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JAMAICA

DEBT FOR DEVELOPMENT:

Guidelines, Programs and

Potential Cooperative Initiatives

Prepared Under USAID/W

Grant Number PDC-0334-G-SS-60200 (Buy-in)

for

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September, 1989

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I. VOCA GRANT

Volunteers in Overseas Cooperative Assistance (VOCA) was awarded a grant of $85,000 from the Agency for International Development (A.I.D.) on behalf of the Overseas Cooperative Development Committee (OCDC) to carry out a one-year "Co-op Business and Trade Initiatives" project titled "Innovative Cooperative Finance." The project was designed to determine the feasibility of utilizing debt conversion mechanisms to finance or increase the resources for cooperative development projects supported by U.S. cooperative development organizations (CDOs) and PVOs in developing countries.

The application of debt conversion mechanisms to project development focuses on obtaining local currencies through debt conversions from non-performing loans held by U.S. and other banks which can be purchased at a substantial discount.

The grant program involved three major activities: a working conference of technical experts, key AID staff and representatives of CDOs and selected PVOs with an interest and capacity to develop approaches to local currency financing; development of a detailed guide for implementation of debt conversions based on the workshop proceedings; and field missions to two cooperative "focus countries" to gather information about their country debt conversion programs, and to design and develop prototype projects which can be funded under the debt conversion mechanism. Jamaica and Costa Rica were recommended as the two focus countries since they have deeply discounted debt and their Central Banks have functioning debt conversion programs.

This report contains the finding of the Jamaica Field Mission which took place from August 27 - September 5, 1989.

II. EXECUTIVE SUMMARY

In Jamaica, there is an official debt conversion program which provides for the swapping of approximately US$185 million at the rate of US$36 million each year. The new government, which was elected in February of this year, appears eager to consider project proposals utilizing the debt conversion mechanism which will contribute to the social and economic development of the country and earn foreign exchange.

This attitude can be attributed in part to a severe shortage of foreign exchange which the country is currently experiencing, partly due to the long-term negative impact of Hurricane Gilbert which devastated the island last September. Another factor is the need to stimulate foreign investment in an under-productive economy.

Responsibility for the Debt Capitalization Program has recently been transferred back to the Bank of Jamaica from the National Investment Bank of Jamaica, bringing all of the units which play a role in debt conversion deals under the aegis of one organization. While primary responsibility for debt conversion deals rests with the Debt Capitalization Unit, close monitoring of debt deals is undertaken by the Exchange Control Unit of the Bank of Jamaica and final approval of projects must come from the Economic Policy Council of the Bank of Jamaica, members of whom include the Governor and Deputy Governor of the Bank.

To date, the Government of Jamaica has concluded US$17 million in debt conversion deals, mostly for investments in export ventures such as garments, winter vegetables and exotic foods. As of August, 1988 the former government halted debt conversion transactions for all but its hotel divestment program. This decision has been reversed under the new government and such ventures as listed above continue to be a priority. In addition, the team was told that the government is also encouraging the use of debt conversion deals for such ventures as tourism development, low-income housing projects, agricultural development, especially in food processing and value-added activities, and projects which contribute to the social and economic development of the rural communities.

The Debt Conversion Guidelines issued by the former government are currently undergoing revision. However, the team was told that these guidelines are still to be followed until the new ones are approved and issued.

The interests of the Jamaican cooperative community coincide with many of the current priorities of the Jamaican government. During the team's mission to Jamaica, extensive meetings were held with the management staff of many cooperatives to attempt to frame viable projects which could beneficially be funded by means of a debt conversion deal.

The VOCA/OCDC team found members of the Debt Capitalization Unit of BOJ to be responsive to the idea of Jamaican cooperatives using the debt swap mechanism as a means of increasing their financial resources and even offered to assist management staff of cooperatives to frame the proposals to ensure approval.

This report conceptualizes two projects which appear to be viable. The first one is the creation of a Central Finance Facility within the Jamaica Cooperative Credit Union League which would provide funds obtained through a debt conversion deal to re-lend to other cooperatives for economic development projects. The second project would establish a model dairy farm in Jamaica by a U.S. cooperative such as Land O'Lakes. The local costs such as purchase or land and facilities would be funded through a debt equity purchase. It is felt that such a project would not only be a profitable venture but, at the same time, would provide much-needed technical assistance to small Jamaican dairy farmers with the objective of improving their production and, ultimately, their incomes. Jamaican officials seemed to regard both concepts as desirable ones. Both proposals, however, will need additional study and development before they can be ready for submission to the Bank of Jamaica for official approval.

While the team found the Jamaican cooperative community to be interested in using debt conversion to expand their financial resources, few of them had developed proposals at this stage, even though they had been introduced to the idea at a March, 1989 workshop set up by the Jamaican Cooperative College. There is still a lack of understanding of the concept and appreciation of the opportunity the program offers for cooperative development. This is no doubt due to a lack of experience of Jamaican cooperatives in dealing with international ventures. The team felt, however, that once one debt conversion deal was done that more of the cooperatives would sit up and take notice.

This lack of knowledge is not confined to cooperatives. The team found the same lack of awareness among officials of the Agricultural Development Corporation and JAMPRO, Jamaica's economic development agency, both of which are intent on finding foreign investors as equity partners in many of their projects. The team found themselves explaining the concept of debt conversion in meetings with these officials. This is not surprising, given the fact that the previous government had closed the program to all projects except hotel divestment deals and it is only now that

the Government has re-opened the program to a wider range of projects. The head of the Debt Capitalization Unit at the Bank of Jamaica told the team that he felt the program needed marketing at this time.

Neither current Jamaican cooperative law or the proposed revisions, which are to be submitted to Cabinet shortly, address the legal considerations inherent in Jamaican cooperatives doing debt conversion deals with foreign investors. However, the Registrar of Cooperatives recognizes the opportunities which such deals potentially provide Jamaican cooperatives. He indicated that each proposal would be considered on merit and that satisfactory legal solutions could probably be found.

The use of AID funds to purchase debt on behalf of a cooperative development organization in the U.S. does not appear to be viable in Jamaica at this time because of limitations imposed by the Jamaican government. The Government requires that any AID funds used to purchase Jamaican debt must represent additional foreign exchange to that which AID has committed to the Jamaican government as part of their bilateral agreement. The Government counts on every dollar received through its bilateral agreements and is not willing to allow convertibility of these dollars for debt conversion purposes.

The AID mission in Jamaica has, to date, not given priority to use of mission funds for debt conversion purposes. The AID team with which we met was relatively uninformed about debt conversion deals and expressed the opinion that, to date, no mission policy has been determined on this matter. Further discussion with the head of mission of the potential for the AID/Jamaica mission to support debt conversion projects is indicated since at the time of the team's visit, he was not available.

In summation, it is the team's opinion that the debt swap mechanism does provide opportunities to enhance cooperative development in Jamaica with assistance by the CDO community to Jamaican cooperatives to develop viable projects. The generally positive attitude by relevant Jamaican authorities also indicates that other PVO's should consider using this mechanism to fund projects which further the government's social and economic development objectives.

III. THE JAMAICA DEBT CONVERSION PROGRAM

A. INTRODUCTION

The new government of Jamaica which elected Prime Minister Michael Manley on February 9, 1989 remains committed to the debt conversion program instituted by the previous government, according to officials of the Bank of Jamaica, with some changes. The working guidelines for the program, issued by the Bank of Jamaica in July, 1987 are undergoing revision at the present time and must be approved by Cabinet before becoming official. From discussions with bank officials, it appears that the changes will focus on the kinds of projects to which the Bank will give priority rather than to procedural issues. Until the new guidelines are published, the original guidelines should still be followed.

B. DEBT ELIGIBLE FOR CONVERSION

Jamaica's Debt Conversion program was launched in July 1987 with the primary objective of reducing approximately US$185 million (50%) of Jamaica's debt to external commercial banks over five years. This represents Jamaica's Tranche A debt which has been rescheduled to reach maturity between 1988-1995. Approximately 87 external commercial banks are creditors for this debt.(A list of creditors is attached). At the present time, the amount of debt available for conversion under this schedule has been reduced to US$168 million because of the conversion of US$17 million under the Debt Conversion program.

At the time of the team's visit, the cost to buy Jamaican debt on the secondary market was US$.44-.45. In addition, the Bank of Jamaica charges a fee of up to 10% to convert debt. This fee must be included in the purchase of debt paper. Thus, a purchaser interested in acquiring $US1 million of Jamaican debt paper, and who will be charged a 10% fee by the BOJ, will purchase the equivalent of US$1.1 million of face value debt at a cost of US$495,000 ($1.1 million x $.45). The Government of Jamaica, upon approval of the deal, will convert the equivalent of US$1 million of debt into Jamaican currency at the existing exchange rate (which was currently J$5.75 to US$1). The fee charged by the Jamaican government is negotiable, especially in those cases where the debt deal is for social or economic development purposes and there will be no repatriation of dollars at a future date.

The foreign investor receives a check from the Bank of Jamaica for the Jamaican currency amount of his deal at closing. However, if the deal is over $1 million in Jamaican dollars, the Government will require that the local partner deposit the money in an interest bearing account at a Jamaican financial insti-

tution. This account is a blocked account in that the investors must request permission from the Bank of Jamaica to spend the money. According to officials, this procedure is more or less pro forma and allows the Bank to monitor the amount of currency which is entering the local market and to ensure that the funds are being spent for the purpose for which they were intended.

C. INFLATIONARY IMPACT AND BALANCES OF PAYMENT EFFECT

While it is clear that the current Government views debt conversion as one means of dealing with the drain on foreign exchange and as a way to give impetus to rural and other development, officials have concerns about the potential inflationary impact of such deals and their effect on Jamaica's balance of payments.

To minimize potential inflationary consequences, the Jamaican Government pays for the local currency costs of debt conversion deals through the issuance of Equity Investment Bonds by the Bank of Jamaica. These bonds, denominated in Jamaican dollars, are amortized over the same period as the debt being cancelled (i.e., Tranche A debt for 1988-1995 - a period of seven years). To ensure marketability of the bonds, they have been issued with an effectively higher yield than similar medium term government instruments, currently bearing an interest rate equivalent to the domestic passbook rate (currently 15% per annum). Though the interest payable on the bonds does create additional costs for the government, these costs are somewhat offset by the fee charged by the government to effect each deal.

The bonds are traded in the Jamaican market and are treated as part of the credit which would be available to the commercial sector. This method of financing debt conversion, in effect, represents a sharing of the funds available to the commercial sector and takes away from what would be available for lending by commercial institutions, thus minimizing the inflationary impact. For this reason, the Government of Jamaica limits the amount of debt conversion financed through the bond mechanism to US$36 million per fiscal year (FY is April 1 - March 31).

Concerns about the Balance of Payment impact of debt conversion center around the short term impacts which may arise from increased pressures on the foreign exchange market. The Jamaica program, therefore stipulates that the foreign investor must inject fresh money if foreign exchange or the equivalent in tangible assets is needed to meet the import needs of his project. BOJ regulations also stipulate that Jamaica dollars received from a debt conversion may only be utilized to meet bona-fide local currency costs and the investor will not be allowed to use these proceeds to enter the foreign exchange auction. The fresh money requirement for each project is therefore determined on a case by case basis. These inflows can also have a positive impact on the Balance of Payments.

In the long term, officials worry about whether the outflow of foreign currency through expatriated profits will ultimately exceed the amount of debt payment which would have been made through straight repayment, rather than through debt conversion.

The Jamaican program has attempted to nullify this by favoring investments in areas of the economy which earn foreign exchange. Hopefully, this will achieve a net positive effect on the Balance of Payments current account as Jamaica's regulations restrict the repatriation of profit and capital in the short term.

There is a three year restriction on U.S. dollar outflows in the case of dividends, and capital restrictions range from three to seven years depending on whether the investment is in a new project or an existing project. In every case, however, dollars for repatriation will be made available by going through the foreign exchange auction at which satisfaction of demand for dollars is determined. At this point in time, the auction is held two times a week with a specific amount of foreign exchange being made available by the Bank of Jamaica. (A good instance of the critical situation vis a vis foreign exchange currently prevailing in Jamaica is that the two auctions held during the week that the team was in Jamaica satisfied only 43-44% of the demand for dollars.) No one, of course, can predict what the availability of foreign exchange for repatriation purposes will be three to seven years hence. Dividends can be paid on any investment immediately in Jamaican dollars.

D. TYPES OF DEBT DEALS FAVORED BY JAMAICAN GOVERNMENT

The kinds of debt deals which are likely to be favored by the Jamaican government include the following:

1. Debt for equity investments in which a foreign investor partners with a Jamaican company for businesses or ventures which will earn foreign exchange.

2. Banks investing own debt in a project in Jamaica.

3. Debt for funds to re-lend in country through an intermediary financial institution have not been requested to date under the program. However, it was felt that an argument could be made for re-lending of funds secured through debt conversion by cooperatives on the basis that these funds would be channeled into productive areas of the economy at rates lower than commercial rates.

4. Grants/Loans through debt conversion. Proceeds of debt conversion are not normally allowed to be invested by way of loans. Therefore, if a loan to a cooperative is to be repatriated, special circumstances (such as legal impediment to the

issuance of shares in a coop to a non-resident) will have to be pleaded before approval can be granted.

Officials stated that OPIC is able to insure investments done through debt conversions to minimize the risk to the foreign investor. However, neither OPIC nor EXIM will offer their loan resources to be used to purchase discounted debt on the secondary market.

Investments acquired through debt conversion deals may be solely owned by foreigners or may be jointly owned with Jamaican parties.

In all cases, the proceeds of the debt conversion must be channeled into a local entity (company) which will own the investment in Jamaica. In exchange for the investment, the local company will issue stock to the investor.

It appears that only in rare circumstances will a foreign investor be allowed to invest the proceeds of the debt conversion by way of a straight loan to a local entity. The use of subordinated debentures are among the approaches being suggested as a compromise between the requirement of equity and an investors preference for lending proceeds to a project.

E. TYPES OF PROJECTS QUALIFYING FOR DEBT CONVERSIONS.

In order to receive approval for a debt conversion, a proposal for a project must be submitted to the Bank of Jamaica which contributes to the satisfaction of Government's social and economic development objectives.

Initially, the program was aimed at attracting foreign investment for new facilities in the tourism, construction and manufacturing sectors so as to achieve expansion of the country's productive base and to increase export earnings. However, as of August of last year, the Government of Jamaica advised that debt/equity swaps would only be available to prospective purchasers of hotels being divested by the Government. This, in effect, put a stop to debt conversion deals of any other nature.

Under the Manley government, new impetus appears to have been given to the debt conversion program and new priorities appear to be emerging. One factor is the critical lack of foreign exchange reserves which the government is now experiencing, partly due to the long-term negative impact of Hurricane Gilbert which devastated the island last September. Another factor is the Manley government's traditional focus on rural development.

According to Jamaican officials, proposals for debt conversions in the following categories will be given priority consideration:

1. New tourism amenities especially in the northeast section of the island (Portland and St. Mary) and the South Coast.

2. Factory space construction.

3. Manufacturing and processing of export products.

4. Low-income housing projects, especially those which involve no repatriation or contain some element of vendor financing for the long term.

5. Agriculture and horticulture for export; food processing and value-added products; poultry and dairy development.

6. PVO projects in education, training and technical assistance which would take the form of grants with no repatriation.

7. Projects in the economic and social benefits category, which would include projects by cooperatives.

8. Environmental, reforestation, fisheries and creation of national parks.

As a rule, the Bank of Jamaica will not consider a debt conversion which entails less than US$500,000. However, recently a low-income housing proposal was approved using only US$200,000 in the conversion. As one Bank of Jamaica official stated, "dollar by dollar, it all adds up."

F. PROCESS OF APPLICATION TO BANK OF JAMAICA FOR DEBT CONVERSION APPROVAL.

The first step in developing a debt conversion deal in Jamaica is to submit the project proposal to the Bank of Jamaica for approval in triplicate.

Information provided should include:

a) Details of the investor and the proposed recipient. Details of local entity in which investment will be made (if already incorporated). Name and address of entity; names of members of the Board, shareholders and principal managers. Description of the business of local entity and name and address of contact persons.

b) Details of any existing investment held by the investor in the proposed recipient entity/company.

c) Details of the proposed investment - project goals and objectives. Total costs of projects including Jamaican dollar costs and foreign currency costs.

d) Amount of debt conversion applied for substantiated by detailed listing of Jamaican dollar costs for which debt conversion will be used.

e) If an existing project, annual financial reports are required to demonstrate financial feasibility. If a new project a five year pro forma balance sheet is required.

A model application form is appended as Exhibit A in the Bank of Jamaica guidelines which are attached.

If the investor does not require a decision from the Bank of Jamaica within 45 calendar days, this may be indicated by specifying the date (to be not less than 45 nor more than 120 calendar days after the date of the application) by which a decision on the application is required.

If the deal is approved, it takes another six weeks to close during which period the required Exchange agreement and other documentation are finalized. In a debt for equity deal, Exchange Control approval is required as shares in a local entity will be issued to a non-resident. Exchange control will require the memorandum and Articles of Association of the local entity, as well as any buy back agreement, debentures or other documentation executed or to be executed between the investor and the local entity. The Debt Conversion unit will assist the investor in obtaining Exchange Control approval.

G. FACTORS CONSIDERED BY BANK OF JAMAICA IN APPRAISING PROJECTS

Project approval is determined by the Economic Policy Council of the Bank of Jamaica. This includes the Governor and Deputy Governor of the Bank, the Debt Conversion Unit staff and a staff member of the Exchange Control unit. Joint ministerial approval must also be given. Thus, if a project proposal affects another government organization, it is a good idea to lobby these officials for support of the project.

Some of the criteria by which any project will be judged include the following:

1. U.S. Department of Commerce report as well as reports from Dun and Bradstreet regarding the foreign investor.

2. Debt to equity ratio of the project investment.

3. Economic rate of return - should be 18%, but could be less if project has a positive impact on employment.

4. Domestic resource cost (DRC) - Judges economic impact and most efficient use of funds.

5. Employment effect test - how capital or labor intensive project is.

6. Repatriation profile.

H. VIEWS /ATTITUDES OF DEBT CAPITALIZATION STAFF.

The team found the staff of the Bank of Jamaica anxious to move on debt conversion, notwithstanding the potential monetary difficulties the process may entail for the country. This can be attributed, we feel, to the critical lack of foreign exchange which the country is currently facing and a desire to reduce the foreign debt which currently takes approximately 40% of the country's foreign exchange earnings to service. The Bank staff was especially responsive to possible proposals from the cooperative community, in that they offered to help the cooperatives frame their proposals correctly and to render any assistance they could give to encourage the cooperative community to submit a proposal for debt conversion. Bank officials seemed to feel that the concept needed more marketing in general and as a possible tool to encourage foreign investment in Jamaica. It was also mentioned that JAMPRO, the economic development agency which deals with foreign investors, was the appropriate agency to promote the debt conversion concept.

I. CONSTRAINTS FOR THE CDO COMMUNITY IN DEVELOPING DEBT DEALS.

1. Use of AID funds to purchase debt

Any AID funds which might be used for purchase of debt cannot come from funds which are part of the existing bilateral agreements between the government of Jamaica and the United States through which the amount of foreign currency being made available to the Jamaican government is determined. Therefore, any AID funds being made available for debt conversion would probably need to come from a central source rather than the Jamaican mission budget, unless the mission had discretionary funds which were not included in the formal bilateral agreement.

2. Current Cooperative Law

The team met with the Registrar of Cooperatives in Jamaica who demonstrated a very positive attitude toward the facilitation of debt conversion deals between cooperatives and potential foreign investors. However, putting together such deals in Jamaica will

call for innovative approaches which are not directly dealt with under current Jamaican cooperative law or the proposed revisions to the law which are currently being prepared for submission to the cabinet.

Jamaican law does not allow an outside party to hold equity in a cooperative or to hold seats on management boards or boards of directors. However, there is nothing in the law which prevents a cooperative from forming a new joint venture company with a foreign cooperative or investor. In such an instance, the joint venture would be subject to company law and not cooperative law. We were told that the Registrar would look favorably, as an example, on a proposal by a coffee cooperative to form a joint venture with an outside investor for the purpose of marketing coffee abroad and earning foreign exchange. However, The Registrar of Cooperatives would also look at any such proposal carefully to be assured that the autonomy of the cooperative was not threatened and the risk factor was not too great.

In general, the Registrar intimated that each proposal would be considered on merit and that satisfactory legal solutions could probably be found to facilitate debt conversion deals which would benefit Jamaican cooperatives.

IV. THE JAMAICAN COOPERATIVE INTERESTS

The current Jamaican cooperative interests in debt conversions as a possible source of investment for cooperative development in their country was initiated at the VOCA/OCDC workshop held in Washington, D.C. in December 1988. Two representatives of Jamaican cooperatives (Louise McKenzie, Director of the Cooperative College and MacArthur Palmer, President of the Jamaica Cooperative Credit Union League) and two representatives of the Jamaica Agricultural Development Foundation (Mr. Keith Roache, Executive Director and Mr. Elon Beckford, Board Chairman) participated in the meeting during which a number of potential areas for debt conversion investments were identified. These included tourism, equity investment in various cooperatives, cooperative housing, a cooperative data center, loan guarantee programs, small business development and dairy cooperatives.

In March 1989 the Cooperative College organized in Kingston a one day seminar on the subject "Innovative Cooperative Finance." Among those groups invited to make presentations was the Debt for Cooperative Investment Service of the International Cooperative Alliance/World Council of Credit Unions. An extended discussion regarding the mechanisms of debt conversion was held at the workshop and consideration given as to how this might be utilized to the benefit of cooperatives. (See attachments for details of the workshop).

The Debt for Cooperative Investment Service subsequently explored with various cooperative officials a number of the areas of potential interest to cooperatives. The results of these discussions were summarized in a report to the International Cooperative Alliance and World Council of Credit Unions (attached). Among the potential investment opportunities for cooperatives identified were:

1. The Central Finance Facility (CFF) of the Jamaica Cooperative Credit Union League

2. A Data Input Service

3. Cooperative Tourism

4. Cooperative Housing

5. Fisheries Cooperatives

6. The United Cooperatives Printers

7. Christiana Potato Growers' Cooperative

8. Coffee Cooperative Rehabilitation and Development

9. Worker/Industrial Cooperatives

With the assistance of Mrs. Louise McKenzie of the Cooperative College the VOCA/OCDC team structured into its early activities two days of interaction with Jamaican cooperative officials. The first day included a joint exploration of the structure, interests and operations of the debt conversion program in Jamaica. The second day involved a day-long discussion with nine cooperative officials.

From these discussions the following major areas were identified as debt conversion interests which the VOCA/OCDC team was asked to explore further:

1. The Central Finance Facility of the Jamaica Cooperative Credit Union League

2. Cooperative Tourism

3. Cooperative Housing

4. The Dairy Industry

5. The United Cooperative Printers

Several others areas were briefly considered but were not explored because of uncertainty regarding the degree of cooperative interest. These included:

1. The Christiana Potato Grower's Cooperative

2. Fisheries cooperatives, including aquaculture

3. Coffee cooperatives

4. Cornwall Dairy

CONCEPT PROPOSALS

By the end of a week of contacts with a [illegible]ty of officials, further discussion with Jamaican cooperative c[illegible]eagues and its own deliberations, the VOCA/OCDC team concluded that there were two areas which represented fairly immediate possibilities - (1) capitalization of the Central Finance Facility of the credit union league and (2) purchase and operation by Land O'Lakes of a model dairy farm. These are discussed at greater length in sections IVA and IVB below.

Three other areas appeared to have high potential, each of which will require further study and elaboration - (1) cooperative housing, (2) cooperative tourism and (3) the United Cooperative Printers. These are described in sections IVC, IVD and IVE below.

Sections IVF includes a brief discussion of certain other areas for which there might be potential but which, for lack of immediate apparent interest on the part of Jamaican cooperatives, were not explored.

A. CONCEPT PROPOSAL #1 - CAPITALIZATION OF THE CENTRAL FINANCE FACILITY OF THE JAMAICA COOPERATIVE CREDIT UNION LEAGUE

For a number of years the Jamaica Cooperative Credit Union League (JCCUL) has had under consideration the establishment of a Central Finance Facility (CFF). Such a facility would have two principal functions, (1) the centralized accumulation and use of the excess liquidity of individual Jamaican credit unions in a fashion which would work to the benefit of the entire credit union movement and (2) to act as a source of central cooperative finance for the Jamaican cooperative movement as a whole. This second objective has been endorsed and encouraged by the National Union of Cooperative Societies, the national apex cooperative organization in Jamaica.

As discussions regarding the formalization of the CFF have progressed they have been paralleled by actions taken by the JCCUL to begin to act functionally in these two areas. JCCUL established and has operational a "savings and loan program" for member credit unions in which excess liquidity is placed with JCCUL for on-lending to other credit unions and, in a few cases, to other types of cooperatives. Secondly, it has undertaken a "mortgage program" in which funds for mortgage lending have been mobilized from several sources including the National Housing Trust, Jamaica Mortgage Bank and the Caribbean Housing Finance Corporation (the latter two representing funds which originated from the USAID Housing Guarantee Program). This mortgage capital is made available to individual credit unions for on-lending to their members and, in some cases, is lent directly to individual cooperators.

JCCUL has also undertaken a program of business loans utilizing funds borrowed from the National Development Bank of Jamaica. These have recently been supplemented through a long-term (30 years) low interest (1%) loan (US$500,000) from the Inter-American Development Bank for small business lending. In the case of business loans JCCUL lends to credit unions for on-lending to their members as well as making direct loans to individual credit union members and other cooperatives.

The 1988 annual report of JCCUL notes that these various central lending activities were of the following magnitudes:

Central Lending

Resources	**1988**	**1987**
General Deposits:	$	$
Credit Union - General	15,695,900	14,745,901
Credit Union - Special	4,377,708	
Others	5,292,984	6,936,674
Mortgage Fund:		
Credit Unions	17,290,231	15,721,501
CUNA Mutual	4,634,082	4,244,520
External Funds:		
Housing	7,273,418	7,199,975
N.D.B.	1,961,725	1,128,447
Other Loans	7,185	9,229
Totals:	56,533,233	49,683,184

Uses		
Corporate Loans:		
Credit Unions	14,262,928	12,311,946
Other Societies	1,867,350	489,269
Individual Loans:		
Mortgage Loans	15,596,070	12,311,946
Productive Loans	1,893,340	1,134,325
Miscellaneous	567,879	389,871
	34,187,567	30,188,449

Investments:	9,041,479	4,637,427
Other Uses (inc. Fixed Assets)	9,240,640	10,781,380
Other Receivables	4,063,547	4,075,928
Totals:	56,533,233	49,683,184

Source: 1988 Annual Report, JCCUL, pp 24-25

The JCCUL is currently taking steps to formally organize its Central Financial Facility (CFF) which will continue and expand on the current lending activities of the JCCUL but will also move more actively into lending to the wider cooperative community. A detailed feasibility study to assess the credit needs of the entire cooperative movement will be undertaken. The study will identify precise targets for the CFF lending program.

The JCCUL proposes to expand capitalization of the CFF in two fashions. First it will seek from the credit union movements of North America (Canada and/or the United States) a US$1,000,000 loan which it expects to repay at market rates of interest. With the assistance of the ICA/WOCCU Debt for Cooperative Investment Service the proceeds of the loan will be used to purchase approximately US$2,000,000 of Jamaican debt paper.

Utilizing the provisions of the Bank of Jamaica conversion program the North American lender and the CFF of the JCCUL will redeem this $2,000,000 debt for approximately J$11,400,000 which will be utilized as capital for CFF lending activity.

The second source of capitalization for the CFF will be that coming from Jamaican credit unions and other cooperatives which anticipate utilizing the facilities of the CFF. The JCCUL is prepared to commit itself to engendering capital investments in the CFF from these credit unions and cooperatives in an amount which will match the amount of Jamaican dollars engendered from the debt conversion - approximately J$11,500,000.

Combined, these two sums will provide approximately J$23,000,000 for capitalization of the newly established CFF.

The JCCUL will explore additional outside sources of capitalization and is confident that it can maintain the principle of matching investments on the part of the cooperative movement itself.

JCCUL acknowledges the need for technical assistance in organizing, establishing and operating the Central Finance Facility. Specifically, it seeks the following:

1. The assistance of a short term VOCA volunteer to assist in the JCCUL assessments of credit needs of the cooperative movement and in targeting and elaborating the portion of those needs which will be serviced by the CFF.

2. The assistance of an experienced central finance facility technician from an established credit union movement who can assist JCCUL in the establishment, organization and operation of the CFF. This technician, to be available for two-three years, will assist the JCCUL and the CFF in elaborating and expanding the central liquidity functions of the CFF and in elaborating and expanding the range of financial services which JCCUL and its member credit unions can provide to their members.

3. The assistance of a credit specialist who will assist the CFF in establishing and operating its lending program. It is anticipated that this technician will be recruited from the organization providing the US$1,000,000 loan to JCCUL and will be available for two-three years.

In regard to such technical assistance, VOCA has indicated its willingness to consider a request from JCCUL for a volunteer to provide the services described in (1) above. The World Council of Credit Unions has agreed to seek a technical assistance grant to cover the cost of the two technicians to assist in the establishment and operation of the CFF.

B. CONCEPT PROPOSAL # 2 - ESTABLISHMENT OF A MODEL DAIRY FARM

The development of Jamaica's dairy industry is high on the priority list of the Jamaican government and appears to offer good potential for investment. During the period the team was in Jamaica, the two existing dairy cooperatives could not be reached for discussions. This concept paper, therefore, explores the potential for a United States based dairy cooperative to use the debt conversion mechanism to purchase a dairy farm which would contribute to the development of the dairy sector in Jamaica.

The demand for fresh milk in Jamaica currently is 250 million quarts, but the local dairy sector only produces 80 million quarts annually. This shortfall must be made up through imports which causes a drain on the foreign currency requirements of Jamaica. These imports enter Jamaica as dry milk and must be rehydrated to be sold in the fluid milk market. The consumer can identify a taste difference and is willing to pay a premium to drink fresh milk over rehydrated. It appears, therefore, that a productive dairy in Jamaica would be one possible way to make a contribution to the milk shortage in Jamaica and with good management techniques could be a profitable venture.

The basic concept would be for a U.S. dairy cooperative to establish a local model dairy farm which would utilize locally produced inputs as much as possible. These inputs would include pasture land, local cattle, domestic building materials and as much local labor as possible. Two advantages would be realized from this approach. The first advantage is that the debt conversion mechanism would allow the maximum leverage for the resources the investor applies. An even more important benefit to be realized would be the opportunity for local farmers and managers to witness first-hand proper management techniques and how they could benefit by applying these techniques.

Such a farm appears to be economically viable. Over a ten-year investment period, the internal rate of return is 34.3 percent on the equity portion of an investment without the benefit of the debt conversion gain. With Jamaican debt selling at approximately 45 percent of face value, this IRR would increase to 55.6 percent. These IRRs both assume a 30 percent equity investment and 15 percent interest rate. These numbers were found in an investment model prepared by Paul Chen Young and Associates, dated September, 1987. The details of this model are on file at the Agro 21 office in Kingston, Jamaica. More detailed study would be needed to verify the assumptions presented in this study.

This model shows a milking herd of 150 cows with an investment of J$ 2,030,000. However, the ideal model farm should have approximately 500 milking animals, though the optimum size of farm would need to be further analyzed during the planning stage of the project.

BENEFITS TO BE DERIVED

There are many advantages to be found in such an operation for all the organizations involved. Local cooperatives would be able to train their management to function more effectively. This would be accomplished by bringing the local Jamaican dairy coop managers into the farm environment to work alongside the model farm managers to learn better techniques of farm management. The co-op manager would, in turn, disseminate the information to his members. Through this method, a very simple but effective extension service among cooperatives could begin. Such an extension service could help strengthen the diary cooperative system in Jamaica.

Another benefit would accrue from the transfer of appropriate technology to the local population. This would be accomplished by hiring future farmers as workers on the model farm. These individuals would be paid a training wage which could possibly be subsidized through an USAID/Jamaica funded program. (Mr. Richard Owen, Agriculture Officer of the AID/Jamaica mission indicated that this might be a possibility).

The model farm could also serve as a tropical dairy research center similar to the Land O'Lakes Answer Farmer in Fort Dodge, Iowa. Using these facilities, better strains of grass and nutrients could be developed under tropical conditions. Also, more productive strains of cattle could be produced for the tropical dairy. Such a research facility would be a very important part of a model dairy farm.

In summary, all the information presented in Jamaica indicates that there is a great need for increased milk production. Processing facilities are currently in place to meet the domestic demand for either rehydrated milk or the current domestic fluid milk being produced. In that only 30 percent of the domestic demand for fluid milk is currently being supplied by the Jamaican dairy industry, the establishment of a dairy farm by a U.S. dairy cooperative utilizing the debt conversion mechanism to cover local costs of the project appears to be a potentially profitable enterprise. In addition, a model dairy farm would be an excellent vehicle through which to educate the small dairy farmers in Jamaica and would provide the opportunity to develop more productive animals and animal feed for the tropical dairy industry.

There appears to be interest at Land O'Lakes in such a project. More research and detailed feasibility studies would need to be undertaken before such a project could become a reality, but Land O'Lakes would be the obvious choice for this venture. Land O'Lakes has business connections in Jamaica through the Jamaica Agricultural Development Foundation (JADF) as well as a middle manager pool of Jamaican expertise developed through the International Farmer Program that Land O'Lakes has sponsored the past two summers.

This potential investment project will continue to be pursued with Land O'Lakes to its logical conclusion.

C. COOPERATIVE HOUSING

In addition to the mortgage finance program of the JCCUL, a number of individual credit unions and cooperatives have existing programs of housing development or have expressed interest in actively pursuing this as an area of service to their members. Several, including the Jamaica Teachers Association Housing Cooperative and the Jamaican Telephone Company Employees Credit Union, had plans which they discussed with the VOCA/OCDC team.

After considerable discussion and deliberation it is the judgment of the team (shared widely, we think, by the cooperatives) that if cooperative housing finance is to be sought all or in part through the debt conversion program that it should be sought for a nationwide program which would be built around the mixture of interests which have been expressed by a number of cooperatives. Such a wider plan could take advantage of economies of scale and could consider construction alternatives (such as prefab construction, etc.) which would not be feasible for smaller independent projects.

VOCA has indicated a willingness to facilitate the provision of an appropriate individual to assist the Jamaican cooperative movement in an assessment of the degree of interest in and the potential for cooperative housing at such time as the cooperatives establish their own committee to organize and pursue such a study and to develop their plan of action.

D. COOPERATIVE TOURISM

The JCCUL expressed a strong interest in investing some of their assets in the tourism industry and particularly in the acquisition of real estate, i.e,, hotels. This interest was peaked by the fact that the Government of Jamaica is currently undertaking a major hotel divestment program and by the expressed belief of management that investment in real estate is one way to protect the League's investments from the ravages of inflation.

This concept, however appealing at present, will require a great deal of study to determine the feasibility of the JCCUL becoming involved in such a venture. The Credit Union League currently owns six vacation cottages on the North Coast which are rented to members at a significantly lower price than prevailing rates. The League itself does not manage the property but has hired an outside firm at significant cost to do this job. As a result, the cottages are currently a losing proposition for the League.

If such a concept were to be pursued, feasibility studies would be required to determine the wisdom of the cooperative societies becoming involved in such a venture. Information required would

include an assessment of the Jamaican tourist industry, what areas of the country are slated for development, what kind of return could be expected from a purchase arrangement if management of the property were to be leased out; whether leasing a property is more feasible, etc.

The concept of owning/leasing hotel property was coupled with the idea of entering into marketing of tourism to Jamaica through targeting the cooperative members of the United States and Canada. The idea was that a holiday in Jamaica could be combined with exposure to their cooperative counterparts in Jamaica through special programs or tours. Again, surveys would need to be carried out to determine if this concept would be appealing to U.S. and Canadian cooperative members. If proven feasible, such a program could be carried out in cooperation with the newly-formed National Union of Cooperative Societies Travel Agency in partnership with a U.S. based cooperative travel agency.

The conclusion reached by the team on this proposal was that the possibility for a debt conversion deal in this area did not appear immediately viable. Much more study would be required on the part of the cooperatives who share this interest.

E. UNITED COOPERATIVE PRINTERS (UCP)

The United Cooperative Printers had indicated in March 1989 that it wished to explore the possibility of debt conversion financing as a way of facilitating a long range development plan which it was undertaking to develop. Since that time the UCP has utilized the services of a VOCA volunteer to assist them in the elaboration of such a plan - for a ten year period - and the services of the former general manager of the JCCUL to provide them with five year financial projections.

Both of these efforts had been completed just prior to the VOCA/OCDC team visit to Jamaica. The UCP and its board of directors, however, had not yet had an opportunity to fully evaluate these and to decide on the exact direction in which to proceed.

The Debt for Cooperative Investment Service has agreed to return to Jamaica at the time UCP is prepared to consider possible options for debt conversion financing. The Service has also agreed to continue to explore cooperative sources in Scandinavia which might be a reliable source of paper supply for UCP.

F. OTHER COOPERATIVE POSSIBILITIES

Several areas of cooperative activity were mentioned at different times in discussions with cooperative and other officials. Among these were the Christiana Potato Growers Cooperative, coffee cooperatives and fishing/aquaculture cooperatives.

While there may be a potential for debt conversion financing activity in their regard, no direct expression of such interest was received by the team from these cooperative organizations. These options therefore were not actively considered.

The team is of the opinion that these (and possible other) opportunities could legitimately be explored at a time when the cooperatives involved themselves express a direct interest.

V. DEBT CONVERSIONS AND USAID

The VOCA/OCDC team (including consultant Debbie Mordecai and cooperative representative Louise McKenzie) met for an hour and a half with six representatives of USAID/Kingston to explain the purpose of the team's work, the concept of debt conversion investments and to attempt to ascertain the degree of interest which USAID/Kingston had in this activity.

The USAID mission staff did not appear broadly informed on the subject but appeared appreciative of the opportunity to discuss the matter with the team and its consultant. Several times it was mentioned by different staff that if policy issues were involved that these would have to be discussed with more senior officials in the mission.

The principal interest expressed by mission staff was in seeing a "small amounts" of USAID funds being used to leverage larger amounts of debt conversion investments. The implication was that if a debt conversion investment were under consideration that USAID would consider the possible infusion of technical assistance funds which might thereby make a possible debt conversion instrument more attractive to an investor.

The possible use of USAID grant funds as a source of US dollars for directly engaging in debt conversions did not at this time appear a likely possibility because of Jamaica's current foreign exchange problems. Some in USAID/Kingston, the team was informed, would not favor such use because it would reduce the amount of foreign exchange which flows to the Government of Jamaica to meet foreign exchange needs. Others felt that the Bank of Jamaica would not approve such a use of USAID grant funds.

When this latter issue was discussed with the Debt Capitalization Unit of the Bank of Jamaica this question was still unresolved. It appears that if the Exchange Control Office of the Bank of Jamaica has already included particular USAID financing of projects in its "foreign exchange budget", use of such funds would be prohibited for debt conversions. If such USAID funds were programmed for non-governmental organization programs and

were not included in the "foreign exchange budget", however, they could be used - if USAID would approve such use under the AID Debt for Development Guidelines.

The team was of the opinion that this view provided a "crack in the door" and that the issue would only be resolved at the time a non-governmental organization which receives US dollar grant funds from USAID/Kingston or USAID/Washington applies to use such funds for a debt conversion.

VI. FOLLOW UP TEAM VISIT TO JAMAICA

Certain follow-up steps will be required of the organizations associated with the team as well as of the Jamaican cooperatives.

In the case of the Central Finance Facility proposed by the JCCUL it will be necessary to more fully identify, research and plan the lending targets for the CFF once it is established. As indicated earlier in the report such research and planning could be assisted by a VOCA volunteer if requested. The JCCUL will need to initiate such a request.

In the case of cooperative housing, the cooperative movement in Jamaica will need to structure a specialized committee to explore this potential more fully and assess the degree to which a national cooperative housing program is feasible. Again, a VOCA volunteer could be requested to assist in this effort. The initiative for such a request lies with the Jamaican cooperatives (JCCUL and NUCS).

The United Cooperative Printers will need to review the proposals which have grown out of the assistance of the VOCA volunteer who recently assisted them and those proposed by its local consultant and determine what steps it wishes to take regarding a debt conversion investment. They should contact the Debt for Cooperative Investment Service at the time they wish to begin discussions of this move.

The World Council of Credit Unions will need to take certain steps if the CFF proposal of JCCUL is to get off the ground. WOCCU through the Debt for Cooperative Investment Service will have to identify potential sources of a loan from North American credit union organizations. WOCCU will also need to initiate discussions with USAID and/or with Canadian cooperatives and CIDA regarding a possible technical assistance grant to support the CFF once it is established.

Land O'Lakes will need to evaluate the proposal for the establishment of a model dairy farm and ascertain the willingness of its organization to invest in such a venture. To the extent that such a proposed program and investment on the part of Land O'Lakes is meant, in part, to expand the role of cooperatives in

the dairy industry in Jamaica, such plans should be fully discussed with appropriate Jamaican cooperative officials.

The debt conversion investment interests and needs of the United Cooperative Printers should be followed by the ICA/WOCCU Debt for Cooperative Investment Service and appropriate assistance provided when requested.

The VOCA/OCDC Jamaica team has demonstrated for cooperative organizations in Jamaica and elsewhere which have an interest in elaborating debt conversion proposals an opportunity to explore the potential use of VOCA volunteers to assist them in the preparation of feasible proposals for such investments. Individual cooperatives which wish to take advantage of this opportunity will need to contact VOCA.

VII. JAMAICA FIELD MISSION

As preparation for the two field missions called for in the USAID grant to VOCA, a workshop was held in Washington, D.C. from December 5-7, 1988. Participants included representatives from the cooperative development community, the Agency for International Development, the international banking community, the National Investment Bank of Jamaica which was the agency responsible for Jamaica's Debt Conversion program at that time, the Jamaican cooperative community and representatives of the Costa Rican cooperative community and Central Bank. The workshop program educated representatives of the cooperative development community on debt for development issues, briefed the participants on the debt conversion programs of the Governments of Jamaica and Costa Rica and began to identify potential project areas which would be suitable for debt conversion deals in the two countries. Rather than publish conference proceedings, a "how-to" guide will be published based on the findings and reports given.

Jamaica was represented at this workshop by the following:

Mr. Asgar Ally, National Investment Bank of Jamaica
Mrs. Debbie Mordecai, National Investment Bank of Jamaica
The Honorable Keith Johnson, Ambassador of Jamaica to the U.S.
Mrs. Louise McKenzie, Cooperative College of Jamaica
Mr. MacArthur Palmer, Jamaica Cooperative Credit Union League
Mr. Keith Roache, Jamaican Agricultural Development Foundation (JADF)
Mr. Elon Beckford, Board Chairman, JADF.

In terms of the Jamaican representation, the workshop lay the groundwork for a March 1989 workshop on debt conversion held by the Jamaica Cooperative College in Kingston at which members of the Jamaican cooperative community received their initial briefing on the possibilities open to their organizations through utilization of debt deals. This workshop was attended by Jack Shaffer, Jamaica Team Leader. It also facilitated, to some degree, the work of the field mission which took place from August 27 - September 5.

The timing of the field mission was delayed principally due to the fact that Jamaican elections, which were held on February 9, 1989, resulted in a change of government and it was felt that the findings of the team should reflect current government policy, if changed from the views which were presented at the December workshop.

The VOCA team was composed of the following:

Jack Shaffer, WOCCU-ICA, Debt for Cooperative Investment Service
Joan Leavitt, Vice President, VOCA
Tim Schwanke, Land O'Lakes, Inc.
Deborah Mordecai-Edwards, former Director of Government of Jamaica's debt conversion unit, who acted as consultant to the team.

The purpose of the trip was to document and prepare a report on the current debt conversion programs of the Government of Jamaica; to prepare a step-by-step methodology that could be used by cooperatives and other non-profit groups interested in using the debt conversion mechanism as a means of financing development programs in Jamaica, and to develop concept papers describing possible debt deals appropriate in Jamaica.

VOCA TEAM ACTIVITIES

Prior to our arrival in Kingston on Sunday, August 27, Team Leader Jack Shaffer was in communication with Mrs. Louise McKenzie, Director of the Jamaica Cooperative College to plan sessions for Days 1 and 2, and with the USAID mission office to inform them of our arrival date.

SUNDAY, AUGUST 27

The team met with Debbie Mordecai-Edwards, Jamaican consultant to the team to discuss the specific programs of Days 1 and 2. Mrs. McKenzie was unable to join us.

MONDAY, AUGUST 28

On Monday morning the VOCA team met with members of the Jamaican Cooperative Committee which had been formed as a result of a preliminary survey visit by Jack Shaffer in March when he was invited to participate in a one-day workshop sponsored by the Cooperative College in Jamaica on the subject of Innovative Cooperative Finance. (See Attachments for report). Mrs. Mordecai-Edwards briefed the participants on the Government of Jamaica's (GOJ) debt conversion program. Her presentation included:

- a review of the Government of Jamaica guidelines
- current status, accomplishments, problems and constraints
- procedures for proposal submissions to Bank of Jamaica
- particular relevance of cooperatives to GOJ debt conversion priorities

Committee members attending the meeting were:

Mr. McArthur Palmer, President, Jamaica Cooperative Credit Union League (JACCUL)
Mr. Glen Francis, Acting Managing Director, JACCUL
Mr. Carl Downville, JACCUL
Mr. Cleveland Hall, United Cooperative Printers, Ltd.
Mr. Cliff Chang, Jamaica Teachers Association Housing Cooperative
Mrs. Louise McKenzie, Director, Jamaica Cooperative College

On Monday afternoon, VOCA team members as well as Mrs. Mordecai-Edwards and Mrs. McKenzie met with USAID/Jamaica officials for discussions on the Jamaica debt conversion program.

A wrap-up of the day's activities were held by the VOCA team in the evening.

TUESDAY, AUGUST 29

An all-day meeting was convened at the Credit Union League offices to review specific debt conversion interests and identify proposal possibilities in various sectors of the Jamaican cooperative movement. Attendees included:

Mr. McArthur Palmer, President, JACCUL
Mrs. Aloun Wood, City of Kingston Credit Union
Mr. Glen Francis, Acting General Manager, JACCUL
Mr. Sam James, Knox Project promoting development of Cooperatives
Mr. Hector Dietrich, Secretary/Manager, National Union of Cooperative Societies
Mr. Ted Dexter, Montego Bay Credit Union Society
Ms. Marjorie Riley, Jamaica Teachers Association Housing Cooperative
Mrs. Sybil Thompson - Government Savings Bank Class Credit Union Ltd.
Mrs. Louise McKenzie, Jamaica Cooperative College
Mrs. Debbie Mordecai-Edwards, VOCA team consultant
VOCA team.

The specific proposals discussed are described elsewhere in this report. The team was disappointed that representatives of the various agricultural and fishing cooperatives did not attend the meeting. The conclusion the team came to was that using debt for development is still a new concept which is not sufficiently understood by some of the cooperatives and that further education about this concept will be required before additional proposals will be forthcoming from them.

WEDNESDAY- MONDAY, August 30 - September 4

The team, either together or individually, met with other government officials and private sector individuals to discuss possible debt for development proposals and concepts. Additional meetings were also held with various members of the Jamaican cooperative community during these days to discuss proposed projects in more detail. Additional persons visited are:

1. Mr. Verley Harrison, Executive Director, Dept Capitalization Unit, Bank of Jamaica.

2. Ms. Hope E. Reid, Assistant Director, Dept Capitalization Unit, Bank of Jamaica

3. Mr. Douglas Webster, Debt Monitoring Unit, Bank of Jamaica

4. Ms. Denise Rollins, Private Sector Office, USAID/Jamaica

5. Mr. Lloyd Prince, Private Sector Office, USAID/Jamaica

6. Mr. Richard Owens, Agriculture and Rural Development Office, USAID/Jamaica

7. Mr. Lane Smith, RHUDO/Caribbean, USAID/Jamaica

8. Ms. Ruby Baker, Program and Evaluation Policy, USAID/Jamaica

9. Mr. Don Hixson, Comptroller, USAID/Jamaica

10. Mr. Aaron Parke, Director, Agribusiness, JAMPRO (Jamaica's Economic Development Agency)

11. Ms. Doreen Hibbert, Hotel Divestment Unit, JAMPRO

12. Mrs. Carole Guntley-Brady, Director, Jamaica Tourist Board

13. Ms. Antoinette Lynn, Jamaica Tourist Board

14. Mr. Ray Miller, Statistics Department, Jamaica Tourist Board

15. Mr. Milburn Corrie, Registrar of Cooperatives

16. Mr. Joseph Hendricks, Director, Livestock Operations, Agricultural Development Corporation, (holding company of Government parastatal agricultural development agencies).

17. Mr. Clive H. Fagan, Director, Land Utilization and Development, Agricultural Development Corporation

18. Dr. Keith Roache, Managing Director, Jamaica Agricultural Development Foundation.

19. Mr. Lloyd Wright, Director, Projects for People

20. Mr. Winston McCalla, attorney and founding member of National Environmental Societies Trust Company (NEST).

Prior to leaving Jamaica, an outline for the Jamaica mission report was written by the team leader and responsibility for writing of various sections was assigned to individual team members. The team met for a final discussion session on Saturday, September 2 to discuss their conclusions about the visit.

JAMAICA

PROGRAMME FOR THE CONVERSION OF JAMAICAN EXTERNAL DEBT INTO EQUITY INVESTMENTS

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PROGRAMME FOR THE CONVERSION OF JAMAICAN EXTERNAL DEBT INTO EQUITY INVESTMENTS

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PRIORITY AREAS OF ECONOMIC ACTIVITY

Section 1 of the Guidelines states an objective of the Debt Conversion Programme to be "to provide and target new investment into areas of high priority." For the guidance of investors, areas of economic activity regarded as priority are set out below. This information is provided without prejudice to the authority of the Bank of Jamaica to approve or to reject applications for Debt Conversion Transactions at its sole discretion.

Priority areas of economic activity are:

1. The construction of hotels in Jamaica or the expansion of existing hotels;

2. Investment in activities in Jamaica's Free Zones;

3. The construction of factory space in Jamaica;

4. The production, manufacturing or processing of export products. Preference will be given to those projects involving the greatest addition of value in Jamaica itself.

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PROGRAMME FOR THE CONVERSION OF JAMAICAN EXTERNAL DEBT INTO EQUITY INVESTMENTS

GUIDELINES FOR INVESTORS

The Bank of Jamaica, on behalf of the Government o Jamaica, presents the following guidelines (the "Guideline relating to the Government of Jamaica's programme for th conversion of the Government of Jamaica's external debt int Qualified Investments in Jamaican enterprises (the "Deb Conversion Programme").

Inquiries and other communications regarding thes Guidelines or the Debt Conversion Programme should be directed t the Debt Capitalization Unit, the Bank of Jamaica, Netherso Place, Kingston, Jamaica.

The Bank of Jamaica reserves the right to issue from tim to time supplements to these Guidelines and revised versions the Exhibits attached hereto, and copies of such supplements an revised Exhibits will be available upon request from the Deb Capitalization Unit. Any such supplement or revision sha become effective only with respect to applications for Deb Conversion Transactions completed after the date on which th supplement or revision is made public.

Nothing in these Guidelines shall be deemed to superse or alter any other requirement of Jamaican law or regulation.

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CHAPTER 1. POLICY OBJECTIVES: BACKGROUND

Section 1. Objectives

The Debt Conversion Programme is designed to achieve principally the following policy objectives:

i) to stimulate and encourage equity investments in Jamaican enterprises by foreign investors.

ii) to promote and target new investment into areas of high priority as set out in Exhibit D hereof.

iii) to reduce the external debt burden of Jamaica.

The Bank of Jamaica acting on behalf of the Government of Jamaica is authorised to approve applications for Debt Conversion Transactions and the terms and conditions on which such transactions may be effected. Applications may either be approved by the Bank of Jamaica or rejected without stating any reason.

Section 2. Background to the Debt Conversion Programme

A number of developing countries have introduced schemes whereby external country debt may be exchanged for local equity investment through Debt Conversion Transactions. Typically the process enables foreign investors to reduce the hard currency costs of purchasing local assets.

The investor, having acquired external country debt for hard currency at the prevailing secondary market discount, then cancels it in return for receiving local assets from the borrower at closer to face value. Assets which may be

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transferred include local currency, local debt instrume capital assets and (where Government is the borrower) shares public sector entities.

CHAPTER II CONVERTIBLE DEBT

Section 3. Debt Eligible for Conversion

Initially only A Advances, or portions thereof, defined in the 1987 Rescheduling Agreement with the Commer Banks will be eligible for conversion.

CHAPTER III ELIGIBLE INVESTORS

Section 4. Eligible Investors

Subject to the approval of the Bank of Jama any person (natural or juridical) domiciled and resident ab shall qualify as an Eligible Investor and may participate in Debt Conversion Programme.

CHAPTER IV QUALIFIED INVESTMENTS

Section 5. Qualified Investments

Investment funded with the proceeds of the redemption an item of Convertible Debt pursuant to the Debt Conve Programme shall be referred to as "Qualified Investment."

Qualified Investment may take the following forms:

(i) A holding of a special class of Ordinary Shares of any Jamaican Public Sector Entity or Jamaican Private Sector Company, such shares being issued in registered, certificated form in the name of the investor.

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(ii) An equity investment in any non-corporate Jamaican Private Sector Company.

Where the purchase of capital assets in Jamaica is to be funded by a Debt Conversion Transaction, such purchase must be conducted through a Jamaican investment vehicle. The associated Qualified Investment is, therefore an equity investment in this vehicle and as such falls into one of the above categories.

An entity or company in which a Qualified Investment is made shall be referred to as a "Recipient Entity/Company". Equity interests in Recipient Entities/Companies acquired in respect of Qualified Investments are required to bear the same right to receive dividends and other distrubutions of profits as equity interests acquired in respect of Fresh Money Investments (that is investments funded with freely convertible foreign currency, and bearing a certificate from an authorised Jamaican commercial bank to that effect). The documentary implications of this requirement are discussed in Chapter VI.

Capital and distributions of profits in respect of Qualified Investments are subject to certain special restrictions. These are discussed in Section 6. Qualified Investments are not convertible into any instrument or security other than other Qualified Investments.

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CHAPTER V. RESTRICTIONS ON QUALIFIED INVESTMENTS

Section 6A Capital

A Qualified Investment may not by its terms be subject redemption within a certain period (the "Restricted Period") may it be transferred within this period in a transaction wh the consideration is foreign currency obtained through Auction Market for Foreign Exchange. Furthermore, should capital of a Qualified Investment be repaid within the Restric Period for any reason whatsoever including liquidati dissolution or winding up of the Recipient Entity/Company, t the amount repaid may not be remitted overseas until the exp of the Restricted Period, at the earliest. Options open to t investor are discussed in Chapter VII.

Qualified Investments resulting from Debt Conversi Transactions shall be subject to the following Restricted Periods:-

- for Qualified Investment in new facilities in priorit sectors (as designated from time to time by the Bank Jamaica) the Restricted Period is three years.
- for other Qualified Investment the Restricted Period seven years.

The Restricted Period commences on the Value Date for Qualified Investment, this being the date on which the Recipi Equity/Company receives title to local assets generated by investment. After the expiry of the Restricted Period, Qualified Investment is treated, for the purposes of th Guidelines, as if it had been funded by Fresh Money (that freely convertible foreign currency).

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Section 6B Distributions of Profits

Distributions of profits from a Recipient Entity/Company to an investor in respect of a Qualified Investment resulting from a Debt Conversion Transaction may not be remitted overseas for a period of three years from the Value Date.

Section 7 Sale/Transfer of Qualified Investment

Subject to the approval of the Bank of Jamaica, an investor may sell an interest in a Qualified Investment, and transfer the share certificates or other documents evidencing the ownership of the interest to another person (the Purchaser); provided that, if the sale occurs during the Restricted Period for the investment:

(i) the Purchaser is an Eligible Investor

(ii) consideration for the transaction is foreign currency obtained other than through the Auction Market for Foreign Exchange.

(iii) the Purchaser submits to the Debt Capitalization Unit a certificate in such form as may be prescribed by that unit confirming that:

- the Purchaser understands that the capital and distributions of profits in respect of the Qualified Investment are subject to the restrictions set out in these Guidelines and Bank of Jamaica's approval for the investment.

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- the Purchaser agrees to assume all obligations (including the periodic report and certification obligations) of the origi investor in respect of the Qualified Investme

Following the completion of any such sale and transf the Purchaser shall for the purposes of these Guidelines deemed to be the investor in respect of the Qualified Investm concerned.

Section 8 Blocked Deposit Accounts and Related Qualified Investments

Section 8A Blocked Deposit Accounts

Qualified Investments may give rise to local curre funds which the investor may not immediately be permitted remit overseas. This may occur, for example, if dividends a paid to the investor within three years of the Value Date, or capital is repaid within the Restricted Period as a result say, liquidation, dissolution or winding up of the Recipi Entity/Company. Such funds must be deposited by the inves at an authorized Jamaican commercial bank in a Blocked Depo Account or, subject to the consent of Bank of Jamaica, used invest in a Related Qualified Investment. (see Section 8B).

Features of Blocked Deposit Accounts are:

- they must be registered with the Exchange Contr Department

- the investor may negotiate with an authorised Jamaican commercial bank for such Blocked Deposit Account to bear a market rate of interest.

- all transfers to and from, and uses of the funds in a Blocked Deposit Account must be approved by the Exchange Control Department.

- funds in a Blocked Deposit Account may not be used as security for borrowing.

The Exchange Control Department's principal concern is to ensure funds in a Blocked Deposit Account are not used, directly or indirectly, to make Jamaica dollars available for use in the Auction Market for Foreign Exchange.

Sector 8B Related Qualified Investments

The Bank of Jamaica recognizes that investors participating in the Debt Conversion Programme may wish to re-invest local currency funds generated from a Qualified Investment that would otherwise have to be retained in a Blocked Deposit Account. Requests for Bank of Jamaica consent to such re-investment should be made to the Debt Capitalization Unit at the address shown on the first page of these Guidelines. Whether consent is given will depend, among other things, on whether, in the view of the Bank of Jamaica, the request represents a bona-fide re-investment proposal, or simply a means to free Jamaica dollars for use in the Auction Market for Foreign Exchange.

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If approval is given, the re-invested amount shall referred to as "Related Qualified Investment." Related Qualif Investments shall be deemed to be Qualified Investmen However, restrictions relating to capital and distributions profits may differ from the provisions of Sections 6. This because the period between the Value Dates of a Qualif Investment and the Value Date of a Related Qualified Investme may be counted in favour of the investor, and the Restric Period (and period of restriction on remittance overseas distribution of profits) for the Related Qualified Investme reduced accordingly.

Recipient Entities/Companies in respect of Relat Qualified Investments and owners of such investments will subject to the certification and reporting requireme described in Sections 21-23 and the documentation requiremen described in Section 9.

CHAPTER VI DOCUMENTATION

Section 9. Written Agreement with the Government of Jamaica

For all Qualified Investments, the Recipie Entity/Company and the investor must enter into a writt agreement with the Government of Jamaica which provides that:

(i) the equity interest acquired in respect of the Qualified Investment bears the same right to receive dividends and other distributions of profits as equity interests acquired in respect of Fresh Money Investment.

(ii) the equity interest is subject to the reporting requirements, restrictions on transferability, and restrictions relating to capital and distributions of profits as specified in these Guidelines in Bank of Jamaica's approval for the corresponding Debt Conversion Transaction.

Section 10 Other Documentary Requirements

In addition:

(i) for a Qualified Investment in a Recipient Company, the Articles of Association of the Recipient Company must be amended, where necessary, to accord with the provisions of the Agreement (required by Section 9) and in particular to explicitly state that dividends and other distributions of profits will be paid pro-rata across classes of Ordinary Shares issued in respect of Fresh Money Investment and any class issued in respect of Qualified Investment;

(ii) for a Qualified Investment in a Recipient Entity, documents evidencing the investment and documents governing the relationship of the owners of the Recipient Entity must bear explicit statement to the effect of point (i) of Section 9 above.

CHAPTER VII LIQUIDATION

Section 11 Liquidation

In the event that any portion of the capital Qualified Investment is repaid within the Restricted Period whatsoever reason including without limitation liquida dissolution or winding-up of the Recipient Entity/Com concerned, then the owner of the investment shall have option of either:

(i) depositing an amount equal to the amount repaid Blocked Deposit Account at an authorized Jama commercial bank; or

(ii) subject to the approval of the Bank of Jam re-investing the amount repaid in a Related Qual Investment.

If the amount is deposited in a Blocked Deposit Acco then the repayment of principal shall not be made earlier would have been possible through redemption of the Qual Investment; and interest shall not be capable of remitt overseas earlier than dividends on the Qualified Investment have been. Blocked Deposit Accounts and the re-investment funds in Related Qualified Investments are discussed in detai Section 8 hereof.

CHAPTER VIII FRESH MONEY REQUIREMENTS

Section 12 Fresh Money Requirements

The Bank of Jamaica is concerned to avoid a situation in which the Jamaica dollar proceeds of a Debt Conversion Transaction are routed through the Auction Market for Foreign Exchange to fund overseas expenditure of a Recipient Entity/Company. In particular, such proceeds may not be used to fund capital imports. For this reason, investors may be required to fund a proportion of a proposed investment with freely convertible foreign currency ("Fresh Money") or its equivalent in tangible assets or technology. This proportion will be determined on the basis of a schedule (to be submitted by the investor with his application) detailing the proposed use of injected funds by the Recipient Entity/Company. The Bank of Jamaica approval for the Debt Conversion Transaction will be conditional on the required Fresh Money Investment being made.

CHAPTER IX APPLICATIONS, APPROVALS

Section 13 Relationship to Exchange Control Act, Other Laws, Regulations and Institutions

Nothing in these Guidelines shall be deemed to supersede or alter any other requirement of Jamaican law or regulation, including in particular laws and regulations relating to foreign investment and exchange control which may be in existence from time to time.

Investors are advised that in most cases the Bank Jamaica will consult with Jamaica National Investment Promotio Limited (JNIP) before issuing any approval for a De Conversion Transaction.

Section 14 Applications

An Eligible Investor wishing to engage in a De Conversion Transaction shall submit (in triplicate) application in the form of Exhibit A hereto, together with a appropriate supporting materials, to the Debt Capitalizati Unit at the address shown on the first page of these Guideline At the time of submitting an application, the investor shall p to the Bank of Jamaica a non-refundable application fee US$250.00

The Debt Capitalization Unit shall have the authority seek from the investor any clarification or additional supporti materials as that unit may find useful in assessing a propos Debt Conversion Transaction.

The Bank of Jamaica through the Debt Capitalization Un will notify the investor of the approval or disapproval of proposed Debt Conversion Transaction within 45 calendar days the date on which the investor's application is completed. negative decision in respect of an application is witho prejudice to the investor's ability to resubmit the applicati or a modified version thereof at a subsequent time. The approv for a Debt Conversion Transaction will include among other thin the approval of the Exchange Control Department (registering t investment) as required under the Exchange Control Act. T

above approvals will be subject to the documentary requirements specified in Section 9 being carried out to the satisfaction of the Bank of Jamaica, and to the investor's continuing compliance with the requirements stipulated in writing by the Debt Capitalization Unit. These requirements will include the proper application by both the investor and the Recipient Entity/Company of any Jamaica dollar proceeds of a Debt Conversion Transaction, and compliance with certain registration, reporting and certification requirements.

CHAPTER X DEBT CONVERSION TRANSACTION MECHANICS

Section 15 Closing Period

If a proposed Debt Conversion Transaction is approved the investor shall have 90 - 120 calendar days from the date of such approval to close the transaction. If the investor fails to close the Debt Conversion Transaction within such period, the approval relating to that transaction shall automatically lapse unless the Debt Capitalization Unit grants an extension of this period.

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Section 16 Arrangements for Obtaining Convertible Debt

During the 90 - 120 calendar day period referred to Section 15 above, the investor will obtain one or more items Convertible Debt (as defined in Section 3 hereof) from holder or holders thereof. The approval given with regard the relevant Debt Conversion Transaction will be deemed to the approval not only of the Bank of Jamaica, but also of Government of Jamaica as required by Section 5.12 of the 1 Rescheduling Agreement with the Commercial Banks.

Section 17 Notices to the Agent

The Government of Jamaica and the investor shall deli to the Agent an Exchange Notice in the form of Exhibit E her for each Advance (or portion thereof) to be exchanged Qualified Investment. The Exchange Notice must give at least calendar days notice to the Agent of a proposed Value Date, must specify the amount of the reduction in the princi amount of one or more Advances. On identifying the item Convertible Debt to be used in an approved Debt Convers Transaction the investor must submit the Exchange Notice to Debt Capitalisation Unit for counter signature by the Governm of Jamaica and onward transmission to the Agent.

Section 18 Closing

On the Value Date for a Debt Conversion Transaction, Government of Jamaica's obligation in respect of the Converti Debt in question shall cease upon delivery by the Government Jamaica to the Recipient Entity/Company of local assets

previously agreed with the investor (see Section 19). The investor shall receive share certificates or other documentation evidencing the ownership interest in the Recipient Entity/Company. In addition, requirements of Sections 9 and 10 shall be complied with.

Section 19 Local assets received by the Recipient Entity/Company

The local assets issued by the Government of Jamaica to a Recipient Entity/Company pursuant to a Debt Conversion Transaction shall be:

(i) capital assets (e.g., land) or shares in public sector entities;

(ii) a local currency denominated debt instrument which may be discounted by the Recipient Entity/Company with a Jamaican private sector financial institution (see Section 20), and the proceeds used for the approved purposes.

The nature and amount of the local assets to be received by the Recipient Entity/Company shall be specified in the approval for the Debt Conversion Transaction. The amount will be less than the Jamaica dollar equivalent of the face value of the Convertible Debt to be cancelled. The difference represents a "fee" through which the Government of Jamaica can share in the discount achieved by the investor in the secondary market for Convertible Debt. The fee will depend on the priority of the investment and will not exceed 10 percent of the face value of

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the cancelled Convertible Debt. The applicable exchange ra the selling rate for Jamaica dollars ruling two days prior Value Date.

Section 20 Discounting the local currency debt instrument

The discounting of local currency debt instruments by the Government of Jamaica pursuant to Debt Conve Transactions will be effected in accordance with sta arrangements between interested Jamaican private sector fina institutions, the Government of Jamaica and the Bank of Ja Under these arrangements, the private sector fin institutions agree to purchase over a period of time a c amount of the above debt instruments. This provides assura Recipient Entities/Company that they can obtain Jamaica funds. Should arrangements in force at any time not be ad to generate the Jamaica dollar funds required by a pr Qualified Investment, the investor's application will n accepted and no application fee will be payable.

Section 21 Reporting Requirements

The Recipient Entity/Company must file infor relating to the use of any Jamaica dollar proceeds from a Conversion Transaction with the Bank of Jamaica through th Capitalization Unit at least once every six months, specified in the approval for the Debt Conversion Transa Failure to do so can lead to suspension of the approva subsequent auditing of the Recipient Entity/Company.

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CHAPTER XI COMPLIANCE

Section 22 Registration and Post-Closing Notification

All Qualified Investments must be registered with the Bank of Jamaica through the Debt Capitalization Unit within 10 calendar days after the Value Date. This is facilitated by the investor's submission of a notification in the form of Exhibit B hereto.

Section 23 Annual Compliance Certificates

Within 10 calendar days following each anniversary of the Value Date for a Qualified Investment, which anniversary occurs during the Restricted Period for such Qualified Investment, the investor and the Recipient Entity/Company shall submit to the Debt Capitalization Unit a report in the form of Exhibit C hereto indicating the amount of capital, and distributions of profits paid in respect of such investment. Where the investor holds both Fresh Money Investment and Qualified Investment in a Recipient Entity/Company, the investor and Recipient Entity/Company are required to indicate the amount of capital and distributions of profits paid in respect of each. The Debt Capitalization Unit shall have the authority to request any supporting material, including the Recipient Entity's/Company's audited financial statements corresponding to the pertinent financial year, as it may reasonably find useful in confirming the information provided.

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CHAPTER XII REQUEST FOR PUBLIC COMMENT

Section 24 Effective Date of the Debt Conversion Programme

The Debt Conversion Programme described in the Guidelines shall be effective on Tuesday, July 28, 198 and shall apply to all Debt Conversion Transactions clos after that date. Revised versions of any Exhibit attached these Guidelines and any supplements thereto shall apply to a Debt Conversion Transactions for which the Debt Capitalizati Unit receives a completed application during the period in whi such revision or supplement is in effect, regardless of a subsequent revision or supplement released between the date application and the Value Date.

Section 25 Request for Public Comments

The Bank of Jamaica hereby solicits comments from a interested persons on any aspect of the Debt Conversion Progra described herein. Such comments should be submitted in writi to the Debt Capitalization Unit at the address shown on first page of these Guidelines and each comment should bear legend "Comments: Guidelines for the Debt Conversion Programm All comments should be received by the Debt Capitalizati Unit within 60 calendar days from the effective date of th Guidelines.

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Section 26 Further Bank of Jamaica Consideration

Following the close of the comment period referred to above, the Bank of Jamaica may amend these Guidelines reflecting certain suggestions contained in such comments, or reflecting the Bank of Jamaica's experience in admininstering the Debt Convsersion Programme during the period since its inception, if the Bank of Jamaica believes that such amendments would facilitate the smooth operation of the programme and further the attainment of the programme's objectives.

Section 27 Administrative Discretion

The Bank of Jamaica may allow a deviation on a case to case basis from any provision of these Guidelines as it applies to a specific Debt Conversion Transaction, if it determines that such deviation is warranted in light of special circumstances surrounding the transaction and is in furtherance of the objectives of the Debt Conversion Programme.

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CHAPTER XIII DEFINITIONS

Section 28 Definitions:

When used in these Guidlines and the Exhibits here the following terms shall have the meanings indicated below:

"Advances" means advances made to the Government of Jama pursuant to the 1987 Rescheduling Agreement with the Commerc Banks.

"The Agent" has the meaning assigned in the 1987 Reschedu Agreement with the Commercial Banks and, for the time being, the Bank of Nova Scotia.

"Auction Market for Foreign Exchange" means the weekly auc held by the Bank of Jamaica in which holders of Jamaica dol can bid for foreign currency, subject to the approval of Exchange Control Department (where applicable) and to guidelines issued by the Bank of Jamaica from time to regulating access to the auction.

"Blocked Deposit Accounts" means deposit accounts at author Jamaican commercial banks, from which tranfers and uses of f must be approved by the Exchange Control Department.

"Closing Period" means the period from the date of Bank Jamaica's approval for a Debt Conversion Transaction to the V Date for the corresponding Qualified Investment.

"Commercial Banks" means the signatories to the 1987 Rescheduling Agreement, apart from the Government of Jamaica.

"Convertible Debt" means external debt of the Government of Jamaica which is convertible into equity investments in Recipient Entities/Companies pursuant to these Guidelines.

"Debt Conversion Programme" means the programme, set forth in these Guidelines, and supplements thereto or revisions thereof, for the conversion of external debt of the Government of Jamaica into equity investments in Recipient Entities/Companies.

"Debt Capitalization Unit" means the unit established within the Bank of Jamaica to administer the Debt Conversion Programme.

"Debt Conversion Transaction" means a transaction in which Convertible Debt is exchanged for Qualified Investment pursuant to the Debt Conversion Programme.

"Eligible Investor" means any person (natural or juridicial) domiciled and resident abroad and permitted by the Bank of Jamaica to make a Qualified Investment.

"Exchange Control Act" means the Exchange Control Act 19 of Jamaica.

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"Exchange Control Department" means the Exchange Cont
Department of the Bank of Jamaica.

"Exchange Notice" means a notice substantially in the for
Exhibit E.

"Fresh Money" means freely convertible foreign currency.

"Fresh Money Investment" means equity investment in a Jamai
public sector entity or Jamaican private sector company wh
investment is funded by freely convertible foreign currency,
bears a certificate from an authorised Jamaican commercial b
to that effect.

"Qualified Investment" means equity investment in a Jamai
public sector entity or Jamaican private sector company, wh
investment is funded

(i) with the proceeds of the redemption of an item
Convertible Debt pursuant to a Debt Conversion
Transaction; or

(ii) using local currency generated from Qualified
Investment but not capable of being remitted
overseas.

In the case of (ii), the Qualified Investment is referred to
"Related Qualified Investment."

"Recipient Entity/Company" means a Jamaican public sector ent
or Jamaica private sector company in which Qualified Investm
is made.

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"1987 Rescheduling Agreement" means the Rescheduling Agreement dated April 30, 1987 between the Government of Jamaica and its commercial bank creditors.

"Restricted Period" means a period commencing on the Value Date during which a Qualified Investment may not by its terms be subject to redemption.

"Value Date" means the date on which a Recipient Entity/Company receives title to local assets generated by a Qualified Investment.

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EXHIBIT A

FORM OF APPLICATION FOR DEBT CONVERSION TRANSACTIC

Reference No: (to be inserted by Debt Capitalisation Unit on receipt of application and used in all future correspondence)

_____ (Date)

Debt Capitalization Unit
The Bank of Jamaica
Nethersole Place
Kingston, Jamaica

Dear Sir:

Re: Guidelines for the Debt Conversion Programme

We refer to the Guidelines for Jamaica's Debt Conver Programme and we hereby apply for approval of the Debt Conver Transaction referred to below. Capitalized terms used in letter have the meanings given to them in the Guidelines.

I. Details of the investor

1. Name:
Address:
Telephone:
Telex:
Contact Person:

II. Details of the proposed Recipient Entity/Company

1. Name:
Address:
Telephone:
Telex:
Contact Person:

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2. Describe briefly the principal areas of economic activity or projects in which the proposed Recipient Entity/Company engages or proposes to engage.

III. Details of any existing investment held by the investor in the proposed Recipient Entity/Company

1. Total amount of existing investment, expressed in Jamaica dollars: J$_____

2. Amount of existing investment, expressed in Jamaica dollars, which is deemed to be Fresh Money Investment: J$_____.

3. Amount of existing investment, expressed in Jamaica dollars, which is deemed to be Qualified Investment: J$_____.

NOTE: Applicants are reminded that after the expiry of its Restricted Period, a Qualified Investment is deemed to be Fresh Money Investment.

IV. Details of the proposed investment

1. Total amount of proposed investment, expressed in Jamaica dollars: J$ _____.

2. Describe briefly the purpose of the investment, including a schedule detailing the proposed use of any funds to be injected into the Recipient Entity/Company.

3. Amount of proposed investment, expressed in Jamaica dollars, which it is intended should be funded by Fresh Money and hence be deemed Fresh Money Investment: J$_____.

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4. Amount of proposed investment, expressed Jamaica dollars, which it is intended sho be funded with the proceeds of Debt Conversion Transaction, and hence be deem Qualified Investment: J$ _____

5. Estimated Value Date for the proposed Qualified Investment: _____, 198___.

6. Estimated date on which Fresh Money Investment is to be made, if different from the Value Date stated in item 5: _____ 198__.

V. Details of the proposed Qualified Investment

1. The investor believes that the proposed Qualified Investment should be considered for a Restricted Period of [3 years/7 yea

2. The proposed Qualified Investment will be evidenced by [share certificates] [other (please explain)].

3. If the application proposes a Restricted Period of 3 years for the Qualified Investment, indicate briefly the grounds on which it is believed the Qualified Investment should be considered a "new facility in a priority sector". Refer particularly to Exhibit D of the Guidelin and indicate whether supporting material being attached to the application. Pleas identify any such supporting material.

VI. Involvement of Jamaica National Investment Promotion Limited (JNIP)

We have/have not informed Jamaica National Investment Promotion Limited (JNIP) of the existence of this applicati and have/have not completed JNIP's "project assistance location questionnaire".

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4) The amount of the investment referred to in item 1 which was funded with the proceeds of the Debt Conversion Transaction (i.e., the amount of the Qualified Investment) was: J$ _____. This amount is the face value of the local assets received by the Recipient Entity/Company from the Government of Jamaica on the Value Date specified in item 6 below.

5) The Restricted Period for the Qualified Investment is _____ years.

6) The Value Date for the Qualified Investment (i.e., the date on which the Convertible Debt was exchanged for Qualified Investment) was: _____, 198 ___.

7) The total amount of Convertible Debt cancelled was US$_____. At the selling rate for Jamaica dollars ruling two days prior to the Value Date, this amount was equivalent to J$_____.

8) The Convertible Debt had been outstanding under (give details of original credit instrument and any rescheduling).

We further certify that any Jamaica dollar proceeds of the Debt Conversion Transaction, will be used by the Recipient Entity/Company for the purposes approved in Bank of Jamaica's approval for such Debt Conversion Transaction. We hereby undertake to file information relating to the use of such funds with the Bank of Jamaica through the Debt Capitalization Unit at least once every six months, or as specified in the approval for the Debt Conversion Transaction.

We understand that we are required to submit to the Bank of Jamaica through the Debt Capitalization Unit annual compliance certificates in the form set out as Exhibit C to the Guidelines not later than the tenth calendar day following each anniversary of the Value Date specified above, provided that such anniversary date falls within the Restricted Period for the Qualified Investment.

We hereby undertake to submit to the Debt Capitalization Unit the following documents as a condition subsequent to the registration of the equity investment referred to in items 1 and 3 above.

1. Certification under oath by the corporate secretary of the Recipient Entity/Company, as to the number of shares, par value, class and serial number/s of the covering stock certificate/s issued (or other documentary evidence of the investor's ownership interest), a xerox copy of which should be attached.

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2. Details of the capital structure of the Recipient Entity/Company before and after infusion of the equity investment, indicating the total amounts and percentages of equity ownership by nationality, and in the case of equity held by foreign investors, whether the investment is Fresh Money Investment or Qualified Investment.

3. Documentary evidence (including xerox copies of the relevant extracts from the Articles of Association and/or other documents as appropriate) that the requirements of Section 10 of the Guidelines have been complied with.

4. Such other information / documents as may reasonably be requested by the Debt Capitalization Unit.

Very truly yours

Investor: By: _____

Title: _____

Recipient Entity/Company: By: _____

Title: _____

By: _____

Title: _____

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Miscellaneous

The application fee of US$250.00 required by Section of the Guidelines is being submitted together with this cation.

We understand that you will notify us within 14 calendar days ou require further clarification or supporting information in to complete this application. We further understand that you notify us within 45 * calendar days of the date on which this cation is complete of the approval or disapproval of this cation.

Very truly yours

By: _____

Title: _____

If the investor does not require a decision from the of Jamaica within 45 calendar days, this may be indicated by fying the date (to be not less than 45 nor more than 120 calendar after the date of the application) by which a decision on the cation is required.

EXHIBIT B

FORM OF POST-CLOSING NOTIFICATION FOR

DEBT CONVERSION TRANSACTIONS

Reference No.:_____

_____
(Date) *

Debt Capitalization Unit
The Bank of Jamaica
Nethersole Place
Kingston, Jamaica.

Dear Sirs,

Re: Debt Conversion Transaction for investment in [insert name of Recipient Entity/Company

We refer to the Guidelines for Jamaica's Debt Conve Programme and to our application dated _____, 198___ approval of a Debt Conversion Transaction involving an e investment in [insert name of Recipient Entity/Comp which application was approved by the Bank of Jamaica _____, 198_____ . We hereby certify the following de relating to the Debt Conversion Transaction. Capitalized used in this letter have the meanings given to them in Guidelines.

1) The total amount of the investment (including Qualified Investment and Fresh Money Investment) to date pursuant to Bank of Jamaica's approval f the above-mentioned Debt Conversion Transaction expressed in Jamaica dollars is: J$_____

2) The amount of this investment that was funded Fresh Money was: J$_____ (US$_____ Funds were injected on (give date or dates of Fresh Money Investment).

3) Further Fresh Money Investment to be made pursua to Bank of Jamaica's approval for the abov mentioned Debt Conversion Transaction amoun to J$_____ (US$_____). (Please sta expected timing of this investment).

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* To be submitted within 10 calendar days following the Va

EXHIBIT C

FORM OF ANNUAL COMPLIANCE CERTIFICATE

FOR DEBT CONVERSION TRANSACTIONS

Reference No._____

_____
(Date) *

Debt Capitalization Unit
The Bank of Jamaica
Nethersole Place
Kingston, Jamaica

Dear Sirs,

Re: Debt Conversion Transaction for investment in [insert name of Recipient Entity/Company]

We refer to the Guidelines for Jamaica's Debt Conversion Programme, and to the Debt Conversion Transaction in which we acted as investor involving an approved equity investment in [insert name of Recipient Entity/Company]. Capitalized terms used in this letter have the meanings given to them in the Guidelines.

Our total investment to date in [insert name of Recipient Entity/Company] amounts to J$ _____ Of this, an amount of J$ _____ is deemed to be Fresh Money Investment: the balance of J$ _____ is deemed to be Qualified Investment.

(Investors are reminded that after the expiry of its Restricted Period, a Qualified Investment is deemed to be Fresh Money Investment.)

The Qualified Investment resulting from the above mentioned Debt Conversion Transaction amounted to J$_____ In connection with this Qualified Investment, we hereby certify that during the 12-month period immediately preceding the last anniversary of the Value Date:

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* To be submitted within 10 calendar days following each anniversary of the Value Date provided that such anniversary falls within the Restricted Period for the Qualified Investment.

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1) No amount of the capital portion of the Qualifi Investment was repaid by the Recipie Entity/Company.

2) The total amount of distributions of profits pa by the Recipient Entity/Company in respect of th Qualified Investment was J$ _____. This represents an amount of J$ _____ per J$1,000 of Qualified Investment.

3) The amount of distributions of profits paid over the same 12-month period in respect of our entir Fresh Money Investment in [insert name of Recipient Entity/Company] was J$ _____ . This represents an amount of J$ _____ J$1,000 of such Fresh Money Investment, which i consistent with item 2 above.

4)* This total amount referred to in item 2 above was paid to a Blocked Deposit Account [insert name of authorized Jamaican commerc bank] on [insert value date for transfer]. account was registered with the Exchange Contr Department on _____, 198__. We understand th the approval of the Exchange Control Departmen required before funds in the Blocked Deposit Acco can be used for any purpose whatsoever.

Very truly yours

By: _____

Title: _____

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* To be included if the last anniversary of the Value D three years or less after the Value Date.

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OVERSEAS COMMERCIAL BANKS

Asian-American Merchant Bank Limited
24 Raffles Place
HEX 14-00 Clifford Centre
Singapore 0104
TLX #RS 21894 AAMBNK
TEL #65-535433

Asoma Trade Corporation
One State Street Plaza
New York, N.Y. 1004
TLX #1TT 422542 MRBN UI
TEL # 212-425-5597

Associated Japanese Bank (International) Limited
29/30 Cornhill
London EC3V 3QA
England
Tlx #883661 GODOBK G
Tel #44-1-623-5661

Banco do Brasil S.A.
Grand Cayman Branch
P.O. Box 1360
Grand Cayman (B.W.I.)
Tlx #4354 BB Cayman CP
Tel #809-949-5907

Banco Nacional De Panama
Head Office
Condominic Plaza Internacional
Torre Banconal
Via Espana, 3er Piso
P.O. Box 5220
Panama City
Republic of Panama
Tlx #3362 BANCONAL PG
Tel #02-507-69-339

Bank of America International Limited
P.O. Box 262
1 Watling Street
London EC4P 4BX
England
Tlx #884552 BOALTD G
Tel #44-1-634-4680

Bank of America National Trust & Savings
Association
Global Public Debt
Management Group 5408
555 California Street
3rd Floor
San Francisco, CA 94137
Tlx # 34346
Tel # 415-935-4398

The Bank of Nova Scotia
The Bernard Sunley BUilding
P.O. Box N7518
Rawson Square
Nassau, Bahamas
Tlx # 187
Tel #809-322-1071

The Bank of Tokyo, Limited
New York Agency
100 Broadway
New York, N.Y. 10005
Tlx # 233710 BOTF UR
Tel # 212-766-3504

Banque Francaise Du Commerce
Exterieur - B.F.C.E.
21 Boulevard Haussmann
75009 Paris
France
Tlx # 660370 BFCE
Tel # 33-14-247-4325

Banque Paribas
12 Boulevard de la Madeleine
75009 Paris
France
Tlx #210041 PARB
Tel #33-14-298-1076

Barbados National Bank
Broad Street Branch
Bridgetown
Barbados
Tlx # 2271 NABANBRO WB
Tel #809-429-7185

Barclays Bank plc
International Banking Group
168 Fenchurch Street

70

London EC3P 3AH
England
Tlx #8950821 BARIBGG
Tel #44-1-283-8989

Customer Relations Department
33 Old Broad STreet
London EC2P 2JE
England
Tlx #887181

Treasurers Department
168 Fenchurch Street
London EC3P 3AH
England
Tlx # 886111

California First Bank
International Banking Facility
350 California Street
San Francisco, CA 94104
Tlx #470466 CFBK UI
Tel #415-445-0576

The Chase Manhattan Bank, N.V.
80 Pine Street
5th Floor
New York, N.Y. 10081
Tlx #232163
Tel #212-552-8547

Chemical Bank
277 Park Avenue
11th Floor
New York, N.Y. 10172
Tlx #ITT 422803 CBC UI ZJ
Tel # 212-310-3662

Citibank N.A.
399 Park Avenue
New York, N.Y. 10043
Tlx #429659 CITI IBF
Tel #212-559-5100

Cooperatieve Centrale
Raiffeisen-Boerenleenbank B.A.
Rabobank Nederland
Croeselaan 18
3500 SE Utrecht

The Netherlands
Tlx #40200 RABO NL
Tel #31-30-902898

Credit Lyonnais
5 Rue Gretry
75002 Paris
France
Tlx #230951 CREFI
Tel #33-14-295-2400

The Dai-Ichi Kangyo Bank Limited
London Branch
P.& O Building
122-138 Leadenhall Street
London EC3V 4PA
England
Tlx #884042 DKBLDN
Tel #44-1-458-8358

The Daiwa Bank, Limited
New York Branch
75 Rockfeller Plaza
New York, N.Y. 10019
Tlx #232246 DWBK UR
#422391 DAIWBK
Tel #212-399-2717

Daiwa Europe N.V.
World Trade Center Amsterdam
Tower B, Floor 12
Strawinskylaan 1225
1077 XX Amsterdam
The Netherlands
Tlx #15630/16450 DAIW NL
Tel #31-020-573-431

Daiwa Securities Company Limited
6-4 Otemachi
2-Chome-Chiyoda-ku
Tokyo 100
Japan
Tlx #22411 DAIWA SEC
Tel #507-64-3533

Great Peter Nominees Limited
(Four Millbank Nominees Limited)
Investment Department
52 Grosvernor Gardens
London SW1W OAX

17

England
Tlx #915623 CAFUND G
Tel #44-1-834-3644

IBJ Asia Limited
41st Floor
Edinburgh Tower
15 Queen's Road Central
Hong Kong
Tlx #75203 IBJAS HX
Tel #852-5-216502

The Industrial Bank of Japan, Limited
Head Office, Tokyo
3-3, Marunouchi 1-Chome
Chiyoda-ku
Tokyo 100
Japan
Tlx #J22325
(KOGIN J22325)
Tel #81-03-214-1111 EXt. 6311

Irving Trust Company
One Wall Street - 7th Floor
Caribbean Desk
New York, N.Y. 10015
Tlx #232241, WUI 62832
Tel #212-487-2503

Japan International Bank Limited
46th Floor
Connaught Centre
Connaught Road, Central
Hong Kong
Tlx #75608 FLEDG HX
Tel #852-5-8438888

The Kyowa Bank, Limited
New York Branch
One World Trade Center
Suite 4673
New York, N.Y. 10048
Tlx #422943
Tel #212-432-6400

Lavoro Bank Overseas N.V.
c/o Secoma S.A.M.
57, Rue Grimaldi
MC-98000 Monaco
Tlx #479181 SECOMA MC

Tel #33-93-30-26-55

Lloyds Bank PLC
One Biscayne Tower
Suite 3200
2 South Biscayne Boulevard
Miami, Florida 33131
Tlx #803002
Tel #305-579-8900

Manufacturers Hanover Trust Company
Nassau Branch
c/o MHT Company
270 Park Avenue
New York, N.Y. 10017
Tlx #232337 MHTUR
Tel #212-286-7041

Mellon Bank (East), National Association
One Mellon Bank Center
Room 4720
Pittsburgh, PA 15258-0001
Tlx #812367 MELPGH
Tel #412-234-4210

Merrill Lynch International Bank Inc.
Calle Aquilino de la Guardia No. 18
P.O. Box 5000
Panama 5, Republic of Panama
Tlx #2167 MLIBPC
Tel #507-235200

Midland Bank PLC
International Division
110-114 Cannon Street
London EC4n 6AA
England
Tlx #888401 MIDBKA G
Tel #44-1-260-4146 EXT 4146

The Mitsubishi Bank Limited
1 King Street
London EC2V 8LQ
England
Tlx #8958931 BISHBK G
Tel #44-1-606-6644 Ext 334

The Mitsui Trust and Banking Company, Limited
One World Trade Center

74

Suite 2365
New York, N.Y. 10048
Tlx # RCA222401 MBCO UR
425092 MBC UI
Tel #212-938-2750

Moscow Narodny Bank Limited
81 King William Street
London EC4P 4JS
England
Tlx #885401 MNBA G
Tel #44-1-623-2066

Mutual Security Bank Limited
30-36 Knutsford Boulevard
Kingston 5
Jamaica
Tlx #2306 HOMUSEC JA
Tel #809-929-8950

National City Bank
1900 East Ninth Street
Cleveland, OH 44114-3484
Tlx #212537 NCB UR
Tel #216-575-2956

The National Commercial Bank of Trinidad
and Tobago Limited
60 Independent Square
Port of Spain, Trinidad
West Indies
Tlx #22329 NATCOM
Tel #809-62-32576

The Nippon Credit Bank Limited
Head Office
International Business Administration
13-10, Kudan-Kita
1 Chome, Chiyoda-ku
Tokyo 102
Japan
Tlx #J26921, J28788 NCBTOK
Tel #03-813-263-1111

Nomura Europe N.V.
De Boelelaan 7
1083 HJ Amsterdam
The Netherlands
Tlx #17083 NOMBNL
Tel #31-0-20-444860

Orion Royal Bank Limited
1 London Wall
London EC2Y 5JX
England
Tlx #8811837 OBLGEN G
Tel #44-1-600-6222

Partnership Pacific Bank N.V.
De Ruyterkade 62,
Willemstad
Curacao
The Netherlands Antilles
Tlx #3245 PPBNV NA
Tel #599-9-61-5555

Republic National Bank of New York
652 Fifth Avenue
New York, N.Y. 10018
Tlx #RCA 234967 BLICBANK
#WU 620274
Tel #212-930-6316

The Royal Bank of Canada (Belgium)S.A.
1 rue de Ligne
B-1000 Bruxelles
Belgium
Tlx #21780 ROYBKC B
Tel #32-2-217-4040

The Royal Bank of Canada
Beaumont House
P.O. Box N 7141
Nassau
Bahamas
Tlx #20574 ROYAL FBCN
Tel #809-326-5650

International Loan Administration
7th Floor South Tower
Royal Bank Plaza
200 Bay Street
Toronto M5J 2J5
Ontario
Tlx #065-28172 ROYBK INTLON TOR
Tel #416-974-6743

The Royal Bank of Canada (Barbados) Limited
Royal Bank House

16

Bush Hill, Garrison
St. Michael, Barbados
P.O. Bag Service 1022
Bridgetown
Barbados
Tlx #2459 WB ROYSHORE
Tel #809-429-5252

The Saitama Bank, Limited
1-2-6, Muromachi, Nihombashi
Chuo-ku Tokyo 104
Japan
Tlx #22811 SAIGIN J
Tel #81-3-276-6576

Saitama International (Hong Kong) Limited
10th Floor
The Hong Kong Club Building
3A Chater Road
Hong Kong
Tlx #74215 SUIHK HX
Tel #852-5-262321

Sanwa Bank California
International Department
612 South Flower Street
Los Angeles, CA 90054
Tlx #4720158 SANWACAL
Tel #213-613-2160

The Sanwa Bank Limited
San Francisco Agency
300 Montgomery Street
San Francisco, CA 94104
Tlx #RCA 278228 SANWACAL
Tel #415-772-8250

Society Generale
3 Rue Lafayette
75009 Paris
France
Tlx #642939
Tel #33-14-298-5821

Southeast Bank N.A.
Southeast Financial Ctr.
International Banking Division - 20th Floor
200 South Biscayne Boulevard
Miami, Fl 33131
Attn: North American and Caribbean Dept.

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Tlx #6811519/6811264 SEMIAUW
Tel #305-375-6906

The Sumitomo Bank, Limited
Temple Court
11 Queen Victoria Street
London EC4N 4TA
England
Tlx #887667 SUMTEK G
Tel #44-1-236-7400

The Sumitomo Trust and Banking Company Ltd.
International Finance Department
1-4-4 Marunouchi
1-Chome Chiyoda-ku
Tokyo
Japan
Tlx #J28631 SMITRUST
Tel #81-03-286-8341

The Taiyo Kobe Bank, Limited
350 Park Avenue
New York, N.Y. 10022
Tlx #421242 TAIKO UR
Tel #212-750-1050

Texas American Bank/Fort Worth, N.A.
500 Throckmorton Street
Forth Worth, TX 76102
Tlx #758275 TABFTW
Tel #817-338-8316

The Tokai Bank, Limited
London Branch
P & O Building
112-138 Leadenhall Street
London EC3V 4RD
England
Tlx #8956791 TOKFIN G
Tel #44-1-283-8500

Union de Banques Arabes
et Francaises U.B.A.F.
190 Ave. Charles de Gaulle
92523 Neuilly Sur Seine-Cedex
Paris
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Tlx #610334 UBAF
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Yamaichi International (Nederland)N.V.
World Trade Center
Tower D. 10th Floor
1057 Strawinskylaan
1077 XX Amsterdam
The Nederlands
Tlx #15772 YAIN NL
Tel #31-20-649966

The Yasuda Trust and Banking Company, Limited
Head Office
2-1, Yaesu 1-Chome Chuo-ku
Tokyo
Japan
Tlx #23720 YSDTBT J
Tel #81-03-278-8111

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CONVERSIONS COMPLETED (Incomplete)

Value Date	Sector	Applicant	Recipient Entity	Project	Debt Conv. Amount (US$M)	Fresh Money (US$M)
29/1/88	Export Agriculture	Western Agri-Management	Trelawny Veg. Ltd.	Winter Vegets.	0.63	0.27
18/2/88	Export Manufacture	Hanes/Knitwear Printables	Hanes Printables Jamaica Ltd.	Garment "807"	1.58	1.82
21/3/88	Export Manufacture	Jockey Int'l Domestic Inc.	Jockey Int'l Jamaica Ltd.	Garment "807"	0.50	0.63
19/5/88	Export Manufacture	Noel Industries Inc.	Noel of Jamaica Ltd. & Jamtex	Garment "807"	1.48	0.3
5/10/88	Export Agriculture	Messrs. J. Pringle and Ian Fair	Busha Browne Co. Ltd.	Export of Exotic Food Prods.	0.35	0.07
28/7/88	Export Agriculture	Jamaica Banana Producers	Jamaica Banana Producers	Bananas	1.0	
			TOTAL AMOUNT CONVERTED		5.54	
6/12/88.	EXPORT MANUFACTURE				2.0	
	TOURISM.				1.5	
					US$. 9.04	

Investment/Divestment/Debt Equity Division
National Investment Bank of Jamaica
November 29, 1988

WORLD COUNCIL
OF CREDIT UNIONS, INC.
Washington Office 805 15th Street, N.W., Suite 300
Washington, D.C. 20005

Tel: 202/628-9228 Telex: 467918 Cable WOCCU MSN

International Co-operative Alliance
Alliance Coopérative Internationale
Internationaler Genossenschaftsbund
Alianza Cooperativa Internacional
Международный Кооперативный Альянс

Tel. (022) 96 41 21

May 5, 1989

TO: Al Charbonneau, World Council of Credit Unions
Bruce Thordarson, International Cooperative Alliance

FROM: Jack Shaffer, Debt for Cooperative Investment Service

SUBJECT: Survey Visit to Jamaica - Debt Conversions and Cooperatives

I. Introduction

Recently I was invited by the Cooperative College in Jamaica to participate in a one-day workshop which they were holding on the subject of Innovative Cooperative Finance. I was asked to make a presentation on the ICA/WOCCU Debt for Cooperative Investment Service (DCIS) and how it might be of use to Jamaican cooperatives.

A copy of the agenda for the workshop, attended by approximately 150 people, is attached as are copies of two articles which appeared in Jamaican newspapers.

I added a few days on to my schedule so that I could survey with cooperative leaders various interests or plans which their organizations might have which could be facilitated by financing that might be available through debt conversions. From contacts made at the workshop I also arranged discussions with staff of USAID and FAO. I met also with the Peace Corps Director and had two meetings with the National Investment Bank of Jamaica that handles the debt conversion program.

II. Potential Investment Opportunities

There appear to be a number of possible investment opportunities within the cooperative structure in Jamaica. A few are thought through enough to permit them to be spelled out without much additional effort. Most would require more extensive study and development before they could be realistically suggested to banks and others for consideration. The various possibilities include the following:

MEMBERS: • Africa Confederation of Co-operative Savings and Credit Associations • Asian Confederation of Credit Unions • Association of British Credit Unions Limited
Australian Federation of Credit Unions Limited • Canadian Co-operative Credit Society • Caribbean Confederation of Credit Unions • Credit Union National Association (USA)
Fiji Credit Union League • Irish League of Credit Unions • Latin-American Confederation of Credit Unions • New Zealand Credit Union League

A. Jamaica Cooperative Credit Union League (JCCUL) Central Finance Facility/Cooperative Development Fund

Discussions regarding the establishment of a Central Finance Facility within the JCCUL which would service not only credit unions but also other Jamaican cooperatives has been under discussion and development for some time. The prospects for an infusion of external development capital could become the catalyst to move it from plan to reality.

There was some indication of possible AID Private Sector office interest in such a structure. Capitalization for it could be provided through either or both of (a) a private sector grant specifically earmarked for a debt-conversion or (b) capitalization that might be provided under Section 108 of the Food for Peace program.

Capitalization of a Central Finance Facility/Cooperative Development Fund might be made attractive to U.S. credit unions (U.S. Central) as a lending opportunity where the value of loan funds could be doubled through use of a U.S. dollar loan used to purchase Jamaican debt. Such a loan might be made more attractive if it was accompanied by an OPIC guarantee which I believe could probably be obtained.

Two problems emerged in discussions of the JCCUL Central Finance Facility. The first related to the degree to which such a structure would in fact serve the interests of non-credit union cooperatives. The second relates to the current problems within the JCCUL regarding its leadership (it currently has an acting CEO) and to financial problems related to the League's Data Center.

The leadership problem will presumably be met within the next couple of months and it is of some importance that the person selected to provide staff leadership at the League be someone with solid financial management experience.

The JCCUL Data Center is presently a drain on League resources and the prospects for rapid improvement do not appear very promising. Until this issue is resolved the JCCUL may seem a flawed investment target.

The second problem will be the need to insure that the JCCUL Central Finance Facility in fact functions as a financial resource for the entire cooperative movement. There does not appear to have been as extensive discussion of this among the other cooperatives as has been the case within JCCUL. This fact leads me to suggest that if this facility is established

the functions related to cooperative finance (in contrast to the specific functions of a central liquidity fund for the credit unions) should be structured so as to be a real development fund for other types of cooperatives.

B. Data Input Service - JCCUL

One program idea being explored by League leadership is to develop a specialized data service that would solicit data input business from off-shore (U.S., Canadian, other) concerns.

While there has been some discussion of this idea, including the possibility of its being located in the Kingston Free Trade Zone, there is a need for a detailed feasibility study which examines various issues regarding it, including the following:

a. Assessment of the facilities and equipment required.
b. The availability and requirements of off-shore customers.
c. Provisions for use of the free trade zone.
d. Possible compatibility of the JCCUL Data Center equipment and facilities.

One possibility that might have relevance to this suggested investment relates to the fact that several U.S. banks which have outstanding debt in Jamaica have in the U.S. specialized units which are engaged in servicing data processing needs of credit unions. Recent advertisements in credit union publications show this to be the case with at least Citicorp, Chase Manhattan and Security Pacific Banks. American Express banking might be another based on the extensive marketing of traveler's checks through the U.S. credit union system.

Technical assistance in pursuing this possibility is reportedly available from CUDATA in Canada.

C. Cooperative Tourism

Jamaica's tourist industry is struggling to recover its attractiveness and vitality, important factors since tourism is one of Jamaica's principal foreign exchange generators. The Minister of Tourism in the new government has announced plans to double the flow of tourists to Jamaica in the next three years. The government of Jamaica has an on-going program to divest the government of its investments in hotels and has designated the debt conversion office of the

National Investment Bank of Jamaica to implement the program. As much as 50% of the equity interest in hotel purchases could be acquired through debt conversions.

On the cooperative side there is some activity and considerable interest in cooperatives becoming involved in tourism. The JCCUL owns a small number of cottages on the North Coast of Jamaica which are rented both by credit union members and others. The National Union of Cooperative Societies (NUCS) has established a travel service and is prepared to act as a local agent in Jamaica for cooperative travel. Discussions have been held regarding the practicality of package tours aimed at cooperative audiences (particularly the large credit union movements in Canada and the U.S.) which would involve an element of social tourism (meeting Jamaicans and their cooperative institutions as well as time on the beach). Grander visions include the possible joint-venture purchase of hotel(s) and the development of specialized agricultural cooperatives to service the food and service needs of an expanding tourist industry.

To move these disparate notions from dreams to a stage of practicality it will be necessary to spend enough time to make realistic assessments of their feasibility. Explorations will be undertaken with ICA's International Union of Cooperative and Associated Tourism and with CUNA Travel to determine if either of these groups would be prepared to work in collaboration with Jamaican cooperatives to study and elaborate cooperative tourism possibilities.

In the interim NUCS and JCCUL may wish to begin some things on a trial basis. If so DCIS will offer any assistance that it might be practical to provide to help facilitate these efforts. The Debt Capitalization Unit of the National Investment Bank of Jamaica has agreed to provide detailed information regarding the hotel divestiture program.

D. <u>Cooperative Housing</u>

Cooperative housing is not a new phenomenon in Jamaica. There are 20 housing cooperatives registered with the Registrar of Cooperatives. The JCCUL has for a number of years been involved with a USAID funded housing guarantee program. The U.S. Cooperative Housing Foundation (CHF) in previous years had an active housing development presence in Jamaica. WOCCU and CHF staff are currently in discussions with USAID regarding additional programs.

The housing problems in Jamaica, already critical, have been compounded by the extensive damage caused in 1988 by Hurricane Gilbert and there should be broad opportunities for cooperatives in the housing field.

The mixture of need and established interest and programs is not matched, unfortunately, with a well thought out plan for how and where cooperatives can fit into the overall development of housing in Jamaica.

As a first step NUCS and JCCUL should establish a joint housing working group which, with international participation that might be drawn from the ICA Housing Committee, CHF in the U.S. and DESWOS in Germany, should do an overall assessment of housing cooperative needs and opportunities in Jamaica. Such a study could then become the basis for developing investment plans for presentation to holders of Jamaican debt.

Such a study should encompass the wide ranges of potential cooperative housing that have been suggested, including the following:

- Squatter upgrading
- Low income housing
- Middle income housing
- Cooperative retirement communities
- "Time-sharing" cooperatives related to tourism

An additional investment area mentioned was the possible development of a cooperative building materials supply enterprise.

E. <u>Marine Fisheries Cooperatives/Fishermen's Fund</u>

Small scale fisheries cooperatives of the type found in Jamaica have had difficulty, as in most developing countries, in just maintaining viability, let alone demonstrating that they have prospects for serious long term development and growth. There are reported to be less than ten truly active primary societies at the present time. Yet, as a former Registrar of Cooperatives commented, "they keep coming back.....and resources could make a difference."

Several factors make a new look at marine fisheries cooperatives a reasonable step, whether or not they could be a target for debt conversion investment. The Jamaica Cooperative Union Ltd. (JCU) which acts as a secondary society for fisheries cooperatives, has assets in excess of U.S.$1,000,000

which could make it a viable potential partner in a joint-venture activity in which a bank might become interested. Second, the Government of Jamaica has mainly provided promises when it has come to discussions of providing capital and/or loans for fisheries cooperatives rather than money. The cooperatives indicate that there are unmet needs for finance that are not being met and the JCU would welcome an opportunity to administer a "Fishermens' Fund" that could be an alternative to promises.

The USAID Private Sector program includes agri-industry under its list of priorities and has indicated that fisheries could be considered in this context. the FAO representative similarly reflected an interest in small scale fisheries and indicated that should investment capital become available for use with fisheries cooperatives FAO would consider providing a small Technical Cooperation Program (TCP) to provide technical assistance.

The next step in exploring this option in the context of a possible debt conversion investment will require a serious and thorough review of the Jamaican experience with fisheries cooperatives, an analysis of external (FAO and others) projections regarding the potential for a real fishing industry in Jamaica, a review of Government of Jamaican interests and plans in this sector and an assessment of the capacity of the JCU to develop and implement an economically viable program.

The JCU would seem the logical organization to coordinate such a review and its willingness to do so would be an indication of the seriousness of the interest among fisheries cooperatives. The DCIS would be willing to try to enlist the assistance of the ICA Fisheries Committees which is currently involved in assisting in the development of fisheries cooperatives in Asia. FAO in Jamaica is also prepared to provide some access to the broader fisheries perspective based on work carried out by the FAO Fisheries Division in Rome.

F. <u>United Cooperative Printers</u>

In 1979 United Printers Ltd., one of Jamaica's largest printers, ceased operations. Forty of its employees, determined to use their redundancy payments economically, purchased (with a $405,000 loan from the JCCUL) the $450,000 assets of the company. It was registered as the United Cooperative Printers in December of that year and has made steady progress since. It recently bought the building in which it is operating in Kingston.

The United Cooperative Printers is in the process of preparing a five-year development plan. They anticipate having it available by the end of April 1989. The plan will spell out their business projections and identify their capital needs, focusing principally on the acquisition of new equipment, assuring a reliable and quality paper supply and expansion of their physical plant.

This five-year development plan should provide the basis for discussions of debt for equity conversions with banks in Germany (where cooperative equipment is mainly purchased) and Scandinavia (which they see as their reliable source of paper supplies).

DCIS will review the potential for the involvement of European cooperatives in the printing industry and in paper production and supply.

G. Christiana Potato Growers Cooperative

The COPAC country note on Jamaica (December 1984) contains the following description of this cooperative:

"This society was registered in 1959 and currently has 5,000 shareholders and serves approximately 14,000 farmers spread over a radius of 30 miles from the cooperative's head office and stores at Christiana in the Parish of Manchester.

"The cooperative owns a 3-story building which accommodates the farm supply warehouse, the farm supply retail store, the office and a conference hall with a seating capacity of 300. In this part of Jamaica the land is well above sea level and the climate is particularly suitable for growing potatoes. The cooperative offers its members four main services, including the procurement of seed potatoes, the distribution of farm supplies, a storage and marketing service and technical advice.

"The society is the sole importer of seed potatoes for the island. In an effort to obtain seeds of the highest quality at the lowest possible price, representatives of the Association's management visit Canada and Holland annually to negotiate with suppliers. Each year Christiana Cooperative imports on average 50,000 bags of seed (each bag contains 100 lbs). As part of its programme in selecting the best varieties of potatoes for the area, it obtains seeds from suppliers for varietal trials. The trial experiments are carried out on the cooperative's own 15-acre demonstration plot.

"The cooperative's annual turnover in farm supplies is approximately $900,000. The main items distributed are fertilizers, feeds, insecticides, fungicides and tools. A branch store is operated at Kellits and in that district branch secretaries pool orders from farmers, and submit these to the main store in Christiana where the supplies are aggregated and transported out to the branch.

"The cooperative was originally organized to market the potatoes produced by its members but the service has been extended to non-members. The cooperative operates a cold storage plant capable of storing 4,000 tonnes of potatoes for up to 10 months. On average 1,000 tonnes of table-quality potatoes are marketed annually on behalf of the farmers. Members are paid an advance price followed by a bonus if the cooperative makes a surplus on the marketing operation. Recently the society entered into a contract to supply a catering company with 100,000 lbs of potatoes annually to each of its restaurants. As a result of this agreement, the cooperative will be constructing a processing plant to produce French fries.

"In addition to table potatoes, the society has marketed pigs to processors in past years and is now marketing red peas, yellow yam, dasheen, peppers and pumpkins. These are selected, graded and packaged for export. Quantities of yams are treated with preservative and exported to the UK and the USA.

"The cooperative has on its staff a field officer who is a trained agriculturalist. He provides guidance to members in cultivation practices and also provides marketing information on all the crops being marketed by the society. In recent months the potato farmers have been unhappy about the increase in cost of farm supplies and seed that have been imported and have doubled in price due to devaluation. It is interesting to note that there is no commitment on the part of the farmer members to sell their potatoes to the cooperative. In practice the farmers sell to 'higglers' at the farm gate and deliver to the cooperative only those potatoes that cannot be readily sold for cash. The society has been operating for 25 years and it represents one of the best examples of an agricultural marketing cooperative. Two advisers attached to the Ministry of Agriculture, Marketing Division, are based at the cooperative. They have been provided by ACDI and are funded by USAID." (Cooperative Information Note: Jamaica, COPAC, 1984, pp 6-7).

The cooperative is a direct member of the National Union of Cooperative Societies (NUCS) which represented their interests in my discussions. NUCS staff identified the need to

refinance a collection of obligations which the cooperative has outstanding to the Jamaica Agricultural Credit Bank. Also identified was a desire on the part of the cooperative to engage in the supply of french fries to various fast food facilities in Jamaica.

I was not able to visit the cooperative so do not have first hand information on which to project any particular activity. Because of the key role which this cooperative plays in the supply of potatoes to Jamaicans it is in an unique position to receive and utilize appropriate assistance.

The next step in exploring debt conversion investment possibilities should be for the cooperative to articulate its wishes and needs and for someone to make an independent appraisal of the current financial situation and viability of the cooperative. On the basis of these, additional steps might be taken.

H. Coffee Cooperative Rehabilitation and Development

This was mentioned as a possible area for debt conversion investment but it did not prove possible to meet with officials of the coffee cooperative federation.

Note was made that 90% of the coffee produced by cooperatives has historically been exported to Japan. There are several Japanese banks which are holders of Jamaican debt.

Further exploration of these possibilities will be pursued on my next visit. In the interim NUCS may wish to encourage the coffee cooperative federation to begin to identify its investment needs.

I. Worker/Industrial Cooperatives

There have been few worker/industrial cooperatives in Jamaica in the past but this is an area of activity in which the National Unions of Cooperative Societies indicated an interest. The new government has announced its intention (see attached article) to reactivate the Community Enterprise Organizations program, a feature of the governments economic development activity in the 1970s when the current government was last in power.

This is an areas of activity which might be further explored by NUCS, perhaps with assistance from CICOPA, the ICA Committee dealing with worker/industrial cooperatives. Such a new area of development activity standing alone would probably not prove attractive to private banks. However, were it a

program that could mix public and private sector finance and one that was supported by informed and experienced technical assistance and where private funds generated by debt conversions might be provided certain guarantees, perhaps it could become an option.

NUCS would be well disposed to establish a working group on worker/industrial cooperatives to begin to explore such options.

J. There may be additional opportunities involving other cooperative interests that were not identified during this visit.

II. The National Investment Bank of Jamaica (NIBJ)

The NIBJ is responsible for the implementation of the debt conversion program (they call it "debt capitalization") of the government of Jamaica. The Managing Director of the NIBJ is Mr. Asgar Ali. The Executive Director is Mrs. Debbie Mordecai Edwards. Mrs. Edwards recently married and will be leaving NIBJ and Jamaica to live in Miami with her new husband. She will be replaced at NIBJ by Mr. Bryan Winter, a Jamaican, who reportedly has spent most of his life in Europe. A graduate of the London School of Economics, he was most recently with an investment bank in New York.

Mr. Ali spoke at the Cooperative College symposium on Innovative Cooperative Finance and actively endorsed the concept of debt for development. He was equally supportive in private conversations.

Mr. Ali has made a proposal to the U.S. Government that Jamaica be permitted to repay at least a portion its U.S. Government obligations in Jamaican dollars. If permitted to do so this would reduce the foreign exchange pressures on Jamaica and free up foreign exchange for more production oriented uses. For example, Jamaica owes the United States Government approximately $500,000,000 which represents previously made made loans for economic development projects and for loans for purchase of food under the Food for Peace/PL 480 Program. The U.S. has not yet responded to the proposal.

I agreed that DCIS and the Debt for Development Coalition would give attention to this matter and see if there were actions that might be taken to help facilitate such a step.

III. USAID/Jamaica

At the Cooperative College symposium I met Mr. Walter Coles, head of Private Sector program in the Jamaica AID Mission and made it a point to see him at this office early in my visit.

I provided him a copy of the guidelines for debt conversions using AID funds and explained to him what DCIS was doing for WOCCU in terms of converting a portion of its AID grant in the Philippines. I agreed to provide him documentation on what we have done there.

Mr. Coles raised two interesting possibilities. First, he reported that he was preparing a project paper for a private sector grant program in Jamaica and indicated that if there were useful ways to use some resources with existing cooperative programs that would enhance the private sector in Jamaica he might be willing to include in his project paper provisions to provide finance for some such activity through a debt purchase and conversion utilizing AID funds.

He indicated that their interests were in the following areas:

Tourism
Garments
Furniture
Electronics
Agribusiness
Transportation
Finance

Comparing his program interests with those of the cooperatives (see Section I above) there seems to be some match.

IV. Follow-up Activity in Jamaica

I have found it useful to have a local person whom I can contact and who can act on behalf of Debt for Cooperative Investment Service in pursuing whatever might be needed regarding debt conversion transactions. In the Philippines Tony Babb has been very helpful in this regard.

I have proposed a similar individual arrangement with Mrs. Louise McKenzie, the Director of the Cooperative College, to act for us in Jamaica upon request.

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In addition, I have proposed to the National Union of Cooperative Societies (NUCS) that Mrs. McKenzie, in her official capacity at the Cooperative College, undertake activities with non-cooperative organizations which might eventuate in debt conversion deals in which the DCIS would act as broker. In such cases I have proposed that one-fourth of the fee income would be shared with the Cooperative College for use in its program. Mr. Hector Dietrich, Managing Director of NUCS, has requested that this proposal be put formally to him so that he can refer it to the NUCS Board of Directors for consideration.

Upon my next visit to Jamaica I will attempt to finalize these arrangements and to propose that JCCUL and NUCS enter into a formal agreement with DCIS as we have in the Philippines to collaborate on the debt conversion possibilities identified in Section II and on such other possibilities as we may agree and that DCIS act on their behalf to attempt to broker them with appropriate parties at no cost to NCUS or JCCUL.

In the interim, pending my next visit to Jamaica, I will explore various options or approaches that might be used to move the various program possibilities described in Section II to the place where they can be more formally developed.

JS/cc

THEME: INNOVATIVE CO-OPERATIVE FINANCING

8:30 a.m. - 9:00 a.m.	Registration	
9:00 a.m. - 9:30 a.m.	Opening	Mr. Hector Dietrich
9:30 a.m. - 9:45 a.m.	Financing The Co-op Movement-Overview - Methods used in the past - Present situation - Future needs	Rev. O.J. Thorbourne
9:45 a.m. - 10:00 a.m.	The League and its Central Finance Facility	Mr. McArthur Palmer
10:00 a.m. - 10:30 a.m.	Debt For Development Non-Profit Organisations (Application of Concept to Co-operatives in developing countries)	Dr. Keith Worrell
10:30 a.m. - 11:00 a.m.	B R E A K	
11:00 a.m. - 11:45 a.m.	Role of WOCCU/ICA	Mr. Jack Shaffer
11:45 a.m. - 12:00	Questions and Answers	
12:00 p.m. - 12:45 p.m.	Role of the Banking Community in Financing Projects for Non-profit Organisation	
	1. NIBJ	Mr. Asgar Ally
	2. BNS	Mr. Orville Walker
12:45 p.m. - 1:00 p.m.	Questions and Answers	
1:00 p.m. - 2:00 p.m.	L U N C H	

2:00 p.m. - 3:00 p.m	**PANEL DISCUSSION**	
	Role of Private/ Non-profit Organisations	
	1. JADF	**Dr. Keith Roache**
	2. NDF	Ms. Judith Nelson
	Questions and Answers	
3:00 p.m. - 3:45 p.m.	Management Perspective For Businesses Of The Twenty-first Century	
	Panelists:	
	1. Mr. Glenroy Harper 2. Mr. A.G. Smith	
3:45 p.m. - 4:00 p.m.	**Questions and Answers**	
4:00 p.m. - 4:15 p.m.	**Closing "Vote of Thanks"**	**Rev. O.J. Thorbourne**

Co-operative movement: Moving towards innovative financing

By Dwight Bellanfante

WHAT does the Rev. O.J. Thorbourne — Co-operator, Asgar Ally — banker, and Dr. Keith Worrell — University lecturer, have in common? They are all presenters at a symposium entitled "Innovative Co-operative Financing", to be held on Friday, March 3, 1989 at the Wyndham Hotel.

Historically, many co-operatives have been under-capitialized. Let's face it, they do not generate large profits, in fact, they don't even use the word. Whatever is left after all accounts are settled is called a surplus. So the leading financial institutions and even governments have never shown much interest in financing co-operatives. But there is a side to co-operatives that is obscured by a pre-occupation with their balance sheets, and that is — the development of people. Co-operatives assist the development of often marginalized people through collective self help.

Co-operatives have helped many people to develop. People like the former employees of United Printers Limited, who, when faced with the closure of the business in 1979 organised themselves into a co-operative. Today, 18 years later, they are among the top Jamaican printeries. Then there are the over 300,000 co-operative credit union members who have saved and borrowed to start businesses, educate children, farm, pay medical expenses and buy furniture and appliances among other things.

Growing recognition

The National Union of Co-operative Societies (NUCS) Co-operative College is the organiser of the one-day symposium. According to Director Mrs. Louise McKenzie, the symposium is intended to create awareness among the participants of alternative sources of financing for co-operatives. What motivated the symposium she said, was the growing recognition in co-operatives for the need to expand and diversify their production. This led some of them to seek finance outside of central financing utilizing the pooled financial resources of the movement.

The symposium will target directors and executive staff in co-operatives, banks, government ministries and agencies, stock brokerages, unit trusts, private voluntary organisations and business organisations.

Mr. Jack Shaffer, a Programme Development Advisor, attached to the World Council of Credit Unions and the International Co-operative Alliance, based in Washington, USA, will be a guest presenter at the symposium.

He will speak on the role of the World Council of Credit Unions and the International Co-operative Alliance in co-operative development. Mr. Shaffer once served as the director of the US Peace Corps in Jamaica during the mid to late 60's.

Among the topics to be presented and discussed are Financing The Co-operative Movement — an overview of methods used in the past, the present situation and future needs; The Jamaica Co-op Credit Union League and its Central Finance Facility, Debt For Development, The Role of the Banking Community in Financing Projects for Non-profit Organisations, The Role of Private Non-profit Organisations and Management Perspectives For Businesses of the 21st Century.

The Co-operative Movement has a major role to play in nation building by harnessing the talents of people and organising them into viable productive relationships it is coming to terms with the need for development in Jamaica.

● See today's POST ELECTION FEATURE on the new Government PAGES 29-32

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The Daily Gleaner

ESTABLISHED 1834

Vol. CLV No. 53

KINGSTON, JAMAICA, SATURDAY, MARCH 4, 1989

PRICE $1.20

THIRTY-SIX PAGES

TO WORK.. TO HOME.. Safely AURORA TYRES AURORA & CHALLENGER SERVICE CENTRES

For Jamaica, other developing countries —

A new debt conversion option?

JAMAICA AND OTHER DEVELOPING COUNTRIES may have another option in relieving their heavy burden of debt to international banks.

At a meeting on innovative financing for co-operatives, which took place in Kingston yesterday, it was suggested that co-operatives be targeted in developing countries' debt conversion plans.

A new organisation, the Debt for Co-operative Investment Service (DCIS), will seek the participation of credit unions worldwide, to assist in preparing and implementing co-operative investment programmes, according to Mr. Jack Shaffer.

Mr. Shaffer, an adviser from the World Council of Credit Unions International Co-operative Alliance, made the suggestion in his presentation to the meeting.

The DCIS was established by the International Co-operative Alliance and the World Council of Credit Unions in the United States. Mr. Shaffer said "Research has begun to identify banks with interests in debt conversions, and co-operative organisations which represent investment possibilities in those countries with serious debt-servicing problems".

The conversion of developing countries' international debt involves using the domestic assets of the developing country to pay for the debt.

As international banks [illegible] money by Jamaica, could for instance, sell its debt to another company interested in building a factory in the island. That company could then get permission from Jamaican authorities to convert this debt into Jamaican dollars to build its local factory.

One suggestion made at the co-operative financing meeting is that foreign creditor institutions could convert their debt into local currency and then invest or lend the money to local credit unions.

The debt conversion system helps developing countries as it reduces their foreign debts and encourages investment.

The foreign investor benefits as well, since these debts are sold for less than their face value because of the difficulty foreign commercial banks have in recovering them.

Jamaica owes US$4.3 billion to its external creditors. Of this, US$460 million is owed to foreign commercial banks and would be [illegible]

Wilkinson photo

"SUPER MINISTRY" EXPLAINED: Mr. P.J. Patterson, Q.C., (second right), Minister of Development, Planning and Production, explaining the role and functions of his Ministry to members of the news media at a news briefing at his office, Oxford Road, New Kingston, yesterday. Others (from left) are: Dr. Jean Marshallock, Permanent Secretary; Mr. Samuel Lawrence, Parliamentary Secretary and Mrs. Violet Neilson, Parliamentary Secretary. (See [illegible]

Gov't to revive Community Enterprise Organisation

GLEANER 3/6/89

COMMUNITY Enterprise Organizations (CEOs), a feature of the government of the 1970s, are to be revived.

Dr. Douglas Manley, Minister of Youth, Culture and Community Development, told Jampress in an interview on Thursday that government was again looking at CEOs.

Community Enterprise Organizations offer economic programmes for people within their area.

He said government was already investigating overseas sources of financing for the CEOs and feasibility studies were being done before projects are started.

In the past, Dr. Manley said, there were CEO projects involving mainly livestock and farming. Similar areas will be explored for rural youth, while craft and other ventures will be explored for those in urban areas.

Dr. Manley said he had the support of Mr. Horace Dalley, Parliamentary Secretary, whom he described as "very able and enthusiastic".

They have been meeting with the staff of the Ministry and heads of departments in the various agencies in the Ministry.

Asked about the portfolio of culture, Dr. Manley said it was being transferred from the Prime Minister's Office to his.

The Ministry was still looking at programmes particularly for young people to see what could be developed and to establish priority areas.

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COOPERATIVE DEVELOPMENT IN JAMAICA

1. INTRODUCTION

Jamaica is an island in the Caribbean Sea between the 17th and 18th parallels of latitude, about 700 miles south of Miami on the mainland of the USA. It lies in the tropics, directly on the trade routes from Europe through the Panama Canal, and is a cross-road for air and sea traffic between the Americas. Jamaica is approximately 146 miles long by 56 miles at its broadest point and is 4,411 square miles in area. It is a mountainous island and its tallest peaks occur in the Blue Mountain Range reaching a maximum height of 7,402 feet. The island was first visited on 3rd May 1494 by Christopher Columbus, while on his second voyage of discovery to the New World. Its name was derived from the Arawak word XAYMACA, which means land of wood and water.

In 1962 Jamaica became an independent member of the Commonwealth of Nations. It enjoys a democratic form of government with a House of Representatives of 60 members, chosen every five years in general elections held under universal adult suffrage. The Government is led by a Prime Minister. There is a Senate of 21 members nominated by the Government and the Opposition, and appointed by the Governor-General, who represents the Queen, and whose duties are purely formal and ceremonial. Jamaica has a population of 2.2 million people, a quarter of whom live in Kingston which is the capital city and situated in the south-east corner of the island.

Agriculture employs approximately 36 percent of Jamaica's labour force. The most important crops grown are sugar cane, bananas, citrus, pimento, coffe, cocoa, ginger and tobacco. The currency is the Jamaican Dollar which fluctuates and has been devalued twice since mid-1983. In mid-1984 one Jamaican Dollar was equivalent to 0.25 US Dollars. Tourism is an important foreign exchange earner as is bauxite which is mined and converted into aluminium for export. In mid-1983, the gross domestic product was $6,628 million (Economic and Social Survey, National Planning Agency). The net international reserves of the Bank of Jamaica stood at minus $557.4 million at the end of June 1983. Because of this situation, limits were imposed by the IMF on borrowings and conditions were set which included a reduction of 16,000 staff from the Public Service.

Jamaica is a member of CARICOM and had a surplus balance of trade of 6.8 million US Dollars. In late 1983 and early 1984 two devaluations took place due to unfavourable world trade balances. Declines were noted in the important exports of bauxite and alumina. In contrast, increased production of sugar, bananas, cocoa and spices contributed to export revenues. Most cooperatives were affected by the economic situation and faced higher prices for imported supplies like seed potatoes, wire netting for fish traps, fertilizers and pesticides. Credit unions faced record demands for loans at 12 percent interest which is considerably less than the commercial bank rate of 17 to 22 percent.

1.1 The Cooperative Movement

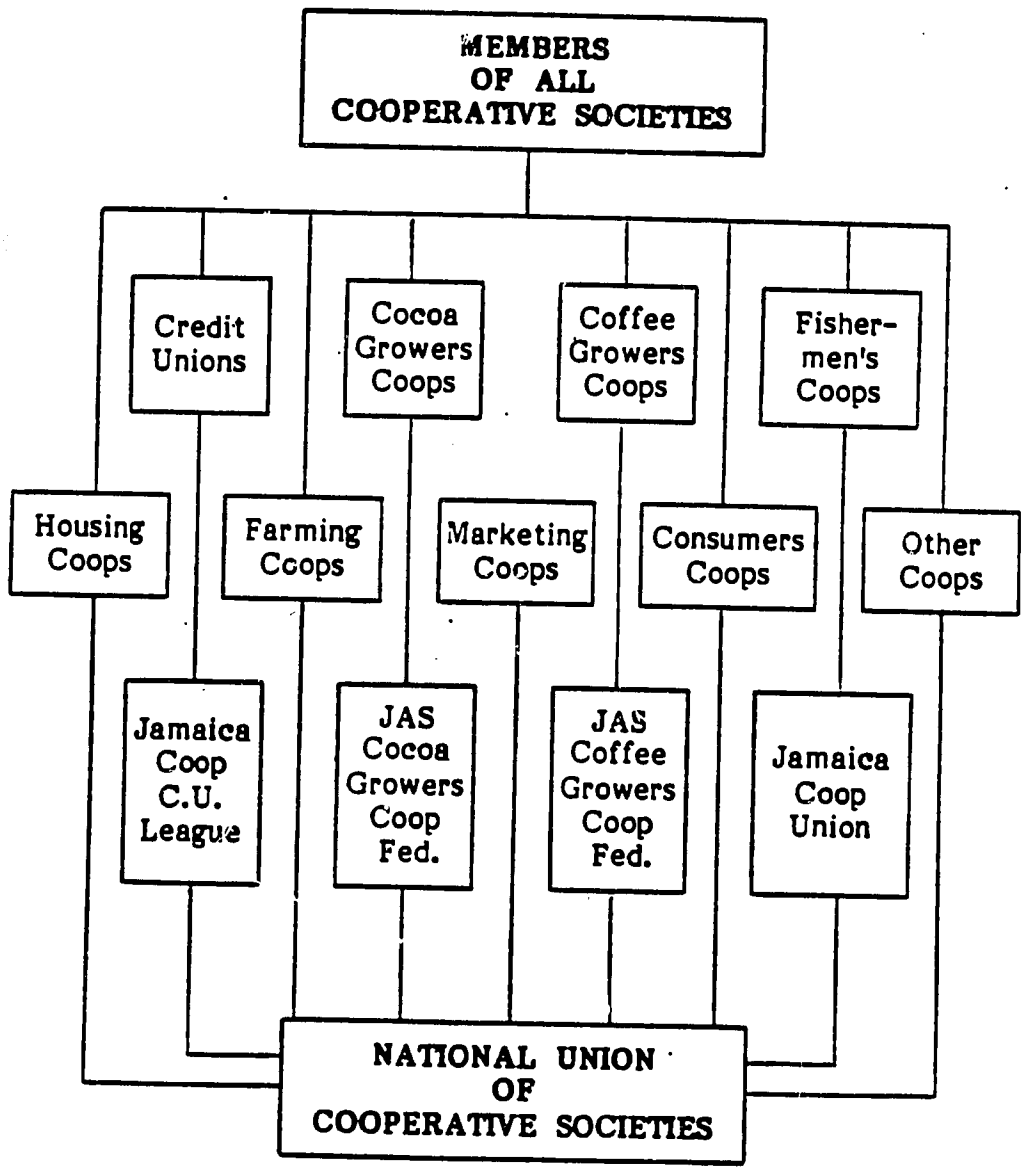
The cooperative movement in Jamaica embraces a wide variety of enterprises involving some 250,000 individuals. Precise figures on membership are difficult to obtain but, for example, the credit union movement record 274,128

members at the end of 1983. The Cooperative Department estimates around 250,000 total members of cooperatives and draws attention to the fact that, in a small island like Jamaica, some individuals belong to as many as three credit unions and could also be in membership of another type of society. Credit unions represent the largest sector of the movement followed by agricultural co-operatives, fishery cooperatives and housing societies. There are a few examples of other types of society including consumer, land purchase, settlement, transport, craft and printing cooperatives but their membership and activity is limited.

At the end of April 1984 there were 261 cooperative societies registered with around 70 in a dormant state without current activity. Figure 1 shows the structure and relationships of the cooperative movement.

Figure 1

Structure and relationships of the Cooperative Movement



A tertiary society, the National Union of Cooperatives is the apex body, and there are four secondary unions or federations. These are the Jamaica Cooperative Credit Union League, the Jamaica Cooperative Union, the JAS Cocoa Growers Cooperative Federation and the JAS Coffee Growers Federation. It is estimated by the Cooperative Department that 1,320 people are directly employed in cooperatives in Jamaica. The Registrar of Cooperatives and his staff form the Cooperative Department in the Ministry of Youth and Community Development.

Cooperatives are widely distributed in Jamaica and can be found in all 13 parishes, although the majority are situated in the Eastern Region of the island, which includes the capital city Kingston. The distribution of societies by region is shown in Table 1.

Table 1

Distribution of Societies by region (1 April 1984)

Classification	Eastern Region	Central Region	Western Region	Total
1. Thrift & Credit Societies :				
a) Credit Unions	83	8	5	96
b) Thrift	3	-	1	4
2. Agricultural :				
a) Services, Supplies, Marketing	32	23	15	70
b) Land Lease	1	1	3	5
3. Fishermen	9	5	6	20
4. Housing :				
a) Land Purchase & Building	15	2	3	20
b) Mortgage & Finance	1	-	-	1
5. Consumers & Shopkeepers	9	2	1	12
6. Industrial :				
a) Craft Production	1	-	-	1
b) Manufactured Goods	2	-	-	2
7. Transport Services	6	-	1	7
8. Multi-Services	7	-	-	7
9. Insurance (Cattle)	1	-	-	1
10. Community Services	4	-	1	5
11. Cultural	-	-	1	1
12 Federations	8	-	-	8
13. Tertiary	1	-	-	1
Total :	183	40	37	261

Development Section - Cooperative Department

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.

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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.

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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 Development 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.

Drafted:EHonnold:GC/LP:x78371:2/15/89:doc#6440J

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