

# 13<sup>TH</sup> UNCTAD Debt Management Conference

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Relief, Restructuring and Recovery: Dealing with Debt in Times of  
Global Crisis

5-7 December 2022

Palais des Nations, Geneva

## Operational Risk Management in Debt Management Offices

by

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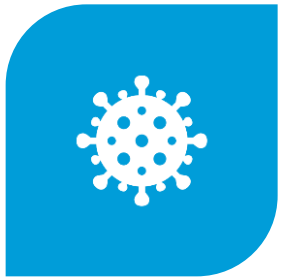
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# Operational Risk Management in Debt Management Offices

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# 2020-2022: Uncertainty and disruptions intensified globally



COVID-19 PANDEMIC,  
NEW VARIANTS



RISING INFLATION



TIGHTENING MARKET  
CONDITIONS



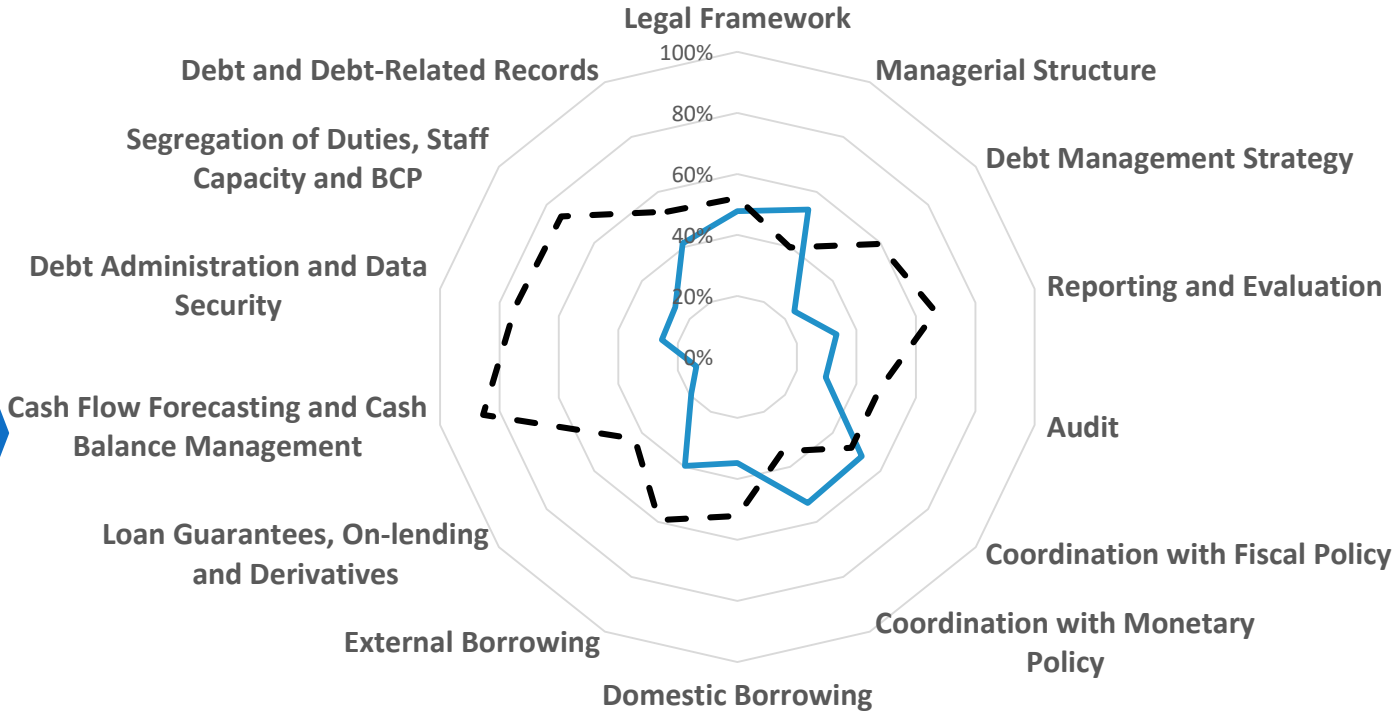
INCREASING  
FRAGILITY



WAR IN UKRAINE

# Debt Management capacity is critical to tackle the challenges

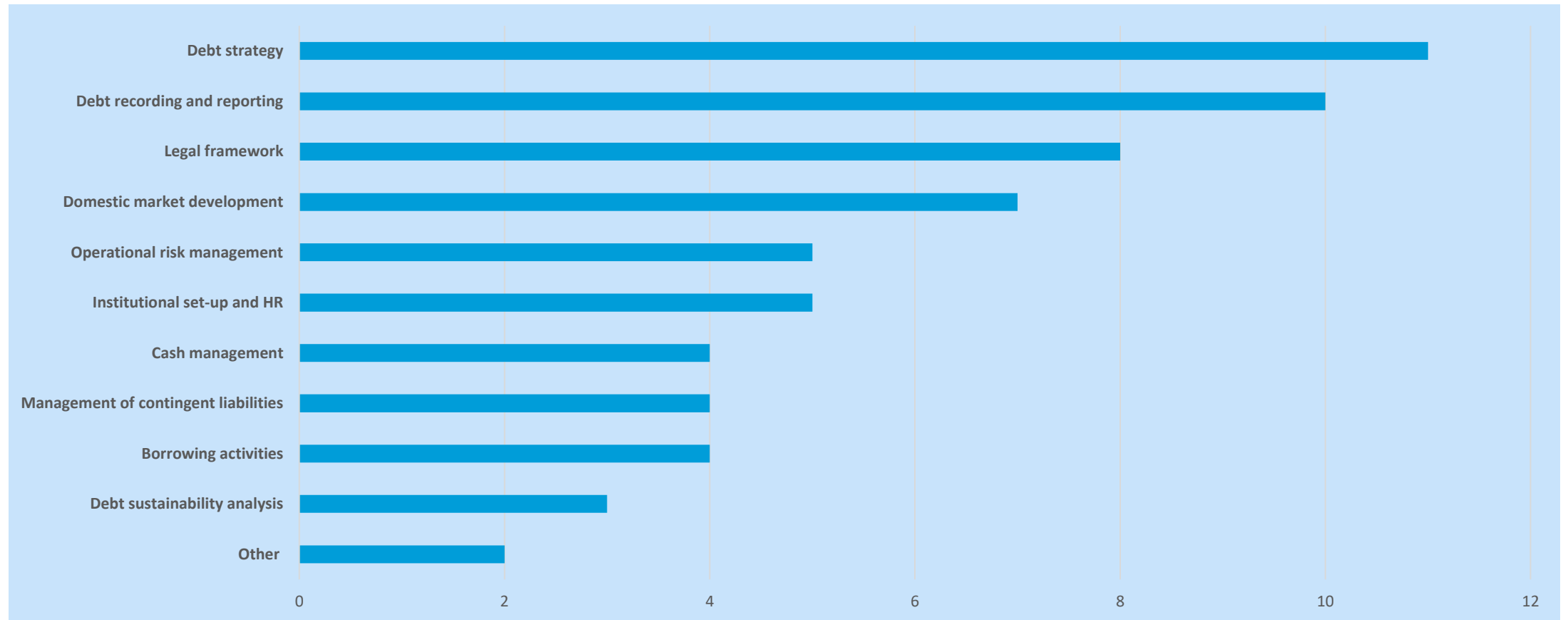
Q-ty of



DeM

— Meet minimum requirement    - - Not meet minimum requirement

# 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

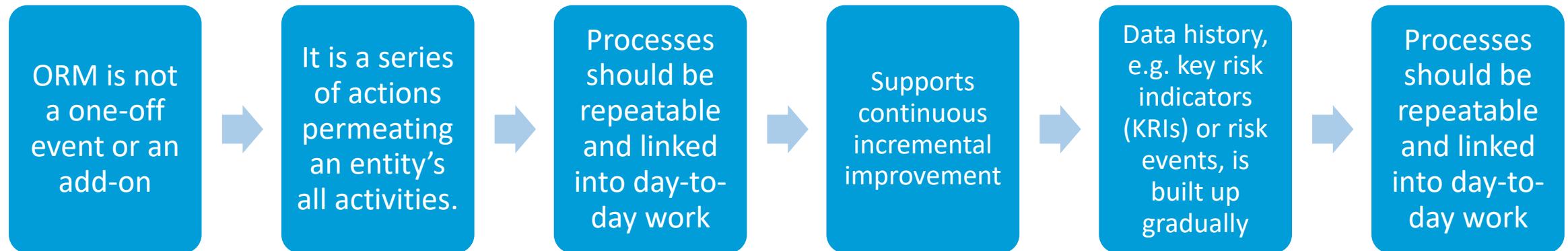


# Benefits of strong ORM framework

- 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...



# Key takeaways

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.

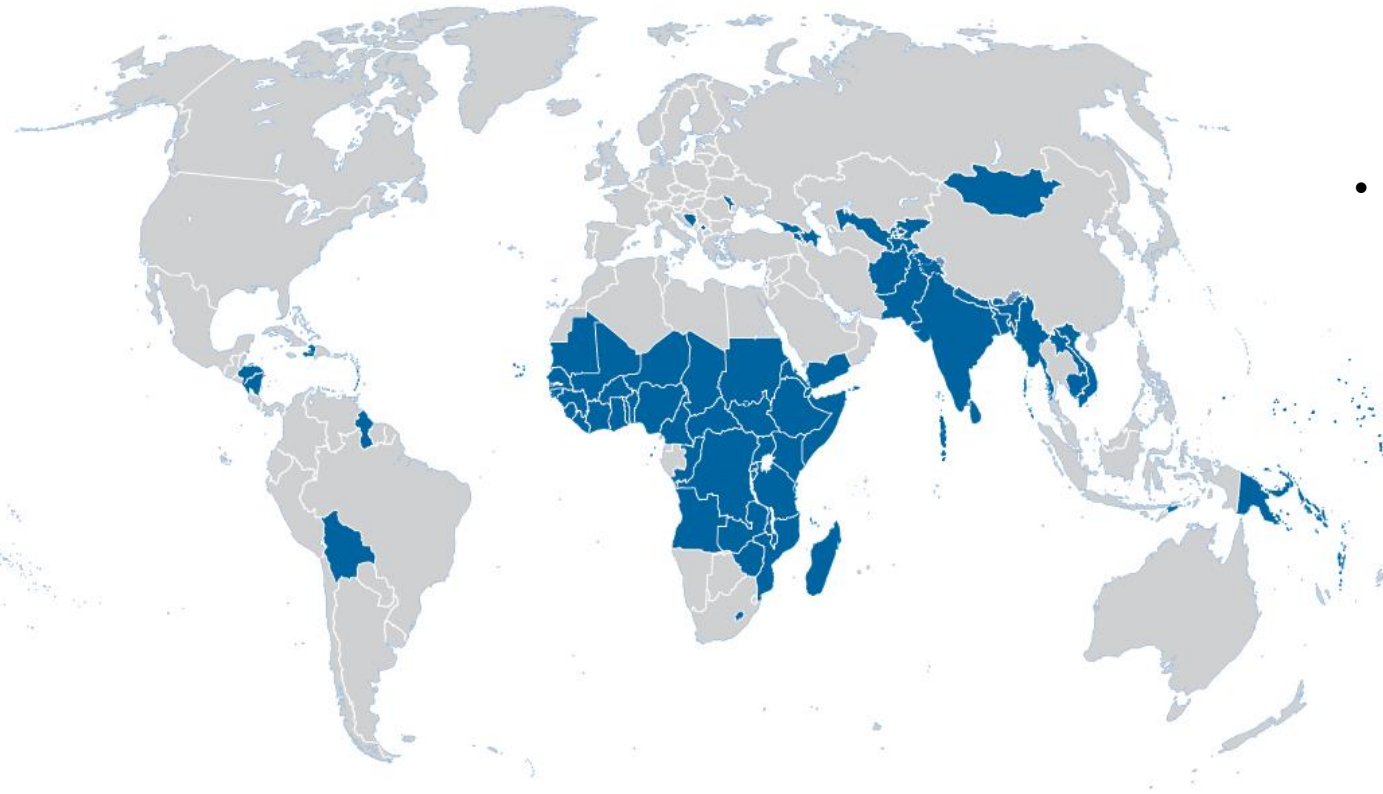
All staff should be involved

- 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](http://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

