



# ISLAMIC REPUBLIC OF AFGHANISTAN

## TECHNICAL ASSISTANCE REPORT—REPORT ON THE EXTERNAL SECTOR STATISTICS MISSION (MARCH 12– 22, 2018)

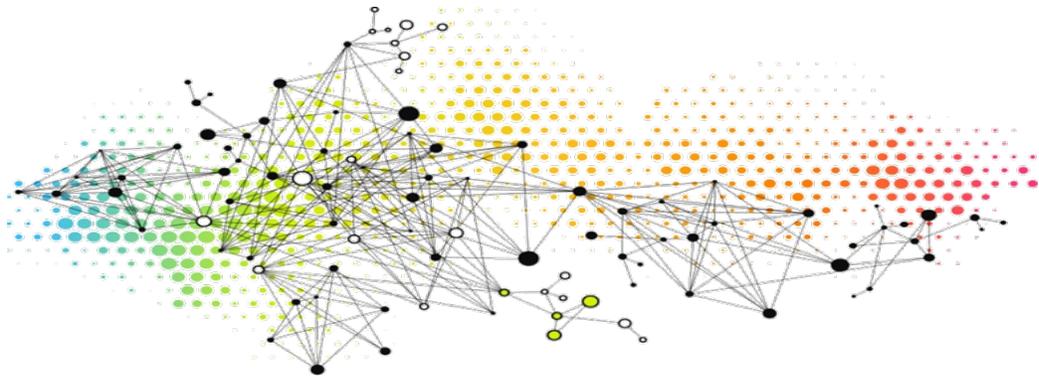
November 2018

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JULY  
2018

## REPORT ON EXTERNAL SECTOR STATISTICS MISSION (MARCH 12–22, 2018)

**Prepared by Tamara Razin and Renato Pérez Dávalos**

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## Glossary

<i>BPM6</i>	<i>Balance of Payments and International Investment Position Manual, sixth edition</i>
<i>BPM6 CG</i>	<i>BPM6 Compilation Guide</i>
BSD	DAB's Banking Supervision Department
CD	Customs Department
CDDB	Customs declarations database
CSO	Central Statistics Organization
DAB	Da Afghanistan Bank
DI	Direct investment
DQAF	Data quality framework
DOTS	Direction of Trade Statistics
ESS	External sector statistics
FOB	Free on board
IIP	International Investment Position
IMF	International Monetary Fund
IMTS	International merchandise trade statistics
ITRS	International transactions reporting system
MCI	Ministry of Commerce and Industry
METAC	Middle East Regional Technical Assistance Center
MOF	Ministry of Finance
MPD	Monetary Policy Department
MSPs	Money service providers
QEDS	Quarterly External Debt Statistics
TA	Technical assistance
STA	IMF's Statistics Department

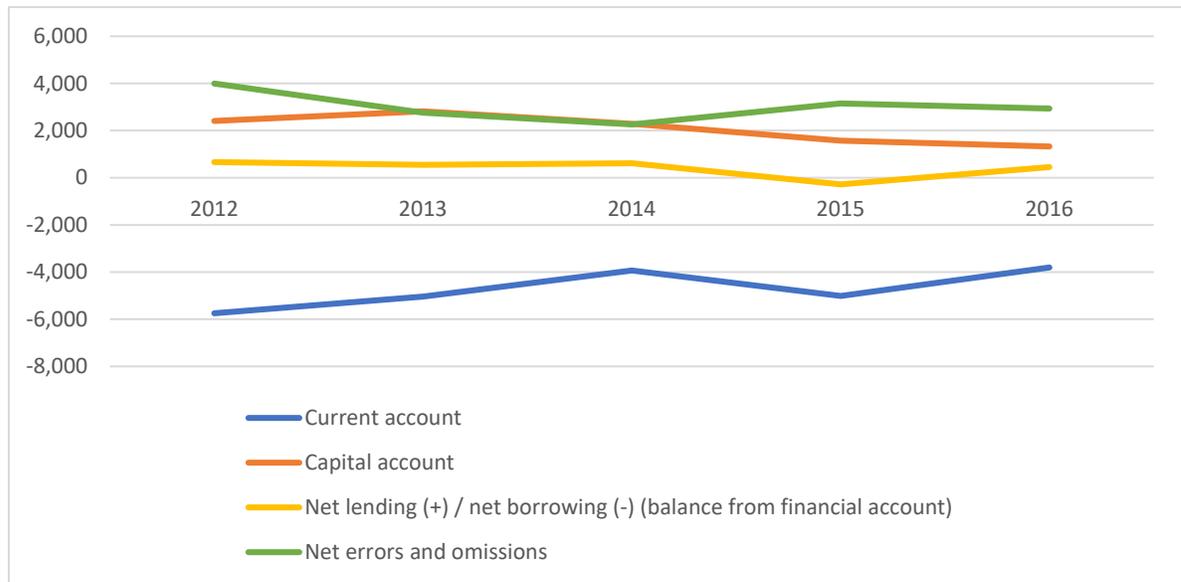
## SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

- 1. A technical assistance (TA) mission on external sector statistics (ESS) was conducted in Beirut, Lebanon, during March 12–22, 2018, for the Da Afghanistan Bank (DAB).**<sup>1</sup> The mission took place at the request of the DAB and with strong support of the IMF's Middle East and Central Asia Department. This mission is part of the Middle East Regional Technical Assistance Center (METAC) work program. The main objectives of the mission were to assist the DAB in improving the quality of the balance of payments and International Investment Position (IIP) by suggesting improvements in the statistical techniques and promoting the use of adequate source data. The main focus of the mission was on filling data gaps by developing new estimation methods based on existing and new data sources.
- 2. Interagency cooperation is crucial for building a sound data collection system for compiling ESS.** The mission worked toward enhancing the interagency cooperation that would assure effective data sharing for the purpose of ESS compilation. For the duration of the mission, the Afghanistan team was composed of two DAB staff of the External Sector Unit of the Monetary Policy Department (MPD). In addition, one staff member from the Ministry of Finances (MOF), two staff members from the Central Statistics Organization (CSO), and one staff member from the Customs Department (CD) joined the mission for the two-day session. Such participation contributed to establishing the basis for partnership between institutions compiling ESS and main source data providers.
- 3. Reliable ESS are essential for informed economic policy making by the authorities.** The DAB made efforts for improving the quality of ESS statistics by advancing the implementation of recommendations of previous TA missions. Despite the progress achieved, the compiled balance of payments and IIP suffer from considerable shortcomings that undermine the reliability of disseminated data. The significant level of errors and omissions, that range from 69 percent of current account balance in 2012 to 77 percent in 2016, reveal persistent gaps and misalignments.

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<sup>1</sup> The current security environment in Afghanistan precludes Fund staff travel to Kabul, Afghanistan.

**Figure 1. Main Components of Afghanistan Balance of Payments**  
(thousands of dollars)



Source: DAB

4. **The detailed assessment of compiled balance of payments and IIP data was aimed at identifying data weaknesses and suggesting ways to address them.** The assessment exposed considerable discrepancies in coverage of current account and financial account of balance of payments. While the current account is compiled based on more developed and comprehensive data sources, the financial account lacks robust data collection system. The most significant weaknesses are in coverage of the private sector that makes the launch of an enterprise survey crucial. Such a survey would allow to address coverage gaps in private sector's external assets and liabilities, including data on direct investment. Other measures recommended for enhancing the data collection include enhancing the international transactions reporting system (ITRS) that collects data from banking sector; and revamping or launching the low-scale surveys of specific activities such as telecommunication, travel, insurance, money transfer operators, and other.

5. **Current compilation practice lacks sound estimation techniques, which is particularly important when the available data are limited.** New estimation approaches building on available data were proposed for a great number of balance of payments components, with a particular focus on those with the highest contribution to the balance of payments accounts. Among them are import and export of goods, grants and development projects, direct investment and its financing, and some types of services. The implementation of new compilation and estimation techniques will allow for reductions in the errors and omissions account.

6. **The mission recommended a gradual approach for addressing weaknesses in ESS where the balance of payments components are prioritized for further enhancement.** The

prioritization is done by identifying the components with the highest weight in balance of payments and IIP. Considering the resource availability, the primary focus in the short run will be on addressing gaps and improving the compilation techniques for prioritized components, such as goods, current and capital transfers, direct investment, debt liabilities, and addressing the shortcomings in other components at a later stage. Further TA will be one of the important elements for assuring the implementation of this strategy.

**7. Building the capacity and enhancing human resources allocated to the compilation of ESS are among the important prerequisites for a sustainable implementation of recommendations.**

The mission emphasized the importance of participation of officials in ESS courses offered by the IMF and stressed that it is of the utmost importance that officials directly involved in the compilation of ESS be nominated for future training. The mission delivered presentations on a number of selected topics relevant for all institutions participating in the mission and provided intensive hands-on training to staff in charge of compilation of ESS.

**8. To support progress in the above work areas, the mission recommended a detailed one-year action plan with the following priority recommendations carrying particular weight to make headway in improving ESS:**

**Table 1. Priority Recommendations**

Target Date	Priority Recommendation	Responsible Institutions
January 2019	<i>Implement changes to ITRS for enhancing the banks' reporting.</i>	DAB (MPD)
September 2018	<i>Request data from the DAB's Banking Supervision Department (BSD) on foreign investment in resident banks for compiling direct investment in the banking sector.</i>	DAB (MPD)
September 2018	<i>Request data from the BSD on letters of credit for compiling trade credit and advances components.</i>	DAB (MPD)
December 2018	<i>Implement the new treatment of current and capital transfers (grants in cash, technical assistance, and development projects, including aid from the US) based on MOF information and following the model proposed by the mission, including estimation of offsetting entries.</i>	DAB (MPD)

## STRENGTHENING THE DATA COLLECTION SYSTEM

9. **The mission assessed the most important data sources used to compile Afghanistan's balance of payments and IIP statistics.** The MPD uses a wide variety of data sources, ranging from different governmental agencies to specially designed CSO surveys of businesses and other organizations, as well as results from household surveys. Other statistics compiled within the MPD, such as monetary and financial statistics, are also used as data sources for the balance of payments and IIP statistics.
10. **The IMF's data quality assessment framework (DQAF) promotes data sharing and coordination among data-producing agencies.**<sup>2</sup> Interagency cooperation is crucial for building a sound data collection system for compiling ESS. The mission worked toward enhancing the interagency cooperation that would assure effective data sharing for the purpose of ESS compilation. The mission, together with the staff from MPD, CSO, MOF, and CD, accentuated efforts to collect new information, establish data reporting frameworks, and to strengthen the collaboration.
11. **The MPD needs to gradually improve the source data by extending the coverage, updating, and implementing new survey forms, in line with the *BPM6*.** The DAB made efforts for improving the quality of ESS statistics by advancing the implementation of recommendations of previous TA missions. Despite the progress achieved, the compiled balance of payments and IIP suffer from considerable shortcomings that undermine the reliability of disseminated data.

### A. International Transactions Reporting System (ITRS)

12. **The implementation of an updated ITRS could have significant impact on the current balance of payments data.** The mission assisted the MPD in reviewing the current ITRS for aligning with the *BPM6* methodology. The list of codes to be used for transactions made by banks on behalf of their customers was reviewed and changes were suggested. In addition, compilers were encouraged to conduct another review of the existing ITRS codes in conjunction with those recommended in the *BPM6 Compilation Guide (BPM6 CG)* for better customization to meet Afghanistan's needs.<sup>3</sup>
13. **The use of the ITRS data, as the main data source, is encouraged for compiling the balance of payments until data collected through surveys are considered adequate.**

<sup>2</sup> The full discussion on DQAF is in <http://www.imf.org/external/np/sta/dsbb/2003/eng/dqaf.htm>.

<sup>3</sup> Paragraph 4.16 of the *BPM6 Guide* mentions that the list of codes should include codes for all balance of payments components; however, transactions that occur rarely (e.g., some types of services) could be classified as "other n.i.e." Special codes (also called neutral codes) should be identified for transactions that are not included in the balance of payments statement but are recorded in the ITRS to improve the efficiency of the system and for cross-checking purposes. The coding system should be intuitive and could be customized for different reporters.

However, it is important that MPD analyzes and validates the major variations in data sourced by the ITRS. In addition, the MPD should ensure that reporters have a full understanding of the data requested in the updated ITRS by holding training sessions for banking officers. Experience has shown that reporters are not familiar with the ESS concepts and terminology used in the ITRS and need to have a better awareness on the identification of residents and nonresidents.<sup>4</sup>

**Recommended Actions:**

- Review the ITRS codes and instructions for aligning to *BPM6* and for accommodating new codes emerging from economic events (remittances, money transfer offices, etc.);
- Conduct a training program for banks on providing guidelines for reporting and applying the updated ITRS codes;
- Assess, based on information received from commercial banks, the adequacy of data reported in ITRS, such as imports of construction services and other business services (legal and consulting services), and adjust the balance of payments accordingly;
- Implement the updated ITRS codes.<sup>5</sup>

## B. Existing Survey Forms

14. **The mission assessed the survey forms used by the DAB for ESS purposes and found scope for improvement. Apart from the ITRS,** the data collection for the balance of payments purposes is also based on surveys. The review of the survey forms revealed several issues in their design and coverage. The main weaknesses are: misleading questions, deviations from the *BPM6* framework, missing relevant questions, and missing integrated format for the financial part of some of the forms.

15. **The mission provided advice for addressing the identified limitations in the survey forms and/or in designing new forms.** It underscored the importance of collecting both transactions and positions data for ensuring consistency of balance of payments and IIP. The revised survey forms, for the first quarter of 2019 data, are expected to be launched no later than April 2019. Assistance was provided in designing the survey forms for collecting data from telecommunication companies, foreign and domestic airlines, and travel agencies.

16. **The mission initiated the discussion with the CSO's representatives on surveys conducted by the CSO, with the view of identifying those that could be used for the balance of payments purposes.** A detailed review of survey forms covering construction and

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<sup>4</sup> ITRS is discussed in detail in the *BPM6 CG*, Chapter 4. Examples on ITRS forms are shown in Appendix 8, Models Surveys Forms 3.1, 3.2, 3.3, 3.4, and 3.5 (pages 472-493).

<sup>5</sup> The DAB informed that the staff responsible for the ITRS is no longer at the DAB. This will imply a delay of several months in the ITRS updating, given that new staff needs to be trained for this task.

development projects revealed their applicability for the collection of data for the balance of payments, providing that some adjustments are made mainly for identifying transactions with nonresidents. It was advised that the DAB and CSO conduct a review of all survey forms employed by the CSO and decide on changes needed for accommodating the balance of payments requirements.

**Recommended Action:**

- Conduct an inventory revision of survey forms employed by the CSO and suggest changes, where relevant, allowing data collection for balance of payments purposes.

## DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

### A. Action Plan

17. **The below action plan includes steps to accomplish milestones.** The plan is for technical compilers. Actions are prioritized (high, medium, low) and priority recommendations identified.

Priority	Action/Milestone	Target Completion Date
<b>Outcome: Source data are adequate for the compilation of these macroeconomic statistics.</b>		
H	Review the ITRS codes and instructions for aligning to <i>BPM6</i> and for accommodating new codes emerging from economic events (remittances, MTOs, etc.)	January 2019
H	Conduct a training program for banks on providing guidelines for reporting and applying the updated ITRS codes	January 2019
H	Implement changes in the ITRS for enhancing the banks' reporting.	January 2019 (starting with the report for 2019) <b>Benchmark action</b>
M	Conduct an inventory revision of survey forms employed by the CSO and suggest changes, where relevant, allowing data collection for balance of payments purpose.	September 2018
H	Request additional indicators from the MOF on debt liabilities (position and transactions) for supporting their registration in balance of payments/IIP according to <i>BPM6</i> .	September 2018

Priority	Action/Milestone	Target Completion Date
H	Formalize the institutional arrangements through a Memorandum of Understanding between CD, CSO, and DAB for sharing comprehensive quarterly trade and services data.	September 2018
H	Assure the availability (through the access to customs declarations database (CDDDB) or requesting reports from CD) of the CDDDB, with sufficient granularity for generating reports requested for balance of payments purposes (e.g., import of goods within the technical assistance/investment projects; import/export of goods by foreign embassies, military bases; import of cars by individuals, and other).	November 2018
M	Explore with the MOF the available data on insurance companies for their use in ESS compilation.	October 2018
M	Conduct quarterly tripartite meetings (DAB, SCO, and Customs) for discussing the arising issues related to trade in goods statistics	Regularly
H	(i) Review the survey forms for domestic and foreign airlines and travel agencies to accommodate changes suggested during the mission; (ii) Launch the collection based on updated forms.	August 2018
H	Launch the survey of hotels through the updated survey form.	August 2018
M	Assess the possibility of introducing changes to the survey form on construction services conducted by the CSO, for identifying transactions with nonresidents.	September 2018
H	(i) Update the survey form for telecommunication companies to allow collecting data on mobile money transfers; (ii) Launch the collection based on the updated form.	September 2018
H	Launch a survey of money transfer operators (e.g., Money Gram, Western Union, etc.).	January 2019
H	Request data from the BSD on foreign investment in resident banks for compiling direct investment in banking sector.	September 2018 <b>Benchmark action</b>
H	Request data from the BSD on letters of credit and use them for compiling advances components.	September 2018 <b>Benchmark action</b>

Priority	Action/Milestone	Target Completion Date
<b><i>Outcome: Data are compiled and disseminated using appropriate statistical techniques, including dealing with data sources, and/or assessment and validation of intermediate data and statistical outputs.</i></b>		
H	Adjust import/export of goods for improving the coverage: (i) estimation of import of goods by individuals (smuggling trade); (ii) sale of fuel and other goods to foreign airlines.	November 2018
H	In consultation with other government agencies and foreign institutions represented in Afghanistan (main donors), and international organizations, estimate the distribution of foreign military assistance between current and capital transfers, and corresponding offsetting entries in import of goods and/or services.	November 2018
M	Create a task force for estimating the impact of illegal drug production in Afghanistan and their export in national accounts statistics and ESS.	Ongoing cooperation
H	Recalculate the FOB value of imported goods from neighboring countries, excluding the freight and insurance from the service account.	August 2018
H	Adjust data registered as insurance services for excluding/separating the transfer component.	August 2018
H	Assess, based on information received from commercial banks, the adequacy of data reported in ITRS as imports of construction services and other business services (legal and consulting services) and adjust the balance of payments accordingly.	November 2018
M	Implement the adjustments to the estimation of remittances (compensation of employees and personal transfers) by employing new data sources (e.g., money service providers (MSPs)).	June 2019
H	Adjust data on government goods and services to include purchases by foreign embassies and military bases from domestic economy, considering the transactions through their accounts with domestic banks.	January 2019 through the banks
H	Implement the new treatment of current and capital transfers (grants in cash, technical assistance, and development projects, including aid from the US)	December 2018 <b>Benchmark action</b>

Priority	Action/Milestone	Target Completion Date
	based on MOF information and following the model proposed by the mission, including estimation of offsetting entries.	
H	Review the data registered under direct investment for identifying equities, debt liabilities to affiliates, and debt liabilities to nonaffiliated creditors and for distributing the total project amount, considering the duration of the implementation. In case the MPD does not have access to the source data, estimations should be made. The historical estimations to be reviewed when the direct investment survey is implemented.	December 2018
M	Start recording in currency and deposits of other sectors the estimated offsetting entries for inflow of foreign exchange cash from remittances and outflow of foreign exchange for purchase of goods (e.g., cars, shuttle trade).	December 2018
H	Estimate the trade credit and advances, liabilities based on data on letters of credit available at the Banking Supervision Department.	December 2018
M	Produce the first draft of gross external debt statistics for recording in the World Bank's QEDS (Table 1).	May 2019
<b><i>Outcome: Staff capacity increased through training, especially on developing source data, compilation methods, and dissemination.</i></b>		
M	Nominate staff for training courses at IMF HQ, regional training centers, and other international organizations.	Ongoing
M	MPD to always have staff trained in different duties associated with the ESS compilation; to manage eventual staff turnover and not jeopardize the needed improvement in the ESS.	Permanent
M	Organize staff visits to partner countries for exchange of experience in compiling ESS (subject to funding availability).	Once a year
<b><i>Outcome: Data access to the public has improved through better formatting/framework presentations and/or assistance to users.</i></b>		
M	CSO is encouraged to report DOT data to STA, as well as monthly trade statistics for public dissemination on IMF's publications. These data	December 2018

Priority	Action/Milestone	Target Completion Date
	should be reconciled with the balance of payments statistics prepared by the MPD and the differences explained and recorded in case further improvements in the quality of data are needed.	

18. **The mission acknowledges progress in ESS compilation.** The subsections below include detailed compilation issues addressed with the authorities during the mission, and focus on areas where there is scope for further improvements.

## B. Assessment of Compiled Balance of Payments and IIP Statistics

19. **The mission reviewed the quarterly balance of payments and IIP data submitted to STA on a BPM6 basis.** The mission identified important methodological and data issues to be addressed in the compilation of these statements.

### Goods

20. **The CSO is responsible for the compilation and dissemination of international merchandise trade statistics (IMTS) which is sourced from the customs declarations database (CDDB).**<sup>6</sup> The CDDB transmitted to the CSO includes a selected number of fields, which have been agreed among the two institutions. The MPD does not have access to the CDDB and uses the aggregated data provided by the CSO for the compilation of goods statistics. This implies limitations in the compilation of data on import and export of goods, as compilers do not have the possibility for selecting the data in breakdowns needed for complying with the *BPM6* requirements. The mission advised that compilation procedures could be improved, if a memorandum of understanding between CD, CSO, and DAB for sharing information is signed, providing the confidentiality requirements are met.

21. **Good interagency cooperation is needed for assuring the compilation of trade in goods data aligned to international standards.** Also, there is a need for compilers to be familiar with standards and approaches applied by CD in the declaration of goods (e.g., the trade system or customs regimes used). In Afghanistan's case, the general trade system is used where goods are included in import/export when entering or leaving the economic territory of the country, which coincides with *BPM6* requirements. Different customs regimes used in filling customs declarations allow selecting data on goods that have special treatment in balance of payments or require imputation of offsetting entries. Among them are imports by nongovernment organizations and foreign embassies, import of goods under government

<sup>6</sup> CD implemented the Automated System for Customs Data (ASYCUDA) in most of the Afghanistan's customs points; it is not implemented in four provinces where customs data are captured manually and reported to the CSO.

projects, import of military equipment, import/export of donations/humanitarian aid, goods re-imported/re-exported and other. Balance of payments compilers should request from CD/CSO the data in additional breakdowns needed for the balance of payments.

22. **The method used by the MPD to convert imports from a cost, insurance, and freight (CIF) value to free on board (FOB) value needs to be amended.** The MPD estimates the FOB value for imports applying 2 percent for insurance and 10 percent for freight for import from neighboring countries (which accounts for the majority of trade), and 4 percent and 21 percent, respectively, for imports from other countries. The *BPM6* states that the point of uniform valuation of goods is at the customs frontier of the economy from which the goods are first exported, which is the FOB valuation. Consequently, the import from neighboring countries is already at FOB value and no adjustment is needed for insurance and freight. Thus, the freight and insurance data on the service account need to be amended (excluding 2 percent for insurance and 10 percent for freight for imports from neighboring countries) (the excluded value should be added to the goods). The adjustment to be made should exclude the goods from the suppliers of not neighbor countries that bring goods to the Afghanistan's border.

23. **A number of imported and exported goods that are not covered by customs statistics is an area of concern.** Among them are imports of electricity, military equipment, smuggled goods, as well as exports of illegal drugs. These goods are also not covered in balance of payments as the MPD does not make any estimates for filling the gaps.

24. **The statistical coverage of illegal drugs export (and of their production in national accounts) is an area of concern.** If estimated and accounted, this activity would have significant impact on both national and international accounts. The CSO, with the IMF assistance, developed an estimation model for the production and export of illegal drugs, which is yet to be improved, tested, and fine-tuned.<sup>7</sup> The model is based on data from the United Nations Office on Drugs and Crime. The estimation results have not been accounted yet in the GDP calculation as are very preliminary. The mission recommended that the balance of payments compilers join the national accounts compilers in developing the estimates of illegal drugs activity in Afghanistan. Considering the significant amount of exported illegal drugs, their inclusion in balance of payments statistics should be done only when the estimation method is proven to be reliable. In addition, the registration of data on export of illegal drugs should be accompanied by offsetting entries in respective balance of payments components.

25. **The import of military goods to Afghanistan (provided without a quid pro quo) is significant, however it is not covered in balance of payments statistics.**<sup>8</sup> The military support for Afghanistan is estimated at around USD 4 billion per year, of which about 80 percent is in form of military equipment and 20 percent is training and other current account transactions. The adjustments to import of goods (and services) for covering the military equipment and

<sup>7</sup> METAC's advisor on national accounts has also worked in the estimation model.

<sup>8</sup> Paragraph 40 discusses the military aid provided by the US government to Afghanistan.

assistance should be made with a contra entry in capital transfers (for the imported equipment) and in current account, government goods and services n.i.e. (for the TA). These adjustments could be done in consultation with other public institutions involved, as well as with donors and/or international organizations.

26. **The Direction of Trade Statistics (DOTS) database maintained by STA is a relevant statistical framework for policymakers.** It allows the identification of trade flows on from-whom-to-whom basis. Afghanistan does not report IMTS data to STA for DOTS purpose. However, DOTS data include Afghanistan's mirror trade data reported by trading partners. The mirror data could be considered in analyzing the coverage of trade data in balance of payments, taking into account the limitations of mirror data. Also, the mission encouraged starting reporting to STA the IMTS data for their inclusion in DOTS.

***Recommended Actions:***

- Formalize the institutional arrangements through a memorandum of understanding between CD, CSO, and MPD for sharing comprehensive quarterly trade data and services data;
- Conduct quarterly tripartite meetings (CD, CSO and MPD) for discussing the arising issues related to trade in goods statistics;
- Assure the availability (through the access to CD data base or requesting reports from Customs) of the CD data base with sufficient granularity for generating reports requested for balance of payments purpose (e.g., import of goods within the technical assistance/investment projects; import/export of goods by foreign embassies, military bases; import of cars by individuals, and other);
- Recalculate the FOB value of imported goods from neighboring countries, excluding freight and insurance associated with these goods from the service account and adding them to goods;
- Create a task force for estimating the impact of illegal drug production in Afghanistan and their export, and for their accounting in national accounts and ESS;
- Adjust import/export of goods for improving the coverage (e.g., estimation of import of goods by individuals (smuggling trade), and sale of fuel and other goods to foreign airlines);
- In consultation with other government agencies and foreign institutions represented in Afghanistan (main donors), and international organizations, estimate the distribution of foreign military assistance between current and capital transfers, and the corresponding offsetting entries in import of goods and/or services.

## Services

27. **The compilation of the service account relies primarily on the ITRS as the data source.** In addition, the MPD collects data directly reported by some entities operating in different services, such as transport, communication, and government services.

### *Transport*

28. **Transport services comprise transportation of goods and passengers.** While data related to freight registered in balance of payments seem reasonable at this stage, those on passenger transport need improvement. The mission stressed that this category covers services provided in the international air transport to nonresidents by resident carriers (credit) and those provided to residents by nonresident carriers (debit). The passenger transportation data should include fees payable by the carriers to travel agencies and to other providers involved in tickets sales, as well as any taxes levied on passenger services. The mission provided guidance on updating the forms to collect data from the resident and nonresident airlines, as well as from the travel agencies. The updated forms should be launched during the next collection cycle and compilers should assure that there is no duplication of data from airlines and travel agencies, before registering them in balance of payments.

### **Recommended Action:**

- Review the survey forms for domestic and foreign airlines and travel agencies to accommodate changes suggested during the mission.

### *Travel*

29. **Travel services are broken down into business and personal.** They cover goods and services acquired by nonresidents traveling for different purposes in Afghanistan and services purchased by residents during their travel abroad for less than one year. Currently, the source data for service travel is the ITRS which implies a significant undercoverage, as many of the transactions of travelers (both for import and export) are paid in cash and, therefore, no payments are made through ITRS. Compilers should investigate with the Ministry of Information and Culture the available data on tourism that could be used for building an estimation model for travel services.

30. **A survey form was designed with mission's assistance that will be used by the MPD to collect data from several hotels in Kabul.**<sup>9</sup> If the survey gives reliable results, it will contribute to improving the coverage of export of travel services. Data collected through the survey would need to be cross-checked with ITRS data to avoid double counting. Another source of data for improving travel data estimates could be the information on cross-border payments

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<sup>9</sup> The vast majority of hotels in Kabul only accept cash. Thus, hotels' transactions are not captured in the ITRS.

by debit and credit cards which will be collected through the updated ITRS (a separate ITRS code should be included for payments with credit and debit cards).

**Recommended Action:**

- Launch the survey of hotels through the updated survey form.

**Construction Services**

31. **The data on construction services registered in balance of payments need a detailed review and assessment.** Currently, considerable amounts are registered as export of construction services, based on data from the ITRS. The balance of payments compilers agreed with the mission's view that Afghanistan does not have the capacity to provide construction services to nonresidents; consequently, data are deemed to be erroneous. An analysis of ITRS data should be conducted and bank/banks that reported significant amounts of construction services under export should be contacted for clarifications. Relevant corrections have to be done in compiled data on construction services.

32. **New data sources should be identified for collecting data on import of construction services.** The mission analyzed the survey form used by the CSO for collecting data on construction services from resident construction companies for assessing its applicability for balance of payments needs. The survey form includes questions on value of goods acquired for construction needs and on services provided; however, the transactions with nonresidents are not specified. CSO agreed to assess the possibility of adjusting the survey form for identifying transactions with nonresidents.

33. **Balance of payments compilers should identify large scale construction project that could be realized by the nonresident construction companies for establishing the collection of data.** As the construction services are provided by nonresident companies, their survey could be difficult, if not impossible. That is why data about the import of construction services should be requested from the resident contracting party, which in many cases could be the government. It is necessary to understand all aspects of the project to facilitate an accurate reporting of the construction service in balance of payments. Construction activities can touch on different components of balance of payments, depending on the complexity of the project, parties involved (e.g., contractors, subcontractors, and workers), and the origination of the goods acquired for the project. It is important to examine each case thoroughly. Determining the residency of the contractor is a key factor regarding how the construction activity should be recorded. The *BPM6* recommends that large-scale construction projects contracted by a nonresident enterprise, that takes a year or more to complete, will give rise to a resident branch. The branch should be clearly identified and recorded under the framework of direct investment.

**Recommended Action:**

- Assess the possibility of introducing changes to the survey form on construction services conducted by the CSO, for identifying transactions with nonresidents.

**Other Business Services**

34. **The data on other business services—professional and management consulting services registered in balance of payments need to be assessed.** They are compiled based on ITRS data and register significant amounts as export of such services. The mission’s view is that Afghanistan is not an exporter of consulting services, but rather an importer of such services. Consequently, the conclusion is that the ITRS data are misclassified. An analysis of ITRS data should be conducted and relevant corrections have to be done to compile data, including in time series.

**Recommended Action:**

- Conduct a verification of data reported in ITRS as export of consulting services and make changes to compiled data, if needed.

**Secondary Income****Personal Transfers**

35. **The coverage of personal transfers (remittances) in the balance of payments needs to be expanded.** The ITRS is the main data source for compiling personal transfers data; however, they only cover remittances through banking sector and money service providers (MSPs) attached to banks. Remittances through autonomous MSPs such as Western Union, Money Gram, and other, as well as those through informal channels, such as hawala, are omitted.<sup>10</sup> During the recent years, a significant number of hawala operators have been licensed and registered.

36. **The MPD staff agreed to implement a survey of autonomous MSPs operating in Afghanistan.** The survey should cover both the formal MSPs and the registered hawalas (information available at the DAB). Compilers confirmed that the new remittances channel—mobile money—is becoming an important player in remittances industry. The mission assisted compilers in designing a survey form for telecommunication companies for collecting data on cross-border remittances through mobile money. Due to the limited number of telecommunication companies operating in the country and the simplicity of the survey form, the survey will not impose significant burden neither on respondents nor on compilers. Personal

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<sup>10</sup> Hawala transactions go through a specialist broker—money itself does not regularly move across borders, either electronically or physically, except to settle net payments. The system is based on trust and the brokers balance the transfers over time (*International Transaction in Remittances: Guide for Compilers and Users*, paragraph 2.58).

transfers data should be adjusted based on the results of the MSPs and telecommunication companies survey.

**Recommended Actions:**

- Launch a survey of money transfer operators (e.g., Money Gram, Western Union, etc.);
- Update the survey form for telecommunication companies to allow collecting data on mobile money transfers;
- Implement the adjustments to the estimation of remittances (compensation of employees and personal transfers) by employing new data sources (e.g., MSPs).

**General Government Current and Capital Transfers**

37. **General government transfers are the main contributor to receipts in the current and capital accounts of Afghanistan’s balance of payments with more than USD 4 billion per year.** As mentioned in previous TA mission reports for Afghanistan, there are two sources of information for official transfers—“on budget” and “off budget” grants. For “on budget” grants, the MOF provides the MPD with the split for current or capital transfers and a detailed list of the projects, which allows MOF to confirm whether it is a current or capital transfer. The MOF does not provide the classification of “off budget” transfers.

38. **The MOF representative explained to the mission and MPD staff the structure and composition of the transfers received by the general government.** The partial revision of the list of “on budget” grants and “off budget” projects have been conducted by the mission together with the MPD and MOF staff, with the view of deciding on the approach for their classification as current or capital transfers.

39. **It is important that counter entries for the data included under general government current and capital transfers are identified/estimated and registered in the balance of payments.** The mission concluded that in most cases (with the exception of grants received in cash and of import of goods for the projects financed through the grants) no counter entries have been registered in the compiled balance of payments that would balance the entries under general government current and capital transfers. This imbalance is estimated to be one of the main contributors to the errors and omissions. The method for estimating the counter entries for the general government grants was discussed with compilers and is presented in Annex II.

40. **The data registered under general government capital transfers are considerably underestimated.** The mission learned that the military aid provided by the U.S. government to Afghanistan amounts in average to USD 4.5 billion per year (data officially published by the U.S.). This military aid is omitted in the balance of payments. The mission recommended to include in general government capital transfers (credit) the estimated amount of U.S. military aid. The counter entries for these transfers would be in import of goods for the part of the aid provided

to Afghanistan military force in form of military equipment and weapons, and in form of government goods and services n.i.e., debit for the part provided in form of training, consultancy, etc. If the collecting system allows to identify the prepayment of salaries to local staff, those amounts should be classified as compensation of employees.

**Recommended Action:**

- Implement the new treatment of current and capital transfers (grants in cash, technical assistance, and development projects, including aid from the US) based on MOF information and following the model proposed by the mission, including estimation of offsetting entries.

**Direct Investment**

41. **The direct investment data suffer from limitations in both coverage and classification.** They are compiled based on information from the Ministry of Commerce and Industry (MCI)—the institution in charge of licensing the foreign investment. The MCI data include the initial commitment of the investors to invest in the licensed projects. The full commitment amount is currently registered under direct investment—equity in the balance of payments for the period when the commitment was made. Such a treatment has considerable limitations: (i) coverage—often not all of the committed amount is de facto invested, or, in some cases, the de facto investment could exceed the committed one; (ii) timing—the committed amount is invested over the agreed investment period that, in most cases, could be a number of years; consequently, the committed amount should be registered in the balance of payments for the period when it was realized. If de facto investment by period is unknown, the committed amount should be equally split into the number of years/quarters of the implementation period; and (iii) classification—the committed investment could be financed through three types of funds that include: (a) funds invested as equity capital, (b) loans from the parent company or from other affiliated entities, and (c) debt liabilities (loans, debt securities) to nonaffiliated creditors. These components should be classified in balance of payments respectively as equity, debt instruments, and debt securities (portfolio investment)/loans (other investment).

42. **To improve the coverage of direct investment, an enterprise survey will be launched by the CSO in collaboration with the DAB on financial assets and liabilities.**<sup>11</sup> The surveyed population will cover enterprises included in the register of companies. In addition, financial statements of enterprises will be requested and will be used for cross-checking/supplementing data reported in survey. It is expected that with the launch of survey, data on direct investment will improve considerably. Until the enterprise survey brings adequate results, and for addressing the classification inconsistencies, the mission recommended to apply estimated ratios for distributing the committed amount between the three components

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<sup>11</sup> The CSO staff should be familiarized with direct investment concepts and definitions that are presented in *BPM6 and BPM6 Compilation Guide*.

listed above. Compilers should seek the MCI's expert opinion regarding the distribution ratios. The adjustments to the instrument classification should be made to whole time series.

43. **The collection of direct investment data for the financial sector will be the MPD's responsibility.** For this purpose, the MPD should request access to data available at the BSD following the internal confidentiality rules. Data from the BSD on direct investment in deposit-taking corporations could be cross-checked with those from the monetary and financial statistics. Specifically, the item Liabilities—Shares and other equity liabilities in the 2SR (code 512FODLQF\_FX\_XDC) is a proxy for direct investment equity liabilities (direct investor in direct investment enterprise), depending on whether the share of foreign investors meets the direct investment threshold.

**Recommended Actions:**

- Request data from the BSD on foreign investment in resident banks and use them for compiling direct investment in banking sector;
- Review the data registered under direct investment for identifying equities, debt liabilities to affiliates, and debt liabilities to nonaffiliated creditors for distributing the total project amount, considering the duration of the implementation.

**Reserve Assets**

44. **Reserve assets are compiled from the balance sheet of the central bank which is expressed in domestic currency.** Transactions are estimated as difference in positions at the end and at the beginning of the reported period and converted to USD by applying average exchange rate. As a result, the estimated transactions also include changes due to variation in exchange rate and price. According to *BPM6* methodology, only "pure transactions" should be registered in the balance of payments; and exchange rate and price changes should be registered in the integrated IIP, under reevaluation. For estimating pure transactions, as well as exchange rate and price changes, compilers should request from the reserve management unit of the DAB (or other unit in charge) the currency and instrument composition of reserve assets. This information should be used for converting position data to original currency. The balance of payments transactions will be estimated as difference of positions in original currency and converted to USD (the currency of account of ESS) by applying average exchange rate.

## OTHER ISSUES

### A. External Debt Statistics

45. **Currently, the DAB does not compile and disseminate the external debt statistics (EDS).** The mission explained the general principle of compiling the EDS and its main presentations. It stressed that the EDS' concepts, definitions, and accounting principles are fully

consistent with *BPM6* framework. As the EDS covers positions in debt liabilities of a country, it constitutes a subset of the IIP and should include all instruments from the liabilities part of the IIP, with the exception of equity and investment fund shares, and financial derivatives and employee stock options that are not debt liabilities (see Table 2 below).

**Table 2. Components of the IIP that are External Debt Items**

International Investment Position (IIP) Standard Component		
	Assets	Liabilities
<b>1. Direct Investment</b>		
1.1 Equity and investment funds shares		
1.2 Debt instruments		
<b>2. Portfolio investment</b>		
2.1 Equity and investment fund shares		
2.2 Debt securities		
<b>3. Financial derivatives and employee stock options</b>		
<b>4. Other investment</b>		
4.1 Other equity		
4.2 Currency and deposits		
4.3 Loans		
4.4 Insurance, pension, standardized guarantee schemes		
4.5 Trade credit and advances		
4.6 Other account receivable/payable-other		
4.7 Special drawing rights		
<b>5. Reserve assets</b>		n.a.
<b>Total assets/liabilities</b>		

n.a = Nonapplicable

Source: *BPM6*, Appendix 9, IIP.

Note: Shared items are IIP relevant components of the gross debt position data.

46. **It is feasible for the DAB to start compiling and disseminating the EDS based on the IIP data.** The mission provided hands-on training on the structure of EDS, on its mapping to the IIP, and on linkage to the reporting table for the World Bank's Quarterly External Debt Statistics Database (QEDS).<sup>12</sup>

**Recommended Action:**

- Produce the first draft of gross external debt statistics for recording in the World Bank's QEDS (Table 1).

<sup>12</sup> <http://datatopics.worldbank.org/debt/qeds>

## B. Technical Assistance and Capacity Development

47. **In discussing future TA needs, the mission noted DAB's successful efforts in implementing some of the recommendations of the past TA missions.** The authorities indicated that additional TA is needed for supporting their efforts in further developing the ESS. The mission's view is that a follow-up TA mission could be fielded once DAB make progress in implementing the mission's recommendations, with primary focus on identified benchmark actions. STA will provide remote methodological support to facilitate the achievement of the mission's recommendations.

48. **The MPD management acknowledged the urgent need for training of balance of payments compilers.** The mission advised to nominate the MPD staff for future training in ESS statistics offered by the IMF in Washington, D.C., at METAC, and at IMF-Singapore Training Institute. The mission also indicated that compilers could benefit from an organized visit to partner countries for exchanging experiences in the ESS compilation.

### ***Recommended Actions:***

- Nominate staff for training courses at IMF HQ, regional training centers, and other international organizations;
- Organize staff visits to partner countries for exchange of experience in compiling ESS (subject to funding availability).

## Appendix I. Officials Met During the Mission

The mission wishes to thank the officials of the DAB, MOF, CSO—mainly, those from balance of payments team of MPD—for their full support and close cooperation during its stay in Beirut. Their assistance contributed significantly to the achievement of the mission’s objectives. The list of officials met by the mission is shown below.

**Table 3. Officials Met During the Mission**

Name	Position	E-mail Address
<b>Da Afghanistan Bank</b>		
Mr. Naib Khan Jamal	Deputy Director General Monetary Policy Department	naibkhan.jamal@dab.gov.af
Mr. Mahboobullah Wafa	International Investment Position Manager	mahboob.wafah@dab.gov.af
Minister of Finances		
Mr. Abdul Qahhar Khan	Aid Coordination Manager	abdul.qahar.khan@mof.gov.af
Mr. Abdul Hafiz Omari	Afghan Customs Department	omari_2002@yahoo.com
Central Statistics Organization		
Mr. Mohammad Qasim Kabari	Head of Economic Statistics Department	Qasemafg735@yahoo.com
Mr. Ramazan Haidary	Economics Statistic	Haidry2009@live.com
METAC		
Mr. Todor Todorov	Long Term Advisor in National Accounts	Todorov@imf.org

## Appendix II. Example of Reporting Technical Assistance in Afghanistan's Balance of Payments

### Technical assistance provided by donors

#### Information sources:

1. *Ministry of Finance (MOF)*—data on technical assistance (TA) in the form of investment projects, consulting projects, and grants in cash.
2. *Customs Department* —data on import of goods within the investment/TA projects.

#### Forms of aid:

Consulting services;  
 Goods;  
 Capital investment;  
 Cash grants.

#### 1. Main indicators and assumptions used in the balance of payments:

##### 1.1. Total project cost:

Assumptions (percent in total project cost):

- a. Technical assistance (consulting) projects:
    1. consulting—85%;
    2. goods—15%.
  - b. Investment projects:
    1. capital investment—25%;
    2. goods—35%;
    3. consulting—25%;
    4. cash—15%.
- 1.2. Administrative expenses at the head office (in the donor country) related to the project—5% of the total project cost;
  - 1.3. Wages paid to foreigners working under the project for one year and less—70% of the consulting;
  - 1.4. Wages paid to foreigners working under the project for more than one year—70% of the consulting;
  - 1.5. Wages paid to local staff—30% of the consulting;
  - 1.6. Expenditures in Afghanistan by foreigners working under the project for one year and less;
  - 1.7. Goods imported under projects.

#### 2. Data Sources

- 2.1. Ministry of Finance (MOF):

2.1.1. Information on ongoing donor projects (on-budget and off-budget) and also on projects' type and purpose.

2.2. International transactions reporting system (ITRS):

2.2.1. Current transfers received through the banking system by type (for government sector)

2.2.2. Nonresidents' payments made by credit and debit cards and ATM withdrawals.

2.3. Customs declaration database (CDDB):

2.3.1. Data on imports of goods on an unrequited basis (within investment/TA projects).

***Main methodological concepts:***

- based on information from the MOF (i) financing from bilateral donors (on-budget grants) is transferred to the MOF's account with DAB; (ii) financing through trust funds (off-budget projects) is managed by the trust fund managers and no funds are transferred to the MOF's account. The donors pay salaries to the TA personnel, provide funds to project management units in Afghanistan for local expenditures, and finance goods delivered to Afghanistan under projects. The biggest part of foreigners' work under the TA projects is less than one year. The number of long-term foreign personnel is negligible. If in the future the number of long-term foreign personnel increases, they should be treated in the same way as local workers as they are considered residents of the host economy.
- Consequently, the salaries received by local personnel (as well as foreign personnel working under projects for more than one year) for the off-budget projects are transactions between residents and nonresidents (trust fund managers) and should be reported as compensation of employees received from nonresident employers.

***Data verification:***

1. To avoid double counting, compilers should carry out comparison of data on TA in cash from the MOF (source 1) against ITRS data (source 2) on current transfers received through the banking system and against CDDB data (source 3) on imports of goods on an unrequited basis.

**Reporting of Technical Assistance in the Balance of Payments  
(Credits and Debits are Item Numbers, not Amounts).**

Balance of Payments Item	Credit	Debit	Assumptions
<i>Current account</i>			
Goods		2.3.1	
Coverage adjustment		1.7–2.3.1 (cannot be less than zero)	That part of goods imported under TA, which is not reported in customs data, is added.
Services			
Travel			
Business	1.6 is comprised in 2.2.2  1.5 = 15% of 1.3		Scenario 1. Data from ITRS on nonresidents' payments made by credit and debit cards and ATM withdrawals also include travel expenses (accommodation, food, etc.) of foreign personnel working under projects for less than one year.  Scenario 2: Short-term foreign personnel (working under projects for less than one year) (nonresidents) spend 15% of their wages in Afghanistan (the 15% is an assumption; if possible a survey should be conducted to confirm it)
Other business services		1.1.a.1; 1.1.b.3	
Government goods and services n.i.e.		1.1.b.1	To be classified under this item if the type of the investment is unknown. If the capital investment is received in form of edifications built by donors, it should be classified as <i>construction services</i> .
Income			
Compensation of employees	1.4 + 1.5		Salaries of long-term foreign staff and of local staff paid by donors
Secondary income			

Balance of Payments Item	Credit	Debit	Assumptions
General government	1.1.a + 1.2		TA to be registered as current transfers is equal to the total cost of projects plus administrative expenses in the donor country related to the project, except capital investments (1.1.b). Only administrative expenses (1.2) related the 1.1.a are included.
<i>Capital account</i>			
Capital transfers			
General government	1.1.b. + 1.2		Under this item, only TA involving capital investments should be included. Only administrative expenses (1.2) related the 1.1.b are included.
<i>Financial account</i>			
Other investment			
Assets			
Currency and deposits		1.1.b.4; 1.4; 1.5; 1.6	The data are provided for reference purposes, to reflect the double entry principle. The data should be reported on a net basis under <i>Currency and deposits</i> . Data on the movement of funds on bank accounts are collected through banking statistics.

Priority	Outcomes Description	Verifiable Indicators	Completion Date <sup>1</sup>	Progress
H	Include Bank for International Settlements (BIS) data for deposits abroad of the nonbank sector to improve coverage of currency and deposits of the nonbank sector in the balance of payments and the IIP.	BIS data for deposits abroad of the nonbank sector are included. Coverage of currency and deposits of the nonbank sector is improved.	June 2017	Done
H	Submit quarterly IIP data to STA in <i>BPM6</i> format. Benchmark.	IIP data are submitted to STA in time for the Balance of Payments Statistics Yearbook 2017.	August 2017	Done. Data quality need to be improved.
H	Incorporate data reported under Shares and other equity liabilities in the Standardized Report Form for Other Depository Corporations (2SR) as a proxy for direct investment equity liabilities of deposit-taking corporations to improve the estimate of direct investment liabilities.	Shares and other equity liabilities in the 2SR are included. Direct investment liabilities coverage improved.	December 2017	Done
M	Consult with monetary counterparts to discuss how to collect the transaction data for financial derivatives from other depository corporations to improve balance of payments data for financial derivatives.	Transactions data for financial derivatives are revised and balance of payments data quality improved.	December 2017	Done. Currently, financial derivatives are not relevant in Afghanistan.
M	Review classification of International Transactions Reporting System (ITRS) transactions recorded under education-related and health-related travel to improve the classification of services.	ITRS transactions are reviewed and classification of services improved.	December 2017	Done. Classifications needs to be improved.
M	Review classification of goods and services purchased from the host economy by embassies and military bases to improve classification of services.	Classification is reviewed and services data improved.	December 2017	Done

Priority	Outcomes Description	Verifiable Indicators	Completion Date <sup>1</sup>	Progress
H	Continue to monitor the consistency between balance of payments and IIP data on a regular basis to ensure data quality.	Consistency between balance of payments and IIP data is monitored.	Ongoing	Ongoing
H	MPD to develop a project proposal for conducting the enterprise survey and share it with the CSO. Benchmark	Project proposal is prepared and shared with CSO to launch the survey process.	September 2017	Done
H	MPD and CSO establish the legal authority under which the survey will be conducted, develop the list of companies for the survey frame, determine coverage, and finalize the pilot survey form.	Legal authority for conducting the survey is established, the survey frame developed and the pilot survey form finalized.	November 2017	Delayed
H	Develop Memorandum of Understanding with other key agencies involved.	Memorandum of understanding with other key agencies is signed.	December 2017	Delayed
H	Secure funding for the survey.	Funding for the survey is secured.	March 2018	Delayed
H	MPD and CSO to conduct a pilot survey with approximately 10 of the largest foreign-owned companies.	Pilot survey is conducted and results are assessed.	December 2018	Delayed
H	Conduct the full survey.	Full survey is conducted.	April 2019	Delayed
H	Include survey results in ESS.	Survey results are incorporated in ESS to improve quality of the data for the nonfinancial private sector.	December 2019	Not yet
M	Continue to compare Direction of Trade Statistics (DOTS) and CSO data for partner countries to improve trade data.	DOTS and CSO trade data are compared and trade data improved over time.	Ongoing	Done
M	Meet with CSO to discuss the methodology for calculating the estimate of informal trade for GDP by	Decision is made on feasibility of including an estimate for informal trade based on GDP by	February 2018	Done

Priority	Outcomes Description	Verifiable Indicators	Completion Date <sup>1</sup>	Progress
	expenditure and discuss the feasibility of including this estimate in imports with the Interagency Committee.	expenditure data to improve trade data.		
M	Continue to monitor the reporting of Hawala brokers through money service providers (MSPs) to improve the coverage of the informal economy.	Reporting of Hawala brokers through MSPs is monitored to improve coverage of informal transactions.	Ongoing	Done