Background paper on:

Debt Data Transparency

Background Paper for IGE Nov. 2018

Prepared by Gerry Teeling, Chief DMFAS Programme,
Debt & Development Finance Branch, Globalization & Development Strategies Division, UNCTAD

UNITED NATIONS
UNCTAD

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

Contents

1. Introduction

It is uncontentious that the availability of comprehensive, accurate and timely information on public debt is critical for policy decisions and risk management in the context of national and international development goals. Nevertheless, current concerns about rising debt levels and risks of debt distress in developing countries have drawn attention to problems with debt data transparency in a number of countries[1].

While debt recording and reporting have significantly improved in the past decade, many developing and transition countries continue to struggle with establishing reliable, comprehensive debt databases and with high quality reporting. Faced with growing and increasingly complex debt portfolios, weaknesses in legal and institutional frameworks, staffing, skills and systems are serious challenges that undermine their capacity to ensure the availability of high-quality debt data for operational, monitoring, analytical, policy- and decision-making purposes. This paper, provided as background information for the November 2018 meeting of the Intergovernmental Expert Group on Financing for Development, reviews the importance of debt data transparency and the current problems in public debt recording and reporting. It also examines possible solutions and options for strengthening debt transparency and technical assistance (TA). The paper focuses on developing countries and economies in transition; nonetheless, many of the points discussed are also relevant to more developed economies.

2. Importance of debt data transparency

Timely and comprehensive data on the level and composition of debt are a pre-requisite not only for the effective management of public liabilities but also for identifying risks of debt crises and limiting their impact[2]. When reliable data on a country's debt is readily available, it

[1] The issue has drawn the attention of the G20 which has communicated its concern about the rising debt levels and debt vulnerabilities in Low Income Countries (LICs) economies. It concluded that enhancing information sharing could assist in preventing future debt distress in LICs, and called for greater transparency, both on the side of debtors and creditors. See **Communiqué,G20 Finance Ministers and Central bank Governors Meeting, Buenos Aires.(Mar.19-20,2018) at https://www.g20.org/en/news/communique-first-g20-meeting-finance-ministers-and-central-bank-governors-2018**

[2] … timely and comprehensive data on the level and composition of debt are necessary for, inter alia, building early warning systems aimed at limiting the impact of debt crises, calls for debtor and creditor countries to intensify their efforts to collect and release data *Resolution adopted by the United Nations General Assembly on 21 December 2016 A/Res/71/216*

contributes to the formulation of critical financial policies and strategies, and consequently to improvements in financial stability and good governance. On the other hand, the absence of transparency of public debt and contingent liabilities undermines a country's capacity to effectively manage its finances and limits the ability of the international community to provide timely and appropriate support for preventing and mitigating debt crises.

In more concrete terms, debt data transparency is a pre-requisite for:

- Monitoring the debt situation and building early warning systems
- Sustainable borrowing and lending
- Effective risk management
- Macro-economic planning and policy-making
- Budget formulation and related debt service projections
- Fiscal management and avoiding fiscal risks linked to debt
- Treasury and cash management
- Debt sustainability analysis
- Formulation of debt strategy
- Obtaining and maintaining investor confidence
- Effective negotiations with current and potential creditors
- Management of contingent liabilities
- Coherence of official debt databases

The availability of comprehensive, reliable debt data is necessary for informed decision-making and timely, effective action in all these areas. Critically, the availability of high-quality data is a pre-requisite for the ability of national governments and the international community to minimize the risk of debt crises and to take timely, remedial action when they occur.

3. Requirements for debt data transparency

There are a number of critical success factors for transparency of public debt data. Firstly, there must be an effective recording function that ensures that data on public debt is registered in a timely, complete and accurate manner. Secondly, the debtor country must have an extensive reporting function that makes the debt information readily available for operational, monitoring, analytical, policy- and decision-making purposes. Thirdly, there must be willingness to share debt information.

The effectiveness of both the recording and reporting function is dependent on a number of key factors, including:

- L**egal and institutional framework** that clearly defines responsibilities for public debt

- **Effective information flows** and coordination between the different institutions involved in debt management, including sub-nationals and state-owned-enterprises

- Adequate numbers of **knowledgeable, skilled staff**

- **Strong recording and monitoring systems**

- **Effective coordination** between debt management and other macroeconomic policies

- **Integration of debt management** within the broader public finance management framework

- **High-level government commitment** and support

- **National capacity** to adhere to international reporting and statistical standards

- **Mutual exchange of information** between the concerned actors

- **Debt database with full coverage of the country's debt,** available for monitoring, reporting and analysis.

The absence of any of these key factors makes it very difficult for a country to provide the complete view of total public debt necessary for debt transparency.

4. Current problems, causes and consequences.

Debt recording and reporting have significantly improved in the past decade. The results of Public Expenditure and Financial Accountability (PEFA) framework assessments indicate that, on average, since 2006 quality in these areas and also of public debt management systems for contracting loans and issuing guarantees, has significantly improved. The increasing numbers of countries reporting to the debt databases developed by the World Bank in collaboration with the IMF, also demonstrate improved capacity.

However, many developing countries continue to struggle with establishing reliable, comprehensive debt databases and with high quality reporting. This situation has serious consequences for effective debt management at the national level and for the ability of the international community to help to avoid debt crises and to support countries when they occur.

4.1 Problems

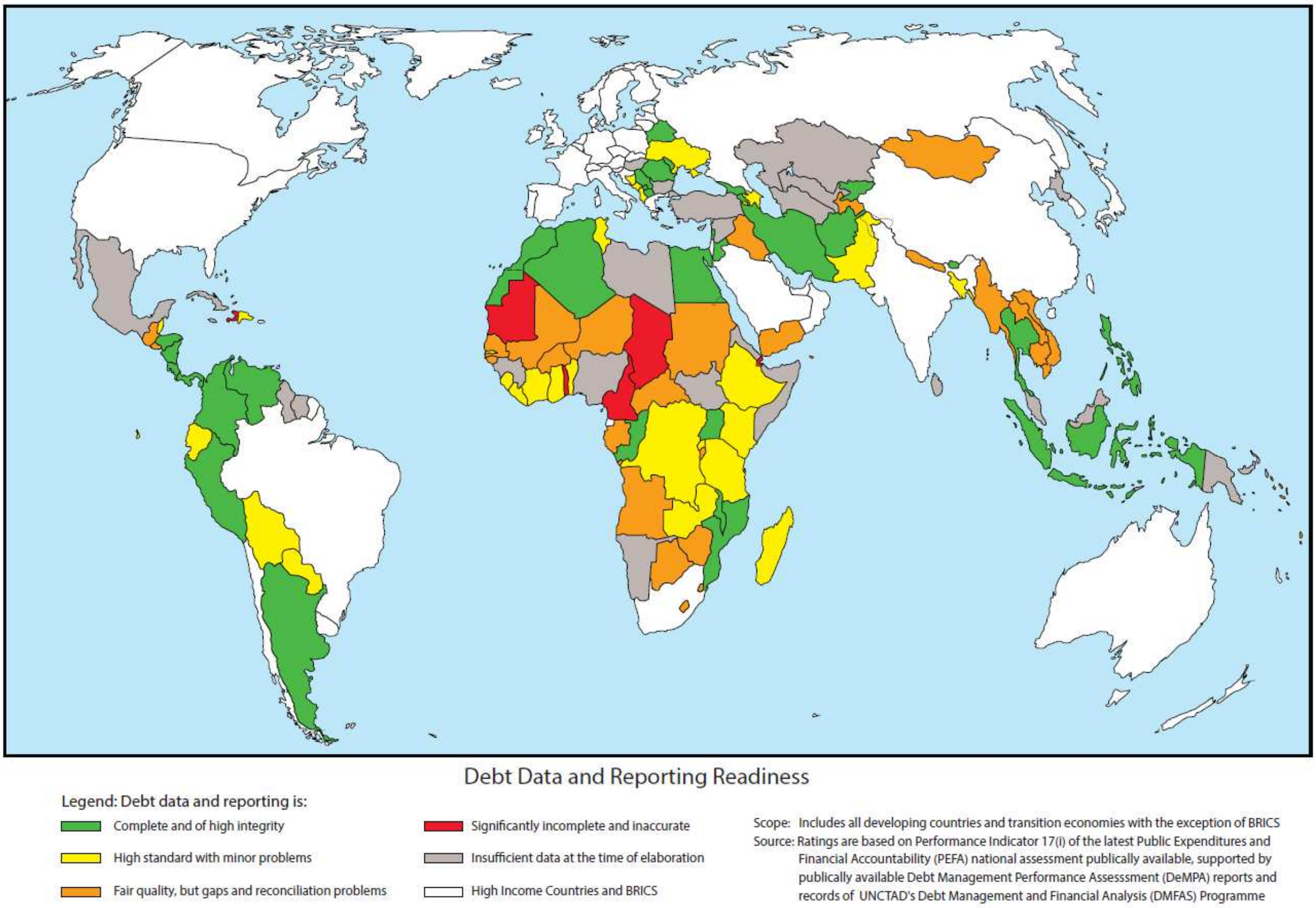
While there is consensus on the need to have a complete view of total public debt, it is also generally agreed that there is a clear data gap which makes risk management for preventing debt crises very difficult. Moreover, the increasing complexity of the debt landscape creates additional challenges and risks for transparency: new creditors working outside current structures, for instance the Paris Club; new and more complex debt instruments and practices including GDP-indexed bonds, Green bonds and Collateralised debt. The increased prevalence of domestic debt and private debt and the increasing importance of monitoring contingent liabilities, Public Private Partnerships (PPPs), extra-budgetary debt and sub-national debt acerbate the problem.

There is strong evidence that developing countries have generally strengthened their capacity to record, monitor and report on their debt portfolios since 2000. Nevertheless, it is also evident that many countries lack the necessary capacity in these areas. There are significant problems in a large number of countries with the quality of public debt data and with the level of reporting on existing data. Faced with increased complexity of portfolios, many countries have yet to reach the minimum standards in some key areas and high staff turnover continues to be a common and recurrent problem. Limited coverage of total public debt is another common problem, with specific difficulties relating to sub-national debt and contingent liabilities[3].

Figure 1 provides an overview of the quality of debt recording and reporting in all developing countries and countries in transition with the exception of the BRICS, based on analysis in October 2018 by UNCTAD of publicly available information of results from Public Expenditures and Financial Accountability (PEFA) assessments and Debt Management Performance Assessment (DEMPA) reports, complemented by records from UNCTAD's Debt Management and Financial Analysis System (DMFAS) programme. As the figure shows, of the one hundred-and-one countries covered, only thirty-nine have debt databases and reporting that are complete and of high quality, necessary to reach the highest score (A). A further twenty-nine have good quality but with minor problems (B). Twenty-two have fair quality but with gaps in data and reconciliation problems (C). The remaining eleven countries have debt databases that are significantly incomplete and/or erroneous (D).

[3] The 2017 Report of UN Secretary General on External debt sustainability and development pursuant to General Assembly resolution 71/216, draws attention to the need for extending debt management capacities to subnational governments to allow for more comprehensive and systematic debt data reporting

Figure 1: Debt Data and Reporting Readiness in the Developing World (October 2018)



The following are the most common problems encountered in the quality of debt data recording and reporting:

4.1.1 Incomplete data

Coverage of Central Government Debt only. In many countries, the current focus is limited to central government and central government-guaranteed debt. Detailed and aggregated debt data on the different government institutional sectors, as well on on-lending, grants and private non-guaranteed external debt is not covered. Moreover, many countries lack data on General Government Debt such as the debt of Sub-nationals, State Owned Enterprises (SOEs) and Public Private Partnerships that is required for management of contingent liabilities.

Unavailability of a consolidated database - data is often stored in different databases (e.g. domestic and external) without feasibility of effectively consolidating.

Some debt instruments are missing from the database and from reporting, and are therefore undisclosed.

4.1.2 Timeliness

Ineffective information flows leading to delays in late recording of new debt instruments, disbursements, debt servicing; difficulties in obtaining timely SOE guarantee data.

4.1.3 Accuracy

Mistakes in classification, misinterpretation of characteristics of debt instruments, manual input of exchange rates (data entry errors), errors in manual data entry.

4.1.4 Inadequate reporting

Absence of automated functions for generating reports; lack of commitment to make debt information available; limited access to data for reporting functions; dispersed data with difficulty in consolidation; inadequate knowledge of reporting standards or internal statistics and reporting standards not adhered to.

4.2 Causes

Notwithstanding the differences in circumstances of each country, problems with debt recording and reporting are typically caused by **weaknesses in the following areas**:

- **Legal Framework** – lack of or unclear legal framework for debt management.
- **Mandate** – debt management offices often lack the authority to collect data from SOEs or other indebted public entities.
- **Managerial Structure** – fragmentation, unclear definition or weak implementation of mandates.
- **Information flows** – lack of or poorly implemented formal institutional framework.
- **Operational risk management** including lack of detailed operational procedures.
- **Data validation processes -** irregular or incomplete/ineffective validation.
- **Computerised Debt Management System (CDMS)**: unavailability of comprehensive system or current system is outdated
- **Staffing of Back Office**: Inadequate numbers of staff for work load; high staff turnover; staff inadequately qualified/skilled; Inadequate training opportunities.
- **Technical (IT) support** – absence of adequately skilled IT support staff.
- **'Prestige' and understanding of importance of Back office functions -** the back office which is responsible for recording debt is often neglected in relation to the allocation of resources.
- **Funding unavailable** locally for training and debt management system (DMS) upgrades.
- **Connectivity of Back Office debt management system with other systems** of national PFM (budget, treasury, accounting)) and aid management platforms/front office databases – the debt office operating as a 'silo'.

- **Lack of debt audits**: national audit office frequently lack the authority or capacity to undertake audits of public debt.

The problem of low staff capacity for effective debt recording, monitoring and reporting is very common and often acute. This can be because of insufficient staff number in relation to the work load, or inadequate staff qualifications and skills due to high staff turnover and/or limited access to training opportunities. Weak debt management systems and lack of integration are also significant problems in many countries.

4.3 Consequences

Problems with debt data recording and reporting of public debt and contingent liabilities undermine a country's capacity to effectively manage its finances. Specifically, weak capacity in these areas can seriously undermine:

- The country's reputation as a borrower
- Quality of policy and strategy
- Quality of analysis and risk management
- Parliamentary confidence
- Creditor confidence
- Credit ratings
- Capacity to borrow on favourable terms and conditions
- Ability to meet external reporting obligations

With regards to external reporting obligations, the quality of data in international databases, for example the World Bank Debt Recording System (DRS) is also undermined[4].

Critically, weaknesses in debt data recording reporting also limit governments' ability to prevent crisis, to effectively manage crises when they occur and to request timely and appropriate assistance from the international community.

[4] Other databases affected include the Quarterly External Debt Statistics /QEDS) for both Special Data Dissemination Standard (SDDS) and General Data Dissemination Standard (GDDS) subscribers, and the Quarterly Public Debt Statistics (QPDS) database.

5. Available solutions

While each country has primary responsibility for the availability and quality of its debt data, national efforts should be supported by global programmes which respect the government's ownership and sovereignty. In this context, multilateral institutions can play an important role in providing support and resources for capacity-development, working in a coordinated and coherent manner. Currently, there are a number of initiatives that are specifically designed to support countries in their efforts to improve their capacity for high quality debt recording and reporting. These 'downstream' solutions complement the TA in 'upstream' areas including governance, debt sustainability analysis and debt strategy provided by the IMF, World Bank, other international financial institutions and regional entities.

5.1 Assessment

There are a number of international initiatives that can provide countries with a diagnosis of their capacity in debt data recording and reporting. The Public Expenditure and Financial Accountability (PEFA) framework includes an assessment of the quality of debt data recording and reporting. The Country Policy and Institutional Assessment (CPIA) measures the quality of a country's policies and institutions, including the availability and publication of public debt data, and related audit systems. The Data Quality Assessment Framework (DQAF) assesses the quality of external debt statistics. The Debt Management Performance Assessment (DeMPA[5]) is a methodology for assessing public debt management performance through a set of indicators spanning the full range of government debt management functions, including debt management systems, recording and reporting. The DeMPA is delivered under the Debt Management Facility[6], which also assists countries in developing Reform Plans to address the weaknesses identified by the assessment.

The Debt Data Quality Assessment Methodology (DeQAM) is a more recent addition to the available assessment tools. Developed in a joint initiative by the Commonwealth Secretariat (COMSEC) and UNCTAD, DeQAM is a framework to systematically assess in detail the quality of the databases recorded in debt management systems based on best practices and international standards in debt management. DeQAM complements the other assessment tools available, by adding granularity to those initiatives as it specifically targets countries' databases.

[5] Panzer, John; Thomas, Mark Roland; Peuker, Axel R.; Razlog, Lilia; Prasad, Abha; Anderson, Phillip Reece Durrant; Li, Ying. 2015. *Debt management performance assessment (DeMPA) methodology (English)*. Washington, D.C. : World Bank Group.

[6] The DMF is a multi-donor trust fund supporting debt management capacity building in LICs, managed by the World Bank and the IMF and implemented together with a number of TA partners, including UNCTAD.

5.2 International standards

The *Revised Guidelines for Public Debt Management* are designed to assist policy advisors and decision makers involved in designing debt management reforms and raise public policy issues that are relevant for all countries, including debt transparency[7].

The *Public Sector Debt Statistics – Guide for Compilers and Users* focuses provides guidelines for improving the quality and timeliness of key public sector debt statistics and promoting a convergence of recording practices.[8]

5.3 Debt management systems

UNCTAD, through its DMFAS Programme, and the COMSEC are the main providers of computerised debt management systems[9], designed to provide debt management offices with the functionality needed to handle the day-to-day management of public liabilities and produce reliable debt data for policy and reporting. The software provides an integrated solution for recording both external and domestic debt, as well on-lending and grants in the same database. Private non-guaranteed debt can also be monitored. Moreover, they have powerful reporting tools with standard and user-defined reports. The software is continuously updated to ensure that they remain up-to-date with changes in debt management and technology. Currently one-hundred-and-twenty countries use either the UNCTAD or the COMSEC debt management software.

5.4 Capacity-development

UNCTAD's DMFAS Programme and the COMSEC are the principal providers of capacity-development in debt data recording, monitoring and reporting. They offer training and hands-on workshops on debt data validation, debt statistics and the production of statistical bulletins. As previously mentioned, their work in these 'downstream' areas of debt management TA complements the 'upstream' support offered mainly by the IMF, the World Bank and some regional organizations.

In the area of debt statistics, the Statistics Department of the IMF offers training to countries on debt statistics and related areas. Activities are often organized in cooperation with UNCTAD, COMSEC and regional organisations. The IMF's Data for Decisions Fund and Financial Sector Stability Fund will also provide capacity-development on debt statistics.

---

[7] World Bank. 2014. *Revised guidelines for public debt management (English)*. Washington, DC : World Bank Group.

[8] IMF (International Monetary Fund) (2013). *Public Sector Debt Statistics — Guide for Compilers and Users* (the *Guide*). IMF.

[9] UNCTAD's DMFAS Programme offers support to all United Nations member countries, and the DMFAS software is regarded as a global public good. The COMSEC focuses primarily on member countries of the Commonwealth.

The International Organisation of Supreme Audit Institutions (INTOSAI) provides training and guidelines to member supreme audit institutions on debt audits, including debt recording and reporting.

5.5 Awareness-building

A number of international organisations organize events tailored to high-level decision- and policy-makers such as members of parliament and congress, to raise their awareness of the importance of effective debt management. Such initiatives can help to increase the demand for debt information, which in turn contributes to the improvement of quality in debt reporting.

Notwithstanding the TA options available to countries, the ability of the main providers of support for debt recording and reporting (COMSEC and UNCTAD) to meet the demand for support is constrained by a shortage of financial resources. Another challenge is that there is a need to strengthen coordination of the activities of the various TA providers.

6. Conclusions

Debt data transparency is critical for effective debt management and for identifying risks of debt crises and limiting their impact. While the capacity of developing countries to management debt has greatly improved, often with the assistance of technical cooperation, many countries have yet to reach the minimum standards in some key areas. Debt recording and reporting are critical areas that require particular attention. The increased complexity of debt portfolios, combined with recurrent problems such as weak legal and institutional frameworks, low staff capacity and inadequate debt management systems, are significant challenges.

Achieving the necessary improvements will involve strengthening the capacity of governments in debt data recording and reporting, together with broader improvements in debt management. It will also be necessary to expand the coverage of external and domestic public debt from its current focus on central government and central government-guaranteed debt to include detailed and aggregated debt data of the different government institutional sectors, in addition to the management and monitoring of on-lending, grants and private non-guaranteed external debt. Increasing understanding of international best practices in data validation and debt statistics is another important requirement. The competent usage of modern computerised debt recording, monitoring and reporting systems is also a pre-requisite for strengthening debt recording and reporting. To effectively meet these challenges, countries will require more support from the international community. There are a number of proven solutions available for achieving the necessary improvements, including international standards, frameworks and systems supported by the IMF, INTOSAI, World Bank, UNCTAD, COMSEC and regional organisations. Priority should be given to scaling-up the provision of TA in the ‘downstream’ areas of debt recording, monitoring and reporting. The focus should be on increasing understanding and awareness, advisory services, strengthening computerised debt recording and reporting systems and their integration within the broader public finance management framework, and building sustainable institutional and staff capacity. Tailored and targeted action plans should be developed to address identified weaknesses, as there is no one-size-fits-all solution. TA providers should continue to ensure that their products and services are updated in order to satisfy new requirements and in accordance with changing standards.

The international community could also consider establishing a global coordination mechanism to provide advice and coordination for TA delivery in debt recording and reporting, ensuring synergies with the full spectrum of debt management TA. Improved coordination would facilitate the design and implementation of a comprehensive and coordinated programmatic approach for building country capacity. An initial objective could be to implement a new coordinated approach to debt data quality assessment. Establishing a regular coordination exercise among creditors and debtors to undertake systematic and cross-checking of debt-related information could also help to identify data gaps.

It will also be necessary for the international community to provide new financing for strengthening data recording/reporting capacity, to enable providers focusing on these downstream areas to address countries’ needs fully and in a timely manner. This funding would complement the funding currently available for upstream activities such as those covered by the Debt Management Facility and similar initiatives.

In summary, a scaling-up of TA in debt data recording and reporting and improving coordination among TA providers would strengthen the debt recording and reporting capacity of developing and transition countries. This would help to ensure that debt transparency improves to the levels needed for it to be an effective instrument for effective debt management and debt crisis prevention.