FOR AGENDA

SM/93/185

<u>CONTAINS CONFIDENTIAL INFORMATION</u>

August 18, 1993

To: Members of the Executive Board

From: The Acting Secretary

Subject: <u>Private Market Financing for Developing Countries</u>

The attached paper provides background material to the report on financing for developing countries and their debt situation (EBS/93/131, 8/12/93), which is tentatively scheduled for discussion on Friday, September 3, 1993.

As in previous years, it is planned that this background paper will form the basis for publication in the Fund's World Economic and Financial Surveys Series. The revised text will reflect Executive Directors' comments and delete certain sensitive material.

Mr. Collyns (ext. 37359) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Private Market Financing for Developing Countries

Prepared by the Policy Development and Review Department

(In consultation with other departments)

Approved by Jack Boorman

August 13, 1993

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I. Introduction

This paper provides information on private market financing for developing countries as background for the Board paper on financing for developing countries and their debt situation (EBS/93/131, August 12, 1993) which is to be discussed on September 3, 1993. The paper covers developments since August 1992. 1/ Over the past year, progress has continued to be made in resolving commercial bank debt problems as a number of restructuring packages have been completed. Private flows to developing countries through securities markets (i.e., bonds and equities) have continued to increase, although the experience has been uneven across market segments and countries. By contrast, bank lending to developing countries has remained subdued.

The structure of the paper is as follows: Chapter II describes recent commercial bank debt packages, debt-equity activity, and developments in the secondary markets, as well as providing a historical perspective on approaches taken to rescheduling and restructuring private short-term debt. Chapter III provides information on recent private market financing for developing countries, covering activity in bond markets, local-currency debt instruments, bank lending and equity portfolio flows. Chapter IV describes developments in the institutional and regulatory background affecting financial flows to developing countries. Chapter V assesses recent patterns of access to international securities markets and draws lessons for countries now on the verge of market re-entry. Chapter VI analyses recent changes in the modalities of bank lending to developing countries, particularly trade and project financing. Finally, the annex reviews the experience under the Fund's policy on financing assurances as applied in the context of negotiations on bank debt packages.

II. Developments in Commercial Bank Debt Restructuring

1. Overview

A number of heavily-indebted developing countries made progress toward the restructuring of their commercial bank debt over the past year. Argentina and the Philippines completed financing packages including menus of debt and debt-service reduction options while bank claims on Bolivia, Guyana, and Uganda were bought back at steep discounts (Table 1). In

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1/ See Private Market Financing for Developing Countries, SM/92/162, August 13, 1992 for information on developments in the previous year. Information on the broader context for private flows to developing countries is provided in International Capital Markets--Developments and Prospects, and Key Policy Issues, Part II: Systemic Issues in International Finance (EBS/93/63, April 20, 1993 and SM/93/89, April 21, 1993).

Table 1. Chronology of Bank Debt Restructurings and Bank Financial Packages, 1984-July 1993

Agreement classified by month of signature 1/

1984
Brazil: January 2/
Chile: January, June, and November
Sierra Leone: January
Guyana: January, July (deferment)
Nicaragua: February (deferment)
Peru: February 3/
Senegal: February
Niger: March
Mexico: April (new financing only)
Sudan: April (modification of 1981 agreement)
Yugoslavia: May
Jamaica: June
Zaire: June (deferment)
Poland: July 2/
Madagascar: October
Liberia: December 3/
Zambia: December 3/

1985
Côte d'Ivoire: March 2/
Mexico: March, August
Costa Rica: May 2/
Senegal: May
Philippines: May 2/
Zaire: May (deferment)
Guyana: July (deferment)
Argentina: August 2/
Jamaica: September
Panama: October 2/
Sudan: October (modification of 1981 agreement)
Chile: November 2/
Colombia: December 5/
Ecuador: December 2/
Madagascar: December (modification of 1984 agreement)
Yugoslavia: December

1986
Dominican Republic: February
Morocco: February
Venezuela: February
South Africa: March (standstill)
Niger: April
Zaire: May (deferment)
Brazil: July
Uruguay: July
Poland: September 2/
Romania: September
Congo: October 2/ 3/
Côte d'Ivoire: December

1987
South Africa: March
Mexico: March (public-sector debt) 2/,
August (private-sector debt)
Jamaica: May
Mozambique: May 3/
Zaire: May (deferment)
Chile: June
Honduras: June 3/
Madagascar: June (modification of 1985 agreement)
Argentina: August 2/
Morocco: September
Romania: September (modification of 1986 agreement)
Bolivia: November (amendment to 1981 agreement)
Nigeria: November 2/ 3/
Venezuela: November
Gabon: December 4/
Philippines: December

1988
Gambia, The: February
Chile: August (amendment to 1987 agreement) 3/
Uruguay: March (modification of 1986 agreement)
Côte d'Ivoire: April 2/ 3/
Guinea: April
Togo: May
Poland: July
Yugoslavia: September 2/
Malawi: October
Brazil: November 2/

1989
Nigeria: April
Zaire: June (deferment)
Poland: June (deferment) 3/
Honduras: August 3/
Niger: October 3/
Poland: July (deferment) 3/
Trinidad and Tobago: December

1990
Philippines: February 2/
Mexico: February 2/
Madagascar: April
Bulgaria: April (standstill) 3/
Costa Rica: May
Jamaica: June
Morocco: September
Senegal: September
Chile: December (amendments to previous agreements)
Venezuela: December 2/

1991
Colombia: April 5/
Niger: April
Uruguay: January 2/
Brazil: May 6/
USSR: December (deferment)
Mozambique: December
Nigeria: December

1992
Algeria: March
Gabon: May
Brazil: September 2/ 7/
Guyana: November
Philippines: July 2/
Argentina: December

1993
Uganda: February
Bolivia: March
Dominican Republic: May 3/
Jordan: June 3/
Russia: July 3/

Under negotiation

Albania	Panama	Sierra Leone
Bulgaria	Peru	Tanzania
Ecuador	Poland	Zambia
Nicaragua	Sao Tome and Principe	

Sources: Restructuring agreements.

Note: "Restructuring" covers rescheduling and also certain refinancing operations.
1/ Agreement either signed or reached in principle (if signature has not yet taken place); not all signed agreements have become effective.
2/ The restructuring agreement includes new financing.
3/ Agreed in principle or tentative agreement with banks' Steering Committees.
4/ A separate club deal for new financing was arranged at the same time.
5/ Refinancing agreement.
6/ Preliminary agreement on interest arrears.
7/ Agreement on term sheet.

addition, Brazil, the Dominican Republic, and Jordan have reached agreements on terms for debt restructurings, while a number of countries are actively negotiating. By contrast, debt conversions continued to decline in importance as prices of bank claims in the secondary market recovered for most middle-income countries, and conversions related to Argentina's privatization program accounted for the bulk of activity.

Thirteen countries have now completed bank debt deals, reducing their debt to commercial banks by US$50.3 billion in present value terms at a total cost of US$17.9 billion (Table 2). The balance between debt and debt-service reduction options has varied significantly among the packages (Table 3), but taken as a whole each of the packages has been broadly in line with the price prevailing in the secondary market at the time of agreement (Table 4).

Progress in dealing with bank debt problems has been based in large part on countries' persistence with stabilization and reform programs. Such programs have resulted in strengthened external positions that have allowed countries to accumulate reserves for use in debt reduction operations, as well as providing an appropriate framework for official support. To date, the Fund has provided US$3.4 billion, the World Bank US$3.3 billion, and the IDB US$0.5 billion.

A second factor contributing to recent progress has been a willingness on both sides to adapt to changing circumstances and to the constraints faced by the other party in the negotiations. For example, with both the Argentine and Brazilian packages, banks' initial responses were heavily skewed to the more expensive par bond option, partly because of a decline in international interest rates following agreement on terms that made this option more attractive to creditors. Subsequently, banks agreed in both cases to rebalance their allocations subject to carefully defined rules to allow these packages to proceed. This process occurred much more smoothly with Brazil as the likelihood of rebalancing had been anticipated from the outset, with a clause included in the term sheet allowing Brazil to pull back if the package was not adequately balanced. The agreement in principle with the Dominican Republic also includes a specific "pull-back" clause if debt reduction from the initial allocation falls below a specified target.

Flexible adaptation has also been seen in the area of partial payments. All the countries where negotiations are now continuing had at some point suspended payments on medium- and long-term debt. Banks have recognized that resumption of regular (albeit partial) payments can be politically difficult unless the country negotiators can show a quid pro quo. To address this complication, in three cases (Bulgaria, Jordan, and Poland), countries have resumed payments in the context of an agreement with banks on a general framework for a debt package, typically covering the type of operations, the eligible debt, and a time period for completion. With the Dominican Republic, after a lengthy stalemate over the issue of partial payments, the resumption of payments coincided with preliminary agreement on terms for the package.

Table 2. Commercial Bank Debt and Debt-Service Reduction Operations, 1987-July 1993 1/

(In millions of U.S. dollars)

	Debt Restructured Under DDSR Operation 3/ (1)	Debt and Debt-Service Reduction 2/						Total Debt and Debt Service Reduction/ Debt Restructured (7)/(1)	Cost of Debt Reduction 5/
		Debt Reduction		Debt-Service Reduction		Prepayments through Collateralization (6)	Total (7)=(2)+..+(6)		
		Buyback (2)	Discount Exchange 4/ (3)	Principal Collateralized Par bond 4/ (4)	Other Par bond 4/ (5)				
Argentina (1992)	27,595	--	2,319	4,290	--	2,493	9,102	33.0	3,059
Bolivia	643	331	232	29	--	20	612	95.2	61
(1987)	473	253	182	--	--	7	442	93.5	35
(1993)	170	78	50	29	--	13	170	100.0	26
Chile (1988)	439	439	--	--	--	--	439	100.0	248
Costa Rica (1989)	1,599	991	--	--	101	36	1,128	70.5	196
Guyana (1992)	93	93	--	--	--	--	93	100.0	10
Mexico	51,902	--	8,306	7,130	--	7,737	23,173	44.6	7,677
(1988)	3,671	--	1,115	--	--	555	1,670	45.5	555
(1989)	48,231	--	7,191	7,130	--	7,182	21,503	44.6	7,122
Mozambique (1991)	124	124	--	--	--	--	124	100.0	12
Niger (1991)	111	111	--	--	--	--	111	100.0	23
Nigeria (1991)	5,811	3,390	--	651	--	352	4,393	75.6	1,708
The Philippines	5,812	2,602	--	569	121	409	3,701	63.7	1,795
(1989)	1,339	1,339	--	--	--	--	1,339	100.0	670
(1992)	4,473	1,263	--	569	121	409	2,362	52.8	1,125
Uganda (1993)	152	152	--	--	--	--	152	100.0	18
Uruguay (1991)	1,608	633	--	160	--	95	888	55.2	463
Venezuela (1989)	19,700	1,411	543	2,195	488	1,739	6,376	32.4	2,585
Total	115,589	10,277	11,400	15,024	710	12,881	50,292	43.5	17,855

Sources: IMF staff estimates.

1/ Debt and debt service reduction is estimated by comparing the present value of the old debt with the present value of the new claim, and adjusting for pre-payments made by the debtor. The methodology is described in detail in Annex I of Collyns (1992). The amounts of debt reduction contained in this table exclude debt extinguished through debt conversions.

2/ The figure for debt service reduction represents the expected present value of the reduction in future interest payments arising from the below-market fixed interest rate path on the new instruments relative to expected future market rates. The calculation is based on the estimated term structure of interest rates at the time of agreement in principle.

3/ Includes past due interest and debt restructured under new money options for Mexico (1989), Uruguay (1991), Venezuela (1989), and Philippines (1992); the Philippines' (1989) new money option was not tied to a specific value of existing debt.

4/ Excludes prepayment of principal and interest through guarantees.

5/ Cost at the time of operation's closing. Includes principal and interest guarantee, buy-back costs, and for Venezuela resources used to provide comparable collateral for bonds issued prior to 1990. Excludes cash downpayments related to PDI.

Table 3. Bank Menu Choices in Debt Restructuring Packages

(In percent of total eligible bank debt)

Country	Debt Reduction: Buy-back	Debt Reduction: Discount Exchange	Debt-Service Reduction: Principal Collate-ralized Par Exchange	Debt-Service Reduction: Other Par Exchanges	New Money
Argentina	--	34	66	--	--
Bolivia	46	35	19	--	--
Costa Rica	63	--	--	37	--
Mexico	--	43	47	--	11
Nigeria	62	--	38	--	--
Philippines (1989) 1/	100	--	--	--	--
Philippines (1992)	28	--	42	17	13
Uruguay	39	--	33	--	28
Venezuela	7	9	38	15	31
Total 2/	9	29	46	4	12

Source: National authorities; and IMF staff estimates.

1/ The agreement included new money but it was not tied to a specific amount of eligible debt.
2/ Weighted average.

Table 4. Buy-back Equivalent Prices in Debt and Debt-Service Reduction Operations 1/

(In percent of face value)

	Debt reduction		Debt service reduction			
	Buyback	Discount exchange	Principal collate-ralized par exchange	Other par exchanges	Overall package	Secondary market price at time of agreement in principle
Argentina	--	25	32	--	30	39
Brazil	--	26	36	--	...	35
Costa Rica 2/	16	--	--	29 3/	19	19
Dominican Republic	25	27	--	--	...	25
Jordan	...	25	41	--	...	35
Mexico 2/	--	31	37	--	34	44
Nigeria 2/	40	--	36	--	38	40
Philippines (1989)	50	--	--	--	50	50
Philippines (1992)	52	--	45	28	43	53
Uruguay 2/	56	--	42	--	50	54
Venezuela 2/	45	35	37	26	40	46
Total 4/	42	30	35	26	35	43

Source: IMF staff estimates.

1/ The buy-back equivalent price for a debt exchange is the total value of enhancements as a proportion of the total reduction in claims payable to banks, including effective prepayments through collateralization, evaluated at prevailing interest rates at time of agreement in principle. This is the price at which the debt reduction achieved through a debt exchange is equivalent to the debt reduction under a buy-back at this price.

2/ The calculations include estimates of value recovery clauses.

3/ Weighted average of the buyback equivalent price of the series A par bond (33 cents), the series B par bond (0 cents), and the series A PDI bond (119 cents).

4/ Weighted average.

For low-income countries, the quickened pace toward completing debt deals has reflected in part the adaptation of the IDA guidelines to allow resources to be used for technical assistance to address many of the complex legal and accounting issues these cases present. It has also been important that the full range of commercial credits--including unguaranteed suppliers' credits and short-term trade credits--have been included as potentially eligible under the IDA facility, so that the debt operations can be comprehensive in scope. For their part, private creditors have accepted the need for these countries to obtain debt relief at steep discounts, drawing a distinction between "exit" operations for these countries and the menu approach used for middle-income countries where banks have greater long-term business interests.

2. Recent bank packages

Following agreement between Argentina and its bank creditors on a termsheet in June 1992, the package was signed on December 6, 1992 and the bond exchanges involving principal closed on April 7, 1993. 1/ Commercial banks initially responded to the term-sheet by allocating the bulk of their exposure to the par exchange (i.e., 85 percent to the par exchange and 15 percent to the discount), responding in part to a decline in international interest rates following the agreement on terms. This allocation created problems for the financing of the operation. Following difficult negotiations, banks agreed to the request by the Argentine authorities to reallocate their menu choices toward a more balanced selection. Of the eligible principal of US$19.3 billion, 66 percent was allocated to par bonds and 34 percent to discount bonds. The bulk of the new bonds are denominated in U.S. dollars, with about 2 percent denominated in deutsche marks. Past due interest (PDI) is still being reconciled but is estimated at US$8.3 billion. The downpayment on PDI (US$0.7 billion) has been deposited in an escrow account until this reconciliation is complete, which is currently targeted for September 1993.

The cost of the operation was US$3.8 billion (including the downpayment on PDI), met at closing with financing from the Fund (US$1.0 billion), the World Bank (US$0.6 billion), the Inter-American Development Bank (US$0.5 billion), Japan's Eximbank (US$0.4 billion) and Argentina's own resources (US$1.2 billion).

Bolivia and its bank creditors signed a debt restructuring agreement on March 30, 1993 and the operations took place on May 19, 1993. Eligible principal amounted to US$173 million, and (as with the 1987 agreement) associated PDI was canceled. 2/ Creditors allocated US$78 million to the

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1/ Details of the terms of the debt packages are provided in Tables A2 and A3.

2/ In an earlier operation in 1987, US$442 million of Bolivian claims had been eliminated in an operation involving a buyback at 11 cents on the dollar.

buy-back option (at 16 cents per U.S. dollar of principal); US$33 million to the fully collateralized par bond (with a value recovery clause linked to the price of tin); and US$60 million to the debt-for-development swap with nongovernmental organizations. Banks with claims of US$3 million chose not to participate in the operation. The cost of the operation was US$27 million, financed by grants from the IDA debt reduction facility (US$10 million), and the Governments of the United States (US$7 million), Sweden (US$5 million), Switzerland (US$3 million) and The Netherlands (US$3 million). After donor's approval, the excess donations (US$0.7 million) were set aside for use in clearing the remaining commercial bank debt.

The Brazilian Senate approved on December 29, 1992 the term sheet agreed between Brazil and commercial banks in September 1992 to restructure US$46 billion of eligible principal and US$6 billion of interest arrears related to amounts falling due in 1991-93. The term sheet included six instruments, of which three are collateralized and embrace debt or debt service reduction (the par bond, the discount bond, and the front-loaded interest reduction bond (FLIRB)), two involve temporary debt relief through partial capitalization of interest, and the last option involves new money.

As agreed, interest payments were increased from 30 to 50 percent of contractual interest starting in January 1993 (after Senate approval). Moreover, payments corresponding to 20 percent of interest falling due in 1992 were made during the first quarter of 1993, while the term-sheet agreement triggered the issuance of interest-due and unpaid (IDU) bonds for US$7 billion in November 1992 in accordance with the May 1991 agreement on the treatment of interest arrears incurred in 1989-90.

By March 15, 1993, a critical mass of banks had agreed to participate in the operation. Banks initially allocated about 60 percent of their exposure to the par exchange, about 20 percent to the discount exchange, about 11 percent to one capitalization option, about 6 percent to the FLIRB and about 4 percent to the new money option. As allowed for under the term sheet, the Brazilian authorities requested a reallocation, and in mid-May 1993 reached agreement with banks to establish a maximum of 40 percent of eligible principal to the par exchange; a minimum of 35 percent of eligible principal to the discount exchange; and a maximum of 4 3/8 percent on the new money option. The exchange of instruments is expected to take place in late 1993. Enhancements required for the operation are expected to amount to US$4-5 billion, of which US$2.8 billion will be provided at the time of the bond exchange and the remainder of the collateral will be phased in over a two year period in four semi-annual installments.

The Dominican Republic reached an agreement in principle to restructure the bulk of commercial bank claims amounting to US$0.9 billion in eligible principal and an estimated US$0.3 billion in interest arrears on May 3, 1993. The package contains three options for eligible principal: (i) a buy-back at 25 cents per U.S. dollar of claim; (ii) a discount exchange at 65 percent of face value for bonds bearing market rates with a 30-year bullet maturity, full collateralization of principal, and a nine-month rolling interest guarantee (but with interest on the collateral accumulating in the guarantee account until coverage reaches 12 months); and (iii) an exchange at par for uncollateralized bonds with a maturity of 18 years and a grace period of nine years. Interest on this bond will start at 3 percent in the first year, increase 1/2 percentage point every two years until year six, and bear market rates thereafter. The agreement contains a clause that permits to the authorities not to close the operation in the event that the Dominican Republic does not obtain at least 50 percent debt reduction.

Treatment of interest arrears will involve: (i) cash payments of 12.5 percent of PDI by closing; (ii) a buyback of PDI associated with the principal allocated to the buyback option at 25 cents on the dollar; and (iii) an uncollateralized 15-year PDI bond for the remainder carrying a market-related interest rate and a backloaded amortization schedule with a grace period of three years. The Dominican Republic has agreed to make partial interest payments of US$0.75 million a month (about 25 percent of interest due) until completion of the package.

Gabon's rescheduling agreement of December 1991 was to become effective once all interest arrears were cleared. Initially, interest arrears were targeted to be cleared by end-January 1993. A first extension was granted last year to mid-May 1993 and a second extension was granted in May 1993 to clear interest arrears before end-January 1994. In return, Gabon agreed to pay US$5.2 million in overdue interest.

Guyana eliminated its entire stock of commercial bank debt in a buyback at 14.5 cents per dollar of principal on November 24, 1992. Principal amounted to US$69.2 million while associated PDI (which was also canceled) is estimated at US$23.5 million. The cost of the operation (about US$10 million) was met in full from the IDA debt facility.

An agreement in principle was reached between the Government of Jordan and the commercial bank steering committee on June 30, 1993 covering eligible principal of US$750 million and past due interest (PDI) estimated at US$122 million. As with the Dominican Republic, the package includes three options for eligible principal: (i) a buyback at a price still to be specified; (ii) a discount exchange at 65 percent of face value for bonds bearing market rates and a bullet amortization after 30 years; and (iii) a par exchange for bonds bearing below market rates (starting at 4 percent in year one and rising to 6 percent in year seven and thereafter) and a bullet amortization after 30 years. Both the discount and par bonds will have full collateralization of principal and will have a six-month rolling interest guarantee. The agreement is conditional on achieving a balanced package from Jordan's point of view. The authorities have indicated that such balance can be achieved with an allocation in the neighborhood of 65 percent of eligible principal for the par exchange and 35 percent for the discount exchange.

Interest arrears are treated separately. PDI associated with principal assigned to the buyback would also be bought back. Otherwise, following a cash payment equivalent of 50 percent of PDI associated with the discount exchange and 10 percent of PDI associated with the par exchange, the remaining PDI would be refinanced through an exchange for uncollateralized bonds bearing a market rate and a maturity of 12 years with three years of grace. For purposes of calculating interest arrears, interest due is to be accrued at an interest rate of 4 percent from March 1991 until the exchange date. Jordan has been making regular partial payments amounting to about 30 percent of interest falling due since September 1992.

The Philippines concluded the second phase of its debt restructuring agreement with commercial banks on December 1, 1992. The package covered US$4.5 billion of claims (95 percent of eligible claims). Of the total, 28 percent was allocated to the buyback option (which took place on May 14, 1992); 42 percent to the par bond option; 17 percent to the temporary interest reduction option; and 13 percent to the new money bond option (implying new money of US$138 million). The cost of the operation amounted to US$1.1 billion, and was initially financed with resources from the Fund (US$0.2 billion), Japan's Eximbank (US$0.2 billion), the World Bank (US$0.1 billion), and the Philippines' own resources (US$0.7 billion).

Since December 1991, Russia and commercial banks have agreed to a succession of 90-day payment deferrals rolling over most principal obligations. The seventh deferral (to cover obligations falling due in the third quarter of 1993) took place in mid-June 1993. Considerable amounts of interest arrears have emerged as well as small (non-deferred) principal arrears. On July 30, 1993, a preliminary agreement was reached with commercial banks to reschedule the entire stock of pre-cutoff date debt with a ten-year maturity and a five-year grace period. While many issues are still to be resolved, Russia has agreed to pay, in three equal installments in the fourth quarter of 1993, US$500 million toward interest accrued but unpaid through end-1993. Remaining interest arrears, roughly US$3-3.5 billion, are expected to be rescheduled on the same terms as the pre-cutoff date principal.

On February 26, 1993, Uganda completed a buyback of commercial debt comprising of mainly trade and suppliers' credits. The operation covered US$153 million of claims (89 percent of total eligible principal) at a price of 12 cents per dollar of principal. The cost of US$18 million was financed mostly from the IDA debt reduction facility (US$10 million) and contributions from The Netherlands (US$2.7 million) and Switzerland (US$0.7 million) as well as a bridge loan (to be repaid with a grant from Germany and the EEC) of US$5.0 million. No further payments are expected to non-participating creditors.

3. Debt conversion activity

Maintaining the trend of recent years, debt conversions declined in 1992 to US$4.3 billion, compared to US$4.7 billion in 1991 and a peak level of US$10.1 billion in 1990 (Table 5). High secondary market prices of commercial bank debt of countries having completed debt packages have reduced interest in these schemes, prompting the suspension of the official conversion programs in some countries.

Two-thirds of conversion activity in 1992 occurred in Argentina, where debt conversions amounted to US$2.8 billion. 1/ Two transactions accounted for more than 90 percent of the debt extinguished: The privatizations of the state gas company (US$1.6 billion) and the state power company for Buenos Aires (US$1.1 billion). In these privatizations, investors were able to make payment in a combination of cash and offerings of debt instruments, with the value of the debt instruments being pre-determined as the secondary market price at the time the scheme was announced. No debt conversions occurred during the first quarter of 1993. A slow down in debt conversions is expected for 1993 as the bulk of the major privatization, the state oil company, has occurred through an international equity placement.

Debt conversion activity in Chile fell by more than half to US$390 million in 1992. The high price of commercial bank debt in the secondary market curtailed demand for debt conversions under the formal mechanisms. Thus, all conversion activity took place through "informal" schemes under which residents retire their debt to the Central Bank by delivery of Chilean debt acquired in the secondary market.

After rebounding in 1991 in association with commercial bank privatization, activity under Mexico's conversion program dropped in 1992 to US$340 million (a fraction of the 1991 level). About US$70 million occurred under the "conversion rights" program which was suspended in April 1992 because of lack of investor interest. The remainder took place under specific regimes aimed at funding projects for education, health and poverty alleviation.

Debt conversions in the Philippines fell by about half in 1992 to US$270 million. A third auction of conversion rights occurred in May 1993 and allocated US$100 million of conversion rights at an average price of 71.5 cents on the dollar. Quarterly auctions are expected to continue.

1/ Excludes US$0.3 billion from the privatization of the state power company deposited in a trust fund waiting for investors to find suitable debt instruments. It also excludes US$0.5 billion of foreign currency bonds of the Argentine government retired in the context of the privatization of the state gas and power companies.

Table 5. Debt Conversions, 1984-First Quarter 1993 1/

(In millions of U.S. dollars)

	1984-86	1987	1988	1989	1990	1991	1992	First Quarter 1993
Argentina	500	--	1,146	1,534	6,464	132	2,825 2/	--
Brazil	1,440	336	2,096	946	283	68	95	...
Chile	1,314	1,979	2,940	2,767	1,096	828	391	80
Costa Rica	7	89	44	124	17	2	7	--
Ecuador	--	127	261	32	45	20	50	...
Honduras	--	9	14	35	33	52	39	--
Jamaica	--	1	9	23	22	36	14	1
Mexico	413	1,680	1,056 3/	532	221	1,956	344	...
Nigeria	--	--	40	257	217	119	122	...
Philippines	81	450	931	630	378	489	268	--
Tanzania	--	--	--	--	11	21	33	17
Uruguay	--	--	60	27	4	42	27	48
Venezuela	--	--	50	544	595	343	148	...
Yugoslavia	--	--	135	1,369	681	631	...	...
Total	3,755	4,671	8,782	8,820	10,068	4,739	4,364	...

Sources: Central Bank of Argentina; Central Bank of Brazil; Central Bank of Chile; Mexico, Ministry of Finance; Central Bank of Philippines; Bank of Jamaica; Central Bank of Venezuela; and IMF staff estimates.

1/ Face value of debt converted under official ongoing schemes. Figures do not include large-scale, one-off cash buy-backs and debt exchanges.

2/ Excludes US$0.3 billion from the privatization of the state power company deposited in a trust fund for later debt conversion as well as US$0.5 billion in foreign currency bonds of the Argentine government (BOCONES) retired with the privatization of the state gas and power companies.

3/ Does not include an estimated US$6-US$8 billion related to payment at a discount of private-sector debt following the August 1987 signing of an agreement to restructure debt of the foreign exchange risk coverage trust fund (FICORCA).

Restrictions on eligibility of projects and political uncertainty were responsible for a reduction of debt conversions in Venezuela in 1992 by more than half to US$150 million. In Brazil, restrictions on ownership of privatized enterprises and concerns about allocation of conversion rights limited the demand for debt conversions to US$95 million in 1992. In Nigeria, the debt conversion program, which amounted to US$122 million in 1992, was suspended in May 1993 because of lack of interest as exchange rate spreads widened (debt conversions are transacted at the official rate).

4. Secondary market developments

Following a fall in the secondary market prices for bank claims on developing countries in the second half of 1992 and a relative stagnation in the first quarter of 1993, secondary market prices recovered strongly in the second quarter of the year. As a result, at end-June 1993 the weighted average of prices for claims on 15 heavily indebted countries reached 58.5 cents on the dollar, 6 percent above its level one year earlier and the highest level since mid-1987 (Chart 1).

The pattern of price behavior over the last year was mostly a reflection of developments in three of the most indebted countries included in the index: Brazil, Mexico and Venezuela. The volatility of Brazilian debt prices reflected the vagaries of political events in that country and uncertainties about the economic policy stance. Brazilian debt prices performed well in the first six months of 1993, reaching 41 cents on the dollar, as market perceptions about the chances of successful completion of a Brady-type operation improved. 1/

Variations in stripped prices 2/ of bank claims on Mexico have reflected changes in market expectations about NAFTA approval. Prices fell by about 2 percent over the year ended in June 1993 to 76 cents per dollar. Movements in the stripped price of claims on Venezuela have reflected the shifting political situation and uncertainties about the future course of economic policy. After rising sharply in the second quarter, prices reached 65 cents on the dollar at mid-year.

The stripped prices of claims on Argentina have improved steadily and reached 59 cents on the dollar in June 1993 after a temporary fall in November 1992. The higher demand for claims on Argentina in the secondary market was associated with the deepening of the privatization program and completion of the debt restructuring agreement with banks in April 1993.

1/ Since February 1993, trading in Brazilian medium-term debt (MYDFA) has been suspended pending completion of the debt deal. Quoted prices have been based on variations in the prices of IDU bonds.

2/ The stripped price is a measure of country risk. The price is adjusted to remove the impact of changes in interest rates on the value of fixed-rate instruments such as par bonds (see Annex II to Private Market Financing for Developing Countries, IMF (1992)).

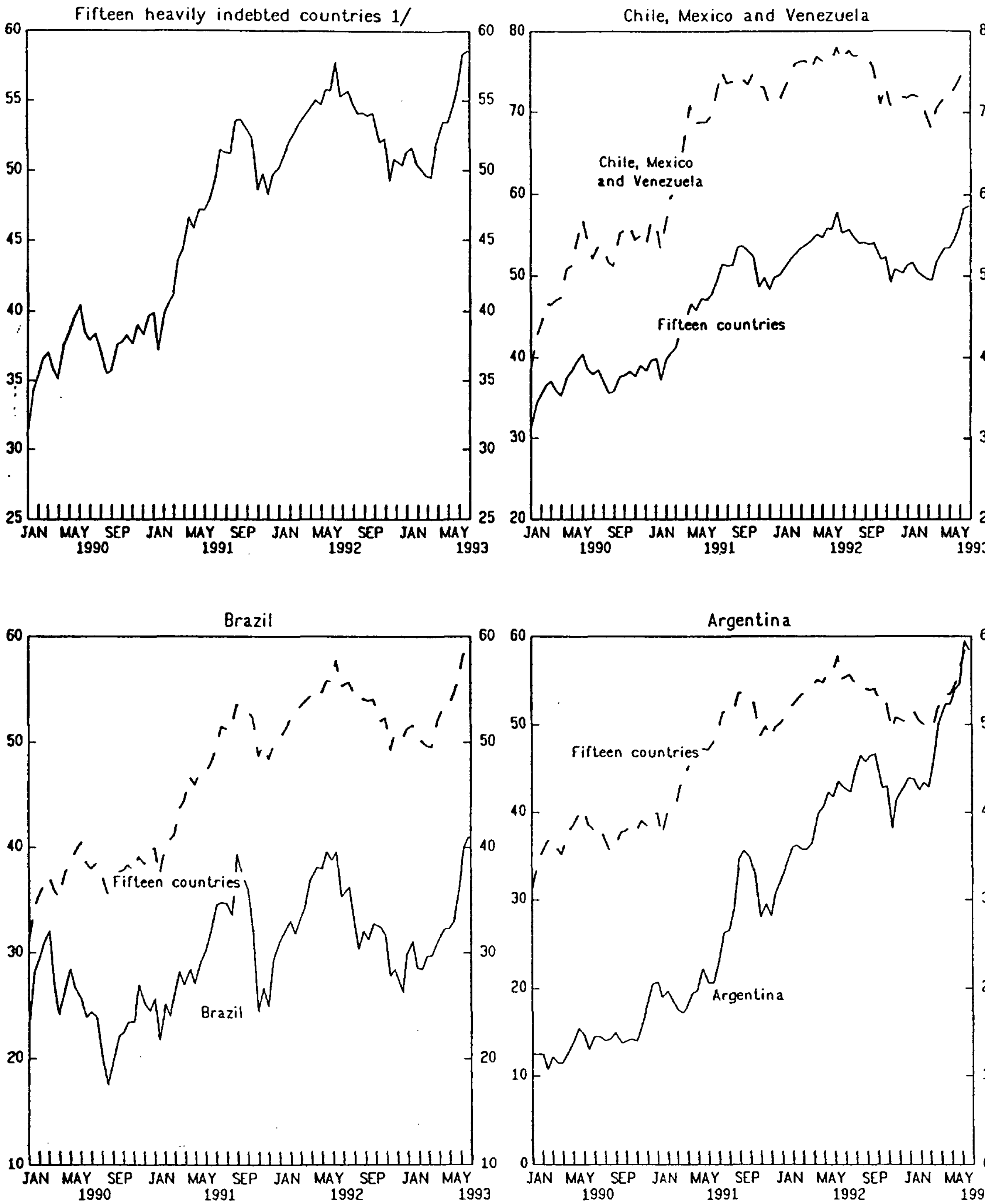
Secondary market price developments for other highly indebted countries have also been positive recently. The stripped price of claims on the Philippines increased by 16 percent in the first half of 1993 to reach 66 cents on the dollar, recovering the level of a year ago. Prices of Ecuadorian claims recovered in the first half of 1993 to 33 cents on the dollar as discussions on a debt refinancing agreement advanced. Prices for bank claims on Peru rose by 65 percent in the first half of 1993 to reach 33 cents on the dollar, partly in reflection of clearance of arrears to international financial institutions and also in response to speculation about a possible commercial bank debt restructuring. Prices for Eastern European countries have also risen. Following a decline of about one half in 1992 from the already depressed levels of 1991, prices of claims on Eastern European countries increased by 36 percent in the second quarter of 1993 to reach 28 cents on the dollar (Chart 2).

The market for trading bank claims on developing countries continued to expand in 1992 and the first half of 1993. While no definitive figures exist, market participants suggest that market turnover, including new Eurobonds, Brady-bonds and unrestructured bank claims, has increased from about US$200 billion in 1991 to about US$500 billion in 1992 and continued to grow in 1993, with the bulk of the turnover concentrated in Brady bonds. Over the same period, liquidity increased substantially, as reflected in a tightening of bid-ask spreads from over 1/2 percent to around 1/4 percent, with the spread for the most liquid instruments falling to 1/8 percent. The Emerging Markets Traders Association (EMTA) is collecting information to provide more authoritative market turnover estimates in the near future.

Increasing activity in the market has reflected the rising demand for these bonds by institutional investors, attracted to securitized bank debt offering high yields. In this regard, the stock of Brady bonds increased from US$56 billion in 1991 to US$67 billion in 1992 and further to US$94 billion in mid-1993 after the restructuring of Argentine commercial debt. Speculative interest has also been attracted to unrestructured bank debt of a number of countries in view of the capital gains that have arisen after earlier debt restructurings.

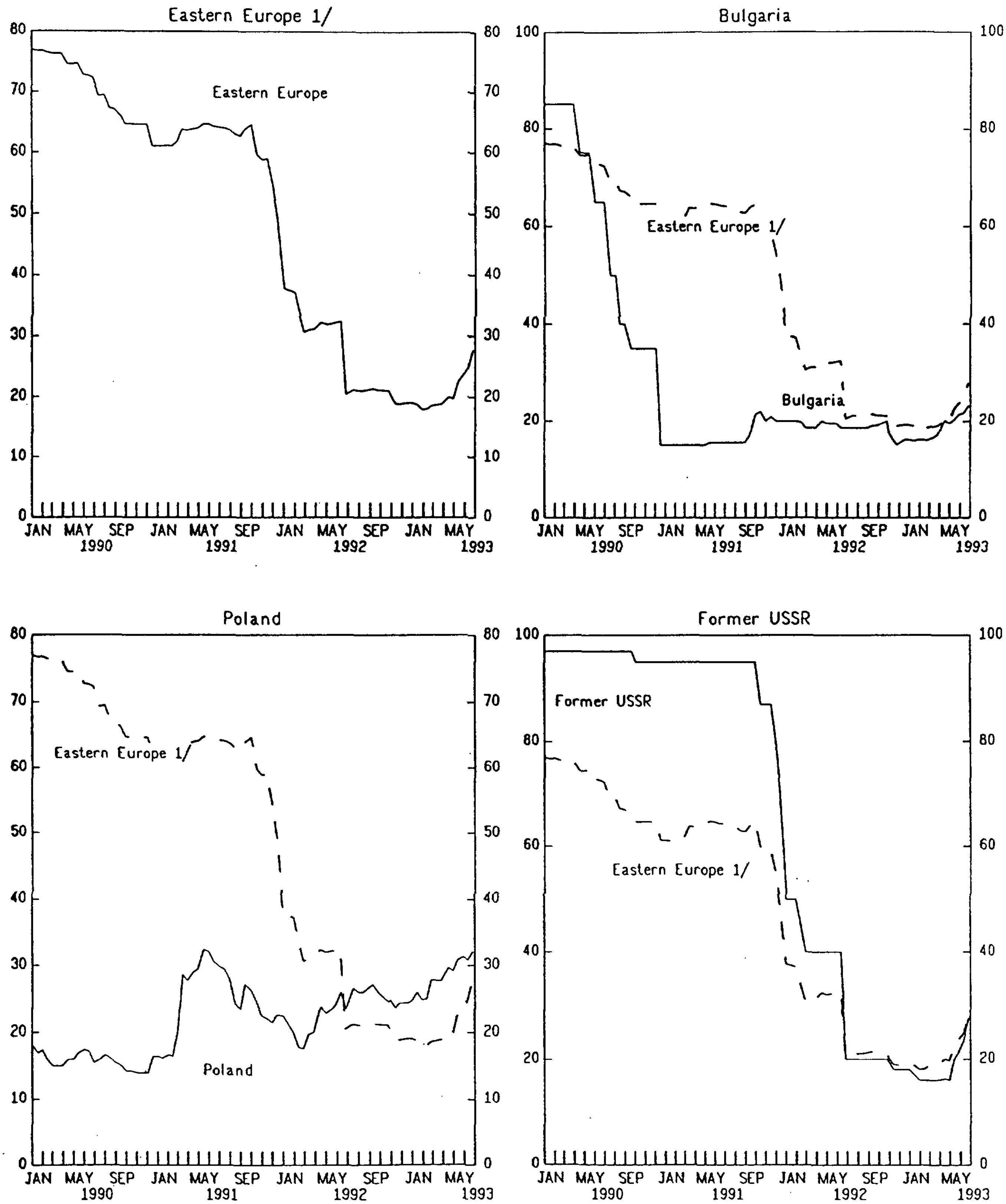
In order to establish more uniform procedures and limit the potential for illegal activities such as insider trading in a rapidly growing and unregulated market, the EMTA introduced a code of conduct in June 1993. The code sets out appropriate procedures and practices for trading activities in the different segments of the markets. The code provides guidance to traders rather than a set of rules. The EMTA has also issued guidelines on trading of particular instruments, which has been helpful to sustain liquidity in significant segments of the markets during periods of heightened uncertainty. For example, such guidelines established a basis for the trading of restructured claims on Argentina prior to completion of the bank package on a "when and if issued" basis.

CHART 1
SECONDARY MARKET PRICES OF BANK CLAIMS ON SELECTED INDEBTED COUNTRIES
(In percent of face value)



Sources: Salomon Brothers & ANZ Bank Secondary Market Price Report.
1/ Argentina, Bolivia, Brazil, Chile, Colombia, Cote d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia. The latest quoted price is used to calculate the index whenever a price is unavailable for a given period.

CHART 2
SECONDARY MARKET PRICES OF BANK CLAIMS ON SELECTED
EASTERN EUROPEAN COUNTRIES
(In percent of face value)



Sources: Salomon Brothers & ANZ Bank Secondary Market Price Report.
1/ Bulgaria, Former USSR, and Poland.
The latest quoted price is used to calculate the index whenever a price is unavaible for a given period.

5. Treatment of short-term debt

The recent debt servicing difficulties faced by the countries in Eastern Europe and the FSU have brought renewed attention to the treatment of short-term debt in rescheduling or restructuring agreements since, in many of these cases (e.g., Bulgaria, Poland, and Russia), short-term liabilities form a significant share of the total private external debt. This section reviews the treatment of short-term liabilities to banks and nonguaranteed suppliers in debt reschedulings and restructurings agreed between 1978 and June 1993.

While short-term bank debt has usually been excluded from debt eligible for reschedulings, between 1978 and June 1993 there were nevertheless 34 agreements with banks that rescheduled or restructured short-term debt (Table 6). Fifteen of these agreements rescheduled trade-related short-term debt, while in eight other cases trade-related debt was consolidated and rolled-over through the creation of trade credit and deposit facilities. Suppliers' credits have usually been dealt with on a bilateral basis, and comprehensive information on such reschedulings is not available. However, in ten cases suppliers' credits have been involved in a multilateral rescheduling.

The cases where nontrade-related short-term debt were rescheduled can be divided between two groups. The first consists of the relatively larger and more developed countries that experienced a significant build-up of short-term debt--relative to their historical trade requirements--just prior to the commencement of their debt servicing difficulties (e.g., Argentina, Chile, Ecuador, Mexico, the Philippines, South Africa, Turkey, Uruguay, and Venezuela). For these countries, the short-term debt was rescheduled along with other debt, with the amounts involved not being large relative to the total debt rescheduled. In several cases, a large portion, if not all, of the rescheduled short-term debt was debt of the private sector that was effectively taken over by the public sector (e.g., Argentina, Chile, and the Philippines). The second group (e.g., Bolivia, Guinea, Madagascar, Nicaragua, Peru, Romania, Sudan, and Zaïre) consists mainly of relatively less developed countries where the payments capacity outlook was very poor. For this group, the total nominal amount of short-term debt was often small, albeit often a large share of the total bank debt stock eligible for rescheduling. For both groups, the terms and conditions of the rescheduling of nontrade-related short-term debt was similar to those obtained on the middle- and long-term debt that was concurrently rescheduled.

Trade-related debt was usually explicitly excluded from rescheduling in order to preserve its relative seniority and to maintain country access to trade credits. In the 12 cases where this did occur, the amounts involved were not large, with the exception of Nigeria where overdue letters of credits amounting to US$1.9 billion and US$2.6 billion were rescheduled in 1983 and 1988, respectively. The terms obtained on the rescheduling of

Table 6. Countries which Rescheduled or Restructured Short-term Commercial Bank Debt

Non-trade related short-term debt

Country	Date of Agreement
Argentina	1985 and 1987
Bolivia	1981
Chile	1984
Ecuador	1983
Guinea	1988
Madagascar	1981 and 1984
Mexico	1983
Nicaragua	1980
Peru	1984
Philippines	1985
Romania	1982
South Africa	1986 and 1987
Sudan	1981 and 1983
Turkey	1979
Uruguay	1983
Venezuela	1986
Zaire	1980

Total agreements: 21

Trade related short-term debt

Country	Date of Agreement
Bolivia	1981
Costa Rica	1981 and 1983
Dominican Republic	1983
Guyana	1992
Madagascar	1984
Morocco	1986
Mozambique	1987and 1991
Nigeria	1983 and 1988
Peru	1984
Romania	1982
Turkey	1981
Uganda	1993

Total agreements: 15

Nonguaranteed supplier's credits

Country	Date of Agreement
Costa Rica	1981 and 1983
Mexico	1983
Nigeria	1984 and 1988
Romania	1982
Turkey	1980
Uganda	1993
Zaire	1986 and 1987

Total agreements: 10

Facilities for existing trade-related short-term debt

Country	Date of Agreement
Argentina	1985-1989
Brazil	1983-1991
Chile	1983-1994
Costa Rica	1983-1990
Ecuador	1983-1994
Morocco	1986-1989
Panama	1983-1987
Philippines	1983-1993
Poland	1982-present
Yugoslavia	1983-1987

Total agreements: 8 1/

Total agreements: 34 2/

Source: IMF documents

1/ Excluding Costa Rica and Poland which had new trade facilities based on a share of interest payments actually paid over a predetermined period.
2/ Excluding the double counting of agreements which included the rescheduling or restructuring of more than one category of short-term debt.

trade-related short-term debt were usually less advantageous to the debtor than the terms on the medium- and long-term debt that was concurrently rescheduled.

Since 1978, trade credit and deposit facilities have been created for eight countries, usually in the context of new money packages. 1/ The initial duration of these facilities was usually for a much shorter period than the maturity of the reschedulings of short-term debt (and at a lower interest rate). However, these facilities were typically renewed or extended several times. Almost all have now been allowed to expire. 2/

Short-term bank debt has rarely been included in debt eligible for debt and debt service reduction operations. This has only occurred in three cases: Guyana, Mozambique, and Uganda. 3/ However, short-term debt that had previously been transformed into medium-term debt through reschedulings has been included in the debt eligible for debt reduction. The debt agreements for Costa Rica and Nigeria included previously rescheduled trade-related short-term debt, while previously rescheduled nontrade-related short-term debt was included in the debt agreements signed by Argentina, Bolivia, Mexico, the Philippines, and Venezuela. 4/

Comprehensive information is not available regarding the rescheduling of nonguaranteed supplier's credits. These types of obligations do not come under the umbrella of any established multilateral debt rescheduling forum, and in most cases reschedulings between the creditors and the private sector debtors have been undertaken on a bilateral basis, without the authorities' involvement or even knowledge. In the period 1978-March 1993, there have been ten occasions when supplier's credits were rescheduled on a concerted multilateral basis, i.e., involving the bulk of the creditors. Concerted reschedulings have been rare in part because of the concern that the nature

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1/ Trade facilities effectively rescheduled the short-term trade debt while maintaining a country's access to such credits following the commencement of debt servicing difficulties. The facilities usually extended trade credits on a revolving basis up to a pre-determined level. Trade and deposit facilities maintained bank's exposure, in the event of a reduced demand for trade credits, by transforming unused trade credits into interest-earning deposits at the debtor country's central bank.

2/ Some agreements also stipulated that interbank credits would be maintained at pre-determined (usually historical) levels for an agreed period of time (e.g., Brazil (1983), Mexico (1983), and Panama (1983)).

3/ The agreement in principal between Bulgaria and its BAC on a structure of a DDSR operation includes short-term debt in the debt eligible for debt reduction.

4/ In the case of Morocco, the second stage of the agreement--which would have included debt reduction operations--would have included banker's acceptances which had previously been rescheduled into medium- and long-term debt. In the event, the authorities decided not to proceed with the second stage of the agreement.

of the debt would lead to time consuming negotiations with high administrative costs. The debt is usually owed to many different creditors, with varying exposure and different degrees of leverage, and on a variety of terms. In addition, a selective negotiation process has allowed countries to follow a negotiating strategy that assures access to essential goods by giving preferential terms to key suppliers.

The few instances of coordinated action have been most successful when the debtor country unilaterally offered terms for the normalization of relations with suppliers (e.g., Costa Rica, Mexico, Turkey and Uganda). Participation in these schemes was voluntary; domestic borrowers as well as foreign creditors were provided with a menu of options offering flexibility with regard to terms and timing. Broad-based multilateral reschedulings of nonguaranteed suppliers credits have usually been undertaken in the face of large arrears either in absolute terms (Nigeria) or relative to arrears owed to other creditors (Romania). In these cases, the centralization of the process proved to be critical to the successful conclusion of the negotiations. Generalizations about the comparability of terms on reschedulings of nonguaranteed supplier's credit with those in bank reschedulings is difficult since available information on suppliers' credits is confined to a few cases and refers only to the terms and conditions that were officially offered. In these ten cases, the results were mixed.

III. Recent Trends in Private Market Financing

Private market financing flows to developing countries have continued to increase over the past year, although the experience was highly uneven across market segments and across countries. The volume of securitized flows reached unprecedented levels while the range of developing country borrowers with access to private market financing broadened further. The structure of securitized flows shifted markedly towards increased reliance on bond financing, as borrowing in the international bond market recovered strongly after a market correction experienced during the final quarter of 1992. In contrast, issuance by developing country companies in the international equity market declined sharply in the second half of 1992 and remained subdued until June 1993. Activity in the syndicated loan market continued to be focussed on countries that had avoided debt servicing difficulties in the 1980s, although there were some signs of renewed interest in lending to other borrowers on a highly selective basis. Finally, international investors have begun to invest sizable amounts in local currency-denominated debt instruments.

1. Bonds

With issuance activity in the international bond market reaching record levels due in part to a general decline in long-term interest rates, investors have showed increasing interest in high-yielding sub-investment grade debt. In this particularly favorable environment, issuance activity by developing country borrowers almost doubled in 1992, and there was a further surge in activity in the first half of 1993 to a historical high of US$21.2 billion, nearly twice the average six-monthly rate in 1992 (Table 7). 1/ Developing country borrowers continued to increase their share in global primary activity, accounting for 8.5 percent of total international bond issues in the first half of 1993, up from 7.1 percent in 1992 and 4.2 percent in 1991. The range of borrowers widened as entities from 18 developing countries tapped the international bond market and an increasing number of private sector borrowers had access to the market. Consequently, the concentration of the issuer base declined somewhat, as issuers from the five largest borrowing countries accounted for 69 percent of total issuance activity by developing countries in the first half of 1993, down from 75 percent during the two previous years.

The rise in issuance activity reflected increased activity across most regions of the developing world. Western Hemisphere borrowers continued to account for more than half of total issuance activity by developing country borrowers, raising US$11.2 billion during the first half of 1993, compared with US$12.3 billion in 1992 as a whole. Thus, the market for Latin American Eurobonds was able to recover strongly from the market correction that occurred in the fourth quarter of 1992; 2/ yields generally declined from their late-1992 peaks and the size of several issues was increased on the back of strong demand.

Mexico has maintained its position as the leading developing country borrower, raising some US$5.9 billion during the first half of 1993, as much as during 1992 as a whole. A series of groundbreaking issues characterized the first half of 1993. Cemex, Mexico's largest cement producer, placed successfully a US$1 billion issue, the largest ever Eurobond issue by a Latin American borrower, while TMM, Mexico's largest shipping company, became the first Latin American private sector borrower to tap the domestic U.S. bond market ("Yankee" market) with a US$200 million issue of ten-year notes. Several issues featured novel structures including collared floating rate notes (FRNs), embedded warrants, and export receipt securitization. Brazilian entities, including a number of private sector banks, resumed their borrowing in the international bond market after a hiatus in the second half of 1992, raising some US$3.0 billion. Venezuelan issuers, including the Treasury, stepped up their borrowing activity, but had to

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1/ Includes reported private placements and notes issued under Euro-medium-term note programs.

2/ Developments in 1992, including the market correction in the fourth quarter, were covered in detail in International Capital Markets--Developments and Prospects, and Key Policy Issues, Part II--Background Material on Systemic Issues in International Finance, SM/93/84, April 21, 1993.

Table 7. International Bond Issues by Developing Countries 1/

(In millions of US dollars)

	1989	1990	1991	1992	First half 1993	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
Developing countries	5,487	6,164	12,527	23,574	21,218	6,054	4,937	6,084	6,499	9,954	11,264
Africa	159	90	236	725	--	622	104	--	--	--	--
Algeria	159	90	--	--	--	--	--	--	--	--	--
South Africa	--	--	236	725	--	622	104	--	--	--	--
Asia	1,601	1,630	3,099	6,014	4,930	1,645	1,044	1,734	1,591	2,230	2,700
China	--	--	115	1,335	1,057	277	115	391	552	406	651
Hong-Kong	193	66	100	185	657	--	110	--	75	657	--
India	450	274	227	--	--	--	--	--	--	--	--
Indonesia	175	80	369	493	30	74	42	376	--	30	--
Malaysia	425	--	--	--	--	--	--	--	--	--	--
Philippines	--	--	--	--	345	--	--	--	--	170	175
Singapore	--	105	--	--	--	--	--	--	--	--	--
South Korea	258	1,105	2,111	3,330	2,014	994	641	867	827	671	1,343
Taiwan	100	--	160	60	36	--	60	--	--	--	36
Thailand	--	--	17	612	791	300	75	100	137	296	495
Europe	2,171	1,856	1,960	4,562	4,120	962	938	1,071	1,592	2,863	1,257
Bulgaria	101	--	--	--	--	--	--	--	--	--	--
Czechoslovakia	--	375	277	129	--	--	15	--	114	--	--
Czech Republic	--	--	--	--	375	--	--	--	--	375	--
Hungary	879	888	1,186	1,242	1,642	616	51	200	375	1,363	279
Turkey	1,190	593	497	3,191	2,103	346	871	871	1,103	1,125	978
Middle East	723	--	400	--	1,000	--	--	--	--	1,000	--
Israel	723	--	400	--	1,000	--	--	--	--	1,000	--
Western Hemisphere	833	2,589	6,832	12,272	11,167	2,825	2,852	3,279	3,316	3,861	7,306
Argentina	--	21	795	1,570	941	265	320	920	65	335	606
Brazil	--	--	1,837	3,655	2,962	1,305	1,565	435	350	1,327	1,635
Chile	--	--	200	--	333	--	--	--	--	--	333
Colombia	--	--	--	--	325	--	--	--	--	--	325
Mexico	570	2,306	3,373	5,916	5,932	655	638	1,821	2,801	2,049	3,883
Panama	--	--	50	--	--	--	--	--	--	--	--
Trinidad & Tobago	--	--	--	100	--	--	--	--	100	--	--
Uruguay	--	--	--	100	140	--	100	--	--	--	140
Venezuela	263	262	578	932	535	600	229	103	--	150	385
Memorandum item:											
Issue under EMTN programs	--	--	375	1,165	710	450	100	10	605	460	250
Argentina	--	--	--	40	50	--	40	--	--	--	50
Brazil	--	--	--	110	110	--	60	--	50	--	110
Mexico	--	--	375	615	550	50	--	10	555	460	90
Venezuela	--	--	--	400	--	400	--	--	--	--	--
Total bond issues in international bond market	255,800	226,556	297,588	333,693	249,317	92,670	78,839	77,588	84,597	139,787	109,529
Share of developing countries in global issuance	2.1%	2.7%	4.2%	7.1%	8.5%	6.5%	6.3%	7.8%	7.7%	7.1%	10.3%

Source: Staff estimates based on International Financing Review, Euro-week, Financial Times and OECD.

1/ Including note issues under EMTN programs.

accept wide yield spreads (446 basis points above reference rates during the first half of 1993) to ensure placement of their paper in the face of market concerns with political developments.

The range of Western Hemisphere borrowers with access to the international bond market broadened further in 1992 and the first half of 1993 to include Chile, Colombia, Trinidad and Tobago and Uruguay. Colombia joined the ranks of re-entrant countries in April 1993 when the Republic successfully placed a US$125 million five-year Eurobond at a spread of 215 basis points over U.S. Treasuries. This was followed by two further issues, including one for Colombia's state-owned oil company (Ecopetrol) which placed US$150 million of five-year Euronotes at 218 basis points above comparable U.S. Treasuries.

Asian borrowers continued to expand their bond issuance activity and generally commanded favorable borrowing terms. They raised the equivalent of US$4.9 billion during the first half of 1993, compared with US$6 billion in 1992 and US$3.1 billion in 1991. Chinese and South Korean borrowers continued to account for the bulk of Asian issues. South Korean entities remained the largest group of Asian borrowers, raising US$2 billion during the first half of 1993 at a yield spread of 84 basis points above reference rates, while Chinese public sector entities raised the equivalent of US$1.1 billion at a yield spread of only 58 basis points, a significant improvement over 1992. Thai borrowers also stepped up their recourse to the international bond market and commanded favorable terms. The Philippines made a successful return to the international capital markets after an absence of a decade with a US$150 million three-year note issued in February priced at 320 basis points above U.S. Treasuries. This was followed by a US$175 million Euronote issue in June 1993 for the Development Bank of the Philippines.

European developing countries also stepped up significantly their borrowing, raising the equivalent of US$4.1 billion during the first half of 1993, compared with US$4.6 billion in 1992 and US$2 billion in 1991. Turkey was the third largest developing country issuer during the first half of 1993, raising US$2.1 billion. Most issues were from the sovereign borrower, which tapped a wide range of markets, including the deutsche mark, U.S. dollar, and yen sectors, on improving terms. The National Bank of Hungary also stepped up significantly its borrowing activity, raising US$1.6 billion during the first half of 1993, compared with US$1.2 billion in both 1992 and 1991. The Czech National Bank launched its debut issue in March 1993, a US$375 million three-year Eurobond issue priced to yield 270 basis points over U.S. Treasuries.

Finally, Israel raised US$1 billion on exceptionally favorable terms through the issuance of U.S. AID-guaranteed bonds in March 1993. The notes were issued in the context of a US$10 billion loan guarantee program, under which Israel can borrow up to US$2 billion annually until 1998.

The share of sovereign borrowers in developing country issuance activity recovered from the low level recorded in 1992, reaching 30 percent during the first half of 1993 as re-entrant countries (including Colombia, the Czech Republic, and the Philippines) tapped the market through sovereign issues while other sovereign borrowers floated large issues to lock in low interest rates (Table 8). During the same period, private sector borrowers continued to account for more than 40 percent of developing country issues. The range of private sector borrowers broadened further, and included borrowers from countries whose private sector entities previously were not active issuers, including Chile, Colombia, the Philippines, and Uruguay.

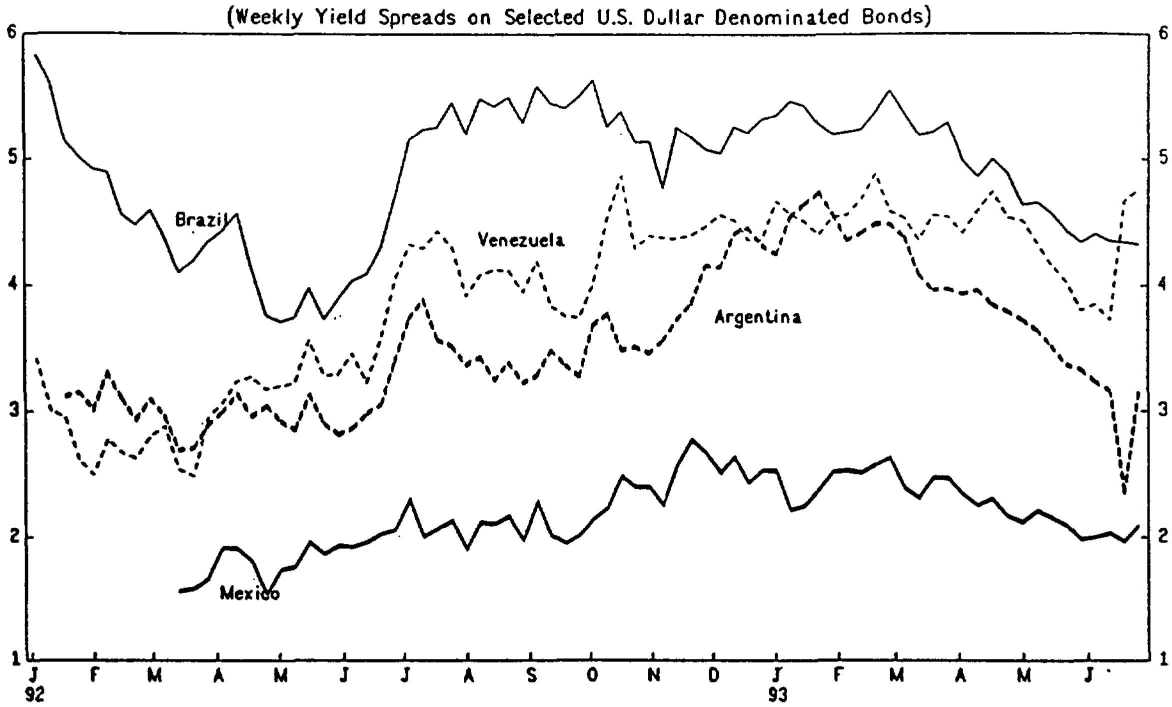
Terms on new issues improved for most issuers during the first half of 1993 (Table 9) as the selling pressures that marked the market correction in the final quarter of 1992 were relieved, including by the decline in U.S. long-term interest rates and the continued broadening in the investor base for developing country securities. Spreads in the secondary market for developing country bonds generally followed a similar pattern (Chart 3). The rally in developing country international bonds and the resulting narrowing in yield spreads mirrored the narrowing in spreads between "junk" bond yields and yields on Treasury bond issues of similar maturity. As a benchmark, the average yield spread for Mexican public sector borrowers, which rose from 197 basis points in the second quarter of 1992 to 288 basis points in the fourth quarter of 1992, declined to 198 basis points during the first half of 1993. 1/

Bond issuance by developing country borrowers continued to be heavily concentrated in three currency sectors, with the bulk of issues denominated in U.S. dollars, yen, and deutsche marks (Table 10). The U.S. dollar sector remained the major funding source for developing country borrowers, particularly Latin American, thanks to historically low U.S. interest rates and greater receptiveness by U.S.-based investors, including a broadening range of institutional investors, to higher risk borrowers. In these favorable circumstances, several developing country entities made their debut in the Yankee market, while Korean borrowers consolidated their position as the main developing country borrowing group in this sector. Also, the first intra-regional international bond issue in Latin America emerged in March 1993 when Venezuela launched a sovereign issue simultaneously in the domestic Colombian market and internationally. The yen sector, which remained the second largest currency sector for developing country borrowers, was the largest currency sector tapped by European developing countries (including sovereign issues from Hungary and Turkey), and also saw heavy issuance by Asian borrowers, including by the Kingdom of Thailand and public sector borrowers from China and South Korea. The deutsche mark sector was tapped by European and Latin American developing country borrowers.

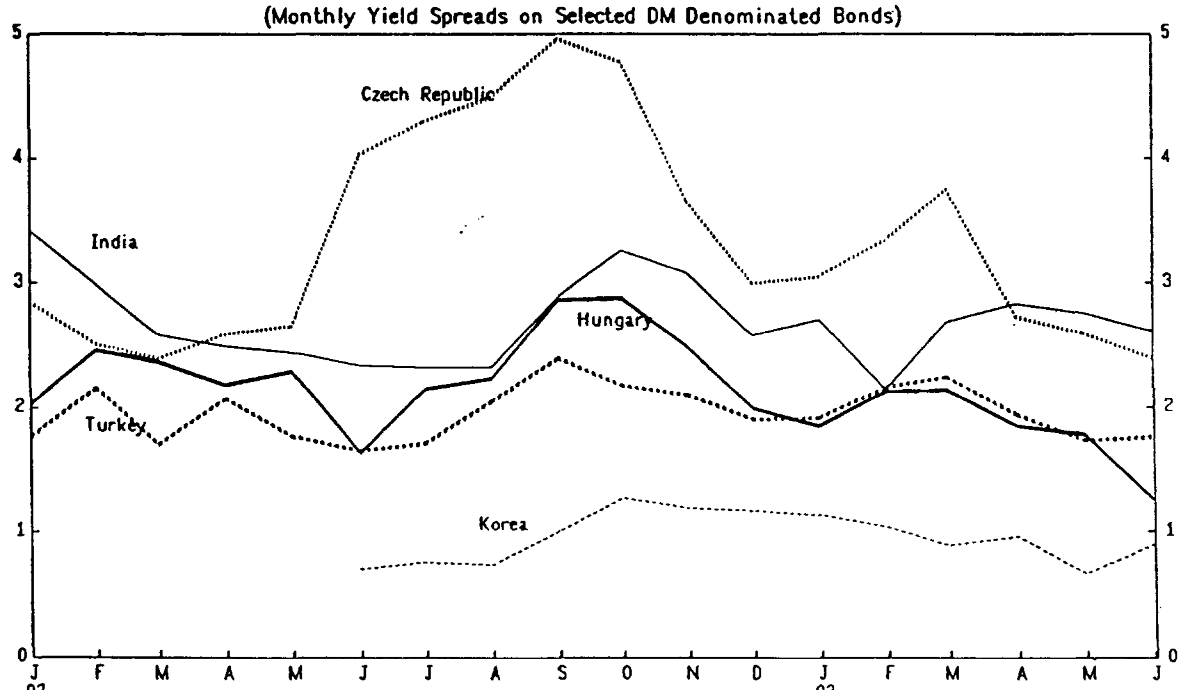
1/ In interpreting trends in average yield spreads, it must be borne in mind that spreads vary significantly by type of borrower, tenor, and currency of issues.

CHART 3
SECONDARY MARKET YIELD SPREADS ON BOND ISSUES BY SELECTED DEVELOPING COUNTRIES
(In percent)

Latin America
(Weekly Yield Spreads on Selected U.S. Dollar Denominated Bonds)



Other Selected Borrowers
(Monthly Yield Spreads on Selected DM Denominated Bonds)



Sources: Reuters and the Wall Street Journal.
1/ For bond details please refer to page 2 of this chart.

Table 8. International Bond Issues by Developing Countries by Type of Borrower

(In millions of U.S. dollars)

	1989	1990	1991	1992	First half 1993	1992				1993	
						I	II	III	IV	I	II
Sovereign Borrowers	3,145	1,480	4,038	5,370	6,443	1,509	1,122	1,698	1,041	4,462	1,981
Argentina	--	--	500	425	256	75	100	250	--	--	256
Chile	--	--	200	--	--	--	--	--	--	--	--
Colombia	--	--	--	--	125	--	--	--	--	--	125
Czechoslovakia	--	--	277	--	--	--	--	--	--	--	--
Czech Republic	--	--	--	--	375	--	--	--	--	375	--
Hungary	879	888	1,186	1,242	1,580	616	51	200	375	1,363	217
Israel	723	--	400	--	1,000	--	--	--	--	1,000	--
Malaysia	425	--	--	--	--	--	--	--	--	--	--
Mexico	--	--	470	377	200	--	--	377	--	200	--
Philippines	--	--	--	--	150	--	--	--	--	150	--
South Africa	--	--	236	318	--	318	--	--	--	--	--
Thailand	--	--	--	300	149	300	--	--	--	149	--
Trinidad and Tobago	--	--	--	100	--	--	--	--	100	--	--
Turkey	855	593	497	2,508	2,053	200	871	871	566	1,075	978
Uruguay	--	--	--	100	100	--	100	--	--	--	100
Venezuela	263	--	273	--	455	--	--	--	--	150	305
Other public sector	1,624	2,797	4,473	7,989	6,237	3,118	1,579	1,483	1,809	2,062	4,175
Algeria	159	90	--	--	--	--	--	--	--	--	--
Argentina	--	--	--	--	150	--	--	--	--	150	--
Brazil	--	--	1,341	1,320	940	490	550	240	40	280	660
Bulgaria	101	--	--	--	--	--	--	--	--	--	--
China	--	--	115	1,335	1,057	277	115	391	552	406	651
Colombia	--	--	--	--	150	--	--	--	--	--	150
Czechoslovakia	--	375	--	114	--	--	--	--	114	--	--
Hungary	--	--	--	--	63	--	--	--	--	--	63
India	450	274	227	--	--	--	--	--	--	--	--
Indonesia	175	80	--	250	--	--	--	250	--	--	--
Korea	--	--	781	1,722	1,340	917	425	380	--	397	943
Mexico	420	1,851	1,762	1,411	2,112	495	230	120	566	729	1,383
Philippines	--	--	--	--	175	--	--	--	--	--	175
South Africa	--	--	--	408	--	304	104	--	--	--	--
Thailand	--	--	17	--	250	--	--	--	--	100	150
Turkey	319	--	--	572	--	35	--	--	537	--	--
Venezuela	--	127	230	857	--	600	154	103	--	--	--

Table 8. (concluded) International Bond Issues by Developing Countries by Type of Borrower

(In millions of U.S. dollars)

	1989	1990	1991	1992	First half 1993	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
Private sector	717	1,887	4,016	10,215	8,538	1,427	2,236	2,903	3,649	3,430	5,108
Argentina	--	21	295	1,145	535	190	220	670	65	185	350
Brazil	--	--	496	2,335	2,022	815	1,015	195	310	1,047	975
Chile	--	--	--	--	333	--	--	--	--	--	333
Colombia	--	--	--	--	50	--	--	--	--	--	50
Czechoslovakia	--	--	--	15	--	--	15	--	--	--	--
Hong Kong	193	66	100	185	657	--	110	--	75	657	--
Indonesia	--	--	369	243	30	74	42	126	--	30	--
Korea	258	1,105	1,330	1,608	674	77	216	488	827	274	400
Mexico	150	455	1,141	4,127	3,620	160	408	1,324	2,235	1,120	2,500
Panama	--	--	50	--	--	--	--	--	--	--	--
Philippines	--	--	--	--	20	--	--	--	--	20	--
Singapore	--	105	--	--	--	--	--	--	--	--	--
Taiwan	100	--	160	60	36	--	60	--	--	--	36
Thailand	--	--	--	312	392	--	75	100	137	47	345
Turkey	16	--	--	111	50	111	--	--	--	50	--
Uruguay	--	--	--	--	40	--	--	--	--	--	40
Venezuela	--	135	75	75	80	--	75	--	--	--	80
Total	5,487	6,164	12,527	23,573	21,218	6,054	4,937	6,084	6,499	9,954	11,264
Memorandum items:											
Share in total issues by developing countries											
Sovereign issues	57.3%	24.0%	32.2%	22.8%	30.4%	24.9%	22.7%	27.9%	16.0%	44.8%	17.6%
Other public issues	29.6%	45.4%	35.7%	33.9%	29.4%	51.5%	32.0%	24.4%	27.8%	20.7%	37.1%
Private sector issues	13.1%	30.6%	32.1%	43.3%	40.2%	23.6%	45.3%	47.7%	56.1%	34.5%	45.4%

Sources: Staff estimates based on International Financing Review, Euro-week, and Financial Times.

Table 9. Yield Spread at Launch for Unenhanced Bond Issues by Developing Countries 1/

(In basis points)

	1989	1990	1991	1992	First half 1993	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
Sovereign borrower	171	181	265	221	240	191	217	225	261	236	248
Argentina	--	730	456	300	--	--	--	300	--	--	--
Chile	--	--	210	--	--	--	--	--	--	--	--
Colombia	--	--	--	--	215	--	--	--	--	--	215
Czech Republic	--	--	281	--	270	--	--	--	--	270	--
Hungary	116	176	250	242	242	210	190	275	282	240	255
Mexico	--	--	201	215	208	--	--	215	--	208	--
Philippines	--	--	--	--	320	--	--	--	--	320	--
South Africa	--	--	190	198	--	198	--	--	--	--	--
Thailand	--	--	--	100	57	100	--	--	--	57	--
Trinidad and Tobago	--	--	--	565	--	--	--	--	565	--	--
Turkey	193	166	234	206	201	260	212	195	193	205	196
Uruguay	--	--	--	275	228	--	275	--	--	--	228
Venezuela	185	--	230	--	446	--	--	--	--	482	428
Other public sector	200	250	375	219	179	252	234	180	198	122	200
Algeria	149	100	--	--	--	--	--	--	--	--	--
Argentina	--	--	--	--	440	--	--	--	--	440	--
Brazil	--	--	548	416	528	440	365	467	525	518	528
Bulgaria	160	--	--	--	--	--	--	--	--	--	--
China	--	--	67	104	58	99	95	95	114	57	59
Colombia	--	--	--	--	210	--	--	--	--	--	210
Czechoslovakia	--	96	--	--	--	--	--	--	--	--	--
Hungary	--	--	--	--	324	--	--	--	--	--	324
India	101	127	140	--	--	--	--	--	--	--	--
Indonesia	--	--	--	129	--	--	--	129	--	--	--
Korea	--	--	--	88	84	--	90	83	101	82	86
Mexico	820	366	264	215	198	194	197	210	288	198	199
Philippines	--	--	--	--	310	--	--	--	--	--	310
South Africa	--	--	--	159	--	156	166	--	--	--	--
Thailand	--	--	--	203	40	--	--	--	203	43	38
Turkey	184	--	--	242	--	220	--	--	244	--	--
Venezuela	--	260	275	256	--	258	254	--	--	--	--
Private sector	738	530	526	379	388	452	453	319	352	421	370
Argentina	--	--	447	427	533	441	421	402	668	594	533
Brazil	--	--	655	502	578	497	469	531	570	596	563
Colombia	--	--	--	--	320	--	--	--	--	--	320
Czechoslovakia	--	--	--	300	--	--	300	--	--	--	--
Hong Kong	--	--	--	180	133	--	--	--	180	133	--
Korea	--	--	--	121	86	--	--	91	134	86	76
Indonesia	--	--	--	--	137	--	--	--	--	500	--
Mexico	800	555	566	427	366	--	442	329	450	420	347
Panama	--	--	24	--	--	--	--	--	--	--	--
Thailand	--	--	--	--	58	--	--	--	--	--	58
Turkey	160	--	--	250	--	250	--	--	--	--	--
Uruguay	--	--	--	--	300	--	--	--	--	--	300
Venezuela	--	496	362	--	450	--	--	--	--	--	450
Total	216	254	352	276	280	270	304	245	286	274	284

Source: Staff estimates based on International Financing Review, Euro-week, and Financial Times.

1/ Yield spread measured as the difference between the bond yield at issue and the prevailing yield for industrial country government bonds in the same currency and of comparable maturity. All figures are weighted averages.

Table 10. International Bond Issues by Developing Countries by Currency of Denomination

(In millions of US dollars)

	1989	1990	1991	1992	Firs-half 1993	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
US dollar	3,052	2,964	8,085	15,314	15,750	2,972	3,302	4,369	4,672	6,377	9,373
African borrowers	--	--	--	--	--	--	--	--	--	--	--
Asian borrowers	606	205	1,528	3,078	3,603	340	496	1,090	1,152	1,176	2,427
European borrowers	890	550	300	1,014	823	200	300	400	114	673	150
Latin American borrowers	833	2,209	5,856	11,223	10,324	2,432	2,506	2,879	3,406	3,528	6,796
Middle Eastern borrowers	723	--	400	--	1,000	--	--	--	--	1,000	--
Deutsche mark	907	1,558	1,619	1,888	1,738	708	274	532	375	867	871
African borrowers	159	90	236	408	--	304	104	--	--	--	--
Asian borrowers	--	149	96	--	--	--	--	--	--	--	--
European borrowers	748	983	961	1,063	1,123	403	15	269	375	619	504
Latin American borrowers	--	337	326	417	615	--	154	263	--	248	367
Yen	722	191	1,457	3,237	3,117	590	500	643	1,504	2,306	811
African borrowers	--	--	--	--	--	--	--	--	--	--	--
Asian borrowers	375	--	1,000	990	1,009	232	115	241	402	735	274
European borrowers	347	191	457	2,248	2,108	358	385	402	1,102	1,571	537
Latin American borrowers	--	--	--	--	--	--	--	--	--	--	--
ECU	83	--	423	630	--	444	186	--	--	--	--
African borrowers	--	--	--	318	--	318	--	--	--	--	--
Asian borrowers	--	--	--	--	--	--	--	--	--	--	--
European borrowers	83	--	242	186	--	--	186	--	--	--	--
Latin American borrowers	--	--	181	126	--	126	--	--	--	--	--
Other currencies	104	175	584	466	614	132	196	104	35	404	210
African borrowers	--	--	--	--	--	--	--	--	--	--	--
Asian borrowers	--	--	220	216	319	34	42	104	35	319	--
European borrowers	104	132	--	51	67	--	51	--	--	--	67
Latin American borrowers	--	43	364	200	228	97	102	--	--	85	143
Total	4,867	4,888	12,166	21,536	21,218	4,844	4,457	5,648	6,586	9,954	11,264
Memorandum items:											
Share in total issues by developing countries:											
US dollars	63%	61%	66%	71%	74%	61%	74%	77%	71%	64%	83%
DM	19%	32%	13%	9%	8%	15%	6%	9%	6%	9%	8%
Yen	15%	4%	12%	15%	15%	12%	11%	11%	23%	23%	7%
ECU	2%	0%	3%	3%	0%	9%	4%	0%	0%	0%	0%
Other	2%	4%	5%	2%	3%	3%	4%	2%	1%	4%	2%
Share in total issues in global bond market:											
US dollars	48%	32%	30%	31%	35%	28%	34%	52%	38%	33%	37%
DM	6%	8%	7%	9%	13%	10%	8%	6%	17%	18%	7%
Yen	9%	14%	14%	12%	11%	13%	11%	12%	14%	12%	10%
ECU	6%	9%	11%	12%	1%	16%	8%	1%	0%	1%	1%
Other	31%	38%	39%	36%	39%	33%	39%	29%	31%	35%	44%

Sources: Staff estimates based on International Financing Review, Euro-week, and Financial Times.

Although the overall recourse to credit enhancement techniques was reduced as the re-entry process consolidated and developing country borrowers' creditworthiness was generally perceived to have improved, many borrowers continued to use a broad range of enhancement techniques to reduce borrowing costs. Overall, 18 percent of funds raised during the first half of 1993 by developing country borrowers involved enhancement techniques including equity convertibility options, securitization of export proceeds, guarantees by industrial country agencies, early redemption options, or embedded warrants (Table 11). This was down from 22 percent in 1992 and 30 percent in 1991. As in previous years, the pattern of enhancement continued to differ significantly among regions. Asian borrowers enhanced 38 percent of their issues (down from 50 percent in 1991 and 1992), mainly in the forms of early redemption and equity convertibility options. Latin American borrowers have moved away from use of securitization techniques and of early redemption options, but have not yet made significant use of convertible bonds. The amounts raised through enhanced instruments dropped from 36 percent in 1991 and 28 percent in 1992 to 13 percent during the first half of 1993. Among several innovative structures used by Latin American borrowers, a US$100 million issue for Nafinsa featured the first ever Latin American public sector Eurobond with warrants into the stocks of an unrelated company. Also, Pemex raised US$366 million through its first ever asset securitization deal backed by revenues from future oil exports. Elsewhere, Essar Gugarat launched India's first Euroconvertible bond in July 1993, instead of the initially envisaged equity issue, which was canceled in late 1992 in the face of a weak stock market.

In line with recent patterns in global capital markets that reflect investors' belief that U.S. interest rates may have bottomed out, developing country borrowers increasingly took recourse to floating rate notes (FRN), which accounted for 11 percent of total developing country borrowing in the international bond market during the first half of 1993, up from 5 percent in 1992. Of note, Nafinsa issued Latin America's first collared FRN (under which the coupon--Libor plus 25 basis points--can fluctuate between a minimum and a maximum). The notes have the shortest maturity (five years) seen in the collared sector to date and offer the highest floor of 6 5/8 percent.

Another sign of the gradual consolidation of developing country re-entry to international capital markets is that a broadening range of developing country borrowers have been assigned credit ratings by major credit rating agencies. Also, the trend toward improvements in credit ratings continued in 1992 and the first half of 1993 (Table 12), reflecting improved perceptions of developing countries' economic performance and prospects. Four developing countries received first time credit rating in 1992, of which three were investment grade (Chile, Indonesia, and Turkey), and four others have been assigned credit ratings thus far in 1993, two of them investment grade. In March 1993, Moody's upgraded the rating of the Czech Republic from a sub-investment grade rating to the Baa3 investment grade on the grounds that uncertainty about the creditworthiness of the Czech Republic has receded, including because of the smooth dissolution of

Table 11. Enhancement of International Bond Issues by Developing Countries

(Number of issues featuring enhancements in percent of total issues by region)

	1990	1991	1992	First half 1993
Asia	18	55	49	38
Convertible	18	52	28	24
Put option	--	5	33	24
Warrant	--	--	8	2
Europe	7	--	14	8
Guaranteed	7	--	--	--
Secured	--	--	5	8
Put option	--	--	9	--
Middle East	--	--	--	100
Guaranteed	--	--	--	100
Western Hemisphere	48	25	20	13
Convertible	4	--	1	2
Guaranteed	--	--	1	--
Secured	33	9	11	4
Put option	15	16	9	7
Warrant	--	--	--	1
All developing countries	29	33	24	20
Convertible	7	20	6	8
Guaranteed	2	--	1	1
Secured	15	5	8	3
Put option	7	10	14	11
Warrant	--	--	2	1
Memorandum items:				
Amount raised through enhanced instruments (in percent of total)				
All developing countries	32	30	22	18
Asia	7	38	23	21
Europe	11	--	8	2
Middle East	--	--	--	100
Western Hemisphere	63	36	28	13

Sources: Staff estimates based on International Financing Review, Euroweek, and Financial Times.

1/ Totals by region may differ from the sum of their components because a few issues feature multiple enhancements.

Table 12. Credit Ratings of Developing Country Borrowers 1/

	Moody's Rating	S&P Rating	Recent Changes
Singapore	Aa3	AA+	
Taiwan	NR	AA+	
Korea	A1	A+	
Thailand	A2	A-	
Malaysia	A2	A	Moody's upgraded rating from A3 in March 1993.
Hong Kong	A3	A	
China	Baa1	BBB	
Chile	Baa3	BBB	Moody's assigned a Baa3 rating to Compañía de Telêfonos de Chile in April 1993.
Israel	NR	BBB	S&P upgraded sovereign rating from BBB- in January 1993.
Turkey	Baa3	BBB	
Colombia	NR	BBB-	S&P assigned first-time rating in July 1993.
Indonesia	NR	BBB-	S&P assigned first-time rating in July 1992.
Czech Republic	Baa3	NR	Moody's upgraded rating from Ba1 in March 1993.
Hungary	Ba1	BB+	
Venezuela	Ba1	BB	S&P lowered the Eurobond outlook to negative from stable in April 1993.
(Conversion bonds)	Ba1	NR	
(Par and discount bonds)	Ba2	NR	
India	Ba2	BB+	
Mexico	Ba2	BB+	S&P assigned first-time rating in July 1992.
(Par and discount bonds)	Ba3	BB+	
Trinidad and Tobago	Ba2	NR	Moody's assigned first time rating in February 1993.
The Philippines	Ba3	BB-	First time ratings assigned in July 1993.
Argentina	B1	NR	Moody's upgraded sovereign rating from B3 in July 1992.
Brazil	B2	NR	

1/ Ranked in descending order according to rating. Ratings by Standard and Poor's and Moody's Investor Service. The ratings are ranked from highest to lowest as follows:

	Moody's	S&P
Investment grade	Aaa, Aa, A, Baa	AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-
Noninvestment grade	Ba, B	BB+, BB, BB-, B+, B, B-
Default grade	Caa, Ca, C, D	CCC+, CCC, CCC-, CC, C

In addition, numbers from 1 (highest) to 3 are often attached to differentiate borrowers within a given grade.

the former Czech and Slovak Federal Republic and the low debt burden. Colombia became the second Latin American country to be awarded an investment grade credit rating when Standard and Poor's (S&P) assigned a BBB- rating to its long-term foreign debt. Elsewhere, Moody's assigned a sub-investment grade Ba2 first time rating to the Republic of Trinidad and Tobago in February 1993 and the Philippines received a first time sub-investment grade by both rating agencies in July 1993. In other events of note, in December 1992 Chile's Empresa Nacional de Electricidad became the first Latin American private sector company to secure an investment grade rating from one of the main rating agencies. In addition to S&P and Moody's, new credit rating agencies have started to assign ratings to developing countries. The U.S.-based credit rating agency Duff and Phelps awarded in May 1993 the United Mexican States (UMS) its first investment grade rating (BBB) for a planned Samurai issue, although to date Moody's and S&P have not upgraded their rating from sub-investment grade levels.

Starting in the fourth quarter of 1992, credit rating agencies have assigned ratings to local currency-denominated debt instruments issued by Latin American borrowers. In December 1992, S&P assigned an implied 1/ AA- rating to the senior peso-denominated debt obligations of the United Mexican States. S&P also has assigned an implied AA- rating to the senior domestic long term debt of the Republic of Chile. Since then, other Mexican peso-denominated instruments have received ratings, including from Moody's. Such ratings have typically been above comparable ratings on foreign-currency denominated instruments because of the borrower's stronger capacity to service local currency-denominated debt than foreign currency-denominated debt; exchange rate risk is not taken into account.

The trend toward explicitly rating developing country debt instruments and toward an improvement in these credit ratings is important since it helps broaden the investor base for developing country borrowers, including because a number of mainstream institutional investors have internal or government-mandated restrictions against buying unrated or sub-investment grade debt.

2. Equities

International equity issues by companies from 17 developing countries totalled US$4.2 billion during the first half of 1993, compared with US$9.4 billion in 1992 and US$5.4 billion in 1991 (Table 13). Issuance activity has been subdued since June 1992 mainly because of weak equity

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1/ An implied credit rating represents the highest rating that the rating agency would assign to the debt of an issuer, although specific instruments have not yet been rated at the issuer's request. An implied rating is an assessment of the sovereign borrower's overall creditworthiness.

Table 13. International Equity Issues by Developing Countries

(In millions of US dollars)

	1990	1991	1992	First half 1993	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
Developing countries	1,262	5,442	9,391	4,179	1,978	4,432	922	2,060	999	3,180
Africa	--	143	270	--	20	250	--	--	--	--
South Africa	--	143	270	--	20	250	--	--	--	--
Asia	1,040	1,028	4,732	1,478	591	1,623	734	1,784	652	826
Bangladesh	--	--	--	18	--	--	--	--	3	15
China	--	11	1,049	438	116	230	536	167	116	322
Hong Kong	--	--	1,250	374	--	326	109	814	374	--
India	--	--	240	--	--	150	--	90	--	--
Indonesia	633	168	262	139	88	48	5	121	72	67
Korea	40	200	150	178	--	--	--	150	28	150
Malaysia	--	--	382	--	104	251	27	--	--	--
Pakistan	--	11	48	5	17	4	25	2	--	5
Philippines	53	159	392	--	41	--	--	351	--	--
Singapore	214	125	272	212	118	154	--	--	41	171
Taiwan	--	--	543	72	--	461	--	83	--	72
Thailand	100	194	145	42	107	--	32	6	18	24
Europe	124	91	67	30	--	34	9	24	2	28
Hungary	68	91	33	9	--	--	9	24	2	7
Poland	--	--	--	1	--	--	--	--	--	1
Turkey	56	--	34	20	--	34	--	--	--	20
Middle East	--	60	127	60	--	--	102	25	38	22
Israel	--	60	127	60	--	--	102	25	38	22
Western Hemisphere	98	4,120	4,195	2,611	1,366	2,525	77	227	307	2,304
Argentina	--	356	504	2,095	266	238	--	--	--	2,095
Brazil	--	--	133	--	--	133	--	--	--	--
Chile	98	--	129	114	73	--	57	--	--	114
Colombia	--	--	--	27	--	--	--	--	27	--
Mexico	--	3,764	3,058	375	745	2,154	21	139	280	95
Panama	--	--	88	--	--	--	--	88	--	--
Venezuela	--	--	283	--	283	--	--	--	--	--
Global equity issues in international equity market	8,152	15,546	22,632	12,854	5,007	4,672	9,291	3,662	4,300	8,554
Share of developing countries in global issuance	15.5%	35.0%	41.5%	32.5%	39.5%	94.9%	9.9%	56.2%	23.2%	37.2%

Source: Staff estimates based on IFR Equibase, International Financing Review, and Financial Times.

prices on most of the main Latin American stock markets (Chart 4). 1/ However, although only a handful of equity issues were brought to the market during the first half of 1993, signs of revival of the ADR/GDR sector were observed toward the end of the period, reflecting largely the successful international flotation of US$2.1 billion of shares in Yacimientos Petroliferos Fiscales (YPF) by the Argentine government in June 1993. This issue was the largest single equity offering by a developing country and one of the world's largest privatizations. Elsewhere in Latin America, Mexican companies raised US$375 million in the international equity market through ADR/GDRs while Corporación Financiera del Valle launched the first ever international offering from Colombia through a depositary receipt facility.

The number of depositary receipt programs for Latin American companies continued to increase; by end-June 1993, the stocks of 67 Latin American companies traded internationally through ADR/GDR programs, 41 more than at end-1991. Latin American companies accounted for 16 out of the 29 depositary receipt programs established by developing country companies during the first half of 1993. Latin American companies that in the initial stages of market re-entry offered securities to U.S. institutional investors through the Rule 144A private placement market are now increasingly pursuing the option of listing securities directly on the public market.

Issuance activity by Asian companies in international markets rose sharply in 1992 to US$4.7 billion, and a further US$1.5 billion was raised in the first half of 1993. 2/ Companies located in China and Hong Kong remained the two leading groups of Asian issuers. While "B" shares listed in Shanghai or Shenzhen remained the main instrument used by Chinese companies to tap international investors, new instruments listed abroad have been introduced to broaden the investor base. Since 1992, several Chinese companies have floated shares in Hong Kong through Hong Kong-based subsidiaries and have generally been well received. To tap this investor base and help consolidate Hong Kong's position among financial centers, Chinese companies began issuing in July 1993 special international stocks or "H" shares that are listed on the Hong Kong Stock Exchange (HKSE). 3/ "H" shares allow direct investment in Chinese companies while providing international regulations and protection. Three Chinese companies listed shares on the HKSE in July; six others are scheduled to issue in the near future. Also, Brilliance China Automotive, a Chinese-owned offshore holding company, raised US$80 million in 1992 through the first Chinese equity issue

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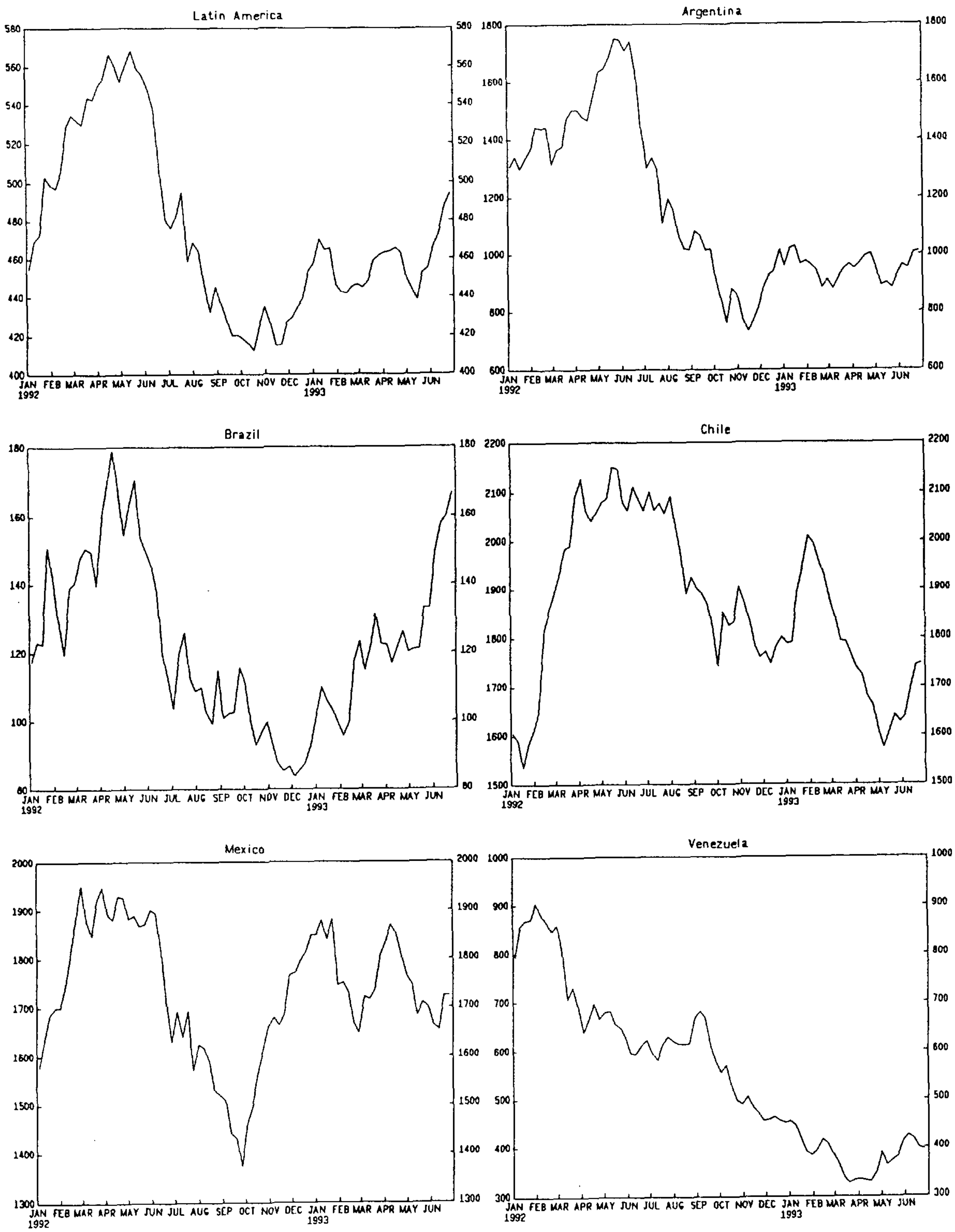
1/ See International Capital Markets - Developments and Prospects, and Key Policy Issues, Part II--Background Material on Systemic Issues in International Finance, SM/93/84, pp. 97-98, April 21, 1993, for further discussion of the relation between issuance in the bond and equity markets.

2/ Share price indexes for selected emerging markets in Asia are shown in Chart 5.

3/ These shares can also be listed on the New York Stock Exchange through depositary receipt facilities while maintaining a primary listing on the HKSE.

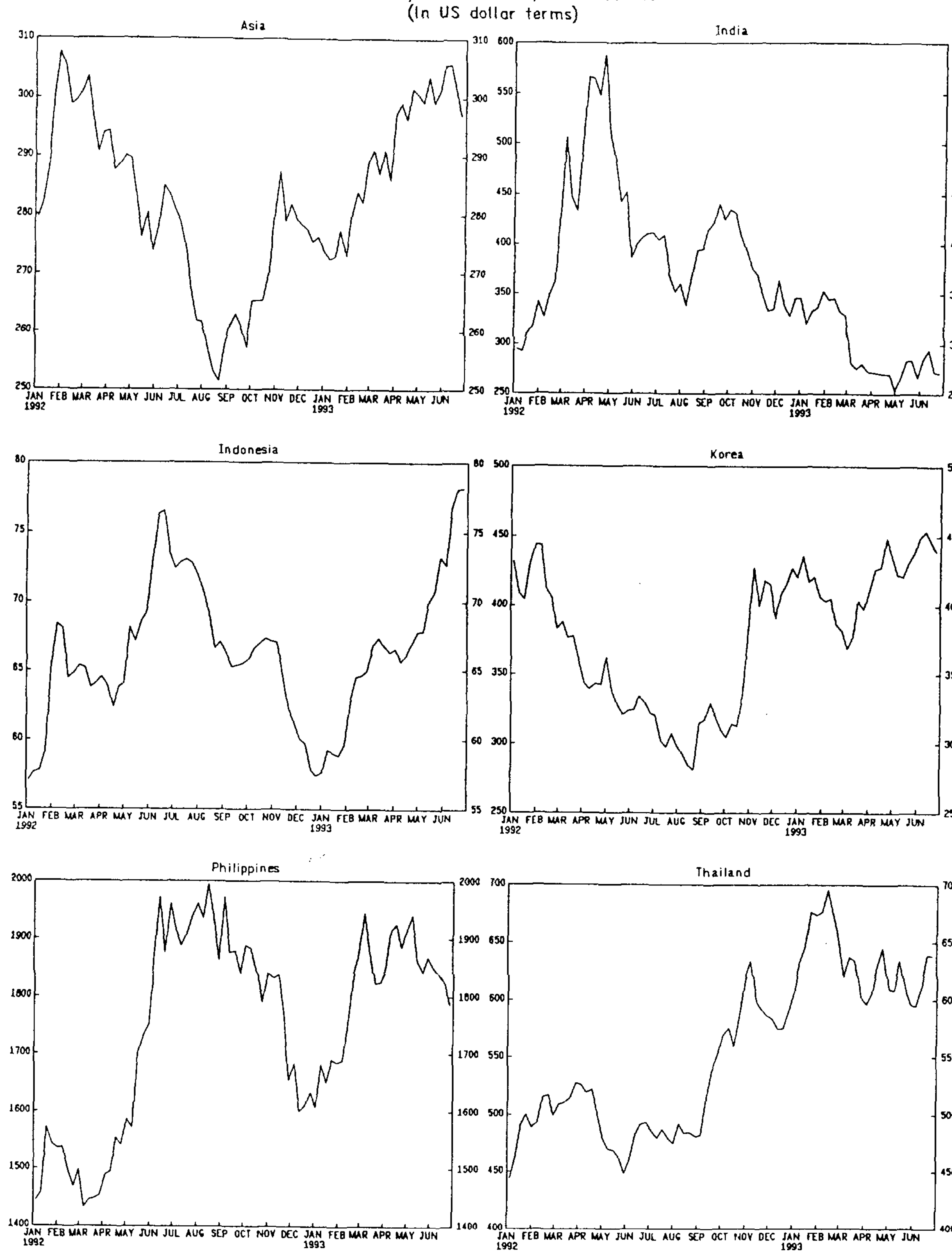
CHART 4
SHARE PRICE INDEXES FOR SELECTED EMERGING MARKETS IN LATIN AMERICA
IFC Weekly Price Indexes, End 1984=100
(In US dollar terms)



Source: IFC Emerging Markets Data Base.

CHART 5
SHARE PRICE INDEXES FOR SELECTED EMERGING MARKETS IN ASIA

IFC Weekly Price Indexes, End 1984=100
(In US dollar terms)



Source: IFC Emerging Markets Data Base.

listed on the New York Stock Exchange (NYSE). Elsewhere in Asia, Taiwan's Chia Hsin took advantage of a rally in the Taiwan stock market and raised US$72 million in May 1993 through a GDR issue. International equity issues by companies located in the rest of the developing world remained scanty; companies from Europe and Israel raised only US$194 million in 1992 and US$90 million during the first half of 1993.

For an increasing range of developing countries, cross-border equity flows have also occurred through direct purchases on local exchanges. Recent estimates suggest that secondary market purchases amounted to some US$12 billion in 1991 and US$14 billion in 1992, and that 28 percent of total international equity flows went to emerging markets in 1992 (up from 12 percent in 1991). 1/ This trend is reflected in secondary market trading. While ADR trades represented 89 percent of the transactions by international investors in developing country equities in 1991, by the fourth quarter of 1992 this share had declined reportedly to 47 percent. While comprehensive data are not available, country-specific information indicates that portfolio investment increased substantially in 1992 and the first half of 1993. 2/ For instance, net foreign investment in the Brazilian stock exchanges increased from US$0.6 billion in 1991 to US$1.7 billion in 1992 and US$1.3 billion during the first five months of 1993. Foreigners invested some US$2.1 billion in Korean equities in 1992, after having been allowed limited direct access to the stock market in January.

Issuance of shares in new closed-end mutual funds targeting developing country financial instruments (mostly equities) declined significantly during the first half of 1993 to a low of US$373 million, after having recovered somewhat in 1992 to US$1.4 billion. Investors have increasingly invested directly in local emerging markets or through ADR/GDRs instead of using mutual funds (Table 14).

3. Bank loans

Following a significant decline in bank loan commitments to developing countries in 1992, syndicated bank lending recovered somewhat in the first half of 1993, although banks continued to give emphasis to improving profitability and containing risk, including international exposure. As in previous years, access to syndicated bank credit was severely restricted for developing countries that had experienced, or are experiencing, debt-servicing difficulties. For these countries in particular, new lending has been limited mainly to short-term credit, project finance, or loans structured using a variety of risk mitigating techniques, including

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1/ See Howell, Michael et al., Small is Bountiful (London: Baring Securities, June 1993).

2/ From the limited evidence available, equity portfolio flows in the second half of 1992 seem to have been broadly sustained relative to the first half, notwithstanding the sharp drop in new issuance activity.

Table 14. Issues of Closed-End Fund Targeting Developing Country Emerging Markets

(In millions of U.S. dollars)

	1989	1990	1991	1992	First half 1993	1992 I	1992 II	1992 III	1992 IV	1993 I	1993 II
Developing countries	1,859	3,482	1,193	1,421	373	122	663	477	160	17	356
Global funds	76	36	253	137	338	--	101	36	--	--	338
Africa	--	--	--	--	17	--	--	--	--	17	--
Mauritius	--	--	--	--	17	--	--	--	--	17	--
Asia	1,417	1,895	213	870	18	122	316	341	91	--	18
Multicountry	487	602	--	22	--	--	--	22	--	--	--
Country specific	930	1,294	213	848	18	122	316	319	91	--	18
China	--	--	--	646	18	--	236	319	91	--	18
India	168	105	--	--	--	--	--	--	--	--	--
Indonesia	199	312	--	--	--	--	--	--	--	--	--
Korea	--	478	140	170	--	96	74	--	--	--	--
Malaysia	150	292	--	--	--	--	--	--	--	--	--
Pakistan	--	--	23	6	--	--	6	--	--	--	--
Philippines	253	--	--	--	--	--	--	--	--	--	--
Singapore	--	--	--	--	--	--	--	--	--	--	--
Taiwan	56	--	40	26	--	26	--	--	--	--	--
Thailand	105	107	--	--	--	--	--	--	--	--	--
Vietnam	--	--	10	--	--	--	--	--	--	--	--
Europe	136	976	--	122	--	--	53	--	69	--	--
Multicountry	45	841	--	--	--	--	--	--	--	--	--
Country specific	136	135	--	122	--	--	53	--	69	--	--
Bulgaria	--	--	--	--	--	--	--	--	--	--	--
Czechoslovakia	--	--	--	31	--	--	31	--	--	--	--
Hungary	80	100	--	22	--	--	22	--	--	--	--
Israel	--	--	--	--	--	--	--	--	69	--	--
Poland	--	--	--	69	--	--	--	--	--	--	--
Turkey	56	35	--	--	--	--	--	--	--	--	--
Western Hemisphere	230	575	727	293	--	--	193	100	--	--	--
Multicountry	178	203	440	181	--	--	81	100	--	--	--
Country specific	230	372	288	112	--	--	112	--	--	--	--
Argentina	--	--	56	--	--	--	--	--	--	--	--
Brazil	--	--	--	112	--	--	112	--	--	--	--
Chile	230	180	--	--	--	--	--	--	--	--	--
Mexico	--	192	132	--	--	--	--	--	--	--	--
Venezuela	--	--	100	--	--	--	--	--	--	--	--

Source: Lipper Analytical Services.

cofinancings with international financial institutions, official export credit guarantees, or asset securitization (discussed further in Chapter VI). Medium- and long-term bank loan commitments to capital importing countries declined from US$16.7 billion in 1991 to US$14.1 billion in 1992 and amounted to US$8.7 billion during the first half of 1993 (Table 15). 1/

Asia has continued to account for the bulk of total commitments to developing countries and China consolidated its position as the leading developing country borrower in this sector. New commitments to Asian developing countries dropped by US$3 billion in 1992, reflecting the reduced pace of borrowing by Indonesia and Korea. Loan commitments to the region recovered somewhat during the first half of 1993, mainly because Chinese entities stepped up their borrowing activity, raising some US$2.6 billion--150 percent higher than in the same period a year ago--on very favorable terms. Heavy foreign borrowing by Chinese entities accompanied rapid economic growth and facilitated a surge in domestic investment, including infrastructure and corporate investments, as well as real estate investment mainly in coastal areas. Thai borrowers also stepped up their borrowing activity as output growth accelerated and the external current account deficit widened; Thailand remained a significant focus for project financiers. In contrast, recourse to the syndicated bank loan market by Indonesia and South Korea was subdued in 1992 and during the first half of 1993. In Indonesia, new commitments have dropped markedly since the government set limits on off-shore borrowing in 1991, while in South Korea, a slowdown in economic growth, improved external current account performance, and stepped-up issuance in the international bond market have contributed to a decline in the pace of borrowing in the syndicated bank loan sector. In the Philippines, a pick up in lending activity was observed, particularly project finance for the power sector. Finally, India raised US$580 million during the first half of 1993, mostly for the Indian Oil Corporation through a series of short-term loans.

New commitments to European developing country borrowers remained subdued, amounting to US$2.1 billion in 1992 and US$1.3 billion during the first half of 1993. Turkey was the largest European borrower in the syndicated credit market, accounting for 86 percent of total commitments to the region in 1992 and about three fourths in 1993. Several deals were recently reported that show emerging interest in lending to East European borrowers, including through structured loans. Two countries actually made their debut in the international capital markets through straight syndicated loans. The Czech Republic established in February 1993 a US$200 million one-year revolving credit that carried an interest margin of 138 basis points above Libor, in order to strengthen international reserves. In July, the Republic of Slovenia made its debut in the international capital markets through a US$100 million three-year loan priced at 237.5 basis points above

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1/ These flows cover commitments that are not insured by official export credit agencies, as identified by the OECD.

Table 15. Bank Credit Commitments by Country of Destination, 1989 - First Half 1993 1/

(In billions of U.S. dollars)

	1989	1990	1991	1992	First Half 1992	First Half 1993
Industrial countries	97.61	95.48	80.88	92.23	44.75	53.65
Developing countries 2/	16.65	20.96	26.97	17.03	9.65	8.92
Capital-importing developing countries 2/	15.27	20.88	16.67	14.13	6.75	8.70
Africa	0.46	0.60	0.21	0.59	0.44	0.05
Algeria	0.24	--	0.06	--	--	--
Angola	--	0.04	--	0.33	0.33	--
Cameroon	--	0.10	--	--	--	--
Côte d'Ivoire	--	--	--	--	--	--
Ethiopia	--	0.31	--	--	--	--
Ghana	--	0.07	0.08	0.10	--	--
Morocco	0.01	0.05	--	--	--	--
Nigeria	--	--	--	--	--	--
South Africa	--	--	--	0.01	--	--
Tunisia	--	--	--	0.11	0.11	0.05
Zimbabwe	0.11	0.02	0.08	--	--	--
Other	0.10	--	--	0.04	--	--
Asia	8.21	12.02	13.56	10.51	4.51	6.82
China	1.61	1.51	2.33	2.74	1.04	2.60
India	1.38	0.72	--	0.20	0.11	--
Indonesia	2.35	3.92	4.95	1.77	0.80	0.63
Korea	0.75	1.95	3.46	1.82	0.79	1.33
Malaysia	0.11	0.53	0.22	1.18	0.62	0.70
Nauru	0.15	--	--	--	--	--
Pakistan	0.35	0.35	0.06	--	--	--
Papua New Guinea	0.03	0.12	0.26	--	--	--
Philippines	--	0.72	--	--	--	--
Taiwan	0.67	0.83	0.66	0.79	0.36	0.31
Thailand	0.83	1.25	1.63	2.00	0.75	1.25
Viet Nam	--	--	--	0.02	0.02	--
Other	--	0.12	--	--	0.02	--
Europe	4.05	4.87	1.90	2.08	1.17	1.30
Bulgaria	0.25	--	--	--	--	--
Cyprus	0.04	0.01	0.12	0.04	0.04	0.05
Czech Republic	--	--	--	--	--	0.20
Czechoslovakia	0.26	--	--	--	--	--
Georgia	--	--	--	--	--	0.02
Hungary	0.77	0.04	0.14	0.21	0.17	0.05
Turkey	1.68	1.84	1.64	1.80	0.96	0.96
Former U.S.S.R.	0.89	2.95	--	--	--	--
Other	0.16	0.03	0.12	0.07	--	0.02
Middle East	0.62	0.12	--	0.02	0.02	--
Egypt	0.50	--	--	--	--	--
Israel	0.12	0.12	--	0.02	0.02	--
Jordan	--	--	--	--	--	--
Other	--	--	--	--	--	--
Western Hemisphere	1.92	3.27	0.99	0.93	0.61	0.53
Argentina	--	--	--	--	--	--
Brazil	0.05	--	0.02	0.18	0.15	--
Chile	--	0.29	--	0.35	0.10	--
Colombia	1.64	--	0.20	--	--	--
Mexico	0.21	1.58	0.62	0.18	0.16	0.40
Uruguay	--	0.01	0.10	0.02	--	--
Venezuela	--	1.39	--	0.21	0.21	0.12
Other	0.02	--	0.05	--	--	0.01
Other developing countries	0.74	0.08	10.00	2.90	2.90	0.16
Kuwait	0.08	--	5.50	--	--	--
Saudi Arabia	0.66	0.08	4.50	2.90	2.90	0.16
Offshore banking centers	3.52	3.70	1.53	1.47	0.71	1.66
International organizations and unallocated	3.37	4.39	6.65	7.13	1.93	3.78
Total	121.15	124.52	116.03	117.87	57.04	68.01

Sources: Organization for Economic Cooperation and Development, Financial Statistics Monthly.

1/ Covers only medium- and long-term loans that are not insured by export credit agencies.
2/ Excludes offshore banking centers.

Libor. Proceeds of the loan are for general balance of payments purposes. Elsewhere, a US$20 million five-year term loan was established for the Republic of Georgia; structured offshore, the facility is secured on oil tankers. Part of the US$90 million debt element of a US$130 million gold mining project in Uzbekistan was syndicated in May 1993. In April 1993, Avto VAZ, a recently privatized car maker, became the first Russian company in decades to borrow internationally without government guarantee. The US$100 million revolving credit and medium-term loan facility is reportedly fully collateralized by the company's export receipts. The long-awaited syndication of the DM 400 million commercial loan tranche of the DM 1.4 billion package for the Czech Republic's Skoda began in June 1993. Finally, the first build-operate-transfer (BOT) financing for toll roads in Eastern Europe is being established. The Ft 32.5 billion (some US$375 million) transaction for Hungary involves a complex structure; return on equity and repayment of loans would be secured by toll revenues, while the EBRD would reportedly bear a large share of the project risk.

Recourse by borrowers from Latin America to the syndicated bank credit market continued to be limited, in sharp contrast with the region's position as the main borrower in the international bond market. Uninsured medium- and long-term commitments to the region amounted to US$0.9 billion in 1992 and to US$0.5 billion during the first five months of 1993. However, a series of loan facilities have been established that confirm renewed interest in lending to selected borrowers, including Chilean banks and corporates, and public sector oil exporters from Mexico and Venezuela. Also, several structured project loans were established, including a US$290 million limited recourse loan for Chile's Compañía Minera Candelaria and a US$56 million loan for a power project located in Colombia, the first Latin American private power project to be financed on a non-recourse basis. Also, a US$400 million five-year facility was established in June 1993 for a large Mexican mining company (Mexcobre); the facility is fully secured by exports of the company and is priced at 300 basis points above Libor. The deal was reportedly the largest for a Latin American private sector company since the early 1980s.

As commercial banks continued to give priority to containing risk and improving their profitability, lending terms generally hardened. For developing country borrowers, average interest margins for new commitments reached around 80 basis points in 1992 and rose further to 100 basis points in the first half of 1993, their highest level since the early 1980s (Table 16). At the same time, average maturities shortened from 7.6 years in 1991 to 6.7 years in 1992, and further to 6.1 years during the first half of 1993.

4. Other developments

Local currency-denominated fixed-income instruments have begun to attract significant attention from international investors. Initially, interest in this sector was mainly confined to Mexican government paper. Foreigners invested about US$6 billion in Mexican government paper in 1992,

Table 16. Terms of Long-Term Bank Credit Commitments, 1987-June 1993 1/

	1987	1988	1989	1990	1991	1992	Jan-June 1993
Average maturity (in years)	8.3	5.7	6.2	6.8	5.4	5.7	4.3
OECD countries	7.5	5.1	5.8	5.8	5.1	5.7	4.1
Eastern Europe	8.1	8.4	8.3	11.9	...	...	...
Developing countries	10.8	9.0	7.3	9.8	7.6	6.7	6.0
Other	5.6	6.5	8.8	7.7	3.5	6.9	5.5
Average spread (basis points)	43	35	56	54	79	85	81
OECD countries	34	31	54	51	80	86	78
Eastern Europe	24	30	49	50	...	...	...
Developing countries	69	65	68	66	75	80	100
Other	53	42	32	66	71	60	81
Memorandum (in percent)							
Six-month Eurodollar interbank rate (average)	7.30	8.13	9.27	8.35	6.08	3.90	3.36
U.S. prime rate (average)	8.21	9.32	10.92	10.01	8.46	6.25	6.00

Sources: Organization for Economic Cooperation and Development, *Financial Market Trends*; and IMF, International Financial Statistics (for Eurodollar and prime rates).

1/ The country classification and loan coverage are those used by the OECD.

mainly in Cetes (Mexico's federal government treasury bills). The internationalization of the investor base for Cetes continued in 1993; by mid-1993, foreign investment in Cetes totalled US$12.1 billion, about half of Cetes outstanding. On the back of strong perceived demand for Mexican peso-denominated debt instruments, Banamex, Mexico's largest commercial bank, presented in July 1993 the first Latin American peso-denominated Euro-medium-term note facility. The NPs1 billion program would have standard Eurobond features, and investors would pay, and receive interest and repayment in U.S. dollars. S&P assigned an A rating to the program.

A recent survey of institutional investors in the United States and Europe confirmed that Mexico is the only market in which there is significant local currency fixed income investment. 1/ Ninety percent of the institutions surveyed had holdings in Mexican Cetes and/or Ajustabonos (medium-term bonds with returns indexed to the consumer price index), while only 24 percent held local currency instruments in other markets. One fifth of the survey participants invested in Argentina and 10 percent held Venezuelan paper. In other regions, interest is reportedly growing in fixed-income instruments in Southern and Central Europe, while in Asia investment is largely concentrated in Malaysia, the Philippines, and Thailand. The internationalization of the investor base for local currency-denominated fixed income instruments has been helped by the recent assignment of investment grade ratings for such instruments.

IV. Institutional and Regulatory Framework for Developing Country Financing

This chapter provides information on developments in the regulatory and institutional framework for private capital flows to developing countries. The first section reviews recent reforms in the local capital markets of these countries, focussing on efforts to establish appropriate market structures and regulation as well as policy measures aimed at broadening the investor base. The second section provides information on recent changes in regulation in creditor countries affecting bank provisioning on lending to developing countries and these countries' access to international securities markets.

1. Reform of domestic capital markets

Recent experience confirms the lesson that attracting foreign capital to instruments traded primarily on developing countries' exchanges depends in large part on the development of local capital markets. International investors in these markets face risks related to illiquidity, lack of

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1/ Kleinman International Consultants, 1993 Emerging Bond Market Survey, (Washington, May 1993).

investor protection and the limited availability of information. Developing countries have continued to respond to such concerns over the past year with reforms to improve market systems, enhance financial regulation and supervision, improve accounting and disclosure standards, and build up the local investor base.

a. Market reforms

Efforts have continued over the past year in a number of developing countries to establish new securities markets where previously they did not exist. The momentum of reform in the Czech and Slovak Republics led to stock exchanges officially being opened in both Prague and Bratislava in April 1993. Initial trading has been limited due to uncertainties over transferability and pricing restrictions. Also, in April 1993 the Romanian government submitted a securities law to parliament which provided the legal framework for establishing a securities commission and stock exchange to be operative by early 1994. In early 1993, the Mongolian stock exchange introduced secondary trading of newly privatized companies and welcomed foreign investors to participate.

A number of countries have looked to integrate their existing stock markets. For example, in April 1993 the Superintendencia de Valores (SV), Colombia's securities regulatory commission, required the country's three stock exchanges to unify trading procedures and provide joint proposals for modernizing internal regulations. In the Philippines, a computer link-up between the stock exchanges of Manila and Makati took place in July 1993.

Many countries are endeavoring to enhance the reliability of their clearance and settlement procedures and to improve overall trading systems. As detailed in a recent report by IOSCO, modernization of clearing and settlement processes can help in accelerating the pace of development in emerging markets, 1/ while also laying the basis for strengthened regulatory monitoring. Colombia has recently established a central depositary and electronic clearing house for most financial market transactions, based on the Mexican and Chilean systems. In Pakistan, the Karachi and regional stock exchanges have created the country's first central security depository (CSD), which will act as a clearance and settlement center for nearly all equity transactions and a depository for fixed income securities. The Malaysian Central Depositary began operating scripless trading through computerized clearing and settlement, thus eliminating the transfer of physical share certificates, at the beginning of

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1/ Development Committee of the International Organization of Securities Commissions, Clearing and Settlement in Emerging Markets-A Blueprint, October 1992. The report is intended to provide a reference for emerging markets that are developing a centralized clearing and settlement system. Its framework is based on the recommendations contained in the Group of Thirty, Clearance and Settlement Systems in the World's Securities Markets, 1989.

1993. A number of countries in Eastern Europe are installing computerized systems. For example, a clearing and settlement system based on the French system was installed recently on the Warsaw Stock Exchange.

Recent years have seen an increasing role played by local market credit rating agencies. Such agencies improve the quality of information on domestic issuers and provide the basis for quality control by requiring a minimum credit risk rating for domestic issues. In a number of countries (including Argentina, Chile, and Colombia), there are no restrictions imposed on foreign credit risk agencies interested in establishing themselves in the local market and a number of joint ventures have been established. In Chile for example, under the new capital market reforms introduced in January 1993, the National Ratings Commission (CNCR) no longer provides its own ratings, but only has to approve those of private risk rating agencies. In response, two of Chile's largest credit rating companies have established, or are in the process of establishing, joint ventures with foreign firms. In addition, capital markets' legislation was amended to reclassify agencies' rating systems to be in line with internationally used standards. In June 1992, the Comision Nacional de Valores (CNV), Mexico's regulatory commission, reduced the minimum value of commercial paper requiring risk evaluation in the Mexican securities markets. In late 1992, Argentina's CNV issued new regulations requiring that debt instruments (including corporate bonds and commercial paper) issued by domestic firms carry at least two risk ratings by credit agencies.

Several countries have recently allowed foreign ownership of local securities businesses. This can promote the development of the local market on a number of fronts, including the introduction of information systems and technology as well as by providing a familiar name to attract otherwise wary foreign clients to the market. In Mexico, recent legislation allowed foreign investors to own up to 30 percent of the total capital of securities firms and financial groups and up to 49 percent of Mexican insurance companies. Taiwan's securities and exchange commission allowed foreign firms to operate securities businesses, serve as brokers, and sell securities for commission from early 1993.

Few developing country markets have yet introduced sophisticated instruments such as warrants, futures and options. Without adequate liquidity in the cash market for the underlying instruments, the introduction of such derivative instruments could well be destabilizing to the financial markets. That said, such instruments are often attractive to foreign investors, who are familiar with such instruments and see their potential to reduce risks involved in holding assets with volatile prices. As a result, over-the-counter trading in derivatives on the larger and more liquid stocks has developed in off-shore markets, and some exchange-traded products have been introduced. 1/ Following these developments off-shore,

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1/ For further information see "Private Market Financing for Developing Countries," SM/92/162, August 14, 1992.

some developing countries have moved to introduce derivative products in their own markets. The Mexican CNV approved the issue of warrants in 1992 as a first step towards the prospective introduction of a futures and options market. Early in 1993, Chile's main securities regulator gave its approval for options trading. From January 1993, the Taiwanese Government approved the purchase by domestic investors of futures traded on international exchanges as part of a three-stage program to develop the country's domestic futures trading capability. The Hong Kong Futures Exchange and the Hong Kong Stock Exchange plan to introduce stock index derivatives during 1993 and options trading on the domestic Hang Seng Index was launched in March 1993.

In an effort to expand the product range, the Mexican Stock Exchange has opened a second-tier market to trade stock of mid-sized domestic companies. The disclosure requirements are less stringent than for first-tier stocks and are aimed to encourage listing of mid-sized firms. The first second-tier issue was authorized in May 1993. The Mexican CNV also permitted the securitization of mortgages at the end of 1992. Mortgage securitization can offer a means to broaden the attraction of fixed-income securities as well as increase the availability of home financing, including by attracting foreign funding.

For maturing local markets, the trading of international securities, can enhance the range of options to domestic investors, as well as consolidate and increase the competitiveness of the local financial markets vis-à-vis regional and other international competitors. In this respect, Hong Kong and Singapore have long established roles as regional sources of capital funding and centers of intermediary activity. This in large measure reflects the high rates of saving, relative wealth, and concentration of financial expertise. 1/ More generally, such intra-regional flows are likely to grow in importance, as incomes rise, local financial centers grow in sophistication, and regulatory harmonization continues, and a number of other countries have recently taken steps to encourage increased trading of international securities. In Taiwan, the SEC recently allowed foreign companies listed on the New York, Tokyo and London stock exchanges to issue shares in the form of depository receipts. Under new legislation, Mexico has opened its market to foreign securities. Although it is not expected that the market will necessarily attract interest from the United States, it is likely to appeal to issuers from countries within the region with shallower markets.

1/ For further information see, International Capital Markets--Development and Prospects, and Key Policy Issues, Part II--Background Material on Systemic Issues in International Finance, SM/93/84, April 21, 1993.

b. Regulatory structures

According to a recent survey conducted by the Development Committee of the International Organization of Securities Commissions (IOSCO) on disclosure requirements in developing markets, most developing countries appear to meet a minimum standard. Over 90 percent of countries reported that new issuers were required to provide information on a continuing basis to a regulator or self-regulatory organization. Almost 90 percent required that financial information included in a prospectus be audited according to domestic standards. 1/

Not withstanding these results, several countries have taken action to raise disclosure requirements and accounting and listing standards. Legislation recently introduced in Mexico aims at tightening rules on information, disclosure and accounting procedures. In particular, mutual funds are required to disclose more information on investment, valuations and repurchase policies. As of the beginning of 1992, new regulations issued by Argentina's CNV required all securities quoted in foreign markets (such as through ADRs) to publish annual and quarterly reports in English, and to express figures in dollar terms. All locally publicly traded companies have also been encouraged to do the same. Since July 1992, the Caracas Stock Exchange in Venezuela began requiring that all listed companies provide quarterly financial statements. In Thailand, public corporations awaiting privatization must for the first time in 1993 disclose financial accounts subject to formal standards, including public audits.

Many developing countries suffer from problems related to inadequate surveillance and enforcement of insider trading, which can be a serious deterrent to foreign investor involvement. According to a study by the IFC, out of 22 emerging markets, only six countries--Brazil, Chile, India, Korea, Malaysia, and Mexico--have investor protection laws of internationally acceptable quality. 2/ A few emerging market countries do not even have an agency for regulating stock market activities. To a large extent, weakness in this area reflects the concentrated ownership structure as well as different customs and laws of the country. A number of countries are taking action to improve regulatory oversight in this area. In response to developments during 1992, India's Securities Exchange Board has been given greater power to conduct insider trading investigations. In Malaysia, the recently established Securities Commission provides a more cohesive regulatory body whose responsibilities had previously been split between the Capital Issues Committee and the Register of Companies. As of March 1993, Argentina's CNV stipulated that only financial intermediaries that belong to a self-regulating organization approved by the CNV can participate in public offerings of securities or in futures, options and other derivatives

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1/ "International Securities Regulation Report," Volume 5, No. 23, November 3, 1992. A total of 27 developing countries were covered.

2/ See IFC, Emerging Markets Factbook, 1992.

trading. Effective from August 1993, Ecuador has established a securities commission, to regulate the domestic securities market and underwriting activities.

In May 1993, China issued its first securities regulations since 1949, responding in part to the planned flotation of state-owned firms on the Hong Kong Stock Exchange later this year. After consultation with Hong Kong, the regulatory structure is to be applied to the domestic market ("A" shares) and to the Hong Kong flotation ("H" Shares). (As yet, China's "B" shares for foreign investors, listed on the Shanghai and Shenzhen exchanges, do not necessarily receive the same level of protection). Under the new regulations, companies wishing to float new issues must have net assets above a given level, have been profitable for at least three years, and must appoint underwriters for flotations in excess of 30 million yuan (approximately US$5.3 million). The securities framework requires that companies disclose price-sensitive information to the regulatory authorities, the Securities Commission under the State Council.

Several countries have worked towards greater international cooperation and harmonization of regulatory matters as a way of strengthening their domestic institutions. These efforts can be divided into two groups, those that concentrate on regulatory and tax harmonization, and those that primarily aim to promote information sharing.

Within the first category, of note has been the creation in 1992 of the Council of Securities Regulators of the Americas (COSRA). 1/ Its charter explicitly focuses on establishing acceptable accounting and disclosure standards, codes of conduct, and appropriate means of enforcing standards. The intention is also to promote information sharing, to facilitate and broaden participation in the securities markets, and promote investor interest in privatization.

Agreements to share market information are advancing rapidly. The New York Stock Exchange has signed information-sharing and memorandum of understanding agreements with stock exchanges or regulatory authorities in 13 countries in Europe, the Far East and Latin America. These agreements provide for sharing of information on stock prices, clearing data, and other regulatory information, and in some cases have promoted the development of cross-border investing by allowing derivative products to be introduced in the United States based on stocks listed on the domestic exchange. 2/ In

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1/ Membership includes the securities commissioners of Argentina, Bolivia, Brazil, Ontario and Quebec, Canada, Chile, Colombia, Costa Rica, El Salvador, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, the United States and Uruguay.

2/ The memorandum of understanding signed between the Bolsa de Comercio de Buenos Aires (BCBA), the New York Stock Exchange, and American Stock Exchange allows derivative products to be introduced in the United States based on stocks listed on the BCBA.

mid-1993, Colombia's Superintendencia de Valores signed memoranda of understanding with its counterparts in Paraguay and Argentina. In particular, these MOUs provide for exchange of information on laws governing their respective capital markets and are specifically intended to promote the harmonization of regulatory issues.

c. Broadening the investor base

While financial sector reforms have been instrumental in mobilizing both foreign and domestic savings, countries have also undertaken specific policy measures to broaden the investor base. These include liberalizing foreign investor access, the creation and promotion of contractual saving schemes, and privatization.

Continuing the trend of recent years, a number of countries have taken action to liberalize access of foreign investors to emerging securities markets. In September 1992, India allowed foreign institutional investors (FIIs), including pension and mutual funds, investment trusts and asset management companies, to invest directly in India's capital markets. Previously international holdings of Indian equities had been very limited. At the same time, the tax environment was made more conducive to foreign involvement by reducing taxation on dividends and capital gains applied to foreign institutional investors. Early in 1993, Malaysia lifted its 30 percent foreign shareholding limit on manufacturing companies that have gone public. In March 1993, the Philippine government announced that foreign investors could repatriate cash dividends without getting central bank approval. The move followed the virtual removal of all restrictions on current and capital account transactions undertaken in 1992. In January 1993, Ecuador's new investment law "equalized the rights" for foreign investors with those of nationals. Under the law, foreign investors only have to register their investment with the central bank--before, authorization was required in as many as seven offices--and all restrictions on profit repatriation were removed. Chile recently approved the reduction in the minimum time period before capital can be repatriated from three years to one year.

Several developing countries have looked to contractual saving schemes as a means to promote national savings to satisfy long-term development aspirations, as well as promoting growth of a local investor base.

In Singapore, the Central Provident Fund (CPF) has long had an important role in domestic capital markets. 1/ In the past, rules on allocation of investment have limited investor portfolio choices. Changes to take place in September 1993 will allow diversification of investment in

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1/ The CPF represents a compulsory pension scheme whereby 22 percent of an employee's wages are saved and the employer contributes a further 18 percent.

selective blue-chip stocks and real estate. In part, this move has been influenced by the planned privatization of heavily capitalised government-linked companies.

Chile was one of the first countries in Latin America to switch successfully from a pay-as-you-go social security system to a fully funded pension scheme in 1981. 1/ Under the system, employers are mandated to deduct 10 percent of employee's pay to be placed with a privately managed pension fund (Administradoras de Fondos de Pensiones--(AFP)) of the employee's choice. The system is subject to relatively tight regulatory control particularly in terms of investment structure, which has led to funds having virtually identical portfolios. 2/ Nevertheless, the AFPs' performance has been good with the real rate of return averaging 15 percent per annum since their inception in 1981 and has undoubtedly been a key element in the development of the local capital market. The current strong capital inflows has prompted a recent revision in legislation to allow a higher proportion of investments to be held in foreign assets.

Other Latin American countries increasingly are looking towards fully funded pension systems as a means of raising domestic savings and enlarging the local capital markets. In May 1993, Peru launched a private pension fund system, resembling that of Chile, although legislation is based on a voluntary system for all private-sector workers. Under Peru's foreign investment laws, foreign ownership of the AFPs is permitted, which has encouraged a number of Chilean companies to enter the sector. Mexico recently introduced legislation to create a private pension system that will operate alongside its social security scheme, to be fully effective by the end of 1993. In Argentina, a bill to create a private pension system is currently under consideration by the legislature.

While the principle motivation for privatization is usually the expected efficiency gains, such programs can also provide a more attractive environment for foreign investment by broadening the range of financial assets available. It is estimated that roughly a quarter of total privatization proceeds in developing countries, amounting to more than US$50 billion over the period 1988-92, was financed by external capital flows, with the balance accounted for by debt/equity conversions and local financing. 3/ The extent to which privatization fosters foreign investment will in part reflect the program's design. The method of

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1/ Generally, under a fully funded scheme the contributor receives benefits funded from contributions and capital and interest earned. Under pay-as-you-go social security schemes, current benefits are paid from current contributions.

2/ The strong regulatory controls in large part reflects the fact that the government guarantees participants a minimum pension.

3/ Development Committee paper, "Developing Country Access to Private Capital Flows," May 1993.

privatization used by countries has taken various forms including: (i) public offerings, (ii) direct sales, (iii) debt-equity swaps, and (iv) auctions by use of a distributed voucher system.

Public share offerings can generally be made directly available to foreign investors, subject to the foreign investment legislation of the country. 1/ The recent US$3 billion global offering of YPF, Argentina's national oil company, provided a good example, with US$2.1 billion of the offering being placed in international markets. Mexico's extensive privatization program has also attracted substantial foreign involvement as well as laying the basis for subsequent capital market access by newly privatized companies. By contrast, foreign investor participation in Brazil's privatization program has been reportedly quite limited. 2/

Direct sales of entities to a foreign investor group have typically been strategically based companies, such as telecommunications, power utilities and airlines. The benefits of attracting international companies to operate privatized corporations often include the introduction of experienced management and the latest technology in sectors that may well have suffered from protracted under investment. For example, in Argentina in early 1993 an international consortium took over the Buenos Aires water and sewage system. Early in 1993, the Hungarian state airline, Malev, was purchased by Alitalia.

Privatization by use of debt-equity swaps implies a reduction in external debt and not necessarily an immediate increase in net foreign investment (although second round investment is likely to take place). For example, debt/equity swaps involved in the privatization of the Argentine telephone company and airline in 1990 allowed the retirement of US$5.2 billion and US$1.3 billion respectively in external debt.

Privatization through the issue of vouchers to citizens has predominantly taken place in Eastern Europe and the FSU, in an attempt to distribute state assets quickly, with equality and a wide distribution of share ownership seen to be key considerations. Particularly in the Czech and Slovak Republics, Poland and the Russian Federation, international investors have effectively been excluded from the initial distribution, while subsequent acquisition has been hampered by the rudimentary stages of the local equity markets. Under Poland's privatization program, at least thirty percent of enterprises have usually been reserved for Polish citizens using vouchers while international investors have been able to purchase up to 10 percent without any special government authorization. Hungary has on the whole been more open to foreign investment than Poland, and has sold

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1/ For country by country details on limitations on equity participation by foreign investors see Sudarshan Gooptu, "Portfolio Investment Flows to Emerging Markets," World Bank working paper WPS 117, March 1993.

2/ Financial Flows to Developing Countries, The World Bank, April 1993.

strategic companies to foreign buyers. To date, approximately 60 percent of Hungary's State Property has been paid for in foreign currencies equivalent to US$800 million.

2. Regulatory changes in creditor countries

a. Provisioning standards

Over the past year, regulatory authorities in a number of creditor countries have continued to review the provisioning requirements set on commercial bank lending to developing countries in response to the improved performance and prospects of several of these countries that had previously experienced debt servicing difficulties. Some countries--such as Chile and Mexico--have been removed from provisioning requirements altogether, and provisions have been lowered. In addition, some creditor countries have modified the framework within which provisioning requirements are set to allow greater differentiation among debtor countries (Table 17). 1/ Following these changes, most of the major creditor countries now have regimes that provide for provisioning levels to reflect improvements in creditworthiness on a timely basis.

The regulatory authorities in Belgium revised their provisioning framework to reflect more closely the variations in creditworthiness among countries. Effective January 1993, the fixed cover ratio of 60 percent previously applied uniformly on exposure to a group of 47 countries has been replaced by cover ratios of 20, 35, 50, and 60 percent applied to four groups of countries. The country groupings are determined according to a country-risk scoring system which evaluates each country's debt servicing capacity within a macroeconomic context, as well as taking into account political factors. The provisioning levels are reviewed and revised as appropriate on a bi-annual basis.

In the United Kingdom, the Bank of England recently announced revisions in its provisioning guidelines, commonly known as the "matrix," effective from July 1, 1993. The revisions are aimed both at simplifying the system and at making the matrix more responsive to the changing circumstances of individual countries. The recommended provisioning bands have been replaced with a recommended minimum provisioning level and a continuous relationship has been introduced between the matrix score and the minimum provisioning level. It is now recommended that provisions are appropriate once a score of 30 or more is reached (this compares with 10 previously). To enable a swifter response to changing circumstances, the previous method based on a five-quarter moving average of matrix scores has been replaced by the use of only the latest score in all situations.

1/ For further information on regulatory practices in creditor countries and the procedures by which developing countries may "graduate" from the need for creditor banks to make provisions, see Private Market Financing for Developing Countries, SM/92/162, August 14, 1992.

Table 17. Provisioning Regulations Against Claims on Developing Countries

Country	Provisioning Regulations	Process for Graduation	Actual Range of Provisioning 1/ (end 1991)	Trade/Interbank Claims Guaranteed OECD Export Credit Agency	Collateralized Claims 2/	Sub-Participation of Official Agency/ IFI's	Country Discrimination 3/
Belgium	Mandatory: 20, 30, 50 and 60% on 4 groups of countries	Provisioning levels reviewed semiannually	55%-100%	Trade credits to limit of 12 months exposure base (provisioning required on non-performing trade credits with arrears of more than six months)	That part of the claim which is legally secured by a cash deposit, or securities issued is exempted	Participation in "B" loans of the IFC and in cofinancing transactions of the EBRD are exempted	Yes
Canada	Mandatory: Minimum 35% to 46 countries	Country removed after lapse of 5 years since previous rescheduling 4/	69%	No specific guidance on allocation of provisioning by type of credit	Exclusion for OECD government securities used as collateral on principal 5/	No specific guidance	No
France	Mandatory: Average 55% to about 80 countries 6/	Country considered for removal from basket if banks consistently reduce provisioning for the country	57-63%	Exposure base includes short-term interbank claims but excludes short-term trade credits and those guaranteed by OECD export credit agencies	For collateralized principal, provisioning considered unwarranted	On a selective basis, some loans with sub-participation are excluded for provisioning purposes	No
Germany	Voluntary 7/	Not applicable	60-85%	Case-by-case 8/	Case-by-case 8/	Case-by-case 8/	Yes 8/
Japan	Indicative: 30% to undisclosed basket of countries 9/	Country removed from basket after 5 years have lapsed since previous rescheduling	30%	No specific guidance on allocation of provisioning by type of credit	Present value of collateral on interest or principal taken into consideration	No specific guidance	No
Netherlands	Mandatory: 10-90% against approximately 40 countries	Provisioning levels reviewed semiannually	40-50% 10/	--	--	Case-by-case	Yes
Switzerland	Indicative: 5-100% against approximately 90 countries	...	60% 10/	Banks may individually decide on the level of provisions for short-term credit	For collateralized principal provisioning considered unwarranted	Case-by-case	Yes
United Kingdom	Indicative: Bank of England guideline; 5%-100% on approximately 55 countries 11/	The matrix allows for regular re-assessment which can lead to lower recommended provisioning range	56-84%	If a credit is considered to have a higher probability of repayment, notably in the case of short-term credits and inter-bank claims, these are treated more favorably or can be excluded altogether from the calculated exposure base	Case-by-case	Some loans with sub-participation are excluded for provisioning purposes	Yes
United States	Indicative/Mandatory: On loans that are evaluated value impaired	The ICERC meets 3 times a year to review country rankings and status of value-impaired countries	33-74%	Provisioning is required on all loans except performing trade and inter-bank credits	Collateralized principal is factored into calculation for reserve requirement	Considered on a case-by-case basis	Yes

Source: National Authorities; press reports; and World Bank Technical Paper No. 158.

1/ In percent of relevant exposure; numbers indicate range for major banks.
2/ Indicates under what circumstances the assessment of exposure is adjusted for collateralized claims for provisioning purposes.
3/ Indicates which regulatory authorities assess the exposure base by individual country performance.
4/ The time period can be reduced to two years if the country can demonstrate an ability to raise new funds on a voluntary unsecured basis on the international capital markets.
5/ A one-for-one adjustment is made (i.e. if collateral only partially covers asset, the uncovered portion is factored into the calculation for total exposure requiring provisioning).
6/ Mandatory target is set by industry average of previous fiscal year.
7/ Adequacy judged against industry average.
8/ Banks individually determine the requirement for provisions in liaison with their external auditors. In this context, allowance can be made by credit type and by country risk.
9/ Until March 1991, the 25 percent level represented a maximum statutory cap. Although this is no longer the case, level is set to provide an indicative guideline.
10/ Latest data available end 1990.
11/ The Bank of England does not instruct provisioning against a set list of countries; this is left up to individual banks to determine using the Banks matrix criteria.

The regulatory authorities in Switzerland have also revised the provisioning guidelines that they provide to commercial banks. Originally, the authorities recommended that banks cover 65 percent of their exposure on approximately 70 countries. A new system to be introduced over the course of 1993 provides country-by-country recommendations on provisioning levels, ranging from 5 to 100 percent. The levels are evaluated on the basis of economic and political risk factors in each country.

b. Securities markets

A number of recent developments in creditor countries' securities markets may potentially affect investment in developing countries. In September 1992, the London Stock Exchange introduced a new developing markets section on SEAQ International, the exchange's price information system for international equities trading, including companies from Asia, Eastern Europe, and Latin America. For a security to be quoted on the section, at least two market-making securities firms must provide competing quotations. The U.S. Securities and Exchange Commission (SEC) is considering amending rule 17f-5 of the Investment Company Act of 1940. The rule stipulates that for investment companies covered by the act, foreign custody can only be provided by banks or trust companies with a minimum of US$200 million in shareholder equity. The SEC is currently reviewing the rule and may possibly reduce the US$200 million requirement. The rule particularly affects mutual funds, which have been among the first institutions to invest in emerging markets.

V. Re-entry to International Securities Markets: Markets: Lessons from Recent Experience

As described in Chapter III, a number of developing countries--including countries that had experienced acute debt servicing difficulties in the 1980s--have recently regained access to private market financing, generally through the international securities markets. This chapter reviews this experience with a view to identifying broad patterns and some of the key issues to be considered by countries that are in the early stage of (or are considering) market re-entry. The first section presents a general analysis of the dynamics of market re-entry. The following sections discuss the pattern of re-entry in the main market sectors used by developing countries. At the outset, it should be emphasized that conclusions about the effectiveness of various re-entry strategies are necessarily tentative. The modalities of market re-entry observed in the late 1980s and early 1990s reflect in part the particular international environment of the time--including the level of U.S. interest rates and investors' receptiveness to non-investment grade securities--and these conditions may change. Moreover, the pattern of market re-entry will depend on each country's specific circumstances.

1. Dynamics of market re-entry

During the 1980s, voluntary financing for developing countries was highly constrained by investor concerns regarding economic and political fundamentals. Conversely, the subsequent restoration of market access has been related in large part to borrowers' ability to address international investor concerns with the risk of default by the individual borrower (credit risk) and the risk that foreign exchange will not be available to meet debt-servicing obligations (country transfer risk). A number of factors have contributed to this sharp turnaround in international investors' sentiments. Re-establishing credibility with foreign investors has hinged critically on a combination of sound macroeconomic policies centered around fiscal consolidation with market-oriented structural reforms. 1/ The resulting trends toward more stable macroeconomic environments and increasingly dynamic private sectors have persuaded investors that developing country borrowers are in an improved position to service their new debt and, in the case of private sector debt, to obtain the foreign exchange needed for debt service.

For countries that had debt servicing problems in the 1980s, market re-entry has also typically depended on progress toward normalizing relations with existing external creditors and reducing concerns about existing indebtedness. For most of these countries, market-related debt packages were either completed or negotiations were well-advanced at the time of re-entry, and in all cases the subsequent record of servicing restructured claims has been solid. An additional factor that has facilitated re-entry in the wake of debt operations has been that the restructurings involved a securitization of old debt, which laid the basis for the emergence of a liquid secondary market for high yielding developing country instruments that has attracted new investors that had not previously invested in developing country securities. 2/ Moreover, to the extent that securitization has contributed to the upward trend in prices of existing debt on the secondary market, the yield on new debt instruments required to attract investor interest may be reduced, thus facilitating market re-entry.

While improvements in the economic performance of developing countries have been of key importance, the recent surge of capital flows to developing countries has also reflected in part a relatively favorable environment in

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1/ Such policies have justified investment grade credit ratings for an increasing number of developing countries (see Chapter III) which has encouraged the involvement of new investor groups, including mainstream institutional investors subject to risk-level cutoffs.

2/ The securitization of bank claims enhances the transferability of debt instruments ("Brady" bonds clear through Cedel and Euroclear) and can broaden the investor universe as a number of institutional investors are limited by their statutes to investing in market-traded securities.

global financial markets. 1/ A relatively prolonged period of slow economic growth in industrial countries has dampened the demand for investment funds in many of the major markets and contributed to declining interest rates. Investor interest in the relatively high returns offered by developing countries was also encouraged by the demise of other high-yielding sectors such as the junk bond market in the United States and property markets more generally.

Market re-entry by developing country borrowers has typically been through the international securities market and the supply of funds has been dominated by nonbank investors, while bank lending has to date remained limited. This pattern has reflected both global trends toward disintermediation and securitization of financing, 2/ as well as the realization that developing countries had generally maintained an excellent record in servicing bond issues throughout the 1980s, while equity was also typically given preferential treatment once the immediate foreign exchange crisis was over.

Beyond these common features, it would appear that the pattern of market re-entry has depended on particular country circumstances and on market conditions. For instance, the existence of a large pool of flight capital facilitated market re-entry by the main Latin American borrowers, while its absence in many Central and Eastern European countries might constrain their re-entry. Also, the implementation of extensive privatization programs in Latin America has created new opportunities and helped attract large investment flows from abroad, while privatization in Central and Eastern Europe has not attracted sizable international portfolio investments, reflecting in part the absence of international share flotation. Finally, the successful experience of early re-entrants, including Mexico, has facilitated re-entry by other developing countries.

1/ See Calvo, Guillermo et al., "Capital Inflows to Latin America: The 1970s and 1990s," WP/92/85, issued on 10/30/1992 for a more detailed examination of the relative importance of "push" and "pull" factors in explaining recent private capital flows to developing countries.

2/ See International Capital Markets--Developments, Prospects, and Key Policy Issues, Part II: Systemic Issues in International Finance, EBS/93/63, issued on April 20, 1993 and SM/93/84, issued on April 21, 1993.

Other Latin American re-entrant countries have benefitted from the trail blazed by Mexico, as the capital gains made by early investors in Mexico led to perceptions that similar returns could be achieved elsewhere. 1/

2. Debt instruments

To date, the international bond market has been the main avenue for market re-entry by developing countries. Typically, the re-entry has been led by the sovereign borrower or another high-profile public sector entity. The sovereign borrower led market re-entry in the cases of Argentina, Chile, Colombia, the Czech Republic, the Philippines, South Africa, Trinidad and Tobago, Uruguay, and Venezuela. In contrast, public sector banks or enterprises launched Brazil's and Mexico's debut issues in the international bond market. Once the trail had been blazed by the country's best-known credits, the range of borrowers generally has expanded with a parallel move down the credit rating spectrum. In all cases, the public sector has paved the way for private sector borrowers and helped establish benchmarks, with private sector issues typically being priced 200-300 basis points above comparable public sector issues.

During the initial phase of the re-entry process, debut issues by countries that had experienced debt servicing problems were generally short-dated high-yielding notes issued in a small amount. 2/ Mexico's re-entry began in June 1989 with a US$100 million Euronote issue by Bancomext, with a 2 1/2 year average maturity, and priced to yield 820 basis points over the yield on comparable U.S. Treasury bonds. The Republic of Argentina re-entered the market in 1991 with a US$300 million two-year note issue (with a put option after one year) priced to yield 510 basis points above U.S. Treasuries. High yields paid on debut issues were accepted as an entry cost needed to entice investors into unfamiliar territory and proved to be

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1/ Brazil has been successful in regaining access to international securities markets despite limited progress toward better macroeconomic performance. While very high yields have had to be offered to attract investor interest--reportedly mostly flight capital--, Brazil's re-entry has also been facilitated by increased investor confidence in an economy that is perceived as presenting considerable growth potential, including because of the dynamism of Brazil's private sector. For a more complete discussion of Brazil's experience, see "Re-entry to International Securities Markets," in "Brazil-Recent Economic Developments," SM/93/125 (June 15, 1993).

2/ Short-term debt instruments (Euro-certificates of deposit and Euro-commercial papers) have also been important avenues for market re-entry. Since 1990, a number of Latin American banks and corporates have issued short-term debt instruments in the Euro-markets, raising some US$13-15 billion. These instruments were well suited for re-entrant borrowers and provided simple, flexible, and relatively inexpensive access to international capital markets. As in the case of debut bond issues, investors were attracted by high yields, short maturity, the anonymity associated with bearer instruments, and simple settlement procedures.

effective "ice-breakers." As investors became more comfortable with re-entranc countries' performance and prospects, subsequent issues have usually been on more advantageous terms. Spreads have been reduced sharply, to around 200 basis points in the case of Mexico, and maturities lengthened up to ten years. In certain cases, the improvement in terms was facilitated by the authorities' management of the re-entry process. For instance, to reduce the risk of saturating the markets, the Mexican authorities carefully phased the successive bond issues by the public sector and limited the amount placed.

Developing countries that have recently regained market access--such as the Czech Republic, Uruguay, and the Philippines--have benefitted from the track record established by earlier re-entrants and were able to re-enter with issues carrying significantly lower yield spreads. However, the improvement in borrowing terms during the consolidation phase has not been without hiccups, and new borrowers need to continue to price new deals cautiously to ensure smooth placement of bonds and set favorable precedents for subsequent issues.

A number of non-sovereign borrowers have used credit enhancement techniques to address market risk concerns in the early stage of market re-entry. Such techniques include collateralization, early redemption options ("put" options), and bond-equity conversion options. These techniques have proven useful comforters for borrowers whose credit-worthiness was not deemed by itself sufficient to warrant access to international capital markets. A number of more creditworthy borrowers have also used collateralization in order to lower borrowing costs significantly compared to what would have been possible under the originator's name. Mexican borrowers, who spearheaded the re-entry process, made heavy use of collateralization techniques in the early stages of market re-entry. 1/ From June 1989 through December 1990, asset-backed offerings accounted for about 54 percent of total Mexican bond placements. Several Brazilian borrowers and a few Argentine and Venezuelan private sector borrowers also securitized export receivables in the early stages of market re-entry.

1/ For instance, Telmex used AT&T receivables to collateralize its debut issue in 1989. Telmex raised US$320 million of five-year bonds priced at only 165 basis points above reference rates, compared to the spread of 820 basis points for Bancomext's debt issue four months earlier.

The most common form of enhancement used during the initial phase of market re-entry was the securitization of future streams of export receivables. 1/ Future payment streams sold under such schemes included AT&T receivables, credit card receivables, and merchandise export receivables. In addition, a few private sector borrowers have also secured their claims through existing assets including bank deposits offshore and oil fields. Over time, in countries where market concerns with transfer risk have been reduced, the structure of enhancements has evolved to include domestic receivables, including mortgage-backed securities and notes backed by prospective toll-road revenues.

Setting-up collateralization structures has typically been quite costly and time consuming. Moreover, developing country borrowers and country authorities have generally been aware that extensive and continued use of collateralization techniques is best avoided. By pledging existing assets or future receipts, borrowers may jeopardize their financial flexibility, with potentially adverse implications in the event of short-term liquidity problems. Moreover, credit enhancements may lessen the relative status of creditors with unsecured claims. Widespread use of these techniques at a national level may have detrimental contagious effects, potentially forcing other borrowers in the country also to collateralize their issues to have access to new financing.

Early redemption options also have been used to attract investors who were initially reluctant to take medium- or long-term exposure to re-entrant borrowers in the initial stages of market re-entry. Early redemption options (put options) allow the holder of a security to resell it to the issuer at a specified price prior to maturity. Such options thus offer investors protection against a deterioration in market perception of the issuer as well as against an increase in international interest rates (most bonds issued by re-entrant countries were fixed-rate instruments). In return for this hedge, investors settled for a slightly lower yield than would have been available on comparable nonputtable securities. Fifteen percent of bond issues by Latin American borrowers in 1989 and 1990 featured a put option.

Regarding the currency sectors tapped by market re-entrants, all debut issues since 1989 (except for South Africa) and most issues during the first 18 months following market re-entry were in the U.S. dollar sector. The receptivity of the U.S. dollar sector to market re-entrants reflected the substantial presence of flight capital and investors familiar with high-

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1/ Such securitization consists of packaging receivables based on reputable cash-flow sources into a pool sold to a Special Purpose Vehicle (SPV), which in turns issues securities that represent an interest in the pool of assets. The quality of the cash-flow source (typically a large industrial country company) enables the notes to obtain a higher risk rating than straight debt of the issuer, and therefore commands better terms at launch.

yielding sub-investment grade securities. Moreover, the decline in U.S. short-term interest rates during the last few years boosted investors' interest in re-entrant country securities, while increasing the attractiveness of fund raising in the U.S. dollar market. As developing country bonds gained wider acceptance, re-entrant borrowers gradually diversified their investor base, including through tapping new currency sectors such as the Austrian schilling, Canadian dollar, Deutsche mark, ECU, French franc, peseta, Pound sterling, and yen markets. However, issuance activity by developing country has remained heavily concentrated in the U.S. dollar sector, and the proceeds and debt service obligations of a number of nondollar issues have reportedly been swapped into U.S. dollars.

To date, all debut issues were offered in the Euromarkets, which provide for wide distribution and relatively limited disclosure requirements. Subsequent issues during the initial phases of market re-entry were usually launched either in the Euromarkets or in the U.S. private placement market. 1/ A number of Latin American Eurobonds have featured a "Rule 144A option" which allows the bonds to be placed with U.S. institutional investors through the private placement market under the SEC's Rule 144A, which permits qualified institutional buyers to trade privately placed securities without waiting the stipulated two-year holding period that generally applies to privately placed securities. 2/ Private placement has been viewed as a suitable avenue by several developing country borrowers who wanted to tap the U.S. investor base but could not (or did not want to) comply with SEC disclosure requirements for public offerings. Also, private placement can be tailored more easily to fit specific requirements of both the borrowers and investors, are less expensive to place, and can be sold more rapidly than public offerings. However, to compensate for the illiquidity of a private placement, yields tend to be higher on private issues relative to public issues having similar features.

Recently, several re-entrant borrowers have tapped the Yankee market, i.e., the domestic U.S. market for foreign U.S. dollar bonds. Yankee issues must satisfy SEC registration and disclosure requirements. Entry in this sector has usually been led by the sovereign borrower for which the registration requirements are less demanding, and name recognition is strongest, but other public and private borrowers have recently also been in active in this market, including borrowers from Mexico.

1/ Private placements are securities that are sold directly to a limited number of investors and are typically quite illiquid.

2/ During the 18 months following market re-entry, Mexican borrowers tapped the private placement market in 14 out of 25 issues. Other developing country borrowers issued mostly in the public Euromarkets, including during the early stages of market re-entry.

3. Portfolio equity investment

Portfolio equity flows have also featured prominently in the re-entry experience and have involved several types of equity and equity-related instruments. The channels used have differed across countries, depending large part on host country market structures and regulations.

Regional and country mutual funds were important vehicles for mobilizing portfolio equity flows and promoting investor familiarity with emerging stock markets during the early stages of market re-entry. In many developing countries, such funds in fact provided the only channel for foreigners to invest in local equities because of restrictions on inward capital flows (for example Chile). Moreover, mutual funds were attractive to investors unfamiliar with re-entrant countries, and provided an effective way to diversify risks, including across markets in the case of regional or multicountry funds.

Re-entrant developing country companies also regained access to the international equity market through placement of shares abroad. Since 1990, a number of Latin American companies in particular have used equity-based instruments such as American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs) to raise funds in industrial country financial markets or facilitate secondary market trading in their stocks on established exchanges and gain name recognition, sometimes in advance of an eventual capital raising exercise. 1/ ADRs have been the main vehicle for market re-entry in the equity sector, but GDRs have recently become increasingly common. Depositary receipt facilities permit emerging market shares to be traded on industrial country markets, with the potential for raising liquidity, reducing settlement time, and lowering settlement risk. ADR/GDR facilities have been useful in broadening the investor base, including because a number of investors prefer to invest in instruments which are traded in the United States and Europe, quoted in U.S. dollars, pay dividends in U.S. dollars, avoid foreign investment restrictions, and clear and settle according to U.S. standards. International share flotation using depositary receipt facilities have been used by several countries to facilitate large privatizations where domestic equity markets were perceived to have a limited absorptive capacity or when the country intended to promote greater investor awareness of new investment opportunities in the domestic equity market.

1/ ADRs are U.S. dollar-denominated equity-based instruments backed by a trust containing stocks of a foreign company. ADRs are traded on major U.S. exchanges or in the over-the-counter market, with clearance and settlement handled by the custodian bank in the United States. A GDR is a depositary receipt whose technical structure is similar to that of an ADR, but which is issued and traded internationally.

When the first depositary receipt facilities were established for Latin American companies, Rule 144A provided a way for issuers to raise capital without having to satisfy full SEC registration and disclosure standards (including a need for financial statements according to U.S. generally accepted accounting principles). Moreover, by providing familiarity with the international investment community, the Rule 144A issues paved the way for public offerings later. However, as the market re-entry process has consolidated, an increasing number of developing country corporates have chosen to list their stocks publicly, and thus gain access to a broader range of investors. This process has been given momentum by the fact that the Rule 144A market has remained fairly illiquid despite efforts to improve trading procedures (such as the introduction of on-screen trading).

A number of companies in re-entrant countries have issued convertible bonds, sometimes before issuing straight equities in the international markets. 1/ During the initial phase of market re-entry, conversion rights were attached to borrowings by two Mexican corporations, Cemex in June 1990 and Tamsa in June 1991. More recently, after the sharp decline in equity prices in mid-1992, and the subsequent interruption of equity issuance by Latin American companies, several re-entrant corporates have launched convertible bonds. Such convertible bonds enable developing country companies to reduce significantly their borrowing costs compared with straight bonds, as investors accept lower interest rates in return for the chance for capital gains if stock prices rise, while still being entitled to a minimum fixed interest income, which limits the downside risk. Convertibles may be a good financing choice for developing country companies that have a long-term objective of adding common equity to their capital structure but feel that their stocks are underpriced at the moment of issue.

Over the last few years, direct equity portfolio purchases on local exchanges have become an increasingly important channel for equity inflows for several countries. Such direct purchases were the traditional route for access to a number of Asian markets that historically have attracted international investor interest. However, use of this route has broadened as several developing countries, including countries that had experienced debt servicing difficulties, as they have eased restrictions on direct portfolio investment and improved both settlement mechanisms and custody schemes on their local stock exchanges (see Chapter IV). As a result, investors (particularly large institutional investors) have shifted away from collective investment vehicles (i.e., mutual funds) and turned to direct investment in the local equity markets instead.

1/ Convertible bonds are securities that combine the characteristics of the underlying bonds and common stock. With convertible bonds, investors have the option of exchanging these securities for a fixed number of common shares at a set price per share.

With the development of these alternative channels, authorities in re-entrant developing countries have become increasingly aware of the need to maintain an appropriate balance between international and domestic equity issues and trading. For some Latin American countries, a high share of equity trading has moved to New York. Such a shift can lower turnover in local stock exchanges, with consequent loss of jobs and value added, and more generally hamper the balanced development of domestic financial markets. In addition, dominance of foreign investors can mean large exposure to swings in investor sentiments that may not be well rooted in a close knowledge of the country. Reflecting such concerns, market authorities in several developing countries have launched financial market reforms, involving further deregulation and strengthening of prudential regulation with a view to re-intermediating trading activity in source countries, while maintaining the openness of local stock exchanges to foreign investors who bring local markets added volume and expertise (see Chapter IV).

VI. Changing Structures of Commercial Bank Lending

In contrast to the resurgence of flows through securities markets, commercial bank lending to most developing countries, especially those which have had debt servicing difficulties, has remained limited in recent years, and continues to be concentrated on the more secure, transactions-based business, such as trade and project financing. While short-term trade finance has by its nature been a relatively safe business, medium- and long-term trade and project financing has increasingly been structured in non-traditional forms to provide additional security. This so-called "structured" finance has aimed to shift more of the financing risk from the lenders to other parties, through an application of a variety of techniques, including collateralization, securitization, innovative uses of export credit agency guarantees, and cofinancing involvement with multilateral agencies.

These changes in the structure of bank lending are the result of the confluence of several factors. Commercial banks are still smarting from their experience with sovereign lending to developing countries in the 1980s. More generally, commercial bank's overall lending strategy has become more sensitive to market risks as a result of their recent losses in several other markets, especially real estate. At the same time, slow growth in the main deposit-taking centers and the capital constraints imposed by the full implementation of the Basle capital adequacy guidelines have restricted international bank's capacity for new lending. As a result, banks have generally become more interested in lending with minimal capital requirements and/or related fee-generating off-balance sheet business.

To provide perspective on these developments, this chapter reviews, in turn, recent developments in the structure of commercial bank financing of short-term trade, medium-term trade and projects, and longer term projects, especially infrastructure. This is followed by a description of activities by multilateral agencies in the area of cofinancing and guarantees that seek to facilitate bank lending to developing countries.

1. Short-term trade financing

Virtually irrespective of their balance of payments and external debt situation, short-term trade finance has continued to be available to most developing countries, although the terms have been sensitive to perceived risks. Continued access has depended on such financing generally being considered one of the safest businesses for banks: it is short-term, transaction-based exposure, and most countries have given such credits debt servicing priority. Nevertheless, higher premiums and collateral requirements are applied to the riskier countries and customers.

Most bank financing of short-term trade transactions is undertaken through the issuance of letters of credit. 1/ Banks control risk from confirmed letters of credit by limiting overall exposure to individual countries, rationing the available lines to the more creditworthy and reliable customers, and setting premia in line with the perceived repayment risks. In addition, banks may require central bank guarantees or export credit agency cover. Implicit host government guarantees are obtained by limiting financing to imports of priority goods. In the riskiest countries, where export credit agency cover may require a confirmed letter of credit by a bank in another country or which are off cover for export credit agencies altogether, banks require secure terms, such as a foreign-currency cash deposit, which may effectively amount to a pre-payment of the import. 2/

1/ Letters of credit are usually issued by a bank based in the country of the importer. They guarantee payment to the exporter in the event of nonperformance by the importer (either non-payment or refusal to accept delivery). For most exports to developing countries, exporters want additional protection and require that the letter of credit be confirmed by a bank in the exporter's country, providing a guarantee of payment in the event the issuing bank fails to make payment. For the bank providing the guarantee, letters of credit are an off balance-sheet item, and did not imply a capital requirement in most regulatory regimes until the recent implementation of the Basle capital adequacy guidelines. Under the guidelines, the related capital requirement is 1.6 percent of the value of the asset if unsecured, with further reductions in the capital requirement if the letter of credit has collateral, export credit agency guarantee, or other security.

2/ This system for financing trade breaks down when no reliable banks exist in the importing country. This has happened in the FSU and has led to the revival of countertrade, essentially non-simultaneous barter transactions. Though dominated by trading companies, several West European banks have been attracted to countertrade by the prospective fees from arranging these deals.

For larger transactions with reliable customers, loan syndication has provided a means for risk sharing. Such loan agreements include sharing, mandatory prepayment, pari passu and other clauses that raise the cost of default to the borrower. In the past, syndication had been most often associated with medium-term financing. However, recently banks have used syndication for short-term financing to countries with acceptable risk profiles. For example, publicly owned oil companies in Mexico, India and the Philippines have recently had access to short-term syndicated import financing, and Zimbabwe for short-term syndicated import and export financing, without export credit agency guarantees or other security enhancements.

2. Medium-term trade and project finance

Following the experience of the 1980s, banks have considered medium-term financing to developing countries a much riskier business than short-term trade finance. Medium-term lending to countries that experienced debt servicing difficulties in the 1980s has been limited and has almost always been structured in a way intended to remove all but a controllable amount of medium-term commercial risk and leave banks with little if any of the transfer/political and market risk. 1/ These loans typically involve either offshore collateralization (asset-backing) using a secure payments stream or the cover of an export credit agency for the financing of unsecured imports. 2/ In addition to these techniques, banks may convert the loans--both for export and import financing--into securities that can be placed with private investors, so as to take the loans off their books, and eliminate almost all the risk. 3/ Such structured financing is a transactions-driven business with banks' returns coming mainly from high fees and relations with established customers.

In asset-backed lending, the borrower extracts a liquid and marketable asset from its balance sheet and provides it as a credit enhancement to the lender. The use of such enhancements depends on the bank's ability to repossess the collateral in the event of payment default, and thus typically involves assets that are outside the borrowing country's jurisdiction. In its simplest form, this amounts to the use of existing assets as collateral

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1/ An additional attraction of structured finance to commercial banks is its potential to reduce their provisioning costs from lending to countries with otherwise high provisioning requirements. Regulators have shown flexibility in lowering provisioning requirements on such loans if the financing structure is perceived to reduce the loan's risks (see Chapter IV).

2/ For medium- and long-term financing, export credit agencies provide guarantees for up to 85 percent of the financing.

3/ An alternative to these techniques which aims to protect against medium-term risks is the use of put options to enable a bank to reduce the loan's maturity. An example is a recent five year loan to a Chilean public enterprise which includes a two year put option.

to secure the loan. For example, Georgian Shipping Company of the Republic of Georgia recently signed a five year syndicated loan, which was structured offshore and secured on four oil tankers.

A more complex technique is based on the use of future export receivables to collateralize the loan. One of Mexico's first re-entrants into the commercial bank loan market was Mexcobre, which raised financing for a mine expansion by collateralizing the loan with receipts from future copper exports. The proceeds from a long-term copper sales agreement with a creditworthy West European copper refinery were pledged to the lender banks and designated to an offshore escrow account, thus creating a self-liquidating payments mechanism. The arrangement with Mexcobre included a hedging program to protect the payments stream from fluctuations in the world market price of copper. Similar deals have followed, with a variety of export receivables: Sivensa (Venezuela) using steel export receivables, Zambia using copper receivables, Ghana using cocoa export receivables, and Pemex (Mexico) using oil export receivables. This technique has also proved to be popular in financing commercial real estate projects (hotels and office buildings) in Eastern Europe and several countries in the FSU, since their financing can be easily structured on a relatively secure stream of foreign exchange earnings. 1/

Using collateralization and escrow account techniques, transfer and exchange rate risk are largely mitigated. Nevertheless banks are still subject to performance risk. For example, the possibility remains that the developing country exporter will not deliver according to its sales contract, leaving the bank exposed. Such risk will of course be reflected in the interest rate charged on the loans.

In a twist to the asset-backed structure, banks have played an important role in the securitization of receivables that involve particularly low performance risk--e.g., telephone and credit card receivables. This involves issuing a marketable security backed by the cash flow from the receivables (see Chapter III). In playing this role, in some cases banks may take on placement risk when they are underwriting an issue, but commercial and transfer risk are avoided altogether.

1/ A similar concept underlies the concept of international factoring: a technique for financing short- and medium-term trade transactions. A factor, often an arm of a bank, will provide post-shipment financing to an exporter up to a fixed percentage of the value of the shipment in exchange for being assigned the export receipts. In recourse factoring, the factor repays the loan upon payment by the importer, and releases to the exporter the remaining portion of the export receipts minus its fees. In non-recourse factoring, the factor bears all the repayment risk in exchange for a larger share of the receipts. The benefits to the exporter are increased liquidity, and in the case of nonrecourse factoring, the security normally associated with a letter of credit but without its costs and administrative hassles, mostly related to high documentation standards.

Asset-backed operations are typically complex, time-consuming to arrange and raise difficult legal issues, which may limit their applicability. Legal issues include problems arising from existing loan documentation, such as negative pledge provisions--especially for public entities--and local laws relating to the enforceability of liens and other security interests. For example, Pemex's asset backed securitization of future oil receivables had to explicitly avoid committing Pemex to produce or export oil in order to comply with Mexico's statutory law that prevents Pemex from selling rights to oil reserves.

These techniques may also have negative macroeconomic implications if pursued too vigorously or if the risk-sharing attributes are skewed too heavily against the borrowing country. A proliferation of escrow accounts, particularly in the public sector, may upset relations with other creditors as their loans effectively become subordinated, and thus may constrain access to new unsecured lending. The earmarking of foreign exchange revenues for particular creditors--especially for operations concerning a country's main foreign exchange earner--may also reduce the country's flexibility in responding to a balance of payment's crises. In addition, such contracts can involve the use of significantly below market rather than realized sales prices and the charge of large fees or interest rates, which can undermine the country's foreign exchange position.

With regard to import financing, banks have aimed to limit risk exposure through the use of securitization techniques--such as à forfait financing--and through export credit agency guarantees and insurance facilities. A forfait financing covers import payments through the sale of securities--traditionally promissory notes--in the international capital markets. The fixed interest rate, medium-term paper is issued and often underwritten by a foreign bank and bears a local guarantee, usually of a local bank. The issuing bank bears the underwriting risk and the holder of the paper the interest rate risk, though it has become common to hedge the latter risk through the use of interest rate swaps and forward rate agreements. A large share of à forfait transactions initially consisted of trade finance with the Comecon countries. After the collapse of this market, emphasis shifted to countries for which export credit agencies were off cover. The à forfait market has also re-emerged in countries where the shift by export credit agencies from flat rate premia to flexible rate premium structures has made the à forfait structure more competitive. The market's main focus has recently been Algeria and to a lesser extent Hungary and Latin America.

Recently, the securitization of import financing has also gained ground using the U.S. Eximbank-backed bundling program. This technique was launched by a bank in early 1989 to securitize medium-term export credits to Mexico. Under the bundling program, a foreign bank extends a U.S. Eximbank guaranteed loan to a domestic bank, which on-lends the proceeds in small amounts to local importers. When a specified amount has been disbursed by the domestic bank, the loans are bundled into promissory notes, which are then placed with private investors by the foreign bank. 1/ The foreign bank derives fees from structuring the transaction and can increase its lending without increasing its country risk exposure. The attraction to investors is that they are essentially buying U.S. Government risk, as the paper carries an Eximbank guarantee. The U.S. Eximbank-sanctioned program for Mexico was introduced in March 1990, and the U.S. Eximbank has plans to create global bundles, which would aggregate trade receivables for several countries.

Aircraft financing has been one of the fastest growing segments of securitized finance, and has been used by a wide range of countries, including China, India, most countries of Eastern Europe, and several countries in Africa. Aircraft financing combines asset-backed securitization, including in many instances the mortgage on the aircraft itself, with export credit agency guarantees. Risk sharing occurs through export credit agency guarantees for 85 percent of the purchase, with the residual being distributed between bank loans (either as purchases or leases) or company equity.

3. Long-term project financing

Banks have been especially reluctant to finance long-term, particularly infrastructure, projects in developing countries. Over and above the normal risks involved with their long gestation periods, these projects usually do not have hard currency earnings and entail greater local government involvement (with which banks have had poor records). Where banks have been involved, the financing has usually included far more stringent performance agreements compared to medium-term financing, lending on a limited recourse basis so as to isolate the risk associated with the project itself from the risk of lending to the project's host (typically a large company or the government), and risk sharing among several categories of lenders, with varying degrees of financial subordination. Banks have also relied on many of the risk-sharing techniques associated with medium-term financing mentioned above; i.e., insurance and guarantees of export credit agencies (subject to limits on the import content of the project and the limits on maturity that can be covered under OECD agreements), asset-backed financing, and securitization. The complexity of such negotiations has often been one of the key stumbling blocks in finalizing such agreements.

In the pre-completion stage of the project, the major risks relate to the possibility of cost overruns, completion delays (construction risk) and the failure of the project to perform to specification (start up risk). These risks are usually borne by the project's contractor, operator, and/or supplier through a completion guarantee agreement under which they guarantee to complete the project within a certain period of time, to cover cost

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1/ This method of financing is essentially a pooling of à forfait transactions.

overruns, and to guarantee the finished project's performance. Usually, banks will only participate in projects involving reputable firms as contractors, using proven technology.

In the post-completion stage (or operating) stage of the project, banks rely on agreements with end-users of the project's output and suppliers of the project's input to protect themselves from commercial and market risk. A "take-or-pay" contract is an unconditional obligation by the end-user to make periodic payments in the future for fixed minimum amounts of products at fixed or minimum prices irrespective of whether the service is required. A "put-or-pay" contract is an unconditional obligation to supply to the project a specified level of key inputs, over a long period, and at a predictable price, or to pay the project the difference in cost incurred in obtaining the inputs from another source. 1/

A limited recourse financing structure constrains the financial links between the project and its hosts. The project is set up by the sponsors (usually consisting of a contractor and/or operator) as a separate legal entity from the host government or company. As a result, the full repayment risk is placed on the earning capacity of the project, enabling banks to better evaluate the project's risks. A variant of the limited recourse structure is often applied by developing country governments to finance infrastructure. The Build Operate Transfer (BOT) approach grants operating concessions for the completed project to the project entity for a certain number of years, in return for which the entity is fully responsible for building and financing the project. 2/ This structure is most often used where the country is facing fiscal constraints and/or desires to encourage private sector activity.

As well as delimiting the transactions risks involved, the limited recourse approach brings additional advantages. One is that as a new self-financing entity, the project can raise funds unrestricted by negative covenants and borrowing limits which may apply to an existing corporate entity, and is not liable for claims against the project's host. Also, as the lending banks are involved from the initial stages of the project, they can exercise control over the planning and management of the project. The benefits to the project's host government or company are that the non-recourse borrowing does not affect its own balance sheet.

1/ There are many variants to these types of agreements. For example, a take-<u>and</u>-pay contract is similar to a take-or-pay contracts except that the unconditional obligation to pay is contingent on the delivery of the product.

2/ There are several variations to BOT financing, such as Build Operate Own (BOO), Build Operate Own Transfer (BOOT), and Build Lease Transfer (BLT).

Governments have provided various types of performance guarantees and tax benefits to encourage project financing. For example, in Malaysia, where project financing on a BOT basis has been particularly prevalent, the government provided large pre-completion and post-completion loans, and guarantees covering interest rate movements, taxation policies, and completion delays arising from government actions. 1/

The experience in Malaysia of high economic costs has raised some questions as to the efficiency of BOT infrastructure projects. In general, it is difficult to measure the benefits from involving the private sector against the "avoided" costs from the project being implemented by the public sector. Past experience suggests that the benefits increase with the number of BOT projects implemented. 2/ A country's first projects have often been hampered by their slow implementation, arising, in the main, from slow and cumbersome negotiations over the legal basis of the project and the pricing of the project's output (decisions which are usually in the public sector domain), as well as other complexities of the financing structure.

4. Cofinancing and guarantees

In recent years, substantial amounts of long-term project finance have been provided to developing countries from both official and private sources through cofinancing with multilateral financial institutions (MFIs). In general, such cofinancing brings two advantages to the cofinancers: first, MFI involvement provides project appraisal and other important information about the project and, second, the association with the MFI may be perceived as providing some protection against sovereign risks. In addition, under cofinancing operations an MFI can extend to private cofinanciers direct guarantees against specific noncommercial risks.

The World Bank group (including the IFC) accounts for about two thirds of multilateral resources provided through cofinancing. The total amount of resources channeled to developing countries through cofinancing with the World Bank group has increased by more than 135 percent over 1983-92 to US$27.9 billion in 1992 (Table 18). 3/ The share of official bilateral creditors and export credit agencies in cofinancing with the World Bank group averaged 19 percent and 9 percent, respectively. By contrast, the share of private cofinanciers has remained quite small, as private participation has been limited to an average of 7 percent in the 1988-92 period.

1/ Outside Malaysia, BOT type projects have mostly been used to finance the construction of power plants (e.g., Colombia, Pakistan and the Philippines), and toll roads (e.g., Hungary, Mexico and Thailand).

2/ IFC, BOT Operations: IFC's Experience, IFC/See M/92/134, (July 24, 1992).

3/ Figures refer to the year ended in June.

Table 18. Cofinancing by the World Bank Group 1/

	1983	1988	1989	1990	1991	1992
			(In millions of U.S. dollars)			
Total cost of projects cofinanced with IBRD	19,936	20,067	41,273	49,264	30,461	36,901
Total cofinancing resources to borrowers	10,291	14,689	25,215	25,332	20,438	25,323
From multilaterals	4,491	8,348	15,859	16,076	15,543	17,455
World Bank	...	4,650	10,435	8,372	8,177	8,042
IDA	...	2,469	2,726	3,423	3,407	4,109
African Development Bank 2/	...	553	669	573	418	1,080
Asian Development Bank	...	88	386	1,102	371	783
IDB	...	106	457	1,531	1,570	2,106
Other	...	483	1,185	1,075	1,600	1,335
From bilateral creditors	2,866	4,162	6,083	5,092	3,267	3,474
From export credit agencies	1,939	935	2,013	3,519	1,195	3,337
From private sector	995	1,244	1,260	646	434	1,057
Resources from borrower	9,645	5,378	16,058	23,932	10,023	11,578
Total cofinancing resources with IFC	...	1,012	1,415	1,832	2,375	2,547
IFC	...	865	1,017	1,210	1,106	1,166
Private cofinanciers	...	147	398	622	1,268	1,380
Total cofinancing resources to borrowers	10,291	15,701	26,630	27,164	22,812	27,869
Multilateral	4,491	9,214	16,876	17,285	16,649	18,621
Bilateral	2,866	4,162	6,083	5,092	3,267	3,474
Export credit agencies	1,939	935	2,013	3,519	1,195	3,337
Private sector	995	1,391	1,657	1,268	1,702	2,437
			(In percent)			
Regional distribution of IBRD and IDA cofinancing						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Africa	28.7	31.9	24.4	24.0	26.8	37.1
East Asia and Pacific	9.5	12.4	26.3	28.4	7.8	25.3
Middle East and North Africa	2.7	7.7	8.6	2.7	10.9	9.7
Latin America and Caribbean	50.5	16.6	22.4	33.5	20.4	20.0
Europe and Central Asia	5.2	9.2	8.8	5.5	14.7	3.1
South Asia	3.3	22.3	9.4	5.9	19.4	4.8

Sources: The World Bank (CFS group) and The IFC (syndications Group).

1/ Fiscal year beginning in June.
2/ Includes African Development Fund.

The mechanisms in cofinancing have evolved over time. Parallel lending was one of the original forms of cofinancing between official and private creditors. Under this structure, the MFI and commercial bank financing are provided in separate loan agreements. The commercial bank loans are usually linked to the MFI loan through a cross-default clause, which gives each creditor the right to accelerate repayment of the loan in the event that other creditors declare an event of default. 1/ In addition, a memorandum of agreement is typically signed between the MFI and the agent for the commercial bank to facilitate the flow of information between the MFI and the commercial bank.

An alternative form of cofinancing is known as the complementary financing scheme (CFS). Under a CFS, an MFI originates two loans. The first loan is retained by the MFI, and therefore requires the MFI's capital. The second loan is sold onto private creditors on prearranged commercial terms. Nevertheless, the MFI remains the lender of record, and the borrower cannot distinguish between the MFI and commercial banks in servicing the loans. The CFS structure has been used by the World Bank, IDB, the AfDB, the AsDB and, more recently, by the EBRD, and become the most common form of cofinancing operation. The World Bank had introduced such a scheme in the 1970s, known as the "A" loan program. The other multilateral institutions introduced similar schemes in the early 1980s, as commercial creditors began to lose confidence in parallel lending, because in practice such arrangements had not provided much protection to banks as their loans were rescheduled along with other commercial debt.

The IFC runs a syndication participation program which is similar to a CFS. The main differences are that under a syndication the IFC originates only one loan composed of two tranches and that the borrower is a private sector entity. The first tranche is funded by the IFC's own resources and is retained on the IFC's books. The second tranche is funded by commercial banks pursuant to participation agreements. The IFC still appears as the sole lender of record and loan administrator. This protects the private cofinancier from sovereign risks in the same manner as the CFS.

In 1983, the World Bank extended the scope of its cofinancing instruments by offering direct participation agreements and guarantees to commercial bank syndication under its B-loan program. Under a direct financial participation the MFI participates in the later maturities of a syndicated loan cofinanced with commercial banks, in order to extend the maturity of the loan. Such participation in general has been limited to 10 percent (although occasionally it can be extended to up to 25 percent) of the total loan amount. A guarantee can be extended against a specific risk or as a contingency against the debt service of a loan. For example, the

1/ If default occurs, the lenders have the right to cancel any undisbursed amounts of the loan, and to require the immediate repayment of the disbursed amounts. A default can be triggered by the breach of a covenant or by a failure to make timely debt service payments.

MFI can guarantee the later maturities of a commercial bank loan. Alternatively, the MFIs offer cofinanciers a put option on the later maturities of the loan, under which the MFI would be committed to purchase the designated maturities if the cofinanciers so request. If the guarantee is called by the cofinancier, the MFI would acquire a direct exposure to the borrowing country; in order to meet the contingency, the MFI would have to originate a new loan to the borrowing country.

Through 1988, under the B loan program the World Bank extended about US$4.8 billion in credits to about 24 projects. The bulk of these operations were direct participations in commercial syndicated loans. At the time of its inception, it was felt that the B-loan would help banks to overcome the constraints that had restricted syndicated lending to developing countries. However, as the debt crisis evolved, a number of debtor countries began facing more acute debt servicing difficulties including the accumulation of interest arrears. This environment posed a potential operational hazard for the Bank, because under the legal structure of cofinancing syndications, the Bank could have had its freedom to lend to a member country restricted if a cofinancier bank were to call a default or request an acceleration of the loan.

Against this background, in 1989 the World Bank replaced the B-loan program with the expanded cofinancing operation (ECO) program. The ECO restricted the universe of eligible borrowers to only developing countries that have not restructured their external debt within the past five years, aiming to facilitate voluntary market access for these countries. At the same time, private sector projects became eligible for assistance under the new facility.

The ECO can offer a partial guarantee of the debt service on medium- and long-term commercial bank loans or sovereign bond issues. Under the modified ECO program approved in 1992, the present value of the debt service (principal and/or interest) guaranteed would normally not exceed 50 percent of the total amount of financing obtained through the associated loan. In the case of private sector projects, the program can extend a guarantee against a well-defined sovereign or political risk of up to a maximum of 100 percent of the amount of financing obtained, which may be particularly useful for BOT projects. Payments by the World Bank under this type of guarantee would be triggered in the event that the government fails to honor one of these commitments. The ECO can also be structured as a contingent obligation, such as a put option for the private creditor to be exercised against the World Bank. 1/

The AsDB also operates a guarantee facility whereby the institution issues a guarantee covering amounts due on the second loan of a CFS for those maturities extending beyond those that would be available from bank lenders in the absence of an AsDB guarantee.

A different form of guarantee that aims at encouraging direct foreign investment flows to developing countries is extended by official investment guarantee agencies (such as OPIC and MITI). 2/ These agencies offer investors insurance against political risks through a variety of guarantee programs that are geared to protect an investor against losses arising from political risks (including those arising from expropriation, civil disturbances, and war) and from noncommercial currency transfer risks.

The Multilateral Investment Guarantee Agency (MIGA) is the investment guarantee arm of the World Bank Group. MIGA insures up to 90 percent of new investment projects, including the expansion of existing investments, privatizations, and financial restructurings. Coverage can be extended for a maximum period of 15 years (or 20 years, on an exceptional basis), and it is capped at US$50 million per project. In fiscal 1992, MIGA insured 21 projects amounting to the equivalent to US$1 billion in direct foreign investment and US$313 million in contingent liabilities against MIGA.

1/ As an example of an ECO operation, in 1990 the World Bank approved an ECO to provide a non-accelerable guarantee of the entire principal amount of a 10-year Eurobond issue by a Hungarian government-owned entity. The Bank guarantee would be activated in case the borrower defaults on the bullet payment due upon maturity. In 1991, the Bank approved in principle an ECO to assist in the financing of an energy project in Pakistan, although the financing has yet to be assembled. The Bank would guarantee 100 percent of the debt service due to a private company in the event of a default resulting from the Government's failure to implement its obligations under a concession agreement with the project company.

2/ Private insurance companies may also sell insurance against investment risks.

ANNEX

Experience with the Fund's Policy on Financing Assurances in the Context of Commercial Bank Debt Restructuring

1. Background

The Fund's policy on financing assurances was modified in May 1989 in the context of the adaptation of the debt strategy to include Fund support for commercial bank debt and-debt service reduction operations. 1/ While the basic objectives of the policy were maintained, it was agreed that a cautious modification was appropriate in cases where significant time would be needed for a member and its commercial bank creditors to reach agreement on an appropriate financing package. In such circumstances, the Fund would be prepared on a case-by-case basis to approve an arrangement outright before the conclusion of negotiations with creditors, provided that prompt Fund support was judged essential for program implementation, that negotiations between a member and its bank creditors had begun, and that it could be expected that a financing package consistent with external viability would be agreed within a reasonable period of time.

In promoting orderly financial relations, every effort was to be made to avoid arrears, but it was recognized that an accumulation of arrears to banks might have to be tolerated where the country's financing situation did not allow them to be avoided and where negotiations were continuing. In these cases, the member would be expected to treat commercial creditors on a nondiscriminatory basis. Appropriate safeguards would need to be incorporated into the monitoring procedures of the Fund arrangement, and the situation would need to be monitored closely while negotiations were continuing. A review of progress in the negotiations would be scheduled at an appropriate time and, normally, before the second disbursement.

The early experience with the Fund's modified policy on financing assurances was reviewed in spring 1990. 2/ The review covered nine arrangements that had been approved in the presence of ongoing negotiations between a member and its bank creditors on financing packages (Argentina, Costa Rica, Côte d'Ivoire, Ecuador, Jordan, Mexico, the Philippines, Poland,

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1/ See Chairman's Summing Up on Fund Involvement in the Debt Strategy, Executive Board Meeting 89/61, May 23, 1989.
2/ See EBS/90/54 and EBS/90/54 Supplement 1.

and Venezuela). 1/ Many of these countries had arrears to banks at the time of approval of the Fund arrangement, and in these cases a further accumulation of arrears to these creditors was usually envisaged pending agreement on a financing package. However, in most cases provisions were made in the program for at least partial interest payments to the banks to foster a regularization of relations with these creditors.

At the time of the Spring 1990 review, a number of operational issues were raised and suggestions made to enhance the procedures under the modified policy. Two principal concerns were the emergence and/or persistence of interest arrears in Fund-supported programs and the tendency towards agreements with commercial banks that left programs underfinanced. Executive Directors stressed the importance of normalizing relations with all creditors and called for compensating changes in the adjustment program where a financing package fell short of needed financing. 2/

This note seeks to update the experience with the Fund's modified policy on financing assurances. It looks in turn at (i) the degree of progress achieved towards agreement with banks, (ii) the experience with payments to banks during the period of negotiation, (iii) adjustments to performance criteria for payments to banks and the treatment of arrears on reschedulable bank debt, and (iv) the conduct of financing assurance reviews.

2. Progress towards agreements with banks

Since May 1989, 34 stand-by or extended arrangements for 24 countries have been approved while ongoing negotiations between the member and its bank creditors on debt and debt service reduction packages were continuing (Table 19). A comprehensive agreement with banks on a debt package has been achieved by eight of these countries: Argentina, Costa Rica, Guyana, Mexico, Nigeria, the Philippines, Uruguay, and Venezuela (Table 20). In some cases, packages were completed only after considerable time. For Argentina--which followed a two-phase strategy involving an initial period of debt for equity swaps associated with privatization--agreement with banks on a comprehensive package was reached only under the present extended arrangement. Guyana reached agreement with its bank creditors on a buyback of its debt under an ESAF arrangement after the stand-by had expired. For

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1/ Zaïre was not included in the review, although an arrangement had been approved in the presence of arrears to banks. Zaïre had obtained an interim agreement with banks rescheduling part of debt service due. An arrangement had also been approved for Gabon calling for close monitoring of financing, although there were no arrears and the program envisaged a standard rescheduling of principal.

2/ See Chairman's Summing Up on "Management of the Debt Situation," Executive Board Meeting 90/56, April 11, 1990.

Table 19. Fund Arrangements Approved Under the Modified Financing Assurance Policy 1989-93 1/

Country	Arrangement	Inception	Expiration
Albania	SBA	08/26/92	08/25/93
Argentina	SBA	11/10/89	03/31/91
	SBA	07/29/91	03/30/92
	EFF	03/31/92	03/30/95
Brazil	SBA	01/29/92	08/31/93
Bulgaria	SBA	03/15/91	03/14/92
	SBA	04/17/92	04/16/93
Cameroon	SBA	12/20/91	09/19/92
Congo	SBA	08/27/90	05/26/92
Costa Rica	SBA	05/23/89	05/22/90
Côte d'Ivoire	SBA	11/20/89	04/19/91
	SBA	09/20/91	09/19/92
Dominican Republic	SBA	08/28/91	03/27/93
Ecuador	SBA	09/15/89	02/28/91
	SBA	12/11/91	12/10/92
Gabon 2/	SBA	09/15/89	03/14/91
	SBA	09/30/91	03/29/93
Guyana	SBA	07/13/90	12/31/91
Honduras	SBA	07/27/90	02/15/92
Jordan	SBA	07/14/89	01/13/91
	SBA	02/26/92	08/25/93
Mexico	EFF	05/26/89	05/25/93
Nicaragua	SBA	09/18/91	03/17/93
Nigeria	SBA	01/09/91	04/08/92
Panama	SBA	02/24/92	12/23/93
Peru	EFF	03/18/93	03/17/96
Philippines	EFF	05/23/89	05/22/92
	SBA	02/20/91	03/31/93
Poland	SBA	02/05/90	03/04/91
	EFF	04/18/91	04/17/94
	SBA	03/08/93	03/08/94
Uruguay 3/	SBA	12/12/90	03/15/92
Venezuela	EFF	06/23/89	03/22/93
Zaïre	SBA	06/09/89	06/08/90

1/ Broadly defined to include all arrangements approved in the presence of ongoing negotiations with banks on debt and debt service reduction or extraordinary rescheduling or when arrears to banks were present.
2/ Arrangement only envisaged rescheduling of current principal, but monitoring enhanced and review of financing.
3/ Agreement on term sheet ahead of approval of arrangement; financing assurances not a critical issue.

Table 20. Summary of Results under the Modified Financing Assurance Policy

	Agreement with banks	Reasonable progress	Limited or no progress	Interest payments to banks	Performance criteria met 5/	Reviews completed
Albania			X	No	Yes	Yes
Argentina 1989			X	Partial 2/	(No)	Yes
1991		X		Partial	(Yes)	Yes
1992	X			Partial	Yes	Yes
Brazil		X		Partial	No	No
Bulgaria 1991			X	No	(Yes)	Yes
1992		X		Partial 2/	Yes	Yes
Cameroon			X	No	No	No
Congo			X	No 3/	No	No
Costa Rica	X			Partial	No	No
Côte d'Ivoire 1989			X	No	(No)	Yes
1991			X	No	No	No
Dominican Republic		X		No	Yes	Yes
Ecuador 1989			X	Partial	No	No
1991			X	Partial 4/	No	No
Gabon 1989			X	Full 4/	No	No
1991		X		Full 4/	No	No
Guyana	X 1/			No	(Yes)	Yes
Honduras		X		No	(No)	Yes
Jordan 1989			X	Full 4/	No	No
1992		X		Partial 2/	Yes	Yes
Mexico	X			Full	(Yes)	Yes
Nicaragua			X	No	No	No
Nigeria	X			Partial	No	No
Panama			X	No	Yes	No
Peru			X	No	Yes	Yes
Philippines 1989	X			Full	(Yes)	No
1991	X			Full	(Yes)	(Yes)
Poland 1990			X	No 3/	Yes	Yes
1991			X	No 3/	No	No
1993		X		No	Yes	...
Uruguay	X			Full	No	No
Venezuela	X			Full	(Yes)	Yes
Zaïre			X	No	No	No

1/ Agreement with banks reached in 1992 under ESAF arrangement.
2/ Resumed during program.
3/ Short term debt fully serviced.
4/ Suspended during program.
5/ (Yes) means performance criteria generally met or, if not, waived.
(No) means most performance criteria waived.

the Philippines, part of the debt was bought back during the 1989 extended arrangement, but the program went off track, and the remaining debt was restructured only during a successor stand-by arrangement.

In most of these eight cases, the country either avoided the emergence of arrears altogether (Mexico, the Philippines, Uruguay, and for the most part Venezuela) or, where full payments were ruled out by financing constraints, demonstrated its commitment to regularization of relations with creditors through partial interest payments (Argentina and, to a degree, Costa Rica). With Nigeria, the record of partial payments was mixed but arrears to banks were cleared before the debt package became effective, while Guyana's difficult external situation allowed for minimal payments to banks. At the same time, performance under the Fund arrangements was often mixed. Argentina, Mexico, the Philippines under the second arrangement, and Venezuela generally performed well, although in several cases performance criteria were breached and reviews only completed with substantial delays. The programs of Costa Rica, Nigeria and Uruguay all went off track with no reviews being completed.

Reasonable progress towards a comprehensive solution to the bank debt--defined as agreement or near agreement on the key elements of an appropriate bank package--has been achieved in seven further countries: Brazil, Bulgaria, the Dominican Republic, Gabon, Honduras, Jordan, and Poland. Of these, Brazil has advanced furthest toward completion of a debt package, although its Fund- supported program went off track at an early stage. The Dominican Republic and Jordan have reached agreement in principle with their bank creditors. With Honduras, the country and its bank creditors have informally agreed to reduce and eventually eliminate the bank debt through debt conversions on a bilateral basis and considerable progress has been made along these lines. Gabon--which accumulated external arrears during its two Fund arrangements, but has made some payments to banks--reached agreement on a rescheduling that is to become effective once arrears are cleared. Bulgaria and Poland have reached agreements in principle on the structure of bank debt restructuring packages, laying the basis for continued discussions with banks on terms for such packages.

Except for Honduras, all these countries have made or resumed partial interest payments to the banks. Brazil has been making interest payments to banks of 30 percent of interest due since 1991 and has recently raised this to 50 percent, Bulgaria and Jordan resumed interest payments at 20-30 percent of amounts due in the latter part of 1992, and the Dominican Republic has made partial payments since reaching a preliminary agreement with banks. The track record of policy implementation of these "reasonably successful" countries has countries been mixed. The Dominican Republic and Jordan under its second arrangement have performed quite well under Fund-supported programs, whereas the programs of Brazil and Bulgaria went off track as did Jordan's first and both of Gabon's arrangements.

In the nine remaining countries (Albania, Cameroon, Congo, Cote d'Ivoire, Ecuador, Nicaragua, Panama, Peru, and Zaïre), little or no progress has been made in negotiations with banks during program periods, in some cases despite more than one Fund arrangement, although at least with Ecuador negotiations with banks have recently been active. In many of these cases, the programs of these countries went off track and, in addition, no interest payments were made to banks. Ecuador resumed partial payments at the time of its first arrangement in 1989 and continued these during 1990-91, but suspended payments entirely in 1992. In other cases, performance under the program was reasonably satisfactory, but little progress was made with banks, as negotiations on a debt deal were given low priority and partial payments were not made.

3. Experience with monitoring of negotiations

The modification of the Fund's policy on financing assurances called for close monitoring during the Fund arrangement of negotiations between the member country and its bank creditors and for a review of progress normally to be held in advance of the second disbursement. Many of the early arrangements approved under the modified policy reviewed the financing situation as part of the first general review of the program, typically scheduled prior to the second disbursement. Subsequently, it has become standard practice to include quarterly financing reviews in the arrangements as explicit performance criteria.

While in many cases, reasonable progress had been made in discussions with bank creditors at the time of Board consideration of the financing assurance review to justify completion, in others such reviews have been completed by the Board even though progress in negotiations with banks was at best limited. This was so for Argentina (1989), Bulgaria (1991), Gabon (1989), Côte d'Ivoire (1989) and (1991), the Dominican Republic, Honduras, Panama, Poland (1990), and Nicaragua. Except for Panama, all the reviews were completed as part of general program reviews. In many of these cases, a cooperative negotiating framework remained in place and there were no adverse events. In some of these cases, however, contacts with banks were minimal given that, realistically, there were no immediate prospects for financing a debt deal.

Executive Directors have agreed that financing assurance reviews can be completed on a lapse of time basis in cases where the program is on track, the member is making payments to banks in line with the scope available under the program, and where negotiations appear to be taking place in a framework conducive to reasonable progress. 1/ Several financing assurance reviews have been concluded in this manner (Albania, Argentina (1992), Bulgaria, Côte d'Ivoire's (1991), the Dominican Republic, Jordan (1992),and Panama). While in all of these cases, the program was on

1/ See Chairman's Summing Up of Management of the Debt Situation, Executive Board Meeting 90/175, September 7, 1990.

track at the time of the review, the fulfillment of the payments and negotiating conditions was in some instances (notably Côte d'Ivoire, the Dominican Republic and Panama) less clearcut and completion of reviews was based mainly on declarations of good intentions. On the other hand, there were typically no adverse events in these cases meriting discussion by the Board.

In cases where financing assurance reviews have not been completed, this has generally been associated with non-observance of performance criteria or non-completion of general reviews, the latter often strongly influenced by lack of progress in areas other than negotiations with commercial banks. This holds true for Cameroon, Congo, Côte d'Ivoire, Ecuador, Gabon, Jordan (1989), Nicaragua, Panama, Poland (1991), and Zaïre.

Consistent with the Fund's modified policy on financing assurances, the Fund has generally looked for evidence of progress before approval of arrangements (meetings with banks, payments, introduction of debt-conversion programs, etc.). There have been examples where approval has been delayed partly because such progress was not being made. This was most notably the case with Paraguay's request for a stand-by arrangement that was scheduled for discussion by the Board in January 1991, but was withdrawn due to delays in the country's discussions with its commercial bank creditors. 1/

4. Design of performance criteria and arrears test

This section looks at the design of performance criteria on net international reserves and external payments arrears to take account of possible deviations of payments to banks from programmed amounts during the period of negotiation and delays in completion of bank packages. 2/

The practice of adjusting the net international reserves (NIR) target for deviations from programmed payments has varied considerably. In many cases there has been no automatic adjustment; in some cases there has been a symmetric adjustment with the NIR target being adjusted upward for lower payments than programmed and downward for higher than programmed payments; and in other cases the adjustment has been asymmetric with performance criteria only being adjusted upward for lower payments than programmed. In one case, the method changed in successive arrangements.

1/ In the event, Paraguay bought back most of its commercial bank debt in the secondary market during the latter half of 1991 and first part of 1992, and a new request for an arrangement never went to the Board.

2/ Typically, where adjustments to the NIR target were included, there were corresponding adjustments to domestic credit targets.

In 24 stand-by or extended arrangements approved under the modified policy on financing assurances since May 1989, there was no automatic adjustment of the reserve target (Table 21). 1/ Generally these cases can be divided into four groups: (i) those in which no payments to banks were assumed in the program (Albania, Bulgaria, Congo, Nicaragua, and Peru); (ii) conversely, those where full interest payments had been made and were assumed to continue (Mexico, the Philippines, Venezuela and Gabon); (iii) those where understandings had been reached with banks on the level of partial payments (e.g., Argentina's second arrangement, and Brazil); and (iv) those where arrears had emerged, but full payments were assumed under the program (Cameroon and Honduras).

For countries in the first group, it generally seemed reasonable not to include an adjustment clause because the difficult external situation made payments unlikely during the period covered by the specified performance criteria. For some countries in this group, however, where reserve considerations were less binding, this practice may have contributed to discourage payments to banks and thereby delay negotiations. For the second group of countries, allowing an adjustment could have sent the wrong signal by anticipating the possibility of less than full servicing of debt. For the third group of countries, the performance criteria were set to allow for the agreed level of payments to banks, and any lower level of payments would have been scrutinized in the quarterly assessment of financing assurances.

Asymmetric adjustment was included in the arrangements for Costa Rica, the Dominican Republic, Ecuador (1989), Guyana, and Poland (1990). 2/ Partial interest payments were foreseen in all these programs, but either a benchmark had yet to be established, or the record of payments had been uneven. Asymmetric adjustment in these cases was motivated by concern to preserve the resources in reserves if not paid to bank creditors.

Symmetric adjustment has been applied in Ecuador (1991), in Nigeria, and in Poland (1991 and 1993). Such an adjustment would seem most appropriate in cases of sufficient reserves, where there is uncertainty about the rate at which payments will be needed to make progress with banks, and where comparability of treatment is not threatened.

1/ In the case of Albania, an adjustor was included in the event of non-payment of a certain amount included in the program for use in connection with a solution to the arrears problem.

2/ For Poland (1990), the asymmetric adjustor was included at the time of the first review for one test date. In the case of Panama (which uses the U.S. dollar and as such is under no separate foreign exchange constraint), the performance criterion on net credit to the public sector would be revised at the time of the first review in light of progress in negotiations with banks on initiation of debt-service payments.

Table 21. Design of Performance Criteria

	Adjustment of NIR target for current payments to banks 1/	Arrears to banks excluded from arrears test
Albania	No	Yes
Argentina 1989	No	Yes
1991	No	Yes
1992	No	Yes
Brazil	No 2/	Yes
Bulgaria 1991	No	- 4/
1992	No	- 4/
Cameroon	No	No
Congo	No	Yes
Costa Rica	Asymmetric	Yes
Côte d'Ivoire 1989	No	Yes
1991	No	Yes
Dominican Republic	Asymmetric 3/	Yes
Ecuador 1989	Asymmetric	Yes
1991	Symmetric	Yes
Gabon 1989	No	- 5/
1991	No	Yes
Guyana	Asymmetric	Yes
Honduras	No	No 6/
Jordan 1989	No	No
1992	No	No 6/
Mexico	No	- 5/
Nicaragua	No	Yes
Nigeria	Symmetric	Yes
Panama	No 7/	- 6/
Peru	No	Yes
Philippines 1989	No	- 5/
1991	No	- 5/
Poland 1990	Mixed 8/	- 4/
1991	Symmetric	- 4/
1993	Symmetric	Yes
Uruguay	No	- 5/
Venezuela	No	(Yes)
Zaïre	No	No

1/ Asymmetric adjustment means that reserve target is only adjusted upward for lower than programmed payments.
2/ Target consistent with increase in interest payments.
3/ Also some downward adjustment for higher than programmed payments.
4/ No performance criterion on external arrears.
5/ No arrears to banks.
6/ Modified at time of later review to exclude arrears on reschedulable debt.
7/ Adjuster to performance criterion on net credit to the private sector.
8/ The original arrangement included no adjuster. An asymmetric adjuster was included at the time of the first review.

Regarding arrears tests, for countries with external arrears at the time of Board approval of the arrangement, the practice has generally been to exclude arrears to commercial banks on reschedulable debt. This has reflected the uncertainty about the timing of completion of a debt package that would normalize these countries' arrears to banks, thus avoiding the need for granting waivers if progress on the package was less than envisaged when the program was set. In a few cases, however, this practice was not followed: Cameroon, Honduras, Jordan, and Zaïre. In the cases of Honduras and Jordan the arrangement was later modified to exclude arrears on reschedulable bank debt after waivers had been granted in earlier reviews for the non-observance of this and other performance criteria. In the cases of Cameroon and Zaïre, the programs quickly went off track for reasons other than accumulation of arrears to banks.

Finally it is worth noting that some arrangements--Bulgaria, Panama, and Poland (1990) and (1991)--excluded arrears tests altogether despite the presence of arrears, including on normally non-reschedulable debt. In the case of Bulgaria there were arrears to not only the Paris Club and other bilaterals (like in the case of Poland), but also on short-term trade credits. In the case of Panama the arrears pertained mainly to deposits in the National Bank from non-Paris Club countries.

Table A1. Amounts of Medium- and Long-Term Bank Debt Restructured, 1985-July 1993 1/

(In millions of U.S. dollars; by year of agreement in principle)

	1985	1986	1987	1988	1989	1990	1991	1992	First Half 1993
Argentina	--	--	29,500 2/	--	--	--	--	27,595 3/	--
Bolivia	--	--	473 3/ 4/	--	--	--	--	170 3/ 4/	--
Brazil	--	6,671 6/	--	61,000 2/	--	--	7,100	52,610 3/ 5/	--
Chile	6,007	--	5,902 2/	--	--	1,800 7/	--	--	--
Congo	--	217	--	--	--	--	--	--	--
Costa Rica	440	--	--	--	1,570 3/	--	--	--	--
Côte d'Ivoire	--	691 2/	--	2,211 2/	--	--	--	--	--
Dominican Republic	787 2/	--	--	--	--	--	--	--	1,130 3/ 5/
Ecuador	4,683 2/	--	--	--	--	--	--	--	--
Gabon	--	--	39	--	--	--	157	--	--
Gambia, The	--	--	19	--	--	--	--	--	--
Guinea	--	--	43	--	--	--	--	--	--
Guyana	(47) 8/	(57) 8/	--	--	--	--	--	93 11/	--
Honduras	--	--	248 2/	--	132 2/	--	--	--	--
Jamaica	195	--	285 2/	--	--	332	--	--	--
Jordan	--	--	--	--	--	--	--	--	872 3/ 5/
Madagascar	... 9/	--	... 9/	--	--	21	--	--	--
Malawi	--	--	--	35 2/	--	--	--	--	--
Mexico	(950) 10/	43,700 2/	--	3,671 3/	48,231 3/	--	--	--	--
Morocco	538	2,174	--	--	--	3,150	--	--	--
Mozambique	--	--	253 2/	--	--	--	124 4/ 11/	--	--
Nicaragua	--	--	--	--	--	--	--	--	--
Niger	--	52	--	--	--	--	111 4/ 11/	--	--
Nigeria	--	4,250	--	5,824 2/	--	--	5,811 11/	--	--
Panama	579	--	--	--	--	--	--	--	--
Peru	--	--	--	--	--	--	--	--	--
Philippines	--	--	9,010 2/	--	781	1,339 11/	4,473 3/	--	--
Poland	--	1,970	8,411 2/	--	(351) 8/	--	--	--	--
Romania	--	800	--	--	--	--	--	--	--
Senegal	20	--	--	--	--	37	--	--	--
Sierra Leone	--	--	--	--	--	--	--	--	--
South Africa	--	(9,800) 8/	10,900 2/	--	--	--	--	--	--
Sudan	920	--	--	--	--	--	--	--	--
Togo	--	--	--	49 2/	--	--	--	--	--
Trinidad and Tobago	--	--	--	470 2/	--	--	--	--	--
Uganda	--	--	--	--	--	--	--	--	153 4/11/
Uruguay	1,958 2/	--	1,770 2/	--	--	1,608 3/	--	--	--
Venezuela	--	--	20,338 2/	--	--	19,700 3/	--	--	--
Yugoslavia	4,012 2/	--	--	6,895 2/	--	--	--	--	--
Zaire	(61) 8/	(65) 8/	(61) 8/	--	(61) 8/	--	--	--	--
Zambia	--	--	--	--	--	--	--	--	--
Total 11/	**20,139**	**60,525**	**87,221**	**80,155**	**50,714**	**27,987**	**17,776**	**80,468**	**2,155**

Restructuring agreements; and IMF staff estimates.

1/ Including short-term debt converted into long-term debt and debt exchanges involving interest or principal reduction. Amounts represent face value of old claims restructured; includes past due interest where applicable.
2/ Multiyear rescheduling agreement (MYRA) entailing the restructuring of all eligible debt outstanding as of a certain date.
3/ Financing packages involving debt and debt-service reduction.
4/ Excludes past due interest.
5/ Estimates of eligible debt.
6/ Excluding $9.6 billion in deferments corresponding to maturities due in 1986.
7/ Amendments to previous restructuring agreements.
8/ Deferment agreement.
9/ Agreements in 1985 and 1987 modified debt-service profiles on debt rescheduled under the 1984 agreements; the amounts involved are not shown because repayments made during 1985-87 have not been identified.
10/ Agreement was reached with creditor banks in this year to amend certain terms of previous restructuring agreements. The amounts involved, however, were not modified in relation to those shown for the previous year.
11/ Face value of debt extinguished in buy-back.
12/ Totals exclude amounts deferred, given in parentheses.

Table A2. Terms and Conditions of Bank Debt Restructurings and Financial Packages, 1989-July 1993 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(In millions of U.S. dollars)	(In years, unless otherwise noted)		(In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Argentina					
Preliminary agreement on April 7, 1992; term sheet June 23, 1992; final agreement December 6, 1992 and closing of agreement for principal on April 7, 1993					
Collateralized debt exchange	Debt reduction (see Table A3)				
Bolivia					
Agreement in principle of April 1992; term sheet July 10, 1992; final agreement March 30, 1993 and closing of agreement on May 19, 1993					
Waiver to allow debt buy-back and exchanges	Debt reduction (see Table A3)				
Brazil					
Preliminary agreement on July 8, 1992 term sheet September 22, 1992					
New money bonds	Old debt (equal to 5.5 times the new money provided) to be exchanged at par for new non-collateralized bonds.	...	7	15	7/8
Restructuring loan	Difference between interest rate in years 1-6 and LIBOR plus 13/16 to be capitalized.	...	10	20	years 1-2: 4 percent years 3-4: 4.5 percent years 5-6: 5 percent years 7-20: 13/16
Capitalization bond	Difference between interest rate in years 1-6 and 8 percent to be capitalized. Back-loaded amortization schedule.	...	10	20	years 1-2: 4 percent years 3-4: 4.5 percent years 5-6: 5 percent years 7-20: 8 percent
Collateralized debt exchanges	Debt reduction (see Table A3)				
Costa Rica					
Preliminary agreement of November 16, 1989, final agreement on May 21, 1990	Debt reduction (see Table A3)				
Dominican Republic					
Preliminary agreement on May 3, 1993					
Collateralized debt exchange	Debt reduction (Table A3)				
Gabon					
Agreement in principle of December 11, 1991; final agreement on May 12, 1992;					
Rescheduling of principal due January 1, 1989-December 31, 1992.	100 percent of principal	157	3	13	7/8

Table A2. (continued). Terms and Conditions of Bank Debt Restructurings Financial Packages, 1989-July 1993 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(In millions of U.S. dollars)	(In years, unless otherwise noted)		(In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Guyana					
Agreement on term sheet on August 27, 1992; Final agreement November 24, 1992	Debt reduction (Table A3)				
Honduras					
Agreements of August 17, 1989					
Bilateral concessional rescheduling of debt to Lloyds Bank					
Principal outstanding at end-October 1989	100 percent	46 2/	7	20	6.25 percent fixed rate 3/
Interest arrears at end-October 1989	100 percent	22 2/4/	7	20	6.25 percent fixed rate 3/
Bilateral concessional rescheduling of debt to Bank of America					
Principal outstanding	100 percent	47 2/	10	20	6.5 percent
Interest arrears as of end-October 1989	100 percent	17 4/	2/3	20	4 percent fixed rate
Jamaica					
Agreement of June 26, 1990					
Refinancing of debt previously rescheduled in 1987					
Tranche A	100 percent of principal	144	--	10 1/2	13/16
Tranche B	100 percent of principal	188	8	14 1/2	13/16
Jordan					
Agreement in principle of November 20, 1989					
Restructuring of medium-term loans maturing between January 1, 1989-June 30, 1991	100 percent of principal	580	5	11 1/2	13/16
New medium-term money facility	New money	50	3	3	13/16
Preliminary agreement on June 30, 1993					
Collateralized debt exchange	Debt reduction (Table A3)				
Madagascar					
Agreement in principle in October 1989 and signed on April 10, 1990					
Rescheduling	100 percent of principal falling due on December 15,1989 and 50 percent of principal falling due in 1990-93	21.1	3 1/2	9	7/8-1

Table A2. (continued). Terms and Conditions of Bank Debt Restructurings Financial Packages, 1989-July 1993 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(In millions of U.S. dollars)	(In years, unless otherwise noted)		(In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Mexico					
Agreement of February 4, 1990					
New money facility	New money	1,090 5/	7	15	13/16
Collateralized debt exchanges	Debt reduction (see Table A3)				
Restructuring of maturities of eligible debt not subject to debt and debt-service reduction	100 percent of principal	6,400	7	15	13/16
Morocco					
Agreement in principle of April 1990; final agreement of September 1990					
Restructuring of the entire debt outstanding at end-1989	100 percent of pre cutoff debt	3,150	7-10	15-20	13/16
Debt buy-backs authorized					
Mozambique					
Agreement in principle of November 1, 1991; operation completed December 27, 1991					
Waivers to allow debt buy-back	Debt reduction (see Table A3)				
Niger					
Agreement in principle of January 14, 1991; operation completed March 8, 1991					
Waivers to allow debt buyback	Debt reduction (see Table A3)				
Nigeria					
Agreement in principle of September 1988; final agreement of April 1989					
Restructuring of debt outstanding at end-1987					
Not previously rescheduled medium-term debt	100 percent of principal	1,256	3	20	7/8
Debt covered by the November 1987 reschedu-ling agreement	100 percent of principal	1,635	3	20	7/8
Debt (letters of credit) covered by the November 1987 refinancing agreement	Arrears on interest, fees, and commissions on letters of credit	2,448	3	15	13/16
	100 percent	490 6/	--	3	non-interest-bearing
Agreement in principle of March 1991; final agreement December 20, 1991 and closing of agreement on January 21, 1992					
New money bond exchange	Banks would provide new money in an amount equivalent to 20 percent of debts exchanged for noncollatera-lized new bonds.	--	7	15	1
Buy-back and debt exchange	Debt reduction (see Table A3)				

Table A2. (continued). Terms and Conditions of Bank Debt Restructurings Financial Packages, 1989-July 1993 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(In millions of U.S. dollars)	(In years, unless otherwise noted)		(In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Philippines					
Agreement in principle of October 1989; final agreement of February 1990:					
New money bonds or loans 7/	New money	710	8	15	13/16
Rescheduling of maturities falling due in 1990-93	100 percent of principal	781	8	15	13/16
Change in spread on previously restructured debt	--	Unchanged	13/16		
Waivers to allow debt buy-backs and exchanges	Debt reduction (see Table A3)				
Preliminary agreement of August 1991; term sheet February 1992, final agreement July 24, 1992 and closing of agreement on December 1, 1992					
New money bonds	Old debt (equal to 4 times the new money provided) to be exchanged at par bond for new noncollateralized bonds.	139 8/	5	17	13/16
Collateralized debt exchanges	Debt reduction (see Table A3)				
Poland					
Agreement in principle of June 16, 1989					
Deferment of amortization payments falling due between May 1989 and December 1990 9/	100 percent	206	...	...	Unchanged
Agreement in principle of October 1989					
Rescheduling of interest falling due in the fourth quarter of 1989 10/	85 percent	145	...	...	
Senegal					
Agreement of September 1990		37	-	9	7/8
Trinidad and Tobago					
Agreement in principle of November 1988; final agreement December 1989					
Medium- and long-term maturities falling due September 1, 1988-August 31, 1992	100 percent of principal	446	4 1/2	12 1/2	15/16

Table A2. (concluded). Terms and Conditions of Bank Debt Restructurings Financial Packages, 1989-July 1993 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(In millions of U.S. dollars)	(In years, unless otherwise noted)		(In percent spread over LIBOR/U.S. prime, unless otherwise noted)
Uganda					
Final agreement: February 26, 1993	Debt reduction (Table A3)				
Uruguay					
Agreement in principle of November 1990; final agreement January 1991					
New Money Bond Exchange	20 percent increase in exposure via purchase of new bonds would entitle banks to exchange at par old debt for noncollateralized "debt conversion notes".	89	7	15	1.0
Buy-back and debt exchange	Debt reduction (see Table A3)				
Venezuela					
Agreement in principle of March 20, 1990; final term sheet of June 25, 1990; final agreement of December 5, 1990					
New money bond exchange	Old debt (equal to five times the new money provided) to be exchanged at par for new, noncollateralized bonds.	1,197	7	15	1 and 7/8 11/
Collateralized debt exchanges	Debt reduction (see Table A3)				

Sources: Restructuring agreements; and IMF staff estimates.

1/ Arrangements approved in principle before January 1, 1989 are reported in previous background papers.
2/ Voluntary amortization payments made during the grace period would be matched on a 1:1 basis by debt forgiveness (equivalent to a buy-back option at 50 cents on the dollar).
3/ Interest rate would be increased by a maximum of 3 percentage points if GDP growth exceeds a threshold rate.
4/ Seventy percent of these arrears to be forgiven in 1990 upon downpayment equal to 5 percent of these arrears. Beginning at the end of 1990 and provided that Honduras remains current on interest due on all rescheduled amounts under the agreement, the creditor bank would further forgive interest arrears by a yearly amount equal to 5 percent of the arrears outstanding at end-October 1989.
5/ New money options include medium-term loan, new money bonds, on-lending facility, and medium-term trade facility. As of end-March 1992, $952 had been disbursed.
6/ Includes $112 million of previously capitalized interest arrears on letters of credit.
7/ Allowance for re-lending for up to 366 days of up to 20 percent of the new money on a revolving basis, of which one half would be available in any one calendar year and one half would be available to the private sector.
8/ Committed to the new money option at end-June 1992, with 95 percent of eligible debt tendered under the package.
9/ Payment is to be deferred until December 30, 1991. Alternatively, banks may receive payments according to the original schedule in return for an equal increase in the short-term revolving trade facility.
10/ Payment was deferred until the second quarter of 1990.
11/ The interest rate of LIBOR plus 7/8 applies to the new money bonds issued by the central bank (as opposed to the Republic of Venezuela).

Table A3. Debt and Debt-Service Reduction in Commercial Bank Agreements, 1987-July 1993

(By year of agreement in principle)

	Face Value of Debt to Commercial Banks: Retired	Face Value of Debt to Commercial Banks: Issued	Resources Used	Terms	Enhancements for New Instruments	Special Features
	(In millions of U.S. dollars)					
Argentina (1987)						
Noncollateralized debt exchange with interest reduction	15	15	--	Old claims exchanged at par for new exit bonds with 25-year maturity (12 years grace) and 4 percent fixed rate.	--	New bonds excluded from future new money base.
Argentina (1992)						
Principal reduction	12,662	12,662	(((((	Old claims exchanged for new bonds, with a 30-year bullet maturity and interest at LIBOR plus 13/16, at pre-negotiated exchange ratio of 1:0.65.	Principal fully collateralized and 12-month rolling interest guarantee based on 8 percent rate.	(Part of PDI settled at closing (date through cash payments (of US$700 million). The balance refinanced ((three years grace) bearing (interest of LIBOR plus 13/16 and (semiannual amortization payments (rising from 1 percent of the original (face value in payments 1-7, (5 percent in payment 8, and 8 percent (in payments 9-19. ((Interest due reduced to respective (monthly LIBOR through end 1991, (and to 4 percent thereafter. ((Bonds eligible for debt conversions.
Interest reduction	6,624	4,306	(3,059 1/ (including (resources from IMF, (World Bank, Inter-(american Development (Bank, Eximbank Japan (and Argentina's own (resources) (((	Old claims exchanged at par for new bonds with a 30-year bullet maturity and interest increasing gradually from 4 percent in year one, to 6 percent in year seven, and remaining at that level until maturity.	Principal fully collateralized and 12-month rolling interest guarantee based on 6 percent rate.	
Bolivia (1987)						
Cash buy-back	253	--	28 (bilateral donations)	At pre-announced price of 11 cents on the dollar.	--	--
Collateralized debt exchange with principal reduction	204	22	7 (bilateral donations)	Old claims exchanged for new zero-coupon 25-year bond carrying 9.25 percent yield at a preannounced exchange ratio of 1:0.11.	Principal and interest fully collateralized.	PDI canceled under all options. New bonds eligible for debt conversions.
Debt forgiveness	16	--	--	--	--	Includes $0.6 million of debt-for-nature swap.

Table A3 (continued). Debt and Debt-Service Reduction in Commercial Bank Agreements, 1987-July 1993

(By year of agreement in principle)

	Face Value of Debt to Commercial Banks Retired	Issued	Resources Used	Terms	Enhancements for New Instruments	Special Features
	(In millions of U.S. dollars)					
Bolivia (1992)						
Cash buy-back	78	--	... (27 (including (resources from (IDA debt re-	At pre-announced price of 16 cents on the dollar.	--	FDI canceled under all options.
Interest reduction	33	33	... (duction facility (and grants from the	Old claims exchanged at par for noninterest bearing new bonds with a 30-year bullet maturity.	Principal fully collateralized	Value recovery clause based on the world price of tin.
Principal reduction	60	10	... (U.S., Sweden, (Switzerland and (the Netherlands)	Old claims exchanged for new short-term bonds at pre-negotiated exchange ratio of 1:0.16	--	Upon maturity, bonds exchanged into domestic-currency-denominated assets at pre-negotiated ratio of 1:1.5 for approved investment in special projects.
Brazil (1988)						
Noncollateralized debt exchange with interest reduction	1,100	1,100	--	Old claims exchanged at par for new exit bonds with 25-year maturity (10 years' grace) and 6 percent fixed rate.	--	New bonds excluded from future new money base. Eligible for debt-equity conversion program.
Brazil (1992)						
Principal reduction	...	...	(... ((((	Old claims exchanged for new bonds with a 30-year bullet maturity and interest at LIBOR plus 13/16, at pre-negotiated exchange ratio of 1:0.65.	Principal fully collateralized and 12-month rolling interest guarantee.	(Cash payment of \$2.0 (billion paid during May- (December 1991. The PDI (remaining at end-1990 (converted into a 10 year
Interest reduction	...	...	(((((((	Old claim exchanged at par for new bonds with a 30-year bullet maturity and interest increasing gradually from 4 percent in the first year, to 6 percent in the seventh year, and remaining at that level until maturity.	Principal fully collateralized and 12-month rolling interest guarantee.	(bond (3 years grace) at (LIBOR plus 13/16. (Interest due in 1992-93 (reduced to 4 percent. ((Remaining PDI accumulated (in 1991 and 1992 is converted into
Temporary interest reduction	...	...	(((((	Old claim exchanged at par for new bonds with a 15-year maturity (9 years grace) and an interest rate of 4 percent in the first two years, 4.5 percent in years 3-4, 5 percent in years 5-6, and LIBOR plus 13/16 from years 7 to 15.	Twelve-month rolling interest guarantee for the first 6 years.	(12 year bonds (3 years (grace) at LIBOR plus 13/16; (semiannual amortization (payments of 1 percent of (original principal for payments 1-7, (5 percent for payment 8, and 8 percent (for payments 9-19. ((Bonds eligible for debt conversions.

Table A3 (continued). Debt and Debt-Service Reduction in Commercial Bank Agreements, 1987-July 1993

(By year of agreement in principle)

	Face Value of Debt to Commercial Banks: Retired	Face Value of Debt to Commercial Banks: Issued	Resources Used	Terms	Enhancements for New Instruments	Special Features
	(In millions of U.S. dollars)					
Chile (1988)						
Cash buy-backs	439	--	248 (own resources)	$299 million bought back in November 1988 at average price of 56 cents on the dollar; $140 bought back in November 1989 at average price of 58 cents on the dollar. Price determined in Dutch auction.	--	Resources used for buy-backs subject to aggregate limit of $500 million; debt to be extinguished subject to aggregate ceiling of $2 billion.
Costa Rica (1989)						
Cash buy-back	991	--	196 [2] (from bilateral and multilateral sources and Costa Rica's own reserves)	At pre-announced price of 16 cents on the dollar.	--	Includes $223 million of PDI.
Collateralized debt exchanges with interest reduction	290	290		(a) Old debt exchanged at par for new 20-year bond (10 years' grace) carrying 6.25 percent fixed, negotiated rate.	(a) Eighteen-month interest guarantee (excess enhance-funds to be applied to increase coverage up to 18 months).	(a) and (b) available only to banks tendering at least 60 percent of their exposure to the buy-back option. Value recovery clause linked to GDP growth. Converted PDI equaled $53 million.
				(b) Past-due interest, after 20 percent cash downpayment, exchanged at par for a new claim with a 15-year maturity (no grace period) and LIBOR plus 13/16.	(b) Thirty-six month interest guarantee.	(c) and (d) optional to banks tendering less than 60 percent of their exposure (including past-due interest) to the buy-back option. Converted PDI equaled $61 million.
Noncollateralized debt exchange with interest reduction	289	289		(c) Old claims (including past-due interest) exchanged at par for a new 25-year bond (15 years' grace) carrying 6.25 percent fixed, negotiated rate.	--	(a), (b), (c) and (d): new bonds eligible for debt-equity conversion program.
				(d) Past due interest, after a 20 percent cash downpayment, exchanged at par for a new claim with a 15-year maturity (no grace period) and LIBOR plus 13/16.		Value recovery clause activated if GDP exceeds 1989 GDP by 120 percent in real terms.

Table A3 (continued). Debt and Debt-Service Reduction in Commercial Bank Agreements, 1987-July 1993

(By year of agreement in principle)

	Face Value of Debt to Commercial Banks: Retired	Issued	Resources Used	Terms	Enhancements for New Instruments	Special Features
	(In millions of U.S. dollars)					
Dominican Republic (1993)						
Cash buy-back	...	...	(...	At pre-announced price of 25 cents on the dollar.	--	Buy-back price applies to principal and interest arrears separately.
Principal reduction	...	...		Old claims exchanged for new bonds with 30-year bullet maturity and interest at LIBOR plus 13/16 at pre-negotiated exchange rate of 1:0.65.	Principal fully collateralized and 9-month rolling interest guarantee (to be capitalized until 12-months).	At closing, 12.5 percent of remaining PDI will be settled through cash payments. The balance will be refinanced as uncollaterlaized 15-year bond (3 years' grace) bearing interest of LIBOR plus 13/16 and semi-annual amortization payments rising from 1 percent of the original face value in payments 1-7 and equal installments thereafter.
Temporary interest reduction	...	...		Old claims exchanged at par for new bonds with a 18-year maturity (9 years' grace) with equal semiannual installments after grace and an interest rate of 3 percent in years 1-2, 3.5 percent in years 3-4, 4 percent in years 5-6, and LIBOR plus 13/16 from years 7 to 18.	--	Agreement includes a "pull-back" clause if banks' allocation does not yield at least 50 percent debt reduction.
Guyana (1992)						
Cash buy-back	69	--	(10 (fully financed (by IDA debt (reduction facility).	At pre-announced price of 14.5 cents on the dollar.		Excludes export credit debt. Buyback price applied to principal, PDI (US$23.5 million) canceled.

Table A3 (continued). Debt and Debt-Service Reduction in Commercial Bank Agreements, 1987-July 1993

(By year of agreement in principle)

	Face Value of Debt to Commercial Banks Retired	Issued	Resources Used	Terms	Enhancements for New Instruments	Special Features
	(In millions of U.S. dollars)					
Jordan (1993)						
Cash buy-back	...	...	(...	Price still to be determined.	--	Buy-back price applies to principal and interest arrears separately.
Principal reduction	...	...	(	Old claims exchanged for new bonds with a 30-year bullet maturity and interest at LIBOR plus 13/16 at pre-negotiated exchange ratio of 1:0.65.	Principal fully collateralized and 6-month rolling interest guarantee based on 8 percent.	At closing, 50 percent of PDI associated with the discount exchange and 10 percent of PDI associated with the par exchange will be settled through cash payments. The balance will be refinanced as uncollateralized 12-year bond (3 years' grace) bearing interest of LIBOR plus 13/16 and equal semi-annual installments after grace.
Interest reduction	...	...	(	Old claims exchanged at par for new bonds with a 30-year bullet maturity and interest increasing gradually starting at 4 percent in years 1-4, 5 percent in year 5, 5.5 percent in year 6 and 6 percent from years 7 to 30.	Principal fully collateralized and 6-month rolling interest guarantee based on 6 percent.	Interest due after March 1991 and until the closing date reduced to an interest rate of 4 percent.
Mexico (1988)						
Collateralized debt exchange with principal reduction	3,671	2,556	555 (own resources)	Old claims exchanged for new bond with 20-year bullet maturity and LIBOR plus 1 5/8; average exchange ratio 1:0.7 (determined in Dutch auction).	Principal fully collateralized.	New bonds excluded from future new money base.
Mexico (1989)						
Collateralized debt exchanges Principal reduction	20,546	13,354 3/	(7,122 (including resources from IMF and World Bank)	Old claims exchanged for new bond with 30-year bullet maturity and LIBOR plus 13/16; exchange ratio 1:0.65 (negotiated).	Principal fully collateralized and 18-month rolling interest guarantee.	(Recovery clause in case real oil prices exceed threshold real price (of $14 a barrel. New bonds excluded (from future new money base and (eligible for debt-equity conversion.
Interest reduction	22,427	22,427	(	Old claims exchanged at par for new bond with 30-year bullet maturity and 6.25 percent fixed, negotiated interest rate.	Same as above	(

Table A3 (continued). Debt and Debt-Service Reduction in Commercial Bank Agreements, 1987-July 1993

(By year of agreement in principle)

	Face Value of Debt to Commercial Banks Retired	Issued	Resources Used	Terms	Enhancements for New Instruments	Special Features
	(In millions of U.S. dollars)					
Mozambique (1991)						
Cash buy-back	124	--	12 (including resources from IDA debt reduction facility and French Swiss, Swedish and Dutch grants)	At the preannounced price of 10 cents on the dollar.	--	Buy-back price applied to principal, PDI canceled.
Niger (1991)						
Principal reduction	111	--	(23 (including resources (from IDA debt reduction (facility and French and (Swiss grants) (	Old claims exchanged for new 60-day notes with face value equivalent to 18 percent of outstanding face value of principal	Principal fully guaranteed by BCEAO	Buy-back price applied to principal, PDI canceled. Operation has been structured as a novation, that is the exchange of a new obligation for an old obligation to avoid seeking waivers from certain provisions in existing loan contracts.
Interest reduction	...	...	(((((	Old claims exchanged at par for 21-year non-interest bearing notes.	Principal fully collateralized by zero coupon bonds purchased by the BCEAO.	--
Nigeria (1991)						
Cash buy-back	3,390	1,356	((1,708 4/ (own resources)	At pre-announced price of 40 cents on the dollar.	Principal fully collateralized by U.S. Treasury bonds with a 12-month rolling interest guarantee, based on rate of 6.25 percent.	All PDI cleared prior to closing date. Recovery clause in the event that oil prices exceed threshold of $28 a barrel in 1996, adjusted for inflation thereafter. New bonds eligible for debt conversions.
Interest reduction	2,048	2,048	(	Old claims exchanged at par for new registered bonds with a 30-year bullet maturity and a fixed interest rate of 5.5 percent for 3 years and 6.25 percent thereafter.		
Philippines (1989)						
Cash buy-back	1,339	--	(670 (including resources from IMF and World Bank)	At pre-announced price of 50 cents on the dollar.	--	Included waiver for second round of buy-backs.

Table A3 (continued). Debt and Debt-Service Reduction in Commercial Bank Agreements, 1987-July 1993

(By year of agreement in principle)

	Face Value of Debt to Commercial Banks Retired	Issued	Resources Used	Terms	Enhancements for New Instruments	Special Features
	(In millions of U.S. dollars)					
Philippines (1992)						
Cash buy-back	1,263	--	(1,125 (including (resources from (IMF, World Bank,	As pre-announced price of 52 cents on the dollar.	--	--
Temporary interest rate reduction	757	757	(Eximbank Japan (and the Philippines' (own resources) ((	Old claims exchanged at par for new bonds with 15-year maturity (7 years grace) and an interest rate of 4 percent in the first two years, 5 percent in years three-five, 6 percent the sixth year, and LIBOR plus 13/16 from year seven and onwards.	Twelve-month rolling interest guarantee based on a six-percent per annum rate for the first six years.	--
Principal collateralized interest reduction	1,894	1,894	(((((	Old claims exchanged at par for new bonds with a 25-year bullet maturity and an interest rate that gradually rises from 4.25 percent in the first year to 6.5 percent in the sixth year and remains at that level until maturity.	Principal fully collateralized and 14 months rolling interest guarantee based on a rate of 6.5 percent.	--
Uganda (1993)						
Cash buy-back	153	--	(18 (including resources (resources from IDA debt (reduction facility and (grants from The (Netherlands, Switzerland, (Germany and the EEC)	At a pre-announced price of 12 cents on the dollar.		Buy-back price applied to principal, PDI canceled.
Uruguay (1991)						
Cash buy-back	633	--	((463 (including resources	At pre-announced price of 56 cents on the dollar.		
Interest reduction	530	530	(from the IDB) ((	Old claims exchanged at par for new bonds with a 30-year bullet maturity and a fixed interest rate of 6.75 percent.	Principal fully collateralized and an 18-month rolling interest guarantee.	Value recovery clause allowing for larger payments in the event of a favorable performance of an index of Uruguay's terms of trade.

Table A3 (concluded). Debt and Debt-Service Reduction in Commercial Bank Agreements, 1987-July 1993

(By year of agreement in principle)

	Face Value of Debt to Commercial Banks Retired	Issued	Resources Used	Terms	Enhancements for New Instruments	Special Features
	(In millions of U.S. dollars)					
Venezuela (1990)						
Collateralized debt exchanges						
Principal reduction	1,411	647	(2,585 5/(including (resources from IMF and (World Bank)	Old claims exchanged for new three-month notes with present value equal to 45 percent of face value of old claims.	Face value of notes fully collateralized by short-term U.S. Treasury securities.	
Principal reduction	1,808	1,265		Old claims exchanged for new bond with 30-year maturity and LIBOR plus 13/16 at prenegotiated exchange ratio of 1:0.70.	Principal fully collateralized and 14-month rolling interest guarantee.	(Eligible for debt-equity conversion. (Includes warrants to be triggered in (case oil prices exceed threshold price (of $26 a barrel in 1996, adjusted for (inflation thereafter through 2020.
Interest reduction	7,450	7,450		Old claims exchanged at par for new bond with 30-year maturity and fixed interest rate of 6.75 percent.	Principal fully collateralized and 14-month rolling interest guarantee.	
Temporary interest reduction	3,018	3,018		Old claims exchanged for new bond with 17-year maturity and interest rate of 5 percent for the first and second years, 6 percent for the third and fourth years, 7 percent for the fifth year, and LIBOR plus 7/8 of 1 percent thereafter.	Twelve-month rolling-interest guarantee for the first five years.	(Eligible for debt-equity conversion.

Sources: Debt restructuring agreements; and IMF staff estimates.

Note: BCEAO = Banque Centrale des Etats de L'Afrique de L'Ouest; IDA = International Development Association.

1/ Excludes US$700 million in downpayment on past due interest.
2/ Excludes US$29 million in downpayment on past due interest.
3/ Includes $2,447 million of debt of domestic commercial banks, for which no enhancements were provided (the Gurria bonds).
4/ Excludes US$373 million of cash payments to clear all interest arrears.
5/ Including about $210 million used to offer comparable collateral for bonds issued prior to 1990.