Operational Risk Management in Debt Management Offices

by

Ms. Lilia Razlog

Senior Debt Specialist and DMF Program Manager, World Bank

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Operational Risk Management in Debt Management Offices

Lilia Razlog
DMF Program Manager
Macroeconomics, Trade & Investment Global Practice
The World Bank
2020-2022: Uncertainty and disruptions intensified globally

- COVID-19 PANDEMIC, NEW VARIANTS
- RISING INFLATION
- TIGHTENING MARKET CONDITIONS
- INCREASING FRAGILITY
- WAR IN UKRAINE
Debt Management capacity is critical to tackle the challenges.
Operational risk management among other areas of DeM reforms
Broad sources of ORM

- Business Processes
- Coordination & Communication
- Personnel
  - Human errors
  - Loss or lack of critical personnel
  - Internal fraud
- Institutional
- Technological
- Legal
- External factors
  - External stakeholders
  - Third party service providers
Operational Risk Management Framework starts from ...

- Recording and monitoring DM transactions are essential for ensuring accuracy of debt records, and for picking up error and fraud.
- Payments processes must also include safeguards to ensure that they are timely and accurate.
- These processes reflect the practice in the financial industry:
  - Segregating responsibilities and operational units.
  - Double checking all data entry and payments by different staff members.
  - Defined deadlines for entering, processing, and monitoring transactions throughout their life.
  - Coordination with the Central Securities Depository (CSD).
  - Effective use of IT systems.
What should be done at the level of the DMO?

- **Prevention or avoidance**, where the probability of an event occurring is reduced or eliminated
- **Transfers**, where risks are passed to third parties such as insurance or outsourcing
- **Containment**, where the potential impact of an event occurring is limited in the early stages using controls or other techniques
- **Acceptance and recovery**, where an event or disruption might well occur, but debt management operations can be resumed successfully using a disaster recovery plan

Source: World Bank 2010
Benefits of strong ORM framework

• Better understanding of risks and more informed decision making
• Assure consistency with priorities, greater focus on what is important
• Risk awareness of the staff and collaborative work within the DMO
• Decreased number of errors
• Provide information to stakeholders about their risks
• Enhanced reputation

The benefits of operational risk management are difficult to measure as most of them can only be defined in terms of what did not happen
ORM is a Dynamic Process...

ORM is not a one-off event or an add-on
It is a series of actions permeating an entity’s all activities.
Processes should be repeatable and linked into day-to-day work
Supports continuous incremental improvement
Data history, e.g. key risk indicators (KRIs) or risk events, is built up gradually
Processes should be repeatable and linked into day-to-day work
 ORM is a process – to be developed over time and embedded in DMO

No DMO is too big or too small

- Benefits are in reach with a proportionately modest resource cost
- Procedures outlined are consistent with good international practice; but also flexible, and can be applied proportionately to size, activities, risk appetites and capability.

All staff should be involved

- Individuals should know what risks they are facing and managing
- All should be involved in refreshing of the data, incident reporting...
- Continuing reporting, summarising and consultancy work will fall largely to the MO

Whatever the scale and resources, management support is critical

- ORM helps them to meet objectives
The Debt Management Facility (DMF) technical assistance

- The DMF is a multi-donor trust fund, launched by the World Bank in 2008, and administered in partnership with the International Monetary Fund since 2014 which provides assistance on debt management.

- The objective of the DMF is to strengthen debt management to reduce debt-related vulnerabilities and improve debt transparency. This is achieved through capacity building activities, including design and application of tailored advisory services and technical assistance, applied analytical works, trainings, webinars and peer-to-peer learning.

www.dmfacility.org
DMF WORK in 86 countries

Support to Global Debt Initiatives
- Work to support developing countries reduce debt burdens, including through initiatives as the Common Framework

Enhance Debt Transparency
- Support production and publication of comprehensive and consistent data by borrowers
- Improve access to data from borrowers and creditors

Support Debt Sustainability
- Help low-income countries achieve their development goals without creating future debt problems
- Improve debt sustainability assessments

Strengthen Debt Management Capacity
- Support debt management offices design and implement debt management strategies
- Support by developing sustainable debt and risk management frameworks to reduce vulnerability to financial shocks

Crisis Responses and recovery
- Review of the operational risk management framework
- Temporary adjustments in the debt management strategy
- Deployment of a toolkit for the assessment of debt-related fiscal risks
- Improvements to cash flow forecasting and cash management
- Scale up of investor relations activities
- Adoption of new domestic market tools to adapt to the new environment
Conclusions

✓ Stronger efforts are needed to improve operational risk management and crises preparedness, as demonstrated during the global pandemic.

✓ Debt management offices face serious constraints in capacity to implement ORM reforms without a strong leadership and commitment.

✓ The implementation of ORM reform programs require longer timeframes and more targeted selection of the reform priorities.

✓ Sustained efforts are required to develop and maintain strong Human Resource policies, which prioritize building staff capacity in the field of ORM through staff training.

✓ Continuous cooperation with international partners, promotion of peer-to-peer learning can further facilitate dissemination of good practices, new methodologies and tools.
Thank you