Developments in Debt Conversion Programs and Conversion Activities

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The World Bank
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Towards the end of the 80s, after a rapid expansion in debt swaps in 1987 and 1988, some countries began suspending debt conversion programs in the face of concerns about the domestic liquidity implications of such operations, the lack of additionality of associated investments, and pricing. The recent revival in debt swaps, however, has an added attraction: they facilitate the privatization movements in highly-indebted countries. The new trend towards linking swaps to governments' privatization efforts increased rapidly in 1989-90. This was partly in response to the potential adverse inflationary effects of some swaps. These privatization projects using debt swaps do not necessarily involve the monetization of foreign debt; furthermore, in some instances the dimensions are so circumscribed that macroeconomic problems of swaps may not arise. In Mexico, as part of the 1989 debt reduction package under the Brady initiative, the program limits investments to state-owned companies being privatized and infrastructure development projects. In Argentina, debt swaps are being used to privatize public sector enterprises.

The objective of this paper is to amalgamate the existing literature on debt conversion in a concise and unique manner. The recurrent theme of the paper is the link between debt conversion, foreign investment and privatization. Part I of this paper describes recent activities in debt-for-equity swaps. Part II looks at the increased interest in other forms of conversion activities, hereinafter referred to as debt-for-development swaps, namely debt-for-nature, debt-for-education and debt-for-health care swaps.

The information in this paper was gathered from a number of sources, including central banks, LDC debt traders, and published papers and periodicals. As information on this type of material is difficult and extremely time consuming to obtain, particularly with regards to the more technical details, we hope that it becomes useful factual material to the audience in their research or policy issues related to debt conversion activities, foreign investment or privatization. There is considerable scope for continuing this type of research. The authors are staff of the World Bank Group and may be consulted.