

Nature swaps in latin america

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Latin America is currently in a debt crisis. Poor management, over lending by banks, and a bad turn in the world economy has produced severe debt that is forcing these countries to exploit their natural resources in an attempt to ease their economic problems. However, many individuals and organizations have seen a silver lining to this cloud and are now buying debts (at a discounted rate) and giving them back to the debtor countries in return for environmental protection. Although increasingly difficult to achieve, these debt for nature swaps are beneficial to the debtor country and the world.

So why do we go to all this trouble for a few countries that are not even big players in the world market? I discovered that we loose about 40 million acres of forest each year and 27 million of that is tropical rain forrest. (White house fact sheet on the President" s Proposal for a Global Forest Convention). Considering that the world" s forest act as respiration, filtration, and cooling system, we must make a concerted effort to conserve and start repairing the damage we have already done. A large part of the worlds forest rest in the debt ridden countries of Latin America.

In an attempt to repay these huge debts, countries are utilizing their natural resources and straining them to the point where their situation could have global ecological ramifications. There is an undeniable link between thedeforestationin Latin America and its enoumous debt. Debt for-nature swaps take advantage of an otherwise bad situation, turn it around, and use it to promote forest conservation in Latin America. The first debt-for-nature swap was with the government of Bolivia and the non government organization Conservation International.

Since then, the international community and the United Nations have picked up the idea and now incorporate it in many of their initiatives and policies directed toward forest conservation in Latin America. In a debt for nature swap an organization buys a debtor nations foreign debt at a discount (since most of the worlds financial organizations are eager to unload them) and then forgive it in exchange for a commitment by the country to invest the face value of the debt in environmental conservation.

The debt is converted for US dollars to local currency, which is used to fund the programs. This alleviates the debt, and proves a bargain to the organization that initiated the swap. They also receive higher visibility and these types of transactions get them involved in the local government allowing them to pursue future programs. Commercial banks also see a potential in debt for nature swaps. Instead of holding on to a debt that will more than likely never be paid, they donate it to a non government organization and write it off as a charitable donation.

More recently, due to a change in international policy, they can not only sell the debt at a discount (recouping some of their loss) , but write it off at face value and gain prestige for their involvement in environmental protection. The role of the debtor nation is a bit more difficult. The debtor nation must agree to essentially buy back the debt by financing the environmental conservation programs with the converted money and pay any other cost involved in the transaction. Not a bad deal for the debtor nation considering they would have had to pay the initial cost many times over just in interest payments.

The USDA forest service says, " The debtor nation consents to the swap terms; bear the cost of: 1 the buy back of the debt from the charitable organization and 2 additional project financing commiserates with the differential between the discount price on the secondary market and the exchange rate for debt converted into local currency. In addition, the project may entail future recurrent expenditures for the host country" s public sector. " Almost all debt-for-nature swaps have some US involvement. Usually we act as the sugar daddy, financing non government organizations and setting up regulations that the debtor nation must meet.

In 1990 the US established these regulations under Title VI of the 1990 fact act. The debtor country must be making progress toward the establishment of certain world bank reform programs and be making reforms in the foreign and domestic investment area. The debt swap between the non government organization and the debtor country is negotiated by the US. In exchange for forgiveness of the debt the debtor country must make interest payments into the project, which is governed by a local government body. The body which negotiates the swap is composed of relative US government organizations and some non government relative organizations.

Their job is to provide guidance and help carry out the administrative maneuvers needed for such a swap. This type of debt for nature swap is very complicated and has lead conservation groups to look for ways around the jungle of red tape that surrounds these swaps. One type of swap that seems to bypass a lot of these difficulties is an interest swap. The same basic principle applies, but with a twist. The foreign debt is converted into long

term bonds by the non government organization and swaps interest payments in return for environmental funding.

The debtor nation gets to retire a debt using its own currency, which is diverted to the conservation program. Conservation organizations get some security from inflation and avoid the threat that the debtor nation will renege on its obligations. If the debtor nation stops funding environmental programs, then interest payments resume. Because of the protection and relative ease of this type of swap, it has grown increasingly popular among international conservation organizations. Sometimes a corporation may donate or discount assets it holds in Latin America because they are unable to profit from them.

The corporation writes them off as a charitable donation and the non government organization diverts funds for environmental protection. This is a good deal for both since the corporation gets to write the whole thing off and the conservation organization gets more bang for their buck. This also effectively cuts out the US, the board of overseers, and for the most part, the local government. Once inaccessible financial resources are being tapped, a debt is being retired, and government supported environmental initiatives are being started.

All this seems terribly involved and difficult and that is because it is terribly involved and difficult. These swaps are small compared to the overall national deficit of these countries and that is because they have to be. If they were done on a large scale, in the current state of these countries economies, the influx of domestic currency would have a bad inflationary

effect on the economy, and that is the last thing these countries need. The recipient countries they will lose economic sovereignty in these debt-for-nature swaps. The donor organization and the US negotiators tack on all kinds of stipulations and conditions to these swaps.

Less than appealing conditions for countries that are already under the screws of the IMF and the World Bank. The IMF knows they are the last hope for these countries and do not hesitate to impose mountains of economic conditions with their loans. Granted, they are in the interest of neo-liberal economic reform but, any changes made in their fragile economy can have a rippling effect that can affect the political stability of an administration. In such a political climate it is easy to understand why many Latin American countries are reluctant to participate in these swaps when there is a potential further loss of their economic sovereignty.

The intention and idea behind debt-for-nature swaps are noble but, the question comes up, " Are we really helping Latin American countries by interfering in their affairs? ". Is this just more bad breath diplomacy? These debt for nature swaps are likely to only temporarily alleviate some of Latin America's economic troubles. With these debts retired, they have access to new funds and the cycle of borrowing will continue along with the deforestation. Besides saving the rain forest, what other plans do US and other international cooperations have in mind for Debt-for-nature swaps?

It seems to me that this would be a perfect way to take control of valuable natural resources and save them for later use. After all, most debt-for-nature swaps are essentially a lease that last until the face value of the debt has

been spent on conservation and then the government takes back control of the land. Why not take advantage of Latin Americas bad situation and use it to hold on to valuable land until they are out of crisis and the land is safe? Wait for better economic and ecological conditions. Its cheaper than buying the land and paying taxes on it so just write off a bad loan

Latin America is currently in a debt crisis. Poor management, over lending by banks, and a bad turn in the world economy has produced severe debt that is forcing these countries to exploit their natural resources in an attempt to ease their economic problems. However, many individuals and organizations have seen a silver lining to this cloud and are now buying debts (at a discounted rate) and giving them back to the debtor countries in return for environmental protection. Although increasingly difficult to achieve, these debt for nature swaps are beneficial to the debtor country and the world.

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Less than appealing conditions for countries that are already under the screws of the IMF and the World Bank. The IMF knows they are the last hope for these countries and do not hesitate to impose mountains of economic conditions with their loans. Granted, they are in the interest of neo-liberal economic reform but, any changes made in their fragile economy can have a rippling effect that can affect the political stability of an administration. In such a political climate it is easy to understand why many Latin American countries are reluctant to participate in these swaps when there is a potential further loss of their economic sovereignty.

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