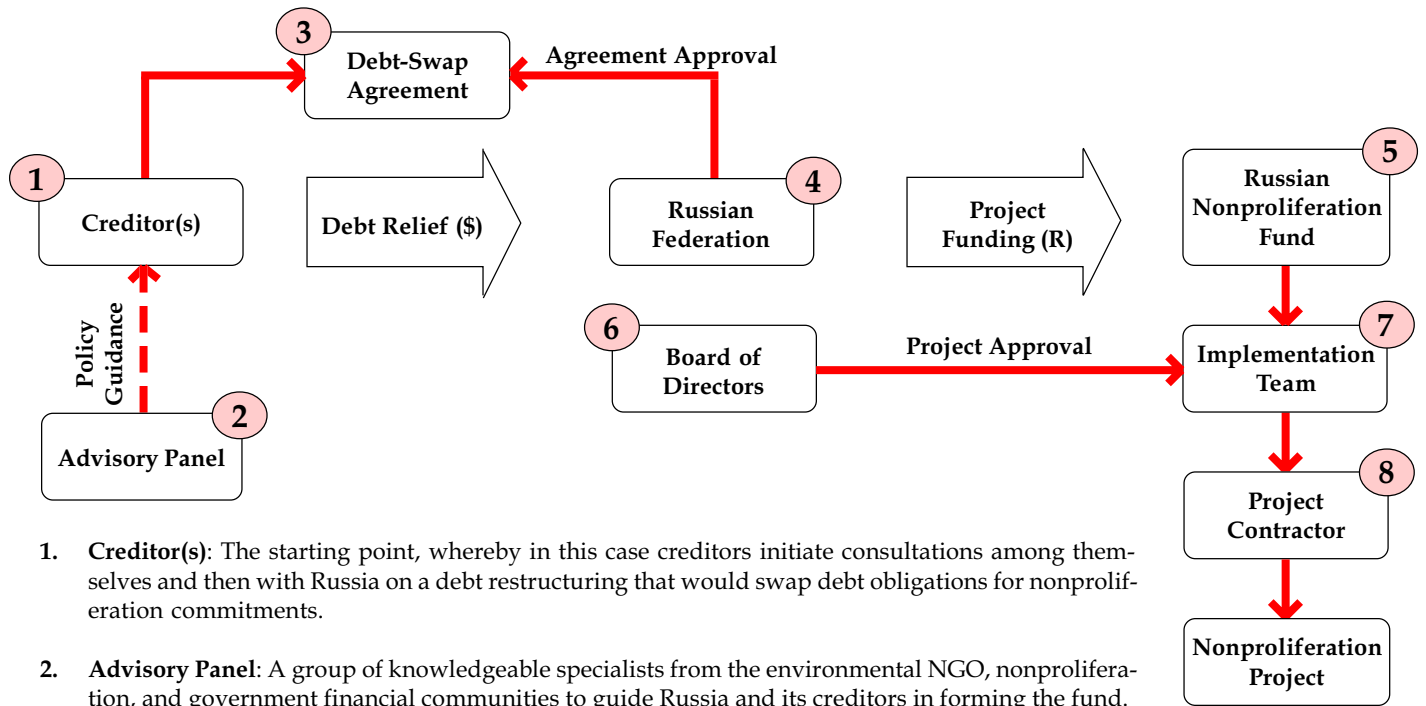


A RUSSIAN NONPROLIFERATION FUND

The parties that participate in a debt-for-nonproliferation swap should create a Nonproliferation Fund as the ruble-denominated account that would finance the participants' nonproliferation objectives. A fundamental component of the fund would be a stakeholder-governance structure to assure maximum accountability and to counteract the bad reputation that Russian funds have acquired in recent years as havens for financial corruption and wrong-doing. The well-documented body of knowledge describing the establishment and operation of environmental funds as the results of debt swaps provides a plethora of experience on which to draw.

There would be several ways to structure the fund's finances, but the best approach is that of a revolving fund, which would receive new monies (e.g., donations) on a regular basis to augment or replenish the fund's original capital and to provide continuing financing for a variety of projects over several years. A revolving fund would also allow for incremental creditor write-offs to minimize the effects of inflation, to maximize expenditure accountability and value, and to help institutionalize proliferation prevention as a stable and sustained enterprise in Russia.

Some key elements of how this structure might function are summarized below in Figure 2.



1. **Creditor(s):** The starting point, whereby in this case creditors initiate consultations among themselves and then with Russia on a debt restructuring that would swap debt obligations for nonproliferation commitments.
2. **Advisory Panel:** A group of knowledgeable specialists from the environmental NGO, nonproliferation, and government financial communities to guide Russia and its creditors in forming the fund.
3. **Debt-Swap Agreement:** A contract outlining the terms of the debt reduction and the nonproliferation activities to be carried out. In reality, there would likely be a series of bilateral agreements between Russia and each contributing creditor that would define the rate for converting creditor currency into rubles, specify the terms and schedule for the Russian deposits into the fund, and establish how money would be withdrawn from the fund.
4. **Russian Federation:** An alternative starting point, in which Russia signals that it might be willing to enter a debt-for-nonproliferation swap and initiates negotiations on agreements with creditors.
5. **Russian Nonproliferation Fund:** A Russian legal entity, probably a foundation, modeled after the Polish EcoFund, established to underwrite the debt-for-nonproliferation program. The fund should exist as an account in a private Russian financial institution, rather than as a commitment against Central Bank resources.
6. **Board of Directors:** A multinational oversight body comprised of representatives of Russia and all contributing creditors to set general policy for the fund, establish project-funding guidelines, and provide final approval of project proposals.
7. **Implementation Team:** An international NGO or other contractor tasked by the Board to carry out day-to-day proposal coordination, project contract administration, and verification of completed deliverables. The contractor should probably be a Russian-led and -staffed organization.
8. **Project Contractor:** Russian government or Russian private-sector teams that would serve as prime contractors to bid on proposals from the fund and complete the work.

Figure 2