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Mobilizing the Debt Service Sector: Debt for Nature Conversion

Contents

Introduction

Strategic objective 3.8 of the strategy for resource mobilization seeks "to promote biological diversity in debt relief and conversion initiatives, including debt-for-nature swaps". This note provides an update on external debt and debt-for-nature swaps, and explores options of mobilizing the debt-service sector to support biodiversity objectives.

External debt burden: status and trends

United Nations reported[1] that total external debt stocks of developing countries are estimated to have reached $4.8 trillion in 2011, marking a 10.7 per cent increase over 2010 figures (see table 1). Estimates made by the United Nations Conference on Trade and Development (UNCTAD) secretariat indicate that debt levels continued to grow by approximately 12.4 per cent over 2011-2012, bringing the total external debt of developing countries to an estimated $5.4 trillion in 2012. This marks the third consecutive year that the growth of external debt of developing countries has exceeded 10 per cent, following nearly a decade of average growth of around 7 per cent. Long-term debt represents 70 per cent of total debt stocks and is mainly owed to private creditors. The share of official long-term lending to developing countries continued to decline in 2011 and 2012. At the same time, the share of short-term debt increased to $1.2 trillion in 2011 and to an estimated $1.4 trillion in 2012, constituting more than a quarter of total debt stocks.

Eastern European and Central Asia: the share of its debt as a percentage of the total external debt of developing countries stands at an estimated 28.4 per cent, the highest of all regions. The region's debt-to-GDP ratio, already the highest of all the regions in 2011, rose further from 39.3 to 41.1 per cent in 2012, mainly as a result of an increase in short-term debt. The main issue for the region remains the relatively slow recovery in export and GDP growth due to continued slow growth in Western Europe.

Sub-Saharan Africa: Total debt stocks in sub-Saharan Africa reached $313.2 billion in 2012 as external debt continued to grow by 6.4 per cent, though at a slower pace than the 9 per cent growth in 2010 and 2011. The majority of the region's total debt is long-term debt (accounting for 79.3 per cent), of which less than half is owed to official creditors. The region's debt ratios have improved markedly since 2000 owing in large part to debt relief delivered under the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiatives and continued economic growth. Total debt to GDP was 24.3 per cent in 2012, compared with 62.5 per cent in 2000, the total-debt-to-exports ratio was 66.1 per cent, down

[1] United Nations (2013). External debt sustainability and development: report of the Secretary-General, A/68/203, 26 July 2013

from 182.6 per cent in 2000, and the debt-service-to-exports ratio was 3.5 per cent in 2012, versus 10.5 per cent in 2000. In addition, international reserves have steadily increased to $200.1 billion in 2012, more than five times the level in 2000.

Table 1. External debt of developing countries (billions of United States dollars)

	All developing countries and countries with economies in transition		Sub-Saharan Africa		Middle East and North Africa		Latin America and the Caribbean		East Asia and the Pacific		South Asia		Europe and Central Asia	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Total debt stocks	4787	5379	294	313	166	171	1233	1392	1240	1473	451	499	1401	1530
Long-term debt	3404	3764	229	248	119	123	1032	1168	597	701	345	374	1080	1147
Private (share)	75.4	76.6	51.4	56.6	34.6	35.6	83.1	81.3	64.4	66.8	53.3	56.6	90.8	93.0
Private non-guaranteed (share)	48.8	50.8	22.1	20.3	6.1	6.0	47.9	49.8	44.9	46.1	42.3	45.1	64.4	67.9
Short-term debt	1228	1459	44.6	45.5	38.2	39.3	175.6	200.7	622.8	747.1	86.2	103.5	261.3	322.8
Arrears	59.8	60.1	27.0	27.1	0.8	0.0	21.4	22.5	6.4	6.5	0.2	0.0	4.0	4.1
Debt service	554.6	609.2	15.2	16.6	18.2	18.4	162.3	170.1	114.5	139.9	33.7	39.9	210.7	224.3
International reserves	5997	6267	176.8	200.1	370.3	354.9	725.0	784.8	3706.1	3861.3	302.8	301.5	715.9	765.0

Source: United Nations Conference on Trade and Development calculations based on the World Bank International Debt Statistics 2013 online database. Definitions are from the International Debt Statistics 2013 online database. 2012 figures are estimates. See United Nations document A/68/203

Latin America and the Caribbean: total debt stocks were $1.2 trillion in 2011 and are estimated to have reached $1.4 trillion in 2012. The region's total debt stocks are largely long-term and are owed primarily to private creditors, with less than 20 per cent owed to official creditors. The region also experienced a sizeable increase in foreign assets, with international reserves increasing to an estimated $784.8 billion in 2012; reserves grew at the more modest pace of 8.2 per cent in 2012, compared with growth rates varying between 10 and 45 per cent since 2003.

Middle East and North Africa: Total debt stocks are estimated to have increased in 2012 by 3 per cent, to $171.1 billion, after registering nearly no growth in 2011 and 3 per cent growth in 2010. Long-term debt accounts for 72 per cent of the region's total debt, of which more than 60 per cent is owed to official lenders. The region continues to face political and economic challenges associated with the Arab Spring, which broke out in 2010. Countries in transition incurred higher fiscal deficits and public debts as a result of crisis management that diminished policy buffers. International reserves contracted in 2011 by 1.1 per cent and in 2012 by 4.1 per cent, to $355 billion, following a decade of continued growth ranging between 19 and 32 per cent.

East Asia and the Pacific: total debt stocks continued to grow at a high rate of 18.8 per cent to reach $1.4 trillion in 2012. The up-tick in the growth rate of total debt began in 2009, while total-debt-to-GDP ratios have remained relatively steady at 14 per cent during this period as the region has benefited from robust economic growth. Slightly less than half of the region's debt stocks are composed of long-term debt, of which only 35 per cent is owed to official creditors. International reserves reached $3.8 trillion in 2012.

Debt relief: status and trends

Heavily Indebted Poor Countries (HIPCs) Initiative

In the middle 1990s, a number of low-income countries, mostly in Africa, were recognized as not able to attain sustainable external debt levels within a reasonable period of time and without additional external support, even with full use of traditional mechanisms of rescheduling and debt reduction (the most concessional being Naples terms) together with continued provision of concessional financing and pursuit of sound economic policies. In September 1996, the Joint IMF-World Bank Development Committee endorsed a program jointly proposed by the two institutions to address this situation. A group of 39 countries were considered as potential candidates for the HIPC initiative .

The Initiative for the "Heavily Indebted Poor Countries" (HIPC Initiative) was designed to provide exceptional assistance to eligible countries following sound economic policies to help them reduce their external debt burden to sustainable levels. Sustainable levels are defined as debt ratios that will comfortably enable them to service their external debt through export receipts, aid, and capital inflows. This assistance entails a reduction in the net present value (NPV) of the future claims on the indebted country. Such assistance helps to provide the incentive for investment and broaden domestic support for policy reforms. The HIPC initiative requires the participation of all multilateral creditors, beyond the traditional debt relief mechanisms provided by official bilateral and private creditors. The HIPC Initiative was enhanced in September 1999.

In 2005, to help accelerate progress toward the United Nations Millennium Development Goals (MDGs), the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI). The MDRI allows for 100 percent relief on eligible debts by three multilateral institutions—the IMF, the World Bank, and the African Development Fund (AfDF)—for countries completing the HIPC Initiative process. In 2007, the

Inter-American Development Bank (IADB) also decided to provide additional ("beyond HIPC") debt relief to the five HIPCs in the Western Hemisphere.

Table 2: Status of HIPCs

Year	Country	Participation in HIPC initiative	Amounts treated ($ million)	Amounts canceled ($ million)	Amounts rescheduled ($ million)	Possibility to conduct debt swaps
2010	Afghanistan	Post-Completion Point	1027	442	585	
2003	Benin	Post-Completion Point	60	60		
2001	Bolivia	Post-Completion Point	685	685		
2002	Burkina Faso	Post-Completion Point	36	35	1	
2009	Burundi	Post-Completion Point	134	129	5	Yes
2006	Cameroon	Post-Completion Point	1829	1090	739	
2009	Central African Republic	Post-Completion Point	49	49		
2012	Comoros	Post-Completion Point				
2010	Congo	Post-Completion Point	2474	981	1493	Yes
2012	Cote D'Ivoire	Post-Completion Point	6529	1771	4757	Yes
2010	Democratic Republic of Congo	Post-Completion Point	7528	6049	1479	Yes
2004	Ethiopia	Post-Completion Point	1487	1296	191	Yes
2008	Gambia	Post-Completion Point	15	12	3	
2004	Ghana	Post-Completion Point	1560	823	737	Yes
2012	Guinea	Post-Completion Point	661	356	305	Yes
2011	Guinea-Bissau	Post-Completion Point	273	256	16	Yes
2004	Guyana	Post-Completion Point	248	156	92	Yes
2009	Haiti	Post-Completion Point	161	62	98	Yes
2005	Honduras	Post-Completion Point	316	206	110	
2010	Liberia	Post-Completion Point	1366	1258	107	
2004	Madagascar	Post-Completion Point	1057	752	305	Yes
2006	Malawi	Post-Completion Point	355	137	218	Yes
2003	Mali	Post-Completion Point	155	145	10	
2002	Mauritania	Post-Completion Point	384	210	174	
2001	Mozambique	Post-Completion Point	2800	2270	530	Yes
2004	Nicaragua	Post-Completion Point	1579	1338	241	Yes
2004	Niger	Post-Completion Point	250	160	90	Yes
2005	Rwanda	Post-Completion Point	90	82	7	
2007	Sao Tome and Principe	Post-Completion Point	24	23	1	

Year	Country	Participation in HIPC initiative	Amounts treated ($ million)	Amounts canceled ($ million)	Amounts rescheduled ($ million)	Possibility to conduct debt swaps
2004	Senegal	Post-Completion Point	463	127	336	Yes
2007	Sierra Leone	Post-Completion Point	363	320	43	
2002	Tanzania	Post-Completion Point	1245	973	272	Yes
2010	Togo	Post-Completion Point	611	202	408	Yes
2000	Uganda	Post-Completion Point	147	147		
2005	Zambia	Post-Completion Point	1763	1403	360	
	Chad	Interim Countries (between decision and completion point)				
	Eritrea	Pre-Decision-Point				
	Sudan	Pre-Decision-Point				
	Somalia	Pre-Decision-Point				

Source: Paris Club database

As shown in table 2, the HIPC Initiative is deemed to be nearly completed, with only one country, Chad, remaining in the interim stage between the decision and completion points and three countries (Eritrea, Somalia and Sudan) having yet to reach the decision point. Thus far the decision point date remains uncertain for the pre-decision point countries. The four countries that have yet to complete the initiative share common challenges, which include preserving peace and stability, improving governance and delivering basic services[2].

According to IMF list of low-income countries debt sustainability analyses for Poverty Reduction and Growth Trust-eligible countries as at 4 April 2013, for the 36 post-decision point HIPCs, improvements have been made with respect to decreasing debt-service-to-export ratios, from 14.5 per cent in 2001 to 3.1 per cent in 2011. However, the ratios of debt service to exports are expected to increase to 5.4 per cent in 2012 and are projected to remain above 4.5 per cent during the following five years. Of the 36 HIPCs that have actively engaged under the HIPC Initiative, 7 are classified as being at high risk of debt distress, 16 are classified as being at moderate risk and 13 are classified as being at low risk.

[2] International Monetary Fund (2013). "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — statistical update", 2 April 2013. Available from www.imf.org/external/np/pp/eng/2013/041113.pdf.

Paris Club

Started in 1956, the Paris Club has been a central player in the resolution of developing and emerging countries' debt problems. The Club has produced agreements that lead to levels of payments more sustainable for the debtor. Two trends have emerged in the terms of Paris Club agreements:

- Longer repayment periods have been considered. In early Paris Club agreements, repayment terms did not exceed ten years including a grace period (in which only payments of interest on the consolidation are due). For poorer countries, these terms have been constantly extended. The maximum repayment period is now 23 years (including 6 years of grace) for commercial loans and 40 years (including 16 years of grace) for official development aid loans.

- Debt cancellation has been increasingly used. The first concessional agreement was concluded with Mali in 1988 under the Toronto terms (33,33% cancellation). The cancellation rate has been regularly raised, achieving 90% or more when necessary to reach debt sustainability in the framework of the Heavily Indebted Poor Countries Initiative.

Paris Club treatments are defined individually, by consensus of all creditor countries. Most treatments fall under the following pre-defined categories, listed below by increased degree of concessionality:

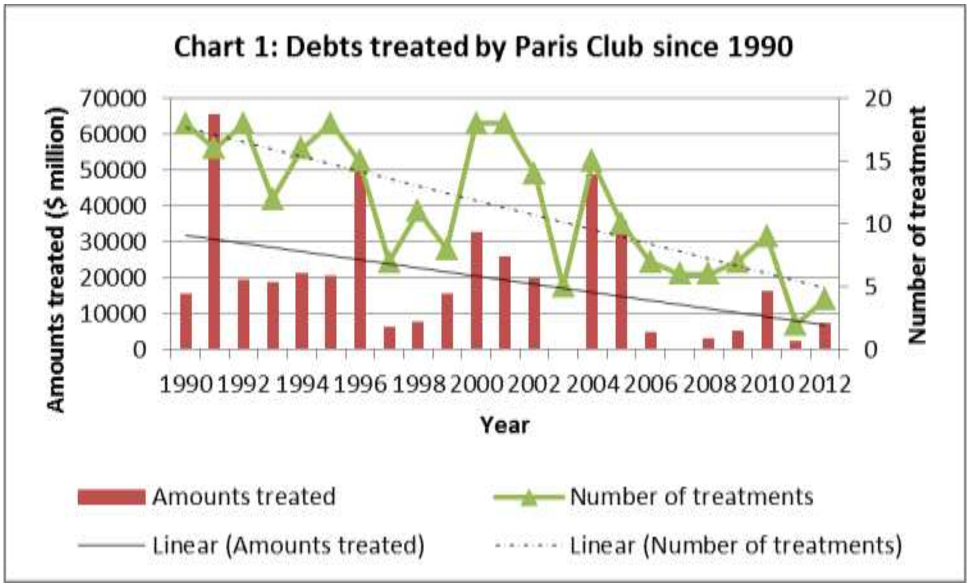
Table 3: Terms of treatments

Terms	Description
Classic terms: standard treatment	Credits (whether ODA or non-ODA) are rescheduled at the appropriate market rate with a repayment profile negotiated on a case-by-case basis. 59 countries have benefited from the classic terms.
Houston terms: for highly-indebted lower-middle-income countries	In September 1990, Paris Club creditors agreed to implement a new treatment of the debt of the lower middle-income countries. This new treatment called " Houston terms " grant three substantial enhancements with respect to classic terms, that can be implemented on a case by case basis: ▪ non-ODA repayment periods are lengthened to or beyond 15 years and ODA repayment periods are lengthened up to 20 years with a maximum of 10-year grace; ▪ ODA credits are rescheduled at a concessional rate; ▪ debt swaps can be conducted on a bilateral and voluntary basis. These swap operations may in principle be carried out without limit on official development assistance (ODA) loans, and up to 20% of the outstanding amount or 15-30 million SDR for non-ODA credits. Paris Club creditors and debtors regularly conduct a reporting to the Paris Club Secretariat of the debt swaps conducted. As of today, 20 countries have benefited from the Houston terms.
Toronto terms (replaced by "Naples terms")	In October 1988, Paris Club creditors agreed to implement a new treatment on the debt of the poorest countries. This new treatment called "Toronto terms" implements for the first time a reduction of part of the debt of poor countries. The level of reduction was defined as 33.33%. 20 countries benefited from Toronto terms between 1988 and 1991, when these terms were replaced by London terms.
London terms (replaced by "Naples terms")	In December 1991, Paris Club creditors agreed to implement a new treatment on the debt of the poorest countries. This new treatment called "London terms" raise the level of debt cancellation from the 33.33% as defined in Toronto terms to 50%. 23 countries benefited from London terms between 1991 and 1994, when these terms were replaced by Naples terms.

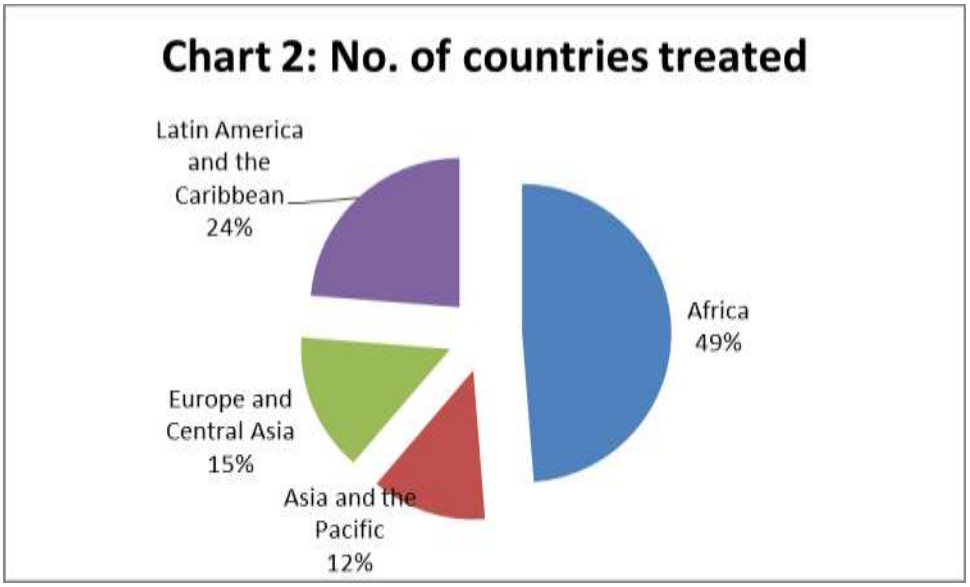
Terms	Description
	London terms also included the possibility for creditor countries to conduct, on a bilateral and voluntary basis, debt swaps with the debtor country. These swap operations in principle could be carried out without limit on official development aid loans, and up to 20% of the outstanding amount or 15 up to 30 million SDR for non-ODA credits. Paris Club Creditors and debtors regularly conduct a reporting to the Paris Club Secretariat of the debt swaps conducted.
Naples terms: for highly-indebted poor countries	In December 1994, Paris Club creditors agreed to implement a new treatment on the debt of the poorest countries. These new terms, called "Naples terms", grant two substantial enhancements with respect to London terms, that can be implemented on a case by case basis, on the level of reduction and the conditions of treatment of the debt: ▪ for the poorest and most indebted countries, the level of cancellation is at least 50% and can be raised to 67% of eligible non-ODA credits. Creditors agreed in September 1999 that all Naples terms treatments would carry a 67% debt reduction; ▪ stock treatments may be implemented, on a case-by-case basis, for countries having established a satisfactory track record with both the Paris Club and IMF and for which there is sufficient confidence in their ability to respect the debt agreement. As of today, 36 countries have benefited from Naples terms. Naples terms also include the possibility for creditor countries to conduct, on a bilateral and voluntary basis, debt swaps with the debtor country. These swap operations may in principle be carried out without limit on official development assistance loans (ODA), and up to 20% of the outstanding amount or 15 up to 30 million SDR for non-ODA credits. Paris Club creditors and debtors regularly conduct a reporting to the Paris Club Secretariat of the debt swaps conducted.
Lyon terms (replaced by "Cologne terms")	In November 1996, the Paris Club creditor countries, in the framework of the initiative for "Heavily Indebted Poor Countries" (HIPC), accepted to raise the level of cancellation up to 80% for the poorest countries with the highest indebtedness. This measure goes with specific contributions of the multilateral institutions so that they also reduce the level of their claims on the concerned countries. As of today, 5 countries have benefited from the Lyons terms. Lyon terms are no longer in current use within the Paris Club. The current use is limited to countries that had previously benefited from these terms but that have not reached their HIPC initiative's decision point yet. Lyon terms also included the possibility for creditor countries to conduct, on a bilateral and voluntary basis, debt swaps with the debtor country. These swap operations in principle could be carried out without limit on official development aid loans, and up to 20% of the outstanding amount or 15 up to 30 million DSR for non-ODA credits. Paris Club Creditors and debtors regularly conduct a reporting to the Paris Club Secretariat of the debt swaps conducted.
Cologne terms: for countries eligible to the HIPC initiative.	In November 1999, the Paris Club creditor countries, in the framework of the initiative for "Heavily Indebted Poor Countries" (HIPC) and in the aftermath of the Cologne Summit, accepted to raise the level of cancellation for the poorest countries up to 90% or more if necessary in the framework of the HIPC initiative. 39 countries are potentially eligible for the HIPC Initiative and may benefit from the Cologne terms. As of today, 33 countries have benefited from the Cologne terms. Cologne terms also include the possibility for creditor countries to conduct, on a bilateral and voluntary basis, debt swaps with the debtor country. These swap operations in principle may be carried out without limit on official development aid loans, and up to 20% of the outstanding stock of debt at a fixed date, or 15 up to 30 million SDR for non-ODA credits. Paris Club creditors and debtors regularly conduct a reporting to the Paris Club Secretariat of the debt swaps conducted.

Chart 1 provides the information concerning external debts that have been treated by the Paris Club for cancelation and/or rescheduling since 1990. In total, over $446 billion debts of developing countries and countries with economies in transition have been traded in the past two decades, through the volume of treated debts and numbers of debt treatments appear to decline per year. The peak years in terms of the volume of treated debts were 1991, 1996, 2004 and 2005. In 2003 and 2007, only a few hundred millions were treated by the Paris Club.

Table 4 details the countries that have been treated by the Paris Club with debt reliefs. Africa has the largest number of transactions with 39 countries treated, which is followed by Latin America and the Caribbean with 19 countries, Europe and Central Asia with 12 countries, and Asia and the Pacific with 10 countries. Chart 2 demonstrates the composition of treated countries by region. Africa accounts for nearly half of all the treated countries, while Latin America and the Caribbean makes up one quarter of the total number of treated countries.



Source: table 4



Source: table 4

Table 4: External debts treated by Paris Club since 1990

Country	Total amounts treated (US$ million)	Possibility to conduct debt swaps
Africa		
1. Algeria	12664	Yes
2. Benin	449	Yes
3. Burkina Faso	208	Yes
4. Burundi	219	Yes
5. Cameroon	7965	Yes
6. Central African Republic	167	Yes
7. Chad	51	Yes
8. Comoros	13	Yes
9. Congo	10436	Yes
10. Cote D'Ivoire	19337	Yes
11. Democratic Republic of Congo	19465	Yes
12. Djibouti	93	Yes
13. Egypt	21164	Yes
14. Equatorial Guinea	84	
15. Ethiopia	2550	Yes
16. Gabon	4100	Yes
17. Gambia	18	
18. Ghana	2015	Yes

Country		Total amounts treated (US$ million)	Possibility to conduct debt swaps
19.	Guinea	1935	Yes
20.	Guinea-Bissau	781	Yes
21.	Kenya	1189	Yes
22.	Liberia	2409	
23.	Madagascar	2691	Yes
24.	Malawi	421	Yes
25.	Mali	210	Yes
26.	Mauritania	766	Yes
27.	Morocco	2640	Yes
28.	Mozambique	6470	Yes
29.	Niger	769	Yes
30.	Nigeria	57689	Yes
31.	Rwanda	144	Yes
32.	Sao Tome and Principe	51	
33.	Senegal	1653	Yes
34.	Seychelles	163	Yes
35.	Sierra Leone	789	Yes
36.	Tanzania	4454	Yes
37.	Togo	1754	Yes
38.	Uganda	442	Yes
39.	Zambia	5272	Yes
Asia			
1.	Afghanistan	3437	
2.	Cambodia	248	Yes
3.	Indonesia	17798	Yes
4.	Iraq	37158	Yes
5.	Jordan	4310	Yes
6.	Pakistan	17450	Yes
7.	Philippines	1681	Yes
8.	Sri Lanka	227	
9.	Viet Nam	544	
10.	Yemen	1976	Yes
Europe and Central Asia			
1.	Albania	190	
2.	Bosnia And Herzegovina	597	Yes
3.	Bulgaria	1093	

Country	Total amounts treated (US$ million)	Possibility to conduct debt swaps
4. Croatia	861	
5. Georgia	219	Yes
6. Kyrgyz Republic	657	Yes
7. Macedonia, The Former Yugoslav Republic	334	
8. Moldova, Republic of	151	
9. Poland	39271	Yes
10. Russian Federation	76728	
11. Serbia And Montenegro	4324	Yes
12. Ukraine	578	
Latin America and the Caribbean		
1. Antigua And Barbuda	110	Yes
2. Argentina	4176	
3. Bolivia	2950	Yes
4. Brazil	10384	
5. Costa Rica	155	
6. Dominican Republic	1101	Yes
7. Ecuador	1592	Yes
8. El Salvador	143	Yes
9. Grenada	16	
10. Guatemala	440	
11. Guyana	1543	Yes
12. Haiti	347	Yes
13. Honduras	1660	Yes
14. Jamaica	594	
15. Nicaragua	4042	Yes
16. Panama	185	
17. Peru	13268	Yes
18. Saint Kitts And Nevis	5	Yes
19. Trinidad And Tobago	110	

Source: Paris Club database

Debt for nature: status and trends

In 1990, the first debt swap clause was introduced in a debt treatment agreement between the Paris Club and Morocco under the Houston terms. According to the Houston terms, debt swaps can be conducted on a bilateral and voluntary basis. These swap operations may in principle be carried out without limit on official development assistance (ODA) loans, and up to 20% of the outstanding amount or 15-30 million SDR for non-ODA credits. This special provision has been included in the 1991 London terms, the 1994 Naples terms, the 1996 Lyon terms and the 1999 Cologne terms.

The provision enabling creditors to voluntarily engage in debt swaps may take the form of debt-for-nature, debt-for-aid, debt-for-equity or other local currency debt swaps. These swaps usually take one of the following terms:

- the debtor country directs the servicing of the debt to a fund that will be used to finance development projects in the country (debt-for-development swaps)
- the sale of the debt by the creditor government to an investor who in turns sells the debt to the debtor government in return for shares in a local company or local currency to be used for projects in the country.

On October 8, 2003, the Paris Club agreed on the Evian approach to deal with non-HIPC countries. Different types of flexible instruments such as debt buybacks, swaps, and contingency clauses could be included within the debt treatment in order to facilitate its tailoring to the evolution of the economic situation of the debtor country over time.

Despite the sheer size of debts treated, the opportunity offered for debt swap under various treatment terms has not been used to a meaningful extent. Less than 0.2% of treated debts have ever been swapped for nature conservation or conservation funds. Africa experienced the lowest swap ratio at less than 0.07%, while Latin America and the Caribbean had the highest swap ratio of 1.32%. The debt for nature swap ratio was 0.2% for Asia and the Pacific and 0.126% for Europe and Central Asia respectively. Table 5 provides a detailed account of known debt-for-nature swaps.

Table 5. Debt-for-nature swaps: reality check

Country	Total amounts treated (US$ million)	Possibility to conduct debt swaps	Third-party swap funding	Non-US bilateral and multilateral swap funding	US Bilateral swap funding	Total
Africa						
1. Algeria	12664	Yes				
2. Benin	449	Yes				
Botswana		NA			8.3	8.3
3. Burkina Faso	208	Yes				
4. Burundi	219	Yes				
5. Cameroon	7965	Yes		25		25
6. Central African Republic	167	Yes				
7. Chad	51	Yes				

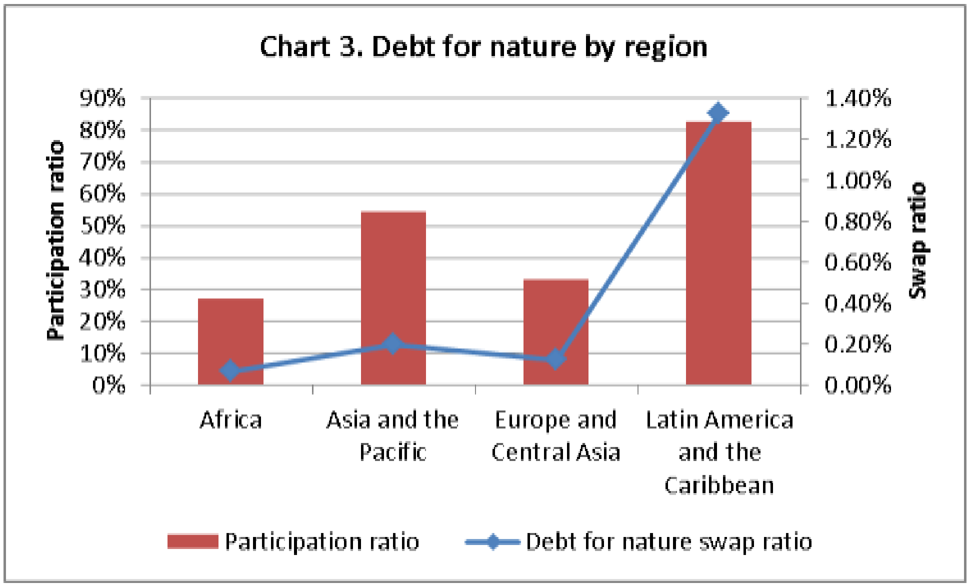
Country	Total amounts treated (US$ million)	Possibility to conduct debt swaps	Third-party swap funding	Non-US bilateral and multilateral swap funding	US Bilateral swap funding	Total
8. Comoros	13	Yes				
9. Congo	10436	Yes				
10. Cote D'Ivoire	19337	Yes				
11. Democratic Republic of Congo	19465	Yes				
12. Djibouti	93	Yes				
13. Egypt	21164	Yes		29.6		29.6
14. Equatorial Guinea	84					
15. Ethiopia	2550	Yes				
16. Gabon	4100	Yes				
17. Gambia	18					
18. Ghana	2015	Yes	1.1			1.1
19. Guinea	1935	Yes				
20. Guinea-Bissau	781	Yes		0.4		0.4
21. Kenya	1189	Yes				
22. Liberia	2409					
23. Madagascar	2691	Yes	30.9	14.8		45.8
24. Malawi	421	Yes				
25. Mali	210	Yes				
26. Mauritania	766	Yes				
27. Morocco	2640	Yes				
28. Mozambique	6470	Yes				
29. Niger	769	Yes				
30. Nigeria	57689	Yes	0.1			
31. Rwanda	144	Yes				
32. Sao Tome and Principe	51					
33. Senegal	1653	Yes				
34. Seychelles	163	Yes				
35. Sierra Leone	789	Yes				
36. Tanzania	4454	Yes		18.7		18.7
37. Togo	1754	Yes				
Tunisia		NA		1.6		1.6
38. Uganda	442	Yes				
39. Zambia	5272	Yes	2.5			2.5

Country	Total amounts treated (US$ million)	Possibility to conduct debt swaps	Third-party swap funding	Non-US bilateral and multilateral swap funding	US Bilateral swap funding	Total
Asia						
1. Afghanistan	3437					
Bangladesh		NA			8.5	8.5
2. Cambodia	248	Yes				
3. Indonesia	17798	Yes			30	30
4. Iraq	37158	Yes				
5. Jordan	4310	Yes		45.5		45.5
6. Pakistan	17450	Yes				
7. Philippines	1681	Yes	29.1	21.9	8.3	59.3
8. Sri Lanka	227					
Syria		NA		15.9		15.9
9. Viet Nam	544			10.4		10.4
10. Yemen	1976	Yes				
Europe and Central Asia						
1. Albania	190					
2. Bosnia And Herzegovina	597	Yes				
3. Bulgaria	1093			16.2		16.2
4. Croatia	861					
5. Georgia	219	Yes				
6. Kyrgyz Republic	657	Yes				
7. Macedonia, The Former Yugoslav Republic	334					
8. Moldova, Republic of	151					
9. Poland	39271	Yes	0.1	141		141.1
10. Russian Federation	76728					
11. Serbia And Montenegro	4324	Yes				
12. Ukraine	578					
Latin America and the Caribbean						
1. Antigua And Barbuda	110	Yes				
2. Argentina	4176				3.1	3.1
Belize		NA			9	9
3. Bolivia	2950	Yes	3.1	9.6	21.8	34.5
4. Brazil	10384		2.2			2.2
Chile		NA			18.7	18.7

Country	Total amounts treated (US$ million)	Possibility to conduct debt swaps	Third-party swap funding	Non-US bilateral and multilateral swap funding	US Bilateral swap funding	Total
Colombia		NA		12	51.6	63.6
5. Costa Rica	155		42.9	43.3	26	112.2
6. Dominican Republic	1101	Yes	0.6			0.6
7. Ecuador	1592	Yes	7.4	10.8		18.2
8. El Salvador	143	Yes		6	55.2	61.2
9. Grenada	16					
10. Guatemala	440		1.4		24.4	25.8
11. Guyana	1543	Yes				
12. Haiti	347	Yes				
13. Honduras	1660	Yes		21.4		21.4
14. Jamaica	594		0.4		37.5	37.9
Mexico		NA	4.2	0		4.2
15. Nicaragua	4042	Yes		2.7		2.7
16. Panama	185				20.9	20.9
Paraguy		NA			7.4	7.4
17. Peru	13268	Yes	12.2	52.7	58.4	123.3
18. Saint Kitts And Nevis	5	Yes				
19. Trinidad And Tobago	110					
Uruguay		NA			7	7
Total			138.2	499.5	396.1	1033.8

Source: Paris Club database and Sheikh, P. (2010). Debt-for-Nature Initiatives and the Tropical Forest Conservation Act: Status and Implementation. Congressional Research Service Report. March 30, 2010

The debt-for-nature swap ratio differentials are partly explained by the differences in participation ratio – the proportion of countries undertaking debt for nature swaps in a region. Africa had the lowest participation ratio at 27%, i.e., only 10 out of 37 potential debt swap countries have realized debt for nature swaps, while 83% of potential debt swap countries in Latin America and the Caribbean conducted debt for swap transaction.



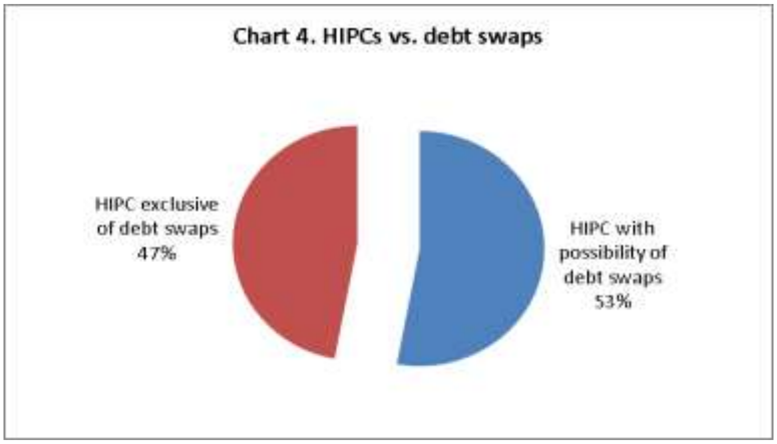
Source: Table 5

Official debt-for-nature swaps take place between two or more governments. Under the Enterprise for the Americas Initiative (EAI) in the early 1990s, the U.S. Government swapped a face value of nearly US $1 billion owed by Latin American countries for nearly US$178 million in local currency for environmental, natural resource, health protection and child development projects within debtor countries. The subsequent U.S. Tropical Forest Conservation Act (TFCA) support programs to conserve tropical forests[3]. Other creditor countries involved are: Belgium, Canada, Finland, France, Germany, the Netherlands, Italy, Norway, Spain, Sweden, Switzerland, and United Kingdom.

Non-governmental organizations collaborate with official and private creditors in debt for nature swaps. They purchase debt titles on the secondary market for a debtor country, and in exchange the debtor country agrees to finance local conservation in local currency through a government bond. The examples of participating organizations are: Conservation International, The Nature Conservancy, the World Wildlife Fund, Smithsonian Institution, Rainforest Alliance, Missouri Botanical Garden, etc.

The introduction of heavily indebted poor countries initiative was not the main factor in explaining declining trends in debt for nature swaps. As shown in chart 4, more than half of the HIPC exit agreements included the special provision for debt swaps. Except for Haiti, all agreements with the special provision for debt swaps were for African countries.

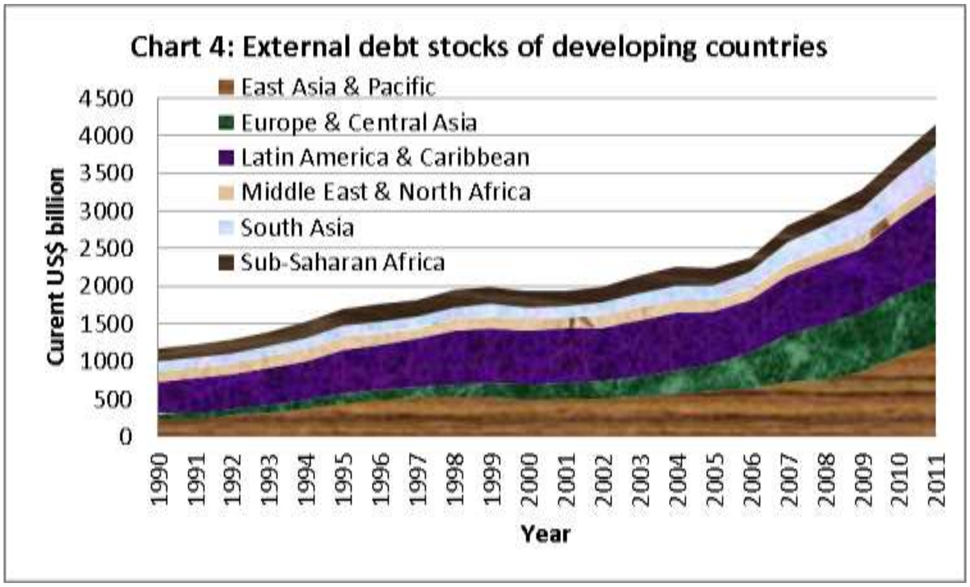
[3] USAID website: www.usaid.gov/



Source: table 1

Debt relief for biodiversity: nature in lieu of debt (1%)

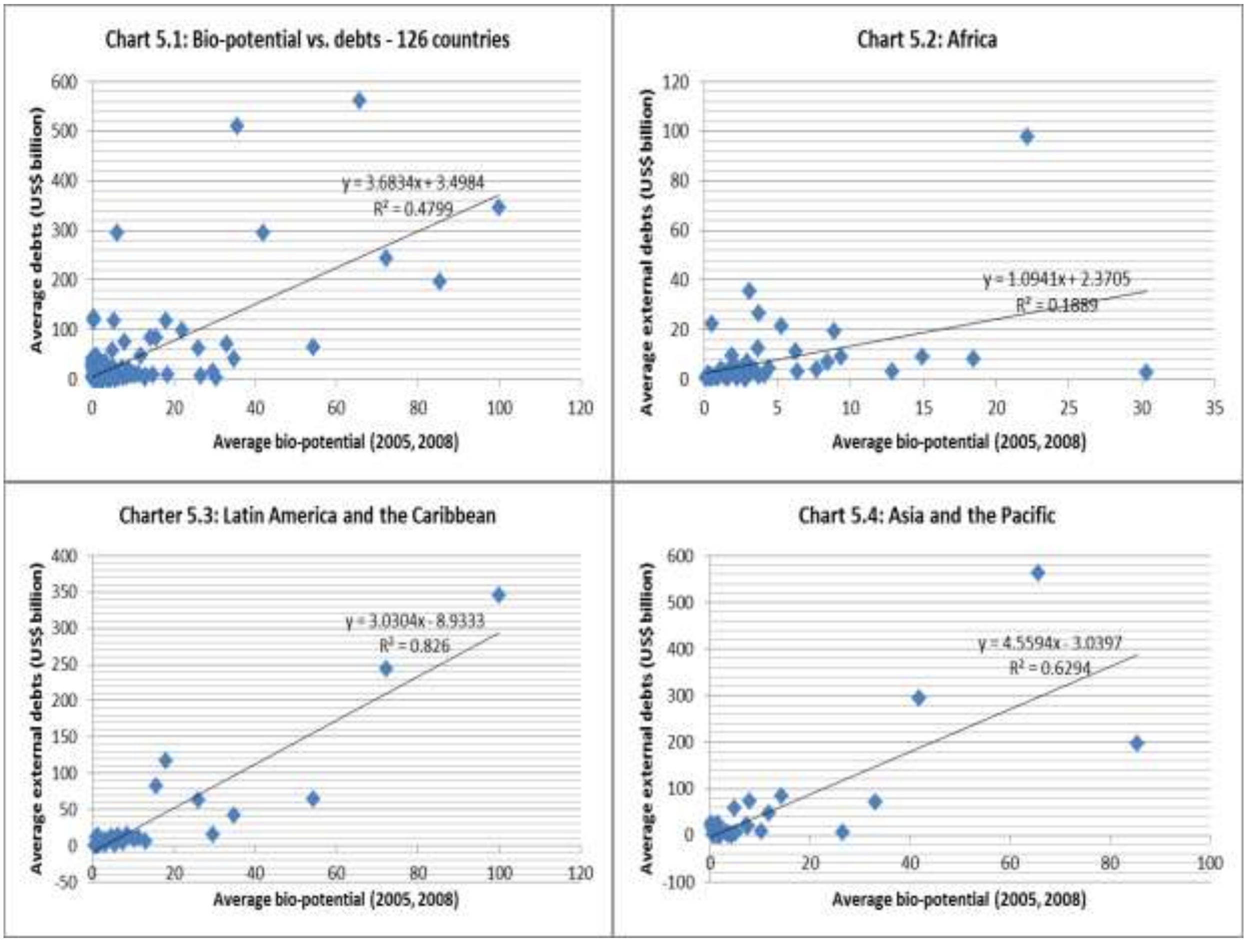
The external debt stocks of developing countries and countries with economies in transition have continued to increase over the past twenty years, from a little over 1.1 trillion dollars in 1990 to over 4.1 trillion US dollars in 2011. Chart 4 demonstrates the pattern of persistent increases of total external debt stocks of developing countries and countries with economies in transition. Prudent sustainability management of external debts has succeeded in reducing the likelihood of debt crisis occurrence, but the inherent risk associated with external debts cannot be eliminated by external debt sustainability. The increasing sheer size of external debts speaks to the need for preparing further measures to exploit debts for biodiversity.



Source: World Bank World Development Indicators database

Foreign capital inflow contributes to economic development of host countries, and also can have some impact on biodiversity and ecosystem services at the local and national levels. Servicing of external debts may exert a devastating impact on biodiversity and ecosystem services because the pressured need to generate hard currency through export can magnify unsustainable exploitation pattern in relation to biodiversity and ecosystem services. A debt crisis can wipe out virtually all financial gains in sustaining biodiversity and ecosystem services. The potential impact of external debts on biodiversity and ecosystem services has not been adequately examined.

There appears to be a surprise positive relationship between the global potential of delivering biodiversity and ecosystem services and accumulation of external debt stocks. The global potential of delivering biodiversity and ecosystem services is measured by using the global biodiversity benefit index of the Global Environment Facility. Two sets of global biodiversity benefit index have been available and their average values are used as the independent variable. The external debt stocks of developing countries and countries with economies in transition are from the World Development Indicators database of the World Bank. The three-year simple average between 2009 and 2011 is used as the dependent variable. The 126 countries with both debt and bio-potential data are applied with linear regression, and the results are presented in Chart 5.



In regression analysis, the coefficient of determination, or R^2, indicates a relationship between the independent variable and the dependent variable. All the coefficients in Chart 5 point to a positive relationship, and the coefficients of Latin America and the Caribbean as well as Asia and the Pacific are relatively high. Globally speaking, countries with more global biodiversity potential appear to incur more external debt stocks, and every one percent increase in the global biodiversity potential may see over 0.4 percent increase in external debt stocks for an average developing country. This observation also signals the high risk of potential negative impacts of any surprise external debt shock on biodiversity and ecosystem services given the strong link between the two variables.

One way to make provision for addressing the potential adverse impacts of external debts on biodiversity and ecosystem services is to allow an automatic reduction of 1% of all external debts of developing countries and countries with economies in transition, and use the resultant funds to support biodiversity and ecosystem services. Using the data of total external debt outstanding in 2012, the nature in lieu of debt option can generate some US$54 billion per year – a critical mass of funding for advancing the implementation of the Convention.

The nature in lieu of debt option can enhance debtors' ability to sustainably utilize biodiversity and ecosystem services and thus to reduce the probability of debt default and debt crisis. The built-in reduction of external debt stock does not need to pass through national budgetary debates, and should meet minimal political resistance.

The recent example supports the idea of debt reduction for nature. In August 2010, The United States of America and Brazil signed the latest debt-for-nature agreement aimed to reduce Brazil's debt payments to the United States by close to $21 million through 2015. In return, the Government of Brazil has committed these funds to support grants to protect the country's tropical forests through conserving protected areas, improving natural resource management, and developing sustainable livelihoods for communities that rely on forests.

Debt conversion bonds

UNESCO commissioned a panel of experts on debt swaps and the resultant report advocated an idea of debt conservation development bonds for education (DCDBs)[4]. DCDBs are bonds issued by a developing country government, the future debt service payments of which are matched by the fiscal space created by creditors forgoing future debt service payments on selected loans outstanding to the developing country. Any country that has a functioning domestic bond market and outstanding external debts that are being serviced can utilize DCDBs. The primary purpose of DCDBs is to provide financial aid—not debt service relief.

The basic building blocks of a Debt Conversion Development Bond program are the following:

- One or more creditors agree to write off specific debts (or debt service payments for a number of future years) in exchange for a commitment from the beneficiary country's government to use the fiscal space generated by this action to support the issuance of government bonds and to use the revenue obtained from the bonds to fund specific social and economic development projects.

[4] UNESCO (2011). Debt Swaps and Debt Conversion Development Bonds for Education: Final Report for UNESCO Advisory Panel of Experts on Debt Swaps and Innovative Approaches to Education Financing, Paris, August 2011, available at http://unesdoc.unesco.org/images/0021/002111/211162e.pdf

- Creditors who provide debt for conversions have the opportunity to negotiate with the beneficiary governments about the allocation of the funds raised by issuing DCDBs. They can negotiate means for monitoring results if they so desire. And they can provide technical assistance and other forms of financing to help ensure concrete development results from the projects that are funded.

- The beneficiary government would then issue one or more domestic bonds. The time profile of the future stream of debt service payments on these bonds should be aligned with the time profile of the fiscal space created by the debt conversions.

- The effort and cost of issuing DCDBs should be modest. Although DCDBs may be marketed as a special form of financing and designated to fund specific development projects, in actuality will be just another "plain vanilla" government bond. There will be no special financial structuring required or any additional credit rating needed. Governments that are already regularly issuing longer term government securities will already have in place all the necessary infrastructure for issuing DCDBs.

- The proceeds from the bonds would then be used by the beneficiary government to fund the social and economic development projects agreed upon with the donors.

- The government would repay the bonds from the savings realized over time by not having to make payments on the converted debt.

A key attraction of DCDBs for donor governments is that they allow the donor to mobilize substantial development funding today while spreading the cost over a number of years. Thus DCDBs can be especially useful for the funding of large social and economic infrastructure projects that may be difficult to fit into aid budgets otherwise. DCDBs may also be an attractive form of aid during periods of fiscal austerity in the donor country or as a means of responding to emergency funding needs.

A key attraction of DCDBs for the beneficiary country is that they allow the government to obtain substantial funding today by issuing bonds that will be repaid with no added fiscal burden in the future.

DCDBs can also help develop the domestic bond market in the beneficiary country. In the longer term this can be their most significant and sustainable impact. Well-developed domestic bond markets can be instrumental in channeling the rapidly growing institutionalized savings of the developing countries into social and economic development projects.