

DEBT CONVERSION BETWEEN FINLAND AND RUSSIA

When the Soviet Union split up, Russia assumed responsibility for its debts, including about 750 million dollars that was owed to Finland. The Paris Club granted Finland special permission to agree on debt conversion or the partial payment of debt with goods and services. At the time of the audit Finland and Russia had three debt conversion agreements worth about 184 million dollars and negotiations were under way on a fourth agreement.

The audit investigated how debt conversion agreements between the two countries have been formulated, how they have been implemented and in what way debt conversion has benefited Finnish recipients of equipment and services.

The preparation of debt conversion for the second and third agreements was deficient both in ministries and the agencies and units that made procurements. These agreements account for nearly a third of implemented debt conversion.

Project proposals were not collected in debt conversion agreements broadly enough from different administrative sectors and the information received by agencies and units concerning debt conversion was often haphazard. The project proposals approved in project lists were not always justified in writing and price comparisons either were not made or were not documented. The handling of project proposals or related documentation was also deficient in agencies and units as well as the ministry responsible for the administrative sector.

Selecting projects without proper documentation cannot be considered acceptable. Owing to deficient preparation it was not possible to ensure adequately that the most important services or equipment was procured as a whole or that procurements were as economical as possible compared with procurements made in some other way. Nor is it pos-

sible with such a procedure to ensure that all the parties needing procurements are considered in a balanced manner or to make sure that the most important procurements are made. The debt conversion process has not been sufficiently open to possible procurers.

A brokerage fee for the Russian trading house should be negotiated for the international agreements or delivery agreements on a centralized basis, in which case the fee would have been the same for all procurers. General delivery terms as well as official permits for procurements and special questions concerning customs and taxation should also have been negotiated on a centralized basis to save time and resources and create uniform practice.

In debt conversion it is not possible to invite normal tenders since the supplier must be Russian. Procurements should still have been made in the most economical way for the state, however. Without documentation on price comparisons it is difficult to make sure that this has been done and the danger is that inflated prices were paid for procurements. With the trading house's brokerage fees varying and with several procurers estimating that prices were higher than those charged by other suppliers, it appears that too much has been paid for goods procured through debt conversion in some cases. Procurements made through debt conversion should as far as possible have followed normal procurement procedures and the same trade practices as in normal trade with Russia.

As a rule debt conversion agreements have been implemented well and the quality of products has corresponded to expectations. Deliveries have typically been delayed, however, which has probably been influenced by the fact that agreements have not stipulated any sanctions for delays.

When the audit was conducted negotiations were under way on a fourth debt conversion agreement involving goods and services, after which the 30% debt conversion share permitted by the Paris Club will have been used, according to the Ministry of Trade and Industry. The audit indicated that the entire share has not been used, however.

Most agencies and units would not have been able to make such costly procurements with normal budget funds.

Users' evaluations of the products received have generally been positive, which the audit indicated was largely influenced by the fact that agencies and units did not have to use their appropriations for procurements made through debt conversion.