

# Mechanisms of Debt Swap for Education

## Introduction for Social Organizations

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## PROLOGUE TO “MECHANISMS OF DEBT SWAP FOR EDUCATION. INTRODUCTION FOR SOCIAL ORGANIZATIONS”

Foreign debt is the counterpart of international loans. Both may be considered as a means whose aim is to foster developing countries. However, these may turn into means of subjection and submission.

The capitalist system we live in resorts to loans as an instrument for private and state investment, but the uneven conditions in which said loans are obtained, the financial system's own rules, the alleged corruption of the previous negotiations and the requirements included turn loans into a resort of questionable legitimacy.

In Latin America, in particular, an important amount of foreign debt has been originated within a framework of dictatorial governments who would seize power by crushing people with repression and by leading them to poverty, generally before the deliberate indifference or silence of the countries that granted the credits and made huge business.

Our continent is now in a different historical context. Most countries are trying to regain their democracy in frameworks of greater justice and internal development, by strengthening their states and rebuilding the national and regional tradition which was destroyed some decades ago.

Nevertheless, the debt question continues...

On the one hand, the complexity of the debt “profile”<sup>1</sup> makes it extremely difficult to solve the issue in a fair way. Frequently, the international financial organisms “suggested” that the governments should invest national pension funds in foreign debt titles, starting a complex and extremely risky process of debt nationalization. In many cases, failing to acknowledge foreign debt means a new confiscation of the savings of the inhabitants in the indebted countries.

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1. Debt structure and composition; type, creditors, amounts, interest rates and methods of payment are determined.

From the civil corporations, we insistently recommended the accomplishment of audits that may allow to identify and determine “legitimate debt” and “illegitimate debt”. However, this is an extremely complex task and sometimes it is practically impossible to conduct with any practical consequences...

At the same time, the system itself demands an urgent solution to the debt question in low-income and average-income countries. Economic, financial and geopolitical reasons so recommend it. But it is not so simple to make this suggestion viable.

On the other hand, the demands of the Objectives of the Millennium call for urgent measures to solve the problems of poverty, of the unfair distribution of income and of the production of goods at international level.

In this context, a renewed<sup>2</sup> option for debt conversion mechanisms arises, especially with respect to investment in educational measures.

We understand that a new possibility is emerging which presents some new characteristics and that, as such, it seems “a new opportunity”.<sup>3</sup>

The request for mechanisms that will allow partial foreign debt cancellation or conversion for the foreign debt to be invested in educational development programs, and which was introduced by Mr. Daniel Filmus, Minister of Education of Argentina, was submitted to different international organisms. It influenced UNESCO to constitute an international and multisectorial commission to analyze the best possible mechanisms in order to carry out this initiative.

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2. We use the term “renewed” since, in the last decade, and in a different context, this mechanism was employed in order to carry out some development measures, mainly with respect either to investment in environment or for catastrophe relief. This mechanism has also been adapted to the HIPC relief program for poor nations (HIPC is the English abbreviation for “Heavily indebted poor countries”). This program was promoted the Union Nations and Union Nations Agencies.

3. The previous experiences presented many imperfections, which resulted in copious criticism. Yet, according to our own surveys, we estimate that more of USD 5,500 million have been spent on different development projects during the last fifteen years, 271 million of which have been invested in education.

Three networks of civil corporations <sup>4</sup> (Eurodad, Afrodad and Latindadd, which I represent in the aforementioned commission) participate by presenting their positions and commenting on the use of these mechanisms.

At the core of these comments there is the constant question of the necessity that the Civil Society Organizations actively participate in the concretion of these “conversions”.

The official representatives of the countries, as well as those of the other sectors and institutions, recommend this participation.

We agree with this position, but we think it is necessary to point out the lack of knowledge and preparation of many social organizations that may join this initiative. In fact, it is only possible to find knowledge on the subject in organizations and networks which are devoted to the study of the foreign debt, but not in those which have specialized in educational matters. This creates a really delicate situation since the latter organizations will be the ones to be summoned to actively participate in these mechanisms, once they start to operate.

It is for that reason that at SES Foundation our aim is to facilitate this process by providing educational social organizations with resources that will allow them to train themselves in order to engage in these collaborative processes in a responsible and effective way.

We have carried out surveys based on debt conversion experiences and also on the materials and literature available, both at “physical” and virtual level<sup>5</sup>.

We have prepared this “Manual” in particular for Educational Social Organizations at MERCOSUR. However, it can be of help, certainly, for some other agents and regions.

This manual was conceived as a “supporting resource” for workshops and meetings when

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4. Said networks gather numerous and important civil corporations in Europe (Eurodad: [www.eurodad.org](http://www.eurodad.org)), Africa (Afrodad: [www.afrodad.org](http://www.afrodad.org)) and Latin America. (Latindadd: [www.latindadd.org](http://www.latindadd.org)).

5. [www.fundses.org.ar](http://www.fundses.org.ar)

analyzing and discussing the subject. By all means, its purpose is by no means to exhaust the topic; on the contrary, its aim is to introduce it by indicating the literature available in order to expand on issues of interest.

Various resources are annexed to it as well, so that social organizations can take advantage of previous research, and this may be of help.

Finally, I would like to thank Mr. Eloy Mealla for systematizing the extensive material and writing the final version of this work. Also to Esteban Serrani in charge of the general review and final edition

In addition, I would like to thank our working partners at numerous social organizations in Latin America for proofreading the drafts and for their invaluable contributions. This document that is now in your hands is the result of their work.

Last but not least, I would like to thank the Sasakawa Peace Foundation in particular and our dear friend Takashiro Nanri as well. From the very first moment, he believed in our work and in our dreams of collaborating in the creation of a better Latin America.

At the SES Foundation we will continue working insistently so that, if and when these mechanisms are implemented in Argentina as well as in the rest of Latin America, they may be put to work in the best possible way, by investing the requested funds in educational processes and by ensuring that those funds are destined and employed for the relief of those who have had and still have less opportunities.

*Prof. Alberto Croce*  
*Director of SES Foundation*

Buenos Aires, March/2007

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# I. Investment in education, debts and debt swap



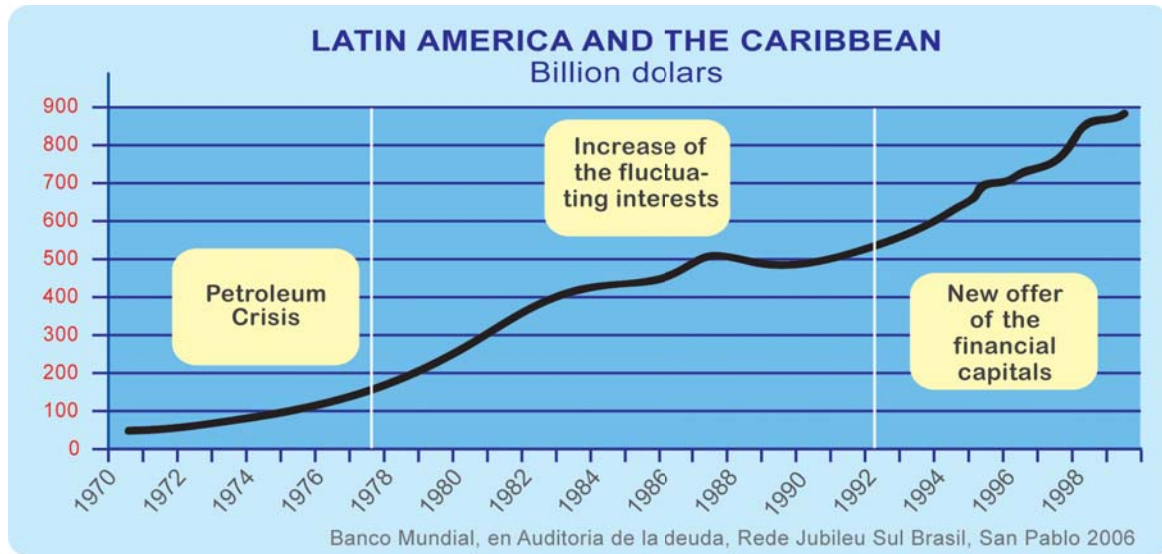
# 1. Educational economic sustainability

Nowadays, education is in an increasingly paradoxical situation, both in Latin America and the Caribbean.

On the one hand, at different levels, there is an increase in the number and intensity of declarations that grant education the essential function of contributing to the creation of a more egalitarian society.

On the other hand, however, the real educational situation is still really discouraging. Although it is common practice, it is worth mentioning once more some information about the region; for instance:

- ◉ 110 million young people have not completed primary education and in some way, they may be considered illiterate or functionally illiterate.
- ◉ 140 million people cannot read nor write, i.e. 11% of the population in the region.



As an example, we place special emphasis on only one indicator — illiteracy—, since we regard this as one of the most revealing indicator of “educational vulnerability” and of unequal access to instruction and to the corresponding well-being<sup>6</sup>.

6. “El gran desafío de todos y todas: la alfabetización latinoamericana”, Carta abierta a los gobiernos y pueblos latinoamericanos, Septiembre 2006, ALOP, CEAAL, PIDHDD, LA LIGA Iberoamericana, Boletín ALOP, n° 13.

Though during the past years improvements have been made which resulted in greater enrollment; education in general has been subjected, especially during the 1990s, to rigorous budget-reduction policies. In fact, education budgets have suffered continuous cuts, and there are numerous privatization proposals which are also extending to the fields of health and of basic natural resources.

<b>SOME SOCIAL AND EDUCATION INDICATORS IN LATIN AMERICA AND THE CARIBBEAN</b>	
<b>Indicator</b>	<b>Rate Year 2002</b>
Youth unemployment rate (15 - 24 years old)	23,2%
Illiterate population over 15 years old	9,5%
Net enrollment rate – 1st level of instruction	95,7%
Net enrollment rate – 2nd level of instruction	64,0%
Gross enrollment rate – 3rd level of instruction	25,2%

CEPAL – Yearly Report, 2005

These budget reductions are aimed at paying for the “debt services”, i.e. to cancel interests and penalties.

If we take that into consideration, the initiative of debt conversion into education programs may be an important opportunity to tackle the issue of the foreign debt and, besides, to make important funds available for development in general and for education in particular, which is one of the most important issues.

This financing might mean the implementation of projects which may improve educational quality as well as promote educational accessibility within the framework of state education.

## 2. Foreign debt's great burden

Foreign debt is one of the greater impediments for development in many countries, especially for those of Latin America and the Caribbean; these countries struggle in one of the regions of great inequality in the planet.

Presently, a high proportion of the funds which belong to those countries is allotted to foreign debt cancellation. In fact, debt cancellation is privileged to a decent way of living for numerous sectors of population, a population that lives surrounded by poverty, unemployment and violence. Debt is blocking their development<sup>7</sup>.

When tackling the issue of foreign debt, we may find various opinions. We outline the three main opinions as follows<sup>8</sup>:

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7. Vereda del Abril, Antonio, Desarrollo desde abajo y desde adentro, Madrid, Fundación Iberoamericana para el Desarrollo, 2004.

8. Fundación SES, Posibilidades de inversión en educación y alivio de la deuda externa -pública y bilateral- entre España y Argentina. Documento de estudio. Final writing in charge of Hernán Ingelmo, Buenos Aires, March 2005.

- ⦿ The first position states that foreign debt should not be cancelled since they consider it completely illegitimate. Moreover, they affirm that the debtor countries are in fact creditor countries for they have received a historical, social and ecological debt.
- ⦿ Another sector, the one that has received most benefits from the multilateral organisms of credit policies, maintains a completely opposed position. They state that the indebted countries should “honor” (i.e. “cancel”) the debt by canceling on time the resulting obligations.
- ⦿ A third position finally considers that foreign debt calls for special treatment that must be tackled and discussed among all the involved agents, in order to find mechanisms that combine solidarity, justice, law and liability.

We think that the two first positions regard the issue in a completely unilateral way. That is, the first position simply rejects the problem without considering a thorough and detailed analysis about the character-

istics of the debt. It does not admit situations that would lead to an effective debate as to the way to cancel legitimate debts.

The second position does not seem reasonable either. It is a passive attitude of subjection to creditors and in addition, it fails to acknowledge local as well as international responsibility as origin and evolution of debt are concerned.

For that reason, instead of the absolute emotional rejection to cancel the debt, or either the agreement to cancel it without objections, it seems more suitable to carry out a thorough analysis of the debt in order to identify those sections which may be certainly considered illegitimate, as to the way in which said debts were contracted.



### 3.

#### Debt profile: the need of an audit

When trying to tackle the debt issue, we must first take into account how much is owed, to whom, and how it was invested.

It is essential to define the debt profile or at least a set of characteristics which should include: debt origin, composition and evolution. **Consequently, we must carry out a procedure called “debt audit”.**

**This procedure will show the legitimacy or not of contracts and the corresponding transactions, as well as other stipulations and characteristics of the debts incurred by indebted parties.**

Therefore, it would be necessary to check:

- ◉ If, when contracting the debt, local regulations and provisions have been observed, as regards procedures.
- ◉ If there are suitable records.
- ◉ What the funds objectives and destiny were.

It is important to point out that the debt audit or analysis should be integral. That is to say, not only financial and legal aspects shall be audited, but also their social, economic and environmental impact.

At the same time, if there were irregularities, an audit will try to determine who is answerable for them both, in the debtor countries as well as in the creditor countries or institutions.

Therefore, once the previous questions are answered, they will allow us to determine different debt types, among other things. Here we mention only two of them, upon which we should focus our attention:

#### ◉ **Illegitimate debt**

The illegitimate debt is the one that, in its origin, contracting terms or results, generates situations that infringe human rights -civil as well as social, economic, political and cultural rights- which could have been avoided if these loans would not have been contracted.

Within the illegitimate debts, jurisprudence makes a distinction:

#### ◉ **Odious debt**

The odious debt was contract-

ed either by illegitimate governments or by corrupt government officials, without taking into account the established democratic processes. Their aim was to harm the people they governed “with the approval or agreement of the officials at international organisms and at creditor countries. They made profits by the Third World countries indebtedness”<sup>9</sup>.

For that reason, although the possibility to carry out some kind of mechanism to reduce the debt amount is being discussed, as in this debt conversion proposal for instance, we will not waive our right to claim for “an audit on the origins and evolution of indebtedness in the affected countries, for long vindicated by social organizations world-wide. And we also demand the creation of a Transparent and Fair Court of Arbitration in which some of the structural

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9. Fundación SES, o.c. We may also point out that Professor Alexander Sack in 1918 maintained that this debt prescribed when the dictator who had asked for it was no longer in office, and that said debt should not be charged to an oppressed country ruled by an indebted dictatorship. It is possible to extend this concept in Ramos, Laura, *Los Crímenes de la Deuda*, Barcelona, Icaria, 2006.

deficiencies of the present mechanism may be overcome”.<sup>10</sup>

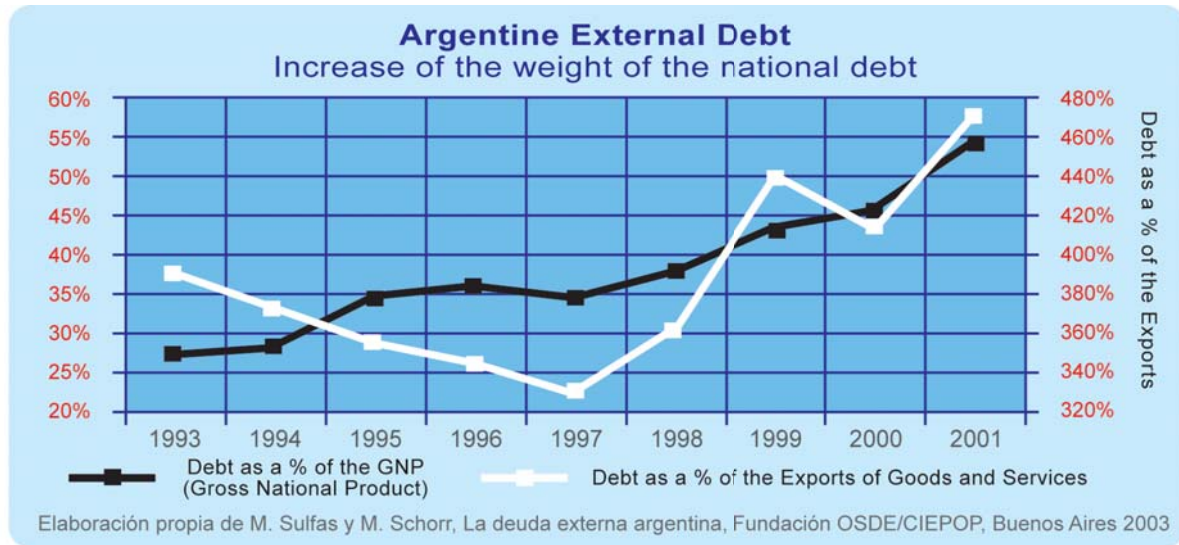
In Argentina, for example, this task of elucidation was initially started by the attorney Alejandro Olmos. In 1982 he filed criminal charges due to the evident irregularities in the indebtedness process.<sup>11</sup>

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10. *Educación para todos y todas: la deuda pendiente*. Spanish and Latin American social organizations’ arguments to the initiatives for Debt Swap into Education Programs presented at the Latin American Summits, June 2005. This document has been written by Ayuda en Acción, Entreculturas, Federación Internacional Fe y Alegría, Intermon-Oxfam, Jubileo 2000 Red Perú, Fundación SES.

11. 18 years later, the court pronounced itself about the charges filed by Olmos. Alfredo Martínez de Hoz, former Minister of the Exchequer was declared responsible for those charges. Finally, the case expired and Martínez de Hoz obtained a dismissal of the charges, though Judge Jorge Ballesteros declared that the indebtedness process was carried out in “evident arbitrariness”, that “the Central Bank Organic Act provisions were not observed”, that “they failed to record many of the debts contracted”, that “the modification legal instruments was provided and accepted in order to extend the jurisdiction of foreign country magistrates and to limit national courts’ jurisdiction” and in addition to that, he concluded that these proceedings “cannot go unnoticed for the authorities of the International Monetary Fund who monitored the economic transactions”. Bermúdez, Ismael, “El expediente de la deuda externa”, *Clarín*, Zona, Buenos Aires, August 2000. It is also worth pointing out similar actions taken by Argentine Ambassador Miguel An-





However, governments are canceling the debt, though they are avoiding in some cases a thorough analysis by the corresponding governments and some other involved agents.<sup>12</sup>

gel Espeche Gil, long ago. He suggested that the UN General Assembly should request counseling from The Hague International Court of Justice on foreign debt legal aspects. See: Espeche Gil, M. A., "La deuda externa ante el derecho internacional público", folios, no date. Also: Espeche Gil, M. A., "Deuda externa. Illicitud del alza unilateral de los intereses", Criterio N° 1988, Buenos Aires, 1988.

12. The situation of Brazil and Argentina is worth

Then, it is crucial to admit that the debt is still a major impediment for development in various Latin American countries and in other parts of the world since, such a debt cannot be cancelled.

**Teachers' Trade Unions in Spain, Portugal and Latin America affirm that:**

mentioning. In December of 2005 they cancelled their obligations with the IMF ahead of time; they argue that in that way self-determination from IMF directors and periodic monitoring is achieved.



*“As long as said debt does not expire, it would be necessary to take urgent measures to provide those countries infancy and youth with access to public education. On no account may this debt conversion replace essential state investments for state education; on the contrary, it should be aimed at increasing funds in this field”.*

And they add:

*“Debt swap for education programs is not the panacea to solve illiteracy problems or either access to an impoverished educational system.*

*Funds are to be provided in order to secure steady investment in time, which may radically change the actual situation. For that reason, the continuous financing of programs or initiatives*

*in the corresponding general budgets of the States is to be granted”<sup>13</sup>*

Apparently, outside that category of unfair debt, there is the bilateral debt that several Latin American countries have contracted with Spain.

If we take that into account, then President Jose Luis Rodriguez Zapatero’s announcement, during the 2004 Latin American Summit of Heads of State, can be considered of special interest. Zapatero declared the Spanish government’s intention to facilitate debt conversion into education processes for countries indebted with Spain.<sup>14</sup>

13.. “Declaración de los Sindicatos docentes de España, Portugal y América Latina”, Madrid, May 2006. (Announcements of Teachers’ Trade Unions in Spain, Portugal and Latin America, Madrid, May, 2006)

14. This initiative was first made concrete in January 2005 to Argentina, for an amount of 60 million Euros, which is still to be granted. Meanwhile the Spanish government has already subscribed agreements with Ecuador (50 million dollars), Nicaragua (38.9 million), Honduras (138.3 million) and El Salvador (10 million dollars). Out of the total budget of each project, Spain cancels the equivalent to the 80%, funds to be provided by the local government. In addition, Spain provides another 20% for development relief. For similar transactions in Perú, see “Deuda externa por educación. Experiencias recientes, perspectivas y propuestas de conversión de deuda por educación” developed by Economistas sin fronteras, Buenos Aires, OEI, 2004.

## 4.

### What is a “debt swap”? Types of debt swap<sup>15</sup>

The terms “debt swap”, “debt conversion” and “debt interchange” are used indistinctly when meaning the cancellation of debt that a creditor country grants to an indebted one; the indebted country commits itself to allot funds for a certain purpose, being commercial or development related.

On the one hand, **commercial exchanges** are basically the cancellation of foreign debt by means of the transferring of the debtor country’s own assets through privatization programs. The argument that has been used to justify this transaction is that, in this way, the generation of internal debt in replacement of foreign debt is avoided.

However, this type of exchange is intensely criticized for having resulted in a

15. Here we follow: “¿Qué es el cambio de deuda por educación”, Documento de trabajo, Buenos Aires, OEI, June 2006. Also see: “Deuda externa por educación. Experiencias recientes, perspectivas y propuestas de conversión de deuda por educación” by Economistas sin fronteras (Economists without frontiers), Buenos Aires, OEI, 2004.

## TYPES OF DEBT SWAPS

- Commercial debt swaps
- Debt swap for development investment

progressive loss of sovereignty in underdeveloped countries. In this way, many state companies or industries are now managed by private hands, and these kinds of transactions have resulted in a continuous transfer of a country's funds towards individuals or corporations.

On the other hand, **debt swap for development** investment- those upon which we focus our attention here- also entail foreign debt cancellation. The debtor countries should invest the funds that would have to be employed for “services of the debt” cancellation in an area related to development, health, childhood, education or environment, for instance.

That is, instead of paying the creditor, the debtor country is committed to depositing the cancellation amount in a **Counterpart Fund** (In Spanish: FCV, Fondo de Contravalor) and to invest those funds in development programs, in addition to the funds

already included in the ordinary budget (For more on these Counterpart Funds, see Section 9, **Management of Funds**).

Though actually these amounts are even smaller than those in commercial exchanges, and they have not reduced debts significantly, they do not seem to contain immediately harmful elements for the sovereignty of those countries interested in this type of exchange and they have also provided support to many development projects.

Once the agreement between the interested countries is settled – they are generally bilateral exchanges – a Counterpart Fund is created in local currency and that Fund is made available to be invested in the previously agreed development programs. In order to grant transparency, an administration committee is summoned. It consists of representatives from the debtor government, the creditor government and from Civil Society Organizations from both countries.

It is worth to point out the various warnings and protests related to the “**debt swaps disentanglement**” or the “**lack of requirements**” in the proceedings. The aim is to avoid a situation which, regrettably, has been repeating itself in the international cooperation field: granted relief turns out to be compulsorily related to the accomplishment of projects conducted by



NGOs (Non Governmental Organizations) or companies which belong to the creditor country. This practice “endangers the adjudication of projects on the part of the country of reception, it produces important surcharges and fails to take advantage of the opportunity to strengthen the local capacities at the benefiting country”.

We may also mention at this point that the creditor countries are associated to the “**Paris Club**” ([www.clubdeparis.org](http://www.clubdeparis.org)), which takes part in these debt swap operations, among other functions.

The Paris Club is an informal forum of main creditor countries. Its function is to coordinate all-inclusive (and not bilateral) foreign debt methods of payment and renegotiation for countries and credit institutions. The first meeting of creditors dates back 1956, when Argentina agreed a meeting with its public creditors.<sup>16</sup>

The Paris Club has authorized its members to make debt swaps for the total amount of their concessional debt and up to a maximum of 30% of their commercial debt.

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16. It has neither statutes, nor legal personality or monitoring institutions. From: [www.debtwatch.org/cast/herramientas/glosario/index.php](http://www.debtwatch.org/cast/herramientas/glosario/index.php).

- ⊙ **Concessional debt** is a type of debt that was granted in more favorable conditions than those loans granted by commercial banks.
- ⊙ On the contrary, **commercial debt** was contracted in general conditions of the securities market.

Nevertheless, unlike the Paris Club, it was never possible to create what once was called a Debtors’ association which, eventually, would be able to negotiate with the creditor countries at the same hierarchic, diplomatic, technical and political level, in order to outline a common strategy. At this point, social organizations –both from the South as well as from the North– can make great contributions as to a debt comprehensive analysis. In fact, they are making great advances as compared to their governments.<sup>17</sup>

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17. For example, the Red Latinoamericana de Deuda, Desarrollo y Derechos (LATINDADD) gathers institutions and social organizations of Latin American countries worried about the excessive burden of external and internal public debt, poverty and social exclusion in the continent. Similarly, the following institutions are concerned with said issues: EURODAD and AFRODAD, Campaña Sin Duda Sin Deuda (Spain), Jubileo Sur, Jubileo EE.UU., Jubileo Alemania, Justicia y Solidaridad (Italia).

However, we must say that as a similar mechanism to the debt swap, since 1996 onwards, there exists the World Bank and IMF “**HIPC Initiative**” (Heavily Indebted Poor Country). It consists of debt condonation for the poorest and most indebted countries (“Low-Income Countries”), in exchange for social or environmental sustainability investments.

The countries that may be considered in this type of debt cancellation are those countries that are in need to receive important welfare relief, and also those other countries with unbearable indebtedness.

The aim is that every country may reach, in a considerable period of time, a reduced debt amount, and thus abandon the never-ending cycle of debt renegotiation.

Some countries have been reluctant to these mechanisms for fear of being negatively classified and consequently end up outside the scope of future external financing availability and flux.<sup>18</sup>

Another option for debt conversion is the one that may be carried out between a debtor country and a non public institution

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18. CEPAL/UNESCO, *Invertir mejor para invertir más (Financiamiento y gestión de la educación en América Latina y el Caribe)*, Santiago de Chile, 2005.

—a company, individuals, or some non governmental organization, for instance—, and no longer among countries. A way of making this transaction more attractive would be by granting tax incentives to companies that purchase debt securities at international markets and thus make deposits in the equivalent local currency in a Counterpart Fund<sup>19</sup>.

For those reasons, powerful organizations are needed (See Section 7, Institutional Framework) that may enable the essential certificates (of indebtedness) and securities to ensure that funds will be invested in the previously agreed aims and goals<sup>20</sup>.

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19. Within this last type of public/private debt swap exchange, there are environment preservation programs, but there are not any for education programs. We will not expand on that, but at least we are mentioning it as a different alternative to be explored.

20. *Invertir más invertir mejor*, o.c., p. 65.



# 5.

## Debt swap for education programs

Since 2003, Argentina's and Brazil's Ministers of Education have been demanding UNESCO to lead world-wide actions in order to carry out debt swap programs. This proposal succeeded in January 2006 with the creation of the Working Party for Debt Swap into Education Financing, which appointed Mr. Daniel Filmus, Argentina's Minister of Education of Argentina, as its president.<sup>21</sup>

The Working Party's aims are:

- ◉ To meet and discuss debt swap experiences in several fields and different countries, in order to give advice on educational matters.
- ◉ To consult expert opinion.

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21. Seminario Internacional Canje de Deuda por Educación. Análisis de Experiencia y propuestas, Buenos Aires, 1 June 2006. See minutes at: <http://www.oei.org.ar/deuda.htm>. 1992 CEPAL-UNESCO proposal to reassign debt cancellation funds to the educational field may be considered as one of the earlier actions, *Educación y conocimiento, eje de la transformación productiva con equidad*, CEPAL/UNESCO/OREALC, Santiago de Chile, 1992.

- ◉ To produce potential scenarios for debt swap for education.
- ◉ To consider different ways of sharing information and experience with those countries interested or involved in debt swap for education programs, as well as the writing of reports on political counseling.
- ◉ To make it possible for the Chair of the working group to report on the results of this Working Party's study to 34<sup>th</sup> UNESCO General Conference. That report will include suggestions about the importance and benefits of debt swap for education programs, as well as the best ways to carry it out successfully.<sup>22</sup>

Again, when supporting this initiative, we do not ignore that there still exist serious inaccuracies on foreign debt origin and characteristics. Debt Swap should not mean, or either imply, any kind of legitimation about illegitimate or odious debt, which we still reject.

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22. The countries that take part in this Working Party are: Spain, Norway, Germany, Japan, Philippines, Indonesia, South Africa, Senegal, Morocco, Egypt, Brazil and Costa Rica. Argentina will coordinate this Working Party.

## 6.

Essential criteria to consider<sup>23</sup>

Together with Latin American and Spanish social organizations as well as many others from different parts of the world, we consider it highly important to take into account the following criteria when trying to carry out a “debt swap”:

⦿ **Involvement criterion**

The effective involvement of civil corporations, of the debtor as well as the creditor parties, on the entire negotiation and execution processes of the transaction must be expressly set on the negotiation protocols.

However, the acceptance of this criterion does not imply magnifying the civil organizations’ possibilities or awarding them unattainable controller powers as if they were the only instances capable of granting clarity and efficiency. Rather, they

23. Below you will find some of the criteria prepared by a group of Spanish and Latin American social organizations who follow the subject closely, see *Educación para todos y todas: la deuda pendiente*, o.c.

should complement or cooperate with the strengthening of the specific official organizations in charge of this task, without promoting their weakening. Nonetheless, its role -

CRITERIA FOR DEBT SWAPS:

- Involved Criterion
- Transparency criterion
- Additionality criterion
- Coherence criterion

more than being of mere financial control- must focus on the definition of the inversion priorities, the design and implementation of projects, and the supply of innovation based on proven experiences. We will expand on some aspects of this criterion on the second part of this Manual.

Besides, when we talk about involvement, we understand that it must not only be limited to the Ministries of Economy’s scope, but also to other vital governmental instances.

We make reference to the Ministries of Foreign Affairs of the interested countries, and specially –given the nature of the swap we are dealing with- to the Ministry of Education of the indebted country. The latter must be an essential agent when establishing the contents and coordinating the programs to be launched. See below Coherence criterion.

#### ◉ **Transparency criterion**

A second criterion is related to the transparency in the negotiations among the creditor and debtor governments, and other organizations that could participate as the Paris Club, the World Bank or the IMF.

As transparency, we understand the establishment of clear rules and the publicity of the decisions taken. The lack of transparency when contracting debt and the lack of intervention of the legislative powers are precisely the elements that characterize several illegitimate processes of indebtedness.

Likewise, transparency will be granted once the destination of funds is

clearly determined and; therefore, the pressures of the groups interested in taking those funds with other purposes are avoided.

Besides, the basis of transparency relies on the analysis or audit, as seen below, of the debt's tranche to swap for the debt not to be considered as an illegitimate or bad one, and to avoid the swap as a way of legitimization.

#### ◉ **Additionality criterion**

Another recommended criterion to consider is the additionality one with a twofold meaning. On the one hand, converted resources must be additional ones and they should not replace the pre-existing cooperation funds already predicted by the creditor country's national budget. That is to say, debts' cancellation shall not be counted as ordinary "Official Relief for Development"

On the other hand, resources must also be additional to the ones initially predicted by the debtor government on its ordinary budget. The aim is to avoid a debt swap opera-

tion to replace the debtor country's own efforts but to complement or unite to them.

⊙ **Coherence criterion**

Finally, the coherence of the policies is a principle that must govern the operation at two levels as well. For the creditor country, the debt swap must be consistent with the rest of the cooperation policies. In particular, when granting new credits as a transforming relief tool, especially in the case of education, the aim will be to avoid triggering a set of new unpayable debts that will require an additional future remission.

In relation to the debtor country, the programs presented for financing must be consistent with its social and educational policies, as well as its general planning in order to avoid resources' duplicity or dispersion.

In relation to this, it can be added that respecting the planning and priorities of the debtor country also add to the coherence criterion fulfillment and that would avoid harm-

ing its sovereignty by means of any type of conditions, especially on a subject as sensible as educational policy.

In any event, additional funds obtained should not be devoted to current expenses or to cover budgetary gaps but to promote quality gaps in the national educational planning.



## 7. Institutional framework

The experience we already have regarding debt swap operations allows us to establish the following regular institutional framework or structure and some basic tools that are sometimes used.

In the following chart three levels can be identified: superior officer level, interim of-

ficer level and the civil society level referring to the different instances or organizations involved in the administration and implementation of the Counterpart Fund.

### Political committee

It is in charge of the administration of the fund that is constituted on the basis of the swap (See Section 9, Management of Funds). It has a binational character and it is made up by representatives of the debtor and the creditor countries that usu-

Institutional Framework		
Superior official level	Interim official level	Civil Corporation level
Political Committee (binational)	Ministries of Education	Civil Society Organizations
Technical Committee	Ministries of Foreign Affairs	
International Financing Institution (IFI)	Ministries of Economy	
Some basic documentary tools		
<ul style="list-style-type: none"> <li>- Agreement</li> <li>- Regulations</li> </ul>		

ally belong to the signatory countries' Ministries of Economy.

### Technical committee

It also has a binational character and it is in charge of the reception and analysis of the projects received, but the Political Committee is in charge of the final approval. Besides, it will take care of the proper execution of the actions and will be assisted by a **Technical Secretary**, which will be in charge of the administration and detailed follow up of the Fund.

The technicians or experts who will make up the Commission will be appointed on equal terms by the signatory countries. They will be, for instance, officers of the International Cooperation Area, of the creditor country, and of the Ministry of Education of the debtor country. They also will make up the commission of representatives of the social organizations for both countries according to the procedure and the number established by the regulation.

### International Financing Institution (IFI)

Even though it may not be present, the experience suggests that an IFI

is looked for when the management of the funds needs to be carried out. According to the Spanish government, hiring an IFI will provide transparency and efficiency.

It will be appropriate to discuss if the inclusion of an IFI shall add bureaucracy, conditionality and expenses that could be avoided.<sup>24</sup>

Apart from the involved agents, the Institutional Framework is completed with the production of some basic documents.

They are:

The debt **swap resolution** or agreement establishes the basic regulatory framework of the transaction to carry out. On the third part of this manual, we transcribe, as an example, the proposal of an agreement.

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24. Navarro, Marina, "Luces y sombras". Un análisis de los Canjes de Deuda por Educación en el Marco de las Cumbres Iberoamericanas, Madrid, Ayuda en Acción, Entreculturas, Intermon Oxfam, October 2006.



The binational committee's **regulation** establishes its composition, its roles and the operation details.

Civil Society Organizations share on the institutional framework of the debt swap's processes is developed on the second part, section 11.

## 8. Destination of funds

The funds constituted as a consequence of the swap are devoted to the financing of projects or programs related to the educational field.

For their execution, the regulations determine that they will only be drawn up by public organizations, and the Civil Society Organizations may also participate in the execution of said funds.

It is presupposed that the funds, in any of the before mentioned cases, will not be devoted to current expenses –teachers salaries, for instance- of the countries involved. Even though the performance of these agreements must be done by consensus, on the spirit of said agreements priority is given to the leading role of the recipient country to determine the destination of the funds.

It is also assumed that the expenses involved in the management of these funds are covered by the resources of the own fund. In this way, no surcharges are generated on the accounts of the involved countries.<sup>25</sup>

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25. *The Fondo Ítalo Guineano* (Italy and Guinea Fund) reserves a fund corresponding to the 15% of

For example, the Argentine Follow Up Group of the Process of Debt Swap for Education has identified three main subject matters or objectives where it is recommended to invest the funds coming from the Debt Swap: strengthening the educational instruction; creation of classrooms for students of 4 and 5 years old; scholarships for students assisting to the EGB3 and Polimodal stages, for urban as well as rural areas<sup>26</sup>.

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the total amount for the implementation of management, monitoring and evaluation activities. This figure does not include financial or banking costs that may represent an additional 4%.

26. Argentine Follow Up Group of the Process of Debt Swap for Education (Grupo de Seguimiento del proceso de Conversión de Deuda), *Consensos Preliminares de las Organizaciones Educativas de la Sociedad Civil*, Buenos Aires, June 2005.

## 9. Management of funds

There are several possible mechanisms on the debt swap processes, such as trusteeships or purchasing the debt of a debtor country at the international market to then cancel it and apply it to development projects<sup>27</sup>. Here, we rather study only the funds developed as a consequence of the swaps, the said Counterpart Funds (FCV after the name in Spanish). Said funds are the ones constituted in local currency and are equivalent to the amount of the cancelled loan and its interests.

The FCVs can also comprise a “conversion rate” with a discount value expressing the creditor country’s cooperation willingness. This means, for example, that

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27. Vereda del Abril, Antonio; Berrocal, Luciano; Viudez, Javier, *Deuda por desarrollo. (Canje de Deuda por Iniciativas de Desarrollo Social y Fondos de Cooperación Bilateral)*, Madrid, Ibero-American Foundation for Development (Fundación Iberoamericana para el Desarrollo) (FIDE), 2005. See also: “Cuando la deuda externa choca con el derecho al desarrollo” in Gómez-Olivé, Dani; Tarafa, Gemma; Iceta, Diego; Atienza, Jaime, *Informe sobre la deuda externa en el Estado español*, Observatorio de la Deuda en la Globalización, Barcelona, Icaria, 2004.

As an example, this would result in the following:

Total amount of the debt applied to the swap mechanism	Money deposited by the debtor country on the FCV for investment in educational programs	Condemned amount in the operation	Discount rate (cancellation %)
U\$S 1000.-	U\$S 800.-	\$ 200.-	20%

the debtor country contributes with only a percentage of each “cancelled dollar”. The fact that the fund can be constituted in local currency, preventing higher demands of looking for foreign currencies, represents a relief on itself, regardless of the negotiation to achieve a higher discount rate.<sup>28</sup>

On the other hand, to avoid creating cash flow problems in the debtor country, it is desirable that the contributions be transferred to the FCV on stages rather than on a single payment, according to established maturities.

The FCV is generally administered by a Binational Political Committee (See Section 7, Institutional framework).

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28. Some CSOcCSOc propose to increase the discount rates at least up to a 50% in HIPC (Heavily Indebted Poor Countries) and a 75% in non HIPC.

## 10. Accountability and public information

The foreign debt “tragedy” has mostly been caused by the null or poor accountability. Incredibly, in many cases, debtor countries do not have records of the credits and the destination of funds.

That is why it is compelling to carefully determine the agreements that have been reached and to register in a clear way the incomes received and the allocation of the expenses disposed of.

In such sense, for the correct implementation of the debt swap process, it is essential that, contrary to the obscure maneuverings carried out during the foreign debt negotiation incurred in past times, the provision of the pertaining channels of negotiation to achieve the accurate public information and the proper communication with society be carried out also here.

Nowadays, computing and communication resources make it even more inexcusable the fulfillment of these demands and the accessibility to them.

## II. Civil Society Participation



## 11. Civil Society Organizations

In this Manual, the term “civil society” is used in the widest and most inclusive possible sense. We do not only refer to the so called Non Governmental Organizations in their different associative forms, but also to all the social organizations and to different trade unions’, students organizations, professionals’ associations, etc., and to the social movement in its entirety.

Now then, taking into account that, to a great extent, in Latin America, the indebtedness process occurred in past decades during dictatorships and behind the people’s back, it is necessary to emphasize, in particular, citizens’ and social organizations’ participation in the mechanisms for overcoming and recovering from such an ill-fated situation.

Therefore, it is very important to guarantee, from the beginning, the role social organizations play in this process, both in the preliminary outline stage and in the implementation of the programs to be developed. It is possible to identify a wide range of possibilities depending on the institutional capacities or the way in which each organization regards its mission.

For the civil society organizations involvement to be effective, genuine and transparent arbitration mechanisms are required. For that reason, it is essential that the Civil Society Organizations (CSOs) involved in form of antecedents in the subject and also a reliable commitment in its follow-up.

In addition, it is really advisable for such organizations to be articulated in national networks or platforms to promote these processes as a whole, and at the same time, share their human, technical and financial resources in order to provide greater viability to the process.

At this point, it is also essential to bear in mind some fundamental criteria:

- ⦿ It is essential for the social organizations’ participation to be **bi-lateral**, that is to say, both in the debtor and the creditor country.
- ⦿ It is also essential for the participation to be **effective** from the first initial tranches of the debt swap transactions. That is to say, it should not be merely ceremonial or only a *posteriori* of the swap features being set among the official authorities of the countries involved.

## 12. Stages and modalities of intervention

We can identify different stages and modalities in which the CSOs could participate:

### ⦿ **Negotiation and complement**

This first stage involves two joint actions: In the first place, the achievement of consensus from the CSOs, which may try to influence public policies. And, in the second place, the presentation of those minimum consensus and recommendations to all the key agents involved in the negotiation process of the debt swap.

Among the possible key agents, we can identify:

- ⦿ Ministry of Education of the creditor and debtor country
- ⦿ Ministry of Economy of the creditor and debtor country
- ⦿ Ministry of Foreign Affairs of the creditor and debtor country
- ⦿ Embassy of the creditor country
- ⦿ CSOs from the creditor country
- ⦿ International Cooperation

Organizations related to the creditor country

- ⦿ Universities and research centers related to the process
- ⦿ Intellectuals related to the process
- ⦿ Other specific agents identified in each national process.

At this stage, the CSOs should accompany and influence said key agents from an independent and self-governing role in order for the public policies “to be carried out in the best possible way”.



### STAGES AND MODALITIES OF INTERVENTION OF THE CSOS:

- Negotiation y complement
- Definition of the Destination of Funds
- Implementation
- Monitoring / Evaluation / Social Audit
- Advertising

### ○ Definition of the Destination of Funds

This stage can be identified as one of the most important. We understand that the definition about the destination of the investment, and who is going to invest, must be a process in which the debtor countries must decide both supremely and independently from the conditions that the creditor countries could recommend/suggest/impose.

In this respect, we can identify three modalities that the debtor countries could follow to define the destination of funds:

- CSOs participation or non-participation in the definition of the destination of funds
- Subjects proposed by the debtor countries agreed or non-agreed with the CSOs of its country
- Constitution of a Tripartite Committee where the State representatives, the CSOs and the Trade Unions participate and public policies are defined as the target of the swap funds.

We consider this latter a crucial section, since it defines the degree

of participation and the “license of complement” that the country grants to the CSOs in the definition of the most meaningful or essential subjects or areas in which to apply the funds, as results of the Debt Swap.

### ○ Implementation

Taking into account the success of the experience carried out in other countries, it is also suggested to consider the opportunity for the creation of a specific fund for programs and projects development, which allow the CSOs’ expansion of the scope of programs being implemented and oriented to provide a response to the education priorities of the country.

For example: It could be considered that some social organizations actively contribute to the follow-up of the Students Scholarship Programs.

It is essential, in these or similar cases, for the executors or beneficiaries organizations to exclude themselves from integrating the instances of negotiation, manage-

ment and monitoring if the FCV in order to prove the procedure transparency.

### ⦿ **Monitoring / Evaluation / Social Audit**

Due to the existing experience in relation to other public policies/initiatives, at the national as well as at the provincial level, we believe that the monitoring of the program implementation to be carried out must be an important sphere of participation for the CSOs in this process.

The CSOs often have established methodologies and institutional capacities to accomplish the follow-up or evaluation of the results for debt swap programs.

In this respect, and always bearing in mind that the participation of the CSOs should come from a self-governing and independent place of the public management (this could, indeed, consider specific forms of joint management of the programs), it can guarantee a greater degree of

transparency and responsible accountability about the relationship between the application of funds and results obtained.

The follow-up tasks may have different modalities and scopes: **Monitoring, control and partial and final evaluations of the programs or projects.**

In any case, the CSOs shall contribute to gather the results and impacts achieved. Nevertheless, the purpose of the CSOs' participation at this point is not about having a monitoring attitude -which in democratic societies basically belongs to the country's organizations that have the mandate and the means to do it- but to create a favorable atmosphere for the suggested actions to become effective in the best possible way.

A more appropriate way for the CSOs mission and possibilities may be the implementation of a social audit in order to obtain satisfaction in respect to the programs carried out. In other words, we should struggle for the impact evaluation



not to be limited only to the financial dimension.

### ◉ Advertising

This is also an important point since advertising should be the final step of the process of the debt swap program.

That is to say, a detailed return of information to the society about what has been done with the foreign debt's funds converted into education programs.

**Advertising should include, at least, some basic items:**

- ◉ Systematization of the experience of the implemented program.
- ◉ Independent accountability.
- ◉ Demonstration of the transparency with which the funds have been executed.
- ◉ Balance on the impacts of the policies applied.
- ◉ Execution of a spread policy of the programs' results.

In these respects, the Social Organizations can make a valuable contribution. It is very common that, in social and education fields, there

exists a lack of due records of the actions carried out, and that leads to exhausting reconstructions or either to produce a loss of essential information which put the continuity or renewal of the policies at risk.

Therefore, it is urgent to take the necessary measures to guarantee the systematization of the programs carried out as well as -specially in this case- what was learnt from the debt swap process carried out.

### External Audit

Finally, as in every public program, an external audit should be considered about the execution of funds. Such audit may be carried out by an independent Civil Society Organization.

# 13.

## Some activities to bear in mind

Summing up the previous sections, we hereafter indicate -or rather suggest- some activities for the constitution and functioning of the National Groups involved in Debt Swap for Education.

### What can the CSOs do?

- The first meetings of the CSOs which decide to constitute the National Follow-Up Group will tackle the key subjects about the processes of debt swap for education:
  - Legitimacy of the debt, joint liability in the indebtedness process, ethical payment
  - Conditions of the agreements
  - Additionality of the resources
  - Destination of funds
  - Management and Transparency
  - Participation of agents and sectors
- Collect national information about the constitution of foreign public and private debt.
- Analyze the available material about debt swap for development programs, and then, specifically the ones about the experiences of the debt swap for education.
- Make a first round of talks with those key governmental agents in the processes of debt swap:
  - Ministry of Education
  - Ministry of Economy
  - National Ministry of Foreign Affairs
  - Embassy of the creditor country
- Hold enquiry meetings with other social organizations.
- Look for national and international allies.
- Hold survey seminars or congresses, clarify and discuss measures with the participation of different agents and sectors involved.
- Produce a document with the consensus from the follow-up



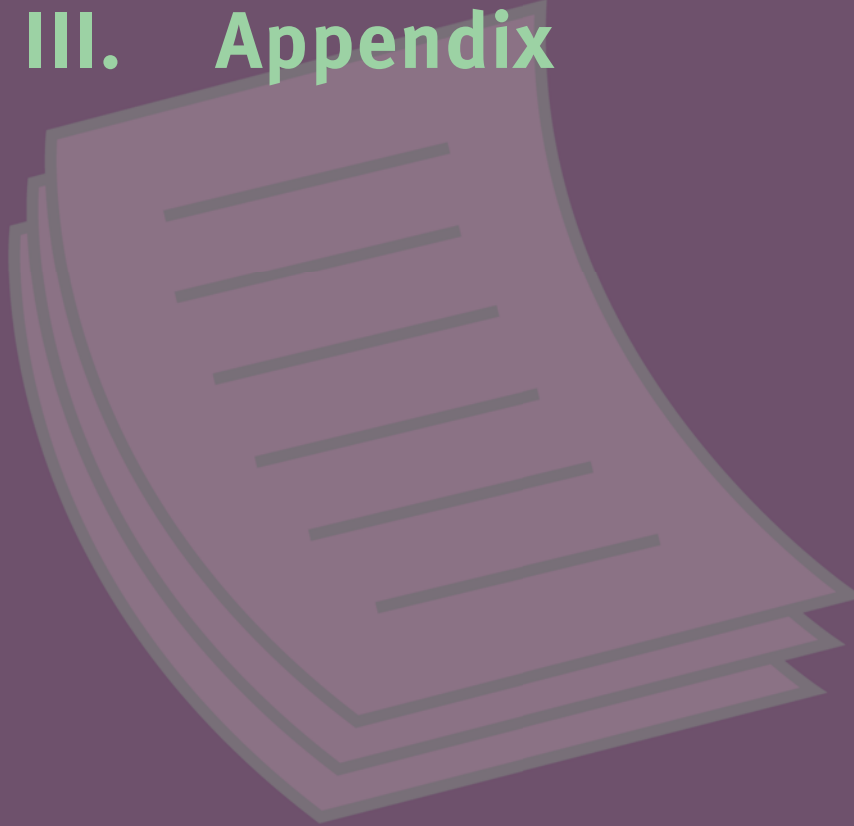
group about the subject joining them together.

- ◉ Look for national and international allies, especially with those organizations which already have experience in the subject. It shall be very useful that both the debtor and the creditor country's CSOs come into contact with each other and establish criteria and common and coordinated actions.

It is always worthwhile to make clear that the above mentioned activities do not represent an exhaustive list, but only a rough outline that shall be adapted to the different national processes with their own specificities.



# III. Appendix



## 14. Preliminary Consensus of the Civil Society Educational Orga- nizations (Argentina).

The Group in charge of the follow-up of the process of the Debt Swap for investment in Education in Argentina has been working jointly since April, 2005. Its purpose is to establish the consensuses that allow the complement of the mentioned proposal. Such Group is integrated by Civil Society Organizations which make up the National Committee of Mutual Organizations for Education.

We consider these debt swap initiatives may constitute an important opportunity for increasing the national education budget. And, this increase may allow carrying out initiatives to improve both quality and educational inclusion within the framework of the national public education.

In turn, we are responsible for:

**a) Knowing the status of negotiation and which will be the role of the Civil Society Organizations in this transaction.**

**b) Informing the Ministry of Education about our interest in taking part of this process**

**c) Notifying the Ministry of Education about what has been done to date.**

As a result of the joint process carried out until today and in virtue of the negotiations carried out with reference to the Debt Swap for investment in education, both with Spain and other countries, we, the CSOs which are full members of this Group, wish to send the Ministry of Education, Science and Technology of the country, the following consensuses we have reached until today. Such consensuses represent the point of view of our organizations:

**On the one hand**, we have identified three different thematic areas in which we recommend the inversion of funds coming from the Debt Swap:

**They are:**

**1) Inversion for the strengthening of teaching training.**

**2) Inversion for the creation of 4 and 5 years old kindergarten classrooms.**

**3) Inversion in Study Scholarships for EGB3 and Polimodal stages, both in urban and rural areas.**

**On the other hand,** we also believe CSOs may play different roles in the management as well as in the implementation of public policies of Debt Swap. Among the most important, we can highlight:

**1) Complement of the public policy management:** We, the CSOs which are full members of the Mutual Organizations' Committee for Education, have showed our vocation for supporting this public policy management initiated by the Ministry of Education, Science and Technology. For such policy to be successfully developed, we shall achieve the greatest possible impact with the final objective of improving the quality and the fairness of our National Educational System, thus, guaranteeing the right to education to all children and young people of our country;

**2) Execution of Funds coming from the Debt Swap mechanisms:** Taking into account the successfully developed experience in other countries, we propose the

consideration of the creation of a specific fund for the development of programs and projects which may allow the CSOs to extend the scope of the programs being implemented and oriented to provide a response to educational priorities.

**3) Monitoring of the application of the implemented programs:** Due to the existing experience in respect to other initiatives of public policy, at national as well as provincial level, we think that the monitoring of the application of the Students Scholarships' Programs may be an important sphere for CSOs' participation in this process, in which some organizations may actively participate.

*Buenos Aires, June 1, 2005<sup>29</sup>.*

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29. Nowadays, the Follow-Up Group is integrated by the following organizations: Asociación Conciencia, APAER (Asociación de Padrinos de Escuelas Rurales), Caritas Argentina, CIPPEC, Fe y Alegría, Foro del Sector Social, Fundación Cimientos, Fundación Organización, Comunitaria (FOC), Fundación Escolares, Fundación Luminis, Fundación SES, Red Etis.

# 15.

## Education for All: the Outstanding Debt

Considerations of the social organizations of Spain and Latin America in view of the Debt Swap for Education initiatives under way in the context of the Iberoamerican Summits.

June, 2005

### SUMMARY

We, the undersigned organizations of the document herein – Ayuda en Acción (Action Aid), Entreculturas, Fundación Fe y Alegría (Faith and Joy Federation), Fundación SES (SES Foundation), Intermon Oxfam, Jubileo 2000-Red Perú (2000 Jubilee-Peru Network) have positively considered the initiative announced by the Spanish Government for carrying out a series of transactions of debt swap for education in different Latin American countries.

However, we understand that an initiative like this does not solve the structural problem of foreign indebtedness of the developing countries and, therefore, it does not substitute a necessary global and sustainable response to such problem.

To attain appropriate process development and results, we think it is essential for the transactions to respect and promote the observance of five basic principles:

- ◉ **Social Participation** during the whole negotiation process and implementation of the initiative: it may include definition of investment priorities, outline and implementation of the development projects and follow-up and monitoring activities.
- ◉ **Transparency** of information for such participation to be effective: It includes the negotiations among governments, the decisions made at relevant international organizations, etc.
- ◉ **Additionality**: in relation to the Spanish cooperation funds devoted to the debtor country, and also with regard to the resources initially predicted in the Educational Budget of the country.
- ◉ **Association**: among the creditor and debtor governments (effectively involving the different affected Ministries) and among civil corporations.

- **Coherence:** between the swap transaction and the rest of the relief policies of the donor country as well as between the predicted proceedings in such transaction and the national strategies in favor of Education and National Development.

As regards the technical aspects of the debt swap, it is essential to analyze and reveal the origin of the debt to be included in the transaction. It shall not be justifiable to undertake this type of actions with debts considered odious or unfair, or with amounts which already take part in debt cancellation negotiations with multilateral instances. In this same respect, we understand that in the case of the poorest and most indebted countries, we shall pay special attention in order to guarantee that no swap transactions shall be carried out if they substitute more global measures, such as the cancellation of bilateral and multilateral debt that is being discussed in different international decision forums. Initiatives like these are particularly interesting in the case of other countries in the region, for which there is no multilateral scheme for the debt treatment. These initiatives are considered as a first step to identify their indebtedness problem and to make the way for the establishment of more global approaches.

The herein document equally includes a series of proposals for the investment of the freed-up resources which should be closely related to the commitment to the eradication of poverty, focusing on the educational field, and in those initiatives directed to guarantee the links of formal education: initial education support, reduction of repetition and desertion rates in primary school, increase of access and presence in secondary school, support to programs for basic professional training and adults' basic education. All this, unambiguously admitting the essential country's responsibility when it comes to guaranteeing the execution of such a fundamental human right as the right to education.

## EDUCATION IN LATIN AMERICA

The Latin American countries are going through significant difficulties to consolidate institutional reforms and in the whole region persists an extremely uneven distribution of wealth.

In spite of the efforts made, the educational situation in Latin America has not changed significantly in the last decade. According to the CEPAL information, although high rates of primary education coverage have been registered, (higher than 90%), the enrollment and presence rates are still very



low in pre-school, secondary and higher education, with significant differences among countries. It is generally established a poor-quality education that is reflected in high desertion and repetition rates. Beyond formal education, illiteracy levels and lack of basic capacities are reproduced in the sectors of adult and young population, in the rural area in particular.

## INTERNATIONAL COMMITMENTS

### The Millennium Agenda and the International Development Agenda

Five years ago, the Heads of State and Presidents established 8 objectives to struggle against world poverty: The Development Objectives of the Millennium (DOM). Although this is about a minimum consensus, the truth is that the DOMs constitute an inalienable referent to whose fulfillment should aim the different initiatives under way as regards development and cooperation. In particular, the 8th objective pursues the world association for development which, among other things, faces the debt problem and favors the relief of the burden this means for poor countries. Nevertheless, until today the resources of international cooperation to the development do not give priority to such objectives: Less than half of world

ADO supports the DOMs. Thus, among the DOMs there appears the universalization of education in 2015, in spite of the fact that the bilateral and multilateral ODA intended for it represents only a fifth of the foreign financing necessary to achieve it<sup>30</sup>.

## Foreign Debt and Education

Five years ago, the wealthy countries admitted that the unpayable debt burden was preventing progress in the field of education. Being very conscious about the important flaws and “slavery” that implies (the fulfillment of adjustment programs from international organizations, for instance), the relief of the debt has meant changes in the countries which receive benefits from it. The 27 countries which have accepted the HIPC initiative since 2000 have increased their social expenditure in the coverage of basic social needs (including basic education) from 6.4% of the GNP in 1999 to 7.9% in

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30. “The actual level of support of world international cooperation to basic education -1.500 million dollars per year- is still really low if we compare it with the additional external relief – at least 5.600 million dollars per year- that is needed until 2015 in order to meet the Development Objectives of the Millennium and the EPT (Grupo de Trabajo sobre la Educación para Todos) objectives”, UNESCO, *Informe de Seguimiento Mundial de la Educación para Todos* 2005.

2003. However, such debt relief mechanism only reaches very few countries and even to those it reaches, it does it in small amounts. Not even the measures recently agreed upon by the G8 Ministers of Economy foresee a change of direction, which is essential in foreign debt management, and most of the experienced difficulties remain the same until today.

In the poorest and most indebted countries, the HIPC Initiative and the *Fast Track Initiative* (or FTI, aimed at financing educational plans prepared by those low-income countries which show a serious commitment with the universalization of basic education) constitute two of the main channels for the debt relief and the financing of education. The average income countries, which do not have access to such initiatives, are also natural candidates to use debt swap for education as an instrument for debt relief and financing of basic education.

In order to achieve the Objectives of the Millennium in education, not only the developed but also the developing countries should work together to take more, better and faster measures. Debt swap for education may be a mechanism which contributes to the financing of such objectives with joint efforts from both parties

## Debt Swap for Education in the Iberoamerican Summits.

The 13th Iberoamerican Educational Conference, held in Tarija (Bolivia) in September, 2003, agreed to promote “a Latin American movement in favor of education, whose central point is the mobilization of agents and social participation” and admitted the need for “increasing and improving the efficiency of investment in education”.

Then, it begins the exploration of the possibilities for the use of debt swap for education as one of the instruments for improving such educational investment. The process ended in the meeting of 2004 of the Iberoamerican Summit of Heads of State and President, where the Spanish President, José Luis Rodríguez Zapatero, announced Spain’s intention to carry out a series of transactions of debt swap for education in all the affected countries.

In order to develop his proposal, President Zapatero announced in January 2005 the first swap proposal to the Argentinean government for a sum of 60 million Euros, transaction that would be settled in the next Iberoamerican Summit that will be held in Salamanca in October 2005. Subsequently, the signing of the Joint Commission of cooperation between Spain and Ecuador has equally collected an entry for debt swap for



social development (in this case education is not specifically mentioned as the beneficiary sector) for a sum of 50 million Euros.

We, the undersigned of the document herein, are Civil Society Organizations of Spain and Latin America, involved in different ways in educational activities and in the follow-up of the unindebtedness processes in the developing countries.

We consider the **proposed initiative being positive** since it contributes to generating resources for a key sector in the struggle against poverty and the benefits of unindebtedness shall be transferred to the most vulnerable sectors of society. However, in the document herein we are including some basic considerations that we should bear in mind for the proper implementation of the debt swap initiatives that are being considered in the present as well as some others identified in the future.

## THE PROPOSAL OF THE DEBT SWAP FOR EDUCATION

### Previous Approaches

- ◉ Foreign debt constitutes one of the main burdens for development and for the achievement of

the Objectives of the Millennium in different Latin American countries (and other developing regions in the world). The HIPC Initiative launched by the World Bank and the IMF in 1996 (and reformed in 1999) has not been able to promote the “sustainability” promised to the regarded countries; at the same time, it has left several countries with serious indebtedness problems and without any solution.

- ◉ When facing this situation, the specific initiatives of debt swap for development (in general) or for education (in particular) **do not solve** the debt problem in a wide sense, and, therefore, they do not constitute an alternative to a necessary global and sustainable response to such problem. In the same way, they do not constitute an excuse either for postponing the implementation of auditing processes over the origins and evolution of indebtedness of the affected countries, long vindicated by social organizations in the entire world.

- ◉ In this respect, it is still essential to put into effect a process that leads to the creation of a **Transparent and Fair Court of Arbitration**, in

which some structural flaws of the present proceedings can be overcome.

- ⦿ In short, debt swap transactions should be understood as **another element** within a wide and active strategy for the treatment of the foreign debt, and not as a unique measure.

- ⦿ The undersigned organizations have a common point of view: we regard **education as a key factor for change and development**. Education is a human right in itself, and also is an essential requirement to achieve other rights as well as a key tool to break the vicious circle of poverty. Providing compulsory, free and quality education is the responsibility of all of us, of the society in general and -by delegation- of the Nation in particular. Thus, it is the Nation itself, first of all, which shall provide sufficient resources for its financing. When this is not possible, it could be supported by international cooperation or transactions as the debt swap, but, in no case, these shall replace the essential duties of the Nation.

## General Principles to be respected

- ⦿ **Participation:** We think the role of the civil corporation (both Latin American and Spanish) is essential in every process of negotiation and debt swap, and thus it will be expressly recognized by the government involved. The social organizations shall participate in the definition of the priorities of investment, in the outline and implementation of development projects, and in the follow-up and monitoring commissions. The search for a wide consensus among the governments involved and representative organizations of the civil corporation that reflect their own plurality increases the opportunities for success and the practice of democratic participation.

- ⦿ **Transparency:** For it to be possible, it is essential that the involved authorities are explicitly committed to transparency during the whole process, including the negotiations among the creditor and debtor government, the directions and/or decisions that can be made in international organizations such as the Paris Club, the World Bank or the IMF, the functioning of the institu-



tion that manages the freed up resources, the execution of projects and programs, etc.

⦿ **Additionality:** These initiatives shall always have an additional character, in two senses:

○ On the one hand, the resources swapped will be additional to the funds included in the cooperation programs previously defined among Spain and the beneficiary countries, since if the resources intended for swap transactions replace the pre-existing funds for relief, the financial impact is declared null.

○ On the other hand, the freed up resources by the swap transaction shall be additional to the ones initially predicted by the debtor Government in its Budget for Public Expenditure, since if that is not so, debt swap transaction replaces but does not complement the national effort.

⦿ **Association:** We believe the starting point for debt swap should always be the principle of associa-

tion between governments -debtor and creditor- and the civil corporations from both countries in order to determine the destination of the freed up resources which should be defined through an agreement of the different affected ministries: Ministry of Economy, Education, Planning, Welfare in the debtor countries; Ministry of Foreign Affairs and Cooperation and Ministry of Economy and the Treasury, at least, in Spain.

⦿ **Coherence:** finally, it will be essential in debt swap transactions to respect a principle that can be applied to all international cooperation, such as the policy coherence principle. As in the case of additionality, it is a criterion that is applicable to two levels:

○ As regards the creditor country (Spain in this case), debt swap transactions should be coherent with the rest of the cooperation policies. This implies a restatement of the use of credit as a relief tool, especially in the case of basic social sectors (like education) and heavily indebted countries. Otherwise, we will continue keeping an endless cycle: credit-debt cancellation-new debt, which

will make these transactions to become a mere anecdote.

- As regards the debtor country, it is equally essential that the projects and programs financed as of debt swap initiatives are related to (and coherent with) the national processes of educational planning and fight against poverty so as to avoid effort and resource duplicity.

### Technical aspects of the transaction

- **Debt type:** it is essential to analyze and make public the origin of the debts that are going to be included in the debt swap transaction. On the one hand, odious or unfair debts (incurred by dictatorial governments, employed to buy arms, etc.) as well as debts that are part of cancellation negotiations with diverse creditors shall not be considered. On the other hand, it is important that debt swap transactions are open not only to a concessional but also to a non-concessional debt (originated from transactions insured by CESCE, as in the case of Spain). If necessary, a wider range of action can be negotiated within the Paris Club.

- **Amounts to be included in the transaction:** if debt swaps transactions are intended to have an impact on indebtedness relief (instead of being a mere transaction to finance educational expenditure), it is essential that the amount to be considered represents a relevant quantity in the total amount owed to the creditor country which swaps the debt.

- **Discount rate:** in foreign debt swap transactions, it is one of the subjects which are dealt with at the beginning of the negotiation process. The discount rate refers to the cancellation percentage included in the transaction. The financial status of the debtor country should be good enough to motivate it for the discount rate to be successful. Debt swap transactions equal to 100% of the amount of the converted debt, that is to say, without cancellation, shall not be accepted. When discussing this section, several elements should be taken into account, such as the level of development of the country, the existence of other initiatives for debtor countries to be out of debt, possible monetary and budget restrictions, etc.



◉ **Funds disbursement made by the debtor country:** the creation of a Counterpart Fund (FCV) as an instrument to carry out a debt swap transaction<sup>31</sup> should be included in the budget of the debtor country and it should not bring about additional problems, such as inflation or liquidity. Consequently, if a Counterpart Fund is created, the budget disbursement should not be higher than the annual maturities of the debt. To overcome possible difficulties related to this issue (regarding the volume of the funds), pluriannual funds, which can be supplied year after year with the disbursements expected to pay the debt, may be created.

◉ **Effective involvement:** to fulfill the above mentioned principle, the Counterpart Fund should be integrated by members who represent civil corporations (and it is open to organizations belonging to the debtor as well as the creditor country) and by independent organizations (including international organizations, such as the United Na-

tions agencies). This practice will be applicable to different levels of advice, decision and surveillance. In all cases, clear criteria and processes for the appointment of its members should be established. Besides, the different roles of its members and the incompatibilities they may bring about should also be clarified from the very beginning.

◉ **Structure of the Counterpart Fund:** once the priorities regarding education have been established, we suggest that the Counterpart Fund has a wide structure that guarantees the representation of governments (debtor and creditor) and organizations which represent the civil corporation of both countries. The structure of the Counterpart Fund should be reproduced in political as well as in technical or administrative spheres.

◉ **Transactions discharge:** several debt swap transactions started by the Spanish government have been established to finance the projects submitted by NGO (Non-Governmental Organizations) or Spanish companies. This practice, objected by organizations such as CAD –which belongs to the OECD

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31. Or either the amounts allotted to some other type of Funds may be presented as an alternative (not as the exclusive one) to the FCV

(Organization for Economic Co-operation and Development)-threatens the appropriation of projects on the part of the beneficiary country, produces important extra charges and does not take advantage of the opportunity to reinforce the local capacities of the beneficiary country. As a consequence, we claim 100% of debt swap transactions to be freed from compulsory participation of Spanish companies or organizations.

⦿ **Management expenses:** it will also be necessary to establish clear criteria as regards the origin of management, technical counseling and auditing expenses.


⦿ **Follow-up and assessment:** finally, it is essential to include a series of monitoring and impact evaluation systems. As a last resort, information transparency regarding the use of the resources should go beyond a report about the financed projects. It should include a detailed analysis of the final impact on the interventions when fighting against poverty and in the fulfillment of the objectives established at the very beginning.

⦿ **Complementary options for the use of funds:** the creation of a Counterpart Fund does not exclude the possibility of allotting a portion of the converted funds to finance a more extensive program (bilateral and multilateral), within national strategy and planning. In any case, involvement, transparency and control criteria that guide the creation of a Counterpart Fund should be respected. The final decision will be adopted by the corresponding organism. The civil corporation will also participate in said decision. In this context, it might be possible to support initiatives in the educational field, like the Fast Track Initiative, in those countries where this initiative is still in process.

⦿ **Coordination among funds:** different experiences regarding debt swap, which are executed through Counterpart Funds with different management models, already exist in many of the countries that can benefit from this initiative. It will be appropriate to establish some coordination mechanisms between the different funds, especially in certain spheres, such as management tools and accountability, so as not to overload the administrative structures of the receiving countries.



## Countries that can benefit from this initiative

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- As mentioned above, the subscribers of this document understand that debt swap transactions due to education/development do not substitute the necessary measures to cancel foreign debt in debtor countries that need them to finance the fulfillment of the Development Objectives of the Millennium and their strategies to fight against poverty. As a result, special attention should be paid to the poorest and more indebted countries of the region (such as Nicaragua, Honduras and Bolivia) so as to assure that debt swap transactions do not substitute global measures, such as the cancellation of the bilateral and multilateral debt. According to the Heavily Indebted Poor Countries (HIPC) initiative, the debt can be cancelled up to 100% after the maturity date.
  - However, there is no multilateral project for the cancellation and/or relief of the foreign debt for those countries situated in the same region, where the macroeconomic situation may be more stable, but which also suffer from serious indebtedness problems. Consequent-

ly, the adoption of bilateral initiatives of this kind, which are proposed as a first step towards the establishment of a global course of action, is highly advisable.

## Investment priorities of freed up funds

- Efforts to eradicate poverty:** the use of the funds obtained from debt swap shall pay special attention –though not exclusively- to the excluded sectors of population (rural areas, urban excluded sectors, girls, women, etc.) and to the basic social services (initial level, in the case of education, which goes beyond primary education, as established in Dakar Summit). Priority sectors that need intervention shall be clearly established. It is necessary to allow the institutional strengthening of the organizations involved.
- The subscribing organizations consider that formal education interlinking should be guaranteed and that investments in education should be made so as to assure the quality of education.
- Interlinking of formal education guarantee.** The coverage and

permanence in the previous level should be improved if equity in the different educational levels is to be attained.

- Initial education support (from 3 to 6 years old) can be made through the public financing of the salaries or by other means. In Latin America, preschool coverage is less than 50 % and it is concentrated in the urban sectors and in the middle and upper socioeconomic strata. However, several studies have shown the importance of education in early life for the development of the human being, and the preventive and compensatory effects of inequalities.
- Reduction of repetition and drop-out rates in primary education: the high repetition and drop-out rates concentrated in rural areas and among the poorest sectors of the region show that the basic learning needs of boys and girls are not met. The low rates of school permanence lead to adult illiteracy and have an impact on poverty increase.

- Access and permanence increase in secondary education: only 54% of Latin American young people of secondary school age actually go to school. The improvement of secondary education implies an improvement in the efficiency of the educational system not only in the social cost but also on the impact that it has in order to get better incomes in the future. Two years less in the course of studies implies a reduction of about 20% and 30% of the possibilities of getting a job.
- Support for programs of basic professional education: technological education should be included within basic education so as to provide young people and adults with technical, methodological, personal and social competences. Such competences should take into account market, production and environmental management trends which allow the socio-laboral insertion. Special attention should be paid to teacher training and technical centers supply.



- The basic education of adults should be seen as a process that goes beyond teaching them to read and write. It should considerate learning basic needs to overcome poverty and exclusion.

- **Quality of education investment:** investments should be made to improve the education and the working conditions of the teachers. Curricula design and educational materials should be adapted to the different cultural and socio-economic contexts of the countries.

- The projects and programs which are financed through debt swap initiatives shall be **related to national processes of educational planning** and fight against poverty as well as to the strategies of Spanish cooperation.

- In this document, we focus on debt swap due to education because of the initiative on the part of the Spanish President announced in this context. Besides, most of the subscribing organizations work in the

educational field. However, we consider that debt swap transactions should be **open to the inclusion of other basic social sectors for the development of countries** (such as health, water and drainage, essential infrastructure, employment, etc.). They should be defined by means of a debate about the national strategy to fight against poverty, the development projects in force in that country and the participation of the organizations of the civil corporation.

- Finally, as regards the debate about the possibility of charging the current expenses of the educational system to the debt swap (such as teachers' salaries), we think that it is important **not to establish a priori excluding matters**. We consider that the member appointed by the country should be the one that takes appropriate decisions to satisfy the most important needs. In any case, we understand that it is essential to guarantee the possibility of carrying out the debt swap. Any financed project or

program should include estimates that assure its continuity (without taking into account the duration of the Counterpart Fund as such).

### Considerations for a future course of action:

- ⦿ **Necessity of restating the co-operation model:** part of the debt that is going to be converted by Spain in Latin American countries was originated in concessional credits applied to export. As stated in the principle related to policy coherence, the Spanish government – along with donor community as a whole- should restate the use of the credit in its relief systems.
- ⦿ In addition to the debt swap transactions, Spain should take on **a more active role in the international sphere in order to put forward a solution to the foreign indebtedness problem.** It affects not only the heavily indebted poor countries (HIPC) but also other countries with serious indebtedness problems. Debt relief should be related to the capacity of the country to reach its the Development Objectives of the Millennium.
- ⦿ In spite of this positive initiative, there should be few creditors for this initiative to have a real impact on the indebtedness problem and the educational situation of the affected countries. For this reason, we think that **the quantity of creditor countries willing to swap their debt could be enlarged so as to include other international creditors.** Some of them (such as Italy, Germany or Switzerland) have already started many initiatives of debt swap for development. Such proposal could represent a higher impact. It could also reduce management and follow-up burdens on debtor countries. Spain can play an important part regarding the rest of the countries of the European Union by promoting these initiatives.
- ⦿ Finally, it is important to bear in mind that if the first announced transactions are carried out in a satisfactory way, this could lead to **the revision of the intra-regional indebtedness situation in Latin American countries.** Possible debt swap transactions and/or debt cancellation among countries of different economic development could be studied. If necessary, they could also be supported by international cooperation.



# 16.

## Model Agreement

Here follows a Model Agreement. Such model has been proposed by the Argentine Follow Up Group of the Process of Debt Swap for Education. It was drawn up in August 2005 and it considered as immediate antecedents the agreements Spain had already signed with Ecuador and with Honduras. It was devised for trying to adapt it to the agreement that was going to be shortly signed between Spain and Argentina.

It is a proposal aimed to improve, on the basis of the criteria and other premises described in this Manual, debt swap agreements.

They are also herein presented so as the CSOs become familiar with this kind of instruments.

## PROGRAM OF DEBT SWAP THAT ARGENTINA HAS CONTRACTED WITH SPAIN

The Ministry of Economy and Finance of Spain and the Ministry of Economy of Argentina, since the decision taken by the Spanish Government of promoting the Spanish-Argentinean cooperation relationships and of contributing to the Argentinean development, have agreed upon Converting the Debt Argentina has contracted with Spain into this Education program.

### 1) Object and manner of the Conversion Mechanism

**1.1.** The object of this agreement is to contribute to the improvement of Argentinean Education carrying out a mechanism for converting the Debt Argentina has contracted with Spain. Such mechanism is thought to be performed by means of programs that promote educational quality and equity in Argentina, mainly in the Argentinean northeast (NEA) and northwest (NOA) regions, identified as having a lower development.

**1.2.** This mechanism consists of the creation of an “Argentina-Spain Fund” that will be provided with the funds the Argentinean Government

has agreed upon for the payment of the debt swap service. The resources that enter the “Argentina-Spain Fund” will be given for financing the programs indicated under point 1.1.

**1.3.** The debt related to this program has its origins in loans granted by Spain with charge to the Development Aid Fund (Fondo de Ayuda al Desarrollo: FAD) and it is specified, as regards credits and maturities, in the enclosed document. Debt volume, object of the debt swap, shall be up to a maximum amount of Fifty Million Euros (€ 50 M).

## 2) The Argentina-Spain Fund

**2.1.** The Ministry of Economy of Argentina and the Ministry of Economy and Finance of Spain agree upon Spain transferring the collection rights of the debt service quoted in paragraph 1.3 to the Argentina-Spain Fund, whose performance is detailed in paragraph 2.2. In contrast, Argentina will transfer to said Fund the 100% of the maturities of the debt related to this program, according to the schedule of repayments established in the enclosed document.

The Ministry of Economy of Argentina should punctually report the transferences made to the Official Credit Institute (OCI) of Spain [Instituto de Crédito Oficial de España -ICO-] and the members from the Binational Committee, created for this agreement. As long as the resources are transferred to the “Argentina-Spain Fund,” Spain will clear the total amount of the corresponding maturity (Condonation with rediscount).

**2.2.** The Argentina-Spain Fund’s resources shall be deposited in a special account in Banco de la Nación Argentina. The financial management of the Fund resources will be set out in the regulation approved by the Binational Committee.

All yield generated by the Argentina-Spain Fund will be added to its capital for financing the program performed through it.

**2.3.** The repayment schedule can be brought forward pursuant to the dispositions established in paragraph 4.4.

**2.4.** The OCI, as a financial agent responsible for the management of



the corresponding debt, and the Ministry of Economy of Argentina, will implement the specific procedures that would allow the formalization of the actions stipulated in the previous points.

### 3) Use of the converted resources. Projects financed with charge to the conversion program.

**3.1.** The resources that enter the Argentina-Spain Fund will be used for financing the programs mentioned in paragraph 1.1 and that have been approved by the Binational Committee.

**3.2.** The programs financed by the Argentina-Spain Fund will have to be possible in the technical, economical and social fields, and will be performed by the organizations or institutions that the parties acknowledge as competent through the Binational Committee's approval.

**3.3.** The financed programs must include, in their acts, publications or infrastructure works, public reports that indicate that the execution of such acts, publications or in-

frastructure works were performed with funds coming from the application of Mechanisms of Conversion of the Debt into Education framed in this agreement entered into Argentina and Spain.

**3.4.** The financing of the goods and services considered under this program shall not entail, in any case, the financing of excise and tax duties and/or taxes. The Argentine State shall be responsible for the fulfillment of the tax duties that may derive from the performance of these programs.

### 4) Conversion program management. The Argentina-Spain Binational Committee

**4.1.** For the management of the "Argentina-Spain Fund," an "Argentina-Spain" Binational Committee shall be created, (hereinafter called BC).

The BC will be made up by a representative from the Ministry of Education of Argentina, a representative from the Ministry of Economy of Argentina, a representative from the Ministry of Economy and Finance of Spain and the Adviser of the Span-

ish Agency for International Cooperation having headquarters in Argentina (AECI).

**4.2.** The BC's functions will be:

- To define the policies for administering the resources from the "Argentina-Spain Fund" and to adopt all the agreements that may be necessary to effectively perform its objectives.
- To establish the annual priorities of investment and disbursement of the "Argentina-Spain Fund."
- To approve the programs to be financed with charge to the "Argentina-Spain Fund," the respective appraisal reports and the corresponding independent audits.
- To assess the Technical Committee performance, committee that will be created by this agreement in paragraph five, and to receive its reports and proposals.
- Other functions that may be appointed by the Regulations of the Binational Committee.

**4.3.** The "Binational Committee" will reach its decisions by consent.

**4.4.** In case the schedule of repayments of the approved programs requires disbursements in advance to the "Argentina-Spain Fund," the BC may ask the Ministry of Economy of Argentina to do so as long as such disbursements do not exceed the total amount budgeted and correspond to the principal amount to be depreciated.

**4.5.** So as to fulfill its functions, the BC will meet whenever it may be considered necessary and, at least, twice a year.

**4.6.** In its organizational meeting, the BC will approve the Regulations of the Binational Committee that details and concretes the performance of this agreement.

## 5) The Technical Committee.

**5.1.** To contribute to an adequate selection and implementation of the programs financed with charge to this agreement, a Technical Committee shall be created (hereinafter called TC). The TC shall have the functions and composition the Regulations of the Binational Committee decides.



## 6) Procedure for project selection and implementation.

### 6.1. Presentation and program selection stage.

In this stage, the TC will submit to the BC a set of programs that, due to their suitability for the objects of the agreement, it considers appropriate to be financed by the “Argentina-Spain Fund.”

The BC will approve those programs that it considers relevant for achieving the objects of this agreement.

### 6.2. Stage of selection of the performer and awarding.

For those cases in which the approved program performance does not involve the participation of the competent public organizations of the State, a call for competitive bid shall occur so as to select the best institutions to carry out the actions for the approved programs. The competitive bid shall provide for criteria of transparency, accountability and social responsibility, trying by means of these actions to benefit

those competent institutions of the regions involved in the implementation of the approved programs, and encouraging its local as well as its social-educational development.

### 6.3. Follow-Up stage and program assessment.

In this stage, the BC, with the assistance of the TC, must watch over the correct management of the converted resources and monitor the execution of programs.

### 6.4. Follow-Up stage and program assessment.

Annually, an independent audit with charge to the “Argentina-Spain Fund” shall be carried out. Such audit will ensure that the disbursements made correspond to what was agreed upon by the BC. The audit findings shall be submitted to the BC for its study and for the adoption of right measures.

Once the performance of each of the programs finishes, the TC shall

submit the BC reports of management and assessment of results and impact.

## 7) Finance expenses with charge to this Agreement.

**7.1.** Additionally to the project financing, the following will be financed with charge to this Agreement:

- The services the TC requires for fulfilling its functions, being such functions all those tasks the Regulations assign in relation to the processes of selection, execution and assessment of the financed projects.
- Service hiring for an independent Audit.

**7.2.** The amount of the expenses related to these services additional to the program financing cannot exceed the 4% of the total resources that result from this Agreement.

## 8) Term of the Conversion of Debt into Education Program.

**8.1.** This agreement shall be effective as of the day of its execution and shall be for a period of 4 years to cancel the debt service stated in the corresponding enclosed document.

**8.2.** In case Argentina fails to complete -totally or partially- its payment commitments under this Agreement of Debt Conversion into Education, and such failure produces a delay greater than three months in its disbursements to the "Argentina-Spain Fund," a special meeting of the BC shall be called to decide if the programs previously approved and/or being performed shall be terminated due to lack of adequate financing or if they shall be financed by the Argentinean authorities.

In XXX, on this XXX day of the month XXX of the year 2006.

Representing the  
Spanish Government  
XXX

Representing the  
Argentinean Government  
XXX



# 17.

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A significant bibliographic repertoire on the subject can also be found in said site.