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Private sector external debt: Main issues and challenges for monitoring

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FOREWORD

This publication series has been launched in response to the increasing number of requests Debt Relief International (DRI) has received for information on the activities of the *Heavily Indebted Poor Countries Debt Strategy and Analysis Capacity Building Programme* (HIPC CBP) and on the technical aspects of debt analysis and negotiations needed to develop and implement national debt strategies. The aim of the HIPC CBP, funded by five European governments (Austria, Denmark, Sweden, Switzerland and the United Kingdom), is to build and strengthen the capacity of HIPC governments to develop and implement their own national debt relief strategy, and a new borrowing policy consistent with long-term debt sustainability, without having to rely on international assistance. DRI is its non-profit implementing organisation.

The aim of the series is to present particular topics in a concise, accessible and practical way for use and implementation by HIPC governments. Each publication is intended to be reasonably self-contained.

This paper is written in the framework of the *Monitoring Private Capital Flows to Developing Countries: Capacity Building for Codes, Standards and Analysis* project, launched by Development Finance International, DRI's sister organisation. The aim of this project, funded by three of the donors of the HIPC CBP, namely Sweden, Switzerland and the United Kingdom, is to assist countries in monitoring and analysing private capital stocks and flows, for the balance of payments and the International Investment Position, and investor's perception.

The need for this project arises from demands expressed by many countries, including several HIPCs already participating in the HIPC CBP, in order to improve the monitoring of their capital flows and other macroeconomic data, the latter being essential to determine a country's long term debt sustainability and poverty reduction spending. The importance of macroeconomic data in debt sustainability analysis determined our wish to include this paper in our series, in order to enable HIPC senior officials and policy makers to focus on some of the key issues relating to capital flows and macroeconomic forecasting.

The views expressed in the publications are those of the authors and not necessarily those of the HIPC CBP donors.

We welcome any comments on this publication or suggestions for other topics to be included.

Alison Johnson
Editor

Yolande Eyoum
Administrator

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
BIS	Bank for International Settlements
BOP	Balance of Payments
BPM5	IMF's Balance of Payments Manual, 5th Edition
BSP	Central Bank of The Philippines
COMSEC	Commonwealth Secretariat
CS-DRMS	Commonwealth Secretariat's Debt Recording and Management System
DFI	Development Finance International
DMFAS	UNCTAD's Debt Management and Financial Analysis System
EC	Exchange Control
ECB	European Central Bank
FAL	Foreign Assets and Liabilities-
FCDU	Foreign Currency Deposit Unit
FDI	Foreign Direct Investment
GDDS	General Data Dissemination Standards
GDF	Global Development Finance
IIP	International Investment Position
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
PGED	Private Sector Government-Guaranteed External Debt
PNED	Private Sector Non-Government-Guaranteed External Debt
PPGED	Public and Publicly Guaranteed External Debt
PSED	Private Sector External Debt
PUSED	Public Sector External Debt
SDDS	Special Data Dissemination Standards
SNA	System of National Accounts
UNCTAD	United Nations Conference on Trade and Development

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1. INTRODUCTION

Until recently and with a few exceptions, such as the Philippines and Zimbabwe, governments and central banks had devoted little emphasis or resources to addressing private sector external debt (PSED). Similarly, since the introduction of computerised debt recording and management systems in the early-1980s, they have focussed on public and publicly-guaranteed external debt. This was understandable, as this category of debt was the most significant cause of the debt crises that erupted, and international initiatives were mainly directed to alleviating its burden. In the broader context of private external flows, the main focus was on foreign direct investment, as it was the most significant private flow. Thus, monitoring and analysing private sector external debt has had a relatively low priority.

Recent experiences, however, have highlighted the need to place more importance on monitoring private sector external debt. This paper discusses the major issues and is intended to alert debt managers to the key challenges in developing and strengthening monitoring systems. Section 2 discusses why more attention is now being given to monitoring PSED. Section 3 discusses what is meant by PSED, how monitoring it differs from monitoring public and publicly-guaranteed external debt, and how it depends significantly on the exchange regime. Section 4 examines the key factors that have to be considered in developing and strengthening monitoring systems, and Section 5 presents the conclusion.

Terminology

The following terminologies and abbreviations are used in this paper:

Private sector external debt (PSED) is the total external debt of the private sector, which comprises:

- **private sector government-guaranteed external debt (PGED)**, which is the component guaranteed by the government;
- **private sector non-guaranteed external debt (PNED)**, which is not guaranteed by the government.

Public sector external debt (PUSED) comprises debt of the government and parastatals.

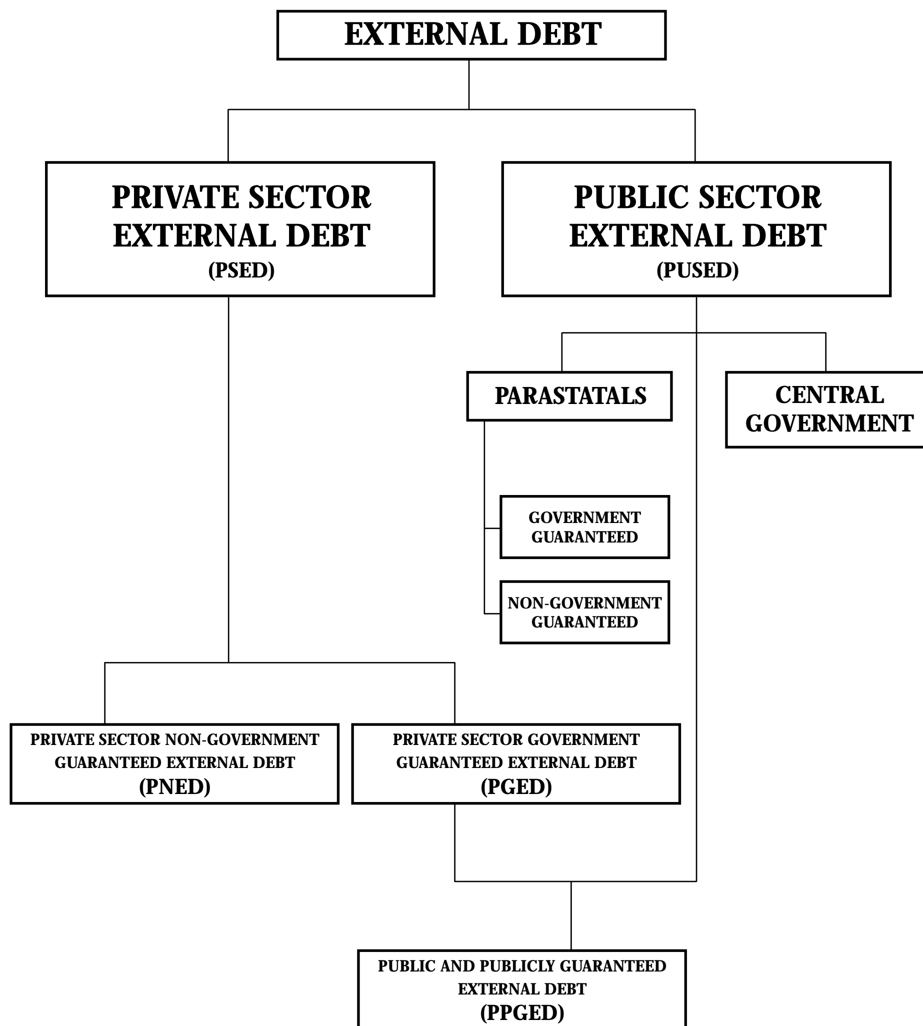
Public and publicly guaranteed external debt (PPGED) comprises the external debt of the public sector (government and parastatals) as well as government guaranteed private sector debt (PPGED = PUSED + PGED).

Short-term external debt is any debt with an original maturity of one year of less.

Medium and long-term external debt is any debt with an original maturity of over one year.

As this paper focuses on medium and long term external debt, all references to PSED, PGED and PNED are to medium and long-term private sector external debt.

CHART 1 – EXTERNAL DEBT CLASSIFICATION BY DEBTOR CATEGORY



PRIVATE SECTOR EXTERNAL DEBT: MAIN ISSUES AND CHALLENGES FOR MONITORING

2. WHY MONITORING PSED?

There is now an increasing appreciation of the need to monitor PSED arising from a convergence of a series of different factors. These are discussed below.

2.1 ROLE OF PRIVATE SECTOR *VIS-À-VIS* THE GOVERNMENT

Over the last two decades, the role of government has become relatively less significant in the overall economic landscape of many developing countries. Many countries are pursuing vigorous privatisation programmes, and the private sector is being more actively promoted as the major engine of economic growth. As a result, public sector external debt (PUSED) as a percentage of total external debt is declining while the share of private sector is increasing. Although comprehensive, consistent statistics on private sector external debt are not presently available, the information provided in the World Bank's Global Development Finance (GDF) gives a good indication of the trend (Table 1). However, these statistics underestimate private sector external debt (PSED), because only private non-guaranteed external debt (PNED) is shown separately, many countries do not collect and report on this category of debt to the World Bank, and the guaranteed component is aggregated into public and publicly-guaranteed external debt (PPGED).

TABLE 1 – PRIVATE NON-GUARANTEED EXTERNAL DEBT STOCK BY REGION 1970-2000* (US$ BILLION & PERCENTAGE)

	1970		1980		1990		1996		1998		1999		2000	
	US$	*%*	**US$**	*%*	**US$**	*%*	**US$**	*%*	**US$**	*%*	**US$**	*%*	**US$**	*%*
East Asia & Pacific	2.2	*14*	11.1	*16*	27.0	*41*	128.7	*43*	192.0	*36*	177.3	*33*	169.6	*32*
Europe & Central Asia	0.9	*6*	11.5	*16*	4.9	*7*	29.3	*10*	90.1	*17*	94.7	*18*	94.7	*18*
Latin America & The Caribbean	11.9	*77*	42.4	*60*	25.1	*38*	116.8	*39*	219.8	*42*	242.0	*45*	245.4	*46*
Middle East & North Africa	0.2	*1*	0.6	*1*	1.5	*2*	3.8	*1*	5.9	*1*	3.9	*1*	4.8	*1*
South Asia	0.1	*1*	0.4	*1*	1.7	*3*	9.5	*3*	11.1	*2*	10.3	*2*	11.2	*2*
Sub-Saharan Africa	0.3	*2*	4.6	*7*	5.2	*8*	10.2	*3*	8.8	*2*	7.3	*1*	8.5	*2*
All Developing Countries Private Non-Guaranteed External Debt	**15.4**	***100***	**70.6**	***100***	**65.4**	***100***	**298.3**	***100***	**527.7**	***100***	**535.5**	***100***	**534.2**	***100***
% of Total Debt		*21.2*		*12.0*		*3.5*		*13.3*		*20.6*		*20.9*		*21.1*
Total External Debt, US$	**72.7**		**586.7**		**1,859.9**		**2,247.6**		**2,567.3**		**2,563.6**		**2,527.5**	

* at end of period. Totals may not sum due to rounding.
Source: *Global Development Finance 2001, Analysis and Summary Tables and Country Tables.* World Bank

These figures show that although private non-guaranteed external debt declined during the 1980s, it has been increasing at a faster rate than public and publicly guaranteed external debt during the 1990s. As a result, its share in total debt has increased from 3.5% in 1990 to 21.1% in 2000.

2.2 Increase in Private Flows to Developing Countries

Relatedly, there has been an absolute and proportionately sharp increase in private sector flows to developing countries, including non-guaranteed lending to the private sector. Table 2 shows net long term flows to developing counties increased almost 350% between 1990 and 1997 to US$343 billion, before declining to US$264 billion in 1999 and US$296 billion in 2000. Private flows have increased from less than 50% of total flows at the beginning of the decade, to 90% in 1996. Since then, it has declined to an annual average of 87%.

Table 2 – Net Long-term Resource Flows to Developing Countries 1990-2000 (US$ billion, except otherwise indicated)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Resource Flows	**98.5**	**123.0**	**155.8**	**220.4**	**223.7**	**261.2**	**311.2**	**342.6**	**334.9**	**264.5**	**295.8**
A. Official Flows	**55.9**	**60.9**	**56.5**	**53.6**	**48.0**	**55.1**	**31.9**	**42.8**	**54.6**	**45.3**	**38.6**
% of total	56.8	49.5	36.2	24.2	21.5	21.1	10.3	12.5	16.3	17.1	13.0
B. Private Flows	**42.6**	**62.1**	**99.3**	**166.8**	**175.7**	**206.1**	**279.3**	**299.8**	**280.3**	**219.2**	**257.2**
% of total of which:	43.2	50.5	63.8	75.8	78.5	78.9	89.7	87.5	83.7	82.9	87.0
B.1 International capital markets	**18.5**	**26.3**	**52.2**	**100.2**	**85.6**	**99.1**	**147.8**	**127.2**	**103.5**	**33.8**	**79.2**
Debt flows	**15.7**	**18.8**	**38.1**	**49.2**	**50.5**	**63.0**	**98.7**	**97.0**	**87.9**	**-0.6**	**31.3**
% of total flows	15.9	15.3	24.4	22.3	22.6	24.1	31.7	28.3	26.2	-0.2	10.6
% of private flows	36.9	30.3	38.3	29.4	28.7	30.6	35.3	32.4	31.4	-0.3	12.2
of which: Bank lending	3.2	5.0	16.2	3.4	8.7	30.5	33.7	45.2	50.0	-24.6	0.7
Bond financing	1.2	10.9	11.1	36.6	38.2	30.8	62.5	49.0	40.9	25.4	30.3
Other	11.3	2.8	10.8	9.2	3.6	1.7	2.4	2.7	-3.0	-1.6	0.3
Equity flows	**2.8**	**7.6**	**14.1**	**51.0**	**35.2**	**36.1**	**49.2**	**30.2**	**15.6**	**34.5**	**47.9**
B.2 Foreign direct investment	**24.1**	**35.7**	**47.1**	**66.6**	**90.0**	**107.0**	**131.5**	**172.6**	**176.8**	**185.4**	**178.0**

Source: *Global Development Finance 2000* and *2001, Analysis and Summary Tables* and *Country Tables*. World Bank

Debt flows have risen in tandem with private flows, accounting for more than a quarter of total flows in 1996-1998. Thereafter they declined substantially because of the Southeast Asian debt crisis resulting difficulties in accessing capital markets.

2.3 Macroeconomic Impact of PSED

Private sector external borrowing has long been viewed as relatively insignificant, and, given that it was supposed to be market determined, it had been assumed to be allocated efficiently. However, as noted above, private sector external borrowings are no longer insignificant. In addition, they are not necessarily allocated efficiently, as direct and indirect government interventions, distorting incentives, lax regulatory standards and weak corporate governance can affect the efficiency of market operations and the allocation of these flows. Liberalisation of the financial markets and exchange regimes, without commensurate strengthening of the financial system, supervision and regulation can also render economies vulnerable. For example, government guarantees can induce the banks and companies to engage in lending

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for more risky and speculative investments, than they would otherwise do. They could also encourage inappropriately structured lending, such as short-term borrowings for long-term investment projects.

The Southeast Asian debt crisis threw into stark reality the strong linkages of private sector external borrowings to the macroeconomy and the vulnerability of the economy to severe movements in such flows. It occurred in an environment of impressive macroeconomic performance and conventional debt indicators that were within safe prudential limits (except for Indonesia and Korea). Against the background of strong economic growth, the economies suffered from several frailties, including financial sector weakness, poor corporate governance, and lack of transparency. Governments were also pursuing exchange rate policies resulting in real exchange rates that were not consistent with the underlying macroeconomic fundamentals. In this environment, substantial debt and other private capital flows flooded into the region, significant amounts of which were used for speculative purposes. A rapid movement towards globalisation and to full capital account convertibility in the 1990s, without the necessary gradualism to allow proper sequencing with the introduction of precautionary and regulatory policies and measures, also contributed to these developments. As a result, there was risky bank borrowing and lending, including a substantial amount of short-term external borrowings for lending locally long-term and for speculative purposes. These resulted in significant mismatches between asset and liability maturities, price bubbles in different sectors and inflationary pressures. These eventually provoked a sudden and sharp outflow of funds from the region by creditors and investors.

While there are many lessons to be drawn from this crisis, those that relate directly to external debt include:

- The Southeast Asian crisis can be considered a crisis of private sector external borrowings. While there were other fundamental reasons for it, one of the triggers to the crisis was the build-up of significant private sector external debt, particularly short-term.
- The recognition that the accumulated external borrowings by the private sector and resultant debt stock can have severe macroeconomic consequences. While individual companies can be borrowing externally based on sound financial performance and future projections of growth and cash flow, taken cumulatively borrowings by the private sector can result in debt servicing humps, putting pressure on the reserves and destabilising the economy.
- Explicit and implicit government guarantees (such as the government absorbing the losses arising from bank failures so as to preserve the stability of the banking system) can lead institutions to engage in risky and speculative borrowing and lending (resulting in the banks receiving high profits if projects are successful and the government absorbing the losses if they fail)) that can render the economy vulnerable.
- Institutional and regulatory weaknesses, such as poor bank supervision, distorted incentives and inadequate disclosure provisions can lead to excessive and risky external borrowings.
- Countries embarking on a path of full capital account convertibility should do so gradually, ensure proper sequencing and management and strengthen the financial systems including supervision and regulation, promote transparency and eliminate

distorted incentives, including explicit and implicit guarantees.

- Countries moving towards full capital account convertibility should also maintain legislation to collect information on external flows, especially in the context of the environment described above. As necessary, it should also strengthen other mechanisms to support traditional information sources, such as international sources as creditors and institutions that publish related information, such as the Bank for International Settlements (BIS).
- In view of all the potential risks to the macroeconomy, the IMF, other international institutions, domestic and external investors are recognising the increasing importance of PSED, and are requesting more detailed information on a routine basis on this category of debt, in order to try to avoid future financial crises.

2.4 International Initiatives to Improve Debt Statistics

In recognition of the growing need for comprehensive external debt statistics, the international community has launched a number of important initiatives to improve the recording and reporting of private sector external debt statistics, as follows:

2.4.1 Special Data Dissemination Standard and the General Data Dissemination System

These initiatives were set up by the IMF in mid-1996 and 1997 respectively, and involve the provision of data to the IMF and the international community on a voluntary basis. The Special Data Dissemination Standard (SDDS)[1] provides guidelines for IMF members that already have high data standards and access to, or are considering accessing, international capital markets. The General Data Dissemination System (GDDS)[2] is more broadly based and aims to strengthen data quality of subscribing countries.

Both the SDDS and the GDDS set requirements for the provision of government and private sector external debt. Both also recommend compilation of data according to the International Investment Position (IIP), a relatively new framework detailing the stock of external assets and liabilities, and the balance of payments in line with the IMF's *Balance of Payments Manual, 5th Edition*[3]. This involves, among other things, the detailing of total external debt by debtor category, by type of instrument and by original maturity.

Partly in response to the South East Asian crisis, the first and second review of the SDDS recommended the strengthening of data provision and dissemination in the areas of international reserves and external debt. A separate data category on external debt was introduced, with data for three main components – general government, the monetary authorities and banks, and non-financial public corporations and the private sector – and with further breakdown, including maturity, currency composition and scheduled debt service. For the GDDS, a core data category was also recommended with more detail on public and publicly guaranteed external debt.

2.4.2 Inter-Agency Task Force on Finance Statistics

In response to the Southeast Asian crisis, the IMF convened an Inter-Agency Task Force on Finance Statistics with representatives from the Bank for International Settlements (BIS),

[1] IMF (1996).
[2] IMF (1998).
[3] IMF (1993).

Commonwealth Secretariat, European Central Bank (ECB), Organisation for Economic Co-operation and Development (OECD), Paris Club, United Nations Conference on Trade and Development (UNCTAD) and World Bank. It had two main objectives: to create a joint table on worldwide external debt using all available information and to update the 1988 *External Debt: Definition, Statistical Coverage and Methodology* (known as the *Grey Book*)[4].

2.4.2.1 Joint Table on External Debt Statistics

In March 1999, the BIS, IMF, OECD and World Bank began producing information on the current debt position of 176 developing and transitional economies based on official and private creditor records. The information is provided quarterly and classified by creditor source, with little disaggregation by debtor type, however, the data can diverge significantly from that based on debtor sources and it is therefore important for debtor countries to crosscheck closely with information from these sources[5].

2.4.2.2 External Debt Statistics: Guide for Compilers and Users (Guide)

The final draft of the Guide[6] has been produced following lengthy and detailed discussions with international and national users and compilers. It provides international standards on (1) the concepts, definitions and classifications of external debt data; (2) the sources and techniques for compiling these data; and (3) the analytical use of these data. It is intended to provide guidance that can be applied across all sectors of the economy and for the different debt instrument used for borrowing. As the BOP/IIP and its concepts provide the centrepiece of this Guide, there is a stronger focus on recording and monitoring data on private sector external debt[7].

As a result of these factors, developing countries are now placing more emphasis on the monitoring of private sector external debt.

3. PRIVATE SECTOR EXTERNAL DEBT: DEFINITIONS, DIFFERENCES FROM PUBLIC SECTOR DEBT AND MONITORING REGIMES

This section deals with three related themes: the definition and components of private sector external debt; how it differs from public sector external debt; and the main issues for monitoring private sector external debt under different foreign exchange regimes.

3.1 Definition of Private Sector External Debt

The definitions and classifications used in this paper are consistent with the IMF *Balance of Payments Manual, 5th Edition* and the *Guide*. As such private sector external debt is defined as:

Gross private sector external debt, at any given time, is the outstanding amount of those current, and not contingent, liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) in the future and that are owed to non-residents by private residents of an economy[8].

[4] Bank for International Settlements et al (1988).
[5] Refer to www.oecd.org/dac/debt for more information and details.
[6] Bank for International Settlements et al (2001). Available on the IMF website at: www.imf.org/external/np/sta/ed/guide.htm.
[7] Bank for International Settlements (2001). See Preface and Chapter 1 for an overview of the Debt Guide and information on the relevant sections.
[8] Based on the Guide definition. See Bank for International Settlements et al (2001), page 17.

This definition of external debt has been widened from that used in the 1988 *Grey Book*[9]. The Grey Book definition was limited to there being a contractual liability to pay interest or principal or both, whereas the Guide's definition also recognises debt claims arising from taxes, penalties and judicial awards. In addition, the definition now includes loans between a parent company and its subsidiary or other inter-company loans that may not be extended via a formal legal document such as a loan contract.

The key points to note about this definition are:

- Only external borrowings by *private sector* companies and individuals are included. The private sector includes incorporated private enterprises (including corporations, joint stock companies, limited liability companies, co-operatives, or other business associations recognised as independent legal entities by virtue of registration of company or similar acts, laws or regulations), unincorporated enterprises, non-profit organisations, individuals and households. Enterprises in which the majority of shares or ownership is held by the private sector are also considered as part of the private sector. Note that private sector external debt (PSED) includes both private sector borrowings, which are guaranteed by the government, and those that are not.
- The concept of *residence*[10], not currency, is the major criterion for determining an external debt. In compilation of the BOP and IIP the focus is on capturing transactions between residents and non-residents only, regardless of the currency of transaction, or nationality of the agents involved. Debt denominated in *local currency* but owed to non-residents is considered external debt. Conversely, debt denominated in foreign currency and extended from one local entity to another is considered domestic debt. Information on debt denominated in *external currency*, regardless of residence, is also useful to assess vulnerability to external outflows (capital flight) in fully-liberalised regimes.
- *Outstanding and current debt* is a crucial concept, which excludes the undisbursed portion of loans. However, it is useful to have information on the amount and profile of undisbursed loans as this provides signals of the volume, currency, purpose and sources of future inflows for monetary, fiscal and balance of payments purposes as well as external debt strategy analysis.
- *Contingent liabilities* are excluded. These are obligations that arise from a particular discrete event(s), which may or may not occur, and can be distinguished from current financial claims (and external debt), in that one or more conditions or events must be fulfilled before a financial transaction takes place. Contingent liabilities can be explicit or implicit. See Annex I for details. The monitoring of contingent liabilities is also highly important for projecting risks of sudden future increases in debt liabilities.

Box 1 and Table 3 present the key BOP classifications that relate to private sector external debt instruments. Annex II gives a detailed linkage of debt flows and stocks to the BOP and IIP.

[9] Bank for International Settlements et al (1988).

[10] Residence is relevant rather than nationality, which relates to citizenship. For example, a debt owed by an individual of British citizenship resident in Tanzania to a British citizen resident in the UK would be relevant for Tanzania's PSED, but debt owed by a Tanzanian citizen resident in the UK to a British citizen resident in the UK would not.

PRIVATE SECTOR EXTERNAL DEBT: MAIN ISSUES AND CHALLENGES FOR MONITORING

BOX 1 – DEBT INSTRUMENTS AND BALANCE OF PAYMENTS/INTERNATIONAL INVESTMENT POSITION CLASSIFICATION

Private sector external debt disbursements and repayments are classified in the Financial Accounts of the Balance of Payments, whereas interest payments are recorded in the Investment Income section of the Current Account.

The debt instruments are distributed among the three categories of the Financial Account and Investment Income as follows:

Foreign Direct Investment refers to a lasting interest of an entity resident in one economy (the direct investor) in an entity resident in another economy (the direct investment enterprise), defined as ownership of 10 percent or more in the equity of a direct investment enterprise[11]. This is further classified into Equity Capital and Reinvested Earnings, Other Capital and Financial Derivatives.

Of the direct investment components, Other Capital, when owed to non-resident direct investors or affiliates, is included in the gross external debt position; but the other components are not. This includes *debt securities* and *suppliers' credits* (i.e., trade credits) between direct investors and subsidiaries, branches, and associates. In the BOP/IIP tables, other capital is presented as Direct Investment: Other Capital - Liabilities to Affiliated Enterprises.

Portfolio investment[12] covers financial instruments (other than those included in direct investment) that are usually traded (or tradable) in organised and other financial markets, including over-the-counter (OTC) markets. Of the portfolio investment components, when owed to non-residents, *debt securities* (bonds and notes) and *money market instruments* (e.g., treasury bills) are included. Equity securities are not included in external debt.

Other investment[13] covers all financial instruments other than those classified as direct investment, portfolio investment, financial derivatives, or reserve assets. When owed to non-residents, all the components of other investment - *trade credit, loans, currency and deposits*, and *other debt liabilities* - are included, and separately identified by the sector of debtor, in the gross external debt position.

These various components are disaggregated according to original maturity: either short-term (up to one-year) or long term (over one year). Annex I gives the definitions of the various instruments and the BOP Financial Accounts Classification.

TABLE 3 – PRIVATE EXTERNAL DEBT AND BOP/IIP CLASSIFICATION

Debt Instruments	BOP Classification
Bonds and notes	Portfolio investment-Debt securities-Bonds and notes
Currency and deposits	Other investment-Currency and deposits
Inter-company loans (including permanent debt in banks[14])	Direct investment-Other Capital-Liabilities to Affiliated Enterprises
Loans (excluding inter-company loans)	Other investment-Loans
Money market instruments	Portfolio investment-Debt securities-Money market instruments
Trade credits (excluding inter-company loans)	Other investment-Trade credits

[11] Bank for International Settlements (2001), page 52.

[12] Ibid., page 54.

[13] Ibid., page 57.

[14] Permanent debt in banks is a term used in BPM5 to describe a non-equity instrument that is of a long-term or permanent nature, and which is owned by a bank with whom the issuer has a direct investment relationship. Direct investment capital transactions of banks are limited to equity and permanent debt transactions. Other debt claims and liabilities between affiliated financial intermediaries, such as short-term loans, are classified, as appropriate, under portfolio investment or other investment.

3.2 Key Differences Between Private Sector External Debt and Public Sector External Debt

Monitoring Private Sector External Debt (PSED), especially in the case of fully-liberalised exchange controls, can be more complicated than public and publicly guaranteed external debt. Some of the main differences are identified below.

Ownership/Mandate to Collect Data
For Public Sector External Debt (PUSED), the government has contracted the debt or has full or partial ownership of the enterprise that has contracted the debt, or has guaranteed the debt and therefore it is a contingent liability of the government. The government, therefore, has a significant degree of authority and control, thereby enabling it to collect the related information. In the case of PSED, it is not owned or may not be guaranteed by the government, and hence the government's ability to exert authority and control to collect information is much lower.

Institutional Arrangements
The institutional arrangements for monitoring PSED can be more complex than for PUSED. In the latter case, information on central government debt is usually centralised in a few departments mainly in the ministry of finance, ministry of planning and/or the central bank, whereas sector ministries or departments will have access to most of the information on public enterprise and guaranteed debts. In the case of PSED, the institutional arrangements can vary from the simple to the very complex, depending on the exchange control regime (see 3.3 below).

Methods of Collection
Relatedly, the methods of collection for PSED can be much more complicated. For PUSED, where the loan documentation and actual transaction documents are provided by a handful of ministries, the central bank and public enterprises/companies. In addition, there can be one or two forms to collect information on transactions on a periodic basis. For PSED, the collection method will vary and can include a combination of surveys (both specific broader external assets and liabilities), forms to be completed on a regular basis, commercial bank returns and company balance sheets.

Types of Debt
The types of PSED can pose challenges. Two particularly problematic types are inter-company loans and debt transactions that do not flow through the domestic financial system. For inter-company loans, the arrangements and flows can be internal to the company and hence are difficult to trace and monitor. In some countries, such as Uganda, when companies do report on such loans, they frequently do not give repayment terms, indicating that payments will be made depending on the 'cash flow'. In the second case, companies can receive non-cash disbursements and payments can be made through offshore accounts or in goods and services. In these cases, data will not flow through the financial system and data capture is more challenging.

Private sector government-guaranteed external debt (PGED) vs Private sector non-guaranteed external debt (PNED)
PGED is a direct contingent liability of the government and so the government will usually be collecting and reporting on this type of debt, as it is a contingent claim on its budget. The government, in the process of guaranteeing the private sector borrowings usually puts in place mechanisms to collect all necessary information and data. However, for private sector non-guaranteed external debt (PNED), the government does not have the authority provided by the guarantee to collect the required information. Data on this type of debt is the most challenging to capture.

3.3 Monitoring PSED Under Different Exchange Regimes

Monitoring of PSED, particularly PNED, can vary in complexity depending on the exchange regime in place. Three types of regime can be differentiated: full exchange controls, semi-controlled and fully-liberalised. These should not be viewed as discrete stages but as being along a spectrum as a country moves from full controls to total liberalisation of all accounts.

For this paper, the regimes with explicit full exchange controls are those where exchange controls exist on all terms of the capital and financial accounts[15]. In this type of regime, approval generally is required for all loans that are not guaranteed by the government, as is the case in Malawi. Controls can even exist on the current account (e.g., loan interest or divided payments) and there may be stipulations for information on current account transactions to be submitted.

Fully-liberalised regimes are those that have no restrictions on companies that want to borrow externally. Each company can borrow on terms and amounts as required, constrained only by the company's circumstances and domestic and international market conditions. Country examples include The Gambia, Indonesia, Uganda, and Zambia.

Between these two types of regimes is a spectrum of regimes – semi-controlled regimes – having varying degrees of controls on external borrowings. These generally allow some loans to be exempt from the approval process, although reporting on these loans may be required. The exemptions can be on the basis of amounts, or sectors, or terms or other criteria. Countries that have this type of regime include Malaysia, Philippines and Zimbabwe.

Each type of regime has different objectives, data requirements, legal mandates and institutional arrangements for PSED. In all the regimes, however, the information will be required for both PGED and PNED. Even if PGED is collected for other purposes (to track contingent liabilities), it may still be subject to the approval and related reporting procedures for exchange control purposes in fully-controlled and semi-controlled regimes (see Box 2 on Malawi). PGED may also be captured by different institutions, probably the Ministry of Finance or the ministry responsible for state enterprises, in the context of collecting information on the government guarantees, and the central bank from the perspective of monitoring overall private sector external debt. The information requirements may also differ and the information required for monitoring PGED from a debt management perspective (classifications, projections, stocks and flows) may not be completely available from the government department collecting information on contingent liabilities, therefore necessitating other monitoring systems.

[15] This paper only deals with the direct capital controls, not the indirect or market-based controls, which discourage capital movements by making them more costly to undertake. The latter can take various forms, such as multiple exchange rates and explicit or implicit taxes (see Ariyoshi et al).

3.3.1 Full Exchange Controls

Objectives

Full exchange controls are designed to control the flow of external resources in and out of the country. In this case, approval or notification can be required at each stage of the loan (approval for contracting and servicing and notification for disbursements) and, where controls exist on the current account, for each transaction.

Data Requirements

In the fully-controlled regime, approvals of each loan and related amendments are required which will necessitate submission of draft copies of loan contracts as well as the signed loan agreements and other relevant documents, including company details. Furthermore, the approval of each transaction (disbursements and/or service payments) may require the submission of comprehensive details about the borrower, lender, purpose or project, interest rates, payment dates, bank details and so on. In this environment, data capture of PSED is almost total. Box 2 provides an example of data requirements and sources for a country, Malawi, which has full controls on its capital and financial accounts.

Legal Mandate

With full exchange controls, the authority to manage, approve and collect information on PSED is usually fully vested in an exchange control act and supported by other legislation.

Institutional Arrangements

Generally, the responsibility for PSED monitoring is vested in the central bank. In some cases, such as India and Guyana, the ministries of finance are mandated to approve foreign borrowings. In addition, the Central Bank is sometimes required to assume some responsibility (as in Guyana, where it is required to review some applications) or clearance has to be obtained from the Ministry of Finance before it goes to the Central Bank for approval and monitoring (as in India).

In some cases, information on the PGED is collected by another institution, probably the Ministry of Finance or the ministry responsible for state enterprises. If the data collection of PGED is complete consistent and reliable, the Central Bank can co-ordinate with the relevant institutions to collect this information on PGED and concentrate on PNED. In some regimes, especially fully-controlled and semi-controlled, PGED is still subject to the approval process, as in the Philippines and hence information is available.

In the case of full exchange controls, the exchange control department of the central bank has a relatively large complement of staff and resources in place to compile and monitor PSED and to interact with the borrower and the commercial banks, which generally provide all information required.

Private Sector External Debt: Main Issues and Challenges for Monitoring

Box 2 – Debt Approval and Monitoring under a Fully-Controlled Regime: Malawi

Malawi requires that all non-guaranteed external borrowings by companies and individuals be approved by the Exchange Control authorities of the Reserve Bank of Malawi. The loans guaranteed by the Government are addressed through another division in the Reserve Bank of Malawi which participates in the negotiations.

The following stages are required:

1. Residents considering borrowing abroad have to submit an application through an authorised dealer bank (AfDB) under cover of an Exchange Control (EC) application form. The AfDB prepares the application form and the application must be supported by the draft loan contract, as well as cash flow projections and audited accounts. Several factors are considered in granting approval, including purpose of loan (such as export-oriented, job creation), loan terms, currency composition and ability to repay. Amendments and cancellations to loan agreements also require approval.

2. Once Exchange Control is satisfied that the application meets the required standards, approval in principle is granted, pending proof of receipt of the funds stipulated in the loan agreement and the signed loan contract (on first disbursement). Once the disbursements have been received, the borrower is required to submit copies of the bank advices and other documents authenticating that the disbursements have taken place.

3. Formal approval of the loan is provided after the proof of all disbursements has been supplied, and the right to externalise principal and interest payments is then given to the borrower. The EC number under which formal approval of the borrowing is granted becomes the point of reference for all transactions associated with the loan.

4. The borrower can then externalise the payments through the authorised dealer bank with no further recourse to the Reserve Bank of Malawi. The system does not allow for principal payments to commence before disbursements have been completed to prevent repatriation of funds 'illegally'. An EC form, referring to the approval and the EC number under which it is granted, has to be completed in conducting each transaction. These EC forms are then submitted by the authorised dealer banks to the Reserve Bank of Malawi.

5. If the terms of the loan are to be changed, approval must first be sought from the Reserve Bank of Malawi. If the loan is in arrears, the Reserve Bank of Malawi also has to be informed.

The information capture – details of loan information, disbursements, payments, arrears, reschedulings, other – in this type of regime, if functioning effectively, is therefore complete. However, in some cases, information flow among departments, information storage and retrieval and the use of the information for debt recording and analysis could be improved.

Source: *Presentation on Introduction to Data Requirements for Private Sector External Debt*, Joseph Milner, Manager, Exchange Control, Reserve Bank of Malawi at Monitoring Private Capital Flows to Developing Countries: Sensitisation and Training Workshop, Lilongwe, Malawi: 30 July - 2 August, 2001.

3.3.2 Semi-Controlled Regimes

Objectives

Under a semi-controlled regime, the objective is more to influence the flow of foreign exchange rather than control it and the controls are less stringent than in regimes with full exchange controls.

Data requirements

In this case, some loans and transactions may be exempt from approval and this varies from country to country. For example, loans of less than a certain amount, or directed to certain key sectors such as export generating, or being paid from offshore accounts, may not require approval, but information and data on these loans are still required. Non-exempt borrowings will still need to be approved, and draft and signed loan contracts and related documents may have to be submitted. Under this regime, individual transactions may not have to be approved, or there may be limits whereby only transactions greater than a specified amount have to be approved. In this case, there is usually a requirement for borrowers to provide a summary of transactions per period. Data capture under these circumstances is incomplete, especially for those loans not requiring approval or registration. Box 3 presents the case of the Philippines, which has a semi-controlled regime (and a unique system of approval).

Legal mandate

In the semi-controlled regime, different legislation, including debt acts and decrees, the central bank and banking acts and statistical legislation can provide the mandate and information necessary.

Institutional arrangements

As a country moves towards a semi-liberalised regime, the exchange control department is usually restructured. Its administrative responsibilities are reduced and the resources directed to this function are less. Generally, either a smaller exchange control department/division is given the responsibility for approving and monitoring of the private sector external debt, or the exchange control department is disbanded and the responsibility is passed on to the research department or another department.

BOX 3 – LOAN AND GUARANTEE APPROVAL AND REGISTRATION UNDER A SEMI-CONTROLLED REGIME: THE PHILIPPINES

(and a Unique Fee Structure for Approval and Registration of External Loans)

Three-tier system: loans subject to approval, registration or neither

The Central Bank of the Philippines (Bangko Sentral ng Philippines-BSP) has a three-tier system for external borrowings: loans requiring approval, loans not requiring approval but requiring registration and loans requiring neither approval or registration.

A. Loans requiring prior approval include the following, irrespective of maturity, creditor and source of foreign exchange for servicing):

1. Loans of government, government financial corporations and non-financial corporations and local governments.
2. Loans of the private sector, guaranteed by the government or government financial or non-financial corporations and covered by foreign exchange guarantees issued by local commercial banks.
3. Loans with maturities exceeding one year to be obtained by banks and financial institutions intended for relending to public and private sectors.
4. Other private sector loans, irrespective of maturity if they are to be serviced using foreign exchange purchased from the banking system and not covered below.

B. Loans not subject to approval, but which have to be registered at the BSP and provide proof of disbursements, in order to access foreign exchange from the banking system for debt servicing purposes include:

1. Loans of private sector borrowers from Foreign Currency Deposit Units (FCDUs)/offshore sources, to be serviced using foreign exchange outside of the banking system.
2. Loans from parent companies provided that they are used for project financing or other costs eligible for foreign financing.
3. Short-term loans for normal interbank transactions (including interbank call loans and general liquidity loans), export advances from abroad and some short-term loans from FCDUs (comprehensive conditions apply).

C. Loans not requiring prior approval or registration include short-term FCDU loan to exporters/manufacturers and short-term loans to exporters/importers from foreign banks that have submitted their lending programme and credit limits to BSP. Nevertheless, companies are required to report on transactions to BSP.

Guarantee system

A. The following guarantees have to be submitted to the BSP for approval:

1. Guarantees for account of the public sector as well as those issued by government-owned and controlled corporations in favour of non-residents.
2. Guarantees issued by foreign banks and financial institutions to secure foreign loans that require prior BSP approval.

B. Guarantees that do not require prior BSP approval but which have to be registered at the BSP include:

1. Guarantees issued by local banks and financial institutions in favour of non-residents.
2. Guarantees issued by foreign banks and financial institutions to secure Peso loans/FCDU short-term loans.
3. Other guarantees or similar arrangements that give rise to actual foreign obligations.

Fee system

1. The processing fee for new loans/guarantees subject to approval is 0.02% of the total loan /guarantee, subject to a minimum fee of US$400 and a maximum of US$100,000.
2. Applications that are required to be treated quickly have to pay double these rates.
3. The fee for loans requiring registration only is 0.01% subject to a minimum of US$200 and a maximum of US$50,000.
4. A fee of Peso 1,000 applies to all guarantees and other contingent liabilities requiring registration.

Source: Central Bank of the Philippines, *Circulars No. 1389 of 1993* and *Nos. 32, 40* and *53 of 1994*

3.3.3 Fully-Liberalised Regime

Objectives

In a fully-liberalised system, there are no government regulations or constraints on the flows of foreign exchange and the government's role is mainly limited to collecting information for debt statistics, balance of payments and macro-economic purposes.

Data requirements

In a fully-liberalised system, no approval is required. Companies can borrow, disburse and repay on terms they negotiate. The information required is primarily for statistical purposes, and while information on a loan-by-loan basis may be required, summary information on standard forms submitted periodically is usually the maximum demanded. Data capture in this environment is usually the most challenging and has generally been poor, except in the case of commercial banks' borrowing and financial sector borrowing, where financial legislation often gives the authority to collect this information. Box 4 demonstrates some of the problems encountered in monitoring PSED in fully-liberalised regimes, and the special case of the commercial banks.

Legal mandate

In a fully-liberalised system, the debt acts, supported by the central bank, banking and statistical legislation can provide the authority required. However, as indicated in Box 4, when legal requirements for information collection have been abolished along with exchange controls and not replaced by other legal mandates, a breakdown in the provision of information has generally been the outcome.

Institutional arrangements

With the complete relaxation of exchange controls, the main objective is collection of statistical information and the exchange control department has been disbanded and the responsibility for monitoring is placed in the research department as in Zambia and Zimbabwe.

BOX 4 – PROBLEMS OF MONITORING PSED UNDER FULLY-LIBERALISED REGIMES, THE RESPONSES OF SOME COUNTRIES AND THE EXCEPTION OF THE FINANCIAL SECTOR

One unfortunate consequence of countries undertaking full liberalisation of their exchange control regimes is the loss of legal mandate to collect information on PSED. As a result, countries no longer have the ability to monitor private sector external debt and the related statistical systems have become severely weakened. These is also increasing recognition that, as a country liberalises its exchange regime, PSED monitoring can become more complex and challenging, necessitating the adoption of new methods of collection and more institutions being contacted to gather information. In addition, it raises the possibility of much higher non-compliance, with request for information.

After liberalisation, some countries tried to maintain, re-introduce, or introduce periodic reporting on standard forms. These have been largely unsuccessful, due to inadequate legal support, sensitisation of the private sector on why they need to respond, or staff and material resources. The private sector viewed these forms as an unnecessary burden, or with suspicion and, in extreme cases, with hostility as they were regarded as an attempt to reintroduce controls or serve another purpose, such as providing information for taxation e.g. in Indonesia, Uganda and Zambia. Furthermore, the lack of consistency and co-ordination in the request for similar information by different public or private institutions resulted in 'respondent fatigue' and consequently low response rates.

However, all parties involved, including the Bretton Woods institutions, have increasingly recognised that countries should, as a minimum, maintain the legislation and resources which enable the continued collection of information on PSED, even as they proceed to the final stages of liberalisation.

As a result, some countries with liberalised regimes have tried to strengthen their systems to monitor PSED. In the case of Indonesia, new forms and regulations were issued in November 2000, including stronger penalties for non-reporting (see Box 7). Strong awareness campaigns were mounted. Companies were also requested to report on diskettes, where possible. In the process of implementation, penalties were imposed frequently. The initial response to this enhanced approach is that the reporting by the companies has increased significantly.

Uganda is addressing the constraints experienced in earlier exercises by implementing a census under the mandate of the Bureau of Statistics Act and in the context of a broader survey of private capital flows (including foreign direct investment and portfolio flows) and investor perceptions, with technical support from DFI. It is addressing issues such as duplication of effort, survey fatigue, human resources, financial limitations and other constraints through a co-ordinated participation of relevant government bodies. A Task Force on Private Capital Flows has been created comprising the main institutions (the Bank of Uganda, Uganda Bureau of Statistics, Uganda Investment Authority) with joint and clearly defined responsibilities for implementing the survey. It also involves an intensive awareness campaign – statements and advertisements by the Governor, Bank of Uganda and other senior officials, in the newspaper and on television, and sensitisation workshops for the private sector.

However, it should be noted that, irrespective of the exchange regime, reporting of external borrowings of the financial sector on its own account is easier usually than for the non-financial sector as access to the required information should be more readily available. Regardless of the exchange regime, the legal and institutional arrangements relating to financial institutions normally provide the necessary authority to enable the effective collection of the information required. The Central Bank, banking and financial acts provide sufficient authority for the Central Bank to collect the necessary information on routine forms. This type of legislation is not repealed with the removal of exchange controls. The issue here is rather to enhance the system to ensure all information is collected and to enforce the mandate provided.

4. KEY FACTORS FOR MONITORING PSED: A GUIDE

This section focuses on a flexible and adaptive approach for a country wanting to improve its system for monitoring PSED. This approach is characterised by the following features:

- It does not assume that a country is moving towards a fully-liberalised system and therefore does not prescribe an approach only for this type of system.
- By extension, it recognises that different systems will have different characteristics: information requirements, legal mandates, institutional arrangements, procedures, etc.
- It does not prescribe loan-by-loan monitoring. Rather it asks the question whether aggregated information or detailed loan-by-loan information is required and discusses the issues relevant to answering it. Thereafter, it then focuses on developing a loan-by-loan system and the issues that have to be considered.
- No specific reporting forms are prescribed. Different types of forms may be appropriate for the different regimes. Examples of different forms – application, transaction, loan and transaction and aggregated – are discussed in Box 5 and can be obtained from DFI on request.

As a country decides to develop or strengthen its PSED system a set of critical and related factors have to be considered. This section provides a checklist of these factors and highlights some of the main problems countries will confront in establishing and reviewing monitoring systems. These can be divided into three broad groups: objectives and importance, information requirements, and the sources and framework for monitoring PSED.

4.1 Objectives and Importance

In order to establish or revise a country's need for a system to monitor PSED two key factors have to be examined: the objectives and importance in the economy.

The government's objective can be to:

- control all private sector borrowings,
- influence private sector borrowings in a semi-controlled environment,
- record and monitor for statistical and policy purposes.

Its objective will be reflected by its foreign exchange regime. The more controlled the foreign exchange regime, the more information is required for approval purposes. As a country moves towards a more liberalised regime, the information requirements may lessen but certain important information will continue to be required. In the extreme case of a fully-liberalised regime, aggregated information may be collected as part of a broader survey, for example on external stocks and flows. Even if loan-by-loan detail is required, detailed information on transactions and company data may no longer be necessary. Some basic information will still be necessary, including loan classifications and loan terms, projections, stocks and flows. As indicated in Chapter 2, recent developments have increased the need for more information, even in more liberalised economies.

Private Sector External Debt: Main Issues and Challenges for Monitoring

In light of the international drive to improve transparency by governments and thereby the stability of capital flows, governments may also want to review the international standards, such as the General Data Dissemination Standards, the Special Data Dissemination Standards[16] and the Debt Guide[17] to determine how best to meet one or more of these.

The role and importance of external debt in the economy will also be crucial. The more important it is (using ratios such as PSED to exports, reserves and total debt stock, and PSED debt service to exports) the more vulnerable the economy is to changes and sudden movements in PSED flows and hence the greater the need for data for operational, analytical and policy purposes.

4.2 Establishing/Reviewing Information Requirements and Sources

The next step is to determine the information requirements and data sources as set out below.

4.2.1 Definition of Information Requirements

These have to be defined at the outset, as all other considerations flow from it. If these are not clearly defined at the beginning, then forms, legislation, methods of collection, etc., may have to be changed at a later stage, which can be time consuming, costly, and difficult to implement. The key questions that need to be answered are:

- What information needs to be collected to meet national policy objectives and the international standards selected?
- Will information be collected on an aggregated basis or loan-by-loan? This is a most important decision as it has implications for all aspects of the PSED monitoring.

Table 4 summarises the key factors to be considered in deciding on an aggregated or a loan-by-loan system for collection of PSED information. The question of aggregated versus detailed data capture becomes more critical as a country moves towards a fully-liberalised regime. As noted above, in fully-controlled and semi-controlled regimes, the administrative system is supposed to provide the necessary information for loan-by-loan monitoring, but this is not the case in fully-liberalised regimes.

[16] See section 2.4.1

[17] See Section 2.4.2.2

Table 4 – Features of Aggregated and Loan-by-Loan Private Sector External Debt Monitoring

Title	Aggregated	Loan-by-loan
Purpose	Information mainly for Balance of Payments and International Investment Position purposes. Supplementary information can be collected on borrower or creditor perceptions and intentions. Generally intended to meet BPM5/SNA/GDDS standards in coverage, quality, timeliness, and periodicity.	Information for Balance of Payments and International Investment Position purposes, as well as for operational debt management (e.g., Central Bank provisioning for future debt service), portfolio reviews, debt sustainability analysis, strategy formulation, external sector policy and debt policy. No supplementary information provided on investor perceptions, although it can be administered with such questions. Information collected can meet standards of GDDS, SDDS and the Guide.
Detail	Aggregated data: classified by original maturity, instrument type, creditor category, stocks and flows. Can also include information on foreign direct investment and portfolio investment and other investment.	Comprehensive detail including currency, purpose, creditor, creditor category, creditor country, guarantee status, interest rate structure, fees, maturity profile, etc. This can be requested alongside aggregated debt data if Government is concerned that respondents will not supply the detail for tax or other reasons, and as a means of cross-checking.
Legal Mandate	Generally provided through Statistics Act, Central Bank Act, Banking legislation, investment agency, stock exchange, or other relevant legislation.	Requires specific legal mandate, whether exchange control legislation and regulations, or specific legislation/regulation on external debt reporting obligations of private companies and individuals. However, mandate to collect aggregated BOP/IIP data can also apply to detailed data, and is used especially where specific mandate to collect by loan detail in inadequate.
Information Sources	Surveys of borrowers and banks plus other sources, such as annual statements, board of investments. Can vary according to strength of legislation and degree of controls.	Can also vary according to the strength of the legislation and degree of controls. The weaker the legislation, the more varied the sources – from newspapers, lawyers, customs forms, banking sector and companies. The more effective the legislation, the fewer the sources, primarily companies and commercial banks. The ministry of finance or relevant agency can provide information on PGED.
Institutional Arrangements	Working group comprising the relevant departments from the Central Bank, National Statistical Office, Investment Authority and other agencies, as relevant and necessary, is convened or the mandate expanded if one already exists for BOP/IIP, to capture wider stocks and flows.	Generally the responsibility of one department in the Central Bank, probably the Exchange Control or Research Department. If loan-by-loan is captured as part of a wider stocks and flows survey, then this department would lead on this within a similar institutional structure as for aggregated collection.

Table 4 – Features of Aggregated and Loan-by-Loan Private Sector External Debt Monitoring

Title	Aggregated	Loan-by-loan
Methodology	Survey methodology is used, sometimes as part of broader assets and liabilities survey. Depending on controls, some BOP information can also be captured via commercial banks through existing periodic reporting structures.	Can use survey methodology, but generally periodic reporting.
Periodicity	Data capture generally annual (e.g., as a minimum requirement for GDDS), moving to semi-annual or quarterly collection over time, depending on resource constraints, response etc.	Data capture tends to be relatively frequent – monthly, quarterly or when loan signature or transaction takes place. Countries just starting capture have collected less frequently, and as part of a wider stocks and flows survey.
Response Rates	Part of a broader survey. Therefore subject to response rates and problems of the broader survey.	Depending on relative periodicity and institutional arrangements, can be independent of broader survey, and therefore not subject to related response rates. Requires separate follow-up. If part of a broader survey, follow-up would cover all information.
Skills Required	Requires manpower with survey skills as well as basic BOP, IIP and debt concepts.	Requires manpower with ability to interpret loan agreements and transactions and use of computerised debt recording and management systems.
Debt Management Systems	Does not require computerised debt recording system. Can use spreadsheet separate to, or part of entry and analysis software for wider capital stocks and flows. This would complement rather than duplicate software for loan-by-loan data.	Preferably recorded using computerised debt recording system.
Other Resources	Does not require dedicated unit. Can be done through combining resources from different institutions/sections when the survey is being conducted.	Generally requires dedicated section to monitor, report and analyse on a continuous basis

Developing a system for comprehensively monitoring private sector external debt can be a long term exercise, requiring revision of the legislation and implementation circulars, revision/development of forms and instructions, allocation of staff and other resources to undertake this exercise, awareness creation seminars and follow-up, which can take years. In the meantime, information is required for the Balance of Payments and the International Investment Position (IIP) and to provide basic statistics and analysis. Therefore a country may consider a system that evolves from aggregated reporting to loan-by-loan monitoring as the necessary framework and systems are put in place. Others may choose to go directly to loan-by-loan monitoring, and strengthen the systems during the process.

If loan-by-loan information is to be collected the following questions need to be considered:

- Will information on all loans be required or will information be collected on loans that satisfy certain criteria? For example, will there be a minimum size of loan (e.g., US$5 million) to be captured on a loan-by-loan basis? Or, will the biggest companies, which are expected to have large borrowings be targeted for loan-by-loan monitoring and aggregated information collected from smaller companies?
- What kind of information will be required? Three categories of information are identified:

  - *Loan details*. This includes loan characteristics such as debtor, creditor, type and country of creditor, guarantor/s (if any) purpose, economic sector, amount, currency and location. It also covers loan terms such as principal repayment profile, interest payment method (fixed or floating and if floating what rate and margin and calculation method (e.g, 360 or 365 days), commissions and fees and projected disbursements. This information is usually requested during the application process, if required, or within some stipulated period after the loan has been signed. Loan amendments and related changes to any of the above details may also be required.

  - *Transaction details*. This includes details on actual disbursements, principal payments, interest payments, commissions and fees, as well on arrears, reschedulings and swaps. The level of details for reported transactions needs to be decided. It is not usually necessary to request full reporting of individual transactions, except in fully-controlled regimes, and so the level of aggregation and frequency of reporting has to be determined. This differs from the reporting of public sector debt where individual loan transactions are recorded and cross-checked so as to project debt servicing payments accurately for budget, fiscal and foreign exchange management purposes.

  However, in a fully-controlled exchange regime, the information requirement may be as comprehensive as for government loans, as approval may be required for each transaction and the supporting information may have to be provided.

  - *Company details*. Information on the company seeking the external loan is sometimes required and this can include financial information, operational details, output, employment and information on the project to be supported by the loan. This mainly arises in a full or semi-controlled environment, and where permission has to be given to the company seeking the external loan. Vietnam and the Philippines are two such examples.

Some examples of the reporting forms used by countries to collect aggregate and detailed PSED data are described briefly in Box 5 below and available from Development Finance International[18].

[18] See DFI section of www.dri.org.uk.

BOX 5 – PRIVATE SECTOR EXTERNAL DEBT REPORTING FORMS: SOME EXAMPLES

Six examples of reporting forms on private sector external debt are presented below. These examples cover application/registration forms, transactions forms and loan information forms, listed by degree of liberalisation of exchange regime. These are by no means an exhaustive set of examples. Some countries may have different forms for different types of debt; for example, Indonesia has three reporting forms on basic loan information: one on external loans (excluding securities and trade payables), another for securities and a third for trade payables.

1. Application/Registration Form. This type of application form is used – or the information requested in this form is generally required – in regimes with full exchange controls or semi-controlled regimes. The form used in the Philippines, a semi-controlled regime, has 4 sections and three annexes:

- A summary section with general information on the borrower, the creditor, the project and summary of documents.
- Borrower's Profile (Format A) with government registrations, ownership structure, directors, financial position including debt outstanding.
- Loan Profile (Format B), with details of amount, creditor/s, guarantor, collateral disbursement period, repayments, interest and fees and other terms, with an annex on the amortisation schedule.
- Project Profile (Part C), detailing location, project purpose and description and cost components, source of funds for the project, including equity and other sources, and the economic and financial benefits of the project.
- Annex 1, drawdown and amortisation schedules of the loans in the original loan currency.
- Annex 2, summary of loan utilisation with dates, amounts, description of expenditure items in foreign and local currency.
- Annex 3, summary of local costs, with details of suppliers, item description, invoice references and amounts in local currency and US dollar equivalents.

2. Transactions Form: Fully-Controlled Regime. The transaction form used in Malawi, a fully controlled regime, is for reporting on all payments. The forms are to be completed and submitted to the commercial banks as part of the application for the foreign exchange to execute the payment. A copy of the completed and approved forms is then submitted by the commercial banks to the Reserve Bank of Malawi. While this form is general for all payments, the applicant is required to provide full details of the nature of the transaction, and in the case of payments on a loan, the type of payment and the relevant approval number from the Reserve Bank of Malawi.

3. Loan Information and Transaction Information. The South African Reserve Bank Debt Reporting Form is to be submitted annually. It differs from other transaction reporting forms in that all information is requested in one form: with sections for loan details (information on the creditor, guarantor, amounts, currency repayment period, interest and fees, dates); transactions and amounts outstanding, and projections of principal and interest (monthly for the next year, annually for the next six years and the cumulated for the rest of the repayment period).

4. Loan Information Form: Fully-Liberalised Regime. The forms used to report loan information in Indonesia, which has a fully-liberalised regime, require less information than those of a fully-controlled or semi-controlled regime. The form has two sections:

- data of recipient with basic information about the borrower (name, address, contact persons and foreign or locally owned;
- data on external debt: information on the type of loan, date of signature, amounts, terms, disbursement and repayment profiles, economic sector and creditor details.

5. Transactions Form: Semi-Controlled and Fully-Liberalised Regimes. The transaction forms for Indonesia, Malaysia and the Philippines – Indonesia is a fully-liberalised regime, the other two have some controls – are similar. These forms have to be submitted by the companies directly to the central bank. They are similar, with the two forms for the semi-controlled regime requiring slightly more information. All require information by loan (and loan number), date of loan contract, disbursement, principal, interest and fees in the currency of loan. There are a few differences which include: the Philippines require information on restructured principal and Indonesia on arrears created, the Philippines on cumulative amounts and Indonesia on outstanding amounts at beginning of period. Malaysia requires the Malaysian Ringgit (MYR) equivalent.

6. Aggregated Private Sector External Debt Reporting. In The Gambia private sector debt data collection is part of a broader annual survey of external capital flows. In completing the forms, enterprises are required to provide general information about the company. In addition, there is a specific sections relating to long-term and short-term overseas borrowings of which details on amounts outstanding, arrears, annual disbursements, repayments and interest payments are to be supplied.

4.2.2 Level of Detail

As stated above, data can be collected on a very aggregated basis in surveys of broader financial flows for the BOP/IIP or on a detailed loan-by-loan basis from all borrowers. An increasing number of countries are opting to collect loan-by-loan information. However this usually requires additional resources, both financial and administrative, which have to be taken into account when deciding on the level of data details.

Some countries have therefore requested that only loans over a certain amount need to be reported individually, with aggregate information being provided for all other loans. It can be adapted to different situations by altering the report thresholds (in absolute amounts or percentages of total), as necessary. This approach has been adopted by countries within semi-controlled regimes (such as Malaysia and Zimbabwe) – but can be applied to any regime along the spectrum of liberalisation of external flows – and they have estimated that data collection of approximately 80% of the value (not volume of loans and transactions) of the debt is maintained. For example, Uganda has found that out of a sample of approximately 300 reporting companies, approximately 120 reported on external debt; of these, preliminary estimates suggested 15 companies account for close to 75% of the commitments.

In Zimbabwe loans under a certain amount (US$5 million) do not need approval of the External Loans Co-ordinating Committee (ELCC, the committee responsible for approval of all external borrowings), but have to be reported.

Malaysia has gone further. A company has to apply for approval to borrow externally if the total of its outstanding external debt (including all its subsidiaries, branches or related affiliates) exceeds a certain amount (MYR4 million). This ensures that a company does not circumvent the regulations by splitting a large loan into smaller loans or by having related agencies borrow fractions of the total amount required.

One further issue: is the information to be reported in units, hundreds, thousands, millions or billions? For public sector external debt, reporting is usually in units, as the information is for auditing and accounting purposes as well as for management and policymaking. When it comes to monitoring PSED, reporting in thousands may suffice.

4.2.3 Periodicity of Reporting

The periodicity of reporting is another important consideration. For the two types of information, loan details and loan transactions different periodicity can apply.

4.2.3.1 Loan Information

If information is required on each loan, then there are several options for the periodicity of reporting, as follows:

- periodically – according to a timetable such as the end of each quarter, half-year, or annually (e.g. unusually South Africa),
- at the time the loan is being considered when the system requires application for approval (e.g. Malawi), or
- at a set time period after the loan has been signed (when there is no application for approval required, e.g. Indonesia).

Any of the above methods can suffice, provided that it is well enforced and the information is being supplied on time.

4.2.3.2 Transactions Details

A review of the GDDS in 2000 stated that the desired frequency for transactions reporting was quarterly with a one-quarter lag. So, for example, first quarter data collection should be completed and statistics presented by the end of the second quarter.

However, countries have chosen different options. If transactions are requested on a loan-by-loan basis, the periodicity may differ. Some countries have gone to the extreme of requesting the transaction forms be submitted monthly, even when no payments have been made (Indonesia). Malaysia and Vietnam require that the transactions be submitted quarterly. Others, such as Malawi, require data only for loans that have had transactions during the period. Still others, such as Guyana have opted for semi-annual submission of forms, on the basis that most loan payments are effected semi-annually. In South Africa, one form can be used to report loan details and the transactions for many different loans. (See Annex VII.)

Nevertheless, the already global trend is to have the information reported with greater frequency and to move towards the standard of the GDDS. There is also a very strong case for collecting data on short-term debt monthly, as these flows are the most volatile.

4.2.4 Clarification of Main Sources

Having decided the information required, the next step is to determine the best sources for obtaining this information, which can include commercial banks, borrowers, boards of investment, the chambers of commerce and creditors. Some countries have even resorted to lawyers and the media to get the data. While information may be available from all these sources, it is important to identify one or two main sources, recognising the potential problems of consistency that can arise by using different and diverse sources.

Countries with effective legislation do not need to rely on a multiple of sources. They generally tend to rely on the debtor as the main source, with the other sources being consulted for validation purposes and to determine compliance. This is the case in Indonesia, Philippines, Uganda and Zimbabwe. In other cases, two sources are used – the company for the loan information and the commercial banks for some transactions information: Malawi is a case in point.

Generally, the weaker the legislation, the less effective is the government's authority to collect the information required. In such circumstances, it is more likely that the government will need to resort to several different sources, rather than focusing on one or two. Box 6 looks at one of the major sources – commercial banks – as a source of data of PSED.

For PGED countries should be able to obtain all the necessary information from the institution responsible for monitoring PGED.

Box 6 – Commercial Banks as an Alternative Source of Loan Information

Commercial banks are the best alternative to the debtor as the main source of PSED information – mainly for transactions – since the commercial banking system is the main conduit for effecting international transactions. In some countries, such as Malawi, commercial banks are asked to report information on a detailed loan-by-loan basis. This usually occurs when there are exchange controls, effective legislation and a tradition of commercial bank reporting.

To obtain loan-by-loan information, some countries are using a registration system for borrowers to effect payments through the financial system. Each private sector borrower is supposed to have a registration number for each loan, without which it cannot effect payments through the financial system. This number is given by the central bank when the company applies for the loan approval, or (if approval is not required) when it reports on the new loan. Even when no registration is required, a form is supposed to be completed by the commercial bank for the new loan that it will intermediate. This form is then returned to the central bank allowing it to identify and follow-up on new loans that flow through the banking system. Indonesia and Uganda use this system.

Some countries, such as Malawi and Vietnam, have gone to the point of assigning an 'Authorised Dealer Bank' or 'Permitted Bank' respectively as the only bank through which the borrower is authorised to effect transactions on the loan for which approval or registration is given. This number has to be produced when a transaction is being effected. The 'Authorised Dealer Bank' or 'Permitted Bank' can then report on an individual loan basis to the central bank.

Relying on the commercial banking system as the main source of information can be tempting, as the government will have to interact with relatively few institutions when compared with the population of companies that borrow externally. Banks also have staff, systems and a culture of reporting which can facilitate this process.

However, in some countries, commercial banks have expressed reluctance to report information on companies with which they do business, insisting it is the company's responsibility to report on its own debt. In addition, banks maintain that they are unwilling to commit the resources needed to collect and provide this information and companies are reluctant to pay an additional charge for this type of service.

In addition, the commercial banks can only report on transactions which they are requested to effect and are unable to report on transactions which they are not requested to intermediate, such as off-shore transactions, payments in kind, non-cash disbursements and inter-company transactions. As a result, in any study with substantial amounts of FDI or offshore borrowing, monitoring only through the banks runs a major risk of underestimating PSED. It is then essential to refer to the companies for this type of information, if it is considered to be significant.

As a result of these problems, the tendency seems to be for reporting by companies, as in Malaysia, Philippines and Vietnam, with the financial system (solely to provide supporting information for confirmation and validation purposes) being the main source of additional information, as in Indonesia and Uganda.

4.2.5 Separated or Integrated Collection of PSED?

Recent recognition by the international community of the need to monitor on private sector external debt and the creation of a separate category on external debt in the SDDS has given added impetus to data collection. Specifically, the SDDS emphasises projecting amortisation payments and providing information on a residual maturity basis and disaggregated by maturity as best practices. This points to more detailed data collection. However, the SDDS also notes the difficulty of collecting external debt data from the private non-bank sector and non-resident holdings of domestic securities. The definition of information requirements discussed above will also influence whether separate forms will be required or if PSED data will be collected together with other information in one form.

Private Sector External Debt: Main Issues and Challenges for Monitoring

Information on PSED can be collected using separate, specially designed PSED forms for enterprises, or as a section in forms for surveying foreign assets and liabilities (FAL), all external transactions of enterprises, or all activities of enterprises (integrated business enterprises surveys). If the information required is mainly stock data with little disaggregation of private sector external debt, then it may be sufficient to have a few fields in a broader survey of external assets and liabilities.

Many countries have tended to choose reporting forms dealing exclusively with PSED. Standard forms to be completed and submitted periodically (monthly or quarterly) by the borrower and bank statements (monthly) are two of the more popular methods for collecting this data. Many good examples of these forms exist (e.g., Malaysia, Indonesia, South Africa, and Zimbabwe).

The main factor in deciding on whether to integrate data collection on PSED with other data is the likelihood of respondent fatigue that is, companies are overwhelmed with multiple requests to submit the same information on different forms and/or to different institutions – as this can lead to low response rates and poor quality of data, especially in countries with little recent history of private sector reporting. All agencies and institutions should ensure there is maximum co-ordination in the data being requested and the forms to be completed.

Another important issue is how integration will affect frequency of reporting. In general, the larger the subject area of the survey, the less frequently it is undertaken. For example, many countries do complete enterprise surveys once every 3-5 years. This periodicity would clearly be woefully inadequate for PSED. A useful compromise adopted by some countries has been to annex loan-by-loan forms to semi-annual FAL surveys, and also send them out more frequently (quarterly or monthly) on their own.

4.3 Framework for Monitoring PSED

Once the information requirements, detail, periodicity, sources and methods of collection have been finalised, the framework for collection of the information has to be developed or enhanced.

4.3.1 Legal/Administrative Framework

The legislative framework is crucial to the effectiveness of the system for monitoring PSED and it has to be reviewed at an early stage. It is possible that the existing legislation (Central Bank, banking, statistics, debt acts/decrees, investment authorities) may provide sufficient authority to allow effective collection of the necessary information. In other cases, the legislation may need to be strengthened, probably by vesting the authority for monitoring PSED in a higher level of legislation (acts rather than notices, for example) in order to give clear authority for the collection of the information. In addition to legislation, detailed implementing circulars have to be prepared/revised to ensure that the recipients are provided with adequate information on their reporting obligations. Full details of legislation and circulars should be on reporting forms.

Countries are also recognising the need to stipulate, in legislation, penalties for non-compliance with data reporting or late submission of information. Indonesia has a clause on penalties as part of the process of strengthening the system for capturing private sector external debt in the aftermath of the Southeast Asian financial crisis (see Box 7). The penalties may never be enforced, but their very existence and the ability to mention them to borrowers during the collection exercise can dramatically increase compliance. Occasionally, for large individual borrowers that deliberately refuse to comply, it may be necessary to make an example of them by enforcing penalties. Very few countries automatically apply penalties to every single late reporter.

Box 7 – Indonesia's Penalty System for Non-Compliance in Reporting of Information on External Debt

In revising its system for reporting of PSED data, Indonesia has introduced a four-tier system of penalties for non-compliance, as follows:

1. ***For basic data on loan agreements and securities and amendments***, the form should be submitted 15 days after the date of signature. On a monthly basis, data on outstanding debt and transactions per period should be submitted 15 working days after the end of each month.

   Otherwise, a penalty of Rupiah 100,000 (approximately US$12) will be levied for each day after the deadline date for each of these two reports.

2. ***For institutions which are late by over six months*** in reporting the information above, a penalty of one-thousandth of the loan amount for each external loan for which information has not been provided is levied, in addition to the penalties stipulated above.

3. ***For institutions which do not report on any new loans*** contracted or amendments, a penalty of one-thousandth of each external loan, in addition to the penalties stipulated in (1) above.

4. ***Companies that submit inaccurate and incomplete data*** will be subject to a penalty of Rupiah 1,000,000 (approximately US$120).

Source: Bank of Indonesia, *Circular No. 2/20/DLN, 9 October 2000: Circular to Banks, Non-Bank Institutions and Individuals in Indonesia on External Debt Reporting Obligation.*

4.3.2 Confidentiality of Information

Penalties are also appropriate in the context of breach of confidentiality by government officials. Companies are generally reluctant to provide information, as they are apprehensive that it could be used for other purposes, such as by the tax authorities. So companies have to be given assurance that the information collected will be used for statistical purposes only and presented to the public in aggregated format – not divulging company detail. The respective clauses in the relevant acts that provide for the confidentiality in the use of the information should be explicitly mentioned, especially at awareness creation seminars and/or reporting forms.

Most acts that provide for the collection of this information also stipulate penalties for survey officials that breach the confidentiality clause. These vary from loss of job to fines, or both. Companies also feel assured more when these provisions are clearly spelt out in reporting forms.

4.3.3 Institutional Framework/Co-ordination

If the legislation is strong enough and clearly sets out responsibilities, which are already being implemented then the institutional framework may be effective. However, in most cases, the institutional framework for data collection will need to be strengthened. The structure of the main government departments/units may have to be reviewed and revamped, if necessary. Furthermore, the roles of all institutions/departments/agencies involved in the monitoring of private sector external debt (research, exchange control and banking departments of the central bank, commercial banks and other financial institutions, ministry of finance, statistical office, board of investment, chamber of commerce and others) have to be clarified and clear lines of responsibilities established.

Co-ordination is also crucial so as to avoid duplication, particularly with respect to reporting forms, as this can give rise to low response rates. One way to strengthen co-ordination is to set up a committee or working group responsible for co-ordinating the activities of all the main players (especially in circumstances where the legislation is not strong and/or the institutional framework is diffused). The Gambia, Ghana, Malawi, Tanzania, Uganda and Zambia have working groups/committees responsible for this activity.

4.3.4 Resources

One outcome of the liberalisation process has been the reduction in resources allocated to monitoring PSED. Exchange control departments have been disbanded and the responsibility for monitoring this type of debt has generally been assigned to other units – for example, the External Debt Management Unit in the Balance of Payments Section of the Research Department (e.g. Zimbabwe, Guyana, Malaysia). Furthermore, these units tend to have fewer staff, who have many other responsibilities in addition to monitoring of private sector external debt. However, it is being recognised by international and national organisations that PSED monitoring can be a very difficult and resource consuming exercise and the availability of sufficient resources is a critical aspect of efforts to strengthen this function.

The size and complexity of the debt and the volume of work involved (number of companies, number of loans, transactions, the follow-up action required) in collecting and monitoring will determine not only the resources needed, but also the level of responsibilities for this function within the government bureaucracy. For instance, it may be necessary to raise the responsibility for this function from a unit to a full section or even a directorate. It is also necessary to ensure that there are sufficiently well trained and motivated staff to do the work and that they have the necessary equipment, supplies and office space at an early stage.

As noted in 4.2.2, some countries have tried to address the resource constraint issue by focussing on loans over a certain amount. The resources 'saved' by adopting this approach can be considerable, and could yield resource savings of around 50% while maintaining data collection of 80% of the value of the debt.

4.3.5 Computerised Debt Management Systems

To date, computerised debt management systems have largely been devoted to recording, monitoring and managing PPGED. Most countries use one of the two main systems, UNCTAD's Debt Management and Financial Analysis System (DMFAS) and the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS), although a few have developed their own systems. The system in use needs to be reviewed to

determine if it can be used, as is, to monitoring PSED, or if some modifications may have to be made for PSED. Specifically:

- Is the degree of detail required for monitoring PPGED necessary for PSED?
- Should transaction monitoring be detailed or aggregated, for example on a quarterly basis?
- Are the in-built checks, such as matching of scheduled and actual transactions, and validation mechanisms, similar to PPGED and applied to PSED?
- Are all the fields and classifications required or used for PPGED applicable for PSED?
- Are any new fields required?
- Are the codes used for PPGED appropriate for PSED or will new codes have to be introduced?
- Is the current system suitable for private sector external debt or is a simpler less comprehensive system more appropriate?

If a country does not already have an appropriate computerised system and the volume of work (in terms of number of loans and transactions) required for monitoring PSED is not substantial, then it may not be necessary to install a comprehensive debt recording system. PSED can be monitored and reported using spreadsheet or database software, such as Excel or Access. However, care has to be exercised if a country decides to adopt this option because there may come a time when the volume of debt increases and a more comprehensive system is required to record and monitor private sector borrowings efficiently. For example, Guyana decide to monitor PSED on a spreadsheet as the number of external loans outstanding is not expected to be over fifty, but they have indicated that if the number increases significantly, it would move to recording them on its CS-DRMS system used for public debt.

4.3.6 Data Validation Issues

Data validation is necessary to ensure confidence that the information being provided is consistent and reliable. However, there are major differences in the validation requirements for PUSED and PSED that have to be considered before launching a debt data validation programme. The major issues are:

- As PUSED is either directly or indirectly owned or guaranteed by the government. there is need to have accurate figures- to the nearest unit of account – to ensure that the balances are correct and the creditors' billing requests are accurate. For PSED, the main objective is for monitoring purposes, especially in a fully-liberalised regime, so accuracy to the nearest unit of account is not necessary and validation can be in thousands/millions.
- For PUSED, validation is needed on all transactions. For PSED this is not necessary and validation can be conducted in an aggregated format periodically, e.g. quarterly or annually.
- Projection data should be as accurate as possible, starting from the basic amortisation schedule for PUSED. For PSED, there can be a lower degree of confidence in the data as information is for statistical purposes.
- It may be decided by a country that some of the classification details validated for PUSED are not necessary for PSED, but most countries prefer classifications (e.g. economic sector, creditor group, financing type) that are consistently validated across PUSED and PSED in order to facilitate comparable analysis.

The main sources for validation in the case of PUSED are the creditors and borrowers records. For PSED, the sources can be diverse, ranging from creditors, commercial banks documents, the reporting forms themselves (which can have internal consistency checks), chambers of commerce, annual reports of borrowers, etc.

4.3.7 Awareness Creation

Critical to the success of improving PSED monitoring, particularly in the context of fully liberalised regimes, is private sector awareness of the objectives for capturing the information, the data requirements, legal mandates and penalties for non-compliance and the conditional guarantees. It is crucial to nurture confidence very early in the exercise to develop and strengthen the monitoring process.

Therefore, a programme of awareness creation should ideally be mounted at the beginning of the exercise and should include:

- dissemination of explanatory brochures and public statements by senior policy makers,
- awareness creation seminars for all private sector borrowers and institutions,
- advertisements in the newspapers , radio and television; and
- visiting major borrowers and institutions, such as commercial banks.

The success of the entire exercise could be related to these efforts.

4.3.8 Follow-up

Having embarked on a programme of data collection, it is vital to follow-up with meetings or visits with key strategic borrowers and other institutions involved, to ensure that they are comfortable with the process, fully conversant with their responsibilities and willing and able to understand and complete the data or survey forms. In Uganda a small strategic group of approximately 20 companies was invited to a meeting with the Governor of the Bank of Uganda to discuss any outstanding issues and ensure continued commitment. Hotline support for respondents, to help fill in the forms, should also be strongly promoted to ensure that the respondents always have access to additional support and clarification. In addition, it is often useful to provide training to key borrowers or institutions in the early stages of surveys, as they may find technical concepts (which are familiar to debt managers) very difficult to understand.

Resources should be devoted to follow-up at each stage, as after the end of each reporting period, calls, faxes and even visits may be necessary to improve the response and to ensure that the reporting becomes routine.

Many countries are adopting intensive and proactive means of following up, such as interviewing senior executive and finance managers, to ensure timely, quality responses. Usually the forms for PSED and/or wider capital are administered with a deadline for submission of one month from receipt. A first or follow-up interview is used to confirm the due date for completion of the form, to address questions on purpose and mandate for the exercise and technical issues, and to ascertain the availability of relevant senior executives to complete the forms. Should the first deadline slip, two or three subsequent deadlines are agreed, after a round of verbal or written reminders. Where response is still outstanding, the

seniority of those doing the follow-up moves up from enumerator or supervisor to co-ordinator level, ultimately up to meetings hosted at Governor or Minister level for the most important companies. Given broad geographical and sector coverage, to ensure sample representation, monitoring systems can be designed to help them target regions, sectors, or individual companies in need of urgent follow-up.

To assist this process over time, countries have found it essential to ensure timely reporting back to public and private sector stakeholders and donors. This keeps channels of communication open during prolonged periods of surveying following the launch, and reminds potential respondents of the purpose of the exercise, shares the benefits of data and analysis, and encourages future compliance. Contact takes several forms including, at the simplest level, a thank you letter to respondents acknowledging receipt of information, and enclosing information such as a quarterly or annual report up, to high-level awareness events where draft findings are presented to stakeholders for discussion and comment for a final report. Smaller scale and more focussed meetings, such as with important agents of particular sectors, may supplement such events. The press is a very valuable means of publicising, and transmitting findings more widely, and governments are targeting and working increasingly closely with national print, television and radio journalists.

5. CONCLUSION

This paper has reviewed the increasing importance of PSED, its growth and the reasons for this expansion. It has also shown the increasing recognition that PSED can be an important factor in the economic fortunes of a country and pointed to the recognition of the need for more comprehensive information on this category of debt. As a consequence, greater attention is being given to developing or strengthening systems to collect more comprehensive information.

Countries and international organisations alike are now intensifying efforts to develop/enhance systems to effectively generate the necessary information. However, developing and strengthening a system for collecting and monitoring private sector external debt is not a small task. It can be even more difficult than setting up a comprehensive system for public external debt, which has sometimes taken two years or more. Depending on the size and complexity of the private sector external debt, countries embarking on this exercise should therefore prepare carefully, secure adequate resources and be prepared to commit themselves for the medium-term.

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ANNEX I – DEFINITIONS AND CLASSIFICATIONS

Bonds and notes are debt instruments that usually give the holder the unconditional right to fixed money income or contractually determined variable money income. With the exception of perpetual bonds, bonds and notes also provide the holder with an unconditional right to a fixed sum as repayment of principal on a specified date or dates. Bonds and notes owned by non-residents are to be included in external debt as long-term, bonds and notes (portfolio investment, debt securities in the IIP). If the non-resident is a non-bank in a direct investment relationship with the issuer, the debt is classified as direct investment, inter-company lending. See below.

Buyers credit is a financial arrangement whereby a bank, financial institution or export credit agency of the exporting country extends a loan to a foreign buyer or bank in the importing country to pay for the purchase of goods and services from the exporting country. See **Trade credits**.

Contingent liabilities are obligations that arise from a particular discrete event(s), which may or may not occur. These liabilities are distinguished from current financial claims (and external debt), as one or more conditions or events must be fulfilled before a financial transaction takes place. Contingent liabilities can be explicit or implicit.

Contingent liabilities – explicit – arise from a legal or contractual arrangement. The contingent liability may arise from an existing debt -such as an institution guaranteeing payment to a third party; or arise from an obligation to provide funds – such as a line of credit, which once advanced creates a claim; or arise from a commitment to compensate another party for losses such as exchange rate guarantees.

Contingent liabilities – implicit – do not arise from a legal or contractual source, but are recognised after a condition or event is realised. For example, assuring systemic solvency of the banking sector might be viewed as an implicit contingent liability of the central bank. Likewise, covering the obligations of sub-national (state and local) governments in the event of default might be viewed as an implicit contingent liability of the central government. Implicit contingencies may be recognised when the cost of not assuming them are believed to be unacceptably high.

Contractual liability represents a firm commitment of one party to repay another. It does not include pledges or other arrangements. However, this can be difficult to measure in some cases, such as inter-company debt, which may not be accompanied by a formal legal document (not to mention the difficulty to monitor).

Currency and deposits include domestic currency held by non-residents and deposits held by non-residents. Deposits may be in domestic and foreign currencies, the defining factor being it is held in a resident financial institution and owed to a non-resident.

Disbursed and outstanding debt excludes undisbursed loans, as it does not represent a liability to the country.

External debt is the amount, at a given time, of disbursed and outstanding liabilities of residents of a country to non-residents to repay principal, with or without interest, or to repay interest, with or without principal. This includes debt denominated in local currency and owned by non-residents. See **Gross external debt** and **Net external debt.**

Financial derivatives are financial contracts linked to a specific financial instrument, indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of an underlying item, such as an asset or index. Unlike debt instruments, no principal amount is advanced to be repaid and no investment income accrues. Financial derivatives are used for risk management, hedging, arbitrage between markets, and speculation. Transactions in financial derivatives should be treated as separate transactions rather than integral parts of the value of underlying transactions to which they may be linked.

Foreign direct investment comprises investment by a non-resident entity (parent company or foreign investor) in a resident enterprise, referred to as the direct investment enterprise. The investment is of a long-term nature, reflects lasting interest and is sufficient for the foreign investor to have a significant degree of influence in the enterprise. The IMF Balance of Payments manual defines an ownership of at least 10% of the voting shares as evidence of the direct investment relationship.

Gross external debt is the debt owed by residents of the country to non-residents and excludes debt owed to the residents of the country by non-residents.

International investment position (IIP) is a comprehensive measurement of the stock of external assets and liabilities of an economy, including foreign direct investment, portfolio investment, debt and other external assets and liabilities, as of a give date. Changes in the stock between two periods reflect financial inflows/outflows and valuation changes.

Medium- and long-term external debt is external debt with an original maturity of over one year.

Money market instruments are short-term debt instruments that give the owner the unconditional right to receive a stated, fixed sum of money on a specified date. Included are such instruments as treasury bills, commercial and financial paper, bankers' acceptances, negotiable certificates of deposit (with original maturities of one year or less), and short-term notes issued under note issuance facilities.

Net external debt is the difference between debt owed to non-residents and debt owed by non-residents to residents of a country.

Non-residents of a country are enterprises, persons or other organisations ordinarily domiciled in another country, persons who work locally for less than one year and branches and subsidiaries of local companies located abroad.

Original maturity is the life of the loan as stipulated in the loan contract. Depending on the loan contract, this may be the period between loan signature and final repayment, or the period between each disbursement and its final repayment.

Other investment refers to the third category in the Financial Account of the BPM5 (the other two being Foreign Direct Investment and Portfolio Investment). It includes trade credits, loans, and currency and deposits.

Permanent debt in banks is a term used in BPM5 to describe a non-equity instrument that is

of a long-term or permanent nature, which is owned by a bank with which the issuer has a direct investment relationship. Direct investment capital transactions of banks are limited to equity and permanent debt transactions.

Portfolio investment includes county funds, depository receipts, direct purchases of shares and financial derivatives and purchases of shares by non-residents. If the non-resident holds less than 10% of the ordinary shares, voting rights or equivalent it is classified as portfolio investment, if more it is classified as foreign direct investment

Private sector includes all incorporated private enterprises (including corporations, joint stock companies, limited liability companies, co-operatives, or other business associations recognised as independent legal entities by virtue of registration of company or similar acts, laws or regulations), unincorporated enterprises, non-profit organisations, individuals and households. Enterprises in which the majority of shares or ownership is held by the private sector are also considered as part of the private sector.

Private sector external debt (PSED) is external debt contracted by the private sector. It is considered as government-guaranteed external debt if the government or a government agency guarantees the repayment obligations. Otherwise, it is classified as non-government-guaranteed external debt.

Private sector government-guaranteed external debt (PGED) is the component of PSED guaranteed by the government.

Private sector non-guaranteed external debt (PNED) is the component of PSED not guaranteed by the government.

Public sector external debt (PUSED) comprises debt of the government and parastatals.

Public and publicly guaranteed external debt (PPGED) comprises the external debt of the public sector (government and parastatals) as well as government guaranteed private sector debt.

Residents comprise enterprises that are engaged in a significant amount of production in the country for period of one year or more and individuals and households that maintain a dwelling within that country and use it as their main residence for one year or more, regardless of their citizenship.

Residual maturity measures the remaining time period until the final repayment on a loan as of a given date.

Shareholder and inter-company borrowing is borrowing between the parent company and a subsidiary or related company.

Short-term external debt is external debt with an original maturity of one year or less.

Trade credit (also called **suppliers credits**) consists of claims and liabilities arising from the direct extension of credit by suppliers for transactions in goods and services, and advance payments by buyers for goods and services and for work in progress (or to be undertaken). The direct extension of trade credit by buyers arises when they prepay for goods and services; the debt is extinguished when the supplier provides the goods and/or services.

ANNEX II – BOP/IIP COMPONENTS RELATING TO DEBT COMPONENTS *

Component	Transactions within the Financial Account	Corresponding Stocks within the IIP	Corresponding Transactions within the Current Account
FINANCIAL ACCOUNT			CURRENT ACCOUNT
Foreign Direct Investment			Income
Direct investment abroad			Investment income
Other capital			Direct investment
Liabilities to affiliated enterprises	Disbursements & Repayments	Stock at end of calendar year	Income on debt (interest)
			Income
Direct Investment in Reporting Country			Investment income
Other capital			Direct investment
Liabilities to direct investors	Disbursements & Repayments	Stock at end of calendar year	Income on debt (interest)
			Income
			Investment income
Portfolio Investment Liabilities			Portfolio investment
Debt Securities			Income on debt (interest)
Bonds and notes			Bonds and notes
Money market instruments	Disbursements & Repayments Disbursements & Repayments	Stock at end of calendar year Stock at end of calendar year	Money market instruments
			Income
Other Investment			Investment income
Liabilities			Other investment
Trade credits	Disbursements & Repayments	Stock at end of calendar year	Other interest
Loans	Disbursements & Repayments	Stock at end of calendar year	Other interest
Currency and deposits	Disbursements & Repayments	Stock at end of calendar year	Other interest
Other liabilities	Disbursements & Repayments	Stock at end of calendar year	Other interest

* Exceptional financing transactions (arrears; debt forgiveness; debt/bond swaps and debt/equity swaps; borrowing for BOP support; rescheduling and refinancing) are covered in Annex IV of BPM5, p150-157.

Rows in italics are components of the BOP/IIP that are debt liabilities to be included in external debt.

Sources: Bank for International Settlements et al. (February 2001), External Debt Statistics: Guide For Compilers and Users. Draft: (The Guide). IMF, Balance of Payments Manual, 5th Edition, 1993.

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