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COSTA RICA

DEBT FOR DEVELOPMENT:

Guidelines, Programs and

Potential Cooperative Initiatives

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EXECUTIVE SUMMARY

Debt for development is the conversion of outstanding developing country external debt to foreign creditors into some form of local asset that will be used in development activities. Options include: debt for equity, debt for debt and debt for cash.

Debt swapping offers the potential for generating substantial local currency resources which may be used to finance different programs. It reduces the countries' hard currency obligations but if not handled properly may lead to inflationary pressures.

Other issues or concerns of potential users of this financial leveraging technique relate to the legal issues and complexity of actually doing a "deal." The Agency for International Development (A.I.D.) has recently promulgated draft rules for the use of A.I.D. resources to purchase developing country debt and use the local currency proceeds to carry out development programs in the LDC's. Each country may also have complicated rules and regulations for carrying out debt swap transactions.

In Costa Rica, there is an official debt swap program which provides for the swapping of up to $45 million over three years. However, the conditions established under this program make it difficult or almost impossible for U.S. PVO's or cooperative development organizations (CDO's) to participate.

In addition to the official program, there are several informal programs involving cooperative federations, the Institute for Cooperatives (INFOCOOP) and the Banco Popular. The intention of these programs is to assist in the strengthening of Costa Rican cooperatives and their federations.

The methodology for doing a debt swap in Costa Rica can be divided into three distinct chapters: 1) preliminary analysis and concept, 2) proposal development, and 3) the conversion process. Those parties interested in debt swapping in Costa Rica should proceed with caution so as to ensure compliance with the myriad of regulations and conditions, or be prepared to face the consequence.

The first step in developing a debt swap program in Costa Rica is to develop the concept into a paper which should be circulated to officials in the Central Bank to obtain the requisite blessing.

The ACDI concept paper presents a project in which FEDECOOP (the federation of coffee cooperatives) or another local company in which FEDECOOP has a substantial investment, and an U.S. company, propose to establish an industry for processing waste coffee bean pulp to produce caffeine and alternative fuels, e.g., carbon, oil and gas. Caffeine extraction technology under license from a major U.S. soft drink company will be combined with the Gas Recirculation Pyrolysis Process (GRPP) under license from the U.S. investor. The caffeine produced will be exported under a multi-year sales contract and some of the fuels will be utilized to meet the energy requirements of the plant while others will be sold locally replacing imported fuels. By using waste coffee products, the environmental impact of the project will be significant. Caffeine sales will generate significant foreign exchange earnings for Costa Rica. The project will also create approximately 20 long-term stable jobs in rural Costa Rica.

NRECA proposes to create an on-shore financing mechanism for private power generation by consumer-owned rural electric systems in Costa Rica, which is facing near-term power shortages brought on by financial constraints in the public power system and over-reliance on international financing of the Costa Rican power sector.

Recent policy initiatives has resulted in the opening-up of power generation by private investment in Costa Rica and through d debt-swapping mechanism the possibilities of providing interest rate buy-down will make local long-term financing for power generation a distinct possibility.

Costa Rican external debt will be purchased and converted into long-term, non-inflationary bonds that will provide sufficient yields to "buy down" market lending rates for medium- and long-term power investments by private Costa Rican rural electric cooperatives. Interest earned on bonds received in trade for external paper will be used to support interest payments on long-term bonds issued to the Costa Rican public for power projects, as may be needed.

In addition to the proposed power lending program, NRECA proposes to raise voluntary resources to finance a debt conversion to operate a reforestation initiative that aims mainly at protecting small river basins threatened by Costa Rica's serious deforestation problem.

The more detailed concept papers involving Costa Rican cooperatives are presented in Annex B to this brief report.

I. BACKGROUND

A. Definition/concept

Debt for development is the conversion of outstanding developing country external debt or unremitted claims to foreign creditors into some form of local (internal) asset that will be used in development activities. Options include: Debt for equity, debt for debt and debt for cash. The developing country debt must be viewed as a crisis- the more critical the situation the more likely the possibility of reaching a mutually beneficial arrangement that is viewed by all parties as economically feasible. The critical element in such a transaction is the willingness of the foreign creditor to discount its claim and the developing country government or debtor must agree to pay the obligation in local currency and allow it to be used for specific development projects.

The goal of debt exchanges is to work out mutually beneficial arrangements or more commonly called "deals" among several interested parties that reduce debt burdens which are problematic to developing countries and their foreign creditors and at the same time channel and expand the resources into developmentally sound, priority and productive programs. It represents an effort which allows the interested parties to turn a problem into an opportunity.

B. Benefits and Opportunities

Foreign creditors - banks, non-commercial bank corporations, trading or other business organization, entities with blocked currency, governments and its agencies, and multilateral development banks - see debt conversion as an opportunity to turn a non-performing asset or potential loss into one that is performing, produces income and now or in the future will be wholely or partially repaid.

The developing country debtor - governments, public corporations, banks and other private sector entities - view debt conversion as beneficial since it reduces or restructures it debt burden and allows for local currency resources to be used for priority development programs.

Not-for-profit organizations in the industrialized nations and their local partners such as cooperatives, cooperative development organizations, foundations, private voluntary organizations, and universities serve as initiators,

intermediaries, and implementors of approved development programs. They benefit by leveraging existing or securing new resources to pursue mutually agreed upon development goals.

The last group that may benefit are participants in the small and often unpredictable but continuously evolving secondary markets where private debt is currently bought and sold at a discount. These include investment, commercial and regional banks, traders, and other specialty organizations.

C. Issues

1. Impact on the local economy- A central bank will likely proceed with caution as it assesses the possible negative effects on the local economy. The areas of concern may be: changes in inflation and interest rates, impact on the domestic financial market and distribution of resources and impact on stabilization and debt restructuring agreements. An example and lesson learned is the potential inflationary impact. Initial experiments in conversions have shown that the developing countries must be concerned about the potential inflationary impact which may result when the transaction significantly increases the amount of local currency. By increasing the money supply in the short term increased inflation can result thus frustrating or negating a central bank's monetary policy objectives.

2. Legal concerns- Interested or parties involved in a "swap" must ensure that the resulting agreement is legal. It must conform to the terms of the foreign creditor, the local laws and policies regarding conversions and if applicable the guidelines of an international development organization. Some of the cases reviewed signal that the parties involved in an exchange should review original creditor/debtor agreement concerning transferability of the debt instrument. Another issue currently being debated is the ownership of interest earned on the locally acquired asset such as bonds or other similar financial instruments if the hard currency purchase source is a donation from an international development agency.

3. A.I.D. Regulations- Recently issued A.I.D. regulations concerning use of A.I.D. provided resources to obtain debt instruments and swap these into local currency stipulate the local currency shall be held in interest bearing accounts and the interest earned, before using the local currency for the final program purposes, shall be remitted the U.S. Treasury. This also applies to installment payments where interest may be earned.

This provision in the A.I.D. debt regulations complicates possibilities of using A.I.D. resources to take advantage of the formal debt swapping programs in Costa Rica or in other countries where the local currency issued by the central bank is "locked up" in interest bearing securities or accounts.

While the team understands the U.S. Government's rationale for ensuring interest income earned from Federal funds be transferred to the U.S. treasury under normal circumstances, it would also like to point out that without a change in the Costa Rican rules or a waiver or change in the A.I.D. regulation, recipients of A.I.D. development resources will find it very difficult to leverage these resources using debt swaps in Costa Rica or other countries which adopt similar regulations.

However, the team has been made aware of legislation under consideration in the U.S. Congress that would facilitate the use of interest by a nongovernmental organization. Specifically Section 579 of the relevant bill states "A nongovernmental organization may invest local currencies which accrue to that organization as a result of economic assistance provided under the heading 'Agency for International Development' and any interest earned on such investment may be used for the purpose for which the assistance was provided to that organization."

The team is encouraged by the open support the Agency has provided for the concept of Debt for Development and is confident that continued support for leveraging official development assistance will be provided in the future.

4. Other issues- The relative newness of the debt for development concept and associated processes will continue to supply interested parties with experiences that refine the mutually beneficial debt exchanges that result in the coming years. To date other issues based on lessons learned include: ensuring the maintenance of value of the locally acquired asset, assessing the potential risk of default on new instruments, securing or possessing the expertise to ensure that all interested parties are acting in good faith and all the necessary agreements are reached to the mutual benefit and satisfaction of the parties involved in the conversion. In relation to the latter, one reported occurrence resulted in the debt purchaser's inability to successfully negotiate the local currency transaction because of failure to interest a local entity in the conversion and was left holding the paper. This could have been avoided by using a simultaneous transaction or in some way that the interested party guarantees the debt being

purchased is indeed convertible. Other issues explored and responses to the objections are in the attached "Debt For Development: An Exploration of Issues" (See Annex E). These include:

a) Conversion provides a foreign investment subsidy,
b) Raises government fiscal deficit,
c) Increases foreign ownership and control,
d) Equity investments cost more for a longer time.

D. The VOCA Grant:

The Agency for International Development (FVA/PVC/CDS) granted $85,000 to Volunteers in Overseas Cooperative Assistance (VOCA) on behalf of the Overseas Cooperative Development Committee (OCDC) to carry out a "Co-Op Business and Trade Initiatives" project titled "Innovative Cooperative Finance." The project was designed to "... help develop financial systems for utilizing local currencies through public and private sources of financing for cooperatives in developing countries, focusing on ... debt equity conversions."

The Innovative Cooperative Finance project focuses on obtaining local currencies through debt equity conversions from non-performing loans held by U.S. and other banks which can be purchased at a substantial discount and converted into local currencies for long-term investment in developing country cooperative financial institutions or in projects involving cooperatives.

The purpose of the project will be accomplished by three activities that included a technical conference held in December 1988 in Washington, the production of a "Debt for Development Guide," and two prototype field project design missions to initiate the local currency cooperative finance programs and gather information of two country specific debt swap programs. Costa Rica and Jamaica were chosen for the field missions.

The output of the two field missions will be at least two prototype local currency projects from two countries which have a reasonable chance for success. These prototype projects will be carried out through follow-on work to be undertaken with resources provided directly by the interested parties and possibly with additional A.I.D. resources to be sought directly from the specific USAID missions.

II. POLICIES AND PROGRAMS IN COSTA RICA

A. Official Central Bank Program:

The latest regular approved and published program of the Costa Rican Central Bank (BCCR), the guidelines of which are annexed hereto, allows swaps by Costa Rican foundations who are interested and able to work in three fields, i.e., 1) conservation of natural resources, 2) educational development and 3) small and micro-enterprise programs. Purchase of land and buildings are specifically prohibited and other program areas are mentioned, such as: financing training programs for small business, technical assistance to small business, working capital loans, purchase of didactic materials and equipment, etc.

The minimum amount of any "project" or swap proposal permitted under the current formal program is US$200,000 in acquisition of debt paper (about US$1.4 million if the paper sells at U.S.$0.15 per dollar of face value). The GOCR has authorized up to $45 million face value, $15 million per year (at U.S.$0.15 per dollar of face value, about US$ 2 1/4 million would be required to buy $15 million worth of debt paper) over a three year period. Specific debt instruments are mentioned as being eligible: 1) debt covered under the refinancing agreement dated 9/9/83, later modified on 5/29/85; 2) the debt forming part of the refinancing agreement of May 29, 1985, and 3) a $75 million credit dated 29 May 1985. The debt instruments will be swapped for monetary stabilization bonds that are denominated in either dollars or colones as per Table I presented on the following page:

The local currency funds resulting from a debt swap under this program can be used for several specific programs in accord with the following:

1) Natural resource conservation programs, which must be approved by the Ministry of Natural Resources, Energy and Mines.

2) Small business programs for training, technical assistance, research, feasibility studies, marketing studies, working capital or investment loans, loan guarantees.

3) Educational development programs for purchase of materials and equipment to be used in teaching and scholarships for Costa Rican students in Costa Rica.

TABLE I

Official Costa Rica Debt Swap Program

Item	Dollars	Colones
Percent converted:	80 % of the face value of the debt instrument	100 % of the face value of the debt instrument
Interest rate:	3 % annual paid semestral	8 % annual paid semestral
Characteristics:	not negotiable*	not negotiable*
Maturity:	20 years	20 years
Amortization:	the principal will be paid out only in the last five years in equal sums semestral.	

* Although these are not negotiable, they can be used as collateral to obtain a loan provided the income stream is "assigned" over to the bank to pay back the loan.

The last two programs (Small Business and Educational Development) may also require the approval from relevant government agencies or ministries, although the guidelines do not mention what specific agency or government body. As mentioned above, the local currency resulting from the swap operation will be paid in monetary stabilization bonds denominated in either U.S. dollars or Costa Rican colones in accord with the table presented above. HOWEVER, the interest streams on both types of bonds will be paid in colones. The interest paid on the dollar denominated bonds will be paid at the exchange rate on the day the interest payment is due.

The offers or proposals for participation in the program must contain the following information:

1) Background information on and a description of the requesting organization, including a description of the programs currently being undertaken, objectives, financial resources, experience, plus a copy of the Articles of Incorporation and the names of the current board of directors.

2) A description of the organization's usual activities.

3) Detailed description of the program or project to be undertaken with the resources generated vis-a-vis the conversion, including the time frame.

4) Amount of the offer and the possibility that the program is willing to accept a partial offer.

5) An indication as to whether or not the applicant wishes dollar denominated or colon denominated bonds.

6) Description of the debt paper to be swapped (if known).

7) Acceptance of the terms and conditions of the program and an expressed understanding that the BCCR may partially or totally reject the offer.

8) Name of the local bank selected to be the financial intermediary.

9) Name of the person(s) authorized to present the offer and represent the organization.

10) Addresses, phone numbers, etc. to facilitate communication with the offeror.

11) The offers must be presented in two copies in separate envelopes and addressed to the general manager of the BCCR.

Those interested parties which have submitted a proposal by the stipulated deadline, will be notified within two months whether or not their proposal has been approved. After this notification, the interested party has 12 months to formalize the program. The program cycle will be repeated each year for three years.

The formal program places great importance on the requirement that a local commercial bank be the intermediary between the BCCR and the proposing foundation. The local

foundation must select the local bank at the time the proposal is submitted and then establish a trust agreement with the bank in which the local bank manages the trust and ensures that the program is implemented in accord with the proposal and approved project. The local bank must, in fact, post a performance bond with the BCCR (this is not specifically stipulated in the regulations, however, banks interviewed informed the team it was in fact a requirement). The interest generated by the monetary stabilization bonds will only be paid to the intermediary bank, which in turn will pay the beneficiary only if the program is being implemented in accord with the approved plan. Progress reports must be presented to the BCCR on a trimester basis by both the intermediary bank and the beneficiary institution.

B. Informal Programs in Process

There are several other informal debt swap programs that the team was made aware of during interviews with several cooperative entities. These special programs described to the team illustrate that although there may be a formal, published program, the possibility exists of persuading the local authorities to approve other attractive programs if the Central Bank considers them to be in the national interest.

Key to this, however, is identifying with a strong local group or constituency which is able to undertake the necessary contacts and persuasion in order to win program approval. The special programs the team was made aware of are summarized below. Please note however, that the description of these special programs was provided unofficially by representatives of each institution. Furthermore, the various special programs were under active negotiation at the time of the team's visit and the definite final contracts had not been signed, to our knowledge, at that time.

1) FEDECOOP (Federation of Coffee Cooperatives) and FEDECREDITO (Credit Union Federation) conversion program for coffee cooperatives and credit unions. In these two programs, the respective cooperative federations have apparently been authorized to purchase dollars which they will use to acquire Costa Rican debt paper being held by the BCCR, which in turn issues monetary stabilization bonds to the federations at approximately 40 percent face value in Colones at the official rate. The bonds are expected to pay about 17 percent interest and are probably will be redeemable in 15 years.

The following numbers illustrate the concept: With US$100 the federations buy approximately US$625 in Costa Rican debt paper from the BCCR, which is turned into monetary stabilization bonds. Since the BCCR only recognizes 40 percent of face value of the swap, the cooperative federations are issued about C/. 20,000 in bonds. One third of these bonds are expected to mature in five years while the remaining bonds may mature in 15 years. The bonds will apparently earn 17 percent interest paid on a trimester basis. The federations will either be allowed to negotiate the bonds in the local stock market or to "assign" the income stream to their local bank in exchange for local currency.

In the case of the credit unions, the income stream will be used to buy down interest rates they are paying on certificates of deposit issued to members through savings mobilization campaigns. Some coffee cooperatives got into a difficult situation due to attempts by the European and local coffee intermediaries to corner the market for Costa Rican coffee. By permitting the coffee cooperatives to buy dollars, acquire debt instruments and, in effect, make significant profits on the swap, the GOCR and the Costa Rican Cooperative Institute hope to recapitalize these cooperatives and solve their debt situation caused by the "coffee war" between the big processors in Europe.

2) FOSECOOP (Cooperative Stabilization Fund) is a Costa Rican cooperative strengthening project involving the Costa Rican Cooperative Institute (INFOCOOP). By purchasing non-performing ICE (government electrical company/agency) debt instruments (reportedly in the hands of Canadian banks, primarily), funds will be made available to "save" cooperatives which have suffered by recent economic turmoil in Costa Rica. In this scheme, about US$ 2.0 million will be purchased by INFOCOOP at the BCCR at the official exchange rate. INFOCOOP will buy ICE paper worth about US$0.125 per dollar of face value. INFOCOOP will exchange this dollar denominated paper at ICE for 40 percent of face value, which they estimate will yield about C/. 500 millions. At this point, INFOCOOP receives its C/. 160 million back and the remaining C/. 340 million in new paper earning 26 percent will be issued by ICE - estimated to be about C/. 80 million per year. This money will be used for four program elements: a) bank guarantees for cooperatives wishing to borrow for productive projects, b) to subsidize interest rates on loans the cooperatives will obtain or already may have obtained, c) technical assistance, and d) training.

The Banco Popular will reportedly make available C/. 400 million (about US$5.0 million) to cooperatives at 22 - 24 percent interest, however, by using the local currency available from the new ICE bonds, the rate will be bought down to about 18 percent.

C. International Development Agencies

Non-governmental organizations (NGO's) such as private voluntary organizations (PVO's) and cooperative development organizations (CDO's) are working with international organizations to respond to the debt crisis facing many developing countries and to generate local currency for their programs at enhanced rates.

In Costa Rica, for example, the Asociación costarricense para organizaciones de desarrollo (ACORDE) is coordinating a program to syndicate individual relatively modest dollar resources from several PVO/NGO's so as to generate significant resources to make it attractive to do a debt swap. It was also mentioned verbally that one or more European agencies or banks may be interested in undertaking deals to obtain local currency for their development programs in Costa Rica. Agencies like the Canadian International Development Agency (CIDA) or the U.S. Agency for International Development may also be interested in leveraging their resources through debt swap programs.

Some international development agencies may also be willing to approve grants to PVO/NGO's and/or cooperatives to purchase debt. Annex C contains A.I.D.'s February 1989 announcement on the Debt For Development Initiative. The regulation is summarized in the text appearing before the Annex.

III. METHODOLOGY FOR UNDERTAKING A DEBT SWAP

The methodology for undertaking a debt swap program in Costa Rica or another country is presented in outline form on the following pages. It is by no means complete and is obviously subject to change at any time as the regulations and the programs change. The paragraphs that follow are meant as a guide to interested parties and to document the complexity of undertaking a debt swap in most countries.

The procedure has been arbitrarily broken down by the team into three major parts, i.e., A) the preliminary analysis and concept stage, B) the proposal development stage, and C) the conversion process stage.

A. Preliminary Analysis and Concept

1. Identify country and secondary debt market offering discounts.

2. Research objectives, terms and conditions of prior conversions.

3. Contact and survey needs of local counterpart cooperative or NGO.

4. Explore Central Bank interest and experience in conversions.

5. Identify foreign creditors and ways to obtain debt or explore interest of investors, international development agencies, other sources.

6. Do preliminary financial feasibility to determine if opportunities exist.

7. Prepare brief concept paper targeted to interested parties.

B. Proposal Development

1. Follow-up with interested parties and get agreement in principle on willingness to support program concept.

2. Identify and select (as appropriate) local financial institution.

3. Identify and select (as appropriate) your broker in the secondary market.

4. Obtain Central Bank agreement in principle on the conversion terms, mechanism and schedule.

5. Confirm availability and price of debt and source of local asset.

6. Prepare and submit technical and financial proposal which meets needs of the interested parties.

7. Obtain approval of proposed project.

C. Conversion Process

1. Finalize letter of intent with local financial institution (as appropriate).

2. Present formal request to central bank and get approval on conversion terms.

3. Verify source and salability of debt and finalize discount price and letter of intent with broker (as appropriate).

4. Obtain funds to buy debt.

5. Simultaneously or in the shortest time frame, a) transfer funds to broker to purchase debt, b) broker advises central bank of completed transaction, c) central bank issues local asset to local financial institution.

6. Use local asset for project purposes.

IV. CONCEPT PAPER SUMMARIES

The following paragraphs are concept paper summaries of ideas being developed by the indicated organizations. The complete concept papers are presented in the annexes to this report. These are examples of the types of debt-swap projects that are possible if foreign investors can be located or if foreign exchange resources are available to leverage into local currency. They are presented here as illustrative cases only.

A. Caffeine Extraction using a Gas Recirculation Pyrolysis Process with Coffee Wastes

FEDECOOP (the federation of coffee cooperatives) and a U.S. company (name omitted for confidentiality), with assistance and coordination services from Agricultural Cooperative Development International (ACDI), propose to establish a company in Costa Rica for processing waste coffee bean pulp to produce caffeine and alternative fuels, e.g., carbon, oil and gas. Caffeine extraction technology under license from a major U.S. soft drink company will be combined with the Gas Recirculation Pyrolysis Process (GRPP) under license from the U.S. investor. The caffeine produced will be exported under a multi-year sales contract and some of the fuels will be utilized to meet the energy requirements of the plant while others will be sold

locally replacing imported fuels. By using waste coffee products, the project will reduce waste dumping into Costa Rican streams thereby having a positive impact on the local environment. Fuels produced as by-products will be sold locally saving scarce foreign exchange. Caffeine sales will generate significant foreign exchange earnings for Costa Rica. The federation of coffee cooperatives will be positioned to provide yet another business service to its cooperative members and by capturing a portion of the income streams within the cooperative system will contribute to increased farmer incomes. The project will also create approximately 20 long-term stable jobs in rural Costa Rica.

Of the estimated $10.0 million investment required by the equity investor (FEDECOOP) and the financial partner (undetermined), approximately $4.0 million is required in local currency. This local currency will be generated using a debt equity swap and a debt for local currency swap.

B. Debt Conversion for Private Rural Power Investment in Costa Rica

NRECA proposes to create an on-shore financing mechanism for private power generation by consumer-owned rural electric systems in Costa Rica, which is facing near-term power shortages brought on by financial constraints in the public power system and over-reliance on international financing of the Costa Rican power sector. Due to high per capita foreign indebtedness, uncertainty about economic growth, inflation and exchange rates, the long-term debt market is highly constrained in Costa Rica and local financing for public service sectors is virtually impossible today.

Recent policy initiatives has resulted in the opening-up of power generation by private investment in Costa Rica and through a debt-swapping mechanism the possibilities of providing interest rate buy-down will make local long-term financing for power generation a distinct possibility.

Costa Rican external debt will be purchased and converted into long-term, non-inflationary bonds that will provide sufficient yields to "buy down" market lending rates for medium- and long-term power investments by private Costa Rican rural electric cooperatives. Interest earned on bonds received in trade for external paper will be used to support interest payments on long-term bonds issued to the Costa Rican public for power projects, as may be needed.

In addition to the proposed power lending program, NRECA proposes to raise voluntary resources to finance a debt conversion to operate a reforestation initiative aims mainly at protecting small river basins threatened by Costa Rica's serious deforestation problem.

ANNEXES

A. Trip Report

TRIP REPORT

Debt For Development Mission to Costa Rica

May 22, - June 2, 1989

Purpose of Trip: A) Document and prepare a report on the current debt swapping programs in Costa Rica. B) Prepare a step by step methodology that might be used by non-profit groups interested in using the debt swap as a means of financing development programs in Costa Rica, and C) Prepare several concept papers describing several possible debt swap deals appropriate in Costa Rica.

Personnel : 1) Robert C. Flick, Team Leader - Senior Vice President, Agricultural Cooperative Development International/Washington, D.C. 2) Paul Clark - Assistant Administrator, International Programs Division, National Rural Electric Cooperative Association, Washington, D.C. 3) John Schlueter - Financial Systems Specialist, World Council of Credit Unions/Madison, Wisconsin.

I. BACKGROUND:

Volunteers in Overseas Cooperative Development (VOCA) was awarded a grant from the Agency for International Development (A.I.D.) to undertake several activities relating to the use of developing country sovereign debt as a potential resource for development projects. These activities included a workshop held in December 1988 in Washington, D.C. attended by government officials and cooperative leaders from Costa Rica and Jamaica, A.I.D./Washington officials, and interested participants from the Debt for Development Coalition, cooperative development organizations (ACDI, NRECA, NCBA, WOCCU/CUNA, VOCA, CHF, CARE) and others, as well as two field missions to document debt swapping procedures in Jamaica and Costa Rica.

The field missions, to be undertaken by interested CDO's, were partially financed by the VOCA grant. These missions were to: A) document and prepare a report on the current debt swapping programs in two countries in which had debt swapping programs, B) prepare a step by step methodology that might be used by non-profit groups interested in using the debt swap as a means of financing development programs abroad, and C) prepare several concept papers describing possible "deals" in which debt swapping might be an appropriate financial tool.

The report that follows is a recapitulation of the debt for development mission to Costa Rica.

II. METHODOLOGY:

Work is divided into two phases, i.e., pre-visit and that carried out in-country. Several weeks prior to the Costa Rica visit meetings were held in Washington to discuss the expected output, report content, methodology, etc. The Aid Memoir produced as a result of this meeting was circulated to all interested parties and team members. A copy is attached to this report. The USAID Mission was contacted and at their request the mission was postponed until late May. Logistic arrangements were made by the ACDI office in Costa Rica in advance as were many of the key appointments. The team arrived in San Jose, Costa Rica on Sunday, May 21, 1989 and assembled at the ACDI country/regional office on Monday morning.

The first day was spent in organizational matters, confirming appointments and making contact with each members' in-country contacts, e.g., Flick made contact with BANCOOP and FEDECOOP, Clark visited the Ministry of Natural Resources and Energy and made contact with the Costa Rican Electric Company (ICE), and Schlueter made contact with the National Federation of Credit Unions (FEDECREDITO). Contact was also made with USAID/Costa Rica to confirm the presence of the team, etc.

The Cooperative Housing Foundation (CHF) participated in part of the work of the team in Costa Rica through its Costa Rica Director, Mr. Michael Doyle. CHF may be putting together debt-swap housing development deals and Mr. Doyle provided the team with background information on local housing development opportunities, as well as participating in the meeting with ACORDE and arranging a meeting of the team with Mr. William Phelps, Manager of COFISA, a local development bank with experience and facilities of all kinds of international banking operations, including debt-swaps. CHF is the U.S. cooperative development organization for the housing area and is therefore considered part of the overall effort of this study.

On Tuesday - Wednesday the team met with the people listed in Section IV below. Clark visited a rural electric cooperative in San Carlos (COOPELESCA) on Thursday (a national holiday) while Flick and Schlueter developed the report outline and reviewed the many documents picked-up during the visits. Clark departed on Friday morning, Flick and Schlueter remained through the weekend writing and preparing the report, the methodology,

and their respective concept papers,etc. The Mission was concluded on Monday, May 29th. The final report and documentation was assembled in ACDI/Washington the week of June 5 - 9, 1989.

III. COMMENTS

The official debt for development program of the Banco Central is only a part of the debt swapping activities being undertaken in Costa Rica. Other programs are being prepared by the cooperative sector to assist credit unions, coffee cooperatives and others caught-up in crises which arose due to monetary deregulation on the one hand and international coffee market manipulations on the other. The coffee crisis was in part caused by the major European coffee houses in an attempt to "corner the market" for Costa Rican coffee due to changes in the European Economic Community's (EEC) tariff structure for processed coffee. These special debt swap programs, described in the Debt for Development Report of which this trip report is but a part, are far more significant to the world cooperative community than the official BCCR program, since they represent a new cooperative development strategy that could and should be adopted by other developing countries to assist their cooperatives. By combining income streams produced by discounting foreign commercial debt, the Costa Ricans have demonstrated a new concept of development where local currency matching funds can be generated using debt. Combining these local resources with limited foreign exchange which might be provided by international donor agencies, significant development programs can be developed and financed at a fraction of the cost using more traditional means.

However, there are many pitfalls and problems that can and will arise in these kinds of programs. The team was informed that one international private and voluntary organization purchased debt paper abroad and when they tried to exchange it for monetary stabilization bonds at the BCCR, they learned that the paper they had purchased could not be redeemed prior to its normal expiration date. This could have been avoided by using a simultaneous transaction or some other way to ensure the debt being purchased can in fact be converted. Caution is necessary and open and full discussions with the Central Bank authorities early in the process is not only recommended but is a must to avoid problems.

Furthermore, is also necessary to work through and with official government agencies besides the BCCR, e.g , INFOCOOP,

the Ministry of Energy and Mines, the Ministry of Agriculture, etc.

In general the team found people willing to discuss both the official program - which was described as having been born with a first and last name (nació con nombre y apellido) - and the special programs.

IV. LIST OF PEOPLE VISITED IN COSTA RICA:

1. Marcos Salazar, Assistant General Manager, BANCOOP & Gamaliel Alvarado B., Director Forestry Section of BANCOOP (the responsible person for all BANCOOP's debt swapping).

2. Chris Merschrod, Technical Advisor, ACORDE.

3. Roberto Avendaño Ch., Director External Debt Department, Central Bank of Costa Rica.

4. Bill Phelps, General Manager COFISA (a private bank and investment holding company formed by AID in early 60's.

5. Roberto Vanegas, Controller, Credit Union Federation (acting manager).

6. Rodolfo Navas, President, Banco Popular.

7. Misael Monge, National Cooperative Council (CONACOOP).

8. Jorge Villalobos, National Cooperative Council (CONACOOP).

9. Michael Doyle, Foundation for Cooperative Housing (CHF) country program director.

10. Oscar Brown Stamp, Canadian Cooperative Association, Latin American Representative.

11. Douglas Tinsler, Assistant Director, USAID/Costa Rica.

12. Aida Smyer, Regional Legal Advisor, USAID/Costa Rica.

13. Lewis W. Lucke, Chief, Project Development Office, USAID/Costa Rica.

14. John Jones, Chief, General Development Office, USAID/Costa Rica.

15. Federico Herrero, General Manager, BANCOOP.

16. Vincent Schmack, USAID/CR, Private Sector Office.

17. Richard Garland, USAID/CR, Project Development Office.

V. BIBLIOGRAPHY OF DOCUMENTS REVIEWED

The following documents were reviewed by the debt for development team in Costa Rica:

1. "A Debt for Development Guide, How to Make the Debt Crisis Work for Development," Report from Debt for Development Workshop held in December 1988, edited by Ted Weihe, Overseas Cooperative Development Committee (OCDC).

2. "A.I.D. Announces Debt for Development Initiative," Agency for International Development, Washington, D.C., February 15, 1989 (the draft A.I.D. policy on debt for development).

3. "Apuntes Sobre el Mecanismo de Conversión de Deuda Externa Costa Rica," Lic. Roberto Avendaño Ch., Banco Central de Costa Rica, 1988.

4. "Charla Sobre Conversión de Deuda Externa," Ing. Gamaliel Alvarado B., BANCOOP, San José, Costa Rica, April 28, 1988.

5. "Debt for Development; An Exploration of Issues," Debt for Development Coalition, Washington, D.C., April 1989.

6. "Experiencias del Banco Cooperativo Costarricense en los Procesos de Conversión de Deuda Externa," Banco Cooperativo Costarricense R.L., San Jose, Costa Rica, December 1988.

7. "Initial Ideas for a Debt for Development Program: Costa Rica," Debt for Development Coalition, Washington, D.C. Draft paper dated November 15, 1988.

8. "Normas Para Las Ofertas de Conversión de Deuda Externa Que Presenten Fundaciones Costarricenses," Approved by the Board of Directors of the Central Bank of Costa Rica in their Session No. 4338-89, Article 7, February 8, 1989.

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B. Concept Papers

DEBT FOR DEVELOPMENT

ACDI CONCEPT PAPER

I. Summary

FEDECOOP (the federation of coffee cooperatives) or another local company in which FEDECOOP has a substantial investment, and a U.S. company, with assistance and coordination services from Agricultural Cooperative Development International (ACDI), propose to establish a business in Costa Rica for processing waste coffee bean pulp, skins, etc. to produce caffeine and alternative fuels, e.g., carbon, oil and gas. Caffeine extraction technology under license from a soft drink company will be combined with the Gas Recirculation Pyrolysis Process (GRPP) under license from the U.S. company. The caffeine produced will be exported under a multi-year sales contract and some of the fuels will be utilized to meet the energy requirements of the plant while others will be sold locally replacing imported fuels. By using waste coffee products, the project will reduce waste dumping into Costa Rican streams thereby having a positive impact on the local environment. Fuels produced as by-products will be sold locally saving scarce foreign exchange. Caffeine sales will generate significant foreign exchange earnings for Costa Rica. The federation of coffee cooperatives will be positioned to provide yet another business service to its cooperative members and by capturing a portion of the income streams within the cooperative system will contribute to increased farmer incomes. The project will also create approximately 20 long-term stable jobs in rural Costa Rica.

Of the estimated $10.0 million investment required by the equity investor (FEDECOOP) and the financial partner (undetermined), approximately $4.0 million is required in local currency. This local currency will be generated using a debt equity swap and a debt for local currency swap. US$1.0 million will purchase approximately $6.25 million of debt paper, which will be redeemed in local currency by the Central Bank of Costa Rica at 40 percent of face value. Using this formula, the estimated $4.0 million required in the preliminary cash flow analysis is reduced to approximately US$1.6 million.

II. Agricultural Cooperative Development International (ACDI)

Agricultural Cooperative Development International (ACDI) is a non-profit technical and management assistance organization created in 1968 by the leading agricultural cooperatives and farmer organizations in the United States. Its mandate is to respond to the needs of agricultural cooperatives, farm credit systems, agribusinesses and supporting government agencies primarily in developing countries. ACDI provides technical assistance in the development of marketing, farm supply and

agricultural credit and related services. Its projects play an important role in strengthening cooperative agribusiness and assisting independent private sector cooperatives develop value added food processing and marketing ventures.

ACDI has recently established a new service to be operated from its Washington headquarters that will link-up cooperatives in developing countries with farmers, farming corporations and other interested investors in the U.S. to form joint venture value added agribusiness of mutual benefit. One of the financing tools expected to be useful in developing the business relationships and financing the projects involves debt swapping. Either or both the U.S. investor and the developing country cooperatives will purchase debt instruments on the international secondary market and swap these for local currency resources needed to finance the joint venture agribusiness.

In Costa Rica, ACDI has provided technical assistance and training for agricultural cooperative and credit programs with local cooperative organizations since 1982. It's first project was to assist BANCOOP, a new cooperative bank created by leading agricultural and rural electric cooperatives and credit unions in late 1981. This bank, now known as BANCOOP R.L., has grown into one of the strongest and most successful private banks in Costa Rica. ACDI's second project was to assist the Compania Bananera de Costa Rica (a United Brands subsidiary), USAID/Costa Rica and approximately 115 former banana company workers and their families in the organization, start-up and operation of a palm oil production cooperative in the Parrita District of Quepos. In a complicated financial deal, the banana company sold 1,500 hectares of old palm groves and other infrastructure to willing employees selected in part by the ACDI adviser, who invested their accumulated retirement funds as member equity and obtained credit from USAID and the banana company. New varieties of palm oil were planted by the banana company under contract with the new cooperative and after approximately five years of ACDI involvement, COPECALIFORNIA R.L. is right on schedule in terms of organizational development, palm kernel production, oil extraction rates, loan repayment, capital build-up, etc.

Simultaneously with the oil palm and overlapping with the BANCOOP project, ACDI initiated technical and training assistance to the Federation of Coffee Cooperatives (FEDECOOP) in their ambitious program of coffee technification to overcome the threat of coffee rust disease. In this $20 million plus project, also financed by USAID/Costa Rica, the ACDI credit

adviser assisted local cooperatives, members of the federation, develop and implement credit programs to finance coffee nurseries and new coffee plantings on over 10,000 hectares, as well as over 1,500 hectares of diversification crops such as macademia, guayabana, cardimon, etc. The project, still in progress, has had significant impact on coffee productivity and in improving farmer incomes, maintaining jobs in the rural areas, etc. Repayment rates have been excellent and under a new agreement with USAID, it is anticipated the project will continue several more years.

In addition to the above in-country financed programs, ACDI brought more than 20 U.S. farmer volunteers to Costa Rica during 1988 to work with local farmers and their cooperatives under a U.S. funded Farmer to Farmer program. American farmers brought practical expertise and methods to local farms and cooperatives in areas such as fruit and vegetable production, pesticide safety, etc.

On July 1st of this year, ACDI initiated its fourth significant long-term cooperative development project in Costa Rica. The new project, involving a team of expatriate and local advisers and technicians, will work with "non-traditional" agricultural producers and their cooperatives to improve their operations, productivity, financial and organizational management. Fresh fruit and vegetable, tropical plant, flower, herb, and macademia nut producers and their cooperatives will be assisted through an arrangement with UNIBANC, the development arm of BANCOOP.

ACDI's counterpart in Costa Rica is BANCOOP and its development arm, UNIBANC. BANCOOP is one of the largest and most efficient private banks in Costa Rica. With assets of approximately $40 million and a capital base of $6.5 million it has consistently outperformed its competitors in most of the indicators used by the Superintendency of Banks (bank regulatory agency) to rate private banks in Costa Rica. BANCOOP will administer the local currency resulting from any debt swap and provide market rate loan financing for the local cooperative entity undertaking the project.

UNIBANC is the development arm of BANCOOP. It is staffed with local and German technicians who provide technical and management assistance to cooperatives and related organizations. UNIBANC designs and implements special development projects involving cooperative members of BANCOOP and is one of the vehicles through which foreign assistance funds flow to the Costa Rican cooperative movement. ACDI has a

contract with UNIBANC in which the two organizations work together, coordinate and mutually support each's cooperative development activities. ACDI's presence in Costa Rica is closely tied to UNIBANC and BANCOOP (which it helped organize). ACDI's offices are provided by UNIBANC and all in-country activities are closely coordinated with this agency. ACDI and UNIBANC technicians resident in Costa Rica will be responsible for project design, trouble shooting during project implementation, management and financial technical assistance and support and as a liaison between the U.S. partners and the Federation of Coffee Cooperatives (FEDECOOP), the Costa Rican joint venture partner.

III. Domestic and National Priorities

Costa Rica and the U.S. Agency for International Development have embarked on priority projects to promote the production and export by the private sector of non-traditional agricultural products and value added agricultural products. A national organization has been created - CAAP - and endowed to provide assistance in this area. Cooperatives play an important role in the Costa Rican private sector and are a favored institutional matrix by the GOCR. There are about 350 registered cooperatives with over 200,000 members concentrated primarily in the savings and credit, agricultural and industrial areas.

National priorities in Costa Rica include the promotion of export earning enterprises in the private sector, natural resource conservation and environmentally constructive projects, employment creation and maintenance in the rural areas, import substitution projects and agricultural diversification to reduce dependence on one or two principal crops, i.e., coffee and bananas. The proposed project is squarely in accord with top development priorities and policies in Costa Rica.

IV. The Proposed Coffee Pulp Project

The plant will be located centrally to the greatest number of mills supplying pulp, which will install dewatering devices to reduce the water content of the pulp to about 50 percent by weight in order to save on local transport costs. The cost of these dewatering devices will be amortized over the first three years of operation of the plant and is reflected in the costs of the feed stock. These devices will also reduce the organic matter in the mill waste water so processing for discharge will be minimized and pollution of the streams and rivers in the

rural areas will be significantly reduced. Final plant design will be such that it will be able to process 60,000 M tons at 50 percent moisture annually, which will be received in truckload quantities not to exceed 20 tons of pulp each (local roads and bridges prohibit larger trucks).

The 50 percent moisture pulp will be further dried using a centrifuge and then thermal energy supplied by the gas produced from the Gas Recirculation Pyrolysis Process (GRPP) prior to being mechanically reduced in particle size for storage in large bins.

The caffeine extraction process will utilize the excess gas not used in the drying process and a portion of the oil produced by the GRPP. The extraction process is a thermal method incorporating a recirculating carrier gas producing a high caffeine content, aqueous phase product. This intermediate product will be further processed to produce caffeine meeting the purchase specifications of the sales contract.

The pulp residue from the caffeine extraction process will be densified to approximately 36 pounds per cubic foot and fed via metering bins into the GRPP for conversion to gas and oils.

The basis for the GRPP is a vertical bed, counter-flow device operating at slight sub-atmospheric pressure utilizing hot gases to decompose the solid material. The maximum temperature at which the system will operate is 850°F and it will produce a char product with a high carbon content and a specific heat of 13,000 BTU per pound, approximately.

The plant is designed to produce between 180 and 200 tons of caffeine from the extraction process and between 6,000 to 8,000 tons of carbon and approximately 1.0 million gallons of oil from the GRPP operation.

The attached pro forma cash flow analysis illustrates the various financial parameters of the proposed project.

V. Special Considerations/Risks

This will be the first time a project such as the one described above has been designed using coffee residues as the principal raw material for the industrial process. Recent rulings by the U.S. Food and Drug Administration (FDA) have resulted in a scarcity of caffeine in the international market primarily because the mandated decaffeination process also destroys the caffeine, which was formerly a by-product in the

manufacture of decaffeinated coffee. Given the international price of caffeine it was decided to design a process in which the caffeine was produced from a product, the residue of which would not to be used for human or animal consumption but instead in the production of industrial products: carbon, gas and fuel oil.

The financial viability of the project does not depend on the ability to use debt swapping techniques to produce local currency needed for capital investment and working capital. The assumption is that local Central Bank officials will be convinced of the merit of such a project in the coffee cooperative sector and will approve a debt swap, which helps ensure lower levels of risk, offsetting in a manner, the risk associated with the innovative nature of the process.

Furthermore, analysis of the international caffeine market indicates that demand will remain strong in the near term. Other large coffee producing countries may also decide to develop similar projects, however, in order to be a viable process ripe coffee beans must be processed at central facilities, as is done in Costa Rica. In most other coffee producing countries, coffee cherries are depulped on the farm, sun dried and brought to the mill in "pergamino" form for dehulling, drying and preparing for export. To our knowledge, no such project is underway.

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AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL

DEBT FOR DEVELOPMENT

CONCEPT PAPER

COSTA RICAN PLANT - PRO FORMA CASH FLOW ANALYSIS

DESCRIPTION	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	TOTALS
REQUIRED CAPITAL												
Equity Investor	2,000,000											
Financial Partner	3,000,000											
Bank Loan	5,000,000											
Total	10,000,000											
PROJECT COSTS												
Installed Plant												
Working Capital												
Pre-Operational Expense												
Engineering												
Licensing												
Contingency												
Structures(incl. offices)												
Start-Up Costs												
Site Improvements												
Land												
Freight, Tax, Permits												
Gen. Liability Insurance												
Total	10,000,000											
REVENUES												
Granular Activated Carbon		1,881,600	1,975,680	2,074,464	2,178,187	2,287,097	2,401,451	2,521,524	2,647,600	2,779,980	2,918,979	
Bulk Carbon		230,000	241,500	253,575	266,254	279,566	293,545	308,222	323,633	339,815	356,805	
Mkt'ing & De-Caff Fees		896,000	940,800	987,840	1,037,232	1,089,094	1,143,548	1,200,726	1,260,762	1,323,800	1,389,990	
CAFFEINE		1,507,095	1,582,450	1,661,572	1,744,651	1,831,884	1,923,478	2,019,652	2,120,634	2,226,666	2,337,999	
Total		4,514,695	4,740,430	4,977,451	5,226,324	5,487,640	5,762,022	6,050,123	6,352,630	6,670,261	7,003,774	
OPERATING EXPENSES												
Feedstock		500,000	525,000	551,250	578,813	607,753	638,141	670,048	703,550	738,728	775,664	
Personnel		613,700	644,385	676,604	710,434	745,956	783,254	822,417	863,538	906,714	952,050	
Utilities		209,000	219,450	230,423	241,944	254,041	266,743	280,080	294,084	308,788	324,228	
Other Direct Costs		421,500	442,575	464,704	487,939	512,336	537,953	564,850	593,093	622,747	653,885	
Indirect Costs		218,000	228,900	240,345	252,362	264,980	278,229	292,141	306,748	322,085	338,190	
Lab & Q-Assurance		265,300	278,565	292,493	307,118	322,474	338,597	355,527	373,304	391,969	411,567	
Sales & Marketing		344,000	361,200	379,260	398,223	418,134	439,041	460,993	484,043	508,245	533,657	
Total		2,571,500	2,700,075	2,835,079	2,976,833	3,125,674	3,281,958	3,446,056	3,618,359	3,799,277	3,989,241	
OPERATING INCOME		1,943,195	2,040,355	2,142,373	2,249,491	2,361,966	2,480,064	2,604,067	2,734,271	2,870,984	3,014,534	
FEES												
Management Fee		135,441	142,213	149,324	156,790	164,629	172,861	181,504	190,579	200,108	210,113	
Royalty		135,441	142,213	149,324	156,790	164,629	172,861	181,504	190,579	200,108	210,113	
Total		270,882	284,426	298,647	313,579	329,258	345,721	363,007	381,158	400,216	420,226	
BANK LOAN												
Principal		714,286	714,286	714,286	714,286	714,286	714,286	714,286				5,000,000
Interest		450,000	385,714	321,429	257,143	192,857	128,571	64,286				1,800,000
Total		1,164,286	1,100,000	1,035,714	971,429	907,143	842,857	778,571	0	0	0	6,800,000
CASH FOR DISTRIBUTION												
Total Cash		506,028	655,929	808,011	964,483	1,125,565	1,291,486	1,462,489	2,353,113	2,470,769	2,594,307	
LOCAL EQUITY	(2,000,000)	152,408	196,779	242,403	289,345	337,669	387,446	438,747	705,934	741,231	778,292	
FINANCIAL PARTNER	(3,000,000)	101,606	131,186	161,602	192,897	225,113	256,297	292,498	470,623	494,154	518,861	
U.S. Investor		254,014	327,965	404,006	482,242	562,782	645,743	731,244	1,176,557	1,235,384	1,297,154	

ASSUMPTIONS		DESCRIPTION
0.000	CENTS	FOB PRICE / GALLON OF OIL
100.000	DOLLARS	FOB PRICE / M. TON CHAR
1,568.000	DOLLARS	FOB PRICE / M. TON G.A.C.
6.500	DOLLARS	FOB PRICE / POUND CAFFEINE
6,000	M. TONS	HARD NUT SHELL
20,000	M. TONS	COFFEE SKINS @ 50% WATER
1,200	M. TONS	G.A.C. PRODUCED
400,000	GALLONS	OIL PRODUCED
2,300	M. TONS	CHAR PRODUCED
2,000	M. TONS	GREEN COFFEE BEANS DE-CAFFEINATED
105	M. TONS	CAFFEINE PRODUCED
10.000	DOLLARS	DEL. COST / M. TON COF. SKINS
448.00	DOLLARS	DE-CAFFEINATING FEE / M. TON
0.030		MANAGEMENT FEE
0.030		ROYALTY FEE
0.500		U.S. Investor
0.300		LOCAL EQUITY INVESTOR
0.200		FINANCIAL PARTNER
0.090		INTEREST BANK LOAN
0.050		GENERAL INFLATION RATE

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DEBT CONVERSION FOR PRIVATE RURAL POWER INVESTMENT IN COSTA RICA

Summary

This proposal is for the creation of an on-shore financing mechanism for private power generation by consumer-owned rural electric systems in Costa Rica, which is facing near-term national power shortages. These potential shortages were brought on in large part by financial constraints in the public power system and over-reliance on international financing of the Costa Rican power sector. Costa Rica has one of the world's highest per capita foreign indebtedness. Uncertainty about economic growth, inflation and foreign conversion rates for the local currency has sharply constrained the long-term debt market in Costa Rica, making local financing for public service sectors virtually impossible today. Foreign-currency public sector borrowing to finance public service investment that can be based on private investment using local resources, on the other hand, is a needless risk.

Against this financial background, USAID/San Jose, in cooperation with other AID offices including AID/W/S&T/EY and ROCAP, and with the Inter-American Development Bank and other donors has helped the Costa Rican Government (GOCR) to bring about a landmark policy initiative to open up power generation to private investment in Costa Rica. The proposed financing initiative is a logical follow-on to this important policy.

The proposal's central feature is to purchase Costa Rican external commercial debt for conversion into a long-term, non-inflationary bond that will provide sufficient yields to "buy down" market lending rates for medium and long-term power investments by private Costa Rican rural electric cooperatives. Interest earned on bonds received in trade for external paper would be used to support interest payments on long-term bonds issued to the Costa Rican public for power projects, as may be needed.

Advantages:

- Expands privateness of a government-dominated investment sector.
- Responds to a critical national economic and security need.
- Reduces Costa Rican demand for international financing and associated economic risks.
- Gives impetus to a favorable energy supply policy in terms of cost-effectiveness, investment risk reduction, and environmental policy.
- Improves Costa Rica's credit rating by removing debt from books.
- Provides a pattern for starting up local private financing schemes for power supply and distribution in various other AID-assisted countries currently involved in debt-reduction programs.

Constraints:

- Inflation fears constraint long-term lending in Costa Rica.
- Legislation to lift legal restrictions on private power was still pending as of June 15, 1989 (but expected).
- The secondary debt market and local debt-conversion policy environment are uncertain and specific terms for the debt conversion deal must be worked out.

In addition to the proposed power lending program, NRECA proposes to raise voluntary resources to finance a debt conversion to operate a reforestation initiative aimed mainly at protecting small river basins threatened by Costa Rica's serious deforestation problem.

Background

A group of four cooperative electric utilities in Costa Rica formed with USAID's help two decades ago are in the process of forming a new cooperative to undertake common-interest services such as training, materials procurement, power generation, insurance programs, and R&D. The Costa Rican legislature passed enabling legislation for this venture in fall 1988, and a formal establishment agreement is expected in the near future. This utility consortium could also include two municipal utilities. The four electric distribution cooperatives' Boards of Directors have already voted to authorize their participation.

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Primary importance has been attached to the development of power generating capacity. Costa Rica's national power demand could exceed the pace of power generation development by the Instituto Costarricense de Electricidad (ICE), the quasi-public central power utility which now has a virtual monopoly over power generation. ICE's financial position was seriously eroded by the rapid devaluation of the Colone, forcing non-payment on over $400 million of its outstanding foreign debt which now surpasses $1 billion. The small utilities now purchase most of their power wholesale from ICE, and are concerned that ICE will not be able to borrow sufficient resources to develop adequate new power sources to meet their needs, beginning in the next few years.

The national implications of this development include curtailed power usage -- with certain economic and social consequences -- and/or heavy new foreign currency demands to import electricity or fuel for thermal power generation plants. At the global level, each increment of thermal generation adds to the atmospheric CO_2 content and to the growing environmental risk of climate change and global warming.

The consortium has begun assessment of small hydropower sites, with the plan to pool financial and technical resources, and to share in the power and energy produced from projects constructed. The preliminary analyses indicate these to be extremely cost-effective generation sites. These are run-of-river projects, therefore causing minimal disruption to the natural habitat, as well as being non-polluting.

NRECA, under a ROCAP-funded cooperative agreement, is presently working with the Ministry of Natural Resources, Energy and Mines (MIRENEM), USAID/San Jose, and others to formulate an overall strategy to facilitate new, non-governmental investment in such power resources, including assistance in establishing the legal, institutional, technical, and financial bases for such development. This follows-up work by USAID/San Jose with S&T/EY assistance in areas of power system analysis and policy change that has been instrumental in bringing about a favorable political environment for removing legal obstacles to private power development. A legislative measure sponsored by the MIRENEM to increase the allowable limit for private hydro development from 0.35 MW to 20.0 MW is before the Costa Rican legislature at present, and is expected to become law later this year.

NRECA has recently completed a prefeasibility analysis of the utility consortium which also investigated several potential hydropower projects. The results show that small decentralized hydro presents an extremely low-cost power supply option, given Costa Rica's excellent hydrologic and topographic characteristics, and well-established power transmission system. The consortium, including the two municipally-owned systems, has a combined total demand of 100 MW (15% of current

national electricity demand) that is expected to double by the end of the century. The identified hydro resources within their service areas can readily accomodate this growth.

A related need is action to restore and protect watersheds which are threatened with permanent damage from tree removal. In the past thirty years, deforestation has resulted in the reduction in total area forest cover from 71% to just over 20%. Although the GOCR, with assistance by various donors, have been committing resources to forestation and forestry-use programs in recent years, special additional focus may be needed to maintain adequate forest cover in the numerous small river basins outside the reserve areas, particularly in the steeper reaches and in corridors along riverbanks.

Debt Conversion Program

A key advantage to small hydropower development in Costa Rica is that it can be managed and financed largely with onshore resources. Utilizing design and construction management techniques that are available to maximize local-resource utilization, the materials, machining, engineering and construction capabilities in Costa Rica are sufficient to undertake a significant portion of these projects. The turbine-generator and major electric components would constitute most of the foreign-required. Preliminary analysis shows that projects could have a local content cost percentage of between 50% and 70% of total investment.

Following this principle, the opportunity arises to mitigate the foreign-exchange risk in future power sector investment by developing appropriate debt mechanisms in the Cost Rican credit market for financing small private power development. While some of the smaller projects can be done quickly at low cost and with cash (i.e. rehabilitation of existing small sites), most new projects in the range of 2-20 MW will require debt financing of some sort.

This opportunity is severely limited by the virtual lack of long-term debt financing in Costa Rica. Most local debt involves less than two years at rates exceeding 20%. Long-term debt instruments offered today would bear interest rates surpassing 30%.

Hydroelectric projects are typically long-term investments of 15 - 35 years, particularly if the projects are to serve a predominantly rural clientele, where costs of power distribution are relatively high owing to low consumer density.

Costa Rican commercial paper can be purchased on the secondary market for approximately 15% of face value, according to market indicators in May 1989. Based on this high degree of leveraging, several debt-conversion activities are underway in

Costa Rica that provide precedents for developing a market-based debt financing mechanism that can meet the long-term financial characteristics of these types of projects. One of these is an official government debt conversion program aimed at various public interest initiatives, but not including energy. To confine the inflationary effects of debt conversion, these programs provide for long-term payouts in local currency in the form of bonds that pay modest interest rates. Unless this mechanism can be used on a very large scale, this would not be sufficient to capitalize the required power supply investment program.

In consultation with the MIRENEM, NRECA has approached the Office of Foreign Debt of the Costa Rican Central Bank (Banco Central de Costa Rica, BCCR) regarding this matter. The Office Director said that the BCCR is critically concerned about public-sector borrowing for the power facilities, which was a major factor in the current national debt condition, and encouraged the development of a proposal for a special power-sector program that would be supplementary to the BCCR's current $45 million debt-conversion program.

Project Design and Implementation

The operational basis for the financing program conceived in this proposal is similar to the BCCR's existing debt conversion program. NRECA would utilize dollar resources from donors and\or investors to purchase the necessary paper to convert to a long-term bond whose proceeds would be vested in a Costa Rican intermediary financial institution acting on behalf of the bond issuer (BCCR) and the consortium.

The intermediary would then issue bonds to the Costa Rican public for approved power projects utilizing the conversion bond as a guarantee on a specified portion of the payable interest and the bond face value. Interest would also cover the intermediary's administrative cost. There are several suitable private and national banks that have indicated an interest in serving as intermediaries.

Based on this mechanism, NRECA proposes a project with total funding of $6.1 million including a debt conversion program with an estimated face-value of $34 million in three basic components:

(1) The purchase of a 20-year bond of approximately $30 million to provide a guarantee on Power Development Revenue Bonds to be issued by the consortium. The effective interest rate of the debt conversion bond would be keyed to the cost of money raised from the development revenue bonds, and the actual financial performance of the projects. In effect, the debt conversion bond would pay revenue sufficient to cover

financing shortfalls, if any, for bonds auctioned by the financial intermediary on behalf of the consortium. This revenue would effectively "buy-down" the auctioned interest rate for the power investment bonds to the cost of money that individual power projects could support.

To limit the risk to the Central Bank, a ceiling would be established on the interest that debt-conversion bond would pay out. Similarly, interest rate floors could be established for both the consortium's share of the cost and what would be covered by the debt conversion bond proceeds. Any project surpluses would be paid back to member utilities in capital credits or retained as member equity on new investment. Any unused portion of the minimum payout from the conversion bond would be retained by the intermediary as collateral for bond financing of additional future projects. Given the very positive financial outlook on representative projects that have been investigated, with a resulting low default rate on the power development revenue bonds and a good financial return the conversion bond could provide backing for financing beyond the initial $30 million portfolio.

(2) The purchase of a $3.0 million 20-year bond, possibly based on a conversion of ICE's debt, to provide direct local currency support for administrative costs of the program and project preparation studies.

(3) The purchase of a $1.0 million 20-year bond to finance a small watershed forestation program to conserve the maximum hydro potential in these energy-rich river basins. NRECA would solicit dollar contributions from its member utilities in the U.S. to make this debt purchase on a grant basis. Counterpart GOCR funding and in-kind contributions would be solicited.

Assuming an acceptable debt purchase and conversion can be arranged, the following illustrates how this mechanism can work, based on preliminary analyses on hydropower projects the consortium is studying:

- 100 MW of new plant built over a 10-year period.
- Investment cost of $150 million, 40% to be financed by multilateral development banks (MDB) or bilateral loans (including the Inter-American Development Bank's new proposed private-sector generation lending facility), 40% by member equity, and 20% to be raised in local bonds under the proposed mechanism. The debt-conversion bond would be purchased in the first year for the full value of the 10-year financing program (i.e. $30 million).

- Project investment cost averaging $1500/kW installed by conservative estimate, with an average cost per kWh of $0.029.

- Average bulk rate charged by the new generation entity is $0.039/kWh (including demand charges to industrial consumers).

- The average financial internal rate of return on all resources invested is 22%.

With this financial projection for a typical project, the entity's bulk sales to its members (any surplus to be sold to ICE) should be sufficient to cover its general and administrative costs and a majority of the debt service expense.

The NRECA International Foundation would be the conduit for the debt conversion initiatives, as a tax-exempt organization and the most effective means of raising private and thereby leveraging US Dollar resources needed to make the needed debt purchase. It is also envisioned that the Foundation would acquire voluntary services of different types of technical specialists as may be required. The Foundation would establish a branch in Costa Rica that would be staffed by an NRECA project advisor with a Costa Rican counterpart to provide coordination and technical supervision of these projects. Proceeds from the $3.0 million debt conversion would support the local costs of this technical assistance mission.

Impacts

1. Reduction in Costa Rica's external debt burden by $34 million and new foreign currency borrowing of at least $30 million.

2. The construction of a minimum of 100 MW of new hydro generating capacity whose annual import savings in fuel costs would be equivalent to $25 million.

3. The establishment of public confidence in a new local credit market for power supply investment.

Constraints

1. Fears about inflation constrain long-term lending in Costa Rica.

2. Current law in Costa Rica permits private power projects up to 500 hp. The Government has included a legislative "rider" on its budget bill before the legislature that would lift this ceiling to 20 MW for hydropower projects. This provision is expected to go into effect by July 1989.

3. The debt conversion market for Costa Rican paper is presently volatile, partly owing to the uncertain future of rumored debt-reduction proposals for Costa Rica that could raise the secondary market rate and/or temporarily "freeze" the market.

C. Relevant Documents

INTRODUCTION TO DEBT CONVERSIONS

acdi Agricultural Cooperative Development International

THE TREASURY RULLING ON DONATED DEBT

Banks Are Offered Way to Write Off Third World Loans

IRS Rule Makes Swapping Debt for Nature Beneficial To Charities' Coffers, Too

By Rose Gutfeld
Staff Reporter of The Wall Street Journal

WASHINGTON.—The Treasury is offering guidance to U.S. banks on how they can get substantial tax benefits by selling Third World debt and donating the proceeds to charitable causes.

The concept has been pushed by environmental groups, which hope to encourage banks to contribute to conservation groups through more of so-called debt for nature swaps. Legislation designed to promote such swaps is pending in both houses of Congress.

Internal Revenue Service ruling 87-124 spells out the criteria banks must meet in such arrangements. Deputy Treasury Secretary Peter McPherson discussed the ruling at a meeting at the Treasury yesterday with environmental groups, development organizations and lawmakers.

The Treasury generally has supported conversions of debt into equity or local currency, but relatively few swaps have occurred, partly because banks weren't certain about the tax consequences.

The new IRS ruling offers three scenarios. In one, a U.S. bank or company holds a loan to a developing country that was originally valued at $100. Its fair market value on July 1 is $60.

Under a prearranged plan with the country's central bank, the U.S. bank exchanges the debt for payment in that nation's currency that must be used in the country. The payment would immediately be credited to a U.S. charitable organization that does work in the developing country. In many cases, the central bank would offer an exchange rate more favorable than the prevailing rate as an incentive to make the exchange.

The U.S. bank could take a charitable deduction equal to the fair market value of the local currency it received. It also could take a loss equal to the difference between the fair market value of the currency and the original amount of the loan.

The other scenarios deal with situations in which U.S. banks or corporations essentially exchange debt for equity in start-up companies in the developing country.

The World Wildlife Fund said in a statement that it welcomes the ruling but is concerned that it may not apply to some swaps the group is considering. The organization said it is working with the Treasury to satisfy those concerns, but will continue to push for legislation that would allow other types of swaps.

A lawyer for the fund said it is worried, for example, that some debtor countries might be reluctant to have local currency credited to a U.S. organization rather than to one based in the developing country.

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DRAFTING INFORMATION

The principal author of this revenue ruling is Floyd G. Hase of the Corporation Tax Division. For further information regarding this revenue ruling contact Mr. Hase on (202) 566-4941 (not a toll-free call).

Section 1001.—Determination of Amount of and Recognition of Gain or Loss

26 CFR 1.1001-1: Computation of gain or loss.
(Also Section 170; 1.170A-1.)

Gain or loss recognition: debt for equity swaps. The federal income tax consequences are set forth for various transactions that are a part of a foreign country's program to reduce the amount of its outstanding U.S. dollar denominated debt.

Rev. Rul. 87-124

ISSUE

What are the federal income tax consequences resulting from various transactions, described below, that are part of a foreign country's program to reduce the amount of its outstanding United States dollar denominated debt?

FACTS

X, a United States commercial bank, holds a United States dollar denominated debt (the Obligation) of the central bank (the Central Bank) of foreign country *FC*. The Obligation evidences a loan of $100 that *X* made to the Central Bank. *X*'s adjusted basis in the Obligation, as determined under section 1011 of the Internal Revenue Code of 1986, is $100. Under the laws of *FC*, the Obligation cannot be held by an *FC* entity.

Y is a domestic corporation. *FX* is a corporation organized in *FC* and engaged in business in *FC* but not in the United States. Prior to the transactions described below, there was no cross-ownership among *X*, *Y*, *FX*, and the Central Bank. The functional currency, as defined in section 985 of the Code, of *X* and *Y* is the United States dollar.

The local currency of *FC* is the LC. On July 1, 1987, the free market exchange rate was $1 = 10 LCs.

FC has a program (the Program) whereby a holder of United States dollar denominated debt of *FC* can negotiate with the Central Bank to deliver the *FC* debt to the Central Bank for LCs if the holder agrees to invest the LCs in stock of an *FC* corporation or otherwise use the LCs in *FC* in a manner approved in advance by the government of *FC*. The Program controls the LCs by either (1) remitting the LCs to, or crediting them to the account of, an *FC* corporation that issues capital stock to the holder, or (2) otherwise channeling the LCs to their designated use in *FC*. In the case of a stock investment in an *FC* corporation, the stock cannot be sold or otherwise transferred to *FC* entities. The amount of LCs the Central Bank will give the holder in exchange for the debt varies according to how the LCs are used.

In accordance with a prearranged plan pursuant to the Program, the following transactions occurred on July 1, 1987:

Situation 1

Y purchased the Obligation from *X* for $60, which was the fair market value of similar *FC* debt in the secondary markets outside of *FC*. *X*, on behalf of *Y*, delivered the Obligation to the Central Bank, which credited an account of *FX* at the Central Bank with 900 LCs. *FX* then issued all its capital stock to *Y*.

Situation 2

The facts are the same as in *Situation 1*, except that instead of selling the Obligation to *Y* for $60, *X* delivered the Obligation to the Central Bank, which credited an account of *FX* at the Central Bank with 900 LCs. *FX* then issued all its capital stock to *X*.

Situation 3

The facts are the same as in *Situation 2*, except that instead of crediting an account of *FX*, the Central bank credited an account of *Z*, a United States corporation that is a charitable organization described in section 170(c)(2) of the Code, with 900 LCs. Under the terms of the Program, *Z* can use the 900 LCs only in *FC* for charitable purposes meeting the requirements of section 170 (including those described in Rev. Rul. 63-252, 1963-2 C.B. 101, and Rev. Rul. 66-79, 1966-1 C.B. 48).

LAW AND ANALYSIS

Situation 1

Under section 1001(a) of the Code, the amount of loss from a sale of property is the excess of the property's adjusted basis over the amount realized by the seller. *X*'s sale of the Obligation to *Y* produces a loss of $40 ($100 − $60). *Y*'s adjusted basis in the Obligation is $60; *see* section 1011. The remainder of the transaction will be treated for federal income tax purposes as if *Y* received 900 LCs from the Central Bank in exchange for the Obligation, and then contributed the 900 LCs to *FX* in exchange for *FX* stock. *See* section 1271(a)(1); *Lucas* v. *Earl*, 281 U.S. 111 (1930).

With respect to *Y*, LCs are considered property; *see* Rev. Rul. 74-7, 1974-1 C.B. 198. Thus, *Y* has a gain on the exchange of the Obligation for 900 LCs with the Central Bank to the extent the fair market value of the 900 LCs exceeds $60, *Y*'s adjusted basis in the Obligation. The fair market value of the 900 LCs is determined by taking into account all the facts and circumstances of the exchange. The limitation on *Y*'s use of the 900 LCs under the Program will generally reduce their fair market value below $90 (the value of 900 LCs convertible at the free market exchange rate).

Y's basis on the 900 LCs is $60 plus the gain, if any, recognized on the exchange. The fair market value of the *FX* stock is presumed to equal the fair market value of the 900 LCs. *Y*'s basis in the *FX* stock received in exchange for the 900 LCs equals the fair market value of the 900 LCs.

Situation 2

The analysis is the same as in *Situation 1*, except that *X* will be treated as if it received 900 LCs from the Central Bank in exchange for the Obligation and then contributed the 900 LCs to *FX* in exchange for *FX* stock. *X* recognizes a loss on the exchange of the Obligation for 900 LCs equal to the excess of *X*'s adjusted basis in the Obligation ($100) over the fair market value of the 900 LCs.

Situation 3

The analysis is the same as in *Situation 2*, except that X will be treated as if it received the 900 LCs from the Central Bank in exchange for the Obligation and then contributed the 900 LCs to Z. X recognizes a loss on the exchange of the Obligation for 900 LCs equal to the excess of X's adjusted basis in the Obligation ($100) over the fair market value of the 900 LCs. In addition, assuming X and Z satisfy all requirements of the Code relating to charitable contributions, X is entitled to a charitable contribution deduction under section 170 of the Code equal to the fair market value of the 900 LCs at the time of the contribution; *see* section 1.170A-1(c)(1) of the Income Tax Regulations.

HOLDINGS

Under the facts described above, the federal income tax consequences to X and Y are as follows.

Situation 1

(1) X recognizes a loss of $40 on the sale of the Obligation for $60.

(2) Y recognizes a gain on the exchange of the Obligation for the 900 LCs to the extent the fair market value of the 900 LCs exceeds $60.

(3) Y recognizes no gain on the exchange of the 900 LCs for FX stock because its basis in the LCs equals the stock's fair market value.

Situation 2

(1) X recognizes a loss on the exchange of the Obligation for the 900 LCs to the extent of the excess of its adjusted basis in the Obligation ($100) over the fair market value of the 900 LCs.

(2) X recognizes no gain or loss on the exchange of the 900 LCs for FX stock because its basis in the LCs equals the stock's fair market value.

Situation 3

(1) X recognizes a loss on the exchange of the Obligation for the 900 LCs to the extent of the excess of its adjusted basis in the Obligation ($100) over the fair market value of the 900 LCs.

(2) If X and Z otherwise satisfy all requirements of the Code relating to charitable contributions, X is entitled to a charitable contribution deduction equal to the fair market value of the 900 LCs at the time of the contribution.

Agency For International Development

Regulations for using Federal Funds in Debt Swapping Transactions

acdi Agricultural Cooperative Development International

SUMMARY OF A.I.D. REGULATIONS

Objective - to reduce the foreign debt burdens of developing countries and obtain a more favorable rate of exchange for U.S. provided resources provided to programs consistent with U.S. foreign assistance programs.

Policy - PVO's and cooperatives can develop proposals for grants and cooperative agreements to implement the debt for development initiative and finance the purchase of debt owed to parties other than the United States Government. A.I.D. will receive proposals in a wide range of program areas, issue awards to develop proposals and provide technical advice in purchasing and exchanging debt.

Procedures - A.I.D. will make foreign assistance funds available to intermediary organizations to prepare proposals and acquire and retire debt. Pre-award applications should address the nature of the activity, steps to develop proposal and reach agreement, availability and price of debt, anticipated advantages of conversion, and costs and time to develop a final proposal.

All programs will seek to reduce a country's foreign debt and assets acquired used for development activity of a NGO. The activity must be consistent with the objectives of the category of assistance from which A.I.D. makes the award.

The intermediary will purchase debt from reputable sellers at the lowest possible price and obtain A.I.D.'s prior approval of the transaction and sale price.

In addition to standard requirements the intermediary's proposal must identify the asset to be obtained, the program to be financed, reach an agreement in principle with the debtor country and develop a budget and plan to achieve project purposes. The intermediary will also demonstrate that it has investigated debt availability, identified a reputable and willing seller, determined the likely price and transaction costs and analyzed the financial and other advantages.

Separate agreements required and sequence are: a) A.I.D. and the intermediary b) intermediary and the debtor country c) intermediary and the debt holder. Funds may be used to pay reasonable fees and transaction costs.

The intermediary will convert the debt promptly into the local asset and report to A.I.D. the nature and amount of the asset acquired. They may not retain title to speculate or

exchange without A.I.D. approval one country's debt for the debt of another.

Quarterly reports will describe the use of the acquired asset and transfer the asset to A.I.D. if unable to use it for the intended purpose.

Local currency obtained shall be held in interest bearing accounts and the interest earned before using the local currency for the final program purposes shall be remitted the U.S. Treasury. This also applies to installment payments where interest may be earned.

This provision in the A.I.D. debt regulations, as discussed above under I.C.3. effectively eliminates the possibilities of using A.I.D. resources to take advantage of debt swapping programs in Costa Rica or in other countries where the local currency issued by the central bank in exchange for the dollar denominated debt paper is "locked up" in interest bearing securities or accounts.

Although the Cooperative Development Organizations (CDO) understand the U.S. Government's rationale for insisting interest income earned from Federal funds be transferred to the U.S. treasury under normal circumstances, they would also like to point out that without a change in the Costa Rican program OR a waiver or change in the A.I.D. regulation (or its interpretation) recipients of A.I.D. development resources will NOT be able to leverage their resources using debt swaps in Costa Rica.

A copy of the February 1989 A.I.D. regulation follows.

FEB 24 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

February 15, 1989

A.I.D. ANNOUNCES DEBT FOR DEVELOPMENT INITIATIVE

In response to the debt crisis facing many developing countries, the U.S. Agency for International Development (A.I.D.) is initiating a new Debt for Development mechanism to finance development assistance activities of non-governmental organizations. Through this new Initiative, A.I.D. will support certain programs of nongovernmental organizations in developing countries through debt exchange transactions that will both reduce the host countries' debt burdens and obtain a favorable rate of exchange for foreign assistance funds provided to such organizations.

I. INTRODUCTION TO THE A.I.D. INITIATIVE

A. Summary

With the Debt for Development Initiative, A.I.D. will use foreign assistance funds to finance the purchase, by intermediary organizations, of debt currently owed by developing countries to foreign creditors. A.I.D. will finance the purchase of debt at the discount price at which such debt is currently bought and sold on the secondary market.

Instead of seeking to collect the full face value of debt acquired through the Debt for Development Initiative, however, A.I.D. will provide for the retirement of the debt in exchange for resources that the debtor country will provide for use in development activities. For example, debt acquired with A.I.D. funds could be retired in exchange for local currencies to be used in A.I.D.-financed health and nutrition programs in the debtor country. By converting foreign assistance dollars into local development resources (such as local currencies) through the debt exchange market, A.I.D. will be able to reduce the debt burden of developing countries while also obtaining local development resources at a favorable rate of exchange.

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Resources received through Debt for Development transactions will be used for A.I.D.-financed projects of non-governmental organizations, such as private voluntary organizations (PVOs) and cooperatives. These organizations will play a central role in the Debt for Development Initiative by serving as intermediaries between A.I.D. and the current owners ("holders") of developing country debt, as well as between A.I.D. and the debtor countries, for the purpose of acquiring and retiring debt. Intermediary organizations will then be responsible for managing the use of resources acquired through the debt exchange for development activities approved by A.I.D.

B. Background on the International Debt Market

Many developing countries face serious difficulties in repaying high volumes of debt owed to foreign governments and private commercial lenders. Payments of principal and interest on debt consume a large proportion of the foreign currencies earned by developing countries. Heavy debt burdens also limit opportunities for obtaining new credit, thus impeding development efforts.

In recent years a private commercial market has developed for the debt obligations of nations ("sovereign debt"), which can be bought or sold like other commercial property. Because of the increasing risk that many heavily indebted countries will be unable to repay either all or part of their debt, debtholders have become willing to sell the debt for an amount less than the debt's face value. Debtholders may wish to sell this debt, even at a "loss" resulting from the discount price, in order to capture the debt's current value and to reduce the volume of non-performing loans in their loan portfolios.

Parties wishing to invest, conduct other forms of business, or support development activities in developing countries may find it attractive to purchase the debt of developing countries at current discount prices. After buying the debt, the new debtholders exchange or swap the debt for assets (such as local currencies or equity shares in local enterprises) provided by the debtor country. The value of the assets received in this exchange may be less than the debt's face value but greater than the debt's purchase price. Thus the buyer ultimately gains a more valuable asset in the debtor country through the mechanism of the debt exchange than through direct acquisition with dollars or use of conventional currency exchange markets.

Developing countries also benefit from debt exchange transactions, because these countries retire a certain amount of foreign debt while gaining new participants in their economies (for example, new investors in private enterprises). Debtor nations generally cannot take advantage of the discount sale price of their debt by purchasing their own loans directly, because the terms of most loan agreements bar such purchase. Therefore, most debt exchange transactions require purchase of the loan asset by a third party serving as intermediary between the lender and the borrowing country.

C. Participation by A.I.D. in the Debt Exchange Market

The new international debt market presents A.I.D. with an opportunity to achieve several objectives, consistent with the purposes of the U.S. foreign assistance program. Through the new Debt for Development Initiative, A.I.D. will participate in this market by using foreign assistance funds to finance the purchase of loans owed by developing countries to foreign creditors. Instead of collecting such loans, A.I.D. will provide for their retirement in exchange for local assets needed for foreign assistance activities of nongovernmental organizations in debtor countries.

A.I.D. will finance all debt exchange transactions through intermediary organizations, such as private voluntary agencies and cooperatives. A.I.D. will issue grants to intermediary organizations to purchase debt. Intermediaries will subsequently convert this debt into local assets, which the intermediaries will use for either newly initiated or ongoing development projects approved by A.I.D. Participation by intermediaries in Debt for Development will strengthen the development programs of these organizations while simultaneously advancing the other stated objectives of the Debt for Development Initiative.

A.I.D. will finance debt exchange transactions yielding various types of host country assets needed for development activities. For example, debt could be exchanged directly for local currencies needed to finance development activities, such as education and health programs, in the debtor country. Intermediaries could also exchange A.I.D.-financed debt for host country programs, such as commitments to conserve natural resources or protect endangered species ("debt for nature"), in a manner similar to the recent debt exchange agreement between the Government of Bolivia and a private organization (Conservation International) to protect tropical rain forest in Bolivia. A wide range of A.I.D.-financed programs of nongovernmental organizations will be eligible for financing with resources obtained through the Debt for Development Initiative.

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Each activity of a nongovernmental organization financed through a Debt for Development transaction must be approved by A.I.D. in accordance with standard Agency rules and procedures applicable to funding of nongovernmental organization activities. Both new and ongoing activities of nongovernmental organizations will be eligible for financing, either in whole or in part, through A.I.D. Debt for Development transactions.

D. Illustrative Transaction

Each Debt for Development transaction will be accomplished through a series of agreements and transactions involving the debtor country, the debtholder, A.I.D., and an intermediary organization. The A.I.D. Debt for Development Guidelines, which follow in Part II, will govern these transactions. The following hypothetical transaction shows in abbreviated form the steps needed to complete a typical Debt for Development exchange.

Example: A private voluntary organization dedicated to preservation of endangered species (in this hypothetical example, the organization will be called "Preservation International") has received a commitment by A.I.D., or is preparing to submit a proposal to A.I.D., to fund a project to preserve a species of wildfowl in the Philippines. This project will require a sum of local currencies to finance a wildfowl protection plan, as well as a commitment by the Government of the Philippines to set aside a significant acreage of public land as a wildfowl refuge.

Preservation International determines that the Government of the Philippines owes a substantial quantity of debt to foreign creditors (such as banks), and that certain creditors are selling their Philippine Government debt at a substantial discount. Preservation International contacts A.I.D./Washington or the A.I.D. Mission in Manila to determine whether the acquisition of Philippine Government debt as part of a debt exchange to finance a wildfowl preservation project in the Philippines would be consistent with U.S. and multilateral economic policy and A.I.D. project priorities in the Philippines.

If A.I.D. responds favorably to Preservation International's enquiry, representatives of the organization (perhaps in collaboration with USAID Mission personnel) initiate a discussion with representatives of the Government of the Philippines, most likely including representatives of the Central Bank. These discussions explore the interest of the Philippine Government in supporting a wildfowl preservation project financed through the proceeds of a Debt for Development transaction financed by A.I.D. Preservation International reaches an agreement in principle with the Government on the basic terms of a Debt for Development

agreement establishing the terms, mechanism, and schedule for retirement of Philippine Government debt in exchange for local currency and Government commitments to establish a wildfowl refuge. Preservation International also confirms the availability of Philippine debt for sale on the secondary commercial market and the current price of such debt.

Preservation International then prepares a proposal for A.I.D. describing, among other things, the wildlife preservation objective of the project, the anticipated role of Philippine debt in financing the project, the availability of such debt for purchase, the proposed use of a broker or other means to acquire and process the debt certificates, the willingness of the Government of the Philippines to provide local currency and wildfowl refuge commitments in exchange for retirement of debt, and a plan for use of local currency to meet project objectives.

If A.I.D. agrees to finance the project, it enters into an agreement with Preservation International setting forth the basic terms and procedures of the Debt for Development transaction, as well as other issues normally addressed in a project agreement. With the financing for the transaction assured, Preservation International enters into a formal agreement with the Government of the Philippines setting the terms for the eventual debt exchange.

Preservation International then negotiates a favorable discount price for purchase of a volume of Philippine Government debt from a willing commercial seller. Consistent with the Debt for Development agreement between A.I.D. and Preservation International, A.I.D. provides grant funds to finance the purchase of this debt. Preservation International takes title to the debt but promptly retires it in exchange for the local currency and commitments promised by the Government of the Philippines in the Government's separate agreement with Preservation International.

Preservation International subsequently utilizes the local currency, which the Government provided in exchange for the debt retirement, for wildfowl preservation purposes. It monitors the Philippine Government's compliance with its commitment to set aside a wildfowl refuge, as provided in the debt retirement agreement, and it administers the project in a manner otherwise consistent with standard rules governing A.I.D.-financed projects.

II. A.I.D. DEBT FOR DEVELOPMENT GUIDELINES

A.I.D. has prepared the following Debt for Development Guidelines to govern administration of the Agency's Debt for Development Initiative. These Guidelines describe the role of intermediary organizations in the Initiative, the types of A.I.D. grants that will be available, and the various administrative and contractual procedures required in order to effect a Debt for Development transaction. A.I.D. expects to modify these Guidelines as it gains experience with the Debt for Development Initiative.

A. Introduction

1. Scope and Applicability: The following Debt for Development Guidelines govern the programming of funds made available to the Agency for International Development (A.I.D.) under the Economic Support Fund (ESF) and Development Assistance (DA) accounts (including the Development Fund for Africa), to the extent such funds are used to finance the purchase of debt owed by developing countries to parties other than the United States Government. All such debt acquired with A.I.D. financing will be exchanged for local currencies or other assets (such as local currencies or host country development efforts) needed to achieve one or more objectives of the ESF or DA program.

Organizations receiving foreign assistance funds from A.I.D. may not use such funds to acquire debt owed by developing countries, or engage in other transactions involving such debt, without prior approval of A.I.D. All debt acquisitions financed directly or indirectly by A.I.D. shall be undertaken in accordance with these Debt for Development Guidelines.

2. Purpose of Guidelines: These Guidelines are designed to ensure that A.I.D.-financed Debt for Development programs achieve the objectives stated in these Guidelines and operate in a manner consistent with United States laws governing the use of appropriated funds.

3. Issuing Party and Authority: A.I.D. issues these guidelines under the authority provided in the Foreign Assistance Act of 1961, as amended.

4. Modifications to Guidelines: Modifications to these Guidelines may be needed as A.I.D. gains experience with its Debt for Development program. Parties cooperating with A.I.D. in the implementation of this Initiative are encouraged to identify problems that arise in applying these Guidelines and to suggest any needed changes.

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B. Objective

The objective of the A.I.D. Debt for Development Initiative is to finance foreign assistance activities of nongovernmental organizations (such as voluntary agencies and cooperatives) through debt transactions that will:

-- (1) assist in reducing the foreign debt burdens of developing countries that receive U.S. foreign assistance, consistent with the general economic development purposes of the U.S. foreign assistance program; and

-- (2) obtain a favorable rate of exchange for U.S. foreign assistance dollars that are converted into local currencies or exchanged for other assets needed for foreign assistance programs.

C. General Statement of Policy

To achieve the objectives stated above and consistent with A.I.D. rules and regulations (including the present Guidelines), A.I.D. invites non-governmental organizations, such as private voluntary organizations (PVOs) and cooperatives (which these Guidelines refer to as Debt for Development "intermediary organizations" or "intermediaries"), to develop proposals for grants and cooperative agreements with A.I.D. to implement the A.I.D. Debt for Development Initiative.

A.I.D. will review proposals by intermediary organizations to use foreign assistance funds to finance the purchase, by the intermediary organization, of debt owed by developing countries to parties other than the United States Government. Such proposals must provide for prompt retirement of such debt through an exchange of the debt for local currencies or other assets furnished by the debtor country to the intermediary for development activities. A.I.D. will receive Debt for Development proposals from intermediary organizations in a wide range of program areas, such as environmental protection, population planning and health, and microenterprise development for both new and ongoing project activities.

A.I.D. will issue a limited number of awards to assist intermediary organizations to develop proposals for Debt for Development transactions that will achieve foreign assistance purposes. Once a Debt for Development transaction has been approved, A.I.D. will closely monitor the intermediary's use of A.I.D. funds to acquire debt and, in appropriate circumstances, will provide technical advice (usually through consultants) to assist intermediaries in purchasing and exchanging debt.

D. Debt for Development Procedures

1. Role of Intermediary Organizations: A.I.D. will not directly acquire debt of a developing country for use in a Debt for Development exchange. Instead, A.I.D. will provide foreign assistance grant funds to finance the acquisition of such debt by intermediary organizations. In consultation with A.I.D. Missions, intermediaries will negotiate with the debtor country the terms of the subsequent debt retirement. Intermediaries will also arrange for the purchase of debt and will assume primary responsibility for managing the use of assets generated by the debt retirement. Intermediary organizations, therefore, will play a central and critical role in the A.I.D. Debt for Development Initiative.

2. Types of A.I.D. Awards: To assist the participation of intermediary organizations in Debt for Development transactions, A.I.D. intends to make foreign assistance funds available to support both (a) the preparation of Debt for Development proposals by intermediaries, and (b) the acquisition and retirement of the debt itself once an intermediary's proposal for a Debt for Development program has been approved by A.I.D. A.I.D. expects to allocate a larger share of foreign assistance resources to acquire the debt than to assist preparation of Debt for Development proposals.

a. Awards to support preparation of proposals: As described more fully in Part II(D)(5) of these Guidelines, A.I.D. will agree to finance debt transactions only after an intermediary organization and a debtor country have reached an agreement in principle on the purpose and terms of the eventual debt exchange, and after the intermediary has investigated the availability and price of a particular country's debt on the international commercial market. Extensive negotiations between the intermediary and debtor nation, as well as various studies and consultations regarding the availability of a country's debt for purchase, may be needed to meet these preconditions.

A.I.D. will expect most nongovernmental organizations to furnish the staff and resources needed to meet the above preconditions. However, A.I.D. will issue a limited number of awards to assist intermediary organizations in preparing Debt for Development proposals and in negotiating the terms of the debt exchange with the debtor nation. Such awards will be made only to those intermediary organizations that can demonstrate a capacity to undertake successfully the complex tasks of a debt exchange transaction, as well as to administer the development activity to be financed by the transaction.

Applications for financing to support pre-award Debt for Development activities should address the following issues: (1) the nature of the development activity or ongoing project to be financed with assets acquired through the Debt for Development transaction; (2) the information needed and steps proposed to be undertaken to develop a final proposal and to reach agreement with the debtor country on the use of assets generated through the debt transaction; (3) the opportunities for purchase and the current market price (to the extent such information is readily available) of the country debt to be acquired with A.I.D. financing; (4) the anticipated advantages of acquiring local development assets by means of debt exchange rather than through direct purchase with dollars; and (5) the projected allocation of costs and expenditure of time needed to develop a final proposal.

b. Awards to finance Debt for Development transactions: A.I.D. will also make resources available to finance Debt for Development transactions by intermediaries. The following provisions of these Guidelines set prerequisites for the award of funds by A.I.D. to finance Debt for Development transactions and establish procedures for effecting such transactions once an intermediary's proposal for a debt exchange has been approved.

3. Foreign Assistance Purpose of Each Debt Transaction: All Debt for Development transactions will advance the fundamental foreign assistance purpose of reducing a country's foreign debt burdens (see "Objectives" specified in Part II(B)). For A.I.D. to approve a Debt for Development proposal, however, the assets acquired through a Debt for Development transaction must be used for a specific development assistance activity of a nongovernmental organization. The purpose of this activity must be consistent with the objectives of the particular category of assistance from which A.I.D. makes the Debt for Development award, and it must be clearly defined in advance of the issuance of that award.

For example, Development Assistance funds made available from the Agriculture, Rural Development, and Nutrition (Foreign Assistance Act ("FAA") Section 103) account will be used only to acquire debt that is to be converted into assets needed to advance Section 103 purposes. Development Assistance funds made available from the Population and Health (FAA Section 104) account will be used only to acquire debt that is to be converted into assets needed to advance population planning and health activities. Similarly, resources from the Development Fund for Africa will be used only to acquire debt to be converted into assets needed to advance development programs in sub-Saharan Africa. Economic Support Funds, to the extent available for Debt for Development transactions, may be used more broadly to advance ESF objectives of economic or political stability.

In reviewing an application for a Debt for Development transaction, A.I.D. will consider whether the ultimate use of the asset generated through the transaction is defined with sufficient specificity and is within the purposes of an available funding source.

4. Purchase of Debt at Lowest Possible Prices from Established and Reputable Sellers; Requirement of A.I.D. Approval: A.I.D. financing may only be used to purchase debt from established and reputable debt holders, such as major commercial banks. A.I.D. will expect each intermediary to use A.I.D. financing to acquire debt from such sellers at the lowest possible price, reflecting the full discount value of such debt in private commercial markets. No intermediary may use A.I.D. financing to acquire debt without A.I.D.'s express prior approval of the proposed transaction and sale price.

5. Pre-Agreement on Purpose and Terms of Debt Purchase and Retirement: Debt for Development transactions will be used to finance intermediary organization projects approved according to the usual A.I.D. standards and rules governing projects.

In addition to standard requirements, however, before A.I.D. agrees to finance a Debt for Development transaction, the intermediary must demonstrate to the satisfaction of A.I.D. that the intermediary has: (a) identified the asset to be obtained and the program activity to be financed through the debt transaction; (b) reached at least an agreement in principle with the debtor country regarding the terms, mechanism, and schedule for conversion of the debt into the identified host country asset; and (c) developed a budget and plan for use of the host country asset to achieve project purposes. An intermediary's mere expression of intent to use assets generated from a debt exchange for a general foreign assistance purpose will not be sufficiently definite to enable A.I.D. to make a financing award; before issuing an award, A.I.D. will require careful program planning and evidence of the debtor country's prior concurrence (for example, in the form of a signed agreement or a letter from the country's central bank or ministry of finance) on significant aspects of the eventual debt exchange.

A.I.D. will also require the intermediary to demonstrate that it has: (a) investigated the availability of the host country's debt for sale, (b) identified a reputable and willing seller of such debt (as discussed in Part II(D)(4) above), (c) determined the likely market price of the debt, (d) calculated the likely transaction costs to be incurred in acquiring and exchanging such debt, and (e) analyzed the financial and other advantages of acquiring the local development assets through the mechanism of a debt exchange rather than by direct purchase with dollars.

To develop a Debt for Development proposal that addresses each of the above points and that is sufficiently specific and definite, an intermediary may, if needed, request pre-agreement funding from A.I.D. (as described in Part II(D)(2)(a) above). A.I.D., however, expects to make available only a limited amount of funding for this purpose.

6. Various Agreements Required: To effect the various transactions involved in a Debt for Development plan, separate agreements among parties will be required, in the following sequence: (a) between A.I.D. and the intermediary approving the terms and conditions of the foreign assistance financing; (b) between the intermediary and the debtor country establishing the purpose and terms (as described in Part II(D)(5) above) of the planned debt exchange; and (c) between the intermediary and the debt holder effecting the initial sale of debt.

In exceptional cases it may be most efficient to combine the first two of these agreements into a single multi-party agreement among A.I.D., the intermediary and debtor country. A.I.D. will not be a party to the agreement between the seller of the debt and the intermediary organization. As discussed in Part II(D)(4) above, however, A.I.D. will require the intermediary to receive A.I.D.'s express approval of the proposed transaction and sale price before the intermediary expends A.I.D. funds to acquire debt.

7. Technical Assistance and Fees Incurred in Purchasing Debt: To assist intermediaries to purchase debt in the new international debt market, A.I.D. may make available to such intermediaries the services of financial consultants. A.I.D. funds may also be used to pay reasonable fees and transaction costs incurred by an intermediary in the purchase and exchange of debt, if such use of A.I.D financing is included in the Debt for Development agreement between A.I.D. and the intermediary.

8. Prompt Conversion of Debt into Development Asset: A.I.D. expects intermediaries to convert A.I.D.-financed debt into local currency or other development asset (as provided in the various Debt for Development agreements among the intermediary, debtor country and A.I.D.) as promptly as possible after the intermediary acquires the debt. Intermediaries may not: (a) retain title to such debt for speculative or other purposes, or (b) exchange the debt of one country for the debt of another country without prior approval of A.I.D.

9. Use of Development Asset by Intermediary: The intermediary shall promptly report to A.I.D. the nature and amount of the development asset acquired through an A.I.D.-financed Debt for Developmert transaction. On a quarterly basis the intermediary shall also report to A.I.D. on the use of the asset

for the agreed upon development purpose, and it shall comply with any further reporting requirements included in project agreements with A.I.D. The intermediary shall promptly transfer to A.I.D. any asset that for any reason the intermediary has become unable to use in a manner consistent with its Debt for Development agreement with A.I.D.

10. Interest Earned on Local Currencies Obtained from the Debt Exchange: Local currencies obtained by intermediaries through debt exchange transactions shall be held in interest bearing accounts. The interest earned on all such currencies before their use for final program purposes shall be remitted to A.I.D., for the account of the U.S. Treasury, in accordance with standard rules governing interest earned by A.I.D. grantees on advances.

11. Installment Payments in Exchange for Debt Retirement: The agreement between a Debt for Development intermediary and the debtor country may provide for the debtor country, in exchange for retirement of the A.I.D.-financed debt, to furnish the development asset (such as local currencies) to the intermediary in installments rather than in a single lump-sum. Any portion of such installment payments attributable to interest, or to an amount paid in lieu of interest, must be paid by the intermediary to the U.S. Treasury in accordance with the previous paragraph.

Installment payment amounts may take into account variations in the rate of exchange of units of local currency for dollars occurring during the payment term. For example, in exchange for retirement of the debt, the intermediary could receive a dollar-denominated note providing for installment obligations equal in value to a fixed sum of dollars, with installment payments to be made in local currencies in an amount calculated according to the exchange rate from dollars to local currencies applicable at the time of each payment.

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CONCEPTUAL FRAMEWORK

FOR

COOPERATIVES IN THE DEBT FOR DEVELOPMENT PROCESS

by

Ted Weihe

U.S. Overseas Cooperative Development Committee

acdi Agricultural Cooperative Development International

JAN 17 1989

CONCEPTUAL FRAMEWORK

for

COOPERATIVES IN THE DEBT FOR DEVELOPMENT PROCESS

1. Country Selection

   - Large private debt
   - Established secondary market and highly discounted debt
   - Involvement with U.S. banks, companies holding the debt, i.e. Latin America, Philippines
   - Inplace conversion system including previous conversions for development related activities
   - Stable government supportive of debt for development schemes and staffed in key ministries (Central Bank) with ability to make timely decisions
   - Strong cooperative presence including capable partners for debt conversion execution/project implementation and access to governmental leaders
   - Long term U.S. cooperative involvement, presence and personal relationships
   - Information available through country reports prepared by Debt for Development Coalition, i.e. Argentina, Bolivia, Brazil, Costa Rica, Ecuador, Jamaica, Mexico, Peru, The Philippines and Venezuela
   - Contact others for information including environmental groups with successful conversions in certain countries.

2. Central Bank

   - Conversion system which supports or can be adopted to debt for development schemes
   - Within Central Bank/government priorities for conversion, i.e. to generate investment, increase exports or support social programs such as low cost housing
   - Adopt cooperative scheme to related successful or proposed debt conversion activities, i.e. cooperative development around nature park, micro-enterprise, nontraditional exports, tourism

- If outside Central Bank priorities, clear path to open up new cooperative activity within conversion system, i.e. cooperative housing.

- Additionality - may require new resources, not funds already designated for government if aid funds are involved.

- Must be responsive to Central Bank's inflationary concerns.

- Need to be cognizant of relationship of Central Bank with other ministries and enlist their support for project activity, if needed.

- Require understanding of transaction, i.e. may be quick if program already exists, or longer in countries without formal programs or project is outside usual activities.

- May need to pool resources of several sources or related projects to make activity large enough to be of interest to Central Bank and financial institution which will buy debt for client.

3. <u>Financial institutions</u>

- Identify banks holding debt in targeted country.

- Contact and gain overall intelligence on possible banks' interested in project activities, etc. through discussions with bank officials who lead debt negotiations with host country.

- Discuss feasibility and interest with key bank officials who manage debt, investment and country/region in project concept, prior to fully developing project feasibility, analysis, etc.

- Banks which are active in country will prefer to work with their regular clients and areas of financial expertise in the country, i.e. American Express in tourism, Chase in shrimp production

- Bank may manage transaction if involves their regular clients including using their own outstanding debt, or act as an agent for a smaller, regional bank seeking exit vehicle.

- Banks will want investor, someone needs to bring money to the table.

- Need to understand local market, conversion costs, etc. for determining reasonable commission rates, terms, conditions and risks of transaction.

- Banks usually interested in short-term return from investment - 5 to 7 years

- Banks prefer dollar cash flow in transaction for return on impaired debt, i.e. shrimp exports to U.S. with payback at time of sale.

- While banks tend to be conservative, they are deal driven and open to solid proposals with strong financial bottomline analysis.

- There are a number of investment firms, bank services and consultants who will arrange deals with banks, i.e. Debt for Cooperative Investment Service, Multinational Strategies, New York Bay for large nonprofits, Fund for Private Assistance in International Development (PAID) for blocked currencies. Need to understand transaction to assure proper commissions. risks, etc.

4. Investors

- Identity potential investors with interest in country where project is to be developed.

- Multinational companies may be willing to invest in cooperative related activity which involves needed inputs to their production, i.e. coffee nicotine for Coca Cola, macadamia nuts for Blue Diamond.

- Banks may be investor if desires to convert non-performing debt for shorter term and more reliable return above that available in secondary market.

- Bank may be interested in donated debt for public relations purposes, to exit a country and to recoup U.S. taxes paid on interest arrearages.

- Cooperatives or other businesses in developing country who can convert and stretch existing resources through conversion. Joint business activities with combined resources would strengthen project proposal. Local partner institutions may be able to put up land or existing working capital as their contribution to deal.

- Donor agencies, such as AID, CIDA and others, who are willing to covert development assistance dollars for local currency programs, i.e. AID policy is about to be finalized.

- Other private voluntary organizations who may be willing to use their own resources in joint cooperative related activity

5. The Deal

- A country survey can uncover a group of prospects which can be packaged for various potential investors, i.e. the prospectus by Debt for Cooperative Investment Service in the Philippines.

- An opportunity by arise based on strong personal contacts or previous activities, i.e. Chile and Argentina housing approach

- A current project may require local currencies, i.e. WOCCU program in the Philippines, NRECA in energy generation in Costa Rica, ACDI in privatization of fertilizer plant in Costa Rica.

- A bank may contact U.S. cooperative or Debt for Development Coalition with an interest in disposing of debt through conversion, i.e. $2 million suggested for conversion in Honduras.

- An investor may seek U.S. cooperative support through debt conversions, i.e. ACDI approached in Peru on tomato processing plant export of paste.

- U.S. cooperatives can develop own "deals" through project development, i.e. VOCA innovative finance project; at suggestion of their field staff.

6. The Conversion Process

- Approval gained by Central Bank and other ministries, i.e. Finance, Planning

- Financial details of approved project discussed with U.S. financial intermediary.

- Intermediary identifies source (a seller) willing to sell appropriate debt.

- Financial intermediary verifies with the Central Bank that this particular debt is eligible for conversion.

- U.S. cooperative organization/investor transfers dollars to financial intermediary who in turn purchases debt.

- Financial intermediary notifies Central Bank that the transaction is completed and requests the Central Bank to transfer local currency equivalent to local bank account designated by U.S. cooperative organization/investor.

- Local currency funds are available for project activity. The above three steps can be completed simultaneously to minimize risk.

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7. Blocked Funds

- Inconvertible currencies or blocked funds are another source of local currency financing for cooperative projects.

- Source of funds is usually multinational corporation with operations in a particular country. Multinational corporation will provide local currencies for charitable activity, i.e. workers housing for its employees.

- Bank would act as agent, but would first explore debt conversion route for leveraging.

- A number of brokers for blocked currencies specialize in difficult countries such in Africa.

8. Pooling Arrangement

- To operate in the secondary market, cooperatives, private voluntary organizations and other non-profit agencies may want to pool their funds to facilitate transactions with sufficient size.

- Information on the needs for conversion must be gathered from non-profits for amounts and target dates. i.e. indication of funds for conversion per month, quarter or year in particular country.

- Financial intermediary would assist in setting up pooling arrangement with banks operating on a cash basis after they have verbally arranged but not executed transaction.

- Information will also be needed as to whom the equivalent local currency would be provided, i.e. bank account.

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OFFICIAL PROGRAM OF THE CENTRAL BANK OF COSTA RICA

acdi Agricultural Cooperative Development International

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BANCO CENTRAL DE COSTA RICA
DEPARTAMENTO DEUDA EXTERNA
8 DE FEBRERO DE 1989

NORMAS PARA LAS OFERTAS DE CONVERSION DE DEUDA EXTERNA QUE PRESENTEN FUNDACIONES COSTARRICENSES (APROBADAS POR LA JUNTA DIRECTIVA DEL BANCO CENTRAL DE COSTA RICA EN SESION No. 4338-89, ARTICULO 7, CELEBRADA EL 8 DE FEBRERO DE 1989)

1. PROPOSITO:

El objetivo de este programa es la conversión de documentos de deuda externa en bonos de estabilización monetaria denominados en colones o en dólares (pero pagaderos en colones) de acuerdo con lo estipulado en el Artículo 89 de la Ley Orgánica del Banco Central, y destinar los recursos resultantes al desarrollo de programas orientados al campo de los recursos naturales, apoyo a pequeños empresarios y desarrollo educativo. El Banco se reserva el derecho de rechazar total o parcialmente cualquier oferta de conversión que no satisface los propósitos establecidos en estas normas, o que en determinado momento el ente emisor no estime de carácter prioritario para el país.

2. PARTICIPANTES Y MONTO MINIMO:

Podrán participar en el mecanismo de conversión de deuda, las fundaciones costarricenses que tengan entre sus fines la conservación de recursos naturales, el desarrollo educativo o el apoyo a pequeños empresarios, que presenten ofertas por un monto de US$2.000.000.00 (dos millones de dólares de valor facial). Esas entidades podrán financiar sus respectivos programas con títulos de la deuda externa del BCCR, que hayan recibido como donación o adquiridos con fondos propios y que presentan para canje al Banco Central dentro del sistema establecido por esta normativa.

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3. DEUDA ELEGIBLE:

Pagarés de la deuda externa de Costa Rica emitidos por el Banco Central de acuerdo a los siguientes convenios suscritos con la banca comercial internacional:

a. Convenio de refinanciación del 9 de setiembre de 1983, modificado el 29 de mayo de 1985.

b. Convenio de refinanciación del 29 de mayo de 1985.

c. Crédito por US$75.0 millones del 29 de mayo de 1985.

4. MONTO DEL PROGRAMA:

El monto máximo es de US$45.0 millones de valor facial de títulos de deuda externa, distribuidos en tres períodos anuales de US$15.0 millones cada uno, iniciándose el primero en la fecha de la aprobación del programa por el BCCR.

5. UTILIZACION DE LOS FONDOS:

a. Las ofertas de conversión orientadas a programas de recursos naturales, deberán contar con la aprobación previa del Ministerio de Recursos Naturales, Energía y Minas.

b. El Banco se reserva el derecho de solicitar de otro ente estatal la aprobación para uso de los fondos, en aquellas ofertas de conversión relacionadas con actividades de "apoyo a pequeños empresarios", Anexo 1, y "desarrollo educativo".

c. Sin perjuicio de lo anterior, los fondos provenientes de la conversión en proyectos de apoyo a pequeños empresarios

son para el financiamiento de programas de capacitación, asistencia técnica, investigación, estudios de factibilidad, de mercadeo y otorgamiento de préstamos para inversión o capital de trabajo de los empresarios. Las fundaciones podrán asimismo, con el respaldo de estos fondos, otorgar garantías para préstamos que obtengan los empresarios citados en los bancos del sistema nacional o en cooperativas.

d. Los proyectos de desarrollo educativo por su parte, podrán utilizarse para la adquisición de material y equipo con propósitos didácticos y otorgamiento de becas a nacionales para estudios en el país.

En ningún caso se podrán destinar estos recursos para la compra de terrenos ni para la adquisición o construcción de edificios.

6. CANJE DE LOS TITULOS DE LA DEUDA EXTERNA:

a) El BCCR recibirá los títulos elegibles por un valor facial (menos cualquier pago efectuado sobre el mismo) que dependerá de la alternativa que se escoja en lo que se refiere a la denominación de los BEM y los canjeará por bonos de estabilización monetaria (BEM). En caso de que los títulos de deuda estén denominados en otras divisas diferentes del US$, se utilizará el tipo de cambio más bajo según la cotización que en ese momento tenga el Banco Central.

b) Con base en lo estipulado en el Artículo 89 de la Ley Orgánica del Banco Central, los bonos de estabilización monetaria que amparan estas operaciones de canje podrán emitirse en moneda nacional o extranjera.

Por lo anterior, las instituciones solicitantes podrán

optar por bonos de estabilización monetaria denominados en colones o bien por titulos denominados en dólares, pero pagaderos en colones al tipo de cambio de compra vigente al momento del vencimiento de los cupones así como de los montos del principal. Las condiciones financieras de los BEM citados anteriormente son las siguientes:

	Denominados en dólares	Denominados en colones
Porcentaje de conversión	80% del valor facial de los documentos de deuda externa	100% del valor facial de los documentos de deuda externa
Tasa de interés	3% anual, intereses pagaderos semestralmente	8% anual, intereses pagaderos semestralmente
Caracteristica	No negociables	No negociables
Plazo	20 años	20 años
Amortización	Para las dos denominaciones el pago de principal se realizará durante los últimos 5 años en sumas proporcionales iguales y semestralmente, la primera al completarse el vigésimo primer semestre y la última al completarse el plazo de 20 años citado.	

7. **PRESENTACION DE LAS OFERTAS:**

Las ofertas deben contener la siguiente información:

a. Antecedentes, nombre y caracteristicas de la entidad (programas desarrollados, experiencia, objetivos, soporte económico), copia del acta constitutiva y nombre de los directores actuales.

b. Descripción de las actividades usuales.

c. Detalle del programa o proyectos a realizar mediante el mecanismo de conversión, incluido el plazo para llevarlos a cabo.

ch. Monto de la oferta y posibilidad de aceptar una adjudicación parcial en caso de ser necesario.

d. Opción de aceptar los BEM objeto del canje, ya sea en colones o en dólares.

e. Detalle de los títulos que se entregarían (siempre y cuando se cuente con la información correspondiente).

f. Aceptación de los términos y condiciones de este programa, en el entendido de que el BCCR se reserva el derecho de rechazar total o parcialmente la oferta.

g. Nombre del banco costarricense que intermediará en la operación de conversión.

h. Nombre del funcionario o funcionarios autorizados por la entidad para presentar la oferta.

i. Domicilio de la entidad e información adicional que facilite las comunicaciones.

j. Las ofertas deben presentarse en dos tantos, en sobres cerrados separados a la Gerencia del Banco Central.

8. <u>PROCEDIMIENTO:</u>

a. Ocho días hábiles después de publicada la aprobación del programa por el BCCR, se pondrá a disposición de los interesados las normas correspondientes a este programa.

b. Un mes después de publicada la aprobación del programa en los principales medios de comunicación escrita del país, se abre un plazo de 60 días para la presentación de las ofertas de conversión de deuda.

c. El Banco contará con un período máximo de 2 meses a partir del cierre de la recepción de ofertas para estudiarlas y comunicar los resultados. Dentro de este plazo el BCCR podrá requerir aclaraciones a los oferentes así como solicitar información adicional.

ch. Los beneficiarios de la conversión deberán formalizar la transacción en un período tal que no sea superior a los 12 meses posteriores a la fecha en que el BCCR publique la aprobación del programa. Si transcurrido ese plazo existen operaciones aprobadas sin formalizar, las mismas quedarán sin efecto.

d. Este procedimiento se aplica a los primeros 12 meses de vigencia del mecanismo pudiendo repetirse en forma semestral a partir de la fecha en que el BCCR efectúe la comunicación correspondiente por medio de la prensa escrita.

9. <u>MONTO DEL PROGRAMA:</u>

a. El Banco Central establece un monto de US$15.0 millones anuales por un período de 3 años, empezando el primero a partir de la publicación de la aprobación del mecanismo.

b. Unicamente se considerarán aquellas ofertas que a la fecha de cierre de recepción de ofertas reúnan todos y cada uno de los requisitos aquí establecidos.

c. Para aquellas ofertas que reúnen los requisitos establecidos y en caso de que la suma total de las ofertas sobre-

pase el monto anual asignado de US$15.0 millones, dicho monto será distribuido proporcionalmente entre las solicitudes aprobadas.

ch. En caso de no agotarse el monto anual de US$15.0 millones, el banco podrá repetir el procedimiento durante los siguientes 12 meses o acumular para otro periodo el remanente del año anterior, en el entendido que se realizará la publicación correspondiente.

10. FORMALIZACION:

a. Se entiende por fecha efectiva de formalización la entrega física de los documentos de deuda externa debidamente endosados a favor del BCCR u otra Institución que al efecto designe el BCCR, con las correspondientes notificaciones de cesión de títulos, ambos requisitos con igual fecha. La formalización requerirá además, de la entrega por parte de los interesados o del banco intermediario de toda la documentación que forme parte del convenio, y que sea de aceptación por los agentes encargados de los convenios de refinanciación según los procedimientos establecidos para estos casos.

b. Antes de formalizarse una oferta de conversión, deberá suscribirse un acuerdo entre el BCCR y un banco comercial costarricense, actuando este último como banco intermediario, que ejercerá la administración del fideicomiso de los BEM, cesión, endoso o traspaso de los títulos de deuda externa, así como el control y fiscalización de los recursos y su aplicación al fiel cumplimiento del plan de inversión aprobado, de tal forma que se cumplan las condiciones suficientes que garanticen el desarrollo del programa estipulado en la

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oferta de conversión. Asimismo, el banco intermediario se compromete en forma inmediata a reembolsarle al BCCR cualquier suma que haya recibido o que reciba en exceso, por concepto de amortización o intereses de los títulos de deuda externa objeto de la conversión.

En caso de que lo anterior no se cumpla, el Banco Central puede establecer un monto de intereses por ese período de reembolso, en concordancia con la tasa de interés que se carga en la deuda externa.

c. La formalización podrá efectuarse en tractos, mediante el canje de los títulos de deuda externa, por un valor facial que dependerá de la alternativa que se escoja en lo que se refiere a la denominación de los BEM, en el entendido de que la opción no podrá modificarse.

ch. La cesión o traspaso de los títulos de deuda externa debe efectuarla el banco intermediario en la misma fecha en que son endosados los documentos a favor del BCCR u otra institución que designe el BCCR según los procedimientos establecidos en los convenios de refinanciación de la deuda pública externa de Costa Rica. En caso de que se requiera efectuar una partición de títulos se seguirá el mismo procedimiento de cesión y endoso, ambos trámites con igual fecha.

d. Los BEMS no serán entregados al banco intermediario de los oferentes hasta tanto no se hayan cumplido los requisitos de cesión, endoso o traspaso de los títulos de deuda externa, así como cualquier otro requisito que así haya establecido el Banco Central y recibida la aceptación por parte de los agentes encargados de los convenios de refinanciación según los procedimientos establecidos para estos casos.

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e. En el acuerdo que se firme según el literal b. anterior, se establecerá que los intereses y el principal de los BEM entregados en virtud de la operación de canje, solo se girarán al banco intermediario en las respectivas fechas, y este a su vez los girará al interesado únicamente si hay un desarrollo satisfactorio del plan de inversión pactado, lo cual deberá notificarse previamente al BCCR mediante comunicación escrita.

11. INFORMACION QUE EXIGIRA EL BCCR SOBRE LA EJECUCION DE LOS PLANES ACORDADOS:

La Administración del Banco Central queda facultada para exigir la presentación de informes trimestrales sobre el desarrollo de los programas, tanto al banco intermediario como a la entidad beneficiaria de la conversión de deuda externa. Lo anterior sin perjuicio de lo indicado como procedimiento necesario para el cobro de amortización e intereses sobre los bonos.

12. VIGENCIA:

El BCCR se reserva el derecho de modificar los lineamientos aquí establecidos cuando considere que se hayan producido cambios en las circunstancias dentro de las cuales se han elaborado. Tal modificación podrá afectar las ofertas que se encuentren en trámite de estudio y las que se presenten en el futuro pero en ningún caso las ofertas que ya hayan sido aprobadas en firme por la Junta Directiva del Banco.

13. REGISTRO PREVIO:

Las organizaciones interesadas en particular en este

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programa, podrán solicitar que el BCCR las incluya en un registro de entidades calificadas, para este efecto deberán proporcionar al BCCR la información descrita en los apartes a, b, c, j del punto 7 anterior, denominado "Presentación de las Ofertas".

14. INFORMACION ADICIONAL:

Cualquier informe adicional sobre este programa será atendido por el Departamento de Deuda Externa del Banco Central, al teléfono 22-14-24.

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Anexo 1

Para los efectos de estas normas se entiende por pequeño empresario lo siguiente:

a) Pequeño productos agropecuario: 1/

Aquellas personas físicas o grupos organizados de éstos que cumplan con los siguientes requisitos:

i) Que se dediquen fundamentalmente a las actividades agropecuarias y que sus ingresos originados en actividades distintas a las agropecuarias, no sean superiores al 25% del límite de ingresos brutos establecidos en el siguiente inciso.

ii) Que sus ingresos brutos no excedan de ¢750.000.00.

b) Pequeño industrial y pequeño artesano: 2/

i) Que el dueño o ejecutivo dedique su tiempo principalmente a las labores administrativas y técnicas y sea responsable de ellas.

ii) Que su proceso de producción se base en tecnología simple, utilizando herramientas manuales, maquinaria y equipo mecánico no automáticos.

iii) Que el valor de la maquinaria, equipo y herramientas propiedad de la empresa no exceda el equivalente en colones de US$50.000 valor de mercado.

iv) Que ocupe hasta un máximo de 20 trabajadores, incluyendo los propietarios.

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NOTAS EXPLICATIVAS:

1/ La definición de pequeño productor fue tomada del panfleto titulado "Programa Centroamericano de Agroempresas A.I.D./BCIE/BCCR" editado por el Departamento Fondos para el Desarrollo del Banco Central de Costa Rica.

2/ Los requisitos que debe llenar un pequeño industrial así como la definición de artesanía, que se estipula a continuación, fueron tomados del Decreto 6495 MEIC, Artículo 3, publicado en el Alcance 217, Gaceta 226 del 25 de noviembre de 1976.

Definición:

Se entenderá por artesanía aquella actividad humana de producción, transformación y reparación de bienes mediante un proceso en que la mano de obra constituye el factor predominante dando por resultado un producto individualizado en que quede impreso el sello personal que no corresponda a la producción industrial mecanizada y en serie.

An Analysis of Conversion Alternatives Under the Official Debt Swap Program

by

BANCOOP, R.L.

acdi Agricultural Cooperative Development International

CONVERSION DEUDA EXTERNA
FIDEICOMISO BANCOOP/FUNDACION DE P. NAC.
PROYECCION DE INGRESOS (MILES DE COLONES)

ALTERNATIVA #1 :CONVERSION EN COLONES
100% DE RECONOCIMIENTO
8% DE INTERES
CERTIFICADOS EN COLONES
20 AÑOS PLAZO, CON 1° DE GRACIA

-Tramo-: I

Ingreso: 100.000.00 MIL.DE DOL.

ValComp.: 15.000%

M.Total.: 566.666.67 MIL.DE DOL.

T.Cambio: 80.00 ¢ x $

Monto Colon: 53,466,666.67 MIL.DE COL.

INTERESES EN COLONES

TRIMESTRE
1 al 40 8.0%

AÑO	SEMESTRE NO	meses	Amortizacion			Intereses	Impuesto renta	Interes mas Amort	Saldo del Proyecto	Saldo en dolares del Proyecto
88/89	1	MAY.-OCT.				891.111	71.289	891,111	819.822	10.202
1989	2	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
89/90	3	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1990	4	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
90/91	5	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1991	6	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
91/92	7	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1992	8	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
92/93	9	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1993	10	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
93/94	11	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1994	12	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
94/95	13	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1995	14	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
95/96	15	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1996	16	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
96/97	17	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1997	18	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
97/98	19	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1998	20	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
98/99	21	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
1999	22	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
99/00	23	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
2000	24	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
00/01	25	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
2001	26	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
01/02	27	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
2002	28	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
02/03	29	MAY.-OCT.				2,138.667	171.093	2,138,667	1,967.573	24.503
2003	30	NOV.-ABR.				2,138.667	171.093	2,138,667	1,967.573	24.503
03/04	31	MAY.-OCT.	5,346.667	8.0%	213.867	2,138.667	171.093	7,485.333	7,314.240	91.200
2004	32	NOV.-ABR.	5,346.667	8.0%	213.867	1,924.800	153.984	7,271.467	7,117.483	88.747
04/05	33	MAY.-OCT.	5,346.667	8.0%	213.867	1,710.933	136.875	7,057.600	6,920.725	86.293
2005	34	NOV.-ABR.	5,346.667	8.0%	213.867	1,497.067	119.765	6,843.733	6,723.968	83.840
05/06	35	MAY.-OCT.	5,346.667	8.0%	213.867	1,283.200	102.656	6,629.867	6,527.211	81.387
2006	36	NOV.-ABR.	5,346.667	8.0%	213.867	1,069.333	85.547	6,416.000	6,330.453	78.933
06/07	37	MAY.-OCT.	5,346.667	8.0%	213.867	855.467	68.437	6,202.133	6,133.696	76.480
2007	38	NOV.-ABR.	5,346.667	8.0%	213.867	641.600	51.328	5,988.267	5,936.939	74.027
07/08	39	MAY.-OCT.	5,346.667	8.0%	213.867	427.733	34.219	5,774.400	5,740.181	71.573
2008	40	NOV.-ABR.	5,346.667	8.0%	213.867	213.867	17.109	5,560.533	5,543.424	69.120
TOTAL			53,466.667						122,167.769	1,523.499

Nota: Supone que la conversión se realiza el 15 de agosto de 1989

ALTERNATIVA #2 :CONVERSION EN DOLARES
30% DE RECONOCIMIENTO
3% DE INTERES
CERTIFICADOS EN DOLARES
20 AÑOS PLAZO, CON 1% DE GRACIA

-Tramo : I

Ingreso: 100.000.00 MIL.DE DOL.

ValComp.: 15.000%

M.Titul.: 666.666.67 MIL.DE DOL.

T.Camb.: 1.00 $ x $

Montofom: 533.333.33 MIL.DE DOL.

INTERESES EN COLONES

TRIMESTRE
1 al 40 3.0%

AÑO	SEMESTRE No	meses	Amortizacion			Intereses	Impuesto renta	Inter. mas Amort	Sald. en dolares del Proyecto
88/89	1	MAY.-OCT.				3,333	267	3,333	3,067
1989	2	NOV.-ABR.				8,000	640	8,000	7,360
89/90	3	MAY.-OCT.				8,000	640	8,000	7,360
1990	4	NOV.-ABR.				8,000	640	8,000	7,360
90/91	5	MAY.-OCT.				8,000	640	8,000	7,360
1991	6	NOV.-ABR.				8,000	640	8,000	7,360
91/92	7	MAY.-OCT.				8,000	640	8,000	7,360
1992	8	NOV.-ABR.				8,000	640	8,000	7,360
92/93	9	MAY.-OCT.				8,000	640	8,000	7,360
1993	10	NOV.-ABR.				8,000	640	8,000	7,360
93/94	11	MAY.-OCT.				8,000	640	8,000	7,360
1994	12	NOV.-ABR.				8,000	640	8,000	7,360
94/95	13	MAY.-OCT.				8,000	640	8,000	7,360
1995	14	NOV.-ABR.				8,000	640	8,000	7,360
95/96	15	MAY.-OCT.				8,000	640	8,000	7,360
1996	16	NOV.-ABR.				8,000	640	8,000	7,360
96/97	17	MAY.-OCT.				8,000	640	8,000	7,360
1997	18	NOV.-ABR.				8,000	640	8,000	7,360
97/98	19	MAY.-OCT.				8,000	640	8,000	7,360
1998	20	NOV.-ABR.				8,000	640	8,000	7,360
98/99	21	MAY.-OCT.				8,000	640	8,000	7,360
1999	22	NOV.-ABR.				8,000	640	8,000	7,360
99/00	23	MAY.-OCT.				8,000	640	8,000	7,360
2000	24	NOV.-ABR.				8,000	640	8,000	7,360
00/01	25	MAY.-OCT.				8,000	640	8,000	7,360
2001	26	NOV.-ABR.				8,000	640	8,000	7,360
01/02	27	MAY.-OCT.				8,000	640	8,000	7,360
2002	28	NOV.-ABR.				8,000	640	8,000	7,360
02/03	29	MAY.-OCT.				8,000	640	8,000	7,360
2003	30	NOV.-ABR.				8,000	640	8,000	7,360
03/04	31	MAY.-OCT.	53,333	3.0%	800	8,000	640	61,333	60,693
2004	32	NOV.-ABR.	53,333	3.0%	800	7,200	576	60,533	59,957
04/05	33	MAY.-OCT.	53,333	3.0%	800	6,400	512	59,733	59,221
2005	34	NOV.-ABR.	53,333	3.0%	800	5,600	448	58,933	58,485
05/06	35	MAY.-OCT.	53,333	3.0%	800	4,800	384	58,133	57,749
2006	36	NOV.-ABR.	53,333	3.0%	800	4,000	320	57,333	57,013
06/07	37	MAY.-OCT.	53,333	3.0%	800	3,200	256	56,533	56,277
2007	38	NOV.-ABR.	53,333	3.0%	800	2,400	192	55,733	55,541
07/08	39	MAY.-OCT.	53,333	3.0%	800	1,600	128	54,933	54,805
2008	40	NOV.-ABR.	53,333	3.0%	800	800	64	54,133	54,069
TOTAL			533,333						798,320

Nota: Supone que la conversión se realiza el 15 de agosto de 1989

:::

FIDEICOMISO BANCOOP/FUNDACION DE P. NAC.
PROYECCION DE INGRESOS (MILES DE COLONES)

ANALISIS DE ALTERNATIVAS :DOLARES/COLONES
(CIFRAS EN MILES DE DOLARES)

SE MES TRE	INGRESO CONVERSION DOLARES	INGRESO CONVERSION DOLARES ACTUALIZADO 9.50%	INGRESO CONVERSION COLONES	INGRESO CONVERSION COLONES DEFLATADA 12.00%	INGRESO CONVERSION COLONES ACTUALIZADO 9.50%	DIFERENCIA INGRESOS DEFLATADA ACTUALIZADO $ - ¢
1	3,067	3,067	10,222	10,222	10,222	(7,156)
2	7,360	7,026	24,533	23,145	22,095	(15,069)
3	7,360	6,708	24,533	21,835	19,899	(13,192)
4	7,360	6,403	24,533	20,599	17,922	(11,518)
5	7,360	6,113	24,533	19,433	16,140	(10,027)
6	7,360	5,836	24,533	18,333	14,536	(8,701)
7	7,360	5,571	24,533	17,295	13,092	(7,520)
8	7,360	5,319	24,533	16,316	11,791	(6,472)
9	7,360	5,077	24,533	15,393	10,619	(5,541)
10	7,360	4,847	24,533	14,521	9,564	(4,716)
11	7,360	4,627	24,533	13,699	8,613	(3,986)
12	7,360	4,418	24,533	12,924	7,757	(3,339)
13	7,360	4,217	24,533	12,192	6,986	(2,769)
14	7,360	4,026	24,533	11,502	6,292	(2,266)
15	7,360	3,843	24,533	10,851	5,667	(1,823)
16	7,360	3,669	24,533	10,237	5,103	(1,434)
17	7,360	3,503	24,533	9,657	4,596	(1,093)
18	7,360	3,344	24,533	9,111	4,139	(795)
19	7,360	3,192	24,533	8,595	3,728	(536)
20	7,360	3,048	24,533	8,109	3,358	(310)
21	7,360	2,909	24,533	7,650	3,024	(114)
22	7,360	2,777	24,533	7,217	2,723	54
23	7,360	2,651	24,533	6,808	2,453	199
24	7,360	2,531	24,533	6,423	2,209	322
25	7,360	2,416	24,533	6,059	1,989	427
26	7,360	2,307	24,533	5,716	1,792	515
27	7,360	2,202	24,533	5,393	1,614	589
28	7,360	2,102	24,533	5,087	1,453	649
29	7,360	2,007	24,533	4,799	1,309	698
30	7,360	1,916	24,533	4,526	1,179	737
31	60,693	15,084	91,200	15,879	3,946	11,138
32	59,957	14,225	88,747	14,577	3,459	10,767
33	59,221	13,414	86,293	13,372	3,029	10,385
34	58,485	12,646	83,840	12,256	2,650	9,996
35	57,749	11,921	81,387	11,224	2,317	9,604
36	57,013	11,235	78,933	10,270	2,024	9,212
37	56,277	10,587	76,480	9,387	1,766	8,821
38	55,541	9,975	74,027	8,572	1,534	8,436
39	54,805	9,397	71,573	7,819	1,341	8,056
40	54,069	8,850	69,120	7,123	1,166	7,684
VALOR ACTUAL NETO AL:	9.50%	335,011			245,100	(10,089)

NOTA: Valores negativos () significa ventaja de la conversión en colones
Valores positivos significa ventajas de la conversión en dólares
Nota: Supone que la conversión se realiza el 15 de agosto de 1989

CONVERSION DEUDA EXTERNA
FIDEICOMISO BANCOUP/FUNDACION DE P. NAC.

ANALISIS DE SENSIBILIDAD SOBRE LAS ALTERNATIVAS :$ - ¢
(CIFRAS EN MILES DE DOLARES)

TASAS DE DEFLATACION DEL COLON

	8.00%	10.00%	12.00%	14.00%	16.00%	18.00%	20.00%	22.00%
6.00%	(32,755)	16,281	55,262	86,652	112,252	133,389	151,049	165,974
7.00%	(46,783)	(2,993)	32,010	60,352	83,594	102,888	119,094	132,858
8.00%	(58,026)	(16,792)	12,744	38,420	59,590	77,259	92,176	104,907
9.00%	(66,967)	(31,698)	(3,194)	20,143	39,489	55,720	69,491	81,300
10.00%	(74,008)	(42,200)	(16,350)	4,929	22,663	37,617	50,368	61,352
12.00%	(83,660)	(57,538)	(36,075)	(18,216)	(3,176)	9,629	20,649	30,226

Risk

NOTA: Valores negativos () significa ventaja de la conversión en colones
Valores positivos significa ventajas de la conversión en dólares
Nota: Supone que la conversion se realiza el 15 de agosto de 1989

INDICES DE RENTABILIDAD DE AMBAS CONVERSIONES
PARA TAZAS DE ACTUALIZACION DEL : 9.50%
PARA TAZAS DE DEFLATACION DEL : 12.00%

INDICES	CONVERSION EN DOLARES	CONVERSION EN COLONES
Valor actual neto	235,011	245,100
Relación B/C	2.35	2.45
Ganancia	135,011	145,100
% ganancia/inversión	135.01%	145.10%

CONVERSION DEUDA EXTERNA
FIDEICOMISO BANCOOP/FUNDACION DE P. NAC.

ANALISIS DE SENSIBILIDAD SOBRE LAS ALTERNATIVAS :5 - 4
(CIFRAS EN MILES DE DOLARES)

TASAS DE DEFLATACION DEL COLON

	8.00%	10.00%	12.00%	14.00%	16.00%	18.00%	20.00%	22.00%
6.00%	(32,755)	16,281	55,262	86,652	112,252	133,309	151,049	165,974
7.00%	(46,733)	(2,993)	32,010	60,352	83,594	102,808	119,094	132,858
8.00%	(58,026)	(18,792)	12,744	38,420	59,590	77,259	92,176	104,907
9.00%	(66,967)	(31,698)	(3,194)	20,143	39,489	55,720	69,491	81,300
10.00%	(74,098)	(42,200)	(16,350)	4,929	22,663	37,617	50,368	61,352
12.00%	(83,660)	(57,538)	(36,075)	(18,216)	(3,178)	9,629	20,649	30,226

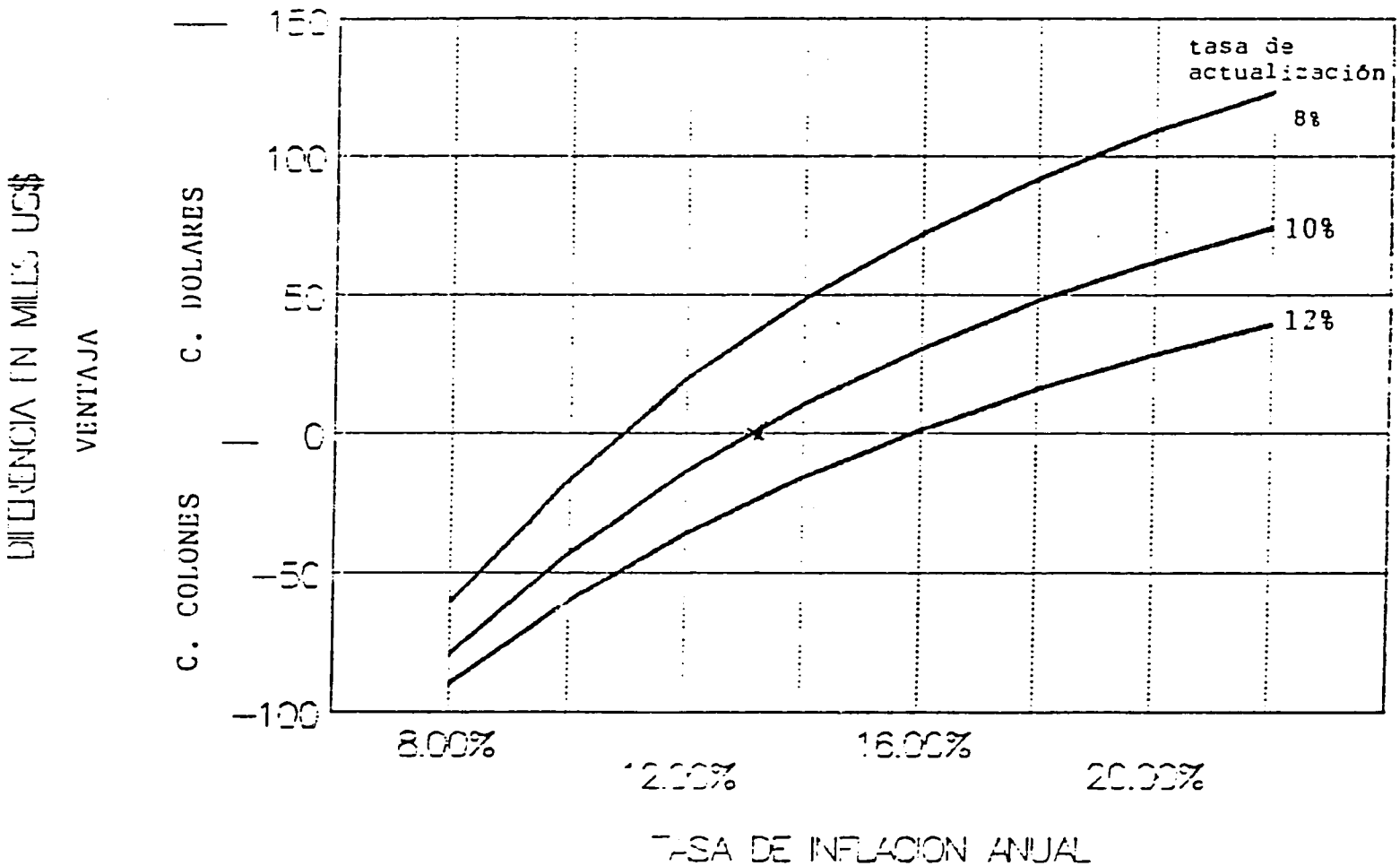
NOTA: Valores negativos (-) significa ventaja de la conversión en colones
Valores positivos significa ventajas de la conversión en dólares
Nota: Supone que la conversion se realiza el 15 de agosto de 1989

INDICES DE RENTABILIDAD DE AMBAS CONVERSIONES
PARA TAZAS DE ACTUALIZACION DEL : 11.00%
PARA TAZAS DE DEFLATACION DEL : 14.90%

INDICES	CONVERSION EN DOLARES	CONVERSION EN COLONES
Valor actual neto	200,630	200,632
Relación B/C	2.01	2.01
Ganancia	100,630	100,632
% ganancia/inversión	100.63%	100.63%

VENTAJA DE CONVERSION $ Y C

DIFERENCIA ENTRE TIPOS DE CONVERSION



APUNTES SOBRE EL MECHANISMO DE CONVERSION DE DEUDA EXTERNA

COSTA RICA

(TRANSLATION)
A Sketch of the External Debt Conversion Mechanism in Costa Rica

acdi Agricultural Cooperative Development International

Lic. Roberto Avendaño Chinchilla

APUNTES SOBRE EL MECANISMO DE CONVERSION DE DEUDA EXTERNA
- COSTA RICA -

Serie "Comentarios sobre asuntos económicos", No. 75

Banco Central de Costa Rica

1988

APUNTES SOBRE EL MECANISMO DE CONVERSION DE DEUDA EXTERNA

- COSTA RICA -

I. Introducción 1

II. Antecedentes 2

III. Mecanismo 5

IV. Resultados 7

V. Conclusiones 9

Los trabajos que se publican dentro de esta serie, "Comentarios sobre asuntos económicos" no representan necesariamente la opinión del Banco Central de Costa Rica y son, en cuanto a las ideas expresadas en ellos, responsabilidad exclusiva de sus autores.

I. INTRODUCCION

Para los que de una u otra forma hemos estado relacionados con la agobiante función de la deuda externa del país, estos apuntes tienen como propósito repasar la experiencia que sobre el mecanismo de conversión hemos alcanzado, mediante una visión, por decir doméstica, del grupo de trabajo que tuvo a su cargo, la ejecución del mismo.

La experiencia y los años nos han demostrado que las ideas iniciales esbozadas en el esquema de conversión o canje, son compartidas por los funcionarios relacionados con la deuda de muchos países deudores. Desde sus inicios se quiso que el programa fuera considerado como de reactivación económica, no de estabilización, con el fin de introducir un elemento innovador y creativo en la problemática de la deuda, y al mismo tiempo iniciar una curva de aprendizaje tanto en el sector público como en el privado que nos permitiera explorar nuevos rumbos en este gravísimo problema. La información que sobre este tema existía era muy poca, por no decir inexistente, solo Brasil había tenido cierta experiencia en los años 60 con su regulación de inversiones extranjeras, Chile y México por su parte apenas estaban esbozando sus programas respectivos, por este motivo se ha utilizado el término "doméstico" para hacer referencia a la visión que se desea presentar sobre el esquema, con el fin de describir nuestra propia experiencia y dejar para un segundo trabajo las impresiones sobre mecanismos similares

aplicados en otros países.

Cuando se habla o escribe sobre el tema de la conversión surge la duda de sí la misma constituye un prepago de deuda, la respuesta a esta inquietud hace que cada uno de nosotros empiece a tomarle gusto al asunto, por nuestra parte diremos que el esquema de conversión en el caso de Costa Rica, lo hemos visto como una operación de canje de deuda externa por interna, lógicamente que existen posiciones en contrario.

II. ANTECEDENTES

A partir de la segunda reestructuración de la deuda pública costarricense con la banca comercial, (negociaciones conocidas en algunos foros como Club de Londres), ocurrida en setiembre de 1985, se puso nuevamente en evidencia la inconformidad sobre tales acuerdos, máxime que contenían claúsulas aún más duras que las incluidas en los anteriores convenios de 1983. Era previsible que el país en un cortísimo plazo estaría incumpliendo esos acuerdos, como de hecho sucedió en junio de 1986 con la propuesta de Costa Rica a los bancos comerciales. Con un alto grado de pesimismo ante la inflexibilidad de la banca comercial acreedora de Costa Rica fue que a finales de 1985 fue tomando forma un posible mecanismo de conversión o canje de deuda, hecho que coincidió con una propuesta de un banco de New York para capitalizar una entidad bancaria costarricense por medio de pagarés de la deuda externa,

esta propuesta no se llegó a concretar pero dio lugar a otras solicitudes similares y a que el BCCR decidiera estudiar el asunto y tratar de establecer las condiciones bajo las cuales podrían aceptarse este tipo de propuestas. Fue así como en la sesión celebrada el 18 de marzo de 1986, la Junta Directiva del Ente Emisor aprobó los términos de referencia que servirían de base para estudiar las ofertas, no obstante tenían que transcurrir varios meses para que el mecanismo adquiriera forma, dado que era necesario estudiar más a fondo aspectos de tipo legal, económico y financiero.

1. Aspectos Legales

Como fue mencionado en la introducción, el grupo de trabajo consideró la conversión como una operación de canje de deuda externa por interna, sin embargo tal concepto en lo que se refiere a los acuerdos de reestructuración, no lo contemplaba, motivo por el cual el canje de documentos constituye una clara violación de las claúsulas de prepago, "pari-passu" (trato igualitario) y "negative pledge" (obligación de no hacer). Asimismo los bancos entre sí se protegen por la claúsula de "sharing of payments" mediante la cual se estipula que si algún banco recibe un pago en exceso del que le corresponde, debe compartirlo con los demás. Sobre estos aspectos se hicieron las consultas correspondientes y se sugirió que debía hacerse una solicitud de dispensa ("waiver") de esas claúsulas, trámite muy largo y sumamente oneroso para el país, de tal suerte que la solicitud no se presentó ante Bank of America que es el

banco agente de la refinanciación. Se consideró también que Costa Rica estaba ofreciendo una posibilidad para que los bancos acreedores recuperaran parte de las pérdidas que podían sufrir en caso de descontar sus títulos en los mercados secundarios, en vista de que los mismos se transaban a un precio muchísimo menor del 100% de su valor.

2. Aspectos económicos y financieros:

Desde un primer momento se pensó que el producto de la conversión debería estar dirigido a aquellas actividades generadoras de divisas, de tal suerte que se pudiera neutralizar el efecto inflacionario de la "colonización" de la deuda. Se consideró que la actividad exportadora es de carácter estratégico en la economía nacional, motivo por el cual se le dio la más alta prioridad, asimismo se estimó que un programa de conversión por un monto muy bajo minimizaría el efecto monetario, máxime si se producían inversiones adicionales.

Aquí cabe destacar que aunque el mecanismo en referencia se fundamenta en la depreciación que han sufrido nuestros títulos de la deuda en el mercado internacional, la idea en ningún momento era de un simple intercambio de documentos, sino aprovechar esa circunstancia, captura del descuento, para que los recursos resultantes del intercambio, se orientaran hacia actividades como las mencionadas, asimismo aquellas que vinieran a sustituir importaciones o a ampliar las facilidades crediticias de nuestro sistema

financiero.

Con la idea de capturar el descuento de los títulos, se idearon 2 formas: una mediante un precio reducido del valor facial y otra por medio de una tasa de interés castigada. En el primer caso los títulos se reciben a menos del 100% y se canjean por documentos en colones con tasas de mercado, en el otro caso, los títulos se aceptan a un 100% y el descuento se refleja en una tasa de interés menor, de tal forma que en términos de valor presente quede reflejado dicho descuento. Esta modalidad aunque teóricamente es equivalente a la primera, presenta problemas en cuanto a su tratamiento contable y financiero, dado que el descuento no se puede mostrar en libros y es cuestionable la utilización de una tasa apropiada para estimar el valor presente, ya que resulta complicado calcular el costo para una entidad bancaria como el BCCR u otro indicador que sirva para descontar el repago y los intereses que generen los títulos en colones.

Con este breve resumen de los antecedentes de la conversión veamos ahora como opera el mecanismo.

III. DESCRIPCION DEL MECANISMO:

La guía de conversión que puso a disposición de los interesados el BCCR durante el segundo semestre de 1986, es bastante clara en cuanto a los lineamientos generales, los cuales se pueden resumir de la siguiente forma: el interesado somete al Ente Emisor un

plan detallado de las inversiones que se propone efectuar, el banco de acuerdo a las prioridades que a tal efecto estableció, le asigna un precio de conversión en función de su prioridad y de la cotización de la deuda de Costa Rica en los mercados secundarios del exterior, asimismo establece un plazo determinado para formalizar la transacción en el entendido que un banco costarricense es el encargado de supervisar y controlar dichas inversiones.

Al formalizar la transacción de canje, se cancela la deuda externa proporcionada por el interesado y a cambio se le entregan títulos en colones del BCCR por el equivalente en moneda nacional, al tipo de cambio vigente y a plazos similares a los pactados en la deuda externa, lógicamente que estos títulos se aceptan a un precio menor de su valor facial, ya sea mediante una reducción directa del precio o por medio de una tasa de interés "castigada".

Dependiendo del origen de los recursos por medio de los cuales se adquirieron los documentos de deuda externa, el interesado tiene la opción de solicitar su registro como una deuda o como una inversión de capital, con el propósito de repagar el crédito externo o repatriar la inversión extranjera. En caso de que no se solicite tal registro, se puede pensar que se produce una repatriación indirecta de capitales o en el peor de los casos que se haya acudido al mercado negro de divisas.

Una última observación sobre el mecanismo es que se establece que la deuda elegible para el intercambio es aquella proveniente

de los acuerdos de reestructuración de deuda externa y el financiamiento de US$75,0 millones, exceptuando la facilidad revolutiva de crédito pactada en 1983 con los bancos acreedores de Costa Rica.

IV. RESULTADOS:

En el esquema de conversión se estableció un monto total de US$180,0 millones de valor facial, monto que representa un 15% de la deuda refinanciada con los bancos comerciales (US$1.200,0 millones) y un 5% de la deuda total del país en ese momento (US$3.600,0 millones).

La primera transacción se efectuó en agosto de 1986 y la recepción de ofertas tuvo que cerrarse en diciembre de ese año, dado que al cierre de la ventanilla se habían presentado ofertas por un monto total de US$280,0 millones, correspondientes a 73 proyectos diferentes, de los cuales se han aprobado 35, a la fecha se han formalizado 32, 2 han sido retirados y 1 se encuentra en proceso de formalización.

La lista se presenta en el anexo 1 y en el 2 se clasifican los mismos, por el tipo de actividad, obteniéndose una reducción en la deuda externa de US$117,2 millones, a un tipo de cambio promedio de ¢62,6 por dólar, a un precio de conversión promedio de 65%, estos resultados corresponden a 32 proyectos debidamente formalizados.

En lo referente al capítulo del registro de capitales o de

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deuda, podemos determinar que la mitad del total de los proyectos presentan estas opciones para repatriar la inversión y los correspondientes dividendos, así como el de brindar servicio al crédito externo incurrido por las empresas nacionales para adquirir los títulos elegibles en el esquema de conversión. Los resultados se muestran en el anexo 3 en donde únicamente 3 empresas han hecho uso efectivo del registro por US$639.720,0 y US$2.593.807,87 de deuda y capital respectivamente. En cuanto a una tercera modalidad de este registro, podemos mencionar que se permitió que un beneficiario retuviera US$0,68 por caja de banano exportada para repagar el crédito en que incurrió para adquirir la deuda externa, mediante una "escrow account" en un banco del exterior, este registro permite contabilizar un monto de US$9,0 millones para ese efecto, de tal suerte que el servicio está en función de la generación de exportaciones de banano.

Cabe hacer notar que el último rubro de las actividades del anexo 2, conservación de parques nacionales, merece especial importancia por haber tomado un gran auge, dado el interés y la participación de bancos acreedores dispuestos a donar sus tenencias de deuda externa, entendemos que con propósitos tributarios en sus países de origen, a la fecha el BCCR está abocado a ejecutar un mecanismo no convencional de conversión, con el objetivo de financiar programas orientados al campo de los recursos naturales, apoyo a pequeños empresarios y desarrollo educativo.

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V. CONCLUSIONES:

En la actualidad resulta fácil obtener una excelente visión de los diferentes mecanismos de conversión de deuda, llámese "deuda por deuda", "deuda por productos", "deuda por efectivo", "deuda por capital" o "deuda por naturaleza", sin embargo al remontarnos al año de 1984 recordamos que cuando en Costa Rica se empezaron a tratar estos asuntos, resultaba temerario y hasta cierto punto inmoral pensar en aceptar títulos de deuda externa por menos de su valor facial, ha cambiado tanto el concepto de que ahora se habla de donaciones de deuda.

En retrospectiva en el caso de Costa Rica se pueden enumerar los siguientes objetivos básicos que dieron origen a la conversión:

1. captura del descuento
2. atracción de nuevas inversiones extranjeras
3. reducción y alivio en el servicio de la deuda
4. incremento de las exportaciones
5. repatriación de capital
6. establecimiento de una curva de aprendizaje para Costa Rica.

Consideramos que los objetivos se han alcanzado, la mayoría en forma satisfactoria, otros parcialmente y un solo caso en forma decepcionante, veamos:

1. Captura del descuento:

El precio promedio de conversión es de un 65%, lo cual indica que se ha capturado un 35%, según los datos del anexo 2. Cabe hacer notar que ese beneficio ha estado en función directa del deterioro que ha sufrido la deuda externa de Costa Rica en los diferentes mercados secundarios del exterior, dado que el mecanismo establece un punto de referencia basado en las cotizaciones de nuestra deuda, que como sabemos han estado decreciendo en forma sostenida desde los inicios del esquema.

2. Atracción de nuevas inversiones extranjeras:

Este punto ha sido decepcionante ya que supusimos al inicio, en forma muy optimista, que los bancos acreedores estarían dispuestos a participar accionariamente en empresas costarricenses, sin contar con todas las regulaciones a que están sometidos y que la función de los bancos es hacer banca. Cabe mencionar el problema que representa para esas entidades su participación, dadas las restricciones que a tal efecto establecen los diferentes convenios de refinanciación que ha suscrito Costa Rica.

En el caso concreto de nuestro país solo una entidad bancaria del exterior ha efectuado inversiones directas en una firma costarricense, favorecida con la conversión.

3. Reducción y alivio en el servicio de la deuda:

Los datos en el anexo 2 son elocuentes, la deuda externa

refinanciada con la banca comercial se ha reducido en, aproximadamente un 10%, monto nacionalizado de deuda interna que demanda un servicio en colones a plazos ligeramente superiores a los pactados contractualmente, a tasas de interés que fluctúan entre un 20% y un 26%.

4. Incremento en las exportaciones:

Es un poco prematuro evaluar este concepto, dado que muchos proyectos todavía están en la fase de ejecución y otros todavía no han alcanzado las metas propuestas, sin embargo estudios de auditoría indican que los proyectos revisados están cumpliendo los objetivos satisfactoriamente, excepto por 1 o 2 casos.

5. Repatriación de capitales:

Es válido suponer que una empresa que no ha formalizado un registro de capital o de deuda para tener acceso al mercado oficial de divisas, tiene que acudir al mercado negro o recurrir a repatriar capital, suponemos que esto último es lo que ha ocurrido, para lo cual tomamos como base, en lo posible, que no hemos detectado una variación significativa de las cotizaciones entre el mercado negro y el oficial durante la vigencia del mecanismo.

Cabe agregar también que solo 3 empresas han solicitado registro de capital o deuda, según se muestra en el anexo 3, por un total de US$3,2 millones.

6. Establecimiento de una curva de aprendizaje para Costa Rica.

Consideramos que el proceso ha sido aleccionador, sin embargo, si desde un primer momento hubiéramos evaluado todas las ramificaciones y complicaciones que un mecanismo de este tipo presenta, probablemente se estaría, en estos momentos, redactando las regulaciones correspondientes, no obstante se partió de una serie de lineamientos generales que se fueron adaptando conforme se presentaban nuevas condiciones, resumidas en una guía de conversión de 8 páginas.

Obtener la curva de aprendizaje ha tomado tiempo, pero su utilidad es sumamente valiosa para hacerle frente a decisiones que se requieren tomar, no solo en mecanismos convencionales de conversión, sino en una serie de modalidades sobre el tratamiento de la deuda externa, como son el reciente "macro-swap" de México, las modalidades del esquema chileno, el pago de la deuda de Costa Rica a México, el plan brasileño de 1987 y en general las soluciones que al problema de la deuda se han discutido y se discuten en los diferentes foros.

Como un último punto se hace necesario mencionar el precio de la factura de la conversión, es decir todos aquellos aspectos que se cuestionan de la bondad del mecanismo y que sumados esos rubros representan el costo total que es necesario cancelar, dentro de los cuales se pueden mencionar los siguientes:

- presiones inflacionarias

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- saturación del mercado interno de valores
- asignación de recursos
- presión en las tasas internas de interés
- guerra de incentivos a nivel internacional
- mercado negro
- la bicicleta o "round tripping"
- componente importado y valor agregado
- pérdida del poder de negociación de la deuda externa
- infraestructura administrativa requerida
- nacionalización de la deuda externa
- pérdida del control sobre la política monetaria

Para finalizar hago mención a lo dicho por un célebre ejecutivo de la industria automovilística, que escribió un libro de gran impacto, cuyo nombre ustedes pueden deducir, que dijo lo siguiente:

"aprenda, aplique esfuerzo al trabajo, pero después, por lo que más quiera, ¡haga algo!"

A N E X O 1

MECANISMO DE CONVERSION DEUDA PUBLICA EXTERNA
-PROYECTOS APROBADOS POR JUNTA DIRECTIVA-
AL 21 DE JUNIO DE 1988

PROYECTO	MONTO APROBADO DOLARES ($)	VALOR DE LOS TITULOS RECIBIDOS ($)	MONTO CONVERTIDO US$ 1	MONTO CONVERTIDO C (BFM)
Capitalización del banco para financiar proyectos exportación	4.000.000,00	3.930.011,98	2.593.807,91	145.253.242,80
Exportación de banano.....	26.000.000,00	20.084.211,56	20.084.211,56	1.209.128.686,81
Exportación de flores y plantas ornamentales.....	1.500.000,00	1.500.000,00	1.050.000,00	60.795.000,00
Exportación de helechos.....	1.400.000,00	1.400.000,00	980.000,00	55.987.000,00
Exportación carne de cangrejo..	4.250.000,00	1.599.508,79	992.824,13	53.053.482,83
Exportación de banano.....	4.600.000,00	4.600.044,71	3.220.030,95	192.396.849,09
Exportación cosméticos y artículos de tocador.....	750.000,00	750.000,00	466.200,00	28.205.100,00
Exportación de yuca, malanga ñame y ñampí.....	2.100.000,00	2.100.000,00	1.462.125,00	86.591.268,75
Capital de trabajo (exportación prendas de vestir).....	6.000.000,00	5.800.000,00	3.596.000,00	212.523.600,00
Construcción naves industriales	8.850.000,00	8.834.981,56	4.877.574,77	300.600.362,58
Producción huevo fértil (sustitución importaciones)....	10.500.000,00	10.502.317,32	5.828.786,11	362.841.935,66
Exportación de cueros.....	1.280.000,00	1.280.000,00	805.120,00	49.072.064,00
Exportación jugos concentrados.	7.500.000,00	7.500.000,00	4.717.500,00	289.182.750,00
Exportación de flores.....	2.925.000,00	2.925.000,00	1.785.712,50	108.839.176,88
Producción esquejes y exportación de flores.....	2.900.000,00	2.900.000,00	1.732.500,00	110.620.125,00
Exportación puertas de madera..	11.800.000,00	11.713.534,08	7.249.962,70	456.816.545,77

Continúa en la siguiente página

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Continuación del anexo 1

PROYECTO	MONTO APROBADO DOLARES ($)	VALOR DE LOS TITULOS RECIBIDOS ($)	MONTO CONVERTIDO US$ 1/	C (BEM)
Planta procesadora de pulpa....	4.000.000,00	4.000.000,00	2.405.000,00	147.426.500,00
Exportación plantas ornamentales.....	500.000,00	500.000,00	297.500,00	18.846.625,00
Conservación de Parques Nacionales.....	5.400.000,00	5.400.000,00	4.050.000,00	296.609.960,04
Exportación mariscos y pescado fresco congelado.....	1.568.000,00	1.568.000,00	799.680,00	53.378.640,00
Exportación plantas ornamentales.....				
Producción y exportación de camarón.....	1.500.000,00	1.500.000,00	750.000,00	55.125.000,05
Producción helechos de cuero para exportación.....	1.150.000,00	1.150.000,00	575.000,00	38.381.250,00
Producción y exportación plantas ornamentales.....	2.600.000,00	2.600.000,00	1.118.000,00	81.837.600,00
Exportación melones.....	2.975.000,00			
Exportación plantas ornamentales.....	3.100.000,00	3.100.000,00	1.333.000,00	97.575.600,00
Expansión actividad pesquera...	1.385.000,00	1.385.000,00	567.850,00	41.566.620,00
Producción y exportación de productos plásticos.....	2.300.000,00	2.300.000,00	897.000,00	65.660.400,00
Exportación carrocerías de fibras de vidrio.....	995.586,00	995.586.00	388.278,54	28.538.472,59
Exportación puntas de cautín uso industria electrónica.....	399.173,00	399.173,00	155.677,47	11.395.590,80

Continúa en la siguiente página

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Conclusión de anexo .

PROYECTO	MONTO APROBADO DOLARES ($)	VALOR DE LOS TITULOS RECIBIDOS ($)	MONTO CONVERTIDO US$ 1/	MONTO CONVERTIDO (BEM)
Exportación empaques polietileno y celofán.....	1.080.116,00	1.080.116,00	421.245,24	30.729.840,26
Exportación empaques hule.....	1.775.148,00	1.775.148,00	692.307,72	50.676.925,10
Exportación artículos plásticos uso farmacéutico.....	929.839,00	929.839,00	362.637,21	26.545.043,77
Exportación bolsas plásticas...	1.150.559,00	1.150.559,00	448.718,01	32.846.158,33
Siembra de banano.....	5.915.788,00			
Conservación de Parques Nacionales.....	5.600.000,00			
Desarrollo Forestal 2/				
T O T A L	140.679.209,00	117.253.030,50	76.704.589,82	4.810.047.416,21

1/ REPRESENTA EL VALOR DE LOS TITULOS RECIBIDOS AL PRECIO DE CONVERSION.
2/ DONACION DE US$ 5.000.000,oo DEL GOBIERNO DE HOLANDA-PARA COMPRA DE PAGARES DEUDA EXTERNA CON FINES DE REFORESTACION.

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A N E X O 2

COSTA RICA: MECANISMO DE CONVERSION

-MILLONES-

ACTIVIDAD/PROYECTO	Nº PROY.	VALOR FACIAL DEUDA EXTER. $	VALOR FACIAL DESCONTANDO DEUDA EXTERNA $	¢	PRECIO CONVER. 2/1%	TIPO DE CAMBIO ¢/$ 3/2
		(1)	(2)	(3)	(4)	(5)
1) Exportación (agricultura, industria y productos marinos).....	28	88,6	59,3	3.694,7	67	62,3
2) Capitalización intermediarios financieros.....	1	3,9	2,6	145,3	67	55,9
3) Construcción naves industrales zona franca.....	1	8,8	4,9	300,6	56	61,3
4) Sustitución de importaciones.....	1	10,5	5,8	362,8	55	62,6
5) Conservación Parques Nacionales.....	1	5,4	4,1	296,6	76	72,3
	32	117,2	76,7	4,800,0	65	62,6

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A N E X O 3

REGISTROS CONVERSION DEUDA EXTERNA

(ART. 14-BIS REGLAMENTO REGISTRO SELECTIVO)

- al 22 de julio de 1988 -

DEUDA	CAPITAL
US$185.000,00	
US$454.720,00	US$2.593.807,85
US$639.720,00	US$2.593.807,85

A N E X O 4

COSTA RICA: SALDOS DE LA DEUDA PUBLICA EXTERNA

AL 31 DE DICIEMBRE DE 1987

- CIFRAS EN MILLONES DE U.S. DOLARES -

ESTIMACION PRELIMINAR

BANCOS COMERCIALES	1.383,2
Refinanciado.....	1.155,2
No refinanciado.....	228,0
ORGANISMOS BILATERALES.....	946,3
Club de París.....	362,3
Refinanciado.....	121,3
Posible refinanciación.....	241,0
Resto.....	584,0
ORGANISMOS MULTILATERALES.....	1.344,8
BONOS Y FRN's.....	76,5
PROVEEDORES.....	21,6
TOTAL.....	3.772.4

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LOS TRABAJOS QUE SE CITAN A CONTINUACION SON LOS QUE SE HAN PUBLICADO EN ESTA MISMA SERIE
SU CONSULTA PUEDE HACERSE EN LA BIBLIOTECA DEL BANCO

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15	Planteamientos de Costa Rica ante el comité de alto nivel para la reestructuración del Mercado Común Centroamericano. 1975.	Rodolfo Solano O. y Fernando Berrocal S.
16	55 años al servicios bancario del país. 1975.	Félix Echeverría P.

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Nº	TITULO Y AÑO	AUTOR
17	Diversificación de la producción en zonas marginales cafetaleras. 1974.	Rafael E. Quesada A. y Juan Carvajal J.
18	La teoría de los sistemas y la investigación operativa aplicadas a la administración de las empresas. 1975.	Carlos Ml. Rojas M.
19	Creación, funcionamiento e importancia del Fondo Centroamericano de Estabilización Monetaria. 1974.	Luis E. Cerdas G.
20	La contribución del sector industrial al desarrollo económico de Costa Rica. 1975.	Rigoberto Navarro M.
21	Principales medidas tomadas en los últimos años para hacer frente a los problemas cambiarios de Costa Rica. 1976.	Roberto Picado H.
22	Selección de discursos pronunciados durante los años 1974-75. 1976.	Porfirio Morera B.
23	Resumen del programa de trabajo para 1976 del Banco Central de Costa Rica e informe sobre las principales labores durante los años 1974 y 1975. 1976.	Banco Central de Costa Rica
24	Respuesta del Instituto Emisor a la Cámara de Comercio, Asociación Nacional de Fomento Económico y Dictamen sobre los proyectos: 'Ley de Reforma Tributaria 1976' y 'Consolidación de las facultades del Banco Central en lo referente a la regulación de las ventas a plazo de bienes y servicios'. 1976.	Banco Central de Costa Rica
25	Informe del viaje de investigación a la América del Sur sobre el asunto de las harinas compuestas, 1976. 1976.	Luis Fco. Arias
26	Acta de la reunión de representantes de la actividad bananera, 1976. 1976.	Banco Central de Costa Rica
27	La Reforma al Sistema Monetario Internacional y la Segunda Enmienda al Convenio Constitutivo del Fondo Monetario Internacional, 1977.	William Hayden Q.
28	El papel de la política fiscal en Costa Rica en los últimos años y lineamientos para 1977. 1978.	Porfirio Morera B.
29	Informe del Presidente Ejecutivo del Banco Central al señor Presidente de la República sobre su labor durante el período 1974-77. 1977.	Bernal Jiménez M.
30	La responsabilidad social de las empresas en los países en desarrollo y su contribución al desarrollo económico, 1977.	Daniel Oduber Q.
31	La Economía Costarricense, período 1974-75. 1977.	Juan Arrea F.
32	La experiencia de Costa Rica en la determinación de las tasas de interés, 1977.	Ana Rodríguez A.

Nº	TITULO Y AÑO	AUTOR
33	Ensayos en economía teórica y aplicada. Técnicas de optimización con aplicaciones económicas. 1978.	Ronald García S.
34	Cinco declaraciones ante el Plenario de la V UNCTAD, 1979.	Banco Central de Costa Rica
35	El papel de las tasas de interés en el desarrollo económico. 1979.	Banco Central de Costa Rica
36	Programa de crédito para el sector agropecuario, 1980. 1980.	Banco Central de Costa Rica
37	La reforma financiera en Costa Rica. 1980.	Ministerio de Hacienda
38	la fijación de tasas de interés. 1980.	Banco Central de Costa Rica
39	El esquema de las cuentas nacionales como guía para el mejoramiento de las estadísticas económicas básicas de Costa Rica. 1980.	Harry Boschini L.
40	Repercusiones de la política de tasas de interés en el mercado financiero costarricense. 1980.	Carlos Vega A.
41	Carta del Presidente Ejecutivo del Banco Central al Presidente de la República, en la que se comunica las medidas cambiarias acordadas por la Junta Directiva del Instituto Emisor el día 24 de setiembre de 1980 y texto del comunicado de prensa en el cual el Banco Central explica la situación de la economía y las medidas adoptadas. 1981.	Banco Central de Costa Rica
42	Dictamen del Banco Central de 25 de noviembre de 1980, referente al proyecto "Ley de Protección a la Economía Nacional". 1981.	Banco Central de Costa Rica
43	Generalidades sobre el mercadeo y la producción de los productos agropecuarios en Costa Rica. 1981.	Gerardo Barquero R.
44	Relación entre la política cambiaria y la comercial, algunas consideraciones sobre el caso de Costa Rica. 1981.	Roberto Picado H.
45	La gestión auditora. 1982.	Jorge E. Regidor M.
46	Ley de devaluación Nº 6707 de 22 de diciembre de 1981 y antecedentes. 1982.	Banco Central de Costa Rica
47	Interrelaciones entre la política monetaria y la política fiscal: La experiencia de Costa Rica. 1982.	Ana Rodríguez A.
48	Análisis de los resultados de la política comercial adoptada por Costa Rica desde 1960 para promover el desarrollo industrial. 1982.	Carlos Herrera A.
49	Acontecimientos recientes en los mecanismos de cooperación financiera y monetaria entre los bancos centrales de los países que forman el Mercado Común Centroamericano. 1983.	William Calvo V. y Roberto Picado H.

Nº	TITULO Y AÑO	AUTOR
50	Asistencia financiera del Fondo Monetario Internacional a Costa Rica. 1983	Roberto Picado H.
51	Cálculo de un índice del nivel de vida para Costa Rica. 1960-82. 1983.	Otto Kikut C. y Rigoberto Araya M.
52	Política cambiaria de Costa Rica del 1º de enero de 1974 al 30 de junio de 1983. 1983	Ricardo Quesada D.
53	Las exportaciones y la incidencia del sector externo en el desarrollo económico. 1984.	Sección Cuentas Nacionales
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55	La inflación y la política económica: El caso de Costa Rica. 1985.	Rosa Roig O. y Carlos Vega.
56	Experiencia reciente de Costa Rica en la ejecución de programas de estabilización y las relaciones con algunos organismos financieros internacionales. 1985	Roberto Picado H. et al.
57	Pendiente.	
58	Banca Central: Lo que debe ser un Banco Central y si ello coincide con la realidad costarricense. 1985.	Rodrigo Bolaños Z.
59	La condicionalidad cruzada y la deuda externa. 1986.	Eduardo Lizano F. y Silvia Charpentier B.
60	Desde el Banco Central... 1986.	Eduardo Lizano F.
61	Deuda externa de Costa Rica. 1986.	Ricardo Quesada D.
62	Evolución del ahorro financiero en Costa Rica. 1986.	Manuel Loría S.
63	La devaluación monetaria en Costa Rica 1981-82. 1986.	Félix Delgado Q.
64	Programas de estabilización y condicionalidad en Costa Rica. 1986.	Félix Delgado Q.
65	Nota metodológica sobre la conversión a colones de documentos de la deuda externa. 1986.	Rodrigo Bolaños Z.
66	Fortalecimiento de la Banca Privada: ¿Avance financiero para el retroceso político? 1987.	Walter Coto M.
67	El sistema financiero y el desarrollo económico. 1987.	Eduardo Lizano F.
68	Las actividades cuasifiscales de la Autoridad Monetaria: La experiencia de Costa Rica. 1987.	Ana Rodríguez A.

Nº	TITULO Y AÑO	AUTOR
69	La liberación de las tasas de interés: Procedimientos y resultados en un contexto de estabilización económica: La experiencia de Costa Rica. 1987.	Juan E. Muñoz G. y Norberto Zúñiga F.
70	Conversión de deuda externa: El caso de Costa Rica.	Roberto Picado H.
71	Cálculo de un Indice del Nivel de Vida para Costa Rica, 1960-86. 1987.	Rigoberto Araya M.
72	Asistencia financiera del Fondo Monetario Internacional a Costa Rica. 3ª ed. (corregida y aumentada). 1987.	Roberto Picado H.
73	Metodología de cálculo de la Balanza de Pagos de Costa Rica, de conformidad con la cuarta edición del Manual de Pagos del Fondo Monetario Internacional. 1988.	Ricardo Quesada D.
74	Conversión de deuda externa: El caso de Costa Rica. 2º edición. (Revisada, corregida y aumentada). 1988	Roberto Picado H.

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EXPERIENCIAS DEL BANCO COOPERATIVO COSTARRICENSE EN LOS PROCESOS DE CONVERSION DE DEUDA EXTERNA

(TRANSLATION)

Experiences of the Costa Rican Cooperative Bank in the Debt Conversion Process

acdi Agricultural Cooperative Development International

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DICIEMBRE DE 1988

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I. INTRODUCCION

El siguiente documento presenta una descripción acerca del mecanismo de conversión de deuda externa que se ha venido desarrollando en Costa Rica, con las regulaciones que establece para tal efecto el Banco Central de Costa Rica.

En segundo lugar se hace un análisis de la participación que el Banco Cooperativo Costarricense, R.L. ha tenido dentro de éste proceso, referido en especial a las conversiones realizadas en 1988. Seguidamente se hace una mención sobre los problemas más frecuentes que hemos identificado durante el proceso de conversión así como de la duración que conlleva una transacción de ésta naturaleza.

Finalmente, presentamos un modelo de conversión de deuda que tendría como uno de sus propósitos contribuir con la inversión y el desarrollo nacional ayudando a la movilización del ahorro de los costarricense con poco efecto en el proceso inflacionario.

II. DESCRIPCION DEL MECANISMO DE CONVERSION DE DEUDA EXTERNA

El mecanismo de conversión de deuda externa, es una alternativa de contribución al desarrollo, que incentiva la inversión privada. Fue puesto en operación por el Banco Central de Costa Rica, aunque de una manera restringida, debido a su efecto inflacionario en la económia nacional.

Los primero programas de conversión de deuda externa que el Banco Central de Costa Rica autorizó, estuvieron orientados a incentivar la inversión de capital en proyecto de empresas privadas que incrementaron el volúmen de sus exportaciones.

Durante 1987, el Banco Central redujo significativamente las autorizaciones para conversión de deuda, los únicos programas aprobados estuvieron orientados fundamentalmente a apoyar el desarrollo de la conservación de los recursos naturales.

Cualquier empresa interesada en la conversion de deuda externa, debe de cumplir con los siguientes trámites para participar en el proceso:

A. Solicitud y aprobación de la conversion por parte del Banco Central.

La organización que desea adquirir deuda o recibir la donación y que está interesada en acogerse al sistema de conversión de deuda externa, debe de solicitarlo por escrito a la oficina de deuda externa del Banco Central. Dicha solicitud es posteriormente conocida por la Junta Directiva del Banco Central, quien la aprueba o deniega en su sesión respectiva.

De ser aprobada la solicitud, el Banco Central le comunica al beneficiario su resolución y las condiciones bajo las cuales fue aprobada. En el acuerdo del Banco Central en donde se autoriza la conversión, se especifica entre otras cosas lo siguiente:

1. Monto autorizado para la conversión y su finalidad.

2. Valor de reconocimiento de los titulos presentados para su conversión.

3. Tipo de cambio reconocido del dólar.

4. Plazo de liquidación de los Certificados .

5. Tasa de interés que se pagará por los certificados (Bonos de Estabilización Monetaria).

6. Plazo establecido para la formalización de la referida transacción

7. Tipo de documentos reconocidos para su conversión, los que de acuerdo con las políticas del Banco Central son:

"Refinancing Agrrement deted as of the 9th day of september 1983 and amended and restated as of the 29th day of may 1985".

"Refinancing Agrrement deted as of the 29 th day of may 1985".

"U.S. $75 MM credit agreement deted as of the 29 th day of may 1985".

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B. ELECCION DEL BANCO INTERMEDIARIO

De acuerdo con la politica del Banco Central de Costa Rica, toda conversión de deuda externa debe ser administrada por una institución financiera nacional, debido a que éste tipo de transacciones no es reconocida por los bancos coordinadores de la deuda externa de Costa Rica y está en contraposición con los acuerdos establecidos entre el Banco Central y los Banco acreedores.

Las funciones básicas del Banco intermediario dentro del proceso de conversión son:

a. Firmar un acuerdo con el Banco Central, en donde se compromete a administrar los recursos de la conversión de conformidad con el acuerdo respectivo de la Junta Directiva. El Banco intermediario se compromete además a reintegrar al Banco Central cualquier pago de interes y/o amortización que reciba por concepto de la deuda que fue transferida al Banco Central para su conversión.

b. Establecer un contrato de administración (Mandato o Fideicomiso) con la institución o empresa beneficiaria de la conversión.

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c. Evaluar y garantizar el cumplimiento del plan de inversión ante el Banco Central, y fiscalizar su ejecución

d. Adquirir o recibir los títulos de deuda y transarlos ante el Banco Central por bonos de estabilización monetaria.

e. Actuar como depositario y administrador de los recursos producto de la conversión.

f. Llevar la contabilidad del Fideicomiso y suministrar informes periódicos a los interesados.

g. Tramitar y documentar los desembolsos.

h. Administrar la custodia de valores y efectuar inversiones.

i. Asesorar al beneficiario en los aspectos relativos al Fideicomiso.

C. OBLIGACIONES DE LA ORGANIZACION PARTICIPANTE EN EL PROCESO DE CONVERSION

La empresa beneficiaria en un proceso de conversión de deuda externa, adquiere ciertos compromisos, siendo los más relevantes los siguientes:

1. Firmar un contrato de administración de la conversión con un Banco Intermediario.

2. Girar los dólares al Banco intermediario para que éste adquiera los títulos para la conversión u ordenar al Donante que sean transferidos al Banco intermediarios los documentos de deuda donados.

3. Elaborar un presupuesto de gastos y presentarlo al Banco administrador.

4. Solicitar los desembolsos

5. Utilizar los recursos única y exclusivamente para los fines autorizados.

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D. DESCRIPCION GENERAL DE UN PROCESO DE CONVERSION DE DEUDA.

Una vez que el Banco Central de Costa Rica, autoriza la conversión de deuda, establece un plazo determinado en el cual, los títulos deben ser presentados para su intercambio, estos plazos normalmente son los solicitados por el interesado.

El tiempo necesario para efectuar una operación de conversión, depende del monto de los títulos a adquirir y de los precios que por ellos se desea pagar, pues el valor de éstos documentos son sensibles a variaciones en la oferta y demanda.

La adquisición por ejemplo de montos inferiores a US $2 millones en valor facial que no afectan significativamente el precio de mercado, puede demorar entre 22 días y 2 meses, para que estos sean trasladados formalmente al Banco intermediario y unos 8 días para su respectiva asignación al Banco Central. Después de que la deuda es transferida al Banco Central, se requieren de unos 15 a 22 días para que éste gire los Bonos de Estabilización Monetaria al Banco intermediario, siendo reconocidos los intereses a

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partir de la fecha de asignación de la deuda al Banco Central por parte del Banco Intermediario.

Debido a la naturaleza de este tipo de negociaciones y a las normativas establecidas por el Banco Central y el Banco Coordinador de la deuda externa de Costa Rica, se hace indispensable realizar el siguiente trámite para hacer efectiva una conversión:

A. Se debe elegir un banco tenedor de deuda o intermediario financiero de reconocido prestigio, que esté dispuesto a vender deuda externa a precios competitivos. Lo anterior por cuanto la negociación se realiza en forma indirecta, requiriendo en algunos casos efectuar depósitos de dinero por adelantado.

B. Establecer un contacto de contra y venta de documentos de deuda, el cual debe ser firmado en original por parte del comprador y vendedor.

C. Elaborar las notas de asignación de asignación de pagaré, las cuales deben ser firmadas en original por ambas partes.

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D. Distribuir las notas de asignación originales a las partes vinculadas, fundamentalmente al Banco Central, al Banco Coordinador de la deuda y al Ministerio de Hacienda. Esta información debe ser recibida y registrada por estas instituciones para que la transferencia se considere efectiva.

E. Al Banco Intermediario de la conversión le corresponde recibir los documentos originales de deuda (pagarés). En caso de que se haya negociado una fracción de un pagaré, el banco vendedor debe de remitirlo al Banco Central para su partición y posteriormente endosar la parte correspondiente y enviarlo al banco comprador.

F. El Banco Intermediario debe posteriormente firmar con el Banco Central un contrato de conversión, y luego elaborar las noticias de asignación y entregarlas junto con los pagarés al Banco Central para su conversión. Copia de estas noticias de asignación deben ser remitidas al Banco Coordinador de la deuda y al Ministerio de Hacienda.

G. El Banco Central recibe la documentación y de estar adecuadamente confeccionada, procede a elaborar los bonos de estabilización monetaria.

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H. Cuando un pagaré de deuda es extraviado, el Banco tenedor debe solicitar la reposición al Banco Central, para lo cual se requiere firmar un contrato entre las partes, publicar en el Diario Oficial un edicto y finalmente, confeccionar los documentos de nuevo.

Adjunto al presente documento se anexa para fines ilustrativos, un fluxograma descriptivo del proceso de conversión de deuda externa, elaborado con fundamento en las experiencias de BANCOOP R.L.

III. PARTICIPACION DE BANCOOP, R.L. DENTRO DE LOS RECIENTES PROCESOS DE CONVERSION AUTORIZADOS POR EL BANCO CENTRAL

La Junta Directiva del Banco Central de Costa Rica, mediante artículo No. 6 de la Sesión No.4148-86, celebrada el 26 de noviembre de 1986, dispuso suspender temporalmente la recepción de ofertas de conversión de deuda externa, no obstante, dentro de su política de apoyo a la Conservación de los Recursos Naturales el Banco Central dispuso que se brinden beneficios financieros a través del mecanismo de conversión de deuda externa, a algunas organizaciones conservacionistas dedicadas al desarrollo del sector

forestal, especialmente en lo relativo a la administración de parques nacionales y áreas equivalentes y a la reforestación nacional.

Debido al interés nacional y social de estos programas, el Banco Central, dispuso además que los intermediarios financieros de estas conversiones de deuda fueran únicamente los bancos del Estado y el Banco Cooperativo Costarricense R.L..

BANCOOP R.L., dentro de su politica de apoyo al desarrollo nacional, tomó la iniciativa de apoyar activamente estos programas, constituyendose hasta la fecha, en el único Banco en Costa Rica con experiencia en la administración de conversiones de deuda externa orientados a la conservación y desarrollo de los recursos naturales.

Las conversiones autorizadas por el Banco Central durante el periodo 1987-1988 para estos fines se detallan a continuación:

A. **Conversión Fundación de Parques Nacionales:**

A ésta organización se le autorizó un monto de $11.0 millones de valor facial en titulos de deuda externa, los titulos están en proceso de adquisición por parte de Bancoop, R.L.. Los recursos necesarios para la adquisición de los titulos tuvieron su origen en donaciones en dólares.

La finalidad de la conversión es la de financiar con los rendimientos y/o patrimonio, todo tipo de actividades relacionadas con la conservación de los recursos naturales del país, especialmente.

1. Planificación, manejo, protección y administración de parques nacionales y reservas equivalentes, incluyendo desarrollo de infraestructura para fines de protección, ecoturismo, investigación científica y administración.

2. Adquisición de tierras, equipos y materiales para parques nacionales y reservas equivalentes.

3. Desarrollo de programas de educación ambiental, incluyendo capacitación, publicación de materiales, adiestramiento de personal y otros.

4. Control de la deforestación y promoción de la reforestación en reservas forestales, áreas de protección en cuencas hidrográficas y en otras áreas de vocación forestal.

5. Desarrollo de programas de investigación relacionadas con el medio ambiente en general.

6. Consolidación y funcionamiento de la propia fundación y otras organizaciones conservacionistas asociadas.

Las condiciones aplicables por el Banco Central para la conversión de deuda externa, a este programa fueron:

1. Títulos autorizados para conversión: únicamente deuda refinanciada.
   "Refinancing Agrrement deted as of the 9th day of september 1983 and amended and restated as of the 29th day of may 1985"

"Refinanciny Agrrement deted as of the 29 th day of may 1985"

"U.S.$75 MM credit agreement deted as of the 29 th day of may 1985"

2. Valor de reconocimiento: 75% sobre los primeros US $5.4 millones y 30% sobre los U.S.$5.6 millones restantes

3. Tipo de cambio: El vigente (libre interbancario para la compra de divisas) al momento de formalizar la transacción.

4. Documentos a recibir y plazos: Bonos de estabilización monetaria no negociables, con porcentajes de amortización igual a los títulos adquiridos más dos años.

5. Tasa de interés: Entre 23.5% para los primeros vencimientos y 26% para los últimos, pagaderos trimestralmente.

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B. **Conversiòn Ministerio de Recursos Naturales, Energia y Minas.**

A ésta institución se le autorizo la conversión de US $32 millones de dólares, valor facial en titulos. Los recursos utilizados para la adquisición de los titulos provienen de una Donación del Gobierno de Holanda.

Estos recursos son también administrados por Bancoop, R.L., mediante un contrato de Fideicomiso, establecido entre el gobierno de Holanda y Bancoop, R.L.

El propósito de la conversión es la de financiar con el patrimonio y/o rendimientos, a través de créditos o donaciones, actividades de desarrollo forestal y afines, especialmente en lo relativo a:

1. Protección de bosques y la vida silvestre
2. Reforestación
3. Manejo forestal

Las condiciones autorizadas por el Banco Central para esta conversión fueron:

1. Titulos autorizados para conversión:

"The revolving trade credit agreement, deted as of september 9, 1983 as amended and restated as fo may 29, 1985".

"Refinancing agrrement deted as of the 9th day of september 1983 and amended and restated as of the 29th day of may 1985"

"Refinanciny Agrrement deted as of the 29 th day of may 1985"

"U.S.$75 MM credit agreement deted as of the 29 th day of may 1985"

2. Valor de reconocimiento: 30% sobre el valor facial.

3. Tipo de cambio: El vigente (libre interbancario para la compra de divisas) al momento de formalizar la transacción.

4. Documentos recibidos y plazos: Bonos de Estabilización Monetaria no negociables, con cuatro amortizaciones iguales en los años 1,2,3 y 4.

5. Tasa de interés: 15% anual pagaderos semestralmente.

C. Conversión, Ministerio de Recursos Naturales, Energía y Minas, a través de la Fundación de Parques Nacionales.

El Banco Central autorizó a éste Ministerio la conversión de aproximadamente US $25 millones valor facial en títulos. Los recursos que se utilizarán para la adquisición de los titulos tienen su origen en una donación del Gobierno de Suecia. La administración de estos recursos posiblemente esté a cargo de Bancoop, R.L..

La finalidad de este programa de conversion es la de financiar con el patrimonio y/o sus rendimientos, el desarrollo del Parque Nacional de Guanacaste y constituir un fondo patrimonial permamente para el desarrollo y la operación de dicho Parque.

Las condiciones autorizadas por el Banco Central para este programa son:

1. Títulos autorizados: únicamente los originados en deuda refinanciada, a saber:

"Refinanciny Agrrement deted as of the 29 th day of may 1985"

"Refinancing Agrrement deted as of the 9th day of september 1983 and amended and restetad as of the 29 th day of may 1985"

"U.S.$75 MM credit agreement deted as of the 29 th day of may 1985"

2. Valor de reconocimiento: 70% sobre el valor facial de los documentos presentados.

3. Tipo de cambio: El vigente (libre interbancario para la compra de divisas) al momento de formalizar la transacción.

4. Documentos ha recibir y plazos: Bonos de Estabilización Monetaria no negociables, con cuatro amortizaciones iguales en los años 1, 2, 3 y 4.

b. Tasa de interés: 15% anual pagaderos anualmente.

C- Conversión privada para el desarrollo industrial.

Otra de las conversiones administadas por Bancoop, R.L. en 1988, fue la de una empresa Industrial privada dedicada a la exportación en un 100%.
Esta transacción fue autorizada en en años anteriores, por el Banco Central por un monto de US$ 399.177,00, valor facial en titulos. Los recursos necesarios para adquirir los titulos fueron aportados por la empresa.

La finalidad de ésta conversion fue la de apoyar la inversión de un proyecto dedicado a la producción y exportación a terceros mercados, los recursos producto de la conversión, fueron otorgados para financiar capital de trabajo.

Las condiciones autorizadas por el Banco Central para esta transacción fueron:

1. Titulos autorizados: únicamente los originados en deuda refinanciada a saber:

"Refinanciny Agrrement deted as of the 29 th day of may 1985"

"Refinancing Agreement deted as of the 9th day of september 1983 and amended and restated as of the 29 th day of may 1985".

"U.S.$75 MM credit agreement deted as of the 29 th day of may 1985"

2. Valor de reconocimiento: 30% sobre el valor facial de los pagares presentados.

3. Tipo de cambio: El vigente (libre interbancario para la compra de divisas) al momento de formalizar.

4. Documentos ha recibir: Bonos de Estabilizacion Monetaria negociables y amortizaciones con porcentajes iguales a la estructura de pago de lo pagarés de deuda mas tres años.

IV. PROBLEMAS MAS FRECUENTES DURANTE EL PROCESO DE CONVERSION

Dentro de los problemas mas frecuentes que se presentan durante la transacción de deuda externa, y que afectan el tipo de negociación, podemos citar:

1. Lentitud del Banco vendedor de los documentos de deuda, para comunicar la transferencia al Banco Central de Costa Rica y al Banco coordinador de la Deuda externa de Costa Rica y para transferir los pagarés de deuda al comprador.

2. Extravio de las noticias de asignación y/o documentos de deuda.

3. Noticias de asignacion mal elaboradas por parte del vendedor y/o comprador, que posteriormente son rechazadas por el Banco Central y/o Banco coordinador.

4. En algunos casos se requiere de la partición de pagares de deuda, lo que tarda aproximadamente un mes desde que es hecha la solicitud por parte del Banco vendedor al Banco Central, hasta que el comprador reciba la proporcion del pagaré comprado.

CHARLA SOBRE CONVERSION DE DEUDA EXTERNA

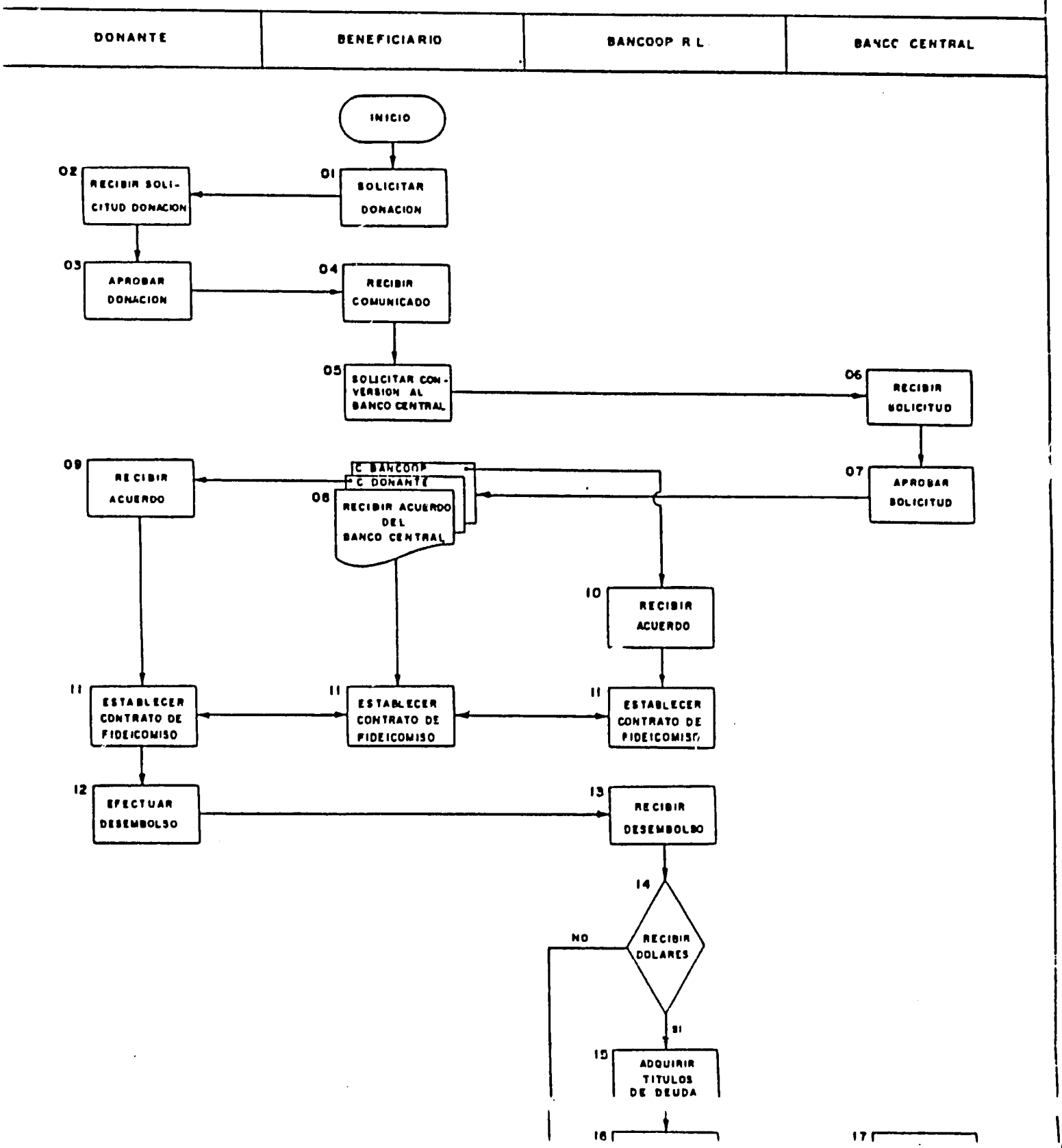
(TRANSLATION)
A Discussion on Foreign Debt Conversion

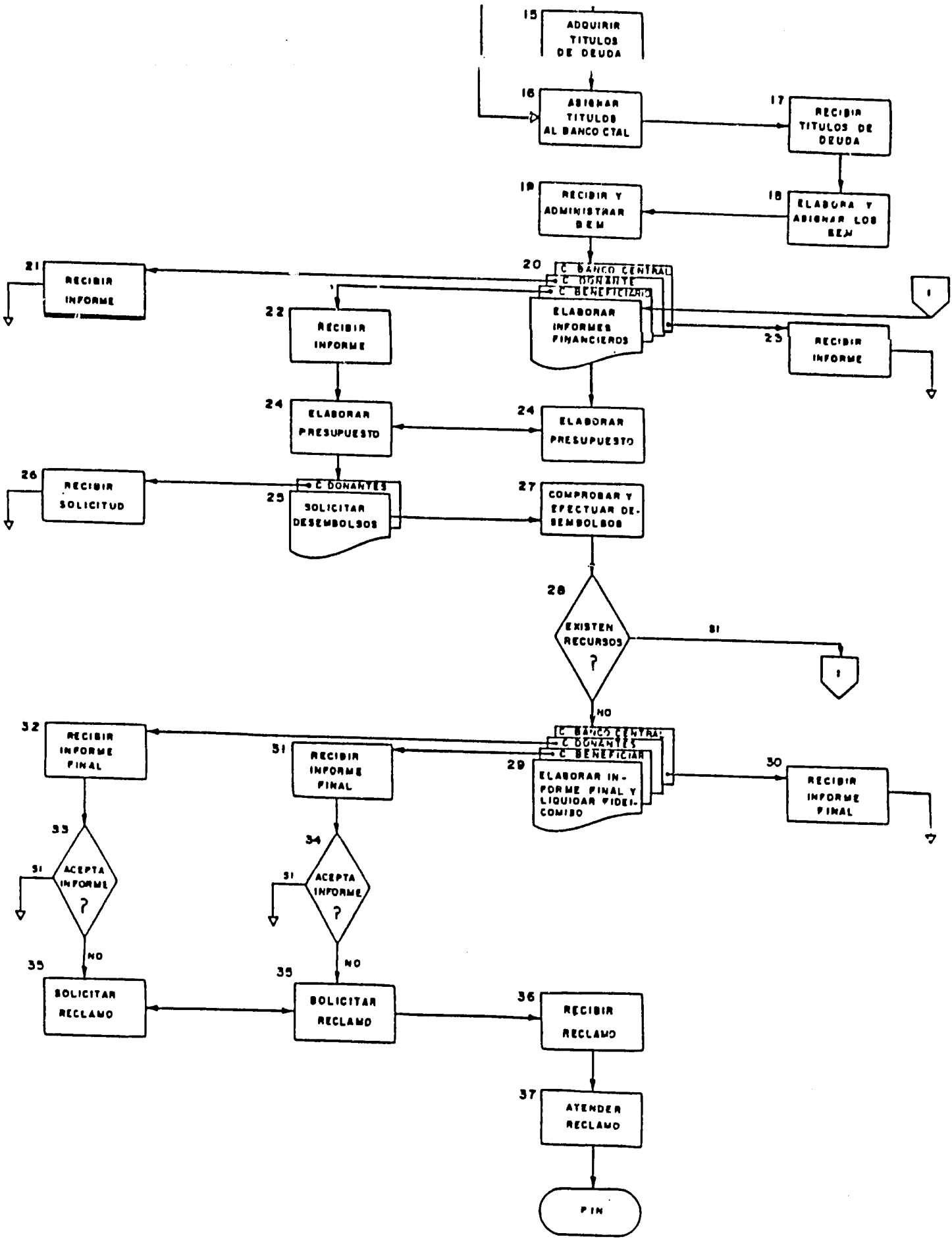
by

BANCOOP, R.L.
San Jose, Costa Rica

acdi Agricultural Cooperative Development International

ESQUEMA GENERAL DE CONVERSION DE DEUDA EXTERNA
PARA LA CONSERVACION DE LOS RECURSOS NATURALES




15
ADQUIRIR TITULOS DE DEUDA
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ASIGNAR TITULOS AL BANCO CTAL
17
RECIBIR TITULOS DE DEUDA
18
ELABORA Y ASIGNAR LOS BEM
19
RECIBIR Y ADMINISTRAR BEM
20
C BANCO CENTRAL
C DONANTE
C BENEFICIARIO
ELABORAR INFORMES FINANCIEROS
21
RECIBIR INFORME
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RECIBIR INFORME
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ELABORAR PRESUPUESTO
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SOLICITAR DESEMBOLSOS
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COMPROBAR Y EFECTUAR DE-SEMBOLSOS
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EXISTEN RECURSOS ?
SI
NO
C BANCO CENTRAL
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ELABORAR IN-FORME FINAL Y LIQUIDAR FIDEI-COMISO
30
RECIBIR INFORME FINAL
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33
ACEPTA INFORME ?
SI
NO
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ACEPTA INFORME ?
SI
NO
35
SOLICITAR RECLAMO
35
SOLICITAR RECLAMO
36
RECIBIR RECLAMO
37
ATENDER RECLAMO
FIN

BANCO COOPERATIVO COSTARRICENSE

CHARLA SOBRE CONVERSION DE DEUDA EXTERNA

Ing. Gamaliel Alvarado B.

SAN JOSE - COSTA RICA
28 de abril de 1988

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PARTE I

A- GENERALIDADES DEL PROCESO DE CONVERSION

B- CARACTERISTICAS DE LOS TITULOS DE DEUDA EXTERNA

C- PRECIO DE MERCADO DE LOS TITULOS

D- RENTABILIDAD DE LA CONVERSION DESDE EL PUNTO DE VISTA DEL CLIENTE.

A= GENERALIDADES DEL PROCESO DE CONVERSION DE DEUDA EXTERNA

Antecedentes

A partir del año 1986 el Gobierno de la República de Costa Rica, dentro de su política de apoyo a la inversión privada y de promoción a las exportaciones, dispuso brindar apoyo financiero a través del mecanismo de conversión de deuda externa a aquellas organizaciones que desearon ampliar sus inversiones en Costa Rica y mantener y / o ampliar su nivel de exportaciones.

Hasta la fecha màs de veinticinco empresas se han acogido al sistema, con muy buenos resultados.

BANCOOP R. L., en la actualidad tiene en administración cinco millones cuatrocientos mil dólares de La Fundación de Parques Nacionales bajo este mecanismo y trescientos noventa y nueve mil de

Operación del sistema de deuda externa

A. Solicitud y aprobación por parte del Banco Central

La empresa interesada en acogerse al sistema de conversión de deuda externa deben de solicitarle por escrito a la oficina de deuda externa del Banco Central. Dicha solicitud es posteriormente conocida por la Junta Directiva del Banco Central, quien la aprueba o deniega en su sesión respectiva.

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B. Condiciones establecidas por el Banco Central

De ser aprobada la solicitud, el Banco Central le comunica al cliente su resolución y las condiciones bajo las cuales fue aprobada, siendo las condiciones más relevantes las siguientes:

1- Se autoriza la conversión de US$ en valor facial, con el propósito de que la empresa invierta los recursos que genere la conversión en expander sus actividades.

2- Las características para la conversión son:

a- Reconocimiento o valor de conversión: 39% sobre el valor facial de los títulos presentados.

b- Recursos recibidos: bonos de estabilización monetaria en colones con las siguientes características:

- El tipo de cambio reconocido será el libre interbancario para la compra de divisas vigentes en el momento de la transacción.
- El plazo de liquidación de los bonos será igual al de los títulos más tres años.
- La tasa de interés reconocida la determinará el Banco Central de Costa Rica con base en los rendimientos respectivos.

3- Los recursos de la conversión de deuda deberán ser depositados y administrados por un banco intermediario, quién deberá firmar un acuerdo con el Banco Central.

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3- Se establece un plazo máximo de 45 días, para la formalización de la referida transacción.

C- Trámites para la conversión

Los pasos requeridos para poner en operación el sistema, son los siguientes:

1- Establecimiento de un contrato (mandato o fideicomiso) entre la empresa y el banco intermediario quien fungirá como depositario y administrador.

2- Establecimiento de un contrato entre el banco intermediario y el Banco Central.

3- Comprar los títulos y presentarlos al Banco Central para su conversión.

D- Compromisos de BANCOOP como Banco Intermediario y del Cliente

1- DE BANCOOP R. L.

- Aprobar el plan de inversión del cliente , supervisar y fiscalizar su ejecución e informar al Banco Central cuando éste lo solicite sobre su avance y resultados.

- Garantizar el cumplimiento del plan de inversión ante el Banco Central, con un aval del 15% del valor facial de los títulos.

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- Presentar al Banco Central antes de formalizar la transacción, evidencia de que analizó y evaluó el proyecto de inversión para determinar su factibilidad económica y financiera.

- Adquirir los títulos de deuda y transarlos ante el Banco Central por bonos de estabilización monetaria.

- Actuar como depositarios y administrador de los recursos o bonos de estabilización y desembolsar conforme al plan de inversión de la Empresa. (incluye la comercialización de los B.E.M.).

2- De el cliente

- Otorgar los dólares para la conversión, según el precio de compra de los títulos.

- Preparar el plan de inversión y garantizar a BANCOOP su ejecución con un aval equivalente al otorgado por BANCOOP al Banco Central

- Mantener vigente el contrato de exportación.

B- CARACTERISTICAS DE LOS TITULOS DE DEUDA EXTERNA

% DE AMORTIZACION POR TIPO DE TITULO

FECHA DE PAGO	NEW MONEY 75 MILLONES		TRAMO I sobre 97.5	TRAMO A-1	TRAMO A-2	TRAMO II	TRAMO IIIB(85)	IVB(86)
Jul 84								
Abr 87	Set 86	2.5	5	5.55				
Jul 87	Dic 86	2.5	5	5.55			Nov 88	1
Oct 87	Mar 87	5.59	5	5.55			Feb 89	2
Ene 88	Jun 87	5.59	5	5.55			May 89	2
Abr 88	Set 87	5.59	5	5.55			Ago 89	2
Jul 88	Dic 87	5.59	5	5.55	7.14	6.25	Nov 89	2
Oct 88	Mar 88	5.59	5	5.55	7.14	6.25	Feb 90	2
Ene 89	Jun 88	5.59	5	5.55	7.14	6.25	May 90	2
Abr 89	Set 88	5.59	6.25	5.55	7.14	6.25	Ago 90	2
Jul 89	Dic 88	5.59	6.25	5.55	7.14	6.25	Nov 90	2
Oct 89	Mar 89	5.59	6.25	5.55	7.14	6.25	Feb 91	3.3
Ene 90	Jun 89	5.59	6.25	5.55	7.14	6.25	May 91	3.3
Abr 90	Set 89	5.59	6.25	5.55	7.14	6.25	Ago 91	3.3
Jul 90	Dic 89	5.59	6.25	5.55	7.14	7.5	Nov 91	3.3
Oct 90	Mar 90	5.59	6.25	5.55	7.14	7.5	Feb 92	3.3
Ene 91	Jun 90	5.59	6.25	5.55	7.14	7.5	May 92	3.3
Abr 91	Set 90	5.59	5	5.55	7.14	7.5	Ago 92	3.3
Jul 91	Dic 90	5.59	5	5.55	7.14	10	Nov 92	3.3
Oct 91	Mar 91	5.59		5.55	7.14	10	Feb 93	3.3
Ene 92							May 93	3.3
Abr 92							Ago 93	5
Jul 92							Nov 93	5
Oct 92							Feb 93	5
Ene 93							May 94	5
							Ago 94	5
							Nov 94	5
							Feb 95	5
							May 95	5
							Ago 95	5
							Nov 95	5
							Feb 96	---

	IVB(86)
Feb 89	1
May 89	2
Ago 89	2
Nov 89	2
Feb 90	2
May 90	2
Ago 90	2
Nov 90	2
Feb 91	2
May 91	3.3
Ago 91	3.3
Nov 91	3.3
Feb 92	3.3
May 92	3.3
Ago 92	3.3
Nov 92	3.3
Feb 93	3.3
May 93	3.3
Ago 93	3.3
Nov 93	5
Feb 93	5
May 94	5
Ago 94	5
Nov 94	5
Feb 95	5
May 95	5
Ago 95	5
Nov 95	5
Feb 96	5

NOTA:

Intereses y amortizacion pagaderos el ultimo dia de cada trimestre
Intereses aplicable: (del 23% al 26% segun el vencimiento, sujeto a modificacion por parte del Banco Central de Costa Rica

C- PRECIO DE MERCADO DE LOS TITULOS
(Enero, Febrero 1988)

1- **Sondeo del Mercado**

La Empresa y BANCOOP R. L., recibieron oferta telefónica de títulos de deuda externa antes de que se iniciara el proceso de compra a valores que oscilavan entre el 20% y 23% para el tramo I, precios que se consideraban normales dentro del mercado.

El sondeo del mercado se inicia mediante el levantamiento de una lista de aproximadamente 50 instituciones financieras nacionales e internacionales, con operaciones en Costa Rica, Panamá y en los Estados Unidos. Se mantuvo conversaciones telefónicas con funcionarios de estas instituciones y se eligieron 11 de ellas que mostraron interés en la transacción y que ofrecían precios atractivos.

2- Solicitud formal de cotizaciones (primera ronda de negociaciones).

A cada una de las 11 instituciones elegidas, se les solicitó por vía telex una cotización con fecha límite de entrega. De estos, BANCOOP R. L., recibió las siguientes siete cotizaciones:

a- Banex Valores, varios tipos de títulos a 21% en promedio

b- Banco de San José, varios tipos de títulos a 20.5% en promedio.

c- Banco Internacional de Costa Rica, tramo A1 y II a 20% en promedio.

d- Latin American Financial Services, Corp. Tramo AI a 18.25%.

e- Estudios e Inversiones de Occidente, S. A. Tramo AI a 19.00%.

f- Swiss Bank Corporation a través de Fintech, Inc, Tramo New Money y Tramo I a 18.25%.

g- Ariana Trading and Finance Inc, Tramo I a 18.00%.

C- Solicitud de nuevas cotizaciones (segunda ronda de negociaciones).

Después de recibida las 7 cotizaciones anteriores, mediante llamadas telefónicas a estas compañías, se identifica la posibilidad de lograr mejores precios, mnotivo por el cual se decidió solicitar una nueva cotización con fecha límite de presentación. Durante esta ronda de negociaciones, se recibieron las siguientes cotizaciones:

a- Swiss Bank Corporation a través de Fintech, Inc, que cotizó el tramo I a 17.125%.

b- Estudios e Inversiones de Occidente, S. A., que ofreció el tramo A-1 y A-2 a 17.50% y el tramo B a 16.50%.

c- Latin American Financial Services, Corp. que cotiza el tramo AI a 17.25%

D-RENTABILIDAD DE UNA CONVERSION DE $399173 PARA EL CLIENTE

MILES DE COLONES
TRAMO II

-TramoII		AND	TRIMES-TRES meses	TRIMES TRES N?	Amorti-zacion	TASAS de I N T E R E S	Inte-por T R I M E S T R E	Inte-reses	Menos 8% Renta	saldo de conver.	saldo al 34.00%
	68,857.34 dol.										
ValCom	17.250										
T.Camb	73.20 ¢ x $	1	MAR29_ABRI	1				308,091	24,647	283,443	261,238
MontoB	11,395,590 col.	9	MAY-JUL.	2				739,823	59,186	680,637	578,171
		8	AGO.-OCT.	3				739,823	59,186	680,637	532,876
		8==	NOV-ENE.	4				739,823	59,186	680,637	491,130
		1	FEB_ABRIL	5				739,823	59,186	680,637	452,655
		9	MAY-JUL.	6				739,823	59,186	680,637	417,193
		8	AGO.-OCT.	7				739,823	59,186	680,637	384,510
1er.Ve	23.00%	9==	NOV-ENE.	8				739,823	59,186	680,637	354,387
2do.Ve	24.00%	1	FEB_ABRIL	9				739,823	59,186	680,637	326,624
3er.Ve	24.00%	9	MAY-JUL.	10				739,823	59,186	680,637	301,036
4to.Ve	24.50%	9	AGO.-OCT.	11				739,823	59,186	680,637	277,452
5to.Ve	24.50%	0==	NOV-ENE.	12				739,823	59,186	680,637	255,717
6to.Ve	25.00%	1	FEB_ABRIL	13	712,224	25.50%	45,404	739,823	59,186	1,392,862	482,305
7mo.Ve	25.00%	9	MAY-JUL.	14	712,224	26.00%	46,295	694,419	55,554	1,351,090	431,189
8vo.Ve	25.50%	9	AGO.-OCT.	15	712,224	26.00%	46,295	648,124	51,850	1,308,499	384,882
9no.Ve	25.50%	1==	NOV-ENE.	16	712,224	26.00%	46,295	601,830	48,146	1,265,908	343,183
10o.a	26.00%	1	FEB_ABRIL	17	712,224	26.00%	46,295	555,535	44,443	1,223,317	305,656
		9	MAY-JUL.	18	712,224	26.00%	46,295	509,240	40,739	1,180,726	271,903
		9	AGO.-OCT.	19	712,224	26.00%	46,295	462,946	37,036	1,138,135	241,562
		2==	NOV-ENE.	20	712,224	26.00%	46,295	416,651	33,332	1,095,544	214,306
		1	FEB_ABRIL	21	854,669	26.00%	55,554	370,357	29,629	1,195,397	215,520
		9	MAY-JUL.	22	854,669	26.00%	55,554	314,803	25,184	1,144,288	190,143
		9	AGO.-OCT.	23	854,669	26.00%	55,554	259,250	20,740	1,093,179	167,420
		3==	NOV-ENE.	24	854,669	26.00%	55,554	203,696	16,296	1,042,070	147,090
		19	FEB_ABRIL	25	1,139,559	26.00%	74,071	148,143	11,851	1,275,850	165,980
		94	MAY-JUL.	26	1,139,559	26.00%	74,071	74,071	5,926	1,207,705	144,806
			Total		11,395,590			14,445,033	1,155,603	24,685,021	8,338,936

RENTABILIDAD DE LA INVERSION

	INGRESOS	EGRESO	REL. B/C
A- VENDIENDO EL BONO AL 80%	9,116,472	5,240.357	1.74
B- VENDIENDO EL BONO AL 75%	8,546,693	5,240.357	1.63
C- DEJANDOSE LOS BONOS ACT. AL 34%	8,338,936	5,240.357	1.59
D- RENTABILIDAD EN DOLARES (caso B)	109,573	68,857	40,715.645

PARTE II

PRESENTACION DE UN CASO DE CONVERSION

A- APROBACION DE LA CONVERSION POR PARTE DEL BANCO CENTRAL

B- ELECCION DEL BANCO INTERMEDIARIO Y APROBACION DEL PLAN DE INVERSION.

C- ACUERDO BANCOOP R. L. / BANCO CENTRAL DE COSTA RICA

D- CONTRATO DE ADMINISTRACION (Fideicomiso - Mandato) ENTRE BANCOOP R. L - CLIENTE

E- REMISION DE GARANTIA AL BANCO CENTRAL

F- RECIBO DE DOLARES DEL CLIENTE PARA LA COMPRA DE LOS TITULOS

G- CONFIRMACION DE COMPRA DE TITULOS Y DEPOSITO

H- ASSIGNMENT AGREEMENT (Preliminar).

I- ASSIGNMENT AGREEMENT Y NOTICE OF ASSIGNMENT (Final) Y RECIBO DE TITULOS DE DEUDA.

J- SOLICITUD DE CONVERSION AL BANCO CENTRAL Y NOTICE OF ASSIGNMENT.

K- ADMINISTRAR LOS RECURSOS CONFORME AL MANDATO O FIDEICOMISO

A- APROBACION DE LA CONVERSION POR PARTE DEL BANCO CENTRAL

BANCO CENTRAL DE COSTA RICA

SAN JOSE, COSTA RICA

Ing. Mariano Rodríguez
BANCOOP

Marco A. Pérez

OSG
no 14, 1988
páginas —

7 de enero de 1988
S. 17-88

Archivo de crédito: Inicial ....
Cliente: ....
☐ Aprobación de crédito ☒ Memorandos y correspondencia
☐ Análisis financiero ☐ Referencias Banc.
☐ B.I.B. ☐ Documentación
☐ Seguimiento ☐ Estados Financ.

Señor
Marco Antonio Pérez B., Apoderado Generalísimo
S.O.

Estimado señor:

Nos permitimos hacer de su estimable conocimiento que nuestra Junta Directiva, en su Sesión No. 4265-87, Artículo 5, celebrada el 23 de diciembre de 1987, dispuso autorizar a la Administración del Banco para que proceda a intercambiar, por títulos en colones, pagarés de la deuda pública externa, emitidos por Banco Central de Costa Rica, que le presente la firma ..., hasta por la suma (en valor facial) de US$399.173.00 ello con el fin de que la susodicha empresa invierta los correspondientes recursos para expander sus actividades, de conformidad con los planes de inversión aprobados por la División Financiera de este Organismo.

La referida transacción deberá formalizarse bajo las siguientes condiciones:

1. REGIMEN DE INCENTIVOS Y PRECIO DE CONVERSION:

La inversión clasifica dentro del Grupo A de empresas definido en la "Guía para la conversión", y se le asigna un precio o valor de conversión de un 39% del valor facial de los documentos de deuda externa que se presentan para el canje.

BANCO CENTRAL DE COSTA RICA
SAN JOSE, COSTA RICA

14 JAN 93 12:59
BANCOMER, S.A.

2. TITULOS EN COLONES:

A cambio de los títulos de la deuda externa, el Banco Central entregará documentos en colones (Bonos de Estabilización Monetaria), con las siguientes características:

a.- Los montos serán los resultantes de aplicar a los valores de conversión definidos en el punto anterior, el tipo de cambio libre interbancario para la compra de divisas vigente al momento en que se formalice la transacción.

b.- Los plazos en ningún caso pueden ser inferiores a los especificados en los títulos de la deuda que se presentan para conversión, más 3 años. Si se opta por un margen mayor a esos 3 años, ésta se aplicará por igual a todos los títulos en colones que se entreguen en el canje.

c.- La tasa de interés la determinará el Banco con base en los vencimientos de los Bonos de Estabilización Monetaria o títulos similares, para los plazos respectivos.

CONTROL Y FISCALIZACION:

A efecto de que el Banco Central pueda ejercer adecuado control sobre la inversión que se efectúe con se en dicha transacción, los recursos en colones, oducto de la conversión de los títulos de la deuda, berán ser depositados y administrados por un banco termediario, para cuyo efecto esa entidad bancaria berá firmar un acuerdo con esta institución, en el cual establezcan, entre otras cosas, las siguientes condi nes:

a.- Previamente a la formalización de la transacción, el banco intermediario presentará al Banco Central evidencia de que analizó el proyecto y lo evaluó para determinar su factibilidad económico-financiera, y mantendrá en su poder la documentación del caso para cualquier verificación posterior que sea requerida por el Banco Central.

A.G.

15

BANCO CENTRAL DE COSTA RICA
SAN JOSE, COSTA RICA

14 JAN 93 12:59

BANCOCR.RS CJ

b.- El banco intermediario será el depositario y administrador de los fondos originados en la conversión, y los entregará a la empresa conforme se ejecute el plan de inversión.

c.- El banco intermediario se compromete a fiscalizar el proyecto y las inversiones que se realicen con base en los recursos provenientes de la conversión, e informar al Banco Central, cuando así se le solicite, sobre el avance y los resultados del proyecto.

). CONTRATO DE EXPORTACION:

La empresa debe mantener vigente el respectivo ontrato de exportación.

. DOCUMENTOS DE DEUDA EXTERNA DEL BANCO CENTRAL DE COSTA RICA:

Al valor facial de los documentos de deuda xterna presentados bajo el mecanismo de conversión, se le educirá cualquier suma que se haya cancelado por concepto e amortización o refinanciación.

Los intereses vencidos de dichos documentos, ie no se hayan cancelado al momento de formalizar el anje por títulos en colones, podrán ser tratados ternativamente como sumas pendientes que serán atendidas conformidad con los términos que se lleguen a negociar n los acreedores externos de Costa Rica, o ser incluidos la operación de conversión junto con el principal de s documentos.

RENDIMIENTO DE GARANTIA:

EL banco intermediario deberá rendir al Banco ntral una garantía equivalente al 15% del valor facial los títulos de la deuda externa que se presenten para canje. Tal garantía deberá sujetarse en un todo a las ulaciones generales emitidas sobre el particular.

En caso de incumplimiento durante el desarrollo plan de inversión, la garantía podrá ser ejecutada por Banco Central.

REGISTRO DE DEUDA EXTERNA:

BANCO CENTRAL DE COSTA RICA
SAN JOSE, COSTA RICA

14 JAN 93 12:50

Se autoriza el registro de deuda externa o de capital hasta por un monto equivalente al 24% del valor facial de los títulos presentados para canje, a efecto de que la firma pueda adquirir los pagarés de la deuda externa para llevar a cabo la conversión.

El crédito externo para cualquiera de los conceptos anotados, deberá formalizarse de acuerdo con las condiciones establecidas en el Reglamento para el Registro Selectivo de Capitales.

8. El banco intermediario costarricense que haga la asignación de los títulos de la deuda externa al Banco Central de Costa Rica, se compromete a reintegrarle a esta Institución cualquier suma que haya recibido en exceso por concepto del servicio sobre la deuda externa.

9. PLAZO PARA LA FORMALIZACION:

Se establece un plazo máximo de 45 días naturales para la formalización de la referida transacción, que se contará a partir de la fecha de comunicación de estas resoluciones y el cual, en caso necesario, podrá ser ampliado a juicio de la Gerencia, siempre y cuando existan razones plenamente justificadas. Para otorgar dicha ampliación, el Banco se reserva el derecho de modificar las condiciones establecidas para el intercambio, si considera que la situación existente en ese momento amerita modificar alguna o algunas de tales condiciones.

Atentamente,

Luis Roberto Fallas Castro
Secretario General

B- ELECCION DEL BANCO INTERMEDIARIO Y APROBACION DEL PLAN DE INVERSION

BANCOOP
COOPERATIVO COSTARRICENSE R. L.

15 de Marzo de 1988
Ref: GG-123-88

Señor
Rodrigo Chacón
Departamento Deuda Externa
BANCO CENTRAL DE COSTA RICA
Presente

Estimado señor:

Por este medio nos permitimos comunicarle que el Banco Cooperativo Costarricense R. L., actuará como Banco Intermediario en el proceso de conversión de deuda externa que el Banco Central le autorizó a ....., en su sesión # 4265-87, artículo 5, celebrada el 23 de diciembre de 1987, por un monto de US$399.173.oo.

Así mismo deseo manifestarle, que el plan de inversión presentado por ....., ante este Banco, ha sido evaluado y determinado cono factible desde el punto de vista financiero y económico. El funcionario de BANCOOP que firmará el convenio de conversión con el Banco Central, es el señor:Marcos Salazar Gambero, casado una vez, Ingeniero Comercial, vecino de Guachipelín de Escazú, con cédula de Identidad número 8-047-377, en su calidad de Subgerente General del Banco Cooperativo Costarricense R. L.

Sin otro particular y agradeciéndole su amable atención, me es grato suscribirme,

Atentamente

BANCO COOPERATIVO COSTARRICENSE R.L.

ING. Federico Herrero Serrano
GERENTE GENERAL

FH/GA/mism

APDO 8581-1010 SAN JOSE TELEX 2210 BANCOOP C. R. TELEFONO 33-61-44 SAN JOSE, C. R.

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C- ACUERDO BANCOOP R. L. / BANCO CENTRAL DE COSTA RICA

ACUERDO

De conformidad con lo dispuesto por la Junta Directiva del Banco Central de Costa Rica, en Sesión No. 4265-87, artículo 5, celebrada el 23 de diciembre de 1987, (esa disposición forma parte de este acuerdo y se adjunta como anexo) el Banco Central de Costa Rica, representado por el señor Carlos Hernández Rodríguez, mayor, casado una vez, Licenciado en Ciencias Económicas, vecino de San José con cédula de identidad número 2-224-638 actuando como Gerente General, con facultades de apoderado generalísimo sin límite de suma de dicha Institución y el Banco Cooperativo Costarricense R.L. (BANCOOP) representado por el señor Marcos Salazar Gambero, mayor, casado una vez, Ingeniero Comercial, vecino de San José con cédula de identidad número 8-047-377, en calidad de Subgerente, con facultades de apoderado generalísimo sin límite de suma, acuerdan lo siguiente:

1. Propósito:

El Banco Central de Costa Rica se compromete a intercambiar por documentos en colones, títulos de la deuda pública externa emitidos por el Banco Central de Costa Rica y que le presente la empresa Prolex S.A. hasta por la suma de US$399.173.00 (valor facial) ello con el propósito de que dicha firma invierta los recursos de la conversión en un proyecto de producción y exportación de puntas de cautín a terceros mercados, específicamente en el siguiente rubro del plan de inversión::

Capital de trabajo	US$399.173.00

2. Régimen de incentivos y precio de conversión:

La inversión clasifica dentro del Grupo A, definido en la "Guía para la conversión", y se le asigna un precio o valor de conversión fijo de un 39%.

Lo anterior, dentro de los lineamientos que establece la "Guía para la conversión a colones de títulos de la deuda externa del Banco Central de Costa Rica"

3 Títulos en colones:

A cambio de los títulos de la deuda, el Banco Central entregará documentos en colones (Bonos de Estabilización Monetaria) con las siguientes características:

a. Los montos serán los resultantes de aplicar, a los valores

de conversión definidos en el punto anterior, el tipo de cambio libreinterbancario para la compra de divisas vigente al momento en que se formalice la transacción.

b. Los plazos en ningún caso pueden ser inferiores a los especificados en los títulos de la deuda que se presenten para la conversión, más tres años. Si se opta por un margen mayor a esos tres años, éste se aplicará por igual a todos los títulos en colones que se entreguen en el canje.

c. La tasa de interés la determinara el Banco Central de Costa Rica con base en los vencimientos de los Bonos de Estabilización Monetaria o títulos similares para los plazos respectivos.

4. Control y fiscalización:

A efecto de que el Banco Central pueda ejercer un adecuado control sobre las inversiones que se realicen con base en esta transacción, los recursos en colones producto de la conversión de los títulos de la deuda deberán ser depositados y administrados por el BANCOOP para cuyo efecto esa entidad bancaria se compromete a cumplir con las siguientes condiciones:

a. Previamente a la formalización de la transacción, el BANCOOP presentará al Banco Central evidencia de que analizó el proyecto y lo evaluó para determinar su factibilidad económico-financiera.

b. El BANCOOP será el depositario y administrador de los fondos originados en la conversión, y los entregará a la empresa conforme se ejecute el plan de inversión. Mientras ello ocurre, los fondos no utilizados deberán mantenerse en Bonos de Estabilización Monetaria emitidos en el canje.

c. El BANCOOP fiscalizará el proyecto y las inversiones que se realicen con base en los recursos provenientes de la conversión e informará al Banco Central, cuando así se le solicite, sobre el avance y resultados del proyecto.

5. Contrato de exportación:

Es requisito indispensable para la formalización de esta transacción que la empresa mantenga vigente el contrato de exportación.

6. Documentos de deuda externa del Banco Central:

Al valor facial de los documentos de deuda externa presentados bajo el mecanismo de conversión, se les deducirá cualquier suma que se haya cancelado por concepto de amortización o refinancia-

ción. Los intereses vencidos de dichos documentos que no se hayan cancelado al momento de formalizar el canje por títulos en colones, podrán ser tratados alternativamente como sumas pendientes que serán atendidas de conformidad con los términos que se lleguen a negociar con los acreedores externos de Costa Rica, o ser incluidos en la operación junto con el principal de los documentos.

7. Rendimiento de garantía:

El BANCOOP rendirá al Banco Central una garantía equivalente al 15% del valor facial de los títulos de la deuda externa que se presenten para el canje. Tal garantía deberá sujetarse en todo a las regulaciones generales existentes sobre el particular. En el caso de incumplimiento en el desarrollo del plan de inversión, específicamente en el rubro ya mencionado, la garantía será ejecutada por el Banco Central, proporcionalmente al grado de incumplimiento que se detecte.

8. Registro de capital o de deuda:

Se autoriza el registro de capital o deuda externa hasta por un monto equivalente al 24% del valor facial de los títulos presentados para el canje. El crédito externo o inversión de capital deberá formalizarse de acuerdo con las condiciones establecidas en el Reglamento para el Registro selectivo de capitales.

9. Asignación títulos de deuda externa:

El BANCOOP se compromete a reintegrarle al Banco Central de Costa Rica cualquier suma que reciba en exceso por concepto del servicio sobre la deuda externa, relacionada con los documentos que se acepten para el canje en esta operación u operaciones similares de conversión.

10. Plazo para la formalización:

El Banco Central de Costa Rica establece un plazo máximo de 45 días naturales para la formalización de esta transacción, los cuales se contarán a partir del 08 de enero de 1988 y hasta el 23 de febrero de 1988, plazo que puede ser ampliado a juicio de la Gerencia siempre y cuando existan razones plenamente justificadas. Para otorgar dicha ampliación, el Banco Central se reserva el derecho de modificar las condiciones aquí establecidas para el intercambio, si considera que la situación existente en ese momento, amerita modificar alguna o algunas de tales condiciones.

En fe del anterior acuerdo firmamos en la ciudad de San José, a los veintiún días del mes de marzo de mil novecientos ochenta y ocho.

Carlos Hernández Rodríguez
P/Banco Central de Costa Rica

Marcos Salazar Gambero
P/BANCOP

D- CONTRATO DE ADMINISTRACION
BANCOOP R. L. / CLIENTE

CONTRATO DE MANDATO

Entre el BANCO COOPEERATIVO COSTARRICENSE R.L. de este domicilio Departamento Comercial, con cédula de persona jurídica número tres- cero cero cuatro- cero sesenta y un mil doscientos setenta y cinco cero tres, inscrita en el Ministerio de Trabajo y Seguridad Social mediante resolución número quinientos ochenta y tres, Tomo dos, Folio trescientos quince, Asiento mil setecientos trece del veintisiete de diciembre de mil novecientos ochenta y tres, y [illegible], con cédula jurídica número tres -ciento uno- cero setenta y nueve mil setecientos cuarenta y cinco, se celebra el presente Contrato de Mandato regulado por las claúsulas que adelante se consignan.El Banco Cooperativo Costarricense podrá llamarse para efectos de este contrato simplemente "BANCOOP" y por su función en este contrato como "El Mandatario" y viene representado en este acto por su Gerente, señor Federico Herrero Serrano, quien es mayor, casado dos veces, Economista Agrícola , vecino de San Pedro de Montes de Oca, cédula número uno- doscientos sesenta y ocho- cuatrocientos siete, cuya personería jurídica consta en el Departamento de organizaciones Sociales del Ministerio de Trabajo y Seguridad Social, mediante resolución número quinientos ochenta y tres. [illegible], podra nombrarse como [illegible] o como "la Mandante" y viene representado en este acto por el Señor Marco Antonio Perez Bonilla, mayor, casado una vez, Administrador de Empresas con cédula de Identidad número uno-trescientos sesenta y cuatro - trescientos nueve, vecino de Residencial Los Colegios, Moravia, actuando como Apoderado Generalísimo , personería inscrita al Tomo cuatrocientos cincuenta y seis, Folio ciento cuatro, Asiento noventa y nueve.

CONSIDERANDO: 1- Que la Junta Directiva del Banco Central de Costa Rica, en su sesión Nº 4265-87, Artículo 5, celebrada el 23 de diciembre de 1.987, dispuso autorizar a la administración del Banco Central para que proceda a intercambiar, por títulos en colones, pagarés de la deuda pública externa, emitidos por el Banco Central de Costa Rica, que le presente la firma Prolex S.A. hasta por la suma (en valor facial), de U.S. $ 399.173.00(Trescientos noventa y nueve mil ciento setenta y tres dolares).

2- Que los recursos en colones producto de la conversión de los títulos de la deuda, deberán ser depositados y administrados por un Banco Intermediario, siendo interes de Pro

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lex S.A., que BANCOOP R.L. actue como Banco Intermediario, motivo por el cual, se celebra el presente Contrato de Mandato que se regirá por las siguientes cláusulas:

Primera: Para ejecutar el Mandato, el Mandante depositará en BANCOOP R.L. la suma de U.S. $68.857.34 (Sesenta y ocho mil ochocientos cincuenta y siete con 34/100), a la firma este contrato.

Segunda: Con este dinero según disposiciones del Mandante, BANCOOP R.L. procederá a la compra de títulos de deuda externa de Costa Rica del Tramo II, por un monto de U.S. $399.173.00(Trescientos noventa y nueve mil ciento setenta y tres con 00/100), (Valor facial) al Swiss Bank Coporation Brand.

Tercero: BANCOOP. R.L., transferirá al Banco Central de Costa Rica, la totalidad de los títulos de deuda externa adquiridos y recibe de éste, Bonos de estabilización Monetario en las condiciones y términos indicados en el acuerdo de la Junta Directiva del Banco Central de su sesión Nº4265-87, Artículo 5, celebrada el 23 de diciembre de 1.987, y el respectivo acuerdo establecido entre BANCOOP R.L. y el Banco Central

Cuarto: Los Bonos de estabilización Monetaria recibidos por BANCOOP R.L. permanecen en Custodia, y serán administrados de conformidad con lo estipulado en el acuerdo de la Junta Directiva del Banco Central de Costa Rica, mencionado anteriormente.

Quinto: BANCOOP R.L., a través de BANCOOP Valores, procederá cuando corresponda, a liquidar los Bonos de estabilización monetaria a través de sus Agentes Autorizados en la Bolsa Nacional de Valores.

Sexta: a solicitud de y de conformidad con la ejecución del plan de Inversiones, BANCOOP R.L. girará a el producto de la venta de los Bonos de estabilización monetaria. Mientras ello ocurre, los fondos no utilizados permanecerán en Bonos de estabilización monetaria en Custodia.

Séptima: se compromete a invertir los recursos, producto de la conversión en el proyecto de producción y exportación de puntas de cautín a terceros mercados en el rubro de capital de Trabajo, de conformidad con el plan de Inversión aprobado por la Comisión de Crédito de BANCOOP R.L. se compromete a mantener vigente el contrato de exportación durante la formalización del proceso de conversión.

Octavo: rendirá a BANCOOP una garantía equivalente al 15% del valor fa-

cial de los títulos de la deuda externa que se presente para el canje ante el Banco Central; tal garantía deberá ajustarse en todo a las regulaciones generales existentes sobre el particular. En el caso de incumplimiento en lo relativo a lo señalado en la cláusula décima, la garantía será ejecutada por BANCOOP R.L. proporcionalmente al grado de incumplimiento que se detecte.

Novena: Las partes acuerdan que BANCOOP percibirá por concepto de honorarios por este servicio, la suma de ₡ 200.000,00(Doscientos mil colones), y se autoriza a BANCOOP para que en forma proporcional a la liquidación de los Bonos en Bolsa, debite del fondo los montos correspondientes. Queda también BANCOOP autorizado para que previa comunicación al Mandante, varíe la tarifa citada como consecuencia de cambios en las disposiciones bancarias que regulan a los bancos privados con respecto a este tipo de servicios.

Décimo: El presente Mandato tendrá una vigencia de tres meses, contados a partir de su firma, no obstante en caso de necesidad podrá renovarse por períodos iguales hasta que sea concluído el plan de inversión presentado por . . . . . finalizará también el Mandato aún antes del plazo pactado si como consecuencia de los desembolsos a que se refiere la cláusula sexta anterior, los Bonos de estabilización se hubiera consumido.

Décima Primera: BANCOOP entregará al Mandante a la finalización del Mandato, un estado de cuentas correspondientes al movimiento del mismo durante la vigencia del contrato, lo cual no impide que el Mandante examine todas las actuaciones del Mandatario dando al efecto acceso a todos los documentos relacionados a este contrato. Para la entrega del informe BANCOOP gozará de un plazo adicional de 15 días hábiles después de la terminación del Mandato y el Mandante tendrá quince días para objetar o hacer las objeciones que considere oportunas al informe; pasados quince días del informe se tendrá como aceptado plenamente por los interesados.

Es conforme y firmamos en la ciudad de San José el día veintidos de marzo de mil novecientos ochenta y ocho, a las dos p.m..

Sr. Marco Antonio Perez Bonilla
Apoderado Generalísimo

Sr. Federico Herrero Serrano
Gerente General- BANCOOP R.L.

E- REMISION DE GARANTIA AL BANCO CENTRAL

BANCOOP R.L.

BANCO COOPERATIVO COSTARRICENSE R. L.
Teléfono 33-50-44 — Apartado 486-1007
San José, Costa Rica

SOLICITUD PARA GARANTIA

Monto ₡ 4.382.919.60

Fecha 28 de marzo de 1.988 Monto $

Garantía de ☐ Participación ☒ Cumplimiento

Por cuenta de: .....

A favor de: Banco Central de Costa Rica

Fecha vencimiento para presentación de ofertas .....

Plazo: 3 meses Fecha de vencimiento 28 de junio de 1.988

Licitación ☐ Pública ☐ Privada Nº .....

Para: Garantizar plan de Inversión de [illegible], de conformidad con el punto 7 del acuerdo firmado entre BANCOOP R.L. y el Banco Central de Costa Rica el 21 de marzo de 1.988

Publicada en Gaceta Nº ..... del .....

Adjudicada en Gaceta Nº ..... del .....

Garantía ofrecida: .....

Firma Marco A. Pérez Bonilla

Cédula Nº 1 364 309

NOTA:

Favor presentar la siguiente documentación como requisito para darle trámite a su solicitud:

a) Copia del cartel de licitación.
b) Balance de situación y Estados de Pérdidas y Ganancias debidamente auditados de los tres últimos años y otro a la fecha más reciente.
c) Lista de accionistas y su participación en el capital de la empresa.
d) Copia de la escritura de constitución y modificación a la misma.

Costo del servicio:

Participación: trimestral o fracción mínima ₡
Cumplimiento: trimestral o fracción mínima ₡ 200.000.00

Para uso exclusivo del Banco:

Nº .....

Aprobada por .....

Fecha 29/3/88

Comisión ₡ ~~54.786~~ 50

Timbres

Estudio .....

TOTAL ~~₡54.786~~ 50

6C-91

Espera resolución del Comité de Crédito.

BANCOOP

BANCO COOPERATIVO COSTARRICENSE, R. L.
TELEFONO 33-50-44 APARTADO 33 - 1000
SAN JOSE, COSTA RICA

GARANTIA DE CUMPLIMIENTO

Señores: BANCO CENTRAL DE COSTA RICA

Estimados señores:

Sírvase tomar nota de que hemos establecido a favor de ustedes una garantía de pago irrevocable sujeta a los siguientes términos y condiciones:

NUESTRO NUMERO: GC-91

POR CUENTA DE:

POR ORDEN DE:

A FAVOR DE: BANCO CENTRAL DE COSTA RICA

POR VALOR DE: CUATRO MILLONES TRESCIENTOS OCHENTA Y DOS MIL NOVECIENTOS DIECINUEVE COLONES CON SESENTA CENTIMOS

UTILIZABLE a partir del día: 28 DE MARZO DE 1988 hasta las quince horas del día 28 DE JUNIO DE 1988

GARANTIZADO: PLAN DE INVERSION DE DE CONFORMIDAD CON EL PUNTO 7 DEL ACUERDO FIRMADO ENTRE BANCOOP R.L. Y EL BANCO CENTRAL DE COSTA RICA EL 21 DE MARZO DE 1988.

Es condición indispensable para hacer efectiva esta garantía la presentación del documento original.

El uso del valor de esta garantía debe ser hecho por ustedes girando a nuestro cargo por el valor correspondiente acompañando al giro una declaración en duplicado dirigida por ustedes a Banco Cooperativo Costarricense, R. L., exponiendo las razones por las cuales hacen efectiva la garantía. El Banco Cooperativo Costarricense, R. L., no asume responsabilidad ni compromiso alguno por la veracidad de las razones que para hacer efectiva exponga:

BANCO CENTRAL DE COSTA RICA

en la declaración mencionada en este párrafo, ni se obliga a intervenir en inspecciones ni en verificaciones, todo lo cual queda a riesgo de los interesados, en consecuencia el Banco Cooperativo Costarricense, R. L., se limitará a efectuar el pago de la suma que

BANCO CENTRAL DE COSTA RICA.

gire en las condiciones antes expresadas, dentro del plazo de validez de esta garantía.

Si al vencimiento de la garantía, ésta no ha sido hecha efectiva, su validez caduca automáticamente y tanto nuestros principales, como los suscritos quedan desligados de todo compromiso o responsabilidad, no solo para lo futuro sino que también a lo referente a los hechos ocurridos durante la vigencia de esta garantía.

Nos suscribimos de ustedes sus atentos y seguros servidores.

BANCO COOPERATIVO COSTARRICENSE, R. L.

Firmas registradas

F- RECIBO DE DOLARES DEL CLIENTE PARA LA COMPRA DE LOS TITULOS

BANCOOP R.L.
ICO COOPERATIVO COSTARRICENSE R. L.

Recibido por

22 de marzo de 1.988

Señor:
Marco Antonio Perez Bonilla
Apoderado Generalísimo

Por este medio hago constar, que hemos recibido el cheque Nº 021443, del Banco Central de COsta Rica, por un monto de U.S. $ 50.000.00 (Cincuenta mil doláres), y el cheque Nº 102 del Bank Of América por U.S. $ 18.857.34 (Diesciocho mil ochocientos cincuenta y siete con 34/100). Dichos recursos serán empleados para la compra de títulos de deuda externa , de conformidad con el Mandato que se establezca entre la Empresa y BANCOOP R.L.

Atentamente,
Banco Cooperativo Costarricense R.L.

cc: Sra Malagón

Gamaliel Alvarado Bogantes.

APDO. 8593 - 1000 SAN JOSE TELEX 3230 BANCOP C. R. TELEFONO 33-50-44 SAN JOSE, C. R.

G- CONFIRMACION DE COMPRA DE TITULOS Y DEPOSITO

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[illegible]

[illegible]

[illegible] MAY 22 1992
[illegible] 0 [illegible] 0

[illegible] CORPORATION

[illegible] [illegible]

[illegible] SCHMID
SWISS BANK CORPORATION
NEW YORK BRANCH

[illegible] OF COSTA RICA PAPERS

[illegible] OUR IRREVOCABLE COMMITMENT TO PURCHASE FROM YOU
[illegible] OBLIGATIONS IN THE PRINCIPAL AMOUNT OF USDLRS 399.173.00 (TRANCHE
[illegible] CORRESPONDING UNDER THE BANCO CENTRAL DE COSTA RICA AND REPUBLIC
[illegible] OF COSTA RICA. SUCH OBLIGATIONS WILL BE PURCHASED AT A PRICE OF
[illegible] OF FACE VALUE FOR AN AGGREGATE PURCHASE PRICE OF USDLRS
[illegible] 857.34.

[illegible] PROCEEDING TO WIRE TRANSFER TO THE SWISS BANK CORPORATION,
[illegible] NEW YORK BRANCH; ABA:026000799, FOR CREDIT TO: ASSET MANAGEMENT
[illegible] ACCOUNT NO.0-467[illegible]-000, AND; KURT SCHMID; REF: COSTA RICA
[illegible] DEPOSIT IN THE AMOUNT OF USDLRS 68.857.34 TO PAY YOU THE
[illegible] OBLIGATIONS IN THE PRINCIPAL AMOUNT OF USDLRS 399.173.00 (TRANCHE

[illegible] RELY

[illegible] VELAZQUEZ GUTIERREZ
[illegible] GENERAL
[illegible] S.A.

[illegible] BANCOP CR

[illegible] 3,50 SBNY UP.....
[illegible] 000.8 MINS
[illegible] 22 08 1525
[illegible] 0 [illegible]

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[illegible] 1121
[illegible] FOIB UR

[illegible] [illegible] MARZO 1988
[illegible] [illegible]

[illegible] [illegible] [illegible] **** MUY URGENTE ****

[illegible] MUY DOLARES (8.057.34)

[illegible]

[illegible] A NUESTRA CTA TRANSFIERAN VIA TLX A SWISS BANK CORPORATION
[illegible] YORK [illegible] 0860007995 PARA CREDITO CTA DE ASSET MANAGEMENT
[illegible] 464-860050-080 ATN KURT [illegible] MAF COSTA RICA,
[illegible] DEL [illegible] 11.

[illegible]
[illegible] MARELLES
[illegible] JEFE.
[illegible] P.I.
[illegible]

[illegible] CR

[illegible] FOIB UR

[illegible]
[illegible] 001.7 MINS
[illegible] 22 88 1023
[illegible] RACSA

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H- ASSIGNMENT AGREEMENT (Preliminar)

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DATE: MARZO [illegible], 1985

FROM: BANCO COOPERATIVO COSTARRICENSE R. L.
COSTA RICA
MARCOS SALAZAR GAMBERO

TO: SWISS BANK CORPORATION, NEW YORK

ATTN: KURT SCHMID

SUBJECT: ASSIGNMENT AGREEMENT DATED MARZO [illegible], 1985 BETWEEN SWISS BANK CORPORATION AND BANCO COOPERATIVO COSTARRICENSE R. L.

ING. MARCOS SALAZAR GAMBERO
SUB GERENTE GENERAL

Garcia

FAX COVER FORM

DISPATCHING STAMP

SWISS BANK CORPORATION
FOUR WORLD TRADE CENTER
NEW YORK, NEW YORK 10048

ASSET MANAGEMENT/TRADING
KURT SCHMID
PHONE 212 574 3715
FAX 212 574 3521
TELEX 232432 SBNY UR

DATE March 23, 1988

URGENT

Banco cooperativo Costarricense
San Jose
FAX CR 506 339 661

N. Mr Ing Marcos Salazar Gamboa

JECT Assignment Agreement dated March 23, 1988 between Banco cooperativo costarricense and Swiss Bank Corporation

Please find enclosed a duly executed Agreement

pages (incl. Cover Form) _____

nission Priority: ☒ Immediate ☐ Regular ☐ Overnight

mation of receipt requested: ☐ No ☐ Yes, _____

Kurt Schmid
Vice President

3)

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ASSIGNMENT AGREEMENT

March 23, 1988

TO: Banco Cooperativo Costarricense, R.L.
Apartado 8593-1000
San Jose, Costa Rica
Attn: Ing. Marcos Salazar Gambero

Gentlemen:

We refer to the obligations described on Exhibit A (the "Obligations"). We hereby agree to sell, transfer and assign to you, and you hereby purchase, pay for and receive, all our right, title and interest in and under the Obligations, on the following terms and conditions.

(1) The assignment of the Obligations shall occur on, and become effective as of the date hereof (the "Closing Date").

(2) (a) We agree to deliver a promissory note evidencing the Obligations (the "Documentation") to you in Costa Rica on the Closing Date, and until delivery thereof to you the Documentation will be held by us for your account.

(b) In consideration of our assignment of the Obligations to you, you hereby agree to make a payment to us on the Closing Date of U.S.$68,857.34. Such payment should be made to Asset Management House Account no. 0-467-860050-080 of Swiss Bank Corporation, New York Branch (ABA no. 026007993).

(3) We will be entitled to any interest and fees accrued under the Documentation in respect of the Obligations through the day prior to the Closing Date and, in the event that you receive any such interest or fees, you shall promptly account to us therefor and credit such interest or fees (as the case may be) to our Loan Temp. Account no. 0-467-860565-006 of Swiss Bank Corporation, New York Branch (ABA no. 026007993). We will not be entitled to any interest or fees accrued under the Documentation in respect of the Obligations on or after the Closing Date and, in the event

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that we receive any such interest or fees, we shall promptly account to you therefor and credit such interest or fees (as the case may be) to your account no. 5006-60009 with Banco Internacional de Costa Rica in Miami, Florida, to the account of Bancoop R.L., with telex advice to 3230 Bancoop.

(4) On and after the Closing Date, you will have all of our rights and obligations under the Documentation in respect of the Obligations. On the Closing Date, you and we will each prepare, sign and submit separate (or combined) and original counterparts of the notice, acknowledgment and agreement set forth in Exhibit B and take all other actions reasonably deemed necessary by us to effect such assignment pursuant to the Documentation.

(5) We represent and warrant, as of the Closing Date, that (a) the information set forth in Exhibit A is accurate and correct, (b) we are the legal and beneficial owner of the Obligations, free and clear of any lien, security interest, claim or other charge or encumbrance of any nature whatsoever or any defense or counterclaim known to us which has been asserted by or is available to any obligor or guarantor against us, (c) we have full power and authority and have taken all action necessary to execute this Agreement and all other documents to be executed in accordance herewith and no governmental authorizations are required in connection with our execution, delivery and performance of this Agreement and such other documents, and (d) this Agreement constitutes a legal, valid and binding obligation of ours, enforceable against us in accordance with its terms. We agree to indemnify you against any loss, expense or liability incurred by you as a result of our failure to assign to you the Obligations free and clear of any lien, security interest, claim or other charge or encumbrance or any defense or counterclaim referred to in clause (b) of the immediately preceding sentence. You represent and warrant, as of the Closing Date, that (a) you have full power and authority and have taken all action necessary to execute this Agreement and all other documents to be executed in accordance herewith and no governmental authorizations are required in connection with your execution, delivery and performance of this Agreement and such other documents, (b) this Agreement constitutes a legal, valid and binding obligation of yours, enforceable against you in accordance with its terms and (c) you are qualified and eligible, under the Documentation, to receive the assignment of the Obligations. Each of us shall be responsible for its own expenses incurred in connection with the preparation of this agreement and related documents, including but not

limited to, the fees and disbursements of our legal counsel. Any notice to be given hereunder, other than in accordance with Section 4, shall be in writing and sent by telex with confirmed answerback or by facsimile transmission and will be deemed to be given when received. Each party will promptly execute and deliver all further instruments and documents, and take all further action, as may be necessary or appropriate to implement the terms of this Agreement.

(6) Except with respect to the representations, warranties and agreements contained in Section 5, this Agreement and the assignment made hereunder shall be made without recourse, and we shall have no liability to you under or in connection with the Obligations. We do not make any warranty or representation nor shall we be responsible for (a) any statement, warranty or representation made by any obligor or guarantor in or in connection with the Obligations or any document relating thereto or for the financial condition, creditworthiness, status or nature of any such obligor or guarantor, (b) the proper execution, legality, validity, enforceability, genuineness, sufficiency or collectibility of the Obligations or any document relating thereto or (c) any event of default under the Documentation. You acknowledge that you are familiar with the Obligations and the Documentation. You also acknowledge that you have, independently and without reliance upon us and based on such information as you have deemed appropriate, made your own credit analysis and decision to enter into this Agreement.

(7) This Agreement may be executed in any number of counterparts and by different parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

(8) This Agreement shall be governed by and construed in accordance with the laws of the State of New York. This Agreement contains the entire agreement between the parties hereto and supersedes all prior oral and written statements.

Please confirm your agreement with the foregoing by executing the enclosed copy hereof and returning the same to us.

Very truly yours,

SWISS BANK CORPORATION,
NEW YORK BRANCH

By_____
Title: Kurt Schmid
Vice President

By_____
Title: Anton Spicijaric
First Vice President

Agreed and accepted as of the date first above written:

BANCO COOPERATIVO COSTARRICENSE, R.L.

By_____
Title:

EXHIBIT A

DESCRIPTION OF OBLIGATIONS

OBLIGORS: The Obligors identified in the Agreement referred to below

AGREEMENT: Agreement, dated as of September 9, 1983, as amended and restated as of May 29, 1985, among Banco Central de Costa Rica, Republic of Costa Rica, the Obligors, Banks and Syndicate Agents listed on the signature pages thereof and Bank of America National Trust and Savings Association, as Coordinating Agent (including the Guaranty set forth therein)

COORDINATING AGENT: Bank of America National Trust and Savings Association

AMOUNT AND TRANCHE OF OBLIGATIONS ASSIGNED: U.S.$399,173 (Tranche II)

EXHIBIT B

NOTICE OF ASSIGNMENT, ACKNOWLEDGMENT
AND AGREEMENT TO BE BOUND

_____, 1988

Bank of America National Trust
and Savings Association, as Coordinating Agent
315 Montgomery Street, 15th Floor
San Francisco, California 94104
Attention: Ms. Sharon Schwartz
Global Agency

Banco Central de Costa Rica
Apartado Postal 10058
San Jose, Costa Rica
Telex: 2163 BANCENT
Attention: Roberto Avendano
Oficina de Deuda Externa

Ministerio de Hacienda y Credito Publico
Republica de Costa Rica
Apartado Postal 10104
San Jose, Costa Rica

Re: Agreement, dated as of September 9, 1983, as amended and restated as of May 29, 1985, among Banco Central de Costa Rica, Republic of Costa Rica, the Obligors, Banks and Syndicate Agents listed on the signature pages thereof and Bank of America National Trust and Savings Association, as Coordinating Agent (including the Guaranty set forth therein)

Gentlemen:

1. This constitutes notice to each of you, pursuant to the above-captioned agreement, of the assignment by Swiss Bank Corporation, New York Branch (the "Assignor") to Banco Cooperativo Costarricense, R.L. (the "Assignee") of all of the Assignor's right, title, interest and obligations under such agreement, with effect from _____, 1988, in the aggregate principal amount of U.S.$399,173 (Tranche II) together with accrued interest thereon in respect of any period commencing on or after _____, 1988.

2. The Assignee hereby acknowledges the terms of such agreement and, pursuant to the terms of such agreement, agrees to be bound by, to perform (to the extent of the right, title, interest and obligations so transferred and assigned to

all of the Assignor's obligations under, and to be under
same obligations towards each of you as if it had been an
ginal bank party to, such agreement with respect to such
ncipal amount.

3. The address of the Assignee for notices and other
munications is Apartado 8593-1000, San Jose, Costa Rica,
ention: Ing. Marcos Salazar Gambero. All payments to the
ignee should be made to account no. 5006-60009 with Banco
ernacional de Costa Rica in Miami, Florida, to the account
Bancoop R.L., with telex advice to 3230 Bancoop.

4. This Agreement may be executed by the Assignor
the Assignee in separate counterparts, each of which when
executed and delivered shall be deemed to be an original
all of which taken together shall constitute one and the
e agreement.

IN WITNESS WHEREOF, each of the undersigned has
sed this agreement to be executed by its official, officer
agent thereunto duly authorized.

SS BANK CORPORATION,
EW YORK BRANCH,
Assignor

tle: _____

tle: _____

BANCO COOPERATIVO
COSTARRICENSE, R.L.,
as Assignee

By _____
Title: _____

I- ASSIGNMENT AGREMENT Y NOTICE OF ASSIGNMENT FINAL.

Y RECIBO DE TITULOS DE DEUDA EXTERNA

BANCOOP R.L.
BANCO COOPERATIVO COSTARRICENSE R. L.

24 de marzo de 1.988
Ref: GG 138-88

Señor:
Roberto Avendaño
Director Deuda Externa
Banco Central de Costa Rica
Presente

Estimado señor:

Conforme a lo indicado en el punto 3 del acuerdo firmado el 21 de marzo de 1.988, entre el Banco Central de Costa Rica y el Banco Cooperativo Costarricense R.L. , nos permitimos solicitarle que se proceda a intercambiarnos por Bonos de Estabilización Monetaria, el titulo de deuda externa, que adjuntamos endosado a nombre del Banco Central de Costa Rica, cuyo monto facial es de US.$ 399.173.00.Asi mismo le estoy remitiendo para la firma respectiva, el Convenio de Asignación de dichos titulos (Notice of assignment)

Sin otro particular y agradeciéndole su amable atención, me es grato suscribirme,

Atentamente,

BANCO COOPERATIVO COSTARRICENSE R.L.

Ing. Marcos Salazar Gambero
Subgerente General

APDO. [illegible] - [illegible] SAN JOSE TELEX [illegible] BANCOP C. R. TELEFONO [illegible] SAN JOSE, C. R.

PROMISSORY NOTE

BANCO CENTRAL DE COSTA RICA US$399,173,00 US

Date of Issuance: January 31, 1986

Place of Issuance: New York, New York, U.S.A.

For value received, BANCO CENTRAL DE COSTA RICA ("Banco Central") promises to pay to the order of SECURITY PACIFIC NATIONAL BANK Three Hundred and Ninety-Nine Thousand One Hundred and Seventy Three Dollars (US$399,173.00) the sum of in lawful money of The United States of America and in such funds as may at the time be customary for the settlement of international banking transactions in Dollars at THE RELEVANT PERMITTED CURRENCY ACCOUNT OF THE COORDINATING AGENT ***** in one or more installments on the dates set forth in the Agreement (as defined below). Banco Central promises to pay interest on the unpaid principal amount hereof until such principal amount is paid in full at such interest rates, at such times, and on such other terms, as are specified in the Agreement dated as of September 9, 1983, as amended and restated as of May 29, 1985 (the "Agreement") among Banco Central, the Republic of Costa Rica, the Obligors (as defined therein), the Banks (as defined therein), the Syndicate Agents (as defined therein) and Bank of America National Trust and Savings Association, as Coordinating Agent. This promissory note evidences a Tranche II Advance which accrues interest at a rate based upon LIBOR as defined in the Agreement. Banco Central hereby waives all requirements as to protest, presentment, demand, promptness, diligence and notice of any kind with respect to this promissory note.

This promissory note and the guaranty por aval of the Republic set forth below shall be governed by and construed and interpreted in accordance with the law of the State of New York.

BANCO CENTRAL DE COSTA RICA:

By:

Title: Deputy Manager

Payment unconditionally guaranteed in full (Por Aval)

For value received, the Republic of Costa Rica hereby irrevocably, absolutely and unconditionally guarantees, as primary obligor and not merely as surety, por aval, the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of Banco Central under this promissory note and shall, upon default by Banco Central, forthwith pay all amounts due without notice or demand, and hereby expressly waives all requirements as to protest, presentment, demand, promptness, diligence, notice of dishonor or other notice of any kind whatsoever, as well as any requirement that any holder of this promissory note exhaust any right or take any action against Banco Central, and hereby consents to any extension of time of payment and any renewal of this promissory note.

REPUBLIC OF COSTA RICA:

By:

Title: Vice-Minister

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PAY TO THE SWISS BANK CORPORATION NEW YORK, WITHOUT RECOURSE

Constantino Lizano Fonseca

SECURITY PACIFIC NATIONAL BANK, NEW YORK.
SAN JOSE, COSTA RICA
MARCH 23, 1988.

PAY TO THE ORDER OF BANCO COOPERATIVO COSTARRICENSE R.L. COSTA RICA, WITHOUT RECOURSE

Constantino Lizano Fonseca

SWISS BANK CORPORATION, NEW YORK.
SAN JOSE, COSTA RICA
MARCH 23, 1988.

Pay to the order of Central Bank Of Costa Rica without recourse

Banco Cooperativo Costarricense R.L.
San Jose, Costa Rica
March 24, 1988

J- SOLICITUD DE CONVERSION AL BANCO CENTRAL
Y NOTICE OF ASSIGGNMENT

PROMISSORY NOTE

BANCO CENTRAL DE COSTA RICA US$399,173.00cts

Date of Issuance: January 31, 1986

Place of Issuance: New York, New York, U.S.A.

For value received, BANCO CENTRAL DE COSTA RICA ("Banco Central"), promises to pay to the order of SECURITY PACIFIC NATIONAL BANK, the sum of Three Hundred and Ninety-Nine Thousand One Hundred and Seventy Three Dollars (US$399,173.00) in lawful money of The United States of America and in such funds as may at the time be customary for the settlement of international banking transactions in Dollars at THE RELEVANT PERMITTED CURRENCY ACCOUNT OF THE COORDINATING AGENT, in one or more installments on the dates set forth in the Agreement (as defined below). Banco Central promises to pay interest on the unpaid principal amount thereof until such principal amount is paid in full at such interest rates, at such times, and on such other terms, as are specified in the Agreement dated as of September 9, 1983, as amended and restated as of May 29, 1985 (the "Agreement") among Banco Central, the Republic of Costa Rica, the Obligors (as defined therein), the Banks (as defined therein), the Syndicate Agents (as defined therein) and Bank of America National Trust and Savings Association, as Coordinating Agent. This promissory note evidences a Tranche II Advance which accrues interest at a rate based upon LIBOR as defined in the Agreement. Banco Central hereby waives all requirements as to protest, presentment, demand, promptness, diligence and notice of any kind with respect to this promissory note.

This promissory note and the guaranty por aval of the Republic set forth below shall be governed by and construed and interpreted in accordance with the law of the State of New York.

BANCO CENTRAL DE COSTA RICA

By: [signature]

Title: Deputy Manager

Payment unconditionally guaranteed in full (Por Aval)

For value received, the Republic of Costa Rica hereby irrevocably, absolutely and unconditionally guarantees, as primary obligor and not merely as surety, por aval, the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of Banco Central under this promissory note and shall, upon default by Banco Central, forthwith pay all amounts due without notice or demand, and hereby expressly waives all requirements as to protest, presentment, demand, promptness, diligence, notice of dishonor or other notice of any kind whatsoever, as well as any requirement that any holder of this promissory note exhaust any right or take any action against Banco Central and hereby consents to any extension of time of payment and any renewal of this promissory note.

REPUBLIC OF COSTA RICA

By: [signature]

Title: Vice-Minister

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PAY TO THE ORDER OF SWISS BANK CORPORATION NEW YORK, WITHOUT RECOURSE.

Constantino Lizano Gnecco

SECURITY PACIFIC NATIONAL BANK, NEW YORK.
SAN JOSE, COSTA RICA
MARCH 23, 1.988.

PAY TO THE ORDER OF BANCO COOPERATIVO COSTARRICENSE R.L.
COSTA RICA , WITHOUT RECOURSE.

Constantino Lizano Gnecco

SWISS BANK CORPORATION, NEW YORK.
SAN JOSE, COSTA RICA
MARCH 23, 1.988.

Notice of Assignment.

To: Banco Central de Costa Rica
Apartado Postal 10083
San Jose, Costa Rica
Attention: Roberto Avendano - Oficina de deuda externa.

To: Bank of America National Trust & Savings Association
Global Agency
315 Montgomery St.
San Francisco, California 94104
Attention: Ms. Sharon Schwartz- L.A. / Caribbean

To: The Republic of Costa Rica
Ministerio de Hacienda de Crédito Público.
Apartado Postal 10104.
San Jose, Costa Rica.

Date: 24 de marzo de 1,988.

Ref.: Refinancing Agreement dated as of the 9th day of September of 1.988 and amended and restated as of the 29th of May 1,985.

Dear Sirs:

1- We refer to Section: 13.07.

2- The assigment relates to U.S. $399.173.00.

Description	Issue Date	Number	Amount
Tranche II	January 31,1.986	081 [illegible]	US $399.173.00

3- The Assigment is made to Banco Central de Costa Rica (The "Assignee"). This Assignment is effective as of 24 de marzo de 1.988.

4- Interest payable on the assigned amount in respect of any period comencing on and after the effective date, is to be paid to the Assignee.

[illegible] acknowledge receipt of this notice by signing [illegible] copy [illegible] original.

[illegible] faithfully,

Federico Herrera Zúñiga,
Gerente General.
Banco Cooperativo Costarricense R.L.

Acknowledgement

[illegible] United America.....

[illegible] Ministerio de Hacienda.....

[illegible]ICO
[illegible]ntral de Costa Rica.....

D. Current Costa Rica Debt Swap Programs

ANNEX D

CURRENT COSTA RICA DEBT SWAP PROGRAMS

As background information, market interest rates in Colones are 24 to 30 percent for most general lending in Costa Rica. Debt can be bought at 12 - 15 percent of face value but the rates are going up because of conversations in New York, Washington, and with the Paris Club to renegotiate foreign debt and try to take advantage of the "Brady Plan."

Two of the options they are considering are: use IMF/IBRD and possibly AID resources to buy back their paper at a discount and some kind of debt swap program.

Debt paper is held by foreign banks for non-performing loans taken out by the Ministry of Hacienda, the Costa Rican Electric Institute or company (ICE), CODESA (a Costa Rican Governmental holding company) and the Central Bank of Costa Rica (BCCR). The BCCR has been willing to consider swapping debt paper back through at 30 - 40 percent of face value but in monetary stabilization bonds. Example: You buy $1.0 million in face value paper. The BCCR only gives you US$300,000 in Colones in monetary stabilization bonds paying 23 -26 percent interest, some of which may be convertible (negotiable) and others which may not be. Long term bonds that are negotiable can be discounted on the local stock market at about 60 - 70 percent of face value, depending on the interest rate, the period of maturity, etc. Non negotiable bonds can, however, be used as collateral to secure a Colon loan from a local bank if you "assign" the income stream to the lending bank to pay down your loan. This is apparently a common practice, we were told.

An important issue and goal of the Costa Rican authorities is to try and structure the deal in such a manner that the "investor" is unable to make disproportionate profits on the transaction, i.e., they try to ensure that the "investor" makes what is considered a fair rate of return in Costa Rica - for example: something in the neighborhood of 25 percent. On the other hand, the authorities are also subject to pressure from local groups, like the cooperative sector, for example, and have apparently been willing to undertake special programs to benefit sectors of the economy that have been especially hurt by circumstances beyond their control (international coffee price fluctuations, deregulation of local financial markets, etc.).

There are several other "special" debt swap programs that are in the making and which are outside the regular Costa Rican Central Bank program. A brief description of these programs is presented in the main section of this paper, however, additional comments are also presented below.

1) FEDECOOP (Federation of Coffee Cooperatives) and FEDECREDITO (Federation of Savings and Loans Cooperatives) conversion program for coffee and savings and loans cooperatives.

In these two programs, the cooperative federations will borrow in Colones from any bank (BANCOOP, for example) - or use their own funds - and be authorized to buy US$ on the "grey" market (the official exchange rate is about C/. 80 = US$1 but they are apparently paying about C/.86 to US$1) with which they will purchase sovereign debt on the secondary market. The following example illustrates the point: The cooperatives use C/. 8,600 and buy US$100. With the US$100 they buy Central American Bank (BCIE) paper or other debt instruments on the secondary market. The BCIE paper is apparently selling at about US$0.16 for face value of US$1. This paper is then exchanged in the Costa Rica Central Bank for Colon denominated monetary stabilization bonds at approximately 40 percent face value at the official rate of exchange. The bonds will apparently pay about 17 percent interest and are redeemable in 15 years.

The following numbers illustrate the concept: US$100 buys US$625 in paper which is turned into colones at the BCCR at the official bank rate of about 80:1. This yields C/. 50,000. But since the BCCR only recognizes 40 percent of this, the cooperative federations are issued C/. 20,000 (US$232 ± at 86:1) in bonds at 15 years earning 17 percent. The federations may be allowed to negotiate the bonds in the local stock market or perhaps part of the C/.20,000 will be issued in currency to permit the federations to pay off the loans they took out to buy the dollars. The income stream from the remaining bonds will continue to flow to the federations over 10 - 15 years. Alternatively, a portion of the income stream may be "assigned" to the local bank to ensure payback of the original loan the federations used to buy the dollars. The remaining income stream from the monetary stabilization bonds will be used by the federations for their programs.

The savings and loans cooperatives (credit unions) will apparently use the income stream to buy down interest rates the credit unions are paying on certificates of deposit issued to members through savings mobilization campaigns, the proceeds of which were invested in unregulated "financieras" or venture capital institutions which went broke in 1987. Some of the credit unions have faced serious liquidity crises due to the failures in the banking systems and have been unable to pay-off

the CD's or even pay the interest promised. By allowing the credit unions to earn substantial "profits" (bicycling effect) on the debt swap, they will be able to recover.

In the case of the coffee cooperatives, the situation is very similar. Apparently they got into trouble due to attempts by certain European and local coffee intermediaries to corner the market for Costa Rican coffee. This became important when the European Economic Community (EEC) eliminated tariffs on processed coffee exports from one country to another within the Community. Large processors tried to secure direct lines of supply to be better able to compete with processors in other countries. The upshot in Costa Rica was that non-cooperative buyers representing European processors bid-up the price of Costa Rican coffee higher than the international price and offered "advances" to farmers in excess of what the cooperatives were paying. So as to be able to handle coffee and obtain repayment for the coffee loans given under the USAID financed coffee technification program, the coffee cooperatives were forced to match the advances offered by the European processors. So the local price was bid-up to levels higher than the world price and in the end, the cooperatives and the non-cooperative firms, had inventories of coffee for which they had in effect paid more than the world price. Heavy losses were incurred and the cooperatives were forced to borrow to cover them.

By permitting the coffee cooperatives to buy dollars, acquire debt instruments and, in effect, make significant profits on the swap, the GOCR and the Cooperative Institute hope to recapitalize these cooperatives and solve their debt situation caused by the "coffee war" between the big processors in Europe.

2) FOSECOOP (Cooperative Stabilization Fund) isn't a legal entity but a fund to save weak cooperatives. It is a Costa Rican cooperative strengthening project involving INFOCOOP and through the purchase of non-performing ICE (government electrical company/agency) debt instruments (reportedly in the hands of Canadian banks, primarily), save cooperatives which have suffered by recent economic turmoil in Costa Rica. In this scheme, apparently US$ 2.0 million will be purchased by INFOCOOP at the BCCR at the official exchange rate. INFOCOOP will buy ICE paper worth about US$0.125 per dollar of face value. INFOCOOP will exchange this dollar denominated paper at

ICE for 40 percent of face value, which they estimate will yield about C/. 500 millions. At this point, INFOCOOP recoups it's original C/. 160 million and the remaining C/. 340 million will earn 26 percent - estimated to be about C/. 80 million per year. This money will be used for four program elements: a) bank guarantees for cooperatives wishing to borrow for productive projects, b) to subsidize interest rates on loans the cooperatives will obtain or already may have obtained, c) technical assistance, and d) training.

The original BCCR program was closed in 1987 apparently because of inflationary pressures, fake deals and corruption within the program, we were told. Adequate controls just were not in place. The BCCR initiated a nature only program on a case by case basis as presented by Costa Rican nature foundations. Because of pressure from other groups, the BCCR developed the current program consisting of debt for nature, small and micro business and education.

The official program, the guidelines of which are annexed hereto, "nacio' con nombre y apellido" (born with first and last names), we were told.

In the official program the basic concept is to allow swaps for Costa Rican foundations who are interested and able to work in three fields, i.e., a) conservation of natural resources, b) educational development and c) small and micro- enterprise programs. Purchase of land and buildings are specifically prohibited and other program areas are mentioned, such as: financing training programs for small business, technical assistance to small business, working capital loans, purchase of training materials and equipment (computers, for example).

The minimum amount of any "project" or swap proposal is US$200,000 and the GOCR has authorized up to $45 million face value over a three year period. Specific debt instruments are mentioned (for example: debt covered under the refinancing agreement dated 9/9/83, later modified on 5/29/85) as being eligible. The debt instruments will be swapped for monetary stabilization bonds that are denominated in either dollars or colones as per the following:

Item	Dollars	Colones
Percent converted:	80 % of the face value of the debt instrument	100 % of the face value of the debt instrument
Interest rate:	3 % annual paid semestral	8 % annual paid semestral
Characteristics:	not negotiable*	not negotiable*
Maturity:	20 years	20 years

Amortization: the principal will be paid out only in the last five years in equal sums semestral.

* Although these are not negotiable, they can be used as collateral to obtain a loan provided the income stream is "assigned" over to the bank to pay back the loan.

The Cooperative Bank (BANCOOP) has performed an analyses of different situations for prospective foundations and other interested parties. A sample analysis, including a sensibility analysis is presented in Annex C. The analysis illustrates that if the "investor" (interested foundation or development agency) conserves his paper in dollar denominated bonds, the net present value of a $100,000 investment will be $235,000, or a 135 percent return on investment will be realized. If the bonds are denominated in colones, the net present value will be approximately $245,000 and the investment will yield a 145 percent return. Of course, this assumes the BCCR will be able to pay interest as promised and redeem the bonds in cash as they are held more than 15 years.

Several persons we met recommended the investor would be wise to "assign" the income streams from these monetary stabilization bonds to a local bank to pay off a loan for colones which could be used today in their development programs.

E. Debt For Development: An Exploration of Issues

March 15, 1989
Draft

Debt for Development: An Exploration of Issues

Currently much attention is being focused on the issue of Third World debt. Daily reports are aired on the pronouncements of policy makers and bankers in industrialized nations as well as political leaders in developing nations. The statistics speak for themselves.

The total external debt of developing countries reached slightly over U.S. $1.2 trillion as of year-end 1988. The burden of the debt measured on virtually any scale has been staggering. Total external debt as a percentage of exports of goods and services is high and has grown sharply since 1980. Debt servicing obligations continue to absorb a crushing portion of resources available to debtor nations. Policy adjustments have sharply curtailed their imports of needed goods and services. Opportunities in countries that traditionally supply these exports have been sharply reduced.

The interdependency of developing and developed economies is critical. We must seek measures that trim foreign debts accumulated by developing countries, lessen the risks of serious financial crises, and promote economic development. New initiatives are needed to reduce the burden of the external debt in ways that are most likely to foster future flows of trade credits and other financial capital for development.

It is in our best interest to promote worldwide financial stability by facilitating solutions to the Third World debt problem. Former Secretary of the Treasury Baker supported the debt for development concept in a September 1987 address. Governments of several countries, including France and Germany have forgiven official debt to various countries recently. Debt for Development should be a major component of the discussions at the economic summit of the major industrialized nations in Paris next June.

Debt Conversion:

Conversion of debt into equity is an old technique. It is, however, very flexible and can be adapted to the circumstances of very different debtors. Debt for development is one special approach within the overall framework of debt conversions.

Debt for development seeks mutually beneficial arrangements among several interested parties: the debtor governments; the creditor banks; the not-for-profit groups based in the industrial countries which have substantial operations in the developing debtor countries; the NGO's, universities, cooperatives, and agriculture research centers in the developing countries; and the governments of the major creditor banks. The arrangements need to be worked out carefully because of differing accounting conventions impacting commercial banks from different industrial nations and because tax accounting is often, if not always, different from public financial accounting within a given country.

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Debt for development has become a frequently used term. It has not, however, been defined carefully. Debt for development envisions using hard currency denominated obligations of developing countries experiencing external debt servicing difficulties as well as local currency assets that represent a potential demand for foreign exchange for development programs by not-for-profit groups. The external debts of developing countries could be obtained from donations or purchases at a discounted price. The process allows not-for-profit groups, in the industrialized nations and in the developing countries, to leverage their resources for use in Third World countries. Debt for development represents an effort which allows interested parties to convert a problem into an opportunity.

The basic building blocks for any debt for development program are the financial claims that exist on less developed countries that are experiencing difficulty in servicing their external debt. These claims are frequently claims held by commercial banks, but in fact are quite significantly broader than that.

First, these claims must include all the external hard currency denominated loans to all the international creditor banks whether North American, European, Japanese, or other. Beyond that, there are many non-commercial bank corporations that also have claims on these countries. Some of the claims have been generated because of trade or other business that these firms have done in the developing countries. Some represent unremitted profits.

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Claims can be divided into: 1) private and 2) public sector claims. For many of the middle sized or economically smaller countries, total claims on less developed debtors by governments or governmental agencies of the public sector are significantly larger than are private sector claims on these countries. Up until now, only private claims have been used in these transactions.

Beyond the "hard" currency claims -- most of which are denominated in U.S. Dollars -- are various types of claims that are currently booked in local currency. However, the owner hopes to convert these claims into hard currency at some time in the future. Many multinational or international corporations that provide goods or services around the world have generated local currency holdings in many of these countries. These claims when they cannot be repatriated back to the head office of such corporations are often referred to as inconvertible currencies or, more popularly, "blocked funds." Again the public sector holds a substantial amount of local currency claims. Funds generated by the Public Law 480 program for instance represent a substantial pool of resources in many less developed countries.

The goal of debt for development is to convert these resources which are troublesome both to the developing country as well as to the firms or individuals who own them into productive assets. Normally, the mechanism for doing this conversion of claims into opportunities is through a debt for equity or debt for development swap. In undertaking such a swap, the claimant will sell or donate his assets at some discount to a party that

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is able to use them in local currency.

In order for debt to equity or debt for development conversions to occur on a broad scale debt restructuring agreements must permit sales of commercial bank debt to non financial institutions. Fortunately, many of the debt restructuring agreements now in effect between debtor governments and the commercial banks allow such conversions. Also, lawyers in a number of cases have worked out ways to permit such conversions to take place.

If a bank does not wish to sell or donate at a discount its claim on a less developed country, a debt for development swap program cannot occur. However, one encouragement for a commercial bank to sell an obligation or especially to donate claims would be an understanding that the projects undertaken will strengthen the country and provide a stronger future market for its services.

Also, a less developed country government and in particular officials of the central bank, finance ministry, planning agency, and other governmental units must agree to pay the obligation in local currency and to allow the resulting local currency funds to be used for specific development projects. In doing the specific projects within the various less developed countries, the local not-for-profit groups within each country are also important participants. The local not-for-profit groups are important in discussions with government in terms of the breadth and depth of program that is required, the priorities to be set, and the ways of implementing programs.

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The not-for-profit organizations in the United States or other industrial states want to be able to conclude a debt for development swap reasonably quickly and efficiently. Furthermore, they seek to work with and strengthen local NGO or cooperative groups in the developing countries through development and implementation of mutually agreed upon projects. In the past, not-for-profit groups have had difficulty doing major development or relief projects because of lack of resources and the uncertainty that resources would be available for the time period required to do a quality job.

Of course, this means that care must be taken to minimize, potential inflationary and negative budgetary consequences on the less developed country. The possibility of creating trust or endowment funds would allow substantial long-term resources to be accumulated but the actual impact on the local money supply minimized and made more manageable.

The governments of the major industrial nations have an interest in seeing the Third World's debt problem worked out in as constructive and painless a manner as possible. The debt problem is not only a concern to the financial system and financial institutions, but it also negatively impacts other firms that have or would like to sell goods and services to the developing countries experiencing debt servicing difficulties. Countries in the midst of an austerity program are not good prospects for new business. Also, as mentioned earlier, governments and governmental agencies of industrial countries themselves are significant creditors to developing countries.

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Effects of the Debt Burden:

Austerity measures required by lenders have had a devastating impact on the standard of living and the quality of life for citizens in developing countries. In their effort to stabilize their economy and raise the foreign currency needed to repay their external debt, these countries are not making needed investment in their own country. The average investment rate in Latin America was 24.5% of gross national product in the 1970s compared to 16.5% in 1988. Per capita GDP went down 2.1% per year between 1981 and 1985 and has been stagnant ever since. Expenditures for infrastructure and social programs are necessary for the growth of the local economy not to mention the amelioration of existing social conditions. Instead, needed capital is flowing back to creditor nations; debtor nations currently are repaying loans and servicing debt with foreign exchange to a far greater extent than they are receiving new loans. Debtor less developed countries are transferring about $30 billion a year to the developed nations. Economically this is an untenable situation.

Increasingly, social development efforts -- spending on health or education -- are seen as expendable in tight economic times. Yet protecting the health and educational opportunities of today's children are the most basic of investments in a country's future physical and mental capacity. Health statistics show the impact. For instance, in Brazil's impoverished north-east, infant death rates increased by almost 25% in 1983-84 as a result of economic recession. Rising death rates among children,

rising percentages of low-birth weight babies, falling figures for the average weight for height of children under five and lower school enrollment ratios among 6 to 11 year olds all point to the decline in the quality of life. Hope falls with the level of social investment. The per capita income of the average Latin American was 9% lower in 1988 than it was in 1980. Recent cuts in LDC government spending have fallen disproportionately in the health and education fields (24%) compared to a 9% cut in military spending. Yet the proportion of national budgets devoted to military spending is already 30% higher than the total spent on health and education.

The attached table (Attachment A) shows the impact of debt on Latin American economies.

Development and the Environment:

Environmental concerns must also be addressed by development advocates. Fifteen years ago, it was widely believed that the environment was an industrialized world problem - a function of affluence unrelated to the developing world. Today, the deforestation of lands, the erosion of soils, the silting of lakes and rivers, the natural disasters of drought and flood and industrial disasters such as the Bhopal incident show that environmental concerns affect the developing world also. Rising concern over the depletion of the ozone layer from emissions of chemicals such as chlorofluorocarbons (CFC) and methane, the warming of the earth's atmosphere due to the greenhouse effect of carbon emission from fossil fuels, and the unknown but certainly serious consequences of the destruction of the world's tropical

forests and other ecosystems show the pervasiveness of environmental problems and the world's increasing interdependence.

In considering how best to change the less developed country debt problem into an opportunity, one must look at the total economic and financial situation of the developing country. While there is tremendous evidence that unmanaged economic growth can have seriously deleterious consequences on the environment, it should be realized that local people do not slash and burn forests out of meaness or a desire to cause problems elsewhere. They slash and burn forest areas because they have the pressing needs of obtaining land which will grow more crops as compared to the poor soil that they used last year or need fuel to keep warm or to prepare food. Therefore, a comprehensive approach is needed to assure that the resources used will have the desired results over the long run. If people are hungry or cold or have no option to feed their families than to cut and burn a forest area they will do it.

If however, an economic development program includes environmental conservation and productively uses environmental resources and if the local inhabitants can understand that maintaining a forest or providing for sustainable development is more important to improving their livelihoods than is continuation of existing practices for survival, then one has hope for saving the world's forests and even expanding them. The world's best hope for conservation and enhancement of our renewable environmental resources comes through a carefully

balanced development program.

There are still so many unanswered questions concerning the immediate and long-term environmental impact of various activities that development proponents must be acutely aware of the issues, and must be sensitive to new concerns as research adds to our understanding. We must devise ways to support sustainable growth - allowing for development of natural resources within limits of environmental good sense. For it profits developing countries little if the development of their natural resources procedes at a pace and in a manner that consumes the resources completely or creates environmental side effects with health implications for the citizens of the developing country as well as worldwide. Development is fruitless if by improving one situation we unwittingly worsen another.

Obtaining Debt:

The secondary market for LDC debt is composed of investment banks, commercial banks, such as the major money center banks with international operations as well as regional banks, and traders and specialists. Accounting or law firms can play an important role. The prices of LDC debt have been declining from 67 in January 1986 to 36 in November 1988, according to a weighted index developed by the Intrados group.

The debt for development concept includes various alternative ways to obtain debt: 1) donation of existing external debt of commercial banks or other firms to not-for-profit organizations, 2) donation of interest arrears, 3)

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identification of investment opportunities, including joint ventures, 4) purchase by not-for-profit groups of debt on the secondary market and conversion into local currency. Some or all of these variations could be useful elements in negotiating external debt restructuring agreements.

In the first instance, creditors may in effect donate LDC debt instruments. For a U.S. taxpaying creditor, the donation to qualify as a tax deduction under Revenue Ruling 87-124 must be to an entity having 501(c)3 status under the U.S. tax codes. However, from a strictly financial point of view, donations are equal to writing off the debt entirely. Banks may receive some intangible benefits from such a donation; public relations benefits, goodwill and removal of troublesome assets from their balance sheet that eats up scarce management time.

Another aspect of the donation option is the use of debt for development in debt rescheduling agreements. For example, any or all of the following options might be included in such agreements:

1. Debt for development could be used as an exit vehicle for banks holding small portions of a country's outstanding debt. This could be helpful in streamlining the negotiating process. Generally, only 20 percent of the total number of creditor banks hold about 80 percent of the total commercial bank debt. A proposal might allow all banks to donate up to a specific amount of debt or allow only banks with up to a certain level of exposure to use this option.

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2. Bank steering committees could allow some portion of the total interest payment to be used for agreed upon debt for development projects within the country. This might be considered where analysis showed that the country would be hard pressed for some limited period of time to pay in hard currency the market rate of interest, especially with recent increases in rates.

3. In debt for equity conversion programs, there is generally some loss to the bank that supplies the debt used in the conversion. In cases where banks were using their own debt for conversion into investments for their own account, the difference between the face value of the debt and the conversion rate could be devoted to debt for development programs. This would allow the commercial bank to record a donation rather than a loss in its public financial statements. Research important to the investment project or education or medical care for workers involved in the project could be undertaken.

4. Also, variations on the Mexican external debt exchange transactions could be considered. For example, the banks' steering committee and the debtor country might agree that any bank willing to make a donation to a debt for development fund of perhaps $0.XX cents could exchange $1.00 external debt at face value. In this way, the banks and the country would agree beforehand on the percentage discount on the external debt that is mutually acceptable and the target or maximum amount of external debt to be exchanged. The country could be assured of the maximum amount they would refinance. Also, individual banks

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would not have the problem of having to write down the value of debt that was offered for exchange but not accepted. Finally, the portion of external debt written down would not simply vanish but would be used for development projects that all parties believed to be beneficial.

5. Debtor governments might be able to allow commercial banks to shift the implementation of certain responsibilities to not-for-profit organizations. Some governments require banks to have a certain percentage of their lending activity in small business loans or loans to "small" farmers. Some not-for-profit groups might be better able to carry out these labor-intensive policies since they often have offices throughout the country while foreign banks usually have only one representative or branch office in the capital city. For example, if governments would agree, banks might contribute the amounts they are required to lend to micro-enterprise activities or to "small" farmers to not-for-profit groups for them to implement this policy directed lending.

Arrearages might be brought current through a debt for development program. Commercial banks might have a financial incentive to donate arrears that were valued, for accounting and regulatory purposes, at full face value into a debt for development fund.

The economic incentive for the banks results from the differences in treatment of interest arrears from a tax and from a public financial accounting viewpoint. Generally accepted accounting principles for public financial statements do not

allow a bank to accrue as income interest payments that are more than 90 days past due. However, for tax accounting purposes the 90 day rule does not apply. Therefore, banks subject to U.S. tax continue to accrue interest income and are subject to tax on such accrued but unpaid income.

The advantages of such donation are numerous:

1. The indebted country clears up a portion or all of its interest arrears without spending scarce foreign exchange. By bringing the debt current, U.S. or other industrial country regulators might be able to reduce the severity of the country's classification regarding its capacity to service its external debt (thereby increasing the likelihood of new loans.) The country is provided more funds for broadly defined development efforts. Of course, care needs to be exercised to assure that resources are devoted to priority needs of the country and are within an appropriate macro-economic framework to manage any inflationary potential of the transaction;

2. The banks reduce an obstacle to a rescheduling agreement (the need to clear up interest arrears), get credit for a donation without having to arrange additional loans, and most importantly, have a positive cash flow from the refund of taxes prepaid on the unpaid interest;

3. The not-for-profit group in the U.S. and the local groups with which they work obtain additional resources for development activities in the affected country.

Joint ventures and other investment opportunities are another form of debt for development. In this instance, the

investment opportunities involve the conversion of LDC debt held by commercial banks into equity or local debt with some special function. The resultant monies are then invested in projects which have a growth potential in economic and social terms. Examples are housing projects, production for export or to substitute for imports, rural electric and credit entities. To date, the cooperatives have developed most of the project proposals in this area.

Another method is the purchase of debt or blocked funds on the secondary market and converting it into local currency. This is the technique utilized in the publicized debt for nature swaps in Costa Rica, Bolivia and the Philippines where the resulting local currency has been utilized to purchase and protect natural resources such as rain forests and park lands. The process of converting debt to productive use in a developing country could be expected to involve the following scenario.

The critical initial step for a debt conversion is to obtain the approval for the proposal from the host LDC country involved. This process can vary from country to country, depending in particular whether or not a program for debt conversion has been incorporated in the underlying restructuring agreement. Such approval usually involves a discussion with the appropriate people at the Ministry of Finance and the Central Bank and sometimes with other departments of government as well. Normally, the host government will want the project to be very specifically delineated. The terms of the approval, if obtained, will set forth in some detail the nature of the

project, the amount of money involved, the date by which the conversion will be executed, and the particular type of debt to be used in the conversion process.

Once the approval has been obtained from the host country, the actual transaction must be undertaken at this end. Private groups, individual brokers, traders, specialists, or the Debt for Development Coalition, on behalf of the particular member or members involved, would approach the various players in the secondary market of such debt to discuss the financial details of the transaction with them and to obtain an indication as to whether or not they are prepared to handle this particular transaction and, if so, on what basis and at what cost. Then, taking into account the speed and quality of services provided (including documentation services), safeguards against potential risks, and the competitive costs, a financial institution is chosen.

An important question is how much time will it take to execute the transaction. In those countries such as Brazil where a program authorizing such debt conversion is already in existence and the secondary market is functioning fairly smoothly, a transaction can usually be completed in anywhere from 24 to 48 hours. In those countries that do not have such a program, it will vary depending upon the nature of the transaction and the particular country involved and will, of course, take a substantially longer period of time.

Financial institutions handle these matters on a "cash basis", that is to say once the bank has identified the sourcing

of the debt and has agreed to handle the transaction, it will normally request the dollar amount "up front". By demanding the cash up front the banks eliminate the credit risk. Basically this is the risk that once the financial institution buys Third World debt for a client, the client is unable to come up with the money to buy the debt for its own account. There are various techniques that can be used to deal with this problem, such as arranging simultaneous transactions or using options.

Financial institutions are willing to consider various sizes of transactions, especially where the discount is steep. As a rule of thumb, many secondary market participants have indicated that the minimum U.S. dollar amount for a debt conversion transaction is $500,000. In sourcing the debt for conversion, the banks will sometimes look to their own debt portfolio in that particular country and sell their own debt but usually they will go into the secondary market through their "trading" account.

The documentation for such transactions is, of course, extremely important. In practically every instance lawyers are involved at both ends of the transaction, but this documentation is becoming increasingly standardized. The principal agreement to be executed is an "assignment agreement" between the seller, the purchaser and the acting agent.

The banks generally agree that it would be very advantageous for one entity to act on behalf of its members. In the past, they have seen clear evidence that too many different

entities going to the same host country creates unnecessary competition and confusion.

To summarize, the typical steps of a debt conversion transaction are as follows:

1. The not-for-profit as purchaser gets approval of the project from the host country (including the Central Bank and, where necessary, the Ministry of Finance and other appropriate ministries). This approval can be done via the financial intermediary or in some instances by the local affiliate of the not-for-profit itself working with the local authorities.

2. The not-for-profit discusses the financial details of the approved project with a U.S. financial intermediary and if agreement is reached between the two, a letter of intent is executed.

3. The financial intermediary identifies a source (a seller) willing to sell the appropriate debt. (Occasionally the financial intermediary will utilize a part of its own portfolio debt for such purposes).

4. The financial intermediary verifies with the Central Bank that this particular debt is eligible for conversion.

5. The not-for-profit transfers dollar funds to the financial intermediary, who in turn purchases the debt.

6. The financial intermediary notifies the Central Bank that the transaction is completed and requests the Central

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Bank to transfer the local currency equivalent to a local bank account designated by the not-for-profit.

7. Local currency funds are available for use by not-for-profit and/or its local affiliate(s).

There are often variations on this typical example, of course. To avoid or minimize risks, the actions in the last three steps above should be completed simultaneously or within the shortest possible time frame.

Objections to Debt/Equity Swaps:

Although various objections to swaps have been raised in official circles, an analysis of the balance sheet implications for the host government and resident investors shows these objections to be less onerous than originally thought.

1. Adverse monetary consequences. In the first instance, a debt/equity swap requires the monetization (in local currency) of converted debt. Other things being equal, this expansion of the local currency money supply subsequently must be sterilized by the issue of local currency debt instruments, or else the effect of the debt/equity swap will be to raise the inflation rate. Since money and capital markets in indebted countries typically are thin and poorly developed, there is inadequate scope for the central bank to conduct the necessary sterilization operation which would be required if debt/equity conversion is to proceed in meaningful amounts. Therefore, the widespread use of the debt/equity swap is likely to have inflationary consequences;

2. Debt/equity swaps implicitly provide a preferential exchange rate for the conversion of foreign direct and portfolio investment inflows. A subsidy is provided in effect, because debt purchased at a discount with foreign currency can be converted to local currency at full face value. Moreover, the subsidy that is provided may have no payoff, since the debt/equity swap mechanism may attract direct investment flows that would, in any case, have taken place, i.e., debt/equity swaps may encourage no "incremental" capital flows;

3. Adverse fiscal consequences. Assuming that the monetary effects of the debt/equity swap can be sterilized by issuing local currency debt, the effect will be to raise the government fiscal deficit. This will occur because the rate of interest on local currency financial instruments is likely to exceed by a substantial margin the rate of interest paid on sovereign foreign currency loans. This is likely to be true in both nominal and real terms. In effect, high cost domestic debt is being substituted for low cost foreign debt;

4. Nationalism. It is argued that increased foreign ownership and control of domestic firms is politically intolerable. Therefore, the debt/equity swap could never play an important role in solving the debt problem;

5. Cost. Investors expect a higher return on equity investments than banks expect from loans. Also, loans once repaid are extinguished while dividends from equity go on forever.

A careful analysis is needed to understand the depth of these concerns and the extent to which they can be overcome. The debt/equity swap involves three conceptually separate steps: (1) a buyback by the sovereign of its foreign currency obligations in exchange for local currency claims on the central bank; (2) exchange by the commercial bank of its local currency deposit for an equity position in a local business previously held by a resident investor; and (3) sterilization of the increase in the money supply. These steps are depicted in Figure 1 in the Appendix. External debt converted to local currency for charitable use within the country is basically the same except charitable organizations will ultimately use the funds for activities that normally will not generate future dividends nor a desire to repatriate capital.

The following is in response to the objections raised to swaps:

1. Adverse monetary consequences. Local markets can absorb the increase in supply of government paper (required for sterilization purposes) because resident investors who have sold equity claims to foreigners have temporarily unbalanced their portfolio and will want to reinvest or increase consumption. The latter option presumably existed before the debt/equity swap and was not taken, so it can be assumed that reinvestment in either the local equity market or government paper will be the option chosen. While evaluating new investments, the resident investor is likely to seek at least a temporary haven for funds. And if debt/equity conversions are used to privatize certain state-owned

facilities, the funds would accrue directly to the account of the government and there would be no need to sterilize the swaps.

2. Debt/equity swaps are subsidies. Conversion of debt at parity need not be assumed - the host government can set the rate at which it will convert discounted debt to local currency. Also, what matters is whether the swap contributes to increased investment spending and growth, not just whether there is an increase in new money. Swaps expand the financial resources available to the private sector.

3. Adverse fiscal consequences. The new, domestically issued local currency debt may carry a higher interest rate than concessional rates of interest on rescheduled foreign debt. Although increased debt servicing costs seem to result, consideration must be taken of the tax burden. Before the swap, residents were taxed to pay interest on foreign debt; afterwards, the tax falls on non-resident owners of domestic factors of production and the revenue generated is used to make interest payments to residents who have acquired local government paper.

4. Nationalism. A key factor in the foreign investment question is control versus ownership. Swaps can be used as a vehicle for portfolio investment - it does not have to signify loss of control of local productive facilities. The government still retains the power to tax, regardless of ownership and control. The argument that foreigners will be able to acquire local assets at "fire sale" prices is a threat only if swaps are limited in number. If permitted on a sufficiently

large scale, competition will ensure that local equity claims are rapidly bid up in price.

5. Cost. In theory, investors do expect higher rates of return from equity investments than from loans, but data analysis does not support this with regard to private, commercial bank rates. Dividends are not paid unless earned and host governments can direct foreign investment toward certain sectors, such as export generating activities. Finally, governments may be able to work out agreements calling for selling investments to nationals after some period of time.

Projects and Participants:

Our concentration to this point has been on the idea behind, the need for, the mechanics of doing, and possible objections to debt for development conversions. But what kinds of projects are envisioned? The not-for-profit communities -- whose component groups are higher education organizations, cooperatives, agricultural research, non-governmental organizations and environmental organizations -- have innumerable on-going projects in developing countries. Their use of debt contributed or redeemed (into local currency) will afford them the opportunity to broaden their scope and depth of existing programs, as well as initiate additional programs.

The cooperatives are interested in working mainly on the business aspect of possible transactions. Naturally, their interest is to strengthen local cooperatives. Toward this end, they are willing to consider either viable business transactions with commercial bank partners or projects that include a not-for-

profit segment alongside a business venture. The latter could include, for example, an agriculture project producing goods for export as part of a buffer zone around an environmental park coupled with a not-for-profit social service project funded separately for training of workers, health care, potable water, etc.

The cooperatives are also knowledgeable and well positioned to undertake housing projects. Developing countries have a need for low and middle income housing. The cooperatives have an extensive local organization to implement this type of labor intensive activity. The secondary and tertiary economic consequences resulting from an increase in housing construction is, of course, substantial. With the strength of cooperative financial institutions in the developing country along with other expertise, it should be possible to create a strong secondary market for mortgage instruments.

Finally, rural electric cooperatives are developing plans to collaborate on common service ventures such as power supply. They are virtually dependent for electricity on the federal power agencies, which are facing severe debt servicing problems. They are having trouble keeping up with needed power generation investment, and national power shortages are a real threat to development. The rural electric cooperatives would use new money for system expansion or rehabilitation, either of which promotes economic development. System expansion would be the most attractive from a prospective investor's viewpoint.

The environmental community has expressed interest in providing assistance to groups in many developing countries to conserve wetlands and forest areas and establish long-term resources management plans, training local conservation experts, and assisting small-scale sustainable agricultural projects. They recognize that to enlist the support of the local population, environmental efforts must be designed to add to the quality of life of local residents -- not to subtract from the total resources available to them. Buffer zones around forest preserves and parks that provide employment and tourist opportunities are of interest in their planning.

There is substantial interest among many research organizations to assist by focusing on short-term projects with high rates of return. International agricultural institutes that worked on the "green revolution" are preparing ideas that could be applied in many of the major debtor nations. The agricultural industry is vital to many local economies, but funding is in short supply to promote and enhance the sector. Consequently rural education, health, and other social services are lacking funds.

Funds generated through the debt for development initiative would make it possible for the local and United States' higher education and research communities to cooperate in a number of long term activities of mutual interest and benefit. Illustratively, these might include:

Expanded faculty exchange programs over a broad range of disciplines.

- Creation of sharply expanded opportunities for U.S. undergraduates and graduate students to study at local universities - language and culture as well as the various scientific and professional disciplines.
- Professional internships and cooperative work/study programs for U.S. and local students.
- Long-term collaborative research among local and U.S. scientists and scholars in all areas of the sciences, humanities and the arts.
- Linkage of local agricultural scientists with ongoing multi-national collaborative research support programs.
- Local/U.S. university cooperation in strengthening new or less-strong local schools and universities.
- Endowment fund for competitive grants to local scientists and educators.
- Joint local/U.S. development assistance programs in Third World countries.
- Support for nationals from Third World countries to take graduate degree work in other Third World universities.
- Income from endowment and other funds to "top up" salaries of local educators and scientists to assure their retention in universities and research institutions.

The above illustrates a few of many possibilities. Through time, other opportunities to collaborate in areas of mutual interest will arise.

Many private voluntary organizations have expertise that would be useful to development efforts. A series of community credit funds as well as training and technical assistance for small scale farmers and for agri-business production to be undertaken by women are being considered. These projects would provide benefits for numerous small communities in the country. A wide range of other social service and relief activities are also possible.

Local universities could benefit from an expansion of private voluntary agency programs supporting educational exchange, faculty development and university affiliations with U.S. institutions of higher education. Particularly appropriate fields might include science and technology, urban environmental problems, public health and agriculture. Similar opportunities exist for literary programs jointly supported by the Ministry of Education and U.S. not-for-profit groups which have developed management systems for computerized individual learning methods with software easily adapted to the local educational system. In the public health area nursing education, prevention of drug abuse, control of infectious diseases and education/prevention of the worldwide AIDS threat are all fields where American experience and research could make major contributions to local development.

Third World countries could benefit from the implementation or application of many of the environmental, public health, agricultural and educational programs cited above. Many non-profit members of the coalition have local staff who are experienced in these fields. Furthermore, local non-governmental agencies are in place and are logical and necessary participants in any development program.

ATTACHMENT A

Latin America's Lost Decade: Some Figures

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Real per capita GDP (% Change)	3.7	-1.9	-3.5	-4.7	1.4	1.4	1.6	0.3	-1.5
Consumer Price Level (% Change)	56	58	85	131	184	275	65	199	473
Investment (% of GDP)	23	22	21	17	17	18	18	18	18
Exports ($ Billion)	94	100	90	92	102	98	80	91.4	104.2
Imports ($ Billion)	97	105	85	64	65	63	64	71.6	77.5
External Debt ($ Billion)	231	288	333	344	362	371	382	411	413
Debt as % of Exports	183	210	273	292	277	296	351	340	309
Debt Service as % of Exports	34	42	51	40.8	40.9	40.3	45.0	35.5	42.8
Net Capital Transfers ($ Billion)	12	10	-19	-32	-27	-33	-24	-21	-29

Source: The Americas in 1989: Consensus for Action, p. 4

Notes on Debt for Development: The Debt Conversion Process

by

The Debt for Development Coalition

acdi Agricultural Cooperative Development International

October 1988

Notes on Debt for Development: The Debt Conversion Process

The Debt for Development Coalition seeks to aid not-for-profit organizations leverage their resources by acquiring discounted debt on the secondary market and where feasible acquire inconvertible currencies at favorable rates. This paper seeks to discuss the process involved in doing a debt conversion.

The critical initial step for a debt conversion is to obtain the approval for the proposal from the host LDC country involved. This process can vary from country to county, depending in particular whether or not a program for debt conversion has been incorporated in the underlying restructuring agreement. Such approval always involves a discussion with the appropriate people at the Ministry of Finance and the Central Bank and sometimes with other departments of government as well. Normally, the host government will want the project to be very specifically delineated. The terms of the approval, if obtained, will set forth in some detail the nature of the project, the amount of money involved, the date by which the conversion will be executed, and the particular type of debt to be used in the conversion process.

Once the approval has been obtained from the host country, the actual transaction must be undertaken at this end. The Coalition, on behalf of the particular member or members involved, will approach the various players in the secondary market of such debt to discuss the details of the transaction

with them and to obtain an indication as to whether or not they are prepared to handle this particular transaction and, if so, on what basis and at what cost. Then the Coalition will determine which financial institution is in the best position to execute this particular transaction, taking into account the speed and quality of services provided (including documentation services), safeguards against potential risks, and the competitive costs.

An important question is how much time will it take to execute the transaction. In those countries such as Brazil, where a program is already in existence authorizing such debt conversion and the secondary market is functioning fairly smoothly, I understand a transaction can usually be completed in anywhere from 24 to 48 hours. In those countries that do not have such a program, it will vary depending upon the nature of the transaction and the particular country involved and will, of course, take a substantially longer period of time.

Financial institutions handle these matters on a "cash basis", that is to say once the bank has identitified the sourcing of the debt and has agreed to handle the transaction, it will normally request the dollar amount "up front". By demanding the cash up front the banks eliminate the credit risk. Basically this is the risk that once the financial institution buys Third World debt for a client, the client is unable to come up with the money to buy the debt for its own account. There are various techniques that can be used to deal with this problem, such as arranging simultaneous transactions or using options.

Financial institutions are willing to consider various sizes of transactions, especially where the discount is steep. As a rule of thumb, many secondary market participants have indicated that the minimum U.S. dollar amount for a debt conversion transaction is $500,000. In sourcing the debt for conversion, the banks will sometimes look to their own debt portfolio in that particular country and sell their own debt but usually they will go into the secondary market through their "trading" account.

The documentation for such transactions is of course extremely important. In practically every instance lawyers are involved at both ends of the transaction, but this documentation is becoming increasingly standardized. The principal agreement to be executed is an "assignment agreement" between the seller and the purchaser and the acting agent. The Debt for Development Coalition has obtained two different copies of such agreements.

The banks generally agree that it would be very advantageous for one entity, to act on behalf of its members. In the past, they have seen clear evidence that too many different entities going to the same host country creates unnecessary competition and confusion.

To summarize, the typical steps of a debt conversion transaction are as follows:

1. The not-for-profit as purchaser (or the coalition acting on its behalf) gets approval of the project from the host country (including the Central Bank and, where necessary, the Ministry of Finance and other appropriate ministries). This

approval can be done via the financial intermediary (usually a New York bank) or in some instances by the local affiliate of the not-for-profit itself working with the local authorities.

2. The not-for-profit (or the Coalition) discusses the details of the approved project with a U.S. financial intermediary and if agreement is reached between the two, a letter of intent is executed.

3. The financial intermediary identifies a source (a seller) willing to sell the appropriate debt. (Occasionally the financial intermediary will utilize a part of its own portfolio debt for such purposes).

4. The financial intermediary verifies with the Central Bank that this particular debt is eligible for conversion.

5. The not-for-profit transfers dollar funds to the financial intermediary, who in turn purchases the debt.

6. The financial intermediary notifies the Central Bank that the transaction is completed and requests the Central Bank to transfer local currency equivalent to local bank account designated by the not-for-profit.

7. Local currency funds are available for use by not-for-profit and/or its local affiliate(s).

There are often variations on this typical example, of course. To avoid or minimize risks, all components of 5, 6, and 7 should be completed simultaneously or within the shortest possible time frame.

III. Parallel Loans or Utilization of Blocked Funds

Blocked funds are another source of local currency financing. Most of the banks are willing to assist us in tapping this market, although Citicorp in particular said that they shy away from this activity. Apparently, Citicorp has had its hands slapped for doing this by some of the host countries.

The source of such funds is usually multinational corporations with operations in a particular country. Once a source has been identified, the transaction, I am told, can be executed within 24 to 48 hours under normal circumstances. In most instances, the multinational corporation will want to know for what purpose the funds will be used, in order to satisfy themselves about the nature and legality of the transaction.

The banks point out that it is almost always cheaper to go the debt conversion route, if such be possible in the host country, than to utilize blocked funds. A number of smaller brokers specialize in blocked funds for very difficult countries, including Africa, (the commercial bankers caution that one should be careful in dealing with these brokers). The Coalition would need to assure itself that these smaller brokers can deliver as promised.

IV. Pooling of Funds

In order to operate in this market the Coalition needs to set up a "pooling of funds" arrangement for its various members to facilitate the execution of these transactions. The Coalition wants to be able to facilitate this pooling service on a confidential basis within the near future.

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One of the first things that needs to be done is to get the necessary information from the individual members permitting us to coordinate the pooling of these amounts and the target dates. For instance, information is needed on how often and what amounts a particular not-for-profit member needs funds in a particular country. In most instances this will involve an indication of how much money a not-for-profit needs per month, quarter, or per year for its operations in a particular country. Strict confidentiality of this information will be assured by the Coalition.

Once a pooling arrangement has been set up by the Coalition with a financial intermediary, the particular interested not-for-profit members involved will need to deliver their funds by a specified date. While, as mentioned earlier, the banks operate on a cash basis, most banks will only ask for the cash after they have in fact verbally arranged but not executed the transaction.

Information will also be needed as to whom the equivalent local currency should be delivered at the other end and where, including the bank account. Sometimes a not-for-profit member may not need all of the funds at once, in which case the Coalition could investigate hedging possibilities in the country involved.

Attached is Exhibit A, setting forth a format of the type of information we will need. Those in the Coalition wishing to participate in pooling arrangements are asked to review Exhibit A, and contact the Executive Director, Jack Ross

telephone (202) 822-8200 with any problems, suggestions, questions, or additions you may have. Once there is agreement on the format, implementation will proceed. Please supply your comments by November 18 at the latest.

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