Debt records and operational risk – support available from international organizations

by

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Government Debt and Operational risk management

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Overview

1. Increasing complexity of public debt management

2. Operational risks in the DMO

3. How to manage risks: Debt Management Facility TF
Public debt has increased in recent years across all regions, with MNA and SSA standing out.

Among IDA countries, commodity exporters and post-HIPCs showed strong increases...
…with two-thirds of IDA countries seeing an increase over the past decade

Change in Public Debt (2010 to 16) in IDA Countries (% of GDP)

Average increase (9% of GDP)

Source: IMF WEO April 2017, World Bank Staff Calculations
The increase was driven primarily by domestic debt, but external debt also rose.

### Public debt, domestic currency (% GDP)


### Public debt, foreign currency (% GDP)


**Note**: 2017 are estimates. Data covers countries that provide information on domestic and external debt by category.

**Source**: IMF WEO April 2017, World Bank Staff Calculations.
Rising portfolio inflows to EMs despite falling sovereign ratings suggest that market demand may not be driven by fundamentals but by search for yield...

Note: EM = Emerging Markets
Government Debt management as complex as ever

A key task of the DMO is the management of risks inherent in the public debt portfolio. Risk management involves being able to identify, measure, monitor and mitigate or control each category of risk. Successful fulfilment of such tasks requires a consolidated debt database and risk assessment tools.

**What** to finance: Choose feasible projects with the highest social return (*Public Investment Management*)

**How much** to finance: Take into account initial conditions (debt situation), the global environment (volatility) and the country’s repayment capacity in the short and medium term (*DSA*)

**How** to finance (choice of instruments): MTDS cost/risk trade-offs; look into macro implications of alternative debt instruments

Successful fulfilment of such tasks requires a consolidated debt database and risk assessment tools.
Quality of government debt management requires reforms:

112 DeMPAs conducted between 2007-16

78 countries across

6 regions
Comparison of debt management performance over medium time

% of Dimensions that Meet Minimum Requirement

- Legal framework: 80%
- Managerial Structure: 60%
- Debt Management Strategy: 40%
- Evaluation and Reporting: 20%
- Audit: 0%
- Coordination with Fiscal Policy: 0%
- Coordination with Monetary Policy: 0%
- Domestic Borrowing
- External Borrowing
- Loan Guarantees, On Lending Derivatives
- Cash Flow Forecasting and Cash Balance Management
- Debt Administration and Data Security
- Segregation of Duties, Staff, Capacity and BCP
- Debt Records

1st DeMPA
Most recent DeMPA
Performance tracking for each area of reforms

DeMPA results: scores C and higher by Debt Management categories
Operational Risk – examples of threats

- Infrastructure and Technology failures
- Incidents where access to premises is denied
- Key service providers of resource failure dependences
- Staff management and related human failures
- Failure to meet statutory, human, legal resources and other obligations
- Major regional or natural disasters
Operational risk can be managed and mitigated, but it cannot be eliminated entirely

- Operational risk tends to increase with the complexity of operations
- Operational risk accompanies all debt management activities
- A mitigation for one aspect of operational risk may increase other aspects

Focus in the first instance on reducing the high-impact, high-likelihood aspects of operational risk

But still manage the other aspects
The Debt Management Facility (DMF)

DMF Program
Principles and Products
Governance
Partnership

Strengthening debt management capacity and institutions through a number of tools that help countries assess and plan their debt management
Objective: Strengthen Capacity
Principles: Programmatic Approach
Demand Driven

Medium term debt management strategy (MTDS)
Debt Management Reform Plans
Domestic Debt Market Development
Debt Manager’s Practitioners Program
Debt Managers Network Peer-2-Peer interaction
Trainings Online Face-2-face
DMF- Global Knowledge

Subnational Debt Management
DeMPA
DSA

DMF II: TA and Products
DMF - Program Implementation to date

By Region

- East Asia and Pacific: 61%
- Europe and Central Asia: 11%
- Latin America and Caribbean: 7%
- Middle East and N. Africa: 10%
- South Asia: 10%
- Sub-Saharan Africa: 1%
Strategic direction – continue to help and expand

Core DMF activities to be continued

- DeMPA/MTDS/Reform Plans
- Domestic Market Development
- Debt Sustainability Framework (DSF)
- Subnational Debt Management
- Knowledge & Peer Learning Activities
- Debt Manager’s Practitioners Program

New Areas

- Risks from contingent liabilities
- Risks from commercial funding
- Risks from liquidity and cash management
- Risks from climate change
Joint Implementation of the Program

Missions to Nigeria, Liberia, Sierra Leone, Gambia

Missions to Rwanda, Zimbabwe, Uganda, Kenya, Zambia

Missions to Rwanda, Congo, Dem. Rep., Tajikistan, Zimbabwe, Togo, other

Mission to Nicaragua; MTDS Training in Mexico

Missions to Kyrgyz Republic, Togo, Niger, Papua New Guinea

Activities in Franco-phone Africa

A Global Partnership in Action
DMF II– Partnership - Donors

Austria
Federal Ministry of Finance

The Netherlands
Ministry of Foreign Affairs

Germany
Federal Ministry for Economic Cooperation and Development

Norway
Norwegian Ministry of Foreign Affairs

Russia
Ministry of Finance of the Russian Federation

Switzerland
Federal Department of Economic Affairs FDEA
State Secretariat for Economic Affairs SACECO

AfDB
Conclusions

Sustainability of results

- Focusing support for debt management reforms’ implementation along with broader PFM reforms

- Providing programmatic assistance to eligible countries for the medium to long term

- Maintaining integrity and quality of DMF TA

- Keeping in mind that key factors for successful debt management are based on macroeconomic stability and fiscal discipline
Debt Management Facility

www.dmfacility.org


DMF News:

https://www.dmfacility.org/newsletters