>20</sup> Over the April 2020 to January 2022 period, the IMF is expected to provide an estimated USD973 million debt service relief through grants to the 29 poorest countries under the Catastrophe Containment and Relief Trust (CCRT).

<sup>21</sup> The latest edition of the Guidelines for Public Debt Management is available at <https://www.imf.org/external/np/pp/eng/2014/040114.pdf>

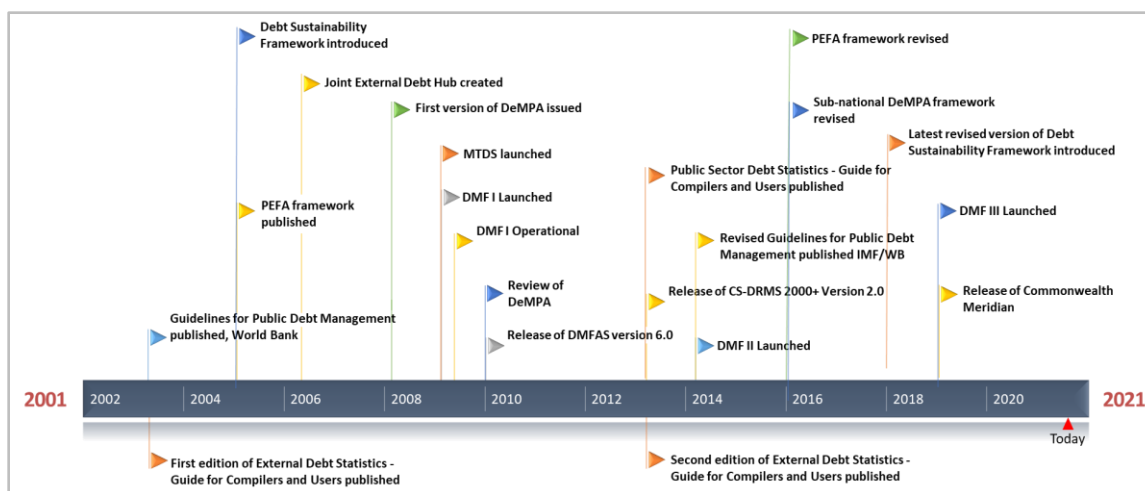
<sup>22</sup> The TFFS web site is at <http://tffs.org/>

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Nations Statistical Commission and Administrative Committee on Coordination—Sub Committee on Statistical Activities. The statistical methodology for public debt management was further strengthened with the publication of the Public Sector Debt Statistics Guide by the TFFS in 2013.<sup>23</sup> All three documents are updated from time to time.

The above documents have greatly contributed to improving the quality of debt statistics globally. Their methodologies have fed into the development of debt recording and management systems commonly used by countries (discussed below under international development cooperation) and other frameworks and tools for debt analysis have also been developed. These include the Debt Sustainability Tool<sup>24</sup> which is part of the Debt Sustainability Framework introduced by the IMF in 2005 and the Medium-Term Debt Strategy framework and Analytical Tool introduced in 2009. Figure 2 provides a timeline of selected developments in the field of public debt management over the last two decades.

**Figure 2. Selected developments in public debt management capacity-building 2001–2021<sup>25</sup>**



Source: The author.

The changes in the funding landscape, the increased focus on risk management and the evolution in good practice have greatly increased the scope of debt management and have

<sup>23</sup> The publication of the Public Sector Debt Statistics Guide was prompted by the international financial crisis of the late 2000s, which resulted in large levels of debt and fiscal deficits for many countries. This episode highlighted the need for comprehensive and timely statistics not only on general government debt but also on the public sector, in view of the impact on countries’ fiscal and in some cases, external sustainability.

<sup>24</sup> Two debt sustainability analysis tools are available: one for low-income countries (LICs) and one for market access countries (MACs).

<sup>25</sup> Major developments have also occurred prior to this period. For example, both UNCTAD and the Commonwealth Secretariat brought a major contribution to debt recording and management in the early 1980s as discussed below.

made it a more complex discipline. The attributions of the debt manager and the skills that are required are now vastly different from what they were at the turn of the millennium. For some developing countries this has posed a significant human resources challenge because required skills are not readily available and despite improvements, public sector salaries and employment conditions cannot match those of the private sector. There has also been a constant need for capacity building as discussed in the section below on Peer-to-peer learning and research.

### **Frameworks for assessing public debt management performance and the need for reforms**

Although it is possible to assess public debt management performance and devise effective reform plans by undertaking in-depth reviews of public debt management arrangements, the use of standardized assessment frameworks offers definite advantages including providing a standard approach and yardstick and the possibility of tracking progress over time.

There are two frameworks that are commonly used to assess the state of public financial management and public debt management. These are the Public Expenditure and Financial Accountability (PEFA) and the Debt Management Performance Assessment (DeMPA) frameworks.

Initiated in 2001, PEFA<sup>26</sup> is a widely used methodology “to measure and monitor performance against a set of indicators across the range of important public financial management institutions, systems, and processes.”<sup>27</sup> The latest version of the framework (2016) is based on seven pillars broken down into 31 indicators and 94 dimensions. The seven PEFA pillars are:

- Budget reliability
- Transparency of public finances
- Management of assets and liabilities
- Policy-based fiscal strategy and budgeting
- Predictability and control in budget execution
- Accounting and reporting
- External scrutiny and audit

Debt management is assessed under Pillar 3, Management of assets and liabilities and indicator 13 which considers three important aspects:

- 13.1 Recording and reporting of debt and guarantees;
- 13.2 Approval of debt and guarantees; and

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<sup>26</sup> <https://www.pefa.org/>.

<sup>27</sup> Framework for Assessing Public Financial Management, PEFA Secretariat, (2019).

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- 13.3 Debt management strategy.

PEFA is particularly useful as it assesses debt management in the context of a country’s public financial management. However, the focus on broader analysis of public financial management systems does not allow it to delve deeper into all aspects of debt management capacity. A more detailed assessment of debt management operations and capacity can be obtained by using DeMPA.

The DeMPA, which was developed in 2007, focuses in more detail on a government’s debt management capacity and institutions using 14 Debt Performance Indicators (DPIs). These are listed in Table 1 below and encompass the overall legal and institutional environment within which debt management takes place as well as the related operations. The two frameworks can also be used at the sub-national level, such as at the state or provincial level.

**Table 1. DeMPA debt performance indicators**

DPI-1	Legal Framework	DPI-8	Domestic Borrowing
DPI-2	Managerial Structure	DPI-9	External Borrowing
DPI-3	Debt Management Strategy	DPI-10	Loan Guarantees, On-Lending and Derivatives
DPI-4	Debt Reporting and Evaluation	DPI-11	Cash Flow Forecasting and Cash Balance Management
DPI-5	Audit	DPI-12	Debt Administration and Data Security
DPI-6	Coordination with Fiscal Policy	DPI-13	Segregation of Duties, Staff Capacity and Business Continuity
DPI-7	Coordination with Monetary Policy	DPI-14	Debt and Debt-Related Records

Source: Debt Management Performance Assessment Framework Methodology.<sup>28</sup>

Both the PEFA and DeMPA frameworks complement each other. Since its launch, some 141 national and subnational governments have used the DeMPA framework for assessments.<sup>29</sup> While the DeMPA does not specify recommendations on reforms and/or capacity and institution building, the performance indicators do stipulate the minimum level that should be met. DeMPA assessments are very often followed up by reform plans to address weaknesses

<sup>28</sup> Debt Management Performance Assessment Framework Methodology, World Bank (2015) available at <https://documents1.worldbank.org/curated/en/305821468190742099/pdf/96671-WP-DEMPA-2015-Box391446B-PUBLIC.pdf>

<sup>29</sup> Debt Management Facility, 10-Year Retrospective, World Bank, 2020 available at <https://documents1.worldbank.org/curated/en/387981607701888048/pdf/Debt-Management-Facility-10-Year-Retrospective-2008-2018.pdf>

that have been identified. There is evidence that DeMPA assessments and associated reform plans have, overall, improved debt management over time, although there are differences among countries and DPIs.<sup>30</sup>

## Methods of implementation

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Effective public debt management consists of several components including the promulgation of an adequate legal framework; developing clear debt management objectives; putting in place suitable institutional and regulatory arrangements; setting up and maintaining accurate debt databases to support analysis and decision making; installing software tools to assist with the administration and analysis of debt portfolios; disseminating debt statistics as part of efforts to improve public debt transparency; having a team of competent and suitably trained debt managers in place; and last but not least, designing debt management strategies to guide borrowing activities in the medium term.

### Legal framework

Historically, debt-related legislation has tended to be fragmented with different categories of debt subject to different laws. There has been a trend towards consolidating relevant legislation into either public financial management law or specific public debt management law. There are pros and cons to each approach, but both are equally effective in ensuring that debt-related matters are addressed in a holistic manner.<sup>31</sup>

Of prime importance is the need to clearly define (a) the broad objectives of public debt management; (b) the roles and responsibilities of the key institutions and officials involved in public debt management, including those of the minister of finance; (c) reporting requirements, for example between the minister of finance and the legislature but also the delegation of powers from the minister to the head of the debt management entity; and (d) the decision-making framework, including the existence of debt management coordination committees.

Primary legislation needs to be supported by strong secondary legislation. It is also useful to develop policy documents and guidelines to regulate specific debt-related activities, such as the contraction of new borrowing, the granting of government guarantees, and on-lending

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<sup>30</sup> Evidence of impact is described in the document referred to in footnote 33.

<sup>31</sup> For a discussion on the attributes of what a sound legal framework for public debt management should entail, please see: Awadzi, A. E. (2015) “Designing Legal Frameworks for Public Debt Management,” IMF Working Paper 15/147, available at <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Designing-Legal-Frameworks-for-Public-Debt-Management-43045> and Roy, A. and M. Williams (2013) “Government Debt Management: A Guidance Note on the Legal Framework,” Commonwealth Secretariat.



operations. Increasingly, countries are also enacting fiscal responsibility legislation that can further solidify the accountability framework for debt and fiscal management.

### Institutional and regulatory framework

Having a sound institutional framework for debt management is paramount. This not only comprises the role of relevant institutions but also policies, systems, and processes to legislate, plan, manage and coordinate debt and other related activities to fulfil agreed mandates effectively. On the institutional front, there has been a trend to consolidate debt management functions within a main institution as hitherto these tended to be scattered among various government ministries and departments. In practice, this move has resulted in the elevation of debt management units to the level of divisions, departments, or directorates, or the setting up of debt management offices within a country's ministry of finance or as independent entities. This has resulted in better coordination among key stakeholders involved in public debt management. However, it is acknowledged that there is no "one size fits all" when it comes to the institutional setup for public debt management, and some countries still operate a decentralized model successfully. There are also many nuances in the way debt management entities are organized.<sup>32</sup>

Many countries have opted for a three-tier configuration (front, middle and back office) for their debt management entities along the lines implemented by financial institutions.

- **Front offices** are tasked with the formulation and implementation of the government's borrowing plan and the sourcing, evaluation, and negotiation of new borrowing. As countries diversify their funding sources and tap into domestic and external capital markets, investor relations have also become an important front office function.
- **Middle office** functions revolve around developing debt strategies, monitoring and analysis to support decision-making in the front office. A core middle office function is the elaboration and monitoring of the debt management strategy. Middle offices are also often tasked with undertaking risk-based analysis in such areas as the granting of government guarantees and risks arising from PPPs. They are also usually responsible for producing analytical reports to comply with statutory and other reporting requirements.
- **Back offices** deal with the maintenance of debt databases to support public debt management functions and the administration of the debt portfolio in terms of reconciling, processing, and settling debt service. Ensuring data quality over time

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<sup>32</sup> See Wheeler, G. (2004) "Sound Practice in Government Debt Management," World Bank, for a discussion of the various institutional settings for debt management (Chapter 3).

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requires sustained effort and the implementation of regular validation exercises. Comprehensive, accurate and timely information of the levels and composition of debt and guarantees is a pre-condition to designing effective macroeconomic and financial policies.<sup>33</sup>

Besides debt management offices, other agencies are likely to participate in debt management activities such as a country's central bank, which often acts as the government's fiscal agent in line with an agency agreement signed with the ministry of finance. The key consideration regarding the institutional and regulatory framework surrounding debt management is that the roles and mandates of the respective players should be clear and that there is effective coordination and sharing of information.

### Achieving transparency in debt management

Transparency in debt reporting and management has become a major preoccupation for debt management offices (as well as lenders) over the past few years. The availability of comprehensive, accurate and timely debt statistics is crucial not only to debt managers and decision makers so that they can take informed decisions on debt management strategies but also to numerous other domestic stakeholders including the legislature (and public accounts committees and similar bodies); national audit institutions; ombudspersons; civil society; academia; and the media, among others, which provide oversight and promote financial accountability and transparency.

The creditor community and investors also need information on a country's debt to make lending decisions. The availability of reliable debt statistics is a pre-condition to debt transparency, but debt management offices also need to engage in active dissemination, whether through the publication of regular debt bulletins and reports and/or subscribing to debt data dissemination standards and reporting frameworks. Such reporting standards include the World Bank's Debtor Reporting System; the IMF's Special Data Dissemination Standards or Enhanced General Data Dissemination System. Certain stakeholders can also be targeted, for instance by setting up Investor Relations units to cater to investors in government securities.

### Debt recording and management systems

To be able to fulfil their functions, debt management offices need to put in place a robust computerised debt recording and management system (DRMS) to record, analyse and report

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<sup>33</sup> The Data Quality Assessment Framework (DQAF) is a general methodology to assess data quality and its various dimensions developed by the IMF. The application of DQAF to external debt is available at [https://dsbb.imf.org/content/pdfs/DQAF\\_EXD\\_Statistics.pdf](https://dsbb.imf.org/content/pdfs/DQAF_EXD_Statistics.pdf)

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on debt portfolios. The DRMS is considered as “the backbone of any debt management office and an indispensable tool for effective debt management.”<sup>34</sup>

A debt portfolio’s coverage and quality are also crucial considerations. In terms of coverage, besides central government debt, it is recommended that countries record public and publicly guaranteed debt in view of the fiscal risks that are involved. Data quality is multidimensional and covers the methodological soundness, accuracy, timeliness, and consistency of the debt statistics produced.

Many developing and emerging countries have opted for off-the-shelf software such as the ones discussed below in the section on Peer-to-peer learning and research, although developed countries have tended to design custom applications or procured treasury management systems. There are also analytical tools that are available to conduct debt sustainability analysis and cost-risk evaluations.

DRMS tended to be used as “statistical systems,” that is, their main function was to record details of borrowing instruments and related actual transactions and produce reports. They did not comprise any functionality to allow debt managers to track and administer disbursements and payments. This situation has now changed, and newer DRMS allow for “straight through processing” such as, the management of the entire loan cycle through the implementation of internal approval procedures, the generation of payment advice, or the real-time monitoring of the debt portfolio.

The usefulness of DRMS can be expanded by developing links to other systems such as Integrated Financial Management Information Systems (IFMIS), Payment Systems and Treasury Management Systems to ensure that the debt situation is reflected in the government accounts. Linking DRMS to auctioning systems used for the issuance of government securities can facilitate the electronic recording of domestic debt.

### Debt management policy

Borrowing decisions should be guided by a debt management policy. In practice these strategies have a three- to five-year horizon but are updated annually. The main purpose of a debt management strategy is to help countries make informed decisions on how to finance borrowing requirements, bearing in mind the trade-off that exists between the costs and the risks of borrowing. In addition to ensuring coordination with other macroeconomic policies

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<sup>34</sup> For a discussion of DRMS, see Aslan, C., A. Ajazaj and S. A. Wahidh (2018) “Study on Public Debt Management Systems and Results of a Survey on Solutions Used by Debt Management Solutions,” WB Policy Research Working Paper 8544. The document is available at <https://documents1.worldbank.org/curated/en/629151533732435143/pdf/WPS8544.pdf>

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and objectives, a debt management strategy helps identify risks and develop mitigating measures. It also promotes transparency and accountability as it is an official policy document that is usually approved by the government, submitted to the legislature, and published.

In 2019, the IMF and World Bank introduced a comprehensive framework that countries can use to develop effective debt management strategies for the medium term. The framework, which is referred to as the MTDS consists of eight steps and is summarized in Box 1 below.

**Box 1. The eight steps of the MTDS Framework**

1. Identify the objectives for public debt management and scope of the debt management strategy.
2. Identify the current debt management strategy and analyse the costs and risks of existing debt.
3. Identify and analyse potential funding sources, including their cost and risk characteristics.
4. Identify baseline projections and risks in key policy areas—fiscal, monetary, external, and market.
5. Review key longer-term structural factors.
6. Assess and rank alternative strategies on the basis of the cost-risk trade-off.
7. Review implications of candidate debt management strategies with fiscal and monetary policy authorities, and for market conditions.
8. Submit and secure agreement at high levels on the debt management strategy.

Source: MTDS Guidance Notes.<sup>1</sup>

The MTDS is backed up by a comprehensive capacity building effort through the Debt Management Facility (DMF) which is discussed in the section on international development cooperation. An important aspect of public debt management is the assessment of any cost/risk trade-offs associated with the existing debt portfolio and the impact of new borrowings. Countries are typically confronted with different types of risks, the main ones being:

- Market risk: which can be caused by adverse movements in exchange rates or floating interest rates;
- Refinancing risk: the extent to which the portfolio is exposed to high interest rates if particular instruments are rolled over; and
- Credit risk: the risk of non-performance by a counterparty on financial contracts or in relation to the granting of government guarantees and on-lending.

Other risks to the public debt portfolio as articulated by the IMF's Guidelines for public debt management include:

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- Settlement risk: the potential loss that the government, as a counterparty, could suffer as a result of failure to settle, for any reason other than default, by another counterparty;
- Operational risk: a range of different types of risks, including transaction errors in the various stages of executing and recording transactions; inadequacies or failures in internal controls, or in systems and services; reputation risk; legal risk; security breaches; or natural disasters that affect business activity; and
- Liquidity risk: the cost or penalty investors face in trying to exit a position when the number of transactors has markedly decreased or because of the lack of depth of a particular market; or a situation where the volume of liquid assets can diminish quickly in the face of unanticipated cash flow obligations and/or possible difficulty in raising cash through borrowing in a short period of time.

The ability to mitigate market risks will depend on a country's level of development and access to financial markets and risk management products. An appropriate risk management framework should be developed to facilitate the identification and management of trade-offs between expected costs and risks in the public debt portfolio.

Current approaches provide the basic building blocks that are required for sound public debt management. However, a more integrated approach would certainly strengthen public debt management. This would include extending coverage to public sector debt and factoring in contingent liabilities. In time, and as countries develop more expertise in terms of risk management, an asset-liability management framework could be implemented, as has been done in several countries.

The case study summarizes how public debt management has evolved in Kenya and illustrates many of the points mentioned in this note.

## Case study

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### Public debt management in Kenya

Kenya's efforts to improve its public debt management capacity spans several decades and are good illustrations of the trends described in this note.

Like many countries, Kenya's initial efforts focused on strengthening its debt recording capacity. In the early 1980s the Ministry of Finance developed an in-house computerized external debt reporting system which allowed the production of basic debt statistics to support debt portfolio reviews and analysis. Subsequently, Kenya became one of the first countries to adopt the CS-DRMS soon after its release in 1985. In 2020, the country adopted

Commonwealth Meridian, the successor to CS-DRMS, thus modernizing its debt recording and analytical capability.

The introduction of a new constitution in 2010 set the foundation for the modernization of laws pertaining to public financial and debt management. Articles 211 and 214 of the Kenyan constitution consider borrowing by the national government, the granting of government guarantees and public debt, respectively. To modernize the legal framework for public debt management, a Public Finance Management Act (PFMA) was introduced in 2012. Besides consolidating the provisions of various debt-management related laws, the PFMA also established a Public Debt Management Office (PDMO) within the National Treasury, which was created in 2015. In line with good practice, it comprises three departments: the Resource Mobilization Department, which acts as a front office; the Debt Policy, Strategy and Risk Management Department, which fulfils the role of the middle office; and the Debt Recording and Settlement Department, which acts as the back office. In 2015, the Ministry of Finance signed a Fiscal Agency Agreement with the Central Bank of Kenya to provide a framework defining the roles and responsibilities of the latter in debt management.

On the policy front, Kenya has published several public debt management-related policies and guidelines including a Fiscal Commitment and Contingent Liability management policy (2016); and a 7-point domestic market agenda to guide the development of the domestic market for government securities (2016). More recently, in February 2020, the PDMO formulated a Public Debt and Borrowing Policy, which aims to “act as a guide for public debt and borrowing practices of the National and County Governments including the issuance process, management of the debt Portfolio and adherence to various laws and regulations governing debt management and contracting.”

The policy is also expected to contribute to an “improvement in the quality of decisions, better articulation of policy goals, clearer guidelines for the structure of debt issuance, and a demonstration of commitment to long-term capital and financial planning.” Public debt management objectives are defined as follows:

- Ensure government financing needs and payment obligations will be contracted at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. The structure of public debt will mitigate/balance the costs and risks including refinancing risk, foreign exchange risks, size of the economy, public revenues, debt liabilities, currency vis-a-vis revenue currency, etc.
- Ensure public debt remains sustainable and that it does not place unbearable burdens on the current or future generations. In this regard, management of public debt will seek to safeguard the national government’s ability to service debt without compromising the fiscal capability to fund the provision of public services and developmental projects;

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- Ensure regional equity in the distribution of benefits and costs arising from debt-funded projects; and
- Promote the development of the domestic debt market for government debt securities.

Reference to intergenerational equity (objective 2) and regional equity (objective 3) sets the stage for ensuring the contribution of public debt management to longer-term social and economic goals as discussed in this note.

Kenya has embraced best practice in various other aspects of public financial management and public debt management. It regularly conducts debt sustainability analyses and has been producing annual debt management strategies based on the MTDS framework since 2009. The PDMO also produces regularly monthly, quarterly, and annual debt reports and is a subscriber to the IMF's e-GDDS data dissemination initiative.

Kenya's debt composition also reflects some of the trends described in this note. The share of domestic debt in total debt has been stable over the last few years but the maturity of domestic bonds has increased. In 2011, a 30-year Government of Kenya Savings Development Bond was issued. In 2017, Kenya issued its debut M-Akiba domestic retail bond and is currently setting up an automated primary issuance and electronic trading platform for government securities by the central bank.

On the external debt front, Kenya has seen a change in funding sources with a decrease in multilateral lending and an increase in bilateral debt. China is now Kenya's second largest creditor after the International Development Association. In 2014, the country successfully issued its debut sovereign bond for USD2 billion in the international markets. Kenya has since accessed the international financial markets three times (in 2018, 2019 and 2021). Given its increasing reliance on the international financial markets, the PDMO has set up an Investor Relations Unit to better engage with investors and provide information required to invest in Kenyan bonds.

Capacity building is a continuous process and Kenya is implementing additional reforms to further strengthen certain aspects of public debt management and build staff knowledge and skills. Based on the country's excellent track record, there is little doubt that debt management capacity will continue to improve in the years to come. The National Treasury website (<https://www.treasury.go.ke/>) provides access to the various reports mentioned above.

## Peer-to-peer learning and research

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The activities of the DMF, discussed in the previous section, include three peer-to-peer learning products:

- **The Debt Management Practitioners’ Program**, which offers the opportunity for government officials to be attached to the World Bank for three months and work alongside World Bank staff;
- **The DMF Stakeholders’ Forum**, which brings together a wide range of stakeholders to discuss strategies, and share experiences; and
- **The Debt Managers’ Network**, which contributes to the exchange of information and experience through the holding of webinars on various aspects of public debt management.

Other examples of peer-to-peer and research networks include:

**The Public Debt Management Network**,<sup>35</sup> which aims to build, share, and develop knowledge in public debt management. The network is an initiative promoted by the OECD, the World Bank, and the Italian Treasury. Its website is a topical and rich repository of papers and articles on the subject. In 2019, the network organized its first Public Debt Management Network Conference, which brought together practitioners and academics to share ideas and experiences for the improvement of the discipline.

**The Collaborative Africa Budget Reform Initiative (CABRI)**,<sup>36</sup> an intergovernmental organization that provides “a platform for peer learning and exchange for African ministries of finance, budget, and planning.” CABRI organizes regular peer learning and exchange events in various aspects of public debt management including debt capital markets and cash management. In 2019 CABRI also set up the Africa Debt Monitor platform,<sup>37</sup> which provides statistics on the central government debt of 23 African countries as well as information on their debt management policies, practices, and institutional arrangements.

## International development cooperation

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Over the years, public debt management has benefitted from a consequent amount of technical assistance, both from multilateral and bilateral sources. Some degree of specialization among technical assistance providers can be noted, as well as evidence of collaboration. This is a positive factor as it prevents duplication of efforts and the waste of scarce resources. It is also in line with the aspirations of the 2030 Agenda regarding capacity building (Goal 17 – target 17.9).

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<sup>35</sup> <http://www.publicdebtnet.org/pdm/home/>

<sup>36</sup> <https://www.cabri-sbo.org/en/>

<sup>37</sup> <https://www.cabri-sbo.org/en/budgets-in-africa/africa-debt-monitor>



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The two longest-standing capacity-building programmes in public debt management, offered by UNCTAD and the Commonwealth Secretariat, focus on the provision of debt recording and management systems and related support. Both programmes date back to the early 1980s and were initiated in the aftermath of the Mexican debt crisis at a time when countries had very poor debt records.

The United Nations has been a pioneer in supporting countries to manage their debt effectively. UNCTAD was the first multilateral agency to release its Debt Management and Financial Analysis System (DMFAS) in 1981. The software assists in the recording and analysis of external and domestic debt and the production of debt statistics both for analysis and debt data dissemination. It is actively used by 84 institutions in 58 countries from low- to high-income countries and including small island developing states and HIPCs. The current version of DMFAS (version 6.0) is available in five languages to all United Nations members. Over USD1 trillion of countries' public and publicly guaranteed external debt is managed using the DMFAS software.<sup>38</sup>

In addition to the provision of DMFAS, the programme also helps build the capacity of debt management offices by providing training in the use of the software and assistance in debt data validation, the production of debt data statistics and debt portfolio analysis. Other public debt management-related advisory services are also available.<sup>39</sup>

The other pioneer institution in public debt management capacity building is the Commonwealth Secretariat (ComSec) whose advisory programme also dates from the early 1980s. Its programme of assistance is mainly targeted to Commonwealth member states although a distributor has been appointed to implement ComSec's Debt Management Solutions (DMS) in non-Commonwealth countries.<sup>40</sup> DMS is a set of software tools that include Commonwealth Meridian, a debt recording and management application; the Securities Auctioning System, which helps countries manage the issuance of government securities; and Horizon, a cost/risk analytical tool.

Commonwealth Meridian, released in 2019 and available in English and French, has been developed in response to the significant transformation that both public debt management and technology have undergone in recent years. It incorporates advanced and improved functionalities to address emerging debt management requirements and takes advantage of the latest state-of-the-art technologies to cater to user needs. The software is in the process of replacing the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS), which has been in use since 1983. To date, 16 of the 57 countries and sub-national

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<sup>38</sup> Source: World Bank International Debt Statistics.

<sup>39</sup> More information on DMFAS can be obtained at <https://unctad.org/dmfas/>.

<sup>40</sup> Development Finance International (DFI) (<https://www.development-finance.org/>).

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governments that use CS-DRMS have migrated to Commonwealth Meridian, with several others in the pipeline for implementation.

ComSec's software tools are supplemented by a comprehensive advisory and capacity building programme to support member countries' efforts to effectively manage their debt portfolios and achieve debt transparency. ComSec's Debt Management Unit offers a suite of advisory services and capacity building initiatives that include training and e-learning in the use of Commonwealth Meridian as well as support to produce procedures manuals and debt bulletins. Advisory support is also available in areas such as debt strategy development and implementation, legal and institutional framework for debt management and associated reforms, domestic market development and contingent liability management.<sup>41</sup>

A good example of inter-institutional collaboration is the joint development by UNCTAD's DMFAS group and ComSec of the Debt Data Quality Assessment Framework (Debt DQA), a computerized tool that can help countries assess and identify data errors and information gaps in their debt databases.

The largest public debt management capacity-building programme currently in operation is the DMF. Set up in 2008, the DMF is a multi-donor trust fund<sup>42</sup> administered jointly by the World Bank and the IMF. The Facility, which is now in its third phase, aims to “strengthen debt management to reduce debt-related vulnerabilities and improve debt transparency.”<sup>43</sup> So far, some 84 countries have benefited from DMF assistance, of which 85 percent are low and lower-middle income countries, 46 percent are HIPCs and 48 percent are from the sub-Saharan region.<sup>44</sup>

DMF capacity-building activities are delivered through three mechanisms: advisory services, training, and peer-to-peer activities.

Advisory services cover a wide range of topics in public debt management, but the three main areas of activities are undertaking DeMPAs, designing reform plans to address weaknesses, and assisting with the design and implementation of medium-term debt strategies, as described above in the section on Public sector situation and trends and the section on Methods of implementation. DMF also provides training in the use of the Debt Sustainability Framework

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<sup>41</sup> More information on ComSec's debt management programme can be obtained at <https://thecommonwealth.org/public-debt-management-programme>.

<sup>42</sup> Contributors to the DMF are the African Development Bank, the European Union and the governments of Austria, France, Germany, Japan, Netherlands, Norway, Switzerland, United Kingdom and United States.

<sup>43</sup> From the DMF website at <https://www.worldbank.org/en/topic/debt/brief/debt-management-facility>.

<sup>44</sup> Debt Management Facility, 10-Year Retrospective, World Bank, 2020 available at <https://documents1.worldbank.org/curated/en/387981607701888048/pdf/Debt-Management-Facility-10-Year-Retrospective-2008-2018.pdf>.

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for Low Income Countries (LIC DSF) and the MTDS Analytical tool. Training is provided face-to-face as well as online.

DMF activities are delivered by both World Bank and IMF staff and consultants in collaboration with several implementing partners that include the Commonwealth Secretariat, DFI, the Macro Economic and Financial Management Institute, Union Monétaire Ouest-Africaine Titres, UNCTAD's DMFAS Programme and the West African Institute for Financial and Economic Management. This unique collaborative partnership ensures effective coordination among technical assistance providers.

Within the World Bank, the Treasury Department implements the Government Debt and Risk Management (GDRM) program. Funded by the Swiss State Secretariat for Economic Affairs (SECO), the GDRM is targeted to middle income countries and focuses on institutional strengthening and technical capacity development in areas such as the development and implementation of debt management strategies, asset and liability management, and the management of contingent liabilities.

The IMF also provides hands-on advice, training, and peer-to-peer learning opportunities in public debt management to member countries. Its capacity development initiatives, including advisory services and training, are delivered through a global network of 17 regional capacity development centres. Training is also delivered either face-to-face or online through Massive Open Online Courses platforms such as edX.org.

At the regional level, regional development banks contribute to improving debt management by funding reform programmes in respective regional member countries. There are also several other regional organizations that are involved in public debt management capacity building including the West African Institute for Economic and Monetary Management<sup>45</sup> and the Macro Economic and Financial Management Institute which covers Eastern and Southern Africa.<sup>46</sup> These institutions provide both face-to-face and online training.

Bilateral funding is also important for financing reform projects. Such funding is provided either through trust funds like the DMF, international and/or regional organizations as described above, and through direct assistance to countries. An example of direct bilateral assistance is the Government Debt and Infrastructure Finance Programme delivered by the Office of Technical Assistance of the United States Treasury.<sup>47</sup> The Programme focuses on the development of domestic debt markets including the legal and regulatory framework, institutional and staff capacity, financing instruments, and issuance and settlement, among

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<sup>45</sup> West African Institute for Economic and Monetary Management: <http://waifem-cbp.org/>.

<sup>46</sup> Macro Economic and Financial Management Institute: <https://mefmi.org/>.

<sup>47</sup> The Government Debt and Infrastructure Finance Programme: <https://www.treasury.gov/about/organizational-structure/offices/Pages/OTA-government-debt.aspx>.

others, and is implemented through the placement of long- and short-term advisers. Bilateral creditors also fund specific public debt management country projects.

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