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How Can Debt Swaps Be Used for Development?

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In addition to financial benefits, debt conversion projects initiated by debtors provide a valuable opportunity for strengthening institutions.

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The idea behind debt conversion is that instead of continuing to make payments on outstanding loans in hard currency in the face of debt servicing difficulties, the debtors find some other way to settle debts that is satisfactory to themselves and the creditor. In particular, debt for development can be a useful way to stabilize a growing debt stock, for example, by converting amounts which are already in arrears.

Mukherjee discusses the relative importance of debt conversion as a development tool, contrasts conversion of debt owed to public and private creditors, touches on the issue of its impact on inflation, and examines criteria for deciding which types of debt are suitable for conversion. She contends that the principle of debt conversion could be applied in many situations, provides examples, and describes the mechanics of debt conversion for development purposes as part of an overall sectoral strategy.

She concludes by discussing two ways to strengthen institutions for carrying out debt conversions.

Large, unanticipated inflows of resources can create difficult relationships in traditionally underfunded activities. Creditors often have little confidence that debtors will be able to fulfill project-related obligations because they have inadequate absorptive capacity, weak institutions, inadequate sources of information in the decisionmaking machinery, and inadequate managerial and administrative skills.

Debt conversion projects may be a useful, noncontroversial vehicle for bringing in domestic managerial talent from local nongovernment organizations on contract (for example, to a ministry) to be responsible for implementation — to make the project "deliverable."

One instrument for allowing this to happen is a trust fund. The trustee has legal title over the fund and a fiduciary responsibility to the beneficiaries to follow the terms and comply with applicable laws. National environmental trust funds have been established in several countries in connection with debt-for-nature swaps.

Another is for sector policymakers to approach international counterpart nongovernment organizations directly to find out if there is interest in funding specific development activities (especially those which are not eligible for multilateral financing) through debt conversions to support a well-defined sectoral program. The lesson from debt-for-nature conversions may be that the development community and banks must work together closely, combining their expertise to provide long-term resources for development.

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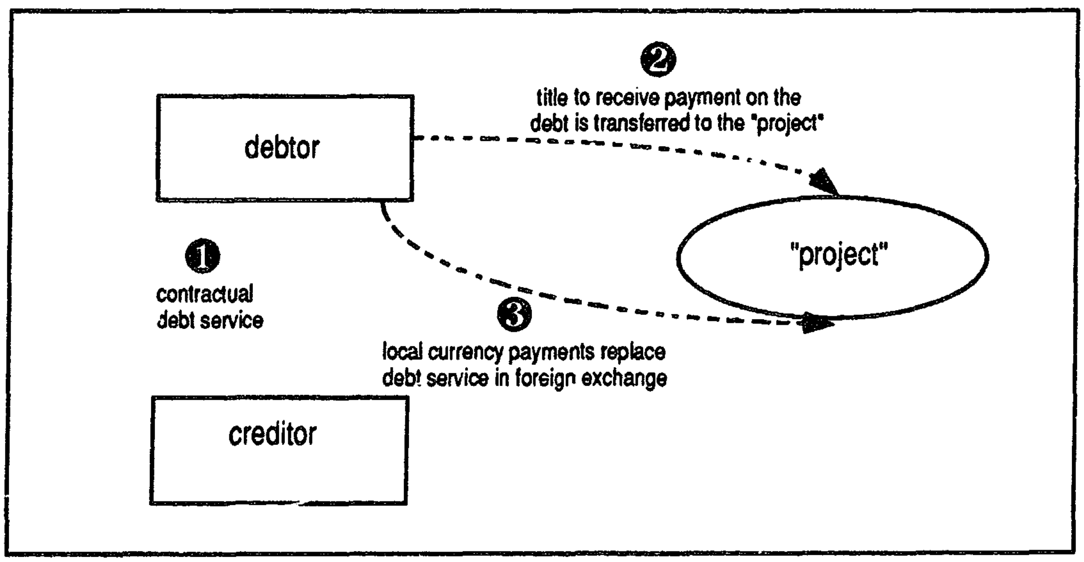
I. Introduction

Newcomers to debt conversions will find that the underlying idea is relatively simple. The basic principle is that instead of continuing to make payments on outstanding loans in hard currency as in the past, the debtor is able to find some other means of settling his debts which is satisfactory to himself and to the creditor.

This paper discusses the relative importance of debt conversions as a debt management tool, touches on the issue of inflationary impact, and examines the criteria for determining which types of debt would be suitable for such conversions. It proposes that the debt conversion technique could in principle be applied to a wide variety of situations, and sketches out a few of them as examples. A detailed discussion of the mechanics of carrying out a conversion follows, and the paper concludes with a discussion of avenues for institutional strengtnening in order to carry out debt conversions.

Illustration of a Generic Debt Conversion



The diagram shows the following:

(1) A stream of hard currency is due in the form of debt service on old loans from a sovereign debtor[1] to a given creditor, who may be either a commercial bank or another government. The debt is "value impaired", i.e there is a low probability that it will be serviced on time and in full.

(2) A "project" is identified in the debtor country that interests both the creditor and debtor. In return for some arrangement related to the project, the creditor could relinquish his claim to receive all or part of the debt service payments. The project could be designated as the beneficiary by the creditor, and could receive title to the payments stream flowing from the debtor.

(3) Following a careful analysis of the expected budgetary and macroeconomic impact, the debtor would usually make such payments to the project in local currency, most commonly in installments over an extended period. In some debt conversions, the debtor may even turn over a major asset to the creditor, with no accompanying cash payment, as a one-time settlement of the future stream of obligations to the creditor.[2]

There may be one more step before (1), involving a change in identity of the creditor through the secondary market. This would occur if the original creditor did not have any interest in a debt conversion, but only wished to receive **cash upfront** for the remaining value of his claim, before it eroded further. The claim would be sold for cash at a discount relative to face value, to a third party investor in the secondary market. The investor (who may have identified a potential "project" already), would hope to realize a positive return on his investment (the purchase price of the claim). He would then become the new creditor, and nothing would change in the diagram starting from Step 1.

Debt conversions have been used to stimulate direct foreign investment in the industrial sector, and to support ongoing privatization programs.[3] Fertile grounds for conversions of commercial debt have included instances where:

(i) a debtor government is facing a foreign exchange liquidity crisis leading to difficulty in making timely debt service payments to its commercial creditors.

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1 The idea of debt conversions or debt swaps was obviously born and perfected between private debtors and creditors. In the World Bank context, we will only examine its applicability to sovereign debtors.

2 Debtor countries would undoubtedly prefer debt forgiveness, but it should be recognized that there are limits to such outright debt reduction. Debt conversions are an intermediate means of obtaining debt relief short of actual debt forgiveness.

3 Occasionally for large, visible assets such as airlines and telecommunications infrastructure.

The same government is rich in physical assets however, and has identified a list of state owned companies to be privatized. The commercial creditor, or its representative, agrees to take equity in return for giving up claims to debt service. (The ownership transfer of the asset would then constitute the "project" in the above diagram). Alternatively;

(ii) the creditor accepts a lump sum of local currency in exchange for the debt, agreeing to use the proceeds to purchase a private sector asset[4] in the debtor country, thus stimulating <u>direct foreign investment</u>.

A distinction must be made between debt-equity of the kind mentioned above, and debt for development. The essential difference between the two is that a debt equity conversion mainly benefits (and is promoted by) the creditor, while a "debt for good things" exchange primarily benefits a third party in the debtor country or a local institution, and is often not promoted by anyone[5]. However, based on recent developments at the Paris Club, the outlook for debt for development swaps has recently become more promising. (The reference to such deals as "swaps" or "conversions" is based on the fact that they meet the definition: they are a method of settling obligations that is different from the original contractual arrangements, but mutually satisfactory to the debtor and creditor).

Debt for development swaps can be seen as a means of achieving debtor-country long term goals in areas which have been traditionally underfunded because of more pressing short-term needs. If they are properly structured, these conversions can be a useful means to achieving desirable developmental objectives with the assistance of creditors and with minimal negative effects on the debtor. In order to implement such swaps, debtor governments must be the promoters--they will need to establish debt for development programs and to announce specific guidelines for the new activities.

Debt for equity conversion programs may require the passage of controversial legislation, a well-defined privatization program in place, a social safety net, protracted negotiations about pricing of national assets, political debate on the role of foreign ownership etc. By contrast, debt conversions in the areas outlined in this paper are potentially far simpler, and in essence represent an additional source of funding to activities compatible with overall government strategy for a given sector. This is done through pursuing the sponsorship/financial backing of an existing creditor for development-related activities.

This paper will attempt to address the applicability of the debt conversion technique in sectors such as infrastructure, health, education, and agriculture. The ideas developed in this paper are intended to be adapted to any situation where:

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4 This latter approach has been discredited and is now less frequently adopted. Reason: it is inflationary if local currency must be printed for repurchasing <u>public</u> sector obligations while the equity investments take place in the <u>private</u> sector.

5 Except for international conservation organizations which have sometimes taken the lead in promoting debt for nature swaps, mainly in Latin America.

(i) externalities are present;

(ii) there are no foreign exchange flows resulting from the investment, and presumably no foreign investor interest; and

(iii) the project costs are in local currency, in modest sums but over long periods.

It is widely believed that obtaining assured long-term funding is a crucial factor in implementing development projects. Some governments have acknowledged this by taking measures to stimulate the creation of trust funds or endowments utilizing debt conversions. The primary objectives of establishing such funds are:

(i) to mobilize resources otherwise not available,

(ii) to channel them to specific development programs, and

(iii) to monitor the implementation of projects under the designated programs.

The best known examples to date have been related to environmental projects: either local or internationally active conservation NGOs have acquired title to the hard currency debt owed by developing country governments (e.g Bolivia, Costa Rica, Madagascar). Title is acquired either through discounted purchase on the secondary market, or by receiving an outright donation of the claims from the original creditors. The NGOs then negotiate with the debtor country to obtain repayment in local currency at a favorable rate (i.e repayment based on almost all the face value of the acquired debt). The understanding is that the (local currency) proceeds will be used for conservation in the country concerned. Depending on the costs of such transactions, conservation organizations may be able to leverage a significant increase in the resources ultimately available for conservation in the debtor country. (A total of 17 debt for nature swaps involving private commercial bank debt have been concluded to date, converting more than US$100 million of debt into about US$60 million of environmental funding at cash investment costs of about US$17 million).

Specifically in one case, the Costa Rican government established a Nature Resources Conservation Fund in 1987, and the National Parks Foundation traded up to US$5.4 million in commercial debt papers in exchange for 75% of the face value in local currency government bonds. These were structured to mature in 6 years, paying 25% annual interest. The program was oversubscribed by donors and environmental organizations donating debt to the National Parks Foundation. Proceeds are being used for park management, land purchases to expand existing parks and for environmental research and education projects.

Along the same lines, it is suggested here that any highly indebted government with foreign exchange constraints may wish to try and interest creditors to support a limited set of debt for development programs through debt conversions, on a bilaterally negotiated basis. These programs could be of virtually unlimited variety, provided the sovereign debtor could demonstrate some "global benefit" similar to environmental conversion projects, or at least some bilateral benefit. It is likely that there would have to be some sort of explicit sectoral strategy, based on which additional support would be sought. In some sense the debt conversion for development mechanism represents cofinancing without adding to a country's external obligations. It is even possible that a well-run program could attract future additional support (possibly non-financial) from a new set of sponsors who were never creditors of the country.

Activities which could receive debt swap support might include childhood immunization programs, rural health care facilities, all categories of basic needs projects, vocational training, primary education for girls, safe drinking water, low income housing, other infrastructure, recapitalization/portfolio cleanup of domestic banks, etc. In particular, depending on the needs of the country, the <u>debt conversion can be used to generate local currency funding for either one-time expenditures, recurrent expenditures, capital expenditures, or all three</u>.

The element of leveraging is important--it should be emphasized that the local currency cash flows to the project/sector as a result of debt conversion must be additional, and should not replace government contributions that would have been made anyway. (Care should also be taken that the potential of debt conversions does not result in a skewing of priorities to the perceived needs of donors). Also, if such conversions are provided by the creditor government in lieu of foreign aid to a debtor country, there will be an adverse impact on the cash flows of the debtor corresponding to the amount of aid inflow foregone. <u>We assume that debt for development conversions will be negotiated independently of official development assistance programs with creditors, and that they will not directly result in a one-for-one reduction in the aid budgets of future years</u>.

The paper will consider the potential and desirability of debt for development arrangements, including the question of institutional capacity and strengthening in the relevant sector of the debtor economy.

II. When are Debt Conversions Relevant?

In order for a debt conversion to take place, the creditor would have to acknowledge that there may be larger amounts of hard currency debt outstanding than could ever be repaid in full in cash, on market terms. Such a perception would be broadly based on creditworthiness indicators[6] which look for sustainable capacity to transfer resources abroad to meet debt service obligations. Specifically, for a sovereign debtor, persistent current account deficits accompanied by insufficient capital inflows to maintain adequate reserves, and the resulting accumulations of external obligations, are usually an indicator of debt service disruptions soon to follow.

6 These include debt/GDP, debt service/exports, gross interest payments due/exports.

A. Debt Stock Growing more Rapidly than GDP

In fact, the stream of debt service currently flowing may actually be smaller than the amount which is contractually owed, resulting in the buildup of arrears. These arrears are likely to be capitalized, or added to principal outstanding. The unpaid amounts are in effect treated by creditors as new involuntary loans extended to the debtor. This situation leads to further interest obligations on the unpaid interest obligations, and hence a growing debt stock.

B. Relative Importance of Debt Conversions Compared to Other Debt Management Tools--Stabilization of Debt Stock

For a highly indebted country with debt servicing difficulties, debt conversions alone cannot be the way out of the impasse. In fact, in terms of reduction of debt stock, debt for development conversions are likely to have a hardly noticeable effect.[7] A range of other creative solutions and financing will be required to cut the debt stock sufficiently and to reduce cash outflows in the form of debt service on the remaining debt.

However, while the amounts subject to debt conversions will often be modest or negligible in relation to principal outstanding, or even in relation to annual interest flows, they may play a very important role initially in stabilizing the stock of debt. This would be the case if, for example the portion of interest unable to be serviced, which would otherwise be capitalized, became the subject of debt conversions by mutual agreement.

Conversion of eligible foreign exchange debt service to a long-term local currency bond is a common mechanism for financing debt for development swaps. This can be acceptable even when an inflationary environment threatens the ability of the recipient implementing organization to conserve the underlying capital. (In any case, many debtor governments do not allow significant levels of capital formation in non-profit, non governmental organizations). Given the tradeoffs faced by the project sponsors, it is far more important to secure a reliable source of long-term local currency funding for the development activity.

C. What Would Qualify as Eligible Debt when Proposing a Conversion?

During the 1980s, commercial banks reduced their exposure to a large number of low income and lower middle income countries, and in many cases retreated from new lending altogether, even to the private sector. The bulk of public sector obligations in

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7 It should be mentioned that large and highly visible commercial projects funded by conversions of commercial sovereign debt that are not undertaken in the context of an overall one-time workout, may even have an adverse impact on the overall debt picture. If large amounts of commercial debt are purchased by investors on the secondary market to consummate a deal e.g sale of airline, the value of the remaining debt outstanding can increase dramatically. There are at least two reasons: i) the standard supply and demand effect, resulting from a sharp increase in the number of buyers on the secondary market, and ii) the market perceives that the probability of being repaid on the remaining debt outstanding has increased, due to the retirement of a large portion of original claims.

such countries is to official creditors, and many governments are in arrears on this official debt.[8]

Conversions of official bilateral debt[9] have not been permitted until recently. However, nearly five years of accumulated experience with innovative debt for nature swaps involving commercial debt have not gone unnoticed by creditor governments. Growing concerns about transnational development issues such as global warming and preservation of biodiversity, which debt-burdened developing countries do not have adequate resources to address, prompted a policy change about eighteen months ago.

In September 1990 the Paris Club (of official creditors) introduced a series of new repayment conditions for lower middle income countries. Rescheduled repayment periods were lengthened, and a number of debt for development conversions to local currency were for the first time permitted in principle for such countries. Agreements must be voluntary and bilateral. There are no limits on conversions of government to government loans, but a case-by-case ceiling will apply to guaranteed commercial credits. It is likely that the treatment will be extended to low income countries and middle income countries in the near future.

Conversions of official bilateral debt potentially open the door to a whole new application of the debt conversion technique. Unlike commercial creditors, bilateral creditors are unlikely to ask for control of public assets in the debtor country. They are more likely, instead, to lend their support to development-oriented activities, if presented with well-designed proposals. Requesting bilateral debt conversion as well as additional hard currency funding support if necessary for traditionally underfunded sectors can be clearly defended in most instances, if a well defined action plan for use of the diverted debt service is on the table. The bottlenecks in practice are often institutional. This problem is tackled separately in a later section of the paper.

Applying the Paris Club's current criteria, the lower middle income countries that are now eligible to propose conversions of bilateral debt are Cameroon, Congo, Cote d'Ivoire, Dominican Republic, Ecuador, Egypt, El Salvador, Honduras, Jamaica, Jordan, Morocco, Nicaragua, Nigeria, Paraguay, Peru, Philippines, Poland and Senegal. However, it is possible that other countries with debt servicing difficulties, where there is enough initiative and credibility on the part of debt managers, could also benefit from this mechanism by preparing proposals attractive to creditors.

D. When Could Commercial Debt be Used in "Debt for Development"?

While commercial bank creditors (London Club) are generally a long shot for sponsoring development projects, it may be worthwhile pursuing individual banks holding

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8 However, there is no secondary market (yet) for claims by the official sector

9 Both concessional Official Development Assistance and other government to government loans, as well as commercial loans guaranteed by creditor governments or their export credit agencies

small amounts of debt. As with all creditors, they are faced with the need to avoid the appearance of outright debt forgiveness, which is an admission of poor judgement in the past, and runs contrary to their obligations to stockholders expecting dividends. At the same time, small commercial creditors are faced with the complexities and uncertainties of valuation of expected future debt service payments, as well as the administrative costs of keeping track of these claims, participating in negotiations, etc. Since the debt probably represents a small portion of their portfolio, they may be receptive to a proposal requesting a donation of their claim to a good cause, provided the case is presented in a convincing manner. Credibility of the project and confidence in the debt negotiators are important, since the bank will not wish to be implicated in a future scandal related to its donated claims.

Another category of commercial creditor that debt negotiators may wish to try and interest in development projects, is the rare bank which anticipates further business from a developing country in debt difficulties (the bank is hopefully also currently a major creditor). There are always creditors with long-standing relationships, or simply with too much invested in a given debtor to pull out altogether. Such a bank would be interested in keeping the debt from becoming worthless and in developing goodwill in that country. Again, armed with a selection of attractive, long term development programs, the debt negotiating team could discreetly present a proposal to the particular bank. A debt conversion (or donation of claims to a particular sectoral reform program) would be a simple means for the creditor of addressing communities in the country that may have growing influence and that are not normally sympathetic to a commercial banking perspective. Debt negotiators should be perceived as credible and realistic in their description of proposed action plans (it helps if other influential agencies are also involved in some way with the project, or even in some cases, if the creditor commercial banks are partly owned by the government of the creditor country). If there is a possibility for the creditor to "buy goodwill" over a long period, which is consistent with his long term business interests, then a private visit to the creditor's offices could yield more debt relief than public negotiations in the London Club forum. (Waivers from other creditors are not required in the case of a donation).

E. Inflationary Impact

Any assessment of the potential inflationary impact of a given debt conversion for sovereign obligations will mainly depend on the current level of debt service payments being made on the debt to be converted. If the country does not currently service the debt, then any cash disbursement as a result of a swap will be inflationary since there is a net cash flow dis-saving from the "debt reduction". In addition, debt for development swaps are unlikely to lead to an increase in productive capacity, which would have partially offset the inflationary impact.

Even in the case of foreign debt which is being serviced, the government should avoid a large up front lump-sum disbursement of local currency from the central bank, which would have a directly expansionary effect on the money supply. The lump-sum disbursement of a significant portion of the outstanding face value of the debt would most probably exceed the debt service saved through retirement of the instrument.

Conversion to local currency bonds has no immediate effect on the domestic currency since it involves the exchange of an external debt instrument for an internal debt instrument usually with lower face value. If the local currency bonds are issued with a term equivalent to or longer than the retired foreign debt, then debt swaps may not have an inflationary effect. Swaps to non-financial assets would be least inflationary because this would not involve an increase in the money supply at all.

F. Debt for Development Strategy

The suggested strategy in this paper focuses on sectors with development projects requiring local currency funding. Such activities, for obvious reasons, have traditionally been of less interest to commercial bankers and other creditors who are in search of tangible assets or foreign exchange-generating activities as conversion vehicles. This opening represents a tremendous opportunity for debt managers, as well as a burden on them to prepare suitable proposals to take advantage of the new rules regarding the eligibility of bilateral debt for conversions in some countries. We argue that some of the environmental, social sector, water sanitation and other infrastructure activities already approved, or substantial policy reforms about to be adopted by the debtor government, could in principle benefit directly from additional funding support through debt conversions, initially using official debt, and subsequently maybe even commercial debt.

A distinction must be made between:

(i) the overall size of the debt conversion program, which is based on macroeconomic considerations and defined by the debt negotiating team, and

(ii) the economic sectors which will serve as vehicles to execute the program.

The prerequisite is for a country's debt managers and debt negotiating team to be well informed about the potential areas in which domestic development activities may be of interest to foreign creditors, in addition to the more common industrial sector activities for which private investment is sought. Creditors may agree to designate a development activity as the legal recipient of debt service payments which are owed to the foreign creditor. All debt service payments foregone by the creditor are in effect "donated" to the sector. For this reason, the term "donor" and "creditor" are used interchangeably in the context of debt for development swaps from this point on.

Ideally, donor support should be solicited for a given sector based on a solid sectoral strategy. However, in practice donors often wish to be informed of specific projects that would be supported, since these offer a more convenient method of monitoring (and demonstrating) their financial support. Again, the debtor should be well-prepared with projects or project proposals that add credibility to proposed sectoral reforms. This will also guard against the debt conversion process from becoming "donor-driven", which would in turn result in low commitment on the part of local authorities, and plant the seeds for later difficulties in strategy implementation. Ideal candidates for debt conversion projects are those which do not represent interference with a government's domestic priority setting procedures, but instead cover activities already directly or indirectly approved, for which inadequate funds are available.

Another important issue is the institutional identity of the agent responsible for receiving the proceeds of the debt conversion and carrying out the agreed upon development activity. Ideally, it should be an existing institution that is strengthened to carry out its new role. Suitable candidates may be a local NGO, if necessary receiving technical advice from a counterpart international NGO or from the donor. Representatives from the relevant ministry should be involved in the execution of the development activity, if only to ensure consistency with the government's sectoral strategy. This would also be determined on a case by case basis of course--in some cases the ministry itself may be the most suitable, while in others a holding company or a separate endowment would be appropriate. The public or private sector identity will also vary case by case. For convenience, we simply refer to the agent as a local NGO in the institutional section of this paper but this is not meant to imply that a local NGO is always the superior choice.

Only in extreme cases should a brand new institution be set up for the purpose of receiving the proceeds and channeling them to the sector. This paper frequently refers to "setting up designated trust funds"; this is a useful vehicle that is elaborated on in another section, but again, a trust fund per se may not be suitable in all contexts and is used for illustration more than anything else.

G. "Program versus Project": Potential Dangers of an Uncoordinated Approach

All proposed debt conversions (including debt-equity) should support a well-defined sectoral strategy, even though at times it may be easier to secure a particular donor's support for an individual project. It is worth underlining the risks of a piecemeal approach to funding stray projects in the social sector or elsewhere through conversions of bilateral debt. In theory, the debtor government may succeed in persuading a particular creditor may to earmark the local currency equivalent of their debt service proceeds to benefit a rural health project, while a different creditor may be talked into similarly supporting a proposed or ongoing literacy project. The government would realize a small benefit from cancelling the foreign exchange obligations to those creditors, and instead making local currency payments to the two designated projects in different sectors. However, earmarking in this manner may result in quite a random and possibly unsuitable set of projects serving as vehicles for debt conversions.

In fact, such a random approach may be in conflict with the overall funding strategy for a given sector. Specifically, coordination among donors is difficult to achieve, and there may be little or no incentive on the part of various potential beneficiaries to bring it about. A loosely managed debt conversion process risks running into conflict with macroeconomic objectives, most notably money supply targets. The other big risk is that major creditors would suddenly conclude that the policy dialogue was being undermined, and would withdraw their overall support.

This is why the debt for development swap tool should be used transparently to support a well-defined sectoral strategy, and preferably an overall debt strategy, e.g conversion of a certain percentage of arrears to stabilize the debt stock. In particular, when creditors are approached by the debtor with ideas for debt for development, then the "marketing tool" used should be sectoral strategy and any proposed policy changes, rather than a single project.

III. Examples of Existing Debt for Development Conversions[10]

A group of Bolivian organizations has proposed to swap a quarter of the country's remaining US$209 million commercial bank debt for schemes to help impoverished children and preserve Bolivian culture. The plan calls for the Bolivian government to pay a premium of 50% on the secondary market price of the debt, the same as it pays on more conventional debt-equity swaps. The voluntary organizations involved will receive between US$7.5 and 13.5 million (equivalent) to spend on water and health care projects for children, to be monitored by a number of established agencies including Save the Children. USAID will provide the main funding for the swaps, with Save the Children and Foster Parents providing another US$5-9 million.

There are a number of other creative deals currently proposed in at least ten countries. Although a number of sectors have been declared eligible, most transactions concluded to date are in the debt for nature area; health and education are mentioned as priority sectors for future deals. Some projects are in the process of being approved, while others are in the implementation stage. All concluded transactions are with commercial bank debt.

The government of Peru formally approved health projects organized by the Fund for Private Assistance in International Development using debt for development. About US$5 million of Peru's US$21 billion foreign debt will be swapped for projects focusing on primary care and community health services for the poor.

Ecuador operated a formal debt for development program from October 1989 to June 1991. Originally the face value of eligible debt was limited to US$50 million. It has now been raised to US$150 million, and the coverage is widened to include agriculture and other social projects. About 10 transactions totalling US$26 million have been completed. Ecuador is currently renegotiating the terms of its commercial debt and seeking to extend the program.

Also, in August 1990 Harvard University and a local educational foundation announced a debt swap that will convert a part of Ecuador's US$11 billion debt into an educational fund for Ecuadoran students. Harvard buys US$5 million of Ecuadoran debt on the secondary market at 15% of face value, spending US$750,000. The local foundation receives the debt as a donation and converts it to local currency bonds at the central bank, receiving 50% of face value or US$2.5 million. The bonds can be sold on the local market at a discount of 15%, and income from the sale will be used to buy dollar denominated

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10 These are summarized from Section II of "Recent Developments in Debt Conversion Programs and Conversion Activities" September 1991, by W. Sung and R. Troia

securities that will form the capital base of the scholarship fund. The interest from the endowment covers about five scholarships a year to Harvard, and the local currency is used for research, internship and other activities domestically.

The government of Venezuela has approved a special debt for education program for US$100 million of face value debt in early 1991, under which US institutions should develop a written collaborative agreement with Fundacion Gran Mariscal de Ayacucho, an educational foundation in Venezuela, covering the utilization of the conversion proceeds. The redeemer of the debt acquired on the secondary market would receive 100% of the face value in bolivars. Under this program the NGO can maintain the proceeds in bolivars or reconvert up to 80% into dollars to establish a foreign currency trust fund. The unconverted proceeds would be maintained in an investment fund in Venezuela. The Ayacucho Foundation will administer the two trusts, and will select Venezuelan scholarship recipients.

From the official creditor's side, US government initiatives are the most prominent. Under the Enterprise for the Americas Initiative (EAI) announced in June 1990, the US introduced a new debt reduction program which emphasizes swaps of qualified US bilateral claims on a set of western hemisphere countries to promote foreign investment, environment conservation, and other developmental projects. The program's first debt write-down and debt for environment swap was approved by the U.S Treasury in June 1991. Under the arrangement, Chile's PL 480 "Food for Peace" debt will be reduced by 40% from US$39 million to US$23 million. The interest payments on the remaining principal will be paid in local currency to a local fund responsible for implementing selected environmental projects. An important precondition for partial debt forgiveness is the Interamerican Development Bank's final approval for an investment sector reform loan to Chile. Following the Chilean precedent, the second and third deals were signed with Bolivia and Jamaica to reduce their food for peace debts by 80% in August 1991. The former will reduce the food assistance debt from US$38 million to US$7.7 million and the latter from US$271 million to US$54 million. Chile could also be eligible for similar write-down and swap arrangements on its US$304 million AID debt once the US congress passes the relevant legislation. Bolivia, Jamaica, Colombia and Uruguay are the next likely candidates for IDB investment loans, and thereby may be eligible for bilateral debt reduction under EAI.

Under the SEED Law (Support for East European Democracy Act of November 1989), the US President may undertake the discounted sale of US government claims on a subset of East European governments to private purchasers if the debtor has taken substantial steps towards democracy and political pluralism. To authorize such a sale of debt, the new holder must undertake to exchange the claims for local currency, policy commitments, other complementary assets needed for development, or equity in a privatized firm. To date, this has not been implemented, but it is expected to facilitate future US investment in this part of the world.

The US has already executed an agreement with the Government of Poland under the Paris Club framework--Poland wishes to take up the voluntary swap provision to institute a debt for environment conversion. Under the proposal, the Government would allocate additional financial resources in local currency, equivalent to debt service payments on up to 10 percent of Poland's debt to the US in order to fund investments specifically aimed at alleviating Poland's contribution to global environmental problems.

Some European creditor governments have also engaged in conversion of official debts (e.g German-Polish debt conversion to set up a cultural exchange foundation and a forum for contacts between tradesmen of the two countries). The arrangements appear to be on an ad-hoc basis involving modest amounts. However, more creditors are likely to consider swap options in one form or another for selected developing countries.

IV. Illustration of a Hypothetical Debt for Development Idea

Example 1: *Water supply sector*

Background: Suppose that a particular government is following a strategy to increase nationwide service coverage / access to safe drinking water. In addition to increasing the number of users of the system, the government also wants to improve the quality of service to existing and new customers. Because of general budgetary constraints, the government has decided to focus on strengthening the financial position of water companies nationwide, mainly through improved cost recovery. This involves a reassessment of the pricing structure, including the introduction of peak load pricing in an attempt to delay investments in capacity expansion in the near future. Operations and maintenance of existing capacity will be emphasized to reduce leakage and contamination, together with the introduction of new monitoring practices regarding metering and billing to improve cost recovery. The government estimates that because of previous investment decisions based on over-optimistic projections of growth, it may now be able to delay major capacity increases (costing say US$10 million) for ten years.

Issue: As part of the sectoral strategy, the government wants to set annual performance goals and criteria (including cost recovery targets) by which water companies will be evaluated, in return for increasing managerial autonomy and accountability. A key pre-condition for a successful outcome is to be able to reduce the associated uncertainty: specifically, to assure the water companies of regular local currency funding availability (at least the government's share of it) for all the agreed-on O&M expenditures, and the planned capital investment in year ten in foreign exchange[11].

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11 Of course this raises a major potential conflict between macroeconomic and sectoral objectives. Circumstances may change so that in year 5, for example, it is no longer appropriate for the government to make its prearranged contribution to the water trust fund. In this case it is understood that the government would revisit the issue with the donor and other lenders, and would retain the flexibility required to manage its overall macroeconomy ahead of individual sectoral priorities. If this is understood by all in advance, this need not prevent such agreements from being concluded today, ceteris paribus.

How could debt for development conversions enter this picture? One way could be as follows:

The government makes the following proposal to a receptive bilateral creditor:

"This is our strategy for the water supply sector in the next ten years, which is supported by several multilateral financial institutions... . Under this strategy, we are committed to provide X amount of counterpart funds in local currency. Would you like to support us by assisting in the provision of the counterpart funds?

Proposal: "Specifically, we propose a debt conversion of US$20 million of our bilateral obligations to you. In particular, we request an upfront write-off of 50%, or US$10 million. For the remaining US$10 million, we would like to do the following:

(i) cancel the existing repayment schedule, under which we had committed to repaying equal installments of remaining principal over the next five years. Instead, we will pay the entire US$10 million in a single installment in year 15;

(ii) we will make annual interest payments at y% on the full US$10 million into a designated water supply trust fund in local currency. These amounts will be used to fund the O&M needs of our nationwide network of water companies. The water supply trust fund will also have title to the US$10 million payment in year 15. Thus the US$10 million is effectively converted into a dual currency bond, with the principal preserved in foreign exchange and the interest payments (indexed) in local currency;

(iii) our foreign exchange outflows to you will be reduced by the full amount of original interest and principal payments associated with US$20 million in face value of debt;

(iv) we will guarantee our ability to make the US$10 million payment in year 15 by purchasing a financial instrument today that will mature to a value of US$10 million by that date, and pledging it to the water supply trust fund; and

(v) the US$10 million to be paid into the trust fund in year 15 will be utilized to further support our future sectoral strategy. We are not a priori advocating an earmarking of the US$10 million for our future outlays for capital investments in the sector. In fact, we expect that these will take place in year 10, while these particular funds will not be available before year 15. However, we would like to utilize these funds as additional resources for future sectoral priorities to the extent possible."

Reaction to Proposal: It is not necessary for all elements of the initial proposal to be accepted by the creditor--the arrangement could still work even if there were no debt reduction granted. The counterproposal from the creditor could be to maintain claims on the full US$20 million, i.e not to grant the 50% writeoff requested. Furthermore, the creditor could also refuse to give up claims on the principal of US$20 million, but still support the sector by foregoing only interest payments, and agreeing to an interest retiming, i.e annual rather than semiannual. This method would offer debt relief, without debt reduction to the government. To continue the hypothetical example, the following could be one possible outcome:

> A trust fund for the water sector is designated or set up by the debtor government. The creditor gives this trust fund some form of "custody" for a ten year period over the US$20 million which is owed to the creditor by the government. The trust fund then "lends" this amount to the government in local currency, at a y% interest rate to be adjusted for inflation at regular intervals. The principal is to be repaid by the government to the trust fund in a single installment in year ten, in foreign exchange. The trust fund then repays the foreign creditor immediately. What benefits does this seemingly roundabout approach result in?

The government benefits from:

(i) a de facto restructuring of its obligation as follows: annual foreign exchange outflows on installments related to the US$20 million amount over the next ten years are eliminated;

(ii) since it now has a single obligation in year 10, it can buy a zero-coupon security today for US$8.44 million[12], which will grow to the required US$20 million in the form of a bullet maturity in year ten. The entire US$20 million foreign exchange obligation can thus be defeased by a one time investment of around US$8 million; and

(iii) the foreign currency interest expenditures are also saved, and made instead in local currency to a designated beneficiary, the water trust fund. When the arrangement ends in year ten, the zero coupon matures, and is passed back to the creditor through the water trust fund.

The water trust fund is assured of a stream of local currency income, preserved in real terms, for a ten year period. This enables it to set medium to long term sector policies and targets.

The creditor has granted debt relief and supported a sector considered to be important for development. This form of (local currency) support is perfectly consistent with possible additional direct foreign exchange cofinancing by the same creditor.

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12 The yield on a ten year US Treasury bond is assumed to be 9% for this calculation. If it is 9.5% then the cost of the zero coupon falls to US$8.07 million.

Example 2: *Public Enterprise Reform*

A one-shot expenditure where IFI loan proceeds cannot be used--e.g. setting up a fund for severance pay to employees of public sector enterprises to be shut down.

The government, together with IFIs, decides on a phased calendar for closure of a series of PEs which cannot be privatized. According to existing labor laws etc, there is a reasonably well-defined estimate of one-time severance payments accompanying each closure that must be made to bring this about. The government approaches a subgroup of its major bilateral creditors seeking partial support for this "restructuring expense" from each. The severance payments will be in local currency stretched over a period to coincide with the timetable for enterprise closings. Redirected debt service in local currency would be channeled as in the previous example to the managing entity or trust fund, to be disbursed to the designated beneficiaries. These could be the individual enterprises, or a central body. The severance pay package to laid-off employees could be complemented with (privately contracted) technical assistance and advice on how to start a small enterprise, how to leverage the lump-sum severance payment etc.

Example 3: *To Support Financial Sector Development*

A conversion of bilateral claims to local currency in order to capitalize a guarantee fund for loans to small enterprises, or to assist privatization of state-owned small businesses.

The domestic commercial banking infrastructure of a debtor country may not be in a position to provide loans to potential entrepreneurs wishing to buy small businesses being sold by the state. There may be insufficient credit history on the applicants, and insufficient institutional capacity in the financial sector, which moreover may be burdened by massive inherited bad loans. In spite of this there is often urgency to proceed with privatization, especially of small establishments, even under such circumstances. While the financial sector is gradually being overhauled, a guarantee scheme of the following kind may be imagined:

A trust fund is set up, to which a subset of bilateral creditors donate say US$100 million of debt. There are many ways in which the trust fund could use its interest earnings on the donated claims to provide guarantees to commercial banks for say 50-60% of the local currency loan size to a small businessman. The commercial banks may agree to bear 40% but not 100% of the risk on a loan to an unknown potential entrepreneur, and are likely to welcome this arrangement. Incidentally, this will provide a welcome boost to the banks' business, especially if domestic real interest rates have shot up recently and lending volumes have dropped sharply.

The trust fund could even ask banks to compete for this business eventually, by gradually reducing its level of guarantee as more experience is accumulated, thereby forcing banks to improve the quality of their credit appraisals as they take on more risk. The borrower would have to pay an upfront fee for the guarantee (initially mainly to eliminate non-serious borrowers).

These three examples have been presented to illustrate the almost infinite variety of arrangements that could potentially be concluded with bilateral support, if credible proposals are prepared, and the macroeconomic and inflationary effects estimated to the extent possible in advance. The arrangements should be reasonably stable, but allow for necessary flexibility in consultation with the relevant parties, to adjust to unforeseen circumstances.

V. Key Steps in a Debt for Development Project[13]

A. Obtaining Necessary Approvals

The project must secure the approval of at least three key parties in the debtor country: the government, the central bank and an appropriate local non-governmental organization[14] that will receive the funds and manage and execute the project on behalf of the supervising ministry. The latter is the most important party, whose strength will assure the responsible use of debt conversion funds. Once there is agreement in principle, the project sponsor (who could also be a foreign NGO in partnership with local authorities) must negotiate:

(i) the "exchange rate" to be applied in converting debt service to local currency, (i.e whether the debtor will take responsibility in local currency for 100% of the debt or only a fraction of it);

(ii) the conditions of payment (i.e upfront cash, or installments over how many years, or a local currency bond etc), and

(iii) aspects of the program which will directly utilize the proceeds.

B. Determining and Locating Eligible Debt

The debt instrument must be obtained--If the country is already eligible to convert Paris Club debt, this would be the best way to initiate a debt for development program,

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13 This section is partly based on K. Moltke, Debt for Nature: An Overview, p.1

14 As mentioned earlier, the entity is referred to as an NGO purely for convenience.

since the debt would not have to be purchased in the secondary market. Instead, following bilateral negotiations, the creditor would simply transfer title to a designated entity.

If the debt to be converted is anything other than bilateral government to government, the involvement of a third party (e.g foreign NGO) is essential, since debtors are restricted by legal clauses from acquiring their own commercial obligations in the secondary market. The market price of the debt is viewed as a reflection of the market's expectations that the claim will be serviced; it may also be regarded as the net present value of expected future debt service on that particular obligation. Clearly, the lower the price paid by the project sponsor to acquire a commercial claim, the greater the leveraging potential. However, the market price is also a clear indication of the risks involved.
For countries wishing to initiate debt for development with commercial debt, because they are currently ineligible to pursue official debt conversions, the following should be considered:

(i) does the proposed project, through its foreign NGO sponsor/partner, tap new sources of funds (e.g to carry out the purchase of commercial claims), or is it potentially in conflict with other fund raising strategies? what is the opportunity cost of choosing debt conversions?

(ii) can creditor banks be persuaded to donate the debt outright, which clearly represents a new source of funds inaccessible without the project?

(iii) are donations of cash available from other sources, (such as development organizations from the country of the creditor bank) for the purpose of purchasing the debt on the market?

(iv) what are the tax implications for all concerned?

C. Transfer of Claims

The transfer of title to the debt may be a complex legal transaction, but possibly less so in the context of a bilateral agreement if the end-recipient of the local currency stream is well defined. In the case of commercial debt, the identity of the purchaser is an important decision. The foreign NGO partner could could acquire the debt and then donate it to its debtor country-partner organization. In other instances it may be appropriate to donate the necessary resources to permit a direct acquisition by the implementing NGO. Otherwise, the debt may be donated directly to the implementing NGO, acting as an agent for its partner the foreign NGO.[15]

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15 Recent experience with debt for nature projects supported by commercial claims has shown that well-established international conservation organizations may sometimes benefit from access to free top quality legal advice in structuring such agreements.

D. Conversion and Method of Local Currency Payout

Conversion of the debt in accordance with the negotiated agreement reached between the debtor government and the project sponsor deserves maximum attention. This can involve:

(i) local currency bonds (indexed interest payments?),

(ii) measures to protect certain sensitive areas, such as purchase of land, passage of legislation, relevant policy changes or other means;

(iii) the cash payment in local currency to redeem the debt, or

(iv) any combination of these.

Considerations determining the redemption price to be paid by the debtor government are quite different for commercial (debt for equity) versus development projects. In the former, the debtor government would be justified in allowing market forces (competition among interested investors) to bring down the local currency to be paid by it in exchange for retiring hard currency obligations.[16]

However, in the case of debt for development projects attempts should be made by project sponsors to secure as much of the remaining face value in local currency as possible. (The government will of course try to bargain for an upfront cancellation of a part of the outstanding amount in the context of the deal). From the project sponsors' viewpoint, their project is providing a vehicle for the debtor government to obtain debt relief. Furthermore, it is on the government's priority list, and supposedly approved but short of funds. In that case the sponsors should try to ensure that maximum gains from the cancelled hard currency debt service go to the project. The government's incentive to participate lies in the fact that the cash flow requirements of the project can be less of a burden than the original debt service payments. In particular, the timing of payments to the project can be structured such that in net present value terms they constitute a large debt reduction. These issues will need to be explicitly addressed during the negotiations between the project sponsors and the government.

It may be in the interest of both parties to structure a local currency bond with a longer maturity (e.g 15 years) than the retired debt (e.g 6 years). In addition, instead of an amortization schedule, the interest payments could be kept uniform (and adjusted to remain constant in real terms also) with a single, bullet repayment of principal at the end of the life of the bond.

The face value of the bond could be the full amount of principal given up by the original creditor. Even so, extended local currency repayment terms, as in the above example would imply substantial relief for the debtor government. At the same time, as

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16 In practice, this could be done through an auction, or by means of a "conversion fee" to be paid to the government, or by decree, redeeming the debt at an announced discount relative to face value.

long as the project sponsor was assured of a 15 year local currency funding stream that would be adjusted for inflation, this would probably be preferable to a 6 year stream based on the initial terms of the retired debt. The effect of such bonds on the domestic capital markets would have to be taken into account. In the Costa Rican case, bonds issued by the government to fund environmental projects could not be sold, so the interest payments were immediately available only for their intended purpose. When more cash was needed, however, the bonds could be used as "collateral" for loans.

Experience has shown that redemption of the debt with an upfront local currency payment by the central bank should be avoided because of the expansionary effect on the money supply. Also, the debtor government may not have been paying the full debt service on the face value in any case, and would therefore not save anything by a lump-sum disbursement of local currency.

If the debtor was not servicing the debt at all prior to its conversion, the cash disbursement to a local project is more inflationary than otherwise, since there are no cash flow savings, but instead a net cash outflow following the deal. (This would be the case even if there was a substantial debt writeoff plus conversion of a small amount of remaining debt). Whether or not a government should agree to conversion proposals in the context of otherwise zero debt service, is more fundamentally related to the government's longer term view of whether and how (at what price) it eventually intends to settle the outstanding claims.

It is advisable to begin a conversion program in the zero debt service case only with bilateral claims, for which there is normally no market. If commercial claims were used, this would revive an otherwise "dead" trading situation, and the value of the outstanding debt stock would be bound to increase. This would be undesirable, since it would be purely speculative and not in response to an increase in the debtor's ability to pay (at least in the near term).

E. Project Implementation

Finally, the execution of the agreed-on development program should not be overlooked in planning the preceding stages of the debt conversion. This part must be well planned, especially the role of the private NGO designated as the executing agency and manager of the pilot project. (If there is a shortage of sectoral experience and familiarity with the bureaucracy, the staff of this agency could be supplemented with some authorities from the relevant Ministry who are seconded to the project).

The NGO must have clear monitorable objectives, and should report on its progress to a designated trustee. Given the importance of such a pilot project in setting the tone for future debt conversions, the NGO should be in a position to receive sufficient backup and attention through the relevant Ministry as well as the National Debt Management authorities, in case of difficulties. It will be helpful if all relevant parties feel some degree of ownership of the project, and keep in mind that the pilot project was set up explicitly to serve as a lightning rod to raise problems which require creative, homegrown solutions.

If the project is able to attract some modest additional grant funding on top of the local currency contributions from the debtor government, the task of ensuring institutional cooperation will be greatly facilitated. It is safe to say that a small grant to alleviate some of the day to day bottlenecks for each of the parties concerned in an institutional dispute, will go a long way towards ensuring better communications and cooperation, as well as the feeling of having a stake in the project. If bilateral creditors are involved, and the project appeals to more than one creditor, it is likely that a small amount of additional grant funds can be raised from somewhere. The strategic importance of this cannot be overstated, and will be greatly appreciated in case communications difficulties start to slow down project execution.

VI. Institutional Strengthening

The main challenge in implementing successful debt conversion deals often lies in overcoming institutional weaknesses. A number of groups are typically involved, and each group's interests and potential problems must be assessed. It is precisely the differences in interests which permit a wide range of solutions. The premise of this paper is that debt conversion projects initiated by debtors, in addition to the financial benefits, also offer a valuable avenue for institutional strengthening and synergy.

Large, unanticipated resource inflows can easily create difficult relationships in traditionally underfunded activities. Lower than required absorptive capacity and weak institutional performance on the part of the proposed recipient is sometimes a major constraint in the implementation of such conversions.[17] Another factor is insufficient information within the debtor's overall decisionmaking machinery. This often prevents the debtor from being in a position to bring a suitable project to the creditor's attention, or even if this is done, the creditor has little confidence that the debtor will be able to fulfil project related obligations.[18]

Even in cases where creditors could be potentially interested in debt for development conversions, they are rarely concluded in the form of a project because the contacts of a domestic sponsor for social sector projects are unlikely to include those who would need to approve debt related operations. This may be remedied to some extent if the government itself pro-actively pursues a pilot debt for development project. Unless the institutional constraint is tackled head on, preferably by entering into a small pilot debt conversion operation as a "lightning rod" to raise issues and find solutions, the debtor is probably passing up an opportunity to gain several advantages simultaneously.

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17 If a country has no prior experience with debt conversions for development, and it does not have the time to experiment with small projects to build a track record, it may wish to include debt conversions as one element of cofinancing in an already identified project.

18 Another important constraint is liquidity of course, and the debtor's ability to meet debt service obligations even in local currency.

In situations where there are perceived to be skill bottlenecks in the public sector (e.g in administrative/managerial capacity), debt conversion projects may be a useful, less-controversial vehicle for bringing in domestic managerial talent from local non-governmental organizations. An experimental pilot project in a social sector could, at the request of its sponsors, be structured so as to designate a non-traditional entity as responsible for implementation, e.g on contract to the relevant ministry. There are no set rules, other than that the project must pass the test of being judged "deliverable" by its proposed financial backers.

Parties with an ownership stake in the debt conversion project are likely to perceive the benefits of cooperating in order to gain access to the windfall resources (not loan proceeds) attached to it. This windfall (to the sector but not necessarily to the government budget as a whole) consists of extra local currency inflows and possibly in future, small additional hard currency grants from "bandwagon effect" cofinanciers.

A. Trust Funds as a Possible Component of "Institutional Infrastructure" to Carry Out a Pilot Debt Conversion[19]

A trust fund is money transferred or set aside for the benefit of another party and held by a trustee. Essential elements are the designated beneficiaries, one or more trustees and an identified fund. A trustee has legal title over the fund and a fiduciary responsibility to the beneficiaries to follow the terms and comply with the applicable laws. Trustees generally represent the various interested parties among the beneficiaries and the funding sources--the precise role and accountability of these trustees would vary according to the location and the purposes of the particular trust.

National environmental trust funds have been established in several countries in connection with debt for nature swaps. Important benefits could be derived from the use of trust funds for the management of concessions made by foreign creditors and/or special purpose grant funding:

- -- leveraging available funds for financing recurrent local costs;
- -- expanding the absorptive capacities of implementing organizations;
- -- building credibility with donors and establishing a case for receiving additional or continued support;
- -- facilitating transnational or experimental projects by presenting a convenient mechanism for "burden sharing" in terms of costs;

[19] The notes on Trust Funds are partly based on the Draft paper titled "Trust Funds and Endowments as a Biodiversity Conservation Tool" dated 2.28.91, author not named

-- providing a convenient forum for the representation of diverse interests without creating a complicated bureaucratic framework.

B. The Direct Approach--Debt Conversion as Part of a Large Package

It is advisable to begin with a modest foreign exchange value debt conversion, relative to the assumed institutional capacity existing in the country. This is especially true at the "lightning rod" stage, where the debtor is experimenting with a view to raising and solving internal institutional issues and establishing credibility. The project itself could of course be sizeable, with a number of components and a range of funding sources (of which the debt conversion would be one).[20] The main message is to begin explicit consideration of the role of debt conversions in the above-mentioned sectors without delay.

At the same time, the relevant ministries and other groups (e.g project beneficiaries) would be strengthened in the effort to coordinate the various funding sources and implement such a project. Designated participants would have a first hand opportunity to exercise accountability in project management on a small scale. A small but successful pilot could open the door to progressively larger and more advantageous conversions in the same sector.

International counterpart NGOs may be approached directly with proposals from the sector policy making level to determine if there is interest in funding specific development project ideas either through debt conversions or special purpose grants. The debt managers (usually Ministry of Finance or Central Bank staff) can become involved at any stage, preferably up front, to assess the local currency contribution and implications for debt retirement and inflation.

The process of "marketing" projects inside and outside the government to raise funding which would otherwise not be accessible to the country, and gaining insights into potential donors' reactions through informal consultations, will be a valuable experience for domestic project sponsors. If a sufficient number of bilateral and international NGOs become involved, the project will have independent access to a vast network of additional backup (expertise, international experience, resources) if needed. Institutional issues for handling the local cost funding as well as the oversight of the project will have to be clarified internally, e.g setting up a trust fund etc. Once the financing plan is implemented, designated project managers must be ready to take over and keep external donors informed of progress at regular intervals.

As one observer has succinctly stated, "it will require the [creation] of an international community of persons in [development] organizations, banks and government, knowledgeable about the issues involved, and sufficiently confident of mutual

20 However, it may be argued that this will not sufficiently demonstrate the specific contribution of those managing the debt conversion in order to establish credibility. On the other hand, if all projects in the country are mega-sized, or if the country is unable to interest creditors in small pilot environmental or social sector projects, this may be the only way.

relationships to be able to transact many details at a distance...Perhaps the long-term lesson from debt/nature will be that conservation organizations and banks need to work together more closely to ensure that the financial creativity of the banking community and the expertise of the conservation community can combine to contribute to more sustainable economies in the Third World."

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