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WORLD BANK

Debtor Reporting System (DRS)

What it Measures

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DEVELOPMENT ECONOMICS DATA GROUP

DEBT TEAM

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Background

The World Bank has collected and maintained data on the external debt of its member countries since 1952 and the Bank's Debtor Reporting System (DRS) is the most important single source of verifiable information on the external indebtedness of low- and middle-income countries. All countries that borrow from IBRD or IDA agree to report in detail on long-term external debt owed by a public agency or a private agency with a public guarantee and in aggregate on long-term external debt owed by the private sector with no public guarantee.

The aim of this note is to provide users with a concise overview of the information captured in the DRS, including the sectorization of loan instruments by borrower and creditor type and an understanding of the alignment between DRS data and the standard developmental aid versus trade concepts used by the international community to categorize financial flows from official (bilateral and multilateral) creditors to low- and middle-income countries. It also includes a brief summary of the key characteristics of loans from private sector creditors reported to the DRS. The note is organized as follows:

- **Section I**: **The DRS – What is it, what is in it?**
    - ➢ A brief description of the DRS reporting requirements
- **Section II**: **Defining borrower and creditor type**
    - ➢ The sectorization of borrower and creditor as defined by the DRS
- **Section III**: **Aid and other official financing – concepts and link to DRS**
    - ➢ Categorization of financing from official creditors as defined by the Development Committee of the Organization for Economic Cooperation and Development (OECD-DAC) and link to DRS data
- **Section IV**: **Loans from private creditors reported to the DRS**
    - ➢ Key characteristics of lending by private creditors and categorization in the DRS.

I. The DRS – What is it, what is in it?

The DRS is a standardized reporting system that captures information on external debt provided by all Bank member countries that borrow from IBRD or IDA. The basic reporting requirement is the provision of loan-by-loan information, quarterly for new commitments and annually for related transactions (disbursements and debt service payments) and stock positions on all outstanding long-term publicly and publicly guaranteed external debt. DRS reporters must also report data on the long-term non-guaranteed external debt of the private sector which are reported, in aggregate, on an annual basis.

The DRS defines:

- *External debt* as an obligation of a resident to a non-resident; in foreign or domestic currency;
- *Long-term debt* as debt with an original maturity of over one year.[1]

The basic data elements reported for each loan are:

- Commitment date
- Amount and currency of the loan
- Currency of denomination and currency of repayment (which can differ)
- Name and type of debtor
- Creditor country
- Name and type of creditor
- Purpose of the loan
- Repayment terms – i.e. interest rate, principal repayment modality (e.g. equal semi-annual, annuity, bullet), first and last interest and principal payment dates.

Transactions on each loan (disbursements, principal and interest payments) and related outstanding debt stocks (disbursed and outstanding and undisbursed) are reported and recorded on an annual basis. Where relevant data for debt restructured or forgiven, and outstanding principal and interest arrears are also included.

A detailed description of the reporting requirements is given in the World Bank Debtor Reporting System Manual available at:

https://databank.worldbank.org/data/download/debt/DRS%20Manual%202013.pdf

II. Defining borrower and creditor type

The conceptual underpinning of the DRS derives from the System of National Accounts 2008 (*SNA 2008*), the Balance of Payments and International Investment Position Manual, Sixth Edition (*BPM6*). DRS reporting requirements are formulated on the standards and definitions of these two international systems. This includes the classifications of loans by borrower and creditor type.

[1] *External Debt Statistics: Guide for Compilers and Users, 2003*

The DRS defines the public sector as comprising the following institutions, described in full in *SNA 2008, BPM6* and *External Debt Statistics: Guide for Compilers and Users*.[2] The categories are:

- ***Central government*** and their departments;
- ***Central bank*** -the monetary authority and normally the agency that issues currency and holds the country's international reserves;
- ***Local government*** including states, provinces, municipalities and related sub-divisions;
- ***Public corporations*** -incorporated or unincorporated non-financial and financial entities wholly owned by the governmental sector;
- ***Mixed enterprises*** - incorporated or unincorporated non-financial and financial entities in which the public sector has more than 50 percent share of voting power.
- ***Official development bank*** – financial intermediaries that make long-term loans, but do not accept monetary deposits;
- ***Private*** - all other entities not included in the above categories.

As the borrower categories above show the DRS measure of external public debt is defined to encompasss *all* external borrowing by a public entity, *with* or *without* a guarantee from the sovereign government or other public sector entity and any external borrowing by a private entity that has a guarantee from the sovereign or other public sector entity. This underscores the DRS requirement to report the debt of all public corporations and mixed enterprises in which the public sector has more than 50 percent share --- irrespective of whether such borrowing has a guarantee of the sovereign government. The attention of national compilers is drawn to this requirement at the start of each DRS annual reporting cycle as many DRS reporters use a narrower definition of external public debt: typically one that includes only borrowing by the central government or by public and private entities that benefits from an explicit guarantee in the measure of external public debt.

From the outset an important element of the DRS was the requirement to be able to assess the volume and lending terms of individual creditors and creditor groups and to facilitate the validation of debtor and creditor records at the loan-by-loan level. The DRS asks for the name of the creditor country and the creditor extending the loan. As with the borrower classification, the creditor classification also follows the definitions used in the *SNA 2008* and the *BPM6* and is based on the criteria of residency not nationality. For example, a loan from Citibank (London) is recorded as a loan from the United Kingdom not the USA where the bank is incorporated.

The DRS identifies the following creditor types:

- ***Exporter*** - supplier of goods, such as manufacturer or trading company who extends credits for the purchase of the goods directly.
- ***Private Bank or other financial institution*** - an institution engaged in commercial banking activities, whether the ownership of the bank is public or private. Other financial institution is any private entity other than exporters, private banks or bondholders.

[2] Institutional sectors are described in detail in Chapter 4 of *SNA2008* and Chapter 4 of *BPM6*.

- ***International organization*** - whose membership includes the governments of two or more countries.[3]
- ***Government or public agency*** - a public entity that falls under the SNA definition of general government, central government; state and local government; central bank; and public enterprise.
- ***Bond***: a security with a promise to pay a specified amount of money at a fixed date and income at periodic dates until maturity. It includes *publicly placed bonds* and *privately placed bonds*.

III. Aid and other official financing – concepts and link to DRS

How aid and other official financing is defined

Financing from official sources to low- and middle-income countries comprises two main categories as defined by OECD-DAC. These are Official Development Assistance (ODA) and Other Official Flows (OOF). Specifically:

- ***ODA*** comprises grants and loans to countries and territories on the DAC List of ODA Recipients (developing countries) undertaken by the official sector: (a) with promotion of economic development and welfare as the main objective and (b) extended on concessional financial terms, as prescribe by OECD DAC. The degree of concessionality is differentiated in relation to the income classification of the recipient country with the poorest countries accorded the most concessional terms.

- ***OOF*** defined as official sector transactions that do not meet the criteria for ODA. It includes official bilateral and multilateral loans for developmental purposes that do not meet the ODA concessionality criteria (for example loans from IBRD), and lending that benefits from official support whose primary aim is export facilitation (export credits). Export credits may be direct, i.e. extended by an official government agency or indirect, i.e. financing extended by a private entity that benefits from an officially supported guarantee.

The terms and conditions on which export credits (direct and indirect) are extended are governed by the OECD "Arrangement", a gentleman's agreement among OECD member countries aimed at fostering a level playing field that encourages competition amongst exporters based on quality and price through the application of comparable financial terms and conditions for official support lending.[4] Participants to the "Arrangement" also adhere to "sustainable lending principles" for the poorest countries in line with IMF and World Bank policies.

The OECD categorization of official lending is used i in the annual evaluation of ODA volumes and effort by members of OECD DAC. It also underpins the formulation of all debt restructuring arrangements concluded in the Paris Club forum and the related principles of comparability and burden-sharing.

Official financing categories and the DRS

[3] The agreed list of institutions formally recognized as international organizations is managed by the OECD.

[4]Current participants to the arrangement are: Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Turkey and the United States.

Loans from official creditors recorded in the DRS do not have a specific marker that designate them as ODA or OOF and therefore, data according to this categorization cannot be extracted directly from the DRS. However, it is possible to derive close approximations/proxies for these categories using a combination of creditor name and loan terms. These may be cross-checked with data reported to OECD DAC and the OECD Creditor Reporting System (CRS) but recipient country information available from these systems lags the DRS by about one year.

In the DRS the identification of loans from international institutions that meet ODA criteria is a relatively simple process because DRS data for loans extended by most of the largest of these lenders is captured directly from the creditor source and the separate lending windows of the institutions are identified (e.g. IBRD vs. IDA, African Development Bank vs. African Development Fund, etc.).

In the case of bilateral lenders, the identification of ODA, versus other official financing, can be readily identified from the name of the creditor for any creditor country that has a dedicated institution(s) for each type of official financing. In the United States for example ODA loans are extended by US-Aid or the US Department of Agriculture and other official loans (direct export credits) by US Exim-bank. In France for example all ODA loans are extended by Agence Française de Développement (AFD) and in Japan by Japan International Cooperation Agency (JICA). The process of identification becomes a little more complex in countries where one agency is responsible for all official and officially supported bilateral loans as is the case with Korea Exim-bank. It extends export credit loans and guarantees and ODA loans as executing agent of the Economic Development Cooperation Fund (EDCF) it administers on behalf of the Ministry of Strategy and Finance. In such cases however, ODA loans should be easily identifiable from lending terms (interest rate and length of the loan term).

Box 1: Lending by low- and middle-income countries – what they do and what we know

An important shift in the external financing of low- and middle-income countries in recent years has been the rising importance of so-called 'south-south' flows - lending by low- and middle-income countries to each other. Of the G-20 group of countries, nine are classified as middle-income countries and are World Bank borrowers and DRS reporters; Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Turkey. China is by far the biggest bilateral lender but several others, notably India, Russia, Turkey and, to a lesser extent, Brazil also have large overseas lending programs. All nine countries have one or more official export credit agencies and at least half have an active aid program or mechanism for extending concessional financing.

The primary objective of bilateral lending by low- and middle-income countries is to "finance, facilitate and promote international trade" and further their own development agenda.[1] Consequently, a large share of the external financing provided takes the form of export credits and guarantees tied to procurement of goods and services in the lending country. However, while this financing is often on market terms there are 'concessional' lending windows for the poorer countries, often intertwined with national aid programs.

For example:

India: The development assistance program, managed by the Ministry of External Affairs, includes concessional loans and grants and concessional lines of credit executed on behalf of the government by India Exim-bank. The terms of these lines of credit are differentiated according to the income classification of the borrower, and IMF-World Bank concessonality criteria. For the poorest countries, terms extend to a 25-year maturity, 37.5 percent grant element.[2]

China: The China International Development Cooperation Agency (CIDCA) was established in March 2018 to "elevate the political importance of foreign aid and better align the aid agenda with overall foreign policy".[3] It took over a foreign assistance program consisting of grants and interest-free loans, previously managed by the Ministry of Commerce, and concessional loans executed on behalf of the government by China Exim Bank, specifically:

- Concessional loans: denominated in renminbi with a fixed interest rate below the central bank benchmark rate and 20 year plus maturity, extended only to sovereign governments or public entities with a sovereign guarantee:

- Preferential export credits: denominated in US dollars with medium term maturities (10-15 years) at below market, fixed interest rate, subsidized from China Exim Bank's capital resources.

Regarding the volume of bilateral lending by the low- and middle-income countries listed above:

Creditor information- Turkey, an OECD member country, and Russia, an OECD associate, report to the OECD DAC on aid and other official flows, in conformity with OECD DAC reporting requirements. India partners with the OECD regarding data on aid flows and the India Exim-bank website gives detailed information on its lending activities. To date, China has not published official data on official and officially supported lending to other countries and little data is made available by the other five countries.

Debtor information – DRS reporters provide detailed information on all public and publicly guaranteed external loans, including those from lenders classified as low- and middle-income countries. The crosscheck of information reported to the DRS with the creditor records that are available, and periodic press releases on signing ceremonies indicate DRS coverage of 'south-south' lending is robust and no more likely to be subject to under-reporting than loans from traditional lenders.

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[1] India Exim-bank mission statement.
[2] Government of India, Guidelines on LOCs, Ministry of Finance 2015.
[3] Official press release by the Chinese government.

IV: Loans from private creditors reported to the DRS

Over the past decade lending by private creditors has become an important, and in some cases, the most important source of external loan financing for many low- and middle-income countries, including some of the poorest countries. The increase in lending has been accompanied by greater use of financing arrangements such as public private partnerships and special purpose vehicles, and innovation in the structure of financial instruments and the mechanisms to mitigate or offset creditor risk, including guarantees from official and private agencies. There has also been a rise in collateralization of external loans against borrowers' future export receipts or other assets, but measuring this development is outside the remit of the DRS which to date has never required borrowers to report on the amount or nature of collateral provided to external lenders.

Bond issuance in international markets constitutes a large share of financing from private creditors. Issuance by entities that fall within the definition of public and publicly guaranteed debt described above are reported to the DRS on an issue-by-issue basis. Issuance by non-guaranteed private entities is included, in aggregate, in the DRS data on private non-guaranteed debt for each DRS reporting country. The coverage and accuracy of data reported to the DRS is high, in part because terms are typically straightforward (fixed coupon (interest) rates and bullet repayment). Additionally, information to crosscheck, and where appropriate, to supplement DRS reports (press releases, bond prospectus, market-based information systems) is available.[5]

Commercial banks' lending accounts for most of the non-bond financing from private creditors. As described in the section above, officially supported export credits may be direct export credits (i.e. extended by a government agency such as U.S. Exim-bank) and classified as official bilateral lending or indirect export credits (i.e. a loan extended by a financial institution with a guarantee from an officially supported agency such as U.K. Export Finance). In line with DRS conventions for sectorization by creditor type, indirect export credits are categorized based on type and name of *creditor* and not the *guarantor.* The same applies to a loan from a financial institution, or a bond, guaranteed by an international organization. For example, the September 2018 €260 million from MUFG Securities Japan (U.K.) facilitated by an IDA partial risk guarantee, is recorded in the DRS as a loan from a UK financial institution.

Regarding special purpose vehicles and public private partnerships most external borrowing under these arrangements falls into the category of private non-guaranteed debt[6]. The exception would be an external loan that has a guarantee from the government or other public entity in the borrowing country. For example, the 2018 $200 million (equivalent) enclave loan from IBRD to Conseil du Coton et de l'Anacarde (CCA) in Côte d'Ivoire is recorded in the DRS as public and publicly guaranteed debt because the loan is fully guaranteed by the government of Côte d'Ivoire.

[5] For example, some DRS reporters do not include bond issuance by a public enterprise, such as a national oil company, in external public and publicly guaranteed debt data if the issue does not have a sovereign guarantee.

[6] A large share of this financing does have official backing (for the creditor) from export credit agencies.