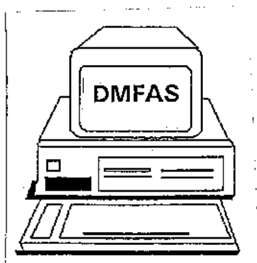
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

DMFAS NEWSLETTER

DEBT MANAGEMENT AND
FINANCIAL ANALYSIS SYSTEM

No. 3 JANUARY 1993

The third issue of the DMFAS Newsletter comes out at a very exciting moment for the DMFAS team and DMFAS users. UNCTAD has just signed an agreement with UNDP under the Joint Programme between UNDP, UNCTAD and the World Bank which will fund the work of the core team in Geneva for the next four years (see page 4). Following the release of version 4.1Plus in September, work has begun under the Joint Programme on the development of version 5.0. For the user this will mean a new and better version and improved support. Meanwhile, there have been plenty of other activities like the 1992 DMFAS seminar and the start of a DMFAS project in Bangladesh. Following the Geneva seminar, a DMFAS Users' Club has been set up (see pages 9, 10 and 11). A big thank you to those of you who responded to the questionnaire we sent out with the last issue. You will find the results on page 6. The DMFAS team wishes all the Newsletter readers a very happy 1993.



Newsletter Editorial Committee
Enrique Cosio-Pascal
Pekka Sankala
Alain Bodin
Philippe Straatman
Fedra Dell'Aquila
Sarah Ross

Newsletter Editor
Sarah Ross

Letters for the Newsletter to:
DMFAS Newsletter Editor,
E10041,
UNCTAD,
Palais des Nations,
CH-1211 Geneva 10,
Switzerland

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UNCTAD/GID/DMS/2

The 1992 Geneva Seminar

This year's DMFAS training seminar took place during the last two weeks of September. Altogether sixteen countries were represented: four from French speaking Africa; five from English speaking Africa, two from Asia and five from Central America. This seminar taught DMFAS users and debt managers of countries receiving UNCTAD's debt management technical assistance the new features of DMFAS version 4.1Plus. As a result of the feedback from participants in the 1991 seminar, the DMFAS team was able to incorporate an impressive list of enhancements into the system. The participants were also given an introduction to the World Bank's Debt Strategy Module (DSM) which has been interfaced with the DMFAS. All the training was given in the three languages.

At the end of the training period, the participants, the DMFAS team, Mr. Fernando Archondo from the World Bank, and some observers took part in a day-long round table with simultaneous interpretation in English, Spanish and French. The round table allowed participants to air their views on the new system and to make suggestions they wish to be incorporated in version 5.0. Some requests that were made are already planned for the new version, such a tight security system and enhanced report presentation. There was general discussion on topics such as the DMFAS being available on network and how to deal with the development banks' currency pooling systems. A highlight of this year's round table was provided by Mr. Kaddah, Head of the Debt Management Project of the Information and Decision Support Center under the Egyptian Cabinet, who gave an insightful presentation on the way debt management is organised in his country, and how UNCTAD contributed to this.

At the end of the seminar each participant was given an evaluation form. In this way the DMFAS team was able to monitor how the seminar was received by the participants so as to improve the organisation and training of future seminars. On the whole, the reaction of the participants was positive: they were satisfied with the training they had received on the new features. The most useful features of 4.1Plus were considered to be the improvements related to disbursements, the automatic up-date of amortization tables, the procedures for recording arrears and the new report on the effect of exchange rate variations. It was understood by the participants that the training in the DSM was only an introduction. However, they were very interested in this module and would have preferred more in-depth training.

An important feature of the round table is that it allows DMFAS users to discuss initiatives related to debt management. In 1991 the idea of a DMFAS Newsletter emerged and became a regular feature that has been very well received, and in 1992 the DMFAS Users' Club was set up at the end of the seminar. Regional chairpersons were elected who have the task of collecting information from their region and passing it on to UNCTAD. On the last two pages of this newsletter we enclose a copy of the Constitution of the Users' Club and an application form for membership. If you have not already completed this form, please do so and send it to your regional representative (name and address on page 10). It is hoped that this club will enable DMFAS users to deal with problems related to the system and to general debt management by contacting each other and the DMFAS team in Geneva to discuss tried and tested solutions.

TECHNICAL FOCUS

PENALTY INTEREST AND THE DMFAS

The automatic calculation of penalty interest was introduced into the DMFAS for the first time with version 4.1Plus. Since the release of the version in September 1992, the DMFAS team has received many enquiries regarding the handling of penalty interest in the system. The following is a list of the main questions being asked, together with the appropriate response.

Q. What is Penalty Interest?

A. In the DMFAS, penalty interest (also known as *late* or *moratorium* interest) is defined as "the interest which accrues on overdue debt service obligations from the contractual payment date to the actual payment date". Note that in the framework of the Paris Club 'moratorium interest' means specifically the normal interest on the reorganising loans. This is a different concept to the one used in the DMFAS, and you should be careful to avoid confusion.

Communications received by the DMFAS team have indicated that there is a misconception among some DMFAS users as to what actually constitutes penalty interest in the new version. Some users are under the impression that penalty interest concerns only that portion of interest on arrears which is subject to a higher (i.e. penalising) rate than normal interest. This is not the case. In DMFAS version 4.1 Plus the term penalty interest covers all interest accruing on arrears, whether it be at a higher rate than the normal interest charges or not.

Q. When do I need to enter penalty interest rates?

A. In DMFAS version 4.1 Plus, the user needs to enter penalty interest rates (screen DB/224) only when these are specifically mentioned in the loan contract.

When calculating penalty interest the system uses any penalty interest rates which have been entered or, if no penalty interest rates are found, it uses the normal interest rates. Certain users have stated that there are loans for which no interest is levied on payments in arrears. If this is the case, then penalty interest rates of zero should be entered in screen DB/224.

Q. What else do I need to enter into the system for the calculation of penalty interest?

A. The DMFAS calculates penalty interest on each ***recorded*** arrear. Therefore, in addition to the correct entry of interest rates, a prerequisite for the accurate calculation of penalty interest is that all arrears have been recorded in the database.

Q. Which DMFAS reports give information on penalty interest?

A. In DMFAS 4.1Plus there are two reports which provide this information, "Penalty Interest Stock and Penalty Interest Flows" (LDB076) and "Stock of arrears and estimate of Penalty Interest to be paid" (LDB099). These reports are accessed through options N and K respectively in the Ledger DEBT STATUS reports menu.

Q. Which method of calculation is employed by the system?

A. DMFAS 4.1Plus caters for the most common method of calculation, that is:

$$\text{ACCRUED PENALTY INTEREST} = \text{Amount of arrear} * \frac{\text{No. days}}{\text{Days in base year}} * \frac{\text{Int. rate}}{100}$$

If your loan stock contains loans to which the above method does not apply, please contact the DMFAS team in Geneva with details of the relevant method.

The DOS Environment

The environment first appeared with DOS, Version 2, but it was only after the release of DOS Version 3.0 that its importance became evident. Originally intended simply as a place in memory to hold system information (such as the current PATH or PROMPT), the environment can also be used as a general-purpose memory pool that all programs can access. Both DOS and non-DOS variables can be stored in the environment area by using the SET command, and the contents of these variables can be retrieved from it by using .BAT files and programming languages.

The DMFAS needs to store the names and locations of its files into the environment area (DMFAS file names are used as environment variable names and the contents of these variables give the location of the file). Due to the large number of DMFAS data files, the environment area must be made bigger than the DOS default of 160 bytes. The size of the environment is increased by the SHELL statement in the CONFIG.SYS file, i.e. the command:

```
SHELL=C:\DOS\COMMAND.COM /e:3072 /p
```

would thus create an environment area of 3072 bytes, which is large enough for the DMFAS.

Normally the use of the environment space is transparent to DMFAS users. However, when the system is run in an environment area that is too small, the DMFAS software cannot find the location of its individual data files (e.g GDB002=C:\DEBT2\GDB002.DAT) from the environment and consequently processing is halted with an error message such as e.g. "G002 92/File not found" or "G020 File missing". Remember that in a case like this, the above SHELL command (in the CONFIG.SYS file) should be used to increase the environment. Finally, note that the new SHELL command does not take effect until the computer has been re-booted.

World Bank/UNCTAD Joint Programme

There have been several important developments in this Programme since the last issue of the DMFAS Newsletter. Within the Joint Programme, UNDP has agreed to make available $5.3 million over four years for technical cooperation activities to be carried out by UNCTAD in the area of debt management. These activities include the development of version 5.0 (SAGE), provision of advisory services, training and other supporting activities such as the DMFAS Newsletter. This is the biggest single technical cooperation project in UNCTAD's 28-year history. It also marks a watershed in UNCTAD's cooperative relationship with the World Bank.

UNCTAD's DMFAS activities have in the past been funded mainly by UNDP and various donor countries (Belgium, France, Germany, Italy, Netherlands, Norway, and the United Kingdom). However, its capacity to assist countries has thus far been stymied by the inadequate scale and insecure financing of the core Geneva-based team of economists, systems analysts, programmers and other experts. The new UNDP project, which will be financed out of interregional funds, is consistent with UNDP's emphasis on human resource development, and will provide continuity in UNCTAD's support for effective debt management.

The project will also cement UNCTAD's collaboration with the World Bank under the Joint Programme (see DMFAS Newsletters 1 and 2). The number of requests for assistance from countries is expected to increase substantially as a result. To meet that demand, additional funding from sources other than UNDP will be required. Moreover, financial support will be needed for activities at the regional or subregional level (e.g. sub-Saharan Africa, Central America, the former Soviet Union).

Activities that have been undertaken jointly with the World Bank in the last six months include joint UNCTAD/World Bank needs assessment missions in El Salvador and Honduras in November. In September, the World Bank sent a representative to the DMFAS training seminar in Geneva to teach the DSM. In October the second meeting of the Steering Committee which monitors the Joint Programme was held.

UNCTAD'S WORK ON DEBT CONVERSION

In July 1992 UNCTAD convened an Expert Group meeting to examine issues related to the conversion of official bilateral debt. About 30 experts from debtor and creditor countries, a commercial bank and some international institutions attended. As a result, a number of debtor country participants requested technical assistance from UNCTAD to help set up official debt conversion schemes in their countries. This involves issues such as establishing national regulations to support these programmes, linking debt conversions to privatization and social spending, negotiating conversions with bilateral creditors and organising training programmes and workshops for debt managers and policy makers.

Furthermore, UNCTAD commissioned a study ("Conversion of Official Bilateral Debt", Percy Mistry and Stephany Griffith-Jones (UNCTAD/GID/1), December 1992) on the mechanisms for the conversion of official bilateral debt. In 1990 an optional conversion clause was inserted into Paris Club rescheduling agreements. Since rescheduling under the Toronto and the Enhanced Toronto terms has not proved very effective it seems that there is a need to resort to official debt conversions on a greater scale than was envisaged. The Houston terms included a debt conversion clause whereby creditor countries can convert up to 100% of concessional debt and up to 10% of non-concessional debt or US$10m (whichever is higher) on a voluntary basis. Furthermore, the "Enterprise for the Americas Initiative" encourages conversion of debts owed to the US Eximbank and to the Commodity Credit Corporation. Although official bilateral debt is growing, mainly due to interest capitalization through repeated reschedulings, official debt conversions (ODCs) have not taken off.

The UNCTAD study points out that, for the severely indebted low income countries, ODCs should be additional to, and not substitutes for, the maximum possible level of cancellation of bilateral debt stock. In the middle and lower-middle income countries where cancellation is less likely, ODCs have a potentially important role.

ODCs and commercial debt-for-equity swaps programmes can be mutually reinforcing. The entry of official debt in the secondary markets will not only cause these markets to widen and deepen but will also encourage market intermediaries to come up with new financial instruments.

The study highlights some issues that need focussing on to ensure the success of ODC programmes. One such issue is transparency in the pricing of transactions. Debt sales via auctions do not necessarily ensure transparency or competitiveness. For this reason prices need to be determined with special care, and failure to do so may lead to inaccurate net present value calculations which, in turn, determine the outcome of conversions.

Another issue which was addressed is the inflationary potential of ODCs. The study sets out the necessary features of these programmes designed to mitigate such pressures: local currency redemption of converted debt should be in the form of debt instruments of medium-term maturities bearing interest at rates which do not pose a threat to budgetary control; swaps that are direct from foreign debt into real assets without requiring an intermediate swap into local currency may avoid money supply expansion, and when ODCs are restricted to privatizations they can either have a neutral impact or a positive impact when revenues accruing to the government help cut down the public deficit.

Some conclusions were drawn from the limited experience of debtor countries with ODCs. Firstly, these conversions have different effects in different countries and, at times, within different periods in the same country. Secondly, if swaps are linked to privatizations and developments in domestic capital markets, they may lead to increased productive and allocative efficiency. Thirdly, the negative effects of conversions can be avoided through proper programme design and implementation.

There are some key factors that have inhibited the growth of ODCs. These factors include the lack of financial sophistication on the part of export credit agencies (ECAs) and decision makers in governments; conflict among different ECAs which view debt conversions with different perspectives; legislative limitations and inadequate reserves in the ECAs; reluctance of creditor governments to hold equity in developing countries; reluctance on the part of debtors to exercise their conversion option clauses, and finally the fact that official debt is so heterogeneous that it is difficult to deal with globally. The authors of this study conclude that progress with official debt will depend on tackling all of these shortcomings simultaneously.

WHAT YOU WANT FROM THE DMFAS NEWSLETTER

Here is a brief round-up of the answers DMFAS Newsletter readers gave to the questionnaire sent out with the last issue. The response was extremely positive, and, as you can see, we have tried to answer as many of your requests as possible in the current issue.

The most useful article for our readers is the Technical Focus, which we have expanded in the current issue, and secondly, the article on diminishing the debt burden of the lower income highly indebted countries. Many of you want more information on this subject in future issues. You were also interested in information on the Joint Programme of UNCTAD and the World Bank, the history and architecture of the DMFAS, the characteristics of version 4.1Plus, the DMFAS in Rwanda and the World Bank's Debt Strategy Module.

The DMFAS
Your requests for further information were very varied, although a clear wish emerged for more information on experiences with the DMFAS in different countries. Among a range of requests for information on the DMFAS and technical issues, the most often repeated were more information on system development and what will be in version 5.0, information on DOS and PCTOOLS (see Technical Focus of this issue), more on the DSM and DPS, and information on the DRES and using the DMFAS in debt renegotiations.

General issues
Debt renegotiation is obviously a major concern, as readers also want more information on the Paris Club. You want more articles on the debt situation in different countries, tips on debt management, and methods of debt relief including Debt for Nature swaps. As far as computers are concerned, you'd like advice on latest software and viruses and information on debt management software apart from the DMFAS. One reader wanted us to make exchange rate predictions!

Improving the DMFAS Newsletter
You want the Newsletter to be longer (it is) and to be issued more frequently (we'll try). You want the names of the Editorial Committee and the Editor (included in this issue) and more information on UNCTAD. You would also like interviews with DMFAS users, and a question and answer section.

DMFAS Users' Club
Everyone is in favour of this idea, and there were numerous suggestions as to how such a club should function. These included holding regional meetings or seminars, arranging study tours, exchanging information in the Newsletter, having a membership fee of $10, exchanging information on debt renegotiation and getting the support of regional institutions such as SIECA in Central America.

See the following pages for the Club's constitution and application form.

Thank you to everyone who responded to the questionnaire.

Book review: UNCTAD Trade and Development Report 1992

UNCTAD's Trade and Development Report, 1992 (TDR) was released in September 1992. It addresses a number of issues which would be of interest to DMFAS Newsletter readers. One chapter is dedicated to 'The Undercurrent of Debt Deflation' in a number of industrialized countries, which advocates a package of measures to take the world economy out of recession. Reforming trade policies and public enterprises are two other major issues in the TDR 92. The coverage of international capital markets and external debt has been extended to the countries of Central and Eastern Europe, including the former USSR. The discussion also focuses on the recent increase in financial flows into Latin America, and asks whether they are sustainable. It also examines developments affecting the supervision of international banking following the BCCI affair.

The main themes are:

- the need for coordinated government policies to boost the level of economic activity and foster a return to financial stability;
- the case for radically overhauling public enterprises in developing countries;
- the need for a step-by-step approach to policy trade reform;
- the uneven character of the revival of external financing for developing countries and the danger of speculative flows; and the continued shortcomings in the international debt strategy.

On the latter issue, the TDR argues that the external financing of developing countries has recently been characterised by sharp contrasts. Several countries of South and South-East Asia increased their borrowing in the form of both bank loans and bond issues. Moreover, the recent revival of bond lending to certain Latin American countries continued, being widely accompanied by substantially increased foreign investment. Yet it would still be premature to conclude that problems associated with the external debts of this group of countries have been definitively resolved. Despite some improvement in indicators of their external financial positions, most developing countries continue to face a difficult situation regarding their access to, and the cost of, external financing. This is reflected in low or negative lending to them by banks and in the form of export credits, in the substantial number of negotiations for the rescheduling of bank debts still under way, and in the scarcity of favourable changes in the costs and other terms on which insurance is available for the financing and payments arrangements for their imports.

Total long-term debt of the developing countries reached $1,000 billion by the end of 1991, just over half of which is owed to official creditors. The Paris Club saw a slowdown of the pace of its activities, namely 16 debt reschedulings in 1991 compared to 20 the previous year. However, the total amount of rescheduled debt increased fivefold, mainly owing to the restructuring of the debt stock of Egypt and Poland. The TDR argues that the reduced number of countries rescheduling their debts is not due to an alleviation of the debt burden but rather to the difficulties in obtaining arrangements from the IMF which are a prerequisite for obtaining Paris Club reschedulings.

Since 1987 debtors have been categorized into poorest, lower middle-income and upper middle-income countries. Similar repayment terms are granted to debtors in a given category. The TDR points out the shortcomings of applying standard terms on this basis as it implies that particular problems of certain countries, especially the poorest, are not being fully addressed. However, some exceptions have been made such as in the cases of Poland and Egypt, and over the last few years attempts to ease rising debt burdens have led to the lengthening of maturities for debtors of all categories.

The UNCTAD Secretary-General welcomes the adoption by most Paris Club creditors of the 'enhanced' Toronto terms for the poorest countries. However, he stresses that 'the enhanced Toronto terms represent a substantial dilution of the proposed Trinidad Terms, which are the right benchmark for debt reduction, though they would need to be buttressed by additional country-specific measures.' Debt reduction resulting from the 'enhanced' Toronto Terms will be significantly smaller and only after another series of reschedulings will it apply to the entire stock of debt. Debt burdens will remain unsustainable for many of the beneficiaries. Therefore, the TDR stresses the 'need to further review the scale and modalities of debt reduction for the poorest countries, in order to remove their debt overhang once and for all.'

The TDR is available from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

*****HOTLINE******

As you know, all DMFAS users can ring or fax the DMFAS team in Geneva if they have a problem.

(41 22) 907 6049

The fax and telephone numbers of the DMFAS team have *CHANGED*. Please note.

All numbers are prefixed by
41 for Switzerland
22 for Geneva

Enrique COSIO-PASCAL
907 5924
Nathalie BOIS
907 6048
Alain BODIN
907 5856
Fedra DELL'AQUILA
907 6238
Manno JAMSEN
907 5858
Ishbel MACKIE
907 5855
Maria Begoña OLEA-ZORROZA
907 5852
Sarah ROSS
907 5850
Pekka SANKALA
907 5860
Philippe STRAATMAN
907 5845
Gerry TEELING
907 5859
Dagfinn VAKSVIK
907 6049
Maria ZUBIRI
907 5853

NEW FAX NUMBER:

(41 22) 907 0045

MISSIONS OF DMFAS TEAM MEMBERS
July 1992 - December 1992

Enrique Cosio-Pascal
Iran (July), Philippines (July), UK (September), Italy (October), Peru, Bolivia (November), Argentina (December)
Alain Bodin
IIAP, Paris (October), Romania (November)
Fedra Dell'Aquila
Peru, Bolivia (November)
Manno Jamsen
Phillipines (July), Indonesia (December)
Sarah Ross
Central America (November/December)
Pekka Sankala
Philippines (July)
Philippe Straatman
Iran (July), Central America (November/December), Zimbabwe (July and December)
Gerry Teeling
Philippines (July), Ethiopia (October), Egypt (November)
Dagfinn Vaksvik
Ethiopia (October), Egypt (November), Indonesia (December)

ARRIVALS AND DEPARTURES

Balliram Baball
Started a two-year posting as CTA/Financial Economist for a new DMFAS project in Bangladesh.

Pal Borresen
Continued his work as CTA in Africa. In addition to Burundi, Rwanda and Uganda, he is also now responsible for Ethiopia and Zambia.

Dagfinn Vaksvik
Joined the DMFAS team in July 1992 as an Associate Expert funded by the Norwegian government.

Mark Willis
Joined the DMFAS team in January 1993 as a Financial Economist.

We

Idriss Ahmed Darar (Djibouti);
Roberto Juanchito T. Dispo (Philippines);
Cornilious M. Deredza (Zimbabwe) and
Jorge Pasasi Hernandez (El Salvador),

regional chairpersons of, respectively, Francophone Africa, Asia, Anglophone Africa and Latin America, hereby declare the establishment of the DMFAS/SAGE Users Club today, the 2nd October 1992, Geneva, Switzerland, subsequent to the wish expressed by the participants at the DMFAS training seminar.

The objectives of the Club are the following:

- To exchange experience and information between users of the UNCTAD computerised debt management system;
- To encourage the mutual support in the effective use of the system;
- To promote the exchange of ideas on all aspects of debt managment including administrative, legal and institutional issues;

The method of communication among the Club members will be the following:

- The chairpersons shall communicate with each other in English at least every two months;
- The chairpersons shall be responsible for collecting and centralising the relevant information from within their region;
- The chairpersons shall be required to relate to UNCTAD all the activities and exchanges that transpire within their regions on a regular basis.

The Club shall use the DMFAS Newsletter as the principal means whereby activities and letters concerning the Club will be circulated to the country users.

We, hereby, agree to the above and pledge our adherence to the club, to the promotion of its goals and to its permanence.

....
Idriss Ahmed Darar

....
Roberto Juanchito T. Dispo

....
Cornilious M. Deredza

....
Jorge Pasasi Hernandez

The DMFAS/ SAGE Users' Club Committee

Anglophone Africa

Mr. Cornilious M. DEREDZA
Associate Economist
Reserve Bank of Zimbabwe
P.B. Box 1283
Harare
Zimbabwe

Telephone: 796231
Fax: 708976

Latin America

Sr. Jorge Adalberto PASASI
Ministerio de Hacienda
Dirección de Planificación Fiscal
Condominio "Las Tres Torres"
Av. Alvarado y Diagonal Cent.
Torre 2, Nivel 5-A
San Salvador, El Salvador

Telephone: (00503) 713244 ext. 260/248
Telex: 20647
Fax: (00503) 710591 and 710237

Asia

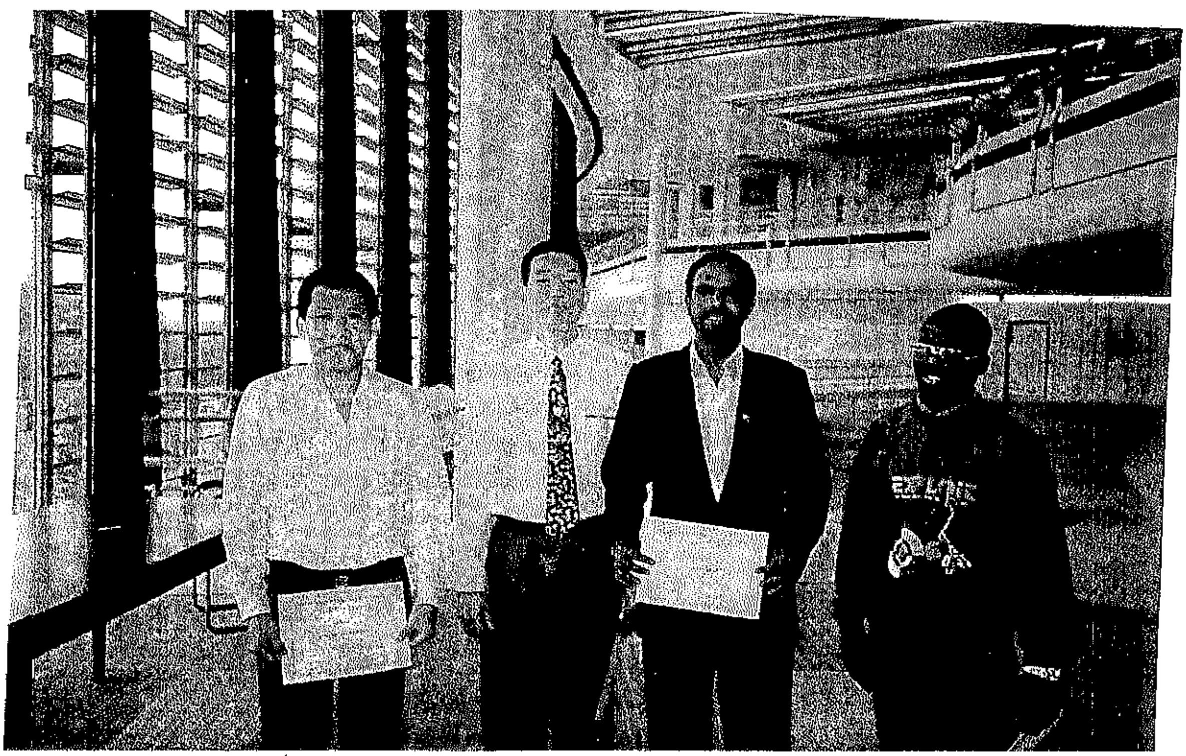
Mr. Roberto Juanchito T. DISPO
Chief, External Debt Management Division (EDMD)
Bureau of the Treasury
Palacio del Gobernador
Intramuros, Manila
Republic of the Philippines

Telephone: (00632) 486628
Telex: 27599 Btr-PH
Fax: (00632) 470158

Francophone Africa

M. Idriss Ahmed DARAR
Chef, Service de la Dette
Ministère des Finances
B.P.13
Djibouti

Telephone: (253) 353331
Fax: (253) 356501



Membership application form - DMFAS/ SAGE User's Club	
Name	Photo
Institution	
Country	
Position	
Work address	
Work telephone no.	
Region: Latin America/ Francophone Africa/ Anglophone Africa/ Asia/ Caribbean (Please tick)	
How long have you been working with the system?	
When was the DMFAS installed in your institution?	
How many staff members work with the DMFAS?	
Signature:	
Date:	