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Debt-for-Nature Swaps

Conservationists and bankers have joined forces in an innovative technique — a debt-for-nature swap. By buying a share of a country's bank debt at a discount price, a conservation group can reduce that country's loan repayments, the bank gets some of its money back immediately, and the country protects its environment.

During the 1980s, many developing countries found themselves in an economic quagmire, created in part by falling commodity prices and large interest payments on loans from commercial banks in industrialized countries. Some developing countries and their people put excessive demands on their natural resources, particularly tropical forests which were already under pressure from commercial logging, clearing for agricultural purposes, and the needs of increasing population.

Rain Forest Protection

Debt-for-nature swaps were begun by private, non-government environmental groups as a way to preserve rapidly disappearing tropical rain forests in Latin America. The first swap was in Bolivia where the Beni biosphere reserve was protected in 1987 when Conservation International bought \$650,000 worth of Bolivian debt owed to Citicorp for \$100,000.

The Bolivian government set aside 330,000 acres that were home to a group of nomadic Indians as well as habitat for 13 endangered species. The government

“Debt-for-nature swaps help protect the forests and their human, animal and bird inhabitants.”

also established three additional reserves totaling 3.7 million acres. Then, the United States Agency for International Development (USAID) provided \$150,000 and the Bolivian government the equivalent of \$100,000 for personnel to manage and protect the reserve. All of that not only protected the forest,

watershed, and native inhabitants, but it permitted some grazing, some logging, and the expansion of settlements as necessary.

According to the World Resources Institute, by August 1992, 12 countries (Bolivia, Costa Rica, Dominican Republic, Ecuador, Ghana, Guatemala, Jamaica, Madagascar, Mexico, Philippines, Poland and Zambia) had negotiated debt-for-nature swaps. Funding has come from non-governmental organizations, donor governments and commercial banks and has generated more than \$61 million in local currencies. The face value of the debt involved in these swaps is just over \$100 million.

Pitfalls and Challenges

Debt-for-nature swaps cannot by themselves solve debt or environmental problems, but they do alleviate both as they protect the forests and their human, animal and bird inhabitants. Costa Rica, for example, has retired a fifth of its foreign debt through such swaps, while spending more than \$100 million on protecting its dry and tropical rain forests. The Mexican swap represents half-of-one-per-cent of the country's total debt. Even with increased use, the swaps will not produce a major reduction of most developing nations' debt, but they will help arrest casual and exploitative damage to the forests.

In these swaps, an indebted country is effectively forgiven part of its debt, but it also must repay the remaining portion more quickly. When the government prints more money to meet such obligations, inflation can increase. As a result governments must be careful how much debt they retire this way.

On the environmental protection side, the best long-term policy is to address the conditions that drive people to degrade the environment in the first place. That means alleviating poverty and providing work opportunities, which are also keys to servicing debt.

These limitations aside, debt-for-nature swaps have been valuable, not only in lightening debt burdens but also creating a framework for environmental protection.

The Future of Debt-for-Nature Swaps

Debt-for-nature swaps are not part of the World Bank's lending operations--the Bank neither purchases debt from commercial banks nor lends to NGOs for that purpose. However, the objectives of debt-for-nature swaps fit in with the Bank's support for environmental protection and debt reduction, and the Bank has facilitated several such arrangements. For example, in 1990 the Bank advised the government of Madagascar and donor agencies on ways to integrate a debt-for-nature swap with the country's environmental action plan, and continues to monitor the resulting activities. The Bank also worked on the Group of Seven industrial nations' proposal to protect the Amazon rain forest which includes proposals for a substantial debt-for-

nature swap to Brazil.

A parallel effort has been undertaken by the International Finance Corporation, the affiliate of the World Bank which directly supports the private sector. IFC transferred a 143,000 acre parcel of undisturbed subtropical forest in Eastern Paraguay to the Nature Conservancy and a Paraguayan environmental group. The property, which was acquired by the IFC in a foreclosure in 1979, supports one of the richest ecosystems in its area. Within the site more than 300 species of birds have been identified, as well as populations of river otters, giant nutria, and numerous other endangered animal species. The IFC transferred the land for \$2 million, substantially lower than the \$5-7 million the land would bring if sold to developers for commercial logging and agriculture. As a condition of the sale, the land must be used solely as a nature reserve, a trust must be established to defray operating expenses, and the indigenous population must be permitted to use the land as it normally would. (Apr.1993)