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Debt records and operational risk – support available from international organizations

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

DEBT RECORDS AND OPERATIONAL RISK MANAGEMENT (ORM):

Support available from international organizations

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15 November 2017, Geneva, Switzerland

Outline

- Profile of MEFMI
- Achievements and challenges in public debt management in the MEFMI region
- Status of debt records and ORM
- Key issues in ORM in general
- Interventions by service providers
- Conclusion and way forward

Profile of MEFMI

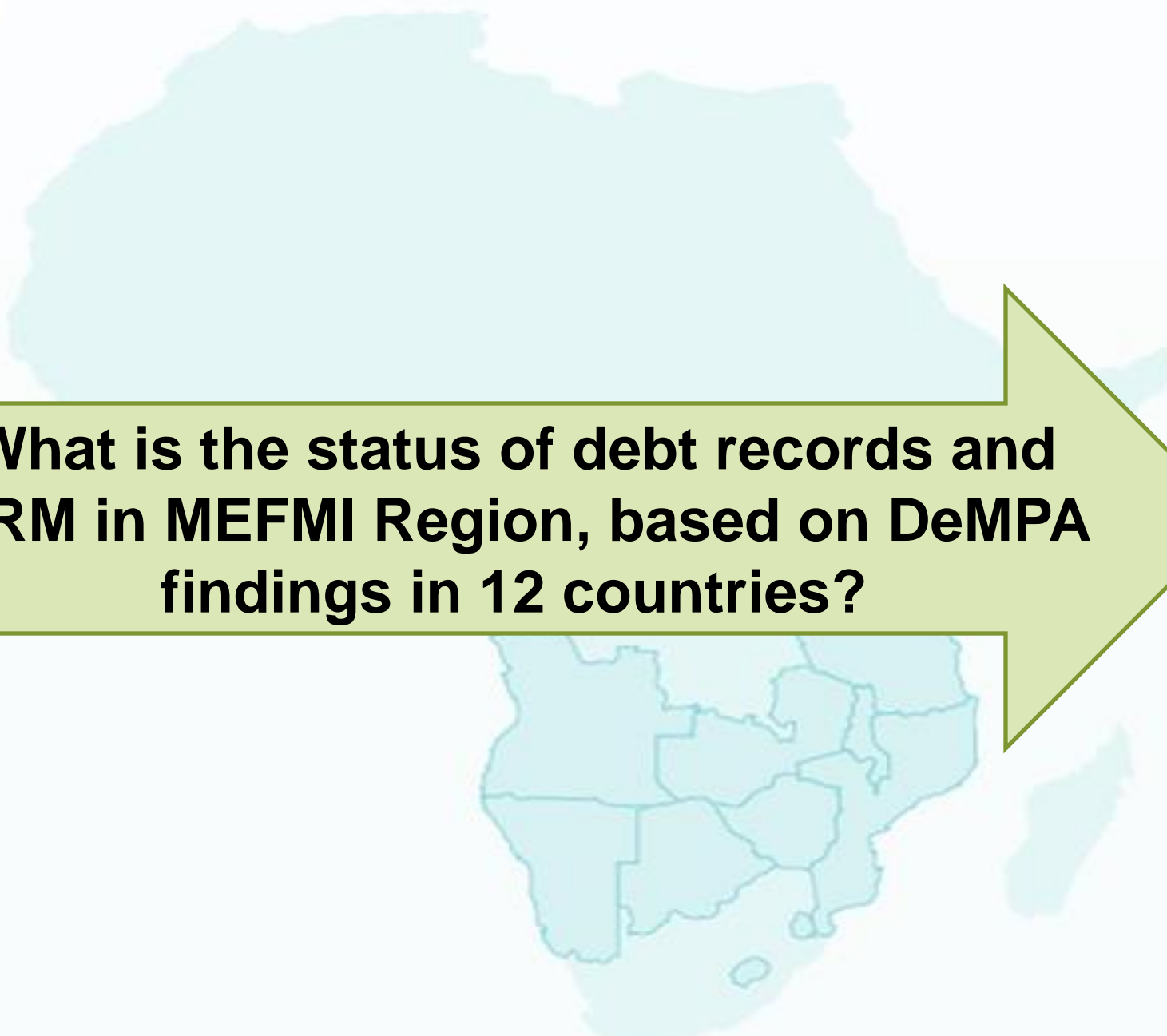
- MEFMI is a regional capacity building organisation with 14 member countries: Angola, Botswana, Burundi, Kenya, Lesotho, Malawi, Mozambique, Namibia, Tanzania, Rwanda, Swaziland, Uganda, Zambia, and Zimbabwe.
- It was founded in 1994 as the Southern Africa Initiative in Debt and Reserves Management (ESAIDARM) to address entrenched capacity gaps in sovereign debt and reserves management.
- The mandate of ESAIDARM was broadened in 1997 to cover macroeconomic and financial management and the organisation was renamed MEFMI.

Significant progress has been made....

- Debt management capacity has improved significantly over the past two (2) decades, especially post HIPC
- Notable achievements are:
 - Computerisation of debt records with support from UNCTAD/DMFAS and Commonwealth Secretariat;
 - Establishment of debt management offices which consolidate the functions that were previously scattered;
 - Adoption of medium term debt management strategies
 - Improved analytical capacity in debt sustainability analysis;
 - Attempts to develop domestic debt markets

However, challenges remain in some areas...

- Legal and institutional framework
- Public debt audit
- External borrowing procedures and processes
- Loan Guarantees, On-lending, and Derivatives
- Debt recording and Operational Risk Management
 - Debt Administration and Data Security
 - Segregation of Duties, Staff Capacity, and Business Continuity
 - Debt and Debt-Related Records

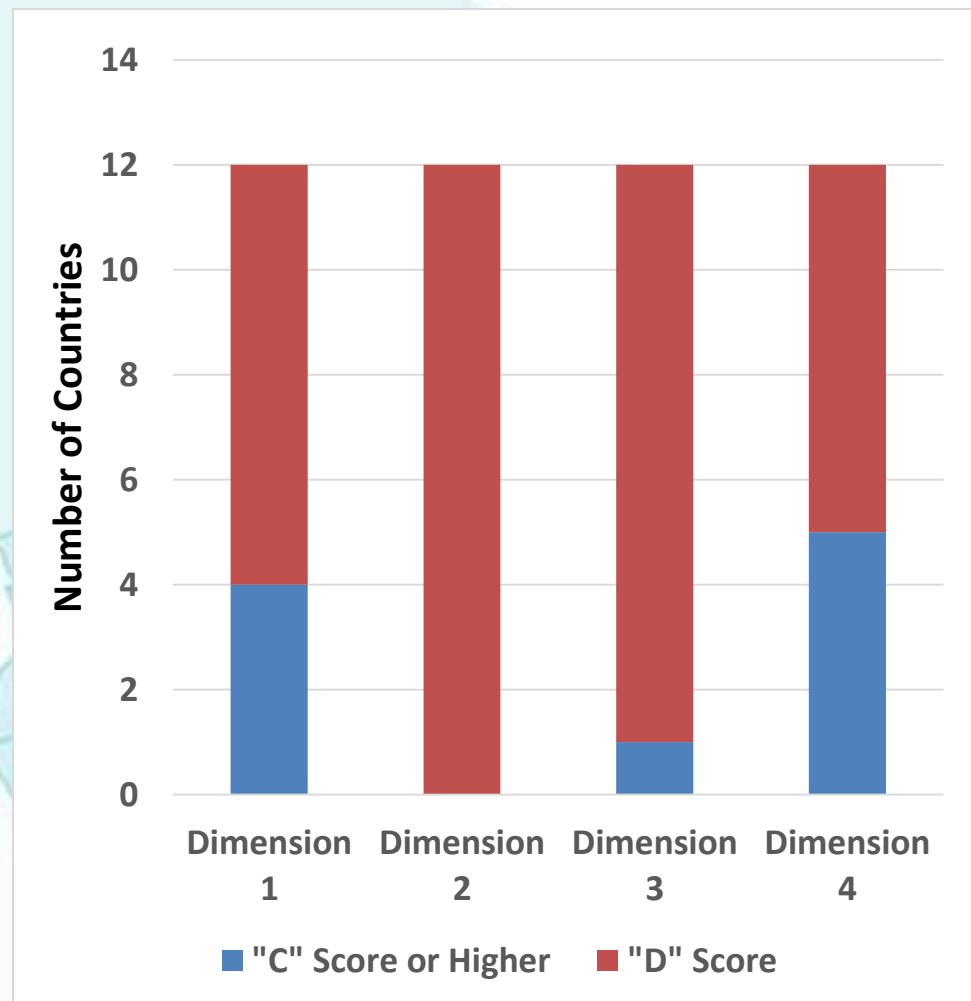


What is the status of debt records and ORM in MEFMI Region, based on DeMPA findings in 12 countries?

Debt Administration and Data Security (DPI-12)

Procedures for

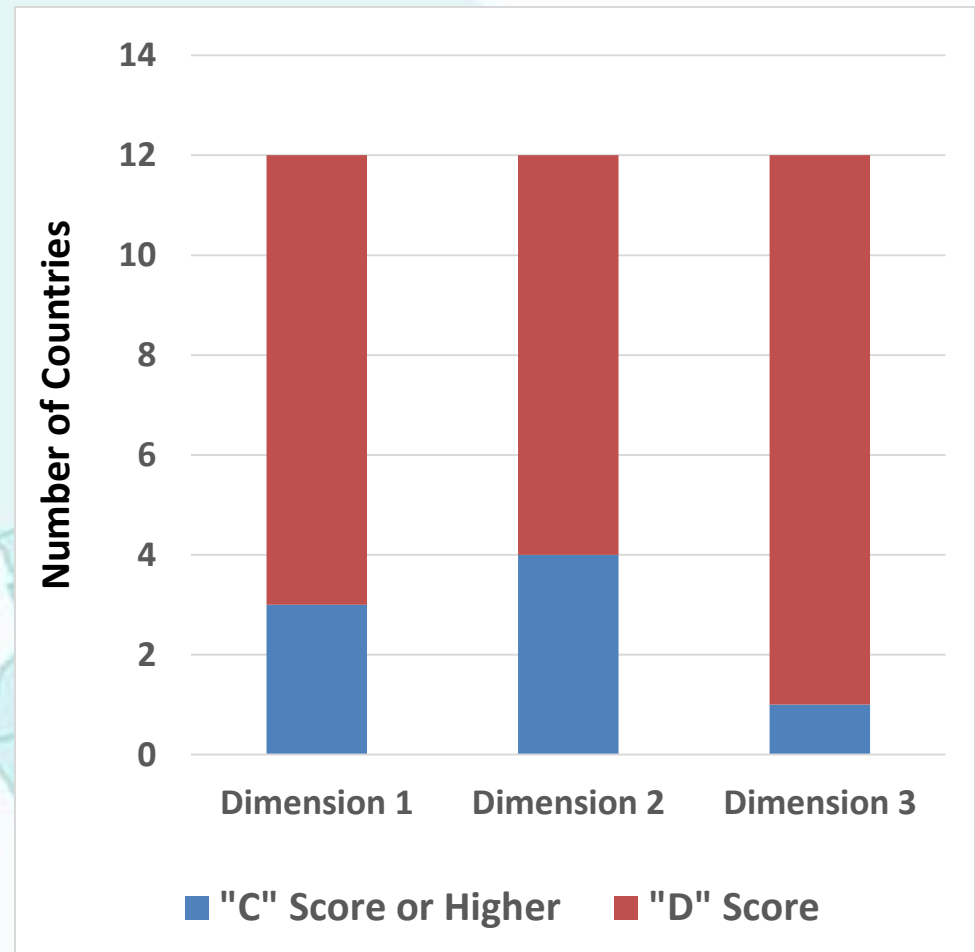
1. Processing of debt-related payments and receivables (**Dimension 1**)
2. Debt and transaction data recording and validation, as well as storage of agreements and debt administration records (**Dimension 2**)
3. Controlling access to the central government's debt data recording and management system and audit trail (**Dimension 3**)
4. Frequency and off-site, secure storage of debt recording and management system backups (**Dimension 4**)



Status of Segregation of Duties, Staff Capacity, and Business Continuity

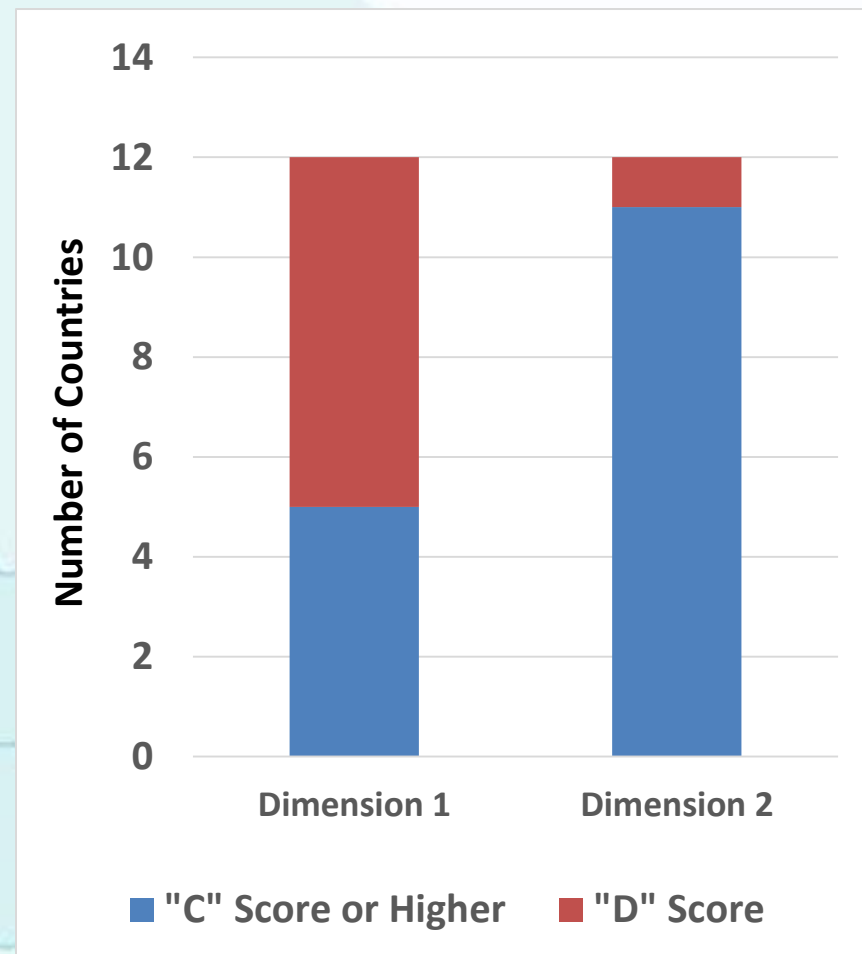
Dimensions

1. Segregation of duties for some key functions, as well as the presence of an operational risk monitoring and compliance function
2. Staff capacity and human resource management
3. Presence of an operational risk management plan, including business continuity and disaster recovery arrangements



Status of Debt Records (DPI-14)

- **Dimension 1:** Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions
- **Dimension 2:** Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable



What explains these findings?

DEBT INDICATOR	KEY ISSUES
Debt Administration and Data Security (DPI-12)	<ul style="list-style-type: none"> • Absence of documented procedures for data recording, validation and storage of debt records, processing payments, as well as, for controlling access to debt records
Segregation of Duties, Staff Capacity, and Business Continuity (DPI-13)	<ul style="list-style-type: none"> • Key person risk issues • No internal training plans in place to capacitate new officials • Absence of written business continuity and disaster recovery plans. • Absence of a risk champion or risk compliance unit in the DMOs
Debt and Debt-Related Records (DPI-14)	<ul style="list-style-type: none"> • Incomplete records, especially on guaranteed debt • Lags in recording debt data into debt management systems • Lack of coordination amongst institutions performing debt and related functions • Computer based systems may not have provisions to record the debt instruments- e.g. accumulation of arrears • Lack of capacity to record some instruments such as the Shari'ah-compliant instruments

Key Issues in ORM in general

- Lack of knowledge and understanding of ORM principles and framework;
- Inadequate governance structures on where and how the ORM function reports/operates
- Inadequate communication on operational risks and ORM framework;
- Lack of policies and procedures on ORM.
- Lack of capacity and skills, including staffing.

Interventions by Service Providers

- Joint regional training with UNCTAD/DMFAS and COMSEC on computer based management systems
- Joint missions to member countries on debt data validation
- Debt Management Performance Assessments and Reform Plans: conducted jointly with World Bank and UNCTAD/DMFAS under DMF
- UNCTAD/DMFAS and COMSEC staff provide mentorship services to MEFMI Fellows specialising in Use and IT Administration of DMFAS and CS-DRMS
- MTDS missions to member countries (joint with UNCTAD/DMFAS, IMF and World Bank)
 - Database and ORM issues have been highlighted and brought to the attention of the authorities

Interventions by Service Providers

- Supporting countries in designing debt management procedures manuals. eg. Zimbabwe, Zambia, Malawi.
- Support designing of risk management frameworks eg. Zimbabwe.
- MEFMI is currently updating its debt management procedures manual that was published in 2005.
- Training on operational Risk Management (1 graduate Fellow; 1 has been recruited in 2017)
- TA on review of legal frameworks for debt management.
- Regional training on public debt, including back-office skills

Other Interventions by Service Providers

- Regional training on MTDS (jointly conducted with World Bank and IMF)
- Regional training on Debt Sustainability Analysis (jointly conducted with World Bank and IMF)



Conclusion and Way Forward

- While notable progress has been made over the year on improving debt records, more can be done to improve comprehensiveness, accuracy and timeliness of debt records at country level:
 - Coordination among DMOs, central banks, and government ministries, departments and agencies
 - High level support for validation of debt data
 - Structured capacity building
- Operational risk management is weak in a number of countries
 - There is need for countries to develop risk management functions in the debt management offices
 - TA providers to assist countries develop operational risk management frameworks

Conclusion and Way Forward

- Partnerships among capacity building partners is critical in delivering technical assistance
 - Institutions should continue working together making use of various strengths relating to expertise and location
 - Developers of debt management systems to continuously engage with users to ensure that the systems country needs.

