

GUIDE FOR GOVERNMENTS OF COUNTRIES THAT HAVE RESCHEDULED DEBTS TO ECGD'S DEBT CONVERSION SCHEME

INTRODUCTION

- 1 Many Paris Club Agreed Minutes (and the consequential Bilateral Debt Agreements with the United Kingdom) include a Debt Conversion option. Debt Conversion allows a proportion of the rescheduled hard currency debts of the country concerned to be converted into local currency, for investment in local projects approved by the government of the country.
- 2 In recent years ECGD's Debt Conversion Scheme (the Scheme) has financed a wide range of projects, including education and agricultural rehabilitation programmes, commercial investment, and health and medical projects funded by charitable organisations.
- 3 This note explains how the Scheme works from your perspective.

ADVANTAGES TO THE DEBTOR COUNTRY

- 4 For a debt conversion to be successful there must be a benefit for all three parties involved, viz. the UK Government (acting through ECGD), the Purchaser and your government. Debt Conversion presents the following advantages for your country:
 - The early settlement of rescheduled hard currency debts in local currency, at a discount in the price charged by ECGD to the Purchaser, leaving foreign currency reserves unaffected.
 - The local currency released from debt conversion is reinvested locally in projects approved by you.
 - The Scheme may attract investment which might not otherwise take place.

DEBT CONVERSION PROCESS

- 5 The principal stages of the Debt Conversion process from your perspective are set out below:
 - Potential purchasers interested in using the Scheme to finance investment in your country approach ECGD. We will then write to you to inform you of a possible sale and to request that you confirm your willingness to participate in the Scheme. This is necessary because we need to ascertain whether any current circumstances, such as budgetary constraints, priorities for new investment and so on, may prevent you from participating in the Scheme. ECGD can then advise the prospective purchaser of the potential for debt conversion with your country.
 - It is a matter for you to agree the timing and methods of settlement of the debt in local currency directly with the prospective Purchaser of the debt for conversion. ECGD will not be involved in these negotiations.
 - At the same time, the prospective Purchaser may also be seeking the approval for the proposed project from your relevant government department(s) (e.g. your Ministry of Agriculture for an agricultural project).
 - ECGD will receive a formal application from the prospective Purchaser; this may be before or after the Purchaser has commenced negotiations

with you. We will then assess the application against our standard criteria for considering such deals. Where the value exceeds £5m the application may be market tested, this involves inviting bids from other companies for the debt available.

- Once we have approved an application we will issue the successful purchaser with an Accreditation Letter. This will enable the successful purchaser to identify himself to you, but does not commit ECGD to selling the debt, and therefore should not be taken by you as evidence that a definite debt sale will take place.
- ECGD will detail the specific maturities of debt to be included in the debt sale and will agree and reconcile these with you. We may also write to your relevant government department(s) in order to gain their confirmation that the project to be financed by the debt conversion has been approved.
- ECGD will seek third party corroboration of some of the information provided by the Purchaser about the project, usually from the appropriate HM Diplomatic mission. This may involve them contacting the relevant government department(s) directly.
- Once all negotiations are completed, payment will be made by the Purchaser to ECGD and we will assign title to the specific maturities of debt to the Purchaser under English Law. The debts will subsequently be retired from the relevant Paris Club agreed Debt List and our records will be amended accordingly. The effect of the debt sale on the amounts outstanding will normally be shown in the next statement you receive from ECGD.

International Debt Policy

Business Division Two