

DEBT-FOR-NATURE SWAPS AS A SOURCE OF ENVIRONMENTAL FINANCING FOR SUSTAINABLE DEVELOPMENT

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ABSTRACT

Financing environmental programs is particularly difficult in the present economic climate for heavily indebted developing and transition countries. Globalization processes exacerbate the situation because of an increased competition among investment allocation both at the sectoral and country levels. A range of funding sources is usually considered to find the best fit. This paper discusses how countries can attempt to turn one of the 'curses', namely heavy debts, into an opportunity for sustainable development by resorting to "debt for nature swaps" (DNS). An overview of debt conversion instruments and their applications is presented and an emphasis on DNS and its applications in developing and transition economies is made with a number of examples given. Possibilities for Russia are specifically singled out

Key words: debt-for-nature swaps, debt conversion, globalization, second debt markets.

1. INTRODUCTION

Financing environmental programs is particularly difficult in the present economic climate for heavily indebted developing and transition countries. Globalization processes exacerbate the situation because of an increased competition among investment allocation both at the sectoral and country levels. A range of funding sources is usually considered to find the best fit (see Fig.1). This paper discusses how countries can attempt to turn one of the 'curses', namely heavy debts, into an opportunity for sustainable development by resorting to "debt for nature swaps" (DNS). An overview of debt conversion instruments and their applications is presented and an emphasis on DNS and its applications in developing and transition economies is made with a number of examples given. Possibilities for Russia are specifically singled out

The "debt-for-nature" swap was born as a solution to two increasingly important international problems: the debt crisis (arising from the vulnerable position of third world countries in the volatile economic climate of the 1970s and 1980s), and the rapid destruction of fragile ecosystems. Originally proposed by Thomas E. Lovejoy of the World Wildlife Fund in 1984, the DFN swap allows a debtor country to pay off a portion of its debt by promising to protect environmental resources within its borders. Though DNS usually involve non-governmental organizations and sovereign states, they are still very much like direct negotiations between states in international disputes, as a decision can only be successfully reached if each party

benefits substantially from the agreement. Indeed, DNS negotiations "include, at a minimum, a sovereign state (the debtor country), a donor organization headquartered in another country, and a private creditor organization". (Golich, 1993)

The Conference of the parties to the Convention on biological diversity at its second meeting on 6-17 November 1995 pointed out that private sector funds are seen to be the most rapidly growing source of finance for environmental programmes. These may be available through, *inter alia*, joint venture capital funds, "ecological mutual funds", **debt-for-nature swaps**, charitable foundations and NGOs (Approaches..., 1995).

There are various kinds of debt conversion for indebted developing and transition economies: monetary debts can be reduced by converting them into political values such as successful social (democratic) and economic (market) reforms, export incentives, demilitarization programs, etc.

2. DEBT-FOR-NATURE SWAPS

The recent decades have seen the emergence of a secondary debt market, debt write-offs, such exchanges (swaps) as debt-for-debt, debt-for-cash, debt-for-assets, debt-for-equity, debt-for-buy back, debt-for-bonds, debt-for-development, debt-for-policy reform, debt-for-education as well as debt for nature exchanges (swaps), or DNS. The latter exchanges by their sheer scale rarely bring down significantly the total debt burden of a country but have been found a very effective source of environmental financing.

Experience shows that amounts of money exchanged in DNS usually have been from hundreds of thousands to several million US dollars. Nonetheless, this is a significant input to environmental programs. In addition, environmentally-oriented debt restructuring can provide an incentive for the creditors to forgive, reschedule overall debts or issue new loans. For example, in the early 1990s, western donors wrote off a large portion of Poland's debts, provided 10% of the sum forgiven would be spent on environmental projects. Bulgaria is embarking on this path

Such DNS projects are a significant support, complementing direct internal and foreign environmental investments, for funding environmental conservation programs. They can also help generate a further inflow of external grants and other subsidies for environmental and economic sectors. Furthermore, DNS can be considered both at federal and provincial levels in Russia.

A number of developing countries have embarked on DNS programs, including the once-reluctant Brazil, which initially felt that there were too many strings attached. Eastern European economies in transition, such as Poland and Bulgaria, have also found DNS beneficial. The DNS can, in fact, be viewed as a market instrument (making use of the existing debt 'supply/availability and demand/real value' situation) for conserving ecosystems and processes of global or international significance due to marked "demand" for such functions in

developed countries, and the readiness of debtor nations to make efforts to ‘supply’ them in exchange for debt redemption.

DNS are a source of environmental finance for heavily indebted countries and a means for debt reduction in exchange for environmental investment. Another important point about DNS is that, unlike other debt conversion instruments, they do not envisage transfer of capitals outside debtor countries. The most successful debt restructuring programs in the early 1990s were DNS in countries such as Bolivia, Costa Rica, and Madagascar.

The DNS idea itself is not new. The principle was first raised by Tom Lovejoy, of the World Wildlife Fund (WWF), in a New York Times article, “Ecology of debtor nations” (4 October 1984). A creditor nation negotiates an agreement with the debtor nation on the terms under which the creditor will forgive the debt fully or partially in exchange for the debtor nation’s investment in local currency (equal to the remaining debt) in environmental conservation and natural resource use projects. In fact, the debt is usually purchased by an international NGO, such as the WWF, at a certain discount from the creditor’s bank, and is exchanged for an obligation by the debtor country to fund domestic environmental programs in local currency. There are three principal players in DNS: the debtor country, the eco-investor, and the creditor bank which sells the loan. In real deals, there may also be other middlemen, such as donors and professional debt traders. Specific environmental projects are agreed upon between the debtor country and the NGO involved.

By 1996, approximately \$180 million of commercial debt had been purchased from more than eleven developing countries, at a total of \$47 million (i.e., 26% debt nominal value). This money was used in environmental financing equivalent to US \$130 million. By 1998, the number of countries participating in DNS had risen to 17, with approximately 45 DNS programs (8 in Africa, 4 in Asia, 31 in Latin America, and 2 in East Central Europe). DNS gave rise to a range of environmental funds in developing countries which, altogether, control approximately US \$1 billion. Poland’s ecofund disbursed the equivalent of approximately \$470 million dollars in 1995. Environmental projects cover biodiversity conservation, support for and development of the existing nature reserves (especially in tropical areas), reduction of greenhouse gas emissions and transboundary pollution.

DNS funding can sometimes be viewed as seed money to attract additional financing from other sources. Some banks use DNS as a charitable contribution, instead of writing off bad debts. DNS-funded projects can promote employment and foreign tourism, and thus attract hard currency, create internationally the debtor country’s green image. This image can positively influence negotiations in the London and Paris Clubs, catalyze other debt conversions, and strengthen relationships between government and NGOs.

DNS opened the doors for debt conversion, mainly in the hands of multinational corporations, to the realm of nonprofit, nongovernmental environmental organizations. This can be seen as international recognition of the world-wide importance of environmental movement. These swaps have stimulated the leveraging of corporate capital for ecological funds.

In spite of potential benefits of DNS for investors and debtors, some problems arise in their practical implementation. Among them, a complicated process of DNS; risks involved in DNS (the main one is that the debtor nation may not fulfill its obligations of paying out the remaining debt in domestic currency under the negotiated terms); the need to reach an negotiated agreement with the donor (creditor); a narrow spectrum of debts that can be purchased at a substantial discount. The latter is an important issue. In order to carry out DNS, one must single out debts beneficial for the buyer to gain money exceeding the value of the reduced debt (swapped). The debts for DNS should also be held by a single creditor, rather than multiple ones.

3. A BRIEF DESCRIPTION OF THE DNS PROCESS:

1. Interested parties (e.g., a debtor country, a selected NGO) study a) international experience with DNS; b) types, character, conditions of payment and debt servicing in order to determine which are appropriate for projected DNS; c) potential ecological projects or programs, which could be implemented in the debtor country on a DNS basis, and d) potential investors to assist with debt purchase and relationships with the creditor(s).
2. Local NGOs, jointly with the (federal or regional) government identify priorities, goals, programs and financial requirements of a DNS (this usually takes one to 1.5 years). The environment ministry plays an important role as a partner of the local NGO particularly for estimating project budgets, obtaining approval by the Central Bank of the DNS, and supervises project implementation, particularly for specially designated protected areas.
3. The government of the debtor nation sends a letter of intent regarding a DNS to the government of the creditor nation with an indication of what portion of the loan may be subject to DNS negotiations, and what types of environmental programs might be contemplated.
4. The parties - the debtor nation and the investor (e.g., WWF) - agree to begin negotiations for a debt-for-nature swap. The investor identifies contributors (governments, banks, organizations, etc.) to get money to purchase the debt or mobilizes its own money for that purpose. The investor also makes contacts on the secondary debt market to determine the status of debts for DNS.
5. The debtor nation and the investor reach agreement, allowing the latter to exchange the purchased debt for a specific sum (obligations, promissory notes) in domestic currency and use the money thus obtained to finance environmental activities, which will be coordinated with domestic NGOs in the debtor country. Conditions, participants and management rules for the DNS finances are specified in the agreement. The Environment ministry, the international NGO (the investor), the domestic NGO and the Central Bank are typically parties to this agreement.

6. The investor purchases the debt on the secondary market, for example, through a professional intermediary, or get it directly from the creditor bank as a grant.
7. The money acquired from the purchased debt are transferred to the domestic environmental NGO account or into an account of a private or government bank of the debtor country in cooperation with the domestic NGO. The Central Bank releases bonds in local currency (they are equivalent to promissory notes of the government to the domestic NGO for investment in the specified environmental projects in exchange for debt redemption). The interest paid by the Central Bank on the bonds is used to finance environmental projects. When the term of the bonds expires, the principal may also be used for environmental projects.
8. The debt is exchanged either for bonds or cash in the local currency.
9. The environmental projects are implemented.

Annexes contain charts showing different structural arrangements of DNS involving NGOs. Poland and Bulgaria has demonstrated a different approach to DNS that includes multilateral government negotiations without NGOs playing a key role in buying out a sovereign debt. The Polish case is discussed below.

4. ADVANTAGES OF DEBT-FOR-NATURE SWAPS

The following *merits of debt-for-nature swaps* can be highlighted:

- *The favourable effect on the environment* and on environmental management;
- The reduction of the external debt burden is not too significant as it takes place using an exchange of debt for assets (debt-for-equity), but it eliminates the inflationary effect after debt conversion as currency or bonds issued account for a minor part of the money supply.
- *The in-flow of nature conservation investments* as a consequence of providing favorable conditions while executing the conversion of purchased debt.
- *The gain of a partial discount on the secondary debt market.* If under debt-for-equity swaps a partial discount on the secondary debt market measures 10-15% of the nominal debt total, this discount may be essentially higher when carrying out debt-for-nature swaps. During the implementation of 23 “private” debt-for-nature swaps that were completed by December 1992, the average price of the debt purchase was only 26% of the total nominal debt. This permits participating nature conservation organizations to offer a large discount to the government of the country involved.

- *Inflation.* As mentioned above, the debt-for-nature swap has no inflationary consequences inherent in debt-for-equity operations. Although the purchase of debt from an investor is financed at the expense of national currency emission, the relatively small volume of emission does not lead to considerable price increases.
- *Debt-for-nature swaps do not replace the inflow of foreign nature conservation investments.* As investment in environmental protection is carried out free of charge at the expense of nature conservation organizations, it is unlikely that these organizations could effect the same investment at the same level if it were not for the possibility of using the debt-for-nature mechanism.
- *Debt conversion is not a burden on the state budget,* because large sums are not involved.
- *There is no capital flee from the country since the local currency financial operations are effected.*
- *The possibility of speculation is limited* in view of the relative insignificance of the sums (at least for the debt market), the investment agreement in certain projects, and the participation of a conservation NGO that does not seek to derive any profits in the transaction.
- The problem of *non-optimal distribution of resources* is not so acute as takes place with debt-for-equity operations. On the one hand, it is hardly probable that investing additional resources to nature conservation activities may lead to strengthening structural disproportions in the economy. On the other hand, debt-for-nature operations are more effective than debt-for-equity operations from the standpoint of decreasing the debt burden (a great discount from the nominal cost of the debt), though large sums are not the case in point.

5. DNS IMPLEMENTATION PROBLEM AREAS

The question of *inflationary consequences* when implementing debt-for-nature swaps arises frequently. Such a problem may emerge in the case of large short-term exchanges amounting to several million US dollars (for instance, in 1988 the debt conversions in Mexico and Brazil involved \$6.7 million and \$9.2 million respectively). The solution to this problem may be in exchanges dispersed over time and for sufficiently moderate amounts, compared with the total value of the external debt being restructured and also in the issuance of bonds that extend the appearance of new money in the domestic market for several years.

The acute problem is the discussion of the debt redemption rate, i.e. the discount when buying debt. The central bank usually insists on a low rate while the ecological non-governmental organizations usually advocate debt redemption at the nominal value (100%). Naturally, the situation in the secondary debt market should be taken into consideration.

The problem of national independence and sovereignty. The government may regard negatively the prospect of transferring resources to any non-governmental organization for realizing nature conservation projects selected, as a rule, by a *foreign* nature protection organization. Taking of nature conservation measures in compliance with the priorities of the investor but not with those of the receiving state may be perceived as interference in the internal affairs of the state and encroachment on its sovereignty in relation to the use of natural resources and their management. The solution to this problem is in attracting the government's representatives or its nature conservation department to select projects or "to approve" a project that has been already approved.

Debt-for-nature swaps are usually subjected to criticism in the following aspects (by the way, all this applies to other types of the debt conversion):

- Debt-for-nature swaps are limited in scale and do not help much to reduce the debt burden.
- Debt-for-nature swaps are ruled mainly by donor preferences (which is quite typical for other kinds of foreign aid and other types of assistance), which do not always meet the interests, practices and standards of the accepting party, and take local ecological problems and their effect on the health of local population little into account.
- Debt-for-nature swaps have little influence on the activities of local commercial organizations in making them more concerned about their negative influence on environment;
- Quite often projects launched within the debt-for-nature swap programs appear to be insufficient to cope with the tasks that they are aimed at.

Nonetheless, debt-for-nature swaps appear to be one more important source of finance for improving the ecological situation in states having heavy debts but limited resources to pay.

6. TYPES OF DEBTS FOR DEBT-FOR-NATURE SWAPS

Debts to commercial banks and private companies. The growing cost of commercial liabilities on the secondary debt market in recent years has led to the reduction of their discounts. Still, such debt may yield up to 30% in profit (as in Mexico, for example).

Mutual debts. Most debt-for-nature swaps in the 1980's were arranged in Latin America and have covered debts to commercial banks and commercial loans. Since the Paris Club adopted a statute for the swap of debt, the number of mutual debts and their spread in the world has expanded, towards Africa in particular. A mutual debt incurred by the rendered ODA and by obtaining government-insured export credits may well be bought from an export-crediting agency by an ecological organization or may become a matter for mutual swap. In such cases the creditor government repays the debt in exchange for the creation by the debtor of a special

fund of an agreed upon size in local currency for nature conservation. Since 1991 the US has thus exchanged the debt of some Latin America states in the nominal amount of \$875 million. This was exchanged into local currency equivalent of \$154 million for ecological projects and children aid programs. The law on tropical rain forests preservation passed by the US legislature may be further incentive for the reduction of debt burden in exchange for preservation of tropical forests in such countries.

Multilateral debts. The IMF and the World Bank in October 1996 announced a Debt Initiative for Heavily Indebted Poor Countries (HIPC) aimed at stimulating active measures for improving the economy in 41 countries, i.e. programs for the realization of economic, structural and social reforms.

By introducing the concept of a socially oriented policy, the World Bank has in fact acknowledged the link between the reduction of debt burden and the need for greater investment into the social sectors of the economy. Although environmental issues are not clearly defined in the Initiative, ecological programs may any time be introduced to ease the debt burden.

7. EXAMPLES OF DEBT-FOR-NATURE SWAPS

The first debt for nature swap took place in July 1987. Conservation International raised money to pay off \$650,000 of **Bolivian** debt because the country was having difficulty paying its loans. The original lending institution, Citibank sold the debt to the environmental organisation for about 15 cents to the dollar. In return, Bolivia's president agreed to set aside the value of the original debt as a fund in local currency to protect several million acres of tropical forest. The Bolivian government passed legislation for the preservation of 13 animal species registered in the Red Data Book and the preservation of groups of nomad Indians in the Beni biosphere natural preserve covering some 135,000 hectares of land and also neighboring nature ecosystems. Such activities were financed by the international Conservation International (US), which got \$100 thousand from one of the US funds to purchase debt liabilities from one of the commercial banks totaling \$650,000. The Bolivian government set up a fund in local currency equivalent to 250 thousand US dollars to run and to protect the biosphere preserve. In this deal the government of Bolivia paid \$100,000 in local currency to the US, and the remaining 150 thousand US dollars of debt were provided by the US Agency for International Development as an aid grant.

The fund set up for the debt-for-nature swaps was administered jointly by the locally based department of Conservation International and the Ministry of Agriculture & Peasant Affairs. The government of Bolivia gave its share to the fund 21 months after the corresponding agreement was signed, while a law for the protection of the biosphere preserve had not been adopted even by the mid 1990s.

Still, despite all the delays there are some positive results brought about by debt-for-nature swap deals. They are: setting up administrative bodies for the protection of the natural preserves, conducting socio-economic research into the life of the local indigenous population, providing special funding for the preparation of the International Tropical Forest Organization program aimed at the stable exploitation of Bolivian forests (Potier, 1990; Resor, 1997; Guerin-McManus, 1998).

A large investment was involved in the debt-for-nature swaps in **Costa-Rica**. With financial support rendered in the period from 1987 to 1988 by private companies in the form of non-returnable subsidies amounting to \$10.1 million, the government converted \$72 million of its debt into local currency bond equivalent to \$36 million. This was done to finance purchases of land for the expansion of national parks and their upkeep, for the strengthening state and private organizations and for planting forests in an area of some thousands hectares for small forest plot owners. In addition the Netherlands contributed \$5 million to support forest tree nurseries and to provide loans and technical assistance to small farms owners. Sweden granted \$3.5 million to finance the project of the Guanacaste National Park. The above measures have promoted tourism, helped to protect the water basin during construction of a hydro power station and aided in the activation of some ecological programs.

In **Ecuador** the government allowed a local ecological organization (Fundacion Natura) at the beginning of 1988 to swap up to \$10 million of foreign debt for local currency bonds to finance ecological activities. With the aid of the US World Wide Fund for Nature the swap was completed in 1989. The Central bank of Ecuador was paying for the debt-for-nature swaps to Fundacion Natura for nine years, while the interest yield was channeled into a special fund, which shall exist permanently. For its part, Fundacion Natura operates in close cooperation with the Ministry of Agriculture and Cattle Breeding, which is responsible for keeping the national parks, and with many national non-governmental organizations in the realization of nature conservation projects. Thus, the sum of \$10 million provided by the debt-for-nature swap program already generated \$10 million in local currency (Resor, 1997).

As envisaged by the signed agreement, the interest on the bonds (at the level of market amounts) was used to subsidize aid to national parks, for ecological education, for ongoing exploitation of natural resources in the Amazon river basin and in High Andes, for training national parks personnel, for scientific research, and for buying plots of land to preserve unique biological diversity. The debt-for-nature swaps have eased slightly the debt burden on Ecuador (by less than one percent), and led to strengthening of a private ecological organization involved in some projects that could not be realized by the government due to financial limitations.

In **Madagascar**, the US Agency for International Development granted the US World Wide Fund for Nature \$1 million to purchase commercial debt of Madagascar in the amount not exceeding \$2-3 million in exchange for provisions for protecting of local rain forests from deforestation in order to preserve nature biological variety. It was also done in exchange for restoration of forests and for training of 400 local forest keepers.

In the **Philippines** in 1988 the US World Wide Fund for Nature has bought debt obligations of \$390,000 for \$200,000 (a 51% discount). This debt (\$200,000) was bought out within the next two years by the Philippines central bank for the national currency in the amount (in local currency) equivalent to the face value cost of the debt (i.e. for \$390,000) and was used in ecological projects. The success in the realization of this debt-for-nature swap made it possible for the government of Philippines, the World Wide Fund for Nature and the US Agency for International Development to capitalize (to set up non-governmental investment potential) the Foundation for the Philippine Environment through the creation of a money-lending fund, that uses only the interest paid on the original investment. After two debt-for-nature swaps, one in 1992 (\$9.8 million) and the other in 1993 (\$19 million) the created Foundation for the Philippine Environment secured the basic fund in local currency amounting to an equivalent of \$26 million, thus becoming the world's largest ecological investment non-governmental organization. The Foundation's trust council includes representatives of various local organizations engaged in development and ecological projects, representatives of the government, of business circles, of scientific bodies and of one international non-governmental organization (it was the World Wide Fund for Nature in the past, now it is the World Resources Institute) (Resor, 1997).

In **Zambia** in 1989, the World Wide Fund for Nature exchanged debts of \$2.2 million by paying only 20% of its face value. Still, due to problems in project management and a sharp decline in the cost of local currency, the World Wide Fund for Nature had to spend all the swap returns within less than a year, which made this operation less cost-effective. In 1993, the Zambian government approved a debt-for nature program that has attracted many non-governmental organizations. Acting within the framework of this program realized with participation of World Bank funds, the non-governmental organization bought Zambian debt for only 11% of its face value and obtained an equivalent of 16.5% in local currency. Although the profit ratio was only 1.5 (16.5 to 11.0), the program was well structured and made it possible for non-governmental organizations to finance development projects in Zambia at a minimum risk (Resor, 1997).

In **Peru** the first debt-for-nature swap for its debt to Canada was completed in 1994. A sum of 5 million Canadian dollars was invested into the PROFONANPE trust fund. Then similar debt-for-nature swaps were performed with Germany (6.89 million US dollars), with Finland (4.8 million Canadian dollars), and with Switzerland.

In **Mexico**, "Conservation International" has purchased debts of \$336,500 from a US bank for \$246,000, which was obtained from the US Agency for International Development. The latter sum shall be converted into the local currency (peso) by the Mexican government and will be used for ecological projects only.

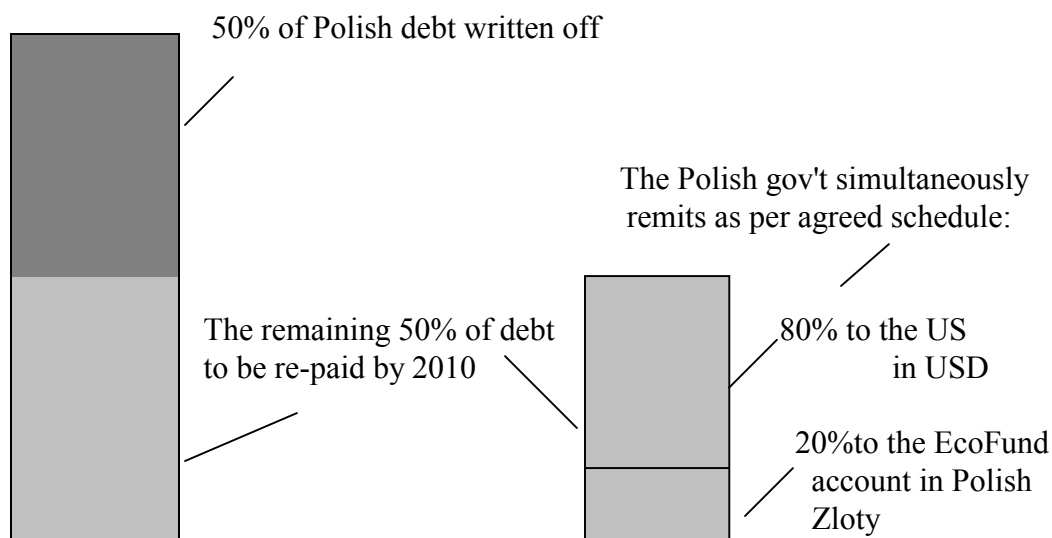
In **Bulgaria** a total of Swiss Francs 20 million were invested in 1995 into an ecological fund set up for the realization of World Bank technical assistance programs. The same year Switzerland settled a mutual debt of \$8.4 million with **Guinea-Bissau**.

8. THE CASE OF POLISH DNS

Poland held debts payable to 16 western countries in a sum of approximately \$18 billion. In 1991, Poland reached an agreement with the “Paris Club” to reduce the debt by 50% on the condition that the remainder would be repaid by 2010. The agreement also specified that an additional 10% of the debts could be written off for the implementation of projects approved bilaterally by the debtor and the creditors. That 10% was allocated for a DNS scheme. Agreements were signed accordingly with the following creditor countries: USA (1991) for \$367 million (10% of the outstanding debt); Switzerland (1993) for \$52 million; France (1993) \$48 million (1% of outstanding debt); Finland \$14 million (10%). Poland’s Finance Ministry set up an independent non-governmental fund to finance and manage DNS projects for the former three countries. The Polish-Finnish DNS accord has led to the creation of a separate Polish-Finnish organization.

During the first five years (1993-97), the Polish DNS based Ecofund put up approximately 300 million zloty for the implementation of 240 projects worth more than 1 billion zloty in total.

It should be noted that the Polish DNS (the 10% agreement) did not include debt redemption. The countries participating in the accord between Poland and the Paris Club agreed that interests on the debt (debt service) would be paid into a Swiss bank as a dispute resolution fund. The bank account is managed by a board set up under the DNS agreement. If Poland violates the agreement, the creditors can place a veto on the use of this account to finance environmental DNS based projects in Poland.



Note: in a number of cases the DNS based EcoFund covers costs of US environmental equipment and experts which is one more incentive for creditors to enter into DNS.

Fig.3. The Polish-US DNS structure

CONCLUSION

The paper discussed the DNS primarily as an environmental financing source option for heavily indebted countries that has been successfully implemented in developing countries. It is argued that it should continue to be practiced and, especially, wider introduced in transition economies. For creditors, DNS may be viewed as a way to contribute to addressing environmental problems of international and global importance by developing and transition economies and greening them.

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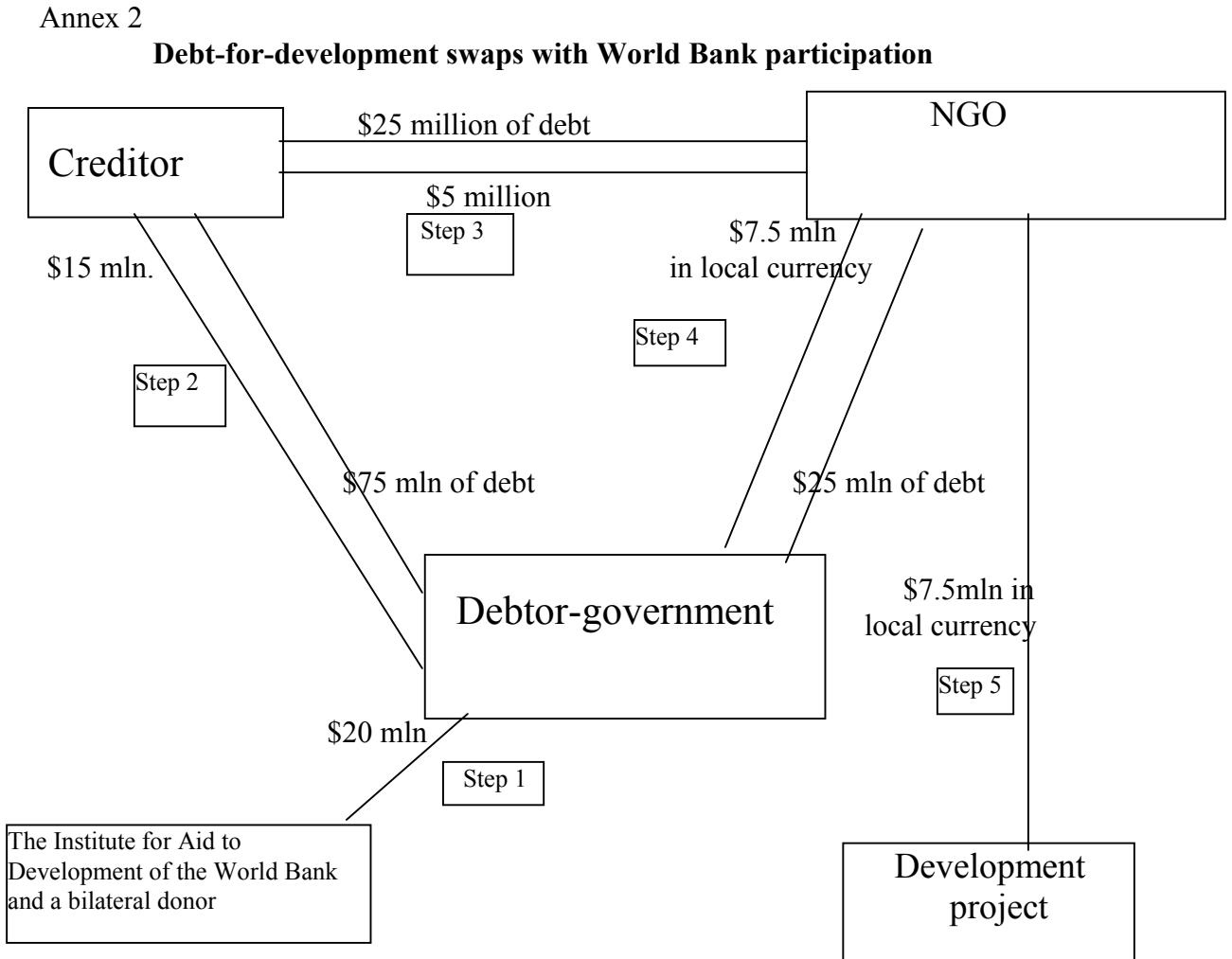
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USIS Washington File: Senator Chafee on debt-for-nature swaps, July 15, 1998

Annex 1

A Sample of Debt-for-Nature Swaps (DNS) Transactions (in US\$ '000)

Country	Year	Cost	Face Value		Conservation funds		Purchase price %		Redemption price %		Leverage	Source of Funds
Brazil	1992	748	2,200	2,200			34	100			2.9	CI
Panama	1992	7,500	30,000	25			100	4			n.a.	CI
Bolivia(1)	1992	0	11,500	2,760			0	24			n.a.	WWF, CI
Philippines	1993	13,000	19,000	17,700			68.4	93.2			1.4	WWF
Madagascar	1993	1,500	3,000	3,000			50	100			2	WWF
1)	Debt		donated				by	J.		P.		Morgan.
n.a.			=					not				applicable;



Steps:

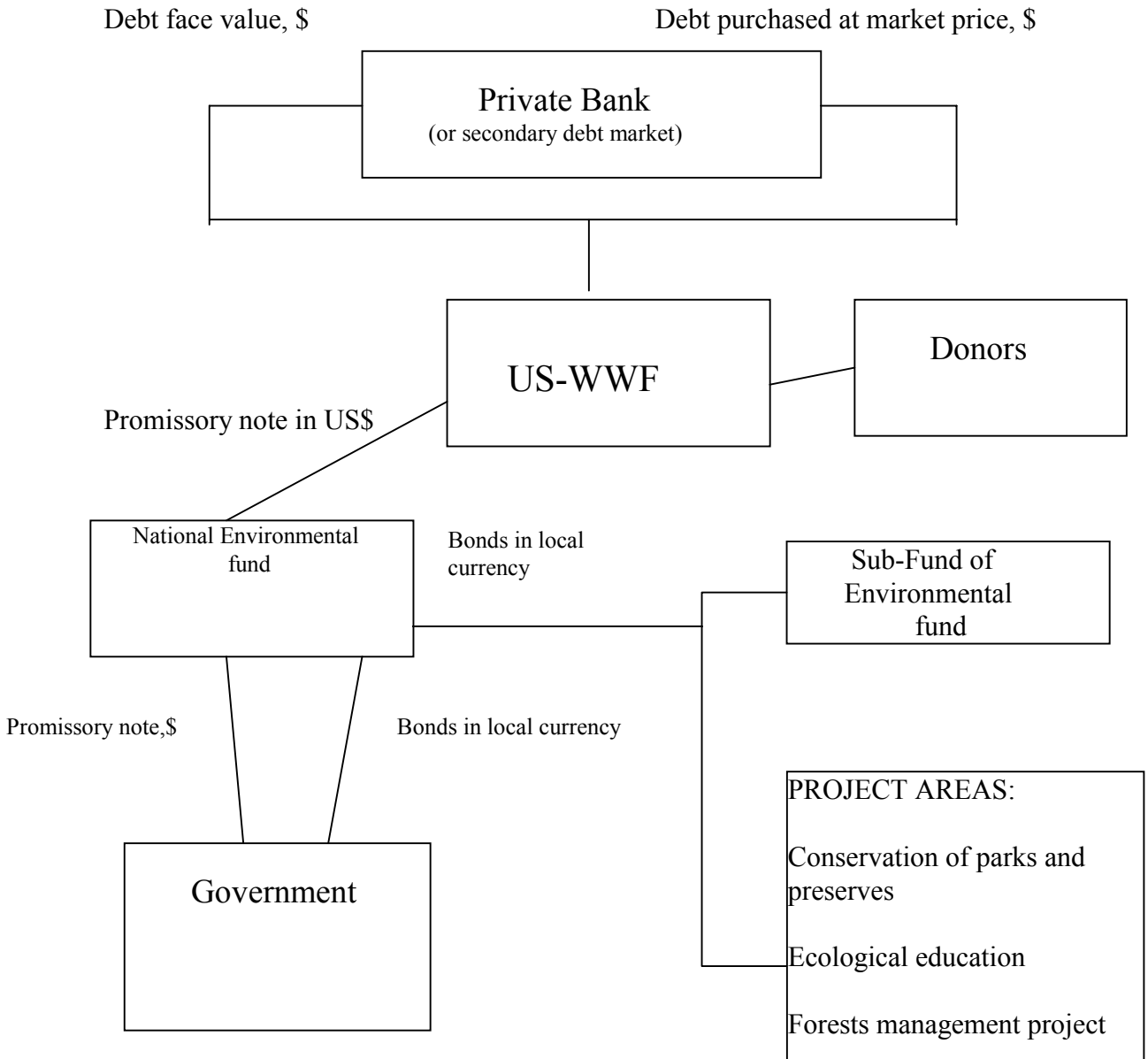
1. The Institute for Aid to Development of the World Bank and bilateral donors provide a grant of 20 million US dollars to a debtor government. After completion of this step the debtor repays his 100 million US dollar debt for 22.5 million US dollars (20 million US dollars from the Institute and 2.5 million US dollars from the debtor- steps 3 and 4).
2. The debtor buys 75 million US dollars at a discount for 15 million US dollars (20% of the face value). The result: the creditor sells 100 million US dollars of debt at a market price (20 million US dollars). The Institute for Aid to Development and the bilateral donors provide 20 million US dollars for debt repayment.
3. The non-governmental organizations use their hard currency resources to buy 25% of the debt (of 25 million US dollars face value) at a discount of 5 million US dollars (20% of

face value). The result: 15 million US dollars out of 20 million US dollars go to the creditor and the remaining 5 million US dollars are invested into the local development project in the debtor country.

4. The debtor buys 25 million US dollars of debt from the non-governmental organization for 7.5 million US dollars in local currency. The result: 7.5 million US dollars in local currency are invested in development projects in the debtor country for 2.5 million US dollars provided by the debtor government.

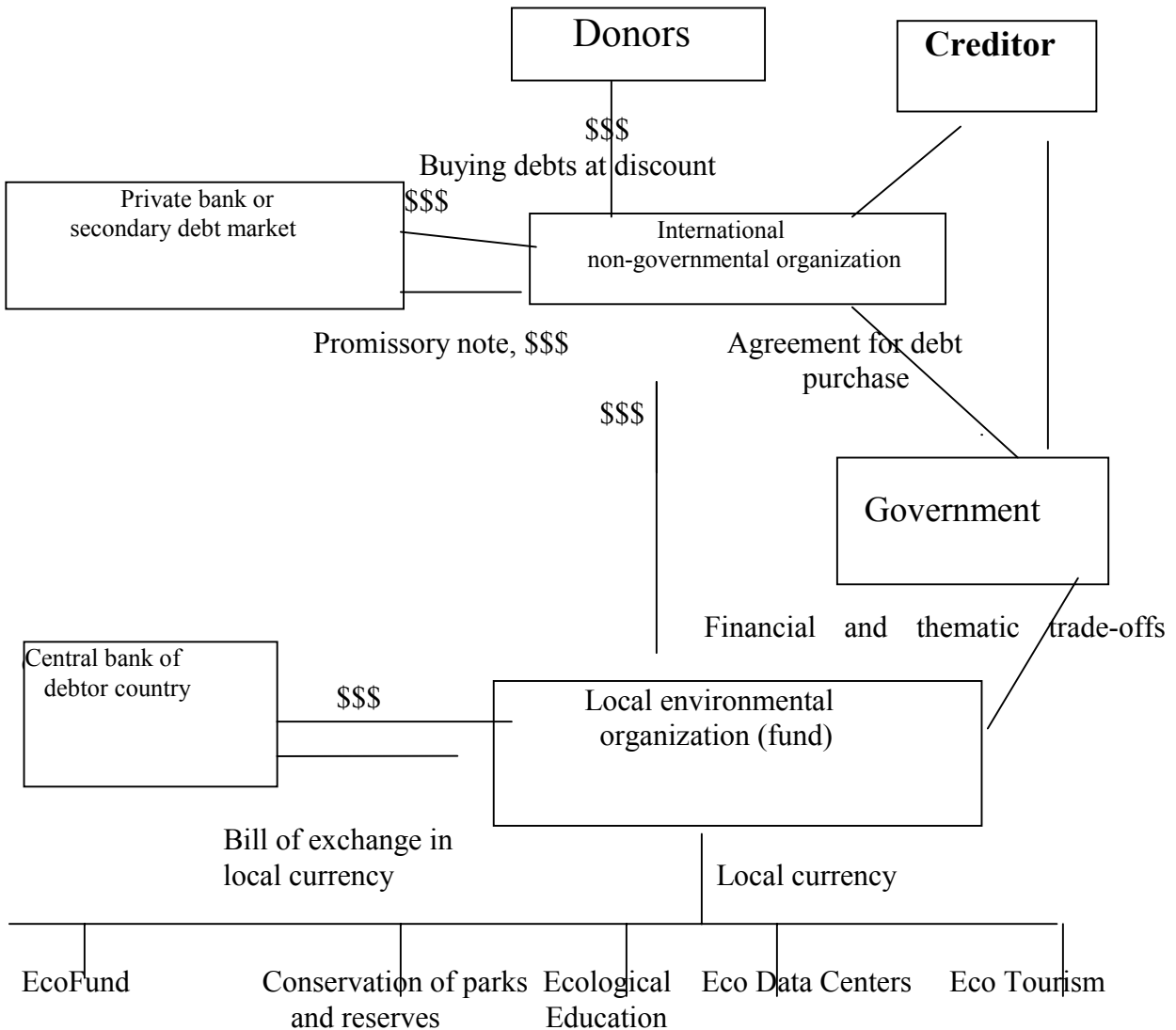
Annex 3

The Pattern of Debt-for-nature swaps between the US WWF and Ecuador



Source: J. Burton. Back to nature - the financial way. The Banker. Dec 1998, p.25

Annex 4



Source: Conservation International: the Debt-for-Nature Process, P. Dogse and B. von Droste (Oct 1990). Debt-for-Nature Exchanges and Biosphere Reserves: experiences and potential. MAB, Digest 6

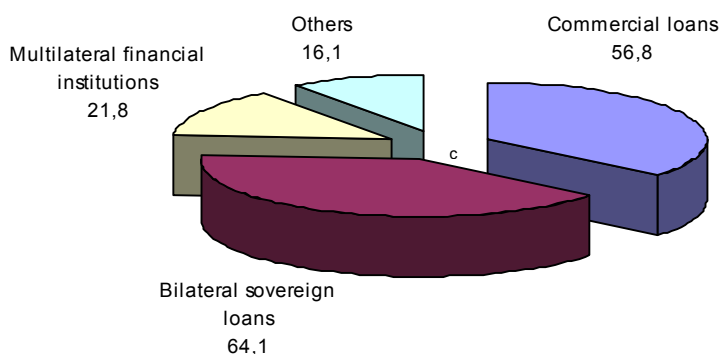
A Generic Pattern of Debt-for-nature swaps

Annex 5

Russia's Debts and Debt Conversion Instruments

Among many problems Russia is going to face in the next 20-40 years, foreign debt alleviation remains a thorny issue. Money should be sought to repay both the principal and the debt service. Negotiations should be held with the creditors to reschedule debts, convert them to bonds, equities, etc. (to exercise debt restructuring). Attempts are made to write off some debts. In many such cases the result is that the debts are passed on to the next generations to handle and to extend the transition to sustainable development.

Fig.2. Russia's external debt as of January 1, 2000, in US \$bln



Source: adapted from N.Pautola (2000)

Note: In the case of Russia, its total debt is approximately \$150 billion. GDP amounted to about \$8 bln in 1997, with overall environmental expenditure estimated at 2.2 per cent of GDP, including 1.7 per cent going towards pollution abatement and control (OECD, 1999).