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WORKBOOK

TRAINING SESSIONS ON DEBT CONVERSION

FOR

THE AFRICAN DEVELOPMENT BANK

MARCH 5-9, 1990

ABIDJAN, COTE D'IVOIRE

Sponsored by:

African Development Bank
U.S. Agency for International Development
International Resources Group

AFRICAN DEVELOPMENT BANK TRAINING SESSIONS

ON DEBT CONVERSION TRANSACTIONS

March 5 to 9, 1990

OBJECTIVES

The African Development Bank is playing an important role in helping its member governments deal with the interrelated problems of economic growth and external indebtedness. To enhance its effectiveness in playing this role, the African Development Bank will hold one seminar for senior management and two workshops for Bank staff members on the subject of debt conversion.

The objectives of these sessions are:

(1) to enhance Bank management and staff understanding of the potential role of debt conversion in achieving economic growth, resource conservation, or other national objectives; and

2) to thoroughly familiarize Bank staff with the mechanics of debt conversion transactions, both so that they may provide member governments with competent, objective advice and so that where it makes sense to do so they can incorporate debt conversion in individual projects.

SUMMARY OF TRAINING SESSIONS

1. Seminar for ADB Senior Management. The ADB will hold one one-day seminar for senior Bank management (Vice Presidents, Executive Directors and Directors, and Division Chiefs) on 5 March 1990. This seminar will include presentations on types of debt conversion transactions and their potential benefits and drawbacks to implementing countries as well as ways in which the Bank could address debt conversion both in their country programs and in individual loan transactions. The seminar also will include step-by-step description of an actual debt-equity swap and a debt-for-nature transaction carried out in Africa. There also will be substantial discussion by the participants themselves.

2. Workshop for ADB Staff. Immediately following the senior management seminar, the Bank will hold two consecutive two-day training sessions on debt conversion, one in English (6-7 March) and the other in French (8-9 March). Participants will include operational staff (in particular, financial analysts, loan officers and economists) and selected Treasury, legal, and other staff. Each training session will include both the senior management seminar presentations and more intensive working-group discussion of how Bank staff may consider debt conversion in the context of overall country programs, under what circumstances it may be beneficial to consider debt conversion as part of a specific program, and the mechanics of undertaking a specific transaction.

AGENDA

AfDB ONE-DAY SENIOR MANAGEMENT SEMINAR ON DEBT CONVERSION

5 March 1990

9:00 am	Call to Order -- Mr. G. Aithnard, AfDB Director of Training
	Introduction and Remarks -- Mr. G. Avika, Vice President, AfDB
	Remarks -- Mr. Kenneth Brown, U.S. Ambassador to Cote d'Ivoire
9:25	Moderator -- Dr. G.M.B. Karissa, Division Chief, Country Programs, NCPR.5, AfDB
9:30	Overview of Debt Conversion -- Mr. Eric Hermann, FH International - Types of Debt Conversion Transactions - Potential Benefits and Problem Areas - Review of Debt Conversion in Africa and Worldwide
10:45	Coffee Break
11:00	Potential Application to AfDB -- Mr. Samuel Hale, Jr., IRG President - Country Programs and Policies - AfDB Projects/Loans - Private Sector Projects
11:45	Discussion
12:30 pm	Lunch
2:00	Debt for Development -- Mr. Jack Ross, Debt for Development Coalition
2:30	Structuring Debt Conversion Transactions: Debt-Equity Swaps: Zambia, Nigeria -- Mr. Eric Hermann
3:15	Coffee Break
3:30	Structuring Debt Conversion Transactions: Debt-for-Nature: Madagascar -- Mr. David Stone, World Wildlife Fund for Nature
4:15	Panel: Possible AfDB Contributions and Follow-up -Moderator; Dr. Warren Weinstein, AID/Washington; Mr. G.M.B. Kariisa, Division Chief, Country Programs, AfDB
5:00	End of Seminar

March 8, 1990 6:30 pm
Reception at the residence of AfDB US Executive Director, Mr. Mima Nedelcovych

AGENDA

AfDB TWO-DAY WORKSHOP ON DEBT CONVERSION

6-7 March, 1990 in English (E)
and
8-9 March, 1990 in French (F)

DAY ONE

9:00 am	Introduction -- Mr. G. Aithnard, AfDB Director of Training (E,F) Moderator -- Mr. Zoukpo, Economist, CDEP, AfDB (E) Mr. Portella, Economist, WCPR, AfDB (F)
9:15	Overview of Debt Conversion -- Mr. Eric Hermann, FH International (E); Ms. Oren Wyche, Private Sector Advisor, AID/REDSO (and formerly Citicorp) (F) - Types of Debt Conversion Transactions - Potential Benefits and Problem Areas - Review of Debt Conversion in Africa and Worldwide
10:45	Coffee Break
11:00	Potential Application to AfDB -- Mr. Samuel Hale, Jr., IRG President (E); Dr. Warren Weinstein, AID/Washington (F) - Country Programs and Policies - AfDB Projects/Loans - Private Sector Projects
11:45	Discussion
12:30 pm	Lunch
2:00	Structuring Debt Conversion Transactions: Debt-Equity Swaps: Zambia, Nigeria -- Introduction, Mr. Eric Hermann (E); and Ms. Oren Wyche (F) Small groups moderated by: Mr. Samuel Hale (E) and Mr. Jack Ross (E); and Ms. Oren Wyche (F). Comments provided by various bank representatives (E,F).
3:20	Coffee Break, then continue small group sessions
5:00	Conclude Day One Session

March 8, 1990

6:30 pm	Reception at the residence of the AfDB U.S. Executive Director, Mr. Mima Nedelcovych

WORKSHOP AGENDA: 6-7 and 8-9 March 1990 (cont.)

DAY TWO

9:00 am	Summary of Day One and Introduction to Day Two
9:15	Debt for Development -- Mr. Jack Ross, Debt for Development Coalition (E);
	Debt for Nature -- Mr. David Stone, World Wildlife Fund for Nature (E,F)
10:00	Coffee Break
10:15	Structuring Debt Conversion Transactions: Debt-for-Nature: Madagascar -- Mr. David Stone (E,F)
12:30 pm	Lunch
2:00	Separate Small-Group Sessions:
	- Debt Conversion Considerations in Country Programs - - Mr. Samuel Hale, Jr. (E); Dr. Weinstein (F)
	- Debt Conversion as a Component of AfDB Projects -- Mr. Eric Hermann (E); Ms. Oren Wyche (F)
	- Debt for Development/Debt for Nature -- Mr. Jack Ross (E); Mr. David Stone (E,F)
3:45	Coffee Break
4:00	Small-Group Reports and Final Discussion Moderator: Mr. Zoukpo, AfDB (E) Mr. Portella, AfDB (F)
5:00	Workshop Close -- Mr. G. Aithnard, AfDB

DEBT CONVERSION: AN INTRODUCTION

Virtually all countries in Africa suffer from a combination of unsustainably high levels of external debt, severe balance of payments imbalances, and levels of domestic investment which are too low to fuel the kind of economic growth necessary to lift the living standards of a growing population. Since the "debt crisis" of the early 1980s, the problem of insufficieny investment has gotten worse as international banks have ceased offering new credit, as international equity investors have become more nervous about the continent's economic prospects, and as multilateral and bilateral inflows have slowed.

At the end of 1988, the countries of sub-Saharan Africa had total external debt of over $135 billion, or 92% of sub-Saharan Africa's estimated 1988 Gross Domestic Product.[1] 86% of this external debt is either official or publicly guaranteed long-term debt. The continued overhang of external debt creates continued problems of economic management. The inability fo refinance debt inhibits debt management. Although most African countries in fact are servicing only a small portion of their total external debt, such debt service still consumes a large portion of export earnings and thus reduces capital available for investment or other domestic needs. Moreover, resulting foreign exchange shortages severely constrain profit/dividend remittance, which in turn substantially lessens foreigners' potential interest in investing within the country. In many cases the effects of these and other problems may be magnified by the country's economic policies, such as running continued large government budget deficits, allowing the domestic money supply to expand at inflationary rates, creating obstacles to market competition in many sectors of the economy, and so forth.

Debt conversion is a flexible debt management tool which offers one means of enabling a country to achieve some reduction in its external debt while simultaneously helping realize other important economic objectives such as increasing domestic investment, which in turn should increase rates of economic growth. Roughly twenty countries either have executed specific debt conversion transactions or currently have a formal debt conversion program. Although the field of debt conversion is in flux and a number of countries (including Argentina, Brazil and Mexico) have changed directions many times since originally introducing programs, there now is sufficient experience with a sufficiently broad sample of countries to conclude that debt conversion can be an effective instrument of national economic management. This is particuarly true of those programs that - rather than being changed frequently, so investors and creditors do not know what to expect next - have been stable and predictable over a considerable period of time.

Countries pursue many objectives in introducing debt conversion programs. Reduction of external debt and ensuing debt service costs generally is not the most important objective. Stimulation of new investment (domestic, foreign, or through return of flight capital) generally is of equal or greater importance. In fact, at last year's "Senior-Level Debt Conversion Workshop" sponsored by the African Development Bank, AID, and

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[1] World Bank, Debt Tables 1989-90 and World Development Report 1989.

OPIC, the general sense of the many workshop presentations, including particularly those by the countries that had implemented debt conversion programs, was that stimulation of additional investment was both the most important initial objective and, in evaluating results to date, the most significant benefit of debt conversion. Other objectives may include export promotion, promotion of privatization, or development objectives such as enhanced natural resource management.

Types of Debt Conversion Transactions

Debt conversion encompasses a wide variety of types of transactions. These include swapping debt denominated in hard currency for local currency equity, cash, debt, financial instruments, or financing for exports. Alternatively, external debt may be swapped directly for, e.g., equity shares in parastatals, in which case there may be no additional local currency generation or creation of new financial instruments. Finally, there are various "debt for development" approaches which may involve use of local currency by private voluntary organizations for specified developmentally sound purposes, or it may involve surrender to the Central Bank of some external debt in return, for example, for the government's agreement to protect endangered wildlife or a biologically diverse tropical rainforest. Details on individual types of transactions are presented in the slides accompanying this paper.

Typical Transaction Structure

For all types of debt conversion, the basic transaction structure typically requires;

(a) An investor or private voluntary organization that is requires local currency and is willing, if it can get a satisfactory discount, to use hard currency to purchase such local currency or a stipulated local value equivalent,

(b) A holder of external debt that is willing to sell that debt at a substantial discount in return for immediate payment in hard currency,

(c) A debtor government (generally represented by the Ministry of Finance or Central Bank) that is prepared to liquidate the external debt obligation by releasing the full face amount of the debt (or, more generally, a percentage of the full face amount) in local currency immediately or on some set schedule, and

(d) Because of the complexity of debt conversion transactions and the need to identify and contact a wide variety of banks that hold the country's debt (and possibly other countries' debt as well), an intermediary virtually always is required. The intermediary may itself be a trader in debt of various countries, it may hold an inventory of such debt, or it may be a bank which will use its own loans to a country for all or part of the debt conversion.

Eligible Instruments, Participants, and Types of Activities

There is a range of eligible debt instruments. However, in general, for commercial debt conversion transactions the eligible instruments are private outstanding, restructured or matured debt and commercial trade arrears. These typically represent 20-40% of an African country's total debt. The obligation must be certified as eligible by the country's Central Bank. Use of many of these instruments -- generally excepting commercial trade arrears -- also typically requires specific enabling language in a country's restructuring agreements with its commercial creditors.

Eligible participants and the types of activities which host governments in various countries may allow to be financed through debt conversion transactions include:

- Foreign investors or financial institutions, for a range of activities including new investments, expansion of existing enterprises, acquisition or restructuring of existing enterprises including parastatal enterprises, and provision of working capital or loans for existing operations;

- International or domestic private voluntary organizations, for program or project funding, provision of working capital, or sources of development assistance to others (for example, small enterprise loan funds); and in some cases

- Domestic investors, for new investment or joint ventures in priority sectors or simply to encourage repatriation of flight capital.

Attractiveness to Potential Investors

As stated earlier, most countries that have had debt conversion programs believe that the primary benefit has been the increased investment which has come about in response to the debt conversion program. Investment occurs in two ways. First, investors must invest hard currency to execute the debt conversion itself, which results in the investor acquiring local currency at favorable rates. Second, most productive investments require not only local currency but also hard currency for specialized equipment or services not available locally. Thus, the investor also must arrange financing of this hard currency component of the project.

In a study of programs in Latin America, subsequently extended to the Philippines, the International Finance Corporation arm of the World Bank has concluded that debt conversions very clearly do lead to additional investment which would not have occured in

the absence of such conversions.[2] At the same time, merely allowing debt conversions does not guarantee that investment will be forthcoming.

There are a number of conditions potential investors generally would like to see before deciding to proceed with a debt conversion transaction in a given country. Conditions specific to the debt conversion program itself include:

- Allowing a wide variety of investments,
- Using an auction system to determine pricing or else having a reasonable and largely transparent negotiation process,
- Pricing local currency at or very near its free market rate, and
- Taking either no fee or only a small percentage fee (generally expressed as a discount from full face value of the loan) for executing a debt conversion transaction.

As was discussed at great length at last year's Workshop, in determining investor interest the country's general economic management and political climate may be even more important than the details of the country's debt conversion program itself. Mr. Edesis, co-author of the IFC additionality study, made this point forcefully at last year's Workshop: investors will be attracted to the extent that they have confidence in the country's economic management, debt management, and political climate.

At the same time, investors generally recognize and accept that there will be features of a country's debt conversion program that may lower investors' prospective returns but are necessary to protect the country's interest or to further specific government objectives. For example, almost all countries' debt conversion programs include restrictions on the use of local currency proceeds, to prevent "round-tripping" (using debt conversion to acquire local currency at a discount and then using the local currency to buy back dollars or other hard currency at a more favorable rate on informal markets). Most countries do not provide the full face value of the loan in local currency but instead hold back a small percentage, so that the government captures some of the benefit of the debt's discount from face value. In some cases countries lower this retention or eliminate it altogether for investment in certain favored sectors. There also are likely to be statutory waiting periods before profits or capital from the resulting investments can be repatriated.

Inflation and Other Potential Adverse Impacts

Governments considering debt conversion programs often cite a number of potential adverse impacts of such programs. There is concern about the potential inflationary impact

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[2] Joel Bergsman and Wayne Edisis, "Debt-Equity Swaps and Foreign Direct Investment in Latin America", IFC Discussion Paper Number 2, 1988.

of expanding the local money supply in order to provide the local currency needed to complete a debt-for-equity or debt-for-cash swap. Concerns sometimes are expressed about potential increases in government budget deficits if the government either must incur new expenditures or issue high-yield local currency bonds to absorb some of the additional money supply. There often are feelings that debt conversion discounts provide an unfair advantage to foreign investors vis a vis their domestic competitors. Finally, there may be fears that certain debt-for-nature or debt-for-value transactions may result in selling national assets at fire sale prices.

Of these, by far the greatest concern is the potential adverse inflationary impact of releasing additional local currency to fund debt conversion transactions. Fear of this potential impact generally is considered the most serious obstacle to adoption of debt conversion programs. At last year's workshop, there was considerable disagreement among the participants over the nature and likely magnitude of this impact. Many participants (especially those from countries that actually have debt conversion programs in place) felt that the potentially inflationary impact of debt conversion was modest compared to the impact of government budget deficits and other causes. Also, there was general agreement that investment in a sound enterprise was inherently anti-inflationary since it increased the productivity of the economy. At the same time, there was extensive discussion of a number of policy options which a government may use to minimize or mitigate the potential inflationary impact of debt conversion.

The principal options to limit inflationary impacts of debt conversions, each of which can have many variants, include:

- Limiting the amount of conversions allowed in any single monthly, quarterly or yearly period (as, for example, Nigeria does);

- Using investment approval criteria, incentives, or other tools to channel debt conversion investments into export projects, agricultural expansion, or other sectors where productivity gains are expected to be high;

- Requiring that debt conversions represent no more than, say, one-half or two-thirds of a new investment, with the remainder being hard currency brought from outside the country, so that the productivity-enhancing effect of the investment itself will further offset the impact of the release of local currency;

- Requiring that the local currency be released over a period of, say 2-3 years (corresponding to the typical schedule of capital requirements for a new greenfield investment project) rather than immediately, with the balance kep on deposit at the Central Bank;

- "Sterilizing" any additional local currency generation by issuing an equivalent amount of government securities, increasing bank reserves on deposit at the Central Bank, or other means -- realizing that

sterilization measures may put added pressure on the government's budget deficit; and

- Stressing debt conversions which do not necessarily involve additional local currency generation, such as debt-for-nature or conversion of external debt into equity in domestic parastatals (realizing that this involves a number of additional potential concerns to host governments).

Not all of these options will be available to every African government. For example, the preferable way to sterilize local currency generation is to issue medium or long-term government securities. However, only Cote d'Ivoire, Egypt, Kenya, Morocco, Nigeria, Zimbabwe, and perhaps a few other African countries have a capital market which would permit issuance of such securities. As discussed elsewhere, the CFA Franc zone countries face unique money supply management issues which can be addressed only in concert with the central banks of the two CFA monetary unions.

Concerns Specific to CFA Franc Zone Countries

There are two concerns which relate specifically to countries in the CFA franc zone. First, money supply growth is controlled at the level of the Central Banks of the two monetary unions. Also, were one country to approve debt conversions which required large quantities of local currency, the monetary effect would be felt throughout the zone, so that in fact other countries would be forced to bear part of the inflationary impact of such conversions. Therefore, except for debt conversions which would have little or no monetary impact -- for example, a debt-for-nature project or a debt conversion to finance sale of a part-ownership in a parastatal being privatized -- a country would need to work extremely closely with the BCEAO. The monetary effect on other countries also presumably has been an important reason for an apparent hesitancy to approve debt conversions in the CFA franc zone.

A second important concern is with "roundtripping." As discussed previously, this is a concern in any country. However, it is of particular concern in the CFA franc zone countries because of the CFA's fixed parity with the French franc. Without very tight controls, the opportunity would exist for an investor to use a debt conversion to purchase CFA francs at a deep discount and then to use these CFA to purchase French francs at the fixed rate. Controls used elsewhere -- including requiring the investor to establish a special local currency account controlled by the Central Bank and then allowing release of funds from this account only based on bona fide invoices for new project construction or other pre-approved uses -- should be effective in preventing roundtripping. It also probably would be necessary to be more conservative in defining approved uses, permitting only bricks-and-mortar investment, acquisition of restricted common stock which cannot be re-sold for a long period of time, and other long-term uses and precluding debt conversions for working capital or other short-term needs.

Designing a National Debt Conversion Program

The discussion of investor interests and country concerns should make it clear that designing a national debt conversion program is not simple. Ideally, it requires careful definition of the country's objectives in launching such a program, consideration and careful balancing of the many disparate interests involved, and thoughtful adoption of measures to assure that the program strengthens rather than endangers the country's economic and monetary management.

A critical first step is to understand exactly why a country intends to adopt a debt conversion program. Debt conversion objectives are likely to include some combination of the following (which are not at all mutually exclusive):

- Investment promotion, whether generally, in specified priority sectors such as resource-based industries, or in priority activities such as parastatal restructuring;
- Promotion of non-traditional exports;
- Reduction in external debt and consequent debt servicing requirements;
- Repatriation of flight capital; and/or
- Developmental objectives such as expansion of health or education opportunities, small enterprise development, or natural resource conservation.

While each country will have a unique program reflecting its unique characteristics and priorities, there are certain common elements which must be included in any debt conversion program design. These program design elements include:

1. Definition of eligible participants;
2. definition of eligible transactions;
3. Establishment of debt conversion mechanisms and procedures, including procedures for approving/certifying sources and uses of funds and either an auction system (as Nigeria has done) or negotiation process (used by Zambia and Tanzania) for establishing discount rates and conversion fees;
4. Establishment of a system, such as use of carefully monitored blocked accounts, to prevent roundtripping;

5. Establishment of conversion fee discounts, special funds or other incentives to encourage investment in priority sectors or activities;

6. Participation of international financial institutions, possibly including use of concessional funds for co-financing or other purposes.

It may be desirable to start, in the early stages of a country's debt conversion program, with broad guidelines within which transactions could be undertaken on a case-by-case basis. As experience is gained and market receptivity and benefits and costs to the country can be assessed in greater detail, more detailed regulations can be developed. At the same time, national debt conversion programs are most successful where they are consistent over time and least successful where, as in Brazil, groundrules are changed constantly and auctions or negotiations are abruptly started and stopped and restarted again later. Thus, successive program development stages should build on and be consistent with what has come before.

The Broader Context

Finally, it is important to place debt conversion within the broader context of the economic and debt crises facing Africa. As previously mentioned, commercial debt -- which presently is virtually the only debt eligible for debt conversions -- on average constitutes only around 15% of sub-Saharan African countries, and around 25% of all African countries', total external debt. For the lowest income countries, the percentage may be 10% or even less. "Solving" the debt problem of Africa therefore ultimately will require addressing Africa's much more substantial official multilateral and bilateral debt. Whether through debt writedowns (some of which aready has taken place as a result of bilateral initiatives), the securitization approach proposed by the African Development Bank, other options, or most likely a combination of all of these. Similarly, many African economies have problems -- continued trade imbalances, overvalued exchange rates, pricing and other market rigidities, low capital productivity, and so on -- which must be addressed.

In this context, debt conversion can provide a valuable contribution, but only a partial contribution, to restoring a country to economic health. At a time of net capital outflow from the region, debt conversion in particular represents a market-driven source of long-term equity for countries that with few exceptions have neither well-developed domestic capital markets nor access to international capital markets. The examples of Nigeria and countries such as Chile clearly show that properly structured debt conversion programs can be successful in attracting new investment into productive enterprises. These two examples also demonstrate that success is much more likely where debt conversion is undertaken in concert with exchange rate adjustments, money supply management, and other steps to create an improved economic climate for investment and enterprise generally.

Until now, the overwhelming source of debt paper for conversion transactions has been claims of the private sector. Excluding publicly guaranteed trade credits (which, once

rescheduled, are treated as official credits), commercial debt constitutes only a small proportion of Africa's total debt (less than 15% on average and less than 10% for the porrest countries). The use of even this proportion is constrained by the terms of the various debt rescheduling agreements, few of which have yet been modified to provide for debt conversion.

Despite these limitations, debt conversion nevertheless is a particularly attractive option for encouraging new external capital inflows. When considered as a percentage of a country's annual new capital investment rather as a percentage of total external debt, the debt owed to private creditors represents a vast pool of potential investment capital. For example, in 1987, in the entire sub-Saharan Africa region gross domestic investment was 16.4% of gross domestic product (GDP), but in a few African countries it was 11% or less of GDP. Domestic savings -- the capital provided for such investment -- was only 9.4% for the region as a whole, and in a number of countries it was 6% or less.[3] Conversion of just just 5% of the outstanding non-guaranteed commercial debt of the region would. if used entirely for new investment, increase the region's rate of investment by almost 40%, from 16.4% to 22.6% of GDP. In fact, since local currency typically accounts for half or less of total investment, the actual increase in investment would be substantially higher. (Interestingly, these percentages -- from around 16% to over 20% -- closely parallel actual experience in Chile.)

Summary

At the end of last year's workshop, the conclusions regarding debt conversion were summarized in very concise and readable form by M. Mondeil of the African Development Bank's Training Center. These conclusions remain relevant today:

- Debt conversion programs have been extremely effective in increasing the rate of capital investment and in attracting the repatriation of flight capital;

- It seems possible to minimize the impacts of inflation by controlling the release of local currency, encouraging investments which will generate additional foreign currency, and other measures;

- The government budgetary impact deserves careful scrutiny but with forethought can be minimized;

- The potential loss of national decisionmaking authority is a very real concern to many countries; but for most countries the need to increase capital investment is so acute that this risk may have to be accepted for the time being; and

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[3] World Development Report 1989.

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- There are specific problems for the two CFA monetary unions, already summarized above.

There are important constraints to debt conversion in Africa which need to be recognized and addressed: the relatively low percentage of external debt owed to private creditors, the fact that secondary markets for African debt are very narrow, and the limited absorptive capacity of most African economies. More important, as discussed in other sections of this report, it is clear that debt conversion by itself will be of only limited benefit. Rather, debt conversion is best undertaken as one element of a comperehensive national strategy of debt, investment, and macroeconomic management.

INTRODUCTION
TO
DEBT CONVERSION

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WHAT IS DEBT CONVERSION?

- A FLEXIBLE DEBT MANAGEMENT TOOL BY WHICH GOVERNMENTS MAY REDUCE FOREIGN CURRENCY OBLIGATIONS

WHAT COUNTRIES HAVE USED SOME TYPE OF DEBT CONVERSION OR CURRENTLY HAVE FORMAL PROGRAMS?

- ARGENTINA
- BOLIVIA
- BRAZIL
- CHILE
- COSTA RICA
- DOMINICAN REPUBLIC
- ECUADOR
- GUATEMALA
- HONDURAS
- JAMAICA
- MEXICO
- NIGERIA
- PERU
- PHILIPPINES
- SUDAN
- TURKEY
- URUGUAY
- VENEZUELA
- ZAMBIA

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DEBT CONVERSION OBJECTIVES

1. Reduce external debt
2. Reduce debt service
3. Repatriate flight capital
4. Attract foreign investment
5. Increase domestic investment
6. Promote privatization
7. Increase exports
8. Encourage conservation areas
9. Promote development

DEBT CONVERSION TRANSACTIONS:

- Debt for Equity
- Debt for Cash
- Debt for Exports
- Relending Programs/Debt for Debt
- Debt for Value
- Privatization
- Financial Instruments
- Debt for Development
- Debt for Nature

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- DEBT FOR EQUITY

  - Creation of new companies/investments
  - Expansion of current investment
  - Privatization of select government entities
  - Conversion of foreign private sector debt into equity

- DEBT FOR CASH

  - Funding of working capital requirements
  - Payments of local loan/tax obligations
  - Funding of local non-commercial organizations, such as development/aid agencies for specific purposes

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- **DEBT FOR EXPORTS**
  - Promote incremental exports/obtain market share
  - Promote traditional exports/maintain or regain market share
  - Purchase of exports with debt
  - Combination of cash and debt most realistic method
  - Competitiveness of exports enhanced
  - Enlarge market for exports

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- RELENDING PROGRAMS/DEBT FOR DEBT

  - Local currency on deposit with Central Bank (or designated commercial banks) can be re-lent by creditor to new local private sector borrower

  - As borrower is subsidiary of foreign corporation, original creditor would sell loan to parent company at a discount

  - Local borrower receives access to scarce domestic credit/Parent effectively makes intercompany loan at a discount

  - May apply to Central Bank for permission to capitalize loan

- DEBT FOR VALUE
  - Trading of debt directly for shares in a State owned company (parastatal)
  - Primary difference between this and DEBT FOR EQUITY is that no local currency is required from the Government
  - Mitigates money supply impact
  - Could be used in conjunction with DEBT FOR EQUITY/CASH to encourage privatization but reduce inflationary consequences

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- **PRIVATIZATION**
  - Partial or complete sale of specifically targeted state-owned companies
  - Debt redemption could be combination of shares and local currency

- **FINANCIAL INSTRUMENTS**

  - Central bank issues local currency debt obligations/instruments may be sold for cash if secondary market exists

  - Reduces money supply impact of conversion

- **SECURITIZATION**

  Refinancing of external debt through issuance of long term local currency or US$ denominated bonds backed by a redemption fund or US$ zero coupon bonds

  - Exit mechanism could be through a debt conversion transaction

- **DEBT FOR DEVELOPMENT**
  - Variation on DEBT FOR CASH/ government earmarks volume of debt to be converted to fund specific development projects or general working capital of private voluntary organizations (PVO's)
  - May work as development trust fund/PVO's and multilateral aid organizations could underwrite purchase of debt

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- **DEBT FOR NATURE**

  - Debt surrended to government in exchange for government's agreement to protect wildlife/forests or other natural resources

  - Debt may be converted to local currency to support conservation program

  - Conservation funds pool debt & donors

  - Bonds can be floated to pay for programs and minimise inflation

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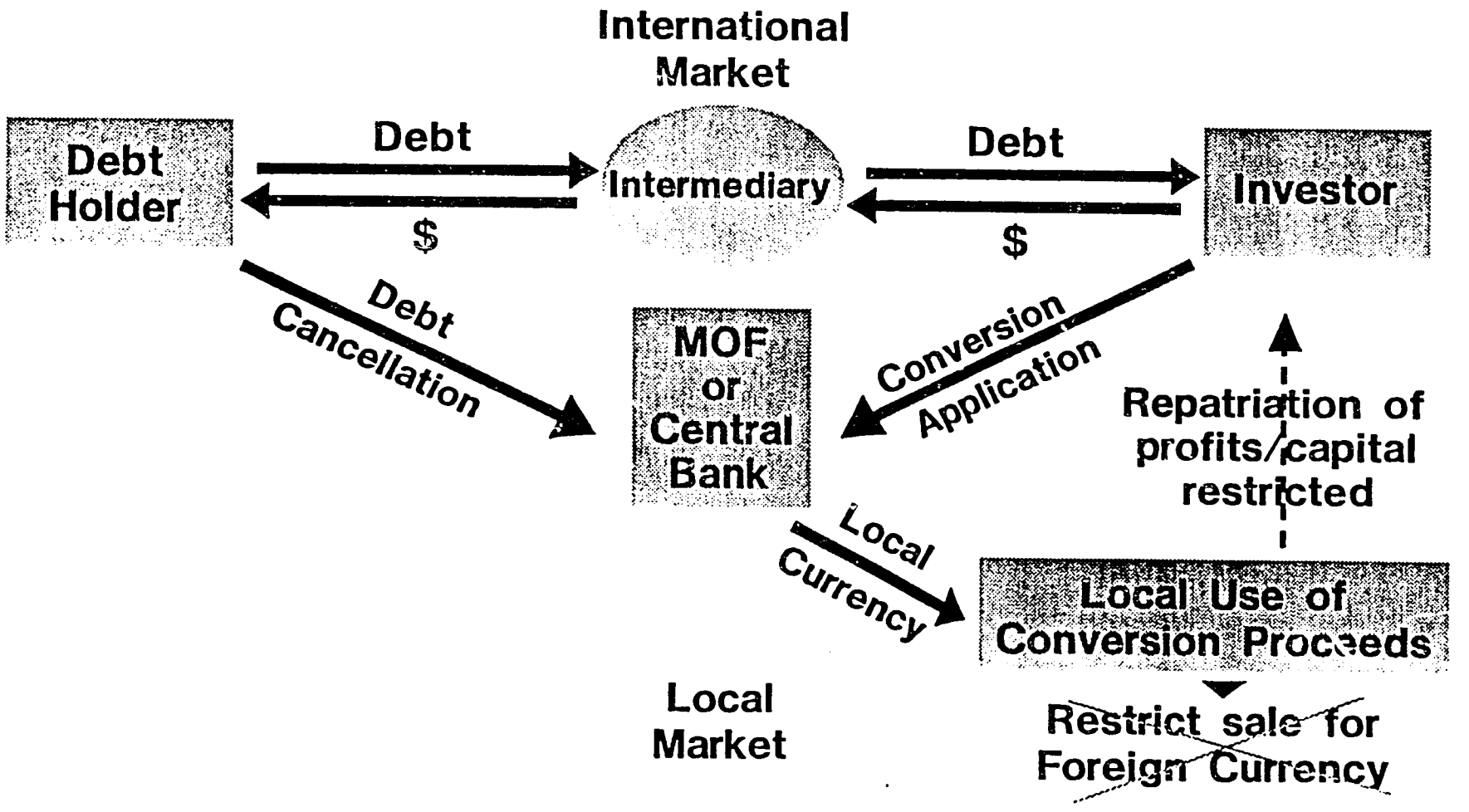
TRANSACTION STRUCTURE



ELIGIBLE DEBT INSTRUMENTS

- Matured Debt: Public/Private
- Restructured Debt: Public/Private
- Outstanding Debt: Public/Private
- Commercial Trade Arrears
- Bilateral or Multilateral DEBT?

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ELIGIBLE PARTICIPANTS

- Foreign Investors/Financial Institutions
  - New investments
  - Joint ventures
  - Expansions
  - Working capital
  - Loan and tax repayments
  - Capitalization
  - Privatization
- International Agencies/Private Voluntary Organizations
  - Working capital
  - Project funding
  - Development assistance
- Local Investors
  - New/Joint ventures
  - May encourage capital repatriation

FINANCIAL PROBLEMS FACING HEAVILY INDEBTED NATIONS

- Inability to refinance debt inhibits debt management
- Debt service consumes large portion of export earnings
- Foreign Exchange shortage inhibits profit/dividend remittance
- Foreign investment slows
- Domestic prices volatile: if heavily import dependent, prices rise

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OPTIMAL MARKET/ECONOMIC CONDITIONS

- Transactions at a free market rate or official rate if close to free rate
- Reasonable conversion fees and/or auction determined pricing
- A wide range of uses for conversion proceeds should be available which allows for a wide range of participants
- Stable investment environment including established rules for capital/dividend remittance, taxation, and pricing
- A defined and flexible investment and debt conversion approval process
- Diverse investment opportunities

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POLICIES TO CONTROL MONEY SUPPLY GROWTH AND INFLATION

- Establish a maximum amount of debt eligible for conversion monthly and yearly
- Increase bank reserves at Central Bank
- Issue government securities or other local instruments equivalent to proceeds with restrictions on sale
- Proceeds not immediately used should be kept on deposit at the Central Bank
- Establish Trust Funds with concessional funding by International Agencies
- Implement matching funds or new money requirement
- Establish an auction system with volume ceilings and fee schedule

RESTRUCTURING AGREEMENTS

- To accommodate debt conversion, debt restructuring documentation must be adjusted to allow for prepayment in local currency for any type of debt conversion purposes/this may be specified or left general
- Converted debt must have similar capital repatriation terms to that of restructured debt principal payments/ dividend remittances restricted but may be more flexible
- Establish that new money liability is extinguished if converted to approved uses
- Include language insuring that conversions do not trigger repayment clauses

ELIGIBILITY OF DEBT INSTRUMENTS

- Obligation must be verified by Central Bank
- If part of restructuring must comply with conditions of transfer

DEBT CONVERSION PROGRAMS

Country	History	Debt Price	Redemption Price	Amount of Outstanding Debt (Billions of Dollars)	Volume Done as % of Total Debt
Brazil	Case by Case-1982 New Program-Feb 1988 Program Suspended-Jan 1989	19-30%	65.5-99.5%	117.18	5.12%
Chile	May 1985	57-59%	79-91%	21.78	37.7%
Mexico	April 1986 Program Suspended-Nov. 1987	35%	75-100%	111.27	2.5%
Turkey	1979		95-100%		9%
Philipines	August 1986	45-47%	76-100%	28.1	3.5%
Argentina	October 1987	17-18%	26-63%	58.85	3.33%
Nigeria		28%		29.5	

Sources: Salomon Brothers, Inc.; LDC Debt Report; The Debt-Equity Swap Handbook, Business International

APPLICATION TO AFRICAN COUNTRIES

DEBT CONVERSION PROGRAMS FOR AFRICA

- Each country will have a unique program designed to address national priorities and policies/as well as specific problems
- No blueprint for program development as every country is different
- Existing programs may be studied and adapted to meet goals of other countries
- African nations can learn from successes and failures already tested

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OBJECTIVES TO BE SERVED BY DEBT CONVERSION INITIATIVES

1. Reduce private external debt - focus on certain debt instruments and creditors
2. Promote non-traditional export growth with an emphasis on diversification of both products and markets
3. Encourage investment in resource-based industries (mining, fishing, agribusiness and tourism)
4. Attract private joint ventures partners for state enterprises targeted for privatization
5. Utilize Donor Funds and International Agency assistance for promotion of debt conversion programs
6. Encourage investment in particular geographic areas and economic sectors of the country
7. Attract back flight capital by encouraging local businesses
8. Promote development and selectively encourage projects

PROGRAM DESIGN ELEMENTS

1. Definition of eligible participants-
   which parties holding which types of instruments may seek conversions and which category of investor will be encouraged?
2. Definition of eligible transactions - for what purpose may debt conversion proceeds be used?
3. Establishment of debt conversion mechanisms and procedures - from the application stage to receipt of the proceeds
4. Establish a system to prevent round tripping problems - possibly blocked accounts which are monitored regularly
5. Establishment of special funds or projects
6. Participation of international financial institutions in the debt conversion process, possibly introducing concessional funds
7. In early stages, establishment of broad guidelines is best with transactions occuring on a case by case basis.
   After receptivity of the market and benefits to the country are evaluated more detailed regulations could be issued

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EXAMPLE I

DEBT CONVERSION AND INVESTMENT PROMOTION

Participants: The Government, foreign creditors, foreign investors and local investors

An international financial institution or a government aid agency would be invited to participate

Objectives: To reduce the country's external debt and provide an incentive to foreign investors, select local investors and international organizations, by converting debt into local currency for approved purposes, at favourable effective exchange rates

To minimise the money supply impact of the conversion through a strategic use of concessional funding from the international agencies

ALTERNATIVE STRUCTURES TO REDUCE MONEY SUPPLY IMPACT

A. Conversion Fees

- Impose a conversion fee on the investor by redeeming debt at less than face value or at an exchange rate lower than current rate

- Government may charge different conversion fees based on transaction, sector, industry and amount of new money

- Attractive since money supply impact is reduced and revenues for the Government are generated

- Unattractive since incentive to investor is reduced

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ALTERNATIVE STRUCTURES (CONT)

B. Auction System

- Allocate an amount of debt to be converted monthly/bimonthly and annually
- Establish bidding procedure and auction mechanics
- Approved transactions and participants would have right to bid
- Pricing becomes market determined; Government could set a base level as well

C. Issuance of Local Financial Instruments

- Debt converted into local government securities
- Provided secondary market exists, securities could be sold for local currency
- Institute some restrictions on sale of instruments

ALTERNATIVE STRUCTURES (CONT)

D. Concessionary Financing

- International Financial Institution funds part of the debt purchase as concessional loan to the government
- More debt than the approved investor/project requires is purchased
- The Central Bank redeems the total face value of the debt at a % of current exchange rate
- The investor receives local currency for the project without paying a conversion fee-incentive maintained
- The cost of the debt on the international market is split between the investor and international institution
- The Government has reduced the money supply impact by redeeming at a lower exchange rate
- The additional debt purchased is transformed to a concessional loan at a lower face value

BENEFITS

- Government reduces external debt
- External creditor is paid out by an investor in hard currency at a discount
- Investor receives attractive incentive to make the investment
- Government promotes investment in select sectors of the economy

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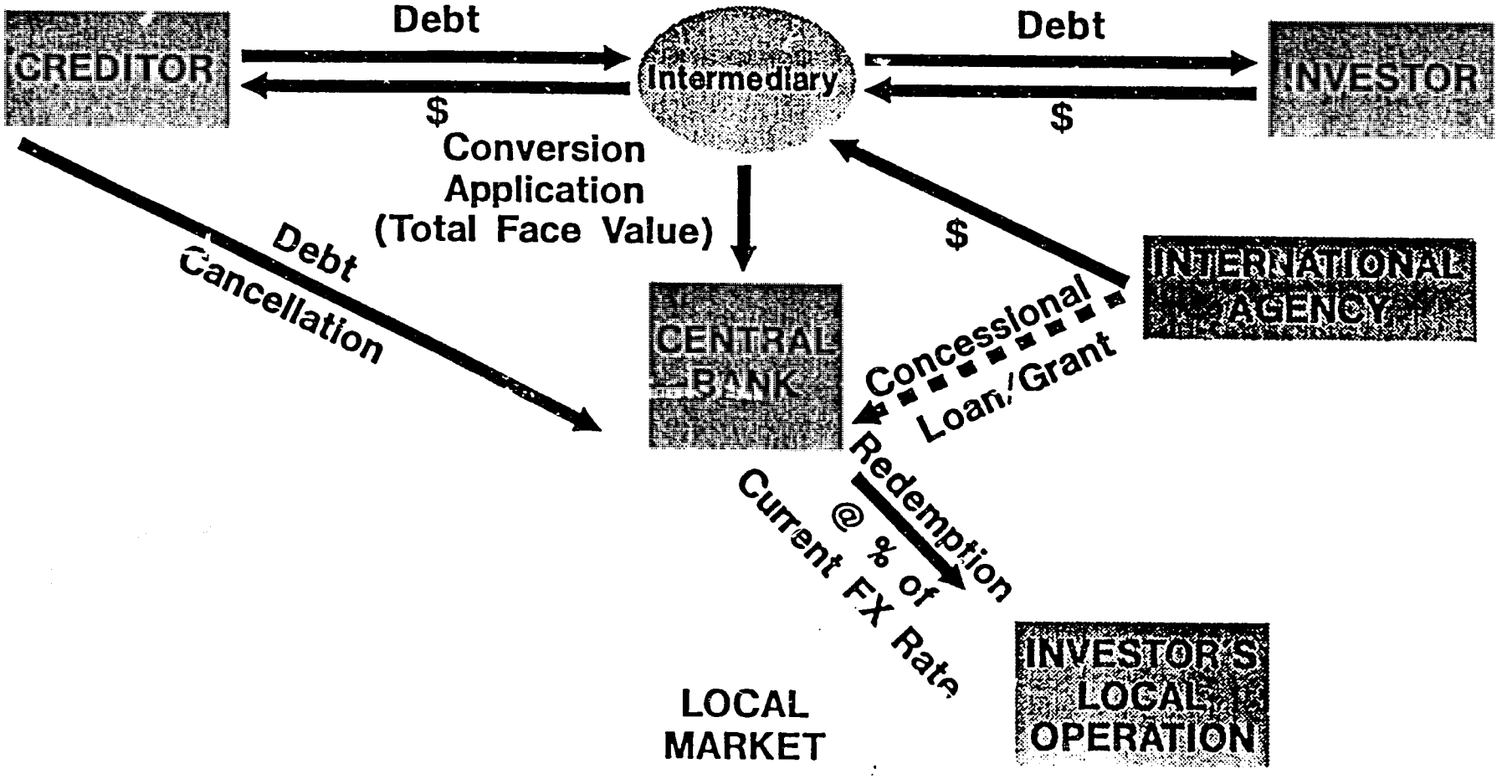
INTERNATIONAL MARKET



EXAMPLE II
DEBT CONVERSION FUND

Participants: The Government, foreign creditors and a newly created fund for debt conversion/retirement financed with International Agency/Government Donor assistance

Objectives: To reduce the external debt burden of the country

To provide a debt conversion/retirement mechanism

To utilize International Agency and Government Donor financing for promotion of debt conversion and debt retirement programs as well as to assist with new money required for approved investments/projects

Creditors would have the option of investing in the fund with the external debt as equity

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DEBT CONVERSION FUND (Cont.)

The fund could be designed to provide financial assistance for the following categories:

1. DEBT RETIREMENT/CONVERSION PROGRAMS

2. NEW MONEY REQUIREMENTS for select investments/projects

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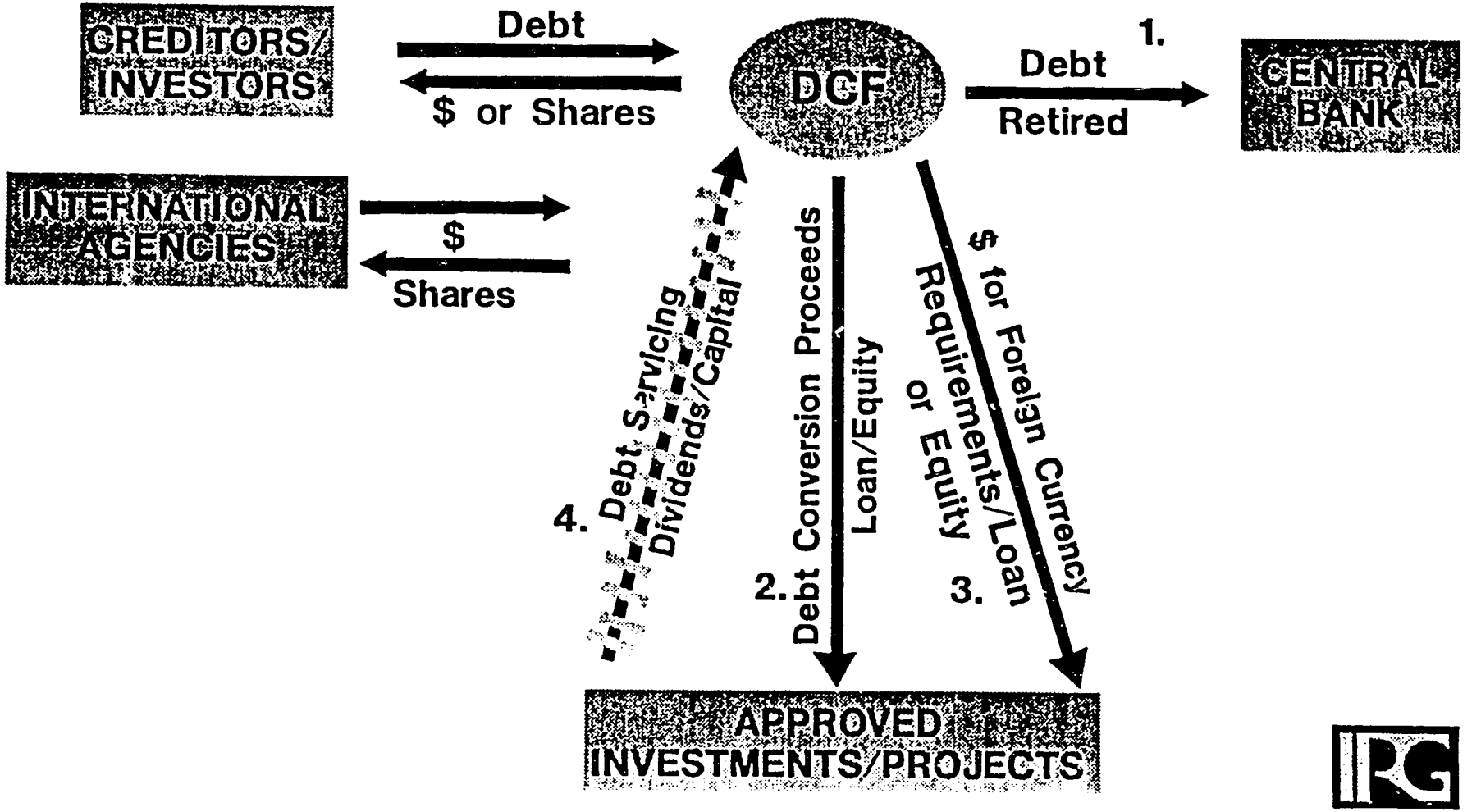
DEBT CONVERSION FUND



1. DEBT RETIREMENT/CONVERSION PROGRAMS

- Fund could be used to purchase debt on the international market at a discount
- The debt could either be extinguished by the Central Bank or used by the FUND to target projects for DEBT CONVERSION
- Funds to be used for DEBT CONVERSION could be in the form of local currency loans/grants or equity financing
- FUND is financed by International Agency money and external debt; the Agency, creditors and Government would determine investments and projects to target

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2. NEW MONEY REQUIREMENTS

- High priority investments/projects which require foreign exchange in addition to local currency which is to be provided through DEBT CONVERSION
- The investor/project sponsor would apply to the FUND for foreign exchange financing (debt or equity) and would give details of the project and proposed uses of the foreign currency proceeds
- The FUND may take equity positions in certain projects or provide foreign currency loans
- Companies targeted for privatization, in need of foreign exchange would also be eligible to apply to the FUND

POTENTIAL APPLICATION TO THE AFRICAN DEVELOPMENT BANK GROUP

Potential Areas of AfDB Group Involvement

There are four areas in which the African Development Bank Group potentially could be involved in debt conversion:

- Information and Advisory Services
- Incorporation of Debt Conversion into AfDB Public Sector Financing
- Possible Private Sector Initiatives
- Internation Promotion

Each of these four areas is described briefly below. Then, we focus on one of these applications, namely, assisting member countries to investigate and design debt conversion programs which are appropriate to their needs and objectives.

1. Information and Advisory Services

At last year's Debt Conversion Workshop, the participants recommended that the African Development Bank form a unit which would provide member countries with information and technical assistance relating to debt conversion. Such information and advisory services could include:

- An Information Center which would collect, analyze, and upon request provide members with information on the status of debt conversion programs worldwide (for example, the status of Nigeria's debt auctions, investments undertaken using debt conversions, etc.), the details of individual countries' programs (including maintaining an up-to-date database on legal and regulatory changes in various countries), and a roster of qualified debt conversion experts and intermediary institutions.

- Technical Assistance to help member governments, upon request, assess the desirability of debt conversion, investigate various debt conversion options, and help structure national debt conversion programs. An important role of such technical assistance would be to assure linkage and consistency with the country's general economic management, debt management, and investment promotion activities.

- Incorporation of debt conversion considerations into AfDB participation in Country Missions, to assure that debt conversion

options are addressed in the contexts of national structural adjustment and policy reform, sectoral planning and adjustment/rehabilitation, and even individual project studies. For example, in addressing national investment and export promotion, debt-equity swaps and other commercial debt conversion options should be considered.

There are important advantages of AfDB involvement in providing such information and technical assistance. Perhaps most important, the AfDB is trusted by its members on the one hand, as both an advisor and a defender and promoter of their interests, and by multilateral and bilateral institutions on the other hand. The AfDB therefore is in a unique position to be bridge between these two groups, who while generally cooperative can find themselves in adversarial positions. Related to this is the fact that, as an African institution, the AfDB is regarded by its members as more sensitive to African social and economic concerns. Finally, a central repository of information and expertise provides an efficient way for one African country to take advantage of the experience and insights gained in other African countries as well as in countries outside Africa.

2. Incorporation of Debt Conversion into Public Sector Financings

There are a number of ways in which the African Development Bank Group could incorporate debt conversion into its usual public sector financings.

First, in individual project financings, it could employ debt conversion to use a portion of its allocated project funds effectively to purchase at a discount the local currency which it requires for the project. Projects financed in 1988, for example, include a number -- for water supply expansion, timber plantation expansion, rural roads. and other purposes -- where the local currency component may be more than 50% of total project financing needs. Even in energy sector projects the local currency component may be 25% or more of the total. Of course, much of the local currency component may be provided as the host country financing contribution; but, as the host governments cut back their own budgets to meet IMF and World Bank deficit reduction targets, there still may be a need for additional local currency.

Since many AfDB projects are co-financed with the World Bank or other institutions and since such debt conversions would affect the host government's ability to meet IMF money supply targets, the AfDB presumably would need IMF and probably World Bank approval to use its funds for such debt conversions. Nevertheless, there is some precedent for such financing. The USAID "Debt for Development Guidelines" issued in late 1988, for example, permit non-governmental organizations (NGOs) receiving AID funds to use those funds to acquire external debt for conversion to local currency.

Second, and perhaps having broader near-term potential, the AfDB could identify and promote opportunities to have NGOs execute debt-for-nature or other debt-for-development conversions the purposes of which would be complementary to an AfDB project financing. As an example, the AfDB has been working with the government of

Cote d'Ivoire to investigate the possibility of employing a debt-for-nature conversion to finance habitat preservation and enhancement along a sensitive portion of the planned road to be financed as part of the Roads II Project. Interestingly, the road itself and the debt-for-nature investment also would be likely to attract private investment, possibly using a debt-equity swap, in related tourism development.

Just as many past AfDB financings potentially could have included a debt-equity swap component, many such projects could have had a complementary NGO debt for nature or debt for development component. For example, expansion of tree plantations could have a complementary debt-for-nature investment in preservation or exapansion of a buffer of natural forest. NGO debt-for-development initiatives which potentially could complement an AfDB rural road development include funding low-cost feeder roads or assisting residents to identify and exploit agricultural marketing opportunities made possible by such road development. A number of NGOs are involved in village and rural water supply, which potentially could complement AfDB water supply projects.

Finally, in countries such as Uganda, the Bank Group has been assisting member governments in identification, assessment, and financing of parastatal restructuring opportunities. In countries which have opted to bring in the private sector as a joint venture partner, performance-based management contractor, or purchaser of a parastatal, the Bank Group could cofinance a debt-for-asset conversion. The advantage to the member government in this case is that no new local currency is required, so there need be no adverse monetary impact. Also, if the parastatal in question has required government subsidies, the restructuring should lead to some reduction in the government's budget deficit.

Just as an investor in a new greenfields project almost certainly will have to make new hard-currency investments in addition to investment via a debt-equity swap, a purchaser of a parastatal also is likely to have to make new investments in productivity improvement, new facilities, etc. For example, a private company that used a debt-for-asset conversion to acquire an electric power distribution company almost certainly then would invest in efficiency improvement throughout the transmission and distribution system. It also may invest in a subsidiary to conduct energy efficiency improvement studies in clients' facilities and to install, lease and in some cases even operate energy efficiency improvement or cogeneration equipment. This already is happening in many U.S. utilities and is being actively explored by, for example, privatized regional power distribution companies in Chile and the Philippines and the Jamaica national power company (which is considering a joint venture or management contract with the private sector).

3. Possible Private Sector Initiatives

The African Development Bank Group has undertaken a number of initiatives, such as the President's Business Roundtable, to promote private sector development in Africa. The Bank Group reportedly is in the process of considering various private sector financing or cofinancing options. A number of alternative models exist including the IFC, the European Investment Bank, and others.

If and when it decides to launch a private sector financing facility, the Bank Group could use such a facility to help assure total financing of private investment projects which its member governments consider to be high priority. In many if not most cases, debt-equity swaps would constitute an important component of such financing in countries with debt conversion programs.

In such cases, AfDB financing of the debt-equity swap itself probably would not be either appropriate or the best use of the Bank's limited resources. Debt-equity investment would be inappropriate because, at least in the early years of a new facility, the AfDB probably would elect to provide long-term debt financing rather than equity investment. It would not be the best use of the AfDB's resources because, as those engaged in project financing in Africa will attest, the most difficult piece of the project financing package to secure generally is the long-term hard currency-denominated debt component. As will be clear from discussion of two case examples in Zambia (Gwembe and Masstock), since the withdrawal of commercial banks from such financing, there are very few sources of this component, and with very few exceptions they are entirely or partially public sector institutions (the IFC, European Investment Bank, OPIC, etc.).

At the same time, there may be occasions where it would be desirable for the Bank Group to be able to fund a portion of the debt-equity swap itself, perhaps with the Bank's participation structured as long-term debt with a convertible feature, warrant, or other form of income participation. It is for this reason that OPIC, for example, will consider such participation. (In more than a dozen cases, including in Zambia, OPIC has provided either political risk insurance for U.S. investment made via debt-equity swaps or has provided cofinancing for investments which included a debt-equity swap component.)

Another option to consider would be for the AfDB to finance a debt-equity swap to establish a domestic equity investment fund in one or more member countries. Such funds currently exist in the Philippines, Chile, and other Latin American countries; and there have been a number of proposals by commercial and investment banks to establish other such funds (but not in Africa). An advantage of the investment fund approach is that the AfDB could use it to finance smaller enterprises owned by nationals of the member country, where discrete debt-equity swaps generally are executed by multinational coporations for large projects.

Since management is critical to the success of any such fund and since the Bank Group itself has only a very limited field presence (and one with little private sector financing experience), it probably would not be wise, at least initially, for the AfDB to launch such a fund on its own. Rather, the Bank Group could invest as a partner in a fund which has as general partner/investor a highly qualified equity management company. This is the approach that the IFC, for example, has adopted in investing in equity funds worldwide.

Finally, the AfDB could make a valuable contribution by providing partial financing for the financial structuring of private sector projects which appear financially sound and which are considered high priority by the government. There are some programs for cost-

sharing feasibility studies and initial project structuring -- although in the U.S. the gap left by OPIC's withdrawal from this area has been only partially filled by the U.S. Trade Development Program -- but not to complete the project financing. In Africa, this last step is critical and one which keeps many worthy projects from proceeding.

Again, the Zambia case is instructive. For some projects it has taken 12-24 months, once the feasibility studies were complete and all project agreements concluded, to complete the financing.

4. International Promotion

Finally, as representative of its members' interests, the Bank Group already plays an important role in international promotion of policies and programs which address the need to reduce African countries' debt burden and to stimulate economic development. The Bank Group has actively promoted securitization of both private and official debt -- an approach which has been adopted as part of the Brady Plan for private debt but which has yet to be accepted for official debt. Due in part to its promotion efforts, a number of bilateral donors have cancelled a portion of the debts owed them by African countries, and AID and other donors have launched initiatives to help finance as well as generally promote debt conversions in Africa.

The Bank Group also has undertaken some efforts to promote debt conversion or other approaches to NGOs, private investors, and commercial creditors. The Bank's NGO Outreach Program is one example, as is the current effort to make potential public sector or NGO donors aware of the possibility of a debt-for-nature swap in Cote d'Ivoire. Last year's Debt Conversion Workshop brought member governments and major international banks together, really for the first time in Africa, to discuss common approaches topromoting debt conversions in Africa.

These and other promotional activities make an important and valuable contribution toward lasting progress in reducing members' debt burdens, increasing their currently inadequate levels of domestic investment, and returning to the levels of per capita income growth which will be necessary to give all Africans the prospects for economic and social betterment which they deserve.

POTENTIAL APPLICATION TO AFDB GROUP

A. INFORMATION AND ADVISORY SERVICES

B. PUBLIC SECTOR FINANCING

C. POSSIBLE PRIVATE SECTOR INITIATIVES

D. INTERNATIONAL PROMOTION

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INFORMATION AND ADVISORY SERVICES

- O INFORMATION CENTER
  - o STATUS OF DEBT CONVERSION
  - o DETAILS OF COUNTRY PROGRAMS
  - o QUALIFIED INTERMEDIARIES, EXPERTS
- O TECHNICAL ASSISTANCE
  - o ASSESS DESIRABILITY OF DEBT CONVERSION
  - o STRUCTURE NATIONAL PROGRAMS
  - o LINKAGE WITH ECONOMIC MANAGEMENT, INVESTMENT PROMOTION
- O COUNTRY MISSIONS

  ADDRESS DEBT CONVERSION IN CONTEXT OF:
  - o STRUCTURAL ADJUSTMENT
  - o SECTORAL REHABILITATION
  - o PROJECT STUDIES

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PUBLIC SECTOR FINANCING: DEBT CONVERSION OPTIONS

- o CONVERSION AS PART OF AFDB PROJECT FINANCING?
  - EXAMPLES: WATER SUPPLY, TIMBER, RURAL ROADS
  - AID DEBT FOR DEVELOPMENT GUIDELINES
- o COMPLEMENTARY NGO DEBT FOR NATURE/DEVELOPMENT
  - COTE D'IVOIRE ROADS II?
- o PARASTATAL RESTRUCTURING (e.g. Uganda):
  - DEBT-FOR-ASSET COFINANCING?

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POSSIBLE PRIVATE SECTOR INITIATIVES

- COFINANCING OF SPECIFIC PROJECTS

  (ZAMBIA EXAMPLES: CRITICAL NEED FOR COMPLEMENTARY HARD CURRENCY DEBT FINANCING)

- IFC-TYPE FACILITY

  ALLOW FUNDS TO BE USED FOR DEBT COVERSIONS

- DOMESTIC EQUITY INVESTMENT FUNDS

  (EXAMPLES: CHILE, PHILIPPINES)

- COFINANCING OF INITIAL PROJECT STRUCTURING

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INTERNATIONAL PROMOTION

- BROAD DEBT INITIATIVES

  (E.G., SECURITIZATION)

- PROMOTION TO NGO'S, POTENTIAL INVESTORS

  (E.G., COTE D'IVOIRE ROADS II)

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DEBT FIGURES FOR SELECTED AFRICAN COUNTRIES

(Billions of US Dollars)

COUNTRY DEBT	COMMERCIAL DEBT		TOTAL DEBT		COMM. DEBT AS % OF TOTAL	
	1980	1987	1980	1987	1980	1987
Nigeria	3.74	7.01	5.30	28.38	70.6%	24.7%
Sudan	0.62	2.04	4.20	8.46	14.8%	24.1%
Tanzania	0.23	0.17	2.09	4.26	11.0%	4.0%
Zaire	1.22	0.57	4.16	7.05	29.3%	8.1%
Benin	0.00	0.17	0.34	0.93	0.00%	18.3%
Malawi	0.15	0.04	0.63	1.15	23.8%	3.5%
Kenya	0.75	0.62	2.62	4.96	28.6%	23.7%
Cameroon	0.29	0.54	2.01	2.78	14.4%	19.4%
Senegal	0.14	0.15	0.94	3.05	14.9%	4.9%
Zambia	0.16	0.07	2.23	4.37	7.2%	1.6%
Botswana	0.00	0.00	0.15	0.51	0.0%	0.0%
Madagascar	0.14	0.23	0.93	3.37	15.1%	6.8%
Niger	0.31	0.26	0.69	1.50	44.9%	17.3%

Source: World Debt Tables, 1989-90, The World Bank.
Note: Figures are for Long-Term Debt only. Commercial Bank figures include publicly guaranteed and private nonguaranteed outstanding debt.

NET INFLOWS OF FOREIGN DIRECT INVESTMENT
(millions of US dollars)

COUNTRY	YEAR								
	1980	1981	1982	1983	1984	1985	1986	1987	1988
SUB-SAHARAN AFRICA	46	928	891	720	514	592	691	677	963
Excluding Nigeria	786	382	461	357	325	251	495	291	585
BENIN	4	2	(1)	(1)	(1)	..	..	..	0
BURKINA FASO	0	2	2	2	2	..	..	..	0
BURUNDI	1	1	2	0	1	1	3	2	0
CENTRAL AFR. REP.	5	6	9	4	5	14	14	20	0
CHAD	(0)	(0)	(0)	(0)	9	53	28	4	4
EQUATORIAL GUINEA	..	..	..	..	..	..	..	..	0
ETHIOPIA	..	..	..	..	..	..	..	..	0
GAMBIA, THE	..	2	..	..	1	2	6	3	4
GHANA	16	16	16	2	2	2	6	4	20
GUINEA	34	..	0	0	0	0	5	5	15
GUINEA-BISSAU	..	..	..	..	..	..	..	..	0
KENYA	78	8	3	9	4	13	27	0	13
LESOTHO	5	5	3	5	2	5	2	2	20
MADAGASCAR	0	0	0	0	0	0	0	0	0
MALAWI	10	1	2	3	1	1	..	..	0
MALI	2	4	2	3	4	5	4	..	0
MAURITANIA	27	12	15	1	9	7	3	5	5
MOZAMBIQUE	..	..	..	..	..	..	..	..	0
NIGER	44	(7)	25	0	(1)	..	..	..	0
RWANDA	16	18	21	11	15	15	18	23	20
SENEGAL	13	20	10	(36)	(27)	(3)	(2)	(50)	70
SIERRA LEONE	(19)	8	5	2	6	(4)	(6)	(6)	0
SOMALIA	..	..	(1)	(8)	(15)	(1)	(0)	0	0
SUDAN	0	0	0	0	0	0	..	..	0
TANZANIA	..	..	..	..	..	..	..	..	0
TOGO	42	10	16	2	(10)	..	13	12	12
UGANDA	..	..	..	1	1	0	0	1	0
ZAIRE	6	6	6	5	6	6	6	5	10
ZAMBIA	62	(38)	39	26	17	0	0	0	0

Sources: World Bank Africa Tables, IMF estimates (1988) and UNCTC.
Note: Figures in parentheses indicate negative flows

COMMERCIAL DEBT AS % OF GNP AND GROSS DOMESTIC INVESTMENT FOR SELECTED AFRICAN COUNTRIES (YEAR 1987)

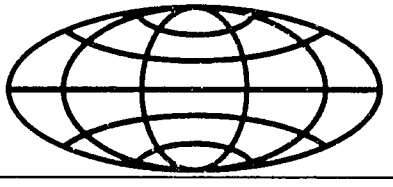
(Billions of U.S. Dollars)

COUNTRY	COMMERCIAL DEBT	GROSS DOM. INVEST.	GNP	CM. DEBT AS % OF GNP	CM. DEBT AS % OF GDI
Nigeria	7.01	3.90	39.4	17.8%	179.7%
Sudan	2.04	0.90	7.6	26.8%	226.7%
Tanzania	0.17	0.53	4.3	4.0%	32.1%
Zaire	0.57	0.75	4.9	11.6%	76.0%
Benin	0.17	0.22	1.3	13.1%	77.3%
Malawi	0.04	0.15	1.3	3.1%	26.7%
Kenya	0.62	1.73	7.3	8.5%	35.8%
Cameroon	0.54	2.29	10.6	5.1%	23.6%
Senegal	0.15	0.61	3.6	4.2%	24.6%
Zambia	0.07	0.30	1.8	3.9%	23.3%
Botswana	0.00	n/a	1.2	0.0%	0.0%
Madagascar	0.23	0.29	2.3	10.0%	79.3%
Niger	0.26	0.19	1.8	14.4%	136.8%

Sources: World Debt Tables, 1989-90, The World Bank.
World Development Report, 1989. The World Bank.

Notes: Gross Domestic Investment figures determined by multiplying % distribution by GDP for respective countries. Commercial debt figures include publicly guaranteed and private nonguaranteed outstanding debt. GNP found by multiplying population by per capita figures.

A GUIDE TO DEBT FOR DEVELOPMENT



Making the International Debt Crisis Work for Development

A GUIDE TO DEBT FOR DEVELOPMENT

Making the International Debt Crisis Work for Development

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CREDITS

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Many ideas contained in this guide were generated through the interaction of participants at a workshop held in Washington, D.C., in December 1988 involving central bank officials from developing countries, representatives of indigenous cooperatives and cooperative banks, members of the U.S. banking community, executives of U.S. cooperative development organizations, and other specialists in international development.

The grant also provided for field missions to Costa Rica and Jamaica to design debt-for-development proposals. This document attempts to capture this experience.

The guide relies extensively on information and advice provided by John B. Ross, executive director of The Debt-for-Development Coalition, Washington, who participated in all project activities and reviewed drafts. Overall project guidance and support were given by VOCA's President Don Cohen, assisted by Joan Leavitt and Bill O'Callaghan. Consultants Carol James and Lynn Zempel helped write and produce this guide.

What was learned during this process applies broadly to not-for-profit activity and, thus, this discussion is not restricted to financing cooperatives.

The conversion of LDC debt for not-for-profit development purposes is an emerging discipline. This document is meant to be a

helpful resource to organizations interested in undertaking debt conversions, but it is not intended to supplant retention of qualified technical assistance in executing these transactions. While information contained in this document was drawn from sources considered generally reliable, accuracy cannot be fully assured.

Interpretations in this document do not represent official views of the U.S. Agency for International Development.

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PREFACE

The international debt crisis is deepening. Private lenders and government policymakers in industrialized countries, which hold about $1.3 trillion in Third World debt, and leaders of debtor countries increasingly recognize that overall debt reduction must be achieved and interest payments reduced.

Debt conversion can be an integral component in addressing the growing worldwide financial problem and can underpin strategies for achieving Third World development. Finding ways to convert debt to development purposes will improve prospects for overall debt repayment in the long-term.

While debt conversion is a normal commercial transaction well understood by sophisticated financiers in the conduct of business enterprise, until recently it seldom had been applied by organizations involved largely in not-for-profit enterprise.

Not-for-profit organizations involved in international development have an opportunity to multiply their existing capital -- to leverage what frequently are scarce resources -- by applying debt conversion techniques to achieve their development goals.

The term "*not for profit,*" used throughout this discussion, is meant to include a broad range of private voluntary organizations, cooperative development organizations, cooperatives, advocacy groups, labor organizations, environmental groups, colleges and universities, research institutions, foundations, and charitable and religious institutions.

This guide is intended to help managers of not-for-profit organizations and development specialists learn about debt conversion in a nontechnical way -- including how to identify opportunities, and some of the issues to consider when assessing debt-for-development transactions.

"*Debt for development*" has become the accepted vernacular to describe not-for-profit organizations' use of debt conversion techniques to achieve people-to-people international development assistance objectives. While businesses and commercial lenders rightly state that they, too, use debt capital or lend for the purposes of development, this discussion adapts the term "debt for development" to describe debt conversions primarily for not-for-profit enterpise.

Debt for development can benefit all participants involved. The bright prospects for use of debt conversion techniques have spurred initiatives by the U.S. government, LDC governments, leading development experts, and bankers to make the concept become a reality.

Important tasks remain; chief among them is informing individuals and organizations so that they can put debt-for-development techniques to use. By involving the not-for-profit community in funding constructive applications, the concept of debt for development can be converted from relatively limited application today into widespread use. This guide is a step toward that goal.

THE DEBT PROBLEM

The Third World debt crisis exacts a tremendous social and economic toll on the citizens of all nations, creating a vortex of downward-spiraling effects. To repay their debts, poor nations have been transferring resources to rich nations at record levels, further damaging their economies. Developing countries' struggle to repay loans comes at the expense of domestic growth and social programs. As a result, Third World development is getting worse and not better.

Wall Street and U.S. public policymakers have expressed concerns about the implications of heavy LDC debt exposure on the viability of prominent U.S. banks. Some money center banks had Third World loans that exceeded their total capital and reserves at the end of 1988.

While some innovative measures have been taken to deal with the Third World debt crisis, no permanent solution is imminent.

Mexico's 1982 declaration that it could not service its debts was a salvo heard on financial markets throughout the globe, despite the fact that other countries, including Bolivia, Costa Rica, and Peru had been unable to make debt service payments even earlier.

A predictable response has ensued. Commercial banks resist new lending to developing nations. A World Bank affiliate agency estimates direct foreign investments from industrialized to developing countries fell to $13 billion in 1987 from $25 billion in 1982, making it harder for heavily-indebted developing countries to come up with foreign currency to service existing debt, let alone to buy needed imports or even replacement parts.

Austerity programs now in place throughout Africa, Latin America, the Caribbean, Eastern Europe, and in the Philippines adversely affect quality of life, diminish U.S. exports, and ultimately result in lost U.S. employment.

Major Bank Third World Debt Exposure

(In millions of dollars; as of end of 1988)

Bank	1988 Losses Taken	Debt Exposure	Third World Debt Reserves	Exposure as % of Capital and Reserves
BankAmerica	$ 119	$ 9,000	$ 2,500	135%
Bank of Boston	59	579	359	24
Bank of New York	38	2,300	600	68
Bankers Trust	0	4,000	1,000	89
Chase Manhattan	362	7,900	2,000	114
Chemical	94	5,909	1,309	112
Citicorp	408	12,076	2,876	95
First Interstate	281	841	309	33
First Chicago	321	2,125	925	65
Manufacturers Hanover	255	8,357	1,707	168
J.P. Morgan	435	4,600	1,150	66
Republic	68	430	170	27
Security Pacific	663	852	302	21
Wells Fargo	714	500	150	18
Composite	**$ 3,815**	**$59,469**	**$ 15,357**	**87%**

SOURCE: Salomon Brothers
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THE PUBLIC POLICY RESPONSE

In March 1989, Treasury Secretary Nicholas F. Brady announced a program to embrace new ideas providing creditor flexibility -- including "debt conversions." Debt conversions or "debt swaps" include debt for debt, debt for equity, debt for trade or commodities, debt for nature, and debt for bonds of a lower value but with guaranteed principal. Debt for development has particular appeal because it can provide broader benefits for a number of parties involved, which in turn can address social issues, thus extending the benefits.

The Brady Program envisions overall reductions in interest and/or principal and assumes that new loans will be made available where they are needed. The World Bank and the International Monetary Fund will make money available to guarantee repayment of some remaining debts where banks agree to reduce amounts owed. By including debt-for-development provisions in International Monetary Fund and other international funding agreements, austerity programs can be eased and new investments for development encouraged.

The Brady Program builds on a plan introduced by then-Treasury Secretary James Baker in 1985 to promote economic growth in heavily-indebted developing countries through economic adjustments coupled with new commercial bank loans, and, implicitly, additional multilateral development bank lending.

While new loans were made to a few of the largest and most economically advanced developing nations after Secretary Baker's announcement, commercial banks actually reduced their overall exposure to heavily indebted developing countries. In response, Secretary Baker and private financial innovators refined the program by developing a voluntary, market-oriented, "menu" approach of negotiated options for restructuring debt tailored to the needs of each country and its creditor banks.

The Brady Program broadens Baker's menu concept.

The international debt problem can be alleviated only through a combination of traditional and innovative approaches. While the full potential of major debt conversion initiatives under Secretary Brady are uncertain, most encouragingly for the not-for-profit community, the Brady Program specifically embraces the concept of debt conversion for purposes of not-for-profit, people-to-people, development programs.

The initial success of the Brady Program in Mexico and its prospects in other countries appears hopeful. However, its approach including the limited resources of the multilateral development agencies and the willingness of banks to both reduce their debt and initiate new investments remains cloudy.

The Debt-for-Development Initiative

Debt for development grew out of an initiative by not-for-profit organizations which recognized that the conversion process presents an opportunity to expand their capabilities to provide technical and other forms of assistance to developing countries. It has particular appeal because it opens up possibilities of relatively large amounts of funding in many countries which are not major recipients of U.S. government foreign assistance.

This concept is strongly supported by the Bush Administration and Congress, which have supported debt for development through regulations and legislation.

To help not-for-profits become involved, The Debt-for-Development Coalition, Inc., has been created to provide information and education to interested organizations. The coalition includes cooperatives, private voluntary organizations, international agricultural research centers, and colleges and universities. The coalition also seeks to work closely with environmental groups and others interested in debt for development. The coalition is supported, in part, by the U.S. Agency for International Development (AID).

In addition, The Debt-for-Development Foundation was recently established to assist not-for-profit organizations in debt conversion transactions, particularly in arrangements which involve a number of development organizations. These transactions may involve either the purchase of debt, or the donation of debt under U.S. Internal Revenue ruling 87-124.

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Under a policy and guidelines issued February 15, 1989, AID encourages debt-for-development transactions for a wide range of development activities undertaken by U.S. not-for-profit organizations with AID support. AID's policy creates opportunities for U.S. not-for-profit organizations which are in a position to undertake new programs or to expand activities in countries which encourage debt conversion. AID's program is likely to be especially applicable to organizations working with indigenous groups.

This AID debt-for-development policy permits eligible not-for-profit organizations to use AID funds to buy debt owed by developing countries to foreign creditors for conversion into local currency to finance AID-approved development projects and programs.

Not-for-profit organizations buy this debt at prevailing discount rates on the secondary market. Local currencies generated through using AID funds may finance either new or ongoing activities.

Legislation passed in November 1989 establishes policy that interest earnings from AID grants may be retained by grantees and no longer must be returned to the U.S. Treasury. This reverses long-standing U.S. government policy and should greatly facilitate debt swaps with AID – and potentially with other U.S. government – funds.

Each activity financed through a debt-for-development transaction using AID funds must be preapproved by AID and comply with standard rules and procedures. However, AID does not negotiate transactions or enforce agreements among parties involved in a debt conversion.

Under its debt-for-development policy, AID also will provide for debt retirement in exchange for resources the debtor country provides for use in development, including AID-financed projects undertaken by not-for-profit organizations.

Debt for Development, Not for Everyone

To best use debt conversion as a financial tool for funding development activities, a not-for-profit organization structuring these arrangements should have a solid understanding of financing, management time and organizational staying power to work out complex and often prolonged negotiations, and a willingness to accept some risk. Debt conversion is not a funding option for every organization, every type of project, or every country.

Several larger not-for-profit organizations are investing in building expertise within their own organizations to undertake these tr s-

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actions, creating separate departments or even new subsidiaries. Smaller organizations will require outside technical assistance. Some organizations may want to participate through pooling with a larger organization or group.

Some not-for-profit organizations oppose the concept of debt for development, espousing forgiveness of loans to poor countries or outright donations of loans for development.

Much initial interest by not-for-profit organizations in debt for development concerned prospects for donations. However, near-term prospects are limited and the potential remains promising but distant. Bankers and other investors are reluctant to pursue this alternative in part because it sets an unwelcome precedent for loans they still expect to collect and also because they face technical hurdles, including treatment of donations by financial regulators, accounting for debt donations for securities registration and tax purposes, determining debt values for monetary conversion, and compliance with U.S. and host country laws.

To succeed, debt-for-development concepts must yield measurable benefits to all participants involved in these transactions. As a result, not-for-profit organizations seeking to undertake debt-for-development projects will need to assess projects from a variety of vantage points and describe their objectives in terms which will satisfy the interests of various groups – bankers, policymakers, other not-for-profit groups, and ultimate beneficiaries in local communities where projects will be undertaken.

Seldom do most not-for-profit organizations view their work as a "business deal," but this will be a banker's perspective in assessing whether or not it will participate in undertaking a debt conversion. The often complex tasks involved can be daunting, but rewards are achievable. In many nations of the world, not-for-profit organizations are beginning to build a track record of converting debt into development projects.

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WHAT IS DEBT CONVERSION?

Debt conversion probably has existed from the dawn of lending and borrowing. It takes many forms.

- Lenders frequently take an equity or ownership stake in a borrower's enterprise in exchange for a debt owed.

- Another common form of debt conversion is to swap one debt or debt instrument, such as a bond, for another debt.

- A lender can make an outright gift of a loan, whether forgiving debt outright or donating the loan to another institution or individual.

Lenders routinely buy, sell, and swap loans with other investors on a **"secondary market"** or resale market – sometimes to invest surplus cash, sometimes to raise cash, and often to achieve balance, or to minimize risk of overexposure to loss, in their loan portfolios. Most Americans are familiar with Fannie Mae, Freddie Mac, and Sallie Mae – all domestic secondary markets where securities backed by packages of billions of dollars worth of U.S. home loans or student loans routinely are bought and sold, mostly by major U.S. and foreign institutional investors. The price of these loan-backed securities on the secondary market varies day to day, depending on how buyers and sellers trading them rate a given security's yield and take into account other marketplace factors.

So too are loans held by private creditors to many Third World governments bought, sold, and swapped on an international secondary market by major U.S. and foreign financial institutions and other investors. This market emerged largely among financial traders and regional and smaller banks anxious to reduce their debt portfolios, but now many large money center banks (banks in 'money centers' – New York, Los Angeles, London, and Tokyo)

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actively participate in this secondary market as well.

The price of LDC debt on the secondary market varies greatly; a number of countries' loans sell at full face value, while others' loans may be severely discounted and sold on a very limited basis. A small but growing portion of total Third World debt actually is traded. Some large, money center banks are reluctant to sell loans from their own portfolios, but will broker transactions for others.

The value or price of loans on the secondary market varies depending on such factors as repayment history or likelihood of repayment, investor confidence in a country's economic situation, and many other factors – including how badly the seller of the loan needs the liquidity of having cash rather than holding onto a comparatively illiquid investment. In heavily-indebted countries, where the prospects for repayment are dim, the secondary market has established values for these loans at only a fraction of their original face value.

The debt conversion process involves a marriage of interests among a number of parties, for example: (1) A not-for-profit organization which seeks capital to finance a development activity it has identified; (2) a bank or organization holding an LDC debt (usually owed by an LDC government, but sometimes owed by private-sector LDC borrowers), and (3) the LDC central bank.

DOING A DEBT CONVERSION

First, the not-for-profit organization identifies a development project it seeks to undertake with a local counterpart organization and determines a budget. It is an instructive exercise for a not-for-profit organization to prepare a comparative analysis of the benefits and costs of funding a project directly or funding it through the use of debt conversion.

To figure the latter, the not-for-profit organization determines how much it would cost on the secondary market to buy a debt obligation of the LDC country in which it seeks to undertake the project. The value of the debt or its price on the secondary market is usually far less than the face value of the debt. Therefore, for example, a not-for-profit organization conceivably could buy from a lender for $500,000 an LDC debt with an original face value of $1,000,000.

Without a debt conversion, the LDC government, through its central bank, is liable for the full face value of this debt plus interest in the denomination in which the money originally was borrowed, most likely U.S. dollars. However, using the debt conversion mechanism, the LDC government can pay the debt in its own local currency, thus saving precious foreign exchange.

To fund a project through the debt conversion mechanism, the not-for-profit organization and its local partner must convince the central bank and other LDC government policymakers that the purpose of the project it seeks to finance through use of the debt conversion meets the social, economic, and political priorities of the country.

Negotiations are undertaken among the not-for-profit organization, the lender, and the LDC central bank. Central banks are responsible for managing a country's internal and foreign debt obligations and its internal money supply. They generally exert tremendous influence over domestic policy. The not-for-profit or-

ganization must offer a compelling argument that the project it proposes merits use of the LDC's resources -- local currency (which the central bank either must raise from the country's domestic budget revenues or issue currency or internal debt obligations to support), land, or equity in an asset it owns such as a parastatal company.

If approval is given, the central bank will agree to convert the face value of the debt of $1,000,000 into local currency or another type of resource worth $1,000,000 to finance the development project. Depending partly upon how worthy the central bank deems the project to be, it will issue payment in local currency or other assets for the full value of the loan or it may discount the value somewhat. The central bank may also charge a fee.

In return, the not-for-profit organization will make available sufficient dollars to retire the outstanding debt obligation by purchasing it at the secondary market price.

Through use of the debt conversion process as outlined, a Third World country no longer owes a debt to an external investor -- whether a private bank or a foreign government. The debt conversion process has taken an "external debt" or "dollar-denominated debt" payable in dollars and converted it into an obligation denominated in the country's own currency and held internally to be used for local investment.

Some Issues

Conversion of Third World debt involves many tangible and intangible variables, including:

- the value or price of the debt on the secondary market,
- LDC economic, social, and monetary priorities, and
- the percentage of face value the LDC government pays.

These transactions involve layers of negotiations and approvals. Because legal and financial arrangements involved in Third World debt conversions are complex and must occur simultaneously, often negotiated in several languages, an experienced broker usually is required to handle them.

Where dollars must be converted into local currencies for investment or development purposes, this process provides a multiplier effect for expanding foreign investment in development projects while enabling the host government's central bank to set policies and determine ground rules for such investments. The central bank can use debt conversion to favor high priority investments,

for example to attract foreign capital for export activities. Debt conversion also can provide a significant resource for supporting socially worthwhile developmental activities.

The chart on the next page shows a comparative analysis of debt conversion and a straight currency exchange. In this example, the not-for-profit organization has $600,000 for local currency costs for a development project. The not-for-profit already has determined that the central bank will approve its project for a debt conversion. The exchange rate is 20 pesos to one dollar. The not-for-profit has secured a broker to negotiate and facilitate the transaction. While an oversimplification, the chart illustrates basic concepts.

A number of countries promote debt-for-development programs and are developing incentives for debt-for-development transactions. One incentive is to vary the currency conversion rate depending on the country's development priorities. One Caribbean country plans to implement a variable discount rate ranging from 2% to 35%, the lower rate applying to labor-intensive, manufacturing projects to produce export products from local raw materials.

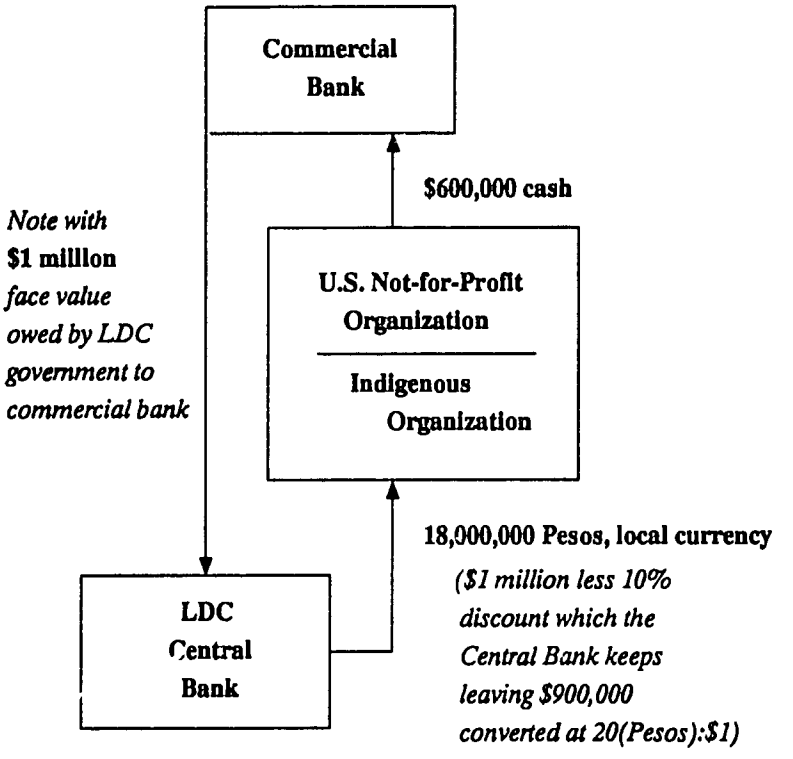
The central bank is usually the most important decision maker in debt conversions, issuing regulations for conversions and approving each transaction. Central banks and governments are concerned about how debt conversion will affect domestic inflation as new local currencies are released into the money supply. Debt conversion programs can be on-and-off again affairs depending on national politics and changes in laws and regulations. Countries usually limit local currency available annually for debt conversions. For example, Costa Rica has limited its initial debt-for-development program to $15 million a year for three years for education, environment, and micro-enterprise development. Applicants compete within this pool.

Debt conversion programs vary widely by country. They may be formal, or covered by existing regulations. Formal programs often are geared to equity investments which promote export activities. Or debt conversion programs may be informal, allowed to occur in the marketplace or through special agreements with the central bank -- frequently a more successful circumstance when proposed developmental activities enjoy strong host government or political support.

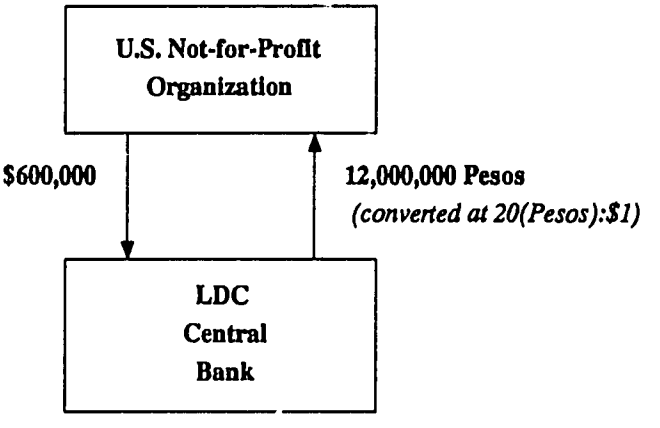
Some countries have both formal and informal debt conversion programs. For example, Brazil has reduced its debt by about $2.5 billion through its formal program, and $6-to-$8 billion through informal conversions.

Comparative Analysis of Debt Conversion

1. Debt Conversion



2. Straight Currency Exchange



3. Comparative Yields

Debt Conversion	18,000,000 Pesos
Straight Currency Exchange	12,000,000 Pesos
Net Gain Using Debt Conversion	6,000,000 Pesos
	$300,000 equivalent at 20(Pesos):$1

TYPES OF DEBT CONVERSIONS

There are many uses for the proceeds of debt conversions: debt for equity, debt for development, debt for trade, debt for nature, debt for education, etc. For each new application, debt conversion can take on a new name.

As described earlier, there are numerous variations of the debt conversion concept, but the basic transaction is the exchange of outstanding external debt, owed to a bank, government, or other entity, for some form of internal debt or equity instrument. The ultimate result may be an outright donation, a creditor equity position in a business enterprise, a set-aside of land or other natural resources for conservation, or a new debt denominated in local currency to be used for a development purpose.

A significant number of manufacturers are using the conversion process to leverage dollar resources for local currency activities. A growing number of not-for-profit organizations are using debt swaps to purchase commercial bank loans for debt-for-development conversions.

Major types of debt conversions need to be differentiated.

Debt for Equity

The most widely used debt conversion application is debt for equity, which is a way to reduce outstanding debt, encourage local investment, and boost economic growth. Many developing country governments give priority to equity investments that promote exports. Some of these programs also are designed to help debtor nations recover "flight capital" or capital which has been invested by its citizens outside of the country. External debt (denominated in U.S. dollars or other hard currencies) is repaid in the debtor's local currency, which is then used to purchase an equity or ownership position in a business in the debtor country.

Few banks have converted loans into local currency investments. Rather than convert their debt into investments for their own portfolios, commercial banks usually sell their LDC debt at a substantial discount to nonbank investors. However, recent changes in Federal Reserve regulations have increased the attractiveness of equity participation for some U.S. banks. Regulations now permit them to hold up to 40% of the equity in a private-sector, nonfinancial company, and up to 100% of the equity in a firm being "privatized" through a debt-for-equity conversion.

Debt for equity is a technique which not-for-profit organizations can use for development purposes. For example, a major U.S. not-for-profit group has established a for-profit subsidiary to create local investment companies in developing countries. These investment companies, in turn, will identify and negotiate investment packages for debt-for-equity conversions for small businesses. The investment company also will provide technical assistance. Potential profits will be invested in other development projects. Another major U.S. not-for-profit organization seeks to use debt-for-equity conversions to help cooperatives in Central America diversify their exports.

Among all types of debt conversions, debt-for-equity holds the greatest immediate prospects for success. Not-for-profit organizations may have to rethink or redesign their development projects with debt-for-equity conversions in mind in order to attract investors.

As a means of conserving their foreign exchange, central banks usually require a three-to-five year waiting period between the date local currency is issued and the date an investor may purchase dollars from the central bank for "repatriation" of dividends abroad. An even longer period usually is required before capital may be repatriated. Attempts to convert local currency received through debt conversion back into dollars before this waiting period is over is known as "round tripping."

Round tripping occurs when the investor takes local currency and converts it back into dollars or other foreign currencies. It is possible for investors to reconvert currencies at rates that yield more hard currency than was originally used in the transaction. Substantial financial gains are possible using these techniques. In effect the investor moves quickly from hard currency to local currency and back to hard currency, thus the term "round tripping." (In Europe the term "the bicycle" is used rather than "round tripping.") This type of transaction is prohibited in any type of debt conversion.

Debt for Donations

Many not-for-profit organizations have envisioned great promise in debt for donations. This conversion approach allows a bank or another creditor to donate debt to a U.S. organization with 501(c)3 tax status as a charitable, scientific, or educational organization. A donor may also make a contribution to purchase a dollar-denominated debt on the secondary market, which is converted by the debtor nation into its currency for use by the non-profit organization for projects in country. The U.S. organization will need a partner institution in the host country which assures that the activities meet the definition of charitable activities.

Debt donations may yield public relations value, eliminate exposure in a particular country, and help recoup U.S. taxes paid on interest arrearages. While banks express interest in donating "debt for nature" to preserve tropical forests and "debt for education" to assist international programs by U.S. universities, there have been few actual donations to date and prospects for major donations are at best uncertain in the short term.

Clearly, existing tax regulations do not promote donations of bank-held LDC debt. Internal Revenue Service Revenue Ruling 87-124 clarifies procedures for debt donation. For tax accounting purposes, such donations receive the same cash-flow treatment as loan write-offs. However, banks can eliminate exposure by selling debt for cash and take a tax loss on the difference between their tax basis on the debt and the amount they realize from the sale. Sales of debt benefit banks more than outright donations since banks receive cash as well as tax write-offs on losses.

In addition, the IRS has no set formula for valuation of debt; it looks at each transaction individually. However, it may be willing to comment on the acceptability of a valuation in a private letter ruling.

A debt-for-donation transaction may involve both a donation and a loan write-off. The bank may take a tax deduction for a charitable contribution for the fair market value of local currency given in exchange for a hard currency debt, and take a loan loss on the remaining balance. If the full face value of the external debt is paid in local currency equivalent, it may be possible for a bank to claim a tax deduction for the full donation at the face value of the loan, rather than its discounted value on the thin secondary market.

Debt for Development

Debt-for-development combines major elements of the concepts behind debt for equity and debt for donations and presents a number of opportunities for not-for-profit organizations, including: "debt for nature", "debt for education," and debt for human development through such programs as child immunization. Debt for development allows not-for-profit organizations and debtor nations alike to leverage existing resources to promote development.

Debt is purchased by a not-for-profit organization at a discount in the secondary market or directly from a creditor and converted into local currency. Proceeds are used by the U.S. organization to finance a development project in cooperation with a local development organization or foundation.

The approach may involve pooling arrangements, enabling a number of not-for-profit organizations which have ongoing activities funded with local currency to combine their limited dollar resources to amass enough for a debt conversion transaction. Pooling arrangements are attractive to banks and host governments since larger sums result in a better exchange rate for converting from dollars to local currencies than small transactions. So far, there have been no such pooling transactions; however, efforts are underway for such an arrangement in Brazil.

In conceptualizing a proposal, not-for-profit organizations should not dwell on such issues as debt valuation or inflationary implications. If host countries and commercial banks are interested, they will be primarily responsible for working out those parameters.

Debt for Debt

Straight debt-for-debt conversions allow exchanges of one type of debt for another or the debt of one country for that of another (e.g., Polish for Brazilian) and usually apply to creditors' seeking to diversify their portfolios or reduce their loss exposure.

Debt-for-debt conversions for development by may have potential for encouraging banks to shift from a nonperforming debt with little chance of repayment to a priority development project with a much better likelihood of ultimate repayment. Banks may thus gain better repayment prospects as well as some slight financial advantage if a host government deems the development activity to be of high importance and provides a more favorable discount rate. Investments in home mortgages generally have higher prospects for repayment than other types of loans and frequently are a social priority for developing nations.

A debt-for-debt swap has been undertaken for cooperative housing in Chile; several similar initiatives are underway to finance low-cost housing in Latin America. Investors would be permitted to exchange local currency mortgages for dollars after several years to recoup their investments. Ultimate repayment in dollars, of course, depends on the availability of foreign exchange to the host government.

Debt for Bonds

In 1988, commercial banks exchanged external claims on Mexico for bonds of lesser face value but with guaranteed principal (but not interest). The U.S. Treasury issued zero-coupon bonds, which Mexico purchased, to facilitate the transaction. As a result, Mexico retired $3.7 billion in debt.

The Brady Program calls for greater use of the debt-for-bonds technique, which provides for the International Monetary Fund, The World Bank, other multilateral development banks, and their related agencies to provide financing or guarantees to help countries buy back their debts from commercial banks at a discount.

Debt-for-bond conversions have the potential to assist development if development organizations and others successfully can convince policymakers to adopt various tax preferences for banks or other creditors who are willing to donate or participate in debt-for-development transactions. However, as used in the Mexican situation, debt for bonds can drive up the secondary market price and reduce opportunities to fund debt-for-development activities. These types of debt conversions may hurt prospects for use of debt for development.

WHERE TO BEGIN

Nearly all not-for-profit organizations involved in international development are interested in expanding their resources. Many see debt for development as a means of increasing local currency resources needed for development activities. Some organizations may want to further explore specific ideas or transactions.

A number of consulting firms and not-for-profit organizations are willing to assess debt-for-development opportunities. Often working jointly with LDC counterparts, they will discuss concepts or proposals with central banks. Experienced international bankers who undertake debt conversions will advise on the merits of a proposal.

One of the first steps in undertaking a debt for development program or deciding if the current or proposed activity is appropriate for a debt-for-development transaction is to look at a specific developing country's debt situation. Assess whether the debt is available for purchase and what it will cost to acquire.

Countries with a large percentage of their debt owed to commercial banks and other private institutions are good candidates for debt for development.

In identifying countries for debt-for-development projects, it is helpful to choose those with governments supportive of the concept. A number of countries have debt conversion mechanisms in place and officials trained to handle transactions. Many governments do not have formal programs, but are willing to consider projects on a case-by-case basis.

While there is no single source of information, an informal network has grown up to share debt-for-development experiences both in developed and developing countries. Not-for-profit organizations can benefit from the experiences of earlier development-related debt conversion projects.

When considering a project, a not-for-profit organization should look to strong counterpart organizations which can aid in negotiating with government decision makers, assist in executing the debt conversion, and help implement the project. Debt for development involves strong technical skills for project execution and its application is not appropriate for high risk development activities or experimentation.

The following countries represent a short list of opportunities for debt for development: Argentina, Bolivia, Brazil, Chile, Costa Rica, Ecuador, Hungary, Jamaica, Madagascar, Mexico, Nigeria, Peru, the Philippines, Poland, Yugoslavia, Venezuela, Zambia, and Zimbabwe.

The Initial Step

The central bank of a debtor nation is key to any debt-for-development project. In most cases, the conversion will be implemented through the central bank, which also will determine what discount rates will apply when hard-currency external debt is liquidated using its own currency. A country might be willing to convert external debt into an equivalent amount of local currency at the prevailing foreign exchange rate. In other cases, the government will discount the value, providing only a certain percentage of the full face value.

Several debtor countries already have a policy and process in place for debt-to-equity conversions. While such policies may not have been created with not-for-profit, debt-for-development applications in mind, the possibility of adapting them for debt for development can be explored with the central bank.

In evaluating debt conversion proposals, a central bank will reflect its own priorities and those of the government. Generally, projects which bring in additional foreign investment, generate foreign exchange earnings through increased exports, or reduce imports are most likely to win central bank approval. However, programs that support social objectives such as low-cost housing, education, and public health are also seen as important.

In seeking a commercial bank as a joint venture partner, leaders of development organizations need to think in terms of projects where the bank will feel comfortable – usually where the bank has expertise germane to the project. Commercial banks have been most interested in debt-to-equity conversions involving financial firms or in production activities where they have developed in-depth knowledge.

Some examples of possible development projects include development around a nature park or other conservation areas, promotion of micro-enterprise, nontraditional exports, and tourism. A central bank may be receptive to projects which do not reflect its domestic economic priorities if there are convincing arguments for social and/or economic benefits. Local organizations should be enlisted to help "sell" such programs to their central banks.

A central bank naturally will be concerned with the inflationary potential of a conversion project and will seek ways to reduce local currency creation and make the monetary impact manageable. A central bank also will proceed with caution on any project until it can evaluate other potentially negative impacts on the local economy, including upward pressure on interest rates, saturation of the domestic market, and possible distortion in distribution of resources. The central bank will want to assure that debt-for-development programs are consistent within its overall external debt renegotiation strategy.

Not-for-profit organization leaders must take into consideration the debtor country's exchange controls and repatriation policies. Some central banks may require that debt-for-development funds represent "additionality." That is, the funds may not be a substitute for money which normally would be provided by developmental agencies such as AID, or investments that would have been made even if a debt-to-equity program did not exist.

In presenting a proposal to a central bank, one should be aware of the relationship between the central bank and other government offices. If needed and if feasible, enlist the support of those ministries in explaining the project and obtaining central bank approval. Patience is a virtue in the debt conversion process. While project approval may be relatively quick and pro forma in countries with established debt conversion mechanisms, the process is apt to be longer and more complicated in debtor nations without a formal conversion program or where the project is particularly innovative or outside established parameters.

Given that economies of scale are a factor in debt conversions, central banks may look more favorably on proposals involving a relatively large investment. This could be achieved by pooling the resources of several organizations or combining several projects to enlarge the size of a specific transaction.

Getting a Banker's Perspective

Early in considering a debt-for-development activity, the organization should consult informally with U.S. or other banks familiar with debt conversion transactions. This is important both for simple transactions on the secondary market where the not-for-profit organization is bringing its own money to the table as well as in seeking investors for a debt-to-equity swap for development purposes.

Often a phone call to the bank officer who handles troubled international debt or to an officer of the correspondent bank located in the developing country can save substantial effort. These bank officials can give an indication of whether a transaction should be pursued and what the exchange and discount rates are. Later, the organization will want to return to the bank with more details and begin the process of seeking an investor for the transaction.

The organization should view the transaction from the banker's perspective. Banks holding debt have several options, including:

- selling debt on the secondary market for immediate cash,
- holding debt in the expectation that it will be serviced and repaid in full,
- retaining the debt under rescheduling arrangements because *pari passu,* or burden sharing, clauses do not encourage secondary market activity,
- converting debt to equity in new projects,
- donating it to a charitable organization, and
- writing off debt as uncollectible.

Through informal networks, a not-for-profit organization can identify the banks and other private firms holding debt of the targeted country. They will usually have the broadest base of information. They will be able to provide information on their own bank and other creditors' level of interest in a proposed project. Generally, informal discussions should be held before developing a full-blown project plan. The initial reaction of bankers may provide an immediate evaluation of a project's feasibility or a better understanding of the information and analysis vital to the transaction.

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In presenting a debt-for-development project to a bank, keep in mind that:

- banks are profit-oriented,
- they must meet regulatory, safety, and soundness criteria, and
- they are generally risk-adverse and will be most receptive to ideas that involve their areas of product and geographic expertise and clients they already know.

While banks tend to be conservative, they are deal-driven and open to proposals with good profit potential. In addition, banks' interest in a debt conversion project is likely to be higher where the return on the new investment is marginally better and the risk lower than holding existing loans, or where the return is about equal but repayment is expected sooner.

Another factor in a bank's equation is the projected time it will take to realize a return on its investment. As a rule, banks will not consider a project unless it will be profitable within five to seven years. Not-for-profit organizations should look for projects with the cash flow to provide a quick pay-back to the bank, such as food exports to the United States which will yield cash at the time of sale.

There are numerous benefits from having a bank directly involved in the development activity, including expertise, influence, and an understanding of technical and financial details such as conversion costs and risk evaluation.

Of course, a bank will look closely at what the other participants in the deal are bringing to the table, primarily demanding:

- expertise,
- cash to back up a commitment,
- shareholders' rights in an equity investment, and
- a clearly defined cash-out or exit strategy.

Services are available to assist in the process of dealing with commercial banks, including specialized firms, investment banks, and accounting firms. Some multilateral development institutions such as the International Finance Corporation of The World Bank may be willing to provide assistance or even invest funds in some projects. However, the not-for-profit organization should first acquire a basic understanding of the proposed conversion transaction to assure itself that such service providers are acting in its best interests.

Investors and Other Sources of Funds

Commercial banks hold the bulk of private debt obligations. However, other corporations, such as insurance companies and other financial services companies, trading firms, and manufacturers also hold much debt. Many firms also hold local currencies which they might be willing to sell at a discount.

Not-for-profit organizations should identify potential investors with an interest in the country where the project is to be implemented. These could include:

- **Multinational corporations willing to contract with a local corporation or affiliate simply to sell them a service or product for a set price.**

  Because such corporations usually have solid expertise and financial resources, banks tend to view projects involving multinationals as less risky.

- **Multinational corporations willing to invest in either projects related to their product ingredient needs or counter-purchase requirements.**

  Many developing nations require complex "counter-purchase" arrangements under which a foreign vendor must purchase local products. A commercial bank or accounting firm may be helpful in identifying exporters with counter-purchase requirements.

- **Private sector businesses, including cooperatives, in the developing country which are able to leverage existing resources through the conversion process.**

  Such groups may be able to contribute land or working capital to the project. They may enter into joint proposals which bring additional resources that will strengthen a proposal.

- **Bilateral donor agencies such as AID or the Canadian International Development Agency (CIDA) that are willing to convert development assistance dollars to obtain local currency programs.**

  For example, CIDA financed a $1 million low cost housing project in Jamaica; The Netherlands' assistance agency used the debt swap mechanism to finance tropical forest preservation in Costa Rica, and AID under-

took a debt swap for a nature park in Madagascar. Usually, recipient governments are unwilling to give up hard currency foreign assistance earmarked for their country, but most donor agencies have discretionary funds which can be used in such swaps.

- **Multilateral development banks such as The World Bank or the Inter-American Development Bank (IDB).**

  The IDB is considering launching a major debt swap program to support child survival programs.

- **Not-for-profit organizations willing to use their own resources in joint activities.**

The Deal

It is not difficult to come up with ideas. Most local development organizations in debtor countries have long lists of projects they would like to undertake. The difficulty is in evaluating the commercial viability of ideas and packaging the project.

To start, a country survey can help in formulating projects for presentation to potential investors. For example, an international cooperative organization identified an extensive list of investment opportunities in the Philippines, as well as banks with an interest in debt conversions.

Opportunities may arise from personal contacts, especially those resulting from previous development activities in a particular country. For example, a U.S. cooperative housing organization, working with Citicorp, was able to arrange an AID guarantee for a cooperative housing project in Chile. Using a currency swap, the Chilean group obtained a special $5 million AID-guaranteed credit to be used by the private nonprofit sector to build 4,000 low-income housing units. This project was based on a decade of collaboration between Chilean and U.S. housing cooperatives.

In putting together a deal, the not-for-profit organization will need to review initial discussions with the host country central bank and a potential commercial bank which will broker the deal. These discussions will uncover issues crucial to structuring the transaction.

The U.S. organization should not undertake a full project development and feasibility plan. Rather, the organization should develop a concise project paper which can be used by the broker in seeking an investor or party who may be interested in a debt swap.

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The document should include the following:

- The proposed activity.
- Background and track record of the U.S. organization and its experience in the debtor country.
- The local counterpart's background and relationship to the U.S. entity.
- A summary of the project's priority within the country's economic and development priorities, including comments from key ministries or others. (Identify whether the project is a foreign exchange earner or meets a social or economic priority.)
- Brief project description including a simple budget with cash flow projections. (Foreign and local contributions should be detailed, for example, the provision of land, downpayments in the case of a housing project, costs of management and local investment.)
- Address up front any special risks associated with the project. (For example, environmental concerns relating to the activity or the competitive market should be explained.)
- Detailed, open information on the organization's financial situation and its ability to handle risks should be provided.
- The project should demonstrate at least as good a rate of return for the holder of the debt as its current investment. (There may also be collateral benefits for an investor; for example, the bank involved in the transaction may obtain a priority position for export financing transactions related to the project.)

After the proposal has interested potential creditors who hold debt in the country eligible for a debt swap, the not-for-profit organization will likely have to develop a full project proposal and feasibility plan. This plan may not be required until the potential debt transaction is closer to implementation.

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THE CONVERSION PROCESS

Once a viable project has been worked out, the first step in the conversion process is approval of the central bank and, if required, other governmental offices such as the planning or finance ministries. Once approved, the financial details of the project should be reviewed with an internationally-oriented broker or accounting firm with in-depth knowledge of the process. Such an organization may be able to help identify a bank or other seller of appropriate debt. It may also verify the eligibility of the particular debt for conversion.

The intermediary or broker will approach the various players in the secondary market who hold debt in the particular country. The broker will discuss the financial details of the transaction and obtain an indication of interest in a particular transaction and, if so, on what basis and at what cost.

A key consideration in selecting a creditor holding debt is to assure that safeguards are included in the transaction to limit risk and assure competitive costs. Brokers are in the business of making money from debt swaps. They charge different rates for different transactions and customers, depending on the value brought to the deal. Not-for-profit organizations may be able to share in the financial benefits of the transaction. Usually, this will involve a percentage of the increased value of the debt conversion transaction.

Another important factor to consider is the time it takes for a transaction. In countries such as Brazil with established programs and an active secondary market, a transaction can take only 24 or 48 hours. In other countries, it can take substantially longer. Such a delay in the transaction involves greater risk.

Debt swaps are usually handled on a cash basis. Once the broker has identified the source of debt and is ready to undertake the deal, the broker will request payment of the dollar amount up

front. By requiring cash, the broker eliminates credit risk -- the possibility that once the debt is purchased, the client cannot come up with the dollars. This risk can be reduced through a simultaneous transaction or the use of options.

Often, the minimum dollar transaction will be set at $500,000. Larger transactions are of more interest to the central bank and other parties in the transaction. Thus, a number of not-for-profit organizations may want to enter into a pooling arrangement.

In arranging a pooled transaction, all necessary information would need to be gathered from participants, including the amount of converted funds required, the schedule on which the money will be needed and where the converted funds are to be placed (e.g., bank account). Several banks have expressed a strong interest in pooling arrangements which potentially could involve U.S., European, and other not-for-profit organizations undertaking development work in a given country.

The not-for-profit organization and/or investor transfers funds to the broker, which will purchase the debt on its behalf. The broker will arrange with the central bank to transfer the local currency equivalent into a designated local account. At this point, local currency funds will be available for the project activity. All three steps in the conversion process can be executed simultaneously to minimize risk.

Documentation for such transactions is extremely important. In virtually all transactions, lawyers are involved representing all parties to the transaction. Fortunately, the required documentation has become increasingly standardized.

To summarize, the typical steps of a debt conversion transaction are:

1. The not-for-profit purchaser (development organization) obtains project approval from the host country's central bank and other appropriate officials. This approval may be arranged by the broker, local affiliate or not-for-profit, in-country partner.

2. The not-for-profit organization discusses the financial details of the approved project with the broker and executes a letter of intent.

3. The broker identifies a source (seller) who is willing to sell the appropriate debt.

4. The broker verifies with the central bank that this particular debt is eligible for conversion.

5. The not-for-profit organization transfers dollars to the broker which, in turn, purchases the debt.

6. The broker notifies the central bank that the transaction is completed and requests the central bank to transfer the local currency equivalent to a local bank account designated for the in-country not-for-profit partner.

7. Local currency funds are now available for development uses in accordance with an agreement between the development organization and its local affiliate or development partner.

If funding is provided by a donor agency such as AID, there will be an extra series of steps to gain approval of that agency and possibly its in-country representative. If the activity is an on-going project, approval may be required only for that portion of the donor's dollars which will be converted.

CONCLUSIONS

Debt for development benefits debtor countries, the United States, U.S. and local not-for-profit communities, and citizens of developing nations through strengthening developmental programs and spurring economic growth. Debt conversion is not a panacea. But, it does have the potential for reducing a sizable percentage of a developing country's debt.

Through debt for development, overall hard currency payments required of debtor countries to service external debt can be reduced using payments made in local currency. Debt payments go toward projects that enhance economic development, training, and conservation -- which, in turn, will generate capital, better housing, health services, education, and other improvements in the quality of life.

For banks and other holders of debt, debt for development can reduce arrearages on interest payments and increase the ability of countries to repay their remaining outstanding debt. It also is a way to reduce overall debt, not through forgiveness, but for constructive projects.

For not-for-profit organizations, debt-for-development programs can stretch limited funds for development activities and provide opportunities for strengthening programs in countries which receive little or no foreign assistance, such as Brazil, Mexico, or Chile.

Debt conversion provides a way to increase resources available for accomplishing development objectives in partnership with indigenous organizations. Debt for development provides a means of linking U.S. and local not-for-profit organizations for the purpose of people-to-people development assistance.

Through the use of long-term bonds and local currency endowments, debt for development can represent a new approach to development to provide income streams over 10 or 20 years for

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sustainable non-for-profit development activities. These funds can support recurrent costs of development such as educational endowments, maintenance of health clinics, and strengthening conservation reserves to protect endangered species.

Many factors point to the deterioriation of Third World nations' economic situations and underscore the need for an intense application of a new strategy to gain control over the international debt crisis.

Involving the not-for-profit community in development programs channels assistance to the grassroots, where funds can be used to build local enterprise. People-to-people efforts can emerge from capital gridlocked in stalled debt payments. Converted for new opportunities, these funds can signal the beginnings of investments in the future.

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THE DEBT FOR DEVELOPMENT COALITION, INC.

Working Draft
January 1990

Debt for Development
Recent Developments and Prospects for the Future

The purpose of this paper is to explore the opportunities and advantages implicit in debt for development exchanges. The first two sections provide background on the international debt issue and relevant policies of the U.S. Government. Next, various financial issues such as the history of bank involvement, bank options and accounting concerns are dealt with. The fourth section discusses the possible use of insurance to reduce the risk to not-for-profit organizations participating in debt swaps. The fifth section briefly describes completed debt exchanges by the not-for-profit community and suggests the variety of structures possible. Finally, information on specific debt exchange programs brings the reader up to date on the current situation in many developing countries in Africa, Asia, the Caribbean and Latin America.

I. Introduction

Much has been written about the international debt crisis. Numerous solutions ranging from the routine to the innovative have been proposed. The overwhelming magnitude of the Third World debt - estimated at $1.3 trillion in 1989 - has gradually led to an acknowledgement by involved parties that the overall developing country debt burden must be transformed - at least in part - into resources for broadly based developmental activities. While creditors have become more open to a range of innovative proposals including some degree of debt reduction, debt reduction by itself is not a sufficient condition to promote economic growth in the debtor countries. It is, however, difficult to imagine recharging the engines of economic and social development while debt service payments require a net transfer of funds to creditor nations.

Structural adjustment programs are complicated and have seriously impacted local economies. Essential liberalizing measures (eg., removing controls) can result in substantial price increases, and other austerity measures adopted or imposed have resulted in declining output and employment in previously protected industries, lower levels of well-being, sharply-reduced internal development investment and set off ripples which have had a negative impact on the global economy. For instance, Latin American per capita output fell by 7% in the 1980's after rising 40% in the 1970's.

Among the numerous vehicles available to deal with foreign held debt - buybacks, exit bonds and debt equity swaps - debt for development swaps have the advantage of containing a socially and economically desirable component.

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Many debtor countries are concerned about the inflationary potential of debt for development swaps. Fortunately, debt swaps can be structured to reduce or eliminate inflationary potentials. If the amounts are small or manageable within a country's monetary targets, full payment can be made in local currency. In other cases, the use of a predetermined schedule of local currency payments either through special arrangements with the central bank or through payment made in bonds that pay interest and principal in local currency can be used to manage the amounts of new currency issued over a longer period of time. If private sector debts are swapped and if private sector borrowers can pay for these debts in local currency terms, no monetary expansion need occur. Of course, if a country is following an overly expansionary monetary policy, debt swaps would usually be expected to complicate the nation's inflationary problems.

Debt for development swaps are equally attractive to not-for-profit organizations which can thereby leverage their resources. Depending on the price of a country's debt on the secondary market, an organization can increase its working funds substantially through a debt purchase and conversion. For example, debt purchased at 50 cents on the dollar and paid off at 100% will result in a doubling of program resources. If paid off at 75% of its face value, program resources increase 50%. Even if a program limits disbursement of local currency by requiring a swap for bonds, organizations that need funds up front can still benefit if the bonds are marketable or if they can borrow against future earnings.

Debt for development swaps can thus ease the financial constraints facing not-for-profit organizations in some circumstances. However, such swaps are not a panacea for all of their financial problems. Even where debtor governments and their creditors are anxious to participate in swaps, not-for-profit organizations are not relieved of the burden of securing hard currency donations. Hard currency will still be needed (although in lesser amounts) both to purchase the discounted debt and to pay for the organizations' hard currency expenditures.

Every government has views on investment priorities, and debtor countries supporting debt for development swaps will often seek to channel the additional resources into particular sectors or projects. As long as the not-for-profit's activities and goals - be they student exchanges, research, cooperative development or conservation - coincide with the country's goals a major hurdle is overcome. Ties developed between U.S. not-for-profits with financial and technical resources and country groups with local contacts and knowledge can facilitate host country approval and subsequent implementation. Moreover, such linkages serve an important long range function in themselves.

Sources of funds to purchase debt include contributions by foundations and the general public, public funding such as the U.S. Agency for International Development (USAID) program grants, and outright debt donation by the bank holding the debt.

II. U.S. Policies With Regard to Debt For Development:

A. An Evolving Policy

The international debt problem can be alleviated only through a combination of traditional and innovative approaches. The U.S. Government has advocated over time a series of increased options that would encourage overall debt reductions and encourage economic growth and stability in debtor nations.

U.S. leaders have included debt for development among the options advocated. In September 1987, former U.S. Treasury Secretary James A. Baker, III, now Secretary of State, supported the debt for development concept in an address to the annual meeting of the International Monetary Fund and World Bank.

The U.S. Internal Revenue Service issued ruling 87-124 in November 1987, clarifying the tax consequences to a bank donating a debt obligation of a developing country for development purposes. For tax purposes, commercial banks can claim a tax deductible charitable donation equal to the market value of a donated loan and the residual amount, if any, is considered a loan loss. Revenue Ruling 87-124 thus assured commercial banks that a donation of a loan would be at least as favorable from a tax point of view as writing off the loan. Clearly, this ruling does not represent a "bail-out" for commercial banks. Indeed, existing tax regulations do not promote donations of debt to not-for-profits. In a sale, a bank receives cash plus a tax write-off for the difference between the sales price and the face value. In a donation only the tax write-off of the difference between the cost and the value at the time of donation is available. If a bank holds a million dollar loan valued on the market at half a million dollars, it is financially better off to sell the asset at that price and take a half a million dollar tax loss than to take a half million dollar charitable contribution and the same tax loss.

In March 1989, Secretary of the Treasury Nicholas F. Brady announced a program to embrace new ideas providing creditor flexibility, including debt conversions. While the full potential of major debt conversion initiatives are uncertain, the Brady program specifically embraces the concept of debt conversion for purposes of not-for-profit, people to people development programs.

The U.S. Congress has recently expressed its support for debt for development. In the appropriations bill for Foreign Assistance, the International Development and Finance Act of 1989 and the Support for Eastern Europe Democracy Act, the Congress urged greater use of this instrument.

B. Agency For International Development

Under a policy and guidelines issued February 15, 1989, USAID encourages debt for development transactions for a wide range of development activities undertaken by U.S. not-for-profit

organizations with AID support. AID's policy created opportunities for U.S. not-for-profit organizations which are in a position to undertake new programs or to expand activities in countries which encourage debt conversion.

This AID debt for development policy permits eligible U.S. not-for-profit organizations to use AID funds to buy debt owed by developing countries to foreign creditors for conversion into local currency to finance AID-approved development projects and programs. Each activity financed through a debt for development transaction using AID funds must be preapproved by AID and comply with standard AID rules and procedures.

The U.S. Congress passed legislation in November 1989, which establishes a policy that interest earned on USAID grants may be retained by grantees for use as program resources and no longer must be returned to the U.S. Treasury. This reversed long-standing U.S. Government policy and should greatly facilitate debt swaps with USAID and, potentially, other U.S. Government funds.

Contacts with AID authorities dealing with Ecuador suggest that debt swaps by AID not-for-profit grantees will be encouraged. However, because of funding limitations in the current fiscal year, AID may be forced to view swaps as a vehicle for maintaining current activity levels with reduced funding rather than as a way of expanding development activities.

C. Other U.S. Government Agencies

Other U. S. government agencies have also indicated interest in debt for development programs.

The U.S. Department of Commerce International Trade Administration submitted a report to the Secretary of Commerce in August 1988, on Improving U.S. Competitiveness: Swapping Debt for Education which supports the use of debt for socially beneficial projects and emphasizes educational purposes. The Commerce Department also co-sponsored a workshop with the Debt for Development Coalition to explore the need for an information clearinghouse on the international debt issue.

The U.S. Information Agency has indicated its interest through discussions with the Debt for Development Coalition in exploring debt swaps to enhance its Fulbright educational and cultural exchange programs. Similarly, the U.S. Department of Agriculture would like to extend its collaborative research programs in agriculture and natural resources through the use of local currency programs. Other collaborative programs in science and technology of mutual benefit could also be enhanced by leveraging limited resources through debt swaps.

III. Bank Issues

Banks made loans to third world governments believing that they were sound because "nations do not go bankrupt" and have rarely repudiated their debts. Virtually no one considered the possibility of a convergence of uniquely unfavorable events: skyrocketing increases in oil prices, recession, deteriorating commodity prices, heavy deficits in industrialized countries and changes in Federal Reserve policy that markedly increased interest rates. As most bank loans to developing countries were on a floating rate basis, this resulted at times in interest rates on debt near 20%. Because of these and other factors, many countries earned too little foreign currency to both make their loan payments and pay for their basic import needs.

Since 1981, the international banks have joined together repeatedly in agreements to reschedule loans and grant moratoria and extensions of due dates on principal payments for many countries in Latin America, Eastern Europe, Africa and Asia. Since U.S banks may not accrue income from interest that is more that 91 days past due, they usually have made new loans to cover what was expected to be temporary interest shortfalls.

For many countries in Africa and some in Latin America, these measures were not enough. Interest and principal payments stopped and many banks either wrote the loans off or greatly increased their loan loss provisions. U.S. government regulators judged loans to some countries as quite risky and declared them "value impaired" requiring partial write-offs or the creation of specific country reserves. Recently, many banks in the U.S. and Europe again made substantial charges to their income to increase loan-loss provisions for expected additional write-offs. All these actions have been charges against the banks' income.

The effect on bank income has been significant. It has been estimated that the major U.S. banks alone have taken over $3.8 billion in losses on these loans as of the end of 1988. Many banks have decided to reduce their exposure to developing countries by selling loans, by exchanging for other loans that they consider less risky, by exchanging for bonds or stock or by donation. The decision on which option to choose is based on its effect on current profits and the bank's plans for the future.

Sales by original lenders have become more common, but the debt market is still considered to be "thin". Increasingly, commercial banks and especially regional banks have decided to reduce this exposure to troubled debtor countries and thereby the uncertainties that future events might entail. There have been a large number of accounting issues that have troubled commercial bankers. There had been great concern that selling a small portion of a banks' portfolio of loans to one particular country might "contaminate" the entire portfolio, namely require all loans to be written down to that sales price. If the loans have not been formally written down, which is still the case in banks that have increased their loan loss reserves, the bank may not want to sell at all. In addition, all sales must be reported to the debtor governmnet to record loan ownership. Some

creditors have been reluctant to sell unless they plan no future business in that country. For example, smaller banks and regionals, which do little in these countries, have been the first to sell. They often feel that they have better uses for the funds tied up in these loans and so may be willing to take a bigger loss. This attitude has been particularly true for banks building up regional networks, such as banking systems in the southeast or the northeastern states.

Buyers only exist if they have a better opinion of the future value of the loans than does the seller. Debt conversion programs permitting the exchange of hard currency debt for local currency assets (stock equity, goods, bonds or currency) increase the perceived value to many buyers. Close and continuing business ties do also, e.g., European banks favor Polish debt and U.S. banks Latin American debt. Restrictions decrease the value.

A study by the International Finance Corporation, a part of the World Bank group, indicates that commerical banks have been willing to sell their loans but have been reluctant to convert their loans into equity investments for their own accounts. In part, this reflects the fact that commercial bankers are in the financial services business and not in the business of managing production operations. It also reflects that many banks have changed their market strategy and many Third World countries are no longer vital to their future business plans.

Restrictions on sale and reassignment of loans usually stem from the rescheduling agreement between the banks and creditor country or from a country's regulations. Some rescheduling agreements have not permitted loans to be reassigned to non banks for control purposes and to limit complexity of any renegotiation. Specific clauses have increasingly been written in these agreements permitting debt conversion programs and reassignment under specific circumstances.

A more general restriction comes from the pari passu/burden sharing provision which is standard in rescheduling agreements. This provision makes sure no lendor or subsequent assignee receives unfair advantage by receiving more repayment or better terms than others. All advantages and disadvantages must be shared equally. Therefore, terms of any debt conversion will have to parallel those of the rescheduling agreement or be specifically exempted under it.

Because of these limitations, there have not been many buyers or sellers, and the secondary market for rescheduled LDC loans is "thin". The price is easily affected. Rumors and even inquiries made during price shopping can affect price. Active debt trading desks have been set up by most major U.S. money center banks, a few major regional banks, a number of European banks and some investment banks. These trading desks function separately from the commercial departments of their banks -- buying, selling and maintaining a trading portfolio of debt purchased from third parties at discounted market prices.

Banks usually have a minimum size requirement for each debt swap transaction (typically $500,000 to $1,000,000) because the costs

involved make small amounts unprofitable. For that reason, their charges also may be relatively smaller for large transactions. Organizations that have smaller amounts can get around this limit by joining with others in pooling arrangements and reach a "bankable" joint total.

In terms of sales from their own portfolios, many U.S. regional banks have already sold a large portion or all of their LDC debt holdings. Depending on their internal policies and outlook, some major U.S. banks are selling and others not. European and British Commonwealth banks are also selectively selling based on similar views and on encouragement or discouragement by their home country regulations. The Japanese banks are reportedly active in the market only as agents for their customers.

IV. Minimizing The Risk Of Debt For Development Swaps

Under the right conditions, not-for-profit organizations can substantially increase the size and impact of their development programs in debtor countries through the use of debt swaps. However, there are risks and costs in such transactions, and those must be understood and minimized.

The major risk is that the local currency will not be paid as promised or that it will depreciate in value before it can be utilized. The latter risk can be reduced or eliminated by ensuring that the nominal value of the local currency will grow to keep pace with inflation.

To protect the not-for-profit community against the risk that the participating government will not meet its financial obligations, the Debt for Development Coalition has explored the availability of insurance coverage for debt for development swaps. For any not-for-profit concerned with the maintenance of value or stability of their investment, political risk insurance coverage is available for debt swap transaction under certain conditions. Traditionally, direct foreign investors have been able to insure for risks of restrictions on convertibility and repatriation of funds, expropriation, war, revolution or civil disturbance. Insurance is available on existing as well as new programs from numerous sources, such as the U.S. Overseas Private Investment Corporation (OPIC), American International Underwriters (AIU), Lloyd's of London, and the official export promotion and or guarantee agencies - the French Compagnie Francaise d'Assurance pour le Commerce Exterieur (Coface), the British Export Credit Guarantee Department (ECGD), and the German Treuarbeit. Rates range from 0.3% to 1.5%. AIU covers confiscation, expropriation and nationalization for up to three years (usually renewable) at 90% of the exposed investment up to $25,000,000 per insured per country. OPIC has insured twelve and financed three projects involving debt conversions totaling $886 million. It is possible to design coverage for specific occurrences, such as a government's failure to abide by the agreed procedure for resolving disputes. Value maintenance could be handled by setting up an entity to receive the local currency and

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insuring the owners of the funds against governmental actions that deprive them of their interests in it. OPIC cannot insure government payment obligations.

A new group, the Multilateral Investment Guarantee Agency (MIGA), established by the World Bank, is accessible to all nationals of member countries (83 have signed the convention) as well as to host country nationals (this serves as an incentive to repatriate flight capital), and offers long term protection (three to twenty years) against currency transfer, breach of contract, and political risks. MIGA can participate as either a co-insurer or reinsurer. Generally, host government approval is required prior to coverage. Coverage is limited to the actual or discounted value of the converted debt, thus an investor's exchange rate gain would not be included in the guarantee protection.

V. Debt Exchanges And The Not-For-Profit Community

Debt for development and debt for nature exchanges reduce the foreign held debt and provide funds in local currency for socially beneficial projects. In many cases the external debt is exchanged for internal debt (often, but not always, for the full amount but at a lower interest rate than on the original debt) which is repaid over a long period of time. As indicated earlier, projects are designed so as to be less inflationay by providing for periodic disbursements as needed for the ongoing support of the projects's activities (personnel, administration or materials). In some debt for nature swaps the debt is completely or partially exchanged for agreements to set aside park lands, develop conservation programs, hire park personnel, and/or contribute local currency to fund ongoing environmental activities.

Debt swaps are an old financing technique; however, new attention has been focused on their use as a result of the pioneering work by the environmental groups in "debt for nature" swaps. A review of some completed debt for nature exchanges indicates the range of options available.

A. Debt For Nature

ARGENTINA - In December of 1989, a debt for nature project was approved in which the Nature Conservancy will purchase $60 million of debt to be exchanged for 30 year bonds bearing an interest of between 30% to 55% of that on the original debt. The project will support conservation efforts in various parts of Argentina.

BOLIVIA - Conservation International purchased $650,000 of external debt for $100,000 in July 1987. The debt was canceled in return for the Bolivian government's agreement to expand protected areas around its Beni Biosphere Reserve, promote sustainable development uses on the land and support conservation management of the Reserve. The government also agreed to establish an endowment fund in local currency equal to $250,000 to pay the operating expenses involved in managing the Reserve.

BRAZIL - Conservation International has just completed a purchase of private debt which was converted into local currency at approximately 1.8 times the face value. The funds are being held by a local bank and will be distributed over time to a local conservation foundation.

COSTA RICA - In 1987 the government created a debt swap mechanism to allow conversion of $11 million of foreign held debt. A natural resources conservation fund received $5.4 million of the debt that has been converted at 75% of par into interest bearing local currency bonds. The bonds are administered by the Costa Rica Cooperative Bank. The interest generated is used by a local organization for park management and other conservation related programs. Funding came from the Nature Conservancy, the World Wildlife Fund (WWF), and other conservation organizations. Unlike previous swaps, the international organizations donated the money to the local which bought debt directly.

Fleet National Bank in Rhode Island donated its $254,000 Costa Rican debt to the Nature Conservancy to endow the Braulio Carillo National Park.

The Dutch government bought $30 million of debt and exchanged it at 33% of par to fund reforestation projects.

In 1989 the Nature Conservancy purchased $5.6 million of debt which was converted at 30% of par.

The Swedish government bought $25 million of debt at 70% of par to support the purchase of and endow the Guanacaste National Park.

In late 1988 the government announced it would consider proposals totaling $45 million for debt swaps in the areas of micro-enterprise development, conservation and education. It is expected that twenty year bonds, denominated in either U.S. dollars or Costa Rican local currency will be issued in exchange for bank debt. The interest rate and amount of bonds issued in exchange will depend on the choice of denomination. The local currency bonds will have more advantageous terms.

ECUADOR - In 1987 the WWF purchased $1 million of debt for $354,000 which was converted at 100% of par into nine year local currency bonds and transferred to a local organization. The interest will support conservation and education programs. In April 1989, the WWF and Nature Conservancy bought $9 million at 12 cents on the dollar. The Fundacion Natura will use the interest on priority projects in the Andes, the Ecuadorian Amazon and the Galapagos National Park.

THE PHILIPPINES - In June 1988, the government approved a debt for nature swap program. The WWF will purchase up to $2 million of external debt which will be converted at 100% of par into local currency for conservation planning, training and funding of park improvements. The first portion of this exchange using $390,000 was completed in January 1989.

Debt swaps have been slower to surface in Africa, mainly because a large proportion of debt there is owed to other governments or multilateral organizations and thus in some cases not eligible for conversion. However, two debt for nature swaps have occurred.

MADAGASCAR - WWF and the Central Bank agreed to exchange over the next two years up to $3 million of debt purchased at 45% of face value and converted at par. Proceeds will be used to protect and manage high priority areas, and to train, equip and support 400 park rangers. For the first time, USAID provided funds ($1 million) to assist in the purchase of debt.

ZAMBIA - WWF purchased $2.27 million of debt from the Dutch NMB Bank for $470,000 (20% of face value) and converted at par.

B. Debt For Development

Among the debt for development swaps which have been finalized are examples of three different methods of financing.

AFRICA - USAID's recent $2.5 million grant to the International Foundation for Education and Self Help (IFESH) will enable it to purchase debt in **Niger** (2 to 1 ratio), **Nigeria** (4.5 to 1) and **Malawi** or **Guinea** (2 to 1) to be exchanged for local currency to support their ongoing literacy, agricultural and vocational training programs. The funds will be placed in a non-interest bearing account and then disbursed monthly or quarterly. Also in **Niger**, the International Crops Research for the Semi-Arid Tropics (ICRISAT) Center purchased debt in 1989 at a discount and converted the proceeds into local currency. A considerable part of the leverage advantage was lost to commissions and other expenses in this exchange.

JAMAICA - A Canadian cooperative housing organization purchased Jamaican debt at a discount, converted it to local currency and used the proceeds to fund a self-help housing project.

PERU - A recently approved project involves a $5 million donation by American Express for a self-help handicraft project. Funds will be disbursed over a two year period.

SUDAN - Midland Bank's donation in 1988 of its $800,000 of Sudanese debt to UNICEF was converted to local currency and used for a water, reforestation and health program.

Inconvertible currency, often referred to as blocked funds (local currency of multinational corporations that is not freely convertible or can only be repatriated on a regulated schedule) are a possible way to leverage resources. Christian Children's Fund purchases debt and blocked funds to support its activities in South America. Africare has purchased discounted local currency through a financial intermediary in Zambia.

VI. Country Regulations

Many developing countries have promulgated regulations pertaining to debt equity swaps. In some cases the programs have been suspended pending finalization of restructuring agreements (the Philippines) or easing of inflationary pressures (Argentina). Often swaps can be approved on a case by case basis.

ARGENTINA - the debt equity conversion program was suspended in mid-1989. At that time, the country was experiencing hyper-inflationary conditions. Renewal depends on the nation's economic situation. However, the Central Bank will consider small debt for nature or debt for development exchanges which are structured to be non-inflationary. Under the formal program the rights to convert debt are auctioned by the Central Bank. Bids must offer a conversion fee calculated as a percentage of the face value to the debt to be converted. The Central Bank has accepted fees ranging from 9% to 23%. Investors are required to act through an established intermediary bank (foreign or local) operating in Argentina.

BOLIVIA - has a debt equity program, and as of January 1990 the government continues to be interested in debt for development initiatives. Debt for development swaps receive a premium over swaps done by for profit organizations.

BRAZIL - Swaps were suspended in January 1989 with the expectation that resumption would be part of an overall external debt rescheduling agreement being negotiated with the commercial banks. If reinstated in the same form, there will be three avenues for swaps: discount swaps through an auction process; direct discount swaps (available to multinationals or creditor banks); and par conversion (only by creditor banks). The Central Bank takes a commission (known as the Central Bank discount) which is the difference between the face value of the credits and the amount received by the investor. Debt conversion funds are not eligible for the favorable withholding tax treatment accorded 'new' money and cannot be repatriated for twelve years (only ninety days' notice is necessary for 'new' money). Not-for-profit groups have participated in debt swaps in Brazil. Their future involvement in swaps will require that the local currency proceeds be greater than now available to such organizations through the "tourist" exchange rate.

CHILE - has demonstrated that a debt equity program can play a significant role in reducing a country's external debt. By integrating the program within good overall economic and financial policies, the inflationary potential of such programs can be managed easily. By using an auction system within limits determined by monetary policy targets, Chile has possibly extinguished the bulk of its commercial bank held private external debt. Chile has permitted a few debt for development swaps when the proceeds were used for capital rather than current expenditures.

COSTA RICA - this program is restricted to philanthropic ventures totaling $15 million a year for at least 3 years. Investors must work through approved local foundations. Brokers or intermediaries may not be used. Bonds issued in exchange have a 20 year maturity with a 3% interest for dollar denominated bonds (issued at 80% of original value) and 8% for those in colones (issued at 100% of original value). Any profits from the operation are tax exempt as long as the profits are used for the furtherance of the project's goals.

ECUADOR - reintroduced a debt conversion program in the latter half of 1989.

JAMAICA - initiated in 1988, the program is for public commercial debt. All investors are eligible. The fee will not exceed 10% of the face value of the debt presented for exchange. The Bank of Jamaica processes the exchanges. Remittances of profits cannot be made for three years. The Government of Jamaica indicated that debt swaps done to support activities of not-for-profit organizations would be done at face value and probably without any fee. Debt swapped is paid off in local currency under the same maturity schedule of the commerical bank debt used.

MEXICO - had a debt for equity program and then suspended it. The new external debt rescheduling agreement recently concluded by the Government of Mexico and the commercial banks provides for debt equity conversions. Specific arrangements regarding debt for development transactions need to be worked out.

NIGER - signed a bilateral agreement with the U.S. government in June 1989. They have rescheduled their debt with three U.S. agencies (USAID, Department of Defense and the Export-Import Bank). Another agreement to be signed in early 1990 will provide for debt to be used for agricultural and development projects.

NIGERIA - holds auctions for conversion but the Debt Conversion Committee (the Chairman of the Central Bank and five ministers) may approve applications. The Central Bank charges a fee of 2.5 % of the discounted value.

PERU - established a debt for development program in the second half of 1989. Both foreigners and Peruvians are eligible for conversions. The Central Bank will set the exchange rate and the value of the debt paper to be exchanged will be determined by an auction. It has been reported recently that the government closed the option to purchase debt on the secondary market. The only debt available for swaps is that donated by commercial banks.

THE PHILIPPINES - had a debt equity program that has been suspended. Formally, no applications are being invited at the present time. However, government officials may be willing to consider attractive projects on a case by case basis.

ZAMBIA - was the first African country to authorize a debt conversion program (in 1984). Most debt to be converted has been private sector commercial arrears ('pipeline claims'). Almost 70% of external debt is owed to multi or bilateral institutions.

Countries With Debt Swap Programs

COUNTRY	ELIGIBLE INVESTORS	DISCOUNT OR FEE	TOTAL DEBT* (US $ B)	MARKET PRICE*
Argentina	resident or nonresident		61.9	15-16
Brazil	nonresident	commission	112.7	22-23
Chile	resident or nonresident	fee	18.5	58-59
Ecuador	not-for-profits	50%	11.5	15-17
Mexico			102.6	35-36
Nigeria	private and public;	25% discount 5% fee on face value	30.7 M	28-30
Peru			19.9	6-8
Philippines	resident or nonresident	fee varies	28.5	48-49
Zambia	original creditor or assignee resident or nonresident		6.5 M	

* World Bank Debt Tables 1989-90

* Intrados Index, SWAPS, 11/89.

CASE STUDY
ZAMBIA

- DEBT CONVERSION PROGRAM ON CASE BY CASE BASIS SINCE 1985

- FOCUS IS ON PRIVATE SECTOR ARREARS "PIPELINE CLAIMS", BUT CENTRAL BANK IS CONSIDERING OTHER DEBT INSTRUMENTS

- TRANSACTION/SECTOR FOCUS IS ON DEBT FOR EQUITY AND DEBT FOR CASH TRANSACTIONS IN HIGH PRIORITY SECTORS OF THE ECONOMY, PARTICULARLY AGRICULTURE AND EXPORT-ORIENTED INDUSTRIES

- DEBT CONVERSION TAKES PLACE AT THE OFFICIAL EXCHANGE RATE, WITH NO CONVERSION FEES

- OTHER INCENTIVES TO PROMOTE INVESTMENTS ARE TAX HOLIDAYS, EXPORT RETENTION RIGHTS OF UP TO 100% AND DIVIDENDS AND CAPITAL REPATRIATION IN LINE WITH INVESTMENT CODE

IRG

CASE STUDY 1
GWEMBE VALLEY DEVELOPMENT COMPANY LTD (GVDC)

- Large scale agricultural project: 2100 hectares currently under irrigation. Work started on site May 1986, completed mid-1987. Cotton crop for export-wheat for domestic market. Total investment to date: $22m

- Project sponsor-Lummus Agricultural Services Co Ltd-holds 52% of equity. Balance of shares held by International Finance Corporation (IFC), German Development Bank (DEG), Lint Company of Zambia and Hoechst

- Foreign currency costs-approximately 50%-financed by loans from IFC, DEG and sponsors

- All local currency costs-50% of requirements-were financed via DEBT CONVERSION either by purchase of pipeline debt OR investment by pipeline debt holder (Hoechst)

GVDC (Cont)

- Second full cotton crop currently in progress: harvest in April/May 1989
- By 1990 expect production of 3000 tons of lint cotton and 7000 tons of wheat: approximately 10-15% of the Countrys' requirement
- Approximately 4500 tons of cotton seed will be sold to local oil mills
- The export proceeds from the cotton sales will be sufficient to cover debt servicing
- To date, GVDC has delivered 4500 tons of wheat
- After 5 years, project will become a net foreign currency contributor to the country

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IRG

GVDC (Cont)

- Grindlays Bank provided US$ bridge financing for the project while awaiting disbursements from the International Financial Institutions
- Grindlays also provided local currency bridge financing which was repaid from proceeds of DEBT CONVERSION
- GVDC used DEBT CONVERSION as local currency was required; Zambian government approved all applications at the official exchange rate
- The project has received export retention rights sufficient to:
  1) Service all foreign currency debt payments;
  2) Purchase essential imports;
  3) Purchase additional pipeline debt to finance local currency working capital
- Tax holiday for 5 years, has been granted by Zambian Government

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IRG

GVDC (Cont)

- Project created employment opportunity for 400 permanent and 3000 seasonal workers in one of the least developed parts of Zambia
- Cooperation from the Central Bank and the Government of Zambia has been excellent
- The project was clearly the first of its kind in Zambia and has proved an example for other investments to follow
- The project used DEBT CONVERSION to its economic advantage by purchasing pipeline debt at a discount
- The equity investment by Hoechst of its pipeline funds saved foreign exchange expenditure up front, as Hoechst will receive payment in the form of future dividends

IRG

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ZAMBIA CASE STUDY II
MASSTOCK

- Large scale agribusiness project to grow wheat for domestic market and cotton for export; total arable hectares 3,000 to be implemented in TWO PHASES. Plus small pilot phase Total cost: Approximately $40m

- Project sponsor - MASSTOCK (International Ltd) - holds approximately 65% of equity with five other entities holding shares

- Foreign currency requirements 55% of project costs; local currency requirements 45%

- International Financial Institutions (IFC, CDC, OPIC, U.S. AID) are providing 87% of foreign currency through a combination of loans, income notes (quasi-equity) and equity; the other 13% is in the form of equipment being supplied by two U.S. companies and the project sponsor

- Most of the local currency requirements are being financed by either investments by pipeline debt holders, who then receive shares in the project OR through the purchase of pipeline debt by project sponsor and subsequent investment of debt through a conversion

IRG

MASSTOCK (CONTD)

- The Zambian Government has approved the project sponsor's application for debt conversion to finance the local currency equity investment;

- In addition, the project will have sufficient export retention rights in order to:
  1) Service all foreign currency commitments;
  2) Purchase essential imports;

- A tax holiday for 5 years has been granted by the Zambian Government to the project

- After project is underway, local investors will be sought

IRG

MASSTOCK (CONTD)

- Project currently in pilot phase: MASSTOCK undertook land clearance of 160 irrigated hectares with two pivots in August 1988

- Cotton sown in December 1988: Will be harvested in April/May 1989

- Wheat will be planted in May 1989 after cotton is harvested

- In February 1989, land clearance for 800 hectares will begin: 10 additional pivots will be erected in time for 1989 cotton crop

- Land clearance contract is a local currency expense

IRG

MASSTOCK (CONTD)

- Grindlays Bank has provided financial support for MASSTOCK International in the pilot phase and will be the project's primary bankers both in Zambia and London

- The investments by pipeline debt holders are both by U.S. companies - J.I.Case, who is also an equipment supplier and Pfizer. The other U.S. equipment supplier (irrigation) is Valmont

- Due to the equity investment by the three U.S. companies, the project qualifies for OPIC support

IRG

MASSTOCK (CONTD)

The Economic Viability of the Project Depends on:

- Foreign currency financing provided by the International Financial Institutions

- Foreign exchange account allowed by the Zambian Government to service foreign exchange commitments and to purchase essential capital and operating items

- The U.S. equipment suppliers willingness to invest for equity positions in part payment for equipment, saving foreign exchange outlay up front

- The U.S. pipeline holders' equity investment in the project. Conversion of their debt provides necessary local currency

- Debt purchases by Masstock for conversion to service local currency requirements at a discount

PRESENTATION BY FORMER GOVERNOR OF CENTRAL BANK OF ZAMBIA

AT

SENIOR LEVEL DEBT CONVERSION WORKSHOP

ABIDJAN, FEBRUARY 9-11, 1989

Zambia's total external debt as at 31 December 1988 was approximately 5.8 billion U.S. dollars. This represents the total disbursed and outstanding debt including interest arrears as at the end of 1987, and interest maturities during 1988, but excludes penalty interest and depreciation of the dollar. Zambia's debt can be classified into three broad categories:

(a) That which is due to multilaterals,
(b) To bilateral creditors and,
(c) The short-term debt.

The short term debt comprises four different categories namely:

(i) Commercial arrears pipeline
(ii) Auction related letters of credit
(iii) The oil facility, and
(iv) Bank of Zambia own short debt.

The debt conversion programme specifically covers the commercial arrears pipeline which is gradually being dismantled. At the end of November 1988 the total eligible maturities in the commercial arrears pipeline was approximately U.S. dollars 450 million.

Zambia has a debt profile of a prosperous middle income country, not that of a low income country. Most of this debt was incurred when Zambia was considered credit worthy. It therefore comprises large portions of commercial short-term, and non-concessional debt, with a large amount being owed to the IMF and the World Bank.

The bulk of Zambia's long term debt is owed to official creditors, to multilaterals and private creditors. The reluctance by the official sources to provide further credit has been a major factor in limiting the inflow of essential capital imports. Unless something is done to reduce the overhang of official debt, all flows of private equity finance to Zambia will dry up. Presently, only secure commercial credits are available to finance investment or imports. The very large portion that is owed will continue to pre-empt any room for manoeuvre on Zambia's part as far as schedule debt servicing is concerned. This is what precipitated the decision to unilaterally limit debt servicing to within 10 percent of net export earnings on 1 May 1987. The alternative whereby arrears can be withdrawn in local currency at the rate of one dollar to KA for purposes of re-investment in approved sectors of the economy is to implement the above action. The main objective of the debt/equity

conversion programme, or the "re-investment of commercial arrears" as is normally referred to in Zambia, is the government's desire to reduce the level of external debt arrears, and help to re-establish the country's credit worthiness in the international capital markets. Under the programme, eligible debt is channelled into productive sectors of the economy through local re-investment. The Kwacha withdrawn is given to the investor either to promote development of an existing enterprise, or for the setting up a new one.

With the debt conversion programme now firmly in place, it is hoped that repayment of foreign capital, in form of dividends and profits, as opposed to schedule debt servicing payments, will be much more streamlined and less onerous.

Besides creating new employment and helping to broaden the government's taxbase, it is hoped that the resulting new investment would stimulate economic growth especially if the programme were to be extended to other classes of debt. Thus, funds channelled from the commercial arrears into import substituting, or export oriented ventures will improve Zambia's trade performance and indeed enhance the country's foreign exchange earning capacity. From the success of investments of this nature the government is likely to encourage production on a larger scale in our commerce and industry, and thereby help meet local demand for domestic goods and services. This is undoubtedly and essential element is Zambia's economic growth strategy.

The re-investment programme has proceeded very well in Zambia. So far, approximately U.S. dollars 55 million has been withdrawn from the commercial arrears pipeline within a period of just two years. It is hoped that in the new year, with increased popularity of the scheme, Zambia should record an increase of well over 60 percent of the previous two years' amount withdrawn from the pipeline.

For the protection of investor, the government, through the central bank has issued policy guidelines to govern the re-investment programme. The main policy instrument of control is a d circular NO. 14/87 of 11 May 1987. This circular stipulates the sectors of investment as agriculture, manufacturing, import substitution (using local raw materials), tourism, and transportation. The bank also considers applications for pipeline re-investment from applicants who have already secured approval for investment under the investment act of 1987.

There are some incentives that are enjoyed under the scheme. Those in the export promotion business are accorded a 50 percent retention of their export proceeds on each export contract. In addition, those investing in pioneer industries within the preferred sectors can also apply for a tax holiday from the investment coordinating committee that has been created under the investment act.

Zambia recognizes that debt conversion alone will not offer a total solution to her worsening debt problem. For example, her unilateral action to limit debt servicing to the 10 percent cap created a problem of indifference to the scheme among creditors some of who have waited indefinitely for repayment.

Consequently, those who opt for the scheme tend to feel that they are not obliged to bring in any additional foreign capital over and above the original exposures. Yet, in many business ventures today, success can only be assured by a measure of injection of new capital to bring in essential equipment and machinery.

Overall, judging from the experience of the past two years, debt conversion offers some hope of a period of meaningful debt relief during which the economy could be allowed to revive and grow. As already indicated, Zambia has been able to convert about U.S. dollars 55 million worth of debt, and because of this success so far, all the indications are that the programme will continue as long as the debt overhang is outstanding. This is largely the reason why the government has so eagerly created specific instruments to govern the swaps, while offering a package of incentives, like the retention and tax concessions.

CASE STUDY
NIGERIA

- GUIDELINES FOR DEBT CONVERSION PROGRAM ESTABLISHED JULY 1988. FIRST FORMAL AUCTION TOOK PLACE IN NOVEMBER 1988.

- 12 AUCTIONS TO DATE: 2 IN 1988
  8 IN 1989
  2 IN 1990

  WITH INTENTION OF ESTABLISHING MONTHLY AUCTION PROGRAM

- AMOUNT OF DEBT SWAPPED AS OF 4 DECEMBER 1989 IS $306.68 MILLION

- SECTORAL CONCENTRATION OF AUCTIONS IN THE FOLLOWING AREAS:

  AGRICULTURE
  MANUFACTURING
  MINING AND EXPLORATION
  HOTEL AND TOURISM
  CONSTRUCTION
  GIFTS/GRANTS

CASE STUDY
NIGERIA
(cont.)

- DEBT CONVERSION TRANSACTIONS HAVE INCLUDED DEBT-FOR-EQUITY, DEBT-FOR-DEBT, AND DEBT-FOR-DEVELOPMENT. THERE IS GREAT INTEREST IN INCLUDING DEBT-FOR-NATURE TRANSACTIONS IN THE PROGRAM.

- ELIGIBLE INVESTMENTS:

  NEW INVESTMENTS, FINANCING THE EXPANSION OR RECAPITALIZATION OF AN EXISTING ENTERPRISE, OR GIFTS OR GRANTS TO A NIGERIAN ENTITY

- REMIITTANCE RESTRICTIONS:

  INTEREST INCOME, PROFITS/DIVIDENdS, CANNOT BE REPATRIATED FOR A MINIMUM OF FIVE YEARS FROM DATE OF RELEASE OF REDEMPTION PROCEEDS

- DEBT IS CONVERTED AT THE EFFECTIVE IFEM RATE AT THE TIME OF THE AUCTION.

- UNIQUE ELEMENT TO PROGRAM IS THE USE OF PROMISORY NOTES. BECAUSE A BANK IS NOT NEEDED FOR APPLICATION, NOTES OFTEN HAVE MEANT MORE DOMESTIC CORPORATE INVESTMENT THAN MULTINATIONAL INVESTMENT.

DCP/1

NIGERIAN DEBT CONVERSION PROGRAMME

ADDRESS OF APPLICANT

_____

_____

_____

_____

_____

TO:

THE CHAIRMAN OF DCC,

D.C.C. SECRETARIAT,

CENTRAL BANK OF NIGERIA,

TINUBU SQUARE,

LAGOS.

APPLICATION FOR APPROVAL IN PRINCIPLE FOR THE CONVERSION OF PROMISSORY NOTE(S)/DEBT INSTRUMENT(S)

1. PERSONAL DATA OF APPLICANT:

   (i) NAME .....

   (ii) POSTAL ADDRESS .....

   .....

   (iii) TELEPHONE NUMBER .....

   (iv) TELEX NUMBER .....

   (v) TELEFAX NUMBER .....

2. TYPE OF DEBT INSTRUMENT TO BE CONVERTED:

   .....

3. PARTICULARS OF INSTRUMENT(S): .....

   .....

4. AMOUNT OF CONVERSION SOUGHT: US$ .....

5. APPLICANT'S BUSINESS IN NIGERIA(IF ANY)

   (i) NAME .....

   (ii) ADDRESS(NOT POST OFFICE BOX) .....

   .....

   (iii) TELEPHONE NUMBER .....

   (iv) TELEX NUMBER .....

   (v) TELEFAX NUMBER .....

   (vi) NATURE OF BUSINESS .....

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6. APPLICANT'S BUSINESS OUTSIDE NIGERIA:

(i) NAME .....

(ii) ADDRESS .....

.....

(iii) TELEPHONE NUMBER .....

(iv) TELEX NUMBER .....

(v) TELEFAX NUMBER .....

(vi) NATURE OF BUSINESS .....

.....

(vii) CAPITAL AND VOLUME OF OPERATIONS: .....

.....

.....

(viii) BUSINESS CONDUCTED IN OR WITH NIGERIA:

.....

.....

(ix) OTHER INVESTMENTS/ACTIVITIES IN NIGERIA:

.....

.....

7.(a) CASH GIFT - STATE:

(i) AMOUNT: US$.....

(ii) NAME AND ADDRESS OF BENEFICIARY: .....

.....

.....

.....

(iii) RELATIONSHIP OF THE APPLICANT TO THE BENEFICIARY:

.....

(b) INVESTMENT IN EQUITY OF AN EXISTING NIGERIAN COMPANY - STATE:

(i) NAME AND ADDRESS: .....

.....

.....

(ii) NATURE AND TYPE OF BUSINESS ACTIVITIES:

.....

.....

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(c) INVESTMENT IN COMPLETELY NEW PROJECT - STATE:

(i) NATURE AND PROJECTED VOLUME OF BUSINESS INTENDED TO BE CONDUCTED: .....

.....

(ii) OFF-SHORE COST AND SOURCE OF FINANCING .....

.....

(iii) PROPOSED CAPITAL STRUCTURE: .....

.....

(iv) PREVIOUS EXPERIENCE IN THE PROPOSED VENTURE:

.....

.....

8. PREVIOUS EXPERIENCE(IF ANY), IN DEBT CONVERSION WITH PARTICULARS OF VOLUME AND NATURE OF BUSINESS DONE WITH PROFILE OF ACTUAL INVESTMENT PERFORMANCE IN OTHER DCP COUNTRIES (IF ANY):

.....

.....

.....

9. IN CASE OF FOREIGN PERSONS OR ENTITIES -
NAME(S) AND PARTICULARS OF AGENT(S) OR REPRESENTATIVE(S) IN NIGERIA WHETHER A PERSON OR BODY CORPORATE:

.....

.....

(ATTACH CERTIFIED TRUE COPIES OF MANDATE/AGREEMENT BETWEEN THE APPLICANT AND THE AGENT(S) OR REPRESENTATIVE(S).

10. ANY OTHER VERIFIABLE INFORMATION INCLUDING SOURCING OF RAW MATERIALS: .....

.....

I/WE HEREBY DECLARE THAT I/WE UNDERTAKE TO ACCEPT AND ADHERE TO THE GUIDELINES ON DEBT CONVERSION PROGRAMME IN NIGERIA.

DATE: ..... SIGNATURE: .....

N.B. ALL DOCUMENTARY EVIDENCE IN SUPPORT OF THIS APPLICATION MUST BE CERTIFIED BY A COURT DECLARATION OR A NOTARY PUBLIC.

GUIDELINES ON DEBT CONVERSION PROGRAMME FOR NIGERIA

1.1. Introduction

The Federal Republic of Nigeria has established a Debt Conversion Programme (DCP) and set up a Debt Conversion Committee (DCC) to implement the Programme

1.2 Objectives of the Debt Conversion Programme

1.2.1 To reduce Nigeria's external debt position by reducing the stock of outstanding foreign currency denominated debt in order to alleviate the debt service burden.

1.2.2 To improve economic environment attractive to foreign investors.

1.2.3 To serve as an additional incentive for the repatriation of flight capital.

1.2.4 To stimulate employment generating investments in industries with significant dependence on local inputs.

1.2.5 To encourage the creation and development of export - oriented industries thereby diversifying the export base of the Nigerian economy.

1.2.6 To increase access to appropriate technology, external market and other benefits associated with foreign investment.

1.3. Membership of the Debt Conversion Committee

The membership of the Debt Conversion Committee is as follows:

1.3.1	The Governor of the Central Bank of Nigeria	–	Chairman & Secretariat
1.3.2	Hon. Minister of Finance and Economic Development	–	Member
1.3.3	Secretary to the Federal Military Government	–	Member
1.3.4	Hon. Minister of Industries	–	Member
1.3.5	The Attorney General and Minister of Justice	–	Member

1.3.6 Hon. Minister of State for Planning & Budget, Office of the President — Member

1.4 Functions of the Debt Conversion Committee (DCC)

The primary functions of the Debt Conversion Committee (DCC) include the following:

1.4.1 To design and implement an efficient Debt Conversion Programme (DCP) in Nigeria;

1.4.2 To establish clear and concise approval criteria and procedures;

1.4.3 To review and approve applications and transactions within reasonably specified time;

1.4.4 To continually monitor and review the progress of the Programme and the investment projects approved under it.

1.5 DCP Guidelines

In what follows, guidelines covering rules and regulations, application, conversion and monitoring procedures for a Nigerian DCP are presented. The guidelines may be reviewed and amended from time to time by the Debt Conversion Committee (DCC) without affecting the status of previously completed transactions.

2. RULES AND REGULATIONS

2.1 Eligible Foreign Debt (s)

Debt that will be eligible for conversion shall be CBN dollar denominated Promissory Notes issued under the CBN Circular of 18th April, 1984, Promissory Notes issued by the Federal Ministry of Finance and Economic Development, any restructured debt under the Restructuring and Refinancing Agreements having a maturity of over one year and the Nigerian Investment Bonds. The decision to make any other class of debt eligible shall rest with the Debt Conversion Committee and will be taken in the light of developments under the DCP.

2.2 Eligible Transaction Categories

In the application of the naira proceeds from debt conversion, only four categories of applications would be entertained by the Committee. These are:

2.2.1 Conversion to cash for the purpose of making a gift/grant to Nigerian non-profit making entities such as educational institutions, charitable organisations, research centres and religious bodies.

2.2.2 Conversion for acquisition of naira denominated debt instruments issued by the Central Bank of Nigeria such as the naira notes, development stocks and other local debt instruments designed specially for the Programme.

2.2.3 Conversion for acquisition, expansion or recapitalisation of existing projects and/or companies in Nigeria and for financing investments in privatised enterprises. Expansion of existing enterprises can be in form of acquisition of non-voting shares, additional equities and irredeemable but convertible debentures/loan stocks with a floating interest rate tied to the rediscount rate.

2.2.4 Conversion for investment in completely new projects.

2.2.5 Shares, debentures/loan stocks and other debt instruments acquired with redemption proceeds should be put in the custody of a depository bank named by redemptor. Such shares/debt instruments could be traded and the traded and the proceeds from such sales, if not re-invested, should also be kept by the same depository bank for a minimum period of 10 years but subject to the remittance restriction clause of Section 2.8 (iv). The depository bank shall give the DCC an undertaking to hold the instruments/proceeds of sales (if any) in the line with the relevant Sections of the Guidelines.

2.2.6 Interest, income, profits/dividends arising thereof from such instruments should be paid into an interest earning account for the redemptor for a period of 5 years. In this regard, the redemptor will be required to execute dividends/profits mandate in respect of such shares in favour of his depository bank.

2.3 Priority within Eligible Transaction Categories

Within the eligible transactions stated in 2.2 above, the following economic activities will be given priority in the following order:

2.3.1 Investment in production processes based on at least 70 per cent local raw materials, especially in the development of agriculture and agro-allied industries, production for export and production of raw materials and other requirements of local industries.

2.3.2 Investment with high employment content.

2.3.3 Investment for extracting, exploiting and commercialisation of Nigeria's mineral, forestry, and other natural resources.

2.3.4 Investment that will seek to improve or use existing inventions and discoveries in Nigeria relating to new machinery, new products or new processes or with technology component appropriate or adaptive to the Nigerian situation,

2.4 Minimum Size of Transaction

In order to minimise administrative work, discourage frivolous applications and facilitate the supervision of, or surveillance over the projects in which the naira proceeds of debt conversion are invested in 2.2.2, 2.2.3 and 2.2.4 above, the minimum amount of debt to be considered under the Scheme shall be $0.25 million (one quarter of a million United States dollars) in the first instance and $25,000 (twenty-five thousand US dollars) in subsequent redemptions. In the case of conversion to cash for the purpose of making a gift/grant under 2.2.1 there shall be no minimum limitation.

2.5 Eligible Participants

All legitimate holders or assignees of designated debt(s) including Nigerians and foreign nationals whether corporate bodies or individuals, resident or non-resident, shall be eligible to participate in the debt conversion programme provided that the foreign exchange required for the purchase of promissory notes and/or other foreign debt instruments from an original or a previous holder originated from abroad and not from foreign exchange purchased from IFEM or in other way from Nigeria. The enterprise(s) financed with the redemption proceeds is (are)registered as Nigerian enterprise(s) under existing company laws at the time of transaction.

2.6 Volume Control

2.6.1 The debt conversion programme shall be consistent with the fiscal, monetary and other policies of the Federal Military Government by ensuring that the amount, timing and application of the proceeds of converted debt are in accordance with national priorities, especially the policies on inflation and acceleration of industrial and agricultural development.

2.6.2 To keep DCP within the framework of SAP, a volume control shall be applied in the form of annual and monthly ceilings. Such ceilings shall be kept under constant review in line with monetary, credit and other macro-economic objectives and development. Any conversion shortfall in one month may, at the discretion of the DCC be carried over and added to the following month's specified limit.

2.7 Protection of Foreign Investment

Any approved investment made from the proceeds of conversion under the Nigerian DCP shall be recognised as investment made in foreign currency like any other and accordingly will benefit from approved status, for the purpose of such matters as tax treatment and repatriation of dividends and capital subject to the remittance restriction clause in paragraph 2.8 below.

2.8 Remittance Restrictions

In order to ensure that the relief being sought through DCP is not frustrated and in order that the exercise does not result in giving preferential terms of repayment to an investing redemptor over other creditors contrary to the terms and conditions of existing debt rescheduling arrangements, the following limitations shall be placed on remittances of redemption proceeds and incomes arising thereof:

(i) Interest, income, profits/dividends, patent licence fees and other invisibles connected with approved projects under the DCP shall not be repatriated for a minimum period of five (5) years from the date of release of redemption proceeds for actual investment.

(ii) Interest and capital repatriation by the original holders in respect of restructured payable debt converted into naira notes with maturity of eighteen months shall not take place before the end of Dec., 1991

(iii) Any capital proceeds arising from subsequent disposal of the investment made under the programme cannot be repatriated for a minimum of ten (10) years after effective investment of the proceeds.

(iv) Repatriation of capital including off-shore cost after 10 years shall not exceed 20 per cent per annum.

2.9 Transaction Commission

A transaction commission payable in US dollars and equivalent to 2.5 per cent of the discounted value of the debt to be converted shall be payable to the Central Bank of Nigeria (CBN) by the redemptor. The US dollar commission shall be payable to CBN Account with the Morgan Guaranty Trust Company of New York or any foreign bank as may from time to time be designated by the CBN. However, commission on transactions for cash gifts/grants may be payable in Naira/US dollar.

2.10 Financing of Off-shore Costs of Projects

The naira proceeds of Nigeria's DCP shall be applicable only to the local cost of the project in which the investment is made. All off-shore costs of the DCP projects shall be provided by the redemptor. The ability to provide the off-shore cost shall be a condition precedent to any debt equity conversion. Such additional foreign capital investment shall be accorded all the privileges of foreign investment in Nigeria under existing laws.

2.11 Taxation of Profit and Dividend

Taxation of profit and dividend arising from approved DCP projects shall be in accordance with the existing tax laws in Nigeria at the time such profits and dividends are declared.

3. APPLICATION PROCEDURE

3.1.1 Prospective participants whether corporate or non - corporate, national or foreign must obtain the prior consent or approval in principle of the Debt Conversion Committee in order to qualify for participation.

3.1.2 All such applications shall be made to the Chairman of the Debt Conversion Committee at the Committee's Secretariat located at the Central Bank of Nigeria, Tinubu Square, P. M. B. 12194, Lagos.

3.1.3 The Secretariat shall acknowledge in writing or by attested cable to the applicant or his agent(s), the receipt of completed application within three (3) working days of the date of receipt of the application.

3.1.4 Application for approval in principle will be processed on case by case and on first come first served basis.

3.1.5 The Committee will meet as often as necessary to review and approve applications.

3.1.6 The approval or rejection of an application shall be communicated to the applicant and/ or his agent(s).

3.1.7 The Committee shall not be under any obligation to give reasons or justifications for approval or rejection of any application and its decision shall be final.

3.1.8 Incomplete or defective application(s) will be returned for modification; the applicant or his agent(s) will be required to submit additional information.

3.2 Required Information

The application to the Debt Conversion Committee shall contain the following information:

(i) Detailed identity of applicant and where applicable, detailed identity of agent(s) in Nigeria.

(ii) Information pertaining to applicant's business should include:
- nature and type of current business activity and particulars of incorporation.
- capital and volume of operations
- business conducted in or with Nigeria
- other investment/operations/activities in Nigeria; nature and volume of business intended to be conducted in Nigeria with proceeds of proposed conversion.

(iii) Previous experience, if any, in debt conversion with particulars of volume and nature of business done with profile of actual investment performance in other DCP countries (if any). Holders of debt restructured under agreements entered into with commercial banks and other financial institutions need not provide information on this.

(iv) Beneficiary or recipient of conversion proceeds and whether it is an existing organisation or a new company to be specifically organised for debt-equity conversion programme.

(v) In the case of foreign persons or entities, particulars of agent(s) or representative(s) in Nigeria. Copies of mandate/agreement between the applicant and the agent(s) whether a person or body corporate, certified by a court declaration or a notary public. Agreement must contain details of agents, including detailed instructions for handling and delivery of conversion proceeds.

(vi) Applications should be supported by relevant documents such as Certificates of Incorporation/Registration of the applicant if it is a corporate body, Certificate of Incorporation/Registration, Memorandum and Articles of Association of the beneficiary company, Feasibility Reports, Financial Statements, and other related documents. Copies of these documents should be duly certified.

(vii) Any other verifiable information or references which could facilitate decision making on the application.

(viii) Undertaking of acceptance of an adherence to the guidelines contained therein.

3.3 Interview

Should the need arise, the applicant and/or his agent(s) shall be invited for interview on the terms and conditions of conversion.

4. CONVERSION PROCEDURE

4.1 Auction

The method of debt conversion shall be by auction. On very rare occasions however, the DCC can, at its discretion, approve an application for conversion on its own merit and at a price determined by the weighted average of discounts offered by successful bidders at the most recent auction.

4.2 Eligible Bidders

4.2.1 All applicants who have received approval in principle or their agents are eligible to participate in auction(s) to bid for the amount offered by the Debt

Conversion Committee. The auction(s) shall be conducted as often as deemed necessary by the DCC. However, if an applicant fails to put in his bid after two auctions after receiving approval in principle, the approval will be deemed to have lapsed. An applicant who has received an approval in principle is not obliged to submit bid to convert the whole amount in a single auction.

4.2.2 A prospective redemptor who has received an approval in principle and wishes to participate in any of the auction(s) should have acquired/identified the promissory note(s) debt instrument(s) to be redeemed prior to the date of the auction(s).

4.3 Bid Schedule

Bid forms will be provided by the DCC Secretariat at the CBN, Tinubu Square, Lagos. The redemptor or his agent(s) shall submit only one bid for each application at an auction. Bid will be received up till 11.00 a.m. and the auction will take place at 12 noon on the day designated by the DCC. The auction date, amount to be offered for redemption, and relevant conditions will be announced ten banking days before the date of the award. Bid process will be handled by the DCC Secretariat.

4.4 Bidding

4.4.1 Bids will be delivered to the DCC Secretariat at the CBN and such bids will specify the discount offered as percentage of the face value of the debt to be redeemed, value of debt to be converted by the prospective redemptor and the particulars of the promissory notes/debt instruments to be redeemed.
4.4.2 The DCC Secretariat reserves the right to reject any irregular bid while failure to supply the particulars of the promissory notes/debt instrument(s) will lead to instant disqualification at the auction.

4.5 Award

4.5.1 Bids will be ranked in decreasing order of discounts offered. The right to redeem will be awarded by discount rank until the amount offered for redemption is exhausted. If two or more bids offer the same discount and the balance of the amount offered for conversion is insufficient to cover both, that balance will be distributed pro rata among the two or more bids in respect of offers at the same price. Award will be made to a successful bidder at his bid price (discount).

4.5.2 The DCC may set a reserve price above which no deal can be effected.

4.5.3 Redemptors or their agents will be informed of bid award by telephone or telex within 2 working days of the close of the auction.

4.6 Exchange Rate

The applicable exchange rate shall be the effective IFEM rate at the time of the auction and this shall be applied to the successful redemptor's bid price in the calculation of the naira proceeds.

4.7 Payment of Transaction Commission

Within 10 banking days of date of notification, the conversion commission due from successful bidders must be paid to the US Dollar Account of the CBN with the Morgan Guaranty Trust Company of New York or any foreign bank as may from time to time be designated by the CBN.

4.8 Cancellation of Redeemed Debt Instrument(s)

After the auction, the DCC will advise Chase Manhattan Bank, N.A. or the Accountant-General of the Federation, at the Federal Ministry of Finance and Economic Development to cancel the debt instruments of successful bidders and surrender them to the DCC. Where the amount of debt to be converted is less than the face value of the debt instrument(s) submitted for cancellation, the concerned agent shall issue a fresh debt instrument in the amount of the unredeemed balance to the redemptor.

4.9 Delivery of Debt Instrument for Cancellation

The redemptor(s) or agent(s) holding promissory notes, issued under the CBN Circular of 18th April, 1984, will deliver them to Chase Manhattan, N. A., N. Y. for cancellation. Those holding Promissory Notes issued by the Federal Ministry of Finance and Economic Development shall deliver them to the Accountant General of the Federation at the Federal Ministry of Finance and Economic Dvelopment, Lagos. If a redemptor fails to deliver the debt instrument(s) within fifteen working days of the auction in which his bid is successful, he shall not participate in subsequent auctions without the approval of the Debt Con-

version Committtee. Such redemptor shall therefore write to convince the Debt Conversion Committee why he could not take up the award.

4.10 Provision of Redemption Proceeds

Upon the confirmation of receipt of debt instrument(s) by the appropriate agent to the DCC, the CBN will provide the naira proceeds directly to a designated blocked account at the CBN. The redemptor or his agent and the beneficiary will be promptly informed.

4.11 Blocked Account and Release of Funds

Naira proceeds of converted promissory note(s)/debt instrument(s) will be kept in a blocked account at the CBN and released in tranches on application to the beneficiary's bank account according to the cash needs of the approved project(s) as approved by the DCC. However, naira proceeds of conversion to cash for gift to trusts and foundations may be invested in long-dated government debt instruments.

4.12 Issue of Shares, Debenture, Loan Stock and other Certificate(s) to the Redemptor

The Registrar of the company in which the redemption proceeds is invested shall on receipt of the first tranche of the naira proceeds of conversion, issue share/debt certificate to the redemptor in accordance with the price placed on the company's securities by the Securities and Exchange Commission of Nigeria. Such share/debt instrument certificate(s) should pass through the Debt Conversion Committee Secretariat to the depository bank of the redemptor.

5. APPROVED STATUS

5.1 Pursuant to the provision of Sub-section 14(2) of the (S)FEM Decree, the Central Bank of Nigeria shall issue a Certificate of Capital Importation in the usual way, and upon which the Industrial Development Coordinating Committee will in turn issue Approved Status Certificate.

5.2 In a similar manner, separate certificate of capital importation shall be issued for additional importation of foreign exchange either in cash or in the form of machinery and equipment, etc which constitutes the off-shore cost of approved debt conversion project.

6. MONITORING

6.1 Designated Beneficiary's Bank

The blocked conversion proceeds held at the CBN shall be released to the designated beneficiary's bank in amounts approved by the DCC from time to time. The beneficiary's bank shall open only one special account for every beneficiary into which funds released from the blocked account shall be credited for the prosecution of the approved project(s). The beneficiary's bank shall furnish the DCC with monthly reports on each debt conversion account operated by it. Such report shall include all the import and other foreign exchange transactions of the enterprise/company in which the redemption proceeds have been invested.

6.2 Access to Foreign Exchange

All such designated debt conversion account shall have no access to IFEM without the prior authorisation of the DCC. The enterprise/company in which redemption proceeds have been invested should lodge information about all their import and other foreign exchange transactions with the DCC.

6.3 Periodic Report by DCC

The Debt Conversion Committee shall submit to the Federal Government monthly, and quarterly reports highlighting the operations of the scheme and the operational problems encountered with recommendations for improvement in efficiency and effectiveness of the Programme. Periodic review and report shall be made on the projects financed with the proceeds of debt conversion.

6.4 Companies or organisations in which redemption proceeds have been invested shall submit annual report and audited accounts on their operations to the DCC. In addition, such companies or organisations may be required to render certain reports or returns to the DCC Secretariat as may be required.

6.5 Non–Compliance

6.5.1 Transactions in violation of the Guidelines stated herein or conditions set by the Debt Conversion Committee or against the laws of the country will be deemed null and void and will be subject to the penalties provided under the foreign investment laws of Nigeria and all relevant laws. Similarly, any diversion of naira proceeds or conversion into an unauthorised project may lead to immediate suspension of further releases.

6.5.2 Transaction not executed in accordance with the approval shall be null and void for the purpose of repatriation either of profit/dividend or capital.

6.6 Amendment to the Guidelines

The Debt Conversion Committee may set and modify execution procedures for controlling and supervising operations pursuant to the Debt Conversion Programme in accordance with the priorities of the Programme.

CENTRAL BANK OF NIGERIA
TINUBU SQUARE
LAGOS.

28/4/89

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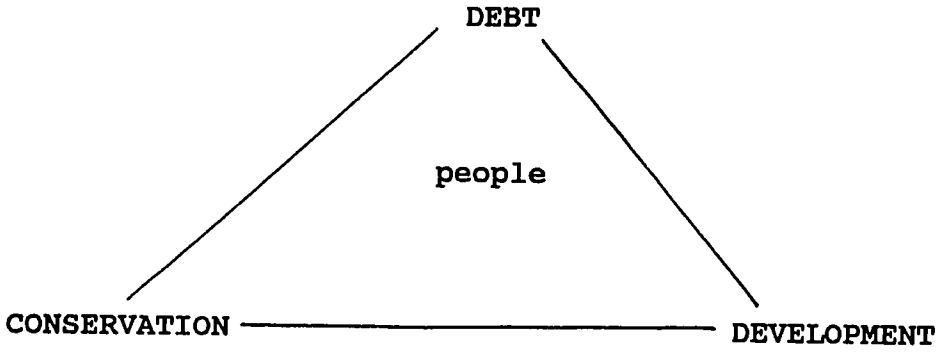

CONSERVATION IS FOR PEOPLE

When developing debt-for-nature programmes, consider that:

- they are only possible where strong conservation institutions exist in the debtor country.

- they must be fair and must be seen to be fair, that is, the interests of all parties involved must be taken into account.

Durant le processus de conception des programmes de "debt swap", garder toujours présent à l'esprit que:

- ils sont réalisables seulement dans les pays qui ont déjà des institutions de conservation bien implantées.

- ils doivent être établis dans un souci d'équité manifeste pour tous - c'est à dire que les intérêts de chacun des partenaires doivent être pris en considération.

Debt-for-nature programmes represent a remarkable opportunity not only for conservation, but also for strengthening ties between "developed" and "less developed countries" at a time when they are sorely in need of strengthening.

A une époque où les liens entre pays "développés" et ceux "en voie de développement" ont fort besoin d'être ressernés, les programmes de "debt for nature", outre leur avantage en matière de conservation, présentent également cette qualité bénéfique.

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Every Debt-forNature agreement must be crafted individually

Chaque accord de "debt for nature" doit être soigneusement personnalisé.

WWF Debt-for-Nature Swaps

December 1987	US$10 million debt swap with Ecuador (first instalment of US$1 million) to support management plans for protected areas, development of park infrastructure, acquisition of small nature reserves (through WWF's Associate, Fundacion Natura), training of park personnel, and broader environmental education activities.
March 1988	US$3 million debt swap with Costa Rica to expand, manage and protect established parks, and build up infrastructure for tourism and science. Guanacaste National Park project is one major beneficiary of the debt swap.
April 1988	US$2 million debt swap with Philippines (first instalment of US$390,000) to implement management plans, create buffer zones and infrastructure for parks, also support research and environmental education, training for community-level resource managers, and fellowships for graduate-level students in conservation-related areas. Funds to help government crack down on illegal trading and exploitation of wildlife resources, survey critical plant sites, and finalize plans for integrated system of protected areas.
April 1989	US$10 million debt swap with Ecuador (second instalment of US$5.4 million) to continue conservation efforts of existing projects and develop new ones. US$3 million dedicated to conservation work in the Galapagos, where WWF has been involved in conserving the island's unique species and ecosystems since 1961. Remaining proceeds (through WWF's Associate, Fundacion Natura) to strengthen existing parks and reserves, identify and establish new protected areas, and support training programmes.
August 1989	US$3 million debt swap with Madagascar (first instalment of US$2.1 million) to utilize conservation, education, and sustainable development methods, concentrating on the Andringitra and Marojejy reserves, and to protect six parks by training, equipping, and supporting a minimum of 400 guards.
August 1989	US$2.27 million debt swap with Zambia to help conserve and manage the Kafue Flats and Bangwuelu Basin - Zambia's and two of Africa's most important wetlands - support conservation education activities, alleviate environmental problems such as soil erosion, habitat degradation and depletion of wildlife, protect Zambia's remaining rhino and elephant populations, and strengthen local conservation institutions.

HOW TO STRUCTURE A DEBT SWAP DEAL

* Identify target country
* Coordinate activities with conservation organizations
* Explore areas of potential funding
* Determine how much hard currency is needed?
* Develop relationships with Banks that have experience with debt swaps
* Discuss the proposal with Ministers and other Environmental experts within the country
* Approach monetary authorities
* Develop contacts with banks

Comment structurer un accord de "debt swap"

* Cibler le pays
* Coordonner les activités avec celles des organisations de conservation
* Sonder des zones de financement possible
* Déterminer les besoins en devises
* Developper des liens avec des banques ayant une bonne expérience des "debt swap".
* Passer les propositions en revue avec les ministères et les éxperts de l'environnement du pays.
* Prendre contact avec les autorités monétaires.
* Développer des liens avec les banques

The five steps of a Debt/Nature Swap

1. Obtain approval, in principle, from the debtor country

2. Obtain the debt instrument

3. Transfer the title of the Debt

4. Debt conservation accordance with the debtor country's government

5. Execution of the agreed conservation programme

Counterparts and Their Roles

There are five counterparts of a "Debt-for-Nature-Swap":

- Local NGO
- International NGO
- Host Government

Other Parties (facilitators)

- Legal Advisors
- International financial institutions

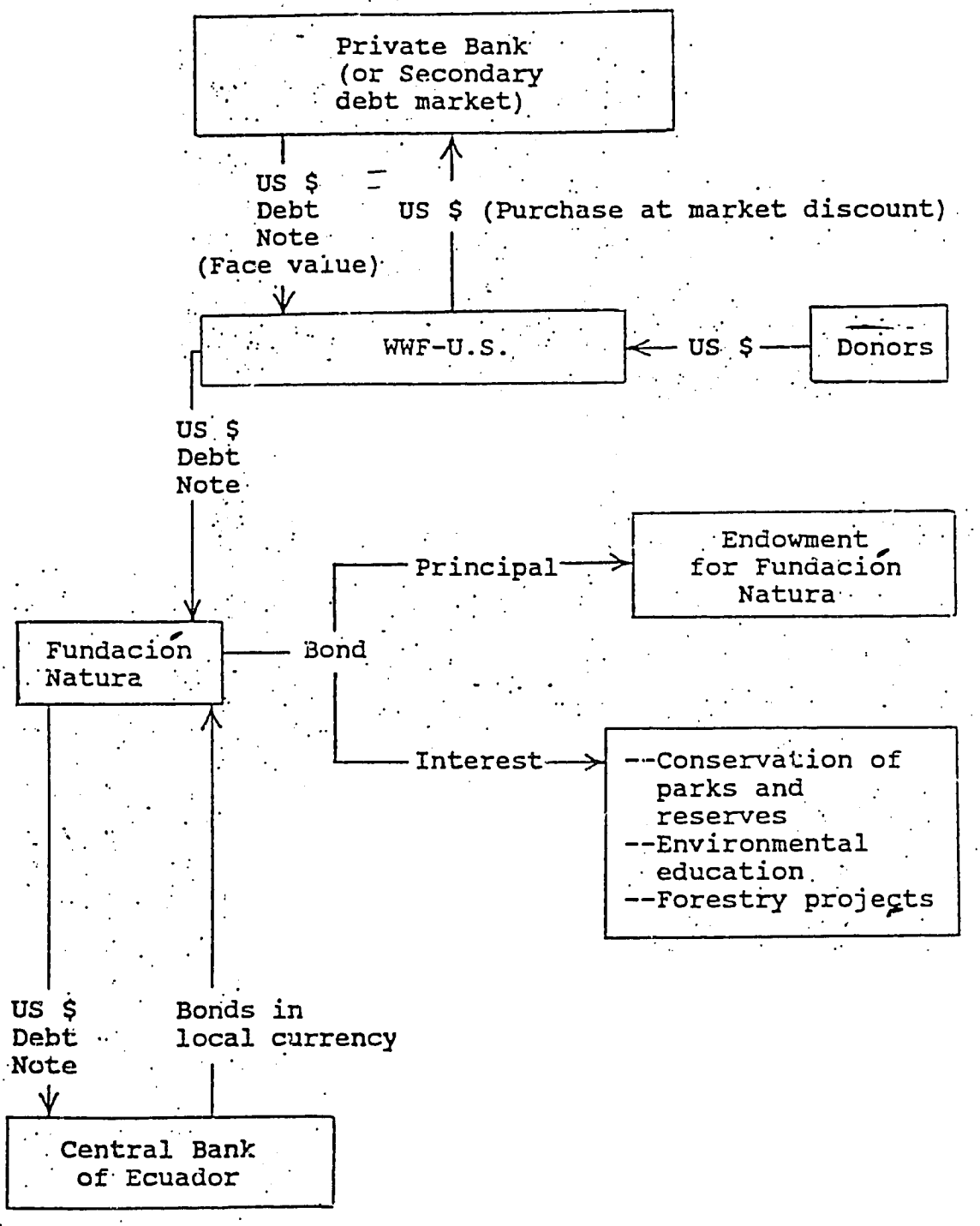
TARGET GROUPS OF BENEFICIARIES

The primary beneficiaries of a debt swap should be the people of the country concerned, in particular future generations for whom environmental resources must be conserved to provide the base on which future economic activity depends.

Why not convert a tropical nation's debt directly into support for conservation - that is, swap debt for nature

MECHANISM FOR ECUADOR--WWF

DEBT-FOR-NATURE SWAP*



*Based on the Sevilla Proposal: Financial Mechanisms for Conservation, by Roque Sevilla L., President, Fundación Natura, Quito, Ecuador (September, 1987).

SEVEN PRIORITY AREAS FOR ECUADOR'S
FIRST DEPT-FOR-NATURE SWAP

World Wildlife Fund

RATIONAL FOR DEBT-FOR-NATURE SWAP IN MADAGASCAR

- PROTECTED AREA ESTABLISHMENT AND MANAGEMENT:

  Specifically -

  * surveys and needs assessments
  * protected area management
  * agriculture (in pilot villages)
  * forestry and agroforestry (in selected areas)
  * environmental education and public awareness

- INSTITUTIONAL SUPPORT

- DEVELOPMENT OF INFRASTRUCTURE

- TRAINING

LOCALISATION DES AIRES PROTEGEES ET DES SITES D'INTERET BIOLOGIQUE

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MAROJEJY - OBJECTIVES

<u>The project will have seven components</u>

survey and needs assessment

institutional support

protected areas management

agriculture

forestry and agroforestry

education and public awareness

evaluation of public utilization and tourism in protected areas

PROTECTED AREAS MANAGEMENT

There are six protection and management objectives.

* Boundary demarcation
* Guard recruitment
* Guard training and provision of essential equipment
* Administrative infrastructure, accommodation, etc
* Installation of a viable communication system
* Development of a fire management plan

PROJECT TEAM

Technical Advisor

National Project Director

Animator

Forester

Agricultural Extension Agent

Public Awareness Officer

SURVEYS AND NEEDS ASSESSMENT

There are six surveys and needs assessment objectives, which are designed to give an integrated overview for future planning and activities:

* Analysis of forest cover and land use using aerial surveys and satellite imagery

* Socio-economic survey and needs assessment

* In-reserve zoning and potential utilization assessment

* Natural forest resource assessment outside protected areas

* Land tenure patterns and availability of land for project requirements

* Biological inventory and survey

AGRICULTURE

* Introduction of more intensive agricultural practices, particularly as an alternative to tavy cultivation

* Help improve quantity and quality of locally available crop and vegetable seeds

Improve or introduce irrigation schemes, as appropriate

* Locate all state and private land not currently under cultivation

* Help develop institutional capacities for agricultural and agroforestry extension

FORESTRY

* Support the MPAEF village reforestation programme in the vicinity of the two targetted protected areas

* Develop nurseries with demonstration plots in the target villages and ensure effective outplanting

* Introduce improved fruit, forage, anti-erosion and nitrogen-fixing tree varieties in the area

* Improve the quality and quantity of tree seed availability in the area

* Examine the use and production of indigenous forest species and establish standards for minor forest products utilization

* Examine native forest resource availability and provide advice on rational commercial exploitation of forests, outside of protected areas.

ENVIRONMENTAL EDUCATION AND PUBLIC AWARENESS

1. To generate public awareness of the need for sound environmental planning and natural resource utilization, on a national and local scale.

2. To generate local public awareness of the purpose of the Marojejy reserves complex, and its importance in local life and economy.

3. To create a schools environmental education programme in the region

4. To link project conservation and development programmes so that the need for such integration is locally perceived.

OUTLINE

DEBT, DEVELOPMENT AND CONSERVATION - IS THERE A LINK?

WHAT IS DEBT-FOR-NATURE

WHAT DO IT ?

PLANNING - WHAT NEEDS TO BE CONSIDERED

HOW TO STRUCTURE A DEBT FOR NATURE AGREEMENT

CASE STUDIES

WHERE IS IT FEASIBLE TO CONSIDER A DEBT SWAP ?

CONCLUSIONS

Plan

Dette, développement et conservation - Il y a-t-il un lien?

Qu'est ce que "debt for nature"?

Son importance

Planning - les facteurs à considérer

Comment structurer un accord de "debt for nature"?

Etudes de cas particuliers

Ou est-il réaliste de concevoir un "debt swap"?

Conclusions

Appendix

Debt-Equity Legislation by Country (English Translation)

Argentina

RESOLUTION 992 (Ministry of the Economy) Program for Converting Foreign Debt into Private Sector Investments--Empowered Authority--Repeal of Resolution 520/87.

Date: October 15, 1987
Publication: B.O. 10/28/87
Legal references: Law 21.382 (t.o. 1980); XL-C, 2585; D. 515/87; XLVII-B, 1577; R.520/87 (M. Ec.); XLVII-C, 2942.

(1) The Subsecretariat of Economic Policy of this Ministry is hereby designated as the authority with jurisdiction over the Program for Converting Foreign Debt into Private Sector Investment.

(2) The authority with jurisdiction [over said program] is hereby empowered to:

(1) Enact complementary regulations to carry out this program.

(2) Coordinate the actions of the different offices of this ministry with other national, provincial and municipal ministerial agencies.

(3) Solicit information from all types of public and private institutions, rulings and/or authorizations required in accordance with the characteristics of the [specific] investment proposal.

(4) Request waivers of possible rights as a condition to subscribing to the Program for Converting Public Debt.

(5) Approve investment proposals and/or declare them eligible.

(6) Set annual debt conversion quotas and quarterly or monthly quota places, pending approval of the Central Bank of the Republic of Argentina. Said quota places shall be set prior to the opening of bidding processes.

(7) Define the means for satisfactorily ascertaining the effective use of funds in the projects which are carried out, which [amounts] should be supplied by the banks involved and the investors as well as their timing.

(8) Apply sanctions in case of infraction and denounce such infractions before the controlling authorities when applicable, based on the specific activities carried out by the receiving company.

(3) If the last proposal to be awarded in a bidding call can only be partially covered, the Central Bank of the Republic of Argentina is hereby empowered to increase the quota amount or adjust the following [quota] in order to cover the respective investment.

(4) Investments aimed at the acquisition of new equipment, constructing new industrial plants or other projects which would result in increasing installed capacity with the objective of increasing the supply of goods and those aimed at improving the efficiency, productivity and supply of services shall be considered as eligible for consideration under the Program for Converting Foreign Public Debt.

Up to a maximum of 70% of the total cost of a [given] project, excluding imported equipment, may be financed with funds generated by the conversion of foreign public debt instruments; a minimum 30% additional investment in either foreign currency or australs, at the option of the investor, is required.

In addition to the specific requirements established by the Central Bank of the Republic of Argentina, the availability of funds generated by conversion shall be subject to [providing] proof of having supplied the additional funds in proportion to the intended disbursement.

Investments earmarked for the following are ineligible:

(a) Acquiring real property, either rural and/or urban, or for improvements. If this were required for the realization of a project deemed eligible in accordance with the foregoing, up to a maximum of 10% (ten percent) of the total cost of the project excluding imported equipment can be applied for both items.

(b) Buying quotas, stock and/or equity in companies or rights thereto or coupons.

(c) Financial investments, except the fixed deposit, which must be established with conversion funds.

(d) Acquiring personal property, including used machinery or machinery previously installed in other locations.

(5) The declaration of eligibility and the authorizations granted within the framework of Law 21.382 (t.o. 1980) are requirements to participate in the bidding process to be called by the Central Bank of the Republic of Argentina.

The empowered authority shall decide on the eligibility of investment proposals within 45 (forty-five) days following the receipt of all the information required by law.

The proposal shall be authorized in the same time period pursuant to the terms of foreign investment laws, based on whether Ministry of the Economy has exclusive jurisdiction or if approval had been previously obtained from other Ministries.

(6) Foreign Public Debt certificates shall be converted by means of public bidding procedures: the discount or minimum quotable commission expressed in a certain percent of the face value of the certificate being converted may be determined during such calls to bid.

(7) Capital ownership arising from converting Public Foreign Debt instruments may not be transferred to other investors until the completion of the third year after its establishment.

In cases when the owner of such capital is a foreign investor under the terms of Law 21,382 (Lo. 1980), the respective investment can only be repatriated in foreign currency beginning in the tenth year after its establishment; profits arising from such capital cannot be drawn in foreign currency prior to the conclusion of the fourth fiscal year of the company receiving [the investment]. If the company receiving [the investment] were to distribute profits prior [to this time] or if the foreign investor should transfer his ownership after the end of the third year, foreign currency can be acquired provided that fixed-term deposits in foreign currency are established at the same time in official banks for the period stipulated by existing restrictions.

(8) The approval of a project within the public foreign debt conversion framework impeded the company receiving [the investment] and the investors from benefiting from current or future national incentive plans, whether they be regional, sectorial or special, with the exception of those stipulated in Decree 515 of April 2, 1987 for the importation of capital goods provided that the pertinent authorizations are obtained.

(9) Investments made within the framework of the Program for Converting Public Foreign Debt must be recorded in the Registry kept by the empowered authority for this program.

(10) The empowered authority and the Central Bank of the Republic of Argentina shall regulate both the rules herein established in accordance with the respective jurisdictions and rules applicable to national investors.

(11) Consultations made by the empowered authority regarding these regulations to dependencies of this Ministry must be responded to within a maximum of 15 days after their receipt. Requests for additional information as applicable should be formulated within two days following the receipt of such requests.

(12) This resolution shall become effective on the day following its publication in the Official Gazette; Ministry of the Economy Resolution 520 dated May 29, 1987 is hereby repealed.

(13) This Decree shall be published, etc. Sourrouille.

RESOLUTION 492 (Ministry of the Economy) Program for Converting Foreign Debt into Private Sector Investments--Substitution of Art. 8 of Resolution 922/87.

Date: May 27,1988
Publication: Official Gazette 6/8/88
Errata: Official Gazette 6/15/88

Legal references: M. 992/87 (Ministry of the Economy); XLVII-D, 4377; D, 515/87; XLVII B 1577, Law 23,018; XLIII-D, 4015; Law 23,101; XLIV-D, 3738; D 906/83, XLIII-B; 1426; D 188/87; XLVII-A, 345.

(1) Substitute the text of Article 8 of Ministry of the Economy Resolution 992 of October 15, 1987 for the following:

Article 8. Those projects in which a company receiving current or future incentives at the national level, whether regional, sectorial or special, except those provided for in Letter (a) of this resolution, whether it is to receive or provide the investments in a project to be carried out under the regulations for converting public foreign debt shall not be declared eligible in accordance with these [same] regulations for converting public foreign debt.

(a) Not included in the limitation mentioned in this [Article] are those incentives established by the following regulations: Dec. 515 of April 2, 1987 for the importation of capital goods provided that the applicable authorizations are obtained, and Law 23,101 and its regulatory decrees, Law 23,018, Dec. 905/83, Dec. 168/87 and Dec. 1552/86.

(2) Projects whose maximum amount to be converted established in the declaration of eligibility is greater than US $20,000,000 shall participate in a public call to bid for the portions [amounts] arrived at in accordance with the following:

(a) Amounts between US$20,000,000 and US$40,000,000 are divided by the number of years the project is to last, counting as [one year] fractions greater than six months.

(b) Amounts greater than US$40,000,000 are divided by the number of six-month periods the project is to last, counting as [a six-month] period fractions greater than three months. The difference between the maximum amount to convert and the portion which will be submitted to bidding shall be committed to future quotas, in accordance with the investment schedule. The discount arrived at through bidding shall be applied to the total amount declared eligible.

(3) [In] projects awarded through public calls to bid under the Program for Converting Public Foreign Debt, the status of the project and the use of funds withdrawn from the fixed deposit should be certified before the Undersecretary of Economic Policy through an annual external audit and an additional [audit] upon completion of the execution of the project; said audits should be performed by recognized firms.

(4) This Resolution shall be published, etc. Sourrouille.

RESOLUTION 4 (Undersecretary of Political Economy) Program for Converting Foreign Public Debt into Private Sector Investments--Accrediting the Effective Use of Funds in Projects Awarded through Bidding

Date: January 19, 1988

Publication: Official Gazette 2/2/88

Legal references: R. 20/87 (Undersecretary of Economic Policy); XLVII-D, 4520.

(1) The effective use of funds in projects awarded through bidding procedures under the Program for Converting Foreign Public Debt into Private Sector Investments should be accredited by the investors and/or companies that receive the investment by means of providing the following documentation:

(a) Acquisition receipts and delivery confirmations.

(b) Verified copies of confirmed work [construction] certificates, signed by the professionals and other parties involved.

(c) Certified copies of reports and certificates issued by the [appropriate] public authority.

(d) Documents issued by public notaries in regard to construction and equipment.

(e) Others to be determined individually in case of the inadequacy of documents presented in the opinion of the empowered authority.

The aforementioned documentation may be substituted and/or complemented through verifications available through the empowered authority and/or the agencies to be determined officially or at the request of the investor and/or company being invested in.

(2) The proofs mentioned in the preceding Article should remain on deposit with the intervening bank and shall provide support for this bank's request for releasing the funds submitted to the Central Bank of the Republic of Argentina.

(3) The presentation of the supporting documentation mentioned in the first Article of this Resolution shall not be an essential requisite for withdrawing funds from the mandatory deposit the first time this is done. At this time, it will suffice to provide proof of having invested at least an additional 0.43 australs for each austral withdrawn in accordance with the provisions of Resolution 20 of this Undersecretariat dated November 4, 1987.

(4) The first request for the release of funds held in the mandatory deposit shall not exceed five percent (5%) of the value of the project adjusted in accordance with the provisions of Art. 10, letter (a) of Resolution 20 of this Undersecretariat of November 4, 1987.

(5) This Resolution shall be published, etc.-Sourrouille.

D.85/Public Debt
RESOLUTIONS (Ministry of the Economy)
Program for Converting Public Foreign Debt into Private Sector Investments--Complementary Measures Designed to Help Insure Due Compliance--Modification of Resolution 992/87.

Date: January 22, 1988
Publication: Official Gazette 2/2/88
Legal References: 21.382 (t.o. 1980); XL-C, 2585, Com. A 1109-87 (B.C.); XLVII-D, 4634; R.20/87 (Undersecretariat of Economic Policy); XLVII-D, 4520; R.992/87 (Ministry of the Economy); XLVII-D, 4377.

(1) Hereby empower the Undersecretariat of the Economic Policy, in its capacity as the empowered authority with jurisdiction over the Program for Converting Foreign Public Debt into Private Sector Investments, to sign a collaborative agreement with the National Development Bank *ad referendum* of this Ministry so that said Bank render technical assistance in relation to monitoring compliance with the herein mentioned program.

(2) Substitute Article 7 of Resolution 992 of the Ministry of the Economy dated October 15, 1987 with the following:

Article 7. Capital Ownership arising from the conversion of foreign public debt certificates may not be transferred to other investors until the lapse of the third year following its establishment.

If the owner of such capital is a foreign investor pursuant to the terms of Law 21.382 (t.o.1980), he may only repatriate his investment in foreign currency after the tenth year of investment; dividends on said capital may not be drawn until the end of the fourth fiscal year of the company receiving the investment. If the company receiving the investment distributes dividends before the stipulated time or if the foreign investor transfers his ownership after the end of the third year, foreign currency can be acquired provided that fixed-term foreign currency deposits are established concurrently with the National Development Bank for the effective period for the aforementioned restrictions.

(3) Non-compliance with the execution of a project awarded in public bidding under the Program for Converting Public Foreign Debt into Private Sector Investments shall be subject to the following provisions:

(a) Any suspension of work forming part of the Investment project or change in the total or partial destination of funds earmarked for said project shall constitute non-compliance with obligations.

(b) After proving non-compliance, the empowered authority and/or agency designated by the said authority shall advise the investor in order that the situation be regularized within a period of 10 days.

If this period lapses and [work on] the project has not been resumed, the [use of] funds have not been accredited or the reasons for the suspension not justified in the judgment of the empowered authority, this authority can rescind the operation as a matter of law, with no recourse whatsoever for the investor.

(c) In case of rescission, the investor should reimburse the amount corresponding to the funds received from the conversion within 10 days, including expenses and bank commissions, duly brought up-to-date in accordance with the indices determined by the empowered authority for the respective case.

The balance of the amounts still on deposit as a result of the conversion shall be reimbursed to the Central Bank of the Republic of Argentina.

After the charges are fulfilled, the investor shall receive the certificates that were the object of the conversion or others of an equal face value at the discretion of the Central Bank of the Republic of Argentina.

(d) Under sanction, the investor shall lose the right to receive interest earned by the converted certificate during the same period.

(e) Further, the empowered authority may impose the sanction of the investor of permanent disqualification from participating in future calls to bid carried out under the Program for Converting Public Foreign Debt into Private Sector Investment. This sanction may be further applied to the directors and/or managers and/or partners of the investor or of the company receiving the investment.

Further, accounts shall be rendered to the Central Bank of the Republic of Argentina so that this Bank analyze the role of the intervening bank.

The sanction of disqualification shall be recorded in the Codex Registry created pursuant to Resolution 20 of the Undersecretariat of Economic Policy dated November 4, 1987.

(f) The sanctions set forth in this Article shall be applied without prejudice to those established by the aforementioned Bank in Com. A 1109 for cases of non-compliance with a conversion.

(4) This Resolution shall be published, etc.--Sourrouille

BULLETIN A 1109 (Central Bank)
Program for Converting Public Foreign Debt--General Guidelines for Converting Foreign Liabilities into National Private Sector Investments--Repeal of Bulletins A 1035/87 and A 1059/87.. TINAC Circular 1-81 and CAMEX [Circular] 1-142.

Date: October 27, 1987
Publication: Department Circular
Legal references: Bul. A 1035/87 (Central Bank); XLVII-C, 3197, Bul. A 1059/87 (Central Bank); XLVII-C, 3211; Law 21.382 (t.o. 1980); XL-C 2585; Bul. A 980/87 (Central Bank); XLVII-A 475; Res. 992/87 (Ministry of the Economy); V.P. 4377; OPRAC Circular 1; Bul. A 49/81 (Central Bank); XLI-C 3275.

To the Financial Entities:
Ref: Distribution: TINAC 1-81, National Public Certificates and CAMEX 1-142, Exchange Transactions and Movements of Funds and Securities Abroad.

We hereby inform you, and through you the interested sectors, that this Bank has resolved to modify the general regulations made public in Coms. 1035 and 1059 governing the conversion of foreign liabilities into national private sector investments. The new general regulations governing the Program for Converting Public Foreign Debt, in accordance with all the other applicable general and special rules, are attached hereto as a rider. In consequence, Coms. A 1035 and 1059 are revoked.

With our cordial greetings--Central Bank of the Republic of Argentina - Salama - Peroni.

Rider to Bulletin A 1109

Program for Converting Public Foreign Debt

CHAPTER I: Requirements for the presentation of the private investor before the Central Bank of the Republic of Argentina.

I.1. Have an investment project which has been formally declared eligible by the empowered authority for purposes of the Program for Converting Public Foreign Debt and which has been duly authorized, when applicable, in accordance with Law 21.382 (t.o. in 1980).

I.2. Make a debt conversion offer. Said offer shall include the nominative value of the convertible liabilities and the proposed conversion discount or commission, expressed in a given percent of the afore-mentioned face value.

The total cost of the project may be financed with funds generated by the conversion of foreign public debt, up to the maximum amount calculated by applying the provisions contained in Art. 4 of Ministry of the Economy Res. 992 in accordance with the procedure determined by the empowered authority.

Title holders of convertible public foreign debt may present said obligations and instruct this bank to deposit the funds generated from the conversion to the account of an investor with an approved project, awarded in open bidding, pursuant to [obtaining] proof of the investor's agreement [to do so].

I.2.1. Argentine public sector foreign liabilities eligible for conversion are the following:

Bearer bonds denominated in United States dollars. Argentine government obligations in US dollars. Argentine government internal obligations in US dollars.

Republic of Argentina Foreign Bonds.

Argentine government foreign loans.

Credit and deposit terms of amounts currently on deposit with the Central Bank of the Republic of Argentina.

Central Bank obligations in United States dollars.

Central Bank internal obligations in United States dollars.

Medium-term loans granted to the Central Bank of the Republic of Argentina.

Other Central Bank of Argentina foreign obligations.

Refinancing contracts guaranteed by public debtors.

Other public sector foreign debt (excluding short-term trade debt and credits granted or guaranteed by non-Argentine official agencies.

I.2.2. Debt shall be eligible for conversion provided that, based on the loan documentation applicable to said debt, the conversion does not result in any advance-payment obligations or infringe upon any other

provision set forth in the loan contract.

Obligations for which the exchange for public certificates in payment or guarantee [thereof] is requested within the dates established by this Central Bank shall only be convertible upon completion of the regularization process and upon fulfillment of the requirements for setting [said exchange] into motion.

I.2.3. In order to convert certificates or promissory notes given in guarantee of private sector debt, the investor must previously accept the portion offered for conversion in payment of said amount, the private foreign debt thereby being paid, thereby also canceling the [respective] foreign debt records.

I.2.4. Alternate ownership instruments issued by virtue of the provisions of the 1987 financing plan shall become eligible for conversion eight years after said instruments are issued.

I.2.5. Amounts representing less than the sum total of obligations or certificates presented by the investor may be invested. The portion of the debt which is not invested must maintain the same maturation schedule as that of the debt presented for conversion.

Investors submitting bearer certificates for capitalization--Argentine government obligations in US dollars, Central Bank obligations in US dollars or Bearer Bonds in US dollars--whose value exceeds the amount granted, shall receive obligations in US Dollars from the Argentine Government or the Central Bank of Argentina in same type--payment or guarantee--as the original liability.

The issue date of the aforementioned certificate shall coincide with the conversion date; certificate conditions and terms shall be established in accordance with the Republic of Argentina's 1987 Financing Plan.

The certificate shall be issued to the order of the creditor designated in the presentation.

To convert bearer certificates or promissory notes which were promptly issued in payment or which, being held in guarantee, were received in payment by virtue of participating in the conversion program, a letter of payment from the creditor to the order of the entity that issued the obligation must be submitted.

Said letter of payment shall also be callable in case of debt conversion offers not realized in certificates. In this case, the debtors shall also return the sworn debt statements when the conversion is for the full amount, or the corresponding portion in case of a partial conversion.

I.2.6. The part of the investment financed through the conversion of foreign debt is not eligible for the program set forth in Bul. A 980.

I.3. Establish a conversion guarantee in accordance with the following procedures to be complied with by the investor:

I.3.1.1. Amount: Equal to 1% of the face value of the convertible debt stated in australs at the purchaser exchange rate at the close of operations of the Argentine National Bank on the free exchange market on the working day prior to the establishment of the guarantee.

I.3.1.2. Date of establishment: Up until three working days prior to the date of the public bidding mentioned in Chapter II.

I.3.1.3. Payment: [An amount equal to the] fluctuations shown by the financial indices prepared by this Bank (Point 3.1.2. Chapter II, OPRAC Circ. 1, text as per Bul. A 1097) or that which replaces it, between the fifth day before the deposit is established and the fifth day before each of the applicable payments. Adjustments shall be deposited at the time of each payment.

I.3.1.4. The deposit mentioned in Point I.3.1. shall be transferred to the Central Bank of the Republic of Argentina on the day it is established.

I.3.2. Bank guarantee:

I.3.2.1 Amount: Item Point I.3.1.1.

I.3.2.2. Date of establishment: Item Point I.3.1.2.

I.3.2.3. The investor shall offer an adjustable bank guarantee granted by a bank authorized to carry out Class C exchange transactions under the conditions and based on the index applicable for bank guarantees.

CHAPTER II: Evaluation procedure and selection of requested conversions.

II.1. Offers shall be evaluated and selected through public calls to bid, for which each offer shall be classified on a point system depending on the value of the conversion discount or commission offered, expressed in a given percentage of the face value of the debt to be converted.

In case two or more bids offer the same discount or commission percentage, preference will be given to the project that offers to cover a smaller percentage of the total amount of same with funds generated from the conversion of public foreign debt.

II.2. Number of conversions:

II.2.1. Conversions should be carried out on one occasion for projects involving the conversion of face value amounts of up to US$2,500,000 or the equivalent in other currencies at the exchange rate in effect on the third working day before the date of the call to bid.

II.2.2. Up to three conversions, the first of which should be equal to at least US$2,500,000 will be permitted for projects involving the conversion of face value amounts greater than US$2,500,000 or the equivalent in other currencies at the exchange rate in effect on the third working day before the date of the call to bid.

II.2.3. The length of time to lapse between each phase of conversion may not exceed 12 months.

II.3. In order to participate in the call to bid, the interested parties should submit the following documentation through a local bank authorized to carry out Class C exchange transactions:

II.3.1. A certificate issued by the empowered authority providing evidence of compliance with the requirements stated in Point I.1. of this Bulletin.

II.3.2. A formula containing itemized account of the submitted proposal, including the conversion commission or discount offered.

Other information this formula should include:

• Certification from the intervening bank of the establishment of the conversion guarantee (deposit or bank guarantee);

• Commitment of unconditional acceptance of the regulations established in this Bulletin and of those established by the empowered authority for converting public sector liabilities; and

• Option of an alternative for payment of the funds to be invested in accordance with that which is set forth in Point III.2. of this Bulletin, in case the proposal is definitely accepted.

The investor's participation in all phases of this program shall be through a sole local intervening bank. The Central Bank may authorize a change of intervening bank when, in its judgment, reasons are cited in justification thereof.

II.4. The Central Bank of the Republic of Argentina shall make known the results of the call to bid within a period of four working days from the date of [said call to bid], making known to the intervening bank the conditional award or rejection of the proposals.

In the event of a definitive rejection of a proposal, the [respective] guarantee shall be released within five working days of said rejection. An exception is made to that which is established in this paragraph for the cases mentioned in Chapter V.

Conditional awards shall be finalized subsequent to an examination by this Bank of the debt that is eligible for the first conversion in accordance with that which was agreed.

Title holders of conditionally awarded proposals and those who present obligations to be converted with instructions to credit the funds generated to the account of awardees of a call to bid must submit the documents representing the debts along with the respective formulae to the Treasury Department, Office of the Treasurer within 15 working days from the date the intervening bank as stipulated in the first paragraph of this point receives notice.

The Central Bank shall make known the definitive award of proposals within six working days following this presentation, except in the case of debts in the process of being documented in instruments.

In case it is verified that certificates are not eligible for conversion, the Central Bank shall inform the intervening bank of this situation and shall grant the investor 10 additional working days from the date of notice to correct the irregularities observed, or if applicable, to submit new instruments. The Central Bank shall provide an additional period of six working days to definitively accept or reject the proposal, except in the case of debts pending documentation in instruments.

If the investor should fail to comply with any of the terms stipulated in this Point, the Central Bank is authorized to definitively reject the proposal, without prejudice to the application of the measures for non-compliance stipulated in Chapter V.

In case of partial conversions, the [respective] certificates shall be examined each time; for this purpose, the investor must submit the debt documents for the second and third conversion within 25 working days prior to the conversion date, and the terms stipulated in this Point shall be in force.

CHAPTER III: Conversion and application of funds.

The Central Bank shall undertake the conversion of obligations net of the accepted commission or discount on the third working day after the intervening bank is notified of the definitive bid award. In order to calculate the amount in australs which will definitely be credited to the investor, the free market purchase exchange rate in effect at the close of Argentine National Bank operations on the working day preceding the conversion date shall be used.

Interest earned as of the conversion date by the converted obligations shall be paid at the current interest rate, calculated based on the contractual nominal interest rate.

The austral amount arising from the conversion mentioned in the first paragraph of this chapter shall be

applied to the establishment of a deposit through the local intervening bank to the account of and in the name of the Central Bank of the Republic of Argentina; [this deposit] shall have the following characteristics:

III.1. Ownership: The investor. [The investor] may transfer ownership of the total balance of the aforementioned deposit to the entity receiving the investment, the latter assuming the obligations associated with the regulations governing such deposits.

III.2. Payment: The investor's option.

III.2.1. [An amount equal to] the fluctuation shown by the financial indices prepared by this Bank (Point 3.1.2. Chapter II, OPRAC Circ. 1, text as per Bul. A 1097) or that which replaces it, between the fifth day before the deposit is established and the fifth day before each of the applicable payments. Adjustments shall be deposited at the time of each payment.

III.2.2. [An amount equal to] the fluctuation of the free market purchase exchange rate in effect at the close of Argentine National Bank operations between the working day preceding the constitution [of the deposit] and the working day before each payment. For each six-month period beginning on the date the deposit was established, an additional amount equal to the yearly six-month LIBOR rate applicable to deposits will be added [to the fluctuation amount]; this rate shall be calculated by the Central Bank based on the arithmetic mean (rounding down or up as appropriate to arrive at the whole multiple closest to 1/100 of 1% per annum) of the rates reported by the representative banks for the aforementioned time period at 11:00 a.m. of the second working day immediately preceding the beginning of each six-month period.

Interest mentioned in Point III.2.2 shall include the time lapsed between date the deposit is established and each payment date. This interest shall be based upon the application of the following formula:

$$I = [(1 + i)\ n/m - 1]\ 100$$

I: Effective six-month interest rate.

i: Six-month interest rate applied in a given percentage.

n: Number of days actually passed in six-month period.

m: Number of days actually existing in six-month period.

Adjustments and interest shall be deposited at the time of each payment.

III.3. The deposit mentioned in this chapter shall be legally established with this Central Bank at the time of conversion.

III.4. The establishment of the deposit mentioned in the preceding Points shall result in the cancellation of the converted obligation on the date this deposit is established.

III.5. Funds generated by a conversion (deposit, Point III.1) shall only be released totally or partially after the application of the complementary investment project, in the proportion established by the empowered authority for this purpose.For the sole purpose of calculating this requirement, the amount of complementary investments shall be adjusted according to the index selected for paying the deposit as mentioned in this chapter.

III.6. Release of deposits: The local intervening bank shall request that the Central Bank release the funds on deposit after providing proof of compliance with the phase scheduled for the immediately preceding period in accordance with the investment plan. For this purpose, the empowered authority shall establish procedures for satisfactorily proving that the investment was made.

Further, compliance with the requirement set forth in Point III.5 should also be verified.

III.7. Release of the Conversion Guarantee. The Conversion Guarantee mentioned in Point I.3 shall be released following authorization from the Central Bank of the Republic of Argentina, in a proportion equal to the percentage [actually] converted of the total nominal value of the debt to be converted.

CHAPTER IV: Responsibilities of the local intervening bank.

The intervening banks shall be responsible for releasing the fixed deposit upon receipt of proof of project advancement and for pro-rating the funds actually used in said project.

The local intervening bank shall open a file for each project, in which it shall keep all vouchers related with the execution of the investor's obligations.

Further, [the intervening banks] shall inform the empowered authority of the status of each project and the Central Bank of the Republic of Argentina, with each request for authorization to release funds pertaining to deposits established pursuant to the provisions of Chapter III, of the release of funds by virtue of having on record in the file mentioned in the preceding paragraph proof of compliance with the required conditions.

CHAPTER V: Cases of non-compliance.

V.1. Non-compliance with the first or sole conversion. The following shall constitute non-compliance with the conversion:

V.1.1. The investor's offer has been conditionally awarded, but he does not present the obligations to be converted in the designated time period.

V.1.2. Documents representing a debt are not, in the opinion of the Central Bank, suitable to be converted following the second presentation mentioned in Point II.4.

In these cases the investor shall lose the conversion guarantee. The award shall become null and void, and when applicable, the document representing the debt shall be reinstated to the owner.

V.2. Delinquency in conversions subsequent to the first. In cases in which second and third debt conversions were offered and such [subsequent] conversions can not be carried out on the scheduled dates because of failure of the investor to submit the obligations to be converted within the designated time period, the conversion deposit or guarantee shall be forfeited in an amount equal to the percentage of the debt not converted in relation to the total amount of the commitment. The time periods stipulated in Point V.1. should be considered for this purpose.

V.3. Default on conversions subsequent to the first. Default on conversions subsequent to the first shall be understood when more than 60 days have elapsed since the last day scheduled for conversion in the original proposal. The sanction established in Point V.1 shall be applied in these cases.

V.4. Non-compliance with the project. In case of non-compliance with the project, the sanctions determined by the empowered authority shall be applicable.

In all cases the application of the measures set forth in this chapter shall be evaluated by the empowered authority and the Central Bank of the Republic of Argentina, who shall take into consideration possible justifications.

CHAPTER VI: General considerations.

VI.1. Conversion of debts into currencies other than the US dollar. The amount of the debt to be converted should maintain its US dollar value determined by the offers received in the call to bid at the exchange rate based on the US dollar quoted on the working day prior to presentation to the Central Bank of the Republic of Argentina of the instruments representing the debts. Should any of these instruments be rejected, the [rate to be used shall correspond to that quoted on the] working day before the second presentation.

Conversion into australs of accepted offers shall be carried out at the free market purchase exchange rate for the respective currencies in effect at the close of Argentine National Bank operations on the working day preceding the conversion date.

VI.2. Other considerations:

The regulations applicable to debts with exchange guarantees or exchange futures wherein advanced payment is offered for conversion shall be dealt with separately. The conversion of such debt shall always occur subsequent to [both] the acceptance date for advanced payment and to the actual payment.

Cases which have not been covered by or do not exactly conform to the regulations of the Program for Converting Public Debt shall be decided on by the Central Bank of the Republic of Argentina, based on analogy and in accordance with the general principles for converting debt into investment established in the Republic of Argentina's 1987 financial plan.

Bolivia

REGULATIONS FOR ISSUING INVESTMENT BONDS
I. DEFINITIONS

Foreign Debt:

Is public debt which is due or about to fall due [owed by] the Central Bank of Bolivia (BCB) or the Bolivian government to private foreign creditors.

Investment Bonds:

Are bonds to be issued by the BCB for foreign debt swap and which can be used for investments in Bolivia in accordance with the provisions of Article 43 of Supreme Decree 21660 dated July 10, 1987.

Agent of the Central Bank of Bolivia:

Is the company contracted abroad to receive and swap public debt for investment bonds, record these transactions, remit all debt instruments to the BCB and comply with all other functions assigned to it by this Regulation, in addition to all of the functions named in Article 11 of the "Refinancing Agreement" on behalf of the BCB.

Refinancing Agreement:

Is the agreement dated April 29, 1981, between the Republic of Bolivia and the Central Bank of Bolivia, the original debtors, the Bolivian banks and the Bank of America N.T.E.S.A. as the banks' coordinating agent.

New Shares:

Are the shares issued to constitute the capital of new companies or to increase the capital of existing companies participating in the investment bond conversion program. The nominal aggregate value of "New Shares" for each investment shall necessarily be [equal to] the "Amount of Investment."

Amount of Investment:

Is the base price equal to the redeemable value of the investment bond and the premium [thereon].

Base Price:

Is the price per dollar of capital of "Foreign Debt" offered by the Government of Bolivia under the repurchase program [which was] agreed with foreign commercial banking based on the February 17, 1987, amendment to the "Refinancing Agreement."

Investment Certificate:

Is the certificate issued by the Central Bank of Bolivia to back "New Shares." This certificate has no commercial value, is not transferable or endorsable, cannot be split or pledged and shall only be used by the shareholder so that he may exercise his rights as a shareholder. This certificate will be exchanged for the "New Shares" five years after the date the investment certificate is issued.

The Schedule:

Is contained in Exhibit II attached to this Regulation, and shows the capitalization values of the bond in US dollars, beginning with its initial value which is equal to the "Base Price" and concluding with the nominal value at 25 years of the capital of the foreign debt swapped for bonds. These bonds shall be capitalized on a half-yearly basis.

Premium:

Pursuant to the provisions of Supreme Decree 21660, when bonds are invested in accordance with the guidelines set forth in this Regulation, there will be a premium equal to 50% of the "Base Price" established at the beginning of the program as per the "Schedule."

II. CHARACTERISTICS OF THE INVESTMENT BOND

ART. 1:

"Foreign Debt" may be swapped for "investment bonds." Further, foreign debt of Bolivian private banking institutions may be swapped for "Investment Bonds," the amounts of which have been deposited in or to the account of the Central Bank of Bolivia in local currency.

ART. 2:

The investment bonds shall be issued in two series: "A" and "B." The "A" series will be used for swapping Foreign Debt of the Bolivian Government, nonfinancial state-owned companies, the Central Bank of Bolivia and state-owned or mixed banks. The "B" series will be used for swapping Bolivian private banking foreign debt.

ART. 3:

If the [respective] debt had been contracted in a foreign currency other than the US dollar, it shall be converted into US dollars at the average supply and demand exchange rate for cash established by the New York Federal Reserve Bank at 10:00 A.M. on January 15, 1988, for purposes of repurchasing [said] debt.

ART. 4:

Series "A" and series "B" investment bonds shall have the following general characteristics:

a) They shall be nominative;
b) They shall be transferable;
c) They can be split;
d) They shall be printed in accordance with internationally used safety standards;
e) They shall be duly numbered in series;
f) They shall incorporate safety elements to help protect against falsification;
g) They shall be guaranteed with international bonds; and
h) They may be used for investments in Bolivia in accordance with [the provisions of] this Regulation.

ART. 5:

Series "A" investment bonds shall have the following special characteristics:

a) Their nominal value shall be expressed in Bolivian currency at a fixed value. The minimum value of the investment bond shall be an amount equal to fifty thousand US dollars (US$50,000) at the official exchange rate on the issue date;

b) Their nominal value at the exchange rate on the issue date shall be equal to the amount of capital of the debt swapped in US dollars;

c) They shall be redeemable beginning on the first working day of the sixth year after the issue [date] in accordance with the "Schedule;" and

d) Any individual or legal entity who opts to redeem his/its investment bond prior to maturity and who wishes to acquire US dollars may [do so] through the official currency exchange market.

ART. 6:

Series "B" investment bonds shall have the following special characteristics:

a) Their nominal value shall be expressed in US dollars;
b) Their minimal nominal value shall be fifty thousand US dollars (US$50,000);
c) Their nominal value in US dollars shall be equal to amount of capital of the debt swapped in US dollars;
d) They shall be redeemable beginning on the issue date in accordance with the "Schedule."

ART. 7:

The exchange of foreign debt for investment bonds shall constitute full payment in accordance with the Law under which the "Foreign Debt" was contracted. Consequently, the original debt shall be fully settled, as well as all interest accrued or to be accrued, interest on interest, commissions, surcharges and/or any other charges inherent to phe debt or to its service.

ART. 8:

Investment bonds may be transferred through endorsement. All transfers must be registered with the Central Bank of Bolivia on the reverse of the bond certificate. Only those transfers that are in compliance with this requirement shall be legally valid.

ART. 9:

In case of a bond split, the split shall be carried out through the voiding of the original certificate and its subsequent substitution by other certificates with a lower face value but with the same aggregate nominal value. The new bonds shall be issued to the order of the original holder. Series "B" bonds may be split up to a minimal nominal value of fifty thousand US dollars (US$50,000) and series "A" bonds up to an amount equal to fifty thousand US dollars (US$50,000) at the official exchange rate.

ART. 10:

For series "A" bonds, beginning on the first working day of the sixth year from the issue date, upon presentation [of a bond certificate] the Central Bank of Bolivia shall redeem [said bond] for the equivalent in Bolivian currency at the official exchange rate of the amounts stated in the "Schedule" in US$ dollars, with the exception of that which is established in Articles 44 and 45 of this Regulation.

ART. 11:

For series "B," beginning on the issue date of [a given] investment bond, upon presentation [of the bond certificate] the Central Bank of Bolivia shall pay in US dollars stated in the "Schedule."

ART. 12:

The Central Bank of Bolivia shall deposit a guarantee covering the "Base Price" of the foreign debt swapped for investment bonds in a first-class international bank located abroad. Said guarantee, which shall be comprised of first-class international investment instruments (AAA/Aaa bonds), will insure payment of the investment to the investor at the maturity date. In cases when the amount of a collateral does not cover the redemption value of [a given] investment bond, the Central Bank of Bolivia itself guarantees to cover any differences arising from the redemption of said bond prior to its maturity date.

III. SWAPPING PUBLIC DEBT FOR SERIES "A" INVESTMENT BONDS

ART. 13:

The swap of "Foreign Debt" for "Investment Bonds," shall be carried out by the creditor by means of submitting to the Central Bank of Bolivia or the "Agent of the Central Bank of Bolivia" all related foreign debt documents, necessarily including those representing capital, interest accrued or to be accrued, interest on interest, commissions, surcharges and/or any other charges inherent to the debt or its service, along with a sworn declaration from the creditor providing evidence of that which is set forth in Article 7 above.

ART. 14:

As of the time the swap takes place, the "Agent of the Central Bank of Bolivia" shall be responsible for the total settlement and payment of the foreign debt pursuant to the provisions of Article 7 above.

ART. 15:

When all of the debt documents are submitted, the creditor shall receive the respective series "A" investment bond.

ART. 16:

In accordance with the provisions of Article 12 above, and simultaneous to the submission of the investment bonds, the Central Bank of Bolivia shall deposit AAA/Aaa bonds in a fiduciary account in a first-class international bank. The [amount of the] bond deposit shall cover the base price of the debt swapped for investment bonds.

IV. SWAPPING DEBT OF A BOLIVIAN PRIVATE BANK FOR SERIES "B" INVESTMENT BONDS

ART. 17:

The swap of a Bolivian private bank's foreign debt for investment bonds shall be carried out by exchanging at par deposits in local currency made by said bank in the Central Bank of Bolivia for investment bonds, pursuant to Supreme Decrees 19249 of November 3, 1982; 20028 of February 19, 1984, and 20173 as of April 14, 1984.

ART. 18:

The Superintendent of Banks shall certify compliance with the legal requirements that validate the deposits made by the Bolivian private bank in the Central Bank of Bolivia.

ART. 19:

Banks that obtain a favorable decision from the Superintendent of Banks in regard to the legal validity and legitimacy of the deposits mentioned in the preceding Article may then follow the procedures for swapping said deposits for bonds from the Central Bank of Bolivia pursuant to the conditions set forth in Article 49 of Supreme Decree 21660 of July 10, 1987. In order to do so, [said banks] shall sign, in a legally binding fashion, a document drawn up by the Central Bank of Bolivia from all liability relating to any obligation whatsoever arising from or associated with the aforementioned deposits.

ART. 20:

If any legal actions against the Central Bank of Bolivia should exist in regard to the aforementioned deposits, these actions or the rights arising therefrom shall be expressly renounced or waived by the claimant, considering as fully paid and settled the Central Bank of Bolivia's obligations to disburse foreign currency equal to the amount deposited therein, including interest accrued or to be accrued, interest on interest, commissions, surcharges and/or any other charge inherent to the deposits.

ART. 21:

Any bank that participates in this program shall receive series "B" investment bonds in accordance with Article 17 above, for a nominal value equal to the value in US dollars of the original deposit made by said bank in the Central Bank of Bolivia upon compliance with the provisions of the aforementioned legal regulations.

ART. 22:

In accordance with that which is set forth in Article 12 above, and simultaneous to the submission of series "B" investment bonds, the Central Bank of Bolivia shall deposit AAA/Aaa bonds in a fiduciary account in a first class international bank. The bond deposit shall cover the base price of the deposits in the Central Bank of Bolivia swapped for investment bonds.

ART. 23:

In case of a Bolivian private bank that has outstanding debt with foreign creditors at December 31, 1987, that does not exercise the right granted by this Regulation, the Executive Branch shall negotiate it at the "Base Price," subject to the creditor's agreement and up to an amount equal to the amount of the deposit duly made in the Central Bank of Bolivia or to its account.

V. CONVERTING INVESTMENT BONDS INTO INVESTMENTS WITH PREMIUMS

ART. 24:

Series "A" and "B" investment bonds may be used to the following purposes:

a) To constitute the capital of new private or mixed companies or mixed enterprises;

b) To increase the capital of private or mixed companies or mixed enterprises;

c) To acquire new shares in state-owned non-strategic companies previously converted into mixed enterprises or companies;

d) To purchase state-owned assets with express prior authorization from the Law of the Republic;

e) To finance specific social assistance or development programs executed by local and/or international not-for-profit social assistance or welfare agencies, with the approval of the Board of Directors of the Central Bank of Bolivia;

f) To finance specific social assistance or development projects executed by local and/or international not-for-profit ecological conversation agencies, with the approval of the Ministry of Rural, Agricultural and Livestock Affairs; and

g) To increase the capital of subsidiaries totally owned by foreign parent companies.

ART. 25:

Prior government authorization is not required when investment bonds are used by private or mixed companies or mixed enterprises to invest in the investment areas specified in Exhibit I in accordance with points (a), (b) and (c) of the preceding article. This list may be amplified as deemed appropriate by the State.

ART. 26:

When investment bonds are used to invest in a subsidiary which is fully owned by a foreign parent company, the subsidiary must be previously transformed into a company in accordance with Bolivian laws. Subsequent to transformation, the new company may deposit the new shares resulting from the investment of the investment bonds pursuant to the provisions of Articles 31 through 43 of this Regulation, and they shall be entitled to the "premium." If either the subsidiary or the parent company decides not to transform the subsidiary into a company, the "premium" will not be received and the provisions of Heading V [of this Regulation] do not apply (see Articles 44 and 45).

ART. 27:

In case of the capitalization of Bolivian private banks listed in Exhibit I-B of this Regulation, the interested bank shall request the Superintendent of Bank's authorization prior to making the investment. Further, it must comply with all of the other requirements applicable to capital increase set forth in its own statutes and in current legal regulations and in accordance with the provisions of this Regulation.

ART. 28:

Investments in areas not included in Exhibit I of this Regulation require specific prior authorization of the Ministry of Planning and Coordination.

ART. 29:

All investments shall be governed by the current system of taxation.

ART. 30:

The purchase of state-owned assets, shares or interests in mixed companies as per the provisions of Article 24 above shall be carried out in accordance with the procedures established by law. The current value of the investment bonds and the [amount of the] "premium" at the date of the transaction shall be recognized.

ART. 31:

The holders of the investment bonds who decide to invest them in existing companies shall freely agree to investment terms and conditions with the respective company; [said terms and conditions] shall not violate current legal rulings or the provisions of Supreme Decree 21660 or this Regulation.

ART. 32:

The company being [invested in] shall issue "New Shares," which are to be duly endorsed in guarantee by the owner of the investment bonds [and] deposited by said company in the Central Bank of Bolivia, duly endorsed in guarantee by the holder of the investment bonds.

ART. 33:

All public debt that has been converted into investment before this regulation becomes effective in accordance with the conditions set forth in the amendment to the "refinancing agreement" shall be governed by the conditions set forth in said amendment and any conditions which might have been established by the Central Bank of Bolivia. Accordingly, the five-year period mentioned in Section 12.20 of the amendment to

the "refinancing agreement" shall commence on January 1, 1987. Conversions of debt into investment carried out after this document becomes effective shall be governed by the applicable provisions of this Regulation.

ART. 34:

"New shares" that have been duly endorsed in guarantee to the Central Bank of Bolivia along with the documents required by law relating to capital increases and investment bonds shall be submitted to the Central Bank of Bolivia in exchange for an "Investment Certificate."

ART. 35:

All procedures relating to transfers, splits, converting into investment and redemptions shall be carried out before the Central Bank of Bolivia. [The Central Bank] shall be responsible for identifying the interested parties, proving the legal capacity of the proxies, verifying the respective registration and recording of the "new shares" in the company's accounting records and verifying the conclusion of [all procedures required by] law.

ART. 36:

Upon submission of the investment bonds and deposit of the "new shares," the Central Bank of Bolivia shall pay the amount corresponding to the capital increase and shall hand over the respective "Investment Certificate." The respective payment will be made to the company issuing the "new shares" in Bolivian currency at the current official exchange rate. The "Schedule" indicates the redemption value of the investment bond. The initial value includes 50% of the premium over the "base price." This sum shall be capitalized on a half-yearly basis until the nominal value is reached at 25 years.

ART. 37:

Companies that do not belong to the financial system shall only used funds obtained from the Central Bank of Bolivia for capital increases for the acquisition of fixed assets and inventories, for the payment of liabilities or for investments in companies in the areas specified in Exhibit I of this Regulation.

ART. 38:

The Central Bank of Bolivia may retain special auditors to obtain all information relating to the use of funds obtained [from the Central Bank] or request this information from the auditors of the recipient companies.

ART. 39:

When used for the purposes specified in Article 24 of this Regulation, investment bonds submitted to the Central Bank of Bolivia shall automatically become null and void.

ART. 40:

Transactions relating to an investor's decision to subrogate, sell, transfer, allow co-ownership or endorse "new shares" resulting from the investment of series "A" bonds during the first five years following the issue date of said bonds should be carried out before the Central Bank of Bolivia in accordance with the provisions of Article 35 above. The Central Bank of Bolivia shall recover, prior to authorizing these transactions, 100% of the premiums granted at the time of investment.

The transactions mentioned in the preceding paragraph may be carried out freely after the first working day of the sixth year from the issue date of "new shares" arising from the investment of series "A" bonds.

ART. 41:

The partial or total remittance abroad of investments made in any company during a period of five years is prohibited. The remittance abroad of dividends during the five years following the date of investment shall be limited to a maximum of 20% per year of the amount invested. Any transgression shall be subject to sanction pursuant to Article 43 of this Regulation.

ART. 42:

The shareholder or his representative shall appear before the Central Bank of Bolivia five years after the transaction takes place to receive the new shares previously deposited in guarantee in exchange for the "Investment Certificate."

ART. 43:

The Central Bank of Bolivia shall call the guarantee made in its favor through the endorsement of the "new shares" if any violation of Articles 35, 37, 40 and 41 of this Regulation can be proven. In this case, the Central Bank of Bolivia shall be obliged to proceed to sell or auction these shares within 90 days following the proof of the violation.

VI. CONVERSION OF INVESTMENT BONDS WITHOUT PREMIUM

ART. 44:

Investors who do not wish to be bound by the restrictions [attached to the] bonds and set forth in this Regulation may use the investment bonds for investment in any type of company in Bolivia, for any purpose, in any area of legal activity or for redemption in accordance with Articles 5 and 6 of the Regulation, without receiving a premium.

ART. 45:

Any investor who opts for abiding by the conditions stipulated in Article 12.20 of the amendment to the "Refinancing Agreement" in regard to the term indicated in said article, may do so freely, although he will not be eligible for the "premium," nor will he be governed by the terms of the bond or this Regulation.

VII. REGISTRATION OF INVESTMENT BONDS

ART. 46:

The Department of Financial Sector Affairs and International Affairs of the Central Bank of Bolivia, as applicable, shall have jurisdiction over the registration of series "A" and "B" bond issues and the subsequent use [of the bonds] in exchange for "Foreign Debt" and Bolivian Private Banking Foreign Debt, and also of their conversion into investments and of any transfers or redemptions that might take place.

ART. 47:

The "Agent of the Central Bank of Bolivia" responsible for the submission of the "Investment Bonds" in exchange for all of the debt documents shall register the holders of the certificates representing these bonds immediately after the swap has taken place and inform the Central Bank of Bolivia of the fact. It shall simultaneously inform the holders of said bonds that [in order to carry out] any future redemption or transfer transaction involving said bonds, they must notify the Department of Foreign Affairs of the Central Bank of Bolivia.

VIII. DEBTS GUARANTEED BY STATE-OWNED BANKING [INSTITUTIONS]

ART. 48:

In accordance with Article 53 of Supreme Decree 21660, any individual or legal entity who has secured a loan guaranteed by a Bolivian state-owned bank from an international private banking institution is released from any obligation when said loan has been settled through direct negotiation or any other form of payment. Financing costs arising from granting the guarantee shall be paid as originally stipulated, without fine or penalty interest. However, if any state-owned bank makes [loan] payments to foreign creditors using its own funds or new credits in honor of a guarantee awarded to an individual or legal entity, said individual or legal entity shall not be released from his/its obligation with the state-owned bank, even if he/it were to offer foreign liabilities against the state-owned bank in total or partial compensation for the nominal value of the debt [paid by the bank]. In order to be released [from such obligations], [said individual or legal entity] must fully reimburse the state-owned bank for payments made as a result of the guarantee, either in Bolivian currency at the official exchange rate or in US dollars. Under no circumstances shall the state-owned bank accept certificates representing another debt of the Bolivian government in partial or total payment for a debt it guaranteed.

ART. 49:

If the Central Bank of Bolivia were to have directly or indirectly purchased foreign loans guaranteed by a state-owned bank from an international private banking institution, to be released from its original

obligation with the state-owned bank, the original debtor must reimburse the Central Bank of Bolivia [for an amount equal to] the "Base Price" and a 100% commission on the "Base Price," as well as any other payments made by the state-owned bank for capital, interest and other charges relating to the guarantee. For its part, the Central Bank of Bolivia shall reimburse the state-owned bank for payments made to foreign creditors and it shall release [the state-owned bank] from the remainder of the debt against the payment of the base price by the state-owned bank to the Central Bank of Bolivia.

ART. 50:

The Central Bank of Bolivia shall be responsible for verifying all payments made by the state-owned banks to foreign creditors in honor of guarantees.

IX. TRANSFERRED LOANS

ART. 51:

In the case where an international banking institution has extended a loan to a state-owned bank [and said loan] was [subsequently] transferred to an individual or legal entity, and if payment to the state-owned bank is pending, and [further], if documentation exists corroborating that the original loan to the state-owned bank was initially secured to be transferred to an individual or legal entity, said individual or legal entity shall only be released from its obligation with the state-owned bank when the Central Bank of Bolivia for [an amount equal to] the "Base Price" and a 100% commission on the "Base Price," as well as any other payments made by the state-owned bank for capital, interest and other charges relating to the specific loan. For its part, the Central Bank of Bolivia shall reimburse the state-owned bank for payments made to foreign creditors and it shall release [the state-owned bank] from the remainder of the debt against payment of the base price by the state-owned bank to the Central Bank of Bolivia.

ART. 52:

The Central Bank of Bolivia shall be responsible for verifying all such loan payments made by state-owned banks to foreign creditors.

All values correspond to United States dollars.

ANNEX 1

A. PRODUCTIVE SECTOR

- Mining in general
- Metallurgy
- Steel and iron manufacturing
- Industrial manufacturing
- Agriculture, except for new and existing coca cultivation and other cultivation used in the production of prohibited substances
- Generation of energy in general
- Agro-industry in general
- Construction
- Livestock
- Fisheries
- Basic chemicals
- Oil industry in general
- Hotel and tourist industry (excluding travel agencies)
- Transportation
- Forestry
- General civil aviation
- Petrochemicals

B. FINANCIAL SECTOR

- Commercial banking
- Investment banking

ANNEX II -- (all values correspond to United States dollar)

Year	Current Value	Investment Bond With Premium	Bond Value Premium
0.0	11.00	16.50	5.50
0.5	11.50	17.11	5.61
1.0	12.02	17.73	5.71
1.5	12.56	18.38	5.82
2.0	13.12	19.06	5.94
2.5	13.72	19.76	6.04
3.0	14.34	20.48	6.14
3.5	14.98	21.23	6.25
4.0	15.66	22.01	6.35
4.5	16.37	22.82	6.45
5.0	17.10	23.66	6.56
5.5	17.88	24.53	6.65
6.0	18.68	25.43	6.75
6.5	19.53	26.36	6.83
7.0	20.41	27.33	6.92
7.5	21.33	28.33	7.00
8.0	22.29	29.37	7.08
8.5	23.30	30.45	7.15
9.0	24.35	31.56	7.21
9.5	25.45	32.72	7.27
10.0	26.60	33.92	7.32
10.5	27.80	35.17	7.37
11.0	29.05	36.46	7.41
11.5	30.36	37.80	7.44
12.0	31.73	39.18	7.45
12.5	33.17	40.62	7.45
13.0	34.66	42.11	7.45
13.5	36.23	43.66	7.43
14.0	37.86	45.26	7.40
14.5	39.57	46.92	7.35
15.0	41.36	48.64	7.28
15.5	43.22	50.42	7.20
16.0	45.18	52.28	7.10
16.5	47.21	54.19	6.98
17.0	49.35	56.18	6.83
17.5	51.57	58.24	6.67
18.0	53.90	60.38	6.48
18.5	56.33	62.60	6.27
19.0	58.88	64.89	6.01
19.5	61.53	67.27	5.74
20.0	64.31	69.74	5.43
20.5	67.21	72.30	5.09
21.0	70.25	74.95	4.70
21.5	73.42	77.70	4.28
22.0	76.73	80.56	3.83
22.5	80.19	83.51	3.32
23.0	83.81	86.58	2.77
23.5	87.60	89.75	2.15
24.0	91.55	93.05	1.50
24.5	95.68	96.46	0.78
25.0	100.00	100.00	0.00

Brazil

RESOLUTION No. 1460 of February 1, 1988

THE CENTRAL BANK OF BRAZIL, according to article 9 of Law No. 4595 of December 31, 1964, announces that the NATIONAL MONETARY COUNCIL, at a meeting held on January 27, 1988, in view of the provisions of articles 4, items V and XXXI, and 57 of such Law and of article 50 of Decree No. 55762 of February 17, 1965, with due regard for the legal rules that apply to foreign investments in Brazil,

RESOLVED:

I. To approve the attached Regulations, which govern the conversion into investment in Brazil of credits subject to agreements for the restructuring of the Brazilian foreign debt.

II. The Central Bank of Brazil shall issue the supplementary rules and adopt the action required to implement the provisions of this Resolution.

III. This Resolution shall become effective on the date of its publication and Resolution No. 1416 of November 17, 1987 and all provisions to the contrary are hereby revoked.

Brasilia (FD), February 1, 1988
Wadico Waldir Bucchi
Acting President

Regulations attached to Resolution no. 1460 of February 1, 1988 which govern the conversion into investments in Brazil of credits subject to agreements for the restructuring of the Brazilian foreign debt:

CHAPTER 1: Foreign Credits to be Converted

Article 1. Credits subject to agreements for the restructuring of the Brazilian foreign debt may be converted into investments in Brazil under these Regulations if they refer to:

I. Foreign medium and long-term obligations (loans and financing) registered with the Central Bank of Brazil and respective charges;

II. Foreign currency deposits made at the Central Bank of Brazil for principal installments that are due and respective charges; and

III. Foreign currency deposits made at the Central Bank of Brazil under item I of Resolution No. 1263 of February 20, 1987 and respective charges.

Sole Paragraph. The credits mentioned in this article may be converted into investments whether or not the credit rights have been assigned abroad or the respective obligations assigned in Brazil.

CHAPTER II: Conversions Subject to Auction

Article 2. Conversions into investment of amounts contractually owed by or deposited with the Central Bank of Brazil (items II and III of Art. 1) shall be made by means of auctions at Stock Exchanges.

Paragraph 1. The Central Bank of Brazil shall for such purpose from time to time establish two conversion ceilings, one for projects to be developed in the areas of SUDENE (Northeast), SUDAM (Amazon), Espirito Santo and the Jequitinhonha Valley, the implementation of which shall be supervised and certified by the proper regional agencies.

Paragraph 2. The amount allocated to the auctions for investments in the areas of SUDENE, SUDAM, Espirito Santo and the Jequitinhonha Valley shall be equivalent to 50% of the total amount to be allocated to the auctions, any remainders to revert to the next auction.

Article 3. Excepted from the auction system are conversions of amounts contractually owed by or deposited with the Central Bank of Brazil if intended for investment in entities of the public sector for payment of loans supported by Minister of Finance Notice No. 30 of August 29, 1983 and subsequent notices, or of foreign medium- and long-term credits registered with the Central Bank of Brazil and also owed by these entities.

Article 4. The proceeds from the conversions mentioned in Art. 2 shall be invested exclusively:

I. in the payment of the capital of new companies or in capital increases of existing companies.

CHAPTER III: Public and Private Sector Debt

SECTION I: Public Sector Debt

Article 5. The debt registered at the Central Bank of Brazil in the name of entities of the public sector--Federal Government, States, Federal District, Territories, Municipalities and respective Autonomous Government Entities, State Companies, Mixed-Capital Companies, Foundations and companies directly or indirectly controlled by them--as well as the transactions carried out under Resolution No. 63 of August 21, 1967 and onlent to these entities, may only be converted into investments in entities of the public sector itself.

Sole Paragraph. In the case of conversion of debts of entities of the direct administration--Federal Government, States, Federal District, Territories and Municipalities--the invested funds shall necessarily be used for the payment of loans supported by Minister of Finance Notice No. 30 of August 29, 1983 and subsequent notices, or of foreign medium- and long-term credits registered with the Central Bank of Brazil and owed by entities of the public sector.

Article 6. Conversions into investment in a public sector entity shall respect the restrictions and limitations of applicable laws and regulations and shall be preceded by a favorable opinion from the Special Office for the Control of State Companies (SEST) and from the National Treasury Office (STN).

SECTION II: Private Sector Debt

Article 7. The debt registered at the Central Bank of Brazil in the name of companies or entities not included in Art. 5 may be converted into investment in companies or entities of the private or public sectors.

SECTION III: Public and Private Sector Debt Under Voluntary Deposits at the Central Bank

Article 8. Conversions of deposits made at the Central Bank of Brazil under Circular No. 230 of August 29, 1974 and Resolution No. 432 of June 23, 1977 are subject to the provisions of Arts. 5, 6 and 7, as the case may be, as well as to ceilings to be established from time to time by the Central Bank of Brazil, which shall examine the respective proposals in the chronological order in which they are submitted.

Sole Paragraph. Excepted from the ceilings referred to in the main provision of this article are conversions intended for investments in public sector entities for the payment of loans supported by Minister of Finance Notice No. 30 of August 29, 1983 and subsequent notices, or of foreign medium- and long-term credits registered with the Central Bank of Brazil and owed by these entities.

CHAPTER IV: Registration of Investment

Article 9. Investments resulting from conversions under Art. 2 and the respective registration thereof shall be equal to the amounts of the proposals that won at the auctions.

Article 10. Registration of the investments resulting from the conversions dealt with in Articles 3,5,7 and 8 will be equal to the face value of the converted obligations, less the discount to be determined by the Central Bank of Brazil, which shall for such purpose take into account the results obtained at the auctions held under Art. 2.

Sole Paragraph. The difference between the face value of the converted obligations and the registered amount of the investment, corresponding to the discount mentioned in the main provision of this article, shall be considered as Brazilian capital if capitalized.

CHAPTER V: Foreign Capital Conversion Fund

Article 11. The proceeds from conversions, excepting those derived from the debt of public sector entities mentioned in art. 5, may also be invested in securities through "Foreign Capital Conversion Funds" according to the following rules:

I. The units issued by a "Foreign Capital Conversion Fund" shall be book units and may only be transferred abroad in the manner and within the period to be established by the Securities Commission (CVM);

II. The "Foreign Capital Conversion Fund" may not maintain in its portfolio more than five percent (5%) of the voting capital or twenty percent (20%) of the total capital of a single company;

III. The tax and foreign capital registration systems shall comply with Law No. 4131 of September 3, 1962, with the additional application of the provisions of the Regulations--Exhibit II to Resolution No. 1289

of March 20, 1987, as well as the provisions that may be established by CVM.

CHAPTER VI: Minimum Period of Continuance

Article 12. The minimum period in which the converted funds shall remain in Brazil shall be twelve (12) years as from the date of capitalization of the funds.

CHAPTER VII: Remittances Abroad

Article 13. Profits and dividends generated by investments resulting from conversions shall be eligible for remittance, with due regard for the provisions of Law No. 4131 of September 3, 1962 and applicable tax law.

Article 14. Any remittance abroad by way of repatriation or capital gain on the part of companies that already have foreign capital participation shall be subject to deposit with the Central Bank of Brazil up to the amount of the investments resulting from conversions under these Regulations. These amounts shall be kept on deposit on the conditions that may be established, until the minimum period of continuance of the funds in Brazil is completed as specified in Art. 12.

CHAPTER VIII: Prohibitions

Article 15. In any case, the proceeds from conversions may only be used for risk investments and transactions that are similar to the various kinds of credit are forbidden.

Paragraph 1. Observing what is provide for in this Article, the funds resulting from conversions may be invested in infrastructure projects, provided that public sector entities do not offer guaranteed profitability and/or a market for the goods and services produced.

Paragraph 2. Conversions shall not be allowed for projects in which the repurchase of the investment by public sector entities is at any time ensured.

Article 16. Conversions shall not be allowed if they result, directly or indirectly, in the transfer of control of companies or entities directly or indirectly controlled by individuals domiciled in Brazil to individuals or entities domiciled abroad.

Article 17. Conversions shall not be authorized when the participants in the transaction or persons with which they are connected by control have made remittances abroad by way of repatriation or capital gain during the thirty-six (36) months immediately preceding the date of submission of the request for conversion to the Central Bank of Brazil.

Sole Paragraph. This prohibition shall not apply if the funds transferred abroad within the mentioned period return to Brazil.

Article 18. The funds resulting from conversions may not be invested by the participants in a transaction or by persons with which they are connected by control, during the minimum period of continuance of the funds as specified in Art. 12, in the partial or total acquisition of foreign investments, unless the proceeds from the sale are reinvested in Brazil subject to the rules of these Regulations.

CHAPTER IX: General and Temporary Provisions

Article 19. The amount of credits for which conversion into investment has already been authorized may be deposited with the Central Bank of Brazil on the conditions that may be established by the Central Bank of Brazil.

Article 20. Conversion proposals submitted to the Central Bank of Brazil on or before July 20, 1987 remain subject to the rules of Circular Letter No. 1125 of November 9, 1984, and the following periods shall be observed as from the date of approval of these Regulations:

I. Within a period of thirty (30) days, the participants in the conversion shall confirm the transaction and comply with the requirements made by the Central Bank of Brazil;

II. within a period of sixty (60) days, the Central Bank of Brazil shall issue its conclusive opinion on the proposals submitted;

III. Within a period of one hundred and eighty (180) days, the availability period for withdrawal of deposited funds for conversion under the main provision of this article shall expire.

Paragraph 1. The release of deposits under item III of this article shall follow the chronological order of submission of the proposals and the monthly ceilings that may be established for such purpose by the

Central Bank of Brazil.

Paragraph 2. With due regard for the provisions of the preceding paragraph, the authorization to withdraw deposits shall be used within the period that may be determined by the Central Bank of Brazil, after which the right to conversion shall automatically lapse.

CIRCULAR No. 1302, of March 18, 1988

1. We hereby communicate that the Directorate of the Central Bank of Brazil, bearing in mind the provisions of Resolution No. 1460 of February 1, 1988, of the National Monetary Council, decided to set down the criteria specified below for conversions into investment subject to the auctions referred to in Article 2 of the Regulation approved by such Resolution.

2. Auctions for conversion of debt into investment shall be carried out from time to time at the Stock Exchanges. The Central Bank of Brazil will establish, by published notice, the date, hour and place for each auction to be held, the minimum discount, if any, the ceilings for conversion, as well as the order in which the auctions should be carried out, in accordance with the area in which the proceeds will be applied.

3. The notice referred to in the preceding item shall be published at least 10 (ten) days ahead of time, except with respect to the first auction, for which the minimum period of 5 (five) days shall be observed. If the provision of Item 17 has been carried out, such notice may be published by the Stock Exchange organizing the auction.

4. Participation in the auctions shall be through Brokerage Companies, and interested parties should observe the conditions set forth in the attached Regulation for Conversion Auctions.

5. Prior to 12 o'clock on the business day following the auctions, the respective Stock Exchange shall present to the Central Bank of Brazil a notification as to the results, indicating the winning bids and sending along the information provided by the Brokerage Companies necessary for the precise identification of the investment corresponding to each one of those bids.

6. The following periods, counting from the date on which the auctions are carried out, should also be complied with, by the investor and/or recipient of the investment:

(a) Two business days for presentation to the Central Bank of Brazil of the notification of the investor authorizing the immediate blocking of deposits, as well as the debiting of the amount of the respective discount;

(b) Ten business days for presentation to the Central Bank of Brazil of the documentation required by it, necessary for the examination of the conversion request.

7. Failure to comply with the provisions in Items 5 and 6 with respect to any winning bid will result in its automatic disqualification, without prejudice to the fine applicable to the corresponding Brokerage Company, when applicable, in the manner set forth in the attached Regulation for Conversion Auctions.

8. In the event the conversion request is rejected by the Central Bank of Brazil because of any incompatibility with the norms in effect of the project to be carried out or of the field of activity of the recipient of the investment, the necessary reversals shall be effected in the accounts of the investor, for the purpose of unblocking the funds and nullifying the debit for the amount of the discounts.

9. The conversions are subject to the authorization of the Central Bank of Brazil/Department of Control and Registration of Foreign Capital (FIRCE), as set forth in legislation in effect.

10. Once the conversion has been authorized, the investor will have the period of 30 (thirty) days in which to withdraw the funds deposited at the Central Bank of Brazil, which shall be released for their net value, with the respective discounts already deducted.

11. If the funds are not withdrawn within the period set forth in the preceding item, the right to convert will automatically cease to exist.

12. Withdrawal of funds contractually owing by the Central Bank of Brazil or therewith deposited will be processed by banking establishments authorized to operate in exchange, subject to the following procedure:

(a) In such amounts and currencies of purchases made from clients each day, by means of simultaneous sales of exchange to the Central Bank of Brazil;

(b) Sales of exchange to the Central Bank of Brazil will be carried out at the exchange rate for repass set for the currency on the date on which it is contracted for, and they may not be liquidated ahead of time with respect to the liquidation of the purchases from clients to which they correspond.

13. Funds with respect to a conversion which has already been authorized may be placed in non-remunerative deposits in foreign currency at the Central Bank of Brazil, as provided in Article 19 of the Regulation attached to Resolution No. 1460, which facility may be utilized only once, prior or subsequent to their capitalization, subject to the following:

a) The deposits should be made within 30 (thirty) days from the date of authorization for conversion of the credits or their capitalization;

b) in any event, the withdrawal of the deposits will be carried out in accordance with a time schedule to be agreed upon with the Central Bank of Brazil/Department of Exchange, provided, however, that, in the case of deposits of funds not yet capitalized, their withdrawal may only occur for the specific purpose of capitalization.

14. Deposits in foreign currency, made in accordance with the provisions of Article 14 of the Regulation attached to Resolution No. 1460, will also be non-remunerative.

15. Deposits covered by this Circular are subject to the provisions of Circular No. 349, of June 23, 1977.

16. Registration of the investment will be made in the amount effectively released in the manner set forth in Item 10 of this Circular.

17. The Central Bank of Brazil may sign a convention with the Stock Exchanges for carrying out the auctions covered by this Circular on their floors.

Brasilia (DF), March 18, 1988
Arnim Lore
Director

Attachment to CIRCULAR No. 1302, of March 18, 1988

Regulation for Conversion Auctions

The Central Bank of Brazil and the Investment Securities Commission, bearing in mind the provisions of Resolution No. 1460, of February 1, 1988, decided to approve the following regulation:

I. Bidding Brokerage Companies which offer the highest rates of discount during the auction will have their bids considered victorious; and, consequently, their principals will qualify to convert into investments the amount of debt, less the discount.

II. Discount rates shall be communicated by the Director of the auction, at intervals of 0.5% (five tenths of one per cent), and the operator may bid only that amount of dollars net of the discount which it wishes to acquire at the rate indicated by the Director of the auction.

III. Bids made during the auction, at a specified discount rate, shall be considered firm; and the Brokerage Companies may not renege.

IV. Whenever the total of the bids exceeds the amount offered at a specified rate, the latter will be increased, it being incumbent upon the Director of the auction to announce the new rate. In the event the sum total of the bids at this new rate is equal to, or does not reach, the total amount offered, the auction shall be closed in the following manner:

(a) Bids with respect to the greatest discount rate will be attended to first;

(b) the balance will be divided up among the remaining Brokerage Companies who had bid at the immediately preceding rate, in proportion to their bids;

(c) in the event a Brokerage Company is not interested in the amount to which it is entitled by the distribution carried out in this manner, it may waive its rights to its lot, which will be added to the remainder for the effect of a new division at the same rate referred to in line b;

(d) the manifestation, by the Brokerage Company, of the withdrawal referred to in line c will be irrevocable.

V. At the end of the auction, the organizing Stock Exchange will provide the Brokerage Companies and the Central Bank of Brazil with a declaration informing as to the lots which went and the respective rates of discount.

VI. Brokerage Companies whose bids were victorious at the auction will present to the organizing Stock Exchange, prior to 12 (twelve) o'clock noon of the business day following that on which the conversion auctions were carried out, information necessary for the precise identification of the principal and of the investment corresponding to each victorious bid, which shall be immediately delivered to the Central Bank of Brazil.

VII. The Brokerage Company which does not comply with the provisions in the preceding item will be subject, cumulatively, to the application of a fine of 0.1% (one tenth of one per cent) of the amount of the operation and to suspension from participating in conversion auctions covered by up to 6 (six) of the subsequent published notices for bids.

VIII. The amount of the operation referred to in Item VII shall be the amount in cruzados equivalent to

the foreign currency to be converted, net of the applicable discount, calculated at the exchange of the day on which the auction is carried out, at the buy rate appearing on the opening bulletin of the Central Bank of Brazil.

IX. The fine set forth in Item VII shall be charged directly by the Central Bank of Brazil to the Brokerage Company in breach, which shall obtain reimbursement from the principal, whenever the latter shall have caused the infraction.

Brasilia (DF), March 18, 1988
Elmo de Araujo Camoes
President of the
CENTRAL BANK OF BRAZIL

Arnoldo Wald
President of the
INVESTMENT SECURITIES COMMISSION

CIRCULAR Letter No. 1778, of March 22, 1988

We hereby make known to those interested that, for the purposes of the provisions in Resolution No. 1460, of February 1, 1988, and in Circular No. 1302, of March 18, 1988, the procedures set forth in the following items for conversions into investment subject to auction, covered by Article 2 of the Regulation attached to such Resolution, should be observed.

2. The Stock Exchanges where the auctions are carried out should sent to the Central Bank of Brazil the notification referred to in item 5 of Circular No. 1302, together with the information to be provided by the Brokerage Companies in the manner set forth in the attached model.

3. Such information, together with the notification of the future investor referred to in item 6(a) of Circular No. 1302, will constitute the request for authorization to convert into an investment the funds corresponding to the winning bids at the auctions, which should be further substantiated with:

(a) Declarations of the recipient of the investment and from the future investor to the effect that:

I. The applications are not likened unto diverse forms of credit operations, and that entities of the public sector are not assuring any guaranteed yield and/or market for the goods and services produced, not the repurchase of the investment at any time;

II. The conversion will not result, directly or indirectly, in the transfer of control to physical or juridical persons domiciled abroad, whenever the investment is one in companies or entities directly or indirectly controlled by physical persons domiciled in the Country;

III. The participants in the operations or persons with which they maintain a control connection have not made any remittances abroad by way of repatriation or capital gains within the 36 (thirty-six) months immediately preceding the date on which the request for conversion is presented to the Central Bank of Brazil;

NOTE: In the event they have made remittances of this kind, they should indicate such fact (mentioning the amount and the dates of the remittances), declaring that they are aware of the fact that, once the conversion is authorized by the Central Bank of Brazil, the capitalization of the funds may only occur after the return of those amounts, which will also be capitalized, obligatorily;

(b) Undertakings of the recipient of the investment and of the future investor by means of which they will commit to:

I. Maintain in the Country those amounts converted for the minimum period of 12 (twelve) years, counting from the date of their capitalization;

II. Not use the proceeds resulting from the conversion directly or through persons with which they maintain a control connection, during the minimum period for which such proceeds must remain in the Country (12 years), for the acquisition, whether partial or total, of foreign investments, unless the proceeds from the sale are reinvested, in the manner set forth in Article 18 of the Regulation attached to Resolution No. 1460;

(c) Documents and information, set forth below, to be provided by the recipient of the investment:

I. By-laws or social contract in effect, or a draft of those documents whenever dealing with companies under formation;

II. Indication of the field(s) of principal activity(-ies) of the recipient company and a description of the use to be made of the proceeds from the conversion;

III. Favorable manifestations from the Special Secretariat for the Control of State Companies (SEST) and from the Secretariat for the National Treasury (STN), whenever dealing with an investment in public sector companies;

IV. Irretractable declaration of the creditor and the future investor agreeing to the conversion.

4. In the case of investments in Foreign Capital Conversion Funds, in addition to the authorization of the Investment Securities Commission, the documents indicated in line (a) III (applicable only to the future investor), (b) I and (c) IV of the preceding item, should be presented.

5. The notification of the future investor referred to in Item 6 (a) of Circular No. 1302 should contain the following information:

(a) number(s) of its deposit account(s) at the Central Bank of Brazil;

(b) amounts and dates projected for the debiting of its account(s); and

(c) numbers of the Certificates of Registration/Authorization and maturity dates of the installments of the credit operations which gave rise to the deposits to be converted and the corresponding amounts to be utilized in the conversion.

6. The auctions shall always be referenced in amounts expressed in United States dollars, and those participants holding deposits denominated in other currencies should verify their equivalent in dollars, using as a basis the parity in effect two business days immediately preceding the date on which the auctions are carried out.

7. For the purposes of blocking the deposits and debiting the amount of the discount of the victorious bids in the auctions (Item 6 (a) of Circular No. 1302), the same criteria set forth in the preceding item will be applied.

8. The investments may, at the option of the investors, be registered in currencies other than those of the foreign obligations converted, so long as such obligations have not been the object of a change in currency before.

Brasilia (DF), March 22, 1988
Nelson Tavares Serra
HEAD, in exercise

Convention Between the Central Bank of Brazil, the Stock Exchange of Rio de Janeiro, the Stock Exchange of Sao Paulo and the Investment Securities Commission, Regarding Auctions

THIS CONVENTION, between the CENTRAL BANK OF BRAZIL, hereinafter referred to as "BACEN," registered in the General Roll of Taxpayers of the Ministry of Finance under No. 00.038.166/0001-05, with its principal place of business in Brasilia, DF, South banking Sector (SBS), Quadra 3, Bloco B, represented by its President, Elmo de Araujo Camoes; the STOCK EXCHANGE OF RIO DE JANEIRO, hereinafter referred to as "BVRJ," registered in the General Roll of Taxpayers of the Ministry of Finance under No. 33.660.648/0001-43, with its principal place of business in Rio de Janeiro, at Praca XV de Novembro No. 20, represented by its President, Sergio Augusto Thorstenzen Barbosa de Barcellos; and the STOCK EXCHANGE OF SAO PAULO, hereinafter referred to as "BOVESPA," registered in the General Roll of Taxpayers of the Ministry of Finance under No. 61.694.865/0001-90, with its principal place of business in Sao Paulo, Capital at Rua Alvares Penteado No. 151, represented by its President, Eduardo da Rocha Azevedo; and as party agreeing and acknowledging, the INVESTMENT SECURITIES COMMISSION, hereinafter referred to as "CVM," registered in the General Roll of the Taxpayers of the Ministry of Finance under No. 29.507.878/0001-08, with its principal place of business in Rio de Janeiro, at Rua Sete de Setembro No. 111, 32nd Floor, represented by its President, Arnold Wald, on the terms and conditions of the following clauses:

FIRST CLAUSE: Object of the Convention

1. The present Convention has as its object the carrying out, on the trading floors of BVRJ and BOVESPA, alternatively, of the auctions referred to in Article 2 of the Regulation Attached to Resolution No. 1460, of February 1, 1988, of the National Monetary Council.

SECOND CLAUSE: Published Notice of the Auction

2.1 In order to carry out the auction referred to in the First Clause of this Convention, the publication of a notice for bids in the Official Gazette of the Union and in newspapers of wide national circulation shall be required, in which there shall be set forth the day, the hour, the place for and the rules of the auction, as well as the amount of the net indebtedness to be converted, the minimum rate of discount, if any, and the standard lot for bids.

2.2 It will be the responsibility of the Stock Exchange organizing the auction to prepare the published notice referred to in Item 2.1, publication of which shall be provided for by that Stock Exchange, after approval of BACEN.

2.3 Expenses of publication of the notices shall be paid for by the organizing Stock Exchanges and reimbursed by BACEN.

2.4 The Notice shall be published at least 10 (ten) days ahead of time, except with respect to the first auction, for which the minimum period of 5 (five) days shall be observed.

THIRD CLAUSE: Amount to be Auctioned

3. It will be the responsibility of BACEN to establish, prior to each auction, the amount of indebtedness to be converted net of the discount, the standard lot for bids, and the minimum rate of discount, if any.

FOURTH CLAUSE: Participants in the Auction

4.1 Any physical or juridical person, duly represented by a Brokerage Company, may participate in the auction which is the object of this Convention.

4.2 It is hereby established that any Brokerage Company in the Country may participate in the auction covered by this Convention, as intermediary, even though it is not a member or permittee of the Stock Exchange organizing the auction, so long as it qualifies beforehand in accordance with the rule of the organizing Stock Exchange.

4.3 It is further supulated, in this act, that in auctions covered by this Convention, BACEN will be represented by the organizing Stock Exchange.

FIFTH CLAUSE: Costs

5.1 The brokerage fee to be charged by the Brokerage Companies for intermediating the transactions governed by this Convention shall be 0.15% (fifteen one-hundredths of one per cent) of the amount of the operation.

5.2 The brokerage fee referred to in item 5.1 should be paid on the fifth business day after the auction is held (D + 5).

5.3 The organizing Stock Exchange will charge the Brokerage Companies intervening in the auctions a commission of 0.015% (fifteen one-thousandths of one per cent) of the amount of the operation.

5.4 It is hereby established that the basis for calculation of the brokerage fee and the commissions shall be the amount in cruzados equivalent to the foreign currency to be converted, net of the applicable discount, calculated at the exchange of the day on which the auction is carried out, at the buy rate appearing on the opening bulletin of BACEN.

5.5 The Stock Exchange organizing the auction covenants to repass to the Stock Exchange where the bidding Brokerage company has its principal place of business the commission paid by that Brokerage Company, except when it is a member or permittee of the organizing Stock Exchange.

5.6 BACEN is exempt from payment of the brokerage fee and the commission referred to in items 5.1 and 5.3 of this Clause.

SIXTH CLAUSE: Winner of the Auction

At the end of the auction, the organizing Stock Exchange will provide the Brokerage Companies whose bids have been victorious, and BACEN, with a declaration informing of the lots which went, the respective rates of discount and any amounts which may have been left over.

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SEVENTH CLAUSE: Documentation for Conversion

7.1 It is the responsibility of BACEN to establish which documents the Brokerage Companies should deliver to the Stock Exchange organizing the auction, as well as the respective period of time for delivery.

7.2 The Brokerage Company which does not comply with the requirements referred to in the preceding item will be subject, cumulatively, to the application of a fine of 0.1% (one tenth of one per cent) of the amount of the operation and to suspension from participating in conversion auctions covered by up to 6 (six) of the subsequent published notices for bids.

7.3 The amount of the fine referred to in item 7.2 shall be calculated against the amount verified in the manner set forth in item 5.4.

7.4 The fine set forth in Item 7.2 shall be charged directly by BACEN to the Brokerage Company in breach, which shall obtain reimbursement from the principal, whenever the latter shall have caused the infraction.

EIGHTH CLAUSE: Other Provisions

8.1 The Regulation for Conversion Auctions attached to Circular No. 1302, of March 18, 1988, of BACEN, and subsequent alterations, constitute an integral part of this Convention.

8.2 The remaining Stock Exchanges of the Country may adhere to this Convention. BACEN and the CVM will define the opportunity for carrying out auctions on the floors of the new Stock Exchanges parties to this Convention, effecting the appropriate adaptations to this Convention.

NINTH CLAUSE: Effective Period of the Convention

9. This Convention shall remain in effect for an undetermined period of time, each party hereto having the right to withdraw from it, whatever its period of effectiveness might have been, upon 30 (thirty) days' prior written notice.

And, because they have thus agreed and contracted, they sign this Convention in 4 (four) counterparts, each of which has the same force and effect.

Brasilia, DF, March 18, 1988
Elmo de Araujo Camoes
CENTRAL BANK OF BRAZIL

Sergio Augusto Thorstensen Barbosa de Barcellos
STOCK EXCHANGE OF RIO DE JANEIRO

Eduardo da Rocha Avezedo
STOCK EXCHANGE OF SAO PAULO

Arnold Wald
INVESTMENT SECURITIES COMMISSION

PUBLIC NOTICE of Auctions for the Conversion of Foreign Indebtedness into Investments

The Central Bank of Brazil, bearing in mind the provisions in Resolution No. 1460, of February 1, 1988, of the National Monetary Council; in Circular No. 1302, of March 18, 1988; and in Circular Letter No. 1778, of March 22, 1988; hereby makes it public that it will carry out auctions, at a discount rate, for conversion into investments of amounts contractually owing by or deposited with it, subject to the following conditions:

1. The Offer

1.1 For the purposes of conversion into investments, the sum corresponding to credits net of the discount in the amount of US$150,000,000.00 (one hundred fifty million United States dollars), or the equivalent in other foreign currencies, will be offered, through auctions with a discount rate, to be carried out

on the 29th of March, 1988, at 3 o'clock p.m. on the trading floor of the Stock Exchange of Rio de Janeiro.

1.2 The total amount being offered will be divided into 2 (two) separate auctions, according to the destination of the funds to be converted, in the following order:

1st Auction -- US$75,000,000.00 to be used for payment of capital to new companies, in increasing the capital of companies already existing, or for investment securities through Foreign Capital Conversion Funds;

2nd Auction -- US$75,000,000.00 to be used in projects to be developed in the SUDENE, SUDAM, Espirito Santo and Vale do Jequitinhonha areas.

2. Rules of the Auction

2.1 The standard lot for bids shall be US$100,000.00 (one hundred thousand United States dollars), net of the discount. No bid may be less than, or other than in multiple of, the standard lot.

2.2 Discount rates will be communicated by the Director of the auction at intervals of 0.5% (five tenths of one percent), and the operator may bid only that amount of dollars net of the discount which it wishes to acquire at the rate indicated by the Director of the auction.

2.3 Bids made during the auction will be considered firm.

2.4 Whenever the total of the bids exceeds the amount offered at a specified rate, the rate will be increased, and the Director of the auction will announce a new rate.

2.5 In the event the sum total of the bids at such new rate is equal to, or does not reach, the total amount offered, the auction will be closed in the following manner:

(a) Bids with respect to the greatest discount rate will be attended to first;

(b) The balance will be divided up among the remaining Brokerage Companies who had bid at the immediately preceding rate, in proportion to their bids;

(c) In the event a Brokerage Company is not interested in the amount to which it is entitled by the distribution carried out in this manner, it may waive its rights to its lot, totally or partially, which will be added to the remainder for the effect of a new division at the same rate referred to in line b, which division will be carried out 3 (three) times at most;

(d) The manifestation, by the Brokerage Company, of the withdrawal referred to in line c will be irrevocable.

3. Manner for Participating in the Auction

3.1 Any physical or juridical person, resident, domiciled or with its principal place of business abroad, duly represented by a Brokerage Company, may participate in the auction.

3.2 Any Brokerage Company which is a member of a Stock Exchange in the Country may participate as an intermediary in the auction, it being sufficient, for this purpose, that it qualify at the Stock Exchange of Rio de Janeiro prior to 6 o'clock p.m. on March 28, 1988.

3.3 The Central Bank of Brazil will be represented in the auction by the Stock Exchange of Rio de Janeiro.

3.4 The brokerage fee to be charged by the Brokerage Companies for intermediating the transactions will be 0.15% (fifteen one-hundredths of one per cent) of the amount of the operation.

3.5 The Stock Exchange of Rio de Janeiro will charge the intervening Brokerage Companies commissions of 0.015% (fifteen one-thousandths of one per cent) of the amount of the operation.

4. Results of the Auction

4.1 At the end of the auction, the Stock Exchange of Rio de Janeiro will provide the Brokerage Companies whose bids have been victorious, and the Central Bank of Brazil, with a declaration informing of the lots which went and the respective rates of discount.

4.2 Brokerage Companies whose bids were victorious at the auction will present to the Stock Exchange of Rio de Janeiro, prior to 12 o'clock noon on March 30, 1988, information necessary for the precise identification of the principal and the investment corresponding to each winning bid, which will immediately be delivered to the Central Bank of Brazil.

4.3 Any Brokerage Company not complying with the provisions of the preceding item will be subject, cumulatively, to a fine of 0.1% (one tenth of one per cent) of the amount of the irregular operation and to suspension from participating in conversion auctions covered by up to 6 (six) of the subsequent published notices for bids.

4.4 The fine set forth in the preceding item will be charged directly by the Central Bank of Brazil to the Brokerage Company in breach, which should obtain reimbursement from the principal, wherever the latter

shall have caused the infraction.

5. Further Information

5.1 Brokers from other marketplaces interested in participating in the auction should qualify ahead of time, at the following address: STOCK EXCHANGE OF RIO DE JANEIRO
Market Watch Division
Praca XV de November, 34 - 12th Floor
20.010 - Rio de Janeiro - RJ
Telephone: (021) 291-5354 Extension 1730 or 1864

Brasilia, DF, March 23, 1988
CENTRAL BANK OF BRAZIL
Presidency

RESOLUTION No. 1289

The CENTRAL BANK OF BRAZIL, pursuant to article 9 of Law No. 4595 of December 31, 1964, announces that the NATIONAL MONETARY COUNCIL, at a meeting held on March 3, 1987, in view of the provisions of Laws No. 4728 of July 14, 1965, and No. 6385 of December 7, 1976, and of Decree-laws No. 1986 of December 28, 1982, and No. 2285 of July 23, 1986,

RESOLVED:

I. To approve the Regulations attached as Exhibits I, II and III, which respectively govern the incorporation, operation and administration of Investment Companies--Foreign Capital, Investment Funds--Foreign Capital, and Bonds and Securities Portfolios held in Brazil by the entities mentioned in article 2.of Decree-law No. 2285 of July 23, 1986.

II. The Securities Commission, with due regard for the provisions of article 49, paragraph 1, items (a) and (b) of Law No. 4728, of July 14, 1965, may take any action deemed necessary to perform this Resolution, including the establishment of rules and practices referring to administration and to the maximum remuneration limits, with due regard for the provisions of item IV of article 8 of Law No. 6385, of December 7, 1976.

III. The Central Bank, within its sphere of authority, may adopt the measures that are deemed necessary for the implementation of this Resolution.

IV. This Resolution shall become effective on the date of its publication, Resolutions Nos. 790, of January 11, 1983, 910 of April 5, 1984, and 1224, of November 28, 1986, and item II, subitem (b) of Resolution No. 1120, of April 4, 1986, being hereby revoked.

Brasilia (Federal District), March 20, 1987
Francisco Roberto Andre Gros
President

Regulations Attached as Exhibit II to Resolution No. 1289 of March 20, 1987, Governing the Organization, Operation and Management of Investment Funds - Foreign Capital

CHAPTER I: Organization and Characteristics

Article 1. The Investment Fund - Foreign Capital, with the participation of individuals or legal entities resident, domiciled or with head office abroad, funds or other collective investment entities organized abroad, is a communion of funds for investment in a diversified portfolio of securities, and it shall assume the form of an open condominium without legal identity.

Sole Paragraph. The Fund shall include the term "Investment Fund Foreign Capital" in its name.

Article 2. The organization of the Investment Fund - Foreign Capital shall require the prior authorization of the Securities Commission, which shall also be required for the following acts relating to the Fund:

I. Amendment to the regulations;

II. Designation and replacement of the person in charge of the technical department of the managing institution;

III. Replacement of the managing institution;
IV. Consolidation;
V. Merger;
VI. Spin-off;
VII. Liquidation;
VIII. Contracts executed with intermediary agents.

Paragraph 1. The Central Bank of Brazil shall be heard in regard to organization of the Fund and in the events under items II, III and VIII of this article.

Paragraph 2. The application for authorization for organization of an Investment Fund - Foreign Capital shall be supported by:

I. the resolution of the managing institution on the incorporation of the Fund, which after authorization shall be registered at a Registry of Deeds and Documents and shall reproduce the entire wording of the rules of the Fund;

II. Indication of the managing institution;

III. Information on the authorization of intermediary agents;

IV. Indication of the initial equity of the Fund, which may not be less than Cz10,000,000.00 (ten million cruzados).

Paragraph 3. The rules of the Fund shall contain the following information, which shall be provided separately from the other clauses:

I. Term of duration;

II. The fees for raising, or the criteria for establishing, services of promotion, disclosure and representation of the Fund, and the remuneration of the fiduciary agent, when applicable:

III. Management fee;

IV. Period of time during which funds are required to stay in Brazil, for the purposes of redemption according to article 32.

Article 3. The Securities Commission shall cancel the authorization for the incorporation of an Investment Fund - Foreign Capital that does not, within sixty (60) days of the authorization date, raise the funds required to form its initial equity.

CHAPTER II: Management

Article 4. The Investment Fund - Foreign Capital shall be managed solely by an investment bank, brokerage houses or securities dealerships authorized by the Securities Commission to perform the activities established in article 23 of Law No. 6385, of December 7, 1976.

Paragraph 1. The entities referred to in the main provision of this article shall have a technical department specialized in the analysis of bonds and securities, or shall subcontract such services with an entity accredited by the Securities Commission.

Paragraph 2. Management of the Fund shall be under the supervision and direct responsibility of a director of the managing institution.

Paragraph 3. The net worth of the managing institution shall not be less than that established by the Securities Commission.

Article 5. The managing institution may, by means of six (6) months' prior notice sent by letter, telex or telegram addressed to each investor, resign from management, whereupon it shall communicate its intention to the Securities Commission.

Article 6. The Securities Commission, exercising its legal prerogatives, may cancel the authorization of the managing institution if the latter fails to comply with current rules.

Paragraph 1. The procedure for cancellation of authorization shall start upon notice by the Securities Commission to the managing institution, with an indication of the facts upon which the cancellation was based and of a period of not less than fifteen (15) days to submit defense.

Paragraph 2. The grounds for the decision of the Securities Commission cancelling the authorization of a managing institution shall be stated and it may be appealed to the Securities Commission without suspensive effect during a period of fifteen (15) days as
of the date of receipt of the communication issued by the commission.

Article 7. The Central Bank of Brazil shall apply to the Securities Commission for cancellation of authorization of a managing institution that fails to comply with the applicable rules within its sphere of authority, including those relating to registration of foreign capital and payment of income tax on profit remittance.

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Article 8. In the events of resignation and cancellation of authorization, the managing institution shall immediately call a general meeting to elect its replacement, or to liquidate the Investment Fund - Foreign Capital.

Sole Paragraph. The managing institution shall continue to carry out its duties until it is actually replaced.

Article 9. The managing institution shall be empowered to exercise all the rights pertaining to the securities in the portfolio of the Investment Fund - Foreign Capital, including the right to act, and to attend and vote at general or special meetings. It may likewise open and operate bank accounts, acquire and freely dispose of securities, compromise, in short, perform all the acts required for the management of the portfolio with due regard for the limitations of these Regulations.

Article 10. The obligations of the managing institution shall include:

I. To keep updated and in perfect order:

(a) the investors' register;

(b) the book of minutes of general meetings;

(c) the investors' attendance book;

(d) the auditors' opinion file;

(e) the accounting records referring to the equity of the Fund;

(f) the documentation referring to the operations of the Fund;

II. To receive dividends, stock dividends and any other income or amounts from the Fund;

III. To exercise or dispose of rights to subscribe for shares and other securities;

IV. To exert, in defending the rights of the investors, the diligence required in the circumstances, performing the acts required to ensure such rights, including filing suits, appeals and exception;

V. To supply weekly information on the value of the quota, the value and date of the last distribution and the net assets of the Fund to the stock exchange of the locality of its head office, which shall in turn disclose such information;

VI. To supply annually to the investors evidence of the payment of Income Tax;

VII. To supply to each investor, at least every six months, a document containing the following information:

(a) number of quotas owned and their value;

(b) profitability determined over the six-month period;

(c) value and composition of the portfolio, specifying the amount, kind and quotation of the securities that make up the portfolio, the amount of each investment and its percentage in comparison with the total amount of the portfolio;

(d) balance sheets and other financial statements for the six-month period, accompanied by the opinion of the independent auditor.

Sole Paragraph. Institutions holding the bonds and securities of the Investment Fund - Foreign Capital in custody may only accept orders signed by the legal representative(s) or appointee(s) of the managing institution duly authorized by the Fund for such purpose.

Article 11. For its managing and administration services the managing institution shall receive a fee to be established in the rules of the Investment Fund - Foreign Capital, and the Securities Commission may establish rules in this regard, participation in the results of the Fund being prohibited.

Sole Paragraph. The general meeting may authorize the managing institution to subcontract individuals or legal entities to provide economic consulting services, in which event it shall determine whether these charges shall be borne by the Fund.

CHAPTER III: General Meeting

Article 12. The following shall be subject to the exclusive authority of the general meeting of investors:

I. To examine annually the accounts of the Fund and resolve on the financial statements submitted by the managing institution;

II. To amend the Fund's rules;

III. To resolve on the replacement of the managing institution;

IV. To resolve on the liquidation, transformation, consolidation, merger, or spin-off of the Fund.

Article 13. The general meeting shall be called by sending a letter, telex or telegram to all co-owners enrolled in the "Investors' Register" at least fifteen (15) days before the date set for holding the meeting, such period being counted by including the day the meeting is held and excluding the day the instrument of call is sent. If the meeting is not held a second call shall be made at least five (5) business days in advance.

Paragraph 1. Call notices shall necessarily state the date, time and place of the meeting and a brief

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description of the agenda.

Paragraph 2. Regardless of the call provided for under this article, a general meeting attended by all investors will be considered regularly convened.

Paragraph 3. The general meeting may be called by the managing institution or by investor(s) holding at least five percent (5%) of the total quotas issued by the Fund.

Article 14. At general meetings of investor, which may be convened with any number, resolutions shall be passed by majority of quotas of investors present, with each quota corresponding to one vote, with due regard for the provisions of paragraph 1 of this article and paragraph 3 of article 15.

Paragraph 1. Resolutions on the matters set forth in items III and IV of article 12 shall be taken, at first call, by a majority of the quotas issued and, at second call, by majority of the quotas of the investors in attendance.

Paragraph 2. Only co-owners registered in the "Investors Register" fifteen (15) days before the date established for a general meeting may vote at such meeting.

Article 15. The resolutions of the general meeting may be adopted by means of a consultation made by letter, telex or telegram addressed by the managing institution to each investor, to be answered within a period of thirty (30) days.

Paragraph 1. The consultation shall state all the information required for the exercise of the right to vote.

Paragraph 2. Failure to answer shall be considered as consent of the investor, provided that such interpretation is expressly authorized by the rules of the Fund and is stated in the consultation itself.

Paragraph 3. Regardless of the matter, an absolute majority of the quotas issued shall be required as the quorum for resolutions.

CHAPTER IV: Authorization of Intermediaries Abroad

Article 16. The managing institution of the Investment Fund - Foreign Capital may authorize intermediary agents, by agreement, for the purpose of raising funds abroad for the subscription or purchase of quotas of the Fund, and for services of promotion, disclosure and representation of the Fund, as well as to act as a fiduciary agent.

Paragraph 1. Authorized agents must, depending on the case, be qualified to operate and/or act as a fiduciary agent on the financial or capital markets of the country in which they have their head offices.

Paragraph 2. The agency agreement shall only become effective after registration at the Securities Commission.

Article 17. The agency agreement shall, depending on the case, contain at least the following provisions:

I. Reference to the rules of the Fund, a copy of which shall be a part of the agreement;

II. Amount of the initial funds to be raised;

III. Fee for raising the funds, payable by the investor abroad;

IV. Minimum amount of each subscription or purchase per investor which may not be less than five thousand dollars (US$ 5,000.00) or its equivalent in the foreign currency of the country of origin of the funds;

V. Commitment of the intermediary agent to:

(a) remit the funds raised, within at most two (2) business days of the date on which they are raised;

(b) supply, according to instructions received from the managing institution, all the information required for the registration of the entry of the funds at the Central Bank of Brazil;

(c) not to subcontract the raising of the funds, unless previously authorized to do so by the managing institution;

(d) submit for the prior approval of the managing institution any advertising texts referring to the initial offering of the quotas, and also any prospectuses and brochures to be distributed to the public, as well as periodical information;

(e) have the document or receipt supplied to the investor specifically mention the net amount to be remitted for purposes of subscription of quotas of the Fund after deducting the applicable fees and expenses;

(f) ensure the investor full knowledge of the provisions that govern the operation of the Fund;

(g) comply with all the legal requirements and regulations in the country of origin of the funds in connection with raising such funds for investment in quotas of the Fund;

VI. Service fee for the promotion, disclosure and representation of the Fund;

VII. Remuneration of the fiduciary agent.

CHAPTER V: Net Assets

Article 18. Net assets of the Investment Fund - Foreign Capital shall mean cash plus the value of the portfolio, plus amounts receivable, less liabilities. In order to determine the value of the portfolio, the criteria established in the accounts plan referred to in the sole paragraph of Art. 36 shall apply.

CHAPTER VI: Issuance and Placement of Quotas and Investment Certificates

Article 19. The quotas of the Investment Fund - Foreign Capital shall correspond to ideal fractions of the Fund, and shall be registered quotas.

Paragraph 1. Quotas shall be represented by Investment Certificates, or maintained in deposit accounts in the name of their owners, as established in the Fund's rules.

Paragraph 2. The capacity of investor shall be evidenced by the Investment Certificate or by the deposit account statement.

Article 20. The Investment Certificate, when adopted, shall contain:

I. The name "INVESTMENT CERTIFICATE";

II. The Fund's name and its enrollment number in the General Taxpayers; Register of the Ministry of Finance;

III. The following characteristics of the managing institution:

(a) name and place of the head office;

(b) authorization of the Securities Commission (Art. 4) and authorization to operate by the Central Bank of Brazil;

(c) enrollment number in the General Taxpayers' Register of the Ministry of Finance;

IV. Name of the investor;

V. Sequence number of the certificate;

VI. Number of quotas it represents;

VII. Place and date of issuance;

VIII. The signatures of at least two (2) directors of the managing institution, facsimile signatures being permitted.

Article 21. The Investment Certificate or the deposit account statements shall duly evidence the obligation of the managing institution to comply with the contractual provisions in the rules of the Investment Fund - Foreign Capital, and the provisions of these Regulations.

Sole Paragraph. Any clause restricting or modifying the obligation referred to in this article shall be deemed to have not been written.

Article 22. The Investment Certificates or the deposit account statements shall evidence the ownership of a whole number and/or fraction of quotas belonging to the investor, in accordance with the records of the Investment Fund - Foreign Capital.

Sole Paragraph. When the system of whole numbers of quotas is adopted, the residual value of the investments or reinvestments shall be kept in a current account for future investments or, further, if requested, shall be paid to the investor in cash.

Article 23. The quotas shall be issued in accordance with the provisions of the rules of the Investment Fund - Foreign Capital and the value of each quota shall be determined as per the equity appraisal made in accordance with the provisions of the Accounts Plan referred to in the sole paragraph of Art. 36.

Paragraph 1. To calculate the number of quotas subscribed with funds entering Brazil, only the exchange brokerage fee and the fund raising fee shall be deducted, if due.

Paragraph 2. The quotas subscribed shall be paid up in cash, on the date of entry of the funds into Brazil.

Paragraph 3. The value of the quota shall be calculated daily.

Article 24. The quotas issued by the Investment Fund - Foreign Capital shall be subscribed solely by individuals or legal entities resident, domiciled, or with head office abroad, funds or other collective investment entities organized abroad, the placement and transaction of the respective quotas on the domestic market be forbidden.

Article 25. The quotas of the Investment Fund - Foreign Capital relating to each registration of foreign capital may be transferred abroad by means of a proper document, which shall only be effective in regard to the Fund after submission to the managing institution, duly executed.

Paragraph 1. Once the request for transfer has been submitted the managing institution shall carry it out within a maximum period of five (5) business days.

Paragraph 2. The managing institution may suspend services of transfer of quotas for a period of no more than fifteen (15) consecutive days prior to the dates of distribution of results or of the general meeting, suspension of such services during the year for more than ninety (90) days being prohibited.

CHAPTER VII: Registration of Foreign Funds Entering Brazil

Article 26. The funds entering the country shall be subject to registration at the Central Bank of Brazil for purposes of control of foreign capital and future remittances abroad of income, capital gains and repatriation of the invested capital.

Paragraph 1. Registration shall be applied for by the managing institution up to the last business day of the month following the month in which the investments were made.

Paragraph 2. To obtain registration, the managing institution shall submit a full list of the investors, accompanied by individual cards specifying the investment of each one.

Paragraph 3. Each subscription or purchase of quotas of the Fund shall correspond to a separate registration of foreign currency investment in the name of the investor, always with due regard for the minimum amount established in Art. 17, item IV.

Paragraph 4. The registration shall be made in the name of the fiduciary agent especially contracted for such purpose, provided the number of co-owners is more than ten (10), without prejudice to the presentation of the list of investors established in paragraph 2 of this article.

Paragraph 5. The amount of the investment registered in foreign currency shall not suffer any change by virtue of the issuance of quotas as a result of the reinvestment of Accrued Results of the Fund; the registration shall only be altered as regards the number of quotas.

Paragraph 6. The list referred to in paragraph 2 shall be delivered against receipt, and the investments shall be deemed to be automatically registered, without prejudice to the responsibility of the managing institution for the accuracy and suitability of the documents submitted and the information provided, which may be verified at any time by the Central Bank of Brazil, which shall adopt the appropriate procedures to correct the registration and hold the managing institution liable, if applicable.

Paragraph 7. The managing institution shall apply to the Central Bank of Brazil for amendment of the registration of foreign capital solely to change the investor's or the fiduciary agent's name, within at most ten (10) business days of the date on which the quota transfer or replacement of the fiduciary agent was made, attaching, as applicable, the individual card corresponding to the new foreign investor or the list of foreign investors.

Article 27. The Certificate of Registration of Foreign Capital issued by the Central Bank of Brazil shall be the proper document for repatriation of foreign capital and remittances of income or capital gains obtained from the redemption of quotas of the Investment Fund - Foreign Capital.

Sole Paragraph. Remittances shall be made by the managing institution through banks authorized to deal in foreign exchange; separate exchange shall be closed for each kind of remittance.

Article 28. At the time of the remittances, the managing institution shall deliver to the banks intervening in the exchange transactions the documents listed below, duly executed and certified, which shall be forwarded to the Central Bank of Brazil together with the fourth (4th) counterpart of the exchange contracts:

I. For income:

(a) financial statements under which the income is being distributed;

(b) document that authorized the distribution of the income;

(c) evidence of payment of Income Tax;

II. For repatriation of investment and capital gains: evidence of redemption of the quotas.

Article 29. The managing institution shall forward to the Central Bank of Brazil, within thirty (30) days of making the remittance, the following information and documents:

I. For income:

(a) aggregate sum remitted;

(b) detailed list, containing the names of the investors, the number of quotas owned, the gross and net amount of income distributed for each one, with indication of the amount and number of foreign capital registration;

II. For repatriation of investment and capital gains:

(a) statement showing the number of quotas redeemed and the amounts of purchase and redemption;

(b) specification of cancellations of foreign capital registration.

Article 30. When transfers are made under article 28, the intervening banks shall be responsible for verifying whether the managing institution, according to the nature of the remittance, complied with the

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provisions of these Regulations, and shall also strictly observe the rules regarding financial remittances, including as regards any applicable annotations on the sheets attached to the certificates of registration.

Article 31. The Central Bank of Brazil shall from time to time disclose the registrations of foreign currency investments made under these Regulations.

CHAPTER VIII: Liquidation of Investment

Article 32. The funds referring to each investment shall remain in Brazil for a minimum period of ninety (90) days as from the date they entered the country, after which the amount obtained liquidating the investment may be repatriated.

Article 33. The investment shall be liquidated by redeeming the quotas according to the provision of the rules of the Investment Fund - Foreign Capital.

Paragraph 1. The request for liquidation of the investment, together with the respective certificate, if applicable, shall be made by the investor at any time, either directly or through the intermediary agent to the managing institution.

Paragraph 2. The liquidation shall be made in cash within the maximum period established in the Fund's rules, as of the date of receipt of the request by the managing institution.

CHAPTER IX: Financial Statements

Article 34. The Investment Fund - Foreign Capital shall keep its accounting records separate from those of the managing institution.

Article 35. The Investment Fund - Foreign Capital shall draw up a balance sheet at the end of each month, and six-monthly balance sheets on March 31 and September 30 of each year.

Sole Paragraph The six-monthly financial statements prepared in March and September shall be audited by an independent auditor
registered with the Securities Commission.

Article 36. The financial statements of the Investment Fund -Foreign Capital shall be subject to the accounting rules issued by the Securities Commission.

Sole Paragraph. The Accounts Plan issued by the Securities Commission shall include all the rules for appraising the assets that make up the Fund, as well as for appropriation of income and expenses related to the securities, and shall follow the guidelines of the Central Bank of Brazil as regards bonds.

CHAPTER X: Tax Aspects

Article 37. The income received by the Investment Fund - Foreign Capital shall be exempt from withholding income tax and the corporate income tax return.

Article 38. The cash income distributed by the Investment Fund - Foreign Capital to quota-holders resident, domiciled or with head office abroad, shall be subject to withholding income tax at the rate of fifteen percent (15%).

Sole Paragraph. In the case of investors resident, domiciled or with head office in countries with which Brazil has a double taxation treaty, the rate established in the main provision of this article may be altered at the request of the investor and the rate that is lower shall prevail.

Article 39. With due regard for the rules and conditions established in these Regulations, proceeds from the conversion into foreign currency of the cruzado sums obtained upon the redemption of quotas of the Investment Fund - Foreign Capital, may be repatriated with income tax exemption, the foreign currency amount being determined by conversion at the rate of exchange in effect on the date of remittance.

CHAPTER XI: Composition of the Securities Portfolio

Article 40. At least seventy percent (70%) of the aggregate amount of investments of the Investment Fund - Foreign Capital shall consist of shares issued by publicly-held companies and purchased by subscription or at stock exchanges or on an over-the- counter market organized by an entity authorized by the Securities Commission.

Sole Paragraph. In respecting the minimum limit established in the main provision of this article, daily share positions may be at least thirty-five percent (35%) of the total amount of investments, provided that the average of the last seven hundred and twenty (720) days is at least seventy (70%) of the total amount of

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investments.

Article 41. Remaining funds may be held available or may be invested in the following investment alternatives, either individually or cumulatively:

I. Central Bank Bills and Federal Government Bonds;

II. Other securities issued by publicly-held companies.

Article 42. The following diversification criteria shall be observed for the investment of funds:

I. Total investments in shares shall not exceed five percent (5%) of the voting capital or twenty percent (20%) of the total capital of one sole company;

II. Total investments in securities of one sole issuer company shall not exceed ten percent (10%) of the total investments of the Fund;

III. When determining the diversification limits established above, shares received as stock dividends or resulting from the conversion of debentures, and shares of convertible debentures resulting from the exercise of preemptive rights, shall not be taken into account, provided that the excess is eliminated within six (6) months, which period may be extended when justified and approved by the Securities Commission.

Sole Paragraph. Noncompliance with the limits for composition and diversification hereunder shall be justified to the Securities Commission which, without prejudice to applicable penalties, may require the managing institution to call a general meeting of investors to decide on one of the following alternatives:

I. Transfer of management of the Fund to another institution;

II. Liquidation of the Fund

CHAPTER XII: Operating Guidelines

Article 43. The securities that make up the portfolio of the Investment Fund - Foreign Capital shall necessarily be kept in custody with financial institutions, stock exchanges or custody entities authorized by the Securities Commission.

Article 44. Managing institutions, when acting on behalf of the Fund, shall not:

I. Receive deposits;

II. Take or grant loans of any kind;

III. Render sureties, *aval* guarantees, or acceptances, or become co-obligor in any way whatsoever;

IV. Deal in trade bills, promissory notes or other bills not authorized by the National Monetary Council;

V. Promise a pre-established yield to the investors;

VI. Acquire or sell, other than at a stock exchange, shares of publicly-held companies registered for trading on the stock exchange, except, as to acquisition, in the event of subscription, stock dividends and conversion of debentures into shares;

VII. Invest funds:

(a) abroad;

(b) to purchase real property;

(c) in securities issued or co-guaranteed by the managing institution or by a company connected with it (Art. 48);

(d) in the subscription or purchase of shares of investment companies or quotas of Investment Funds, including those of its own issuance;

(e) in shares traded in an over-the-counter market segment that is not organized by an entity authorized by the Securities Commission.

Article 45. The managing institution may not:

I. Sell quotas of the Fund on credit;

II. Delegate powers to manage and administer the Fund, except with the specific authorization of the Securities Commission.

Article 46. The securities that make up the Fund's portfolio may not be the subject of a lease, loan, lien or pledge, except in cases expressly authorized by the Central Bank of Brazil or by the Securities Commission in their respective spheres of authority.

Article 47. The Investment Fund - Foreign Capital may carry out transactions on the futures markets for foreign currencies, share indices and share options index.

Article 48. For purposes of these Regulations, the following corporations shall be deemed to be connected:

I. Those in which the managing institution participates directly or indirectly with more than ten percent (10%) of the capital;

II. Those in which officers of the managing institution and their respective legal or common-law spouses

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and relatives up to the 2nd degree participate jointly or severally with more than ten percent (10%) of the capital, directly or indirectly;

III. Those in which shareholders with more than ten percent (10%) of the capital of the managing institution participate with more than ten percent (10%) if the capital, directly or indirectly;

IV. Those whose officers are wholly or partly the same as the officers of the managing institution, excepting offices on associated bodies set forth in the by-laws or internal regulations of the managing institution, provided that the holders of such offices do not exercise executive duties, after the Securities Commission has been consulted.

V. Those holding more than ten percent (10%) of the capital of the managing institution, either directly or indirectly;

VI. Those whose officers and their respective spouses, common-law spouses or relatives up to the second (2nd) degree jointly or severally hold more than ten percent (10%) of the capital of the managing institution, either directly or indirectly.

Article 49. In addition to the fees for the services provided for in Art. 11, the following expenses shall be charges of the Investment Fund - Foreign Capital and may be charged to it by the managing institution:

I. Federal, estate, municipal or autonomous government entity taxes, charges or contributions that are levied or may be levied on the assets, rights and obligations of the Fund;

II. Expenses for printing, mailing and publishing reports and financial statements, forms and periodical information provided for in the rules of the Fund or in the pertinent regulations;

III. Expenses with correspondences of interest to the Fund, including notices to the investors;

IV. Fees and expenses of the auditors in charge of reviewing the financial statements of the Fund and with the analysis of its condition and the performance of the managing institution;

V. Fees and commissions paid for transactions of purchase and sale of securities of the Fund;

VI. Fees of legal counsels, court costs and related expenses incurred to defend the interests of the Fund, in or out of court, including the amount of the award if the Fund is defeated;

VII. Any losses as regards the proportion of such events not covered by insurance policies or not directly attributable to the fault or negligence of the managing institution, in performing its duties;

VIII. Insurance premiums, as well as the expenses of transferring monies of the Fund between banks;

IX. Any expenses of organization or liquidation of the Fund or of holding general meetings of investors;

X. Fee for custody of securities of the Fund;

XI. Fee for services of promotion, disclosure and representation of the Fund due to the intermediary agent abroad;

XII. Remuneration of the fiduciary agent.

Sole Paragraph. Other management and operational expenses that are indispensable for the smooth operation of the Fund may be charged to it if previously authorized by the Securities Commission.

Article 50. Advertising expenses for raising funds abroad shall not be charged to the Investment Fund - Foreign Capital, shall be considered as fund-raising costs and shall therefore be included in the service fee agreed upon to compensate the intermediary agent.

Article 51. The foreign currency sums raised abroad shall, after deduction of the service fees contracted with the intermediary agents, be remitted to Brazil by means of a money order sent preferably by telex or telegram through a bank authorized to deal in foreign exchange, with due regard for the following rules:

I. The money orders shall be issued by the intermediary agents in favor of the managing institution of the portfolio of the Fund;

II. The foreign exchange shall be transacted by the managing institution, which shall use the respective proceeds to subscribe for or purchase quotas of the Fund after deduction of the exchange brokerage fee, if due.

CHAPTER XIII: Information

Article 52. The managing institution shall forward to the Securities Commission within at most ten (10) business days of the end of the relevant period, without prejudice to any others that may be required, the following documents regarding the Investment Fund - Foreign Capital:

I. Every month:

(a) balance sheet;

(b) statement of composition and diversification of investments;

(c) statement of sources and allocations of funds;

II. Every six months:

(a) balance sheet;

(b) copies of information supplied to the co-owners, remittance of the audit opinion on the financial statements for the six-month period, within a maximum period of sixty (60) days after the end of the relevant period;

(c) information on the general conditions of insurance coverage for transit of securities;

(d) list of institutions responsible for providing services of custody of bonds and securities of the portfolio;

(e) list of judicial and extra-judicial claims, whether to defend the rights of the investors or by the investor against the management of the Fund, specifying the date on which they began and were finally resolved.

Article 53. The managing institution shall on a semi-annual basis within at most ten (10) business days of closing of the period, publicly disclose, through a medium approved by the Securities Commission, a statement of investment composition and diversification.

CHAPTER XIV: Final Provisions

Article 54. The provisions of Chapter V of Law No. 4595, of December 31, 1964, and article 11 of Law No. 6385, of December 7, 1976, shall apply to the managing institution and its officers and manager directly responsible for the management of the Investment
Fund - Foreign Capital, regardless of any other applicable legal sanctions.

Article 55. Without prejudice to the provisions of the preceding article, any managing institution that fails to comply with these Regulations shall be liable for the full payment of the withholding Income Tax on any income and capital gains it may make or credit, including supplementary income tax.

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Chile

Provision of the Conversion of External Debt
CHAPTER XVIII: Compendium of Rules on International Exchange--Acquisition of Foreign Debt Instruments

Natural or juristic persons, whether resident or non-resident in Chile, are hereby authorized to engage in the following foreign exchange operations without access to the foreign exchange market and under the terms and conditions set forth below:

1. To acquire, whether directly or through agents, for the sole purpose of conducting the operations described in this Chapter, debt instruments evidencing the existence of an obligation denominated and payable abroad in foreign currency, for an original or extended term exceeding 365 days, executed by any one of the following persons as direct obligor:

(a) The Treasury,

(b) Banco Central de Chile,

(c) "Agencies in the public sector," comprising all departments, institutions or concerns referred to under Article 2(a) of Law Nr. 18,233, including Corporacion Nacional del Cobre de Chile (CODELCO) and the organizations listed under Article 11 of Law Nr. 18,196, excluding Banco del Estado de Chile,

(d) Corporacion de Fomento de la Produccion (CORFO), and banking and financial institutions authorized to operate in Chile, or

(e) Natural or juristic persons resident in Chile, provided that in this case such obligations refer to foreign credits admitted into the country under the provisions of Chapter XIV hereof.

2. Notwithstanding the provisions contained in Nr. 1 above:

(a) Neither the Treasury, nor Banco Central de Chile, nor the "agencies in the public sector," nor banking and financial institutions authorized to operate in Chile may acquire the instruments referred to in Nr. 1 above, and

(b) The persons who, according to regulations of the Superintendency of Banks and Financial Institutions, are deemed to be "related," either directly or through third parties, to the ownership or the management of banking and financial institutions authorized to operate in Chile, shall obtain prior approval from the Superintendency, in each case, in order to acquire any instrument under the provisions contained in this Chapter. Such authorization is also required in the case of any financial institution subject to the supervision of the Superintendency to acquire or receive by way of payment the instruments described under 3 below, connected with obligations of "related" persons.

3. Prior to formalizing the acquisitions described under paragraph 1 above, an agreement shall be executed and registered with a Notary public or other recording office, between the acquirer(s) of the instrument(s), the guarantor(s) of the relevant obligation, as the case may be, that shall provide that, subject to the completion of the acquisition of such instrument(s):

(a) the instrument evidencing such obligation shall be paid for in Chile, promptly and against surrendering such instrument, in cash, with or without discount in Chile's local currency, or

(b) alternatively, the replacement of the instrument by one or more instruments, in Chile, denominated in pesos, Chile's domestic currency or in Unidades de Fomento, shall be convened and, on this occasion, the amount of debt, the rate of interest, maturity dates and other conditions may be amended.

In the event that the instrument evidencing the obligation is extended other than "to bearer" or "to the order," or it calls for partial assignment of an instrument, the above agreement shall be executed also by the creditor(s) registered as such with Banco Central de Chile.

In the same agreement, and under the above proviso, the obligor(s) of the instrument shall waive access to the foreign currency market available to the associated obligation and, when appropriate, shall commit himself to return to Banco Central de Chile, immediately upon payment of the instrument or exchange of instruments, as the case may be, through the agent described in paragraph 4 below, the Certificates referred to under Chapter XIV hereof, to be rendered useless or amended, as the case may be.

If the acquired credit forms part of an obligation covered by the same instrument, the above agreement shall provide, besides, for its corresponding amendment and shall keep, for the uncontracted part of the debt, in any event, the same date of execution, maturity, interest rate and other conditions agreed or stipulated on the original instrument.

When executing the agreement described in the preceding paragraphs, the provisions of Chapter XIV (G), Title II (b), shall be fulfilled, as well as the agreements originating the associated obligation.

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Execution of the agreement described above shall not be required if and when such instrument is executed by Banco Central de Chile as direct obligor, in which case the instrument shall be replaced by one or more negotiable instruments as described in Exhibit 1. Nevertheless, the investor(s) can agree with said institution that the rates applicable to the instruments that substitute the documents, according to Nr. 1 of this Chapter, will be the ones in force at the time of the respective agreement.

4. Persons acquiring foreign debt instruments as provided above shall have them immediately delivered together with the agreement referred to under paragraph 3 above, when appropriate, to CORFO or other banking organization or financial institution authorized to engage in foreign currency operations in Chile, toward which they shall assign an irrevocable mandate to request Banco Central de Chile, on behalf of the mandator, to exchange the instruments referred to in Exhibit 1, if such instrument was executed by Banco Central de Chile as direct obligor or, otherwise, to collect on the debt and deliver to the mandator the proceeds of the payment to the obligor, or to request the obligor to replace the instrument by new instruments as provided under the relevant agreement.

If the instrument is to be exchanged for negotiable instruments or for new instruments as provided above, such irrevocable mandate shall further instruct the agent to take one of the following actions: Deliver to the mandator the negotiable instruments or the new instrument(s) received in exchange; transfer the same to third parties or receive them on its own account, by way of payment for debts or assets, or sell them to third parties, or purchase them on its own account, and deliver to the mandator the proceeds of such sale.

Under no circumstance shall the amount of payment received from the obligor of the instrument, or the amount of the negotiable instrument(s) or new instrument(s) received in exchange, or the price of sale or transfer by way of payment, exceed the amount of the principal or balance of the principal owed on the original instrument accrued and outstanding as of the date of the operation.

For the purposes of applying this and other provisions of this Chapter, except for expressed counter indication, the exchange rates and parities in force at the time of the operation and contained in Nr. 6 of Chapter I of this Compendium, shall be applied.

5. The operations associated with the collection and the exchange of instruments for negotiable instruments or new instruments may be carried out, under the provisions contained in this Chapter, on a specific part of the month and banking firms and financial enterprises authorized to operate in international exchange within the country, in compliance with the provisions contained in Nr. 4 above, shall be restricted to instruments that do not exceed, in foreign currency and including capital or outstanding owed capital and accrued and outstanding payments calculated as of the date of the corresponding operation, the margin that, for the same monthly period, had been awarded to CORFO or to the respective banking firm or financial enterprise through the bid mechanism described in Exhibit 2 of this Chapter, or assigned thereto by CORFO or other financial institution following the provisions contained in the following paragraph. The indicated "margin" does not include accrued and outstanding to be paid for the total equal to 20% of the capital or the balance of capital owed.

"Margin," for a financial institution, will be equal to the figure, in dollars of the United States of America, expressing the nominal value of the "Promissory Note of Banco Central de Chile, Chapter XVIII of the Compendium of Rules on International Exchange" (P.B.C.-Chapter XVIII), belonging to it and referred to on Nr. 5 of Exhibit 2 of this Chapter, applying the type of exchange described in Nr. 6 of Chapter I of said Compendium, in force at the time of the emission of the mentioned Promissory Note.

The margin assigned to CORFO or to any specific financial institution for any given calendar period according to the provisions of such bid mechanism, that is not used to carry out operations described in this Chapter, may be freely assigned to CORFO or any other financial institution, totally or partially, to be used during the same month under the terms and the conditions set forth herein. Margins assigned to be used in any given month that are not utilized with such month, may not be used in the following months.

6. CORFO and such banking concerns or financial corporations authorized to carry out international exchange operations inside the country shall inform Management for External Financing of Banco Central de Chile, within five bank working days, of the operations carried out according to these norms, by filling out a form included as Page Nr. 1 of Exhibit 3 of this Chapter, enclosing the required documentation.

Likewise, they shall inform the same Manageient office of margin assignments effected according to Nr. 5 above, carried out during said period, by filling out the form contained in Page Nr. 2 of Exhibit 3 of this Chapter, before 14:00 hours of the same day the operations are carried out.

7. The obligations using instruments subject to be applied to operations authorized by this Chapter, shall not have access to the obligations payment system established on Chapter XIII of this Compendium nor to the system described in Agreement Nr. 1672-11850821 of Banco Central de Chile.

8. Persons engaging or participating in operations conducted according to the rules contained in this

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Chapter shall be held responsible for the fulfillment of the provisions established herein and of the acts deriving from its application.

9. Violation of the rules contained in this Chapter shall be penalized in the manner described in Chapter XXIV of this Compendium.

10. Persons who acquire Chilean external debt instruments, as provided in this Chapter, may apply them, after obtaining authorization from Banco Central de Chile, to carry out operations described in Exhibit Nr. 4 thereof and subject to the other provisions established in said Exhibit.

Persons acquiring instruments described in letter (b) of Nr. 1 of this Chapter may carry out the operations described in Exhibit Nr. 5 thereof, and subject to the other provisions established in said Exhibit.

11. The Operations Division of Banco Central de Chile is hereby empowered to institute the procedures required for the control and the supervision of the operations conducted according to this Chapter.

The Superintendency of Banks and Financial Institutions will exercise its authority in the dictation of the required accounting and control regulations.

Chapter XVIII - Exhibit 1 International Exchange: Acquisition of External Debt Instruments Executed by Banco Central de Chile as Direct Obligor

1. In the event that persons authorized under Chapter XVIII, hereof, acquire external debt instruments subscribed by Banco Central de Chile as direct obligor and subject to the provisions established thereof, they shall request from the Issuing Institute, through the agent referred to in Nr. 4 of said Chapter, the replacement of such instruments by one or more negotiable bearer instruments issued by Banco Central de Chile and denominated in Unidades de Fomento, for an amount equivalent to 91% of the value of the replaced instruments, including principal or balance of principal owed plus the corresponding interests, accrued and outstanding, calculated as of the date of such replacement.

The maturity date for the principal of such negotiable instruments shall be after six (6) years counting from the established date and shall earn interests payable on a six-monthly basis, equal to the weighted average interest rate on indexed deposits of the financial system (TIP) for periods extending between 90 and 365 reduced by 1.1% per annum.

The exchange rates and the parities described in Nr. 7 of Chapter I of this Compendium, shall be used for the operations carried out according to the above provisions, without applying the exchange differential contained in Exhibit 1 thereof, in force on the date of replacement, and the TIP rate reported by the Studies Department of Banco Central de Chile, for the relevant deposits during the calendar month immediately preceding the first day of each six-monthly interest period, which will apply for such period.

The interests corresponding to these instruments will only be posted on the respective maturity date. The value of the Unidad de Fomento on the date of maturity of the instrument will be applied for the purpose of calculating the amount owed in national currency corresponding to these negotiable instruments.

2. In the event that the credit acquisition corresponds to part of the obligation provided for by the same instrument, the creditor and the acquirer shall have previously agreed and duly demonstrated to Banco Central de Chile, that the non-acquired part of such credit shall retain the contracting date, maturity, interest rate and other conditions agreed or provided for in the original document.

3. When the market situation grants it, Banco Central de Chile is empowered to modify the terms and the conditions of the instruments described in Nr. 1 of this Exhibit. These modifications shall be applicable to instruments issued as of the date appearing on the Executive Committee Agreement.

4. Situations not covered in the present Exhibit shall be ruled by the general provisions contained in Chapter XVIII of this Compendium.

Chapter XVIII - Exhibit 2 International Exchange: Rules for Margin Tenders on Authorized Operations with External Debt Instruments

Margin tenders on authorized operations with external debt instruments referred to in paragraph Nr. 5 above, shall be carried out under the following terms and conditions:

Tenderers

1. Corporacion de Fomento de la Produccion (CORFO), banking enterprises and financial corporations authorized to engage in international exchange operations are entitled to submit tenders.

Announcement of the Tender

2. The conditions for each tender shall be issued by the Monetary Operations Management with consultancy to a member of the Executive Committee, to be handed out by said Management through the Open Market Operations Department, Agustinas 1180, 3rd Floor, Santiago, and will be available starting at 15:00 hours in the Open Market Operations Section.

Schedule of Tenders

3. Tenders will be received and awarded on the penultimate banking work day of each month, or any other date determined by Banco Central de Chile. The tender will be announced and its conditions made available five banking work days prior to the date of award.

4. Should *force majeure* prevent fulfillment of the conditions described in the previous paragraph, Banco Central de Chile shall give timely notice to the organizations referred to and instruct them accordingly.

'P.B.C.-Chapter XVIII' Sale

5. Banco Central de Chile will issue a nominative promissory note, in local currency, not eligible to earn interests or adjustments, that will be called Promissory Note of Banco Central de Chile Chapter XVIII of the Compendium of Rules for International Exchange (P.B.C.-Chapter XVIII hereinafter), with maturity set at 180 days from the date of emission that will correspond to the date of award. The nominal value of "P.B.C.-Chapter XVIII" will be equal to the awarded "margin," applying the type of exchange referred to in Nr. 6 of Chapter I of the above-mentioned Compendium that is in force on the day of the award.

Participating institutions being awarded the "margin," commit themselves to acquire from Banco Central de Chile the corresponding "P.B.C.-Chapter XVIII" at 100% its nominal value, on the same day of the award. Banco Central de Chile shall debit the account of the financial institution for an amount equal to the "P.B.C.-Chapter XVIII" on the day of the award. In the case of CORFO, payment for the acquisition of "P.B.C.-Chapter XVIII" shall be made through a Bank Check extended to the order of Banco Central de Chile, that shall be delivered at the Open Market Operations Section of Banco Central de Chile, Agustinas 1180, 3rd Floor, before 14:00 hours on the day of the award.

Simultaneously, Banco Central de Chile commits itself to rescue the "P.B.C.-Chapter XVIII" in advance, on the date appearing on the bases set forth for each tender, to those institutions having been awarded in the same or its cessionaries, at a price that equals the price offered to be sold to Banco Central de Chile, according to the award system described in Nr. 14 of this Exhibit.

The "P.B.C.-Chapter XVIII" is liable to be transferred in the cases and the forms described in Nr. 5 of the Chapter this Exhibit refers to, where compliance is required, also, relative to Nr. 5 of the same. The cessionary institution shall assume the rights and the obligations corresponding to the transferrer and, specifically, the commitment to sell the "P.B.C.-Chapter XVIII," totally or partially, depending upon the case, to which they are entitled, to Banco Central de Chile, at the offered price, by CORFO or by the respective financial institution transferring the instrument. The cession, total or partial, of the "P.B.C.-Chapter XVIII" shall represent, consequentially, the "margin" referred to in the second paragraph of Nr. 5 of the Chapter to which this Exhibit refers.

The "P.B.C.-Chapter XVIII" will bear the signature in facsimile of the Monetary Operations Manager and the handwritten signature of the Chief, Open Market Operations Department of Banco Central de Chile.

Submission of Bid Proposals

6. Tenders shall be submitted solely on the "Form for Margin Tenders on Authorized Operations with External Debt Instruments," included at the end of this Exhibit Nr. 2 and shall be included in an envelope marked "Margin Tender on Authorized Operations with External Debt Instruments." This material is available to interested organizations at the Open Market Operations Section, Agustinas 1180, 3rd Floor, Santiago.

7. Bids shall be delivered in a sealed envelope.

8. Each sealed envelope may contain up to three bids, each of them in an individual form.

9. Each bid shall specify the amount of "margin" the institution wishes to be awarded, equivalent in thousands of dollars of the United States of America, and the price at which it offers to sell the "P.B.C.-Chapter XVIII" to Banco Central de Chile. This price will be expressed as a percentage of the total amount of the respective offer, with four decimals at the most.

qualify under this Exhibit and include the following information to International Management:

(a) Identification of the Investors and their representatives;

(b) The information described in letter (b) of the preceding number;

(c) A draft of the Investment Company's by-laws;

(d) Information indicated in letter (e) of the preceding number;

(e) Express acceptance of the applicants to be subject to the provisions contained in this Chapter XIX and its Exhibit Nr. 2, as well as to those established by Banco Central de Chile in the respective authorization; and

(f) The "Placement Memorandum" that is intended to be used for promoting the placement of shares of the Investment Company.

The authorization, in principle, mentioned above shall imply, concerning the Placement Memorandum, that Banco Central de Chile has agreed, solely and exclusively, to the representations of the norms and exchange operations applicable to the investment that are made therein.

5. The authorization referred to in the previous number shall be subject to the condition that, within 180 days counted from the day the same authorization was granted, all the information described under Nr. (3) of this Exhibit will be presented to Banco Central de Chile for its approval.

6. For the purpose of making a decision concerning the application submitted to Banco Central de Chile to operate under this Exhibit, the Issuing Institute may request information from the Investors to the effect of establishing that they are not controlled, directly or indirectly, by persons of Chilean nationality or resident in the country, and from the Superintendency of Securities and insurance and from the Superintendency of Banks and Financial Institutions, and from other organizations and entities, the reports deemed necessary to adopt a decision.

7. The Investment Companies that may carry out the operations described in this Exhibit must be established as closed corporations and their by-laws must contain, at least, the following representation:

(a) The object, that shall be exclusive, will consist in carrying out, exclusively, the acts and agreements necessary to implement operations established by Banco Central de Chile for these kind of companies;

(b) The minimum corporate capital, subscribed and paid, shall not be less than US$20 million (Dollars of the United States of America) equivalent in pesos Chilean domestic currency, at the time of the establishment of the company;

(c) The shares issued may not have a subscription value below the equivalent in pesos Chilean domestic currency of US$100,000 (Dollars of the United States of America); Such shares will be payable only to the Investors with the proceeds in pesos Chilean domestic currency that originate from the payment of the "credits" or through the contribution of the instruments that have been received in exchange for the "credits" or of the lawful domestic currency received in payment for such instruments.

The shares, once subscribed and paid, may be freely transferred abroad by and among the persons described in NR. 2 of this Exhibit;

(d) No shareholder may own, directly or indirectly, over 25% of the capital of the company, except with the express authorization of Banco Central de Chile;

(e) The by-laws shall establish that each subscriber and/or holder of the shares and the Investment Company will be subject to the obligation of producing evidence at any time, when Banco Central de Chile so requires, to show that they are holders of the respective shares, that the shares are under their control or that they have been transferred to persons other than those described in Nr. (2) of this Exhibit.

The Investment Company shall inform Banco Central de Chile on a monthly basis regarding the shareholders' registry and undertake to provide any information required by Banco Central de Chile to verify compliance with the condition mentioned in this letter and, additionally, that the Investment Company shall not register transfer of shares to persons who do not meet the requirements contained in Nr. (2) of this Exhibit;

(f) Indication of the duration of the company that may not be less that 12 years starting from the date of its establishment;

(g) The by-laws shall indicate that the investments of the company shall conform to the established rules or to be established in the future for this purpose by Banco Central de Chile;

(h) The company shall prepare balance sheets covering the period between January 1st and December 31 of each year, that shall be audited by an independent auditor, registered with the Superintendency of Securities and Insurance and may only distribute profits to its shareholders under the terms and conditions established on this letter (h).

In case the first business year ending on December 31 does not complete the period established above, counting as of the date of initiation of activities of the Investment Company, this period shall only be

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considered for the purposes of distributing profits of the Company, and for the remittance referred to in letters (a) and (b) of Nr. (16) of this Exhibit, when referring to periods equal to or exceeding six months, counting as of the above-mentioned date of initiation of activities. During the first five business years, the Company may agree not to distribute profits or that these be partially distributed on each business year. In case distribution is agreed to, it shall not exceed 70% of the profits corresponding to each business year.

The net profits that the Company distributes during the first five business years shall only be destined by the shareholders to the following ends:

(I) Constitute sight or term deposits in a banking firm established in Chile, that can be the same mandating entity referred to below in this letter (h). Such deposits shall be, depending upon the terms dictated by applicable provisions, subject or not to readjustment according to the variation of Unidad de Fomento or the type of exchange, with or without interests. The profits received may also be invested in Banco Central de Chile Discount Promissory Notes; Banco Central de Chile Readjustable Promissory Notes subject to Floating Interest Rate; Discount Promissory Notes of the General Treasury of the Republic and Readjustable Promissory Notes of the General Treasury of the Republic;

(II) Subscribe and pay new shares that will be called "B" shares for the purpose of this Exhibit, issued by the Investment Company. The respective reform of the company's by-laws shall be subjected to prior approval on the part of Banco Central de Chile. These shares shall only be subscribed, paid and maintained by eligible investors referred to in Nr. (2) above, where the above are not subject to the restrictions affecting "A" shares referred to in the first and second paragraph of letter (c) of this Nr. (7) and letter (c) of Nr. (16) of this Exhibit.

The benefits or profits generated by the investments carried out by the holders of the same, according to points (I) and (II) above, as well as those generated by the eventual reinvestment of these, shall be destined, necessarily to the investments described to in points (I) and (II) already mentioned.

The financial instruments referred to in point (I) above shall not be ceded or transferred by their owners and may be liquidated only on occasion of profit remittances they are entitled to according to the terms contained in letter (b) of Nr. (16) of this Exhibit. "B" shares can be ceded or transferred, abroad, by the shareholders of the same only to other investors that are eligible according to Nr. 2 of this Exhibit. The new shareholders shall assume the rights and obligations of the persons ceding.

Once five business years of the Investment Company have elapsed, the company is authorized to distribute only up to 90% of its annual profits.

(i) Provisions that determine that the Investment Company shall be governed by the accounting norms to open corporations with the exception that the investments shall be valued individually at the lesser acquisition value corrected for eventual variations in currency value or their market value;

(j) Obligation to provide information to Banco Central de Chile on a monthly basis regarding its investment portfolio and the operations carried out and of providing full and detailed account of these operations when Banco Central de Chile requests it. Provisions that enable Banco Central de Chile to divulge information regarding the investment portfolio in the manner it deems necessary.

8. Investments made by the Investment Companies, regardless of the amounts reserved in cash or in banking accounts, must be carried out using the following instruments:

(a) Shares of Chilean corporations;

(b) Instruments issued or guaranteed until their full payment by the Republic of Chile, by "public sector entities," pursuant to the definition of the latter contained in letter (b) of Nr. 1 of this Chapter, and by Corporacion de Fomento de la Produccion (CORFO);

(c) Instruments issued by Banco Central de Chile;

(d) Instruments issued or guaranteed until total payment by banks or financial institutions established in the country;

(e) Mortgage bonds issued by banks or financial institutions, or by other authorized entities in the country;

(f) Bonds and commercial paper registered with the Registry of Securities;

(g) Any other instrument or security purchased with expressed authorization of Banco Central de Chile.

9. The investments of the company shall be subject to the following rules concerning diversification requirements:

(a) Investments may not exceed, directly or indirectly, 10% of the corresponding capital with the right to vote of the same issuer. Such restriction shall amount to 15% of the corporate capital with a right to vote if the excess over such 10% corresponds to shares pertaining to a primary issue subscribed and paid by the corresponding Investment Company;

(b) Investment in instruments issued or guaranteed by the same issuer may not exceed 10% of the

respective Investment Company's assets, except in cases where the instruments are issued or guaranteed until full payment by the Republic of Chile or by Banco Central de Chile;

(c) After the fourth year counting from the date of initiation of activities, the company must have at least 80% of its assets invested in shares or long-term financial instruments. Besides, and starting on the above-mentioned date as well, at least 60% of the assets shall be invested in shares pertaining to open corporations. Nevertheless, such limits shall not be applied during the year prior to the liquidation of the Investment Company, and shall be reduced to 40% and 30%, respectively, during the year prior to the one preceding liquidation.

For these purposes, long-term instruments shall be understood to be those in which the maturity date exceeds four years starting on the date of their purchase by the corresponding Investment Company.

10. If excesses should occur relative to the limits of investment established in the preceding number, which shall be reported to Banco Central de Chile within 10 days after the limit has been exceeded, the Issuing Institute shall determine a date for normalization that will not be less than 60 days and may not exceed 180 days counting from the date of notification of the fact. Such term may be extended if Banco Central de Chile considers there are justified reasons to alter the limits mentioned above.

11. The operations carried out by the Investment Companies shall conform to bona fide and reasonable conditions, and Banco Central de Chile may request verification as to the manner in which the operations were carried out, at any given time.

12. In case the Investment Companies hire third parties for the management of their investment portfolio, the system of remuneration to be applied to such purposes must be submitted to the approval of Banco Central de Chile.

13. The Investment Companies shall submit to Banco Central de Chile a list identifying the foreign markets or stock exchanges in which the shares of the company will, eventually, be registered for their transaction.

14. The liabilities of the Investment Company may only originate from operations related to its line of business and within habitual market terms, commissions payable, expenditures, fees payable for the management of its portfolio, deferred payments for primary issues of securities and other liabilities of a similar nature related with its operation and its correct financial administration, prior authorization on the part of Banco Central de Chile.

15. In case the obligations described in the third paragraph of letter (c) or of letter (d) of Nr. (7) of this Exhibit were violated, under any circumstance, access to the foreign exchange market will only be granted, concerning the affected shares, once the impediment has been removed, notwithstanding the possibility of penalizing the action in accordance to the terms contained in Nr. (10) of this Chapter XIX.

16. The shareholders of the Investment Company and/or, as the case may be, the holders of the investments described in point (I) of letter (h) of Nr. (7) above, shall have access to the foreign exchange market to carry out the following operations:

(a) Remit net profits distributed by the Investment Company, and 90% of the proceeds generated by the investments they hold, carried out in instruments described in point (I) of letter (h) of Nr. (7) of this Exhibit, after the fifth business year of the company;

(b) Remit profits not distributed by the Investment Company during the first five business years, and those that are invested according to points (I) and (II) of letter (h) of Nr. (7) above, as well as those generated by eventual reinvestment of the same, after five business years of the Investment Company have elapsed and in proportion that may not exceed, annually, 20% of non- distributed profits and outstanding net balance of the invesments a d/or its reinvestments as of the fifth business year of the company; and

(c) Remit the produc ot the liquidation of the Investment Company as well as the 10% retention effected concerning the proceeds referred to in letter (a) of this Nr. (16), not before the minimum term established in letter (f) of Nr. (7) of this Exhibit has elapsed.

17. The persons holding "A" or "B" shares, as well as those holding investments referred to in point (I) of letter (h) of Nr. (7) above, shall confer, previously or simultaneously with the corresponding investment of the profits, and to the extent that the Investment Company had agreed to distribute profits during any of the first five business years counting from the date of initiation of activities, an irrevocable mandate to the Investment Company to carry out the following actions concerning the same:

(a) Collect the corresponding dividends distributed by the Investment Company and invest them in the subscription and payment of shares "B" or in financial instruments referred to in point (I) of letter (h) cited above;

(b) Collect the proceeds obtained by the holders of the financial instruments described in point (I) of letter (h) cited above and invest them in shares or financial instruments referred to in letter (a) above;

(c) Administer the investment carried out by the respective holders of the financial instruments, and the proceeds generated by the same referred to in letters (a) and (b) above;

(d) Liquidate the financial instruments referred to in point (I) of letter (h) cited, and the product of the reinvestment of the same, placing them at the holders' disposal for its corresponding remittance abroad, according to the terms and conditions established for this purpose in letters (a) and (b) of Nr. (16) above.

The mandates granted in conformity with this number shall be in force as long as the corresponding right to access to the foreign exchange market referred to in Nr. (16) above is maintained. In case cessions of shares "A" or "B" take place, and previously or simultaneously to the materialization of these actions, the new holders shall grant a mandate to the Investment Company in agreement with the provisions established in this Nr. (17).

18. For the purposes of the conversions of foreign currency taking place according to the norms contained in this Exhibit the type of exchange utilized shall be the one referred to in Nr. (6) of Chapter I of the Compendium of Rules on International Exchange.

19. The investments authorized under the provisions contained in this Exhibit shall be subject to each and all the general norms, conditions, and obligations included in Chapter XIX of this Compendium, and to the special rules contained in this Exhibit, where the latter prevail over the former, in case of conflict.

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Costa Rica

A Guide for Converting Foreign Debt Securities Issued by the Central Bank of Costa Rica into Colones for Investment Purposes

The regulations hereunder make up a non-exhaustive set of basic criteria to be used by the Central Bank of Costa Rica in the exchange of foreign currency denominated securities. Such criteria shall be applied to the analysis of offers for the conversion of foreign currency denominated debt documents of the Central Bank, into documents negotiable in colones from said institution.

1. Objective of the Conversion Process

The objective of this process is to encourage, in terms favorable to the domestic economy, the exchange of foreign currency liabilities which evidence public foreign indebtedness into colon denominated securities, in order to channel those resources toward productive investments in the country, particularly those which shall increase short- and middle-term income of foreign exchange.

2. Interchangeable Securities

Securities so convertible by means of this process into colon denominated documents include promissory notes, *presa de divisas* certificates of deposit, notes and other foreign currency denominated documents issued by the Central Bank of Costa Rica in accordance with the public foreign debt refinancing and other payment agreements of the Republic of Costa Rica. The Central Bank reserves the right to include into this conversion scheme any other foreign debt documents issued in the future.

3. Exchange Terms and Conditions

Foreign currency denominated securities will be exchanged for colon denominated documents under the terms and conditions agreed to by the parties; however, the maturities of the new documents may not be shorter than those of the original securities plus three years. The terms of the offer, and the dispositions of the funds in colones shall be accounted for upon the determination of the above mentioned conditions.

4. Exchange Offers

The parties interested shall submit their exchange offers together with the following information:

(a) Business name, address and name of attorneys-in-fact or legal representatives of investor.

Formal exchange application with details such as the investments to be made in the country with the colon denominated securities resulting of such exchange, and more specifically, financial characteristics which show the investment feasibility and the export volume to be generated by said investments in the following years.

(c) Whether the project implementation requires of any equipment, machinery or imported material, time required for effecting said import and the amount thereof.

(d) Terms under which the holder is willing to effect the exchange operation, with details on the foreign currency denominated securities to be exchanged and the expected terms of the colon denominated documents.

Applications should be submitted to the Office of the Manager of the Central Bank of Costa Rica in triplicate.

5. Priority Investments

This conversion process may be used for investments made by the following organizations and financial entities:

GROUP A: Firms having subscribed the Export Agreement under Law 6955 of November 26, 1984; tourist companies defined under Law 6990, and banana companies defined under Executive Decree 16563-MAG.

GROUP B: (1) Banks and financial entities subject to direct control by the Office of the General Auditor of Banks, which shall show evidence satisfactory to the Central Bank of foreign resources having been contracted to be used in the country which will produce additional income of foreign exchange. The offers so submitted destined to capitalization of banks and the entities mentioned above shall indicate the credit operations to be financed from the capitalization proceeds. These operations shall be effected only if

related to the priority activities set forth under this clause.

(2) Businesses producing goods substituting imports.

GROUP C: Investments on securities from Central Bank of Costa Rica, or other profitable activities.

Investments on organizations under Group A are deemed to have priority over those under Group B, and Group B's over Group C's. The Central Bank reserves the right to require the project to provide for the making of foreign loans in order to cover any imports needed for the implementation thereof, or else that such exchange be subject to investment of new foreign currency denominated resources in the country. This investment shall be done in a proportion to the amount of securities exchanged.

Conversion operations relative to the execution of projects considered of national interest, which would result in consumption rather than generation of foreign exchange, should include, necessarily, the granting of external loans to the Central Bank of Costa Rica, or the investment of new foreign currency denominated resources for a minimum amount which shall be equivalent to the imported component of the project. The terms under which either the investment or the credit would be approved shall be established in due time, in the understanding that the determination thereof shall be done on a long-term basis.

In these cases, depending on the characteristics of each offer, the interested parties may elect the benefits granted by the proposals considered under Group A and Group B. Consequently, as for priority, this type of offers may be ranked either in the intermediate or lower of the three categories mentioned above.

In this connection, the importance placed by the country on the new investment plan, as well as the relative weight of the imported component within the total cost of the project, and the financial conditions granted to the Central Bank will be accounted for, among other things. The Group B option requires soft terms financing of the imported component.

6. Incentive System and Qualification Criteria

The relevant transaction value will be determined accounting for the securities market value, or a reference price acceptable for the Central Bank. The Central Bank will effect inquiries on prices with entities in good standing relative to the placing of financial securities and will use them as a guide for determining the reference price mentioned above.

The final pricing for each transaction will be subject to the priorities defined under item 5 above. The higher the priority established by the Bank with respect to the activity in which the resources will be invested, the greater the benefits granted to the investor within the following maximum limits:

GROUP A: Up to 75% of Nominal Value

GROUP B: Up to 60% of Nominal Value

GROUP C: Up to 45% of Nominal Value

In restricting the premium, the objective is to guarantee that, in terms of current value, the conversion terms of securities will not affect the net exchange outflow from the country. In this connection, saving from foreign debt service will be accounted for, as well as any increase in the outflow that may occur in the future, as a result of the monetization of colones from principal and interest of securities issued by the Central Bank for exchange purposes, or of the use of the register of capital described in Item 7.

From this point of view, as an incentive to investment on priority activities, the premium shall maintain a direct relation with the current value of the country's net benefits produced by the additional income from foreign exchange generated by said investments. The foreign exchange saving arising from the conversion of debt documents into colon denominated securities will be related to the market value of these documents and not to the face value thereof. However, the premium accepted will be subject to the terms of each offer, in accordance with the basic criteria described below.

The market conditions of securities and the premium to be determined shall be reflected in the transaction, whereupon colon denominated securities will be delivered in exchange for a part or the whole of the face value of the documents, with an interest rate, however, lower than the normal rate for this type of securities. Interest rates varying according to the domestic market conditions, as well as fixed rates, may well be established.

7. Register of Investments

The Central Bank of Costa Rica will establish the terms for a register of capital relative to the monies brought into the country through this process, so that the investor may repatriate his capital and dividends generated by this process, or effect payment of service of the external credit used to finance the project, as the case may be, in accordance with the terms contained in the Regulations for the Selective Register of Capitals. The amounts set forth under this register will be dependent upon the reference price existing at the

time of acceptance by the Central Bank, of securities for exchange, or in special cases, upon the current value agreed to for said transaction. Repatriation of loans as well as of investments, including the corresponding dividends, will be allowed; however, this will not occur in whole or in part before the maturity date of the colon denominated securities issued according to this process.

8. Compliance with the Investment Plan

In order to control the development of the conversion projects approved, the Central Bank will establish the requirements in each case. In order for the investments considered under Group A to be under a closer control, the participation of a commercial bank subject to the direct control of the Office of the General Auditor of Banks will be required.

This bank will act as a depository and/or administrator bank of the relevant funds, and will be responsible before the Central Bank for the due allotment of the funds for the purposes planned, in accordance with the investment plan submitted to the company concerned.

9. Final Approval

The final approval in each case will be granted by the Executive Board of Directors of the Central Bank. Any agreement that has been reached in principle between the Central Bank's Management and the holders of the documents to be exchanged, will therefore be subject to further approval from the Board, and in no way will said agreement commit the Bank to accept the offer. The Central Bank of Costa Rica reserves the right to assign a maximum amount per year to the aggregate value of the promissory notes to be exchanges by means of this procedure.

10. Implementation and Follow-up

For implementation purposes under this process, the interested party will subscribe an agreement with the Central Bank. This document will state, among other things, the relevant commitment and liabilities of the parties, the maximum term for settlement of operations, and penalties that could be applied in case of default.

Should the Office of the General Auditor of Banks confirm a case of default, in accordance with the investment plans submitted, the Central Bank will be in a capacity to apply the penalties established in the regulatory provisions for banks and financial institutions, as well as to suspend benefits which may have been granted in accordance with this conversion scheme.

11. Effectiveness

The Central Bank reserves the right to amend the provisions set forth hereunder should any change of circumstances occur. Such amendment may affect the exchange offers being processed and those submitted in the future, but in no way will it affect those already granted the final approval by the Executive Board of the Central Bank.

12. Additional Information

For further information on this process, please feel free to contact our office through telephone number 22-14-24.

October 1986.

Ecuador

BANCO CENTRAL DE ECUADOR

NO. 395-86 The Monetary Board, by its authority, resolves that:

ARTICLE 1. Add the following (d) to Article 2 of Chapter I (Requirements and Conditions For Refinancing), Title 11 (Refinancing the Private Sector's Foreign Debt), Book I (Monetary-Credit Policy), Page 73.4 in the Code of the Monetary Board's Regulations:

(d) In conformity with the stipulations in (b) and (c) above, holders of foreign debt accounts may loan these funds to banks or finance companies, as well as to the rest of the companies formed or based in this country, and which should be used simultaneously to make contributions to capital or increases in the capital assigned in compensation of these credits. The companies capitalized under this system, at the same time, must pay their obligations, direct and indirect, due or coming due, to the Central Bank of Ecuador under the terms set by the Central Bank for a sum equivalent to the capitalized credits.

Once the mechanism described in the preceding clause is perfected, the external obligation of the Central Bank is annulled under the consolidation agreement subscribed with the creditor banks for the capitalized amount.

The Monetary Board will take care that the mechanism for conversion of the foreign debt to capital will preferably be oriented toward the areas of vital interest for the national economy.

The operations described in this clause are subject to all the laws in effect on this matter.

To apply the provisions stated in this clause, a capitalization committee will be formed, to consist of: The President of the Monetary Board; The Minister of Industry, Commerce, Integration and Fisheries; The General Manager of the Central Bank of Ecuador; The Superintendent of Banks; The Superintendent of Companies; and a member of the Monetary Board Representative of the Private Sector. The Committee will analyze the requests for capitalization, which together with the respective reports will be forwarded to the Monetary Board for consideration and resolution.

The Committee will issue the respective regulation which will be approved by the Monetary Board.

ARTICLE 2. Add the following Chapter to Title 11 (Refinancing the Private Sector's Foreign Debt), Book 1 (Monetary-Credit Policy), Page 73.7.1 of the above-mentioned Code of Regulations:

CHAPTER IV (Offset of Liabilities with the Central Bank):

Article 1. The companies which participate in the system of capitalization set forth in (d), Article 2 of Chapter I (Requirements and Conditions for Refinancing), Title 11 (Refinancing of the Private Sector's Foreign Debt), Book 1 (Monetary-Credit Policy), must pay their obligations, direct or indirect, due or coming due, with the Central Bank for the amount capitalized under this mechanism. Stabilization credits will be considered as part of the exchange risk and the corresponding interests accrued until the capitalization date will be debited.

ARTICLE 3. In Section VI (Profits Remittance and Capital Repatriation), Chapter I (Foreign Investments), Title 4 (Regulations for Foreign Capital), Book II (Exchange Policy) Article 1, Page 113.0 of the same code, the following Clause 3 should be added:

The re-exportation of invested capital originating from direct foreign investment through the system of increased capital dealt with in (d) Article 2 of Chapter I (Requirements and Conditions for Refinancing), Title 11 (Refinancing of the Private Sector's Foreign Debt), Book I (Monetary-Credit Policy), should be effected with foreign exchange from the private free market at least on the same terms as those which appear in the amortization tables in the consolidation of the foreign debt agreement which is in effect; from which resources have been loaned, and should be incorporated into the agreement between the investor and the Central Bank of Ecuador. In addition, the minimum time span for the remittance of earnings which may be generated will be specified in the agreement.

ARTICLE 4. This regulation will be effective from the present date, no matter what the publication date is in the official register.

QUITO, December 3, 1986

RESOLUTION NO. 408-87

The Monetary Board, considering:

That it is necessary to establish mechanisms which will tend to reduce the Ecuadoran foreign debt in order to strengthen the country's economic and financial position;

That the conversion of the foreign debt to capital through the participation and support of citizens and foreigners will improve the financial positions of companies, benefiting the economic and social progress of the country;

That the Ministry of Industry, Commerce, Integration and Fisheries, through Resolution No. 104, January 26, 1987, published in Official Register No. 613 on January 28, 1987, has established the requirements, procedures and conditions under which direct foreign investment may be authorized by means of the mechanism for conversion of the foreign debt; and

Through use of the powers conferred upon it by the Monetary Regulations Law,

Resolves:

ARTICLE 1. Eliminate Clause (d) from Article 2, Chapter I (Requirements and Conditions for Refinancing), Title 11 (Refinancing the Private Sector's Foreign Debt), Book I (Monetary-Credit Policy), Page 73.4.1 in the Code of Regulations of The Monetary Board.

ARTICLE 2. Add the following Articles to the above-mentioned Chapters, Title, Book (Page 73.5) in the Code:

Article 4. The Holders of Foreign Exchange Debts may loan, cede or designate said resources to be contributions to the capital or to be added to the capital assigned to companies formed or based in the country, subject to law.

The companies capitalized under this system should pay, at the same time, for an amount equivalent to that of the capitalized resources, the obligations, direct or indirect, due or coming due, with the intermediary banks or finance companies. These institutions, in turn, will pay obligations for the same amounts to the Central Bank of Ecuador on terms set by the Monetary Board.

The banking institutions and finance companies capitalized under this system will pay their obligations directly to the Central Bank of Ecuador on the terms stated in the previous clause. The Central Bank will effect the transfers and the pertinent accounting procedures.

Once the operations set forth in the preceding clauses have been perfected, and in conformity with the consolidation agreement, the external obligation subscribed between the Central Bank and the Creditor banks for the amount capitalized will be eliminated.

Article 5. The payment of the foreign exchange obligation originating from the capitalized foreign debt will be effected based on the current intervention exchange rate in effect at the Central bank on the notification date, on the part of the account holder, on the reduction of certain parts of the debt, in the annex to the consolidation agreement in effect.

Article 6. The mechanism to convert the foreign external debt to equity via foreign investment can only be done in the areas which are vital to the national economy, which will be determined by agreement by the Ministry of Industry, Commerce, Integration and Fisheries.

Article 7. Each application of debt-to-equity conversion must be accompanied by the information and documentation which it listed on the forms provided by the Central Bank of Ecuador. The application must be addressed by the interested party to the President to the Monetary Board and will be attached with respective reports to be considered by the Monetary Board so that this entity during a session may adopt the respective resolution.

Article 8. In the case of foreign investment, it is required to include the authorization of the Ministry of Industry, Commerce, Integration and Fisheries.

Article 9. If the capitalization is not done based on this mechanism during a period of one hundred and eighty days starting from the date the Monetary Board notifies the interested party, as required by Article 7, then the resolution approving the capitalization shall expire, except for those cases specifically exempted by the Monetary Board.

ARTICLE 3. Substitute Chapter IV (Liabilities Offset wiph the Central Bank of Ecuador), Title 11 (Refinancing of the Private External Debt), Book I (Monetary-Credit Policy), Page 73.7.1, of the Code of Regulations of the Monetary Board, with the following:

CHAPTER IV (Cancellation of Obligations with the Central Bank of Ecuador):

Article 1. The companies which fall under the program of capitalization based on Article 4 of Chapter 1 (Requirements and Conditions of the Refinancing), Title 11 (Refinancing of the Private External Debt), Book I (Monetary-Credit Policy), must pay all their direct or indirect obligations, due or coming due with the

Central Bank, according to the amount capitalized under this mechanism, including capital and the corresponding accrued interest to the date of capitalization, as well as the foreign exchange risk commission for the cases of stabilization credits.

Article 2. In the case of any difference in the National Currency due to the cancellation of obligations between the Central Bank of Ecuador and the financial intermediary, the Central Bank may pay the latter, in sucres, up to the limit and on the conditions for each case established by the Monetary Board.

Article 3. In the case of the cancellation of an obligation which is not a stabilization credit, the Central Bank of Ecuador will revise the credit quota of the banking or financial intermediary based on the regulations of the current financial program.

ARTICLE 4. In Section VI (Profit Remittances and Capital Repatriation), Chapter I (Foreign Investments), Title 4 (Regulations for Foreign Capital), Book II (Exchange Policy), Article I (Page 113.0) of the same code, substitute Clause 3 with the following:

The re-exportation of invested capital and profit remittances resulting from the foreign investment done by the mechanism outlined in Article 4 of Chapter I (Requirements and Conditions for Refinancing), Title 11 (Refinancing of the Private External Debt), of Book I (Monetary-Credit Policy), must be done with dollars of the free market, in the terms agreed upon by the Ministry of Industry, Commerce, Integration and Fisheries, based on current regulations.

ARTICLE 5. A favorable resolution of the Monetary Board does not imply approval to the capital increase of the company which is capitalizing, as such approval must be obtained from the competent departments. The actions covered by this regulation must be under the control and conditions determined for each case by the competent authorities.

ARTICLE 6. This regulation will be effective from the present date, no matter what the publication date is in the official register.

QUITO, Feb. 9, 1987

RESOLUTION NO. JM-282-CED

The Monetary Board, using its attributes, declares the following Resolution:

ARTICLE 1. Authorizes the Central Bank of Ecuador to acquire the Special Foreign Exchange Accounts from the banks and financial institutions operating in the country, up to the amounts registered until March 31, 1988, prior to the corresponding analysis.

ARTICLE 2. The amount of the purchase of said accounts must be applied to the cancellation of liabilities which the banks and financial institutions maintain with the Central Bank, due to the following obligations:

- Banks: Sucretizations of 1988, past due loans, overdrafts, ordinary and extraordinary advances, reserve requirement deficits.
- Financial institutions: past due loans; overdrafts, ordinary and extraordinary advances, and sucretizations of 1988.

ARTICLE 3. The Special Foreign Exchange Accounts will be converted into Sucres based on the intervention exchange rate of the Central Bank in effect at the time of negotiation.

QUITO, April 15, 1988

THE PRESIDENT
Dr. Rodrigo Espinosa Bermeo

The resolution listed above was proclaimed and signed by Dr. Rodrigo Espinosa Bermeo, President of the Monetary Board, in Quito, on April 15, 1988. I Certify.

Dr. Galo Recalde Fdez S.
General Secretary of the
Monetary Board

RESOLUTION NO. JM-291-CED

The Monetary Board, using its attributes, dictates the following Resolution:

ARTICLE 1. Authorizes the Central Bank of Ecuador to acquire Special Foreign Exchange Accounts from banks and financial institutions operating in the country to cancel or prepay stabilization loans and foreign exchange commissions of their clients corresponding to 1988, after the pertinent analysis.

ARTICLE 2. The amount of the purchase of such accounts must be applied exclusively to the payment of stabilization loans and foreign exchange commissions outstanding between the Central Bank and the banks and financial institutions.

ARTICLE 3. The Special Foreign Exchange Accounts will be converted to Sucres based on the intervention rate of the Central Bank prevalent at the date of approval of the purchase.

QUITO, June 29, 1988

THE PRESIDENT
Dr. Rodrigo Espinosa Bermeo

The resolution listed above was proclaimed and signed by Dr. Rodrigo Espinosa Bermeo, President of the Monetary Board, in Quito, on June 29, 1988. I Certify.

Dr. Galo Recalde Fdez S.
General Secretary of the
Monetary Board

Jamaica

Programme for the Conversion of Jamaican External Debt into Equity Investments --Guidelines for Investors

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

Inquiries and other communications regarding these Guidelines or the Debt Conversion Programme should be directed to: Debt Capitalization Unit, the Bank of Jamaica, Nethersole Place, Kingston, Jamaica.

The Bank of Jamaica reserves the right to issue from time to time supplements to these Guidelines and revised versions of the Exhibits attached hereto, and copies of such supplements and revised Exhibits will be available upon request from the Debt Capitalization Unit.

Any such supplement or revision shall become effective only with respect to applications for Debt Conversion Transactions completed after the date on which the supplement or revision is made public.

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

CHAPTER I. Policy Objectives; Background

Section 1. Objectives

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

(i) To stimulate and encourage equity investments in Jamaican enterprises by foreign investors;

(ii) To promote and target new investment into areas of high priority as set out in Exhibit D hereof;

(iii) To reduce the external debt burden of Jamaica.

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

Section 2. Background to the Debt Conversion Programme

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

The investor, having acquired external country debt for hard currency at the prevailing secondary market discount, then cancels it in return for receiving local assets from the borrower at closer to face value. Assets which may be transferred include local currency, local debt instruments, capital assets and (where Government is the borrower) shares in public sector entities.

CHAPTER II. Convertible Debt

Section 3. Debt Eligible for Conversion

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

CHAPTER III. Eligible Investors

Section 4. Eligible Investors

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

CHAPTER IV. Qualified Investments

Section 5. Qualified Investments

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

Qualified Investment may take the following forms:

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

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

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

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

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

CHAPTER V. Restrictions on Qualified Investments

Section 6A. Capital

A Qualified Investment may not by its terms be subject to redemption within a certain period (the "Restricted Period"), nor may it be transferred within this period in a transaction where the consideration is foreign currency obtained through the Auction Market for Foreign Exchange. Furthermore, should the capital of a Qualified Investment be repaid with the Restricted Period for any reason whatsoever including liquidation, dissolution or winding up of the Recipient Entity/Company, then the amount repaid may not be remitted overseas until the expiration of the Restricted Period, at the earliest. Options open to the investor are discussed in Chapter VII.

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

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

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

Section 6B. Distributions of Profits

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

Section 7. Sale/Transfer of Qualified Investment

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

(i) The Purchaser is an Eligible Investor;

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

(iii) The Purchaser submits to the Debt Capitalization Unit a certificate in such form as may be

prescribed by that unit confirming that:

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

• The Purchaser agrees to assume all the obligations (including the periodic reporting and certification obligations) of the original investor in respect of the Qualified Investment.

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

Section 8. Blocked Deposit Accounts and Related Qualified Investments

Section 8A. Blocked Deposit Accounts

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

Features of Blocked Deposit Accounts are:

• They must be registered with the Exchange Control Department.

• The investor may negotiate with an authorized Jamaican commercial bank for such Blocked Deposit Accounts to bear a market rate of interest.

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

• Funds in a Blocked Deposit Account may not be used as security for borrowing.

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

Section 8B. Related Qualified Investments

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

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

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

CHAPTER VI. Documentation

Section 9. Written Agreement with the Government of Jamaica

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

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

(ii) The equity interest is subject to the reporting requirements, restrictions on transferability, and restrictions relating to capital and distributions of profits as specified in these Guidelines in Bank of Jamaica's

approval for the corresponding Debt Conversion Transaction.

Section 10. Other Documentary Requirements

In addition:

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

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

CHAPTER VII. Liquidation

Section 11. Liquidation

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

(i) Depositing an amount equal to the amount repaid in a Blocked Deposit Account at an authorized Jamaican commercial bank; or

(ii) Subject to the approval of the Bank of Jamaica, reinvesting the amount repaid in a Related Qualified Investment.

If the amount is deposited in a Blocked Deposit Account, then the repayment of principal shall not be made earlier than would have been possible through redemption of the Qualified Investment; and interest shall not be capable of remittance overseas earlier than dividends on the Qualified Investment would have been. Blocked Deposit Accounts and the reinvestment of funds in Related Qualified Investments are discussed in detail in Section 8 hereof.

CHAPTER VIII. Fresh Money Requirements

Section 12. Fresh Money Requirements

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

CHAPTER IX. Applications, Approvals

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

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

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

Section 14. Applications

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

The Debt Capitalization Unit shall have the authority to seek from the investor any clarification or

additional supporting materials as that unit may find useful in assessing a proposed Debt Conversion Transaction.

The Bank of Jamaica, through the Debt Capitalization Unit, will notify the investor of the approval or disapproval of a proposed Debt Conversion Transaction within 45 calendar days of the date on which the investor's application is completed. A negative decision in respect of an application is without prejudice to the investor's ability to resubmit the application or a modified version thereof at a subsequent time. The approval for a Debt Conversion Transaction will include, among other things, the approval of the Exchange Control Department (registering the investment) as required under the Exchange Control Act. The above approvals will be subject to the documentary requirements specified in Section 9 being carried out to the satisfaction of the Bank of Jamaica, and to the investor's continuing compliance with the requirements stipulated in writing by the Debt Capitalization Unit. These requirements will include the proper application by both the investor and the Recipient Entity/Company of any Jamaican dollar proceeds of a Debt Conversion Transaction, and compliance with certain registration, reporting and certification requirements.

CHAPTER X. Debt Conversion Transaction Mechanics

Section 15. Closing Period

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

Section 16. Arrangements for Obtaining Convertible Debt

During the 90-120 calendar day period referred to in Section 15 above, the investor will obtain one or more items of Convertible Debt (as defined in Section 3 hereof) from the holder or holders thereof. The approval given with regard to the relevant Debt Conversion Transaction will be deemed to be the approval not only of the Bank of Jamaica, but also of the Government of Jamaica as required by Section 5.12 of the 1987 Rescheduling Agreement with the Commercial Banks.

Section 17. Notices to the Agent

The Government of Jamaica and the investor shall deliver to the Agent an Exchange Notice in the form of Exhibit E hereto for each Advance (or portion thereof) to be exchanged for Qualified Investment. The Exchange Notice must give at least 10 calendar days' notice to the Agent of a proposed Value Date, and must specify the amount of the reduction in the principal amount of one or more Advances. On identifying the item of Convertible Debt to be used in an approved Debt Conversion Transaction, the investor must submit the Exchange Notice to the Debt Capitalization Unit for counter signature by the Government of Jamaica and onward transmission to the Agent.

Section 18. Closing

On the Value Date for a Debt Conversion Transaction, the Government of Jamaica's obligation in respect of the Convertible Debt in question shall cease upon delivery by the Government of Jamaica to the Recipient Entity/Company of local assets as previously agreed with the investor (see Section 19). The investor shall receive share certificates or other documentation evidencing the ownership interest in the Recipient Entity/Company. In addition, requirements of Sections 9 and 10 shall be complied with.

Section 19. Local Assets Received by the Recipient Entity/Company

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

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

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

The nature and amount of the local assets to be received by the Recipient Entity/Company shall be specified in the approval for the Debt Conversion Transaction. The amount will be less than the Jamaica dollar equivalent of the face value of the Convertible Debt to be cancelled. The difference represents a "fee" through which the Government of Jamaica can share in the discount achieved by the investor in the secondary

market for Convertible Debt. The fee will depend on the priority of the investment and will not exceed 10 percent of the face value of the cancelled Convertible Debt. The applicable exchange rate is the selling rate for Jamaica dollars ruling two days prior to the Value Date.

Section 20. Discounting the Local Currency Debt Instrument

The discounting of local currency debt instruments issued by the Government of Jamaica pursuant to the Debt Conversion Transactions will be effected in accordance with standing arrangements between interested Jamaican private sector financial institutions, the Government of Jamaica and the Bank of Jamaica. Under these arrangements, the private sector financial institutions agree to purchase over a period of time a certain amount of the above debt instruments. This provides assurance to Recipient Entities/Companies that they can obtain Jamaica dollar funds. Should arrangements in force at any time not be adequate to generate the Jamaica dollar funds required by a proposed Qualified Investment, the investor's application will not be accepted and no application fee will be payable.

Section 21. Reporting Requirements

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

CHAPTER XI. Compliance

Section 22. Registration and Post-Closing Notification

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

Section 23. Annual Compliance Certificates

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

CHAPTER XII. Request for Public Comment

Section 24. Effective Date of the Debt Conversion Programme

The Debt Conversion Programme described in these Guidelines shall be effective on Tuesday, July 28, 1987 and shall apply to all Debt Conversion Transactions closed after that date. Revised versions of any Exhibit attached to these Guidelines and any supplement thereto shall apply to all Debt Conversion Transactions for which the Debt Capitalization Unit receives a completed application during the period in which such revision or supplement is in effect, regardless of any subsequent revision or supplement released between the date of application and the Value Date.

Section 25. Request for Public Comments

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

Section 26. Further Bank of Jamaica Consideration

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

Section 27. Administrative Discretion

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

CHAPTER XIII. Definitions

Section 28. Definitions:

When used in these Guidelines and the Exhibits hereto, the following terms shall have the meanings indicated below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Fresh Money" means freely convertible foreign money.

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

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

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

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

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

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"Recipient Entity/Company" means a Jamaican public sector entity or Jamaican private sector company in which Qualified Investment is made.

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

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

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

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Mexico

Operating Manual For Capitalization of Liabilities and Substitution of Public Debt by Investment

I -- POLICY WITH REGARD TO CAPITALIZATION OF LIABILITIES

The capitalization of liabilities is governed by the provisions of the first paragraph of Article 8th of the Law to Promote Mexican Investment and Regulate Foreign Investment, which states that: "the authorization of corresponding Ministry, in accordance with the branch of economic activity being dealt with, shall be required, when one or more of the individuals or entities referred to in Article 2nd shall acquire, in one or more acts or succession of acts, more than 25% of the capital stock or more than 49% of the fixed assets of a corporation. The lease of a corporation, or of the assets essential for its exploitation, is deemed equivalent to acquisition of assets." In view of the foregoing, the National Commission of Foreign Investment has granted due consideration to the opinion of the corresponding Ministries when issuing its opinion.

The second paragraph of Section A of Item 2 of General Resolution No. 5 provides that ". . . if the acquisition being dealt with is intended through capitalization of liabilities or reinvestment of profits, the prior authorization of the National Commission of Foreign Investment will be required."

Therefore, the Commission is the competent agency to resolve upon all cases of capitalization of liabilities, including those in which the mechanism of substitution of public debt by investment is resorted to, regardless of whether, prior to performing the operation, the corporation have had 100% foreign capital.

In its analysis of applications for capitalization of liabilities or for substitution of public debt by investment, and in cases where Mexican shareholders do not possess the resources necessary for additional capital contributions, it is verified that there are no other financial mechanisms available; whether domestic, through participation of other national investors or temporary contributions of risk capital from development funds, or international, through the bilateral joint investment funds.

When none of said mechanisms constitute viable solutions for the financial problems of those corporations which, due to their characteristics, are included among the national priorities, permission will be granted, invariably in compliance with applicable regulations, for an increase of foreign participation in the capital stock of said corporations, after careful analysis has determined that said increase of capital stock is indispensable for the survival of the respective corporation. In such cases, undertakings contributing additional benefits to the domestic economy will be established.

II -- GENERAL CRITERIA

When the National Commission of Foreign Investment analyzes cases of capitalization of liabilities and/or substitution of public debt by investment, it takes due account of the same criteria it applies when authorizing and establishing the percentages and conditions for participation of foreign capital, as provided in Article 13 of the Law to Promote Mexican Investment and Regulate Foreign Investment.

The most important criteria, with emphasis, in each case, of the priority granted by the Commission, follow:

1. Exports

The Commission considers, firstly, those corporations showing surpluses in their balances of payment; secondly, those showing even balances, and finally, those showing deficits in said balances.

2. Application of Resources

The Commission will grant preference to cases of investment in fixed assets, expansions, new product lines, or new economic activities implying exports, and secondly, to cases of prepayments only to FICORCA and of liabilities in national currency to National Credit Corporations or national suppliers, or of placements among Mexican investors at large.

3. Technology

The Commission grants first priority to projects possessing state-of-the-art technology; secondly, to projects of fairly recent technology, and thirdly, to those the technology of which is becoming obsolete.

4. Degree of National Integration

Priority will be granted to those projects the degree of domestic integration of which exceeds that of the same economic branch; secondly, to those whose degree of domestic integration is equal to that of the corresponding branch; and finally, to those the degree of domestic integration of which is lesser than that of the corresponding branch.

5. Existing Structure of Capital Ownership

For capitalization of liabilities, the Commission grants preference, firstly, to corporations which, when filing their application, have 100% foreign capital; secondly, to corporations with majority foreign participation, and finally, to corporations which, due to the capitalization of their liabilities, will pass from minority or no foreign participation, to majority or minority participation, respectively.

6. Creditors

A. With regard to creditors, the Commission considers among its priorities for authorization for corporations to capitalize their own liabilities, firstly, credits from banking institutions: secondly, credits contracted with suppliers; and finally, credits having any linkage with foreign parent companies of Mexican corporations.

B. For purposes of the substitution of public debt by investment, the only liabilities permitted will be those proceeding from:

- Credits in national currency with National Credit Corporations;
- Credits in national currency contracted with national suppliers for acquisition of goods of domestic origin;
- FICORCA; and
- Debentures placed with Mexican investors at large.

7. Size of the Corporation

With regard to the size of a corporation, the Commission grants first priority to industries of small and medium size, and second priority to larger corporations.

8. Analysis of Profitability of the Corporation in the Context of Sectorial Growth

Capitalization of liabilities and/or substitution of public debt by investment will be permitted to those corporations who show dynamism which is greater than or equal to that of the economic activity, industrial branch or sector to which the respective corporation belongs.

III -- SPECIFIC CRITERIA

1. It is of fundamental importance that the activity of a corporation be included among the activities and sectors deemed priority in terms of the Resolution Establishing Priority Industrial Activities published in the Official Daily of the Federal Government for January 22, 1986.

In pursuance of Article 4th of the Law to Promote Foreign Mexican Investment and Regulate Foreign Investment, the following activities will be reserved for the State:

- Petroleum and all other hydrocarbons;
- Basic petrochemicals;
- Exploitation of radioactive minerals, and generation of nuclear energy;
- Mining, in the cases referred to by the laws governing the matter;
- Electricity;
- Railways;
- Telegraphic and radio telegraphic communications; and
- All other established in specific laws.

The following activities will be reserved exclusively for Mexican individuals or for Mexican corporations the charter of which contains clause of exclusion of foreigners:

- Radio and Television;
- Urban and interurban automotive transport, and automotive transport over federal highways;
- National air and maritime transport;
- Exploitation of forests;
- Distribution of gas; and
- All others established by specific laws or by regulations issued by the Federal Executive Branch.

The activities in which foreign investment shall be admitted, subject to the proportions of capital set forth below, are mentioned in Article 5th of said Law:

- Exploitation and advantage of mineral substances: Concession will not be granted or transferred to foreign individuals or corporations. Foreign investment may participate in the capital stock of corporations engaged in these activities, in a maximum proportion of 49% in cases of exploitation and advantage of substances subject to ordinary concessions, and of 34% in cases of special concessions for exploitation of mineral resources.
- Secondary products of the petrochemical industry: 40%,
- Manufacture of components for automotive vehicles: 40%, and
- All others established in specific laws or in regulations issued by the Federal Executive Branch.

2. The fundamental approach for selection of the corporations that will be permitted to capitalize their liabilities will derive from an analysis of the combination of the effects of the impact of the financial cost for the respective corporation, and its profitability.

It will be seen from the above that corporations which, although not burdened by indebtedness, do not earn profits in their operation, will not be permitted to capitalize their own liabilities. The same will occur in cases of corporations which do not earn operating profits and would not improve their operating and financial situations even if their liabilities were capitalized.

IV -- SUBSTITUTION OF PUBLIC DEBT BY INVESTMENT

As stated in Chapter I of this Manual, Clause 5.11 of the Restructure Agreement of the Debt of the Public Sector, dated August 29, 1985, establishes the possibility of converting the rights of collection thereof into participations in public or private corporations. Said rights are held by the national and international banks having executed the restructure agreements referred to above with the entities and corporations of the Mexican public sector listed in Exhibit B of this Manual.

Said Clause permits foreign investors so desiring to acquire said rights in the market and exchange them for participations in public or private corporations; to complement investment; or to create a new corporation; or to pay their liabilities in national currency.

In view of the foregoing, the criteria established in this Manual will be applicable to said corporations, notwithstanding that the case not be of capitalization of their own liabilities; and treatment will only be deferred in the specific items established in this Manual. However, the scheme derived from Clause 5.11 of the Restructure Agreement is not to be used to pay obligations contracted with foreign banks, or to pay parent companies of Mexican subsidiary corporations, foreign suppliers, or for working capital, except when strictly related to development of a project which does not imply payments abroad, to pay domestic suppliers, to pay debts to National Credit Corporations or to FICORCA, and for full payment of debentures placed among investors at large, when the proceeds thereof have been applied to physical investment or to the repayment of liabilities contracted therefor; its use is preferably to be for productive investment, as established in this Chapter.

The rate of exchange that will be applicable to the mechanism mentioned in the corpus of this document and in accordance with what has been stated by Banco de Mexico will be the average of the free rate of exchange for purchase and sale quoted by at least three domestic banking exchange houses on the date of closing of the respective operation.

The percentage of discount at which the Mexican Government and other debtor public entities will exchange their debt will be established in accordance with the benefits which the transaction may produce for national development, and will be negotiated with the Ministry of Finance and Public Credit. The ranges of said discounts are established in Exhibit C, and will only be modified, with application of the same formalities having given origin to them, when said Ministry considers that the corresponding range does not respond to market conditions. Said Exhibit will govern only for substitution of public debt by investment.

The Schedule shown in Exhibit C contains fixed elements, each of which will be adjusted in accordance with the market price of the paper and with variations of the free rate vis-a-vis the controlled rate of exchange. Consequently, said Exhibit shows the factors by which the discount is to be multiplied on the date of execution of the respective transaction. Said factors are the result of application of the following formula:

$D1 = D1^{*}\ 100 - p/100 - po\ (d/do)B$

WHERE:

D1 = Discount for corporations

p = Current price of Mexican paper

d = Differential between the free and the controlled rates of exchange, measured as the quotient of both

D1*, po, do = The values of the variables mentioned above, as shown on the tables

B = A factor equal to 2. The Ministry of Finance and Public Credit may change this factor in the future, depending on the differential between the free rate and the controlled rate of exchange. However, said factor will not be varied from one case to another.

Similarly, shares issued in exchange for cancellation of a debt shall be subject to the restrictions set forth in Clause 5.11 of the Restructure Agreement of the Foreign Public Debt.

In accordance with Clause 5.11 of the Restructure Agreement of the Foreign Debt of August 29, 1985, when there is a differential between the par value and the market value of shares to be issued, the corporation will issue shares in an aggregate par value equal to the desired participation of foreign capital. Any difference resulting between the aggregate par value of shares so issued and the price paid therefor, will be covered by

the issuance of a premium which, pursuant to Clause 5.11 of said Agreement, will not be transferable to Mexican entities or individuals.

In the specific case of the automotive industry, 100% of net foreign currency flowing into this country due to increases of capital stock will be recognized for purposes of the budget as foreign currency of the respective corporation, in accordance with Articles 15 and 16 of the Decree for Rationalization of the Automouve Industry, published in the Official Daily of the Federal Government for September 15, 1983.

The above does not exempt corporations of the terminal automotive industry from compliance of the following provisions:

A. 50% of their requirements for foreign currency, as a minimum, is to be generated by exports of automotive components manufactured exclusively by corporations of the automotive parts industry that are registered at the Ministry of Commerce and Industrial Development.

B. Furthermore, only 20% shall be accredited by virtue of foreign financing.

C. Only 20% of automotive components produced by processing corporations the capital stock of which is the property of corporations of the terminal industry, or of parents or affiliates of such corporations, will be credited.

V -- ADMINISTRATIVE PROCEDURE: SOLE WINDOW

1. Interested corporations are to file their applications at the Ministry of Finance and Public Credit, using therefor the questionnaires existing for said purpose, which are shown in Exhibit D hereof. An application or proposal for execution of a transaction of substitution may be signed and submitted by the bank or banks being the vendor(s) of the rights of collection of the restructured debt (or paper) of the Mexican public sector, whenever such bank(s) has or have been given a mandate by the foreign investor(s), or by the vendor bank(s) of said paper and by the foreign investors or their lawfully constituted representatives or their affiliates or subsidiaries.

For purposes of this transaction of substitution of debt by selected participations in capital stock, as provided in Clause 5.11, only instruments proceeding from the restructure of the public debt and having original maturities of 1982-84 and 1985-90 will be permitted.

2. The Ministry of Finance and Public Credit will issue its approval through an Official Communication that will include, among other variables, the amount, term, and origin of the paper, and the discount rate applicable to the transaction. The acts to be performed by the parties on the day of closing of the transaction, and instructions for the amount being capitalized to be made available to the corresponding corporation, through creation of a deposit at the Federal Treasury, by the debtor making the contribution, are also to be specified in said Official Communication. Furthermore, in cases where no authorization of the National Commission of Foreign Investment is required, the Ministry of Finance and Public Credit will condition its authorization to the recipient corporation"s submission to said Commission of an investment program which will require the approval of the latter.

In the Official Communication of authorization issued by the Ministry of Finance and Public Credit, it will establish the requisites to be complied with by the vendor bank of the paper or the rights of collection, prior to the sale of any such paper or right. Said requisites will include, *inter alia*, the requirement that notice be given to the corresponding service bank, the Federal Government or the other entities or corporations with restructured foreign debt, as to the type of right to be sold to the foreign investor; the foregoing, in order that said service bank will cancel the amount of principal to be exchanged, and that the date of closing of the operation of substitution will be the cut-off date for accrual of interest. Said notice is to be given not less than seven (7) days prior to said date of closing.

Each transaction of substitution will give rise to an agreement executed by the vendor bank, the foreign investor or its Mexican affiliate or subsidiary, and the issuer of the restructured debt or the Federal Government, represented by the Ministry of Finance and Public Credit. Said agreement shall contain clauses as necessary to evidence the substitution; the issuance of the shares, which shall be issued in every case, except with respect to corporations that are being capitalized but which, by their nature, do not require such issuance of shares under Mexican law; and the mechanisms for control of the application of the funds resulting from such substitution. Information on the application of said funds is to be filed at maximum intervals of six months. All of the foregoing shall be remitted to the Office of the Executive Secretary of the National Commission of Foreign Investment, with copy to the Ministry of Finance and Public Credit. In any event of default, all disbursements of funds deposited as mentioned in Chapter V Section 2 shall be suspended without prejudice of application of the sanctions provided in the Law to Promote Mexican Investment and Regulate Foreign Investment. When the foregoing shall be impossible, then upon request of the Office of the Executive Secretary of the National Commission of Foreign Investment, or upon decision of the Ministry of Finance and

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Public Credit, the corresponding corporation shall be audited as many times as deemed pertinent, since the scheme provided for in Clause 5.11 is only to be used for the making of productive investment, and not of speculative investment.

3. The National Commission of Foreign Investment will receive from the Ministry of Finance and Public Credit the application of the interested corporation, with the questionnaire of Exhibit D duly filled in. Corporations involved shall pay the corresponding fees, at any Federal Treasury Office, pursuant to Article 72 of the Federal Law of Fees, which provides that as of this date said fees amount to one per thousand and are not to exceed 85,000 pesos, national currency, per application.

The Commission will issue its resolution, covering therein all authorizations related to the substitution of public debt by investment, and setting forth all undertakings established for the applicant corporation, in a term not exceeding 30 business days. Said resolution will have an effectiveness of three months, and upon expiration of said term, applicants are to reinitiate proceedings.

The Commission will issue its authorization with basis on the benefits which the project in question would produce for the national economy. The discount to be granted will also be established by the Commission on the basis of such benefits.

VI – PROCEDURE FOR PAYMENT OF CAPITAL CONTRIBUTIONS

The form and occasion of payment of the amount negotiated for the issuance of shares of the corporation to be capitalized by the public-sector debtor the paper of which is to be used to evidence the transaction are explained below:

1. Payment will be made by the public entity issuer of the debt, or by the Federal Treasury in the name of the latter, pursuant to the Official Communications of authorization of the National Commission of Foreign Investment and of the Ministry of Finance and Public Credit, through a deposit at the Federal Treasury that will be disbursed against registered signatures and upon 24 hours'' prior written notice. In cases of payment to suppliers, the numbers of the accounts in which the funds were placed are to be set forth in said notice.

2. The term for payment(s) shall be negotiated by the foreign investor and the corresponding authorities, after hearing the opinion of the debtor. Said term shall be agreed upon with due account taken in each case of the schedule of requirement of funds which the capitalized corporation shall have filed in accordance with its investment projects. The funds shall be transferred directly to the creditors, which shall deliver the corresponding release or evidence of payment. In cases of payment to suppliers, the corresponding invoices are to be remitted two days previously to the Ministry of Finance and Public Credit. Invoices paid will be remitted to the capitalized corporations, and copies thereof shall be kept by the Department of the Undersecretary for Revenues.

3. Funds undisbursed by the capitalized corporation shall bear interest in favor of the latter, at the then current rate for Treasury Certificates for comparable terms. Said interest shall be accredited to the capitalized corporation, at the National Credit Corporation selected by it, or shall be included as parts of the disbursements included in the schedule of the project, unless the mechanism provided for in Footnote No. 3 of the Table of Conditions and Discounts of Exhibit C shall have been selected.

4. Capital contributions shall commence to be paid when the Issuance of the Shares shall have been formalized, or forthwith upon issuance of the provisional certificate of shareholding, in accordance with the requirements of funds mentioned in Item 2, above.

VII -- OPERATING MECHANISMS

Investors wishing to make use of this mechanism to prepay the FICORCA, as indicated in Section 6 of Chapter II of the Manual, shall comply with the following:

1. The debts of the Federal Government or of the other entities with restructured foreign debt shall be acquired by the Ministry of Finance and Public Credit from the foreign corporations having obtained them, with a view to full or partial payment of the credits in national currency owed by their affiliates or subsidiaries under coverage agreements with the FICORCA. In cases of debts of entities or corporations other than the Federal Government, the Ministry of Finance and Public Credit will determine whether the price of substitution will be paid by the Federal Government or by said Ministry itself.

When a corporation has sold a debt of the Federal Government or of any other entity or corporation of the public sector to the Ministry of Finance and Public Credit, and has obtained from the latter its authorization to apply the proceeds thereof to repay in full or in part said credit in national currency, it shall deliver said authorization to the National Credit Corporation party to the coverage agreement, for said National Credit Corporation to request from FICORCA the amendment agreement corresponding to the clauses relative to

delivery of the "Peso Termination Value" (*Valor de Rescate en Pesos*), in the sense that, upon requirement of the participating corporation itself or of its foreign creditor, as the case may be, FICORCA shall deliver said Peso Termination Value to the latter, on the same date established for delivery of the dollars in payment of the "loan" to said Trust. Said agreement is to be executed by said corporation and said National Credit Corporation, the latter acting on behalf of FICORCA.

Likewise, said participating corporation is to obtain the authorization of its creditor to execute said amendment to the "hedge" agreement, and is to indicate to the corresponding National Credit Corporation, with thirty days" anticipation, the form of prepayment of the credit; and if said prepayment is partial, the adjustment to be made to the amount and number of the monthly installments of said credit.

The funds generated by said sale of the debt of the Federal Government or of any entity or corporation of the public sector, to pay the credit in favor of FICORCA as established in the corresponding "hedge" agreement, will be applied by the Ministry of Finance and Public Credit through the National Credit Corporation which is operating said "hedge" agreement.

Compliance by the corporation of its undertaking with the Ministry of Finance and Public Credit in respect of the application of those funds which, had it not prepaid, it would have had to pay on account of the credit in national currency under the agreement with FICORCA, will be supervised directly by the Ministry of Finance and Public Credit and the National Commission of Foreign Investment, through the mechanisms of inspection of said agencies.

2. Foreign investors wishing to improve the profile of their subsidiaries or affiliates, or to initiate an association with an existing corporation that is indebted in national currency to National Credit Corporations or to the other creditors mentioned in this Manual, may enter into a transaction of substitution that will operate exactly as if it were a simple substitution for capitalization, with the sole variant that, on the closing of the transaction of substitution, instead of receiving a payment of the restructured debt of the public sector, a full or partial release, as the case may be, of the debt to such corporations or creditors will be received.

In transactions performed pursuant to Clause 5.11, capitalizing foreign corporations may establish in the agreements executed by them with the authorities, that deliveries of paper of public debt may be made in installments in order to comply with the schedule of development of the project; however, no such partial delivery is to be made in any amount lesser than the proportional monthly part of the total of the capitalization during the semi-annual period next following the date of closing of the transaction, and said date is not to be later than the calendar month next following the date of execution of the corresponding agreement of exchange of paper. When any such corporation wishes a longer period, the discount rates shown in Exhibit C shall be adjusted in accordance with the variations in the value of the paper in international markets, and of the free rate of exchange in this country.

3. It must be stated that this Manual may be modified in the future.

A number of operating mechanisms pursuant to which transactions of substitution may be performed are shown below. Moreover, other mechanisms deemed convenient by interested parties may be submitted to the consideration of the National Commission of Foreign Investment.

EXHIBIT C
Table of Conditions and Discounts for Use of the Mechanism of Substitution of Public Debt by Investment

(The percentages of discount shown below will be adjusted, in accordance with the factors shown in the attached exhibit, when there is any variance in the conditions of price of the paper and/or rate of exchange.)

Category	Discount (%)	Conditions
0	0	Purchase of or participation in those Mexican governmental corporations the Mexican government shall have decided to sell.
1	5	New corporation, expansions, new product line(s) or new economic activity(ies) of the new production of which 80% or more is destined for export or to generate a surplus in the balance of payments or revert a negative trend therein.

Category	Discount %	Conditions
		Purchase of or participation in Mexican corporations with 100% foreign capital. Establishment of new corporations with state-of-the-arts technology and/or with a degree of national integration exceeding that of other corporations of the same economic branch. A new corporation, or an established corporation located in any of the cities or regions specified in the Decree Establishing Geographic Zones for Industrial Decentralization and Grant of Incentives, published in the Official Daily of the Federal Government for January 22, 1986. A new corporation or expansion, or new product lines or new economic activity preventing outflow of foreign exchange and incorporating domestic input and components. New corporations of small and medium size in accordance with the Criteria of General Resolution No. 15 Related to Industries of Small and Medium Size, of the National Commission of Foreign Investment.
2.	8	New corporations, expansions, new product lines or new economic activity with state-of-the-art technology Degrees of national integration similar to those of other corporations in the same economic branch. Corporations engaged in development of priority sectors of the economy, and generating foreign exchange and additional employment. Purchase of or participation in Mexican corporations with leveled balances of payment, or corporations that will attain such leveled balances as a result of the project. New or established corporations located in the cities or regions specified in the Decree Establishing Geographic Zones for Industrial Decentralization and Grant of Incentives, published in the Official Daily of the Federal Government for January 22, 1986. New corporations, expansions, new product lines, or new economic activity implying exports of a minimum of 50% of new production. Purchase of or participation in Mexican corporations in which there is presently majority foreign participation.
3	12	New corporations, expansions, new product lines, or new economic activity implying exports of a minimum of 30% of new production. The technology is to be state-of-the-art. Enterprises with projects or works at an advanced stage of development. Acts of corporations of small and medium size, in accordance with the criteria of General Resolution No. 15 Related to Industries of Small and Medium Size, of the National Commission of Foreign Investment

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Category	Discount %	Conditions
		Purchase of or participation in Mexican enterprises in the capital of which there is minority or no foreign capital participation.
4	13	Purchase of or participation in corporations with deficits in their balance of payments. Self-sufficiency in foreign exchange. New corporations, expansions, new product lines, or new economic activity implying exports of a minimum of 20% of new production. The technology may be of an intermediate stage of development. The degrees of national integration may be less than those of other corporations of the same branch of the economy.
5	14	New corporations, expansions, new product lines, or new economic activity implying improvement of negative trade balance of the corporation. Reduction of liabilities to domestic suppliers. The degrees of national integration may be lesser than those of other corporations in the same economic branch. The technology may be at an intermediate stage of development.
6	15	Partial capitalization or partial prepayment to FICORCA or to a National Credit Corporation, of indebtedness denominated in national currency. Technology of intermediate stage of development. No generation of foreign exchange.
7	16	Full payment to FICORCA, or of credits from National Credit Corporations, denominated in national exchange.
8	25	No generation of foreign exchange. Projects which do not comply with the conditions of those described in preceding boxes. *

* This implies no waiver by the National Commission of Foreign Investment of its power to authorize or reject projects.

NOTES: (1) When corporations to be capitalized meet the characteristics described in various "boxes," the percentage of discount shown in the box meeting the greatest number of characteristics will be used; (2) When the characteristics of two or more boxes are complied with, the lesser of the two discounts will be granted. (3) If a waiver of collection of interest on the deposit at the Federal Treasury is added to the foregoing, an additional bonus of three percentage points will be granted.

Reception of the Bid Proposals

10. Tenders will be received in the Open Market Operations Section, Agustinas 1180, 3rd Floor, Santiago, until the time indicated in the Bid Proposal.

11. Each envelope received shall be numbered and a receipt shall be issued bearing the signature and stamp of a staff member in the Open Market Operations Department. Likewise, there will be a bid proposal register that shall be signed by the person delivering the tender.

12. The envelope shall be placed by the officer of the tendering institution in a box especially provided for that purpose.

13. Banco Central de Chile reserves the right to reject one or more proposals without expressing the reason.

Method of Award

14. The general award procedure will be as follows:

(a) The total amount of the bids will be added and will be ordered from highest to lowest price offered to sell the "P.B.C-Chapter XVIII" to Banco Central de Chile.

(b) In case two or more bids contain the same price and the remaining balance does not fully cover the total amount, the balance will be distributed in the proportion corresponding to each offer over the total offer at the same price.

(c) Banco Central de Chile may, as it deems appropriate, raise or lower, up to 10% the total "margin" subject to bid.

Rescue of the 'P.B.C.-Chapter XVIII'

15. On the date indicated of the bases for each tender, Banco Central de Chile will proceed to credit, in the account of the financial institution presenting the "P.B.C.-Chapter XVIII" for its collection, the amount resulting from the application of the value of rescue offered by the awardee in the respective bidding process. In the case of CORFO, the rescue shall be effective with a check issued by Management of Banco Central de Chile for the value resulting from applying the "P.B.C.-Chapter XVIII" presented, its corresponding price of award. This check shall be picked up at the Open Market Operations Section of Banco Central de Chile, Agusunas 1180, 3rd Floor, Santiago, prior to 14:00 hours on the day of the rescue.

Notification of the Results

16. Participating institutions will be advised of the results over the telephone, once the tenders have been awarded.

17. The Open Market Operations Department shall issue a document containing the results of the award that will be available to participating institutions as of the day following the award.

Chapter XVIII - Exhibit 4 International Exchange: Acquisition of External Debt Instruments for Enterprise Capitalization

1. Persons who acquire Chilean external debt instruments as provided in this Chapter, may apply such instruments toward the subscription and payment of shares issued by the entities that shall be listed herein, subject to the fulfillment of the conditions and requirements established in this Exhibit.

2. Chilean external debt instruments applied, as set forth in this Exhibit, toward the subscription and payment of shares shall meet the requirements contained in Nr. 1 of this Chapter and they shall have registered, as main debtor or guarantor, as the case may be, by the issuer of the shares who shall be registered as such debtor or guarantor, as appropriate, with Banco Central de Chile prior to July 1, 1986.

3. The operations referred to in the present Exhibit shall only be authorized when they refer to the subscription and payment shares issued by enterprises producing goods and services that, as of the day of capitalization, are constituted as corporations organized in the country and that require, in order to resolve the difficulties deriving from excessive borrowing, a capital increase, or else, when such capital increase is carried out in banking firms or financial enterprises established in Chile.

4. Persons wishing to apply to the benefits established in this Exhibit shall submit to the International Division of Banco Central de Chile, in order to obtain from it the corresponding authorization, an application to provide information and enclose the following documents:

(a) The individualization of the applicants and, when appropriate, of the agent(s) acting on behalf of the

former, accompanying documents evidencing their representation.

(b) Information concerning the activity, purpose or line of business, capital or volume of trade of the applicant(s) and, with respect to the entity that will issue the shares, records to prove the need for capital increase for the normal course of its business. In addition to the above-mentioned information, the application shall include, except in the case of banking firms and financial institutions, a general balance sheet duly audited by External Auditors registered with the Superintendency of Securities and Insurance, and indicate, besides, if the entity issuing the shares has received or not other contributions subject to the "foreign investment regime" such as D.L. Nr. 600, Articles 14, 15 or 16 of the Law on International Exchange or Chapter XIX of this Compendium.

(c) The individualization of the debtor's instrument(s) intended to be applied toward operations contained in this Exhibit, as well as the indication of the credits, that is, of the total or of part of the capital or capital balance of the instruments and, when appropriate, of the interests, accrued and outstanding, that shall be assigned, according to this Exhibit, to the subscription and payment of shares to be issued,

(d) The specification of the manner in which the subscription and payment of the shares will be carried out, and the obligation on the part of the applicant(s) to use the respective "credit" solely for the purposes indicating on the application,

(e) Copy of the agreement mentioned in Nr. 5 of this Exhibit, duly authorized by Notary Public or recording officer, and

(f) Express statement on the part of the applicant(s) to the effect that they will subject the respective operation to the provisions of the present Exhibit and to those established in the respective authorization granted by Banco Central de Chile.

5. Persons wishing to carry out investments under the provisions contained in the present Exhibit must have previously subscribed an agreement in the capacity of future creditors of the respective "credit," together with the corresponding debtor of the same and, as the case may be, with the guarantor(s) of the obligation, in which, provided that the application referred to in the preceding number be approved by Banco Central de Chile, the parties shall agree that:

(a) The document evidencing the "credit" shall be paid in Chile, immediately and against delivery of the same in cash, with or without discount, in Chilean domestic currency, pesos, and the total amount of the proceeds shall be assigned, simultaneously, to the subscription and payment of the shares issued by the debtor of the "credit" to this effect or, alternatively,

(b) The above-mentioned document shall be replaced in Chile, with or without discount, by one or more instrument(s), subscribed by the debtor, such as bills of exchange, promissory notes, registered deed or other commercial papers that shall be denominated in Chilean pesos, local currency, which shall be compensated with the debtor of the "credit" in payment of the shares that, to this effect, shall have been subscribed by the creditor and issued by the debtor. The compensation shall be carried out simultaneously with the subscription and payment of the shares.

Under no circumstances shall the amount received from the debtor and the amount appearing on the new instrument(s) received in exchange exceed the amount of the "credit," including accrued and outstanding interests calculated until the date the respective operation is carried out. For these purposes, the exchange rate and par values mentioned in Nr. 7 of Chapter I of this Compendium shall be considered, without applying the exchange rate differential foreseen in the second paragraph of Exhibit Nr. 1 of the same and in force on the date mentioned above.

In the same agreement and under the conditions indicated, the parties shall waive access to the currency market they could have been entitled to by the respective "credit" and commit themselves to return, to Banco Central de Chile, the corresponding Certificate referred to on Chapter XIV of this Compendium, for its amendment or inutilization, whichever the case may be.

In the event that the "credit" should correspond to a part of a non-restructurable instrument, or that the document containing the obligation be intransferable by simple delivery or endorsement, the creditor(s) of the debt, registered as such with Banco Central de Chile, shall also concur to the execution of the agreement mentioned above, where the agreement, for all purposes, must contain, in case of partial cession of the same "instrument," the same date of execution, maturity profile, interest rate and other conditions and terms agreed to for the original instrument.

The provisions contained in letter (b) of Title II of letter G of Chapter XIV of this Compendium shall be complied with upon executing the agreement referred to in this number, and fulfillment of the agreements that gave rise to the corresponding obligation shall be required.

6. In order to decide upon the application submitted to do business under the protection of the present Exhibit, Banco Central de Chile may request from the Superintendency of Banks and Financial Institutions or

from other appropriate entities the reports deemed necessary to adopt its decision. Banco Central de Chile may accept or reject investment applications without stating a reason. In case an application is approved, the corresponding authorization shall establish the terms and conditions ruling the operations described in this Chapter.

7. The operations carried out under the provisions stated in this Exhibit shall be ruled, also, by those established in Chapter XVIII of this Compendium, except for those contained in letter (b) Nr. 2 and in numbers 3, 4, 5 and 6 of the above-mentioned Chapter.

Chapter XVIII - Exhibit 5 International Exchange: Acquisition of External Debt Instruments Subscribed by Banco Central de Chile toward Mortgage Debt Payments

1. Natural and juristic person indicated in Nr. 2 below, hereinafter, "Debtor(s)" may, for one time only, acquire Chilean external debt instruments referred to in letter (b) of Nr. 1 in this Chapter, hereafter, the "instrument(s), for the exclusive purpose of applying them toward total or partial payment of mortgage obligations corresponding to one real estate property, that they hold with banking firms or financial enterprises, as long as the requirements and conditions established in this Exhibit are fulfilled.

2. Likewise, said instruments, without access to the currency market, may be acquired by persons described in the first paragraph of this Chapter XVIII with the exception of the persons indicated in number 2 of the same, with the exclusive purpose of selling them, in pesos domestic currency, to the "Debtors" previously defined so that the former or the latter, in their turn, may apply them to carry out the operations foreseen in this Exhibit, complying with the requisites and conditions established in it.

For that purpose, "Debtor(s)" are the following:

2.1 "Debtor(s)" holding reprogrammed obligations or those that, having qualified to be reprogrammed, as described in the Executive Committee Agreements of Banco Central de Chile Nos. 1517-01830620,1583-0-1840705 or 1589-01840803, or its substitutions executed according to Agreement Nr. 1719-02860321;

2.2 "Debtor(s)" whose obligations have been reprogrammed under Agreements Nos. 1507-01-830412 and 1578-01-840622;

2.3 "Debtor(s)" of loans acquired by banking firms or financial enterprises from Asociacion Nacional de Ahorro Y Prestamo (National Savings and Loans Association) and were reprogrammed, or qualified to be reprogrammed, under Agreements Nos. 1518-04-830622 or 1594-20-840829, and did not make use of the benefits established in Decree Law Nr. 3,480 of 1980;

2.4 "Debtor(s)" who qualify as beneficiaries of the Housing Subsidy System regulated by Supreme Decree Nr. 188 (Housing and Urbanism) of 1978, and its amendments; by S.D. Nr. 351 (H. and U) of 1980 and its amendments, and by Articles 16 and 18 of S.D. Nr. 268 (H. and U.), of 1975, and had obtained the complementary mortgage loan prior to December 31, 1985, financed or not with letters of credit, from banking firms, financial enterprises, or by SERVIU (Service of Housing and Urbanism). In cases concerning loans granted by SERVIU, only those loans whose collection is trusted to a banking firm, who will execute the acts described in Nr. 4 of the present Exhibit, as long as it is authorized to do so by said Service and the mandate referred to in said Nr. 4 be granted by the debtor.

2.5 "Debtor(s)" of banking firms and financial enterprises whose obligations were contracted originally with SERVIU, prior to December 31, 1985.

3. Each "Debtor" may acquire "instruments" for a value not exceeding, in capital or outstanding capital, US$6,000 (six thousand dollars of the United States of America) or its equivalent in foreign currency, plus the corresponding accrued or outstanding interests, calculated as of the date the "instrument" is acquired, or for an amount equivalent to the outstanding part of the loan if the latter is lower than the indicated value.

For the purpose of determining the margin referred to, joint mortgage loans associated to the same real estate property will be considered, and the type of exchange and parities used shall be those established in Nr. 6 of Chapter I of the Compendium of Rules on International Exchange, in force on the day prior to the date of presentation of the corresponding application to Banco Central de Chile.

4. "Debtor(s)" wishing to apply to the norms contained in this Exhibit shall forward an application to the Direction of Operations of Banco Central de Chile prior to September 30, 1988, through a crediting banking firm or financial enterprise. On said application, the "Debtor" will grant authorization to the respective banking firm to perform, subject to the approval of the application, the following actions:

4.1 Acquire, directly or through third parties, the corresponding "instrument(s);"

4.2 Apply to Banco Central de Chile the substitution of the "instrument" for the negotiable instruments indicated in Nr. 6 of this Exhibit, that will equal 100% of the value of the "instrument(s)" that will be

exchanged, including capital, plus accrued and outstanding interests, calculated as of the date of substitution, at the type of exchange and parities described in Nr. 3 above;

4.3 Sell to third parties the negotiable instruments received in exchange or purchased for the self, both instances in cash and in pesos, Chilean domestic currency, and according to market conditions. In cases of sale or purchase of these instruments received in exchange, instructions should be imparted to the monetary entity for the simultaneous application on its part of the pesos, national currency, received, toward the payment of the following obligations according to the priority listed below:

4.3.1: To the Committee referred to in Nr. 5 of this Exhibit.

4.3.2: To the loan granted by the mandating entity, if it had granted the "Debtor" financial means to acquire the "instrument."

4.3.3: To the outstanding part of the mortgage loans that, associated to the same real estate, gave origin to the operation, as long as the corresponding mora be before February 29, 1988.

4.3.4: To the anticipated payment of the loans that gave origin to the operation. When referring to loans under Agreements Nos. 1517- 01-830620, 1583-01-840705 and 1589-01-840803, however, said payment shall not exceed 15% of the outstanding capital of the loans referred to; where the remaining part, if any, shall be destined to the advance payment of the "maturity extensions" brought about by the agreements.

5. Banking firms and financial enterprises participating in the operations described in this Exhibit, are authorized to charge the "Debtor" a fee of up to 3% of the sales value of the negotiable instruments described in Nr. 6 of the same. Said fee shall be the only retribution for services rendered and expenses incurred, including financing and tax expenses generated by the whole operation, be it by the banking entity itself or by third parties acting at the latter's request.

6. Banco Central will substitute all the "instruments" acquired by Banco Central de Chile Readjustable Promissory Notes (P.R.B.C.), bearing the characteristics and denominations described in Chapters IV.B.7 and IV.B.7.1 of the Compendium on Financial Norms.

Fifty percent of the total amount undergoing substitution will be exchanged for P.R.B.C. of 180 days maturity, and the remaining 50% for P.R.B.C. of 35 maturity, which, in both cases, shall earn interests at the rates in force for these instruments at the time of substitution.

Any remaining balance to be substituted, due to the denominations of P.R.B.C., will be paid in cash. In the event that the maturity date of such P.R.B.C. were to fall on a bank holiday, the instruments referred to will be issued for a date corresponding to the following bank day.

7. Banking firms and financial enterprises receiving payment from their "Debtor(s)" according to the mechanism foreseen in the present Exhibit, shall waive, when it be the case of an advance payment, the collection of a fee and of interests corresponding to one quarter, as referred to in Article 95 of the General Law of Banks. Moreover, being the case of a debt on default, they shall waive collection of those interests that exceed current interest, applying the concept of default.

8 Banking firms and financial enterprise, in order to operate through this system, shall accept the applications of all "Debtors" desiring to apply to it.

9. Banco Central de Chile will regulate the periodic amount of the operations liable to be carried out according to the present Exhibit, for which banking firms and financial enterprises shall present "global applications" for figures no lower than the equivalent of US$ 500,000 (five hundred thousand dollars of the United States of America), using, to that effect the type of exchange and parities established in Nr. 3 of this Exhibit.

10. The operations carried out according to the provisions contained in this Exhibit shall be subject, each and every one of them, to the general rules, conditions and obligations contained in Chapter XIII of this Exhibit, without exception of the rules contained in letter (b) of Nr. 2 and Nos. 3, 4, 5 and 6, and to special rules contained in this Exhibit, where the latter prevails in case of conflict within the same.

11. The Direction of Operation of Banco Central de Chile is empowered to dictate the norms that are necessary or the implementation of this Exhibit, to grant special authorizations required according to the terms contained in it and control and supervise the execution of such operations.

The Superintendency of Banks and Financial Institutions, in the use of its faculties, will dictate the accounting and control norms as required.

CHAPTER XIX: Compendium of Rules on International Exchange --Investments With Foreign Debt Instruments

The persons listed below are hereby authorized to conduct international exchange operations under the terms and conditions described herein:

1. Natural or juristic persons, whether Chilean or foreign, resident in the country or domiciled abroad, may carry out investment operations in Chile subject to the provisions contained in the Chapter, as long as prior authorization from Banco Central de Chile has been obtained, and such investments are carried out using domestic currency resources resulting from the application of debt instruments, called "instruments" hereafter, that meet the following requirements:

(a) The instruments must evidence the existence of an obligation denominated and payable in foreign currency abroad and have an original or extended maturity exceeding 365 days;

(b) The instruments must have been executed, as direct obligor, by the Treasury, by Banco Central de Chile, by "public sector entities," by CORFO (Corporacion de Fomento de la Produccion), by banking firms or financial institutions authorized to operate in the country, or by instruments subscribed by natural or juristic persons resident in Chile other than those listed above, provided such instruments have been pledged prior to July 1st, 1985, without limitations as to time, occasion, amount or person involved, by CORFO or banking firms or financial institutions authorized to operate in the country.

For the purposes of this paragraph, the term "public sector entities" includes all departments, institutions and firms referred to in Article 2(a) of Law Nr. 18,233, including Corporacion Nacional del Cobre (CODELCO), and the organizations described in Article 11 of Law Nr. 18,196, excluding Banco del Estado de Chile. In turn, the capacity of guarantor shall be shown, when appropriate, in the respective "instrument" and, in the case of external credits under Articles 14, 15, or 16 of the Law on International Exchange or loans associated to Decree Law Nr.600 of 1974 and its amendments, with the corresponding inscription with Banco Central de Chile.

2. The persons referred to under Nr. (1) above wishing to make use of the resolutions contained in the Chapter should submit an application to the International Division of Banco Central de Chile in order to obtain the authorization referred to in the previous paragraph, which contains at least the following information and includes the documents listed below:

(a) Identification of the applicant(s) and, when the case be, of the mandating parties acting on behalf of the former, including the documents to prove such representation;

(b) Information on the applicant(s) concerning, at least, the activity, line of business or object, capital, volume of operations, if (s)he carries out business in or with Chile, if (s)he holds investments in Chile under the "foreign investment regime," such as D.L. 600 of 1974 or its amendments, Articles 14, 15, or 16 of the Law on International Exchange or the norms contained in this Chapter;

(c) The individualization of the "instrument(s)" that will be subject to the operations described in this Chapter, as well as information concerning the "credits," that is, the full or partial amount of capital or remaining capital of the "instruments" and, if be the case, of the interests accrued or pending payment that will be destined, in the manner described in this Chapter, to carry out the investments authorized by Banco Central de Chile. When called for, proof of guarantor status as described in letter (b) of paragraph 1 of the present Chapter shall be provided and, in case the person submitting the application differs from the creditor of the "instrument," registered as such with Banco Central de Chile, an application to obtain the authorization to make the corresponding change of creditor on the "credit";

(d) A detailed account of the destiny that will be given, directly or indirectly, to the resources that will be invested in the country under the provisions contained in this Chapter, indicating the period of time required for the materialization of the necessary operations, and the commitment on the part of the applicant in submitting to prior authorization by Banco Central de Chile any modification that the destiny of said resources may undergo, directly or indirectly, during the first year starting on the date the original investment is actually made.

In case the foreseen investment is meant to be carried out through an agency resident in Chile that receives the corresponding contribution, indication shall exist whether the agency will be formed exclusively for that purpose or whether the agency already exists, in which case, information shall be included concerning, at least, the object or line of business, capital, volume of operations, and if (s)he already receives other contributions subject to "foreign investment regime";

(e) Copies of the agreement authorized by a competent Notary Public or other recording officer and the irrevocable orders contained, respectively, in numbers (3) and (4) of the present Chapter, when it corresponds;

(f) The application must contain expressed acceptance by the applicant of the rules contained in this

Chapter, and of those established by the corresponding authorization of Banco Central de Chile.

3. The persons desiring to carry out investments under the provisions contained in this Chapter should subscribe, prior to its formalization, an agreement authorized by a Notary Public or recording officer consigning them as creditors or future creditors of the respective "credit," if the case be, in conjunction with the pertinent debtor(s) of the same, registered as such with Banco Central de Chile, including the guarantor(s) of the obligation who agree to concur to its subscription. In said agreement, under the condition that the authorization referred to in number (2) above be authorized by Banco Central de Chile, the parties should agree:

(a) That the document that expresses the "credit" shall be paid in Chile, immediately and upon surrendering the document, cash, with or without discount, in pesos Chilean domestic currency, or

(b) That, alternatively, said document will be agreed to be substituted in Chile by one or more instruments such as mortgage bonds, promissory notes, contracts recorded with the Notary Public or other negotiable bearer instruments that shall only be denominated in pesos Chilean domestic currency or in Unidades de Fomento, that can also include agreement, optatively, to modify the amount of the debt, the interest rate, the maturity date or other conditions of the obligation.

In the same agreement referred to, and under the conditions already established, the parties must waive access to the currency market that corresponds to the respective "credit" and, in pertinent cases, the debtor must make a commitment to return to Banco Central de Chile, at the time of the immediate payment of the "credit" or cashing of the instruments, whichever the case be, and through the mandating entity referred to in Nr. (4) below, the respective Certificate described in Chapter XIV of this Compendium, for its inutilization or amendment, whatever the case may be.

In the event the "credit" corresponds to a part of an "instrument" corresponding to non-restructurable debt, or the document that expresses the obligation be intransferable by simple delivery or endorsement, the creditors registered as such with Banco Central de Chile shall also have to concur to the celebration of the agreement described, that shall contain word, in case of partial cession of the same "instrument," establishing that the part of the obligation that was not purchased will keep, for all purposes, the original date of contraction of the debt, its maturity profile, and the interest rate and other conditions included or agreed to the "instrument."

Upon the celebration of the agreement referred to in the previous paragraphs, it is necessary to remember to comply, when applicable, with the rules contained in letter (b) of Title II of letter (g) of Chapter XIV of this Compendium, as well as with the agreements that gave rise to the corresponding obligation.

Subscription of the agreement referred to in this number will not be required when the respective "instrument" had been signed, as direct obligor, by Banco Central de Chile, in which case the corresponding "credit" will be substituted by one or more of the instruments described in Annex 1 of this Chapter, in the form indicated in it. In any case, the investor(s) may convene with said Institution that the rates applicable to the instruments that, according to Annex Nr. 1 of this Chapter, substitute the "credits" rates that are in force at the time of the respective convention.

4. The persons wishing to carry out investments through the application, subject to the rules contained in this Chapter, of "credits" shall have previously granted irrevocable mandate to a banking firm authorized to conduct operations in international exchange in the country so that (s)he, subject to the approval by Banco Central de Chile of the application described in Nr. (2) of this Chapter, and acting on behalf and in representation of the mandator, request the Issuing Institute to exchange the "credit" for the instruments referred to in Nr. (1) of this Chapter, in case the "instrument" had been subscribed by the Issuing Institute named above as direct debtor, or, in the cases left, proceed to collect the obligation from the debtor or to someone obliged to pay, or to request from them the substitution of the "credit" for new instruments, depending upon the decision contained in the respective agreement.

In the event the "credit" should be exchanged for other instruments, the irrevocable mandate should expressly instruct, besides, the mandating agency to take, prior to authorization from the Head of Operations of Banco Central de Chile, one of the following courses of action:

(a) Contribute the new instruments received to an entity residing in the country, so that the latter applies the instruments to purposes authorized by Banco Central de Chile;

(b) Give or receive, in payment of goods representative of the investments authorized by Banco Central de Chile, the new instruments received in exchange, or

(c) Sell to third parties the new instruments received in exchange or proceed to acquire them for itself, in both instances, cash and in pesos Chilean domestic currency.

In the cases of "credit" collection or purchase or sale of the new instruments received in exchange, the above-mentioned mandate shall include instructions to the mandating entity to apply the pesos Chilean

domestic currency received, prior authorization from the Head of Operations of Banco Central de Chile, to carrying out investment operations authorized by said Issuing Institute and to, in case such operation may not be carried out immediately, and while authorized investment operations are being perfected, retain the product of the collection or sale, depending upon the case, and apply said resources to the following:

• Constitute sight drafts or term deposits in a banking firm established in Chile, that could be the same mandating entity. Such deposits could be, if the rules applicable to them so permit, subject or not subject to readjustment according to the variation experienced by the Unidad de Fomento or the type of exchange and with or without interest;

• Purchase subject to resale of Discount Promissory Notes of Banco Central de Chile; Readjustable Promissory Notes of Banco Central de Chile subject to Floating Interest Rates; Discount Promissory Notes issued by the Treasury of the Republic and Readjustable Promissory Notes of the Treasury of the Republic.

These resources can only be drawn prior to authorization described above, with the exclusive purpose of applying the capital, together with the readjustments and interests they may have generated, to the materialization of authorized investments.

In the event that the new instruments received in exchange or the resources that will be invested in Chile be contributed by an entity resident in the country, in order that the latter carry out investments authorized by Banco Central de Chile, said entity shall grant, in turn, an irrevocable mandate to a banking firm authorized to operate in the country so that (s)he, previous to authorization from the Head of Operations of Banco Central de Chile, and acting on behalf of the mandator, apply such resources to the materialization of said investments or transfer to third persons the new instruments or receive them for itself, in payment of goods representative of the investments authorized by the Issuing Institute named above, or else, collect them from the respective debtor, sell them to third parties or purchase them for the self, in all cases cash and in pesos Chilean domestic currency.

In the cases of contribution of resources or collection or sale of new instruments, this mandate shall include instructions so that the mandating entity proceeds to retain said resources or the product of said collection or sale, and applies the respective amounts to constitute sight drafts or term deposits and/or applies the resources to repurchasing, subject to the same conditions and purposes described in the previous paragraph.

5. Under no circumstance can the sum received in payment for the obligor from any party under the obligation to pay the "credit," or the equivalent of the new instrument(s) received in exchange, or the price of its sale or contribution, exceed the amount of the "credit," that is, the value of the capital or the outstanding balance of the capital, including interests earned and outstanding payment, calculated to the date of the respective operation.

6. The applications for investment inside the country subject to the present Chapter that are submitted to Banco Central de Chile according to the rules contained in Nr. (2) above, may be approved or rejected without expressing cause by Banco Central de Chile.

Notwithstanding the above, Banco Central de Chile may condition approval of the application to authorize investment to the fulfillment, on the part of the applicant or of the entity receiving the contribution, of certain requirements, in the time period, term and conditions defined in each case, that, in the way of illustration, may include the requirement to carry out part of the investment with the product of the sale of freely convertible foreign currency. These conditions must be expressly accepted by the applicant or the receiving entity mentioned above, depending upon the case.

Upon the approval of an investment application, Banco Central de Chile may authorize, using the power granted by Article 15 of the Law on International Exchange, and responding to a direct request on the part of the applicant, access to the currency market in favor of the latter to transfer abroad its capital and the net profit it may generate, under the following conditions:

(a) Capital may not be remitted before a period of 10 years has elapsed from the date the investment or contribution actually takes place, which shall be evidenced by the investor to the Operations Division of Banco Central de Chile within 30 days from the date the action is completed;

(b) Remittance of any net profits generated by the investment during the first four years from the date the investment or contribution takes place may only be carried out by the applicant after the same period of four years has elapsed. In any event, such net profits may be remitted starting on the fifth year in annual percentages that may not exceed 25% of the total amount. The limitations above will not apply to net profits obtained from investments made from the fifth year onward. Should the investor decide to reinvest the profits generated by the investment, such reinvestment may not be remitted during the first four years from the date of finalization of the original investment. Any net profit obtained by the reinvestment of profits carried out during the first four years may only be remitted once the same period of four years has elapsed. Such

reinvested profits and the associated net profits may be remitted as from the fifth year, in annual percentages not exceeding 25% of the total amount thereof. The above limitation will not apply to reinvested profits as from the fifth year, nor to net profits arising from such reinvestments;

(c) Net profits may be remitted, if and when the above requirements are met and at the times specified above, only to the extent that they appear in the duly audited balance sheet for the relevant fiscal year. In the case of persons not required to keep bookkeeping records, such profits shall have to be proved to the satisfaction of Banco Central de Chile;

(d) In the case of investments made through contributions to an organization resident in Chile, the investor(s)' interest in the recipient organization, for the purposes of remitting capital and profits abroad, will be deemed to be that stated in the relevant resolution of the Executive Committee of Banco Central de Chile authorizing the investment;

(e) The necessary foreign currency to carry out total or partial remittances of capital may only be purchased with the proceeds of total or partial disposal of the assets, or rights that are representative of the investment, or of the partial or total disposal or liquidation of the ventures purchased or created with such investment; and

(f) The rate of exchange applicable to the remittance of capital and profits abroad shall be the type of exchange freely agreed upon by the investor and any banking organization authorized to engage in international exchange operations in Chile.

7. Obligations associated with the "credits" applied to carrying out authorized operations pursuant hereto shall have no access to the system for the payment of obligations established in Chapter XIII of this Compendium, or to the system contained in Resolution No. 1672-11-850821 of Banco Central de Chile.

8. In case any investment operation carried out according to the rules contained in the present Chapter does not occur in accordance to these provisions and subject to the conditions provided in the authorization granted by Banco Central de Chile, or any amendments that may be agreed thereafter at the request of the investor, the following provisions will be applicable:

(a) If the change of creditor, if the case may be, does not take place in the specified period or manner, the foreign investment authorization will become null and void. The same will apply if, without a change of creditor, the investor fails to make timely collection of the "credit" from the relevant obligor or from any of the parties obliged to make payment, or to require from the substitution of the "credit" for new instruments, in the manner provided for the operation;

(b) If, after proceeding to the change of creditor of a "credit," the collection or replacement for other instruments does not take place in the period of time or the manner provided for to carry out the operation, the obligor and the parties called on to pay for the respective obligation, as well as the creditor himself, will lose access to the foreign currency market that may correspond to its service; and

(c) If, after the collection or replacement of the "credit" by other instruments takes place and the investment authorized by Banco Central de Chile does not take place at the time and under the conditions established for that purpose, or the final application of invested resources is misrepresented, in the course of the first year from the date the original investment was completed, without having obtained prior authorization from Banco Central de Chile, the applicant shall forfeit access to the foreign currency market (s)he may have been granted to remit abroad the capital and net profit that had been generated by the investment.

9. Persons carrying out or taking part in operations that are subject to the conditions described in the present Chapter shall make sure that all actions deriving from its application comply fully with the provisions contained herein.

10. Notwithstanding the rules contained in Nr. (8) above, violations to this Chapter may be penalized in the manner described in Chapter XXIV of this Compendium.

11. The Operations Division of Banco Central de Chile is authorized to establish the necessary procedures to control and supervise operations conducted according to these rules and to grant any special authorization required, pursuant to the terms contained in the Resolutions through with the Executive Committee of Banco Central de Chile authorizes any such operations.

The Superintendency of Banks and Financial Institutions, using its powers, will issue any relevant accounting rules and comptroller regulations.

12. Persons who own Chilean external debt instruments according to Nr. (1) of this Chapter and who, also, fulfill the requirements and conditions contained in Exhibit Nr. (2) of the same Chapter, may apply such instruments to carry out operations described in said Exhibit.

EXHIBIT NR. 1: Investment with Foreign Debt Instruments Executed by Banco Central de Chile as Direct Obligor

1. In case persons described in Nr. (1) of Chapter XIX of this Compendium having obtained authorization from Banco Central de Chile to carry out investments inside the country pursuant to the provisions stated in the document mentioned above, of instruments subscribed by Banco Central de Chile as direct obligor, shall submit a request to Banco Central de Chile through the agent organization referred to in paragraph 4 of the mentioned Chapter, after proceeding to change of creditor of the "credits," if needed, with the purpose of replacing such instruments by one or more of the following:

(a) Notes to bearer issued by Banco Central de Chile, denominated in dollars of the United States of America and payable in pesos Chilean domestic currency, in an amount equal to the amount of the "credits," maturing at the end of a period of 10 years from the date of such replacement, earning interest payable in six monthly installments in pesos Chilean domestic currency, as shown in the following schedule for the periods starting on the date of issue:

Period	Annual Interest Rate
For 1st six months	That of original instrument
For 2nd six months	LIBOR + 0.75%
For 3rd six months	LIBOR + 0.25%
From 19 months to maturity	LIBOR - 0.50%

(b) Negotiable bearer instruments issued by Banco Central de Chile, denominated in Unidades de Fomento, in an amount equivalent to the amount of the "credits." The capital maturity date for these instruments will be of 15 years starting on the day the substitution was made, interest payable on a six-monthly basis and equal to the weighted average rate for indexed 90 to 365-day borrowing in the financial system (TIP), reduced by 1.1% per annum.

The holders of notes to bearer referred to in letter (a) above may, at any time during the first 18 months starting on the date the note was issued, cash these instruments in Banco Central de Chile for negotiable bearer instruments of equal value described in letter (b) above. In this case, the reduction applicable to the interest rate, if there is any, and other conditions for negotiable instruments, will be those in force on the issuing date of the promissory notes, or else those that were in force on the date the agreement was subscribed referred to in Nr. (3) of the present Chapter, whatever the case be, even in case Banco Central de Chile had modified, according to the terms contained in Nr. (3) of this Exhibit, the conditions and terms of the instruments referred to in this Nr (1).

2. Concerning the rules contained in Nr. (1) above, the following applies:

(a) Relative to currency conversions taking place in these operations, the type of exchange and the parities referred to in Nr. (7) of Chapter 1 of this Compendium are to be applied without the exchange differential described in the second paragraph of Exhibit 1 of the same Chapter and, when called for, the value of the Unidad de Fomento that is in force on the day the operation takes place;

(b) The LIBOR rate that will be applied as of the maturity date of the first six-month period and for each one of the six-month periods thereafter, will be the LIBOR rate (180 days) informed by International Management of Banco Central de Chile through its "Report on Foreign Currency Equivalencies." Likewise, the applicable TIP rate will be the one informed by Management of Studies of Banco Central de Chile, corresponding to pertinent operations carried out during the calendar month just prior to the day that marks the beginning of each six-month period, that will be in force during the respective period.

(c) The interest of the instruments described in Nr. (1) of this Exhibit will be accrued only up to the respective maturity date.

For the purpose of calculating the amount in domestic currency that is considered in debt through bearer notes denominated in dollars, the applicable type of exchange will be the one described in letter (a) of this Nr. (2), in force on the respective maturity date.

For the purpose of calculating the value in domestic currency of negotiable bearer instruments, the applicable value will be the one in force for the Unidad de Fomento on the respective maturity date.

3. Banco Central de Chile, when the market situation so justifies, or when, due to eventual restructuring of the country's external debt, agrees to more favorable terms concerning capital obligation figures with crediting foreign financial institutions, relative to debt's maturity dates or applicable interest rates, is empowered to modify the terms and conditions of the notes to bearer or of negotiable bearer instruments described in Nr. (1) of this Exhibit. These modifications will be applicable to instruments that are to be

issued as of the date of the respective Resolution of the Executive Committee.

4. In actions not included in the present Exhibit, the operations described in it will be subject to the general rules contained in Chapter XIX of this Compendium.

EXHIBIT NR. 2: Use of Foreign Debt Obligations for Chilean Investment Companies

1. Persons referred to in the following number, hereafter "Investors" who hold Chilean external debt instruments described in Nr. (1) of this Chapter, may apply such instruments, in the manner described in this Exhibit, toward the subscription and payment of shares issued by Chilean corporations, hereafter "Investment Company," whose exclusive purpose is to carry out investment in the country subject to the terms and conditions established in this Exhibit. For the purpose of this Exhibit, these shares will be called "A" shares.

2. The Investors shall be juristic persons with residence and domicile abroad--established and organized subject to the laws of their country of origin or, organizations or international agencies, governmental or paragovernmental agencies--whose net worth equals or exceeds US$5 million (Dollars of the United States of America), or its equivalent in other foreign currencies, and which are not controlled directly or indirectly by persons of Chilean nationality or residing in the country.

3. The operations referred to in this Exhibit may only be carried out after obtaining the respective authorization from Banco Central de Chile that requires the presentation of the following information, to the satisfaction of Banco Central de Chile:

(a) Identification of the Investors who will subscribe and pay the capital of the Investment Company and, when appropriate, of the agent(s) acting on behalf of the Investors, including documents backing their authority;

(b) Information concerning the activity, purpose, line of business, capital and net worth of Investors. Such capital and net worth shall be evidenced with the entity's latest balance sheet or, alternatively, through a duly audited financial statement dated not more that 90 days prior to the submission of the application;

(c) A draft of the proposed by-laws of the Investment Company that should include, at least, the representations established in this Exhibit;

A legalized copy of the by-laws should be submitted to Banco Central de Chile within 60 days starting from the date the authorization referred to in this number is granted;

(d) Identification of the persons who shall be named legal representatives of the Investment Company;

(e) Information relative to whether the applicants hold investments in the country under the existing "foreign investment regime," such as D.L. 600 of 1974 as amended, Articles 14, 15 or 16 of the Foreign Exchange Law or the rules of this Chapter XIX;

(f) A listing of the "debt instrument(s)" that will be applied to carry out the operations referred to in this Exhibit, as well as a description of the "credits," that is, total or partial amount of the principal amount of the "debt instruments," and, when applicable, of the accrued and unpaid interest, that will be used, in the manner specified in this Chapter XIX and in this Exhibit, toward investments authorized by Banco Central de Chile.

Evidence should also be included, when applicable, concerning the guarantor status referred to in letter (b) of Nr. 1 of this Chapter XIX and, if the applicant is a person other than the creditor of the "debt instrument" registered as such with Banco Central de Chile, a request for the approval of the corresponding change of creditor appearing on the "credit";

(g) Copy, executed before a Notary Public or recording officer of the agreement referred to in Nr. (3) of this Chapter XIX in the understanding that it will be subject to the approval indicated above; and

(h) Copy of the Power of Attorney that the Investors may have issued pursuant to Nr. 4 of Chapter XIX, whereby they instruct the agent to proceed, within a maximum of 60 days starting on the date the approval indicated in this number is granted, to contribute to the capital of the Investment Company the lawful domestic currency obtained in payment of the "credits" or to deliver, as contribution, the instruments that may have been received in exchange for the "credits," or the lawful domestic currency received in payment of such instruments; and

(i) The applicant(s)' expressed acceptance to the effect that they submit to the provisions of this Chapter XIX and its Exhibit 2, as well as to those established by Banco Central de Chile in the corresponding authorization.

4. Notwithstanding the requirements contained in the previous number, the Investor(s) who undertake the task to contribute, collectively, to the Investment Company at least one-third of its minimum capital may submit a request to Banco Central de Chile to authorize--in principle--the presentation of an application to

GUIDES FOR APPLICATION OF THE ADJUSTMENT FACTOR OF THE DISCOUNTS SHOWN IN EXHIBIT C *

1. Locate the discount box corresponding to the type of capitalization.
2. Determine the approximate market price of the instrument to be used.
3. Calculate the differential between the free rate and the controlled rate of exchange.
4. With the preceding data, determine the corresponding discount, multiplying the convergent factor of the price and the differential.

* The initial values considered in the adjustment factors shown in the Schedule to Exhibit C are: P? (price of the paper) - 60%, and d (differential between rates of exchange) - 1.02%.

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Nigeria

GUIDELINES FOR DEBT CONVERSION PROGRAMME

1. Introduction

1.1 The Federal Republic of Nigeria has established a Debt Conversion Programme (DCP) and set up a Debt Conversion Committee (DCC) to implement the programme.

1.2 Objectives of the Debt Conversion Programme:
The objectives of the Debt Conversion Programme are:
i To reduce Nigeria's external debt position by reducing the stock of outstanding foreign currency denominated debt in order to alleviate the debt service burden.
ii To create an economic environment attractive to foreign investors.
iii To serve as an additional incentive for the repatriation of flight capital.
iv To stimulate employment by generating investments in industries with significant dependence on local inputs.
v To encourage the creation and development of export-oriented industries thereby diversifying the export base of the Nigerian economy.
vi To increase access to appropriate technology, external markets and other benefits associated with foreign investment.

1.3 Membership of the Debt Conversion Committee:
The membership of the Debt Conversion Committee is as follows:

(i) The Central Bank of Nigeria	Chairman and Secretariat
(ii) Federal Ministry of Finance and Economic Development	Member
(iii) Cabinet Office	Member
(iv) Federal Ministry of Justice	Member
(v) Federal Ministry of Justice	Member
(vi) Hon. Minister of State for Special Duties, Office of the Preparer	Member

1.4 Functions of the Debt Conversion Committee (DCC):
The primary functions of the Debt Conversion Committee (DCC) include the following:
(i) to design and implement an efficient Debt Conversion Programme (DCP) in Nigeria;
(ii) to establish clear and concise approval procedures;
(iii) to review and approve applications and transactions within a reasonable, specified time;
(iv) to continually monitor and review the progress of the programme and the investment projects approved under it.

1.5 DCP Guidelines:
In what follows, guidelines covering rules and regulations, application conversion and monitoring procedures for a Nigerian DCP are presented. The guidelines may be reviewed and amended from time to time by the Debt Conversion Committee (DCC) without necessarily affecting the status of previously completed transactions.

2. Rules and Regulations

2.1 Eligible Foreign Debt(s):
At the initial phase of the programme, the only class of debt that would be eligible for conversion shall, in the meantime, be Central Bank of Nigeria dollar-denominated promissory notes issued under the Central Bank of Nigeria Circular of April 1984 and promissory notes issued by Federal Ministry of Finance and Economic Development. Later, the programme may be extended to cover any other foreign-currency-denomi-

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nated debt of maturity greater than 365 days owed to commercial banks by the Federal Republic of Nigeria or the Central Bank of Nigeria. The decision to make any class of debt eligible shall rest with the Debt Conversion Committee, to be made in light of developments under the programme.

2.2 Eligible Transaction Categories

In the application of the Naira proceeds from debt conversion, the only three categories of application that would be entertained by the Committee are:

(i) Conversion to cash for the purpose of making a gift/grant to Nigerian entities.

(ii) Conversion for expansion or recapitalization of investments in privatized enterprises.

(iii) Conversion for investment in completely new projects.

2.3 Priority within Eligible Transaction Categories:

Within the eligible transaction categories stated in Sec. 2.2 above, the following economic activities will be given priority in the following order:

(i) Investment in production processes based on at least 80 percent local raw materials, especially in the development of agriculture
and agro-industry, production for export and production of raw materials and other requirements of local industries.

(ii) Investment with high employment content.

(iii) Investment for extracting, exploiting and commercialization of Nigeria's mineral, forestry, and other natural resources.

(iv) Investment that will seek to improve or use existing inventions and discoveries in Nigeria relating to new machinery, new products or new processes or with technology component appropriate or adaptable to the Nigerian situation.

2.4 Minimum Size of Transaction:

In order to minimize administrative work, discourage frivolous applications and facilitate the supervision of, or surveillance over, the projects in which the Naira proceeds of debt conversion are invested in Sec. 2.2 (ii) and (iii) above, the minimum amount of debt to be considered under the scheme shall be US$250,000 in the first instance and US$25,000 in subsequent redemptions. In the case of conversion to cash for the purpose of making a gift under Sec. 2.2 (i) there shall be no minimum limitation.

2.5 Eligible Participants:

All legitimate holders or assignees of designated debt(s) including Nigerians and foreign nationals whether corporate bodies or individuals, resident or nonresident, shall be eligible to participate in the debt conversion programme, provided that the foreign exchange required for the purpose of promissory notes and/or other foreign debts from an original or a previous holder originated from abroad and not from foreign exchange purchased on FEM or in any other way from Nigeria. The enterprise(s) financed with the redemption proceeds is (are) registered as Nigerian enterprise(s) under existing company laws at the time of the transaction.

2.6 Volume Control:

2.6:1 The debt conversion programme shall be consistent with the fiscal, monetary and other policies of the Federal Military Government by ensuring that the amount, timing and application of the proceeds of converted debt are in accordance with national priorities, especially the policies on inflation and acceleration of industrial and agricultural development.

2.6:2 To keep DCP within the framework of the SAP, a volume control shall be applied in the form of annual and monthly ceilings. Such ceilings shall be kept under constant review in line with monetary, credit and other macroeconomic objectives and developments. Any conversion shortfall in one month may, at the discretion of the DCC, be carried over and added to the following month's specified limit.

2.7 Protection of Foreign Investment:

Any approved investment made from the proceeds of conversion under the Nigerian DCP shall be recognized as investment made from foreign currency like any other and accordingly will benefit from approved status for the purpose of such matters as tax treatment and repatriation of dividends and capital subject to the remittance restriction clause in Sec. 2.8 below.

2.8 Remittance Restrictions:

In order to ensure that the relief being sought through DCP is not frustrated and in order that the exercise does not result in giving preferential terms of repayment to an investing redemptor over other creditors contrary to the terms and conditions of existing debt rescheduling arrangements. the following limitations shall be placed on remittances of redemption proceeds and incomes arising thereof:

(i) Interest income, profits/dividends; patent license fees and other invisibles connected with approval projects under the DCP shall not be repatriated for a minimum period of five (5) years from the date of release of redemption proceeds for actual investment or five years after such profits/dividends are made or paid, whichever is later.

(ii) Any capital proceeds arising from subsequent disposal of the investment made under the programme cannot be repatriated for a minimum of 10 years after effective investment of the proceeds.

(iii) Repatriation of capital after 10 years shall not exceed 20 percent per annum.

2.9 Transaction Commission:

A transaction commission payable in US dollars and equivalent to 2.5 percent of the discounted value of the debt to be converted shall be payable to the Central Bank of Nigeria (CBN) by the redemptor. The US-dollar commission shall be payable to the CBN account with the Federal Reserve Bank of New York or any foreign bank as may from time to time be designated by the CBN.

2.10 Financing of Offshore Costs of Projects:

The Naira proceeds of Nigeria's DCP shall be applicable only to the local cost of the project in which the investment is made. All offshore costs of the DCP projects shall be provided by the redemptor. The ability to provide the offshore cost shall be a condition precedent to any debt-equity conversion. Such additional foreign capital investment shall be accorded all the privileges of foreign investment in Nigeria under existing laws.

2.11 Taxation of Profit and Dividend:

Taxation of profit and dividend arising from approved DCP projects shall be in accordance with the existing tax laws in Nigeria at the time such profits and dividends are declared.

3. Application Procedure

3.1:1 Prospective participants, whether corporate or noncorporate, national or foreign, must obtain the prior consent or approval in principle of the Debt Conversion Committee in order to qualify for participation.

3.1:2 All such applications shall be made to the Chairman of the Debt Conversion Committee at the committee's Secretariat located at the Central Bank of Nigeria, Tinubu Square, P.M.B., 12194, Lagos.

3.1:3 The Secretariat shall acknowledge in writing or by attested Cable to the applicant or his agent(s) the receipt of completed application within three (3) working days of the date of receipt of the application.

3.1:4 Application for approval in principle will be processed on case-by-case and on first-come-first-served bases.

3.1:5 The Committee will meet at least once every two weeks (and more often as dictated by the volume of work) to review and approve applications.

3.1:6 The approval or rejection of an application must be communicated to the applicant and/or his agent(s) within four weeks of the receipt of such application.

3.1:7 The Committee shall not be under any obligation to give reasons or justifications for approval or rejection of any application, and its decision shall be final.

3.1:8 Incomplete or defective applications(s) will be returned for modification, or the applicant or his agent(s) will be required to submit additional information.

3.2 Required Information:

The application to the Debt Conversion Committee shall contain the following information:

(i) Detailed identity of applicant and, where applicable, detailed identity of agent(s) in Nigeria.

(ii) Information pertaining to applicant's business should include:

- Nature and type of current business activity and particulars of incorporation;
- Capital and volume of operations;
- Business conducted in or with Nigeria;

- Other investment/operations/activities in Nigeria;
- Nature and volume of business intended to be conducted in Nigeria with proceeds of proposed conversion.

(iii) Previous experience, if any, in debt conversion, with particulars of volume and nature of business done with profile of actual investment performance in other DCP countries (if any).

(iv) Undertaking of acceptance of and adherence to the guidelines contained therein.

(v) Beneficiary or recipient of conversion proceeds and whether it is an existing organization or a new company to be specifically organized for debt-equity conversion programme.

(vi) In the case of foreign persons or entities, particulars of agent(s) or representative(s) in Nigeria. Copies of mandate/agreement between the applicant and the agent(s), whether a person or body corporate, certified by a court declaration or a notary public. Agreement must contain details of agents, including detailed instructions for handling and delivery of conversion proceeds.

(vii) Any other verifiable information or references that could facilitate decisionmaking on the application.

3.3 Verification of Applicants' Particulars:

The Central Bank of Nigeria through its usual correspondent channels shall verify the information supplied by the applicant.

3.4 Interview:

Should the need arise, the applicant and/or his agent(s) shall be invited for interview on the terms and conditions of conversion.

4. Conversion Procedure

4.1 Auction:

The method of debt conversion shall be by auction. However, the DCC can, at its discretion, approve an application for conversion on its own merit.

4.2 Eligible Bidders:

All redemptors who have received approval in principle or their agents are eligible to participate in monthly auction to bid for the amount offered by the DCC for the month.

4.3 Conversion Procedure:

An approved prospective redemptor or his agent(s) shall submit bid form(s) to the DCC at its Secretariat located in the CBN, giving particulars to the promissory note(s)/debt instrument(s) to be redeemed. The redemptor or his agent(s) may submit up to two alternative bids at an auction. If both bids are successful, the more beneficial bid to Nigeria shall be taken as his bid for the auction.

4.4 Bid Schedule:

Bid forms will be provided by the DCC Secretariat at the CBN, Tinubu Square, Lagos.

Bid will be received up until 11:00 AM and the auction will take place at 12 noon on last banking day of each month (or any other designated day). The auction, amounts to be redeemed, and relevant conditions will be announced 10 banking days before the date of the award. Bid processing will be handled by the DCC Secretariat.

4.5 Bidding:

Bids will be delivered to the DCC Secretariat at the CBN and such bids will specify the discount offered as percentage of the face value of the debt to be redeemed.

The DCC Secretariat reserves the right to reject any irregular bid.

4.6 Award:

Bids will be ranked in descending order of discounts offered. The right to redeem will be awarded by discount rank until the monthly allocation is exhausted. If two or more bids offer the same discount and the balance of monthly allocation is insufficient to cover both, that balance will be distributed pro rata among the two or more bids in respect of offers at the same price. Award will be made to a successful bidder at his bid price (discount).

The DCC may set a reserve price above which no deal can be effected.

Redemptors or their agents will be informed of bid award by telephone or telex within two working days of the close of the auction.

Within five banking days of the date of notification, the conversion commission due from successful bidders must be paid to the US-dollar account of the CBN at the Federal Reserve Bank of New York. Redemptors who fail to comply within the requisite time period will forfeit their allocations.

4.7 Exchange Rate:

The applicable exchange rate shall be the effective FEM rate at the time of the auction and this shall be applied to the successful redemptor's bid price in the calculation of the Naira proceeds.

4.8 Delivery of Debt Instrument for Conversion:

The redemptor(s) or his agent(s) will deliver the promissory note(s)/debt instrument(s) for conversion to Chase Manhattan Bank N.A., New York, within 10 working days of the auction in which his bid is successful. If a redemptor fails to deliver the debt instrument(s) to Chase within the stipulated time, he shall forfeit his allocation in the auction.

4.9 Provision of Redemption Proceeds:

Upon the confirmation of receipt of promissory note(s)/debt instrument(s) by Chase Manhattan through attested telex to the DCC, the CBN will provide the Naira Proceeds directly to a designated blocked account at the CBN in favor of the redemptor. The redemptor or his agent will be promptly informed.

4.10 Blocked Account and Release of Funds:

Naira proceeds of converted promissory note(s)/debt instrument(s) will be kept in a blocked account at the CBN and released in tranches to the redemptor's bank according to the cash needs of the approved project(s) as approved by the DCC.

4.11 Cancellation of Redeemed Promissory Note(s)/Debt(s):

After redemption, the DCC will advise Chase Manhattan Bank to cancel the notes and surrender them to the DCC. Where the amount of debt to be converted is less than the face value of the promissory note(s) submitted for cancellation, Chase Manhattan Bank shall issue a fresh promissory note in the amount of the unredeemed balance to the redemptor.

5. Approved Status

5.1 Pursuant to the provision of subsection 14(2) of the SFEM Decree, the DCC shall within 14 days of the conversion of dollar-denominated promissory notes into Naira, issue a Certificate of Capital Importation in the usual way, and upon which the Federal Ministry of Finance and Economic Development will in turn issue Approved Status Certificate.

5.2 In a similar manner, separate certificates of capital importation shall be issued for additional importation of foreign exchange either in cash or in the form of machinery and equipment, etc., which constitutes the offshore cost of approved debt conversion projects.

6. Monitoring

6.1 Designated Redemptor's Bank:

The blocked conversion proceeds held at the CBN shall be released to the designated redemptor's bank in amounts approved by the DCC from time to time. The redemptor's bank shall open only one special account for every redemptor into which funds released from the blocked account shall be credited for the pursuit of the approved project(s). The redemptor's bank shall furnish the DCC with monthly reports on each debt conversion account operated by it. Such report shall include all the import and other foreign exchange transactions of the enterprise/company in which the redemption proceeds have been invested. It shall also include its sources of foreign exchange outside the FEM, including the interbank market.

6.2 No Access to Foreign Exchange:

All such designated debt conversion accounts shall have no access to FEM without the prior authoriza-

tion of the DCC. The enterprise/company in which redemption proceeds have been invested should lodge information about all their import and other foreign transactions with the DCC.

6.3 Documentation:

The DCC shall maintain at all times at its Secretariat a list and amount of all canceled promissory notes following conversion. It shall also maintain a comprehensive record of all projects financed with debt conversion proceeds.

6.4 Periodic Report by the DCC:

The Debt Conversion Committee shall submit to the Federal Government monthly and quarterly reports highlighting the operations of the scheme and the operational problems encountered, with recommendations for improvement in efficiency and effectiveness of the programme. Periodic review and report shall be made on the projects financed with the proceeds of debt conversion.

6.5 Sponsors of approved projects under the programme shall submit Annual Reports and Audited Accounts on their operations to the DCC.

6.6 Noncompliance:

Transactions in violation of the guidelines stated herein or conditions set by the Debt Conversion Committee or against the laws of the country will be deemed null and void and will be subject to the penalties provided under the foreign investment laws of Nigeria and all relevant laws.

Transactions not executed in accordance with the approval shall be null and void for the repatriation either of profit/dividend or capital.

6.7 The Debt Conversion Committee may set and modify execution procedures for controlling and supervising operations pursuant to the Debt Conversion Programme in accordance with the priorities of the programme.

Central Bank of Nigeria
Tinubu Square, Lagos
July 5, 1988

Peru

ECONOMY AND FINANCE

ESTABLISHMENT OF THE SYSTEM FOR CONVERTING PUBLIC FOREIGN DEBT INTO INVESTMENT (CDI)

Supreme Decree No. [illegible]
THE PRESIDENT OF THE REPUBLIC
WHEREAS:

Article 12 of Law [illegible] 741 authorizes the Ministry of the Economy and Finance to negotiate the refinancing of public foreign debt by adapting it to the country's payment capacity;

The Guidelines of the Policy on the Treatment of Public Foreign Debt which were approved by the National Council on Foreign Debt and which form part of the National Development Plan for the 1989-90 period present the conversion of public foreign debt into new investment as an alternative foreign debt strategy;

It is Government policy to promote national and foreign investment in projects which are based on the exportation of goods and services that will help generate a favorable balance of foreign exchange for the nation;

Section b) of Article 160, Law 24750 authorizes the Central Government to carry out or guarantee internal debt transactions with terms of longer than one year for up to 1.5% (one point five percent) of the National Gross Income, for the purpose of paying foreign debt in kind;

The mechanism for converting foreign debt into investment must be included in the aforementioned authorization;

In accordance with Section 20), Article 211 of the Political Constitution of Peru;

With the approving vote of the Council of Ministers and charged with informing the Congress of the Republic;

HEREBY DECREES:

Article 1

By means of this Supreme Decree the System for Converting Public Foreign Debt into Investment (CDI) is established;

Article 2

Transactions destined to convert public foreign debt into investment in the country are within the scope of section b) Article 10, Law 24750.

Article 3

Creditors and holders of medium- and long-term public debt and short-term [debt] for working capital may participate in this system.

Article 4

Public foreign debt certificate holders who convert [said instruments] into investment in the country shall have the attributes assigned to them by Decisions No. 168 and 220 of the Commission of the Cartagena Agreement in accordance with their [specific] characteristics; they may be either national or foreign investors.

Article 5

The CDI shall apply to new projects as well as to the expansion of the productive capacity of existing companies, and shall be principally directed to the generation of foreign currency through the expansion of our offer of goods and services for exportation.

Article 6

The CDI shall apply exclusively to local costs involved in developing related projects in accordance with the provisions of the Regulation to this [Decree].

The imported component of CDI projects shall be financed through foreign resources through capital contributions or foreign financing obtained by the investor.

Article 7

The value of public foreign debt certificates shall be recognized through a system of public auction held to establish the applicable discount on the aforementioned certificates. The auction system procedures shall be established through the Regulation to this [decree].

Article 8

The Central Reserve Bank of Peru shall determine the exchange rate applicable to the CDI.

Article 9

Amounts of capital corresponding to the CDI may only be repatriated beginning in the tenth year after the project has begun.

Article 10

The restrictions established by Supreme Decree No. 260-86 EF and extended by Supreme Decree No. 127-86 EF and any other regulations that impede the remittance of profits abroad shall not apply to the reimbursement of investments in projects in accordance with the CDI.

Said investments shall be subject to the provisions of Decision No. 220 of the Cartagena Agreement Commission.

The Regulation to the Decree shall establish the procedure and conditions for the authorization of aforementioned remittances by CONITE.

Article 11

Each year the Executive Branch shall include the maximum amount of resources to be allocated by the State to the CDI in the drafts of the Financing Law and the Budget Law of the Republic.

Article 12

Specific CDI transactions shall be approved by Supreme Resolution approved by the President of the Council of Ministers and by the Minister of Economy and Finances.

Article 13

The Regulation of the System for Converting Public Foreign Debt into Investment shall be approved in a period no longer than 30 calendar days after the publication of this [Supreme Decree] through a Resolution by the Business and Finance Minister.

Article 14

This Supreme Decree shall be countersigned by the President of the Board of Ministers and the Presidential Minister, and by the Business and Finance Minister.

Issued in Government Hall in Lima, on the twenty-second day of October of nineteen hundred and eighty-eight.

ALAN GARCIA PEREZ, Constitutional President of the Republic.

ARMANDO VILLANUEVA DEL CAMPO, President of the Council of the Ministers and Minister of the Executive Office.

ABEL SALINAS IZAGUIRRE, Minister of the Economy and Finance.

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Lima, Saturday December 3, 1988

THE REGULATION TO THE SYSTEM FOR CONVERTING PUBLIC FOREIGN DEBT INTO INVESTMENT HAS BEEN APPROVED

MINISTERIAL RESOLUTION
No. 365-88-EF/75

Lima, December 2, 1988

WHEREAS

The System for Converting Public Foreign Debt into Investment (CDI) was approved by Supreme Decree No. 198-33-EF of October 22, 1988, as an alternative foreign debt strategy and as a means of promoting national and foreign investment in projects that are based on the exportation of goods and services that will help generate a favorable balance of foreign exhange for the country;

By virtue of Article 13 of Supreme Decree No. 198-88-EF, the Regulation to the aforementioned CDI System, which is formed by 6 chapters and 38 articles, must be approved;

The General Bureau of Public Credit and the Counselor's Office for the area have [issued] favorable opinions.

In accordance with the provisions of Law No. 24741, Legislative Decree No. 217 and the Supreme Decree No. 198-88-EF;

[THE FOLLOWING IS] RESOLVED:

Sole Article

The Regulation to the System for Converting Public Foreign Debt into Investment (CDI) is hereby approved, [said Regulation] forming part of this Resolution and containing 6 chapters and 33 articles, and

through which the mechanisms and procedures referred to in the system set forth in Supreme Decree 198-88-EF of October 22, 1988, are established.

Record and advise.

CARLOS RIVAS DAVILA, Minister of the Economy and Finance.

REGULATION OF SUPREME DECREE No. 198-88-EF ON THE SYSTEM FOR CONVERTING PUBLIC FOREIGN DEBT INTO INVESTMENT (CDI)

CHAPTER I
GENERAL RESOLUTIONS

Article 1

For the purposes of the CDI System, the following is deemed eligible foreign debt:

a) Central Government medium- and long-term direct debt;

b) Medium- and long-term debt of public institutions and state-owned companies guaranteed by the Central Government;

[page break in original]

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EL PERUANO Lima, Saturday December 3, 1988

c) Short-term debt for working capital incurred by the Central Government;

d) Other debt of public institutions and state-owned companies not guaranteed by the Central Government and previously approved by the General Bureau of Public Credit (D.G.C.P.).

Article 2

The CDI System shall apply to mature and outstanding debt, as described in Article 1, at the auction date, excluding penalties for late payment.

Article 3

Investments made under this system shall be basically directed to the generation of foreign currency through the execution of new projects and the expansion of [existing ones], necessarily resulting in new productive capacities in the country.

Said investments shall not be used for:

a) Financial investments;

b) Purchasing shares and/or equity in existing companies.

Article 4

The CDI system shall only finance local expenses, which do not include the following:

a) The acquisition, abroad or in the country, of imported goods and services;

b) The acquisition of used goods;

c) The acquisition of real estate;

d) Working capital, except amounts pertaining to an eligible project, up to a maximum of 15% of the amount to be converted.

The amount to be converted may not exceed 70% of the local costs of the project.

Article 5

The exception referred to in Article 10 of the Supreme Decree 196-88-EF includes profits as well as any other amounts a foreign investor may remit abroad in accordance with current applicable law; [for this purpose] a Sworn Statement approved by CONITE must be presented certifying that positive net foreign currency balances are produced.

If the CDI is used for expanding existing productive capacities, the remittance of profits abroad shall be measured in proportion to the investment increase.

Article 6

Foreign investors may remit profits abroad from sales or the liquidation of the capital invested in amounts equal to the debt converted into investment, beginning on the tenth year after the project was initiated, after having complied with current legal regulations. Capital ownership resulting from debt conversion may be transferred upon completion of the third year after the project was initiated.

In the event an investment is transferred or liquidated prior to the tenth year after the project was initiated, a sum equal to the amount of the CDI shall be deposited in an interest-bearing account in US

dollars, monies from which may only be released prior to maturity for investment in projects previously approved by the National Commission on Foreign Investment and Technology (CONTE).

Article 7

The reinvestment of profits [resulting] from the CDI shall be subject to the same conditions established for the amount converted originally.

Article 8

Special investment incentives shall only apply to CDI projects which are specifically directed to promote exportation.

Exportations resulting from the CDI projects may not be included in the system of foreign public debt payment-in-kind.

CHAPTER II
THE COMMITTEE AND THE TECHNICAL SECRETARIAT

Article 9

A Committee shall be created for the Conversion of Public Foreign Debt into Investment, comprised as follows:

a) A representative of the General Bureau of Public Credit (DGCP) of the Ministry of the Economy and Finance (MEF), who shall preside;

b) A representative of the National Commission on Foreign Investment and Technology (CONTE);

c) A representative of the Financial Development Corporation (COFIDE);

d) A representative of the Foreign Trade Institute (ICE);

e) A representative of the Central Reserve Bank of Peru (BRCP).

Article 10

The Committee has the following functions:

a) To approve investment projects which are eligible to be financed through the CDI system;

b) To call auctions;

c) To establish annual sectorial limits in accordance with Governmental priorities;

d) To propose the annual amounts to be allocated to CDI to the MEF;

e) To propose complementary regulations for the execution of the CDI system.

Article 11

The Committee shall have a Technical Secretariat under the auspices of COFIDE with the following functions:

a) To receive and evaluate investment proposals;

b) To submit the proposals for Committee approval;

c) Keep committee minutes;

d) To submit projects approved by the Committee to the General Bureau of Public Credit to continue processing [said project] up through payment to the investor awarded the bid;

e) Other functions assigned by the Committee.

CHAPTER III
PROJECT APPROVAL

Article 12

Investors shall present their projects along with the required information through the Technical Secretariat for evaluation. The Committee shall give its approval within a maximum period of 45 days, beginning on the day the information is submitted.

Article 13

Project classification will be based on the generation of foreign currency, jobs [generated], use of natural resources, technological development, decentralization, proportion of foreign participation in the overall investment and time period.

Article 14

In case of rejection, the investor may resubmit his project to the Committee. Committee Decisions cannot be appealed to other government agencies.

CHAPTER IV
AUCTION PROCEDURES

Article 15

All approved projects are eligible for inclusion in the auction [held] to grant the amounts available within the system.

Article 16

The amounts to be auctioned shall be determined by the Committee based on the approved investment amounts.

Article 17

The Committee shall establish the minimum acceptable discount for each auction.

Article 18

The auction shall be held on the day and time considered appropriate by the Committee. The call to auction shall be published in the official gazette "El Peruano" and in a nationally circulated daily at least 15 days in advance.

Article 19

The call to auction shall include, in addition to the date, time and place of auction, the minimum acceptable discount and the maximum quota per sector referred to in Article 10 Section c) of this Regulation.

Article 20

The auction shall be held in public under the supervision of the Committee president or his delegate.

Article 21

Bidders shall be called in accordance with the order in which the projects were approved: a duly accredited legal representative of the investor should present the offer in a sealed envelope.

Article 22

If a bidder is not present at the auction when [his project] is called, it will be understood that he does not wish to participate in the auction, and therefore, he will not be able to participate at a later time.

Article 23

The sealed envelope submitted by the bidder shall contain the following documentation:

- A transcription of the Committee Agreement approving the Project;
- Discount offer, indicating the specifics of the debt to be converted;
- Proof of having made a deposit or bank guarantee in US dollars to the account of the MEF. The amount shall be equal to 0.5% of the total investment.
- A commitment, should the bid be awarded, to comply with the rules established in Supreme Decree No. 196-88-EF, in this Regulation and in the respective complementary legislation.

This guarantee shall be released within 24 hours after the publication of the auction results, with the exception of [the guarantees] established by the awardees, which will be released after the certificates have been paid.

At the same time of the release of the guarantee the investor must deposit a commission to cover administrative expenses incurred by the system in an amount equal to 0.5% of the amount to be converted. The MEF will decide how these funds will be used.

Article 24

Bids presented in sealed envelopes shall be considered firm, and the bidder may not discontinue them.

Article 25

The President of the Auction shall open the envelopes after all are received, indicating the discount offered in each case. The auction will be adjourned immediately thereafter.

CHAPTER V
CLASSIFICATION AND DEFINITION OF THE AUCTION

Article 26

The bids presented in the auction shall be classified by the Committee based on the value of the discount offered. Those [bids] that offer the greatest discount over the nominal value will be deemed auction awardees, provided that said discount is equal to or greater than the established base.

Article 27

In case of a tie between two offers, preference will be given to the project that requires the lesser amount of its total investment to be financed with funds resulting from the conversion.

Article 28

The Committee shall make the auction results public within a maximum of five (5) working days after it is held.

Article 29

The auction results shall be published in the official gazette "El Peruano" and in a nationally circulated daily.

Article 30

The amounts to be converted of the bids awarded in auction may not exceed the limit amount established for the auction.

CHAPTER VI
GRANTING DEBT CERTIFICATES AND RELEASING FUNDS

Article 31

The General Bureau of Public Credit shall enact the authorizing Supreme Resolution immediately after the auction [results] are published.

Article 32

Investors must present the debt certificates of obligations to be converted to the General Bureau of Public Credit for verification within 30 calendar days of the publication date of the Supreme Resolution.

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Article 33

The Committee will determine the actions to be taken in the event that an investor [auction awardee] does not present the certificates or obligations within the time period stipulated in the preceding article.

Article 34

After the certificates or obligations are approved, the Central Bureau of Public Debt will make the respective funds available.

Article 35

The MEF shall establish with the Central Reserve Bank of Peru an account in US dollars to the order of the investor, which shall be administered by COFIDE and against which the local currency funds required for the projects shall be drawn.

Article 36

Investors may request payment of funds through COFIDE, who shall verify that the project is being executed as planned and in accordance with the respective investment schedule, and that the additional investments pledged are made.

FINAL PROVISIONS

Article 37

Direct foreign investment in CDI projects shall be automatically authorized by CONITE.

Article 38

The member institutions of the Committee shall designate their representatives and deputies within a period of no more than 15 days beginning on the [date] this Regulation is published.

The Philippines

Revised Circular No. 1111 -- Series of 1987
Program for the Conversion of Philippine External Debt into Equity Investments -- October 20, 1987

As originally issued in August of 1986, Central Bank Circular 1111 expressly solicited comments from the public on the guidelines for the Philippine debt-to-equity conversion program contained in that Circular. In addition, the Circular stated that the Government intended to revise the program at an appropriate time in the future in order to take into account these comments and the Central Bank's actual experience in administering the program during its start-up phase. The revision of Circular 1111 was approved by the Monetary Board on October 19, 1987 and by the President on October 20, 1987.

The revised Circular incorporates several important changes. These include:

(a) the classification of banking and the acquisition and operation of non-performing assets being disposed of by the Government, including the Asset Privatization Trust, under the privatization program as preferred (Schedule 2) investments, and

(b) a statement of the criteria that the Monetary Board will use in assessing applications for equity investments that are proposed to be funded with the proceeds of debt conversions under this program

In addition, investors will be given an option of:

(i) funding their entire investment through the redemption of Philippine external debt obligations (in which case certain fees will be payable by the investor to the Government as described below);

(ii) funding at least 50% (in the case of Schedule 2 investments) and 60% (in the case of Schedule 3 investments) of the aggregate amount of investment with pesos through the sale of foreign exchange ("fresh money") to the Central Bank at prevailing market rates of exchange (in which case no fees will be payable on any part of the investment); or

(iii) funding a portion of their investment partly with fresh money (ranging from 10% to 50% of the investment) and the balance through the redemption of Philippine external debt obligations (in which case, fees will vary depending on the fresh-money component).

The original version of Circular No. 1111 provided for the payment of fees to the Government at the time a transaction was closed equal to 5% of the peso proceeds used to fund a preferred ("Schedule 2") investment and 10% in the case of a non-preferred ("Schedule 3") investment. The Circular also specified a "fresh money" requirement (i.e. a requirement of partial funding with pesos purchased at prevailing rates of exchange equal to 10% of a Schedule 3 investment). The intention of these requirements was to permit the Government to recapture some of the discount realized by investors in purchasing Philippine debt obligations in the secondary market, while leaving investors a sufficient incentive to engage in the transactions.

At the time Circular 1111 was originally issued and during most of the first year of the program's operation, the secondary market discount on Philippine debt obligations ranged from 20% to 25% of the face value of the paper. The operation of the program during its first year showed that the resulting net discount to investors (after payment of fees) was sufficient to promote significant flows of equity investments. Because the secondary market price of Philippine paper was expected to change from time to time, however, the Circular stated that the fee schedules and fresh-money requirements would be subject to occasional revisions in order to maintain an adequate net incentive to investors.

In recent months, the secondary market discount on Philippine debt obligations has widened substantially and now ranges between 40% and 45% of face value. Circular 1111 fees have accordingly been revised to range from 6.7% to 10% (in the case of Schedule 2 investments) and from 8% to 24% (in the case of Schedule 3 investments). The fees will vary depending on the percentage of the fresh-money funding component as shown in the schedule below.

However, the investor will be given an option to avoid the payment of any fees by funding at least one-half or 60% of the investment with fresh money. With the revisions in the fee levels and the fresh-money requirement, the net discount realized by the investor will be approximately equal to that prevailing at the time the Circular 1111 program was established. Moreover, to the extent that an investor elects to fund the investment with fresh money, this will represent an inflow of needed foreign exchange to the Philippines. Should the secondary market price of Philippine paper move significantly in the future, the level of these fees may be subject to further adjustments (up or down) in order to preserve for investors an adequate net incentive to make equity investments under the program.

Circular 1111 Fee Schedules:

Minimum Percentage of Fresh-Money Funding (%)	Fee (%)
Schedule 2	
50	0
40	6.7
30	11.5
20	15.1
10	18.0
0	20.0
Schedule 3	
60	0
50	8.0
40	13.5
30	17.5
20	20.0
10	22.5
0	24.0

These changes to Circular 1111 will accomplish many of the goals that had prompted plans for the inauguration of a separate Philippine Investment Note ("PIN") program. Accordingly, plans for the establishment of a PIN program will be held in abeyance pending an assessment of the operation of Circular 1111 in its revised form.

Revised Circular No. 1111 -- Series of 1987
Program for the Conversion of Philippine External Debt into Equity Investments

In accordance with Monetary Board Resolution No. 1024 dated October 19, 1987, this Circular contains the revised guidelines relating to the Philippine Government's program for the conversion of external debt into equity investments in Philippine enterprises (the "Program").

Capitalized terms used in this Circular have the meanings given to such terms in Section 39 hereof.

Inquiries and other communications regarding this Circular or the Program should be directed to: Debt Restructuring Office, Central Bank of the Philippines, Room No. 309, Five-Storey Building, Roxas Boulevard, Malate, Manila.

It is anticipated that the Central Bank will from time to time issue revised versions of the Schedules attached hereto, and copies of the most recent revisions of these Schedules will be available upon request from the Debt Restructuring Office. Parties who contemplate entering into a Conversion Transaction under this Program are advised to obtain from the Debt Restructuring Office copies of the most recent revisions of the Schedules appropriate to the proposed transaction before finalizing any negotiations with respect to the transaction.

CHAPTER I. Policy Objectives. Background
SECTION 1. Objectives

The Program is designed to achieve principally the following policy objectives:

(1) To stimulate long-term equity investments in Philippine enterprises by both foreign investors and Filipinos;

(2) To encourage the repatriation to the Philippines of foreign currency holdings of Philippine residents held abroad for the purpose of capitalizing equity investments in this country;

(3) To provide additional incentives for investment in designated sectors of the Philippine economy that require prompt revitalization; and

(4) To reduce the external debt burden of the Philippines.

SECTION 2. Background to the Program

It has come to the attention of the Philippine Government that Philippine external debt obligations owed to commercial banks or financial institutions are being traded in the secondary market. If an investor purchases an interest in such an obligation and the obligor is able to redeem the debt for the peso equivalent of the face mount of the obligation, this permits the investor to obtain pesos. It is the intention of the Government to utilize the opportunity presented by this type of transaction in order to encourage investors (both Philippine and non-Philippine) to make long-term equity investments in Philippine enterprises. An important ancillary benefit for the Philippines resulting from the discharge of foreign-currency-denominated debt through the payment of pesos is a reduction in the aggregate external debt stock of the country. Such reductions alleviate the demands placed on the country's foreign exchange reserves by the need to make current debt service payments on existing foreign currency indebtedness. Section 5.11 of each Restructuring Agreement signed by a Philippine Public Sector Borrower, Section 2.04 of the Trade Facility and Section 5.11 of the New Money Agreement permit (with the consent of the Central Bank and the Republic of the Philippines) the discharge of any credit covered by any of such Agreements through the payment of an equivalent amount of pesos. External debt obligations of a Philippine Private Sector Borrower may be redeemed for pesos for conversion into equity investments if such borrower is permitted by the relevant loan agreement to discharge its external debt obligations in pesos, or the creditor otherwise consents to this arrangement.

SECTION 3. Periodic Revisions

The program outlined in this Circular is designed to permit transactions of the kind described above in order to capitalize investments in a wide range of Philippine enterprises. Special incentives are incorporated into the program, however, for investments in areas of the Philippine economy that the Government believes require an immediate revitalization, or in which an increased level of investment is generally desirable. It is the intention of the Government that this Program be administered in a flexible manner in order to achieve the goals summarized above. The guidelines contained in this Circular may be revised and updated from time to time through revisions or supplements to this Circular, or through revisions of the Schedules attached hereto. Any such supplement or revision shall become effective only with respect to completed applications for Conversion Transactions received after the date on which the supplement or revision is made public.

CHAPTER II. Convertible Debt

SECTION 4. Debt Eligible for Conversion

The categories of Philippine external debt that may be redeemed in connection with a Conversion Transaction are set out in Schedule 1 to this Circular.

CHAPTER III. Eligible Investors

SECTION 5. Investors

Any person (natural or juridical) may act as an investor in connection with a Conversion Transaction without regard to the place in which such person is resident, domiciled or has its principal place of business or, in the case of a juridical person, the jurisdiction in which such person is incorporated or organized. Groups of investors may act through a nominee or agent in filing applications for approval of a Conversion Transaction, but the investor in whose name the investment is registered at the time of closing will be subject to the restrictions set out in Section 22 of this Circular.

CHAPTER IV. Permissible Investments

SECTION 6. Permissible Investments

Subject to receipt of the approval referred in Section 28 of this Circular, the peso proceeds of Convertible Debt redeemed in connection with a Conversion Transaction may be invested in a Schedule 2 Investment or a Schedule 3 Investment.

SECTION 7. Equity Investments

The peso proceeds of a Conversion Transaction may be invested in a Philippine Enterprise only in the form of an equity investment. In the context of a Philippine Enterprise that is a stock company, such investment may be made either in common shares or (subject to the restrictions on guaranteed dividends referred to in Sections 13 and 15 below) in preferred shares. In the context of a Philippine Enterprise that is not a stock company, such an investment should be evidenced by an ownership interest in the Philippine Enterprise concerned. In cases involving non-Philippine investors, however, such transactions will be subject to

any generally applicable restrictions on foreign ownership in enterprises located in the Philippines.

SECTION 8. Restrictive Legend

Each share certificate or other document evidencing the ownership interest in an investment made under the Program should be prominently marked with the following legend:

"This instrument was issued in connection with a [Schedule 2 Investment] [Schedule 3 Investment] made in accordance with Central Bank Circular No. 1111, dated August 4, 1986, as revised (the "Circular"). The repayment and repatriation of the capital portion of the investment evidenced by this instrument, and the payment and remittance of dividends or current income in respect of such investment, are subject to certain restrictions as set out in the Circular, and the owner of this instrument is subject to certain reporting and certification requirements as set out in the Circular."

SECTION 9. Use of Peso Proceeds

In considering an application for a Conversion Transaction under this Circular, the Monetary Board shall inquire into the proposed use of the peso proceeds of such transaction by the Philippine Enterprise concerned. Where the use of the peso proceeds of such transaction is likely to make a direct and discernible contribution toward the revitalization of the Philippine economy, this will be a factor weighing in favor of approval of the application. Such uses would include the purchase by the Philippine Enterprise of new capital equipment or tangible goods necessary to expand production or increase the efficiency of existing operations; the construction of new or expanded plant capacity; or other uses designed to increase the supply of goods or services produced or offered by the Philippine Enterprise. In cases where the proposed use of the peso proceeds of a Conversion Transaction cannot be shown to have such a direct and discernible effect on revitalizing the economy, however, this will be a factor weighing against approval of the application. Among the uses of peso proceeds that would, in the normal case, not be regarded by the Monetary Board as likely to have a direct beneficial effect on the economy are the purchase of existing assets or shares of a Philippine Enterprise (without an infusion of new capital or expansion of productive capacity), portfolio investments, increases in working capital, and the repayment of peso indebtedness of the Philippine Enterprise (other than such payments to the Government, the Central Bank or a government-controlled entity).

SECTION 10. Other Factors Relevant to Monetary Board Consideration of an Application

Apart from the proposed use of peso proceeds, certain other factors may be regarded by the Monetary Board as relevant to its consideration of a proposed application. Among the factors that will be viewed by the Monetary Board as weighing in favor of approving an application will be the extent of funding of the proposed investment through the redemption of Convertible Debt of a Philippine Public Sector Borrower (other than the Central Bank), where that borrower has the pesos necessary to effect such redemption without resort to credit or release of funds from the Central Bank.

SECTION 11. Excluded Investments

Prepayments in pesos of Convertible Debt of a Philippine Private Sector Borrower, which prepayment would not require an extension of credit or release of funds from the Central Bank, and the investment of the proceeds thereof shall not be covered by this Circular; provided that the investor undertakes in writing to the Central Bank that no capital portion of the investment and no dividends or income in respect thereof shall be repatriated or remitted outside of the Philippines.

CHAPTER V. Repayment Restrictions on Schedule 2 Investments

SECTION 12. Capital

Subject to the provisions of Section 21 below, the capital portion of a Schedule 2 Investment may not be repaid by the Philippine Enterprise within the first 3 years after the investment is made. In each of the 4th through the 8th years after the investment is made, not more than 20% of the capital portion of the investment may be repaid in any year; provided that any unused portion of the amount permitted to be repaid in any such year may be repaid in subsequent years.

SECTION 13. Dividends

Dividends or current income in respect of a Schedule 2 Investment may be paid out of profits of the Philippine Enterprise in which the investment is made; provided that no guaranteed dividends or similar arrangement that is not linked to profits may be implemented in connection with a Schedule 2 Investment.

CHAPTER VI. Repayment Restrictions on Schedule 3 Investments

SECTION 14. Capital

Subject to the provisions of Section 21 below, the capital portion of a Schedule 3 Investment may not be repaid by the Philippine Enterprise within the first 5 years after the investment is made. For each of the 6th through the 10th years after the investment is made, not more than 20% of the capital portion of the investment may be repaid in any year; provided that any unused portion of the amount permitted to be repaid in any such year may be repaid in subsequent years.

SECTION 15. Dividends

Dividends or current income in respect of a Schedule 3 Investment may not be paid by the Philippine Enterprise within the first 4 years after the investment is made. Thereafter, dividends and current income in respect of Schedule 3 Investment may be paid out of profits of the Philippine Enterprise in which the investment is made; provided that no guaranteed dividends or similar arrangement not linked to profits may be implemented in connection with a Schedule 3 Investment.

CHAPTER VII. Repatriation and Remittance

SECTION 16. Investments of Resident Investors

Repayment of the capital portion of an investment registered under this Circular and payment of profits in respect thereof received by a Philippine resident investor pursuant to Sections 12, 13, 14 and 15 of this Circular shall not be eligible for repatriation or remittance.

SECTION 17. Investments of Non-Resident Investors

Repayment of the capital portion of an investment registered under this Circular and payment of profits in respect thereof received by a non-resident investor pursuant to Sections 12, 13, 14 and 15 of this Circular shall be eligible for repatriation or remittance based on the prevailing exchange rate on the date of repatriation or remittance, subject to Sections 18 and 22 of this Circular and to the applicable withholding taxes, if any.

SECTION 18. Right of Repatriation of Non-Resident Investors

If the investor which is a non-resident sells its investment registered under this Circular to a non-resident for pesos derived from the sale of foreign exchange to the Central Bank or a Philippine commercial bank at prevailing exchange rates or to a Philippine resident, the seller retains the right to repatriate the proceeds of the sale within the period prescribed under Section 12 or 14 of this Circular, as the case may be, reckoned from the date of investment in the Philippine Enterprise. For the purpose of this Section, any capital gains from the sale of the investment shall be deemed included in the capital portion of the investment.

SECTION 19. Right of Repatriation of Non-Resident Buyers

If a non-resident investor sells its investment registered under this Circular to a non-resident and the purchaser pays the seller with pesos derived from the sale of foreign exchange to the Central Bank or a Philippine commercial bank at prevailing exchange rates, the non-resident purchaser, when it subsequently sells its investment to a third party, may repatriate the proceeds of such subsequent sale in accordance with Circular No. 1028, as such Circular may be amended from time to time. If the purchaser pays the seller with pesos not so derived from the sale of foreign exchange to the Central Bank or a Philippine commercial bank, the repayment of the capital portion of the investment and payment of profits in respect thereof received by the non-resident purchaser shall not be eligible for repatriation.

SECTION 20. Prior Central Bank Approval

The repatriation or remittance of the capital portion of an investment and the profits thereon in accordance with this Circular shall require the prior approval of the Debt Restructuring Office.

CHAPTER VIII. Liquidation

SECTION 21. Liquidation

In the event that any portion of the capital of a Schedule 2 Investment or a Schedule 3 Investment is repaid as a result of a liquidation, dissolution or winding-up of the Philippine Enterprise concerned, and all or any part of the amount so repaid is in excess of the amount permitted to be repaid under the terms of Section 12 or Section 14 (as the case may be) of this Circular in the year in which the investor receives such a repayment of capital in connection with such liquidation, dissolution or winding-up, the owner of the invest-

ment shall have the option of either:

(i) Reinvesting such excess amount in an approved equity investment under this Program, provided that, if the original investment constituted a Schedule 2 Investment, any investment of the excess amount under this Section must also be in a Schedule 2 Investment; and provided further, that for the purpose of applying the provisions of Section 12 or Section 14 in connection with any such reinvestment, the date of the original investment shall be deemed to be the date of the investment of any excess amount; or

(ii) Reinvesting such excess amount in non-transferable peso-denominated Central Bank debt instruments until the owner of the investment can reinvest such excess amount in an approved equity investment under this Program, provided that the payment of principal of, or interest on, any such reinvestment shall not be made earlier than the permitted schedule for repayment of capital, or dividends or current income, in respect of the original investment had the liquidation, dissolution or winding-up not occurred.

SECTION 22. Voluntary Sale

At any time following the second anniversary of the closing date of a Conversion Transaction, the investor (the "Seller") may sell its interest in the investment, and transfer the share certificates or other documents evidencing the ownership of the investment, to another person (the "Purchaser"); provided that at the time of such sale the Purchaser submits to the Debt Restructuring Office a certificate in such form as may be prescribed by that Office confirming (i) that the Purchaser understands that repayment and repatriation of the capital of, and payment and remittance of dividends or current income on the investment are subject to certain restrictions as set out in this Circular, and (ii) the Purchaser agrees to assume all the obligations (including the periodic reporting and certification obligations) of the original investor set out in this Circular in respect of the investment. Following the completion of any such sale and transfer, the Purchaser shall for the purposes of this Circular be deemed to be the investor in respect of the investment concerned.

Where the Seller is a non-resident and the Purchaser is a Philippine resident or the Purchaser pays with pesos derived from the sale of foreign exchange to the Central Bank or a Philippine commercial bank at prevailing exchange rates, the Seller shall have the option of either:

(i) Reinvesting the proceeds of the sale in an approved equity investment under this Program, provided that if the original investment constituted a Schedule 2 Investment, any investment of the such proceeds under this Section must also be in a Schedule 2 Investment; and provided further, that for the purpose of applying the provisions of Section 12 or Section 14 in connection with any such reinvestment, the date of the original investment shall be deemed to be the date of the investment of any excess amount; or

(ii) Reinvesting such proceeds in non-transferable peso-denominated Central Bank debt instruments until the owner of the investment can reinvest such proceeds in an approved equity investment under this Program, provided that the payment of principal of, or interest on, any such reinvestment shall not be made earlier than the permitted schedule for repayment of capital, or dividends or current income, in respect of the original investment had the sale not occurred.

CHAPTER IX. Fees

SECTION 23. Application Fee

At the time of submitting an application for approval of a Conversion Transaction, the investor shall be required to pay to the Central Bank a nonrefundable application fee equal to P10,000 until the Monetary Board shall otherwise provide.

SECTION 24. Schedule 2 Fees

At the time of closing of any Conversion Transaction involving a Schedule 2 Investment, the investor shall pay to the Central Bank a peso fee calculated in the manner described in Schedule 4 in this Circular. Schedule 4 is subject to revision from time to time, and the terms of Schedule 4 as in effect on the date on which a completed application for the relevant Conversion Transaction is received by the Debt Restructuring Office shall govern the fee payable in respect thereof and the fresh-money funding described in Section 26 below. The fee shall not be funded from the peso proceeds of the redemption of Convertible Debt.

SECTION 25. Schedule 3 Fees

At the time of closing of any Conversion Transaction involving a Schedule 3 Investment, the investor shall pay to the Central Bank a peso fee calculated in the manner described in Schedule 5 hereto. Schedule 5 is subject to revision from time to time, and that the terms of Schedule 5 as in effect on the date on which a

completed application for the relevant Conversion Transaction is received by the Debt Restructuring Office shall govern the fee payable in respect thereof and the fresh-money funding described in Section 26 below. The fee shall not be funded from the peso proceeds of the redemption of Convertible Debt.

CHAPTER X. Fresh-Money Funding

SECTION 26. Fresh-Money Funding

The investor may elect to fund a portion of the investment through the purchase of pesos with foreign exchange from the Central Bank at prevailing rates of exchange. The minimum percentage of fresh-money funding is shown in Schedules 5 and 6 to this Circular.

CHAPTER XI. Applications, Approvals

SECTION 27. Relationship to Other Foreign Investment Laws

Nothing in this Circular shall be deemed to supersede or alter any other requirement of Philippine law or regulation relating to foreign investment approvals. Accordingly, to the extent required by the Omnibus Investments Code, other foreign investments laws or applicable Central Bank regulations, investors should separately seek necessary approvals from the Board of Investments or other agencies of the Government in connection with any investment involving a Conversion Transaction.

SECTION 28. Applications, Approvals

Each investor wishing to engage in a Conversion Transaction shall submit (in triplicate) an application in the form attached to this Circular as Exhibit A, together with any appropriate supporting materials, to the Debt Restructuring Office at the address shown on the first page of this Circular. The Debt Restructuring Office shall have the authority to seek from the investor any clarification or additional supporting materials as that Office may find useful in assessing a proposed Conversion Transaction. Unless the investor consents to a longer period, the Monetary Board will make the decision (to be made in the sole discretion of the Monetary Board after consultation with such other Government agencies and offices, including the Board of Investments, as it may feel appropriate) to approve or to disapprove a proposed Conversion Transaction within 45 days of the date on which the investor's application is complete. A negative decision in respect of an application is without prejudice to the investor's ability to resubmit the application or a modified version thereof at a subsequent time.

CHAPTER XII. Conversion Transaction Mechanics

SECTION 29. Closing Period

If the Monetary Board approves a proposed Conversion Transaction, the investor shall have 60 days from the date of such approval to close the transaction, unless the Central Bank grants an extension of this period. If the investor fails to close the Conversion Transaction within such period, the approval relating to that transaction shall automatically lapse.

SECTION 30. Arrangements for Obtaining Convertible Debt

During the 60-day period referred to in Section 29 above, the investor will make arrangements satisfactory to itself with the holder or holders of one or more items of Convertible Debt that would permit the presentation of such debt to an Obligor in return for an equivalent amount of pesos (to be determined at the exchange rate prevailing at the time of redemption). The Obligor's consent shall be required to any such peso redemption of Convertible Debt. The approval given by the Monetary Board in connection with the relevant Conversion Transaction will be deemed to be the approval not only of the Central Bank but also of the Republic of the Philippines to the redemption of any item of Convertible Debt in a manner consistent with such approval and this Circular. In the event that the holder of the item of Convertible Debt requests that the redemption take place on a date that would give rise to a claim for broken-funding or deposit redeployment from the Obligor, such holder will be expected to waive any such claim.

SECTION 31. Closing

On the closing date for a Conversion Transaction, the Convertible Debt in question shall be deemed to be redenominated into its peso equivalent (determined as of the closing date) using the Central Bank Buying Rate and the Obligor shall pay to the investor such peso equivalent. The investor shall on the closing date pay to the Central Bank the fee called for by Section 24 or Section 25 of this Circular (except in cases where the investor has elected the Fresh Money Alternative described in Section 26 above), and shall have 5 days

26

within which to make the investment.

SECTION 32. Interim Investment

In any case in which the Monetary Board determines that the full amount of the peso proceeds of a Conversion Transaction will not be required by the Philippine Enterprise at the time of closing of the Conversion Transaction for the approved purpose, the Monetary Board may require that the amount of such excess peso proceeds be invested in non-transferable peso-denominated Central Bank debt instruments with maturities corresponding to the anticipated schedule of peso requirements by the Philippine Enterprise.

SECTION 33. Central Bank Peso Credit

In cases in which an Obligor which is a government-owned or controlled corporation does not have sufficient pesos from its own resources in order to redeem an item of its Convertible Debt that is proposed to be discharged in pesos in connection with a Conversion Transaction, such an Obligor may request an extension of peso credit for this purpose from the Central Bank to be advanced through a Philippine commercial bank. The Central Bank may, in its sole discretion, approve or disapprove any such request. If such a loan is extended through a Philippine commercial bank, the Central Bank may limit any fee that may be charged by such commercial bank in connection with any such transaction.

CHAPTER XIII. Compliance

SECTION 34. Registration and Post-Closing Notification

All equity investments made pursuant to this Circular shall be registered with the Central Bank through the Debt Restructuring Office. Within 10 days after the closing of any Conversion Transaction, the investor shall submit to the Debt Restructuring Office a notification in the form attached to this Circular as Exhibit B.

SECTION 35. Annual Compliance Certificates

Within 10 days following each anniversary of the closing date of a Conversion Transaction occurring during any period in which restrictions on the repayment of capital under Chapter V or Chapter VI of this Circular are applicable to such investment, the investor shall submit to the Debt Restructuring Office a report (in the form of Exhibit C to this Circular) indicating the amount of capital and dividends paid in respect of such investment during the preceding 12 months.

SECTION 36. Verification of Use of Peso Proceeds

The investor shall cause the Philippine Enterprise to submit such reports (and supporting materials) regarding the use of the proceeds of a Conversion Transaction as may be requested from time to time by the Debt Restructuring Office, and to permit the inspection of the premises of the Philippine Enterprise or its records for the purpose of verifying such use of proceeds.

CHAPTER XIV. Miscellaneous

SECTION 37. Effective Date of Revisions

Revisions to this Circular and revised versions of any Schedule attached to this Circular shall apply to all Conversion Transactions for which the Debt Restructuring Office receives a completed application in accordance with Section 28 above during the period in which such revision is in effect, regardless of any subsequent revision of such Circular or Schedule issued between the date of application and the date of closing of the Conversion Transaction. Revised versions of Schedule 1 to this Circular shall apply to the closing of all Conversion Transactions during the period in which said revision is in effect.

SECTION 38. Administrative Discretion

The Monetary Board may allow a deviation on a case by case basis from any provision of this Circular as it applies to a specific Conversion Transaction, if it determines that such deviation is warranted in light of special circumstances surrounding the transaction and is in furtherance of the objectives of the Program.

CHAPTER XV. Definitions

SECTION 39. Definitions

When used in this Circular, the following terms shall have the meanings indicated below:

"Board of Investments" means the Board of Investments of the Philippines.

"Central Bank" means the Central Bank of the Philippines.

"Central Bank Buying Rate," for the purpose of determining the peso equivalent of a foreign currency amount as of the closing date of a Conversion Transaction, means the buying rate quoted by the Central Bank for the purchase of such foreign currency with pesos at approximately 11:00 AM (Manila time) of the banking day (in Manila and Makati) next preceding such closing date.

"Convertible Debt" means any item of external debt of a Philippine Public Sector Borrower or a Philippine Private Sector Borrower falling within a category described in Schedule 1 hereto.

"Conversion Transaction" means any transaction involving an investment in a Philippine Enterprise that is made, in whole or in part, with the proceeds of the redemption of an item of Convertible Debt.

"Debt Restructuring Office" means the Debt Restructuring Office of the Central Bank.

"Investment Priorities Plan" means, for any year, the Investment Priorities Plan prepared by the Board of Investments and approved by the President of the Philippines.

"New Money Agreement" means that certain $925 million Credit Agreement dated as of May 20, 1985 among the Central Bank as Borrower, the Republic of the Philippines as Guarantor and the banks and financial institutions parties thereto, as such New Money Agreement may be amended from time to time.

"Obligor" means the obligor in respect of an item of Convertible Debt.

"Omnibus Investments Code" means the Omnibus Investments Code of 1987 of the Philippines (Executive Order No. 226 dated July 16, 1987), as such Code may be amended from time to time, and any successor statute thereto.

"Philippine Enterprise" means any partnership, joint venture, cooperative, corporation or other form of business association incorporated or organized under the laws of the Philippines.

"Philippine Private Sector Borrower" means any Philippine debt in respect of an item of external debt other than any Philippine Public Sector Obligor.

"Philippine Public Sector Borrower" has the meaning ascribed to the term "Philippine Public Sector Obligor" in the Restructuring Principles.

"Program" means the program for the conversion of public sector external debt into equity investments in Philippine Enterprises set forth in this Circular.

"Restructuring Agreement" means a Restructuring Agreement signed by a Philippine Public Sector Borrower (dates as of January 10, 1986 or April 16, 1986) implementing the Restructuring Principles, as any such Restructuring Agreement may be amended from time to time.

"Restructuring Principles" means the Restructuring Principles that accompanied the communication to the international banking community dated November 2, 1984 from the Secretary of Finance and the Governor of the Central Bank of the Philippines, as amended and supplemented by the Term Sheet captioned "1987-92 Restructuring of Philippine External Debt Owed to Commercial Banks," which accompanied a communication from the Secretary of Finance and the Governor of the Central Bank of the Philippines to the international banking community dated March 27, 1987.

"Trade Facility" means that certain Revolving Short Term Trade Facility Agreement dated as of May 20, 1985 among the Central Bank of the Philippines, the Republic of the Philippines as Guarantor, Chemical Bank as Coordinating Bank, and the banks and financial institutions parties thereto, as such Trade Facility may be amended from time to time.

"Schedule 2 Investment" means, in the context of a Conversion Transaction, any investment in a Philippine Enterprise that is engaged (or proposes to engage) principally in an economic activity or project listed in Schedule 2 to this Circular.

"Schedule 3 Investment" means, in the context of a Conversion Transaction, any investment in a Philippine Enterprise that is engaged (or proposes to engage) principally in an economic activity or project listed in Schedule 3 to this Circular.

The Program set out in this Circular took effect on August 4, 1986 and this Circular, as revised, shall take effect on October 20, 1987.

FOR THE MONETARY BOARD:
JOSE B. FERNANDEZ, JR.
Governor

Schedule 1: Categories of Convertible Debt

The following categories of external debt of Philippine Public Sector Borrowers and Philippine Private Sector Borrowers shall be eligible for redemption in connection with a Conversion Transaction:

CATEGORY	DESCRIPTION
(A)	All principal maturities of external debt covered by a Restructuring Agreement.
(B)	All principal maturities of external debt owed by Philippine Private Sector Borrowers, provided that the existing credit instrument relating to any such debt permits the prepayment or repayment of such obligation through the delivery ofan equivalent amount of pesos, or appropriate creditor consents thereunder to such prepayment or repayment have been obtained.
(C)	Credits (including deposits maintained with the Central Bank) covered by the Trade Facility.
(D)	Advances outstanding under the New Money Agreement.
(E)	Other debt obligations on such terms and subject to such conditions as may be approved by case by the Monetary Board.

Schedule 2: Schedule 2 Investments

For the purposes of this Circular, a Schedule 2 Investment means any approved equity investment in a Philippine Enterprise that is engaged (or proposes to engage) principally in one or more of the following areas of economic activity:

(1) The production, manufacturing or processing of export products from the Philippines, provided that the Philippine Enterprise would qualify as an Export-Oriented Firm within the meaning of Central Bank Memorandum to Authorized Agent Banks (Amendment to MAAB dated April 16, 1969) dated February 21, 1970, or is certified as export-oriented by another agency of the Philippine Government and the Monetary Board determines to recognize such certification for this purpose.

(2) The rendering of technical, professional or other services outside of the Philippines which are paid for in foreign currency.

(3) Banking.

(4) Acquisition and operation of non-performing assets being disposed of by the Asset Privatization Trust and other assets determined by the Office of the President as non-performing and being disposed of under the Government's privatization program.

(5) The production of agricultural goods and the provision of related services, regardless of whether the agricultural produce is intended for export from the Philippines.

NOTE: In determining whether a Philippine Enterprise is engaged (or proposes to engage) principally in one of the areas of economic activity referred to above, the Debt Restructuring Office may consult with the staff of the Export Department of the Central Bank, the Board of Investments or other appropriate Government agencies.

(6) The provision of health-care services or the construction of health-care facilities in the Philippines.

(7) The construction or maintenance of low- and middle-income housing projects in the Philippines.

(8) The construction or maintenance of educational facilities in the Philippines.

(9) To the extent not otherwise covered by one of the items listed above, an investment in a Philippine Enterprise that is engaged (or proposes to engage) principally in an activity or project listed on the Investment Priorities Plan as in effect at the time such investment is made or, in consultation with the Board of Investments, such other investments as may be considered preferred by the Monetary Board for the purposes of the Program.

Funding of Schedule 2 Investments

Minimum Percentage of Fresh-Money Funding (%)	Fee (%)
50	0
40	6.7
30	11.5
20	15.1
10	18.0
0	20.0

Schedule 3:
Schedule 3 Investments

For the purposes of this Circular, a Schedule 3 Investment means any approved equity investment in a Philippine Enterprise that is engaged (or proposes to engage) principally in an economic activity or project not covered by one or more of the items listed in Schedule 2 of this Circular.

Schedule 4:
Fee Payable and Fresh-Money Funding in Connection with Schedule 2 Investments

Until the Monetary Board, in consultation with the Secretary of Finance, shall otherwise provide, the fee payable pursuant to Section 24 of this Circular in connection with a Conversion Transaction involving a Schedule 2 Investment shall equal the percentage indicated below of the total amount of the peso proceeds received by the investor as a result of the redemption of the Convertible Debt involved in that transaction. The Investors must fund at least the portion of the investment with pesos obtained through the sale of foreign exchange to the Central Bank at prevailing exchange rates.

The fee payable pursuant to Section 24 of this Circular is hereby waived in respect of that portion of a Conversion Transaction that is funded through the redemption of Convertible Debt of which the investor is the original creditor and involving the acquisition by the original creditor of the shares of stock of a domestic bank being disposed of under the Government's privatization program, which shares of stock are owned by the Government or a Government-owned or controlled corporation: provided that such Convertible Debt shall not be replaced with Convertible Debt to be acquired by the investor in the secondary market.

Funding of Schedule 4 Investments

Minimum Percentage of Fresh-Money Funding (%)	Fee (%)
60	0
50	8.0
40	13.5
30	17.5
20	20.0
10	22.5
0	24.0

Schedule 5:
Fee Payable and Fresh-Money Funding in Connection with Schedule 3 Investments

Until the Monetary Board, in consultation with the Secretary of Finance, shall otherwise provide, the fee payable pursuant to Section 25 of this Circular in connection with a Conversion Transaction involving a Schedule 3 Investment shall equal the percentage indicated below of the total amount of the peso proceeds received by the investor as a result of the redemption of the Convertible Debt involved in that transaction. The investor must fund at least the portion of the investment with pesos obtained through the sale of foreign exchange to the Central Bank at prevailing exchange rates.

Uruguay

EXECUTIVE BRANCH
Ministry of the Economy and Finances

1

Decree 797/987. Regulations are hereby enacted concerning the Refinancing Agreement between the Central Bank of Uruguay and the Republic of Uruguay with various international financial communities.

Ministry of the Economy and Finance
Ministry of Foreign Affairs
Ministry of Industry and Energy
Ministry of Livestock, Agriculture and Fishing
Ministry of Tourism
Montevideo, December 30, 1987

Whereas: The Refinancing Agreement signed by the Central Bank of Uruguay and the Republic of Uruguay with various international financial community entities on July 10, 1986.

Whereas: That in accordance with the aforementioned agreement it is a prerogative of the Central Bank and the Republic to propose to swap transactions to exchange [financial] obligations for the capital investments in institutions or companies located within the national territory [Uruguay].

Whereas: It is deemed timely to proceed to take the appropriate steps to provide incentives for investment projects in Uruguay.

Considering: The foregoing,

The President of the Republic

DECREES:

Article 1. [Financial] obligations covered by the Refinancing Agreement dated June 10, 1986 shall be paid by means of transactions whereby [said obligations are swapped for] capital shares or capital investments in institutions or companies established or to be established in the Republic, based on projects approved pursuant to the stipulations of this Decree.

Article 2. Bids shall be submitted for the consideration of the Central Bank of Uruguay through the creditor financial institutions, along with the respective investment project and all pertinent information and documentation deemed appropriate or necessary. Proposals may be submitted without resulting in any obligation whatsoever for either the proponent or the Central Bank. The Central Bank shall submit the investment projects [it receives] to the Office of Planning and Budget for [this agency's] evaluation in accordance with Article 6.

Article 3. For each [such] transaction, up to 80% (eighty percent) of the total cost of the project may be financed with funds arising from the conversion; the remaining 20% may not be funded through credits or guarantees from banks which form part of the local banking system.

Article 4. The capital shares or capital investments mentioned in Article 1 shall not be redeemable or payable under terms or conditions which are more favorable than the terms and conditions for principal payments of the obligations which were duly refinanced in the aforementioned Agreement.

Article 5. The above-mentioned capital shares or capital investments shall be assigned for projects aimed at purchasing new equipment, constructing industrial plants and other civil works, as well as incorporating additional assets required to increase or improve the production of goods or [rendering of] services.

Article 6. The Office of Planning and Budget shall classify the projects as eligible or ineligible, taking into consideration the sectors deemed as having priority and their new investment requirements. Priority is assigned to projects aimed basically at exportation and to those relating to the tourism infrastructure and directed to attracting international tourists. Classification in one or the other category does not grant rights of any type to the proponent. Once classified, the projects shall be returned to the Central Bank, which will only consider those projects classified "eligible" for debt swap transactions. Any project, either before or after classification, can be rejected by the Central Bank of Uruguay without [this institution being required to] specify its reasons [for doing so].

Article 7. The Central Bank is hereby empowered to issue Treasury Bonds in exchange for the capital

shares or capital investments mentioned in Article 1 for the purposes stated therein.

Article 8. For each period established, the Central Bank shall determine in advance the maximum authorized Treasury Bonds quota it will make available based on financing schedules and exchange market conditions. Nonetheless, the Central Bank may reasonably increase preset maximum quota amounts if this should be required to complete a given project. When applicable, the Central Bank shall require that the Office of Budget and Planning [provide it with] proof of compliance with the stages stipulated in the investment project in order to make public instruments available.

Article 9. The Central Bank shall periodically establish minimum acceptable discounts in relation to the face value of foreign debt in such a way that the transactions are favorable to Uruguay. When the investment projects classified as eligible in accordance with the provisions of Article 7 are greater in volume than the quota established by the Central Bank, those which offer the greatest discounts in relation to the foreign debt to be paid shall be selected.

Article 10. The Central Bank shall regulate the guidelines established by this Decree, determining the dates and time periods for accepting offers and establishing [applicable] control and guarantee systems.

Article 11. This decree shall be proclaimed and published, etc.

SANGUINETTTI - RICARDO ZERBINO CAVAJANI - ENRIQUE V. IGLESIAS - JORGE PRESNO HARAN - PEDRO BONINO GARMENDIA - JOSE VILLAR GOMEZ.

2

Decree 67/988. The Central Bank of Uruguay is authorized, in its capacity of State Financial Entity, to issue a new series of Treasury Bonds.

Ministry of the Economy and Finance
Montevideo, January 15, 1988

Whereas: It is necessary to issue a new Series of Treasury Bonds. In consideration of: The provisions of Decree Laws 14,268 dated September 20, 1974 and 14,814 of August 29, 1978 and Law 15,773 of September 23, 1985. In consideration of that which has been reported by the Central Bank of Uruguay in its capacity of State Financial Entity,

The President of the Republic

DECREES:

Article 1. The Central Bank of Uruguay, in its capacity of State Financial Entity, is authorized to issue up to US$ 24,000,000.00 (twenty-four million United States dollars) in certificates denominated as Series Treasury Bonds, earning Variable Interest, maturing in eight years, and divided as follows:

			US$
US$	5,000 each - 1,500 certificates		7,500,000.00
US$	1,000 each - 15,000 certificates		15,000,000.00
US$	500 each - 3,000 certificates		1,500,000.00
		TOTAL	24,000,000.00

These instruments shall be bearer bonds and exhibit the printed signatures of the Minister of the Economy and Finance, the Accountant General of the Nation and the General Manager of the Central Bank of Uruguay.

Article 2. February 15, 1988 is hereby established as the issue date for the Public Debt [instruments] mentioned in the preceding article.

Article 3. These bonds shall earn interest at the rate of 1 3/4% (one and three quarters percent) per annum over the 12-month LIBOR rate in effect at the close of operations on the working day immediately preceding the beginning of each fiscal period. The interest shall be paid semiannually beginning on August 15 and February 15 of each year.

Article 4. Bonds issued in accordance with the provisions of Article 1 can be placed by the Central Bank of Uruguay through either bidding or direct placement. The Central Bank of Uruguay shall decide upon the type and terms of deposit for each case. In the case of bidding, the Central Bank of Uruguay shall

establish the procedure to be followed in accordance with the following regulations: (a) Awards shall be granted to the bids offering the most desirable conditions. (b) In case equal offers are submitted, bids shall be reformulated until an acceptable amount is decided upon. (c) All offers may be rejected if they do not satisfy the minimum conditions determined by the Central Bank of Uruguay.

Article 5. The Bonds shall be paid in yearly installments in the manner to be regulated by the Central Bank of Uruguay; those certificates presented to it in the period between the 15th and the last day of the month of February of each year shall be redeemed at par value up to an amount equal to 1/8 of the total [of such certificates] issued. Once the yearly term is over, the corresponding payment period will be considered closed and the balance, if any, shall be accrued for the final redemption. The first payment period shall begin on February 15, 1989. The value of redeemed bonds shall be paid in United States dollars.

CENTRAL BANK OF URUGUAY

In the session held on January 13, 1988, the Board of Directors of the Bank approved the following regulation of Executive Branch Decree No. 797/987 dated December 30, 1987.

Article 1. The investor shall submit, through a financial institution, an investment proposal to the International Office of the Central Bank of Uruguay under the conditions established in the Decree dated December 30, 1987.

Article 2. Investment proposals shall be formulated in accordance with the instructions that the Central Bank of Uruguay will make available to the interested parties, and shall contain seperately:

(1) The investment project, and (2) The bid from the financial institution detailing the characteristics and amounts of the foreign debt instruments being offered for exchange for the capital shares or capital investments. The bid shall be submitted in a sealed envelope specifying the discount offered over said instruments, which in no case shall be less than 12%.

Article 3. Foreign debt instruments to be swapped shall correspond exclusively to the advance payments actually made under Refinancing Agreement terms in effect at the date of the proposal.

Article 4. Upon receipt of each investment proposal, the Central Bank of Uruguay shall submit the [respective] Investment Project to the Office of Planning and Budget for consideration and classification as eligible or ineligible.

Article 5. After the project is returned by the Office of Planning and Budget, the Central Bank shall inform the participating financial institution as to whether the project has been classified as eligible or ineligible.

Article 6. In cases of Projects classified as eligible, the Central Bank of Uruguay shall proceed to make public, on the date indicated in the Circumstantial Provisions of this regulation or in future calls for bids, all offers in one session. If [the number of offers received] does not fill the available quota mentioned in Article 8 of the decree of 12/30/87, the Central Bank of Uruguay shall accept bids without prejudice to the provisions of Article 6 of said decree. If [the number] of bids does exceed the established quota, the Central Bank shall select those that offer the largest discounts over the foreign debts to be paid. If equal discounts are offered, the following procedure shall be followed: (a) If the excess of bids received does not surpass the quota by more than 20%, all bids will be accommodated by adjusting their respective execution schedules, following consultation with the interested parties and the Office of Planning and Budget, and if need be, recurring to the powers of the Central Bank of Uruguay to increase the quota, in accordance with the provisions of Article 8 of the Decree dated 12/30/1987.

(b) If the above is not possible, or the excess over the assigned quota surpasses the aforementioned percentage, the Central Bank of Uruguay shall request that the bidders offer a better rate in regard to the aforementioned discount, for which purpose a period not to exceed ten working days shall be set for hearing bids, which should be submitted in sealed envelopes; those bids offering the most favorable discounts will be selected.

Article 7. In cases of accepted bids, the Central Bank of Uruguay shall inform the interested parties that it is willing to document, within a period of thirty days, the swap of a specific amount of stock, capital shares, debentures or other accepted instruments pertaining to the Investment Project target company for the public debt instruments being offered.

If necessary, the representative certificates documenting the investments or capital shares may be temporarily substituted by provisional certificates.

Article 8. The participating financial institution, the entity receiving the investment and the investor should present themselves jointly before the Central Bank of Uruguay within the time period stipulated in Article 7, as required by each particular case for purposes of carrying out the transaction.

Article 9. The entity receiving the investment shall issue and submit to the Central Bank of Uruguay capital shares or capital investments in an amount equal to the amount of public debt which shall be issued for purposes of this decree. Capital shares or capital investments, except the amount, shall not be issued under terms and conditions which are more favorable than those of the foreign debt instrument being swapped.

Article 10. The financial institution shall submit to the Central Bank of Uruguay the foreign debt instruments offered in the bid.

Article 11. The Central Bank of Uruguay shall submit to the financial institution the capital shares or capital investments referred to in Article 9, thereby paying its foreign debt in an amount identical to that expressed on the foreign debt instruments it receives.

Article 12. The Central Bank of Uruguay shall submit to the entity issuing the capital shares or capital investments Treasury Bonds denominated in American dollars in an amount equal to that of the instruments it receives from these entities.

Article 13. The issue and delivery of Treasury Bonds referred to in Article 12 shall be carried out in stages and based on the schedule stipulated in the approved investment plan.

Article 14. The issue and delivery of Treasury Bonds relating to funds required for the first stage of the project shall be carried out to coincide with the receipt by the Central Bank of Uruguay of the instruments mentioned in Article 10.

Article 15. The Central Bank of Uruguay shall establish a fixed, income bearing deposit in the name of the entity that issued the capital shares or capital investments in regard to the remaining funds required for the Project, with the exception of the first stage.

The funds on deposit shall be made available through the delivery of Treasury Bonds and in accordance with the Project execution schedule. In order to make these funds available, the Central Bank of Uruguay will require that the Office of Planning and Budget provide it with proof of compliance with the requirements contained in the investment project, as well as with the provisions of Article 3 of the Decree dated 12/30/1987.

In case of late compliance with the project execution schedule, the delivery of Treasury Bonds shall be postponed accordingly, even when this implies that said delivery is effected subsequent to the annual period to which [the respective bonds] were assigned [in the overall quota].

Article 16. The deposit referred to in Article 15 shall be paid under the same terms and conditions as the Treasury Bonds which are issued for each [swap] transaction carried out under these regulations.

Article 17. The Central Bank of Uruguay shall from time to time and publicly publish information whenever quota places are available (Article 8 of the Decree of 12/30/1987), [and] the deadline for submitting new investment proposals.

Article 18. Bonds issued pursuant to these regulations shall have the same conditions as bonds available in the market.

Circumstantial Regulation 1: Bids for the first public call to bid referred to in the preceding regulations may be submitted until 3/15/1988.

Circumstantial Regulation 2: The envelopes containing bids referred to in Article 7 shall be opened on 4/15/1988.

Circumstantial Regulation 3: The quota mentioned in Article 8 of the Decree of 12/30/1987 are set at US$ 25,000,000 to be made available for the 12-month period beginning on the date when the first transaction is effected under these regulations and at US$ 30,000,000 for the following 12-month period.

Venezuela

Decree No. 86
March 15, 1989

Carlos Andres Perez, President of the Republic,

In exercise of the powers conferred by Section 10 of Article 190 of the Constitution and the Sole Article, Third Paragraph of the Law Approving the Agreement for Subregional Integration or the Cartagena Accord, published in the Official Gazette Of the Republic Of Venezuela No. 1620 Extraordinary of November 1, 1973, in concordance with the provisions of Article 7 of the Organic Law of the Central Administration, in the Council of Ministers,

DECREES
the following,

RULES FOR THE CONVERSION OF FOREIGN DEBT INTO INVESTMENT

CHAPTER I: General Provisions

Article 1. The conversion of external debt into investment shall be carried out in accordance with this Decree, and in the resolutions issued for this purpose by the Ministry of Finance and the Board of Directors of the Central Bank of Venezuela.

Article 2. The conversion of external debt into investment may be effected by means of:

(a) The capitalization of foreign private debt of debtor companies;
(b) The conversion of foreign public debt to foreign investment;
(c) The conversion of foreign public debt to national investment.

CHAPTER II: Capitalization of Foreign Private Debt

Article 3. The capitalization of foreign private debt of debtor companies may be effected in accordance with that provided in the regulations of the Common Code for the Treatment of Foreign Investment and on Trademarks, Patents, Licenses and Royalties.

CHAPTER III: Conversion of Foreign Public Debt to Foreign Investment

Article 4. A Commission composed of the Minister of Finance, the Minister of Development, the Minister of State, President of the Venezuelan Investment Fund and the President of the Central Bank of Venezuela is hereby created.

The Minister of Finance shall chair the Commission and the Superintendency of Foreign Investment shall act as its executive secretary. Each member of the Commission may have one or more alternates.

The function of the Commission shall be to authorize the conversion of foreign public debt to investment, based on the reports presented by the executive secretary.

In the case of investments in sectors which are under the jurisdiction of national agencies other than the Superintendency of Foreign Investments, said agencies shall present the corresponding information to the Commission through the executive secretary.

The Commission shall establish the terms within which the authorized investments may be made.

Article 5. The Commission referred to in Article 4 may authorize conversions of foreign public debt to investment when the object of said investment is import substitution, the exportation of goods, avoidance of the bankruptcy of companies, or in the following sectors:

(1) Agriculture and the providing of related services.
(2) Agro-industry, pulp and paper.
(3) Construction or maintenance of highway, waterway or railway infrastructure.
(4) Construction of hotels and infrastructure for tourism activities, as well as the providing of related services.
(5) Construction of social interest housing.
(6) Services of air, land, sea and river transportation in the country, or related activities.
(7) Production of capital goods.
(8) Chemical, pharmaceutical, chemical mechanical and petrochemical.

(9) Electronics and data processing.
(10) Biotechnology.
(11) Aluminum and its transformation.
(12) Metallurgy.
(13) Mining.

First Paragraph: The Commission, upon prior opinion of the Economic and Social Cabinet, may determine other sectors for purposes of granting the authorizations referred to in this article.

Second Paragraph: The Commission may authorize operations for the conversion of foreign public debt to investment for the creation or expansion of investment funds for the purpose of investing directly in development projects in the sectors indicated in this article. In these cases, and until the sums converted are invested in said projects, they must remain on deposit or be placed with the Central Bank of Venezuela or in the national bank and credit institution as established by the Board of Directors of said institution.

Third Paragraph: The Commission, upon the prior opinion of the National Securities Commission, may authorize operations for the conversion of foreign public debt to investment for the purchase of stock in the securities market by private investors or the investment funds referred to in the preceding paragraph.

Article 6. In order to obtain the authorization contemplated in Article 4, the interested parties must agree not to remit abroad, with respect to the part of the foreign investments derived from the conversion of foreign public debt, during a period of three (3) years from the date of registration, dividends or earnings corresponding to shares, quotas, participations or rights, in an amount which exceeds ten percent (10%) annually of the respective investment. The amounts of tax paid by the investor in respect of these earnings shall not be computed for such purpose.

Article 7. Upon authorization of the conversion of foreign external public debt to investment, the Central Bank of Venezuela shall purchase from the investor, in accordance with the procedure to be established for this, the credits representing foreign public debt for the purpose of providing to the investor the bolivars necessary to make the authorized investment.

Sole Paragraph: The Central Bank of Venezuela may establish programs for the exchange of credits representing foreign public debt for domestic public debt instead of the purchase contemplated in the preceding paragraph of this Article.

Article 8. The Central Bank of Venezuela shall purchase or exchange the foreign credits mentioned in the preceding Article at the discount that for this purpose is established by the Commission.

Sole Paragraph: The Commission may provide that operations for the conversion of foreign public debt to investment shall be undertaken by auction, within the limits established for this. The Ministry of Finance shall regulate that herein contemplated by resolution.

Article 9. In order to obtain the authorization contemplated in Article 4, the interested parties must agree not to repatriate capital derived from the conversion of the foreign public debt to investment during the first five (5) years following the date of registration of the investment. In addition, they must agree that, during the eight (8) subsequent years, the maximum percentage of repatriation of capital shall be 12.5% per year, on the understanding that the amounts not repatriated during one of these years may be accumulated with those for the following years.

After thirteen (13) years from the date of registration of the investment, the repatriation of capital may be effected without limitation.

Article 10. In the event of the liquidation of the company receiving the foreign investment, and prior to the expiration of the periods indicated in Article 13 for the repatriation of the invested capital, the capital derived from the liquidation only may be used by the foreign investor for the following purposes:

(i) Investment in another company, in which case for the purposes of calculating the time periods for the remittance of profits and the repatriation of invested capital, the date of the first investment undertaken shall be used as the base.

(ii) Acquisition of development portfolio securities.

Sole Paragraph: The undertaking of these operations shall require the prior authorization of the competent national agency.

Article 11. The amounts in bolivars received from operations for the conversion of foreign public debt to investment may only be used to finance the national component of the respective investment projects.

Article 12. The authorization to convert foreign public debt to investment shall be subject to the condition that the cost of the imported component required for the installation or expansion of the respective projects be covered by external sources of financing.

Second Section: Conversion of Foreign Public Debt to Foreign Investment

Article 13. The registration of the foreign investments referred to in this section shall be done by the corresponding national competent agency based on the authorization issued by the Commission and in accordance with that provided in Article 16 once the new company has been constituted or the capital of the company receiving the investment has been increased or replenished.

Article 14. When the conversion of foreign public debt to foreign investment entails the transformation of the recipient company to a foreign or mixed [enterprise], in reserved sectors, said company must transform in accordance with that contemplated in the regulations referred to in Article 3.

Article 15. Upon the termination of the period stipulated in Article 6, foreign investors may remit dividends or earnings in accordance with the terms and conditions contemplated in the regulations referred to in Article 3.

Sole Paragraph: When earnings to be distributed exceed the aforementioned percentages, the provisions of the regulations referred to in Article 3 shall be applied.

Article 16. The registration of foreign investment shall express in foreign currency the amount in bolivars actually paid by the Central Bank of Venezuela in accordance with that contemplated in Article 8. For the purpose of complying with that provided in Article 96 of the Law of the Central Bank of Venezuela, the equivalent in bolivars of the registered investment shall be included.

Article 17. In the case of conversion of foreign public debt to foreign investment, the sale of stock, participations or rights of the foreign investor shall be governed by that established in the regulations referred to in Article 3. Upon completion of the sale, the parties must proceed to update the corresponding registration and the new foreign investor shall be subject, if applicable, to the exchange agreements on the remittance of dividends or earnings and repatriation of capital undertaken pursuant to the provisions of Articles 6 and 9 of this Decree, taking as the base the date of registration of the first investment.

Sole Paragraph: The sale of stock, participations or rights from one foreign investor to another foreign investor shall not be considered as a repatriation of capital.

Third Section: Conversion of Foreign Public Debt to National Investment

Article 18. National investors may undertake operations for converting foreign public debt to investment for the purpose of financing the national component required for the execution of investment projects in accordance with Article 5, provided that the norms of this Chapter are applied.

Article 19. The sale of stock belonging to national investors deriving from conversion operations undertaken in accordance with this section shall require in all cases the prior authorization of the national competent agency. In such cases the acquiring investor shall be subject to the same conditions applicable to the seller.

Article 20. The Central Bank of Venezuela may acquire from the public and private companies credits representing foreign public debt through purchase with national currency or exchange for domestic public debt securities, under the terms and conditions established by the Board of Directors of said institution.

CHAPTER IV: Transitory Provision

Article 21. The operations for the conversion of foreign public debt to foreign investment authorized by the Commission created by Decree 1521 of April 14, 1987 that have not been undertaken, as well as the applications presented prior to the date hereof, shall be subject to that established in this Decree.

CHAPTER V: Final Provisions

Article 22. For the purposes of this Decree, competent national agencies shall be understood to be the Superintendency of Foreign Investments and the agencies indicated in the regulations referred to in Article 3.

Article 23. The credits representing foreign public debt that are acquired by the Central Bank of Venezuela in accordance with the provisions of this Decree shall be converted to domestic debt under like or improved financial conditions for the debtor entity, as determined in each case by the Ministry of Finance and the Central Bank of Venezuela, in accordance with the provisions of Article 54 of the Organic Law of Public Credit.

Article 24. With respect to all matters not contemplated by this Decree, foreign investors and the companies in which they have a participation shall be governed by that provided in the regulations referred to in Article 3.

Article 25. The Minister of Finance shall issue such resolutions as may be necessary for the implementation of this Decree.

Article 26. Decree 1521 of April 14, 1987 is hereby repealed.

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DEBT FOR DEVELOPMENT GUIDELINES
Agency for International Development

October X, 1988

I. INTRODUCTION

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

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

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

C. Issuing Party and Authority: A.I.D. issues these guidelines [, which have been approved by the Office of Management and Budget (OMB),] under the authority provided in the Foreign Assistance Act of 1961, as amended.

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

II. OBJECTIVES

The objectives of the A.I.D. Debt for Development program are (A) to assist in reducing the foreign debt burdens of developing countries that receive U.S. foreign assistance, and (B) to obtain a favorable rate of exchange for U.S. foreign assistance dollars that are converted into local currencies or exchanged for other assets needed to achieve foreign assistance purposes.

III. GENERAL STATEMENT OF POLICY

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

A.I.D. will review proposals by intermediary organizations to use foreign assistance funds to finance the purchase, by the intermediary organization, of debt owed by developing countries to parties other than the United States Government. Such proposals must provide for the prompt conversion of such debt into local currencies or other assets needed for development purposes. A.I.D. will receive Debt for Development proposals from intermediary organizations in a wide range of program areas, including (but not limited to) environmental protection, private enterprise development, population planning and health.

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

IV. DEBT FOR DEVELOPMENT PROCEDURES

A. Role of Intermediary Organizations: A.I.D. will not directly acquire debt of a developing country for use in a Debt for Development program. Instead, A.I.D. will finance the acquisition of such debt by intermediary organizations. With the assistance (where appropriate) of A.I.D., intermediaries will negotiate with the debtor country the terms of the subsequent retirement of the debt and, in most cases, the intermediary will be primarily responsible for managing the use of the local assets generated by the debt retirement. Intermediary organizations, therefore, will play a central and critical role in A.I.D. Debt for Development programs.

B. Types of A.I.D. Awards: To assist the participation of intermediary organizations in Debt for Development programs, A.I.D. intends to make foreign assistance funds available to support both (1) the preparation of Debt for Development proposals by intermediaries and (2) the acquisition of the debt itself once an intermediary's proposal for a Debt for Development program has been approved by A.I.D.

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

To assist in the design of Debt for Development programs, A.I.D. will make a limited number of awards to assist intermediary organizations in developing detailed Debt for Development proposals and in negotiating the terms of the debt exchange with the debtor nation. Applications for financing to support such pre-award activities should address the following issues: (a) the anticipated foreign assistance purpose to be achieved through the Debt for Development program; (b) the information needed and steps proposed to be undertaken to develop a final proposal and to reach agreement with the debtor country on the use of assets generated through the debt transaction; (c) the opportunities for purchase and the current market price (to the extent such

information is readily available) of the country debt to be acquired with A.I.D. financing ; (d) the anticipated advantages of acquiring local development assets by means of debt exchange rather than through direct purchase with dollars; and (e) the projected allocation of costs and expenditure of time needed to develop a final proposal.

2. Awards to finance Debt for Development programs: A larger share of A.I.D. Debt for Development financing will be provided to support the actual acquisition by intermediaries of the developing country's debt. The following provisions of these Guidelines set prerequisites for the award of funds by A.I.D. to finance Debt for Development programs and establish procedures for implementation of such programs once an intermediary's proposal for a debt exchange has been approved.

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

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

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

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

E. Pre-Agreement on Purpose and Terms of Debt Purchase and Retirement: Before A.I.D. agrees to finance a Debt for Development transaction, the intermediary must demonstrate to the satisfaction of A.I.D. that the intermediary has: (1) identified the asset to be obtained and the program activity to be financed through the debt transaction; (2) reached agreement with the debtor country regarding the terms, mechanism, and schedule for conversion of the debt into the identified host country asset; and (3) developed detailed plans for administration and use of the host country asset to achieve program purposes. An intermediary's mere expression of intent to use assets generated from a debt exchange for a particular purpose will not be sufficiently definite to enable A.I.D. to make a financing award; before issuing an award, A.I.D. will require detailed program planning and evidence of the debtor country's prior concurrence (for example, in the form of a signed agreement or a letter from the country's central bank or ministry of finance) on significant aspects of the eventual debt exchange.

A.I.D. will also require the intermediary to demonstrate that it has: (1) investigated the availability of the host country's debt for sale, (2) identified a reputable and willing seller of such debt (as discussed in Part IV(D) above), (3) determined the likely market price of the debt, (4) calculated the likely transaction costs to be incurred in acquiring and exchanging such debt, and (5) analyzed the financial and other advantages of acquiring the local development assets through the mechanism of a debt exchange rather than by direct purchase with dollars.

To develop a Debt for Development proposal that addresses each of the above points and that is sufficiently detailed and definite, an intermediary may, if needed, request pre-agreement funding from A.I.D. (as described in Part IV(B)(1) above).

F. Various Agreements Required: To effect the various transactions involved in a Debt for Development plan, separate agreements among parties will be required, in the following sequence: (1) between the intermediary and the debtor country establishing the purpose and terms (as described in Part IV(E) above) of the planned debt exchange; (2) between A.I.D. and the intermediary approving the terms and conditions of the foreign assistance financing; and (3) between the intermediary and the debt holder effecting the initial sale of debt.

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

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

H. Prompt Conversion of Debt into Development Asset: A.I.D. expects intermediaries to convert A.I.D.-financed debt into local currency or other development asset (as provided in the various Debt for Development agreements among the intermediary, debtor country and A.I.D.) as promptly as possible after the intermediary acquires the debt. Intermediaries may not: (1) retain title to such debt for speculative or other purposes, or (2) exchange the debt of one country for the debt of another country without prior approval of A.I.D.

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

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DISCUSSION PAPER NUMBER 2

Debt-Equity Swaps and Foreign Direct Investment in Latin America

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Washington, D.C.

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DEBT-EQUITY SWAPS AND FOREIGN DIRECT INVESTMENT IN LATIN AMERICA

Summary and Conclusions

i. Scope of the Work: In the face of continuing debt problems and a decline in foreign direct investment (FDI), the governments of several developing countries have initiated a variety of programs to redeem their foreign debt before it is due, giving creditors different kinds of assets in exchange. In one such program, known as "debt-equity swaps," debtor countries permit private investors to redeem public foreign debt for equity shares in new or existing companies. This paper describes the results of empirical research on the effects of debt-equity swaps in attracting FDI.

ii. Debt-equity swaps are in fact dual-purpose instruments. Because debtor governments redeem the swapped debt at less than its face value, swaps permit the early retirement of foreign debt at a discount. Because the governments redeem the swapped debt at more than its current market value, swaps reduce the cost of an investment, and are thus incentives to investors. The research focused on the latter effect, analyzing how the existence of the swap program affected the decisions of foreign investors. A full evaluation of swap programs must, however, take both effects into account.

iii. Swap programs in four major Latin American debtors were studied: Argentina, Brazil, Chile and Mexico. The main basis for the conclusions are extensive interviews with corporate officials who participated in decisions about whether or not to invest through swaps. More than 125 interviews were held, covering 104 debt-equity swap transactions. In this respect the work differs from many other contributions, which in their conclusions about effects of the programs are for the most part limited to a priori reasoning or assumptions.

iv. In studying how debt-equity swaps affected investor behavior, several questions were addressed. To what extent would the investments made through swaps have been done anyway, or to what extent did the swap programs make them happen? (The latter is called "additionality.") In what ways did the investment decisions of banks, who already held the debt, differ from those of other corporate investors who bought the debt in the secondary market at a discount? What uses did the recipient companies make of the invested funds? How did different features of swap programs affect both investors and the benefits to the host country? What lessons can be learned for the design of swap programs?

v. The research was designed primarily to be useful to governments of debtor countries, in deciding whether or not to have a swap program and, if so, how to fashion it. The paper is not a guide for investors who might want to use swaps. Moreover, the paper is written for readers who are already familiar with the basic facts and concepts of debt-equity swaps; standard information that has been described many times in conferences, papers and articles has not been repeated here.

vi. Results: The effects of swap programs on banks are quite different from the effects on multinationals. (For convenience we refer to investors that are not banks as "multinationals" or "MNCs.") One important difference is with regard to additionality: Virtually every investment made by banks would not have happened without a swap program. Most banks tend to be lenders rather than equity investors, and feel already overextended in the debtor countries. They would not normally be making equity investments there. Swap programs, however, permit them to diversify their poorly performing portfolios of LDC debt and to increase the chances of liquidating a part of those portfolios sooner. MNCs, on the other hand, take advantage of the discounted prices at which they can buy the debt to make investments at a lower cost. In some cases the investments would be made anyway. In our sample, about one-third of the investments made by MNCs using swaps would not have been made unless a swap program was available, and another ten percent of those investments were made sooner or for larger projects than they would have been without the program. Thus, for the transactions we studied, swaps made a difference for a bit less than half of the MNC investments (as well as for all the bank investments), while a bit more than half of all the MNC investments that used swaps would have happened anyway.

vii. Our results suggest, but do not prove conclusively, that additionality increases as a swap program continues over time. At first, most investments are those that would have occurred anyway, but as more and more potential investors become aware of the benefits of the swap program, those benefits become decisive for a higher percentage of swap transactions. We also find that investments oriented toward export markets are more likely to be actually influenced by swap programs (i.e., additionality is higher), while investments oriented at domestic markets tend to be those that would have been made anyway.

viii. The types of investments made through swaps are as varied as those of FDI through normal channels. Some swaps have been used to finance buy-outs and/or financial restructuring, not immediately affecting the physical productive capacity of the company. (Not all countries permit such use of swaps.) In some cases these transactions have been the sale of publicly-owned enterprises to private parties ("privatization"). In our sample it was quite common to find buy-outs or financial restructurings followed rather quickly by improvements or additions to productive capacity, including sometimes the opening of new kinds of production. This suggests that countries that do not permit swaps for buy-outs or financial restructuring may be losing the advantages of these follow-on benefits. Another aspect of the variety of investments is that the new investors are sometimes active managing owners (typically MNCs, or banks when they buy financial companies), and in other cases silent partners (typically banks, who may leave the management to existing managers or to new MNCs which the banks help to bring in).

ix. Our results on the effects of different characteristics of swap programs, reported in Section II.C of the paper, lead to a number of practical suggestions for the design of such programs. The characteristics were evaluated against three criteria, representing the debtor country's point of view:

To increase additionality, it is important to keep the level of the incentive high. Administrative screening out of investments that are obviously not additional can be effective. Maintaining continuity in the program, including the rules and the approximate level of the investors' incentive, is important. Maintaining reasonable restrictions on the timing of repatriation of dividends and of capital can also switch some non-additional investments into regular (i.e. non-swap) channels.

To channel investments into high-priority sectors or places, the best way is simply to permit swaps to be used only for the high-priority investments. If this is too limiting, and if the high-priority investments are in general unattractive to investors, then two different levels of incentives can be used -- one for the high priority uses and one for others. The different levels can be set administratively or by auctions, but should be reasonably high in both categories. Allowing low-priority investments access to a small incentive is counter-productive; it will have no effect on most investment decisions and simply result in a lot of free riders. For this reason, a finely-graded system of many different incentive levels for many different priority categories is probably not very effective.

To capture a larger share of the discount for the government, useful measures are to set the redemption price by auction instead of administratively, to allow domestic participants, to avoid screening out too many applicants, and not to require any "fresh money."

x. There are some conflicts and trade-offs among these criteria, as well as between maximizing the incentive effects of a swap program and controlling its macroeconomic costs. These are discussed in Section II of the paper.

xi. The continued demand for swap transactions, most notable in Chile, and even more importantly the uses to which the funds are put in all the countries studied, show that investors' interest in swaps is not limited to buy-outs of some more or less fixed set of companies that may be available for sale. Rather, investors are also interested in using swaps to make investments in new physical capacity and even in new companies. As long as the secondary market price of the debt eligible for swaps is low, debtor countries with reasonable swap programs will attract investors. Thus, while debt-equity swaps are very far indeed from being "the" solution either to the debt problem or to reviving private investment, they can make a significant contribution to both objectives.

I. INTRODUCTION

A. Objectives of the Research

1. This paper is about how debt-equity swaps affect flows of foreign direct investment (called here "FDI"). It is based on research that concentrated on four major Latin American debtors, Argentina, Brazil, Chile and Mexico. The paper examines how investment decisions of multinational corporations and commercial banks have been influenced both by the opportunity to use swaps, and by the different features of swap programs. The primary question is to what extent the availability of swaps has motivated investors to undertake projects that they otherwise would not have attempted. The paper also analyzes the many different ways that investors have used swaps (e.g., buy-outs, financial restructuring, technological improvements, or new capacity creation; export markets or domestic sales; privatization). From the analysis of the effects of swap programs on investors' behavior, the paper also draws some lessons about the usefulness of swap programs and about their designs.

2. It is important to state these purposes at the beginning, because there are many things this paper does not try to do. First, the paper does not cover many other kinds of swaps. The debt-equity swaps considered in this paper involve the exchange of public external debt for local currency which is then used to invest in equity (or quasi-equity) in companies in the debtor country. Not considered are many other kinds of swaps, such as debt-for-debt, debt-for-commodities, and private debt for equity swaps in which a foreign parent company exchanges private debt issued by a subsidiary in the debtor country for equity in that subsidiary. Some of these other kinds of swap programs have generated a large volume of transactions, and are having important effects in the debtor countries.

3. Second, this paper does not cover all the material that would be required for an overall evaluation of swaps. A final verdict on the value of swaps depends not only on how they function as investment incentives (the subject of this paper), but also how they affect debt burdens, impose potential fiscal costs or add to inflationary pressure. As well, a final evaluation of swaps must take into account concerns that are more issues of judgment or personal values than of verifiable facts, such as whether the debtor countries will or should fully service their debts, and whether higher levels of foreign investment are good or bad for national development. The paper touches on some of these points but does not evaluate them fully.

B. Methodology

4. Annex 2 describes how the research was done. To summarize briefly, we relied mainly on interviews of executives of the companies that were involved in making the investment decision. We also talked with many government officials, intermediaries and others familiar with the programs. Some

published information was also taken into account. Most of the foreign investors covered were based in either the United States or Japan. In over 125 interviews, we were able to obtain useful information on 104 of the approximately 450 public-debt-for-equity swaps that took place in the four countries studied.[1/] There are serious difficulties in identifying all swap transactions, and others in accessing some of the investor companies' decision makers involved. For these reasons it is not possible to construct any kind of scientific sample of all transactions made. Our data are relevant to the larger, more established companies that did swaps, and we are confident that we have come to understand the effects of swaps on their behavior.

C. The Context of Debt-Equity Swap Programs

5. The debt "crisis" has entered its seventh year. It has not been brought to a head by wholesale refusal to service debts, nor has it been resolved by any sweeping bail-out. Rather, we are witnessing a protracted period of muddling-through, where both creditor banks and debtor countries share an interest in dealing more or less with small changes in the status quo or, in other words, not rocking the boat. Banks want to avoid the necessity of declaring default, and are fending off proposals for debt relief, all the while adding to their loss reserves. Many debtor governments are similarly acquiescing to muddling through, paying the least amount of debt service sufficient to ensure that they are spared the possibly severe repercussions of formal or extended non-performance.

6. Six years of this muddling through the debt problem have created a long-term environment discouraging to foreign direct investment in Latin America. A debt problem of shorter duration would not have had such a devastating impact on foreign investment. The problem's scope is reflected not merely in the cumulative loss of six years of investment flows; it is additionally the chilling effect on planning for future investment that comes as the special burden of a protracted debt situation. Many companies spend two or more years planning and evaluating investments; in this context, a short-term debt problem may cause planning to be temporarily suspended, but a long-term debt situation that shows no sign of ending, and the stagnation and uncertainties that go with it, may well convince companies to quit planning investments entirely -- not only for the moment but for the indefinite future.

7. Table 1, part A on the following page shows the decline in foreign direct investment to major Latin countries. At the beginning of the decade, Latin America attracted over half of all direct investment flowing to the Third World; by mid-decade, however, it was attracting less than a quarter -- and of a significantly smaller total. In nominal terms, the flow of direct investment to the four major Latin American debtors fell by 62% between 1979-1982 and 1983-1986.

1/ Three of the 104 transactions studied were in other highly indebted countries. Also, we were able to analyze a number of other investments in the four countries for which the investors decided not to use the swap programs that were available.

Table 1

A: Foreign Direct Investment in Four Latin American Countries
(US$ Millions)

	1983	1984	1985	1986	1979-1982 Average	1983-1986 Average	Percent Change
Argentina	104.7	134.6	171.5	283.4	641.1	173.5	-72.93
Brazil	674.0	1,478.5	549.2	195.5	1,296.4	724.3	-44.13
Chile	25.3	22.8	106.4	103.7	138.7	64.6	-53.45
Mexico	-325.5	580.2	359.4	-49.5	790.9	141.2	-82.15
				Total	2,867.0	1,103.6	-61.51

B: Swaps Compared to Other Flows
(US$ Millions; Annual Averages)

	FDI Through Swaps	"Normal" FDI (1979-82)	"Depressed" FDI (1983-86)	Service on Official Debt 1986
Chile	400	139	65	281
Mexico	1,133	791	141	2,087

Sources: FDI flows: OECD; flows from DAC members
Swaps: Host government data
Debt service: World Bank, Debt Tables

8. Muddling through the debt problem and the decline in foreign investment make debt-equity swaps a potentially interesting instrument, because swaps both help to lower indebtedness and to increase investment. But it is necessary in the same breath to say that swaps alone neither will unstick the morass of debt nor bring record levels of investment. The international financial community looks to swaps mainly for their potential to reduce debt and to increase its price in the secondary market, while debtor governments see swaps primarily as a way to attract investment, and secondarily as a way to reduce debt. But neither group expects swaps to produce a breakthrough in these areas. Although for a brief period a few years ago swaps were being touted by some promoters as the hot entree on the debt problem "menu," swaps are now seen more correctly only as an appetizer.1/

9. Nevertheless, if the effects of swaps are examined on an incremental basis (rather than judged against the entire magnitude of Latin America's debt outstanding), then their impact appears more impressive. As shown in Table 1, part B, the amounts of FDI that came through swap programs in Mexico and Chile have been quite significant in comparison to earlier flows of FDI to those countries, as well as to other relevant balance of payments items such as their debt service obligations.2/

1/ Although in Chile, where the program has been in place since May 1985, debt-equity conversions under Chapter 19 through December 1987 amounted to US$1.0 billion, equivalent to 5.7% of its stock of long-term debt at the end of 1985. (Conversions through other schemes amounted to even more.)

2/ In constructing tables such as Table 1, there are serious data and conceptual problems. Three major ones are: First, data on FDI are poor in quality and not comparable across countries. The two generally used sets of data are the IMF numbers, which reflect actual balance of payments flows as reported by the host countries, and OECD estimates which reflect something closer to commitments than to actual cash flows and are as reported by source countries, the latter limited to members of the OECD. These two sources typically differ greatly for a specific country in a specific year, but are usually not too far from each other for a specific country over a period of several years. We used the OECD numbers for two reasons: (a) they are comparable across host countries, while the IMF numbers are not; (b) they are conceptually closer to the estimates of swap transactions, which also reflect something closer to commitments than to cash flows. Second, of the four countries studied, only two -- Chile and Mexico -- had generally available and relatively stable swap programs in place for significant periods of time. Third, the advent of the swap programs more or less coincided with other positive changes in the investment climate in both Mexico and Chile (notably more attractive exchange rates in both countries, and other elements as well in Chile), so that the high levels of swap transactions cannot be fully attributed to the availability of the swap programs.

10. Although the magnitude of swaps has been important in some ways, their contribution must be kept in perspective. First, as mentioned earlier, the role of swaps is only incremental; swaps can never substitute for fundamental changes in the overall investment climate that would be necessary for Latin America to reach its potential for attracting foreign investment. Second, the volume of swaps reported in the table are not proof that swap programs were the reason motivating these investments, nor are the data evidence that the swap investments were put to good use in the recipient countries. One point however is evident just from the numbers: swaps do offer an attractive incentive to foreign investors. The swap incentive is in essence an up-front discount on the cost of an investment. Even after deducting fees plus the portion of the discount captured by the government, the incentive accruing to the investor typically equals a quarter or a third of the total cost of the investment. (See Table 3.)

11. The incentive offered by the swap may be partially offset by restrictions on how the investor may use the local currency. Regulations vary from country to country, but the debtor governments in general impose longer delays on both dividend and capital repatriation for investments made by swaps, than for foreign investment through normal channels. Taxation and additional restrictions may undermine even more of the value of the swap. But the fact remains that swaps are a potentially powerful form of investment incentive, because (a) the incentive can be large, and (b) the incentive comes at the time of the investment, so that unlike most fiscal incentives it is neither delayed nor dependent on uncertain future events such as profits. That the amounts of foreign investment shown in Table 1 B have been done through swaps rather than the normal channels shows that the former, more difficult route must be of some value to investors.

D. The Costs of Swap Programs

12. Swaps, as has been noted, are instruments with two functions: they help to reduce foreign debt and they help to attract foreign (and sometimes domestic) investment. They also have some costs, and some observers argue that swap programs are on balance not worthwhile. Many of these arguments are really arguments about the desirability of the products of the programs. They are arguments that foreign investment is not such a good thing, or that prepaying the foreign debt is not a good idea. There may be valid questions about these points, but we do not analyze them here.

13. Although this paper is focussed on questions about how swaps work in attracting investment, there are two points about the costs of swaps that we wish to note. First, one possible cost of swaps to a host country, perhaps psychological or perhaps real, is what might be called "overpayment" in redeeming the debt. To the extent that the country is not fully servicing, and intends not to service fully its foreign debt, the net present value of the payments it expects to make may be less than the amount at which it redeems the debt in the swap transaction. This viewpoint is, naturally, more common in the debtor countries than among the creditor institutions; the latter point out that the debtors received the resources they borrowed and are now obligated to service the loans fully. Leaving aside moral hazard,

legal and other related considerations, the question does arise as to whether the debtor country is paying more to redeem its debt than the present value of the payments it expects to make to service the debt. The factual basis for concluding that swap programs do involve such "overpayment" is strengthened by international discussions of debt relief that seek methods for refinancing sovereign debt at its secondary-market price, and by actual buy backs, such as the one recently arranged for Bolivia.

14. Second, we have encountered considerable confusion about what is perhaps the most important cost of swaps, i.e., their impact on a country's monetary situation. In redeeming foreign debt with local currency, a government must chose some combination of allowing the payments to increase the money supply or else sterilizing this expansionary impact by restricting credit (or expenditure) elsewhere. Since most of the countries involved are experiencing high rates of inflation (Chile is a notable exception), these effects are a grave concern to most debtor governments.

15. In an attempt to clarify this negative effect of swaps, we present in Annex 1 a brief analysis. The conclusion is that "...allowing a transaction through a swap always results in reducing foreign debt; it can cost the government <u>either</u> foreign exchange [if the investment was not additional] <u>or</u> the need to come up with domestic currency [if the investment was additional], <u>but not both</u>. Also, <u>if the swap investment is not additional then the swap program does not add to inflationary pressures</u>. These two criticisms that are often leveled at swap programs -- lack of additionality, and inflationary impact -- logically cannot apply simultaneously. A swap program leads to inflationary impacts only to the extent that investments made through it would not have happened if there were no swap program."[1/]

1/ From Annex 1, para 6.

II. RESULTS

A. Additionality

16. The concept of additionality, and its measurement, are complex. Conceptually, additionality depends on how wide a range of other possibilities the analyst considers. At the broadest level, the inflationary or interest-rate effect of swaps will partly reduce domestic investment elsewhere in the economy. Thus, the total level of investment in a country will not increase by the full amount of foreign investment attracted by swaps. At a somewhat narrower level, an investment for which a swap was crucial to a particular investor might have been done by a different investor without a swap program. Investments in hotels in Cancun (Mexico) are sometimes cited to illustrate this point. Even if the actual investors were in fact swayed by swaps, it is alleged that the occupancy rate in the area was so high that other investors would have made the same investments without swaps.

17. Our research is limited to a narrower concept. We analyzed additionality only at the level of the individual transaction. We defined additionality as meaning that the particular investor would not have made the investment if a swap deal were not available.

18. Even with this simpler definition of additionality, measuring this phenomenon was not always clear cut. The information gathered in our interviews enabled us to classify the great majority of transactions as either additional or not additional. Nevertheless, for a few transactions, the question of additionality was not as straightforward. In these cases, the swap program affected the timing and/or the amount of the investment. It seemed likely that, in the absence of a program, something like the actual investment would probably have been made at some time. For these cases we established a category of "partial" additionality. Only a small percentage (7%) of transactions fell into this category, but some of these were large investments.[1/]

19. We were able to come to conclusions about additionality for 99 of the transactions we studied.[2/] Of these, 30 were made by banks and every

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1/ The swap investments of two auto companies in Mexico illustrate this gray area. As early as 1982, Volkswagen and Chrysler had decided to invest to expand their facilities, but they did not move ahead with these projects until 1986, when they used swaps to finance their investments. Chrysler, moreover, decided to create significantly more additional capacity than it otherwise would have done, because of the cost-reduction effect of using swaps. We scored both these cases as "partly additional." See Debs, Richard A., David L. Roberts and Eli M. Remolona, Finance for Developing Countries, Group of Thirty, 1987, p. 29.

2/ The sample contained five transactions from which we learned other useful information, but were unable to determine anything about additionality.

single one was additional. Of the 69 made by MNCs, 23 (33%) were clearly additional and another 7 (10%) were partly additional. Thus for 61% of the transactions (43% for the MNCs and 100% for banks), swaps made a difference.

20. The larger degree of additionality for banks than for MNCs reflected an important underlying difference. These two kinds of investors responded in fundamentally dissimilar ways to the existence of swap programs. In recognition of these differences, it is appropriate to divide the discussion of additionality into two parts -- one for banks and another for MNCs.

21. Additionality and Banks: The attitude of most bankers toward equity investments helps to explain why additionality was 100% for the transactions studied. Most banks and bankers are by profession lenders and not equity holders. They normally would not, and do not, invest in non-financial businesses in Latin America. When most banks invest through swaps, they do so because they are dissatisfied with the performance of the debt they hold. Their main objectives are to diversify, and ultimately to liquidate a part of their portfolio sooner than would otherwise occur. The upside potential of equity investing is studied, but for most bank investors it is not the primary motivating force. A corporate investor, by comparison, does a swap transaction in order to reduce the cost of an investment which is expected to yield profits. For the corporate investor, the upside is a driving force and the swap increases it. Thus, it can be generalized that in most swap transactions "corporate investors want to get rich, while banks want to get out."

22. The media sometimes portray swaps as if they were a technique expressly designed and used by banks to transform their own loans into equity. The banks have been, in fact, among the main proponents of swap programs. However, the number to date of swap investments by banks has been considerably smaller than might be expected. There are a few well-known exceptions, but as of the beginning of 1988, many of the large US creditor banks had yet to make a single investment for their own account through a debt-equity swap, and others had made only a few. (We do not count here transactions to recapitalize their own wholly owned subsidiaries.) Japanese banks have been similarly reluctant. and in addition have been strongly discouraged by their regulatory authorities. No Japanese bank had made an equity investment through debt-equity swaps as of February 1988.[1/]

23. While it may seem ironic or perhaps even erroneous, bankers shy away from what they perceive as the higher risks of equity. In every bank, we met some individual officers who believed that the upside potential of equity outweighed the risk of swapping some of the bank's poorly performing public debt for private equity. In most banks, however, top management was less ready to adopt this "entrepreneurial" view of risk. Instead, the closer a swap could be made to resemble debt, the more top management would be willing to consider the deal as worthwhile. For example, one banker told us that

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1/ The research did not cover European banks, but they appear to have been more willing to make swaps than either the U.S. or Japanese banks.

his bank would look more favorably on debt-equity swaps if it could be guaranteed that the resulting equity investment would return LIBOR plus two basis points over five years.

24. A few banks, however, do not fit this general case. They include, among others, American Express Bank (which does not do commercial banking in the US and therefore is not subject to the same restrictions as other banks, and which of course is part of a larger group that is active, inter alia, in tourism), Bankers Trust and Security Pacific. These and a few other banks have a history of merchant banking operations, and consequently they have less institutional resistance to equity investments. Predictably, these are the banks that have made the most swaps for their own books. In some countries, especially in Chile, these merchant banks were among the first of all foreign investors to apply for swaps.

25. Tax considerations are a second significant factor restraining the number of swaps by U.S. banks. When a bank completes a swap, it may be able to take a loss equal to the difference between the face value of the debt and the (discounted) amount in local currency received from the debtor government. Moreover, in spite of a contrary opinion by a committee of the American Institute of Certified Public Accountants, some US auditing firms still take the position that all similar loans still held by the bank would have to be written down. Since many banks have been generating at best small profits in Latin countries, or indeed overall, a decision to make any particular swap must compete against all other types of losses that a bank may wish to take for tax reasons. A bank faces a fixed ceiling of usable tax losses, set by its own profitability. In recent years, this ceiling has been low, allowing little room for the possibly of large write-downs that doing swaps might imply.

26. A related reason has to do with the banks' wish to present healthy income and balance sheets. Even if the losses could be used to reduce taxes, some banks do not want to reduce their reported earnings by the amounts that might be involved if they were to do swap transactions. However, there have been reports in mid-1988 that some banks, having made investments for their own accounts through swaps, are putting such investments on their books at values not only higher than the secondary market prices of the debt, but even higher than the prices at which the debt was redeemed by the governments.

27. A final factor discouraging banks from making swaps is their own reluctance to commit fresh dollars, or even fresh local currency, in the debtor countries. Most investments require a foreign exchange component to pay for imported machinery, etc., which cannot be financed with swaps. Even straight buy-outs, such as have occurred in Chile, are often part of a corporate plan which includes some improvements in physical assets. For multinational corporations, these de facto fresh money requirements are not usually major obstacles to a swap. Banks, however, see an important difference between swapping their own paper, which involves no added exposure, and the need to inject fresh resources into countries where they feel already seriously overexposed. In interviews, American bankers expressed virtually unanimous and complete unwillingness to make any sort of

swap investment that would require investing anything beyond the paper they already hold. This attitude clearly places tight constraints on the kind and the number of swaps that banks are willing to make.

28. Among the factors that restrain banks from becoming more involved in debt-equity swaps, one is conspicuous by its lack of importance. Federal regulations restricting the amount of equity a bank may hold in a non-financial institution have, in general, not greatly hampered U.S. banks from making swaps. Up to mid-1987 Regulation K required American banks to keep the level of their investments below $15 million, and below 20% of voting shares, in any one non-financial company. Moreover, ownership was circumscribed by a five-year limit. These restrictions were liberalized in August 1987 and again in February 1988, for certain investments in heavily indebted developing countries. Moreover, Regulation K was flexibly administered in regard to swaps, with exceptions allowed, and both Federal Reserve officials and commercial bankers report that it was not a serious obstacle to the banks' investment desires.

29. As of the first quarter of 1988, however, many US banks said they were about to begin to make swap investments. The large write-downs of debt taken by many of them in early 1987 led to more active searching for good investments, and as of early 1988 a number of these banks had a significant pipeline of possible swap transactions for their own account under active consideration. Another factor that will lead banks to somewhat more swapping for their own accounts is the advent of mutual fund type institutions in some of the debtor countries (e.g. Brazil and Chile), to be capitalized by swapped debt. These funds are small in size -- a few hundred million dollars each, or sometimes even less -- but are likely to attract smaller banks who want to convert some of their LDC debt to equity but lack the resources to select the investments or to manage the equity.

30. If more banks do make more investments for their own account through swaps, whether directly or through mutual funds, then recipient countries can expect the level of additionality in their swap programs to increase. Indeed, greater involvement by banks may be the most significant single development that could lead to a rise in overall additionality.

31. <u>Additionality and Corporate Investors</u>: For the investments we studied made by MNCs, swaps were a determining factor in 33% of them and were influential in another 10%. Why did swaps motivate these investment decisions, and not others?

32. The nature of swaps as investment incentives suggests some possible answers. Swaps create an incentive equivalent to an up-front cash grant. The incentive is certain, and it comes at the time of the investment. This differs strongly from many other kinds of incentives, which may offer benefits to investors only in the future, and only if projects become profitable. By reducing the initial cost of an investment, a swap not only increases the expected rate of return, but also reduces the absolute amount that the investor has at risk. As one swap investor said in an interview,

"I wouldn't have made this investment if it cost me $40 million, because I wouldn't put that much money in this country. But for $25 million I was willing to take the risk."

33. Another feature of up-front incentives also helps to differentiate between additional and non-additional swaps. Experience has shown that up-front incentives have more effect on export-oriented projects than on projects aimed at the domestic market.[1/] This is because costs are more important to export projects. They must compete in world markets and usually cannot pass higher costs on to their customers. Domestic projects, by comparison, are competing with others in the same market and are more able to pass costs on to customers, as long as their costs are not higher than their competitors. Producers for the domestic market are most concerned about the size and expected growth of that market, and consider costs as a secondary factor. The data from our interviews confirmed this greater importance of swaps for export-oriented projects. Among MNC investments aimed wholly or in large measure at export markets, 54% of those we studied were a directly additional result of the incentive created by swaps. By comparison, 40% of domestic-oriented projects were additional.

34. The difference between the results for export and domestic projects would be even larger if maquiladoras in Mexico were deleted from the sample. Maquiladoras are assemblers of parts mainly imported from the USA, for re-export to the USA. They are typically light manufacturing of garments, electronics and electrical products, not very capital-intensive, where labor is by far the greatest part of value added. We found a number of investments where swaps were used to buy or construct buildings for these operations. The swaps were, for the most part, not additional because capital costs are not a very important part of the cost of these operations.

35. This greater additionality in the case of export-oriented investment in general applies only to manufacturing investments. It does not apply to most mining or other natural resource projects for which the quality of the resource is the main factor determining location.

36. Additionality also depends on how long a swap program has been operating. Most of the programs in Latin America have existed only for a short time; even the longest (in Chile) had been in place for less than three years at the time of our interviews. Yet, many of the investments made in Latin America over the past few years were in the planning stage for a considerable time. Indeed, most foreign projects often spend at least a year or two in gestation before getting off the ground. This fact of corporate life means that most of the investments during the first six months to a year of a swap program had to be planned well in advance of the start of that program. Consequently, few such investments can possibly be additional. The existence of a swap program may cause a few such investments to be made sooner, or perhaps to be expanded. But for most of the early investments,

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1/ See, e.g., Guisinger, Steven and Associates, Investment Incentives and Performance Requirements, Praeger, 1985.

there simply had not been sufficient time for an incentive to take effect.

37. This point may be extended in a further step: if in its early days a swap program cannot attract many additional investments, then the later years should see a rise in additionality (assuming all else is held constant). The interviews confirmed this. In Chile, for example, investors from many parts of the world, including from countries which did not have close business ties with Chile, have started to look for investment possibilities. This is, of course, attributable not only to the relatively long-standing swap program available, but also to other important positive aspects of the investment climate there. However, it was clear from our interviews that the swap program was a significant part of the whole picture.[1/]

38. Quantitative results also show the effect of the duration of the program. Countries with the longest lasting swap programs achieved the highest degree of additionality, if the Mexican data is interpreted in light of the effect of maquiladoras. Chile registered 64% additionality, Mexico 44%, Argentina 45% and Brazil 0% in the MNC transactions studied. (Our sample for Brazil was quite small and did not include transactions under the scheme that began in early 1988.)

B. Uses of Swaps

39. This section reports qualitative results on the kinds of investments being made through swaps. Generally speaking, two separate forces play a part in determining how swaps are used. One force is the regulations issued by the debtor governments, defining the permissible types of expenditures that a swap can finance. The other force is corporate strategy, defining the kinds of investment a foreign company wants to make. Frequently, these forces collide, and their conjunction results in a compromise and/or a partial use of swaps. Investors are often told they can use a swap to finance only the "qualified" part of their projects, and they are forced to provide the remainder in fresh money. Sometimes, though, an investor refuses to bend and the country yields, permitting the investor to use a swap for purposes outside the normal limits.

40. The uses of swaps encompass a wide spectrum of activities. Figure 1 presents a continuum that stretches from the least change in the recipient company to the maximum.

1/ It should also be mentioned that in recent months the Chilean authorities have been somewhat more rigorous than previously in screening investments that are allowed to use the swap program. One of the criteria in this screening has been additionality. Most of the transactions analyzed here were approved before this more rigorous screening took place, but there might have been some effect from it on them.

Figure 1
The Spectrum of Uses

(Least) ← Buy-Out Financial Restructuring New Capacity New Company → (Most)

41. In a buy-out only ownership changes, leaving the physical plant largely unaffected. Next is a financial restructuring, which improves a company's balance sheet but again does not alter production facilities. This is followed by a modernization and/or the addition of new productive capacity. At the far end of the spectrum is the creation of a new firm, which is the maximum change possible.

42. Buy-Outs: Argentina does not permit swaps to be used for pure buy-outs, and in Brazil and in Mexico there are significant restrictions on such use. Chile permitted it, although now limits pure buy-outs to privatization transactions. These restrictions reflect an implicit viewpoint that foreign investors should be entitled to the incentive of a swap only if they use the local currency to increase a firm's productive capacity.

43. Buy-outs, however, can serve a potentially good purpose. When a foreign investor uses a swap to buy an existing local company, the enterprise may benefit from an immediate injection of managerial know-how. Even if new capacity is not immediately added, the buyer may be in a better financial position than previous owners to pay for future investments, and to put the recipient company's balance sheet in better shape. In fact, our interviews found a few cases where swap transactions that were originally limited to buy-outs led quite soon to increases in capacity and, often, to start-ups of entirely new lines of production.

44. An example from the interviews illustrates the advantages of swaps at the buy-out end of the spectrum. A foreign investor was prepared to close down a heavily indebted manufacturing subsidiary. Instead, when a conversion program became available, the parent company elected to use a debt-equity swap to repay the subsidiary's loans. The parent was then able to find a buyer for the recapitalized company, selling it to a new foreign investor who had a more specialized knowledge of the industry and who was committed to making the plant succeed. Although the swap transaction itself did not create new productive capacity, it nevertheless made the difference between the life and death of the enterprise.

45. Many buy-outs tend to involve banks as purchasers. In general the banks recognize that they do not have the expertise -- or the desire -- to run non-financial businesses. So these transactions are generally either (a) banks buying out, and running, financial businesses such as banking or insurance, or (b) banks using swaps to buy minority shares in existing firms, acting as silent partners and leaving the managements intact (this is common in Argentina), or (c) banks coming in jointly with a foreign company to buy or establish a local company, with the banks providing most of the finance and the foreign company providing management. In the latter two variants,

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the bank seldom takes true straight equity. Rather, it usually has some sort of agreement that gives it a semi-preferred access to earnings and thus limits its risk on the downside, correspondingly limits its potential gain on the upside, and provides for an exit after a specified period of time.

46. Financial Restructuring: Only Mexico and Chile permitted swaps to be used for financial restructuring. A large number of investors used this option to retire debts (owed to others) by their local subsidiaries. Mexico reports that almost 25% of the total value of swaps in 1986 and 1987 was used for financial restructuring.

47. Traditionally, many foreign investors have preferred to finance a large portion of their Latin American operations with local borrowing; this minimized the parents' capital requirements and business risk. The higher real interest rates seen during the last decade have made these heavily leveraged capital structures too expensive, and swaps for financial restructuring have provided an inexpensive way to repay this debt, transforming it into equity at a lower cost. In most of the cases we studied, the transaction was entirely additional; the parent companies would not have restructured to increase their equity in their subsidiaries without access to a swap program. Moreover, in countries such as Argentina and Chile, where private debts have been assumed by the Central Bank, swaps for restructuring are non-inflationary, since they do not increase the amount of money in circulation.

48. Our earlier observations on the advantages of buy-outs also apply to financial restructuring. Since a restructuring will ease the financial constraints on a local company, it can subsequently lead to plant modernization and expansion of capacity. Countries such as Brazil and Argentina that do not permit swaps to be used for financial restructuring may be denying themselves these follow-on benefits. Moreover, these countries would not have to bear much added cost for these benefits, since most restructuring swaps are additional and some are non-inflationary.

49. New Capacity: In the most general terms, companies add new capacity when they perceive a market opportunity for higher sales. The decision to add capacity is therefore tightly linked to market conditions. The characteristics of export markets and domestic markets are quite different. Accordingly, one would suspect that companies serving these dissimilar markets from the same home country base would not be influenced by the same factors when evaluating whether to add new capacity. They would not, therefore, be similarly influenced by the existence of swaps. For this reason, the following discussion treats export companies and domestic companies separately.

50. As noted earlier in the section on additionality, export companies are more sensitive to costs and therefore (in the manufacturing sector) are more likely to be swayed by the existence of swaps to make investments that they otherwise would not. This was true in our sample, especially of export companies that decided to add new capacity. Many of these would not have proceeded with their plans without the swaps. (Maquiladoras remained an

exception, as explained above.) For example, one export company, which was unsure whether its plans for expansion would qualify under the new Brazilian rules, said it would not move ahead with its plans if a swap were denied.

51. By comparison, companies oriented toward sales in the domestic market would have proceeded with most of their investments to add new capacity, even without swap programs. They based their investment decisions on strategic considerations, such as an opportunity for greater sales of an existing product, a chance to introduce a new item into a prior distribution network, or a need to fend off a competitor to protect market share. These investors faced a difficult domestic situation; they were typically willing to expand capacity only when they perceived that a sound business reason justified risking additional capital. They did not believe that the strictly financial benefit provided by a swap could substitute for strategic considerations in determining whether to invest. Some firms even went so far as to evaluate a proposed expansion solely on its merits as a business decision and to explore the possibility of a swap only after the investment was approved. This behavior was especially common among Japanese MNCs, for which swaps were a determining factor in only two of 15 cases studied.

52. New Company: Once again, in the decision to use a swap to create a new company, export companies and domestic companies are generally influenced by different factors.

53. Export companies are highly conscious of costs when evaluating whether to create a new manufacturing subsidiary in Latin America. They are thus influenced by the existence of swaps, which could make the difference in the investment decision (maquiladoras again being an exception). Our research even found a few instances in which swaps were responsible for decisions to create new export-oriented capacity in Latin America rather than in Southeast Asia. We found examples of companies that were set up both to produce components and to assemble final products. In each case, corporate strategy dictated a need for a plant that could produce competitively at world market prices, and the cost savings created by the swap made a difference in the location decision. Other factors, including labor costs and competitive exchange rates, were also important; indeed, it is fair to say that the investments would not have occurred without this supportive environment. But the other elements of the environment alone did not attract the investments away from Southeast Asia, where general conditions were also suitable to exports. Swaps were the decisive factor. The number of these cases we encountered was small but, we think, interesting. Seen in conjunction with increased use of robotics and other automation techniques that are reducing the competitive importance of Asian labor, these location decisions may mark the start of what could be an important change in how exporting MNCs view at least some Latin American countries.

54. Companies aiming at domestic sales tended to follow the same pattern as when they decided to expand capacity; new companies were typically established only for "sound business reasons," in which swaps did not play a decisive role. There were a few exceptions, where swaps were decisive in the

creation of companies oriented to domestic sales. Interestingly, these investments had been made, or were being planned, by multinationals that had previous experience in Latin America, but which had withdrawn or were about to withdraw for lack of profitability. These companies saw swaps as a way to gain enough leverage to justify re-entering or retooling for their traditional markets. This phenomenon, though, was limited to "old hands". Our interviews did not find a single company without previous experience in Latin America that was motivated by swaps to create a company to produce for the local market. The incentive provided by swaps did not seem to be powerful enough to persuade new investors to go to Latin America to produce for the generally depressed internal markets there.

55. Privatization: Privatization represents a special use of swaps for a buy-out. In such a transaction, a state-owned company is sold to a foreign investor, who pays for it with local currency generated through a swap. Since the seller is the government, such transactions are not inflationary. In these cases swaps can be useful not only in their two main functions of increasing the incentive for the investment and at the same time permitting the government to retire external debt at a discount. Using swaps may in some cases also ease the political problems of privatization. The sale price of a national company is often a controversial issue in privatization efforts. The market values of most of the enterprises are below cost. Opponents of the move (or simply political opponents of the government) often accuse governments of selling public firms too inexpensively. Swaps can help with these problems by making foreign investors willing to pay a higher local currency price. Governments may enhance the attractiveness of swaps for privatization by reducing the amount of the secondary-market discount that they retain for themselves; Mexico, for example, redeemed debt at full face value for investors who applied to use the proceeds to privatize state-owned companies. Swaps have been made in Mexico, and even more in Chile, for privatization. Argentina, however, expressly forbids the use of swaps for privatization, and in Brazil swaps may not be used by foreigners to gain control of a Brazilian-owned company.

56. Environmental Influences on the Use of Swaps: The discussion so far has focused on how different characteristics of companies, and of government regulations, affect the uses of swaps. The economic environment also makes a difference. Two factors of importance that the research found are (a) the state of financial markets and (b) the investment climate.

57. In Argentina, and to a lesser extent in Mexico, long-term financing for industrial expansion is not easily available on reasonable terms. Moreover, in Argentina relatively few foreign investors are interested in new investments. In these circumstances, a principal use of swaps in Argentina (and to a lesser extent in Mexico) is by good local companies to obtain long-term financing for expansion programs. In some cases the company approaches creditor banks and offers them the opportunity to become a silent partner, using swaps to help finance their investment program. The bank takes not straight equity, but some sort of paper with a somewhat more fixed and limited return, and a date for sale back to the company. The bank adds some company risk to its portfolio, but in return gains a good chance of full

service on its paper and a clear exit in something like 10 or 12 years (or perhaps less). Such a use of swaps may not resemble traditional FDI very closely, but is useful in the constrained situations existing in many of the debtor countries, permitting sound firms to grow more rapidly than they otherwise could. In other cases the Argentine company may itself be the investor using swaps, employing foreign exchange it owns to buy the debt. Here the swap scheme is acting as an incentive to capital repatriation, as well as a source of industrial financing.

58. This kind of transaction seems much less common in Chile, where financial and capital markets are working better. There, with a better investment climate, a different kind of additionality occurs. The creditor bank again becomes a silent partner, but in this case the managing partner is a foreign company that the bank brings into Chile. The bank will take a company from its own home country, usually a company with which it already has important relations, and offer to finance a large share of an investment in the debtor country if the company finds one it wants to run. The bank again takes on some company risk but gains a good chance of full service and exit; the company gets an investment with very little of its own capital at risk, and the debtor country gets a new company and/or an injection of management talent, and often additional exports.

59. Final Thoughts on Uses of Swaps: These varied uses of swap facilities, as well as the continued demand for them in all four Latin American countries, show that one early idea about a very limited absorptive capacity for swaps was not correct. Some observers, seeing the early use of swaps in Chile concentrated on buying up existing companies, concluded that once the "interesting" candidates were sold there would be little or no demand to use swap facilities for investment. The total ability of a country to attract investment and to reduce its debt through swaps was thus thought to be limited to this relatively small stock of potentially decent enterprises that were for sale. Experience shows, however, that a reasonable swap facility can be used not only to transfer ownership of existing companies but also to create new productive capacity. The absorptive limit for swap transactions is thus set more by flow concepts: a share in the total investment that may take place in the country each year; the amount of foreign investment that the government is willing to accept in that flow; or the amount of inflationary impact that the monetary and fiscal authorities feel able to deal with. A reasonable swap program in a reasonable environment will, it appears, attract more potential investors than the host country government may want, as long as the price of debt in the secondary market remains low enough to make the incentive significant.

60. Swaps are thus used for at least as many different purposes as regular FDI. Excluding the special case of maquiladoras, export-oriented swaps tend to be additional and to fall at the end of the spectrum toward starting new companies or adding extra capacity. Domestically-oriented investments tend to be made by companies that already had experience in Latin America. Many of the projects that were intended to expand existing capacity to serve the local market were justified by strategic factors and were not decisively affected by the existence of a swap program. Swaps that were used

for financial restructuring were usually additional investments which often led to further investments in new physical capacity. Banks were the main players at the end of the spectrum where swaps were transacted only to transfer ownership, and in most cases, especially for investment in non-financial companies, this investment is intended to be only temporary and is often in the form of quasi rather than straight equity.

C. Features of Swap Programs and their Effects

61. Table 2 on the following page summarizes what we have learned about the effects in practice of different features of swap programs on investors' behavior. Nine different kinds of features are listed, along with their effects on three kinds of results: additionality, channeling investments into priority uses, and financial benefits to the debtor government.

62. Auction vs. Negotiation:[1/] Around the end of 1987, Argentina and Brazil began using auctions to let the market set the price at which they will redeem debt in swap transactions. Chile (in Chapter 19, its public-debt-for-equity program), and Mexico when it had a program, used mechanisms that more or less set the price administratively. (Both Argentina and Brazil also, however, allow for transactions negotiated separately and independently of the auctions; these are large or otherwise special investments.)

1/ Some clarification of our terminology about different prices and discounts may help here. As shown in the schematic diagram, we refer to three different prices: the face value of the debt being swapped, the secondary market price of that debt, and (somewhere in the middle) the price at which the debtor country redeems the debt to the investor. The "discount in the secondary market" is the difference between the face value and the secondary market price, expressed as a percentage of the face value. This difference is divided between the "incentive to the investor," which is the difference between the secondary market price and the redemption price, expressed as a percentage of the latter, and the "government's share of the discount," which is the difference between the face value and the redemption price.

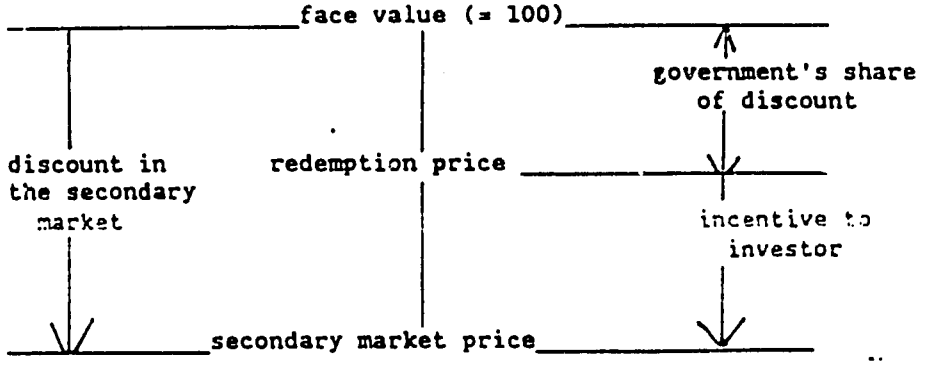

Table 2: Effects of Different Features of Swap Programs

	Additionality	Prioritizing Investments	Impacts on Debtor Government*	Other Comments
I. Features whose main effect is on price				
1. Auction vs. negotiation	No direct effect	Negotiation can channel investments to desired uses	Auction probably increases government's share of discount	To a limited extent, segmented auctions can substitute for negotiations in regulating the discount and channeling the investments
2. Fresh money requirements in foreign exchange	Very few deals; most not additional	No direct effect	Drastically reduces demand for swap and hence amount of investment and debt reduction	Banks won't participate
3. Fresh money requirements; local currency OK	May reduce additionality	No direct effect	May reduce government share of discount	Reduces both the incentive to investors and the government's share of discount
4. Incentive taxed as gain at time of swap	No direct effect	No direct effect	One way to increase government share of discount	May decrease foreign investors' tax liability in USA. Increases tax liability in Japan
5. Convert at official rate which differs greatly from free market	Decreases additionality	No direct effect	Will reduce demand for swaps but increases government share of discount	Investors hate it
II. Features that screen investors and/or use of swap proceeds				
6. Allow domestic participants	May increase round tripping, and additional investments as well.	No direct effect	Increased demand should allow government to capture more discount	They do it anyway. Allowing it reduces evasion and perception of unfairness
7. Screen investments:				
(a) for additionality and to reduce round tripping	Can be somewhat effective	No direct effect	May reduce government's ability to capture discount	Probably worth doing if expectations are modest and it's done quickly
(b) for sector, exports, technology transfer, etc.	Favoring exports will increase additionality	Can be very effective	No direct effect unless overall demand is greatly reduced	
(c) only new capacity allowed; no financial restructuring	Decreases additionality	Could be slightly positive	Ditto above	Counter-productive because financial restructuring often precedes new capacity, and is not inflationary
(d) for financial or economic soundness	No direct effect	Could be positive but this is doubtful	No direct effect	Probably not very useful
III. Primarily regulatory, administrative or other features				
8. Timing restrictions on dividends or capital repatriation	May channel some non-additional investments out of swap program	No direct effect	May improve near-term future balance of payments	Not a major disincentive for most investors -- but there are some exceptions
9. Continuity of swap program	Significant positive effect	No direct effect	Probably no direct effect	Very important to increase additionality

* In addition to the effects noted, more additionality implies higher inflationary impacts (as explained in Annex II), except in cases of financial restructuring

63. Table 3 on the following page presents data on the secondary market price of debt, the government's share of the secondary market discount, and the incentive to the investor. While there are by no means enough data points to be sure of any inferences, these numbers are consistent with two common-sense conclusions: First, a lower secondary market price is associated with both a higher incentive for the investor and a higher share of the discount going to the government. When the pie is bigger, both the investor's and the government's slices are larger. Second, using auctions to set the redemption value may give the government a larger share of the discount than using administratively set rules or negotiation. Comparing Brazil and Chile, the secondary market prices were similar but Brazil, which used auctions, captured a higher share of the discount than did Chile. A different explanation, not necessarily mutually exclusive, is that the data for Argentina and Brazil (the countries using auctions) are for the first few months of their programs. Additionality was likely to have been low in these transactions. Investors therefore may have been willing to cede a higher share of the discount, since they were prepared to proceed even without a swap.

64. Some observers say that using negotiation rather than auctions helps the government to increase additionality. We find no evidence or reason to believe this. Using auctions need not preclude screening for additionality; the government can screen before allowing participation in the auction. Moreover, negotiating fine gradations of incentive depending on the government's perception of additionality is likely to be ineffective, for two reasons: First, it is not easy for the government officials to be sure about additionality, and the best that a government can hope for is to screen out a decent percentage of the obviously non-additional cases. Second, even if the screening were perfect, giving a low incentive to non-additional investors is silly; if they can be identified, why give them any incentive at all?

65. Negotiation or administrative rules giving different redemption prices for investments of different priority may also seem to be useful in channeling investments into higher priority sectors, places, etc. But if the number of priority categories is high, the differences in incentive will be small. We doubt that small differences in incentives have any important predictable effects on investment decisions. For a very small number of different priority categories (say, two), and if the high-priority category for the government is unattractive to investors, than a segmented program that gives a moderately high incentive in the low-priority category and a very high incentive in the high priority category may be effective. Such segmentation could be achieved either administratively or by (separate) auctions.

66. Another effect of using auctions rather than negotiations may stem from the greater transparency of the auction process. Auctions may in fact reduce the possibilities for bribery and corruption, and also may give the appearance of a more honest and fair process. Nevertheless, no government grants admission to the auction without a case-by-case review of proposed

Table 3

Discounts and Market Prices

Country and Date	Redemption Value	Market Price	Incentive to Investor	Government's Share of Discount
Argentina				
January 20	0.620	0.320	48.4%	55.9%
March 29	0.641	0.270	41.4%	73.8%
June 10	0.423	0.250	40.9%	76.9%
Average			43.6%	68.9%
Brazil*				
March	0.730	0.460	37.0%	50.0%
April	0.680	0.500	26.5%	64.0%
May	0.780	0.510	34.6%	44.9%
June	0.865	0.530	38.7%	28.7%
July	0.730	0.540	26.0%	58.7%
Average			32.6%	49.3%
Chile				
Average	0.800**	0.670	24.7%	33.3%
Mexico				
Average	0.850	0.550	35.3%	33.3%

* Free open auctions
** Net market value to investor

transactions. So while detailed negotiation probably does provide a somewhat more flexible field for corruption, using auctions does not completely guarantee an honest or fair process.

67. Fresh Money Requirements: Argentina is the only one of the countries studied to impose a general requirement for fresh money. (Chile sometimes requires it, on a case-by-case basis, when the government thinks that a particular investment is highly likely to occur even without access to swaps.) Under the Argentine scheme in effect from mid to late 1987, an amount of foreign exchange equal to the amount of debt swapped was required. This absolutely killed the interest of commercial banks and did pretty much the same for other potential investors. Thus, greater additionality (which was the stated goal of the requirement) was not achieved because there were no transactions.[1/] (We did encounter one investor who was going to use this program for an investment that would have gone ahead even without any swap incentive. But the rules were changed before he applied.)

68. Starting in late 1987, however, the requirement was changed to only a ratio of 30 cents fresh money per 70 cents swapped debt. More important than the change in the ratio, the fresh money could be in local currency, and it could be in the form of loans or equity, at the choice of the investor. The exchange rate used was also changed from the official to the free rate. These changes have greatly increased the attractiveness of the Argentine program; even banks can often arrange for some other investor to provide the fresh money. Demand at Argentina's first three auctions was strong.

69. Under the present Argentine system, many investors satisfy the fresh money requirement with loans from third parties, or in some cases a mixture of equity and loans from third parties. The fresh money requirement may have little or no effect in reducing the incentive in these cases. In other instances, however, no acceptable third parties may be available, and the investor may have to contribute the fresh money himself. In this case a fresh money requirement reduces the incentive for the investor. Even when a suitable third party may be available, the investor might have preferred the simpler alternative of going without him if fresh money were not required. Now, the fresh money requirement might bring in more cash to the country, but it brings no fiscal benefit to the government. Dropping the fresh money requirement altogether would probably increase the price that investors would bid in the auction, thus increasing the share of the secondary market discount that the government could capture. Moreover, in the present

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1/ It is true of incentive schemes generally that very low incentives do not change the decisions of many investors. Thus, a low incentive will usually result in a high percentage of free riders -- low additionality in percentage of decisions affected -- but only a small subsidy per transaction. A high incentive will produce more additionality, but will of course give a higher unnecessary subsidy to the (smaller percentage of) free riders. Designing any incentive program involves a trade off in that to attract more investment, more must be given away to those who would have invested anyway.

Argentine environment, the fresh money requirement, even in local currency, may turn away some investors and thus reduce additionality. So it might be better for a government not to impose a general fresh money requirement, and to profit from the higher demand which will result in a lower redemption price as set in the auctions.

70. Taxing the Gain: The incentive actually appropriated by the MNC investor presumably represents a gain for him, which may be subject to tax in the host country. If so, there is a question whether the host country should tax that gain at the time of the swap, or rather just reduce the investor's cost basis, wait for the investor to sell the equity and tax the realized gain, whatever it turns out to be, at the later time. In Argentina the amount of the incentive is subject to the regular corporate income tax. Mexico is considering taxing the gain at a rate of 30% at the time of the swap. For a US-based MNC investor, such a tax might reduce its tax liability in the US and therefore the Mexican tax might be a way of transferring resources from the US Treasury to the Mexican. In Japan, however, the Ministry of Finance has apparently decided that if Mexico taxes the gain at the time of the swap, it will do the same -- thus for a Japanese-based MNC such an action would greatly reduce the attractiveness of swaps.

71. Exchange Rate Used: More than any of the four countries studied, Venezuela has a market exchange rate which differs greatly and steadily from the official rate. Venezuela opened its swap program in early 1987 offering to redeem debt at full face value but at the official exchange rate. Even though the Government guaranteed to convert at the official exchange rate for future dividends and capital repatriation, most potential investors were skeptical -- they feared large real devaluations. They would strongly prefer conversion at the free rate, and accept converting subsequent repatriation flows at the future free rate; for them the Venezuelan scheme effectively reduced the incentive to use swaps to zero benefit in the present and an uncertain gain in the future. A government in this kind of situation can probably attract more swaps -- especially more additional investment -- and still capture a good share of the secondary market discount by redeeming at the free rate but using an auction or a preset discount to regulate the amount of the incentive.

72. Allowing Domestic Participants: The Argentine program allows domestic companies or persons to use it. In Chile, Chapter 19 can be used only by nonresidents.[1/] Mexico's agreement with the creditor banks allowed local residents to participate from March 1987, but the government never included that right in its regulations governing swaps (although it was legal for a Mexican-owned foreign firm to use it). A few domestic firms were

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1/ Annex 4 of Chapter 19, usually referred to as "Chapter eighteen and a half," permits Chilean residents to make investments in existing firms under the higher incentives available under Chapter 19. This facility is limited to the investee company buying and swapping its own publicly guaranteed foreign debt, and has been used mainly for financial restructuring by a few local banks and other companies.

nevertheless allowed to use swaps in late 1987, before the receipt of new applications was suspended in November. The Brazilian program allows domestic participants but there is little incentive for them to use it, given the difference between the official and secondary market exchange rates. (Brazilian investors did make considerable use of swaps in earlier periods, under the old rules and at times when the difference between the official and parallel rates was smaller.)

73. Our interviews showed conclusively that domestic investors had no difficulty in circumventing restrictions on their participation, by establishing offshore dummy corporations or otherwise.[1/] The restrictions, apparently meant to reduce round-tripping, do not appear to be effective, and they create resentment and political opposition at home because they say that foreigners are given access to an incentive which locals are denied. Moreover, in a situation such as that in Argentina and Mexico, with domestic interest rates high and only very short-term financing available at all, swaps may perform a very useful legitimate function for local companies in giving them access to long-term financing at reasonable rates.

74. Screening Proposed Investments: Every government screens every applicant for a swap on a case-by-case basis. Perhaps surprisingly, few investors had serious complaints about this process in any of the countries studied. The purpose and criteria of the screening differ widely, however, from country to country.

75. Screening for additionality and to prevent round-tripping has been recently increased in Chile and in Brazil. It seems to be effective enough to be worth doing, even though it is bound to give less than perfect results, and should be done on an expeditious basis with these limitations in mind.

76. Screening for priority sectors, priority regions, export orientation, etc. can be quite effective. It of course replaces market signals by administratively determined priorities, with the well-known dangers this entails. Given the strong positive association of export orientation with additionality, it is tempting to recommend a screening, auction or negotiation process that either restricts swap programs completely to export projects, or else screens non-export projects much more rigorously than export projects for additionality.

77. Restricting swaps to creation of new capacity may be counter-productive on balance because of the strong linkage between initial swap-financed buy-outs and later additional investments. Moreover, some of the swaps for financial restructuring are used to retire debt that has been taken over by central banks. These swaps are not inflationary and hence have less real resource cost to the host economy.

1/ Chile has increased its efforts to screen out applicants from dummy offshore corporations owned by Chileans, and participants in the process say these efforts have been reasonably successful.

78. Screening swaps for financial and/or economic soundness of the investment may not be very productive. Some kind of quick, qualitative look to weed out investments that are not legitimate or in some other way clearly counter to national priorities may be useful, but detailed quantitative evaluation may not be effective without access to information and a commitment of time and resources to each evaluation that are probably not possible.

79. Screening of any sort of course increases the possibilities for corruption. We have gotten strong hints of systematic corruption in the screening process of one country.

80. Timing Restrictions on Dividends and Repatriation: Every program forbids the payment of dividends, and/or the repatriation of capital, for several years -- typically four years for dividends and ten or twelve years for capital. Perhaps surprisingly, we found only a few investors (including some who did not use swaps) who regarded these restrictions as serious deterrents. This seems to be because most non-bank users of swap programs are committed to staying in the countries for the long term. Most banks, on the other hand, want to get out as soon as possible. But those few that make investments for their own account through swaps do so because they find their alternatives to be no better in regard to timing of exit -- and often they have mechanisms that will circumvent the limitations. On balance, such restrictions may be of some use in improving the country's near-term balance of payments, and also in diverting a few non-additional investments out of the swap program and into normal channels.

81. Continuity: We repeat here our conclusion that a stable and continuous program after a year or two starts to generate significantly more additional investments. A stop-go program is a good way to assure a lot of free riders, while not changing the behavior of very many investors (other than banks).

D. Main Conclusions on Program Design

82. The results described above can be summarized according to the three criteria used to evaluate swap programs as investment incentives:

i. To Increase Additionality, these results suggest five practical steps to take:

- Keep the level of the incentive to the investor reasonably high, but screen proposed swaps to eliminate the most obviously non-additional investments. Keeping the incentive low is self-defeating and results only in a large percentage of free riders.

- Maintain continuity in the program over time -- i.e. several years at least. The basic thrust of the rules and regulations, and the incentive levels, are important things in which to avoid too much variation if additionality is to be enhanced.

- Since additionality is greater in investments aimed at producing manufactures for exports, screen non-export proposals and mining proposals much more rigorously for additionality than manufacturing export proposals. In the extreme, if a very limited swap program is desired, it could even be limited to export-oriented manufacturing investments.

- Similarly, since virtually all investments made by banks are additional, adopt measures that encourage banks to use swap programs. Investment funds financed by swapped debt can be one important mechanism. Also, bank proposals could be subject to less intensive screening for additionality.

- Maintain reasonable timing restrictions on the repatriation of dividends and capital.

ii. To channel investments into priority sectors or areas, the most effective procedure is simply to screen proposed swap deals and permit only high-priority investments to use the program. Alternatively, for high-priority areas that are relatively unattractive to investors, two different levels of incentives (set either in auctions or administratively) can work if the incentive level for the high-priority area is allowed to be very high. Allowing low-priority investments to use the program, at low incentive levels, will just waste the incentive on a high percentage of free riders. Similarly, a finely-graduated scale of priorities, with smaller differences among categories, will not have much channeling effect and will result in many free riders in categories, if any, where the incentive is small.

iii. To capture a larger share of the secondary market discount for the government, our results again suggest four ideas:

- Use auctions to set the redemption price of the debt.

- Allow domestic participants.

- Don't screen out too many applicants.

- Don't require fresh money.

83. There are some unavoidable tradeoffs among the objectives or criteria that have been discussed here. Channeling investments into priority sectors or areas will decrease both additionality and the government's share of the secondary market discount, unless the priority happens to coincide with the effect of swaps on investors. (The only such coincidence we found [illegible] to determine the redemption price of swapped debt will probably increase the government's share of the discount, but if it leads to large variations in the redemption price it may decrease additionality. Keeping the incentives high will increase additionality but will also increase the amount of subsidy given to free riders -- this being a conflict not peculiar to swaps but

rather common to all investment incentives. Allowing domestic participants will increase additionality and also the government's share of the discount, but may also increase pressures on a parallel foreign exchange market. For a particular government designing a swap program, the right balance among these tradeoffs will depend on the particular objectives and constraints that the country has, as well as on knowledge of just how these details are likely to affect the behavior of potential investors in that country.

III. A Final Word

84. We hope the information in this paper will be of use to debtor country governments in deciding whether to allow debt-equity swaps, and in designing a program if the decision is positive. Each government must decide for itself whether it wants to use swaps to prepay foreign debt, even at a discount, and how much inflationary impact it can handle (from the part of that prepayment that will be financed from local currency). It must also decide whether it wants to attract more foreign investment than it is currently getting.

85. We found swaps interesting, even before studying their effects in practice, because of their double function. After learning more about how they do work, our own evaluation is that:

i. A well designed swap program can lead to a small but significant reduction in foreign debt. Having a debt-reduction program in place may, in and of itself, also help towards the restoration of creditworthiness. These effects are benefits to a country that is making serious efforts to service its debt insofar as is feasible; they are of little use to a country that expects to receive debt relief or to default soon.

ii. The more important benefit of a swap program can be in helping to reactivate both foreign and domestic investment. This effect will be greater to the extent that other aspects of a country's investment climate are reasonably positive, although swaps can also be valuable in providing a source of long term financing for domestic companies when the domestic financial market is not functioning well. The tendency of swaps to attract export investment more than domestic market-oriented investment is an added bonus. In spite of inevitable losses through free riders and outright abuses of the program, swaps do attract a fair amount of additional private investment -- which in most if not all of the debtor countries could be useful.

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A Note on the Macroeconomic Effects of Swaps

1. The macroeconomic effects of permitting swaps depend on the extent to which investments made through the scheme are additional or not -- i.e., was the swap mechanism decisive in the investors' determination to make the investment or not? To help understand these different effects, the table on the following page traces through the effects of foreign investment made through normal channels, and the same investment made with swaps.[1/] For the illustration, the investment is assumed to cost $100, and to be financed with 100% equity.[2/] Thirty percent of the assets purchased with this $100 are procured abroad and imported, and the other 70% are procured locally. Therefore, the foreign investor only needs to convert $70 to local currency to make the investment. The government has to come up with the local currency equivalent of $70, which in general it can do by printing money. issuing domestic bonds, reducing expenditure or increasing taxes. In the example here the option of issuing local bonds is described, but in any case the amount represents the real resource cost to the economy, whether it be felt in terms of inflationary impact, higher interest rates, or greater fiscal effort or discipline.

2. FDI Through Normal Channels: If this investment is made through normal channels (i.e. no swap is used), the capital stock of the country increases by $100, with a corresponding equity claim by the foreign investor. The foreign debt of the country does not change. Foreign exchange reserves rise by $70 -- the amount the investor paid the government for the local currency he needed -- and the government's domestic debt rises by the local currency equivalent of the same amount. (In "second round" effects, there must be a reduction of $70 in some combination of consumption and investment.)

3. FDI Through Swaps: If the same investment is made through a swap, the capital stock of the country rises by the same $100, as do foreign equity claims. But in this case the country's foreign exchange reserves do not rise; rather its foreign debt goes down. If the country redeems the debt swapped at, say, 75% of its face value, to get the $70 worth of local currency from the government, the investor has to give the government foreign debt with a face value of 70/.75 or $93.33. Total foreign claims on the

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1/ The analysis applies to a transaction in which the investment funds are used to create new physical capacity, rather than to retire debt. Cf. inter alia Roberts, David L. and Eli M. Remolona, "Debt Swaps: A Technique in Developing Country Finance," pp. 28 ff., in Debs, op. cit.

2/ This assumption, in fact not perfectly realistic, is made to simplify the analysis. In fact, most investments are financed in part through debt, and depending on conditions some of that debt is borrowed in local currency in the host country. This is done much more with "normal" FDI than with swaps. Therefore, normal FDI tends to have more of a crowding out effect in the host economy than this example suggests, and the net impact of swap programs is less crowding out (or inflationary) than in the example.

Some Macro Effects of Debt-Equity Swaps

Assumptions:

	Symbol	Illustrative Amount
Project Cost (100% equity financed)	K	100
Foreign Exchange Component	a	30
Secondary Market Price of Debt	b	50
Country Redeems Debt at	c	75

Government finances local currency issued to investor by domestic borrowing.

Analysis:

	Impacts of: Normal FDI	Impacts of: Swap	Net impacts of swap program if investment is: Additional	Net impacts of swap program if investment is: Non-additional
Country's Capital Stock	K = 100.00	K = 100.00	K = 100.00	
Country's Foreign Debt		-K(1-a)/c = -93.33	-K(1-a)/c = -93.33	-K(1-a)/c = -93.33
Country's Foreign Equity "Liability"	K = 100.00	K = 100.00	K = 100.00	
Country's Foreign "Liabilities" (debt plus equity)	K = 100.00	K[1-(1-a)/c] = 6.67	K[1-(1-a)/c] = 6.67	-K(1-a)/c = -93.33
Government's Foreign Liabilities		-K(1-a)/c = -93.33	-K(1-a)/c = -93.33	K(1-a)/c = -93.33
Government's Foreign Exchange Reserves	K(1-a) = 70.00			K(1-a) = 70.00
Government's Domestic Debt	K(1-a) = 70.00	K(1-a) = 70.00	K(1-a) = 70.00	

Per unit foreign debt reduction:
Hard currency spent: [K(1-a)]/[K(1-a)/c] = c = 0.75
Domestic debt increased: [K(1-a)]/[K(1-a)/c] = c = 0.75

country rise by $100 of equity but fall by $93.33 of debt; if we add these "apples and oranges" the net change is an increase of $6.67. Finally, the government's domestic debt again rises by $70 worth of local currency.

4. Impact of Swap program if Investment is Additional: We can now analyze the effect of having the swap program, under the two different possibilities that exist -- i.e., the investment either would have happened anyway, or it would not. The table considers the latter first. If the investment was additional, then the swap program was responsible for the full impact that was just traced out in the analysis of what happened when the investment was made through a swap program. We can carry the analysis a bit farther and note that the existence of the swap program made no difference to the government's foreign exchange reserves. But $93.33 of foreign debt were retired at a "cost" of an additional $70 of domestic debt. This ratio, the discount at which the transaction causes the government to reduce foreign debt at a cost in local currency, is 70/93.33 or exactly 75 -- the value at which the government redeemed the foreign debt in the swap transaction.

5. Impact of Swap Program if Investment was not Additional: If the investment was not additional -- if it would have happened even if the swap program did not exist -- then the impact of the swap program is different. The swap program does not cause any change in the capital stock of the country, or in the equity claims of foreigners. The existence of the swap program does, however, lead to a reduction in the country's foreign debt, of the same $93.33. In this case, however, the offset or "cost" to the government of this foreign debt reduction is not domestic debt -- because the government would have had to issue the same $70 worth of domestic debt whether the swap program existed or not. Rather, the existence of the swap program has cost the government the $70 of unrestricted foreign exchange that the investor would have exchanged for local currency if he had not converted debt instead. So in the non-additional case, the swap program has in effect cost the government unrestricted foreign exchange to prepay foreign debt -- but again, at a (discounted) price equal to that at which it redeemed the debt in the swap transaction (in this illustrative case, at 75 cents on the dollar).[1/]

1/ It is, of course, possible to assume further actions by the government which would modify the effects. For example, it could be assumed that in the case of the non-additional investment being made through normal channels, the government could have used the $70 million of free foreign exchange to pay for additional imports and thus sterilize the inflationary impact of issuing domestic currency to the investor. Under such assumptions, the cost of the swap program in the case of non-additional investment would be not the $70 million of free foreign exchange but rather the inflationary impact of not importing the extra $70 million worth of goods. In the present analysis, we have avoided making additional assumptions about possible other actions, and limited the analysis to impacts of the swap program as such.

6. Conclusions: To sum up, any investment made through the swap program implies that the government prepays foreign debt, at a discount identical to that which it charges the foreign investor in the swap transaction. If the investment was additional, the effect on the government is to use local currency to pay for the debt reduction, at the same discount. The cost is thus in increased inflationary force, higher domestic interest rates, greater fiscal effort, and/or reduced consumption. If the investment was not additional, then the prepayment of the foreign debt was in effect done with foreign exchange -- and the swap program has not added any "cost" in terms of inflationary effect, etc. Note that allowing a transaction through a swap always results in reducing foreign debt; it can cost the government either foreign exchange or the need to come up with domestic currency, but not both. Also, if the swap investment is not additional then the swap program does not add to inflationary pressures. These two criticisms that are often leveled at swap programs -- lack of additionality, and inflationary impact -- logically cannot apply simultaneously. A swap program leads to inflationary impacts only to the extent that investments made through it would not have happened if there were no swap program.

7. The overall macro effects of a typical swap program thus might be something like the following: Say that the government redeems $1 billion face value of debt in one year, at an average redemption price of 75 percent. If, say, 40 percent of all investments are additional, the swap program will have attracted additional FDI amounting to $429 million (.4*.75/.7). Foreign debt will be lower by $1 billion, and foreigners' equity claims will be higher by $429 million. The country's foreign exchange reserves will be $450 million (.6*.75) less than they would have been if no swap program had existed, and the country's domestic debt will be $300 million (.4*.75) higher.

Methodology

1. Four major Latin American debtor countries, Argentina, Brazil, Chile, and Mexico were chosen as the countries for the study. Shortly after the research began, Brazil and Argentina both took important new steps in their use of swaps. Brazil had had an active program that included public-debt-for-equity swaps in 1983 and the first half of 1984, but since then such deals had been severely restricted. (Some did happen, through informal and more complex channels.) At the end of 1987 Brazil was in the process of opening a new debt conversion program. By comparing deals which had occurred under the previous system against deals which would now take place with the new program, the research could hope to learn how the different designs of the two programs affected the behavior of investors.

2. Argentina offered a similar "laboratory" for observing how a major change in regulations could affect the number, size and type of swap transactions. The Argentine government reduced the amount of "fresh" or "new" money that an investor needed to add to his swap funds, and more importantly it had allowed the reduced amount of fresh money to be in local currency whereas previously it had to be in foreign exchange. The exchange rate used in the conversion was also changed in a way that favored the investor. Thus the research could examine the reaction of foreign investors to these liberalizing measures.

3. Mexico offered a counterpoint to Brazil and Argentina in the sense that its swap program was moving in the opposite direction. Rather than undertake new or enhanced measures to encourage investment through debt conversion, Mexico had briefly suspended its swap program just prior to the time the research began (and suspended it again during the course of our work). This presented an opportunity for investigating the reasons behind the government's decision and for ascertaining the reaction of foreign investors to this suspension. Also, the Mexican program had been highly active, so its withdrawal would provide an important opportunity for examining how its absence affected aggregate flows of foreign investment.

4. Chile presented a case different from either of the extremes posed by Brazil and Argentina or Mexico. Chile neither was enhancing its swap program nor suspending it; instead, it maintained a steady course, which it had begun three years earlier. This presented an opportunity to study the long-term impact of a continuous program, which was absent elsewhere in Latin America. There are good reasons to suppose that a swap program will be better able to attract "additional" [illegible] the longer it is in existence. Chile provided a means to explore this hypothesis, as well as to learn in greater depth the reaction of investors to the most well-established program in Latin America. Additionally, the length of the program was useful for examining whether the available supply of worthwhile projects could be exhausted, so that opportunities for swaps would decrease over time.

5. Having selected the countries, the second step was to obtain a list of the swap transaction that had occurred there. This list of deals was assembled from government publications, reports in the newspapers and elsewhere, business contacts and other sources. Overall, more than 450 public-debt-for-equity swaps were identified in the four countries.

6. Which of these 450 transactions were investigated was determined by practical constraints. The U.S. is the major source country for these investments, as well as being where the researchers are located. Japan was also included. Investments from other countries were for the most part not covered by the interviews, except for a few cases where individuals involved in such transactions were encountered in the course of the work.

7. Within the U.S. and Japan, a further process of elimination occurred. Many companies were too small to be listed in business directories and other data bases, could not be located, and hence had to be dropped from consideration. What remained were generally well-known and long-established companies, which composed the bulk of the sample for the study. All told, over 125 interviews were conducted, yielding useful information on 104 different transactions. We were also able to study several investments for which the investors decided not to use swaps. Quite a few swap transactions were covered in more than one interview, and thus some cross-checking of information was done.

8. Limiting the research to these companies was likely to bias the results. In particular, the methodology led us to the larger, more established companies, which are more likely to follow the prescribed rules for swaps, tending to avoid most flagrant abuses, including the "bicycletta" -- round-tripping -- whereby local currency received through swaps was reconverted to foreign exchange and removed, at a profit, from the country. Thus the research does not address questions about what percentage of all swaps are "legitimate." Rather, our results describe the effects of swap programs on the behavior of the larger, more legitimate investors.

9. Finally, a word about the reliability of the interview results. Misrepresentation or misinterpretation by company officials is of course a possibility. All research is subject to possible errors, and in interviews these possibilities are clear. Nevertheless, the researchers had previously accumulated significant experience in conducting such interviews, framing questions to approach areas of doubt from several different angles, interpreting the results in light of other information available, and judging the results for their accuracy. Some of the companies in the study are partners of IFC, and in other companies as well the interviews were sometimes with people [illegible] the business of foreign investment, the researchers were able to cross-check responses by approaching questions from several different angles and judging the realism of the responses. In a few cases, doubts nevertheless remained and the information was not relied upon. In the end, the researchers are confident of the reliability of the results reported here.

BANCO CENTRAL DE CHILE

Chapter XVIII

Compendium of Rules on International Exchange

ACQUISITION OF FOREIGN DEBT INSTRUMENTS

Chapter XVIII
Acquisition of Foreign Debt Instruments

Natural or juristic persons, whether resident or non-resident in Chile, are hereby authorized to engage in the following foreign exchange operations without access to the foreign exchange market and under the terms and conditions set forth below:

1. To acquire, whether directly or through agents, for the sole purpose of conducting the operations described in this Chapter, debt instruments evidencing the existence of an obligation denominated and payable abroad in foreign currency, for an original or extended term exceeding 365 days, executed by any one of the following persons as direct obligor:

   a) The Treasury,

   b) Banco Central de Chile,

   c) "Agencies in the public sector", comprising all departments, institutions or concerns referred to under Article 2 (a) of Law Nr. 18,233, including Corporación Nacional del Cobre de Chile (CODELCO) and the organizations listed under Article 11 of Law Nr. 18,196, excluding Banco del Estado de Chile,

   d) Corporación de Fomento de la Producción (CORFO), and banking and financial institutions authorized to operate in Chile, or

   e) Natural or juristic persons resident in Chile, provided that in this case such obligations refer to foreign credits admitted into the country under the provisions of Chapter XIV hereof.

2. Notwithstanding the provisions contained in Nr. 1 above:

   a) Neither the Treasury, nor Banco Central de Chile, or the "agencies in the public sector", or banking and financial institutions authorized to operate in Chile may acquire the instruments referred to in Nr. 1 above, and

   b) The persons who, according to regulations of the Superintendency of Banks and Financial Institutions, are deemed to be "related", either directly or through third parties, to the ownership or the management of banking and financial institutions authorized to operate in Chile, shall obtain prior approval from the Superintendency, in each case, in order to acquire any instrument under the provisions contained in this Chapter. Such authorization is also required in the case of any financial institution subject to the supervision of the Superintendency to acquire or receive by way of payment the instruments described under 3 below, connected with obligations of "related" persons.

3. Prior to formalizing the acquisitions described under paragraph 1 above, an agreement shall be executed and registered with a Notary Public or other recording officer, between the acquirer(s) of the instrument(s), the guarantor(s) of the relevant obligation, as the case may be, that shall provide that, subject to the completion of the acquisition of such instrument(s):

   a) The instrument evidencing such obligation shall be paid for in Chile, promptly and against surrendering such instrument, in cash, with or without discount in Chile's local currency, or

   b) Alternatively, the replacement of the instrument by one or more instruments, in Chile, denominated in pesos, Chile's domestic currency or in Unidades de Fomento, shall be convened and, on this occasion, the amount of the debt, the rate of interest, maturity dates and other conditions may be amended.

   In the event that the instrument evidencing the obligation is extended other than "to bearer" or "to the order", or it calls for partial assignment of an instrument, the above agreement shall be executed also by the creditor(s) registered as such with Banco Central de Chile.

   In the same agreement, and under the above proviso, the obligor(s) of the instrument shall waive access to the foreign currency market available to the associated obligation and, when appropriate, shall commit himself to return to Banco Central de Chile, inmediately upon payment of the instrument or exchange of instruments, as the case may be, through the agent described in paragraph 4 below, the Certificates referred to under Chapter XIV hereof, to be rendered useless or amended, as the case may be.

   If the acquired credit forms part of an obligation covered by the same instrument, the above agreement shall provide, besides, for its corresponding amendment and shall keep, for the uncontracted part of the debt, in any event, the same date of execution, maturity, interest rate and other conditions agreed or stipulated on the original instrument.

   When executing the agreement described in the preceding paragraphs, the provisions of Chapter XIV (C), Title II (b), shall be fulfilled, as well as the agreements originating the associated obligation.

Execution of the agreement described above shall not be required if and when such instrument is executed by Banco Central de Chile as direct obligor, in which case the instrument shall be replaced by one or more negotiable instruments as described in Exhibit 1. Nevertheless, the investor(s) can agree with said institution that the rates applicable to the instruments that substitute the documents, according to Nr. 1 of this Chapter, will be the ones in force at the time of the respective agreement.

4. Persons acquiring foreign debt instruments as provided above shall have them immediately delivered together with the agreement referred to under paragraph 3 above, when appropriate, to CORFO or other banking organization or financial institution authorized to engage in foreign currency operations in Chile, towards which they shall assign an irrevocable mandate to request Banco Central de Chile, on behalf of the mandator, to exchange the instruments referred to in Exhibit 1, if such instrument was executed by Banco Central de Chile as direct obligor or, otherwise, to collect on the debt and deliver to the mandator the proceeds of the payment to the obligor, or to request the obligor to replace the instrument by new instruments as provided under the relevant agreement.

   If the instrument is to be exchanged for negotiable instruments or for new instruments as provided above, such irrevocable mandate shall further instruct the agent to take one of the following actions: deliver to the mandator the negotiable instruments or the new instrument(s) received in exchange; transfer the same to third parties or receive them on its own account, by way of payment for debts or assets, or sell them to third parties, or purchase them on its own account, and deliver to the mandator the proceeds of such sale.

   Under no circumstance shall the amount of payment received from the obligor of the instrument, or the amount of the negotiable instrument(s) or new instrument(s) received in exchange, or the price of sale or transfer by way of payment, exceed the amount of the principal or balance of the principal owed on the original instrument accrued and outstanding as of the date of the operation.

   For the purposes of applying this and other provisions of this Chapter, except for expressed counter indication, the exchange rates and parities in force at the time of the operation and contained in Nr. 6 of Chapter I of the Compendium of Rules on International Exchange, shall be applied.

5. The operations associated with the collection and the exchange of instruments for negotiable instruments or new instruments may be carried out, under the provisions contained in this Chapter, on a specific period of the month and banking firms and financial enterprises authorized to operate in international exchange within the country, in compliance with the provisions contained in Nr. 4 above, shall be restricted to instruments that do not exceed, in foreign currency and including capital or outstanding capital and accrued and outstanding payments calculated as of the date of the corresponding operation, the margin that, for the same monthly period, had been awarded to CORFO or to the respective banking firm or financial enterprise through the bid mechanism described in Exhibit 2 of this Chapter, or assigned there to by CORFO or other financial institution subject the provisions contained in the following paragraph. The indicated "margin" does not include accrued and outstanding to be paid for a total equal to 20% of the capital or the balance of capital owed.

   "Margin", for a financial institution, will be equal to the figure, in dollars of the United States of America, expressing the nominal value of the "Promissory Note of Banco Central de Chile, Chapter XVIII of the Compendium of Rules on International Exchange" ("P.B.C. - Chapter XVIII), belonging to it and referred to on Nr. 5 of Exhibit 2 of this Chapter, applying the type of exchange described in Nr. 6 of Chapter I of said Compendium, in force at the time of the emission of the mentioned Promissory Note.

   The margin assigned to CORFO or to any specific financial institution for any given calendar period according to the provisions of such bid mechanism, that is not used to carry out operations described in this Chapter, may be freely assigned to CORFO or any other financial institution, totally or partially, to be used during the same month under the terms and the conditions set forth herein. Margins assigned to be used in any given month that are not utilized within such month, may not be used in the following months.

6. CORFO and such banking concerns or financial corporations authorized to carry out international exchange operations inside the country shall inform Management for External Financing of Banco Central de Chile, within the following five bank working days, of the operations carried out according to these norms, by filling out a form that is included as Page Nr. 1 of Exhibit 3 of this Chapter, enclosing the required documentation.

   Likewise, they shall inform the same Management office of margin assignments effected according to Nr. 5 above, carried out during said period, by filling out the form contained in Page Nr. 2 of Exhibit 3 of this Chapter, before 14:00 hours of the same day the operations are carried out.

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7. The obligations using instruments subject to be applied to operations authorized by this Chapter, shall not have access to the obligations payment system established on Chapter XIII of the Compendium, nor to the system described in Agreement Nº 1672-11-850821 of Banco Central de Chile.

8 Persons engaging or participating in operations conducted according to the rules contained in this Chapter shall be held responsible for the fulfillment of the provisions established herein and of the acts deriving from its application.

9. Violation of the rules contained in this Chapter shall be penalized in the manner described on Chapter XXIV of the above mentioned Compendium.

10. Persons who acquire Chilean external debt instruments, as provided in this Chapter, may apply them, after obtaining authorization from Banco Central de Chile, to carry out operations described in Exhibit Nr. 4 thereof and subject to the other provisions established in said Exhibit.

    Persons acquiring instruments described in letter b) of Nr. 1 of this Chapter may carry out the operations described in Exhibit Nr. 5 thereof, and subject to the other provisions established in said Exhibit.

11. The Operations Division of Banco Central de Chile is hereby empowered to institute the procedures required for the control and the supervision of the operations conducted according to this Chapter.

    The Superintendency of Banks and Financial Institutions will exercise its authority in the dictation of the required accounting and control regulations.

Exhibit Nr. 1

Acquisition of External Debt Instruments executed by Banco Central de Chile as direct obligor

1. In the event that persons authorized under Chapter XVIII, hereof, acquire external debt instruments subscribed by Banco Central de Chile as direct obligor and subject to the provisions established thereof, they shall request from the Issuing Institute, through the agent referred to in Nr. 4 of said Chapter, the replacement of such instruments by one or more negotiable bearer instruments issued by Banco Central de Chile and denominated in Unidades de Fomento, for an amount equivalent to 91% of the value of the replaced instruments, including principal or balance of principal owed plus the corresponding interests, accrued and outstanding, calculated as of the date of such replacement.

   The maturity date for the principal of such negotiable instruments shall be after six (6) years counting from the established date and shall earn interests payable on a six-monthly basis, equal to the weighted average interest rate on indexed deposits of the financial system (TIP) for periods extending between 90 and 365 reduced by 1.1% per annum.

   The exchange rates and the parities described in Nr. 7 of Chapter I of the said Compendium, shall be used for the operations carried out according to the above provisions, without applying the exchange differential contained in Exhibit 1 thereof, in force on the date of replacement, and the TIP rate reported by the Studies Department of Banco Central de Chile, for the relevant deposits during the calendar month immediately preceding the first day of each six-monthly interest period, which will apply for such period.

   The interests corresponding to these instruments will only be posted on the respective maturity date. The value of the Unidad de Fomento on the date of maturity of the instrument will be applied for the purpose of calculating the amount owed in national currency corresponding to these negotiable instruments.

2. In the event that the credit acquisition correspond to part of the obligation provided for by the same instrument, the creditor and the acquirer shall have previously agreed and duly demonstrated to Banco Central de Chile, that the non-acquired part of such credit shall retain the contracting date, maturity, interest rate and other conditions agreed or provided for in the original document.

3. When the market situation grants it, Banco Central de Chile is empowered to modify the terms and the conditions of the instruments described in Nr. 1 of this Exhibit. These modifications shall be applicable to instruments issued as of the date appearing on the Executive Committee Agreement.

4. Situations not covered in the present Exhibit shall be ruled by the general provisions contained in Chapter XVIII of the Compendium of Rules on International Exchange.

Exhibit Nr. 2

Rules for margin tenders on authorized operations with External Debt Instruments

Margin tenders on authorized operations with external debt instruments referred to in paragraph Nr. 5 above, shall be carried out under the following terms and conditions:

Tenderers

1. Corporación de Fomento de la Producción (CORFO), banking enterprises and financial corporations authorized to engage in international exchange operations are entitled to submit tenders.

Announcement of the Tender

2. The conditions for each tender shall be issued by the Monetary Operations Management with consultance to a member of the Executive Committee, to be handed out by said Management through the Open Market Operations Department, Agustinas 1180, 3rd. Floor, Santiago, and will be available starting at 15:00 hours in the Open Market Operations Section.

Schedule of Tenders

3. Tenders will be received and awarded on the penultimate banking work day of each month, or any other date determined by Banco Central de Chile. The tender will be announced and its conditions made available five banking work days prior to the date of award.

4. Should force majeure prevent fulfillment of the conditions described in the previous paragraph, Banco Central de Chile shall give timely nonce to the organizations referred to and instruct them accordingly.

"P.B.C. - Chapter XVIII" Sale

5. Banco Central de Chile will issue a nominative promissory note, in local currency, not eligible to earn interests or adjustments, that will be called Promissory Note of Banco Central de Chile Chapter XVIII of the Compendium of Rules for International Exchange (P.B.C. - Chapter XVIII hereinafter), with maturity set at 180 days from the date of emission that will correspond to the date of award. The nominal value of "P.B.C. - Chapter XVIII" will be equal to the awarded "margin", applying the type of exchange referred to in Nr. 6 of Chapter I of the above mentioned Compendium that is in force on the day of the award.

   Participating institutions being awarded the "margin", commit themselves to acquire from Banco Central de Chile the corresponding "P.B.C. - Chapter XVIII" at 100% its nominal value, on the same day of the award. Banco Central de Chile shall debit the account of the financial institution for an amount equal to the "P.B.C. - Chapter XVIII" on the day of the award. In the case of CORFO, payment for the acquisition of "P.B.C. - Chapter XVIII" shall be made through a Bank Check extended to the order of Banco Central de Chile, that shall be delivered at the Open Market Operations Section of Banco Central de Chile, Agustinas 1180, 3rd. Floor, before 14:00 hours on the day of the award.

Simultaneously, Banco Central de Chile commits itself to rescue the "P.B.C. - Chapter XVIII" in advance, on the date appearing on the bases set forth for each tender, to those institutions having been awarded in the same or its cessionaries, at a price that equals the price offered to be sold to Banco Central de Chile, according to the award system described in Nr. 14 of this Exhibit.

The "P.B.C. - Chapter XVIII" is liable to be transferred in the cases and the forms described in Nr. 5 of the Chapter this Exhibit refers to, where compliance is required, also, relative to Nr. 6 of the same. The cessionary institution shall assume the rights and the obligations corresponding to the transferrer and, especifically, the commitment to sell the "P.B.C. - Chapter XVIII", totally or partially, depending upon the case, to which they are entitled, to Banco Central de Chile, at the offered price, by CORFO or by the respective financial institution transferring the instrument. The cession, total or partial, of the "P.B.C. - Chapter XVIII" shall represent, consequencially, the "margin" referred to in the second paragraph of Nr. 5 of the Chapter to which this Exhibit refers.

The emission, rescue and cession of the "P.B.C. - Chapter XVIII" will be subject, besides, to the instructions imparted by the Financial Policy Direction of Banco Central de Chile concerning the matter.

The "P.B.C. - Chapter XVIII" will bear the signature in facsimile of the Monetary Operations Manager and the hand-written signature of the Chief, Open Market Operations Department of Banco Central de Chile.

Submission of Bid Proposals

6. Tenders shall be submitted solely on the "Form for Margin Tenders on Authorized Operations with External Debt Instruments", included at the end of this Exhibit Nr. 2 and shall be included in an envelope market "Margin Tender on Authorized Operations with External Debt Instruments. This material is available to interested organizations at the Open Market Operations Section, Agustinas 1180, 3rd Floor, Santiago.

7. Bids shall be delivered in a sealed envelope.

8. Each sealed envelope may contain up to three bids, each of them in an individual form.

9. Each bid shall specify the amount of "margin" the institution wishes to be awarded, equivalent in thousands of dollars of the United States of America, and the price at which it offers to sell the "P.B.C. - Chapter XVIII" to Banco Central de Chile. This price will be expressed as a percentage of the total amount of the respective offer, with four decimals at the most.

Reception of the Bid Proposals

10. Tenders will be received in the Open Market Operations Section, Agustinas 1180, 3rd Floor, Santiago, until the time indicated in the Bid Proposal.

11. Each envelope received shall be numbered and a receipt shall be issued bearing the signature and stamp of a staff member in the Open Market Operations Department. Likewise, there will be a bid proposal register that shall be signed by the person delivering the tender.

12. The envelope shall be placed by the officer of the tendering institution in a box especially provided for the purpose.

13. Banco Central de Chile reserves the right to reject one or more proposals without expressing the reason.

Method of Award

14. The general award procedure will be as follows:
    a) The total amount of the bids will be added and will be ordered from highest to lowest price offered to sell the "P.B.C. - Chapter XVIII" to Banco Central de Chile.
    b) In case two or more bids contain the same price and the remaining balance does not fully cover the total amount, the balance will be distributed in the proportion corresponding to each offer over the total offer at the same price.
    c) Banco Central de Chile may, as it deems appropriate, raise or lower, up to 10%, the total "margin" subject to bid.

Rescue of the "P.B.C. - Chapter XVIII"

15. On the date indicated of the bases for each tender, Banco Central de Chile will proceed to credit, in the account of the financial institution presenting the "P.B.C. - Chapter XVIII" for its collection, the amount resulting from the application of the value of rescue offered by the awardee in the respective bidding process.

    In the case of CORFO, the rescue shall be effected with a check issued by Management of Banco Central de Chile for the value resulting from applying the "P.B.C. - Chapter XVIII" presented, its corresponding price of award. This check shall be picked up at then Open Market Operations Section of Banco Central de Chile, Agustinas 1180, 3rd Floor, Santiago, prior to 14:00 hours on the day of the rescue.

Notification of the Results

16. Participating institutions will be advised of the results over the telephone, once the tenders have been awarded.

17. The Open Market Operations Department shall issue a document containing the results of the award that will be available to participating institutions as of the day following the award.

FORM OF TENDER FOR MARGINS FOR AUTHORIZED OPERATIONS WITH EXTERNAL DEBT INSTRUMENTS

BID

MARGINS FOR OPERATIONS INVOLVING COLLECTION OR REPLACEMENT OF EXTERNAL DEBT INSTRUMENTS

Open Market Operations
Department
Banco Central de Chile
SANTIAGO

Date: _____

Please accept our bid in the tender for margins for operations involving collection or replacement of external debt instruments in the following terms:

NAME OF INSTITUTION	CODE

We apply for a "margin" of:

US$ _____ and, in case we are awarded the bid, we commit ourselves to purchase the "P.B.C. - Chapter XVIII" for an amount equal to the value of the "margin" awarded by applying, to that effect, the type of exchange referred to in Nr. 6 of Chapter I of the Compendium of Norms on International Exchange, in force on the day of the award, promissory note we promise to sell to Banco Central de Chile at:

_____ % of its nominal value, on the day _____ of _____ of 19_____.

We hereby declare that we are acquainted with and in full agreement to comply with the Rules of Tenders for Margins for authorized operations with external debt instruments contained in Exhibit Nr. 2 of Chapter XVIII of the Compendium of Rules on International Exchange and the Bases corresponding to this proposal.

_____
Signature and Stamp

INSTRUCTIONS:

1. Do not amend the text of this form.
2. Each offer should be submitted in a different form.
3. Place your bid in an envelope marked "BID FOR MARGINS TENDERS ON AUTHORIZED OPERATIONS WITH EXTERNAL DEBT INSTRUMENTS".
4. Any bid failing to show, clearly, the name and code of the participating organization will be rejected. This will also apply if the stamp of the organization is missing or if the facsimile of the signature of the person signing for the participating organization is not registered with the Open Market Operations Department.

INFORMATION CONCERNING
CHAPTER XVIII OPERATIONS

MANDATING INSTITUTION

_____ OPERATION Nr. [ ]

Date for Margin Award _____ Date of Operation _____

1. INSTRUMENT ACQUIRED BY
   Name _____
   Address _____
   R.U.T. _____

2. INSTRUMENT ACQUIRED FROM: _____

Kind of Instrument	ORIGIN	INSCRIP. Nr.	CREDIT DETAILS
[ ] - Sched. Credit. Nr. [ ]	- Art. 14	[ ]	Executed on: _____
[ ] - Promissory Note	- Art. 15	[ ]	Place of Paym. _____
[ ] - Other	- Art. 16	[ ]	Currency _____
	- New Money	[ ]	Init. Capital _____
	- Other	[ ]	Present Balanc _____
			Nom. Cap. Acquir. _____
			Final Capital _____

3. INTERESTS
   Rate _____
   PERIODICITY
   Montly [ ] Quarterly [ ] By-yearly [ ] Other _____

4. DIRECT OBLIGOR _____
   INDIRECT OBLIGOR _____
   Joint debtor [ ] Aval [ ] Guarantor [ ]

5. DETAILS OF THE NOMINAL VALUE ACQUISITION
   Amount of Capital _____ Price _____ % Paid Value _____
   Amount of Interests _____ Price _____ % _____

6. APPLICATION OF THE INSTRUMENT ACQUIRED
   6.1 ISSUER: Banco Central: Request to issue instruments in U.F. in amount of F/C _____
   Emission for 97% F/C _____ T/C _____ Total $ _____
   6.2 ISSUED BY OTHERS
   Advanced Payment F/C _____ Price _____% t/c _____ total $ _____
   Exc. for Inst. D/C _____ Price _____% t/c _____ total $ _____
   Inst. in U.F. _____ Price _____% t/c _____ total $ _____
   Exc. for Inst. F/C payable in D/C _____ Price _____% t/c _____ total $ _____

7. DESTINATION OF NEW INSTRUMENTS OR NEGOTIABLE INSTRUMENTS
   Mandator [ ] Transferred to 3rd party in payment [ ] Received in payment by the mandator [ ]
   Purchased for self [ ] Sold to 3rd party [ ]

_____ Manager

_____ Manager

NOTE: For transactions involving related persons, enclose authorization from Superintendency of Banks.

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INSTRUCTIONS TO FILL OUT THE CHAPTER XVIII OPERATIONS FORM

NUMBER AND DATE OF THE OPERATION
Correlative number of the banking firm and date on which the operation is performed.

DATE OF MARGIN AWARD
Date of the award of the margin obtained by bidding or by cession against which the operation is performed.

1. ACQUIRER OF THE INSTRUMENT
   Information on who performs the operation.
2. INSTRUMENT ACQUIRED FROM
   Name of the last foreign creditor.
   TYPE OF DOCUMENT
   Mark an "x" in the corresponding box. If "Other" is marked, specify its name.
   In case "Credit Schedule" is marked, indicate number.
   ORIGIN
   Mark with an "x" the juridical regime or mode affecting the respective loan. If "Other" is marked, specify type of debt.
   INSCRIPTION NUMBER
   Number of inscription of the credit with Banco Central de Chile.
   INFORMATION ON THE CREDIT
   i) Initial capital: Amount of the credit's original capital.
   ii) Present capital: Amount of capital existing prior to performing the operation.
   iii) Nominal Capital Acquired: Nominal amount of capital included in the present operation.
   iv) End capital: corresponds to the difference between present capital and acquired nominal capital.
3. INTERESTS
   Rate: Libo, Prime or other rate and the corresponding fixed part and amount of the same in figures, in force on the day of the operation.
   PERIODICITY
   Period agreed for the payment of interests.
4. DIRECT DEBTOR
   Information of the debtor prevalent at the time of the operation.
   INDIRECT DEBTOR
   Name of the indirect debtor prevalent at the time of the operation, indicating with an "x" the type of indirect debtor.
5. INFORMATION ON THE NOMINAL VALUE ACQUISITION, F/C
   i) Nominal capital amount and interests earned at the time the operation is carried out.
   ii) Percentage of discount at which the capital and the interests of the transacted instrument were purchased.
   iii) Actual amount disbursed, for capital as well as for interests.
6. DESTINATION OF ACQUIRED INSTRUMENT
   6.1 ISSUER: Banco Central de Chile.
      i) Amount in F/C for which exchange for instruments in U.F. is requested.
      ii) Type of exchange in force at the time of the operation according to Nr. 7 of Chapter I of the Compendium of Rules on International Exchange.
   6.2 ISSUED BY OTHERS:
      i) Nominal value of capital in F/C plus interests earned as of the date of redenomination of the cashed or sold instrument, depending on the case.
      ii) Price, expressed in percentage, applied to the operation.
      iii) Type of exchange applied to the operation.
      iv) Value of the operation in pesos.
7. DESTINATION OF THE NEW INSTRUMENTS OR NEGOTIABLE INSTRUMENTS
   Mark with an "x" the respective box.
   Indicate the alternative "Mandator" only in case instruments will stay in its hands.

MONTHLY RECORD OF MARGINS
Thousands of Dollars

Date of Margin Award _____

NAME OF FINANCIAL INSTITUTION

A. MARGIN AWARDED _____ US$ _____

B. MARGIN ASSIGNED TO

	AMOUNT	US$
		-

C. MARGIN RECEIVED FROM

	AMOUNT	US$
		+

D. CLOSING BALANCE US$ _____

_____
Agent

TO BE FILLED BY BANCO CENTRAL

E. TOTAL OPERATIONS US$ _____

BALANCE (+) WITHIN MARGIN
(−) OFF MARGIN

_____

Exhibit Nr. 4

Acquisition of External Debt Instruments for enterprise capitalization

1. Persons who acquire Chilean external debt instruments as provided in this Chapter, may apply such instruments towards the subscription and payment of shares issued by the entities that shall be listed herein, subject to the fulfillment of the conditions and requirements established in this Exhibit.

2. Chilean external debt instruments applied, as set forth in this Exhibit, towards the subscription and payment of shares shall meet the requirements contained in Nr. 1 of this Chapter and they shall have registered, as main debtor or guarantor, as the case may be, by the issuer of the shares who shall be registered as such debtor or guarantor, as appropriate, with Banco Central de Chile prior to July 1, 1986.

3. The operations referred to in the present Exhibit shall only be authorized when they refer to the subscription and payment of shares issued by enterprises producing goods and services that, as of the day of capitalization, are constituted as corporations organized in the country and that require, in order to resolve the difficulties deriving from excessive borrowing, a capital increase, or else, when such capital increase is carried out in banking firms or financial enterprises established in Chile.

4. Persons wishing to apply to the benefits established in this Exhibit shall submit to the International Division of Banco Central de Chile, in order to obtain from it the corresponding authorization, an application to provide information and enclose the following documents:

   a) The individualization of the aplicant(s) and, when appropriate, of the agent(s) acting on behalf of the former, accompanying documents evidencing their representation.

   b) Information concerning the activity, purpose or line of business, capital or volume of trade of the applicant(s) and, with respect to the entity that will issue the shares, records to prove the need for capital increase for the normal course of its business. In addition to the above mentioned information, the application shall include, except in the case of banking firms and financial institutions, a general balance sheet duly audited by External Auditors registered with the Superintendency of Securities and Insurance, and indicate, besides, if the entity issuing the shares has received or not other contributions subject to the "foreign investment regime" such as D.L. Nr. 600, Articles 14, 15 or 16 of the Law on International Exchange or Chapter XIX of the Compendium.

   c) The individualization of the debtor's instrument(s) intended to be applied towards operations contained in this Exhibit, as well as the indication of the credits, that is, of the total or of part of the capital or capital balance of the instruments and, when appropriate, of the interests, accrued and outstanding, that shall be assigned, according to this Exhibit, to the subscription and payment of shares to be issued.

d) The specification of the manner in which the subscription and payment of the shares will be carried out, and the obligation on the part of the applicant(s) to use the respective "credit" solely for the purposes indicated on the application.

e) Copy of the agreement mentioned in Nr. 5 of this Exhibit, duly authorized by Notary Public or recording officer, and

f) Express statement on the part of the applicant(s) to the effect that they will subject the respective operation to the provisions of the present Exhibit and to those established in the respective authorization granted by Banco Central de Chile.

5. Persons wishing to carry out investments under the provisions contained in the present Exhibit must have previously subscribed an agreement in the capacity of future creditors of the respective "credit", together with the corresponding debtor of the same and, as the case may be, with the guarantor(s) of the obligation, in which, provided that the application referred to in the preceding number be approved by Banco Central de Chile, the parties shall agree that:

a) The document evidencing the "credit" shall be paid in Chile, immediately and against delivery of the same in cash, with or without discount, in Chilean domestic currency, pesos, and the total amount of the proceeds shall be assigned, simultaneously, to the subscription and payment of the shares issued by the debtor of the "credit" to this effect or, alternatively,

b) The above mentioned document shall be replaced in Chile, with or without discount, by one or more instrument(s), subscribed by the debtor, such as, bills of exchange, promissory notes, registered deed or other commercial papers that shall be denominated in Chilean pesos, local currency, which shall be compensated with the debtor of the "credit" in payment of the shares that, to this effect, shall have been subscribed by the creditor and issued by the debtor. The compensation shall be carried out simultaneously with the subscription and payment of the shares.

Under no circumstances shall the amount received from the debtor and the amount appearing on the new instrument(s) received in exchange exceed the amount of the "credit", including accrued and outstanding interests calculated until the date the respective operation is carried out. For these purposes, the exchange rate and par values mentioned in Nr. 7 of Chapter I of the Compendium shall be considered, without applying the exchange rate differential foreseen in the second paragraph of Exhibit Nr. 1 of the same and in force on the date mentioned above.

In the same agreement and under the conditions indicated, the parties shall waive access to the currency market they could have been entitled to by the respective "credit" and commit themselves to return, to Banco Central de Chile, the corresponding Certificate referred to on Chapter XIV of the Compendium, for its amendment or inutilization, whichever the case may be.

In the event that the "credit" should correspond to a part of a non-restructurable instrument, or that the document containing the obligation be intransferable by simple delivery or endorsement, the creditor(s) of the debt, registered as such with Banco Central de Chile, shall also concur to the execution of the agreement mentioned above, where the agreement, for all purposes, must contain, in case of parcial cession of the same "instrument", the same date of execution, maturity profile, interest rate and other conditions and terms agreed to for the original instrument.

The provisions contained in letter b) of Title II of letter G of Chapter XIV of the Compendium shall be complied with upon executing the agreement referred to in this number, and fulfillment of the agreements that gave rise to the corresponding obligation shall be required.

6. In order to decide upon the applications submitted to do business under the protection of the present Exhibit, Banco Central de Chile may request from the Superintendency of Banks and Financial Institutions or from other appropriate entities, the reports deemed necessary to adopt its decision. Banco Central de Chile may accept or reject investment applications without stating a reason. In case an application is approved, the corresponding authorization shall establish the terms and conditions ruling the operations described in this Chapter.

7. The operations carried out under the provisions stated in this Exhibit shall be ruled, also, by those established in Chapter XVIII of the Compendium, except for those contained in letter b) Nr. 2 and in numbers 3, 4, 5 and 6 of the above mentioned Chapter.

Exhibit Nr. 5

Acquisition of External Debt Instruments subscribed by Banco Central de Chile towards mortgage debt payments

1. Natural and juristic person indicated in Nr. 2 below, hereinafter, "Debtor(s) may, for one time only, acquire Chilean external debt instruments referred to in letter b) of Nr. 1 in this Chapter, hereinafter, the "instrument(s)", for the exclusive purpose of applying them towards total or partial payment of mortgage obligations corresponding to one real estate property, that they hold with banking firms or financial enterprises, as long as the requirements and conditions established in this Exhibit are fulfilled.

2. "Debtor(s)" are those persons holding mortgage loans in force as of February 29, 1988, of the type described in the previous number, whether or not the loans had been financed through the emission of letters of credit.

   For that purpose, "Debtor(s) are the following:

   2.1 "Debtor(s) holding reprogramed obligations or those that, having qualified to be reprogramed, as described in the Executive Committee Agreements of Banco Central de Chile Nr. 1517-01-830620, 1583-01-840705 or 1589-01-840803, or its substitutions executed according to Agreement Nr. 1719-02-860321;

   2.2 "Debtor(s)" whose obligations have been reprogramed under Agreements Nr. 1507-01-830412 and 1578-01-840622;

   2.3 "Debtor(s)" of loans acquired by banking firms or financial enterprises from Asociación Nacional de Ahorro y Préstamo (National Savings and Loans Association) and were reprogramed, or qualified to be reprogramed, under Agreements Nr. 1518-04-830622 or 1594-20-840829, and did not make use of the benefits established in Decree Law Nr. 3,480 of 1980;

   2.4 "Debtor(s)" who qualify as benefitiaries of the Housing Subsidy System regulated by Supreme Decree Nr. 188 (Housing and Urbanism), of 1978, and its amendments; by S.D. Nr. 351 (H. and U.), of 1980 and its amendments, and by Articles 16 and 18 of S.D. Nr. 268 (H. and U.), of 1975, and had obtained the complementary mortgage loan prior to December 31, 1985, financed or not with letters of credit, from banking firms, financial enterprises, or by SERVIU (Service of Housing and Urbanism). In case concerning loans granted by SERVIU, only those loans whose collection is trusted to a banking firm, who will execute the acts described in Nr. 4 of the present Exhibit, as long as it is authorized to do so by said Service and the mandate referred to in said Nr. 4 be granted by the debtor.

   2.5 "Debtor(s)" of banking firms and financial enterprises whose obligations were contracted originally with SERVIU, prior to December 31, 1985.

3. Each "Debtor" may acquire "instruments" for a value not exceeding, in capital or outstanding capital, US$ 6,000 (Six thousand dollars of the United States of America) or its equivalent in foreign currency, plus the corresponding accrued or outstanding interests, calculated as of the date the "instrument" is acquired, or for an amount equivalent to the outstanding part of the loan if the latter is lower than the indicated value.

   For the purpose of determining the margin referred to, joint mortgage loans associated to the same real estate property will be considered, and the type of exchange and parities used shall be those established in Nr. 6 of Chapter I of the Compendium of Rules on International Exchange, in force on the day prior to the date of presentation of the corresponding application to Banco Central de Chile.

4. "Debtor(s)" wishing to apply to the norms contained in this Exhibit shall forward an application to the Direction of Operations of Banco Central de Chile prior to July 30, 1988, through a crediting banking firm or financial enterprise. On said application, the "Debtor" will grant authorization to the respective banking firm to perform, subject to the approval of the application, the following actions:

   4.1 Acquire, directly or through third parties, the corresponding "instrument(s);

   4.2 Apply to Banco Central de Chile for the substitution of the "instrument" for the negotiable instruments indicated in Nr. 6 of this Exhibit, that will equal 100% of the value of the "instrument(s)" that will be exchanged, including capital or outstanding capital, plus accrued and outstanding interests, calculated as of the date of substitution, at the type of exchange and parities described in Nr. 3 above;

   4.3 Sell to third parties the negotiable instruments received in exchange or purchased for the self, both instances in cash and in pesos, Chilean domestic currency, and according to market conditions. In cases of sale or purchase of those instruments received in exchange, instructions should be imparted to the monetary entity for the simultaneous application on its part of the pesos, national currency, received, towards the payment of the following obligations according to the priority listed below:

      4.3.1 To the Commitee referred to in Nr. 5 of this Exhibit.

      4.3.2 To the loan granted by the mandating entity, if it had granted the "Debtor" financial means to acquire the "instrument".

      4.3.3 To the outstanding part of the mortgage loans that, associated to the same real estate property, gave origin to the operation, as long as the corresponding mora be prior to February 29, 1988.

4.3.4 To the anticipated payment of the loans that gave origin to the operation. When referring to loans under Agreements Nr. 1517-01-830620; 1583-01-840705 and 1589-01-840803, however, said payment shall not exceed 15% of the outstanding capital of the loans referred to; where the remaining part, if there is any, shall be destined to the advance payment of the "maturity extensions" brought about by the cited agreements.

5. Banking firms and financial enterprises participating in the operations described in this Exhibit, are authorized to charge the "Debtor" a fee of up to 3% of the sales value of the negotiable instruments described in Nr. 6 of the same. Said fee shall be the only retribution for services rendered and expenses incurred, including financing and tax expenses generated by the whole operation, be it by the banking entity itself or by third parties acting at the latter's request.

6. Banco Central will substitute all the "instruments" acquired by Banco Central de Chile Readjustable Promissory Notes (P.R.B.C.), bearing the characteristics and denominations described in Chapters IV.B.7 and IV.B.7.1 of the Compendium on Financial Norms.

   Fifty percent of the total amount undergoing substitution will be exchanged for P.R.B.C. of 180 days maturity, and the remaining 50% for P.R.B.C. of 365 days maturity, which, in both cases, shall earn interests at the rates in force for these instruments at the time of substitution.

   If a balance existed remaining to be substituted, due to the denominations of P.R.B.C., it will be paid in cash.

   In the event that the maturity date of such P.R.B.C. were to fall on a bank holiday, the instruments referred to will be issued for a date corresponding to the following bank day.

7. Banking firms and financial enterprises receiving payment from their "Debtor(s)" according to the mechanism foreseen in the present Exhibit, shall waive, when it be the case of an advance payment, the collection of a fee and of interests corresponding to one quarter, as referred to in Article 95 of the General Law of Banks. Moreover, being the case of a debt on default, they shall waive collection of those interests that exceed current interest, applying the concept of default.

8. Banking firms and financial enterprises, in order to operate through this system, shall accept the applications of all "Debtors" desiring to apply to it.

9. Banco Central de Chile will regulate the periodic amount of the operations liable to be carried out according to the present Exhibit, for which banking firms and financial enterprises shall present "global applications" for figures no lower than the equivalent of US$ 500,000 (Five hundred thousand dollars of the United States of America), using, to that effect, the type of exchange and parities established in Nr. 3 of this Exhibit.

10. The operations carried out according to the provisions contained in this Exhibit shall be subject, each and every one of them, to the general rules, conditions and obligations contained in Chapter XIII of this Exhibit, without exception of the rules contained in letter b) of Nr. 2 and Nr. 3, 4, 5 and 6, and to special rules contained in this Exhibit, where the latter prevails in case of conflict within the same,

11. The Direction of Operation of Banco Central de Chile is empowered to dictate the norms that are necessary for the implementation of this Exhibit, to grant special authorizations required according to the terms contained in it, and control and supervise the execution of such operations.

    The Superintendency of Banks and Financial Institutions, in the use of its faculties, will dictate the accounting and control norms as required.

Operative Rules

Exhibit Nr. 5

Acquisition of External Debt Instruments subscribed by Banco Central de Chile towards payment of mortgage loans

1. Debtor(s) defined in Nr. 2 of Exhibit Nr. 5 wishing to benefit from its provisions shall subscribe a mandate on behalf of the respective crediting financial institution, in order for it to present the corresponding application to the Direction of Operations of Banco Central de Chile and, having obtained the respective authorization, continue carrying out the actions and contracts referred to in Nr. 4 of the same Exhibit. This mandate constituting, at the same time, the application to enter into the system, shall be filled out according to the model enclosed that constitutes Form Nr. 1 of these Rules.

2. Financial institutions, having received a number of mandates from their customers so as to complete a "Global Application" amounting to no less than US$ 500,000 according to the provisions contained in Nr. 9 of Exhibit Nr. 5 above, shall fill out Form Nr. 2 of these Rules called "Global Application" in duplicate and submit it to Management of External Financing of Banco Central de Chile, enclosing a magnetic tape containing the details of each operation intending to be subject to the provisions contained in this Exhibit, prepared according to technical specifications contained in the chapter "Technical Specifications" of these Rules. The mandating financial enterprise shall be held fully responsible for the accuracy of this information.

3. External Financing Management will receive said "Global Application", stamping the date, hour of reception and number assigned. The latter shall be an only and correlative number for all the financial system. On the day following the reception of each of the "Global Application" forms, at the latest, Management of External Financing shall express its conformity to the financial enterprise or raise the corresponding objections.

4. Management of External Financing shall reject an individual application when the information included in it contain errors or be incomplete. In such case, that application will be eliminated from the magnetic tape and will not be included for the purpose of calculating the respective margin. The former, notwithstanding the fact that said individual application be included in a new global application after the correction of the facts originating its rejection takes place.

   On the other hand, a "Global Application" will be rejected when the figures stated on the tape be inconsistent, or else they be illegible, for not complying with the specifications.

5. Management of External Financing will periodically notify mandating institutions concerning which "Global Applications" comply with the margin to carry out the operation within a period of time that will be notified therein.

6. The mandating firm, having received this notice, shall carry out, on behalf of its mandator(s), the acquisition of External Debt instrument(s) for the total amount authorized. The exchange of these instruments for Banco Central de Chile Promissory Notes, according to the conditions established in Nr. 6 of Exhibit Nr. 5, shall be requested to Management of External Financing of Banco Central de Chile, for which it shall present the respective Credit Schedule, Assignment Agreement or other corresponding documents to that Management within the period of time the margin is in force.

7. The Management of Monetary Operations of Banco Central de Chile, within two bank working days counting from the day the corresponding exchange application is received, shall make Banco Central de Chile Promissory Notes (P.R.B.C.), issued with the maturity dates established for them, available to the mandating entity.

8. Mandating institutions shall, for the purpose of controlling extinguishing external debt, send to Management of External Financing, within 5 bank working days after the exchange referred to in Nr. 6, Form Nr. 3 "Information on Chapter XVIII Operations - Exhibit Nr. 5".

9. The mandating entity shall proceed, complying with the mandate received, to sell the P.R.B.C. or purchase them for the self, applying, at the same time, the domestic currency produced in the manner established in Nr. 4.3 of Exhibit Nr. 5, for payment of the obligations described by the debtor on its Mandating Application.

10. The respective mandating financial institution, within the first ten bank working days of each month, shall provide Management of Domestic Financing of the Direction of Operations of Banco Central de Chile, a detailed account of the application of the resources in domestic currency resulting from the sale of the P.R.B.C. towards the ends established in Nr. 4 of Exhibit Nr. 5 for each one of the operations carried out during the preceding month. This information shall be furnished on a magnetic tape, complying with the technical taping specifications contained in chapter "Technical Specifications" of these Rules.

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FORM Nr. 1

MANDATING APPLICATION

Mesrs.
BANCO CENTRAL DE CHILE
Management External Financing
Huérfanos 1175, 8th Floor
SANTIAGO

_____
(Banking firm or financial enterprise) acting on behalf of debtor
Mr. _____
and, according to the terms contained in the Mandate requests to apply to the terms described in Exhibit Nr. 5 of Chapter XVIII of the Compendium of Rules on International Exchange.

_____
Name and Signature
Bank or Financial Enterprise

MANDATE

Mr. _____ "Debtor", of _____ in the conditions described on Nr. 2 of the Executive Committee Agreement of Banco Central de Chile Nr. 1851-03-883304, grants irrevocable mandate to _____ to present to Direction of Operations of Banco Central de Chile, as soon as possible and, in any event, prior to June 30, 1988, the application that will allow him, as "Debtor", to be eligible to benefit from the provisions contained in Exhibit Nr. 5 established in the aforementioned agreement.

The mandating entity accepts the assigned task and, provided the application be approved by Banco Central de Chile, commits itself to carry out the following actions:

1. To acquire, directly or through third parties, the corresponding "instrument", understanding as such any of the ones described in letter b) of Nr. 1 of Chapter XVIII of the Compendium of Rules on International Exchange and for the amounts and margin determined by Nr. 3 of Exhibit Nr. 5 of the same Chapter;
2. Request from Banco Central de Chile the substitution of the "instrument" for negotiable instruments referred to in Nr. 4.2 of the Exhibit Nr. 5 mentioned above;
3. Sell to third parties the negotiable instruments received in exchange or purchase them for the self, both cases in cash and in pesos, domestic currency and according to market conditions.

The mandating entity also commits itself to effect the application, simultaneously with the above mentioned actions, of the product of the sale of the referred negotiable instruments towards payment of the following obligations of the mandator, according to the priorities listed below:

a) To the free referred to in Nr. 5 of said Exhibit Nr. 5;
b) To the credit or loan the mandating entity may have granted the mandator for the acquisition of the "instrument";
c) To the outstanding part of the mortgage loans associated to the same real estate property giving origin to the operation; as long as the corresponding mora be prior to February 29, 1988;
d) To the advance payment of the credits that gave origin to the operation, in the conditions described in Nr. 4.3.4 of Exhibit Nr. 5, as often cited.

The sole retribution for the execution of the assignment and for total fulfillment of the corresponding operation, the mandating entity shall be entitled to charge a fee of up to 3% of the sale value of the negotiable instruments received in exchange, including, within said percentage, all expenses, financing costs and taxes generated by the operation.

Nonwithstanding the instructions contained herein, the mandating entity commits itself to [illegible] of the provisions contained in the mentioned Exhibit Nr. 5, in all applicable aspects.

It is hereby stated that the mandating entity is not enforced to render documented account of the action undertaken.

The legal capacity of Mr. _____
by _____ is registered in Notarized Document
dated on _____, extended in Notary _____
The legal capacity of Mr. _____
by _____ is registered in Notarized Document
dated on _____, extended in Notary _____

_____
Name and Signature of Banking Firm
or Financial Enterprise

_____
Name and Signature of Debtor

FORM Nr. 2

GLOBAL APPLICATION

Nr. _____
REF.: Chapter XVIII C.R.I.E. Exhibit Nr. 5
SUBJ.: Submits Applications
Santiago, _____

Mssrs.
BANCO CENTRAL DE CHILE
Management External Financing
Huérfanos 1175, 8th Floor
SANTIAGO

Sirs.:

In representation of the debtors whose mandating forms are enclosed, we hereby request authorization from that Banco Central de Chile to grant them access to the terms contained in Exhibit Nr. 5 of Chapter XVIII of the Compendium of Rules on International Exchange. The mandating forms previously referred to, have been extended according to the provisions included in Nr. 4 of said Exhibit.

Additionally, we enclose magnetic tape identified below and containing the information requested in the Operative Rules of Exhibit Nr. 5, as follows:

Nr. Applications _____

Total Amount in U.F. _____
Total Amount in I.V.P. _____
(Average Value Index)

Awaiting your approval and/or observations, we remain,

Sincerely yours,

_____
Name and Signature Financial Entity

Magnetic Tape Nr. _____

FORM. Nr. 3

INFORMATION ON CHAPTER XVIII
OPERATIONS - EXHIBIT 5

INTERVENING MANDATING ENTITY _____

Global Application _____ Operation Nr. _____

Authorization Date _____ Maturity Term _____

Fill out only one form for all operations bearing the same authorization date granted by Banco Central de Chile.

1. DETAILS OF THE EXTERNAL DEBT INSTRUMENT
   DIRECT DEBTOR: Banco Central de Chile

   ACQUIRED FROM: _____

   TYPE OF DEBT

				TYPE OF DOC.	Nr. DOC.
Restructuring	83/84	86/87	87/91	- Credit Schedule	_____
New Money	1300	780	785	- Promissory Note	_____
				- Assign. Agreement	_____
Other				- Other	_____

   INTERESTS
   Six-monthly _____ Annual _____ Other _____
   Rate _____ % in force
   Instruments accumulated as of day of purchase US$ _____

2. DETAILS OF THE ACQUISITION ABROAD

			VALUE PAID IN F/C
Amount of capital in US$ _____	Price _____	%	US$ _____
Amount interests in US$ _____	Price _____	%	US$ _____

3. DESTINATION OF THE ACQUIRED INSTRUMENT
   100% Capital US$ _____
   100% Interests US$ _____ T C _____ TOTAL $ _____
   Invested in Banco Central Promissory Notes

_____ Agent

_____ Agent

BANCO CENTRAL DE CHILE

Chapter XIX

Compendium of Rules on International Exchange

INVESTMENTS WITH FOREIGN DEBT INSTRUMENTS

Chapter XIX

Investments with Foreign Debt Instruments

The persons listed below are hereby authorized to conduct international exchange operations under the terms and conditions described herein:

1. Natural or juristic persons, whether Chilean or foreign, resident in the country or domiciled abroad, may carry out investment operations in Chile subject to the provisions contained in this Chapter, as long as prior authorization from Banco Central de Chile has been obtained, and that such investment are carried out using domestic currency resources resulting from the application of debt instruments, called "instruments" hereinafter, that meet the following requirements:

   a) The instruments must evidence the existence of an obligation denominated and payable in foreign currency abroad and have an original or extended maturity exceeding 365 days;

   b) The instruments must have been executed, as direct obligor, by the Treasury, by Banco Central de Chile, by "public sector entities", by CORFO (Corporacion de Fomento de la Produccion), by banking firms or financial institutions authorized to operate in the country, or be instruments subscribed by natural or juristic persons resident in Chile, other than those listed above, provided such instruments have been pledged prior to July 1st, 1985, without limitations as to time, occasion, amount or person involved, by CORFO or banking firms or financial institutions authorized to operate in the country.

   For the purposes of this paragraph, the term "public sector entities" includes all departments, institutions and firms referred to in Article 2 (a) of Law Nr. 18,233, including Corporacion Nacional del Cobre (CODELCO), and the organizations described in Article 11 of Law Nr. 18,196, excluding Banco del Estado de Chile. In turn the capacity of guarantor shall be shown, when appropriate, in the respective "instrument" and, in the case of external credits under Articles 14, 15, or 16 of the Law on International Exchange or loans associated to Decree Law Nr. 600 of 1974 and its amendments with the corresponding inscription with Banco Central de Chile.

2. The persons referred to under Nr. 1 above wishing to make use of the resolutions contained in this Chapter should submit an application to International Division of Banco Central de Chile, in order to obtain the authorization referred to in the previous paragraph, that contains at least the following information and includes the documents listed below:

   a) Identification of the applicant(s) and, when the case be, of the mandating parties acting on behalf of the former, including the documents to prove such representation;

   b) Information on the applicant(s) concerning, at least, the activity, line of business or object, capital, volume of operations, if (s)he carries out business in or with Chile, if (s)he holds investments in Chile under the "foreign investment regime", such as D.L. 600 of 1974 or its amendments, Articles 14, 15, or 16 of the Law on International Exchange or the norms contained in this Chapter;

   c) The individualization of the "instrument(s)" that will be subject to the operations described in this Chapter, as well as information concerning the "credits", that is, the full or partial amount of capital or remaining capital of the "instruments" and, if be the case, of the interests accrued or pending payment that will be destined, in the manner described in this Chapter, to carry out the investments authorized by Banco Central de Chile.

   When called for, proof of guarantor status as described in letter b) of paragraph 1 of the present Chapter shall be provided and, in case the person submitting the application differs from the creditor of the "instrument" registered as such with Banco Central de Chile, an application to obtain the authorization to make the corresponding change of creditor on the "credit"

   d) A detailed account of the destiny that will be given, directly or indirectly, to the resources that will be invested in the country under the provisions contained in this Chapter, indicating the period of time required for the materialization of the necessary operations, and the commitment on the part of the applicant in submitting to prior authorization by Banco Central de Chile, any modification that the destiny of said resources may undergo, diretly or indirectly, during the first year starting on the date the original investment is actually made.

In case the foreseen investment is meant to be carried out through an agency resident in Chile that receives the corresponding contribution, indication shall exist whether the agency will be formed exclusively for that purpose or whether the agency already exists, in which case, information shall be included concerning, at least, the object or line of business, capital, volume of operations, and if it already receives other contributions subject to "foreign investment regime";

e) Copies of the agreement authorized, by a competent Notary Public or other recording officer and the irrevocable orders contained, respectively, in numbers 3 and 4 of the present Chapter, when it corresponds, and

f) The application must contain expressed acceptance by the applicant of the rules contained in this Chapter, and of those established by the corresponding authorization of Banco Central de Chile.

3. The persons desiring to carry out investments under the provisions contained in this Chapter should subscribe, prior to its formalization, an agreement authorized by Notary Public or recording officer consigning them as creditors or future creditors of the respective "credit", if the case be, in conjunction with the pertinent debtor(s) of the same, registered as such with Banco Central de Chile, including the guarantor(s) of the obligation who agree to concur to its subscription. In said agreement, under the condition that the authorization referred to in number 2 above be authorized by Banco Central de Chile, the parties should agree to:

a) That the document that expresses the "credit" shall be paid in Chile, immediately and upon surrendering the document, cash, with or without discount, in pesos Chilean domestic currency, or

b) That, alternatively, said document will be agreed to be substituted in Chile by one or more instruments such as mortgage bonds, promissory notes, contract recorded with notary public or other negotiable bearer instruments that shall only be denominated in pesos Chilean domestic currency or in Unidades de Fomento, that can also include agreement, optatively, to modify the amount of the debt, the interest rate, the maturity date or other conditions of the obligation.

In the same agreement referred to, and under the conditions already established, the parties must waive access to the currency market that corresponds to the respective "credit" and, in pertinent cases, the debtor must make a commitment to return to Banco Central de Chile, at the time of the immediate payment of the "credit" or cashing of the instruments, whichever the case be, and through the mandating entity referred to in Nr. 4 below, the respective Certificate described in Chapter XIV of the Compendium of Rules on International Exchange, for its inutilization or amendment, whatever the case may be.

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In the event the "credit" corresponds to a part of an "instrument" corresponding to non-restructurable debt, or the document that expresses the obligation be intransferable by simple delivery or endorsement, the creditors registered as such with Banco Central de Chile shall also have to concur to the celebration of the agreement described, that shall contain word, in case of partial cession of the same "instrument", establishing that the part of the obligation that was not purchased will keep, for all purposes, the original date of contraction of the debt, its maturity profile, and the interest rate and other conditions included or agreed to in the "instrument".

Upon the celebration of the agreement referred to in the previous paragraphs, it is necessary to remember to comply, when applicable, with the rules contained in letter b) of Title II of letter G of Chapter XIV of said Compendium, as well as with the agreements that gave rise to the corresponding obligation.

Subscription of the agreement referred to in this number will not be required when the respective "instrument" had been signed, as direct obligor, by Banco Central de Chile, in which case the corresponding "credit" will be substituted by one or more of the instruments described in Annex 1 of this Chapter, in the form indicated in it. In any case, the investor(s) may convene with said Institution that the rates applicable to the instruments that, according to Annex Nr. 1 of this Chapter, substitute the "credits" rates that are in force at the time of the respective convention.

4. The persons wishing to carry out investments through the application, subject to the rules contained in this Chapter, of "credits", shall have previously granted irrevocable mandate to a banking firm authorized to conduct operations in international exchange in the country so that it, subject to the approval by Banco Central de Chile of the application described in Nr. 2 of this Chapter, and acting on behalf and in representation of the mandator, request the Issuing Institute to exchange the "credit" for the instruments referred to in Nr. 1 of this Chapter, in case the "instrument" had been subscribed by the Issuing Institute named above as direct debtor, or, in the cases left, proceed to collect the obligation from the debtor or to someone obliged to pay, or to request from them the substitution of the "credit" for new instruments, depending upon the decision contained in the respective agreement.

In the event the "credit" should be exchanged for other instruments, the irrevocable mandate should expressly instruct, besides, the mandating agency to take, prior authorization from the Head of Operations of Banco Central de Chile, one of the following courses of action:

a) Contribute the new instruments received to an entity residing in the country, so that the latter apply the instruments to purposes authorized by Banco Central de Chile;

b) Give or receive, in payment of goods representative of the investments authorized by Banco Central de Chile, the new instruments received in exchange, or

c) Sell to third parties the new instruments received in exchange or proceed to acquire them for itself, in both instances, cash and in pesos Chilean domestic currency.

In the cases of "credit" collection or purchase or sale of the new instruments received in exchange, the above mentioned mandate shall include instructions to the mandating entity to apply the pesos Chilean domestic currency received, prior authorization from the Head of Operations of Banco Central de Chile, to carrying out investment operations authorized by said Issuing Institute and to, in case such operation may not be carried out immediately, and while authorized investment operations are being perfected, retain the product of the collection or sale, depending upon the case, and apply said resources to the following:

- Constitute sight drafts or term deposits in a banking firm established in Chile, that could be the same mandating entity. Such deposits could be, if the rules applicable to them so permit, subject or not subject to readjustment according to the variation experienced by the Unidad de Fomento or the type of exchange and with or without interest;
- Purchase subject to resale of Discount Promissory Notes of Banco Central de Chile; Readjustable Promissory Notes of Banco Central de Chile subject to Floating Interest Rates; Discount Promissory Notes issued by the Treasury of the Republic and Readjustable Promissory Notes of the Treasury of the Republic.

These resources can only be drawn prior authorization described above, with the exclusive purpose of applying the capital, together with the readjustments and interests they may have generated, to the materialization of authorized investments.

In the event that the new instruments received in exchange or the resources that will be invested in Chile be contributed by an entity resident in the country, in order that the latter carry out investments authorized by Banco Central de Chile, said entity shall grant, in turn, an irrevocable mandate to a banking firm authorized to operate in the country so that she, previous authorization from the Head of Operations of Banco Central de Chile, and acting on behalf of the mandator, apply such resources to the materialization of said investments or transfer to third persons the new instruments or receive them for itself, in payment of goods representative of the investments authorized by the Issuing Institute named above, or else, collect them from the respective debtor, sell them to third parties or purchase them for the self, in all cases cash and in pesos Chilean domestic currency.

In the cases of contribution of resources or collection or sale of new instruments, this mandate shall include instructions so that the mandating entity proceed to retain said resources or the product of said collection or sale, and apply the respective amounts to constitute sight drafts or term deposits and/or apply the resources to repurchasing, subject to the same conditions and purposes described in the previous paragraph.

5. Under no circumstance can the sum received in payment from the obligor from any party under the obligation to pay the "credit", or the equivalent of the new instrument(s) received in exchange, or the price of its sale or contribution, exceed the amount of the "credit", that is, the value of the capital or the outstanding balance of the capital, including interests earned and outstanding payment, calculated to the date of the respective operation.

6. The applications for investment inside the country subject to the present Chapter that are submitted to Banco Central de Chile according to the rules contained in Nr. 2 above, may be approved or rejected without expressing cause by Banco Central de Chile.

   Notwithstanding the above, Banco Central de Chile may condition approval of the application to authorize investment to the fulfillment, on the part of the applicant or of the entity receiving the contribution, of certain requirements, in the time period, term and conditions defined in each case, that, in the way of illustration, may include the requirement to carry out part of the investment with the product of the sale of freely convertible foreign currency. These conditions must be expressly accepted by the applicant or the receiving entity mentioned above, depending upon the case.

   Upon the approval of an investment application, Banco Central de Chile may authorize, using the power granted by Article 15 of the Law on International Exchange, and responding to a direct request on the part of the applicant, access to the currency market in favor of the latter to transfer abroad its capital and the net profit it may generate, under the following conditions:

   a) Capital may not be remitted before a period of ten years has elapsed from the date the investment or contribution actually takes place, which shall be evidenced by the investor to the Operations Division of Banco Central de Chile within 30 days from the date the action is completed;

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b) Remittance of any net profits generated by the investment during the first four years from the date the investment or contribution takes place, may only be carried out by the applicant after the same period of four years has elapsed. In any event, such net profits may be remitted starting on the fifth year, in annual percentages that may not exceed 25% of the total amount. The limitations above will not apply to net profits obtained from investments made from the fifth year onwards. Should the investor decide to reinvest the profits generated by the investment, such reinvestment may not be remitted during the first four years from the date of finalization of the original investment. Any net profit obtained from the reinvestment of profits carried out during the first four years may only be remitted once the same period of four years has elapsed. Such reinvested profits and the associated net profits may be remitted as from the fifth year, in annual percentages not exceeding 25% of the total amount thereof. The above limitation will not apply to reinvested profits as from the fifth year, nor to net profits arising from such reinvestments;

c) Net profits may be remitted, if and when the above requirements are met and at the times specified above, only to the extent that they appear in the duly audited balance sheet for the relevant fiscal year. In the case of persons not required to keep bookkeeping records, such profits shall have to be proved to the satisfaction of Banco Central de Chile.

d) In the case of investments made through contributions to an organization resident in Chile, the investor(s)' interest in the recipient organization, for the purposes of remitting capital and profits abroad, will be deemed to be that stated in the relevant resolution of the Executive Committee of Banco Central de Chile authorizing the investment;

e) The necessary foreign currency to carry out total or partial remittances of capital may only be purchased with the proceeds of total or partial disposal of the assets or rights that are representative of the investment, or of the partial or total disposal or liquidation of the ventures purchased or created with such investment; and

f) The rate of exchange applicable to the remittance of capital and profits abroad shall be the type of exchange freely agreed by the investor and any banking organization authorized to engage in international exchange operations in Chile.

7. Obligations associated with the "credits" applied to carrying out authorized operations pursuant hereto shall have no access to the system for the payment of obligations established in Chapter XIII of the Compendium, or to the system contained in Resolution Nr. 1672-11-850821 of Banco Central de Chile.

8. In case any investment operation carried out according to the rules contained in the present Chapter does not take place in accordance to these provisions and subject to the conditions provided in the relevant authorization granted by Banco Central de Chile, or any amendments that may be agreed thereafter at the request of the investor, the following provisions will be applicable:

   a) If the change of creditor, if the case may be, does not take place in the specified period or manner, the foreign investment authorization will become null and void. The same will apply if, without a change of creditor, the investor fails to make timely collection of the "credit" from the relevant obligor or from any of the parties obliged to make payment, or to require from them the substitution of the "credit" for new instruments, in the manner provided for the operation;

   b) If, after proceeding to the change of creditor of a "credit", the collection or replacement for other instruments does not take place in the period of time or the manner provided for to carry out the operation, the obligor and the parties called on to pay for the respective obligation, as well as the creditor himself, will lose access to the foreign currency market that may correspond to its service, and

   c) If, after the collection or replacement of the "credit" by other instruments, takes place and the investment authorized by Banco Central de Chile does not take place at the time and under the conditions established for that purpose, or the final application of invested resources is misrepresented, in the course of the first year from the date the original investment was completed, without having obtained prior authorization from Banco Central de Chile, the applicant shall forfeit access to the foreign currency market he may have been granted to remit abroad the capital and net profit that had been generated by the investment.

9. Persons carrying out or taking part in operations that are subject to t conditions described in the present Chapter shall make sure that actions deriving from its application comply fully with the provisio contained herein.

10. Notwithstanding the rules contained in number 8 above, violations to th Chapter ma' be penalized in the manner described in Chapter XXIV the Compendium.

11. The Operations Division of Banco Central de Chile is authorized to esta lish the necessary procedures to control and supervise operatio conducted according to these rules and to grant any special authorizati required, pursuant to the terms contained in the Resolutions throu which the Executive Committee of Banco Central de Chile authorizes a such operations.

    The Superintendency of Banks and Financial Institutions, using powers, will issue any relevant accounting rules and comptroll regulations.

12. Persons who own Chilean external debt instruments according to Nr. of this Chapter and who, also, fulfill the requirements and conditior contained in Exhibit Nr. 2 of the same Chapter, may apply such instr ments to carry out operations described in said Exhibit.

Exhibit Nr. 1

Investment with Foreign Debt Instruments executed by Banco Central de Chile as direct obligor

1. In case persons described in number 1 of Chapter XIX of the Compendium of Rules on International Exchange having obtained authorization from Banco Central de Chile to carry out investments inside the country pursuant to the provisions stated in the document mentioned above, of instruments subscribed by Banco Central de Chile as direct obligor, shall submit a request to Banco Central de Chile through the agent organization referred to in paragraph 4 of the mentioned Chapter, after proceeding to the change of creditor of the "credits", if needed, with the purpose of replacing such instruments by one or more of the following:

   a) Notes to bearer issued by Banco Central de Chile, denominated in dollars of the United States of America and payable in Chilean pesos domestic currency, in an amount equal to the amount of the "credits", maturing at the end of a period of ten years from the date of such replacement, earning interest payable in six-monthly installments in Chilean pesos domestic currency, as shown in the following schedule for the periods starting on the date of issue:

Period	Annual Interest Rate
For the first six months	That of the original instrument
For the second six months	LIBO + 0.75%
For the third six months	LIBO + 0.25%
From the 19th month to maturity	LIBO − 0.5%

   b) Negotiable bearer instruments issued by Banco Central de Chile, denominated in Unidades de Fomento, in an amount equivalent to the amount of the "credits". The capital maturity date for these instruments will be of fifteen years starting on the day the substitution was made, interest payable on a six-monthly basis and equal to the weighted average rate for indexed 90 to 365-day borrowing in the financial system (TIP), reduced by 1.1% per annum.

   The holders of notes to bearer referred to in letter a) above may, at any time during the first eighteen months starting on the date the note was issued, cash these instruments in Banco Central de Chile for negotiable bearer instruments of equal value described in letter b) above.

2. Concerning the rules contained in Nr. 1 above, the following applies:

   a) Relative to currency conversions taking place in these operations, the type of exchange and the parities referred to in Nr. 7 of Chapter 1 of the Compendium are to be applied, without the exchange differential described in the second paragraph of Exhibit 1 of the same Chapter and, when called for, the value of the Unidad de Fomento that is in force on the day the operation takes place.

b) The applicable LIBO rate (180 days) will be the one informed by International Management of Banco Central de Chile through its "Report on Foreign Currency Equivalencies". Likewise, the applicable TIP rate will be the one informed by Management of Studies of Banco Central de Chile, corresponding to pertinent operations carried out during the calendar month just prior to the day that marks the beginning of each six-month period, that will be in force during the respective period.

c) The interest of the instruments described in Nr. 1 of this Exhibit will be accrued only up to the respective maturity date.

For the purpose of calculating the amount in domestic currency that is considered in debt through bearer notes denominated in dollars, the applicable type of exchange will be the one described in letter a) of this Nr. 2, in force on the respective maturity date.

For the purpose of calculating the value in domestic currency of negotiable bearer instruments, the applicable value will be the one in force for the Unidad de Fomento on the respective maturity date.

3. Banco Central de Chile, when the market situation so justifies, or when, due to eventual restructuring of the country's external debt agrees to more favorable terms concerning capital obligation figures with crediting foreign financial institutions, relative to debt's maturity dates or applicable interest rates, is empowered to modify the terms and conditions of the notes to bearer or of negotiable bearer instruments described in Nr. 1 of this Exhibit. These modifications will be applicable to instruments that are to be issued as of the date of the respective Resolution of the Executive Committee.

4. In actions not included in the present Exhibit, the operations described in it will be subject to the general rules contained in Chapter XIX of the Compendium.

Exhibit Nr. 2

Use of Foreign Debt Obligations for capitalizing Chilean investment companies

1. Persons referred to in the following number, hereinafter "Investors" who hold Chilean external debt instruments described in Nr. 1 of this Chapter may apply such instruments, in the manner described in this Exhibit, towards the subscription and payment of shares issued by Chilean corporations, hereinafter "Investment Company", whose exclusive purpose is to carry out investment in the country subject to the terms and conditions established in this Exhibit. For the purpose of this Exhibit, these shares will be called "A" shares.

2. The Investors shall be juristic persons with residence and domicile abroad – established and organized subject to the laws of their country of origin or, organizations or international agencies, governmental or paragovernmental agencies – whose net worth equals or exceeds US$ 5,000,000 (Dollars of the United States of America), or its equivalent in other foreign currencies, and which are not controlled directly or indirectly by persons of Chilean nationality or residing in the country.

3. The operations referred to in this Exhibit may only be carried out after obtaining the respective authorization from Banco Central de Chile that requires the presentation of the following information, to the satisfaction of Banco Central de Chile:

   a) Identification of the Investors who will subscribe and pay the capital of the Investment Company and, when appropriate, of the agent(s) acting on behalf of the Investors, including documents backing their authority;

   b) Information concerning the activity, purpose, line of business, capital and net worth of the Investors. Such capital and net worth shall be evidenced with the entity's latest balance sheet or, alternatively, through a duly audited financial statement dated not more than 90 days prior to the submission of the application;

   c) A draft of the proposed by-laws of the Investment Company that should include, at least, the representations established in this Exhibit.

      A legalized copy of the by-laws should be submitted to Banco Central de Chile within 60 days starting from the date the authorization referred to in this number is granted.

   d) Identification of the persons who shall be named legal representatives of the Investment Company;

   e) Information relative to whether the applicants hold investments in the country under the existing "foreign investment regime", such as:

      D.L. 600 of 1974 as amended, Articles 14, 15 or 16 of the Foreign Exchange Law or the rules of this Chapter XIX;

f) A listing of the "debt instrument(s)" that will be applied to carry out the operations referred to in this Exhibit, as well as a description of the "credits", that is, total or partial amount of the principal amount of the "debt instruments", and, when applicable, of the accrued and unpaid interest, that will be used, in the manner specified in this Chapter XIX and in this Exhibit, towards investments authorized by Banco Central de Chile.

Evidence should also be included, when applicable, concerning the guarantor status referred to in letter b) of Nr. 1 of this Chapter XIX and, if the applicant is a person other than the creditor of the "debt instrument" registered as such with Banco Central de Chile, a request for the approval of the corresponding change of creditor appearing on the "credit";

g) Copy, executed before a Notary Public or recording officer of the agreement referred to in Nr. 3 of this Chapter XIX in the understanding that it will be subject to the approval indicated above; and

h) Copy of the Power of Attorney that the Investors may have issued pursuant to Nr. 4 of Chapter XIX, whereby they instruct the agent to proceed, within a maximum of 60 days starting on the date the approval indicated in this number is granted, to contribute to the capital of the Investment Company the lawful domestic currency obtained in payment of the "credits" or to deliver, as contribution, the instruments that may have been received in exchange for the "credits", or the lawful domestic currency received in payment of such instruments; and

i) The applicant(s)' expressed acceptance to the effect that they submit to the provisions of this Chapter XIX and its Exhibit 2, as well as to those established by Banco Central de Chile in the corresponding authorization.

4. Notwithstanding the requirements contained in the previous number, the Investor(s) who undertake the task to contribute, collectively, to the Investment Company at least one third of its minimum capital may submit a request to Banco Central de Chile to authorize –in principle– the presentation of an application to qualify under this Exhibit and include the following information to International Management:

a) Identification of the Investors and their representatives;

b) The information described in letter b) of the preceding number;

c) A draft of the Investment Company's by-laws;

d) Information indicated in letter e) of the preceding number;

e) Express acceptance of the applicants to be subject to the provisions contained in this Chapter XIX and its Exhibit Nr. 2, as well as to those established by Banco Central de Chile in the respective authorization; and

f) The "Placement Memorandum" that is intended to be used for promoting the placement of shares of the Investment Company.

The authorization, in principle, mentioned above shall imply, concerning the Placement Memorandum, that Banco Central de Chile has agreed, solely and exclusively, to the representations of the norms and exchange operations applicable to the investment that are made therein.

5. The authorization referred to in the previous number shall be subject to the condition that, within 180 days counted from the day the same authorization was granted, all the information described under Nr. 3 of this Exhibit will be presented to Banco Central de Chile for its approval.

6. For the purpose of making a decision concerning the application submitted to Banco Central de Chile to operate under this Exhibit, the Issuing Institute may request information from the Investors to the effect of establishing that they are not controlled, directly or indirectly, by persons of Chilean nationality or resident in the country, and from the Superintendency of Securities and Insurance and from the Superintendency of Banks and Financial Institutions, and from other organizations and entities, the reports deemed necessary to adopt a decision.

7. The Investment Companies that may carry out the operations described in this Exhibit must be established as closed corporations and their by-laws must contain, at least, the following representations:

a) The object, that shall be exclusive, will consist in carrying out, exclusively, the acts and agreements necessary to implement operations established by Banco Central de Chile for these kind of companies;

b) The minimum corporate capital, subscribed and paid, shall not be less than US$ 20,000,000 (Dollars of the United States of America) equivalent in Chilean pesos domestic currency, at the time of the establishment of the company;

c) The shares issued may not have a subscription value below the equivalent in Chilean pesos domestic currency of US$ 100,000 (Dollars of the United States of America);

Such shares will be payable only to the Investors with the proceeds in Chilean pesos domestic currency that originate from the payment of the "credits" or through the contribution of the instruments that have been received in exchange for the "credits" or of the lawful domestic currency received in payment for such instruments,

The shares, once subscribed and paid, may be freely transferred abroad by and among the persons described in number 2 of this Exhibit.

d) No shareholder may own, directly or indirectly, over 25% of the capital of the company, except with the express authorization of Banco Central de Chile;

e) The by-laws shall establish that each subscriber and/or holder of the shares and the Investment Company will be subject to the obligation of producing evidence at any time, when Banco Central de Chile so requires, to show that they are holders of the respective shares, that the shares are under their control or that they have been transferred to persons other than those described in Nr. 2 of this Exhibit

The Investment Company shall inform Banco Central de Chile on a monthly basis regarding the shareholders' registry and undertake to provide any information required by Banco Central de Chile conducent to verify compliance with the condition mentioned in this letter and, additionally, that the Investment Company shall not register transfer of shares to person who do not meet the requirements contained in Nr. 2 of this Exhibit.

f) Indication of the duration of the company that may not be less than 12 years starting from the date of its establishment.

g) The by-laws shall indicate that the investments of the company shall conform to the established rules, or to be established in the future for this purpose, by Banco Central de Chile.

h) The company shall prepare balance sheets covering the period between January 1st and December 31st of each year, that shall be audited by independent auditors, registered with the Superintendency of Securities and Insurance and may only distribute profits to its shareholders under the terms and conditions established on this letter h).

In case the first business year ending on December 31st does not complete the period established above, counting as of the date of initiation of activities of the Investment Company, this period shall only be considered for the purposes of distributing profits of the Company, and for the remittance referred to in letters a) and b) of Nr. 16 of this Exhibit, when referring to periods equal to or exceeding six months, counting as of the above mentioned date of initiation of activities.

During the first five business years, the Company may agree not to distribute profits or that these be partially distributed on each business year. In case distribution is agreed, it shall not exceed 70% of the profits corresponding to each business year.

The net profits that the Company distributes during the first five business years shall only be destined by the shareholders to the following ends:

i) Constitute [illegible] established in Chile, that can be the same mandating entity referred to below in this letter h). Such deposits shall be, depending upon the terms dictated by applicable provisions, subject or not to readjustment according to the variation of Unidad de Fomento or the type of exchange, with or without interests. The profits received may also be invested in Banco Central de Chile Discount Promissory Notes;

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Banco Central de Chile Readjustable Promissory Notes; Banco Central de Chile Readjustable Promissory Notes subject to Floating Interest Rate; Discount Promissory Notes of the General Treasury of the Republic and Readjustable Promissory Notes of the General Treasury of the Republic.

ii) Subscribe and pay new shares that will be called "B" shares for the purpose of this Exhibit, issued by the Investment Company. The respective reform of the company's by-laws shall be subjected to prior approval on the part of Banco Central de Chile. These shares shall only be subscribed, paid and maintained by eligible investors referred to in Nr. 2 above, where the above are not subject to the restrictions affecting "A" shares referred to in the first and second paragraph of letter c) of this Nr. 7 and letter c) of Nr. 16 of this Exhibit.

The benefits or profits generated by the investments carried out by the holders of the same, according to points i) and ii) above, as well as those generated by the eventual reinvestment of these, shall be destined, necessarily to the investments described to in points i) and ii) already mentioned.

The financial instruments referred to in point i) above shall not be ceded or transferred by their owners and may be liquidated only on occasion of profit remittances they are entitled to according to the terms contained in letter b) of Nr. 16 of this Exhibit. "B" shares can be ceded or transferred, abroad, by the shareholders of the same only to other investors that are eligible according to Nr. 2 of this Exhibit. The new shareholders shall assume the rights and the obligations of the persons ceding.

Once five business years of the Investment Company have elapsed, the company is authorized to distribute only up to 90% of its annual profits.

i) Provisions that determine that the Investment Company shall be governed by the accounting norms applicable to open corporations with the exception that the investments shall be valued individually at the lesser acquisition value corrected for eventual variations in currency value or their market value.

j) Obligation to provide information to Banco Central de Chile on a monthly basis regarding its investment portfolio and the operations carried out and of providing full and detailed account of these operations when Banco Central de Chile requests it.

Provisions [illegible] regarding the investment portfolio in the manner it deems necessary.

8. Investments made by the Investment Companies, regardless of the amounts reserved in cash or in banking accounts, must be carried out using the following instruments:

a) Shares of Chilean corporations;

b) Instruments issued or guaranteed until their full payment by the Republic of Chile, by "public sector entities", pursuant to the definition of the latter contained in letter b) of Nr. 1 of this Chapter, and by Corporación de Fomento de la Producción (CORFO).

c) Instruments issued by Banco Central de Chile.

d) Instruments issued or guaranteed until total payment by banks or financial institutions established in the country.

e) Mortgage bonds issued by banks or financial institutions, or by other authorized entities in the country.

f) Bonds and commercial paper registered with the Registry of Securities.

g) Any other instrument or security purchased with expressed authorization of Banco Central de Chile.

9. The investments of the company shall be subject to the following rules concerning diversification requirements:

a) Investments may not exceed, directly or indirectly, 10% of the corresponding capital with the right to vote of the same issuer. Such restriction shall amount to 15% of the corporate capital with a right to vote if the excess over such 10% corresponds to shares pertaining to a primary issue subscribed and paid by the corresponding Investment Company.

b) Investment in instruments issued or guaranteed by the same issuer may not exceed 10% of the respective Investment Company's assets, except in cases where the instruments are issued or guaranteed until full payment by the Republic of Chile or by Banco Central de Chile.

c) After the fourth year counting from the date of initiation of activities, the company must have at least 80% of its assets invested in shares or long term financial instruments. Besides, and starting on the above mentioned date as well, at least 60% of the assets shall be invested in shares pertaining to open corporations. Nevertheless, such limits shall not be applied during the year prior to the liquidation of the Investment Company, and shall be reduced to 40% and 30%, respectively, during the year prior to the one preceeding liquidation.

For these purposes, long term instruments shall be understood to be those in which the maturity date exceeds four years starting on the date of their purchase by the corresponding Investment Company.

10. If excesses should occur relative to the limits of investment established in the preceeding number, which shall be reported to Banco Central de Chile within 10 days after the limit has been exceeded, the Issuing Institute shall determine a date for normalization that will not be less than 60 days and may not exceed 180 days counting from the date of notification of the fact. Such term may be extended if Banco Central de Chile considers there are justified reasons to alter the limits mentioned above.

11. The operations carried out by the Investment Companies shall conform to bona fide and reasonable conditions, and Banco Central de Chile may request verification as to the manner the operations were carried out, at any given time.

12. In case the Investment Companies hire third parties for the management of their investment portfolio, the system of remunerations to be applied to such purposes must be submitted to the approval of Banco Central de Chile.

13. The Investment Companies shall submit to Banco Central de Chile a list identifying the foreign markets or stock exchanges in which the shares of the company will, eventually, be registered for their transaction.

14. The liabilities of the Investment Company may only originate from operations related to its line of business and within habitual market terms, commissions payable, expenditures, fees payable for the management of its portfolio, deferred payments for primary issues of securities and other liabilities of a similar nature related with its operation and its correct financial administration, prior authorization on the part of Banco Central de Chile.

15. In case the obligations described in the third paragraph of letter c) or of letter d) of number 7 of this Exhibit were violated, under any circumstance, access to the foreign exchange market will only be granted, concerning the affected shares, once the impediment has been removed, notwithstanding the possibility of penalizing the action in accordance to the terms contained in number 10 of this Chapter XIX.

16. The shareholders of the Investment Company and/or, as the case may be, the holders of the investments described in point i) of letter h) of Nr. 7 above, shall have access to the foreign exchange market to carry out the following operations:

    a) Remit net profits distributed by the Investment Company, and 90% of the proceeds generated by the investments they hold, carried out in instruments described in point i) of letter h) of number 7 of this Exhibit, after the fifth business year of the company.

    b) Remit profits not distributed by the Investment Company during the first five business years, and those that are invested according to points i) and ii) of letter h) of Nr. 7 above, as well as those generated by eventual reinvestment of the same, after five business years of the Investment Company have elapsed and in a proportion that may not exceed, annually, 20% of non-distributed profits and outstanding net balance of the investments and/or its reinvestments as of the fifth business year of the company; and

    c) Remit the product of the liquidation of the Investment Company as well as the 10% retentions effected concerning the proceeds referred to in letter a) of this Nr. 16, not before the minimum term established in letter f) of Nr. 7 of this Exhibit has elapsed".

17. The persons holding "A" or "B" shares, as well as those holding investments referred to in point i) of letter h) of Nr. 7 above, shall grant, previously or simultaneously with the corresponding investment of the profits, and to the extent that the Investment Company had agreed to distribute profits during any of the first five business years counting from the date of initiation of activities, an irrevocable mandate to the Investment Company to carry out the following actions concerning the same:

    a) Collect the corresponding dividends distributed by the Investment Company and invest them in the subscription and payment of shares "B" or in financial instruments referred to in point i) of letter h) cited above.

    b) Collect the proceeds obtained by the holders of the financial instruments described in point i) of letter h) cited above and invest them in shares or financial instruments referred to in letter a) above.

    c) Administer the investment carried out by the respective holders of the financial instruments, and the proceeds generated by the same referred to in letters a) and b) above.

    d) Liquidate the financial instruments referred to in point i) of letter h) cited, and the product of the reinvestment of the same, placing them at the holders' disposal for its corresponding remittance abroad, according to the terms and conditions established for this purpose in letters a) and b) of Nr. 16 above.

    The mandates granted in conformity with this number shall be in force as long as the corresponding right to access to the foreign exchange market referred to in Nr. 16 above is maintained. In case cessions of shares "A" or "B" take place, and previously or simultaneously to the materialization of these actions, the new holders shall grant a mandate to the Investment Company in agreement with the provisions established in this Nr. 17.

18. For the purposes of the conversions of foreign currency taking place according to the norms contained in this Exhibit the type of exchange utilized shall be the one referred to in Nr. 6 of Chapter I of the Compendium of Rules on International Exchange.

19. The investments authorized under the provisions contained in this Exhibit shall be subject to each and all the general norms, conditions, and obligations included in Chapter XIX of this Compendium, and to the special rules contained in this Exhibit, where the latter prevail over the former, in case of conflict."

FEDERAL REPUBLIC OF NIGERIA

Guidelines on Debt Conversion Programme for Nigeria

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GUIDELINES ON DEBT CONVERSION PROGRAMME FOR NIGERIA

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1.1. Introduction

The Federal Republic of Nigeria has established a Debt Conversion Programme (DCP) and set up a Debt Conversion Committee (DCC) to implement the programme.

1.2. Objectives of the Debt Conversion Programme

The objectives of the Debt Conversion Programme are :

(*i*) To reduce Nigeria's external debt position by reducing the stock of outstanding foreign currency denominated debt in order to alleviate the debt service burden.

(*ii*) To improve economic environment attractive to foreign investors.

(*iii*) To serve as an additional incentive for the repatriation of flight capital.

(*iv*) To stimulate employment generating investments in industries with significant dependence on local inputs.

(*v*) To encourage the creation and development of export-oriented industries thereby diversifying the export base of the Nigerian economy.

(*vi*) To increase access to appropriate technology, external market and other benefits associated with foreign investment.

1.3. Membership of the Debt Conversion Committee

The membership of the Debt Conversion Committee is as follows :

(*i*) The Central Bank of Nigeria	*Chairman and Secretariat*
(*ii*) Federal Ministry of Finance and Economic Development	*Member*
(*iii*) Cabinet Office	*Member*
(*iv*) Federal Ministry of Industries	*Member*
(*v*) Federal Ministry of Justice	*Member*
(*vi*) Hon. Minister of State for Special Duties, Office of the President	*Member*

1.4. Functions of the Debt Conversion Committee (DCC)

The primary functions of the Debt Conversion Committee (DCC) include the following :

(*i*) to design and implement an efficient Debt Conversion Programme (DCP) in Nigeria ;

(*ii*) to establish clear and concise approval and procedures ;

(*iii*) to review and approve applications and transactions within reasonably specified time ;

(*iv*) to continually monitor and review the progress of the programme and the investment projects approved under it.

1.5. DCP Guidelines

In what follows, guidelines covering rules and regulations, application conversion and monitoring procedures for a Nigerian DCP is presented. The guidelines may be reviewed and amended from time to time by the Debt Conversion Committee (DCC) without necessarily affecting the ~~amdents~~ 87 of previously completed transactions.

2. Rules and Regulations

2.1. Eligible Foreign Debt(s)

At the initial phase of the programme, the only class of debt that would be eligible for conversion shall, in the meantime, be the Central Bank of Nigeria Dollar denominated Promissory Notes issued under Central Bank of Nigeria Circular of April 1984 and promissory notes issued by Federal Ministry of Finance and Economic Development. Later, the programme may be extended to cover any other foreign currency denominated debt of maturity greater than 365 days owed to commercial banks by the Federal Republic of Nigeria or the Central Bank of Nigeria. The decision to make any class of debt eligible shall rest with the Debt Conversion Committee and will be taken in their light of developments under the programme.

2.2. Eligible Transaction Categories

In the application of the Naira proceeds from debt conversion, the only three categories of application that would be entertained by the Committee would be :

(*i*) Conversion to cash for the purpose of making a gift/grant to Nigerian entities.

(*ii*) Conversion for expansion or re-capitalisation of investments in privatised enterprises.

(*iii*) conversion for investment in completely new projects.

2.3. Priority within Eligible Transaction Categories

Within the eligible transactions stated in 2.2 above, the following economic activities will be given priority in the following order :

(*i*) Investment in production processes based on at least 80 per cent local raw materials, especially in the development of agriculture and agro-allied industries, production for export and production of raw materials and other requirements of local industries.

(*ii*) Investment with high employment content.

(*iii*) Investment for extracting, exploiting and commercialisation of Nigeria's mineral, forestry, and other natural resources.

(*iv*) Investment that will seek to improve or use existing inventions and discoveries in Nigeria relating to new machinery, new products or new processes or with technology component appropriate or adaptive to the Nigerian situation.

2.4. Minimum Size of Transaction

In order to minimise administrative work, discourage frivolous applications and facilitate the supervision of, or surveilance over the projects in which the Naira proceeds of debt conversion are invested in 2.2 (*ii*) and (*iii*) above, the minimum amount of debt to be considered under the scheme shall be $0.25 million (one quarter of a million United States dollars) in the first instance and $25,000 (twenty-five thousand U.S. dollars) in subsequent redemptions. In the case of conversion to cash for the purpose of making a gift under 2.2 (*i*) there shall be no minimum limitation.

2.5. Eligible Participants

All legitimate holders or assignees of designated debt(s) including Nigerians and foreign nationals whether corporate bodies or individuals, resident or non-resident, shall be eligible to participate in the debt conversion programme provided that the foreign exchange required for the purpose of promissory notes and/or other foreign debts from an original or a previous holder originated from abroad and not from foreign exchange purchased on FEM or in other way from Nigeria. The enterprise(s) financed with the redemption proceeds is (are) registered as Nigerian enterprise(s) under existing company laws at the time of the transaction.

2.6. Volume Control

2.6.1. The debt conversion programme shall be consistent with the fiscal, monetary and other policies of the Federal Military Government by ensuring that the amount, timing and application of the proceeds of converted debt are in accordance with national priorities, especially the policies on inflation and acceleration of industrial and agricultural development.

2.6.2. To keep DCP within the framework of the SAP, a volume control shall be applied in the form of annual and monthly ceilings. Such ceilings shall be kept under constant review in line with monetary, credit and other maco-economic objectives and development. Any conversion shortfall in one month may, at the discretion of the DCC be carried over and added to the following month's specified limit.

2.7. Protection of Foreign Investment

Any approved investment made from the proceeds of conversion under the Nigerian DCP shall be recognised as investment made in foreign currency like any other and accordingly will benefit from approved status, for the purpose of such matters as tax treatment and repatriation of dividends and capital subject to the remittance restriction clause in paragraph 2.8 below.

2.8. Remittance Restrictions

In order to ensure that the relief being sought through DCP is not frustrated and in order that the exercise does not result in giving preferential terms of repayment to an investing redemptor over other creditors contrary to the terms and conditions of existing debt rescheduling arrangements, the following limitations shall be placed on remittances of redemption proceeds and incomes arising thereof :

(*i*) Interest income, profits/dividends, patent licence fees and other invisibles connected with approved projects under the DCP shall not be repatriated for a minimum period of five (5) years from the date of release of redemption proceeds for actual investment or five years after such profits/dividends are made or paid whichever is later.

(*ii*) Any capital proceeds arising from subsequent disposal of the investment made under the programme cannot be repatriated for a minimum of ten (10) years after effective investment of the proceeds.

(*iii*) Repatriation of capital after 10 years shall not exceed 20 per cent per annum.

2.9. Transaction Commission

A transaction commission payable in U.S. dollars and equivalent to 2.5 per cent of the discounted value of the debt to be converted shall be payable to the Central Bank of Nigeria (CBN) by the redemptor. The U.S. dollar commission shall be payable to CBN account with the Federal Reserve Bank of New York N.Y., or any foreign bank as may from time to time be designated by the CBN.

2.10. Financing of Off-Shore Costs of Projects

The Naira proceeds of Nigeria's DCP shall be applicable only to the local cost of the project in which the investment is made. All off-shore costs of the DCP projects shall be provided by the redemptor. The ability to provide the off-shore cost shall be a condition precedent to any debt equity conversion. Such additional foreign capital investment shall be accorded all the privileges of foreign investment in Nigeria under existing laws.

2.11 Taxation of Profit and Dividend

Taxation of profit and dividend arising from approved DCP projects shall be in accordance with the existing tax laws in Nigeria at the time such profits and dividends are declared.

3. Application Procedure

3.1.1. Prospective participants whether corporate or non-corporate, national or foreign must obtain the prior consent or approval in principle of the Debt Conversion Committee in order to qualify for participation.

3.1.2. All such applications shall be made to the Chairman of the Debt Conversion Committee at the committee's Secretariat located at the Central Bank of Nigeria, Tinubu Square, P.M.B. 12194, Lagos.

3.1.3. The Secretariat shall acknowledge in writing or by attested Cable to the applicant or his agent(s), the receipt of completed application within three (3) working days of the date of receipt of the application.

3.1.4. Application for approval in principle will be processed on case by case and on first come first served basis.

3.1.5. The Committee will meet at least once every two weeks (and more often as dictated by the volume of work to review and approve applications.

3.1.6. The approval or rejection of an application must be communicated to the applicant and/or his agent(s) within four (4) weeks of the receipt of such application.

3.1.7. The Committee shall not be under any obligation to give reasons or justifications for approval or rejection of any application and its decision shall be final.

3.1.8. Incomplete or defective application(s) will be returned for modification or applicant or his agent(s) will be required to submit additional information.

3.2. Required Information

The application to the Debt Conversion Committee shall contain the following information :

(*i*) Detailed identity of applicant and where applicable, detailed identity of agent(s) in Nigeria.

(*ii*) Information pertaining to applicant's business should include :

--nature and type of current business activity and particulars of incorporation ;

Capital and volume of operations ;

business conducted in or with Nigeria ;

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other investment/operations/activities in Nigeria ;

Nature and volume of business intended to be conducted in Nigeria with proceeds of proposed conversion.

(*iii*) Previous experience, if any, in debt conversion with particulars of volume and nature of business done with profile of actual investmen performance in other DCP countries (if any).

(*iv*) Undertaking of acceptance of and adherence to the guidelines contained therein.

(*v*) Beneficiary or recipient of conversion proceeds and whether it is an existing organisation or a new company to be specifically organised for debt-equity conversion programme.

(*vi*) In the case of foreign persons or entities, particulars of agent(s) or representative(s) in Nigeria. Copies of mandate/agreement between the applicant and the agent(s) whether a person or body corporate, certified by a court declaration or a notary public. Agreement must contain details of agents, including detailed instructions for handling and delivery of conversion proceeds.

(*vii*) Any other verifiable information or references which could facilitate decision making on the application.

3.3. Verification of Applicants' Particulars

The Central Bank of Nigeria through its usual correspondent channels shall verify the information supplied by the applicant.

3.4. Interview

Should the need arise, the applicant and/or his agent(s) shall be invited for interview on the terms and conditions of conversion.

4. Conversion Procedure

4.1. Auction

The method of debt conversion shall be by auction. However, the DCC can, at its discretion approve an application for conversion on its own merit.

4.2. Eligible Bidders

All redemptors who have received approval in principle or their agents are eligible to participate in monthly auction to bid for the amount offered by the DCC for the month.

4.3. Conversion Procedure

An approved prospective redemptor or his agent(s) shall submit bid form(s) to the DCC at its Secretariat located in the CBN, giving particulars to the promissory note(s)/debt instrument(s) to be redeemed. The redemptor or

his agent(s) may submit up to two alternative bids at an auction. If both bids are successful, the more benefitial bid to Nigeria shall be taken as his bid for the auction.

4.4. Bid Schedule

Bid forms will be provided by the DCC Secretariat at the CBN, Tinubu Square, Lagos.

Bid will be received up till 11.00 a.m. and the auction will take place at 12 noon on last banking day of each month (or any other designated day). The auction, amounts to be redeemed, and relevant conditions will be announced ten banking days before the date of the award.

Bid process will be handled by the DCC Secretariat.

4.5. Bidding

Bids will be delivered to the DCC Secretariat at the CBN and such bids will specify the discount offered as percentage of the face value of the debt to be redeemed.

The DCC Secretariat reserves the right to reject any irregular bid.

4.6. Award

Bids will be ranked in decreasing order of discounts offered.

The right to redeem will be awarded by discount rank until the montly allocation is exhausted. If two or more bids offer the same discount and the balance of monthly allocation is insufficient to cover both, that balance will be distributed *pro rata* among the two or more bids in respect of offers at the same price. Award will be made to a successful bidder at his bid price (discount).

The DCC may set a reserve price above which no deal can be effected.

Redemptors or their agents will be informed of bid award by telephone or telex within 2 working days of the close of the auction.

Within 5 banking days of date of notification, the conversion commission due from successful bidders must be paid to the U.S. dollar account of the CBN the Federal Reserve Bank of New York. Redemptors who fail to comply within the requisite time period will forfeit their allocations.

4.7. Exchange Rate

The applicable exchange rate shall be the effective FEM rate at the time of the auction and this shall be applied to the successful redemptor's bid price in the calculation of the Naira proceeds.

4.8. Delivery of Debt Instrument for Conversion

The redemptor(s) or his agent(s) will deliver the promissory note(s)/debt instrument(s) for conversion to Chase Manhattan Bank N.A., New York within 10 working days of the auction in which his bid is successful. If a redemptor fails to deliver the debt instrument(s) to Chase within the stipulated time, he shall forfeit his allocation in the auction.

4.9. Provision of Redemption Proceeds

Upon the confirmation of receipt of promissory note(s)/debt instrument(s) by Chase Manhattan through attested telex to the DCC the CBN will provide the Naira Proceeds directly to a designated blocked account at the CBN in favour of the redemptor. The redemptor or his agent will be promptly informed.

4.10. Blocked Account and Release of Funds

Naira proceeds of converted promissory note(s)/debt instrument(s) will be kept in a blocked account at the CBN and released in tranches to the redemptor's bank according to the cash needs of the approved project(s) as approved by the DCC.

4.11. Cancellation of Redeemed Promissory Note(s) Debt(s)

After redemption, the DCC will advise Chase Manhattan Bank to cancel the notes and surrender them to the DCC. Where the amount of debt to be converted is less than the face value of the promissory note(s) submitted for cancellation, Chase Manhattan Bank shall issue a fresh promissory note in the amount of the unredeemed balance to the redemptor.

5. Approved Status

5.1 Pursuant to the provision of sub-section 14 (2) of the SFEM Decree, the DCC shall within 14 days of the conversion of dollar denominated promissory notes into Naira, issue a Certificate of Capital Importation in the usual way, and upon which the Federal Ministry of Finance and Economic Development will in turn issue Approved Status Certificate.

5.2. In a similar manner, separate certificate of capital importation shall be issued for additional importation of foreign exchange either in cash or in the form of machinery and equipment, etc., which constitutes the off-shore cost of approved debt-conversion projects.

6. Monitoring

6.1. Designated Redemptor's Bank

The blocked conversion proceeds held at the CBN shall be released to the designated redemptor's bank in amounts approved by the DCC from time to time. The redemptor's bank shall open only one special account for every redemptor into which funds released from the blocked account shall be

credited for the prosecution of the approved project(s). The redemptor's bank shall furnish the DCC with monthly reports on each debt conversion account operated by it. Such report shall include all the import and other foreign exchange transactions of the enterprise/company in which the redemption proceeds have been invested. It shall also include its source of foreign exchange outside the FEM including interbank market.

6.2. No Access of Foreign Exchange

All such designated debt conversion accounts shall have no access to FEM without the prior authorisation of the DCC. The enterprise company in which redemption proceeds have been invested should lodge information about all their import and other foreign exchange transactions with the DCC.

6.3. Documentation

The DCC shall maintain at all times at its Secretariat, a list and amount of all existing Promissory Notes. The Committee shall also maintain a list and amount of all cancelled promissory notes following conversion. It shall also maintain a comprehensive record of all projects financed with debt conversion proceeds.

6.4. Periodic Report by DCC

The Debt Conversion Committee shall submit to the Federal Government monthly, and quarterly reports highlighting the operations of the scheme and the operational problems encountered with recommendations for improvement in efficiency and effectiveness of the programme. Periodic review and report shall be made on the projects financed with the proceeds of debt conversion.

6.5. Sponsors of approved projects under the programme shall submit Annual Report and Audited Accounts on their operations to the DCC.

6.6. Non-Compliance

Transactions in violation of the guidelines stated herein or conditions set by the Debt Conversion Committee or against the laws of the country will be deemed null and void and will be subject to the penalties provided under the foreign investment laws of Nigeria and all relevant laws.

Transactions not executed in accordance with the approval shall be null and void for the purpose of repatriation either of profit/dividend or capital.

6.7. The Debt Conversion Committee may set and modify execution procedures for controlling and supervising operations pursuant to the Debt Conversion Programme in accordance with the priories of the programme.

Central Bank of Nigeria,
Tinubu Square,
Lagos.
5th July, 1988.