

INTOSAI



*Appendix to
ISSAI 5410*

A ppendix

Public Debt Glossary

Agreed Minute

The agreed minute sets out the common terms of a debt re-scheduling agreed between creditors of the Paris Club and a debtor country and is signed by representatives of the creditor countries who are obliged to recommend its terms to their governments. The agreed minute specifies which debt service will be rescheduled and over what period. The rate of interest charged on rescheduled debt is a matter for negotiations leading to a bilateral agreement between the debtor country and each individual Paris Club creditor.

Debt and Debt Service Reduction (DDSR)

Debt restructuring agreements between sovereign states and consortia of commercial bank creditors involving a combination of buy-backs, the exchange of bank loans at a discount for bonds or the exchange of bank loans for bonds at par but that lend below-market interest rates. In most instances, the new financial instruments are secured with U.S. Treasury bonds. Under the Brady Plan of March 1989, these arrangements are supported by loans from official creditors.

Debt Sustainability

A debt position of a country when the net present value of debt to exports ratio and the debt-service to exports ratio are below certain country-specific target levels within ranges of 200 through 250 percent and 20 through 25 percent, respectively. Debt measure includes public and publicly guaranteed debt liabilities.



Debt Sustainability Analysis (DSA)

A study jointly undertaken by IMF and World Bank staff and the country concerned, in consultation with creditors, at the decision point. On the basis of the DSA, the country's eligibility for support under the HIPC will be determined.

Enhanced Surveillance

Under Article IV of its Articles of Agreement, IMF monitors the economic progress of countries that are no longer using IMF resources, but are continuing to receive debt relief under multiyear rescheduling agreements. Countries are authorized to release edited versions of IMF staff reports to their official and commercial creditors.

Export Credits

Loans extended to finance specific purchases of goods or services from within the creditor country. Export credits extended by the supplier of goods are known as suppliers credits; export credits extended by the supplier's bank are known as buyers credits.

Goodwill Clause

This clause was introduced into Paris Club agreements in 1978 for debtors requiring relief beyond the usual consolidation period of 12 to 18 months. Under the standard goodwill clause, the Paris Club creditors agree in principle, but without commitment, to consider subsequent debt relief applications favorably for a debtor country that remains in compliance with its IMF program and that has sought comparable debt relief from other creditors. An improved goodwill clause, first introduced in 1983, goes beyond the standard clause by specifying the future consolidated period.

Grant Element

The measure of concessionality of a loan, calculated as the difference between the face value of the loan and the sum of the discounted future debt service payments to be made by the borrower expressed as a percentage of the face value of the loan. By convention, a 10 percent discount rate is used.



Heavily Indebted Poor Country (HIPC)

An original group of 41 developing countries, including 32 countries with a 1993 gross national product (GNP) per capita of US\$695 or less and 1993 present value of debt to exports higher than 220 percent or present value of debt to GNP higher than 80 percent (see table 1 below). Also includes nine countries that received concessional rescheduling from Paris Club creditors (or are potentially eligible for rescheduling). The original HIPC list will change in the context of implementing the HIPC Initiative, and will expand to include more countries that face unsustainable debt situations, even after the full application of traditional debt relief mechanisms, and that have embarked on World Bank/IMF supported adjustment programs.

London Club

A term commonly used for a group of commercial banks that join together to negotiate the restructuring of their claims against a sovereign debtor. There is no organizational framework for the London Club comparable to the Paris Club.

Moratorium Interest

Interest charged for rescheduled debt. In the Paris Club, the moratorium interest rate is negotiated bilaterally by the borrowing country with each individual creditor and therefore differs from one creditor to the next. In the London Club, where all creditors are deemed to have access to funds at comparable rates, the moratorium interest rate applies equally to all rescheduled obligations under a given agreement.

Most Favored Nation Clause

Agreements concluded in the Paris Club that require the debtor to obtain debt relief from creditors outside the Paris Club on terms no more favorable than those obtained from Paris Club creditors.

Naples Terms

Concessional debt reduction terms for low-income countries approved by the Paris Club in December 1994 and applied on a case-by-case basis. Countries can receive a reduction of eligible external debt of up to 67 percent in net present value terms.

Table 1: Heavily Indebted Poor Countries: External Debt.

Country	Total External Debt at End-1994 (US \$billions)	Owed to World Bank, IMF and other multilateral institutions (percent)
Angola	8.5	1.9
Benin	1.5	52.1
Bolivia	4.2	54.4
Burkina Faso	1.0	84.7
Burundi	1.1	82.8
Cameroon	6.2	26.1
Central African Republic	0.8	73.1
Chad	0.7	79.3
Congo	4.7	14.9
Cote d'Ivoire	13.9	24.3
Equatorial Guinea	0.2	44.9
Ethiopia	4.8	44.1
Ghana	4.1	65.0
Guinea	2.9	45.3
Guinea-Bissau	0.7	49.5
Guyana	1.8	34.0
Honduras	4.0	51.8
Kenya	6.2	44.6
Lao P.D.R.	2.0	26.2
Liberia	1.1	38.6
Madagascar	3.6	44.8
Mali	2.6	47.0
Mauritania	2.1	39.9
Mozambique	5.0	20.9
Myanmar	6.1	23.9
Nicaragua	9.0	14.6
Niger	1.5	56.3
Nigeria	28.5	16.9
Rwanda	0.9	82.8
Sao Tome and Principe	0.2	72.3
Senegal	3.1	56.9
Sierra Leone	0.7	45.2
Somalia	1.9	40.0
Sudan	16.6	17.0
Tanzania	6.2	42.3
Togo	1.2	55.5
Uganda	3.0	68.6
Viet Nam	22.2	1.0
Yemen	5.3	22.7
Zaire	9.3	25.1
Zambia	4.9	40.8

Source: World Bank Debtor Reporting System and IMF staff estimates.



Net Present Value (NPV) of Debt

The sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the market interest rate. Whenever the interest rate on a loan is lower than the market rate, the resulting NPV of debt is smaller than its face value, with the difference reflecting the grant element.

Nonconsolidated Debt

This is debt that is wholly or partly excluded from rescheduling and has to be repaid at terms close to the original conditions.

Official Creditors

Public sector lenders. Some are multilateral, consisting of international financial institutions such as the World Bank. Others are bilateral, being agencies of individual governments, including central banks.

Paris Club

This is the forum in which debt restructuring has been provided since 1956 by official creditors. The common feature of participating creditor countries is that they each have a system of export credit insurance, because the primary type of claim rescheduled under the Paris Club is guaranteed (or insured) export credits. The Chairman of the Club and a small secretariat are provided by the French Treasury.

Publicly Guaranteed Debt

The external obligation of a private debtor that is guaranteed for repayment by a public entity.

Pull-back Clause

This clause in a debt restructuring agreement declares that an agreed minute is “null and void” unless certain actions have been taken before specific dates.

Standby Arrangements

An understanding between IMF and a member country that purchases can be made under that country's credit tranche facilities up to an agreed amount during a specified period - typically 12-18 months. IMF resources are made available under standby arrangements in installments, and, typically, conditions must be met regarding credit policy, government or public sector borrowing, foreign trade policies, and use of foreign credits.

Standstill

This is an interim agreement between the debtor country and its commercial banking creditors that principal repayments of medium- and long-term debt will be deferred and that short-term obligations will be rolled over, pending agreement on a debt reorganization. The object is to give the debtor continuing access to a minimum of trade-related financing while negotiations take place and to prevent some banks from abruptly withdrawing their facilities at the expense of others.

Toronto Terms

Special rescheduling terms for HIPCs that were in effect from October 1988 through December 1991.

Transfer Clause

A provision that commits the debtor government to guarantee the immediate and unrestricted transfer of foreign exchange in all cases in which the private sector pays the local currency counterpart for servicing its debt to the Paris Club creditors.

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