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FINAL REPORT

**Management Issues Relating
to Effecting Transactions**

Debt for Development Coalition

December 1989

Debt for Development Coalition Final Report on Management Issues Relating to Effecting Transactions

Introduction

The Debt for Development Coalition has been involved in a multifaceted program to facilitate debt conversions for use in development projects. Along with actions to increase general awareness of the problem and potential of Third World debt, the coalition has taken specific steps to promote opportunities for coalition members in the area of debt conversions. The coalition has been working on a pooling arrangement for purchasing debt, several joint venture models, and other innovative initiatives. For instance, Argentina and Costa Rica are behind in payments of interest on foreign-held debt. The coalition developed a strategy for capitalizing on this situation, which necessitated obtaining legal and accounting opinions favorable to a donation of interest in arrears to a not-for-profit entity. The possibility existed of a donation exceeding the project capability of a single member. This, in turn, necessitated the development of a mechanism to hold and distribute such funds to multiple not-for-profit organizations. It was felt that the coalition was the obvious vehicle for this purpose; however, it does not have 501(c)(3) tax-exempt status. In anticipation of a donation of interest arrears, the Board of Directors of the Debt for Development Coalition, at their January 10, 1989, meeting, placed a high priority on solving this dilemma quickly. A working group subcommittee was requested to develop a proposed solution in time for presentation at a workshop held January 23, 1989. Legal and tax experts were retained as advisors. Board members and other specialists attending the workshop reviewed the discussion paper (Attachment A). The resulting document proposing the establishment of and structure for a Debt for Development Corporation (Attachment B) and various board member comments (Attachment C) were the basis for discussion at a special board meeting held March 17, 1989.

At that meeting, the board voted to establish a Debt for Development Foundation that would seek 501(c)(3) tax-exempt status. The working group subcommittee met again March 22, 1989, to develop proposed staffing patterns, organizational structures, and financing mechanisms for the foundation as it relates to the coalition. The plan for the foundation is detailed in the proposal submitted to USAID on April 24, 1989.

Action Items

Progress has been made on the Action Items identified at the workshop (Attachment B).

- The board voted to file for 501(c)(3) status for the foundation.
- Conflict-of-interest provisions were drafted (Attachment D).
- The board voted to establish a national council of prominent individuals.
- In place of an expanded board of directors, the board voted to create a foundation with its own board.
- Instead of authorizing an executive committee, the board created the foundation with a smaller board.
- The corporate secretariat is proposed in the document submitted to A.I.D. on April 24, 1989.
- This was done and incorporated into the grant proposal.
- The proposal was developed and submitted.
- The creation of a separate foundation obviated the need for changes in the coalition bylaws.

Current Status

The Debt for Development Foundation has been incorporated in the State of Delaware. The Debt for Development Coalition's attorney, Anne Piorkowski, is preparing papers to file for 501(c)(3) tax-exempt status with the Internal Revenue Service. Additional input on legal and tax issues has been provided by the law firm of Miles and Stockbridge and supplied to Ms. Piorkowski.

The Debt for Development Foundation held its first board meeting on May 17, 1989. Robert Clodius and Margaret Fahs were elected interim chair and interim secretary, respectively. The board members discussed the role and function they foresaw for the foundation as well as linkages between the coalition and the foundation. Ms. Piorkowski will be asked to draft bylaws for the foundation.

John B. Ross, executive director of the coalition and a guest at the meeting, presented for board consideration the "Operating Procedures" (Attachment D). The board will review and discuss the paper at the next meeting. Interim Chair Clodius noted that some additional matters need consideration with reference to conflict-of-interest issues.

Attachment A
Workshop on Management Issues
Discussion Paper
Sponsored by the Debt for Development Coalition
January 23, 1989

"Corporation for Development"

To provide a superstructure to develop policy and receive funds that might be forthcoming in the debt-for-development project, it is proposed to create a Corporation for Development. This would be a 501(c)(3) corporation duly authorized as a nonprofit entity to receive funds from a variety of sources.

Board of Directors

The board of directors initially would be composed of prominent individuals from the United States and Latin America. If the Debt for Development Coalition expands to Africa or Asia and comes to involve more than American banks, others might be added to the board to provide balanced representation.

We would make every effort to recruit the finest caliber of individuals to serve on the board. Donald Rumsfeld, Elliott Richardson, Mike Mansfield, Russell Mawby, Richard Lyman, David Rockefeller, Katherine Graham, Dan Evans, and David Gardner are examples of the kind of people who might be candidates. Special attention would be devoted to the selection of the Chair, because this individual would have a major leadership role in the entire project.

We would propose to consult with a variety of individuals, such as Peter MacPherson, Deputy Secretary of Treasury; James Baker, Secretary of State; and Richard Bissell, assistant administrator of USAID, as well as with congressional leaders before making any decision as to the best group to be pursued. (The specific process for identifying candidates needs to be discussed, as well as suggestions for additional names.)

It might be useful to consider developing a special group or groups to serve in an advisory capacity to the board; there could

¹"Corporation for Development" is used as a working title only. Additional discussion is needed to find a more appropriate title.

be discussion on the possibility of having an advisory group composed of former presidents of the United States.

The board would provide a high level of exposure and credibility for the project. Members could speak on behalf of programs and provide the access and leverage that is important in launching an initiative of this sort.

The board would be charged with developing the overall policy and guidelines for the debt-for-development initiative and would serve as the fiscal agent for all funds that would support projects.²

Debt for Development Operating Committee

The Debt for Development Operating Committee would serve as staff to the board in providing the professional resources to research and stimulate the development of agreements that would then be reviewed and approved by the board. A task force from the operating committee, which would include the Chair of the appropriate country committee (see below), would conduct negotiations and create development agreements, for approval by the board, with banks and host country officials.

Membership

Members of the operating committee would be drawn from representatives of current board organizations. In addition, representatives from the environmental groups and others from member units would be called upon as necessary.

Responsibilities

The operating committee would be primarily responsible for the following:

- Building and maintaining relationships with Third World government officials and leaders of their not-for-profit organizations
- Maintaining and strengthening relationships with commercial banks and other creditors to Third World countries to work out the process by which agreements can be reached

²Should funds be received before this 501(c)(3) corporation could be set up, it is proposed that NASULGC be named as an interim point of receipt.

- Acting as a clearinghouse of information and providing an advisory and educational service for implementing debt-for-development transactions for not-for-profit organizations
- Recommending members of country committees for consideration by the Corporation for Development Board

The operating committee also would have responsibility for establishing basic infrastructure support for the debt-for-development initiative. This would include serving as the secretariat for the board of the Corporation for Development. In addition, the operating committee would provide overall financial monitoring, including a role in the audit process and reviewing compliance with the revenue ruling and other relevant regulations. The operating committee also would research and put in place some type of computer telecommunications (such as BITNET) to facilitate the exchange of information among relevant parties.

Country Committees

Members of the country committees would be appointed by the board and would be charged with the review of programs and the allocation of funds. The operating committee would make recommendations to the board concerning membership.

Members

Each country committee would be composed of members from the United States and the host country who are high-level professionals with expertise in the particular country. The chair of each country committee would be an ex officio member of the operating committee.

Structure of and Charge to the Country Committees

The primary charge to each country committee would be, with delegated authority from the corporate board, to make decisions on country policy and on the allocation of funds. To ensure adequate review and representation, the structure would allow for independent review of these issues by U.S. and host country members and then for a final joint decision on policy and the allocation of funds.

Program subcommittees would be formed for each major area of activity (there might be environmental, housing, microenterprise, and education program subcommittees). Again, to ensure adequate review and representation, the structure would allow for the independent review of issues by U.S. and host country members and then for a final joint meeting of each program subcommittee to

make final recommendations to the country committee. At least one member of each program subcommittee would be a member of the country committee; other members would be drawn from high-level professionals familiar with the country and the specific program area.

Responsibilities

The basic charge to each country committee, as noted above, would be deciding on policies and on the allocation of funds. In addition, each country committee would be responsible for the primary financial supervision of each project, with the Debt for Development Operating Committee having responsibility for a general financial overview. Decisions on funding would be based on a review of the recommendations of the U.S.-host-country joint program subcommittees.

Notes

Funding to Support the Administration of Debt for Development

In addition to any funds in local currency for program support, there will be a need for some amount of support in U.S. dollars for the projects to succeed. Potential sources for these funds include the following:

- USAID--from Washington, D.C.
- USAID Missions--from the host country
- Foundation/grant support
- A small percentage of any new funds supplied by sources such as the World Bank or the Inter-American Development Bank
- A small operational tax or set-aside (on order of .5 percent) on transactions that could be paid by the host country in dollars

Notes of Points to Consider in Negotiations

In conducting negotiations with officials of the host country and, in the case of donations, with bank officials, it would be useful to consider the following points:

Preferred Type of Funding

It is understood that instances will be encountered where funds are earmarked for specific institutions or projects. However, in general, it would be preferable to receive unrestricted funds, perhaps designated for large program areas (such as environmental projects, education, or housing).

Modification Procedures

When a country is intent on prescribing a certain type of program, there should be some procedure for modification of the use of resources between major categories and to accommodate the development of new programs.

Minimum Funds To Be Handled by the Corporation for Development

There should be some discussion about establishing a minimum amount of money that can be processed by the Corporation for Development so that administrative efforts are not consumed with very small, separate projects.

Attachment B

Debt for Development Corporation

An invitational workshop on debt-for-development management issues was held on January 23, 1989, in Washington, D.C., to review a model for a corporation that would hold donated debt funds, in anticipation of a donation from Costa Rica. The purpose of the workshop was to examine the organizational and management structure necessary to transform the Debt for Development Coalition into a corporate entity capable of receiving and dispensing funds and interfacing with U.S. banks and agencies within the legal, tax, and accounting requirements of the U.S. Government.

The following proposal incorporates the discussions held at the workshop into an operational model. The proposal includes three sections: organizational structure, functions and responsibilities, and a summary of specific action items.

Debt for Development Corporation Proposal

Organizational Structure

The Debt for Development Corporation should apply for 501(c)(3) status, providing the legal basis to accept and disperse funds as a nonprofit corporation.

The Corporation for Development should have two major divisions: a board of directors to develop policy and a corporate secretariat to handle programmatic and operational functions.

Board of Directors

To achieve the objectives of the corporation, it is necessary to expand the board in terms of both actual members and national visibility. In addition, key groups should be added to reflect more accurately the broad consistency of the coalition. Specifically, the current board should be expanded to a maximum of 15 members, including the following:

- Appropriate representation from the environmental organizations
- Appropriate representation from the Latin American community
- Nationally recognized, well-qualified, high-level individuals from within member organizations (This can be achieved by

replacing current alternate board members whose terms expire in July 1989.)

- Nationally known, high-caliber professional individuals from outside member organizations

National Council

A national council of the Debt for Development Corporation should be created to advise the board of directors and promote the Debt for Development concept with policymakers in the public and private sectors. This council would be comprised of extremely prominent, influential individuals. Those who might be approached to serve on the national council would include officials from the Smithsonian Institution and Library of Congress and former A.I.D. administrator, Peter McPherson. The active support and endorsement of members of this caliber would provide the visibility, access to policymakers, and credibility necessary for the success of the corporation's policies and programs.

Executive Committee

Recognizing that the total board will not be able to meet frequently enough or devote the amount of staff time necessary to the detailed development of all the complex policy options it will be called upon to handle, an executive committee of the board of directors should be formed. The executive committee should include one representative from each of the five umbrella organizations, plus two alternates chosen by the board. Members of the executive committee should meet frequently to consider policy issues; review programmatic, financial, and operational issues, and formulate proposals for the board's consideration.

Corporate Secretariat

A corporate secretariat would serve as staff to the board, providing the professional capabilities to research technical issues and carry out the process of developing and implementing program procedures, financial management, and operations necessary to achieve the objectives of the corporation. Initially, the corporate secretariat would include the following:

- Executive director
- Financial vice president
- Program and evaluation vice president
- Public affairs vice president

- Area specialists (two)
- Accountant
- Telecommunications/facilities officer
- Administrative assistant
- Secretaries (two)

Functions and Responsibilities

Board of Directors

The board of directors would be charged with developing the overall policy and broad operational guidelines for the debt-for-development initiative. In addition, the board would serve as the fiscal agent for the receipt and dissemination of funds. Negotiations with host countries and U.S. banks would be conducted in the board's name. The board would review the initiative's program activities and allocations.

National Council

The national council would utilize its high level of visibility and professional credibility to provide national exposure and recognition to the corporation's efforts. Its membership would provide the access and attention necessary to facilitate the corporation's objectives. The national council also would provide a valuable source of advice and assistance to the board of directors.

Executive Committee

The executive committee would develop policy options and operational guidelines for the board of directors' consideration. Subcommittees on financial and program issues would work closely with the corporate secretariat to ensure that appropriate management and governance procedures are developed and implemented.

Corporate Secretariat

The corporate secretariat would establish the basic operational infrastructure for the debt-for-development initiative, within the policy guidelines established by the board of directors. In addition to serving as the secretariat of the board of the Debt for Development Corporation, the corporate secretariat would be responsible for the following:

- Creating a clearinghouse of information and developing educational materials to promote the Debt for Development concept
- Providing technical information, advice, assistance, and coordination to potential participants in the process
- Building and maintaining relationships with developing country officials, commercial banks and other creditors, and U.S. and host country not-for-profit organizations to work out the process through which agreements can be reached
- Recommending guidelines for development programs and projects and their implementation and evaluation
- Developing procedures for financial monitoring in compliance with revenue ruling 87-124 and other regulations
- Making recommendations regarding country committee structure and membership
- Researching and implementing a system of telecommunications to facilitate the exchange of information among relevant parties

Special Considerations: Funding for Administration of the Corporation

It is clear that in order to support the organizational structure outlined above, additional financial resources are necessary. It is recommended that a detailed proposal for such support be developed and circulated to a variety of potential funding sources. These might include USAID, the World Bank, the Inter-American Development Bank, and foundations.

In addition, a plan for financial self-sufficiency is essential to the long-term viability of the corporation. Therefore, a task force should be formed to explore potential options for such financial support. Various types of fee structures as well as the pros and cons of statutory authority should be examined and recommendations made to the board as soon as possible.

Summary of Action Items

- Board approval to file for 501(c)(3) status as a not-for-profit corporation
- Develop appropriate conflict-of-interest provisions at both the personal and institutional level

- Authorize the establishment of a national council of well-known, prominent individuals to serve in an advisory role
- Authorize expanded board of directors
- Authorize executive committee of the board of directors
- Approve establishment of a corporate secretariat, with appropriate infrastructure to receive and disperse funds
- Establish a committee to develop options for long-term financial self-sufficiency
- Authorize development of a proposal to seek immediate financial support for the administrative structure recommended by the board
- Amend bylaws to reflect changes stated above

Attachment C(1)

M E M O R A N D U M

TO: Board of Directors
Debt for Development Coalition

FROM: Jack Shaffer
World Council of Credit Unions

DATE: March 3, 1989 (Amended March 21, 1989)

RE: Some Thoughts and Suggestions for Use at the March 17,
1989, Special Board Meeting

Permit me a few personal observations before I get to my main point, which is that we should concentrate our attention initially at the March 17 meeting on defining in quite specific terms a consensus regarding the program activities that we wish the coalition to undertake. After doing this, it is logical then to establish the membership, board, and staff structures that will be needed to implement this consensus. The budget that we may have will influence both our activity and structure decisions.

I started out the process of preparing this memo by asking myself why my organization and I are participating in the coalition. What do we bring to it and what do we want from it?

There are two reasons for our participation. First, we recognize that the existing structure of debt in a number of developing countries and the inability of these countries to probably ever pay it off presents an opportunity. It appears that it is possible to obtain some of this debt at a discounted value, convert it, and channel it into the cooperative structures in certain countries. In short, we think that the debt problem, approached appropriately, can become a major source of new resources for cooperative development. We wish to maximize this flow for cooperative development.

A subsidiary interest in this regard is that we feel that if approached in a certain fashion, the debt conversion process can produce not only resources for our developing country colleagues, but, through a system of fee-for-services that we propose to provide to banks and others, a significant amount of income can be generated that will provide independent development resources for use in our programs. An important goal of our organization is to develop such independent sources as a way of "doing our own

thing," rather than always having to worry about the interests and agendas of development financing agencies--A.I.D. and others.

Therefore, one of our interests in participating in the coalition is to enhance our capacity to take advantage of the debt "opportunity." We assume other groups have similar interests.

Our second major interest relates to our feeling that developing countries and their people and institutions are the unfortunate victims of international economic events and misguided policies. (We in the United States should now be able to fully sympathize with others over how easy it is to get one's country into massive debt.) Our interest in participating in the coalition, therefore, is related to its potential usefulness as a way of gaining attention to the problems and needs of debtor developing countries and of encouraging broader solutions than those reflected by our own or any other one organization's institutional interests. Together our organizations can make a larger impact than can any one of us alone--even a credit union structure that involves more than 50,000,000 people in the United States and 71,000,000 worldwide. We believe that the coalition can become a voice within the United States for developing countries' views and aspirations vis-à-vis their debt problem.

These, then, are our two principal interests--maximizing the flow of new resources for cooperative development that can be generated from the debt problem and encouraging steps that may lessen burdens and increase opportunities in debt-problem countries.

Now, the coalition program.

I suggest that we start our discussion with the statement of goals appearing in the brochure that was recently published by the coalition. Presumably, alongside whatever disagreements we may have, these represent things on which we all have agreed.

- Develop a process that will facilitate not-for-profit groups obtaining debt donations and enabling them to purchase discounted debt-for-development programs
- Serve as an information clearinghouse, updating interested parties on the latest debt-for-development initiatives and research and providing data on aspects of conversion transactions
- Create mechanisms to ease purchases of less developed country (LDC) debt obligations by not-for-profit organizations

- Seek to resolve public accounting, tax, legal, and other technical issues surrounding the debt-for-development concept
- Provide a forum for dialogue on the debt-for-development issue among the nonprofit community, financial institutions, government agencies, and LDC's
- Facilitate cooperation among the nonprofit community on debt-for-development issues
- Advocate the debt-for-development concept before government agencies, legislatures, bankers and other creditors, and LDC's

I think we should flesh these goals out into a series of program activities that will help us implement them. My ideas (most of which are not new) are as follows--you can add your own.

1. Develop a process that will facilitate not-for-profit groups obtaining debt donations and enabling them to purchase discounted debt-for-development programs

The coalition should have a program to inform banks and other debt holders regarding the interests and potential of the not-for-profits as resources for development. We should have a program similarly to inform the not-for-profits about the banks and the parts of their operations that are potentially useful in debt-for-development activities.

To supplement the coalition's paper, "The Organizational Network Behind the Debt for Development Coalition," we should have and make available more detailed information about the affiliates of coalition members, including their development experience (by program and country) and their affiliations in developing countries.

We should have a program activity that focuses on the legislative remedies that must be undertaken to facilitate debt-for-development activity--with regard to both bank debt and U.S. Government-held debt.

We should establish a 501(c)(3) Debt for Development Foundation that can receive debt donations when there is no better or more logical channel for these. The coalition, however, also should prepare a directory of 501(c)(3) structures already existing within the coalition membership (and their affiliates) that could be recipients of donated debt (for example, there are at least four among the OCDC members).

Regarding facilitation of debt purchases, a "how to do it" manual should be prepared and made available by the coalition.

(Perhaps the one being prepared by Volunteers in Overseas Cooperative Assistance could be used or modified to reflect broader coalition interests.) The coalition should prepare a directory of traders, deal makers, bank departments, and so forth, with specific contact names so that not-for-profits wishing to pursue interests can know where to turn. We should encourage an expansion of the number of knowledgeable actors in the field.

2. Serve as an information clearinghouse, updating interested parties on the latest debt-for-development initiatives and research and providing data on aspects of conversion transactions

The coalition should begin to publish a regular monthly newsletter to inform about and promote debt for development. It should be targeted at not-for-profits involved in development, LDC governments and not-for-profits, legislators, government agencies, development organizations, and so forth.

We should publish a list of information sources regarding debt and debt for development. Publications like the SWAPS newsletter should be identified and analyzed. Information should be developed and made available as case studies on individual conversions of debt for development.

The coalition should establish itself as a recognized and comprehensive source of information on the prices of different countries' debt. The coalition should have available and provide the latest information on established debt conversion programs within individual countries. The information should include names of important and useful contact persons.

3. Create mechanisms to ease purchases of LDC debt obligations by not-for-profit organizations

A system or formula of fees should be developed for coalition staff time spent on arranging or facilitating individual organizations' deals. If the coalition goes beyond providing or processing information, it should receive payment for its time and service.

Pooling of resources for debt conversions should be encouraged and implemented (for a fee) by the coalition when there are no other mechanisms available for doing so. Coalition members should be solicited regarding their readiness to act in specific countries on behalf of the coalition. (For example, the World Council of Credit Unions has or soon will have established program activity in Bolivia, Cameroon, Guatemala, Honduras, Jamaica, Malawi, Niger, Philippines, and Togo. Through its Debt for Cooperative Development Service, the council is prepared to

solicit and facilitate group purchases of debt in these countries.) Should economic benefits flow to a "lead" organization acting for the coalition, these should be shared with the coalition.

A key program question for us is whether we wish to have the coalition be the only actor in pooling or whether we may make more progress with a more diversified approach.

4. Seek to resolve public accounting, tax, legal, and other technical issues surrounding the debt-for-development concept

We should not expect that coalition staff will be the only resource for resolving such issues. We should mobilize existing expertise and experience within the coalition members. For example, INTERACTION has committees that deal with some of these issues. Coalition members have access to staff and board member expertise that could be utilized.

I suggest that we establish working subcommittees charged with responsibilities to identify and resolve (1) public accounting, (2) tax, and (3) legal issues. The members of these committees should be designated by coalition members. If funds become available, consultants should be employed to facilitate the work of the committees.

A committee on technical issues related to conversions should be formed from groups that have or are in the process of implementing conversions. Their views and experience should be shared with others related to the coalition and its members and their affiliates.

5. Provide a forum for dialogue on the debt-for-development issue among the nonprofit community, financial institutions, government agencies, and LDC's

A bimonthly debt-for-development forum should be organized by the coalition as a way of holding regular public meetings to present and encourage discussion on debt-for-development issues. The various constituent groups mentioned above should be encouraged to attend. LDC participation should be solicited from embassy staffs in Washington, D.C.

The occasion of such meetings could provide an opportunity for introducing major actors in Debt for Development--banks, bankers, traders, LDC program operators, U.S. and other governmental officials. These meetings should be occasions for major discussions of issues and for the sharing of experience.

The coalition newsletter should be the vehicle for sharing more widely the information presented at each forum to people who could not attend.

6. Facilitate cooperation among the nonprofit community on debt-for-development issues

Cooperation should be facilitated through the newsletter and forum meetings. Pooling arrangements will make collaboration advantageous.

Those organizations with major program efforts in the field of debt for development should be encouraged to become members of the coalition--regular members if they are prepared to contribute, as do the current members, or associate members (ex officio, they are called in the bylaws) if they are not prepared to make such a major contribution.

It will become increasingly important for the coalition to have within its ambit the not-for-profits who are making major efforts to utilize debt for development.

7. Advocate the debt-for-development concept before government agencies, legislatures, bankers and other creditors, and LDC's

A national consultative council of the coalition should be established, made up of distinguished and recognized public officials. This council should be an annual forum through which major public pronouncements are made regarding the debt problem and the value of Debt for Development, particularly from the point of view of developing countries. The annual meeting should be timed so as to have maximum potential for impacting U.S. governmental planning, action, and legislative considerations. It also should target for impact the International Monetary Fund, the World Bank, the Organization for Economic Cooperation and Development, and G-7 deliberations on this subject.

A legislative program should be developed by the coalition to identify those actions that should be taken legislatively to facilitate debt-for-development prospects. The program should anticipate needs and events and not simply be reactive. Such a program could be facilitated in its development and implementation by those experienced in legislative action from within the coalition's membership.

Occasions for presentations regarding debt for development should be solicited within the banking community and, perhaps, at bank stockholder meetings.

Specialized workshops focusing on the specific interests of different groups of actors in the debt-for-development field should be organized. These could be for such groups as embassy officials, U.S. Government officials, officials of multilateral agencies, members or staff of Congress, and so forth.

A product of such workshops could be specialized publications dealing with special issues regarding debt for development that are of concern to different groups.

After we have agreed on our program interests and intentions, we should formulate them in such a fashion that they become the scope of work for the grant from A.I.D. We should not anguish over whether we have done everything in the original grant. We consented therein to do far more than our agreement, will, and capacity allowed.

Obviously, if we do the above, or whatever else we may agree to do, it has implications for membership, structure, and staff of the coalition.

In my view, some of these implications should be structured as follows:

Membership of the Coalition

Full membership in the coalition should remain for those organizations currently designated but be supplemented by other interested organizations that the coalition members deem appropriate and that are prepared to contribute the annual \$10,000 membership fee. The bylaws permit such expansion by a vote of the board of directors at any time.

In addition, associate membership should be encouraged from among other groups with an interest in debt for development. A substantial membership fee (say \$1,000 per year) should be required to ensure that such membership is more than casual.

Consideration might be given to establishing a class of individual associate members who would receive the newsletter and other coalition materials and who could act as local advocates for debt-for-development interests. Such membership could be solicited from boards of directors, staff, and other participants in coalition member-related organizations. Membership fees and subscriptions should be \$25 per year.

Board of Directors

I suggest that we amend the bylaws and formally change the "working group" into a board of directors.

The representation of regular members should remain the same--two per organization. The bylaws already allow for changes to be made in representation, so if any member is unhappy with the quality of representation, he or she can change it at any time. The bylaws also contain provisions for removing representatives, if desired.

In addition, the chair of the National Consultative Council and the Debt for Development Foundation should become members of the board, as should a representative selected by the associate members. Provisions also should be made for four public members selected by the board to broaden participation to include perspectives not otherwise represented.

Considerable time should be given to building a program and operational consensus among the coalition board members.

National Consultative Council

This council should be constituted with persons of national prominence who are willing to lend their recognition and prestige to advocacy of a just solution of the Third World debt problem and specifically to the use of debt as a tool for development.

It might include former presidents, Secretaries of State and Treasury, and congressional leaders, business and labor leaders, and leaders from the nonprofit community who are involved with development. It should be heavily weighted toward prominent persons who are already identified with coalition member organizations and their affiliates. This will help ensure that the council has a strong development perspective. There are many such persons on university boards of trustees, private voluntary organization boards, and so forth.

The National Consultative Council should meet annually for two days to examine programs, address issues, and recommend action on the debt problem and debt for development. It should issue an annual report that will be fashioned and timed to maximize its impact on debate in the United States and in international meetings on debt issues. It should regularly address specific issues related to private/bank, public/U.S. Government and multilateral debt and act as a rallying point for action on appropriate matters concerning these.

Debt for Development Foundation

The existing articles of incorporation and bylaws of the coalition should be amended to provide for the establishment of a Debt for Development Foundation that would qualify as a 501(c)(3)

corporation and be able to receive donations of debt whose receipt and use have been expressly authorized by the board of directors of the foundation. The board of the foundation should be composed of the same people as the board of directors of the coalition to ensure commonality of interest and program direction.

The Debt for Development Foundation should be regarded as only one of a number of potential recipients of donated debt, and it should be used in this regard only when other acceptable alternatives are not available.

Staff

The staffing pattern for the coalition should be based on needs related to implementation of an agreed program of work. I propose that, once we have a consensus on the coalition's program, a staff planning committee be established to develop a staffing pattern for submission to the board for approval. We should then seek funding for it from any and all appropriate sources.

The A.I.D. Grant

We should understand in our relationship with A.I.D. who is "tail" and who is "dog" and who is wagging whom.

My personal and our organizational interest in and concern for debt for development preceded that of the coalition's involvement with A.I.D. I think the same is true of all the coalition members. We are appreciative of the A.I.D. support and are in favor of getting as much from the Agency as is reasonably possible, as long as it provides us an opportunity to do what we want to do. It is not the intent of A.I.D. grants that they be used to set up an operating entity for A.I.D. A.I.D. has, through a grant, agreed to assist us in pursuing mutually interesting goals.

If A.I.D. wants the coalition to develop a self-sufficiency plan within a certain timeframe (a reasonable goal, perhaps, from A.I.D.'s point of view), then let the Agency make this a condition of the renewal of the grant. In my judgment, to attempt to force the coalition to do this in one year is unrealistic, even if we were to agree to change the mode of operation of the coalition into one in which we were completely "deal driven."

It is my opinion also that the coalition is now well enough established that, once we have a clear consensus on our program of work, we can turn to other sources, such as foundations, for

program support. We should establish a committee to concentrate on this, calling upon fundraising expertise that exists among coalition members and their affiliates. Perhaps a key staff position should be someone who concentrates full time on fundraising.

Attachment C(2)

Comparison of Shaffer Paper and Committee Report

Goal #1: Develop a process that will facilitate not-for-profit groups obtaining debt donations and enabling them to purchase discounted debt-for-development programs

Shaffer's Suggestions

- Develop program to inform banks
- Develop program to inform not-for-profit groups
- Make available more detailed information about affiliates
- Develop program activity focusing on legislative remedies
- Establish 501(c) (3) Debt for Development Foundation
- Prepare a directory of 501(c) (3) structures already existing among coalition members that could be recipients of donations
- Develop a debt purchase "how to do it" manual
- Prepare a directory of traders, deal makers, bank departments, and so forth, with specific contact names for not-for-profit groups

Committee Report

- Form a 501(c) (3) corporation
- Use the corporate secretariat function to--
 - create a clearinghouse for information
 - develop educational materials
 - provide technical information, advice, assistance, and coordination
 - recommend guideline for development programs

Sven's Comments

- No real conflict here. With sufficient staff, all Shaffer's suggestions could be implemented.

Goal #2: Serve as an information clearinghouse, updating interested parties on the latest debt-for-development initiatives and research and providing data on aspects of conversion transactions

Shaffer's Suggestions

- Publish a monthly newsletter targeted at not-for-profits, legislators, government agencies, development organizations, and so forth
- Publish a list of information sources regarding debt and debt for development
- Develop information and make available as case studies on individual conversions of debt for development
- Have available and provide latest information on established debt conversion programs within individual countries, including names of contact persons

Goal #3: Create mechanisms to ease purchases of LDC debt obligations by not-for-profit organizations

Shaffer's Suggestions

- Develop a formula of fees for staff time spent on arranging an individual organization's deals. If activity goes beyond information, coalition should receive payment
- Encourage and implement (for a fee) pooling of resources
- Solicit coalition members regarding readiness to act in specific countries on behalf of the coalition
- Ensure that economic benefits that might flow to a "lead" organization acting for the coalition be shared with the coalition(?)

Committee Report

- Have task force investigate possible fee structure
- See notes on "Corporate Secretariat"

Sven's Comments

- The basic premise to investigate possible fee structures is consistent. Specific proposals need to be reviewed and agreed

upon; items could be implemented, although this might be a long-term process.

Goal #4: Seek to resolve public accounting, tax, legal, and other technical issues surrounding the debt-for-development concept

Shaffer's Suggestions

- Mobilize existing expertise within coalition members
- Establish working subcommittees charged with--
 - public accounting
 - tax issues
 - legal issues
- Bring in consultants, if funds are available
- Establish committee on technical issues from groups in the process of implementing conversions--share their experience with others

Goal #5: Provide a forum for dialogue on the debt-for-development issue among the nonprofit community, financial institutions, government agencies, and LDC's

Shaffer's Suggestions

- Develop a bimonthly debt-for-development forum for not-for-profits and LDC representatives.

Sven's Comments

- There is a great deal going on already, thanks to Jack's efforts; with additional staff, we could do more.

Goal #6: Facilitate cooperation among the nonprofit community on debt-for-development issues

Shaffer's Suggestions

- Facilitate cooperation through newsletter and forum meetings
- Encourage organizations with major program efforts in debt for development to become members of the coalition

Committee Report

- Build and maintain relationships with all parties concerned

- See notes on "Corporate Secretariat"
- Develop procedures for financial monitoring

Sven's Comments

These seem to be consistent.

Goal #7: Advocate the debt-for-development concept before government agencies, legislatures, bankers and other creditors, and LDC's

Shaffer's Suggestions

- Establish a national consultative council of distinguished public officials; work as an annual forum for public pronouncements
- Develop a legislative program that would anticipate needs, not simply be reactive
- Solicit occasions for presentations on debt for development within the banking community and perhaps at bank stockholder meetings
- Organize specialized workshops focused on specific interests of certain groups, such as embassy officials, U.S. Government officials, multilateral agencies, members of Congress, and so forth
- Possibly produce specialized publications resulting from these specialized workshops

Sven's Comments

- We are doing a great deal of this already; with additional staff, more could be done.

Implication #1: Membership in the Coalition

Shaffer's Suggestions

- Ensure that full members remain as currently established
- Supplement membership by any interested organization that the coalition deems appropriate and that will pay \$10,000

- Develop an associate membership category for other groups with an interest charge fee (about \$1,000 per year)
- Consider establishing class of individual associate members who would receive a newsletter and other information and who could act as local advocates; include fees, such as \$25 per year

Committee Report

Sven's Comments

- There is a fundamental disagreement between Shaffer's paper and earlier discussions by the board on the first two points mentioned above. Point #1 cannot be resolved until there is agreement on point #2.

Implication #2: Board of Directors

Shaffer's Suggestions

- Convert current "working group" into a board of directors
- Keep representation of regular members the same (two per organization)
- Make Chair of the National Consultative Council a member of the board
- Make representative of the associate members a member of the board
- Add four public members, selected by the board

Committee Report

- Board charged with developing overall policy and broad operational guidelines, fiscal agent, negotiations in the name of the board
- Size expanded to include a maximum of 15 (environmental organizations, Latin America, high-level individuals from within member organizations, nationally known high-caliber professionals from outside member organizations)
- Executive Committee of the Board: one representative from each of five umbrella organizations, plus two alternates; meet frequently; formulate proposals for consideration by the full board

- Corporate Secretariat: staff to the board (research technical issues, develop and implement programs, financial management, and so forth). Suggested staff includes executive director, financial vice president, program and evaluation vice president, public affairs vice president, area specialists (two), accountant, telecommunication/facilities officer, administrative assistant, secretaries (two). The purpose of the corporate secretariat is to--
 - provide a clearinghouse of information
 - develop educational materials
 - provide technical information, advice, and coordination
 - build and maintain relationships with all parties

Implication #3: National Consultative Council

Shaffer's Suggestions

- Have council members be persons of national recognition; might include former presidents
- Draw council members from people already identified with coalition member organizations and affiliates
- Hold an annual 2-day meeting; issue an annual report
- Conduct an annual forum for public pronouncements

Committee Report

- National council would provide advice to the board and promote the debt-for-development concept. Suggestions for members included officials from the Smithsonian and the Library of Congress, as well as Peter McPherson. Members would provide access and attention to facilitate the objectives.

Sven's Comments

- These two proposals seem to be comparable, with the exception that board discussion resulted in scaling back the level of prominence of likely members, given the reality of attracting certain kinds of individuals to the project.

Implication #4: Debt for Development Foundation

Shaffer's Suggestions

- Amend bylaws to create Debt for Development Foundation--a 501(c)(3) corporation

- Make board the same as the board of the coalition
- Use foundation as a recipient of funds only when other acceptable alternatives are not available

Sven's Comments

- The question of having two entities was debated by the board. The proposal at the time was similar to Shaffer's, where the Debt for Development Coalition, Inc., would exist alongside a separate 501(c)(3) organization. The board decided it would be more effective to have one single entity. We had legal advice on the implication of each option.

Note: Staff

Shaffer's Suggestions

- Amount of staff based on needs related to implementation of agreed program of work; suggest establishing a staff planning committee to make recommendations to the board; and then seek funding.

Sven's Comments

- Need to have the money now. If further research indicates we need more money, we can apply for it. Question whether board members would be willing to form a staff planning committee; with only Jack Ross doing full-time work on behalf of the coalition, we certainly do not have staff who could form a committee to do this.

Note: The A.I.D Grant

Shaffer's Suggestions

- Show appreciation for A.I.D. support
- Coalition not to be an operating entity for A.I.D.
- If A.I.D. wants the coalition to develop a self-sufficient plan, the Agency makes this a condition for renewal of the grant; unrealistic to expect this to happen in one year

Committee Report

- Must develop a plan for financial self-sufficiency; form a task force to explore options, including fee structures and statutory authority.

Sven's Comments

- No substantive difference in these items.

Note: Fundraising Committee

Shaffer's Suggestions

- Establish committee, calling upon fundraising expertise among members and affiliates--perhaps a key staff position.

Committee Report

- Require additional financial resources
- Recommend development of detailed proposal to be circulated to a variety of funding agencies, including A.I.D., the World Bank, and the foundations

Sven's Comments

- This seems to be what we did--form a committee to write the A.I.D. grant and submit it for funding
- Recommend guidelines for development programs, implementation, and evaluation
- Develop procedures for financial monitoring
- Make recommendation regarding country committee structure
- Research and implement telecommunications system

Sven's Comments

- There is a major point of difference regarding the structure of the board.

Suggestion: After we have agreed on our program interests and intentions, we should formulate them in such a fashion that they become the scope of work for the A.I.D. grant. We should not anguish over whether we have done everything in the original grant.

Sven's Comments

- We have fulfilled the commitment outlined in the original grant.

- We should stop anguishing and try to get the money.

Committee Report

- Proposed staffing would include (?) financial vice president (?) that would do some of this.

Sven's Comments

- The issues need to be addressed. Jack has done a lot. Perhaps we need to consider bringing in the best technical people but there is some question as to whether this level of expertise would be found within the coalition groups.

Attachment D

Debt for Development Foundation Policy Guidelines for Operating Procedures

In developing new financial and advisory services for not-for-profit organizations (some of which have not used these types of services) special care must be exercised, especially in the thin, secondary developing country debt markets. Therefore, operating guidelines should be reviewed regularly. The Board of the Debt for Development Foundation, Inc., hereinafter referred to as the foundation, adopts the following operating principles:

1. The board of the foundation shall assume the major responsibility for informing the not-for-profit community of the types of service that the foundation through its consultants seeks to provide.
2. Any not-for-profit organization interested in using the services of the foundation can indicate that desire and the foundation will not discriminate against any type of activity. Where necessary, not-for-profit institutions will be asked to supply financial data, including verification of their not-for-profit status, information that facilitates rapid and accurate communication, and historical data regarding activities or prior experience in certain countries. Data provided will be kept confidential and requests for information will be kept to a minimum.
3. In implementing transactions, consultants and financial institutions working with the foundation shall do as follows:
 - a. Offer only those services that can be performed in a professional, high-quality manner
 - b. Structure transactions to reduce or minimize risks to all participants, within the constraint that transactions should be completed within a reasonable timeframe
 - c. In the case of limited opportunities, first contact not-for-profit entities that have been active in that country and have been supportive of the foundation and the Debt for Development Coalition's initial goals and objectives
 - d. In pooling arrangements, encourage involvement of more than one not-for-profit entity in a given transaction
 - e. Not discriminate, in any of its actions, on the basis of religious affiliation, national origin, race, or sex

- f. To the extent possible, follow procedures used by private firms in operating within the market mechanism
4. Conflicts of interest by board members or consultants of the Debt for Development Foundation and the Debt for Development Coalition are to be avoided as follows:
- a. Board members will identify among each other their institutional interests in countries where the foundation is active.
 - b. Board members will indicate to staff consultants when seeking their assistance the board member's individual institutional interests.
 - c. Staff consultants will not accept other consulting assignments that are in conflict with the goals and objectives of the Debt for Development Foundation.
 - d. In undertaking activities with institutions that have an officer or officers on the board of the Debt for Development Foundation, staff consultants will provide the same level of confidential and professional assistance that would be expected for similar transactions in dealing with any other not-for-profit institution.
 - e. The board will work out, as needed, more detailed guidelines related to conflict of interests.