



## Twenty-Ninth Meeting of the IMF Committee on Balance of Payments Statistics

Washington D.C., USA  
October 24–26, 2016

BOPCOM 16/19

### **Challenges in Implementing *BPM6* in African and METAC Countries**

Prepared by Kenneth Egesa and Malik Bani Hani



## **Challenges in Implementing *BPM6* in African and METAC Countries<sup>1</sup>**

*Three major factors influenced the revision of *BPM5*, namely globalization (increased use of cross-border production processes, complex international company structures and international labor mobility), an increasing focus on balance sheets (reflected in the international investment position, or *IIP*) and financial innovation (more and more complex financial instruments). Many countries were able to migrate to *BPM6* and implement its recommendation, while other countries remained compiling external sector statistics (*ESS*) following *BPM5* and facing many challenges to implement *BPM6* especially those countries with low statistical capacity (*CLSC*).*

*The 2015 Committee meeting discussed a tailored approach for compiling *ESS* in *CLSC*, considering analytical and policy needs and the structure of these economies. This paper is for information purposes to the Committee on some challenges faced by African and countries covered by the IMF Middle East Regional Technical Assistance Center (*METAC*) in implementing *BPM6*. It covers difficulties experienced in complying some of the key principles underlying *BPM6* and in achieving the requisite level of detail of transactions required in *BPM6*.*

### **I. BACKGROUND**

1. A number of African countries have agreed to migrate to *BPM6* and accordingly set different timelines for migration. However, only a few have been able to migrate successfully within the set timelines with 17 still compiling on the basis of *BPM5*. There are a number of challenges that have led to delays in migration including difficulties in implementing the conceptual issues, identification of adequate source data, poor institutional coordination and resource constraints.

2. For *METAC* countries, since the release of the *BPM6*, *METAC* in cooperation with *STA* provided technical assistance (*TA*) and training to its members to improve the *ESS* and to assist countries in implementing the *BPM6*. *METAC* work in this area is seriously hampered by unstable security situation in the region and the political turmoil in several of its member countries. Despite these challenges, most *METAC* countries have achieved noticeable improvements in the compilation of the *ESS*, but more work remains. Current data compilation procedures are still error prone, due to inadequate financial, staff, and computer resources dedicated to balance of payments compilation. Besides, the institutional cooperation and data sources outside of the central bank and the rest of the banking system

---

<sup>1</sup> The paper was prepared by Committee members Kenneth Egesa (Bank of Uganda), IMF short-term expert and Malik Hani Bani (Central Bank of Jordan), former long-term expert at the IMF Middle East Regional Technical Assistance Center (*METAC*). Countries served by *METAC* are Afghanistan, Egypt, Iraq, Jordan, Lebanon, Libya, Sudan, Syria, West Bank and Gaza, and Yemen.

remain weak, poor, and sometimes unavailable. The data collection is not comprehensive and most shortages in the coverage and classification of the balance of payments statistics reflect gaps in data sources.

3. METAC countries currently compile balance of payments statistics broadly following the *BPM5*; only Iraq and Jordan are reporting data according to *BPM6* format.

4. A two-stage approach were followed by METAC to adopt the implementation of *BPM6*. Stage 1 involved the reclassification of existing data into their respective *BPM6* standard components. Stage 2 involved the identification and development of new data sources, the refinements of current methodologies as well as the development of new methodologies.

## II. CHALLENGES OF *BPM6* IMPLEMENTATION

5. One of the key principles for the identification of transactions set out in *BPM6* is the change of ownership principle. However, given the set-up of statistical systems and the capacity of institutions involved in statistical work in many African and METAC countries, it will continue to be a challenge for countries to fully comply with this requirement. For instance, in most African and METAC countries statistics on trade in goods is based on customs data compiled by the Customs Authorities. However, in some of the countries there are weak customs systems for trade data collection (coverage is limited to a few main customs posts) which makes implementation of the change of ownership criteria quite difficult as there is no other superior source. An example is in goods trade involving precious minerals, where it is not always clear whether there has been change of ownership between residents and non-residents, especially where there is a common border shared by the countries involved and where free movement of persons across the borders is prevalent. This is worse if there is some form of conflict in one of the countries involved in the trade of precious minerals. In such cases, exports of mineral resources may transit through the neighboring countries or are imported by neighboring countries and re-exported but it is difficult to make the distinction. This is mainly due to the fact that the import leg of such transactions is not always reflected in the customs data and in some instances even the export leg. This makes it difficult to identify the parties involved, determine their residence and to accurately reflect the transactions.

6. A typical example is one where countries that are known not to produce certain types of precious minerals or product, are found to have sizeable exports while those that have the mineral resources or product do not reflect the accurate amount of exports. On the one hand, the import data of the country which re-exports the minerals, for example, may not show the respective imports while on the other hand the country where the minerals originate may not show the exports to the country that re-exports. Consequently, without knowledge of the counter parties to the transactions, as well as details on the valuation of the imports it's difficult to adopt *BPM6* criteria to record transaction as part of trade in goods or to exclude

them if they are transit goods. Moreover, direct reporting is usually not an option as respondents may not be willing to divulge information about their transactions.

7. Another issue is related to countries where agreements are signed between different parties in the area of manufacturing services on physical inputs owned by other such as clothes assembly within the qualified industrial and free trade zones. According to *BPM6*, only the fee charged by the processor should be included under services account. In some cases, the customs authorities could not capture such details, which makes implementation of such criteria quite difficult.

8. In some of METAC countries (oil exporting countries), the statistical treatment related to international transactions and coverage of oil contracts is limited as the data accessibility is constrained by the confidentiality that underpins such contracts.

9. Many METAC countries report little data on the services account and the existing data mainly cover transport, travel, other services, and government services due to insufficient data sources. Reporting detailed data on the twelve categories of the services account require from countries reviewing existing data sources and / or creating new data sources.

10. The clarification provided by *BPM6* on the criteria for distinguishing compensation of employees and respective services transactions on the basis of the employee – employer relationship is another useful contribution of *BPM6*. However, in practice it is difficult to implement especially where data paucity is widespread. For instance, it is quite difficult for countries to obtain information on technical assistance provided by donors with details on the nature of contracts needed to determine the employee-employer relationships so as to enable distinction between services and primary income transactions. This is particularly significant for those countries that receive substantial development assistance in form of technical assistance. The reason is that some of the countries assumed under *BPM5* that TA provided by non-residents was compensation of employees whereas under *BPM6* there is need to go a further step to establish the employment relationship.

11. Some METAC countries is facing challenges in the compilation of personal transfers as set for in *BPM6*. The statistical coverage and compilation methods used are insufficient to capture informal transfers, and such obstacles are exacerbated due to the instability situation in the region and the influx of refugees.

12. In general, the compilation of cross – border data from banks and other financial corporations on interest income paid or received on loans and deposits is an issue for many METAC countries. Therefore, determining a better risk free reference rate for the purposes of calculating FISIM is quite difficult.

13. The bulk of insurance services for many African and METAC countries is comprised of insurance on goods in transit. However, the practice of many countries is to derive from

the c.i.f. value of imports, an estimate which is ideally the premium and then record the entire amount as the insurance service. There is no effort made to estimate claims as well as to establish the residence of the insurer. This makes it difficult under *BPM6* to estimate the relevant transactions for primary income, secondary income and for the financial account on insurance technical reserves. Moreover, data on cross border on life insurance, reinsurance, and pension funds are yet to be identified.

14. Much of the additional details required for reporting on the basis of *BPM6* imply the need to augment existing data sources with new surveys. However, the survey capacity in many African and METAC countries is limited. This stems from low statistical capacity in the compiling institutions, insufficient human and financial resources to undertake the surveys which in many cases cannot be structured to take advantage of technology through the use of electronic questionnaires, and poor institutional coordination with other agencies, for instance, between the bureau of statistics and the central bank as well as other government agencies. This makes it difficult to share some of the resources effectively even where these may exist, for instance, the bureau of statistics may have statisticians who are not involved in surveys conducted by the central bank for the balance of payments statistics compilation purposes. In some instances, it is often necessary to integrate information from different surveys which makes it even more challenging if from the onset, the different surveys were not properly conducted. Subsequently, efforts to conduct surveys have not yielded the expected improvements needed to improve the balance of payments statistics compilation and to migrate to *BPM6*.

15. Moreover, some data compiled for balance of payments are based in the results of old surveys which limits the scope of the compiled data. Further, many surveys are conducted in such way that limits comparability and may yield inconsistent data. Besides that, some countries spend considerable efforts to form a specialized questionnaire while no efforts were done to update the register.

16. A related challenge is to do with survey data verifications and addressing non-response and sample expansion. For many of the countries that augment their source data with surveys, there are no adequate quality control mechanisms and where they exist they are not always followed. While considerable effort has been made in providing sample questionnaires that adequately provide guidance of the questions required to compile the balance of payments and guidance on establishing registers, there has not been much done on data verification and grossing up. For instance, some of the countries that conduct surveys use the sample forms provided in the guide, but do not conduct sufficient data verification before adopting the survey data. Others do not gross up of survey results to derive estimates for the population from the sample while others do not make estimates for non-response where full coverage of all potential respondents is done. As a consequence, survey data may be collected, but due to insufficient quality control measures often ends up not being incorporated in the balance of payments statistics.

17. The identification of financial derivatives cross border transactions and the implementation of balance sheet approach is quite difficult in many METAC countries due to the absence of data on derivatives, the use of balance sheet data, and the weakness of the institutions capacities of the respondents.

18. Many METAC countries have large level of net errors and omission, due to lack of coverage, limited data sources, limited reporting by transactors, and weak quality control mechanism.

### **III. CONCLUSION**

19. *BPM6* implementation among some African and METAC countries will require in addition to the usual balance of payments training and TA more concerted efforts in improving institutional coordination among compiling economies, improving reporting institutions standards and capacities, increase human and financial resources to support expansion and improvement of data sources, and capacity building in statistical techniques where surveys are employed particularly in data verification and grossing up.

20. Furthermore, more attention should be paid by countries in improving and updating registries through, conducting timely surveys, review the existed surveys in a frequent manner to include new innovations, and build up capacity in adopting balance sheet approach in surveys data collection.