

Overview of Debt for Nature Swaps and Description of the Structure of Debt for Nature Swaps Executed Pursuant to the US Tropical Forest Conservation Act

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Part 1- Debt for Nature Swap (DNS) Overview

DNS Definition:

- A financial transaction in which debt owed by a debtor (most often a developing country government) is forgiven by a creditor in exchange for local investments in environmental conservation measures being financed by the debtor

Two types of DNS:

- Commercial
- Bilateral

Description of Commercial DNS

- NGO purchases discounted sovereign debt from commercial banks on the secondary market
- NGO then cancels the debt and in exchange the debtor country invests a percentage of the face value, normally converted to *local* currency, into domestic conservation programs

Bolivia: The First-Ever Commercial DNS Swap

- Conservation International (CI) acquired Bolivian debt with a face value of US\$650,000
- CI paid US\$100,000 for this debt on the secondary market
- In return for CI cancelling the debt, the Government of Bolivia undertook to provide the Beni Biosphere Reserve with maximum legal protection and to create three adjacent protected areas
- The Government of Bolivia also agreed to invest US\$250,000 in local currency for management activities in the Beni Biosphere Reserve

Description of Bilateral DNS

- Creditor government cancels the bilateral debt owed by debtor country
- In exchange the debtor country invests all or a percentage of the face value, normally converted to *local* currency, into domestic conservation programs
- Several creditor countries have engaged in bilateral DNS, including the US through the US Tropical Forest Conservation Act (TFCA)

Part 2 - Description of the Structure of DNS Executed Pursuant to the TFCA

TFCA Overview:

- Enacted in July 1998
- Offers developing countries options for United States Government (USG) debt relief in exchange for financing of tropical forest conservation activities
- Transacted as either a “bilateral” swap or a “subsidized” swap, which includes NGO participation
- 20 TFCA agreements have been signed with 14 countries to date and are projected to generate more than US\$340 million

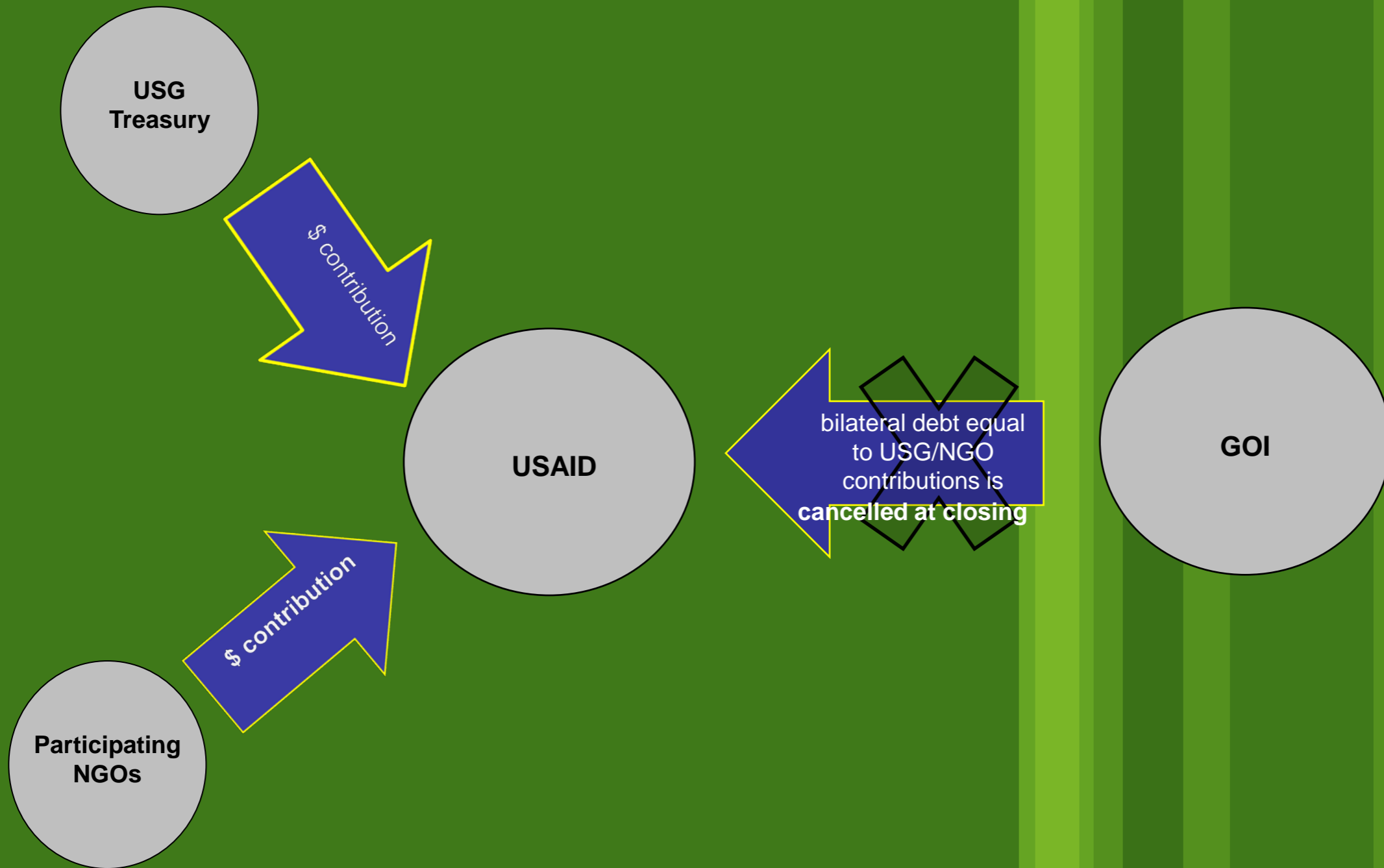
TFCA Process

- Interested debtor country submits letter of interest/request to USG
- USG determines eligibility based on the debtor country having tropical forests, having eligible debt and satisfying certain political and economic criteria
- Structure and legal agreements negotiated among parties (including with participating NGOs in a subsidized swap)
- At closing, eligible country debt is cancelled and new obligations to make payments into a conservation fund become effective
- Program for use of fund amounts is implemented by an oversight committee consisting of representatives of USG, debtor country , participating NGOs and other local NGOs

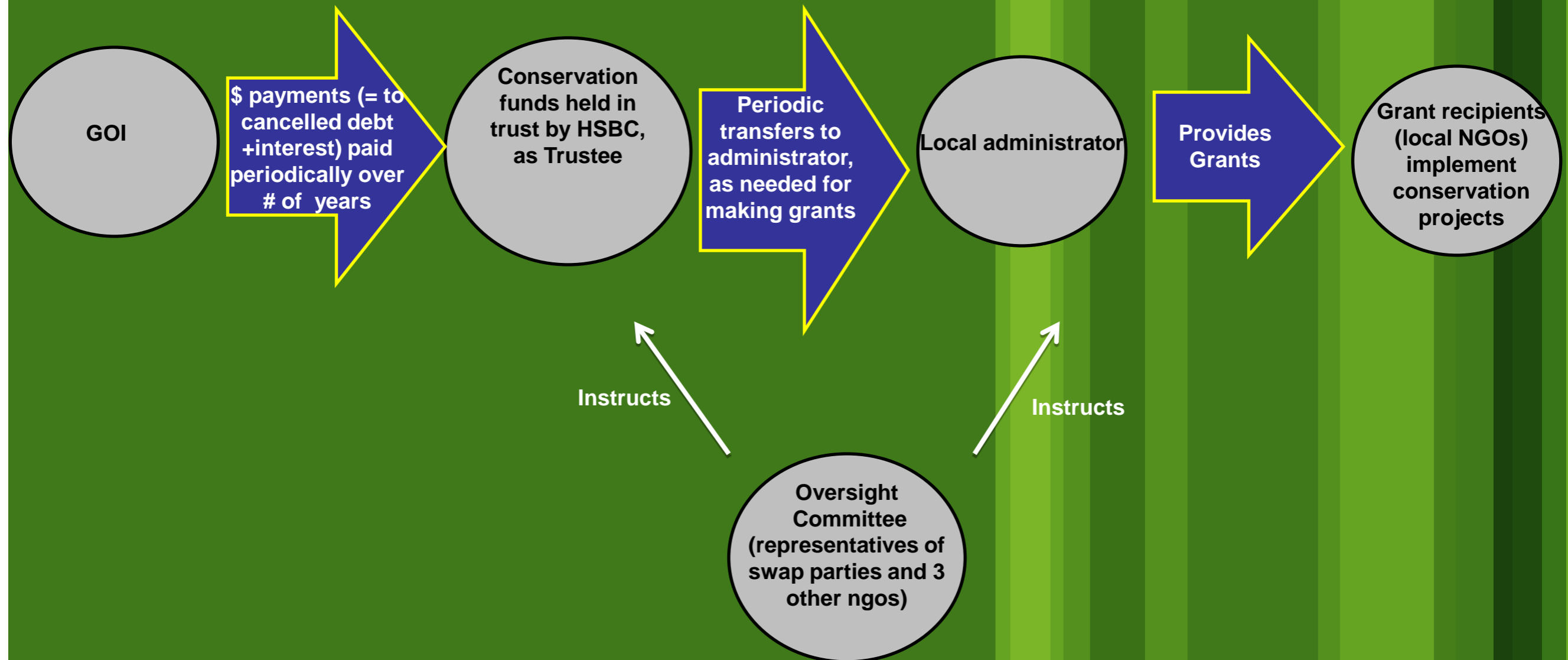
Overview of Indonesia TFCA DNS Transactions

- Negotiated among USG, the Government of Indonesia (“GOI”) and participating NGOs
- 3 transactions cancelling more than \$56 million of GOI debt to USG at closing
- Equivalent amount (+ interest) to be paid by GOI into a fund over multiple years
- Fund amounts to support conservation activities in Sumatra and Kalimantan
- Kalimantan activities are focused on 3 existing REDD+ initiatives

Payment Flows at Closing



Payment Flows Post-Closing



Benefits to Participating NGOs

- NGOs help establish conservation investment priorities
- NGO monetary contribution leveraged
- New financing sustains past NGO conservation investments
- Strengthens NGO relationship with local government
- Strengthens local NGO partners
- High communications value