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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 Data Recording & Operational Risk Management

The work of UNCTAD's DMFAS Programme

by

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UNCTAD's DMFAS Programme

- Multi-stakeholder initiative supported by **cost-sharing** by beneficiaries, **bilateral donor** contributions (European Union, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Switzerland, Sweden), and UNCTAD's regular budget
- Provider of technical assistance & public goods for debt management
- Support for over 100 institutions in 69 countries since 1981
- ***Mission: Assist countries in strengthening their capacity to manage their debt with the ultimate objective of promoting better use of public financial resources to improve the living conditions of the people***

Problems we address

■ Effective debt management is essential

*'...The monitoring and prudent management of liabilities is an important element of comprehensive national financing strategies and is **critical to reducing vulnerabilities.**' (Addis Ababa Action Agenda)*

*'Borrowing is an important tool for financing investment critical to achieving sustainable development, including the sustainable development goals. However, **borrowing needs to be managed prudently.**' (Addis Ababa Action Agenda)*

■ But many countries do not yet have the capacity to effectively manage their debt

'Many countries have yet to reach the minimum standards in some key areas.' (United Nations Secretary-General, 2015)

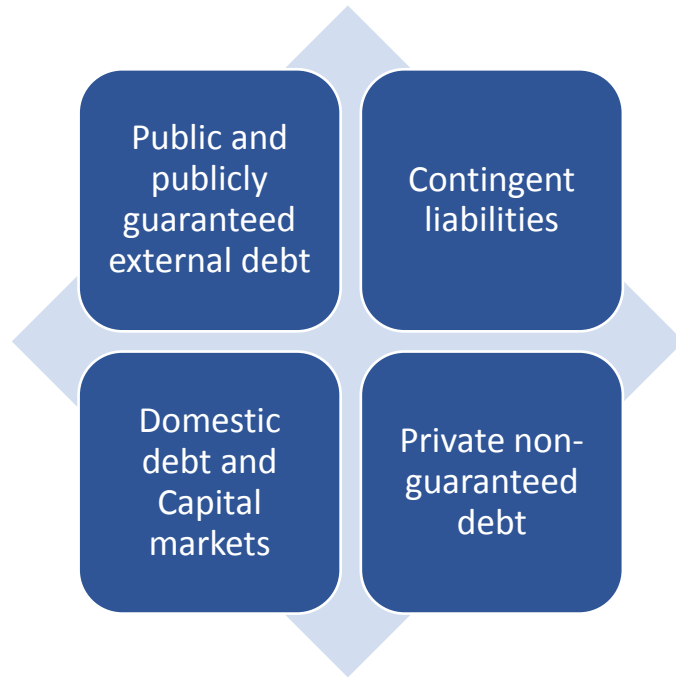
■ Despite critical importance of timely and reliable debt data, many countries have incomplete and/or erroneous debt databases and problems with reporting

'It is critical to ensure the availability of comprehensive, reliable debt databases that cover all aspects of the evolving debt portfolio and adequate support for debt statistical capacity and reporting.' (United Nations Secretary-General, 2015)

Major challenge faced by countries:

Absence of comprehensive debt database

Comprehensive database on debt:



- *Why is it challenging?*

- Weak legal and/or institutional framework
- DMO responsibilities often distributed across different institutions (MoF and CB, and/or others) and each in charge of different category of debt/mandate...
- Expanding debt coverage and debt instruments: Public sector vs Central government, domestic debt vs external, new capital markets, innovative instruments...
- Different software used, and sometimes inadequate applications (e.g. excel sheets for debt securities...)
- Weak operational risk management

Major challenge faced by countries:

Low staff capacity



...a major challenge for many countries, especially where there is a high demand for such staff in the private sector, or an overall shortage of such skills.

Revised Guidelines for Public Debt Management, 2014

Shortage of skilled staff

Insufficient training opportunities



High staff turnover



Difficulty keeping up with developments in debt management & technology

Major challenge faced by countries:

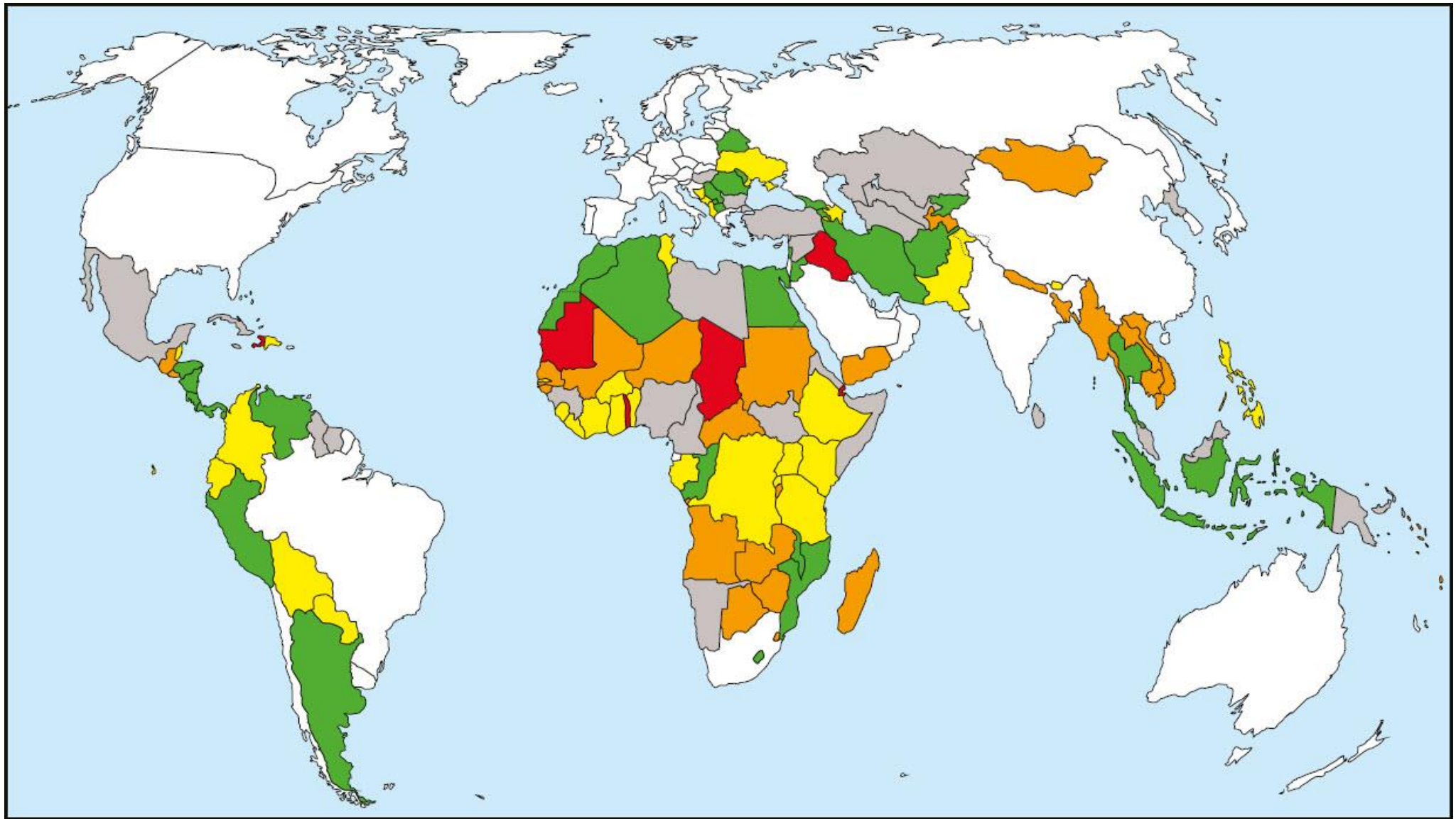
Weak integration with other public finance systems

- In recent years, many governments in developing countries have invested in systems and applications for treasury, accounting, budgeting, cash management, aid management and/or integrated financial management systems.
- However, these systems are not necessarily linked with the debt management system.
- As a result, government entities cannot access or exchange information that is crucial for the smooth running of public finance.
- Reasons: weak IT capacity; poor coordination between IFMIS development and DMO



May result in inconsistent and incomplete information in different entities, even within the same institution, leading to inefficient and sometimes erroneous handling of public finances.

High level of integration = High quality of debt data!



Debt Data and Reporting Readiness

Legend: Debt data and reporting is:

■ Complete and of high integrity

■ High standard with minor problems

■ Fair quality, but gaps and reconciliation problems

■ Significantly incomplete and inaccurate

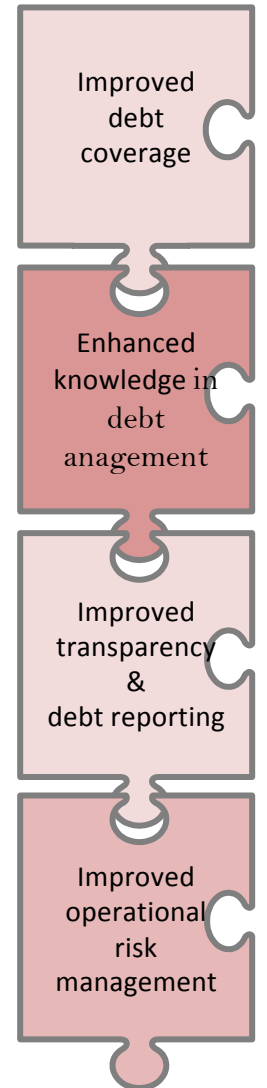
■ Insufficient data at the time of elaboration

■ High Income Countries and BRICS

Scope: Includes all developing countries and transition economies with the exception of BRICS
 Source: Ratings are based on Performance Indicator 17(i) of the latest Public Expenditures and Financial Accountability (PEFA) national assessment publicly available, supported by publicly available Debt Management Performance Assessment (DeMPA) reports and records of UNCTAD's Debt Management and Financial Analysis (DMFAS) Programme

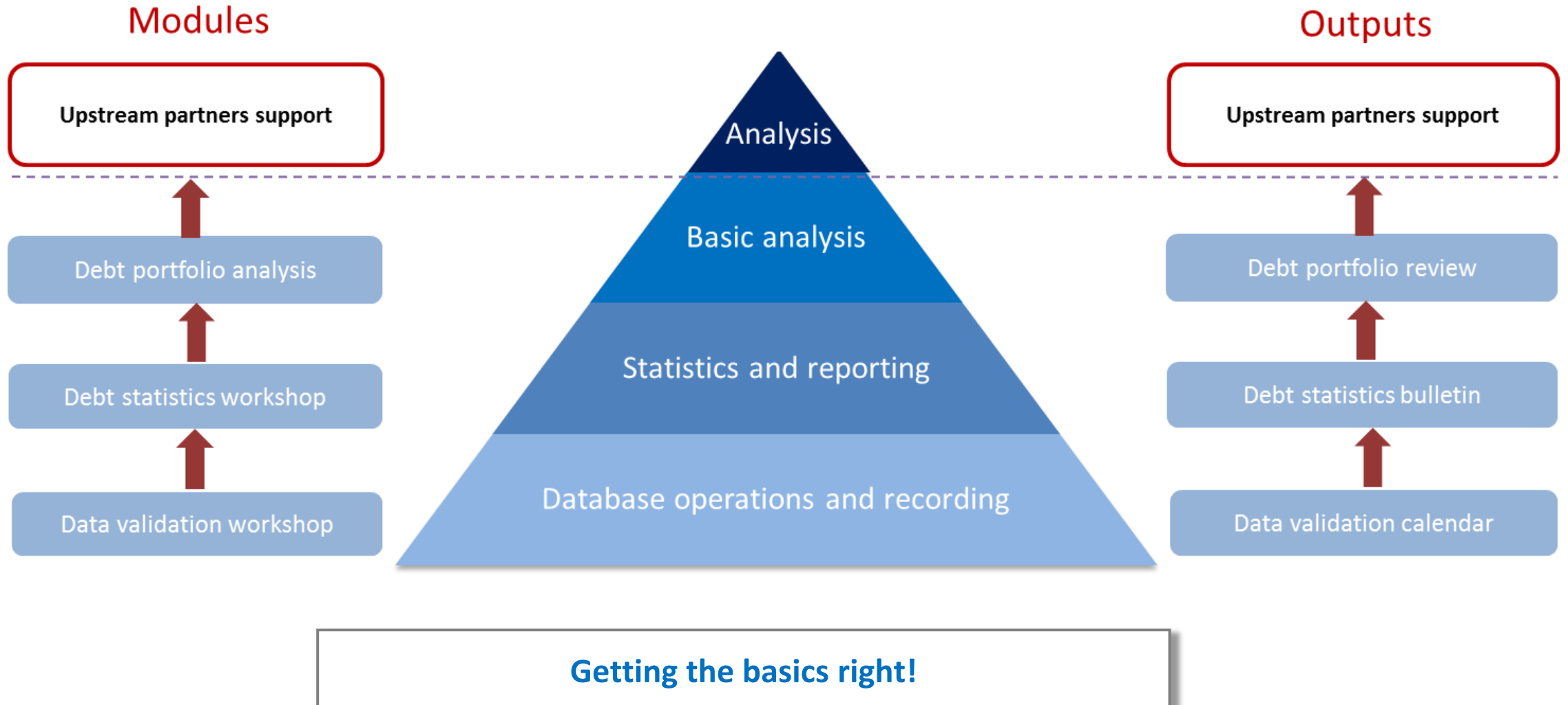
Our solutions

- **Provide concrete, practical solutions for Debt Management Offices for Recording, Operational, Statistical and Analytical debt management:**
 - **Debt management software – DMFAS**
 - **Capacity-development services:** Data Recording, Validation, Statistics, Portfolio Analysis, Operational Risk Management
 - **Advisory services** e.g. IFMIS integration
- **Participate in development & implementation of new standards & methodologies**
- **Integrate best practices & standards into our solutions for strengthening staffing, structure and systems**
- **Focus on downstream debt management – support governments to strengthen the foundations for effective debt management**



DMFAS

Capacity-development in downstream debt management



Practical solutions to Operational Requirements

Debt & Debt-related records

- Completeness & timeliness of central government **records** on debt, guarantees, and debt-related **transactions**
- Accurate, consistent, complete **database** of domestic, external, and guaranteed debt
- **Comprehensive debt management system** that records, monitors, settles, and accounts effectively for all central government debt and debt-related transactions

Debt Administration

- **Documented procedures** for processing records and payments
- Strong **controls** – minimum 2-person authorisation process
- Electronic **straight-through processing** of payment orders
- **Independent external confirmation** of all data



Practical solutions to Operational Requirements

Debt reporting & analysis

- Publication of a **statistical bulletin** on debt, loan guarantees & debt-related operations
- **Reporting** to parliament or congress
- Providing **statistics to external bodies** (e.g. World Bank, IMF)
- Undertaking **periodic analysis of the debt portfolio**
- **Making data available** for cash flow management, risk management, strategy formulation, debt sustainability analysis



Security

- **Access control** to debt system and database
- **Audit trails** of systems access and activity
- System **backups** and secure **storage**



Practical solutions to Operational Requirements

Staff capacity and human resource management

- **Staff are adequately trained** and numbers are sufficient
- **Segregation of duties** for key functions and related job descriptions



Business processes

- **Procedures Manuals**
- **Disaster recovery**
- **Business continuity**



Practical solutions to Operational Requirements

Cooperation and partnership with other providers e.g.

- **World Bank:** Debt management Facility, Debtor Reporting System
- **IMF:** Task Force on Finance Statistics, Data Quality, Analysis
- **MEFMI:** Joint training workshops, Fellows programme...
- **Other organisations:** **COMSEC, DRI, CEMLA, INTOSAI...**



New initiatives

1. Major new version of DMFAS – DMFAS 7

- **Expanding coverage of debt data & functionality** (Total Public Sector Debt, Contingent Liabilities, Hedging/derivatives, Accrual Accounting...)
- **New reporting & statistical standards**, Managerial reporting/dashboards, **Mobile computing**

2. New capacity development modules & delivery methods

- **Complex/Innovative debt instruments**
- Additional **support for integration with IFMIS**
- Blended learning: **Self-study and self-paced modules: eLearning**, Tutorials

3. Intensified cooperation, coordination & partnership – **focus on comparative advantages** & complementarity

4. Joint development with COMSEC of **Data Quality Assessment Methodology**



Debt Data Quality Assessment Methodology (Debt-DQAM)

Joint initiative of COMSEC and DMFAS to develop a framework to systematically assess the quality of the databases recorded in debt management systems based on best practices and international standards in debt management

Debt-DQAM **complements** other assessment tools available, including **DeMPA**, **PEFA**, **CPIA**, and the **DQAF**

Debt-DQAM **adds granularity** to these initiatives as it specifically targets countries' databases available in both debt management systems: the CS-DRMS and the DMFAS

Importantly the tool can be used to improve the quality of data subscribed by countries to international subscribers like **World Bank Debt Recording System (DRS)**, **Quarterly External Debt Statistics** for both SDDS and GDDS subscribers, and **Quarterly Public Debt Statistics** databases

Planned launch in 2018

DeQAM Objective

The objective of the Debt Data Quality Assessment Methodology (DeQAM) is to **assess** the debt data quality recorded in debt management systems, specifically CS-DRMS and DMFAS

The DeQAM is composed of a **Methodology** and a **Toolkit** (functionality embedded in both systems)

The toolkit offers means for identifying **data coverage gaps/errors** and therefore,

- a) assists countries to address weaknesses in their capacity, databases, and reporting.
- b) enables technical assistance providers to intervene in countries with targeted methodology, supported and monitored through a result-based approach.
- c) helps countries to self-assess and monitor the quality of their debt data based on training and guidance provided by TA providers.

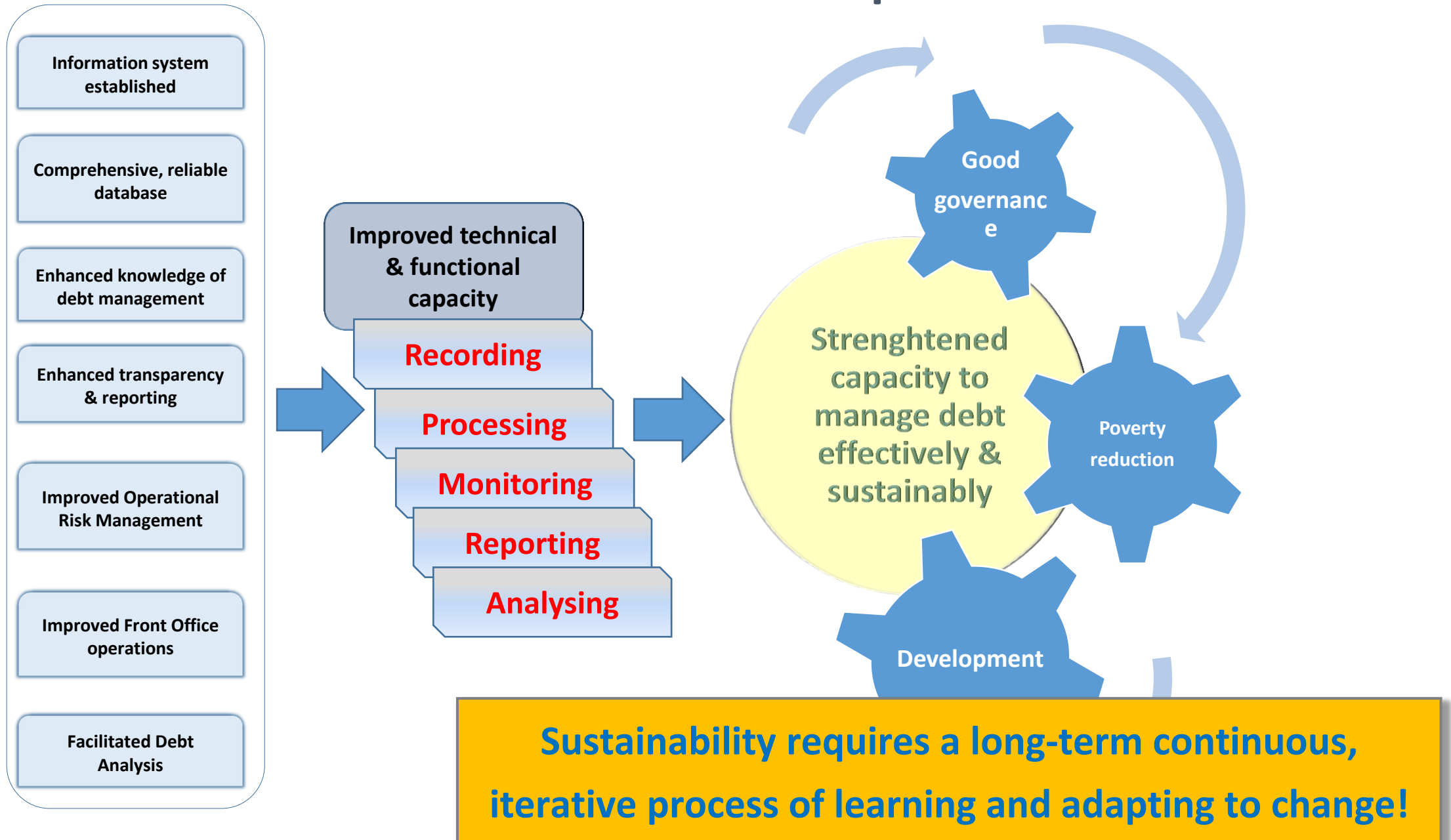
Structure of DeQAM

DeQAM covers **4 quality dimensions** of the debt database:

Dimensions	Description
Completeness	Assess the scope of debt portfolio being maintained in the debt management system.
Timeliness	Assess timeliness of information recorded and being maintained in the debt management system.
Accuracy	Assess the accuracy of critical information required for recording and maintaining instruments in the debt management system.
Consistency	Assess consistency of data across time periods and between different functions in the debt management system.

Each dimension will be measured based on a set of **indicators** grouped by different **components related** to the features of the debt instruments and operations.

Conclusions: Results & Impact



Sustainability requires a long-term continuous, iterative process of learning and adapting to change!

Thank You