

Contents

Foreword by Masood Ahmed	vii
Abstract	ix
1. Debt Management Issues: An Overview	1
Optimal Level of Borrowing	1
Macroeconomic Considerations	3
Debt Management Failure	4
The Issues	6
Financing Techniques	6
How Much to Borrow	7
Managing Risk	8
Knowing the Debt	8
A Look Ahead	8

Part One: Financing and Loan Negotiation Issues

2. Finance and Debt	13
Debt and Non-Debt Creating Flows	13
Official Development Finance	14
Official Development Assistance	14
Other Official Development Flows	15
Export Credits	17
Insured Private Export Credits	17
Official Export Credits	18
Private Flows	18
International Bank Lending	18
Bonds	19
Foreign Direct Investment (FDI)	20
Other Private Flows	20
Annex 2.1 Grant Element Calculation	22

3. Borrowing and Debt Management	25
Loan Negotiation by the Government	25
Concessional Assistance and Other Foreign Aid	25
Export Credits	27
Market Finance	28
Controlling Nongovernment Borrowing	30
Authorization Procedures	30
Registration of Private Sector Loans	31
Guarantees	32
4. Legal Aspects of Sovereign Lending by Thomas A. Duvall, III	35
Legal Basis for International Borrowing	36
The Loan Agreement	36
Governing Law	37
Forum and Sovereign Immunity	38
Choice of Forum	39
Sovereign Immunity	40
Principal Obligations of Sovereign Borrowers	41
Negative Pledge Covenants	41
Pari Passu Covenant	43
Mandatory Prepayment Clause	44
Events of Default	44
Nonpayment	45
Misrepresentation and Breach of Covenant	45
Cross-Default Clause	45
Material Adverse Change	46
Remedies	46
Acceleration	47
Remedies in the Absence of Acceleration	47
Set-Off	48
Potential Limitations on Remedies	48
Mutuality of Obligations	48
Piercing the Corporate Veil	49
Sharing Clauses	49
Act of State Doctrine	50
Exchange Controls	50

Part Two: Debt Monitoring

5. Accounting Principles	55
The Compilation of External Debt by International Organizations	55
External Debt Defined	56
Accounting Relationships	57
Definitions	58
How to Organize Debt Statistics	59

Relation to Other Financial Accounts	61
National Income Accounts	62
The Balance of Payments	62
The International Investment Position	66
Relation to Government Finance Statistics	71
Relation to the Monetary Survey	72
Summary	72
6. Monitoring Government Direct Debt	75
Debt Monitoring Tasks	76
Monitoring Loan Commitments	76
Monitoring Disbursements	77
Monitoring Debt Service Payments	81
Monitoring Arrears	82
Debt Records	83
7. Monitoring Nongovernment Debt	85
Public Enterprise Debt	85
New Loan Commitment Data	86
Status of Debt Reports	86
An Example	86
Verification	87
Problems in Reporting	88
Making an Inventory	88
Private Sector Debt	89
Exchange Control Data Sources	90
Using Direct Report Sources	91
Commercial Banking Data Sources	92
Using Trade-Related Sources	94
Using Creditor Sources	95
Monitoring Short-Term Debt	95
Elements of Short-Term Debt	96
Information Flows	96
A National Debt Office	97
8. Computerization Issues	99
Computer-Based Debt Management Systems	99
Components of the System	99
Functions of the System	101
Examples of Computer-Based Debt Management Systems	103
CS-DRMS and DMFAS Systems	103
The Brazilian System	108
Installing a System	110
"Off-the-shelf" Application Software	113
Accounting Tools	113
Management Tools	114

Part Three: Controlling External Debt

9. Measuring Debt Servicing Capacity	119
by Thomas M. Klein and Jos Verbeek	
Macroeconomic Relationships	120
The RMSM-X Modelling Framework	121
The RMSM-X Module	122
The Debt Module	124
Historical Data File	125
Closure	126
Output Files	127
Creditworthiness Indicators	128
An Example	129
The Debt Strategy Module	130
10. Risk Management	133
by Stijn Claessens	
Exposures	134
Exchange Risk	134
Interest Rate Risks	135
Commodity Price Risks	136
Market-Based Risk Management	136
11. Debt Restructuring	141
Evolution of Multilateral Debt Relief	141
The Paris Club	142
Low-Income Countries	144
Lower-Middle Income Countries	146
Other Countries	146
Commercial Bank Debt Relief	146
Cost of Debt Relief	148
12. Debt Management Institutions	151
Institutional Priorities	151
The Location of Debt Management Units	151
The Statistical Unit	152
The Control Unit	153
External Finance Unit	153
The High Level Coordinating Committee	154
Summary	157
Appendix A: The World Bank's Debtor Reporting System	159
Appendix B: External Debt Accounting Forms	171
Glossary	201
by Thomas M. Klein, Hugh Dowsett and Malvina Pollock	
Bibliography	229