

# Working Group on Debt Swaps for Education

## Draft Report for the Director-General of UNESCO

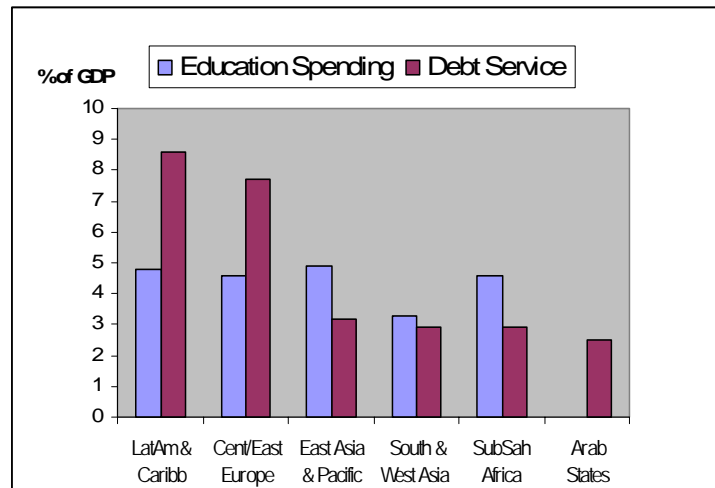
21 August 2007, Buenos Aires, Argentina

## I. Background on the initiative and the Working Group

Many developing countries are caught in a vicious cycle. The problems of under-funded education and over-indebtedness are mutually reinforcing. As governments struggle to meet unsustainable debt obligations, they are forced to redirect scarce resources that could otherwise serve as funding for the Education for All (EFA) goals and the Millennium Development Goals (MDGs).

In many countries, the debt service is greater than the percentage of the national wealth invested in education (see Education Spending vs. Debt Service graph, 2003/04).<sup>1</sup>

At the current pace, the six EFA goals and the MDGs will not be fully reached by 2015 by many countries. Despite growth in primary education enrollment from 80 per cent in 1991 to 88 per cent in 2005, 77 million children are still not enrolled.<sup>2</sup>



Developing countries cannot achieve these goals alone. Developed countries need to deliver fully on longstanding commitments to achieve the official development assistance (ODA) target of 0.7 per cent. In spite of this commitment, ODA reached only half the target figure in 2004, declined between 2005 and 2006, and is expected to continue to fall slightly in 2007 as debt relief declines.<sup>3</sup>

Although the benefits of investing in education are supported by ethical, economic, social, and political arguments which are increasingly recognized in global forums, total aid to basic education accounts for only 2.6% of ODA. Its share would have to double to reach the estimated US\$7 billion a year necessary just to achieve universal primary education and gender parity.<sup>4</sup>

Given these shortcomings, the financial gap needed to meet these commitments cannot be entirely met by current national budgets and external aid levels. Additional resources should be mobilized through new commitments to debt relief, such as debt swaps and other innovative financing mechanisms.

<sup>1</sup> Debt service statistics: *Human Development Report 2005*, UNDP, [http://hdr.undp.org/reports/global/2005/pdf/HDR05\\_HDI.pdf](http://hdr.undp.org/reports/global/2005/pdf/HDR05_HDI.pdf), p. 283.

Education investment statistics: *EFA Global Monitoring Report 2007*, UNESCO, pg. 320. [www.unesco.org/education/GMR/2007/Full\\_report.pdf](http://www.unesco.org/education/GMR/2007/Full_report.pdf) (no data available for Arab states)

<sup>2</sup> *Millenium Development Goals Report 2007*, <http://www.un.org/millenniumgoals/pdf/mdg2007.pdf> pg, 4

<sup>3</sup> *Ibid.* pg, 5.

<sup>4</sup> *EFA Monitoring Report, Summary*, 2006, UNESCO, pg. 1.

[http://www.unesco.org/education/GMR2006/summary\\_spa.pdf](http://www.unesco.org/education/GMR2006/summary_spa.pdf)

While debt swaps are not the panacea to all debt and education problems, they do offer an innovative and vital source of funding for education, provide some debt relief, and serve as a valuable ODA instrument.

After more than a decade of international declarations promoting debt for education swaps<sup>5</sup>, an international initiative began to emerge three years ago. In 2003, during the 32<sup>nd</sup> session of the General Conference of UNESCO, the Ministers of Education of Argentina, Brazil, and Venezuela and the President of Peru encouraged initiatives to swap debt for education and requested UNESCO to take a lead role.

Consequently, in 2005, the 33<sup>rd</sup> session of the General Conference of UNESCO passed a resolution<sup>6</sup> which led to the creation of the Working Group for the purpose of “assessing the educational implications of debt swaps and other innovative financing mechanisms”.

The first meeting of the Working Group, with financial support from the Government of Spain, was held at the UNESCO Headquarters on 27-28 November 2006. The meeting allowed for an exchange of experiences and an establishment of a basic conceptual framework based upon the working paper: *What are debt for education swaps?*<sup>7</sup> as well as a work plan for the period leading up to the 34<sup>th</sup> session of UNESCO’s General Conference in October 2007.

The second meeting of the Group, co-hosted by UNESCO and the Ministry of Education, Science and Technology of Argentina, took place from 12 to 13 July in Buenos Aires, Argentina. The main purpose of the meeting was to further exchange lessons learned from experiences, formulate guidelines for future debt swaps, and discuss the draft report to be submitted to UNESCO’s Director-General.

## II. Purpose of Report

According to the terms of reference of the Working Group on Debt Swaps for Education<sup>8</sup>, the group will: *Submit to the Director-General, in time for him to report to the 34<sup>th</sup> session of UNESCO’s General Conference on the outcomes of the Working Group’s deliberations, a report on its work, with recommendations on the value and usefulness of debt swaps for education and on best practices conducive to the successful implementation of debt swaps for education.*

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<sup>5</sup> List of declarations in Annex 1

<sup>6</sup> Resolution found in Annex 2

<sup>7</sup> Full text of Working Paper found at: <http://www.oei.es/deuda/DebtswapUNESCO2007.pdf>

<sup>8</sup> Terms of Reference in Annex 3

### III. Key debt swap concepts and models

A debt swap is the cancellation of external debt in exchange for the debtor government's commitment to mobilize additional domestic resources for an agreed purpose. The terms 'conversion', 'exchange', and 'swap' are often used interchangeably.

The first debt for development swaps were the debt for nature swaps that gained popularity in the late 1980s, and are still carried out in a number of countries. Stimulated by the success of environmental organizations in mobilizing additional resources through swaps, a large number of governments and NGOs became actively involved in debt for development swaps under different names, such as debt for education, debt for health, and debt for child development.

Debt swaps can be classified into two main models: bilateral swaps and triangular swaps. The major difference between these two models usually, although not always, depends upon the type of debt being swapped (private debt or public debt)<sup>9</sup>.

In a typical bilateral swap the creditor government agrees to reduce a developing country's ODA debt in exchange for debtor government investment in development. The creditor and debtor governments directly negotiate the terms of the debt reduction and the debtor government's commitment to set aside new funds for development.

A typical triangular swap is an agreement made between at least three parties: 1. Creditor (usually a foreign bank), 2. Debtor country government and, 3. Not-for-profit investor (an international development organization, which can be an NGO or a UN agency). A fourth party that may be involved is a developed country government or international organization providing funds.

The following table is a summary and comparison of the two main types of swaps:<sup>10</sup>

Type of Swap	Parties to Transaction	Eligible Debt	Source of Funds	Amount of Debt Converted	Recipient of Funds
<b>Bilateral</b>	1. Debtor Govt 2. Creditor Govt	1. ODA 2. Publicly guaranteed	Budget of debtor country, originally destined to creditor country	Generally much larger	Counter-part fund or public institution (e.g. Ministry of Education)
<b>Triangular</b>	1. Debtor Govt 2. Not-for-profit investor 3. Creditor	1. Commercial 2. Bilateral publicly guaranteed (small amounts)	Funds raised either by creditor country NGO or donation by commercial creditor	Generally small	NGO or counter-part/trust fund

<sup>9</sup> For a breakdown on the type of debt owed by developing countries see Annex 4

<sup>10</sup> A similar table is found in: *Exchanging Debt for Health in Africa: Lessons from Ten Years of Debt for development Swaps*, Sydney Rosen et al., Harvard Institute for International Development, November, 1999, <http://ideas.repec.org/p/ith/harvid/732.html>, p. 4.

For further information on the two types of swaps see Annex 5.

In the past, there have been more triangular swaps than bilateral swaps, but currently bilateral swaps are more prominent and result in much greater investments in development, particularly education.

#### IV. Lessons learned from debt swap experiences

Although an extensive history of debt for development swaps exists, the recent innovation which has been produced is the link between debt swaps and education investment in an ODA framework. Fundación SES/Latindadd and the Organization of Iberoamerican States (OEI) are currently compiling a database on all debt for development swap experiences. Thus far they have analyzed 129 cases which have relieved more than US\$5.7 billion in developing world debt and resulted in over US\$3.6 billion in development related investments.<sup>11</sup> Lessons can be drawn from several key experiences.

Currently, Spain is the leader among creditor countries carrying out debt for education swaps. After initiating talks with Argentina, Spain signed agreements with several countries: Ecuador (\$50US million), Nicaragua (\$38.9 m), Honduras (\$138.3 m) y El Salvador (\$10 m). In 2006, Bolivia (\$72 m) and Peru (\$11 m & €6 m) were added to the list of beneficiaries. Utilizing debt swaps as an ODA instrument, the Spanish government cancels debts in exchange for programs which consist of the construction of education facilities, the opening of new institutes, providing materials, and other investments within the sector.<sup>12</sup>

Germany is another leader in debt swaps for education. In Indonesia, Germany has canceled over €68 million in debt through 3 different swaps, leading to investments of over €33 million in primary and secondary education from 2003 to 2008. In Pakistan, a German swap in 2004 led to a €50 million debt cancellation and an investment of €25 million in the basic education system in two of the most disadvantaged regions. In Jordan, a swap canceled a debt of €30 million in return for investments in poverty alleviation, sanitation, and education, especially for the German Jordanian University.

France's Contracts for Debt Relief and Development (C2D), a part of the initiative to relieve multilateral and commercial debt of heavily indebted poor countries (HIPC), provide additional financing by reducing debt through exchanging into national priority programmes that benefit poverty reduction most directly. France signed the following C2D to benefit education: Cameroon in 2006 (€90m allocated out of €537m for ten years); Mauritania in 2003 (€9.7m allocated for education out of €14.7m for three years) and 2006 (€11.8m for three years); Tanzania in 2003

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<sup>11</sup> These figures do not take into account HIPC initiative data

<sup>12</sup> *Programas de Conversión de Deuda Externa*, Ministerio de Economía y Hacienda, Gobierno de España  
<http://www.meh.es/Portal/Areas+Tematicas/Internacional/Financiacion+internacional/Gestion+Deuda+Externa/Programas+de+conversion.htm>

(€4.25m for three years) and will sign in November 2007 (€7.8m for five years); and Nicaragua in 2005 (€2.4m for two years)<sup>13</sup>.

A France-Uruguay swap agreement in 2004 for €5 million led to the creation of the Institut Pasteur, a center for scientific research and education, opened in 2006 in Montevideo.

In 2001, Italy and Egypt signed a debt swap agreement to invest \$149 million in development and environmental programs in rural Egypt. Egypt's sustainable human development program aimed at improving computer and internet access in remote areas, enhancing computer literacy in schools and adult literacy as well as providing wide range of electronic information to local communities was funded by 16% of the total debt swap program.<sup>14</sup>

From 1989 to 1995, UNICEF implemented 21 triangular debt swaps for development in various countries, retiring close to \$200m of debt and raising local currency funds of around \$50m for child development and maternity projects. Using debt donations from international creditor banks and contributions from UNICEF committees to purchase debt, UNICEF came close to doubling its development funds through debt swap transactions. In particular, UNICEF debt swaps benefited education in Madagascar, Philippines, Mexico, Bolivia, and Senegal.<sup>15</sup>

Three debt swaps for nature have benefited the Philippines. The Swiss Debt Reduction Facility facilitated a debt swap transaction in 1995, establishing the Foundation for a Sustainable Society, Inc. to implement development projects. Similarly, the Foundation for the Philippine Environment, which was established using major funds from the debt swap conducted by the World Wide Fund, a trustee through a 1991 agreement with USAID, funded a number of biodiversity conservation projects. In 2002, the German Kreditanstalt für Wiederaufbau (KfW) cancelled Philippine bilateral debt while the beneficiary allocated an amount equivalent to 30% of the debt towards a community-based forestry management project.

The *EcoFund* experience in Poland is a unique multilateral process which could serve as a model for future debt for education swaps. In 1992, Poland developed the largest counterpart fund in the history of debt for development swaps. The country agreed to a 50% reduction of its debt with the Paris Club, and proposed an additional 10% reduction in exchange for a deposit of the equivalent funds in the *EcoFund*. With the support of the five creditors (France, Italy, Sweden, Switzerland and the United States), it is estimated that \$545 million will be invested in environmental projects until 2010.

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<sup>13</sup> Initiative PPTE renforcée – Volet bilatéral additionnel français: contrats de désendettement et de développement (C2D). Direction Generale de la Cooperation Internationale et du Developpement, Direction des politiques de développement (2006)

<sup>14</sup> Kamel, S. and Tooma, E. A. 2005. *Exchanging Debt for Development: Lessons from the Egyptian Debt-for-Development Swap Experience*. Ministry of Communication and Information Technology and the Economic Research Forum, Egypt

<sup>15</sup> See annex 6 for a Case Study on the Triangular Swap between UNICEF, Senegal, and Argentina, 1993.

From the data gathered it can be concluded that debt swaps for education have provided numerous lessons learned which can be categorized into benefits and obstacles which need to be addressed:

The **benefits** of debt swaps are:

1. Increase in education investment, often focused on basic education for the most disadvantaged populations.
2. Increase in ODA, bringing developed countries closer to their international cooperation commitments.
3. External debt relief, greater liquidity and an improvement in the balance of payments for the debtor country.
4. Promotion of participation, transparency and accountability with the creation of innovative mechanisms.

The **obstacles** to be addressed in certain cases are:

1. Insufficient focus on prioritized, measurable goals (ie the EFA goals and the MDGs).
2. Amounts swapped are generally well below the limit set by the Paris Club and the relief provided is insufficient to resolve the over-indebtedness crisis.
3. Lack of coordination among donors means a loss of opportunity to pool funds.
4. Lack of controls to verify if swaps genuinely increase the ODA budget of the donor, as well as the national education budget of the beneficiary.
5. Conditionality required by the donor country may negatively affect the sovereignty of the debtor nation and can elevate costs unnecessarily.
6. Participation of Ministries of Education and civil society is limited.
7. Transparency and accountability are not guaranteed at all levels of the process.
8. Funding does not always go to the appropriate level of decentralization.

## V. Guidelines on best practices for future debt swaps

The debt swap for education process requires a thorough evaluation of existing capacity and debt and education realities in any specific country. While there is no single model for debt swaps, the Working Group has developed a guideline on best practices for future debt swaps. These principles are organized into a structure borrowed from a systematized study on Spain's debt swap for education program<sup>16</sup>:

### 1. Poverty reduction

To maximize the impact of debt swaps, they should be focused on the disadvantage sectors of the population, with the intention of achieving the EFA goals and the MDGs.

### 2. Substantive agreement

To maximize both the amount of funds to be invested in education and the amount of debt reduced, it is recommended that the maximum limit allowed by the Paris Club is reached: 100% of the bilateral concessional debt and 30% bilateral commercial debt. Even greater sums can be

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<sup>16</sup> Full name and location of the report : *Luces y sombras: Un análisis de los canjes de deuda por educación en el marco de las Cumbres Iberoamericanas*, Octubre 2006, [www.cme-espana.org/doc2006/Luces%20y%20sombras.pdf](http://www.cme-espana.org/doc2006/Luces%20y%20sombras.pdf)

achieved if a multilateral agreement is signed with various creditors, pooling the resources into a single fund.

**3. Fiscal flexibility**

To ease the fiscal and liquidity burden on the beneficiary it is recommended that the donor grant a discount rate on the converted sum (a partial debt cancellation), as well as allow the fund to be carried out in local currency according to the original terms of payment.

**4. Sovereignty and equality**

To ensure debt swaps benefit all parties involved it is essential that the negotiation and implementation be carried out on terms of equality and that the sovereignty of the beneficiary be respected by not imposing conditions which solely favor the donor.

**5. Additionality**

To reach the objectives desired it is necessary to guarantee additionality in a double sense: the funds are additional to the ODA funds already destined by the donor and additional to the funds destined to be invested by the beneficiary in its education system.

**6. Coherence and sustainability**

It is essential that the resources are integrated into the beneficiary's national education strategy, its overall debt management strategy, as well as other initiatives in which synergies can be created in a sustainable manner. Similarly, swaps should form part of the donor's ODA strategy in a manner in which they do not serve as instruments of political selectivity.

**7. Participation**

To convert debt swaps into tools which promote participation it is necessary that at all levels of the negotiation and implementation all key actors actively participate: Ministries of Education/Economy/Cooperation, international organizations and civil society.

**8. Transparency**

To promote the legitimacy of these transactions, transparency should be assured at all feasible levels: regarding the origin and legitimacy of the debt, during the swap negotiation process, when the agreement is signed, during the implementation and the follow-up.

**9. Accountability**

To ensure the success of the initiative and encourage new participants, monitoring bodies, evaluation and impact studies should be conducted according to the above principles and made public. Indicators to monitor debt swaps should be developed. Systematic analysis of these evaluations through a database would also strengthen the initiative and pressure others to join.

**10. National Leadership**

To ensure that national ownership of education guides meaningful decisions regarding activities funded under a debt swap, it is necessary to build government capacity to deliver in a transparent and effective way.

## V. Recommendations

1. The Working Group considers that UNESCO, in fulfilling its mandate in the field of education and resource mobilization, should actively lead the promotion of debt for education swap initiatives and contribute to ongoing debt swap experiences.

2. The Group recommends that the necessary administrative and technical capacities of UNESCO be strengthened to better consolidate this leadership.

3. The Group calls on creditor countries and institutions to join this initiative and to actively support it.
4. The Group recommends that the UNESCO establish an Expert Committee on Debt Swaps for Education to ensure this leadership and promote the established guidelines in future initiatives. The Committee will depend on the participation of the sectors involved: governments from the North and the South, multilateral organizations, and civil society networks.
5. The Group proposes that the report presented to the Director-General, be debated in the Ministerial Round Table, organized in the framework of the 34<sup>th</sup> General Conference.
6. The group suggests that the States participating in the Group present a draft resolution to follow up the resolution 33 C/16 from the 34<sup>th</sup> General Conference, which declares the debt swap for education mechanism as an alternative financing mechanism for achieving the MDGs and the EFA goals.
7. The Group recommends that this initiative be articulated with other organizations, such as the World Bank, regional banks, and OECD, as well as with international fora such as the Paris Club, G8, G20, World Social Forum, Davos, and mechanisms for global partnerships, such as Fast Track Initiative (FTI).
8. The Expert Committee could be invited by the bilateral and multilateral initiatives established to implement debt swaps to monitor and conduct impact assessment, in order to guarantee that the funds generated are utilized ethically and efficiently.
9. This Committee would systematize and propose to UNESCO the publishing of the above lessons learned, guidelines, and successful cases in order to promote the reinforcement of these processes. It would develop research to promote initiatives among new creditor and debtor countries, involve more actors, investigate methods to swap different types of debt, and create more synergies with other initiatives.
10. The Working Group furthermore recommends undertaking a study on the economic and social merits of debt swap initiatives with a focus on education, and acknowledges the offer by the Federal Republic of Brazil to fund this work.
11. The Working Group recommends that the Committee seek the support of highly known personalities who can promote this initiative globally.
12. The Group proposes that the Committee be financed through extra-budgetary funds.
13. The Group expresses its appreciation to the Governments of Spain and Argentina for their support given to the meetings.
14. The Group thanks the Director-General for his confidence and support given through the Division for the Coordination of UN Priorities in Education.

## Annex 1: List of International Declarations and Policies for Debt for Education Swaps

- April, 1996: the International Commission on Education for the Twenty-first Century develops a report to UNESCO, which declares: *Debt swaps should be encouraged in order to offset the adverse effect of adjustment policies and policies for the reduction of domestic and foreign deficits on educational spending.*
- June, 1996: the Amman Affirmation on Education for All calls upon debt swaps to help resolve the education financial crisis.
- July 2002: at the XII Iberoamerican Conference on Education, the Ministers of Education call upon regional Heads of States to analyze the possibility of converting a percentage of regional debt into education funding
- August 2003: 20 civil society organizations sign a declaration expressing that Ministers of Education in the region develop a proposal to swap IMF debt for investment in education.
- September, 2003: at the XIII Iberoamerican Conference on Education, the Ministers of Education strengthen their call upon regional Heads of States to promote debt swaps and request that the OEI developing a plan of action.<sup>17</sup>
- October, 2003: at the 32nd session of UNESCO's General Conference, the Argentine, Brazilian and Venezuelan Ministers of Education, and the President of Peru, propose that UNESCO lead a global initiative to swap debt for education funding, citing support from Uruguay, as well as from UNICEF.
- November, 2003: at the XIII Iberoamerican Summit of Heads of States and Governments, leaders respond to the Minister of Educations' proposal by promising to explore the idea of swapping debt for education.
- September, 2004: the President of the Spanish Government, José Luis Rodríguez Zapatero, at the Summit against Hunger and Poverty in New York, announces Spain, beyond its commitment to HIPC initiative, "it will be actively involved in debt swap operations for social development, especially in the area of primary education."
- October, 2004: at the XIV Iberoamerican Summit of Heads of States and Governments, the Spanish Government's commitment is ratified.
- Early 2005: the Iberoamerican Working Group (GTI), coordinated by Spain's Ministry of Education, with representatives from Argentina, Brazil, Costa Rica, Ecuador and Mexico, promotes an Iberoamerican Pact for Education with the goal of advancing debt for education swaps.
- January, 2005: a few months after declaring debt for education swaps as a cornerstone of his foreign policy, the Spanish President, Jose Luis Zapatero, begins to negotiate debt for education swaps with several Iberoamerican countries.
- October, 2005: at the 33<sup>rd</sup> session of UNESCO's General Conference, a resolution calls upon the establishment of a *working group to be composed of representatives designated by interested Member States...to assess the educational implications of debt swaps and other innovative financing mechanisms...*
- March, 2006, UNESCO announces the creation of the Working Group on Debt Swaps for Education.

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<sup>17</sup>See *Deuda Externa por Educación*. A report created by the Fundación Economistas Sin Fronteras for the OEI, <http://www.oei.org.ar/noticias/Informe.PDF>

- April/May 2006: the Euro-Latin American-Caribbean Civil Society Forum and the Vienna Summit for Presidents of the European Union, Latin America and the Caribbean, express support for debt for education swaps.
- July, 2006: at the XVI Iberoamerican Conference on Education, the Ministers of Education agree to promote the active participation of the Ministries of Education in debt for education swap programs
- November 2006, at the *XVI Iberoamerican Summit of Heads of States and Governments*, leaders call upon the Iberoamerican General Secretariat (SEGIB) to report on the advances regarding debt for education swaps

Annex 2: Records of the General Conference, 33rd session Paris, 3-21 October 2005,  
Volume 1 – Resolutions, UNESCO

.../...

**16 Debt swaps for education<sup>18</sup>**

*The General Conference,*

*Understanding* that education is a key factor in human development, as a basic tool enabling national States to influence the working and social future of their inhabitants,

*Taking into consideration* paragraph 01003 of the Draft Programme and Budget of UNESCO for 2006-2007 (33 C/5) by which Major Programme I (Education) establishes basic education for all as the principal priority,

*Considering* that attaining the Dakar goals is essential for developing human capacities and eradicating poverty,

*Taking into account* that this requires increased levels of investment in education,

*Considering* that the burden of foreign debt on the budgets of the world's developing countries is one of the factors limiting investment in education and that rising debt-reimbursement payments reduce the availability of resources for social and educational investment,

*Recalling* that in its Report, the International Commission on Education for the Twenty-first Century, convened by UNESCO and presided over by Mr Jacques Delors, recommended "making debt swaps work for education",

*Recalling* the proposals made by the Ministers of Education of Brazil, Argentina and Venezuela and by the President of Peru during the 32nd session of the General Conference to encourage initiatives to swap debt for education and to request UNESCO, as a worldwide flagship educational organization, to lead the debates and initiatives relating to such actions,

*Considering* that the Ibero-American Conferences of Ministers of Education have stressed the importance of promoting in various international forums the adoption of innovative educational financing mechanisms, in particular the conversion of parts of foreign debt servicing into investment in their education systems,

*Bearing in mind* that the Fourth Meeting of Ministers of Education of the Organization of American States, held in August 2005 in Trinidad and Tobago, endorsed the efforts of the governments of the Americas to explore new forms of financing for public and private investment in education, such as debt swaps,

*Considering* that some members of the Paris Club have successfully carried out debt swaps generating additional resources for education in developing countries,

*Welcoming* the new commitments in 2005 of the donor community to increase development aid by \$50 billion annually by 2010, the decision at the 2005 G8 Summit, held in Gleneagles, United Kingdom, to increase and accelerate debt relief and the resolve of the World Summit of September 2005 to promote and support the EFA agenda as an integral part of renewed international development efforts,

*Recognizing* the need to support debt-swap agreements in the framework of a transparent and efficient administration of general funds, with the participation of representatives of creditors, debtors, international bodies and civil society in the follow-up to and evaluation of education projects undertaken to that end,

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<sup>18</sup> Resolution adopted on the report of Commission II at the 17th plenary meeting, on 19 October 2005.

*Invites* the Director-General:

- (a) to establish a working group to be composed of representatives designated by interested Member States, without financial implications for UNESCO, to assess the educational implications of debt swaps and other innovative financing mechanisms and report its findings to the Finance Working Group of the Fast Track Initiative;
- (b) to participate actively in the debate on foreign-debt swap for education initiatives by encouraging inter-agency meetings on alternative financing of education and contributing to ongoing debt-swap experiences;
- (c) to study the possibility of applying similar initiatives in the Organization's other fields of competence.

### Annex 3: Working Group on Debt Swaps for Education: Terms of Reference

#### 1. Composition of the Working Group

Members will be appointed for the duration of the biennium (until end 2007). Governments as well as organizations should each nominate *one expert* of their choice. Other institutions could be invited on an *ad hoc* basis.

Chair: Mr. Daniel Filmus, Minister of Education, Science and Technology, Argentina

#### Countries

Spain, Germany, France, United Kingdom of Great Britain and Northern Ireland  
Philippines, Indonesia  
Senegal, South Africa  
Morocco, Egypt  
Brazil, Costa Rica

#### Other Members

Development Agencies: UNESCO, UNICEF, World Bank

International organizations: Organisation for Economic Co-operation and Development (OECD), Association for the Development of Education in Africa (ADEA), Organización de Estados Iberoamericanos para la Educación, la Ciencia y la Cultura (OEI)

Regional Development Banks: African Development Bank, Interamerican Development Bank, Islamic Development Bank

Civil society representatives: European Network on Debt and Development (EURODAD), African Forum and Network on Debt and Development (AFRODAD), Red Latinoamericana sobre Deuda, Desarrollo y Derechos (LATINDADD)

#### 2. Terms of Reference

The Working Group on Debt Swaps for Education will:

1. Gather and reflect on experiences of debt swaps in various fields and different countries, in order to guide the development of recommendations for education;
2. Consult expert opinion;
3. Formulate potential scenarios for debt swaps in the education domain;
4. Consider different modalities for sharing information and experience with countries interested or involved in debt swaps for education, such as the preparation of policy guidance briefs;
5. Submit to the Director-General, in time for him to report to the 34<sup>th</sup> session of UNESCO's General Conference on the outcomes of the Working Group's deliberations, a report on its work, with recommendations on the value and usefulness of debt swaps for education and on best practices conducive to the successful implementation of debt swaps for education.

#### 3. Funding

The Working Group is to be funded through extra-budgetary funds. In consultation with the Chair, financial support for its activities will be actively sought.

#### 4. UNESCO's contribution

UNESCO will provide the Secretariat for the Working Group on Debt Swaps for Education (establishment of the group, organization of meetings, management of consultancies, etc.) and undertake fund-raising for its activities.

Furthermore, in line with the views expressed by Member States during the General Conference, UNESCO as the specialized agency for education may contribute to debt swaps for education in the following ways:

- ◆ Sensitize the international community, in particular in the EFA context, on the possibilities and potential of debt swaps and other innovative financing mechanisms for education;
- ◆ Provide a platform for dialogue and exchange between stakeholders, including civil society representatives, on experiences and issues related to debt swaps for education;
- ◆ Produce informational materials and disseminate them;
- ◆ Prepare a report on progress and findings that the Director-General would submit to the General Conference of UNESCO.

September 2006

#### Annex 4: Breakdown of Developing Countries Debt by type of Creditor

The total developing world debt is US\$ 2 800 billion.<sup>19</sup> This figure should be contrasted with:

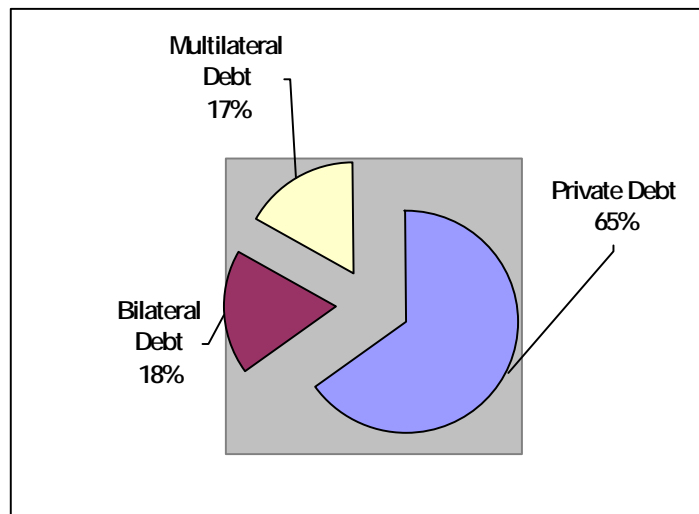
→ Official Development Assistance (ODA) to developing countries at US\$ 106.5 billion in 2005 reached its highest level ever.<sup>20</sup>

→ Global military spending and the arms trade totaled over \$975 billion in 2004.<sup>21</sup>

A major proportion of the long term debt (representing 78% of the total debt) of developing countries is in private hands.<sup>22</sup>

This is important to note in the context of debt relief, because debt for education swaps are generally carried out in bilateral debt programs.

The implication of this reality is that even if countries did hypothetically manage to cancel, or swap, the debt owed to bilateral creditors, it would have a relatively limited impact on the overall debt problem.



<sup>19</sup> Developing world debt figure is taken from: *Global Development Finance, 2006*, The World Bank Group, p. 193 [http://siteresources.worldbank.org/INTGDF2006/Resources/GDF06\\_statapp.pdf](http://siteresources.worldbank.org/INTGDF2006/Resources/GDF06_statapp.pdf)

<sup>20</sup> ODA figure is taken from: *Aid flows top USD 100 billion in 2005*, Organization for Economic Co-operation and Development. [http://www.oecd.org/document/40/0,2340,en\\_2649\\_34447\\_36418344\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/40/0,2340,en_2649_34447_36418344_1_1_1_1,00.html)

<sup>21</sup> Global military spending figure is taken from: *SIPRI Yearbook 2005*, Stockholm International Peace Research Institute, <http://yearbook2005.sipri.org/ch8/ch8>

<sup>22</sup> Debt figures are found in: *Global Development Finance 2004*, External Debt Tables, The World Bank Group, p. 4. <http://siteresources.worldbank.org/GDFINT2004/summary-tables/20179305/reg-external-debt.PDF>

## Annex 5: Debt Swap Models

### A) Process of a typical bilateral swap<sup>23</sup>:

- i Set swap amount
  - Set the amount of debt to be converted; the Paris Club establishes a limit of 100% on concessional loans (ODA) and 30% on non-concessional loans.
- ii Set discount rate and value of the fund
  - Define the percentage of the debt converted to be invested in the fund (if a discount rate is offered)
- iii Paris Club approval
  - Receive Paris Club approval; contingent upon debtor's status with the Club
- iv Sign debt swap agreement
  - Establish the basic framework for operation
- v Sign Binational Committee regulations
  - Create decision making body, with representatives from both governments
- vi Create Technical Committee
  - Create an advisory and support body, with representatives from both governments and civil society members
- vii Presentation, Approval and Follow up of Projects
  - Generally, an International Financial Institution manages the fund, in collaboration with the Technical Committee
  - Presentation of projects to the Technical and Binational Committees
  - Approval of the projects by the Binational *Committee*
  - Selection of the implementing party via public acquisition protocol
  - Annual meetings of the Binational Committee, according to the established rules in the regulations of operation and implementation

### B) Process of a typical triangular swap<sup>24</sup>

Two levels of negotiations usually take place simultaneously:

- The not-for-profit investor and the creditor resulting in a debt purchase agreement in which the not-for-profit purchases the debt from the creditor at a discount from face value.
- The not-for-profit investor and the debtor government resulting in a debt swap agreement. The debt is canceled at a redemption price paid by the debtor government to the non-profit, the proceeds of which are used by the not-for-profit for an agreed purpose.

For an illustrated case study of a triangular debt swap, see Annex 6.

In contrast to the bilateral model, the non-governmental organization or United Nations agency may acquire commercial debt or official bilateral debt, usually from an export credit agency.

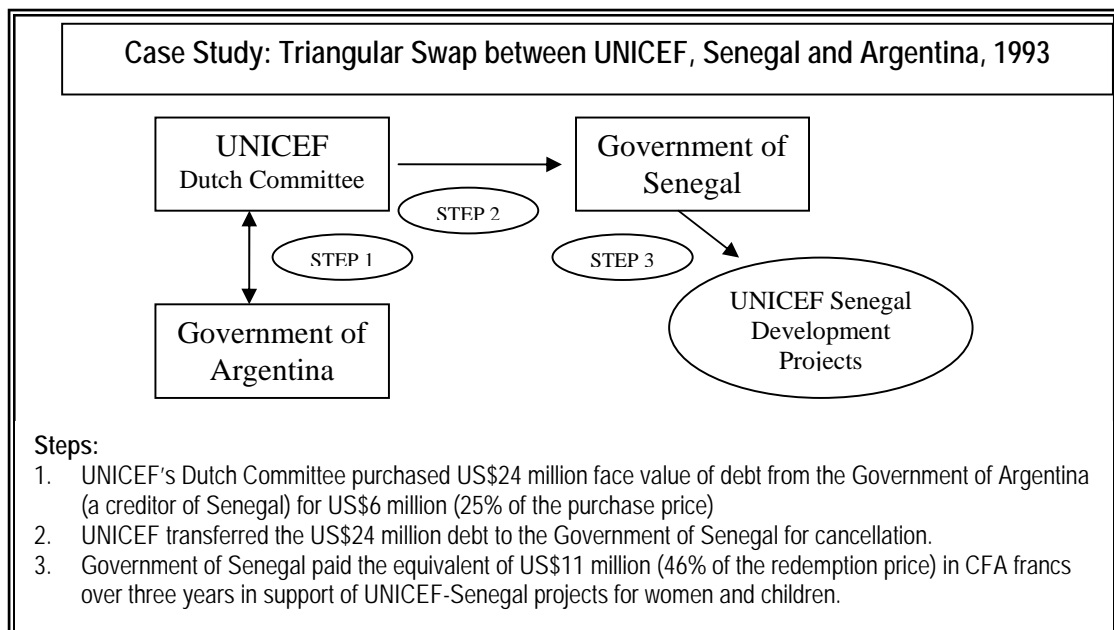
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<sup>23</sup> *Luces y sombras: Un análisis de los canjes de deuda por educación en el marco de las Cumbres Iberoamericanas*, Octubre 2006, p. 12, [www.cme-espana.org/doc2006/Luces%20y%20sombras.pdf](http://www.cme-espana.org/doc2006/Luces%20y%20sombras.pdf)

<sup>24</sup> *Overview of Debt Conversion*, Melissa Moye, Debt Relief International, 2001. [http://www.dri.org.uk/pdfs/EngPub4\\_DebtConv.pdf](http://www.dri.org.uk/pdfs/EngPub4_DebtConv.pdf), p. 6.

## Annex 6: Case Study: Triangular Swap between UNICEF, Senegal, and Argentina, 1993<sup>25</sup>

In December 1993, UNICEF completed a debt-for-development swap in Senegal that was designed to fund education, health, sanitation and water projects throughout the country. With the assistance of ING Bank, UNICEF purchased US\$24 million face value of bilateral and commercial debt owed by Senegal to Argentina for the purchase price of US\$6 million (25% of face value). The Government of Senegal agreed to pay the CFA franc equivalent of US\$11 million over three years to support UNICEF-assisted projects in Senegal.



<sup>25</sup> *Overview of Debt Conversion*, Melissa Moye, Debt Relief International, 2001.  
[http://www.dri.org.uk/pdfs/EngPub4\\_DebtConv.pdf](http://www.dri.org.uk/pdfs/EngPub4_DebtConv.pdf), p. 14-15