A Brief Summary of DEBT-FOR-NATURE Swaps

prepared by the

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During 1987, environmental organizations working in Bolivia, Ecuador and Costa Rica arranged for debt-for-nature swaps that would substantially increase the local funds available for their programs. The financial arrangement for each swap was unique, but in every country a tiny fraction of the foreign debt burden was retired in exchange for local investments planned by non-governmental organizations to conserve and sustainably manage the natural resources found in tropical ecosystems.

To pay debts, many developing countries borrow from their resources --the forests, the soils, the fish and wildlife, and their water supplies. Consuming and exporting resources today will affect future generations in ways that few economists have calculated.

The razing of a tropical rain forest is as economic as burning a library of rare books, in fact, one that contains the sole existing editions from the genetic library of this planet. Only two percent of the species in rain forests have been classified, yet 40 percent of our current medicines come from natural sources. The forests also moderate the local climate and hold 25 percent of the world's water, while providing traditional livelihoods to the people who live there.

Long-term sustainable use of the forests, coastal wetlands and mountain slopes is threatened by short-term policies of exploitation and by the economic constraints on local governments. For the world renowned parks of Costa Rica, where tourism earns more foreign exchange than anything except coffee and bananas, the government can barely pay the salaries of a skeletal crew of park personnel. In response to this crisis, private foundations have supplemented government programs for parks, environmental education, research and reforestation. This kind of public-private partnership, with international and local support, is the essence of the debt-for-nature swaps.

One-page descriptions of the Bolivian, Costa Rican and Ecuadoran debt-for nature programs are attached.

The Bolivian Case

The first debt-for-nature swap was essentially one environmental organization's agreement with the Bolivian government to help finance and ensure the protective management of over 4 million acres (1.5 million hectares) of tropical forests and grasslands.

Conservation International, a Washington-based non-profit organization, bought $650,000 of Bolivia's commercial bank debt, using Citibank as its agent in the secondary financial markets. The debt was purchased at approximately an 85 percent discount of its face value, in other words, at 15 cents per dollar. A $100,000 grant from the Frank Weeden Foundation financed this transaction.

Under the terms of the agreement signed July 13, 1987, Conservation International would cancel Bolivia's obligation to pay the $650,000 debt. In return, the Bolivian government promised to give the maximum legal protection to the Beni Biosphere Reserve and to increase by 3.7 million acres (1.2 million hectares) the protected areas next to the reserve. The government also agreed to provide an operating fund in local currency worth $250,000 to manage the Beni Reserve and its additional buffer zones for sustainable uses.

The forests and grasslands of the Beni Biosphere Reserve in northeastern Bolivia support 13 endangered species, 500 species of birds and the nomadic Chimane indians. The newly protected areas will be managed to benefit all regional people, using the forest in a sustainable manner, thus protecting the soils and the watershed, while preserving the traditional Chimane way of life.

Conservation International has become a scientific and technical adviser on conservation and resource management to the Bolivian government, according to the agreement. To carry out the conservation programs, Conservation International agreed to designate as its representative a local institution, subject to the approval of the Ministry of Agriculture.

A national commission was formed that included local officials of the Beni region, university scientists from the Ecology Institute and the Beni Biological Station, as well as a representative of the environmental coalition LIDEMA (Liga de Defensa del Medio Ambiente). This commission will be responsible for carrying out the environmental programs.

The $250,000 operating fund in local currency was created with $100,000 in pesos from the Bolivian government and $150,000 in pesos contributed by the U.S. Agency for International Development from its local currency PL480 funds.

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Administration of the operating fund rests with the Ministry of Agriculture and the Bolivian non-governmental institution designated by Conservation International.

One lesson from the Bolivian debt-for-nature experience is that misperceptions may cause a nationalistic reaction. No foreign group acquired any control over land in Bolivia, but some press reports gave this impression. In fact, the land was already owned by the Bolivian government and remained so, only a better protection and management plan was promised.

The Costa Rican Case

The most ambitious, multi-faceted debt swap program yet to emerge belongs to Costa Rica. The Costa Ricans set up a $5.4 million debt-for-nature program in 1987 to create a Natural Resources Conservation Fund composed of bonds whose interest will pay for a wide variety of projects.

This $5.4 million ceiling was reached by donor pledges in early 1988, and a major expansion of the program is being planned.

Many donors --including one bank that gave its $254,000 in Costa Rican debt to the Nature Conservancy for Braulio Carrillo Park-- are helping to provide the debt notes to be swapped. Funds to purchase debt have come from the Nature Conservancy, World Wildlife Fund (including its national organizations from the U.S., Canada, and Europe,) Asociacion Ecologica La Pacifica, Pew Charitable Trust, the MacArthur Foundation, the J.S. Noyes Foundation, the Swedish Society for the Conservation of Nature, the W.Alton Jones Foundation, the Organization for Tropical Studies, and Conservation International.

Costa Rican debt was selling for about 17 cents on the dollar in early 1988, giving the buyers more than an 80 percent discount. In exchange for its notes, Costa Rica offered bonds at 75 percent of the face value. These bonds in colones, with maturity of up to six years, carry an average of 25 percent interest. Only the interest payments are immediately available to fund environmental projects, because the bonds cannot be sold. Principal on the bonds begins being paid in the second year. When more cash is needed, however, the bonds can be used as collateral for loans. The swaps are administered by the Costa Rican Cooperative Bank (BANCOOP) on behalf of the National Parks Foundation which channels the funds to projects agreed upon by the donors and the Ministry of Natural Resources.

The funds are being used to expand, manage and protect many of Costa Rica's exemplary parks, building up the infrastructure for tourism and science. The fixed costs of the parks, already set by law, take up 90 percent of the public funds budgeted. There has been no public money available for new programs, for reforestation and more innovative work with the local population that would prevent deforestation through environmental education.

One major effort that will benefit from the debt swap mechanism is the Guanacaste National Park Project. This park requires the purchase of land in an area now located between existing parks and reserves. Only when the park is completed and fully endowed will the government assume title to it. The new

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park will be large enough to allow the restoration of an ecosystem that has all but disappeared --the dry tropical forest. Dr. Daniel Janzen, a biologist from the University of Pennsylvania, has worked hard to mobilize resources and shape this project.

Working with the local community, so that people can perceive the value the parks will have for them, is an essential part of Costa Rica's plan. Local non-governmental organizations participate actively in the debt swaps, proposing and administering the programs that are funded.

The Ecuadoran Case

Fundacion Natura, the leading private conservation group in Ecuador, obtained an agreement with the government's monetary board on October 8, 1987 enabling the Foundation to exchange up to $10 million in debt for local currency bonds. These bonds were to be used exclusively to finance the Foundacion's broad range of activities in conserving and improving Ecuador's national parks.

Fundacion Natura sought the dollars to purchase this debt from local and international donations. The World Wildlife Fund-U.S. offered to purchase the first $1 million in debt in December 1987. Ecuadoran debt was sold for just over 35 cents, thus $354,000 bought $1,000,000 from commercial lenders to Ecuador.

The bonds were provided by the government at the full amount of the debt note, 100 percent face value, and converted into sucres at the official exchange rate. (The official exchange rate is substantially less than the floating rate.) The interest on these bonds, called monetary stabilization bonds, is linked to the market rates -- currently about 33 percent interest-- and they mature over nine years. The principal will become an endowment for Fundacion Natura, while the interest pays for its on-going programs.

Fundacion Natura is not the exclusive beneficiary, because it will to serve as a conduit for funds to support conservation efforts involving other non-governmental groups and public programs.

The programs supported by these bonds will include management plans for protected areas, development of park infrastructure, acquisition of small nature reserves, and training of park personnel along with broader environmental education activities.

Ecuador holds a wide variety of ecological riches, from the Amazon rain forests up to the Andean highlands and down to the costal savannah and mangrove forests of the coast. Its best known natural treasures are found in the Galapagos Islands, the home to plants and animals that exist nowhere else on earth.

Until now, since only the Galapagos Islands Park produces net income, tourism in the Galapagos alone provides the meager budget for the other 12 parks of Ecuador, which cover 11 percent of its territory.

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While a $10 million program may not have much impact on the country's debt, the interest from the bonds in the first year alone is projected to be twice what the country now budgets for its parks!