Government Debt and Risk Management Program (GDRM)

Assisting middle-income countries in managing their debt and improving their financial resilience

Country/region
Global

Executing agency
World Bank Group

Duration
2018–2021 (Phase II)

Total budget
CHF 6'400'000

SECO contribution
CHF 6'400'000

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In an increasingly interconnected world, strong and resilient national institutions are essential for a country to weather international crisis and volatilities. In this context, effective public debt management can be a key instrument for countries to reinforce their financial stability and fiscal policy. The GDRM Program supports SECO partner countries with expert advice on how to improve the quality of their debt and risk portfolios, including institutional strengthening and technical capacity development.

Rationale

Government debt is often the largest debt portfolio in a country. Poorly structured portfolios, in terms of maturity, currency or interest rate composition, have been important factors in inducing or propagating economic crisis. Middle-income countries (MICs), which are home to 75% of the world's poor, face a unique set of fiscal challenges: governments must finance the budget at the lowest possible cost, develop the domestic market, borrow internationally, and build capacity to handle more complex financial instruments, often with limited human and technical resources.

Therefore, MICs increasingly request assistance to improve the quality of their debt management and to better manage risks to which their budgets and balance sheets are vulnerable. This requires improving the analysis underpinning debt management strategies, increasing efficiency, reducing operational risk, and accessing a broader range of financial instruments and markets to reduce cost and improve risk management.

Objectives and scope

The GDRM, funded by SECO, was established in 2011 to provide support to MICs on public debt and risk management. The development objectives of the program are to improve macroeconomic and fiscal management and reduce vulnerability to financial shocks through (i) strengthened public debt and risk management capacity and institutions and (ii) deeper domestic debt markets. The target countries are Albania, Azerbaijan, Colombia, Egypt, Ghana, Indonesia, Morocco, North Macedonia, Peru, Serbia, South Africa, Tunisia, Ukraine and Vietnam. Some of the countries joined the program as recently as 2017/2018 (Albania, Morocco and Ukraine).

Results so far

- An external evaluation of the program's first phase (2012-2017) has concluded that the program is highly relevant for the group of selected SECO priority countries because (a) it adapts to needs and priorities of these countries and (b) very little assistance is available to MICs in the area.
- According to the evaluation, the program has been effective in contributing to the development of models and tools to enable partner countries to enhance the quality of their debt management strategies, to move to the integration of debt and cash management, to begin to measure and monitor the risks of contingent liabilities, and to enhance domestic financing activities including publishing annual borrowing plans and auction calendars. The capacity of the staff in the partner countries has increased at the technical level.
- 7 countries show improved ability to achieve the desired level of risk at an acceptable cost by the drafting, and/or approval and/or publication of revised debt management strategies.
- 4 countries have already implemented their debt management strategies, 3 more achieved partial implementation.
- 4 countries with improved transparency and accountability through production and publication of public debt management information describing the debt portfolio in terms of cost and risk.
- 3 countries with new/improved debt management laws or secondary legislation.
- In its second phase, the program has further deepened its impact. For example, in Colombia and Peru, a more efficient organisation of the domestic debt market allows authorities to issue faster and at lower cost. South Africa has significantly improved its practice of providing guarantees to its state-owned enterprises, which in turn strengthens the country's credit rating. North Macedonia has updated its public debt management law, including significant improvements such as a requirement for credit risk analysis before the issuance of government guarantees, enhanced transparency, and clearer separation of fiscal and debt management policies. The below link to the website provides further GDRM impact stories.

Outlook

Implementation of Phase II of the GDRM Program started in January 2018. The objectives for this second phase are to further deepen the progress achieved under phase I and ensure their sustainability. This includes the following outcomes:

- GDRM Program countries implemented debt management strategies enabling them to achieve the desired level of risk at an acceptable cost;
- Internal processes, systems, and staff expertise are developed in a way that allows for an efficient management of public debt and related risks;
- Efficient coordination between debt management, fiscal policy, budget processes, cash management and monetary policy is achieved;
- Domestic borrowing programs were executed, supporting the develop local debt markets;
- Risks stemming from contingent liabilities are quantified and managed.

Website: https://www.worldbank.org/en/topic/debt/brief/government-debt-and-risk-management-program
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