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FEASIBILITY REPORT

THE USE OF DEBT-FOR-DEVELOPMENT

TO FINANCE THE PROCOSI II PROJECT

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Executive Summary

This study evaluates a potential debt conversion transaction to enhance the amount of local currency PROCOSI can obtain per dollar of AID financing. The additional local currency would permit PROCOSI to increase its program activities during the project period and to retain funds to sustain its activities in subsequent years.

A. The Proposed Debt Conversion and Its Financial Benefits.

PROCOSI's first step in the proposed debt conversion will be to obtain the Central Bank's approval to complete a debt conversion, with the local currency proceeds devoted to the support its program of services. DDF and PROCOSI have already discussed the project with Central Bank officials who have indicated strong support. As a result, PROCOSI has initiated work on its application to the Central Bank.

Once the application has been submitted and the Central Bank's approval is obtained, PROCOSI will seek to purchase Bolivian debt on the secondary market at 11% (U.S. \$0.11) per dollar of face value. (The actual purchase of the debt will occur only after AID indicates its concurrence with the terms of the transaction.) Under Bolivia's debt conversion program, the Central Bank of Bolivia will convert that debt first into collateralized, 25 year, zero coupon bonds (Bolivian Series A Investment Bonds), and will then redeem the Investment Bonds in local currency for 16.5% of their face value. Assuming that the debt was obtained for 11% of its face value, the transaction will yield 50% more local currency to PROCOSI than would have been generated by a normal exchange transaction. This benefit will be lower if PROCOSI must pay more than \$0.11 per dollar of debt.

Under new regulations that the Government of Bolivia has recently approved in principle, all of the debt conversion's proceeds will be disbursed to PROCOSI immediately, instead of over the course of the project as was previously the case. As a result of this important change, PROCOSI will be able to hold the conversion proceeds in interest bearing dollar-denominated local currency accounts. The interest rate currently paid on such accounts is 14-15%, significantly more than the current or expected rate of inflation of the dollar and more than can be obtained on term deposits in the U.S. or Eurodollar markets. PROCOSI will thus be able to not only maintain the real value of these assets, but to increase them. As PROCOSI will enjoy both an initial conversion benefit and a positive return on investment in financial instruments, the total return from the debt conversion should exceed 50%.

PROCOSI can utilize these resources in a variety of ways. If PROCOSI uses \$5 million for the debt conversion and is able to

purchase debt at 11% of its face value, it would receive \$7.5 million in local currency proceeds. Invested at 12% (assumes that the current rate will decline by several points), these resources would generate the local currency equivalent to \$900,000 annually (in current dollars). Used in this manner, the proceeds of the debt conversion would permit PROCOSI to expand its current program and to sustain that program well beyond the five year life of the AID project.

The actual amount of the debt conversion depends largely on AID's ability to provide resources to PROCOSI early in 1991. After consultations with Mission staff, PROCOSI proposes an immediate disbursement from AID of \$5 million. Assuming that it can locate creditors willing to sell their debt at \$0.11 or close to that price, PROCOSI would use all but a small amount for the debt conversion. The funds held out of the conversion would ensure that PROCOSI had funds available to purchase a small amount of local currency to maintain operations until the debt conversion is completed and to finance its dollar costs until additional AID funds are made available in FY 1992.

B. Special Concerns, Costs and Risks

1. Shortage of Debt

The most serious obstacle facing PROCOSI in its efforts to leverage resources through a debt conversion is that there may not be debt available to purchase and convert. This risk results from the fact that Bolivia has only about \$200 million of external commercial debt outstanding, and the government has indicated its intention to obtain donor funds to repurchase that debt on the secondary market. Once Bolivia has the necessary funds and the willingness of commercial creditors to proceed, the remaining stock of debt may disappear. The proposed debt conversion must occur first.

A related concern is that debt will be available only at a higher price than anticipated. With the small stock of debt remaining and the expectation that there will be an effective floor price of \$0.11 established by the Bolivian Government's demand, it may be difficult to obtain the agreement of creditors to sell at that price. Additionally, the demand created by this transaction as well as that generated by other NGO projects and for-profit investors may push the price upward.

If the external commercial debt is unavailable to PROCOSI at an attractive price, PROCOSI and DDF will explore the possibility of carrying out the conversion using already existing Series A Investment Bonds. These are dollar-denominated, zero coupon bonds which were created in exchange for external debt during the 1988-90 period. DDF regards the use of Investment Bonds as a fall-back instead of a first option because of the higher priority the

Government of Bolivia and AID give to retiring overdue debt than to retiring bonds not payable for more than 20 years and because the leverage or benefit to PROCOSI is likely to be less. Nevertheless, the conversion of existing Investment Bonds may be an attractive option.

To minimize the risk that debt availability will be a problem, DDF has sought and obtained strong assurances of cooperation from Central Bank officials. In any event, PROCOSI and AID incur little financial risk in pursuing this opportunity vigorously. If the conversion attempt fails because debt is not available at an attractive price, none of the AID/PROCOSI principal will be jeopardized. Sunk costs will include only some lost time by AID, PROCOSI and DDF staff and a small retainer paid to DDF.

2. Lack of Local Currency

Assuming that PROCOSI uses \$5 million for the conversion and obtains debt at \$0.11 per dollar of face value, the Government of Bolivia will need to provide \$7.5 million in local currency. Given Government of Bolivia fiscal problems, PROCOSI has been concerned that the government could fail to pay or could delay the payout of local currency that it would be entitled to under the debt conversion.

A review of recent Bolivian debt conversions with the private sector, however, has revealed no evidence that the payment of local currency has been a problem. Two-thirds of the local currency is effectively guaranteed by donor contributions to a debt reduction account maintained in the U.S. The remaining third comes from the Bolivian Treasury. With the assistance of DDF and the USAID Mission, PROCOSI has received strong verbal and written assurances from Bolivian officials that the payment of local currency will be completed promptly. The involvement of AID provides additional insurance that the Government of Bolivia will fully meet its commitments under the conversion.

3. Maintenance of Value

The traditional mechanism of the Bolivian debt conversion program has been for the Central Bank to pay out the local currency as needed to implement the project. Until disbursed, the Central Bank held the funds in what was effectively a dollar-denominated, non-interest bearing account. This mechanism protected the investor against the possibility of high Bolivian inflation, although it left him vulnerable to the presumably modest inflation of the U.S. dollar. Since most investors carrying out debt conversions used the proceeds quickly, this has not been a problem.

Since PROCOSI wishes to use the resources over a longer period, DDF sought and obtained Government of Bolivia agreement that it would disburse the proceeds immediately to PROCOSI and

allow it to hold those resources in interest bearing commercial bank accounts. As PROCOSI will hold the proceeds in local currency accounts which are denominated in dollars and which pay interest at rates greater than the U.S. inflation rate, maintenance of value should not constitute an issue.

4. Additionality

Bolivia normally requires NGOs doing debt conversions to use the benefit over the normal exchange rate (the "Premium") for activities that are "additional" to what they would otherwise have carried out. The base for determining additionality is the budget of the organization in the year prior to the debt conversion.

PROCOSI will have no difficulty meeting this requirement, since its program will more than double from the 1990 level. Moreover, the government's new disbursement rules indicate that the interest earned on the proceeds, which will constitute the bulk of the funds PROCOSI expends during the project period, can be used to "maintain" existing activities. It is thus unlikely that the government will require that PROCOSI demonstrate additionality until it begins to expend its principle.

5. Reconversion

AID's Office of the General Counsel has indicated that the reconversion of local currency generated in a debt conversion to dollars is prohibited under AID rules. PROCOSI will hold enough dollars outside of the debt conversion to assure an adequate supply of dollars to meet its needs. PROCOSI at no time will reconvert local currency to dollars.

6. Management Issues

To ensure the safety of its assets and an adequate cash flow from interest earnings, PROCOSI will need to continuously review which banking institutions should hold its assets and the length of its time deposits. This will create a need for financial expertise that PROCOSI does not now have on its staff, but which it can readily obtain in Bolivia.

C. Next Steps

To minimize the risk that debt will not be available, PROCOSI has already initiated the next steps to make the proposed debt conversion a reality. Working with DDF staff and its Bolivian lawyer, PROCOSI is developing its application to the Central Bank for the conversion. As DDF has helped to identify and resolve several issues pertaining to its application, PROCOSI is confident of approval. PROCOSI has also asked DDF to begin the process of approaching Bolivia's commercial bank creditors.

Introduction

The Debt-for-Development Foundation (DDF) has prepared this report for the U.S.AID Mission to Bolivia and for the Programa de Coordinacion en Supervivencia Infantil (PROCOSI) in response to AID Purchase Order No. 511-0000-0-00-1139 dated February 22, 1991. The report is designed to assist PROCOSI and USAID/Bolivia to determine whether to undertake a debt conversion in conjunction with the proposed AID-assisted PROCOSI II project, to provide assistance to PROCOSI in the preparation of its funding proposal to AID and to provide guidance to AID on the documentation and procedures that it might follow.

In preparing this report, DDF contracted with and benefitted from close collaboration with the Bolivian law firm of Servicios Legales S.C. (SLSC). The information provided in this report concerning the Bolivian debt conversion program and the environment in which it operates is based on (i) publicly available information, (ii) SLSC's experience with debt conversions in Bolivia, (iii) information provided to DDF and to SLSC in numerous meetings with Bolivian government officials, private commercial banks and NGOs, and (iv) correspondence between SLSC and the Central Bank of Bolivia. This information was gained primarily through DDF's visits to Bolivia in September and December, 1990, and March 1991.

DDF has gone to considerable lengths to confirm the accuracy of information provided verbally and to get Government of Bolivia commitments in writing when that appeared appropriate; DDF thus has a high degree of confidence in the accuracy of the information provided. However, the reader must appreciate that some of the information contained in this report is subject to changes in the Bolivian government's laws, policies, regulations or administrative decisions, to changes in Bolivia's economic or political situation and to decisions that may be taken by commercial creditors and donor organizations.

DDF and SLSC believe that Bolivia's debt conversion program can offer significant financial returns to PROCOSI and to other NGOs that use it in the near future. This report describes the Bolivian debt conversion program, its financial benefits and special considerations and risks that NGOs should consider before using debt conversions to support their Bolivian programs..

DDF's conclusions in this report are based on certain assumptions about the intentions of PROCOSI and AID. These assumptions include (1) that those parties plan to proceed in the very near future with an expanded program of activities, (2) that AID will be able to provide dollar funding as a grant to PROCOSI within several months and (3) that PROCOSI will be successful in quickly obtaining legal status in Bolivia and in registering as a Private Voluntary Organization (PVO) with AID.

While proceeding with a debt conversion is not without costs or risks, DDF believes that the potential financial benefits and the importance of those benefits for PROCOSI's long term viability indicate that PROCOSI and AID should proceed. Should those parties decide to proceed, this report indicates the steps that must be taken and a proposed timetable.

DDF, with the cooperation of SLSC, is prepared to assist PROCOSI to complete the proposed debt conversion. DDF and SLSC would provide technical assistance that includes:

- updating, as necessary, information provided in this feasibility analysis,
- identifying potential issues that may arise between the Government of Bolivia and PROCOSI with respect to PROCOSI's Application and proposing and negotiating ways of resolving those issues,
- advising and assisting PROCOSI in preparing and submitting its Application to the Central Bank,
- counseling PROCOSI in its discussions and negotiations with governmental and regulatory authorities in Bolivia,
- assisting PROCOSI in identifying appropriate commercial creditors and negotiating for the purchase of their debt,
- preparing appropriate contracts and other legal documents related to closing the debt conversion transaction, and
- rendering such other advisory services (including those provided by SLSC) as may be required, in DDF's judgment, to complete the debt conversion transaction.

Appendix B of this Information Packet provides background information about DDF and SLSC.

I. Bolivia's Debt Conversion Experience

Bolivia's experience with debt conversions has been almost exclusively with for-profit private sector investors. Since 1988, the Bolivian government has approved _____ debt conversion applications of which _____ conversions have been completed (completion being defined as the local currency proceeds having been paid by the Central Bank). The total face value of external debt canceled in these conversions is \$_____.

Debt conversions undertaken by private sectors investors have normally taken about five months to process, measuring from the time an investor submits its Application to the Central Bank to the time that the Central Bank disburses proceeds. This time frame may be shorter for NGO debt conversions. According to SLSC, private sector debt conversions have proceeded smoothly, with local currency proceeds normally being disbursed according to the government's agreement with the investor.

To date, the only debt conversion completed by an NGO was a 1987 debt-for-nature transaction conducted by a United States environmental NGO, Conservation International. In that transaction, Conservation International used \$100,000 to purchase \$650,000 worth of debt (about \$0.15 on the dollar). The NGO agreed to cancel the debt in return for the government's commitment to create three conservation areas and to create a \$250,000 local currency fund for environmental protection activities. This debt-for-nature transaction was completed successfully but faced certain difficulties, including delays in disbursements and adverse publicity due to the false perception that a United States NGO was purchasing Bolivian national lands.

To encourage and facilitate debt conversions by NGOs implementing social, economic and environmental programs, the Central Bank, in 1988, issued Directors' Resolution No. 191/88 (the "Debt-for-Development Resolution"). The Debt-for-Development Resolution stipulates that debt conversions may be carried out only by not-for-profit organizations legally established in Bolivia engaged in programs of social assistance, social development and environmental protection. Since passing that resolution, however, the Bolivian Government has not responded positively to debt conversion applications submitted by NGOs, leading many observers to conclude that NGO debt conversions were not feasible. (Spanish and English versions of The Debt-for-Development Resolution are provided in Appendix C.)

Central Bank and Ministry of Planning officials have recently indicated that the Bolivian government is now interested in assisting NGOs with debt conversions. (Section II.F. provides additional information on the government's support for NGO debt conversions.)

II. The Proposed PROCOSI Debt Conversion

A. Potential Benefits and Costs to PROCOSI

The financial terms of Bolivia's debt conversion program normally permit an NGO to receive an immediate financial benefit or premium (the "Premium") of 50%, payable in local currency ("Bolivianos") for every dollar used in the transaction. In effect, an NGO can expect to receive \$1.50 worth of Bolivianos for every \$1.00 it channels through the debt conversion process.

The 50% benefit is based on the government's policy of providing 16.5 cents in local currency for each dollar of debt canceled and assumes that the NGO obtains the debt for 11 cents on the dollar. The benefits of a debt conversion may vary depending on the price an NGO pays to acquire the debt. Eleven cents is the price established under Bolivia's 1987 agreement with the commercial banks. (Section II.A. provides additional information about the supply and price of Bolivian debt.)

1. PROCOSI: The Conversion Benefits

In the case of PROCOSI, were it to utilize \$5 million for a debt conversion, it could purchase approximately \$45.4 million of Bolivian commercial debt. That debt would be exchanged for new 25 year, zero coupon Investment Bonds with a face value equal to the debt presented. Those Bonds would then be exchanged for local currency equal to 16.5% of the face value, or the local currency equivalent of U.S.\$7.5 million, using the exchange rate prevailing on the day of disbursement. (The conversion process is described in Section III.)

The price of Bolivian debt is determined by market conditions and is subject to negotiation. If PROCOSI is able to purchase Bolivian debt for less than 11% of its face value, its benefits per dollar used in the debt conversion would exceed 50%. If debt were obtained for 10.5% of face value, the direct benefit to PROCOSI would rise to 57%.

It is more likely that the price will be higher rather than lower than the 11% benchmark. There are only about 56 banks holding Bolivian debt, and the total quantity outstanding is small -- about \$209 million. Given the small size of the market, the price could be pushed upward by demand coming from any of several sources. (See Section II.A.) Should PROCOSI be forced to pay more than \$0.11 per dollar of debt, the direct benefit from the debt conversion would be less than 50%. For example, were PROCOSI to pay U.S. \$0.12 or \$0.13 per dollar of face value, the benefits would drop to 38% to 27%, respectively.

The above discussion assumes that PROCOSI will be purchasing and canceling Bolivian commercial bank debt currently outstanding.

Central Bank authorities have made it clear that the current debt conversion opportunity to NGOs is premised on their purchase and cancellation of outstanding commercial bank debt. However, if an adequate supply of commercial debt were not available (under circumstances discussed below), Central Bank officials have indicated that NGOs might have recourse to an alternative form of debt conversion. Under this alternative, NGOs would purchase and exchange investment bonds previously issued by the Bolivian government. In the event that this option is used, the conversion benefit to an NGO could be more or less than 50%, depending on the market price of these instruments.

2. PROCOSI: The Investment Benefits

Aside from the direct financial benefits of the debt conversion, PROCOSI will also realize important secondary benefits as a result of its being able to receive and invest much of its funding immediately rather than over the life of the project. Because it will be able to invest those resources in interest bearing financial instruments, it receives the full value instead of the value depreciated by inflation (the "discounted value") of the funds that AID makes available for the debt conversion. This benefit results from AID's willingness to advance funds for the purchase of debt and from the recent decision by the Government of Bolivia to permit PROCOSI to receive all of the proceeds of the debt conversion immediately.

The direct benefits from the debt conversion and the benefits from being able to invest the proceeds of the conversion are expected to generate a significant increase in the resources available to PROCOSI. Those resources will permit higher expenditures during the AID project period, the creation of an income generating saving account to sustain project activities after the AID project period or some combination of these two objectives.

3. PROCOSI: Financial Alternatives

Table A shows how \$5 million of AID financial assistance might be used with and without a debt conversion. The analysis assumes (i) AID can make available \$5 million for the debt conversion, (ii) the debt is obtained at \$0.11 per dollar of face value and thus returns a benefit of 50%, (iii) inflation of the U.S. dollar is 5%; (iv) the proceeds of the debt conversion can be invested in local currency accounts with maintenance of value (U.S. dollar-denominated) paying 12% and (v) PROCOSI's expenditures will increase by about 5% in real terms and about 10% in nominal terms annually. The analysis is presented in both current and constant dollars. The five options illustrated in the table are discussed below.

Table A

PROCOSI : Analysis of Various Expenditure Options

Assumptions:

1. Inflation Rate (US \$) = 5%
2. Interest Rate on US\$ (in Bolivia) = 12%
3. Debt Conversion Yields a 50 % Gain

All amounts in US \$ millions

Features	Current Dollars									1991 Constant Dollars (Approx.)								
	AID Disburs.	Expenditures					Total Expend.	Residual (Endow.)	Total	Expenditures					Total Expend.	Residual (Endow.)	Total	
		1991	1992	1993	1994	1995				1991	1992	1993	1994	1995				
A Nominal Disbursement, No Convers. or Interest	5.0	0.8	0.9	1.0	1.1	1.2	5.0	0.0	5.0	0.8	0.9	0.9	0.9	1.0	4.5	0.0	4.5	
B Immediate AID Disb., Debt Conversion, Proceeds Paid & Expended Over 5 Years, No Interest Earned.	5.0	1.2	1.4	1.5	1.7	1.8	7.5	0.0	7.5	1.2	1.3	1.4	1.4	1.4	6.7	0.0	6.7	
B Immediate AID Disb., Debt Conversion, Proceeds Paid immed. Invested and Expended Over 5 Years	5.0	1.5	1.7	1.9	2.1	2.3	9.5	0.0	9.5	1.5	1.6	1.7	1.8	1.9	8.5	0.0	8.5	
D Immediate AID Disb., Debt Conversion, Proceeds Paid Immediately, Invested, Interest Only Expended	5.0	0.9	0.9	0.9	0.9	0.9	4.5	7.5	12.0	0.9	0.9	0.8	0.8	0.7	4.1	6.0	10.1	
E Immediate AID Disb., Debt Conversion, Proceeds Paid Out Immediately, Invested, Interest Expended w/out Decrease in Fund Value	5.0	0.5	0.6	0.6	0.6	0.7	3.0	9.4	12.4	0.5	0.5	0.5	0.5	0.5	2.7	7.5	10.2	

Option A. Option A shows that, under normal AID disbursement procedures, PROCOSI would receive and expend \$5 million over five years, rising from \$800,000 in 1991 to \$1.2 million in 1995. Because of inflation, the real value of expenditures (in 1991 dollars) would be about \$4.5 million, increasing from \$800,000 in 1991 to \$1 million in 1991. There would be no funds left at the end of the period to continue PROCOSI's activities.

Option B. This option assumes that the \$5 million is used for a debt conversion resulting in local currency valued at \$7.5 million. The Government of Bolivia holds those funds in a non-interest bearing dollar-denominated Central Bank account until PROCOSI needs them. (As explained elsewhere in this report, this was the only disbursement procedure open to participating NGOs until the government recently agreed to an immediate disbursement procedure.) PROCOSI spends the entire benefits over the five year life of the project. Expenditures on child survival activities are \$7.5 million in current dollars or \$6.7 million in constant 1991 dollars, 50% greater than under Option A. No funds remain at the end of the period to ensure the sustainability of PROCOSI's program.

Option C. Option C assumes a \$5 million debt conversion, the immediate disbursement of local currency proceeds equal to \$7.5 million and the expenditure of all funds expended over five years. Because interest is generated on the proceeds, expenditures rise to about \$9.5 million in current dollars and \$8.5 million in constant 1991 dollars, about 90% greater than under Option A. This option offers the greatest short-term impact, but there is no financial provision for sustainability.

Option D. Like Option C, Option D assumes a debt conversion with \$5 million and the immediate disbursement of local currency valued at \$7.5 million, but only the interest on the proceeds is expended during the project period so that the \$7.5 million remains as savings to finance future activities. Despite the fact that the \$7.5 million of principal is not diminished (in current dollar terms), expenditures during the five years of the project are \$4.5 million (in current dollars), or 90% of what they would have been under Option A. Inflation of the dollar will have caused the real value (in constant 1991 dollars) of PROCOSI's savings to decrease to \$6 million; it will continue to decrease as all interest is expended. Option D thus achieves a desirable level of expenditures during the project period and creates a sizable (but not fully adequate) savings fund to sustain the PROCOSI program.

Option E. Option E is similar to Option D. However, Option D reduces the expenditure of interest proceeds during the project period by one-third, from \$4.5 million to \$3 million, capitalizing the remaining \$1.5 million in order to maintain the real value of retained principal at \$7.5 million. The required reduction in expenditures during the project period may not be desirable, and it is doubtful that the Government of Bolivia will permit NGOs to reinvest (capitalize) interest. Maintaining the real value of the unexpended principal at \$7.5 million will thus require that PROCOSI obtain other revenue or contributions so that it can expend all interest from the conversion proceeds on the program and save some of those other revenues.

This analysis indicates that the debt conversion with the immediate disbursement of resources to PROCOSI makes possible significantly improved financial options: a \$5 million debt conversion could lead to expenditures during the first five years of \$9.5 million or to a combination of expenditures during the period and savings at the end of the period totaling over \$12 million.

4. PROCOSI Costs

Several factors may reduce the effective benefit of a debt conversion to an NGO. These factors include costs arising from NGO administrative time and expenses devoted to the debt conversion, technical assistance fees and commissions and legal and accounting fees for services rendered during and after the debt conversion transaction. These costs should not have a significant effect on the very considerable financial gains that accrue to PROCOSI from the proposed transaction.

The value of the proceeds received from a debt conversion transaction may also be affected by interest rates, devaluation and the mechanism used to ensure the maintenance of value of the proceeds. (Section II.C. provides additional information on these variables.) No Bolivian taxes will be applied to NGO debt conversions.

B. Costs and Benefits to Other Participants

The proposed debt conversion will affect the other participants -- the commercial banks, the Government of Bolivia and AID -- in the following manner.

Commercial Bank Creditors: Assuming that commercial bank creditors sell \$45 million of Bolivia's debt for \$5 million (for \$0.11 per dollar of face value), they will recover \$5 million and record a loss of \$40 million. The loss may have been recorded for tax purposes some years ago. Banks chose to

participate voluntarily in debt conversions such as this one because the alternative may well be larger losses.

Government of Bolivia. The government benefits from a reduction in its external debt obligations of \$45 million and from an NGO investment of \$7.5 million. (Interest benefits and costs are not included here.) The cost to the government is only \$2.5 million. Although it pays out \$7.5 million of local currency to PROCOSI, \$5 million comes from donor contributions set aside in a special IMF account for Bolivian debt reduction activities.

AID and Other Donors. Donors view the benefits in the same way as does the government: benefits include \$45 million of debt reduction and \$7.5 million in development projects. The cost to donors is \$10 million. This includes \$5 million obligated to PROCOSI (which ends up in the hands of the commercial banks) and \$5 million donated to a special Bolivian debt reduction fund established at the IMF. Monies in that account can be used for direct buy-backs or to purchase AAA/Aaa zero coupon bonds which collateralize Investment Bonds issued when commercial debt is converted. When the Investment Bonds are subsequently converted to local currency for an approved investment, the collateral bonds are sold and the proceeds go to the Government of Bolivia to provide to the investor.

DDF understands that AID is considering allowing the Government of Bolivia to use up to \$6 million of its ESF cash transfer funds to augment resources in the above-mentioned IMF debt reduction account. Since donor funds placed in that account are commingled, it will be impossible to identify which donor's \$5 million is used to collateralize the Investment Bonds which PROCOSI utilizes. Were these collateral funds to come from AID, it would be providing the entire \$10 million donor contribution required for the proposed debt-for-development transaction. In this case, AID would be providing \$10 million to achieve the very considerable "donor benefits" identified above, i.e., a \$45 million debt reduction and \$7.5 million in development projects.

III. Special Considerations and Risks in Bolivian Debt Conversions

An NGO considering using the Bolivian debt conversion program to finance its activities should evaluate the following special considerations and risks before undertaking the transaction.

A. Availability of Bolivian Debt for Conversion

In December, 1990, the Central Bank indicated to DDF and SLSC that approximately \$209 million worth of commercial external debt remained outstanding and that approximately \$115 million was available for purchase at 11 cents on the dollar. The amount of debt available for conversion is thus very limited.

To assist NGOs find and purchase debt available for conversion, Central Bank officials have offered to identify to DDF and SLSC those commercial banks that the Central Bank believes are willing to sell debt at 11 cents on the dollar. Government officials have told DDF and SLSC that many of the approximately 60 remaining creditor banks are willing to sell at that price.

DDF and SLSC believe that there is a risk that, by the time NGOs have completed the preliminary steps needed to undertake a debt conversion, there may be no commercial bank debt available at this price to convert. This unusual risk results from the fact that the Bolivian Government is pursuing two methods for eliminating or reducing its remaining commercial debt: debt repurchase and debt conversion.

Under its plan to repurchase (or "buy-back" or "retire") its debt, the Bolivian government seeks to extinguish its remaining commercial external debt by purchasing it from creditor banks. Assuming that all creditors agree to sell their debt to the Government at \$0.11 per dollar, Bolivia would need about \$23 million for the repurchase. The government has been seeking the needed funds from various donors. It now appears that the World Bank will provide \$10 million to Bolivia from a special grant facility created to assist heavily indebted low income countries and that AID will authorize the use of \$6 million of its funds for the debt buy-back. The government also appears to have conditional commitments from the Dutch, Swiss and Swedish Governments to provide the remaining funds needed for this debt buy-back.

The timing of these contributions remains uncertain, but government and donor officials expect that the planned debt repurchase will occur in the first six months of 1991. NGO debt conversions can only occur if they are presented and completed before the debt is depleted through the repurchase. DDF and SLSC will continue to monitor progress on the buy-back through their contacts in the Government of Bolivia and its commercial bank creditors, the World Bank and AID.

Despite their efforts to make the repurchase successful, Bolivian government officials have indicated that they would welcome sound debt conversion proposals from NGOs. NGO debt conversions can substantially reduce the amount of debt that Bolivia will need to repurchase and may enable the Bolivian government to redirect scarce dollar resources from the buy-back to other needs.

DDF, SLSC and Bolivian government officials believe that NGO debt conversions can be completed successfully if they act in a timely manner. It is also possible that even if Bolivia assembles all of the funds necessary for a total debt buy-back, certain banks may resist the government's \$0.12 buy-back offer. In that event, the government and DDF believe that some of these "hold-out" banks may be amenable to selling at that price to NGOs carrying out humanitarian projects.

NGOs seeking to carry out debt conversions also face potential competition for the diminishing stock of debt from two other sources: for-profit private sector investors and other NGOs. DDF and SLSC believe that the current level of interest in the for-profit private sector will not significantly affect NGO chances for debt conversion. Government officials have indicated that they do not anticipate serious applications from NGOs other than those with which DDF and SLSC are working. In the event that two or more NGOs which DDF and SLSC are assisting seek to purchase the same debt, DDF and SLSC will ask participating NGOs to consider sharing the available debt on a pro rata, and not a first come, first served, basis.

Once the supply of commercial debt has been eliminated, NGO debt conversions may still be possible if the Government of Bolivia agrees to permit NGOs to purchase and to convert Series A Investment Bonds previously issued under the 1987 agreement with its commercial bank creditors. Investment Bonds normally sell for slightly over their present value. (See Appendix E.) This means that a conversion transaction using these older Investment Bonds might yield a benefit somewhat lower than the 50% gain expected from the type of debt conversions described above.

A second but more remote possibility is that a limited amount of official debt might be offered for sale on the secondary market. Under a provision of the Bush Administration's Enterprise for the Americas Initiative, the U.S. Government could sell a portion of the bilateral debt that Bolivia owes to the Export-Import Bank and Commodity Credit Corporation ("CCC") for use in debt conversions. Bolivia has no debt to the CCC but owes approximately \$33 million to the Export-Import Bank. To date, no legislative action has been taken on this component of the Enterprise Initiative.

B. Availability of Local Currency Proceeds

A successful NGO debt conversion depends on the government's ability and willingness to disburse the required amount of local currency on the agreed-upon schedule. The availability of Bolivian proceeds resulting from the debt conversion depends on the following factors:

1. The Central Bank's Financial Position

Debt conversions in Bolivia are managed by the Central Bank. Of the full amount to be disbursed, two-thirds are drawn from Government of Bolivia resources already set aside and held in a special account in the United States. The Central Bank must obtain the remaining one-third, the Premium, from the Bolivian Ministry of Finance. Senior Central Bank and Ministry of Finance personnel have participated actively in recent discussions of this program, and officials of both organizations have indicated repeatedly that the required local currency resources will be available to meet the disbursement obligations for approved debt conversions.

Experience with completed private sector debt conversions appear to support the Central Bank's position that it can provide the resources for debt conversions and is a reliable counterpart. According to SLSC, the government has a good record for timely disbursements. In the few instances where disbursement delays have occurred, the Central Bank released funds within a few weeks.

2. Political and Economic Instability

Bolivia has had a stable, democratic form of government since 1982 with the next Presidential elections scheduled to be held in 1993. However, the country also has had a long history of coups. Were political instability to reoccur, this could cause the government to delay disbursements. NGOs contemplating a debt conversion can reduce this risk by structuring the transaction so as to limit the period during which it is dependent on government disbursements.

3. Administrative and Technical Obstacles

In any country, government disbursements can be delayed by bureaucratic or technical obstacles. In Bolivia, because authority to approve and monitor debt conversion projects resides exclusively in the Central Bank, this risk is minimized. Bolivian officials indicate that an Application, once approved by the Central Bank, is not subject to further review by non-Central Bank authorities.

The Central Bank's record in private sector debt conversions indicates that disbursement of proceeds-related risks are low. To eliminate residual risks and to protect the value of conversion proceeds (as discussed below), DDF and SLSC have asked the Central

Bank to consider disbursing all debt conversion proceeds immediately to NGOs in lieu of disbursing funds over time. This proposal has been endorsed in principle by the Central Bank and has been approved by Bolivia's Comité de Financiamiento Externo. It now requires formal action by the Central Bank to become effective. DDF and SLSC expect the Central Bank to approve this new provision before the end of March. This action would eliminate the risk that deteriorating economic or political conditions would imperil the disbursement to NGOs. (Documents pertaining to this new disbursement mechanism are provided in Appendix I.)

If the government does not make this change, limits its applicability or if an NGO chooses to receive its local currency from the Central Bank over time, NGOs can partially mitigate disbursement-related risks by building funding flexibility into their financial plans and Applications. In this case, NGOs should consider projecting their expenditures slightly ahead of schedule in their Applications and maintain a dollar or local currency reserve fund to cover program expenses. If an NGO's project expenditure rate exceeds the debt conversion disbursement schedule, Central Bank officials have indicated that NGOs cannot expect to solve this problem by revising the disbursement schedule established in an approved Application.

In the event the Central Bank fails to pay debt conversion proceeds, NGOs may have recourse to a debt conversion guarantee mechanism created in conjunction with the Bolivian government's 1987 agreement with the commercial banks. This mechanism collateralizes Central Bank Series A Bonds used for the debt conversion with "first class international investment instruments," bonds rated AAA/Aaa. These collateralization bonds are held in a fiduciary account in the United States by Merrill Lynch & Co. The collateralized or "present value" of the Investment Bonds is equal to 11% of its face value and increases by 7.45% annually for 25 years until it equals the face value. The collateralization bonds provide debt conversion participants with a method of recovering their investment plus a reasonable interest, but not the Premium. DDF and SLSC have asked and received written confirmation from the Central Bank that the Investment Bonds to be issued under future NGO debt conversions will be collateralized Series A Bonds. (SLSC's letter to the Central Bank and the Bank's response are provided in Appendix F.)

A final factor mitigating disbursement-related risks is the nature of the current list of likely debt conversion participants. These participants include major donors (such as AID) to Bolivia. Their presence may help ensure that the Central Bank performs its agreements to disburse proceeds according to agreed-upon schedules.

C. Maintaining the Value of Debt Conversion Proceeds

In the debt-for-development context, "maintenance of value" refers to an NGO's ability to maintain the value of its debt conversion proceeds. Maintaining the value of debt conversion proceeds can be a major concern in debt-for-development conversions, especially if NGOs use debt conversions to change dollars into local currency well in advance of their projected funding needs. Inflation can erode the real value of debt conversion proceeds over time. The longer local currency is held, the greater the risk that the value of debt conversion proceeds will erode. Bolivia has had a history of high inflation and devaluations. Accordingly, NGOs should be aware of the need to protect the value of the debt conversion proceeds.

To protect the NGOs against this risk, the current disbursement provisions of the Bolivian debt conversion program stipulate that the Central Bank hold NGO debt conversion proceeds in dollar denominated accounts until making disbursements. Bolivianos are then disbursed at the official rate of exchange in effect on the day of conversion. Dollar denomination of the proceeds ensures that the NGO will not suffer a financial loss due to Bolivian inflation or devaluations of the Boliviano between the time the debt conversion is completed and the time funds are disbursed. Thus, if Bolivian inflation caused the exchange rate to increase from the current 3.47 Bolivianos to 5.0 Bolivianos per dollar before an NGO received payment, the NGO would receive the higher rate.

These provisions for maintenance of value in the Bolivian debt conversion program compare favorably with those of many other countries. However, participating NGOs can find themselves having effectively tied-up considerable amounts of dollars in a non-interest bearing account in the Central Bank of Bolivia. If the NGO uses the debt conversion proceeds over a relatively short time period, this loss of interest will be insignificant compared to the gain obtained from the debt conversion premium of 50%. The loss becomes increasingly significant the longer the NGO waits to use the proceeds.

In the event that Bolivian government does not agree to permit NGOs to receive their funds immediately and to hold them in an interest bearing commercial bank account, NGOs will need to consider how much of their dollar resources to use in a debt conversion transaction. The following table illustrates how an NGO might evaluate this question. For illustrative purposes, we assume that the NGO has a five-year project costing \$5 million. The funds are available at the start of the project, and the NGO could hold them in safe U.S. securities or in U.S. bank certificates of deposit earning 9%.

TABLE B
FINANCIAL BENEFITS FROM A DEBT CONVERSION
(U.S. \$000)

<u>YEAR</u>	<u>DEBT CONVERSION DOLLAR VALUE OF PROCEEDS</u>	<u>INVESTED IN U.S. DOLLAR VALUE OF PROCEEDS</u>	<u>PERCENTAGE GAIN FROM CONVERSION</u>
1	1,500	1,000	50%
2	1,500	1,090	41%
3	1,500	1,190	31%
4	1,500	1,300	20%
5	1,500	1,410	9%
<u>TOTALS</u>	7,500	5,990	20%

The table shows that if debt conversion proceeds are held in a non-interest bearing account, the benefits are greatest (50%) in the first year, and they diminish by 9% (compounded) annually. Under these assumptions, the NGO would be almost as well off to finance expenditures in the fifth year by simply holding one-fifth its dollars (\$1 million) in a U.S. bank account. The small financial loss derived from holding those funds outside of the debt conversion would be offset by savings on transaction costs and risks. Because the Bolivian government does not require that a debt conversion be for the entire amount of a project, NGOs should consider using the debt conversion to finance project expenditures over the project's initial years, during which time the debt conversion benefits are greatest.

As noted above, the Government of Bolivia appears ready to disburse all conversion proceeds immediately to NGOs. These proceeds could then be held in interest bearing accounts in commercial banks or in other financial instruments. NGOs will need to determine how best to hold these funds, minimizing risk while earning a return that will protect them fully from inflation and devaluation. DDF's preliminary review of the Bolivian financial market has found that a variety of commercial bank time deposits and certificates of deposit pay interest rates exceeding current inflation. Options include local currency accounts that are denominated in dollars and that currently pay interest rates of about 14%, well in excess of the London Inter-bank Offer Rate (LIBOR) standard. NGOs should be aware that the Government of Bolivia intends to bring interest rates down as part of its economic strategy.

The Central Bank's willingness to permit immediate disbursement of conversion proceeds will allow NGOs to hold and invest such proceeds for up to ten years. During that period, it is anticipated that NGOs will be required to utilize interest earned and paid on the invested capital to maintain their programs.

It appears that capital can be maintained for up to ten years, after which NGOs will be required to indicate how the remaining capital will be used. (DDF and SLSC are attempting to obtain written confirmation regarding the rules that apply to the ten year limit.)

NGOs that receive their debt conversion proceeds immediately and that are permitted to hold those funds in interest bearing accounts have an unusual opportunity to ensure program and institutional sustainability over at least a ten year period. The possibility also exists, assuming that this investment or endowment fund concept is successful, that the Government of Bolivia will permit NGOs to hold funds in an endowment form.

D. Additionality

Under its existing disbursement rules (based on expenditures identified in the Application), Bolivian authorities expect NGOs to use the Premium from debt conversions to fund new programs or expand ongoing programs in Bolivia. This provision ensures that NGOs will not use the better exchange rate offered through a debt conversion as a way of reducing their dollar commitment to Bolivia. NGOs may use the base amount (the two-thirds of the debt conversion proceeds which do not include the Premium) to finance on-going program activities. The Bolivian government uses the level of expenditures in the most recently completed fiscal year to determine whether the debt conversion premium is being used in accordance with these principles.

The immediate disbursement mechanism permits NGOs to use the proceeds to generate interest which may be used to maintain programs over the medium term. It thus appears that NGOs are not required to use the interest earnings to expand their level of activities. However, in no case should NGOs attempt to use the debt conversion to reduce their dollar commitment to Bolivia.

E. Reconversion of Bolivianos to Dollars

Debt conversions are generally viewed as a means of obtaining more local currency per dollar than would be obtained in a normal foreign exchange transaction. Most countries forbid reconverting local currency debt conversion proceeds back into dollars. This practice (sometimes referred to as "round-tripping") has been associated with fraudulent schemes in which "investors" obtain a government's authorization to engage in a debt conversion and then, having received the local currency, do not carry out the stipulated investment, but rather, reconvert the local currency into hard currency and remove it from the host country.

Bolivian officials have indicated that NGOs may, in certain cases, reconvert Bolivian debt conversion proceeds into dollars on the free market for legitimate project-related dollar expenses. The intention to reconvert, and the amount to be reconverted must be identified in the NGO's Application. Government officials have explained these provisions to DDF and SLSC staff, but the provisions do not appear in government regulations. NGOs contemplating any reconversion to dollars should first secure the written approval of the Central Bank.

DDF believes that the Bolivian government's position on reconversion reflects the current economic situation of the country. Bolivia's foreign exchange system permits the Boliviano to float against the dollar. Currently, there is no shortage of dollars in the free market. However, access to dollars on the free market could change markedly over the implementation period of an NGO project. NGOs with dollar project costs will need to assess carefully whether to hold dollars outside of the debt conversion or whether to assume the additional risks inherent in reconversion.

AID's Office of the General Counsel has informed DDF that NGOs using AID financing for debt conversions are prohibited from reconverting local currency proceeds into dollars. AID does not prohibit NGOs from maintaining local currency accounts in the Central Bank or commercial banks which are denominated in dollars for accounting and maintenance of value purposes.

F. Government of Bolivia Support for NGO Debt Conversions

Bolivian authorities in the Central Bank, the Committee for External Finance, the Ministry of Finance and the Ministry of Planning and Coordination have pledged their full support for NGO debt conversions that will fund activities consistent with the country's development priorities. Clear statements to that effect have been offered in meetings with NGOs, donor agencies (including AID and UNICEF), the U.S. Ambassador to Bolivia, DDF and SLSC. The strong support of senior Bolivian officials is an important asset to the debt conversion program.

As previously noted, the Government of Bolivia's renewed interest in NGO debt conversions reflects its desire to eliminate the country's outstanding commercial debt obligations at relatively little financial cost to the government or to the economy. The government realizes that all of the local currency resources which it provides in these conversions will be invested in economic, social and cultural projects that are priorities for the country. Additionally, the government will benefit from the excellent international press coverage that NGO debt conversions can generate. That press coverage can help to inform the international community about Bolivia's dramatic economic turn-around. As noted

above, the humanitarian appeal of NGO debt conversion might also serve to convince commercial banks that do not participate in the government's debt buy-back to offer their debt to NGOs at the 11 cent per dollar price.

Much of the support generated for NGO debt conversions is the result of the efforts of Mr. Peter McFarren, a Bolivian-American who heads the Quipus Cultural Foundation (QCF). Mr. McFarren has mobilized support for debt conversions to attract financing for a cultural center in La Paz. This cultural center will incorporate cultural, child welfare and small-scale enterprise programs. DDF and SLSC expect that debt conversion applications associated with the QCF project are likely to attract favorable attention from Central Bank authorities. (Appendix D provides a sampling of press reports on QCF's project.)

G. Post-transaction Management and Auditing

NGOs using debt conversion will need an annual audit conducted by an independent firm. The results of those audits will be made available to the Central Bank.

NGOs will also need to manage the considerable amounts of local currency proceeds that will be generated from the debt conversion. NGOs which obtain immediate disbursement of all proceeds will need considerable in-house financial planning and management skills and should consider obtaining professional assistance in managing their investment portfolio.

NGOs would appear to have a choice of a number of sound financial institutions in which to hold debt conversion proceeds. Nevertheless, DDF believes that it would be desirable to insure those holdings if this could be done at a reasonable price. DDF is exploring the possibility with the U.S. Overseas Private Investment Corporation (OPIC). DDF will make the results of its inquiries known to interested parties as soon as possible. (Section IV provides a discussion of financial and management issues facing PROCOSI and AID.)

IV. The Mechanics of the Debt Conversion Program

Bolivia's debt-for-development program for NGOs is governed primarily by Bolivian legislation and Central Bank resolutions issued in connection with the 1987 agreement with the commercial banks. Certain aspects of the program concerning disbursements and the timing of the debt purchase may be modified as the result of SLSC and DDF negotiations with the Central Bank.

The NGO debt conversion procedure described here reflects these Bolivian law and regulations, the administrative position of government officials and DDF and SLSC's judgments regarding how to ensure successful NGO debt conversions that mitigate risks. The process described below assumes that the NGO has decided to proceed with a debt conversion in cooperation with DDF and SLSC. (Numbers in parentheses indicate the estimated amount of time required to complete each step.)

Preparation of the Debt Conversion Application (3 weeks)

1. To participate in a debt conversion, an NGO must prepare an Application in Spanish for submission to the Central Bank. The Application provides the basis for the Central Bank's agreement to convert debt into Bolivian proceeds (the "Proceeds"). The Application describes the NGO, the project to be funded by the debt conversion (the "Project"), the use of the Proceeds and other relevant points. NGOs working with DDF and SLSC will receive detailed suggestions regarding the Application's contents and format. The NGO will be responsible for completing an initial draft Application.

2. DDF and SLSC will review the draft to ensure that it is complete and to identify and resolve issues that might be raised by the Central Bank. DDF and SLSC will provide the NGO with suggested revisions to the Application. The NGO will be responsible for preparing the final version of the Application.

3. The completed Application will be transmitted to the Central Bank. Submitting an Application to the Central Bank does not commit an NGO to completing the debt purchase.

Central Bank Review of the Application (4 weeks)

4. The Central Bank will review the NGO's Application. To ensure that the process moves smoothly, DDF and SLSC will suggest that the NGO designate DDF and/or SLSC as the NGO's agents in receiving and answering Central Bank questions or comments regarding the Application. DDF and/or SLSC will help the NGO prepare its responses to the Central Bank regarding the Application.

5. Once the Central Bank has reviewed the NGO's Application and is satisfied that all requirements have been met, it may issue a formal approval (the "Approval") of the Application to the NGO. Issuance of the Approval does not obligate the NGO to proceed with the debt conversion.

NGO Purchase of the Debt (4 weeks)

6. If an NGO decides to proceed with the debt conversion, DDF and SLSC will assist the NGO with the debt purchase and cancellation. To assist with the debt purchase, the Central Bank will identify (and may contact) creditor banks that it believes are willing to sell debt eligible for conversion at 11 cents on the dollar. DDF will contact the selling creditor bank on the NGO's behalf. The NGO should be prepared at this point to provide debt purchase funds either to an escrow account or to a major money center bank with which it will have executed a debt participation agreement with an "unwind provision" that provides the NGO with reimbursement of the purchase funds (with interest) if the debt conversion transaction is not completed. In either case, the NGO will retain the rights to its funds until the successful completion of the transaction. Completing the debt purchase requires the Central Bank to issue and redeem bonds.

Following the redemption of the bonds, the Central Bank will open an account (the "NGO Account") in the NGO's name. The Central Bank will then credit the NGO Account with the Proceeds in an amount calculated according to the official conversion rate in effect on the date of conversion. As indicated previously, the funds credited by the Central Bank to the NGO Account will either be (i) held at the Central Bank in an NGO Account that is pegged to a dollar value with disbursement being according to the Application's disbursement schedule, or (ii) be provided to the NGO in a lump sum. Whether NGOs have this latter option depends on the Central Bank's decision regarding a DDF and SLSC proposal now under consideration by the Central Bank.

Disbursements of Funds from NGO Account (Immediate)

7. If the Central Bank chooses not to disburse the Proceeds in a lump sum, disbursements from the NGO Account shall be made in accordance with the schedule provided by the NGO in its Application. On the specified dates, the Central Bank will transfer Proceeds from the NGO Account to the local NGO's commercial bank account in Bolivia. The value of the Proceeds to be disbursed will be calculated against a dollar value at the official rate of exchange to ensure that the real value of the Proceeds is maintained.

Post-transaction Activities (Until funds are fully expended)

8. Aside from normal implementation activities, the participating NGO will be responsible for ensuring that it can show that the Proceeds were used in accordance with the Application. As evidence of this, the Central Bank requires that the NGO provide audited financial statements, with the audit being done by a recognized independent accounting firm. Assuming that the Central Bank disburses the local currency proceeds immediately upon completion of the debt conversion, the NGO will also have the additional responsibility of managing (investing) those resources in a manner that ensures maintenance of value.

V. PROCOSI and AID Management Considerations

A. PROCOSI Financial Management

Assuming that the Government of Bolivia agrees to the immediate disbursement of proceeds, DDF recommends that PROCOSI place all of the proceeds of the debt conversion into term deposits in the commercial banking system, even if for only one or two months. Although the project planning team will need to study this question more closely, DDF believes that it may be possible through careful planning and financial management to generate sufficient interest to avoid expending any of the debt conversion proceeds. Thus, PROCOSI might be able to start and to maintain the endowment at the full value of the debt conversion.

Placing all of the proceeds, even if temporarily, into the endowment may also help to avoid complicated discussions about additionality. If some of the proceeds are used immediately for expenditures, the Central Bank may view this as falling under its older disbursement rules and expect that one-third of the funds expended, those which it might consider to represent the Premium, be used for "additional" activities. However, if the funds expended are from interest on the proceeds, DDF and SLSC believe that the use of these funds to "maintain" on-going projects will be deemed appropriate. Although PROCOSI will more than double its budget under this project and should have no difficulty meeting additionality requirements if necessary, it would be simpler for all concerned if that were not necessary.

DDF also recommends that PROCOSI leave sufficient funds outside of the debt conversion to meet two requirements. First, PROCOSI will need sufficient dollars to pay for non-Bolivian goods and services not available off-the-shelf in Bolivia. Second, PROCOSI needs to ensure that it does not run out of local currency if there is an unexpected delay in completing the debt conversion.

Of the funds placed into interest bearing accounts, DDF and SLSC believe that the government will require that interest that is earned and paid be used rather than capitalized. If this proves to be correct, and if PROCOSI wants its endowment to grow, it must put aside funds from other sources other than interest earnings. AID funds are not available for this purpose; only AID funds converted to local currency through the debt conversion can be placed in the endowment fund.

To the extent that PROCOSI has sufficient resources of a type that can be put into the endowment, DDF recommends that it consider establishing a second endowment account separate from the conversion proceeds. If the Government of Bolivia requires that the capital from the conversion be expended in conjunction with the ten year limit it has established for deposits, PROCOSI might still be able to maintain some endowment.

A government decision that interest paid must be spent would force PROCOSI to carefully manage its funds so that the term instruments falling due generated only the amount of interest that PROCOSI needed in that period. Changing interest rates will further complicate PROCOSI's efforts to manage its endowment. PROCOSI should expect to review and update its financial plans and projections on a frequent basis.

B. AID Management and Procedural Issues

Assuming that AID approves the PROCOSI II project and its proposed debt conversion, DDF recommends that the Authorization include language indicating that the debt conversion is anticipated (although not required). The grant agreement should indicate that debt conversion is expected and that AID's approval for the transaction will be required. PROCOSI will need to notify AID in writing when it is ready to proceed. In that correspondence, PROCOSI should identify the source and cost of the debt, the anticipated closing procedures and any deviations from the terms and procedures identified in this document. The Mission should be prepared to review PROCOSI's request and to disburse the needed funds quickly.

The disbursement of funds for the debt conversion will clearly be far larger than typical AID advances. However, according to DDF's understanding of the procedures adopted by AID's Office of Financial Management, that advance will be liquidated as soon as the debt is purchased.

The liquidation of the advance does not relieve PROCOSI from its reporting responsibilities nor AID from its oversight responsibilities. These will continue for the five year life-of-the-project. PROCOSI would be expected to follow AID's procurement rules to the same extent that it would if it had obtained its local currency in a normal foreign exchange transaction. DDF believes that this is the case even though PROCOSI may be expending interest generated from the conversion and not the proceeds themselves. (The Mission may wish to check this point with AID/Washington.)

Appendix A

PROCOSI Proposed Transaction Timetable

March 4, 1991

DDF distributes Information Packet to PROCOSI.

March 8, 1991

PROCOSI commits to undertake a debt conversion.

March 19, 1991

PROCOSI provides a draft of its Application to DDF and SLSC for comments and revisions. DDF and SLSC seek clarification from the Central Bank regarding issues in the Application and provide comments, as necessary, to PROCOSI. DDF and SLSC begin contacting potential debt sellers.

March 28, 1991

PROCOSI provides DDF with a completed Application for submission to Central Bank; SLSC submits the Application.

April 15, 1991

DDF and SLSC begin assembling commercial bank debt documents for unofficial Central Bank review.

April 25, 1991

The Central Bank approves the Application.

May 2, 1991

PROCOSI makes funds available for the conversion; the bank creditor makes a formal submission of debt documentation to the Central Bank for pre-cancellation review.

May 17, 1991

The Central Bank authorizes the cancellation of debt eligible for conversion in return for its issuing bonds.

May 24, 1991

Closing of transaction. Bonds are issued to commercial bank. PROCOSI pays commercial bank. Commercial bank assigns bonds to PROCOSI. PROCOSI redeems bonds at the Central Bank.

June 14, 1991

Central Bank disburses funds to PROCOSI.

**Description of The Debt-for-Development Foundation
and Servicios Legales S.C.**

The Debt-for-Development Foundation

The Debt-for-Development Foundation is a United States not-for-profit organization that promotes debt conversions as a means of NGO financing. DDF receives its core funding from AID. DDF's staff includes:

President: John B. Ross

Mr. Ross is President of DDF and Executive Director of The Debt-for-Development Coalition, Inc. ("DDC") Mr. Ross has a Ph.D. in Economics from Duke University. He served for 20 years as an officer of Bank of America at senior positions in Latin America, Japan and the United States. He also held a senior position for two years at the Institute of International Finance in Washington.

Deputy Executive Director: Margaret Fahs

Ms. Fahs is Deputy Executive Director of DDC and its Chief Operating Officer. She is also a director of DDF. As DDC's Chief Operating Officer, Ms. Fahs is responsible for relations with DDC's member organizations, for tracking U.S. legislative activities and for monitoring and developing policy issues regarding debt for development. She had been with the National Association of State Universities and Land-Grant Colleges for the past 10 years working in federal relations for international programs.

Vice President: Gerald Wein

Mr. Wein is an experienced United States foreign service officer on loan to DDF from the Agency for International Development. He has held senior level managerial positions with AID in Africa and Latin America and has extensive knowledge of development programs. Mr. Wein holds advanced degrees in economics and administration.

Director of Legal Affairs: Owen Kupferschmid

Mr. Kupferschmid is responsible for many of DDF's transactional activities and for its legal work, including coordinating DDF's pro bono program. A former associate at Shearman & Sterling, he served as assistant legal counsel in the international banking group of The Chase Manhattan Bank, N.A. He has worked in Latin America and Nepal.

Director of Finance and Administration: Craig Sarsony

Mr. Sarsony conducts financial analysis of transactions and manages the internal financial and administrative systems for DDC and DDF. He holds Masters of Business Administration and Masters of Public Health degrees from Columbia University. Mr. Sarsony has held the position of Director of Finance and Administration for Save the Children Federation in the Dominican Republic. He has also worked for The Robert Wood Johnson Foundation as a Financial Officer.

Servicios Legales S.C

SLSC is a preeminent Bolivian law firm with extensive experience in debt conversion work. SLSC's attorney working with DDF, Susana Valdes Andreatta, is the former chief of the Central Bank's international legal division where she was in charge of the 1988 buy-back of debt from foreign commercial bank creditors.

Dr. Valdes has studied law in Bolivia, Spain and the United States.

RESOLUCION DE DIRECTORIO N° 191/88

ASUNTO: PRESIDENCIA - APROBACION REGLAMENTO PARA EMISION DE BONOS DE INVERSION A ENTIDADES SIN FINES DE LUCRO, DE ASISTENCIA Y DESARROLLO SOCIAL Y DE PRESERVACION DEL MEDIO AMBIENTE.

VISTOS:

El artículo 43 del D.S. 21660 que autoriza al Banco Central de Bolivia emitir Bonos con el propósito de cancelarlos por su deuda externa y la del Estado Boliviano, vencida y por vencerse, con acreedores privados extranjeros.

El Artículo 24 inciso e) del Reglamento para la emisión de Bonos de Inversión que determina que dichos Bonos podrán ser utilizados para financiar programas específicos de asistencia y desarrollo social, ejecutados por entidades sin fines de lucro nacionales o internacionales, ya sean de asistencia social o beneficencia, previo dictamen favorable del Directorio del Banco Central de Bolivia.

CONSIDERANDO:

Que es necesario establecer una política clara y precisa para regular la emisión de Bonos de Inversión a entidades de asistencia y desarrollo social sin fines de lucro.

Que dicha política debiera plasmarse en normas de cumplimiento obligatorio por parte de las mencionadas entidades, para lo cual es preciso que dichas normas sean emitidas mediante una Resolución del Directorio.

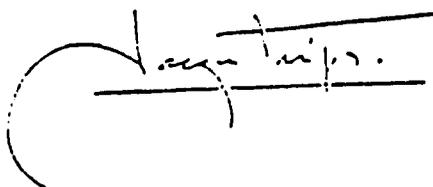
Por tanto,

EL DIRECTORIO DEL BANCO CENTRAL DE BOLIVIA,

RESUELVE:

Artículo Unico.- Aprobar el Reglamento para emisión de Bonos de Inversión a entidades sin fines de lucro, de asistencia y desarrollo social y de preservación del medio ambiente.

6.XII.88


Juan Tripoli.

REGLAMENTO

I DEFINICIONES

Todos los términos utilizados en este Reglamento tienen el mismo significado que en el Reglamento para la Emisión de "Bonos de Inversión" aprobado mediante Resolución de Directorio N°. 020/92, las definiciones expresas siguientes:

Entidad Elegible: Es aquella entidad sin fines de lucro, legalmente establecida en Bolivia, que cuente con programas gratuitos de asistencia, beneficencia y desarrollo social o que sea una Institución de Preservación del Medio Ambiente.

Entidad Aceptada: Es aquella "Entidad Elegible" que presente su solicitud para canjear "Bonos de Inversión" por "Inversiones con Premio". y que obtenga el dictamen favorable del Directorio del B.C.B., o del Ministerio de Asuntos Campesinos y Agropecuarios conforme al artículo 24 incisos e) y f) del Reglamento para la Emisión de Bonos de Inversión.

Audidores Externos: Para fines de este Reglamento son aquellas firmas de auditoría externa, que operan en Bolivia registradas ante los organismos competentes y aceptadas por el B.C.B. como habilitadas para emitir los informes requeridos en el presente.

B.C.B.: Banco Central de Bolivia

II REQUISITOS

ARTICULO PRIMERO.- Toda "Entidad Elegible" que desee utilizar "Bonos de Inversión" para financiar programas de asistencia y desarrollo social, deberá presentar al B. C. B., una solicitud por escrito a la cual deberá adjuntar la documentación requerida en este Reglamento.

ARTICULO SEGUNDO.- La solicitud para utilizar "Bonos de Inversión" presentada por Entidades de Asistencia y Desarrollo Social, debe ir acompañada de la siguiente documentación:

- a) Estatuto orgánico o documento constitutivo de la entidad solicitante en el que se evidencie que es una "Entidad Elegible" y en el que se disponga expresamente que la totalidad de sus ingresos y su patrimonio, están destinados exclusivamente a fines no lucrativos de asistencia, desarrollo social o de beneficencia; que en ningún caso podrán ser distribuidos directa ni indirectamente entre sus asociados, y que en caso de liquidación, su patrimonio deberá distribuirse entre entidades sin fines de lucro, de asistencia, beneficencia o desarrollo social.
- b) Documentos originales que acrediten la Personería Jurídica de la "Entidad Elegible" en el país.

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- c) Documentos que acrediten suficientemente a los personeros y representantes legales de la "Entidad Elegible", en conformidad a lo establecido por su estatuto o documento constitutivo.
- d) El presupuesto de gastos corrientes y capital de inversiones de la "Entidad Elegible", en el que estén especificados aquellos gastos destinados exclusivamente a programas gratuitos de asistencia y desarrollo social a ser ejecutados de manera sistemática

El total del premio otorgado debe ser utilizado exclusivamente en incrementar el presupuesto de los gastos indicados anteriormente.

Esto quiere decir que el total de la partida presupuestaria destinada a los programas mencionados debe estar incrementada, en por lo menos el monto equivalente al premio, en relación al monto presupuestado para dicha partida en la gestión fiscal inmediatamente anterior a la fecha de presentación de la solicitud al B.C.B. por la "Entidad Elegible".

A opción de la "Entidad Elegible" el incremento puede efectuarse solamente en el presupuesto para la gestión en que se presenta la solicitud, y/o en los futuros proyectados. En este último caso deben presentarse también las proyecciones de presupuesto en los que se ha distribuido el premio.

- e) Certificación de una firma de "Auditores Externos," sobre la naturaleza y volúmen de las operaciones manejadas y controladas por la "Entidad Elegible" durante todo el año fiscal anterior al de la solicitud, indicando explícitamente el presupuesto de gastos destinados exclusivamente a programas de Desarrollo y Asistencia Social Gratuitos.
- f) Certificados de los "Bonos de Inversión" endosados en favor de la Entidad Elegible.

ARTICULO TERCERO. - El B.C.B. revisará la documentación,

- a) Si ésta fuera observada, será devuelta a la "Entidad Elegible" especificando los motivos de la observación, en cuyo caso ésta deberá ser presentada nuevamente cuando las observaciones hubiesen sido subsanadas.
- b) Una vez que la "Entidad Elegible" hubiese cumplido con todos los requisitos, el Directorio del B.C.B. emitirá un dictamen sobre la solicitud presentada.

ARTICULO CUARTO .- Sólo las entidades interesadas en la preservación del medio ambiente, sin fines de lucro, deben presentar al B.C.B. los siguientes documentos:

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- a) Solicitud para la utilización de Bonos de Inversión para financiar programas específicos de preservación del medio ambiente sin fines de lucro.
- b) Resolución del Ministerio de Asuntos Campesinos con dictamen favorable.
- c) El presupuesto de la "Entidad Elegible" en el que se especifiquen las partidas destinadas exclusivamente a fines de preservación del medio ambiente.

El total del premio otorgado debe ser utilizado exclusivamente en incrementar las partidas antes mencionadas. Esto quiere decir que esas partidas deben estar incrementadas en por lo menos el monto equivalente al premio en relación a dichas partidas presupuestadas en la gestión fiscal inmediatamente anterior a la fecha de presentación de la solicitud al B.C.B. por la "Entidad Elegible".

A opción de la "Entidad Elegible", el incremento puede efectuarse solamente en el presupuesto para la gestión en que se presenta la solicitud, y/o en los futuros proyectados. En este último caso deben presentarse también las proyecciones de presupuesto en los que se ha distribuido el premio.

- d) Los requeridos en el Art. 2 inciso f) de este Reglamento.

El B.C.B. revisará la documentación, y si ésta es observada, será de aplicación el inciso a) del Artículo 3ro.

Una vez que el B.C.B. obtenga la documentación requerida, comunicará a la Entidad Elegible mediante oficio su decisión.

ARTICULO QUINTO.- El B.C.B. se reserva el derecho de calificar y elegir las áreas de asistencia social y preservación del medio ambiente de acuerdo a prioridades en éstos órdenes:

ARTICULO SEXTO.- El premio será depositado, en el B.C.B. en una cuenta en fideicomiso, a nombre de la "Entidad Aceptada".

Para el retiro de los fondos de la cuenta en fideicomiso por las "Entidades Aceptadas", será requisito indispensable que una firma de "Auditores Externos", certifique que hasta 15 días hábiles anteriores a la fecha del retiro efectivo los gastos corrientes y capital de inversiones destinados a programas gratuitos de asistencia y desarrollo social se hayan cumplido en el modo en que estaba previsto en su presupuesto. Tratándose de una Entidad de Preservación del Medio Ambiente, el retiro de fondos se efectuará previa certificación de una firma de "Auditoría Externa" que acrediten que los fondos han sido utilizados exclusivamente en programas de Preservación del Medio Ambiente.

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Central Bank of Bolivia
Board of Governors
BOARD OF GOVERNORS RESOLUTION No. 191/88

MATTER: OFFICE OF THE PRESIDENT--APPROVAL REGULATIONS FOR THE ISSUE OF INVESTMENT BONDS TO NON-PROFIT ENTITIES OF ASSISTANCE, SOCIAL DEVELOPMENT AND PRESERVATION OF THE ENVIRONMENT.

WHEREAS:

The article 43 of D.S. 21660 which authorizes the Central Bank of Bolivia to issue Bonds with the purpose of exchanging them with its external debt and that of the Bolivian Nation, which is due and will become due, with private foreign creditors.

The Article 24 paragraph e) of the Regulations for the issuance of Investment Bonds which states that said Bonds may be utilized to finance specific programs of assistance and social development, carried out by National and/or international non-profit entities, whether of social assistance or welfare, subject to the favorable opinion of the Board of Governors of the Central Bank of Bolivia.

WHEREAS:

It is necessary to establish a clear and specific policy to regulate the issuance of Investment Bonds to non-profit entities of assistance and social development.

Said policy must take the shape of standards of compulsory compliance on the part of the aforementioned entities, for which reason it is necessary that said standards be issued by means of a Board of Governors Resolution.

Therefore,

THE BOARD OF GOVERNORS OF THE CENTRAL BANK OF BOLIVIA,

RESOLVES:

Single Article. - to approve the regulations for issuance of Investment Bonds to non-profit entities of assistance and social development and preservation of the environment.

XII/6/88

[Signature]

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GOVERNOR
Central Bank of Bolivia

GOVERNOR

Central Bank of Bolivia

Board of Governors

REGULATIONS

I DEFINITIONS

All the terms utilized in these Regulations have the same meaning as in the Regulations for the Issuance of "Investment Bonds" approved by means of Board of Governors Resolution No. 020/88, and the following explicit definitions:

Eligible Entity: Is that non-profit entity, legally established in Bolivia, which has programs free of charge of assistance, welfare and social development or which is an Institution for the Preservation of the Environment

Accepted Entity: Is that "Eligible Entity" which presents its application to exchange "Investment Bonds" for "Investments with Interest." and which obtains the favorable opinion of the Board of Governors of the C.B.B., or of the Ministry of Rural and Agricultural Affairs in conformance with article 24 paragraphs e) and f) of the Regulations for the Issuance of Investment Bonds.

External Auditors: For purposes of these Regulations are those external auditing firms which operate in Bolivia, registered at the competent agencies and accepted by the C.B.B. as authorized to issue the reports required in the present.

C.B.B.: Central Bank of Bolivia

II REQUIREMENTS

ARTICLE ONE.- Any "Eligible Entity" which wishes to utilize "Investment Bonds" to finance programs of assistance and social development must present to the C.B.B. a written application to which there must be attached the documentation required in these Regulations.

ARTICLE TWO. - The application to utilize "Investment Bonds" presented by Entities of Assistance and Social Development must be accompanied by the following documentation:

- a) Bylaws or founding document of the applicant entity which demonstrates that it is an "Eligible Entity" and which explicitly stipulates that all of its income and assets are assigned exclusively to non-profit purposes of assistance, social development or welfare, which may not in any case be distributed directly or indirectly to its members, and that in case of liquidation, its assets must be distributed among non-profit entities of assistance, welfare or social development
- b) Original documents which establish the legal status of the "Eligible Entity" in the country.

Central Bank of Bolivia

Board of Governors

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- c) Documents which sufficiently establish the officials and legal representatives of the "Eligible Entity", in conformity with what is established by its bylaws or founding document.
- d) The budget of current expenses and capital expenses of the "Eligible Entity", which specifies those expenses assigned exclusively to programs free of charge of assistance and social development to be carried out in a systematic way.

The total of the interest granted must be utilized exclusively to increase the budget of the aforementioned expenses.

That means that the total of the budget item assigned to the aforementioned program must be increased by at least the equivalent amount of the interest, in relation to the budgeted amount for said item in the fiscal period immediately before the date of presentation of the application to C.B.B. by the "Eligible Entity".

At the choice of the "Eligible Entity" the increase may be effected only in the budget for the period in which the application is presented, and/or in projected future ones. In the latter case the budget projections in which the interest has been distributed must also be presented.

- e) Certification from a firm of "External Auditors" about the nature and volume of the transactions managed and controlled by the "Eligible Entity" during the entire fiscal year before the application, explicitly stating the budget of expenses assigned exclusively to programs of Social Development and Assistance Free of Charge.
- f) Certificates of the "Investment Bonds" endorsed in favor of the "Eligible Entity".

ARTICLE THREE. - The C.B.B. will review documentation:

- a) If there is a comment indicated on the latter, it will be returned to the "Eligible Entity" specifying the reasons for the comment, in which case it must be presented again when the comment has been resolved.
- b) Once the "Eligible Entity" has complied with all of the requirements, the Board of Governors of the C.B.B. will issue an opinion on the application presented.

ARTICLE FOUR. - Only entities concerned with the preservation of the environment, non-profit, must present the following documents to C.B.B.:

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Central Bank of Bolivia

Board of Governors

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- a) Application for the utilization of Investment Bonds to finance specific programs of preservation of the environment without profit-taking motives.
- b) Resolution of the Ministry of Rural Affairs with favorable opinion.
- c) The budget of the "Eligible Entity" in which the items assigned exclusively to purposes of preservation of the environment are specified.

The total of the interest granted must be utilized exclusively to increase the aforementioned items. That means that those items must be increased by at least the equivalent amount of the interest in relation to said budgeted items in the fiscal period immediately previous to the date of presentation of the application to C.B.B. by the "Eligible Entity".

At the choice of "Eligible Entity", the increase may be effected solely in the budget for the period in which the application is presented, and/or in future projected ones. In the latter case the budget projections in which the interest is distributed must also be presented.

- d) The requirements in Art. 2 paragraph f) of these Regulations.

The C.B.B. will review the documentation, and if there is an objection, paragraph a) of Article 3 will be applied.

Once the C.B.B. obtains the required documentation, it will inform the Eligible Entity of its decision via official letter.

ARTICLE FIVE. - The C.B.B. reserves the right to qualify and choose the areas of social assistance and preservation of the environment in accordance with priorities in these regulations:

ARTICLE 6. - The interest will be deposited at the C.B.B. in an account in trust in the name of the "Accepted Entity".

For the withdrawal of these funds from the account in trust by the "Accepted Entities" there will be the indispensable requirement that a firm of "External Auditors" certify that up to 15 business days before the date of the actual withdrawal the current expenses and capital investments applied to programs of assistance and social development free of charge have been in compliance in the manner in which it was provided in its budget. With regard to an Entity of Preservation of the Environment, the withdrawal of funds will be effected subject to certification of a firm of "External Auditing" which verifies that the funds have been utilized exclusively in programs of Preservation of the Environment.

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A Debt Plan to Aid Bolivian Children

By SHIRLEY CHRISTIAN

A way to convert third world debt into something positive.

Special to The New York Times

LA PAZ, Bolivia, Dec. 13 — Further stretching the ways in which third world debt can be reduced and converted to productive projects, a group here is trying to raise money for child welfare and cultural programs by buying back some of Bolivia's foreign debt.

While the debt-for-development concept has also been used recently in a few other countries, those involved here say this will be the biggest effort to date.

Peter J. McFarren, a journalist and businessman with dual Bolivian and United States citizenship, said the Quipus Foundation, which he heads, was trying to raise \$5 million to \$7.5 million in donations to buy back Bolivian commercial debt at its current value in the secondary market of about 11 cents on the dollar.

Under Mr. McFarren's plan, the foundation would buy at least \$45 million worth of debt paper at its discounted price in the secondary market. The debt paper would then be turned into the Bolivian Central Bank, which would pay the foundation 80 percent above its investment. The transactions would leave the foundation with \$7.5 million to \$11.25 million for its projects.

Owen M. Kupferschmid, legal adviser to the Debt-for-Development

Foundation in Washington, said Bolivia's Central Bank had yet to see Mr. McFarren's full proposal, and it would take the Central Bank several months to examine the plan.

But he said that in several days of meetings with Government officials and the voluntary groups that would use the money he had found "one of the most important displays of local support we've seen."

"At first we were skeptical," he said, "but given the work Peter has done we think it is feasible."

Other Debt Swaps

Gerald R. Wein, vice president of Debt-for-Development, which is providing technical assistance to Quipus, said his organization had also assisted CARE in Ecuador in doing a debt swap and was putting together a similar swap in Ghana.

Mr. Wein is on loan to the 18-month-old foundation from the Agency for International Development, which financed its start-up. He said, however, that his foundation did not provide money to groups like Quipus for the purchase of debt paper. Mr. McFarren is raising money for that directly from European governments and private charitable institutions.

The son of missionaries, Mr. McFarren has a deep interest in Bolivian arts and handicrafts, as well as in child development and in the survival of this country — the poorest on the South American continent.

Arts and Culture Museum

Seeking to mesh these interests, he put together plans for an arts and culture museum with a children's section and worked with a group of private voluntary organizations, including Foster Parents and Save the Children, to create expanded programs of nutrition and medical care for poor children. The city of La Paz has offered a hilltop in the heart of the city as the site for the museum and culture complex.

On a trip to the United States, he said, he approached Jean Kennedy Smith, a sister of President John F. Kennedy, and through her was put in touch with the Debt-for-Development Foundation.

Mr. Kupferschmid said Bolivia pioneered the debt-for-nature concept, which has been used in a number of countries. In Bolivia, a group called Conservation International put up \$80,000 to buy debt paper, and the money was used to create a protected ecological zone in tropical Beni province.

Mr. Wein estimated that about \$100 million worth of various countries' debt had been canceled in debt-for-nature buybacks and that the debt-for-development buybacks were approaching the same amount. In addition to the swaps involving his foundation, he said voluntary organizations had done their own swaps in Madagascar, Nigeria, Niger and Guinea.

Bolivia's total foreign debt had reached \$4.5 billion, of which about \$700 million was with private commercial banks. Buybacks, including some by the Government itself, have reduced the commercial debt to \$200 million. If Mr. McFarren's proposal succeeds, it will reduce that by about a fourth.

Mr. McFarren said that one possible roadblock to this swap was that Citibank, which he said holds \$28 million of Bolivian commercial debt, was resisting selling at 11 cents on the dollar. He said Citibank wants 20 to 30 cents on the dollar.

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Monday, January 28, 1991
Page 8, Col. 4

Bolivian Debt Swap Hikes Aid to Children

By James Painter

Special to The Christian Science Monitor

LA PAZ, BOLIVIA

IMPROVING the dire living conditions endured by many Bolivian children is the aim of an unprecedented plan to swap a quarter of the country's commercial bank debt for programs to aid children and preserve Bolivian culture.

The United States Agency for International Development and two private agencies, Save the Children Federation and Foster Parents Plan, are expected to donate between \$5 million and \$10 million to help finance the plan. This money will be used to buy back at least \$45 million of Bolivian debt on the secondary market, where its current value is 11 cents on the dollar.

The "debt-for-children" plan is a new twist on the debt swap theme. If, as seems certain, the plan is approved by the Bolivian Central Bank, Save the Children and the other organizations will receive a 50 percent premium on the debt paper. Between \$7.5 million and \$13.5 million will be used for health, education, and water projects to help children across the country.

UNICEF's latest report on the world's children confirms Bolivia's position at the bottom of the South American poverty league. Last year, 165 Bolivian children under five years of age died for every 1,000 live births. More than half of children between two and three years old are malnourished.

"International statistics show there is a direct correlation between a country's per capita debt and child mortality," says David Rogers, Save the Children's director in Bolivia. "So by reducing Bolivia's debt, in the long run we hope we can make inroads into mortality rates."

Foster Parents officials are also hopeful the swap will help their programs for children. In Catacora, a rural community tucked at the base of the eastern range of the Andes mountains, Foster Parents already have several health, education, and sanitation projects going - which could be expanded if the swap comes off.

In one tiny thatched cottage, the family of two-month-old Javier Marcos Machicado sat in mourning for him. Javier had died the previous afternoon of illnesses whose causes are attributed to malnutrition and sanitation in the area.

"With just a little more money, we are convinced we could reduce the chance of this happening," says Victor Ramos, Foster Parents' program chief. "This child should never have died."

Part of the money from the "debt-for-children" swap will also go toward funding a new Museum of Popular Art and Culture to be built in the heart of the capital, La Paz. The museum will include a craft village and a children's section designed to promote appreciation of Bolivian culture.

"Bolivia has one of the richest cultures in the Americas, and makes spectacular textiles - probably the finest in all Latin America," says Peter McFarren, who heads the Quipus Foundation, which is orchestrating the "debt-for-children" swap.

"We will be reviving Bolivian handicraft traditions and at the same time providing employment for hundreds of Bolivians," he adds. At the craft village artisans, particularly Aymara and Quechua Indian women, will be given credits, special training programs, and assistance to market handicrafts in the US.

The Washington-based Debt-for-Development Foundation, which has completed debt swaps in a number of Latin American and African countries since its inception three years ago, is providing technical and legal advice to Quipus and other groups.

Its most recent success was a \$5 million "debt-for-education" swap in Ecuador, which established an endowment to provide scholarships at Harvard University for Ecuadorian students. If the Bolivian deal comes off, it will be the largest debt-for-development swap to date.

Since 1987, successive Bolivian governments have with money mostly donated from European governments, bought back about \$500 million of \$700 million owed to commercial banks. One possible obstacle to the debt-for-children swap is that Citibank and other banks want a better deal than the current 11 percent return on the nominal value of the money they are owed.

"For the banks, the money is peanuts," Mr. McFarren says. "Citibank is owed \$28 million which it will never get back from the government. The banks could make an important gesture and say, 'Yes, we would like to help Bolivian children.'"

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La Razón

La Paz, viernes 7 de septiembre de 1990

Representante de "Coalición Deuda por Desarrollo" llega a Bolivia

El representante de la "Coalición Deuda por Desarrollo" con sede en Washington, Owen Kupferschmid, llegará a Bolivia, invitado por la Fundación Cultural QUIPUS de La Paz, el próximo día 8 para entablar negociaciones con autoridades del gobierno y representantes del sector privado en aspectos referidos a la financiación de proyectos específicos, mediante programas de canje de deuda exterior por desarrollo.

La "Coalición Deuda por Desarrollo", establecida hace tres años, aglutina a reconocidas universidades, cooperativas, centros de investigación agrícola y organizaciones privadas de voluntariado estadounidenses.

Desde su creación, la Coali-

ción ha negociado aproximadamente un monto de 132 millones de dólares en diversos programas de canje de deuda exterior por desarrollo.

Uno de sus logros más recientes, fue la negociación efectuada entre la Coalición y el gobierno del Ecuador, acuerdo mediante el cual se ha concretado un canje de "deuda por educación", por un monto de cinco millones de dólares, entre la Universidad estadounidense de Harvard y el gobierno ecuatoriano, cambio que permitirá a docentes y estudiantes de esta región andina, estudiar en la mencionada universidad norteamericana.

Durante su estadía en La Paz, Kupferschmid se reunirá con autoridades del gobierno y

ejecutivos de la banca estatal y privada, con el propósito de identificar áreas de interés para el desarrollo de programas, así como evaluar un paquete preliminar de proyectos como la creación del Museo de Artes y Cultural Populares en La Paz.

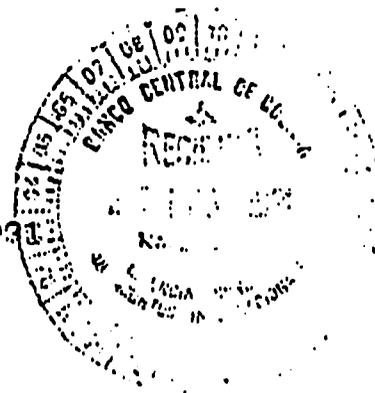
Mediante los programas específicos, se proveerá capacitación y desarrollo artístico a diversos grupos artesanales, con el fin de mejorar la actual calidad de sus productos e incentivar una esmerada producción de artículos artesanales.

El proyecto incorpora un programa de exportaciones y un fondo rotatorio de préstamos a pequeños artesanos que permita optimizar su actual nivel de producción.

The Value of Bolivian Series A
Investment Bonds Overtime

Year	Present Value of Investment Bond	Value of Bond with Premium	Premium
0	11.00	16.50	5.50
0.5	11.50	17.11	5.61
1	12.02	17.73	5.71
1.5	12.56	18.38	5.82
2	13.12	19.06	5.94
2.5	13.72	19.76	6.04
3	14.34	20.48	6.14
3.5	14.98	21.23	6.25
4	15.66	22.01	6.35
4.5	16.37	22.82	6.45
5	17.10	23.66	6.56
5.5	17.88	24.53	6.65
6	18.68	25.43	6.75
6.5	19.53	26.36	6.83
7	20.41	27.33	6.92
7.5	21.33	28.33	7.00
8	22.29	29.37	7.08
8.5	23.30	30.45	7.15
9	24.35	31.56	7.21
9.5	25.45	32.72	7.27
10	26.60	33.92	7.32
10.5	27.80	35.17	7.37
11	29.05	36.46	7.41
11.5	30.36	37.80	7.44
12	31.73	39.18	7.45
12.5	33.17	40.62	7.45
13	34.66	42.11	7.45
13.5	36.23	43.66	7.43
14	37.86	45.26	7.40
14.5	39.57	46.92	7.35
15	41.36	48.64	7.28
15.5	43.22	50.42	7.20
16	45.18	52.28	7.10
16.5	47.21	54.19	6.98
17	49.35	56.18	6.83
17.5	51.57	58.24	6.67
18	53.90	60.38	6.48
18.5	56.33	62.60	6.27
19	58.88	64.89	6.01
19.5	61.53	67.27	5.74
20	64.31	69.74	5.43
20.5	67.21	72.30	5.09
21	70.25	74.95	4.70
21.5	73.42	77.70	4.28
22	76.73	80.56	3.83
22.5	80.19	83.51	3.32
23	83.81	86.58	2.77
23.5	87.60	89.75	2.15
24	91.55	93.05	1.50
24.5	95.68	96.46	0.78
25	100.00	100.00	0.00

La Paz, 26 de febrero de 1991
 CITE: SLGG/SVA/02/91



Señor
 Lic. Roberto Barbero
 Gerente de Asuntos Internacionales
 BANCO CENTRAL DE BOLIVIA
 Presente.-

Distinguido Sr. Gerente:

Como es de su conocimiento, existen varias entidades sin fines de lucro interesadas en participar del programa de Bonos de Inversión que tiene el Banco Central de Bolivia (BCB).

Debt-for-Development Foundation (DDF), es la entidad que coordinará la participación de dichas entidades sin fines de lucro en el programa de bonos antes mencionado. Para tal fin (DDF), basándose en el asesoramiento legal del estudio jurídico que represento, ha preparado un paquete de información que será distribuido entre las entidades sin fines de lucro interesada en participar del programa.

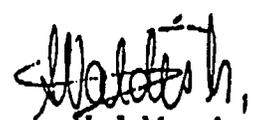
Las entidades sin fines de lucro, cuyas solicitudes sean aprobadas por el Directorio del BCB, adquirirán bonos de inversión, emitidos por el BCB, como resultado de un nuevo retiro de deuda por parte del gobierno de Bolivia. El día de ayer, consulte a Ud. telefónicamente, si los bonos a ser emitidos por el BCB, producto de un nuevo retiro de deuda y que serán adquiridos por las entidades sin fines de lucro, serán Bonos de Inversión de la serie "A", colateralizados por bonos AAA/Aaa, tal como se especifica en el artículo 12 del "Reglamento para la Emisión de Bonos de Inversión" vigente a la fecha, habiendo recibido su respuesta afirmativa.

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APPENDIX F
Page 2

Puesto que este punto debe ser incluido en el paquete de información antes mencionado, pido a Ud. que tenga la gentileza de proporcionarnos una confirmación escrita al respecto, la cual será utilizada como respaldo legal por parte nuestra.

Agradeciendo su cooperación en este tema, así como el valioso apoyo que ha venido prestando a este proyecto, lo saludo con toda atención.



Susana Valdés A.
Servicios Legales S.C.





DIRECCION TELEGRAFICA
"NAVIANA"
Cajón Postal N° 3118
La Paz - Bolivia

BANCO CENTRAL DE BOLIVIA

APPENDIX F
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La Paz, 28 de Febrero de 1991
Cite.Gcia.Asunt.Int.042/91

Señora
Dra.Susana Valdez
SERVICIOS LEGALES S.C
Presente.-

Señora:

De acuerdo a lo conversado con usted el día 26 de Febrero del presente, y a pedido expreso suyo, confirmamos que los Bonos a ser emitidos a las entidades sin fines de lucro para inversión en el país, serán de la serie "A", los mismos que de acuerdo al Artículo 12 del Reglamento para la Emisión de Bonos de Inversión deben ser colateralizados.

Con este motivo, aprovechamos la oportunidad para saludar a usted con toda atención,


Lic. Roberto Farfán c.f.
GERENTE ASUNTOS INTERNACIONALES
BANCO CENTRAL DE BOLIVIA

CP/cla
cc.Arch.
Corr.

Appendix G

Intentionally omitted

Bolivia's External Debt a/

Bolivia falls into the IMF category of "severely indebted low income countries." It suffers from one of the largest debt service burdens in Latin America, resulting in great pressure on both the GOB budget and the balance of payments. Bolivia has no alternative but to press for relief through debt renegotiation.

Debt servicing continues, even after rescheduling, to represent a heavy burden on the economy. Total debt service to be paid, \$263 million in 1990 and \$304 million in 1991, constitutes 29% and 33% respectively of total projected legitimate export earnings in these years.

Unlike most Latin American nations, most of Bolivia's debt is owed to official creditors, a category that includes multilateral agencies and foreign governments. Debt to foreign commercial banks now represents a very small part of Bolivia's obligations. Since 1985, the GOB's debt strategy has been to keep reasonably current on its debt to multilateral entities and to reschedule or renegotiate official bilateral and commercial debt.

Regarding the multilateral debt situation, Bolivia has largely maintained payments following promulgation of the New Economic Policy in August 1985. Total disbursements have increased continuously, and these payments have been facilitated through positive net transfers from the multilateral agencies. Bolivia's outstanding debt to the multilateral agencies as of June 30, 1990, was \$1.54 billion, or 44% of its total outstanding debt. Debt service charges to the multilateral agencies alone came to \$193 million in 1989.

Bolivia's outstanding public bilateral debt (to official donors) as of June 30, 1990, was \$1.58 billion, or 46% of its total debt. Of that amount, approximately \$368 million is owed to the U.S. Government.

Major concessions have come from official bilateral creditors. In June, 1986, Bolivia's creditors in the Paris Club agreed to a rescheduling of some \$450 million of Bolivia's bilateral debt service, a package which included postponement of interest payments and rescheduling of all amortizations and arrears. The terms obtained in the Paris Club 1986 debt renegotiations were very favorable to Bolivia as they provided for the capitalization of all interest payments on both arrears and current maturities falling due through June 30, 1987. A five-year grace period was granted on all amortization of principal.

a/ This section borrows extensively from USAID/Bolivia's FY 1991 PAAD.

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At the Paris Club II negotiations of November, 1988, some \$400 million falling due between July 1987 and December 1989 were rescheduled on terms similar to the previous Paris I session. Moreover, debt service payments already renegotiated under the Paris I agreement were also rescheduled.

At the Paris Club III meetings held in March of 1990, Bolivia renegotiated \$284 million, or about 17% of its \$1.67 billion bilateral debt, falling due during the period January 1, 1990, to December 31, 1991. Bolivia has asked for - and was granted - the very concessionary "Toronto Debt Relief Terms" extended heretofore only to the sub-Saharan countries. They involved three alternatives, including reduction of debt service payments, extension of the maturity period or reduction of interest rates. The creditor countries chose different alternatives. The United States chose to reschedule Bolivia's debt falling due to twenty-five years with a fourteen-year grace period.

In addition, Bolivia may be able to obtain partial forgiveness of its bilateral debt to the United States under President Bush's Initiative for the Americas. According to the Central Bank, this debt amounted to \$368 million as of June 30, 1990.

Argentina was Bolivia's most important bilateral creditor. In September, 1987, Bolivia's outstanding medium and long term debt to Argentina of approximately \$689 million, was rescheduled outside the Paris I session as part of an overall agreement that also dealt with Bolivia's gas exports. In August, 1989, both countries cancelled their debts to each other. While Bolivia owed Argentina \$689 million in medium - and long-term debt plus \$106 million in short term debt, Argentina owed Bolivia about \$313 million for unpaid gas imports. Although Bolivia has traded cancellation of current for capital debt, it has reduced its total outstanding debt by about 20%, and cut back its annual debt service payments by \$55 million.

Commercial debt has not been serviced since 1984 and the country has not attracted any new commercial bank loans since then. The GCF's debt buy-back arrangement permitted Bolivia to buy back its debt at 11 cents of face value from foreign commercial banks, without recognizing any interest accrued, using funds donated specifically for this purpose by donor governments. Bolivia has also established a debt conversion program through which for-profit entities and NGOs can purchase debt at a discount and convert it to local currency equivalent to U.S. 16.5 cents. To date, Bolivia has extinguished all but about \$209 million (as of December, 1990) of its external commercial debt. That remaining debt is expected to be extinguished through debt conversions or through a government repurchase during 1991.

FEB-21-91 THU 9:57 SER LEG La Paz

APPENDIX I
Page 1 P. 03

RESERVADO

COMITE DE FINANCIAMIENTO EXTERNO
SECRETARIA EJECUTIVAACTA No 003/91ACTA DE LA REUNION DEL
COMITE DE FINANCIAMIENTO EXTERNO
DEL DIA VIERNES 15 DE FEBRERO DE 1991

I. En la sala de reuniones del Ministerio de Planeamiento y Coordinación, a horas 18:00 del día viernes 15 de febrero de 1991, se inició la sesión ordinaria del Comité de Financiamiento Externo con los siguientes asistentes: Lic. Enrique García, Ministro de Planeamiento y Coordinación, Lic. Raúl Borda Presidente del Banco Central de Bolivia, Lic. Jaime Delgadillo Secretario Ejecutivo del Comité de Financiamiento Externo y el Lic. Roberto Barbero Gerente de Asuntos Internacionales del Banco Central de Bolivia. Concluyó la sesión a horas 18:30.

II. AGENDA.-

Punto Unico.- Solicitud de la Fundación Cultural Quipus.

III. DETERMINACIONES ADOPTADAS.-

Punto Unico.- Fue aprobada la solicitud de la Fundación Cultural Quipus, habiéndose firmado la correspondiente resolución. Esta entidad había informado al Banco Central de Bolivia y al Comité de Financiamiento Externo que diversas instituciones sin fines de lucro se hallaban interesadas en utilizar bonos de inversión para financiar sus programas en Bolivia. En este sentido, solicitó que dichas instituciones recibiesen el total del valor presente de los bonos, más el premio del 50%, en Certificados de Depósito (CDs) del Banco Central.

11-91 THU 9:50 SER LEG La Paz

APPENDIX I

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Page 2

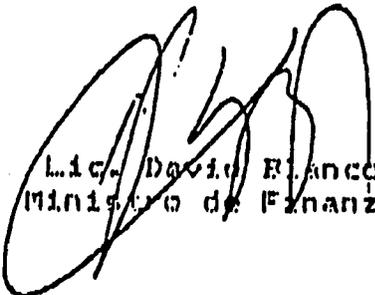
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El argumento de la Fundación estriba en que las actividades que desarrolla con los aportes de esas instituciones podrían, de esta manera, beneficiarse con los intereses ganados y así mantener una continuidad en el tiempo, sin requerir de continuas gestiones para conseguir recursos adicionales de las correspondientes casas matrices o donaciones de otras fuentes.

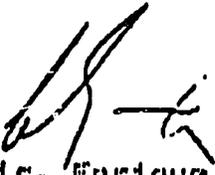
El Comité aprobó que las entidades sin fines de lucro que participan en el Programa de Bonos de Inversión, utilicen los fondos correspondientes a los bonos y sus premios para efectuar depósitos a plazo fijo en bancos del sistema financiero nacional, excepto en el Banco Central de Bolivia, en bolivianos con mantenimiento de valor, con un plazo máximo de diez años.

Los intereses provenientes de tales depósitos deben ser utilizados en mantener programas de asistencia y desarrollo social en el país.

Asimismo, el Comité recomendará al Directorio del Banco Central de Bolivia, considerar la modificación del Reglamento para la emisión de Bonos de Inversión para viabilizar esta operación.



Lic. David Blanco
Ministro de Finanzas



Lic. Enrique García R.
Ministro de Planeamiento
y Coordinación

Lic. Jaime Delgadillo C.
Secretario Ejecutivo
Comité de Financiamiento Externo

-51'



Presidencia de la República
MINISTERIO DE PLANEAMIENTO
Y COORDINACION
BOLIVIA

COMITE DE FINANCIAMIENTO EXTERNO

Appendix I

Page 2a

RESOLUCION DEL COMITE DE FINANCIAMIENTO EXTERNO No. 003/91

La Paz, febrero 15 de 1991

VISTOS Y CONSIDERANDO:

Que, existen varias entidades sin fines de lucro interesadas en participar en el Programa de Bonos de Inversión del Banco Central de Bolivia.

Que, algunas de dichas entidades no pueden crear nuevos programas de asistencia y desarrollo social en el país o continuar con programas ya existentes, por falta de fondos para mantenerlos en el futuro.

Que, el gobierno está interesado en promover los programas de asistencia y desarrollo social en el país y en que estos tengan una duración permanente, con el fin de que sus efectos sean más beneficiosos.

Que, a través de esta operación de Bonos, el país no sólo se beneficiaría con programas de asistencia y desarrollo social sino que también retiraría nueva deuda externa.

Que, el gobierno está interesado en retirar nueva deuda externa e impulsar programas de alto contenido social.

Que, algunos de los proyectos de estas entidades sin fines de lucro se desarrollarían en el Complejo Cultural Santa Bárbara, que tendrá programas específicos en beneficio de la niñez, los artesanos y los minusválidos.

Que, el Comité de Financiamiento Externo, en su reunión de 15 de febrero de 1991, consideró la necesidad de encontrar el modo más

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adecuado para que las entidades sin fines de lucro que participen en el Programa de Bonos de Inversión del Banco Central de Bolivia, puedan utilizar los fondos provenientes de los Bonos de Inversión y el premio correspondiente, para mantener programas de asistencia y desarrollo social en el país, existentes o por crearse.

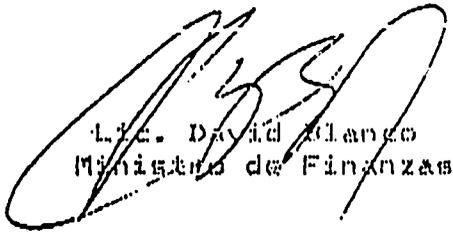
SE RESUELVE:

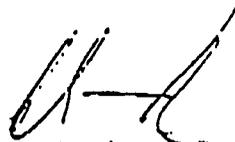
Primero.- Aprobar que las entidades sin fines de lucro que participen en el Programa de Bonos de Inversión, utilicen los fondos correspondientes a los bonos y sus premios para efectuar depósitos a plazo fijo en bancos del sistema financiero nacional, excepto en el Banco Central de Bolivia, en bolivianos con mantenimiento de valor, con un plazo máximo de diez años.

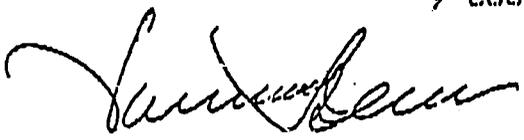
Segundo.- Los intereses provenientes de tales depósitos deben ser utilizados en mantener programas de asistencia y desarrollo social en el país.

Tercer.- Recomendar al Directorio del Banco Central de Bolivia, considerar la modificación del Reglamento para la emisión de bonos de Inversión para viabilizar esta operación.

Regístrese, comuníquese y archívese.


Lic. David Blanco
Ministro de Finanzas


Lic. Enrique García R.
Ministro de Planeamiento
y Coordinación


Lic. Jaime Delgadillo C.
Secretario Ejecutivo
Comité de Financiamiento Externo

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La Paz - Bolivia

BANCO CENTRAL DE BOLIVIA

APPENDIX I
Page 3

SEÑOR
OWEN KUPFERSCHMID
FAX 202 - 467 401
WASHINGTON D.C.

La Paz, 21 de Enero de 1991
Cite. Cia. Asunt. Int. 006/91

Señor
Peter Mc Farren
PRESIDENTE
FUNDACION CULTURAL QUIPUS
Presente.-

De nuestra consideración:

Tenemos el agrado de acusar recibo de su nota de fecha 28 de diciembre pasado, mediante la cual solicita la confirmación de la posibilidad de desembolsar el valor presente más el premio de los Bonos de Inversión en Certificados de Depósito (CD) del Banco Central de Bolivia, a las entidades sin fines de lucro.

En principio se considera factible dicha posibilidad, pues nuestra Institución tiene la mejor disposición para ayudarles a concretar los objetivos trazados; sin embargo les hacemos notar que hemos pasado su carta junto con la información pertinente a consideración del Comité de Financiamiento Externo para su aprobación.

Apenas tengamos la respuesta a esta modalidad de operación de canje de Bonos de Inversión se la comunicaremos a la brevedad posible.

Con este motivo, aprovechamos la oportunidad de saludar a usted muy atentamente,


Lito Rubén Barbery
SECRETARIO GENERAL
BANCO CENTRAL DE BOLIVIA

CP/cia
cc Arch

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SERVICIOS LEGALES S.C.

C. Loayza Edif. "Mcah. de Aysacacho"
Primer Piso, Oficina 110
LA PAZ - BOLIVIA

ABOGADOS:
Ramiro Cuevara Rodríguez
Primitivo Quiérez Sánchez
C. Antonio Miranda Gumucio
Eduardo Rodríguez Valtés
Susana Valdés Andreatta

Tel: 324349 - 369201 - 367198
Telex DV 3261 ILLIMANI
Fax (591 - 2) 391205
P.O. BOX 4122
LA PAZ - BOLIVIA

ASOCIADOS DE:
Dabovic y Asociados
(Argentina y Uruguay)

La Paz, 11 de marzo de 1991.
CITE:SLSC/SVA/108/91

Señor
Lic. Raúl Boada
Presidente del
Banco Central de Bolivia
Presente.-

Distinguido Sr. Presidente:

REF: Bonos de Inversión para
entidades sin fines de
lucro.

A nombre de FROCOPI, la Fundación Cultural QUIPUS y la Fundación Deuda por Desarrollo, quisiera agradecer a los Sres. Armando Mendez, Javier Pantoja y Roberto Barbery por haber tenido la gentileza de reunirse con los representantes de estas entidades el 6 de marzo del año en curso. Nuestro intercambio de ideas en relación al proyecto de utilización de Bonos de Inversión del Banco Central de Bolivia por parte de entidades sin fines de lucro que trabajan en sectores prioritarios fue muy útil y demostró a todos los participantes de dicha reunión la seriedad y buena predisposición de los ejecutivos de esa institución bancaria para que distintas ONG's y entidades sin fines de lucro utilicen el sistema de bonos de inversión para financiar programas de asistencia y desarrollo social en el país.

En dicha reunión, el representante de USAID hizo conocer que, sujeto a la disponibilidad de fondos para este propósito y al acuerdo de las partes para llevar a cabo este proyecto, USAID tiene planeado proveer hasta cinco millones de dólares a

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SERVICIOS LEGALES S.C.

PROCOSI, que es un consorcio de ONG's dedicadas a financiar y desarrollar programas de asistencia en favor del bienestar de la niñez y la mujer. En la medida en que exista mayor evidencia de que el programa de bonos de inversión para entidades sin fines de lucro se llevará a cabo tomando en cuenta los puntos planteados en este oficio, USAID tendrá mayores posibilidades de obtener fondos adicionales en favor de PROCOSI, incrementando de este modo el monto de asistencia planificado por USAID para Bolivia.

USAID presta su apoyo a PROCOSI porque es una entidad única entre las ONG's. Fue creada para coordinar, dar apoyo y mejorar la calidad y cobertura de los programas de asistencia y desarrollo en favor del bienestar y la salud de niños y mujeres, que llevan a cabo las ONG's miembros de PROCOSI. Actualmente PROCOSI está integrada por nueve ONG's americanas y una nacional, pero durante los próximos cinco años planea incrementar sus miembros a más del doble, principalmente con la incorporación de ONG's bolivianas entre las cuales se encuentra la Fundación Cultural Quipus, uno de cuyos proyectos importantes actualmente es el del Complejo Cultural de Santa Bárbara (Museo de Artes y Culturas Populares).

PROCOSI tiene planeado enviar, en los primeros días del mes de abril del presente año, una solicitud de utilización de bonos de inversión para programas de asistencia y desarrollo social. La solicitud indicará de modo más preciso la manera en que PROCOSI opera, los sectores en que los miembros de PROCOSI desarrollan proyectos, el criterio de selección, modo de evaluación, mecanismos de contabilidad y auditoría de dichos proyectos. Asimismo, en la solicitud se presentarán los proyectos que actualmente se desarrollan y que continuarán llevándose a cabo con fondos provenientes de los bonos de inversión y el premio. En dicha solicitud también se describirá de manera general el modo en que se financian los proyectos que se planea ejecutar en el futuro, sin embargo no se especificarán ni detallarán proyecto por proyecto debido a que a la fecha no es posible formular los proyectos que se ejecutarán en el futuro puesto que su formulación y aprobación responde a la afiliación de nuevas ONG'S y las necesidades críticas que tiene el país en cada momento. Deseamos enfatizar que dichos proyectos se desarrollan dentro de un ámbito preestablecido por PROCOSI y USAID, siguiendo el método de selección descrito anteriormente.

Creemos que este tipo de solicitud está de acuerdo y es consistente con la actual posición del Banco Central de Bolivia en relación a la utilización de Bonos de Inversión por parte de entidades sin fines de lucro.

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Como explicamos a los ejecutivos del Banco Central de Bolivia, uno de los mayores problemas que enfrentan las entidades sin fines de lucro, es el de no contar con fondos para mantener sus programas de asistencia y desarrollo social en el país, por lo que muchos de ellos tienen que ser cancelados. Nos parece muy importante hacer que estos programas tengan una duración permanente, para así lograr que sus efectos sean más beneficiosos. El modo de lograr este propósito es que el Banco Central autorice a las entidades sin fines de lucro la utilización de los fondos provenientes de los bonos de inversión y sus premios correspondientes, para efectuar depósitos a plazo fijo en bolivianos con mantenimiento de valor y por un plazo máximo de diez años, en los bancos del sistema financiero nacional con excepción del Banco Central de Bolivia. Los intereses provenientes de dichos depósitos serían utilizados para mantener los programas de asistencia y desarrollo social de las entidades sin fines de lucro que obtengan la aprobación de su solicitud, por parte del directorio de esa institución. Adjuntamos a la presente la Resolución del Comité de Financiamiento Externo N° 003/90 que da su aprobación a la utilización de este método.

A la fecha, USAID esta efectuando trámites para lograr fondos adicionales para Bolivia, los mismos que estarán destinados a PROCOSI. Sin embargo, antes de concretar la tramitación de fondos adicionales, USAID, PROCOSI Y la Fundación de Deuda por Desarrollo necesitan saber si el Directorio del Banco Central de Bolivia estaría en condiciones de otorgar su aprobación a solicitudes de entidades sin fines de lucro en las que:

- se describirá de manera general las áreas en las que se desarrollarán los proyectos, el criterio utilizado para seleccionarlos, el modo de evaluación y los mecanismos de contabilidad y auditoría de dichos proyectos, sin que sea necesario que se especifique y detalle proyecto por proyecto, debido a las razones antes señaladas;
- las entidades sin fines de lucro puedan utilizar el sistema de depósitos a plazo fijo en las condiciones antes indicadas y;
- en caso de no existir deuda externa disponible por montos suficientes, las entidades sin fines de lucro puedan adquirir bonos de inversión ya emitidos.

En caso de que el directorio apruebe estos tres puntos, les agradeceremos que tengan la gentileza de hacernos conocer por escrito la decisión de ese alto cuerpo ejecutivo a fin de que, respaldados en dicha aprobación, tanto las entidades sin fines de lucro interesadas como con USAID, puedan iniciar los trámites respectivos para presentar sus solicitudes.

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SERVICIOS LEGALES S.C.

Agradecemos la cooperación y gran apoyo recibido por parte de todos los ejecutivos del Banco Central en lograr el éxito de este programa, que indudablemente tendrá una repercusión positiva en favor del país, como puede verse en los recortes de prensa aparecidos en el New Ybrk Times y en el Cristian Science Monitor que adjuntamos a la presente. No dudamos en que una vez que el programa esté en marcha contribuirá a resaltar la imagen positiva del Bolivia a nivel internacional y a enfatizar el compromiso manifestado por Su Excelencia el Lic. Jaime Paz Zamora de apoyar proyectos de desarrollo maternoinfantiles.

En espera de su respuesta, saludamos a ustedes con toda atención.

Dra. Susana Valdés
SERVICIOS LEGALES S.C.

PROCOSI.BCB

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Cajón Postal N° 3118
La Paz - Bolivia

BANCO CENTRAL DE BOLIVIA

La Paz, March 12th, 1991
Cite.Gcia.Asunt.Int.044/91

Mr.
Carl H. Leonard
Mission Director
United States Agency for
International Development
La Paz, Bolivia

Dear Mr. Leonard:

USAID/Bolivia, the United States Embassy, members of the Banco Central de Bolivia and Bolivia's Ministries of Planning and Finance have discussed using USAID funds granted to a Bolivian non-governmental organization, PROCOSI, in a debt conversion. Under the terms of Bolivia's debt conversion program, PROCOSI would realize a 50 % benefit on the funds used in the debt conversion.

It is our understanding that PROCOSI will use the debt conversion proceeds to fund and expand its child survival work, some of which will be implemented through the Quipus Cultural Foundation.

Per our discussion with USAID/Bolivia officials, we look forward to receiving PROCOSI's debt conversion application by April 1, 1991. As I have indicated previously, this application will receive a prompt and sympathetic review by the Central Bank. Assuming that the application is satisfactory, the Central Bank expects to assist PROCOSI and its advisors identify potential sellers of commercial bank debt at \$1.11 per dollar. I am highly confident that if PROCOSI's application is in order, and if funds are available to complete the transaction, a successful transaction can be assured.

It is our current intention to assist PROCOSI use up to \$ 5 million in a debt conversion. You can be assured of my office's support with this matter. We have reviewed the local currency disbursement effect of such a transaction and can assure you that local currency funds

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will be available in a timely manner upon the closing of the transaction. As you understand, however, time is of the essence with the respect to the Central Bank's ability to ensure that commercial debt will be available for a conversion transaction.

Sincerely yours,


Lia Roberto Brindley S.A.
GERENTE ASUNTOS INTERNACIONALES
BANCO CENTRAL DE BOLIVIA

EA/cia