

# GUIDE FOR APPLICANTS FOR PURCHASE OF DEBT UNDER ECGD'S DEBT CONVERSION SCHEME

## INTRODUCTION

Prospective purchasers in search of financing for emerging markets may find ECGD's **Debt Conversion Scheme** of interest. Prospective purchasers can use proceeds from the conversion of ECGD's restructured sovereign debt to finance investment in a range of countries. Pursuant to reaching an agreement with the country concerned, the Purchaser buys local currency but pays a price to ECGD that reflects the hard currency value of the debt.

ECGD is willing to sell limited amounts of its restructured sovereign debt for the sole purpose of the discharge of that debt by the government of the country (or its agent) by payment in local currency to the Purchaser. The local currency is to be wholly used by the Purchaser to invest in a local (i.e. within the country concerned) project approved by the government of the country (or its agent). Negotiations and agreement on the terms of release of the local currency by that government (or its agent) are the sole responsibility of the Purchaser, who then carries the full risk in respect of the performance of the country in releasing the local currency proceeds. Applications for the purchase of ECGD debt must be made on a standard application form, supplies of which can be obtained from the contact point below.

Debt conversion allows a portion of the hard currency debts of the countries that have been rescheduled through the Paris Club to be converted into the country's local currency at a discount. Under these arrangements ECGD can sell debt worth up to a maximum of \$40m or the equivalent of 30% of its exposure on the country, whichever is the higher. The exact limits are determined for each country by the Paris Club. Conversion is conditional on the cancellation of the original hard currency debt. This differs from secondary market trading which allows creditors to sell their credits but never provides benefits directly to the country.

Some governments of countries that have rescheduled their debts will have official debt conversion programmes in place, which can smooth the process. Such programmes will often set the rate at which the debt is converted into local currency. For other countries, applications for debt conversion may be considered on a case-by-case basis, which can lengthen the time needed to conclude a transaction.

## **TERMS AND CONDITIONS**

One of the most important objectives of ECGD's Debt Conversion scheme is to encourage the sale of debt for conversion in accordance with Paris Club principles, and in a manner conducive to the proper financial management of ECGD's portfolio. The extent to which projects are consistent with HM Government objectives and policy will also be considered.

Applications will be assessed firstly by whether they provide value for money for ECGD. If this is the case, ECGD will also take account of the benefits that the country will derive from the proposed projects that the debt will be used to finance, and the resources and track record of the Purchaser and other participants.

Debt conversion can only take place with the agreement of the country's government and ECGD will not conclude any debt conversion without first receiving confirmation of that government's agreement to the conversion for the purpose specified in the application and confirmation of the eligibility of the underlying hard currency debts for cancellation.

ECGD reserves the right to market test the purchase price offered by the Purchaser.

## **HOW DEBT CONVERSION WORKS**

The stages in a typical debt conversion transaction are as follows:

- 1 An enquiry is received from a potential Purchaser of debt;
- 2 ECGD responds to this enquiry by explaining the background and workings of the Debt Conversion Scheme and enclosing an Application Form for use by the Purchaser in making a formal application to purchase debt [and a sample of the ECGD's standard Assignment Agreement - see step 10 below];
- 3 That Application Form is then returned duly completed;
- 4 ECGD then informs the government of the country concerned of the potential transaction;
- 5 If appropriate, market testing letters are sent out, with a stipulated response time;
- 6 Once that time has expired, ECGD reviews the responses to market testing and a decision is taken by ECGD as to which bid to accept;

- 7 This decision is then communicated in writing to the successful Purchaser, who may or may not be the original applicant. The price acceptable to ECGD is also communicated and the successful Purchaser may be invited to pay a non-refundable Reservation Fee, in addition to the sale price. In consideration of this Reservation Fee, which is payable within 10 days of the communication of ECGD's decision on the winning bid, ECGD will hold the price at which it is prepared to sell the debt to the successful Purchaser for a period not exceeding 120 days, notwithstanding that ECGD will have no commitment during this period to sell debt to any applicant, and give that Purchaser exclusive negotiating rights for specific maturities of debt. A Letter of Accreditation will be given to the Purchaser for presentation to the government of the country
- 8 ECGD agrees with the government of the country the items in the relevant Paris Club Bilateral Agreement that are to be removed from the Debt List, thus releasing the corresponding local currency deposits for payment to the successful Purchaser. ECGD will also require written approval for the proposed project from the country's relevant government department.
- 9 ECGD takes an assignment, from the bank that financed the original loan, of the Paris Club hard currency debts, thus acquiring the rights to those debts, which it then assigns to the Purchaser. The debts are subsequently removed from the Debt List.
- 10 Once the full purchase price is paid to ECGD, the Assignment Agreement, which assigns the Paris Club hard currency debts to the Purchaser, is signed. The Assignment Agreement is normally in the standard form attached hereto, but ECGD reserves the right to alter the terms of that standard at its discretion.
- 11 In accordance with Paris Club rules, details of the debt conversion will be reported to the Paris Club Secretariat on a confidential basis not later than 3 months after the release of local currency to the Purchaser is concluded.

Irrespective of any debt reduction provided by the UK under the Bilateral Debt Agreements the conversion will be based on the full original face value of the debt.

## **DOCUMENTS NEEDED**

### Accreditation Letter

ECGD will provide a successful purchaser with an Accreditation Letter containing details of the specific maturities of debt it is selling. Although ECGD will liaise with the country's authorities on the debt to be used, the applicant is responsible for obtaining the country's approval for the acceptability of this debt for the purpose of conversion. The purpose of this letter is to enable the Purchaser of debt to identify themselves to the government of the country as the Purchaser of the relevant debt and thus as the person to whom that government should release the appropriate amount of its local currency.

## Assignment Agreement

ECGD and the Purchaser will sign this once necessary preliminaries, as described above, have been completed and the Purchaser has satisfied itself that the debt is eligible for conversion and that the relevant local currency will be made available by the authorities in the country. Payment to ECGD is made upon the signature of the Assignment Agreement and the assignment of the debt is irrevocable.

## Notice of Assignment

This is issued where countries require additional confirmation of the assignment of the debt from ECGD to the Purchaser. It will not be required in all cases.

## **PRICE**

ECGD can only sell debt where this represents value for money. This occurs when the price offered to ECGD at least matches the likely rate of return through existing Paris Club arrangements as set out in the Bilateral Agreement. The decision about whether this provides value for money is based on a number of factors including, but not limited to, the country's payment record with ECGD, and the secondary market price for the debt. The value thus assessed (the 'Floor Price') is used as a benchmark to assess the purchase price proposed in applications. This will vary according to the country and is never disclosed.

## **APPLYING FOR DEBT CONVERSION**

All applications must be submitted on ECGD's own form [which is included with this Guide]

The amount of debt required will determine the method of assessment and the time taken to process the application. As a general guide:

- Applications for debt of £5m or less will take approximately 8 weeks to process;
- Applications for debt above £5m are tested to ensure that the best price is being obtained. This will involve potential Purchasers, usually banks or other financial institutions (and the original applicant) being invited to submit bids. As a result, the process may take between 8 and 12 weeks in total.

It is important to note that the conversion of the debt is based on the original face value of the debt rather than the value remaining after any debt forgiveness has been given under Paris Club arrangements. ECGD sells the maturities of original debt and contractual interest rather than the instalments which are due under the rescheduling agreements. This is because it is the original maturities that will have had local currency deposited against them, or a budgetary allocation made where public sector debts are concerned. Generally we would select debt due under

ECGD's Buyer Credit facilities. Any capitalised moratorium interest in respect of these debts, i.e. unpaid interest on the overdue principal and interest which has since been capitalised as new debt, does not normally form part of the debt available for sale - such capitalised moratorium interest will remain as debt within the Bilateral Agreements.

## **NEXT STEPS**

If you have any further questions, please call the contact point below.

If you have a specific project in mind which you would like us to consider you should submit a completed application form.

If you do not yet have a particular project in mind you can record your interest for future market tests by letting us have an indication of those markets in which you are interested.

### **Telephone Numbers:**

Alex Muckersie 020 7512 7078  
David Underwood 020 7512 7189

### **E Mail:**

[Alex.muckersie@ecgd.gsi.gov.uk](mailto:Alex.muckersie@ecgd.gsi.gov.uk)  
[David.underwood@ecgd.gsi.gov.uk](mailto:David.underwood@ecgd.gsi.gov.uk)

This guide is designed to give you an overall impression of ECGD's debt conversion scheme. It is not intended to be exhaustive nor does it constitute any commitment to offer debt in any particular case. You are advised to consult your own legal or technical advisers as to the full implication of buying debt from ECGD.

## **International Debt Policy**

### **Business Division 2**