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**Moving Towards *BPM6*: IMF/DFID Enhanced Data Dissemination
Initiative—Balance of Payments Statistics Module**

**Prepared by the
Bank of Uganda**

Introduction

1. The Enhanced Data Dissemination Initiative (EDDI) is a five-year project (2010–2015) to improve macroeconomic statistics in African countries. It is being implemented by the IMF and financed by the U.K. Department of International Development (DFID). The external sector module of the EDDI is focused on assisting six countries (The Gambia, Ghana, Kenya, Mauritius, Mozambique, and Nigeria) in establishing direct reporting of cross-border financial flows and stocks as a reliable data source and in using these new data for producing IIP and related BOP statistics. The technical assistance advice and training provided to the six countries is consistent with the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* and the *Balance of Payments and International Investment Position Compilation Guide (BPM6CG)*

Annual Enterprise Surveys

2. The EDDI project began in April 2010, a few months after the publication of *BPM6* and the *Coordinated Direct Investment Survey Guide*. The project's design was thus able to integrate fully the new methodologies from the beginning. With the exception of The Gambia, all countries participating in the EDDI project agreed to participate in the Coordinated Direct Investment Survey (CDIS). Priority was given by the EDDI project to participation in the CDIS because the CDIS database (posted on the IMF external website) provides access to partner country data for inward direct investment compiled on a comparable basis. Emphasis was given to inward direct investment because of the availability of financial statements from reporting companies which are a key source for ensuring reliability of the reporting by companies. For inward direct investment, the *Coordinated Direct Investment Survey Guide* requested: (i) the application of the *Framework for Direct Investment Relationships* for the identification of fellow enterprises; (ii) the reporting by counterpart country of the immediate direct investor; (iii) the reporting of reverse investment (claims in the form of equity or debt of the direct investment enterprise on its nonresident direct investor abroad); and (iv) a change from *BPM5* to *BPM6* in the calculation of direct investment (exclusion of debt between selected affiliated financial corporations from direct investment).

3. In practice, as countries in the EDDI project each chose to undertake a survey of all enterprises that met a threshold of foreign liabilities and assets, their questionnaires cover all cross-border financial flows and stocks, including both inward and outward direct investment, together with all other investment.¹ Nonetheless, there has been variation in the design of questionnaires by individual countries with some (such as Mauritius) meeting the

¹ For Nigeria, the 2010 PCFS used the CDIS questionnaire for inward direct investment, which was changed to a questionnaire covering all cross-border financial flows and stocks for the 2011 PCFS.

full CDIS requirements for direct investment abroad (by the inclusion of fellow enterprises and reverse transactions). Although the questionnaires currently implemented are broadly the same, there are differences in their design.

4. Of the main changes in *BPM6* that affect the financial account mainly with respect to the instrument presentation of claims on and liabilities compared with *BPM5* are the inclusion of standardized guarantees and stock options, which are currently excluded from the instrument classification as they are considered to be unlikely to result in significant cross-border financial claims or liabilities in the region. For the insurance industry, *BPM6* provides a more systematic derivation of services, investment income, transfers, and investment that calls for the introduction of specialized surveys. For the most part, these have not yet been introduced, as most insurance companies in the region have little business with nonresidents except in the case of reinsurance services.

5. For financial derivatives, although *BPM6* follows closely *BPM5* and its subsequent revisions, these instruments were not included in earlier versions of survey questionnaires in the region either because the use of financial derivatives was confined to a few banks and some major non-bank corporations and/or because there were no clearly established accounting standards in the region regarding the treatment of financial derivatives. For the countries in the EDDI project, the initial focus has been on establishing how widespread the practice of using cross-border financial derivative instruments to hedge against risk is and on how they are treated in company financial accounts. For banks engaged in cross-border forwards and swaps, a direct reporting system that provides sufficient details for compilation in accordance with *BPM6* has been explored in some countries (such as Ghana and Mozambique) by aggregating data based on individual contracts between resident banks and nonresidents. For non-banks, the strategy that has been adopted is to establish thorough the annual surveys, enterprises with significant financial derivatives transaction and positions for purposes of establishing a register of such enterprises to be followed up with a more detailed questionnaire to determine the BOP and IIP estimates once the register has been completed.

6. Of relevance to the BOP financial account also is the adoption by *BPM6* of a concept of residence that clearly includes corporate structures with little or no physical presence in the reporting economy. This has had major relevance for the Mauritius EDDI project that required an entirely separate enterprise survey for global business companies that are incorporated in Mauritius. Other topics raised by the conversion to *BPM6* may not have implications for the financial account, but are relevant if direct reporting is to be extended to cover services and income. These include the treatment of fees paid on goods for processing (as services rather than as goods), merchanting (as goods rather than services), and financial services indirectly measured (as services rather than income). The reporting of these transactions is included in the plan for implementation of *BPM6* by the countries in the EDDI project once the primary goal of establishing direct reporting of all private sector cross-border financing is accomplished.

Quarterly Enterprise Surveys

7. Quarterly enterprise surveys are envisaged for all countries participating in the EDDI project once annual enterprise surveys are fully established and are producing reliable data. Their value is seen in producing a more current first estimate of the annual data (three months from the reference date) compared with twelve months and longer for the annual enterprise surveys conducted thus far (and even longer if one takes account of enterprise accounting years). In addition, all the EDDI participating countries would benefit from directly reported quarterly enterprise data that are consistent with the annual data. The surveys are envisaged to also provide data for estimation of selected services following *BPM6* methodology as likely respondents for financial account transactions are also expected to be some of the major services providers (communication, insurance, transportation etc.).

8. In order to minimize the burden of conducting a quarterly enterprise survey, the basic plan for all countries is to select some 20 or so large companies from the annual enterprise survey frame that already report quarterly accounts to their shareholders, or have some quarterly management accounts. A modified questionnaire has been developed for Mauritius and Ghana that can be readily completed from available information and the quarterly survey would be conducted preferably on an electronic basis. The possibility of enlisting the assistance of the stock exchange/capital markets authorities, custodians and brokers for listed companies is also underway, as are trial quarterly enterprise surveys. The next step would be to assess how well the quarterly data track the annual data using appropriate grossing up techniques. If successful, this would result in a strengthening of the quarterly BOP/IIP and an enhanced ability to interpret changes in quarterly flows and stocks in a historical context. This should result in the establishment of press releases of quarterly BOP/IIP data, which is one of the dissemination objectives of the EDDI project.

9. For Mozambique the situation is slightly different as a quarterly enterprise survey had already been established to permit the addition of non-cash transactions that would supplement the ITRS. Efforts have therefore focused on ensuring that the quarterly estimates that are available are consistent with annual estimates and that they are compliant with *BPM6* reporting requirements. This has resulted in modifications to the quarterly enterprise survey form to meet *BPM6* requirements.

Other Direct Reporting

10. Once annual and quarterly enterprise surveys of cross-border financial flows and stocks are established, countries participating in the EDDI project are expected to explore the scope for introducing other direct reporting. These include direct investment in real estate, and by adding questions on services and income (employee compensation) credits and debits to the survey questionnaires. For some industries (such as oil and gas), where there has been substantial investment from abroad, the need to have reliable direct reporting is particularly urgent if large errors and omissions arise from unreported services and employee

compensation debits when the data from cross-border financial flows and stocks collected from enterprise surveys are entered in the BOP. The direction that has been followed is the development of industry specific questionnaires and a monthly reporting form in an attempt to cover these transactions in Mozambique and Ghana respectively. A related issue is the emergence of new export service industries for which industry specific enterprise questionnaires could be developed. This would be in addition to the established transportation surveys that all of the EDDI participating countries have.

11. As most of the EDDI participating countries have found, an enterprise survey is not usually the best data source for reporting inward portfolio investment in listed companies. As more reliable reporting of both transactions and positions is probably available from the local stock exchange/capital markets authority, registrars; such reporting has already been established by most countries in the EDDI project as the preferred BOP/IIP data source. Direct reporting by custodians has also been explored and some preliminary data is now available.

12. For many countries in the region an important component of inward direct investment and to some extent direct investment abroad comprises the purchase and sale of real estate by nonresidents. For both Mauritius and Ghana, banks are involved in offering mortgages to nonresidents. Such investments are not covered by enterprise reporting of cross-border financial flows and stocks. Therefore, the development of separate data sources is required. These new data sources may vary in design from country to country, but they should take advantage where possible of regulatory sources and ITRS data. Another possible source is reporting by construction companies that specialize in building homes for nationals living and working abroad (and therefore deemed to be nonresident). A review of available data sources is envisaged for each of the EDDI country projects.

Source Data Changes

13. For all EDDI participating countries dependent on reporting by banks of their purchases and sales of foreign exchange from/to non-residents in a regime of loosened capital controls (Kenya, Ghana, Mauritius, Nigeria), there are significant risks of misclassification by banks.² This is especially so when there are large numbers of small value over the counter transactions, use of complex instruments (where payments represent settlements for a variety of transactions that are not individually reported) and where bank customers conduct BOP transactions through accounts with banks abroad. An additional complication has been the prevalence of large domestic transactions in foreign currency. Such misclassifications are revealed once reliable data are reported by annual enterprise

² In this report, these reporting systems are referred to as ITRS.

surveys of cross-border financial flows and stocks together with all the other direct reporting envisaged under the project.

14. This is already apparent from comparisons of survey data with comparable ITRS data in the case of both Ghana and Kenya and almost certainly will be the case for Nigeria once Nigeria's annual enterprise survey of inward direct investment is firmly established. This has implications for the design of the ITRS in such countries, which remains a key data source for the initial BOP compilation but must also meet a test of being a predictor of more reliable data sources. Moreover, the ITRS has to serve as the only data source for a variety of BOP transactions for which direct reporting is not feasible (such as portfolio investment abroad by households). As a result, work in redesigning the ITRS classifications to accommodate their use in conjunction with other data sources is underway in Kenya and Ghana and has resulted in substantial revision to the source documents to meet *BPM6* classification. Efforts to redesign the ITRS as a useful supplement to direct reporting are likely to be done for the other EDDI countries.

***BPM6* Training**

15. A key component of the EDDI project has been providing training to staff. Staff have benefitted from formal training through workshops organized within the countries as well as informal training. Countries participating in the EDDI have been encouraged to learn share experiences resulting in visits by Gambia and Nigeria to Ghana to understudy their survey database. At the start of the project, the EDDI held a workshop through which experiences were shared. Much of the training has also been delivered informally mostly during missions and has tended to focus on tooling staff with the practical skills for data processing and BOP/IIP compilation. The informal training has for the most part been tied to mission recommendations to ensure staff are able to implement advice provided.

Challenges

16. The biggest challenge is that of delays in incorporation of data from new data sources in the BOP and IIP. Much as new data sources have been introduced and are continuously updated, BOP compilation has continued to be based on legacy systems that hardly meet *BPM6* requirements. Key concerns cited by counterparts include the large differences between current BOP estimates with those from new and better source. Given the large differences, adoption of new source data for BOP compilation is likely to result in major changes to the BOP which is a major concern for both compilers and policy users.

17. Additional constraints include limited human and financial resources as well as other logistics required to sustain the more demanding data needs. In particular, most surveys have been implemented through physical visits to companies as opposed to mail and email distribution which has tended to escalate survey costs. It will be important to convert most of the surveys from the current practice of physical enumeration post mail, electronic mail and

other internet based products to lower costs. Improvements in IT infrastructure, usage and coverage in the participating countries will be critical for the transition.

18. Countries in the EDDI project are yet to report to STA using *BPM6* coding due to difficulties faced in converting *BPM5* coding to *BPM6*. While countries have been encouraged to use the STA conversion matrix to convert *BPM5* data into *BPM6* standard components, there is still a challenge of cutting and slicing data to break down *BPM5* aggregates into required components. This task is likely to be less daunting once countries adopt better source data that has been developed during the project. Provision of advice in this area is likely to be the focus of future missions as countries get closer to the proposed migration dates to *BPM6*.