

“External debt is one of the most important problems disrupting the process of development in Kyrgyzstan. The implementation of debt swaps for sustainable development mechanisms would open new opportunities for solving the problems in the sphere of ecology and other vitally important issues. The debt swap mechanism is not new and a number of developing countries already successfully working on and implementing practical agreements with countries-creditors that promote poverty reduction and decreasing loan dependence of countries-debtors and also increasing foreign investments in their economies”.

Jerzy Skuratowich
Resident Representative, UNDP-Kyrgyzstan

"...The Government of the Kyrgyz Republic has recently been working hard and implementing some options related to servicing its external debt on a forecast and sustainable basis. As a result, agreements with the Paris Club creditors have been achieved (03.07.2002 and 03.11.2005) that significantly relieve the debt burden in the mid- and long-term perspective at the expense of bilateral debt restructuring, and, also, contribute to Kyrgyzstan's sustainable development through debt for aid, debt for nature, debt for equity swaps, etc. This option is stipulated by Clause 4 Article 2 of the Paris Club protocol, which runs that creditors can convert the debt of the Kyrgyz Republic on a voluntary and bilateral basis. To fully implement this initiative the Government of the Kyrgyz Republic should carry out a lot of work during the forthcoming bilateral negotiations."

Daniyar Usenov
Interim Vice Prime Minister of the Kyrgyz Republic

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
CDF	Comprehensive Development Frameworks
CPAP	Country Programme Action Plan
DNP	National Planning Department
EAI	American Initiatives Organization
ED	External Debt
EDS	External Debt Swap
EFs	Environmental Funds
FAN	National Environmental Fund of Ecuador
FAP	Protected Areas Fund
FHE	Environmental Fund of Haiti
FID	Fund for International Development
FPAA	Columbian Environmental Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
HIPC	Heavily Indebted Poor Countries
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
INRENA	National Institute of Nature Resources
KR	Kyrgyz Republic
LAC	Latin America and Caribbean
LDC	Least Developed Countries
MDG	Millennium Development Goals
ME&E	Ministry of Ecology and Emergencies
NBKR	National Bank of the Kyrgyz Republic
NDF	Nordic Development Fund
NEAP	National Environmental Action Plan
NGO	Non-Governmental Organization
NPF	Nature Protection Fund
NPRS	National Poverty Reduction Strategy

OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporter Countries
PAs	Protected Areas
PACT	Protected Areas Fund of Belize
PCM	Paris Club Members
PIP	Public Investment Program
PRGF	Poverty Reduction and Gross Facility
PROFONANPE	The National Parks and Protected Areas Fund of Peru
RAP	Environmental Networks of Peru
RedLAC	The Latin America and Caribbean Environmental Funds Network
SD	Sustainable Development
SDR	Special Drawing Rights
SINANPE	System of Protected Areas
UNDP	The United Nations Development Programme
UNICEF	The United Nations Children's Fund
USAID	The United States Agency for International Development
WB	The World Bank

Beneficiary	Broad definition for any person or entity (like a charity) who is to receive assets or profits from an estate, a trust, an insurance policy or any instrument in which there is distribution. There is also an “incidental beneficiary” or a “third party beneficiary” who gets a benefit although not specifically named, such as someone who will make a profit if a piece of property is distributed to another.
Deposition	The act of deposing or process of being deposed.
Inflation	Price inflation is a fall in the market value or purchasing power of money. This is equivalent to a rise in the general level of prices.
Capitalization of moratorium interests	Postponement of parts of interests payments.
Conversion of a debt	Swaps of a part of debt on aid, national currency and so on.
Comprehensive Development Frameworks	Kyrgyz Republic development strategy to 2010.
Confessional loans	Loans which have a Grant Element more than 35%.
ODA	Financial sources granted as Official Development Assistance.
Non-ODA	Financial resources issued on non-privileged terms, i.e. with a grant element of less than 25%.
On-lent loan	External loan which was transferred from government to a private enterprise as a credit.
The Paris Club	The Paris Club is an informal group of official creditors whose role is to find co-ordinated and sustainable solutions to the payment difficulties experienced by debtor nations. Paris Club creditors agree to rescheduling debts due to them.
Surplus	A condition in the market in which the quantity supplied is greater than the quantity demanded at the existing price. A surplus occasionally goes by the terms excess supply and buyers’ market. A shortage causes a decrease in the equilibrium price.
Synergy	1. The interaction of two or more agents or forces so that their combined effect is greater than the sum of their individual effects. 2. Cooperative interaction among groups, especially among the acquired subsidiaries or merged parts of a corporation, that creates an enhanced combined effect.
Transfer	The conveyance of right, title, or property, either real or personal, from one person to another, whether by sale, by gift, or otherwise.
Millennium Development Goals	UN Declaration for solving follow problems: peace, security, development, environment, human rights, and good governance.
Fundraising	The organized activity or an instance of soliciting money or pledges, as for charitable organizations or political campaigns.

INTRODUCTION



Mr. Jerzy Skuratowich, Resident Representative, UNDP-Kyrgyzstan, Mr. Zharas Takenov, International Senior Programme Officer, Environment Unit, UNDP-Kyrgyzstan. Signing of the Capacity Building and Environmental Governance Strengthening for Sustainable Development Project's document. (March 2005)

This publication is an attempt to present a review of the UNDP Capacity Building and Environmental Governance Strengthening for Sustainable Development project activity that is being implemented within the framework of the UNDP new country programme in the Kyrgyz Republic for 2005-2010.

Within this review the Kyrgyz Government's efforts have been summarized, which can be useful for other countries with transition economies, and considered as a financial tool for sustainable development of countries with limited resources. Numerous consultations and a top level dialogue, the search for synergy between

the initiatives of UNDP and other donors at national and global levels made it possible to activate this innovative mechanism and consider it as one of the priorities in achieving the Millennium Development Goals and CDF by 2010.

The UNDP work format as a trust organization, which has extensive experience in providing efficient support in poverty reduction and environmental protection that is part of the world knowledge network, makes it possible to use this tool for more effective partnership and options for additional funding. At the same time, we have been in line with the existing world and regional policy and strategies of key donors and international agencies that are involved in this area.

I. KYRGYZSTAN'S EXTERNAL DEBT AND ITS CONVERSION¹



Mr. Daniyar Usenov, the Interim Vice-Prime-Minister of the KR. Inception workshop of the UNDP Capacity Building and Environmental Governance Strengthening for Sustainable Development Project. (April 2005)

With the collapse of the Soviet Union the level of budget revenues in the Kyrgyz Republic has significantly declined due to the loss of transfers from the central budget, sharp deterioration of trading conditions and the lack of the authorities' potential to restructure the production sector. Reduced economic growth limited the opportunities of the state to avoid the growth of poverty and deterioration of human capital. Consequently, despite the stabilization efforts in the early 90s social indicators declined, the infrastructure deteriorated, and a significant external debt has been formed².

Due to the lack of experience and knowledge in the area of external debt management the Government started to attract commercial export loans, and issue government guarantees to economic entities without the required expert evaluation. Also, loans from international financial institutions were attracted to reduce social tension and finance current budget expenses and the Public Investment Programme.

These steps ensured some economic growth in 1996-1997 but the basis for economic growth was insufficient. During this period some factors misled the top authorities of the country:

- commissioning of the Kumtor gold mining project;
- inflation and exchange rate stabilization influenced by significant funds inflow from donors;
- some activity in the food industry, the produce of which replaced import's, and trade and services.

Increased onword-lending of external loan funds into the production sector and agriculture without taking into account market signals on a purely administrative basis could be considered a negative consequence of the overrated evaluation of Kyrgyzstan's solvency.

The weakness of the legislative framework as well as the lack of functional distribution among agencies in the process of getting loans and responsibility for wrong decisions, together with the lack of coordination among structural units of the agencies involved in the process of external debt management, led to the issuing of debt and guarantees to different ministries and agencies. The lack of an electronic database on external debt, including private non-guaranteed debt can also be considered as a negative factor.

The low payback rate of onword-lent funds limited the ability of the Kyrgyz Government to service its external debt.

The absence of a thoroughly developed national debt management strategy and a poor system of debt monitoring, which did not show the real situation with debt accumulation stood in the way of conducting timely budget and tax changes.

The affect of the Russian crisis of 1998 on the Kyrgyz Republic's solvency was shocking. The fast growth of the economy in the first half of 1998 was replaced by a decline and re-

¹ This chapter is a review made by experts of Ministry of Finance of the KR and the UNDP Capacity Building and Environmental Governance Strengthening for Sustainable Development project.

² The initial external debt was formed as a result of the inter-republican payment system collapse, which led to accumulation of a significant volume of overdue payments between enterprises, which eventually were converted into public debt.

sulted in lower budget revenues, and the devaluation of the national currency led to a sharp re-evaluation of the onword-lent debt by creditors and, as a consequence, to a non-payment crisis.

The slowing down of the economic growth rate (intensified by the decline of the real exchange rate) significantly affected the ability of the Kyrgyz Government to service its public debt. The period of accumulating overdue payments started with their further restructuring under non-concessional terms. These measures did not lead to ensuring debt sustainability and had a short-term effect.

This threatened the ability of Kyrgyzstan to service its external debt obligations; there were three options:

- 1) continue accumulating overdue debt;
- 2) achieve high economic growth that was unrealistic at that time;
- 3) restructure the debt.

In 1999 at the request of the Kyrgyz Government an urgent World Bank mission arrived in Bishkek to consider the issues of optimum external debt management. This mission assessed the existing status of external debt and suggested a first external debt management strategy that contained recommendations to restructure certain types of debt.

In addition to the negotiations on the Kyrgyz Government debt restructuring, some measures have been undertaken to strengthen capacity in the area of external debt management:

- technical assistance from the IMF;
- in order to straighten the process of public lending and strengthen the terms of reference and responsibility of government bodies that are in charge of public debt management, a new law, On public and non-public debt was developed and adopted in 2001. It covered some aspects of public debt management and, also, reflected the necessity and possibility of supervising non-public loans;
- the use of an automated system of registration and accounting for external public debt has been introduced;
- in 2001 a comprehensive external debt reduction strategy was adopted. It envisaged:
 - considerable budget and tax changes that would lead to a primary budget surplus (without PIP) of 3.5% of GDP in 2005;
 - the revision of PIP in order to reduce its volume from 6% of GDP in 2001 to 5.5% in 2002, and 3% in 2005;
 - the development of clear principles that will prioritize various options of capital investments on the basis of their probable influence on economic growth, export potential and poverty reduction;
 - privatization of large strategic state-owned enterprises (Kyrgyztelecom, Kyrgyzstan Aba Joldoru, Kyrgyzgaz and four distribution facilities of Kyrgyzenergo) by 2005 and depositing 75% of these funds on a special NBKR account to use these funds to reduce debt (starting from 2002 the funds generated as a result of privatization will also be transferred to this account);
 - in some cases interested creditors will be offered a debt for equity option (in addition to the privatization efforts mentioned above).
 - the attraction of new public and state guaranteed external loans will be executed with a minimum grant element of 45%.

The restructuring of some bilateral debts from 1991-2001 showed that the Kyrgyz Republic needed more substantial debt relief, i.e. there is a need to address the Paris Club.

In March 2002 the Paris Club made a decision to restructure the Kyrgyz bilateral indebtedness under the improved Houston terms:

- the subject of restructuring is bilateral official loan agreements signed prior to August 31 2001.

- the amount of consolidation (restructuring) includes: the principal amount and interest on it that was supposed to be covered from the budget during the period from December 6 2001 to December 5 2004 (the so-called consolidation period)
- the amount of consolidation will be repaid:
 - through concessional loans within ODA - with a 20-year maturity period, including a 10-year grace period with the interest rate not exceeding the previous one;
 - through non-concessional loans within non-ODA - with a 20-year maturity period, including a 5-year grace period with an acceptable market interest rate.
- on a voluntary and bilateral basis each creditor may accept such options as, debt for nature, debt for economic development, debt for equity or debt for local currency.
- capitalization of moratorium interest:
 - 50% - in 2002;
 - 60% - in 2003;
 - 70% - in 2004.
- a good will term, i.e. upon successful completion of the PRGF by December 2004 the Kyrgyz Republic will be offered a more concessional restructuring, namely, a significant reduction of service flows and accumulated debt on the whole³.

This restructuring made it possible for Kyrgyzstan to resolve its liquidity problem in the mid-term period, and debt sustainability will be ensured only upon the implementation of the Paris Club Protocol of March 10-11 2005. In compliance with this agreement it is envisaged:

- to reduce the accumulated debt under bilateral agreements signed prior to August 31 2001 as well as under the loans restructured by the Paris Club in 2002;
- 50 % of non-concessional loans (124.4 million USD) will be written off and the remaining 124.4 million USD will be repaid over 23 years with a 7-year grace period at an acceptable market interest rate;
- concessional loans (in the amount of 306,3 million USD) received under the ODA will be repaid over 40 years, including a 13-year grace period at an interest rate that will not exceed the interest rate stipulated by the original loan agreements;
- deferment of interest payments from 2005 to 2008, i.e. interest payments will be partially covered, and the remainder will be repaid over 23 years with a 7-year grace period. The amounts to be repaid are:
 - in 2005 – 15%;
 - in 2006 – 25 %;
 - in 2007 – 30 %;
 - in 2008 – 35 %;
- on a bilateral basis each creditor has the right either to sell or to exchange debt for nature, for aid, equity or local currency;
- all loans and credits including consolidated ones are within the ODA framework;
- all non-concessional loans in the amount of 20% utilized and non-repaid debt as of December 6 2001 or up to 5 million SDR.

DEBT CONVERSION

By the end of the 1990s the Kyrgyz Republic had already gained some unsuccessful experience in the area of debt swap transactions when it supplied some wheat and equipment to Uzbekistan and Russia to reduce debt. The possibility of debt for equity has been considered since the mid-90s, and negotiations with Russia on this issue took place.

Upon reaching agreement with the Paris Club of Creditors in 2002 as a result of bilateral negotiations, the Government of the Kyrgyz Republic tried to implement Clause 4 of Article II of the Paris Club Protocol and approached its creditors several times with a request to conduct debt swap operations. Consequently, on June 17 2002 within the framework of financial

³ For the first time in the Paris Club history “a good will term” commitment for accumulated debt has been accepted in the process of considering the country –debtor’s indebtedness during the first review.

cooperation, Germany signed a memorandum. Clause 4 of this Memorandum envisaged “debt conversion for additional measures ensuring development”. 50% of the consolidated amount (350 thousand Euro) is subject to debt conversion. Further negotiations in 2003 resulted in an agreement to transfer the above amount to treat tuberculosis.

Since it is planned to ensure debt sustainability of the Kyrgyz Republic in 2008, and the possibility of additional restructuring is highly unlikely to take place, debt swaps are considered as an additional option to relieve the debt burden, which is stipulated by the Paris Club Protocol. This is the reason why the Kyrgyz Government approached a number of international organizations with a request to provide technical assistance to promote the implementation of this option.

Some international organizations responded to this request. Within the framework of the project implemented under the Ministry of Ecology and Emergencies (ME&E) in 2004-2005 the **Organization for Economic Cooperation and Development (OECD)** assessed the public external debt, limitations on debt swaps by creditor and submitted recommendations on promoting debt for sustainable development swaps.



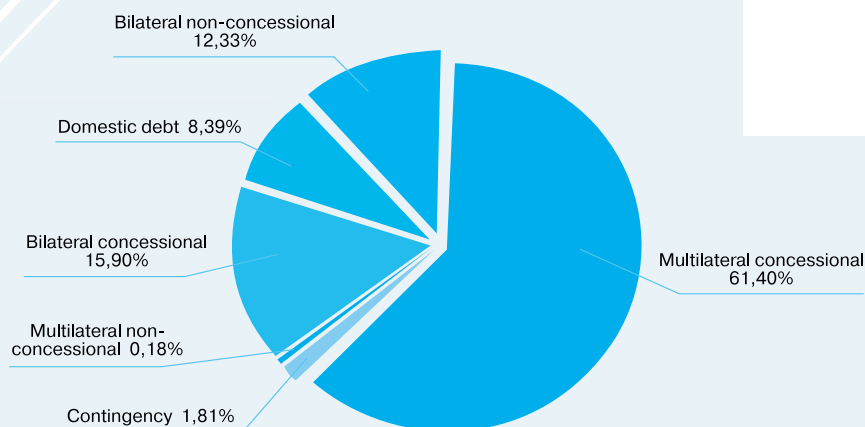
Ms. Nelly Petkova, Expert of the Organization for Economic Cooperation and Development, Mr Michal Wilczynski, Expert of the Centre for Social & Economic Researches. Inception workshop of the UNDP Capacity Building and Environmental Governance Strengthening for Sustainable Development Project. (April 2005)

This project resulted in the provision of assistance to the Kyrgyz Government on the issues of analysing the possibilities and problems related to full or partial external public debt conversion for internal financing of priority projects on environmental protection as well as in the development of a preliminary feasibility study, analysis of the most promising programmes that could be financed at the expense of potential debt and recommendations on institutional issues analysis in terms of Kyrgyzstan's external debt swap.

UNDP has a special role in the process of implementing this initiative in Kyrgyzstan. Within the framework of the new UN Country Programme for 2005-2010 a new Capacity Building and Environmental Governance Strengthening for Sustainable Development project was launched in March 2005. Its main goal is to provide assistance to the Kyrgyz Government represented by the ME&E, to improve the system of environmental management and sustainable development principles implementation. One of the components is to promote the development of new mechanisms to mobilize resources in the area of environmental protection and sustainable development. With this purpose in view national and international experts assess the external debt structure; conduct a macroeconomic analysis including all the initiatives of the country on debt conversion within the framework of the agreement between Kyrgyzstan, the Paris Club and IMF and a fiscal analysis of the country's potential to implement this initiative. Additional sources of financing, future schemes of planning and possible obstacles to implementing this initiative are worked out.

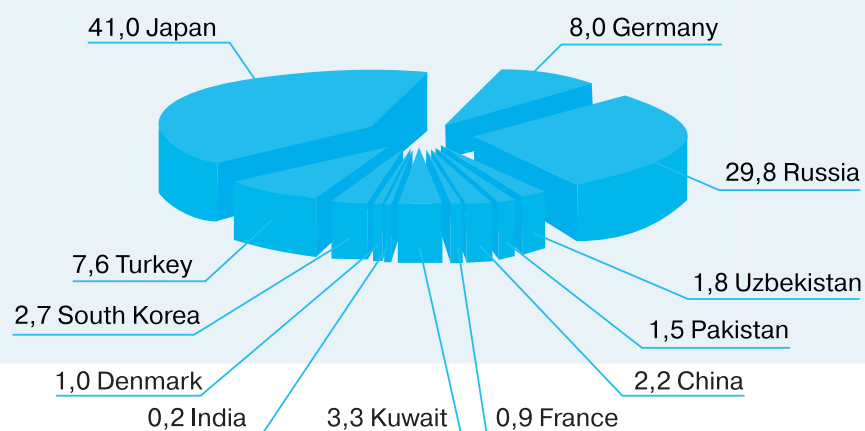
Appendix 1

The Kyrgyz Republic public debt structure as of 12.31.2004



Appendix 2

Bilateral creditors' share in the total amount of the bilateral debt as of the end of 2004 (%)



Appendix 3

Measures for the Kyrgyz Republic external debt swaps

Mechanisms of external debt swaps implementation:

- *Multifactor analysis of the current situation in the economy and debt*
- *Establishment of a multisectoral committee and development of concrete technical proposals on certain projects within established priorities*
- *Submission of these proposals to corresponding formal bodies of creditors for their consideration*
- *Conduct of negotiations and development of agreements.*
- *Introduction of amendments into normative and legislative acts of the Kyrgyz Republic (if necessary).*
- *Creation of an independent coordinating body to ensure transparency of projects implementation (if necessary).*

The main objective of this mission was to support the Government of the Kyrgyz Republic in its intention to use an External Debt Swap mechanism for funding sustainable development initiatives. The main activities of the mission were as follows:

1. To meet the main stakeholders;
2. Provide technical information regarding EDS as well as lessons learned and good practices derived from the use of EDS in Latin America and the Caribbean;
3. To obtain data on the Kyrgyz Republic's current external debt and payment schedule in order to develop a preliminary analysis of the external debt profile and identify potential EDS opportunities for the Government of the Kyrgyz Republic;
4. Clearly identify key areas of support, which UNDP could provide to improve the implementation of EDS initiatives in the Kyrgyz Republic;
5. To propose a Stage-by-Stage Follow-up Strategy for Implementing a EDS for Sustainable Development Initiative in the Kyrgyz Republic.



Ms. Leida Mercado, Environmental Economics Advisor, the UNDP in Latin America and the Caribbean

The strategy of the mission was to:

1. Hold a series of meetings with the staff of the Ministry of Ecology and Emergencies (ME&E) including the Minister and staff of different directorates; members of the International University of the Kyrgyz Republic including the Adviser to the President and Academician of the National Academy of Science, members of the Minister of Finance, and members of the National Centre of Mountain Regions Development; in order to have a clear understanding of the expectations the government of the Kyrgyz Republic had regarding the mission outputs, and to complete the information needed to develop a proposal on the next steps to be followed under a debt swap initiative in the Kyrgyz Republic, as well as with personnel of UNDP-Kyrgyzstan including the Resident Representative and programme officers.
2. Give a presentation during a round table with the participation of the Ministry of Ecology and Emergencies, Central Bank, UNDP, Kyrgyz Republic, National Centre of Mountain Regions Development and NGO's. The presentation concentrated on:
 - (i) technical aspects of the mechanism including the typical steps, generally followed in order to complete a Debt Swaps;
 - (ii) eligibility criteria;
 - (iii) successful conditions and constraints for completing a debt swap operation;
 - (iv) lessons learned in previous debt swap experiences in Latin America and the Caribbean (LAC).
3. Develop a preliminary analysis of external debt profile
4. Providing recommendations on a stage-by-stage follow-up strategy for implementing a ED for Sustainable Development Swap Initiative in the Kyrgyz Republic, including suggestions



Mr. Maksatbek Ishenbaev, Deputy Chairman of the National Bank of the KR, Mr. Bakir Djolchiev, Deputy Minister of Ecology and Emergencies of the KR. Provision of transparency under the KR debt conversion Round Table. (June 2005)

⁴ This chapter consists of results made within the mission of Dr. Leida Mercado who was invited by the UNDP-Kyrgyzstan

regarding design options (e.g., entities participating in the initiative, consultation procedures for determining proposals, and possible help in programming the administration of funds).

BACKGROUND



(left to right) Mr. Janysh Rustenbekov, the Interim Minister of Ecology & Emergencies of the KR, Mr. Zharas Takenov, International Senior Programme Officer, Environment Unit, UNDP-Kyrgyzstan, Mr. Daniyar Usenov, the Interim Vice-Prime-Minister of the KR, Ms. Mira Djangaracheva, the UNDP Capacity Building and Environmental Governance Strengthening for Sustainable Development Project Leading Expert. Provision of transparency under the KR debt conversion Round Table. (June 2005)

The Government of the Kyrgyz Republic is interested in the use of debt swaps as a mechanism that can provide financing to support poverty reduction and sustainable development initiatives. This interest has been expressed at different international forums, including the United Nations General Assembly; reflected in the Sustainable Development of Mountainous Regions Resolution 1998. In order to support the implementation of debt swaps the President established, by Presidential Decree, a special commission under his office with the mandate to support the development and implementation of ED for ecology swaps. This group comprises the Deputy Ministers of Finance and Ecology, the

Adviser to the President and Academician of the National Academy of Science and NGO representatives.

Within the initiatives sponsored by this committee, in November 2004 a workshop on debt swap took place in Bishkek. This workshop is part of a group of activities to be developed by collaboration between OECD and the Ministries of Finance and Ecology and Emergency Situation. Additional activities include:

- Analysis of debt profile including analysis of debt sustainability and repayment schedule;
- Analysis of fiscal capacity of the Kyrgyz Republic to service a DS scheme; analysis of institutional options for governance management of expenditure program, legal and regulatory issues, and of strategies of institutional options for bilateral negotiations;
- Analysis of three possible projects that could be co-financed through debt swap for environmental services;
- Organization and development of two workshops.

The results of this initiative are expected to be available between March and June 2005.

Taking this into account, this mission will provide additional information based on lessons learned and good practices mainly developed in debt swap initiatives in Latin America and the Caribbean and Indonesia.

BACKGROUND FOR UNDP ASSISTANCE IN DEBT SWAP INITIATIVES

In recent decades, increasing debt has undermined development efforts in many of the world's poorest countries. Government revenue is diverted from essential investments in areas such as health and education to repay foreign creditors. Excessive debt levels have deterred investors. Within this context debt swaps can be considered, as an innovative tool for resource mobilization and also for alleviating the debt burden of developing countries. UNDP is promoting and technically supporting the use of debt swaps as a follow up activity derived from the UNDP-led Financing for Development Conference in Monterrey (2002) and WSSD in Johannesburg (2002). Emphasis is also placed on DS as a mechanism for financing sustainable development and contributing to the efforts to attain **the Millennium Development Goals (MDG), especially MDG 1 (poverty reduction), MDG 2 (Achieve universal primary education), MDG 3 (Promote gender equality and empower women), MDG**

4, 5 and 6 (Reduce child mortality, improve maternal health, and combat HIV/AIDS, malaria and other diseases), and MDG 7 (Ensure environmental sustainability)

EXTERNAL DEBT SITUATION IN THE KYRGYZ REPUBLIC - THE KYRGYZ REPUBLIC AND THE PARIS CLUB⁵

In March 2002, Paris Club creditors and the Government of the Kyrgyz Republic agreed to a restructuring of Kyrgyzstan's external debt. This agreement follows the International Monetary Fund (IMF) approval of the Kyrgyz Republic's arrangements under the Poverty Reduction and Growth Facility agreed in December 2001. The Paris agreement was expected to reduce debt servicing due to Paris Club creditors from US\$ 101 million to US\$ 5.6 million (which consist mainly of payment of interest on the rescheduled amounts) during the period 2002-2004.

The Paris agreement also includes a debt swap clause opening up opportunities to develop debt for the environment, aid, or for equity swaps operations, on a voluntary and bilateral basis⁶.

Table 1. The Kyrgyz Republic Debt Treatment under Paris Club Agreement

	\$ 102 million
Sums involved	Three Phases: (i) from December 2001 up to December 05, (ii) from December 06, 2002 up to December 05, (iii) December 06, 2003 up to December 05.
Repayment profile	Under Houston Terms: - repayment of non ODA credits over 20 years, with 5 years grace - repayment of ODA credits over 20 years with 10 years grace
Specific provisions	Possibility to conduct debt swaps (debt for environment, aid, and equity swaps) on a bilateral and voluntary basis. Good will clause

CURRENT DEBT IN THE KYRGYZ REPUBLIC

Between 1993 and 2004, total external debt in the Kyrgyz Republic increased from US \$ 145.9 million to US \$1.888.3, which represented an increase in the order of 1,294% (Figures 1 and 2). As of December 2004 public debt of the Kyrgyz Republic was equal to US \$ 2.23 billion, a near 8.6% share of domestic debt.

External debt has reached US\$ 1,888 million which consists of multilateral and bilateral obligations borrowed from government or official institutions under sovereign guarantees. Of the total external debt, 66.6% is multilateral debts owed to the World Bank (WB), Asian Development Bank (ADB), International Monetary Fund (IMF), Islamic Development Bank, the Organization of Petroleum Exporting Countries (OPEC), Fund for International Development (FID) International Fund for Agricultural Development (IFAD) and the Nordic Development Fund. Bilateral debt at near 31% is structured as concessional 17% and non concessional 14%. Bilateral concessional is owed to France, Germany, Japan (Paris Club countries), and China, Korea and Kuwait (non-Paris Club countries). Bilateral non-concessional is owed to Denmark Germany and the Russian Federation (Paris Club countries) and to non-Paris Club countries including India, Kazakhstan, Pakistan, Turkmenistan, Russia, Turkey and Uzbekistan. 2% of the debt has conditional liabilities. Multilateral debt represents the highest percentage of the Kyrgyz Republic external debt (near 67%) while bilateral represents 31% with only 17% being concessional (Figure 3).

⁵ Paris Club. 2004. www.clubparis.org

⁶ Debt 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 debt service reduction option (DSR) for non-ODA credits.

Figure 1. Evolution of Total External Debt 1993-2004 (Million US\$)

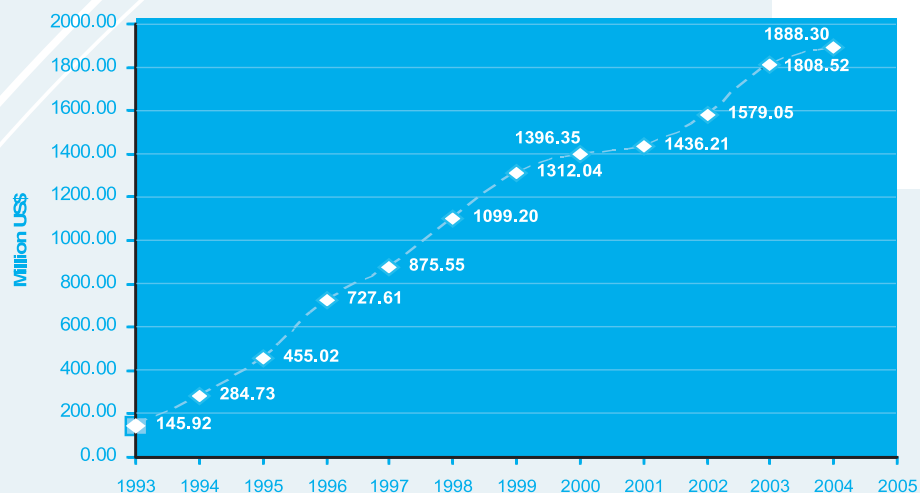


Figure 2. Structure of External Debt in Kyrgyzstan 1993 - 2005 (Million US\$)

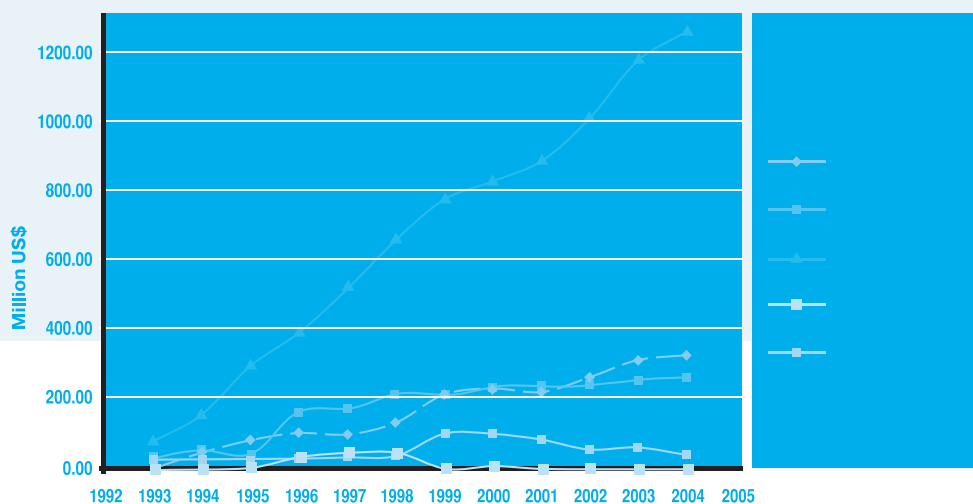
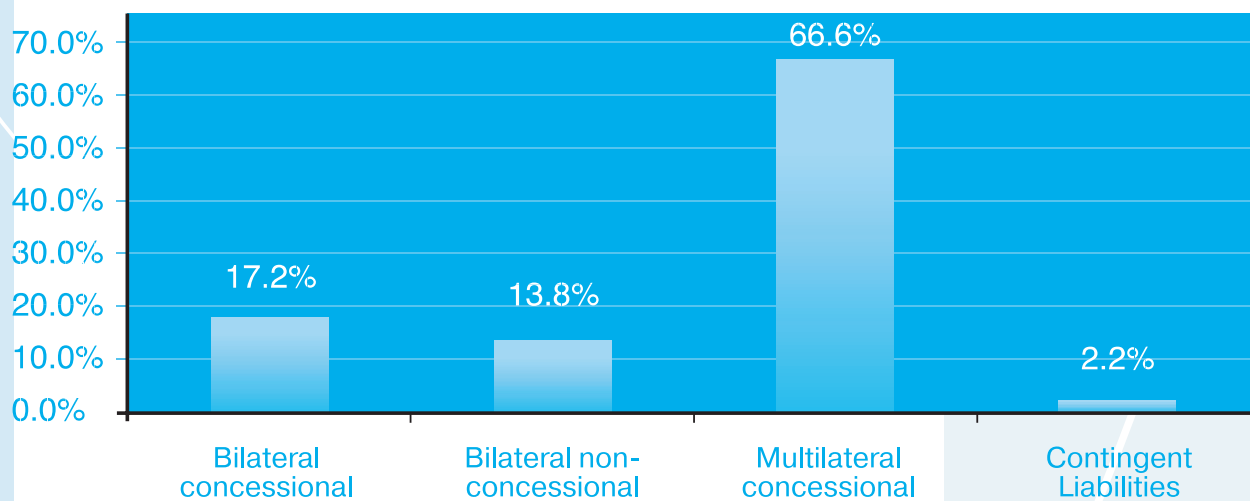


Figure 3. External Debt Structure Kyrgyzstan December 2004



Source: Data from Ministry of Finance of the Kyrgyz Republic. www.minfin.kg

Since only bilateral debt is subject to debt swaps, one of the goals of the mission was to obtain data on the current bilateral external debt in order to develop a first approximation of the Kyrgyz Republic's external debt profile to: (i) identify priority creditors for bilateral negotiations, (ii) to develop alternative scenarios for a debt swap revenue initiative within the government of the Kyrgyz Republic, (iii) and to review the history and preferences of potential donors in using the DS mechanism. The information used to develop the external debt profile was the, Public External Debt Structure 1993-2004 posted on the website of the Ministry of Finance of the Kyrgyz Republic⁷, and information gathered during the mission. The expected result of this analysis is a preliminary list of potential donors, Table 2 presents the results of this research.

The main issues identified during the first approximation of the Kyrgyz Republic's external debt profile are:

1. Multilateral debt is not subject to debt swap; as a consequence, 67% of the Kyrgyz Republic's external debt will not be subject to debt swaps.

2. Under the Naples terms, debt swap operations may be carried out without limit on official development assistance (ODA) loans, and up to 20% of the outstanding amount or 15-30 million for non-ODA credits. This rule mainly applies to the debt treated under the Paris Club agreement, specifically the debt owed before the cutoff date identified under the Paris Club Agreement (August 31 2001).

3. A preliminary analysis of the Kyrgyz Republic's creditor's experience using the debt swap mechanism indicates:

- a. Among Paris Club Member's Japan has no experience of using debt swaps. On the other hand, France, Germany and The Russian Federation have experience using the debt swap mechanism. These latter countries may be the first to be approached for a debt swap initiative
- b. For most of non-Paris Club countries there are no records of participating in debt swap operations. This means that negotiations with these countries will be complex.⁸

Table 2. Public External Debt Structure (2004)⁹

ROW	CREDITORS	AMOUNT OF DEBT (US\$ Million)	EXPERIENCE USING Debt Swap
1. MULTILATERAL			
2	WB	551.08	NO
3	IMF	209.08	NO
4	OPEC	6.90	NO
5	IFAD	8.69	NO
6	ADB	450.80	NO
7	Islamic Development Bank	24.57	NO
8	Nordic Development Fund	6.43	NO

⁷Ministry of Finance of the Kyrgyz Republic. www.minfin.kg

⁸During the interviews and working meetings held during the mission, it was discovered that countries such as Pakistan and India had participated in bilateral debt reduction initiatives with other countries in Central Asia. These negotiations led to a 100% of the debt owed to Pakistan and India being written off. These are important debt reduction initiatives, but it is important to highlight that debt write-off is a different mechanism to debt swap.

⁹ The data presented in table 1, indicates the total amount of external debt of the Kyrgyz Republic as December 2004. The amount of the debt subject to debt swap may differ to the one presented in this table since, as stated before, the data represents all the external debt and not only debt subject to debt swap.

9. BILATERAL CONCESSIONAL DEBT

10	France - Natexis Banques Populaires (PCM)	5.30	YES
11	Germany KfW (PCM)	36.13	YES
12	Japan - Bank for International Development (PCM)	238.80	NO
13	China - Export Import Bank	13.50	NO
14	Korea - Export Import Bank	15.00	NO
15	Kuwait - Fund for Arab Economic Development	15.80	NO

16. BILATERAL NON - CONCESSIONAL DEBT

17	Denmark – DANIDA (PCM)	5.86	? (1)
18	Germany – Hermes (PCM)	5.56	YES
19	India -	1.04	NO
20	Pakistan	9.15	NO
21	Russian Federation	180.42	YES
22	Turkey	46.26	NO
23	Uzbekistan	11.45	NO
24	The Netherlands - Company DEBIS	0.70	NO

NOTE: PC = Paris Club Member

(1) Denmark has no record of using the DS mechanism; nevertheless, it has been very active in cancelling ODA loans to Least Developed Countries

Source: Data from Ministry of Finance of the Kyrgyz Republic. www.minfin.kg

4. Since Germany and France have one of the most extensive debt conversion records among creditors and Germany is already working on a debt for aid swap with the Government of Kyrgyzstan, it is recommended that Kyrgyzstan prioritize Germany and France for a possible debt for sustainable development swap operation.

- a. Germany Canada, Finland, Netherlands, Switzerland and the US are among the creditor countries that have participated very actively in DS operations. Between 1992 and 2003, Germany participated in at least ten DS operations including: Ecuador (2), Peru (2), Filipinas (2), Indonesia, Vietnam, Madagascar, and Jordan. Recently, Germany has proposed to the Dominican Republic the development of a DS operation which may be concentrated on improving environmental management and poverty reduction.
- b. France has experience doing debt swaps with both ODA debt and export credit liabilities. Proceeds from debt swaps with France have been allocated to activities such as: local development and social and environmental projects (Appendix 1). At the same time, France, like the Kyrgyz Republic has mountainous regions, therefore proposals aiming to fight poverty and support sustainable development in the mountain regions of Kyrgyzstan may be of interest to France.
- c. Denmark¹⁰ has no record of using the DS mechanism; nevertheless, it has been very active in canceling ODA loans to Least Developed Countries – LDC. In 1995 at the Social Summit in Copenhagen Denmark cancelled 100% of ODA loans to LDC. As part of its policy on debt problems for developing countries it states that “while debt reduction is necessary in a number of indebted low income countries, and should be used as one of the tools in the development of co-operation to combat poverty, the debt problems of other countries should be solved by means of debt rescheduling combined with economic reform programmes.” Key issues to be considered in any possible negotiations with Den-

¹⁰ <http://www.um.dk/en/menu/DevelopmentPolicy/DanishDevelopmentPolicy/DenmarksDebtPolicy/>

mark are that Kyrgyzstan is already implementing economic reform programmes, and the Memorandum of Understanding signed between Denmark and Kyrgyzstan to facilitate the development and implementation of greenhouse gas emission reduction project activities in Kyrgyz Republic and the transfer to Denmark of the agreed part of the CER resulting from those project activities.

5. The Russia Federation is considering the use of debt for equity swaps to negotiate debt with both creditors and debtor countries. This country has been negotiating a debt for equity swap with Germany since 2001 (The amount discussed in several negotiations is \$19 billion of Soviet-era debt that Russia owes to Germany)¹¹. From the information reviewed, it is not clear if these negotiations have been completed. Regarding debtor countries, Russia recently was discussing debt for equity swaps with the Zambian government in Africa and with governments from Central Asia and the Caucasus (The Russian government is offering to take direct equity in power and transportation enterprises, to offer guaranteed loans and credits and to exchange sovereign debt for equity in enterprises)¹².

6. There are few examples of debt swap between two non developed countries. Argentina and Senegal successfully negotiated a debt for social development swap with the support of UNICEF. Negotiating debt swap with non-developed countries is challenging since, in this case, both countries (debtor and creditor) are facing pressing development needs.

FINANCING NEEDS IN THE KYRGYZ REPUBLIC FOR SUSTAINABLE DEVELOPMENT

The mission briefly discussed a number of long-term programmes and projects proposed or in different stages of preparation that would greatly benefit from debt swap-based funding. The main thematic focus and support to the mission came from the ME&E, the Ministry of Finance, Adviser to the President and Head of the Working Group on Debt Swap for ecology under the President of the Kyrgyz Republic, project manager of the UNDP/GEF National Capacity Self Assessment for Global Environment Management, UNDP Resident Representative, International Programme Officer on Environment and Senior UNDP Policy Advisor. Among the projects discussed were: projects aiming to fight poverty in the mountain regions of the Kyrgyz Republic (nearly 95% of Kyrgyz landmass is mountainous), projects to support reduced CO₂ emissions and improve air quality, and GEF projects on biodiversity and desertification. There is a general agreement that projects to be funded with EDS proceeds will focus on sustainable development.

While these crucial needs seem to match very well with the thematic focus of possible donors, it is recommended that a list of priority projects along with a brief of each of these projects that could potentially be supported from proposed debt swap be elaborated. Once creditor countries express interest in a specific project the details can be formulated in close cooperation with the donor.

FIDUCIARY FUNDS IN THE KYRGYZ REPUBLIC

The use of fiduciary funds as a mechanism for administering the proceeds coming from debt swaps has proved to be a good practice. Currently, many donors have a clear preference for the use of this structure in order to engage in a debt swap initiative.

The funding channel mechanisms for receiving debt proceeds in the Kyrgyz Republic would at best be an independent fund. There is no experience in the use of such funds in the Kyrgyz Republic. Given this situation it is recommended that a study of the legal conditions and institutional capacity for the establishment of such a fund in the Kyrgyz Republic be carried out. The study should include recommendations on the steps needed to be taken to

¹¹ <http://www.russianeconomy.org/comments/120400.html>

¹² C:\Documents and Settings\lmg\Desktop\kyrgyztan\CENTRAL ASIA - CAUCASUS ANALYST.htm

create such a fund including legal and institutional arrangements and capacity development activities. The use of intermediary arrangements also needs to be considered in the mentioned study. Among the issues this study needs to address are: aspects of the management body of the fund (steering committee), composition (% of local and international members, % of governmental and non governmental members) and procedures to appoint steering committee members. The advantages of establishing the fund under the umbrella of UNDP may be considered as a temporary arrangement until the institutional capacities are fully developed at country level. A comparative analysis of Trust Funds and other administrative arrangements in Latin America and other regions would also be very useful.

The experience of the Ministry of Ecology and Emergencies and the State Forestry Service in managing local environmental funds as well as the recent experience of the Minister of Finance in providing grants for local Kyrgyz initiatives needs to be incorporated in this study in order to identify lessons learned, good practices and practices that need to be avoided.

STAGE-BY-STAGE FOLLOW-UP STRATEGY FOR IMPLEMENTING A DEBT FOR SUSTAINABLE DEVELOPMENT SWAP INITIATIVE IN THE KYRGYZ REPUBLIC

Based on the interviews with representatives of the ministries of finance, ecology and emergency, coordinators of projects, International University of Kyrgyzstan, and the National Centre of Mountain Regions Development; centre and information gathered, the subsequent step-by-step follow-up strategy for implementing an ED for Sustainable Development Swap Initiative in the Kyrgyz Republic is proposed. Some of these stages will happen somewhat in parallel, particularly the first few stages.



Meeting of representatives of the Ministry of Finance of the KR, Ministry of Ecology & Emergencies of the KR, Projects' Coordinators and others. (June 2005)

STAGE 1

Consultant develops a detailed feasibility study for the Government

- a An in-depth analysis of external debt profile;
- b Macroeconomic and political context (including an analysis of the DS initiative within the framework of the agreement between the Kyrgyz Republic, the Paris Club, and the IFM);
- c Analysis of fiscal capacity of the Kyrgyz Republic to service an EDS initiative, identification of potential additional funding sources and other financial and design issues for the EDS;
- d Identify constraints in implementing a EDS initiative in the Kyrgyz Republic;
- e Based on the results of the Profile of possible projects to be funded with the proceeds of the EDS. Priority must be given to initiatives linking poverty reduction and sustainable development.

The ongoing OECD – Ministry of Ecology and Emergencies initiative is covering some of the above-mentioned issues. It is recommended discussing with OECD the possibility of including points: b, d, and e in the mentioned analysis.

<p>The expected results of STEP 1 are:</p>	<ul style="list-style-type: none"> - Amount of debt share that can be converted; - Redemption rate and time frame; - Possible interested creditors/donors identified.
<p>TIME :</p>	<p>Between January and March 2005</p>
<p>STAGE 2</p>	<p>Establishment of a multi-sectoral working committee under the government of Kyrgyzstan for coordinating external debt for sustainable development swap consisting of representatives of key ministries and the NGO community</p> <p>One of the success factors for pursuing EDS operations is the existence of a strong coordination capacity among debtor country agencies and the NGO community. In order to facilitate coordination among government and non-governmental institutions it is proposed to strengthen the existent Working Group under the President of KR for external debt for ecology swaps and widening its scope to a multi-sectoral working committee.</p> <p>The multi-sectoral working committee should include representatives of key ministries including: Finance, Ecology and Emergencies, Economy, Foreign Trade and Development, Foreign Affairs, Health, Education, Labor, the State Forestry Service and the National Bank among others. It is also necessary to consider the representation of institutions such as the National Centre of Mountain Regions Development, Universities, and the NGO community.</p> <p>In a number of cases the multi-sectoral working committee or task force is coordinated by the minister of finance or other sectoral ministries or special adviser to the President. It is very important that the designated coordinator has the capacity to convene the different committee members and to act as a champion for the EDS initiative, leading the process within the government, civil society, and abroad. The multisectoral working committee may be supported by a Technical Secretariat. In order to guarantee that the external debt swap initiative is framed within national priorities, it is suggested that the sectoral working committee is under the umbrella of CDF 2010.</p> <p>The expected results of STEP 2 are:</p> <ul style="list-style-type: none"> - A multi-sectoral working committee is functioning and meeting regularly; - Support to the debt swap process includes: <ul style="list-style-type: none"> • Supporting the development of and reviewing the products to be generated in STAGE 1; • Establishment of criteria to select project proposals including format for presentation; • Identification and prioritization of project proposals; • Support the preparation of project proposals (a list of priority projects along with a brief of projects to be supported from the proposed EDS); • Organize and support capacity development initiatives;

	<ul style="list-style-type: none"> • Support the negotiation process, especially with non-Paris club countries.
TIME :	January - March 2005 the multi-sectoral working committee or task force is fully operative.
STAGE 3	<p>International consultant to the government develops a detailed feasibility study and proposes a possible mechanism to be used to administer the debt swap proceeds.</p> <p>The study will look at:</p> <ul style="list-style-type: none"> - Legal conditions; - Recommend Stages needed to be followed to create the trust fund including legal and institutional arrangements and capacity development activities; - Institutional capacity for the establishment of such a trust fund in the Kyrgyz Republic; - Analysis of intermediary arrangements.
The expected results of STEP 3 are:	<ul style="list-style-type: none"> - Recommendations on whether or not the development of a trust fund is recommended in the Kyrgyz Republic; - Further actions to be taken.
TIME :	April 2005.
STAGE 4	<p>Organize meetings with the Ministry of Finance and the multi-sectoral working committee to:</p> <ul style="list-style-type: none"> • Define the amount of external debt the Kyrgyzstan Government is willing to convert, and what is the maximum acceptable redemption rate; • Discuss whether to propose joint or separate external debt restructuring/conversion negotiations.
The expected results of STEP 4 are:	<ul style="list-style-type: none"> - Define the amount of external debt the Kyrgyz Republic Government is willing to convert, and what is the maximum acceptable redemption rate including Paris Club and Non-Paris Club creditors countries. <p>The information provided by STAGE 1 will be an important input.</p>
TIME :	February - May 2005.

STAGE 5	<p>Meetings with one or more creditor governments to verify the level of interest in debt swap:</p> <ul style="list-style-type: none"> - Prepare informative materials and presentations suggesting EDS details and research areas of donor project interest; - Organize meetings with representatives of the ministries of finance and development cooperation locally (e.g., economic attachés of embassies, representatives of development cooperation agencies) and make contacts at their head offices; - Present possible projects to finance and find possible executing agencies.
The expected results of STEP 5 are:	<ul style="list-style-type: none"> - Creditors declare in principle their interest in EDS; - It is being found out which project activities creditors are interested in financing.
TIME :	April - July 2005
STAGE 6	<p>One or more creditors declare an interest in external debt swaps including possible projects to be financed. The Kyrgyz Republic government formulates specific projects in close cooperation with the donor.</p> <ul style="list-style-type: none"> - Creditors and debtor governments begin talks, then enter formal negotiations on DS transaction; involving the Kyrgyz Republic side: <ul style="list-style-type: none"> - Ministry of Finance; - Central Bank; - Ministry of Ecology and Emergency Response; - Ministry of Foreign Affairs; - Ministry of Labor; - Ministry of Education; - Ministry of Health; - The State Forestry Service; - National Centre of Mountain Regions Development; - Benefiting sector agencies.
The expected results of STEP 6 are:	<p>The following will be identified:</p> <ul style="list-style-type: none"> - amount of debt to be converted; - rate of redemption; - instruments for redemption; - interest rate and payment schedule; - projects to be funded; - structure for administering EDS proceeds; - monitoring and evaluation system.

STAGE 7

Creditor and debtor governments (usually Finance Ministry) negotiate final details and enter into an external debt conversion agreement (this is sometimes a tri-partite agreement including the beneficiary).

STAGE 8

Creditor and debtor implement financial transaction.

The expected results of STEP 8 are:

- The Kyrgyz Republic deposits local currency or bonds in an interest-bearing account;
- Arrangements are made for the debtor government to deposit funds in an account of the designated beneficiary or sustainable development trust fund (usually it is necessary to set up a dedicated bank account).

MAIN CHALLENGES FOR A EXTERNAL DEBT FOR SUSTAINABLE DEVELOPMENT SWAP INITIATIVE IN THE KYRGYZ REPUBLIC



Participants of the 1st Consultative Meeting on Assessment of Project Proposals for the KR External Debt for Sustainable Development Swaps, organized in the framework of the UNDP Capacity Building and Environmental Governance Strengthening for Sustainable Development Project. (May 2005)

During the mission the following challenges were identified:

1. The bulk of the bilateral external debt of Kyrgyzstan is owed either to developed countries with no record of using debt swaps or to non developed countries with limited experience of doing debt swap operations. Nearly 74% of the concessional bilateral debt is owed to Japan, which has no experience of using EDS. The remaining 36% is owed mainly to non developed countries.

opened countries.

2. Collaboration regarding debt swap initiatives between the ministries of finance, ecology and emergency situations and other ministries in Kyrgyzstan is very recent and therefore needs to be strengthened. The establishment of a multi-sectoral working committee under the government of Kyrgyzstan for coordinating EDS for sustainable development and consisting of key stakeholder organisations may contribute to close, work among these institutions.

3. The establishment of trust funds has proven to be a good practice for successful EDS. Nevertheless, Kyrgyzstan lacks experience of creating and managing such Trust Funds.



Mr. Omor Rustenbekov, Director of Department of Ecology and Nature Management, ME&E. the 1st Consultative Meeting on Assessment of Project Proposals for the KR External Debt for Sustainable Development Swaps, organized in the framework of the UNDP Capacity Building and Environmental Governance Strengthening for Sustainable Development Project. (May 2005)

UNDP SUPPORT AND COMPARATIVE ADVANTAGES

UNDP places great emphasis on EDS initiatives as a follow up activity derived from the UNDP led Financing for Development Conference in Monterrey and World Summit on Sustainable Development in Johannesburg. Emphasis is also placed on EDS as a mechanism

for financing sustainable development and contributing to supporting sustainable development and achievement of the Millennium Development Goals.

The Government of Kyrgyzstan and UNDP-Kyrgyzstan are in mutual agreement about the development of a Country Programme Action Plan (CPAP) 2005-2010, and to cooperate for the realization of the Millennium Development Goals and the United Nations Conventions and Summits to which the Government of Kyrgyzstan and UNDP are committed. This agreement builds upon the experience gained and progress made during the implementation of the previous Country Programme (2000 to 2004). The interest of the Kyrgyz government in participating in an initiative for ED for sustainable development swap, matches the interest of both organisations and falls within the goals and priorities of the CPAP. Therefore, UNDP is very interested in continuing support to an external debt for sustainable development swap initiative in Kyrgyzstan.

INSTITUTIONAL STRENGTHS OF UNDP AS A CATALYZING AGENT FOR THE NEW DEBT SWAP INITIATIVE

Given UNDP's principal mandate to promote Sustainable Human Development, the organization has developed technical and administrative capacities that allow it to provide quality technical assistance at local, national, and international level. In addition, due to its close relationship with governmental representatives, civil society, and NGOs, UNDP has the ability to call together diverse representatives of the public – a quality that allows it to tailor its policies and programmes to the development priorities of each country. Thanks to its highly-trained staff, UNDP has vast experience in the transparent administration of financial resources, the creation and management of modern administrative institutions, and flexible operating capacities including the design and development of trust funds. In addition, it has amassed a wealth of experience in the area of cost-sharing nationally executed projects.

Due to these institutional characteristics, UNDP is positioned to provide substantial support to the EDS for sustainable development initiative, thereby attempting to avoid past mistakes. The following are some of the contributions that UNDP can make:

- **Promoting a better understanding of the debt-swap mechanism:** UNDP counts on a staff experienced in the preparation of publications, the facilitation of training sessions, and the dissemination of lessons learned – all with the objective of developing the technical capacity that countries need in order to effectively carry out debt for sustainable development swap operations. At the request of the Kyrgyz government, UNDP can provide lessons learned and comparative studies from experiences both in debt swap and trust funds from Latin America and other regions, as well as training. A comparative study on the design and implementation of trust funds, as well as training aimed at improving the capacity of the proposed multi-sectoral working committee.
- **Contributing to overcome political and institutional barriers:** UNDP develops initiatives jointly with local and national governments, civil society, NGOs, the private sector, and academic institutions. This allows it to develop relationships with all these actors and at all these levels, in addition to preserving its capacity to act in an impartial manner. In the same vein, UNDP is highly experienced in providing technical assistance in such areas as good governance, decentralization, and institutional development – a trait that allows it to build strategic partnerships and overcome institutional barriers. One priority activity is to facilitate coordination between government agencies in Kyrgyzstan by supporting the conformation of the multi-sectoral working committee under the government of Kyrgyzstan for coordinating debt for sustainable development swap
- **Providing technical assistance:** UNDP could provide support to the multi-sectoral working committee. This includes activities such as, development of proposals, supporting countries during negotiations – convener.
- **Improving Funds Administration** and providing institutional support for intermediate, transitional arrangements – Administration of debt swap proceeds: UNDP can play a critical role in supporting the administration of proceeds from a debt swap. The establishment

of trust funds has proven to be a good financial management practice. UNDP has much to contribute in terms of clearly defining the functions and the transparent administration of these trust funds. Again, UNDP's capacity to convene diverse social actors can ensure that the Steering Committee of such a trust fund comprises representative organizations and individuals, and that the decision-making process be participatory.

- **Additional Financing:** Due to its ability to and experience in negotiating with donor countries and creditors, as well as its access to financing mechanisms for development and the environment (e.g. the Global Environment Facility [GEF], Thematic Trust Funds in Governance and Poverty) UNDP can help to create the necessary conditions to obtain additional financing, which in turn will help overcome the shortfall in financial resources that limits many countries' participation in EDS operations.

APPENDIX 1. Creditor (France's) policy on DS conversions (*)

The information provided here is based on brief research into published sources of information about France's interest and experience of using DS.

The French government pledged at the 2002 Johannesburg summit to also forgive debt to poor countries not included in the HIPC initiative (PPTE) to benefit key development areas: education, health, water, and energy (http://www.un.int/france/documents_francais/021211_mae_raffarin_ecosoc.htm) through forgiveness, partial forgiveness, or conversion of investments.

France has a considerable history of debt conversion for development. Here a few examples:

- 1 In 1992, the French government set up a special fund for the cancellation of public ODA and non-ODA debt against the funding of priority development projects in local currency by the debtor government. The fund foresees the conversion of some FF4bn of non-performing development credits rescheduled under the Paris Club rules. This 'Libreville Fund' was restricted to four franc-zone countries: Cameroon, Congo, Gabon and Côte d'Ivoire. Its disbursements were not tied to the implementation of an orthodox structural adjustment programme. By 1993 FF1bn, one-fourth of the amount scheduled for the operation, had been disbursed. NGOs could be involved in counterpart-financed projects. France also entered into debt-for-aid swaps with Egypt converting its ODA-debt of about FF58m. Local proceeds are deposited in a social fund for development. By 1994 France had cancelled all the debt of the least developed countries in that region and half of that for middle-income countries. Altogether France cancelled more than FF55bn by 1999 (http://www.minefi.gouv.fr/archives/dossiersdepresse/pays_endettes/allegement.html). Similar transactions were concluded for the Philippines to an amount of FF20m. Debts of Poland, Honduras, and Tanzania have been cancelled against the establishment of such funds (Kaiser/Lambert 1996: 32-33).
- 2 By far the largest was for Poland's Ecofund (\$66m) in 1993. It is worth noting, however, that a factor that appealed to all the donors was EcoFund's procurement policy, which offers donor country companies improved access to Poland's sizeable environmental technology market. This policy has been especially beneficial to companies in France and Switzerland, which have won procurements from Eco-Fund in excess of the amounts contributed to the Fund by their countries during 1992-1996.
- 3 Ecuador in its 2001 Paris Club negotiations also included debt swaps for investments, which would include French debt (<http://www.diplomatie.gouv.fr/actu/article.asp?ART=31888>).
- 4 In 2002 France agreed to convert US\$33 million debt for investment in Jordan; Jordan had been lobbying Western capitals to win rescheduling of its foreign debt, debt write-offs or debt-swap arrangements (<http://www.jordanembassyus.org/March072002.htm>).
- 5 A well developed investment conversion program exists with Morocco (<http://www.invest-in-morocco.gov.ma/convdette.htm>).
- 6 A potential contact point in France for information prior to negotiating with the government could be the debt conversion-oriented NGO ACDE (Association Conversion de dette pour le Développement et l'Environnement), which is supported by the French Government (see contacts).

Looking at the creditor's (France) previous experience using the EDS mechanism, France has one of the most extensive debt conversion records among creditors.

(*)UNDP. 2003. MISSION REPORT (6-11 December 2003) 1st Draft: "Preliminary Proposal for a Debt Swap between the Governments of Dominica and France." Prepared for the Ministry of Finance And Planning, the Ministry of Agriculture and the Environment of the Commonwealth of Dominica. D. Kloss.

III. ENVIRONMENT – SOCIAL FUNDS: A MECHANISM TO SUPPORT DEBT FOR SUSTAINABLE DEVELOPMENT SWAPS

Summary

This report is written as part of the support that UNDP is providing to the government of Kyrgyzstan to assist with a debt for sustainable development swap initiative. It is complementary to the report prepared in 2004¹³ and is based on a review of experiences on debt swaps and its related administrative mechanism in Latin America, the Caribbean and Eastern Europe. This report is also based on the review of information provided by the Conservation Finance Alliance¹⁴, personal and phone interviews with environmental – social funds managers, as well as the information gathered during a mission to Kyrgyzstan from 20 June – 4 July 2005.

It is important to note that many of the experiences, and especially Funds, reviewed are named as environmental initiatives. Such Funds are frequently managed to respond to conservation needs, due to a lack of effective mechanisms to ensure recurrent cost financing for conservation areas or institutions. Nevertheless, with just a few exceptions the scope of both debt swaps and Funds is not only environmental, but also includes goals and actions directed to supporting sustainable development. In order to support sustainable development it will be necessary to stress the linkages between environment, economics and social issues. With the knowledge that environmental protection is directly connected to social and economic development, the term "Sustainable Development Fund (SD Fund)" is used throughout this paper. SD Funds make use of the interconnections between environmental, social, and economic issues, while supporting projects that benefit not only social and economic development but also environmental protection.

The main goal of this report is to highlight key issues to be considered when identifying the administrative facility that will better serve both the interests of Kyrgyzstan and donor countries involved in a debt swap operation. It is important to point out that any decision to create an administrative facility or to widen the scope of any proven existent administrative facility to manage DS proceeds, will be directly linked to the successful development of the debt swap operation, the cost – effectiveness of such facility (which is linked to its capacity to mobilize additional funding while keeping operational costs low), as well as the impact that it can have in facilitating the implementation of activities directed towards sustainable development, especially at local level.

BACKGROUND

The agreement of the Paris Club negotiations (March 2002 and March 2005) between the Kyrgyz Republic and creditor countries includes a debt swap clause opening opportunities to develop, on a voluntary and bilateral basis, debt for environment, aid, or equity swaps operations. As a consequence, the government of Kyrgyzstan is working on a debt swap (DS) initiative and has stressed its interest in supporting sustainable development through this initiative.

¹³ Strategic Paper on External Debt for Sustainable Development Swap in the Kyrgyz Republic: Next Stages Proposal. Kyrgyz Republic and UNDP. 2004

¹⁴ Conservation Finance Guide: Environmental Funds. 2002. <http://guide.conservationfinance.org/>

Historically it has been shown that successful debt swap operations are linked to the creation or use of a proven existent administrative facility (trust fund, foundation, agency) which ensures that the resources generated by the debt swap are: (i) used for the goals identified under the debt swap agreement signed by the debtor and creditor countries, and (ii) retailed in a cost-effective way into national and local initiatives. In addition, the administrative facility also contributes to the development of local capacities, is able to leverage additional funding from many other sources, and facilitates coordination between key stakeholders. These facilities are called Environmental and/or Social Funds and their scope is not only environmental but also includes goals and actions to alleviate poverty and support sustainable development.

The importance of linking environmental and social initiatives is not surprising and such linkages have been highlighted by many experts and practitioners. Key environmental issues for people living in poverty are related to health, income generation, security, energy supply and housing. The poor depend heavily on a range of environmental goods and services for their livelihoods – including: drinking water and water for productive activities such as agriculture and fisheries. They also rely on the capacity of ecosystems to provide products as well as ‘services’ essential to the stability of the environment that, in many cases, is the base for food production and other productive activities. Poor communities also suffer disproportionately from air and water pollution and when their access to natural resources is limited or denied¹⁵.

SUSTAINABLE DEVELOPMENT FUNDS: DEFINITION AND COMPONENTS

Sustainable Development Funds (SD Funds) are legally independent institutions (i.e. set up outside of government) established by special legislation which, through their legal instruments and governing body, are able to reliably manage and allocate donor and governmental funds over a long period of time. If the allocation of funds mainly responds to conservation needs, it is an Environmental Fund. On the other hand, if the funds are mainly allocated to mitigate the social costs of economic adjustment and to support economic and social rehabilitation, they are called Social Funds¹⁶. As previously discussed this paper utilizes the term Sustainable Development Fund. This terminology is meant to highlight the connections between economic, social and environmental issues.

Today there are more than 100 Environmental Funds in operation, in the process of establishment or in design¹⁷. Such funds have been set up in many developing countries over the past decade as a way of providing funding for environmental protection and social programs, and in many cases linked to debt for conservation-sustainable development swap operations. The main purpose of setting up these Funds has been to provide long-term stable funding for environmental and social goals including: sustainable management of national parks and other protected areas (PAs), as well as to provide support through small grants to both non-profit / non-governmental organizations and community based organizations to develop and implement projects that are aimed at conserving biodiversity, the support of local livelihood and sustainable use of natural resources.

The type of initiatives promoted under such funds, vary from those concentrated on financing biodiversity conservation to those financing activities aimed at providing sustainable livelihoods for local communities and promoting sustainable development. The main attraction of SD Funds for international donors is their ability to reliably manage and allocate donor

¹⁵ Department for International Development, United Kingdom (DFID), Directorate General for Development, European Commission (EC), United Nations Development Programme (UNDP), The World Bank. 2002. Linking Poverty Reduction and Environmental Management. Policy Challenges and Opportunities, a Contribution to the World Summit on Sustainable Development Process.

¹⁶ Mikitin, K. 2005. Issues and Options in the Design of GEF Supported, Trust Funds for Biodiversity Conservation. The World Bank – ESD. Paper # 011

¹⁷ Norris, Ruth (editor). The IPG Handbook on Environmental Funds. 1999. http://www.geocities.com/shores_system/ef/ef_handbook.html.

funds over a long period of time. The main attraction for host governments is to increase their likelihood of mobilizing additional financial resources for environmental management and poverty reduction initiatives.

SD Funds are typically formed through broad consultative processes, and are governed by a mixed public-private board of directors composed of representatives of different stakeholder groups. SD Funds are designed to have credible and transparent operational procedures, accountability, and sound financial management practices. SD Funds therefore may be able to attract new donor funding in cases where donors are interested in supporting participatory processes and promoting public private partnerships while making sure that the funds will be managed under credible and transparent operational procedures and sound financial management practices.

SUSTAINABLE DEVELOPMENT FUNDS BASIC COMPONENTS

The Conservation Finance Guide has defined have four basic components of SD Funds:

- a) Capital assets, which in many cases are invested in order to generate income. Assets may come from a debt swap operation, grants (bilateral donors, GEF), and earmarked resources, such as fees or/and taxes
- b) Legal structures, stipulate the objectives and procedures of the Fund, including capital asset investment procedures. In many cases, they are legally established as private legal entities, including trust funds, foundations and associations
- c) The Supervisory Body, decides how to use the funds. The members of this board should represent different interest groups, such as local communities, NGOs, government institutions, the private sector, academia, and donor agencies
- d) The Management structure, is responsible for the management of the fund and implementation of grant-making programs. For example, in the case of Environmental Funds (EFs) established to conserve protected areas (PAs), the EFs work closely with national nature conservation institutions or the administrations of PAs, which are formally independent of the EF

TYPES OF FUNDS/LEGAL STRUCTURES

The type, size and complexity of SD Funds can vary radically. Some funds deal with very specific projects and are operated with only a governing board. Other funds have a more complex means of implementation involving a range of operational and supportive branches. In terms of operation, there are no standard SD Funds and their operational form will depend on the overall objectives of the fund, the country's legal framework, and the role it is envisioned to play within the national environmental planning process¹⁸.

In terms of the Legal Structure, the form that SD Funds take depends to a great extent on the way the legal system of the country in question deals with the concept of a trust fund. In countries whose legal systems are based on English common law,

Adaptations of the Common Law Trust

Some countries outside Commonwealth and the United States have adopted or adapted the Anglo-American trust concept for their own use, albeit with more limited scope. For example Japan, Liechtenstein and Mexico, countries outside the "common law" group have found it convenient to introduce the trust concept by way of national legislation more or less patterned on Anglo-American experience. Others - even though they may share certain legal devices that are indeed comparable to the trust - have developed different instruments to serve the same purposes. Several countries, especially in Latin America, permit and facilitate the establishment of trusts, though primarily for private beneficiaries and often expressly excluding charitable trusts (e.g., Panama and Venezuela); others have adopted trust features for limited sectors of the economy, such as mortis gage-secured bonds (Brazil, Chile, Colombia) or certain banking operations (Ecuador, Peru, Nicaragua). It is frequently pointed out that the trust concept has historical antecedents in different legal systems,

¹⁸ Charpentier, Silvia. The Nature Conservancy. Personal Interview. 15 June, 2005.

and hence should also be adaptable for contemporary use in the different countries concerned. For example, the above-mentioned Latin American trust legislation uses the terms *fiducia* and *fideicomiso*, which can be referenced back to ancient Roman law, and hence to a common tradition shared by all countries deriving their legal system from European civil law. Closer scrutiny of these concepts, however, and their modern-day European equivalents reveals that their scope is far more limited than the common law trust, especially as regards the rights of the beneficiaries.

The Civil Law "Foundation" as Functional Alternative

The most appropriate substitute for charitable trusts in "civil law" systems generally is the "foundation," which exists in most modern legal systems based on continental European law and is widely used by major environmental institutions in these countries. For example, the World Wide Fund for Nature- WWF (formerly the World Wildlife Fund) was established in 1961 as a foundation under article 80 of the Swiss Civil Code. The establishment of a civil law foundation normally requires approval by the competent government agency, and charitable foundations are under strict government supervision (e.g., in Switzerland: annual audits and periodic official attendance at Board meetings). Not unlike the common law *cy pres* doctrine, the competent government agency may change the charitable purpose of the foundation if the purpose originally specified by the settler can no longer be achieved). One major difference, as compared to common law trusts, is that foundations acquire a separate legal personality of their own, including the capacity to own property etc., which is exercised by a corporate Board. Once established, the foundation can only be revoked by a formal public act (at the request of the competent government agency or of any interested person, if the purpose of the foundation has become unattainable; or by judicial decision if the purpose has become illegal).

SOURCE: Mitikin, K. 2005. Issues and Options in the Design of GEF Supported, Trust Funds for Biodiversity Conservation. The World Bank – ESD. Paper # 011.

the trust – either a perpetual endowment or a sinking fund – is established by a deed of trust or charter. The trustees who have authority over the use of a trust may be an individual, a group of individuals, a company set up for that purpose, or another designated organization, such as an NGO. In civil law countries, which are mostly continental European and Latin American countries, as well as Kyrgyzstan, there is generally no legal foundation to establish a trust fund *per se*. Mitikin¹⁹ argues that many countries outside "common law" have found it convenient to introduce the trust concept by way of national legislation. As a consequence, foundations or associations have been created to manage ES Funds, and trusts have been set up by government decree²⁰. When establishing a trust, there should be an investigation of the relevant tax laws where the trust is established and where it will operate²¹.

From the capital asset investment procedures, SD Funds can be classified as follows:

- Endowment Funds spend only income from its capital, preserving the capital itself as a permanent asset.
- Sinking Funds disburse their entire principle and investment income over a fixed period of time, which is usually a relatively long period, e.g. 10 years.
- Revolving Funds receive new income on a regular basis—such as proceeds from special taxes, user fees etc. that replenishes or augments the original capital.
- Mixed Funds are a combination of these features. For example, endowed funds may be appropriate to support ongoing activities, while a revolving fund may provide more immediately needed income.²²

KEY ACTORS

The development of SD Funds usually involves three key groups of actors: (i) donors; (ii) a catalyst institution (which includes multilateral agencies, local and/or international NGOs); and (iii) host government agencies. The rationality for the creation of such funds will be analyzed from the perspective of each of these actors.

¹⁹ Mitikin, K. 2005. Issues and Options in the Design of GEF Supported, Trust Funds for Biodiversity Conservation. The World Bank.

²⁰ The Conservation Finance Guide

²¹ Mitikin, K.

²² Colombia Fund. The Nature Conservancy.

Usually, donors provide the funding that makes SD Funds possible. Donors historically participating in the creation of SD Funds are: the US Agency for International Development (USAID), United Nations Development Programme (UNDP), World Bank (WB), the European Union (EU) and the Global Environment Facility (GEF). Normally, donors are involved in advising on the establishment of the legal framework and in approving the financial terms of the Fund. In most cases, they also monitor project performance as they would for any donor-funded project. They are also interested in SD Funds as a way to leverage their funds to have the greatest impact on their conservation objectives and to support non-governmental actors, which can result in increased decentralization, accountability and transparency in the management of project funds. SD Funds can also provide other benefits such as strengthening both NGOs and local community based organizations and can provide a means to contribute to poverty alleviation while promoting sustainable environmental management. Donors often require that SD-Funds raise matching funds in order to leverage additional resources to provide a larger contribution into long-term initiatives (this is especially key in the case of GEF).²³

MULTILATERAL AGENCIES AND NON-GOVERNMENTAL ORGANIZATIONS

For many SD Funds, multilateral agencies or NGOs (local and international), play a critical catalytic role in the development of Funds. These organizations may carry out or support the feasibility and design phases, provide technical assistance, fundraising assistance and support capacity-building. In some cases, catalyst institutions provide this assistance as an “in-kind” contribution to the future Fund.²⁴

Host government agencies

In many cases, developing country governments support SD Funds from an interest in generating increased investment in conservation and local development, which their current institutions cannot attract or manage because of legal or operational limitations. Resource management agencies of the host government are motivated by the opportunity both to attract outside funding for their operational costs and to access funds from their own governments that were previously out of their reach (e.g. proceeds from a debt-for-nature swap). Donors often make the creation of a SD Fund a pre-condition for implementing debt swaps. It is important that host government agencies play significant roles in the design and governance of the Fund in order to ensure that the ES-Funds grant support national priorities.

EXAMPLES OF ENVIRONMENTAL SOCIAL FUNDS IN LATIN AMERICA AND EASTERN EUROPE (COLOMBIA, ECUADOR AND POLAND)

COLOMBIA: THE FUND FOR ENVIRONMENTAL ACTION

Colombia's Fondo para la Acciyn Ambiental (Fund for Environmental Action-FPAA) provides relevant lessons as a Fund that has a dual focus on social and environmental priorities and as a fund, which has thrived despite government instability. According to Cecilia Rodríguez, Colombia's Minister of Environment at the time FPAA was created, the FPAA “seeks to strengthen the management capacities of communities represented in Boards of Community Action, NGOs, the local councils of indigenous communities, and afro-Colombian communities, among others, in such a way that all of these groups can effectively manage natural resources and benefit from doing so in the long term.”²⁵

²³ The Conservation Finance Guide

²⁴ Ibid

²⁵ “Columbia: Corporaciyn ECOFONDO.” Red de Fondos Ambientales de Latino America Y El Caribe Fund Profile. http://www.conservationfinance.org/IPG_pages/IPG_LAC.htm

Location/ Time-frame

Signed in 1993 by the governments of the United States and Colombia. It provides funding at national level.

Objective: The Fund for Environmental Action (FPAA) co-finance projects intended to preserve, protect, or manage Colombia's natural resources, and at the same time, promote child survival and development.

Origin: Initially, the fund was managed by Ecofondo, a nonprofit environmental organization, which both managed and executed the Fund's resources. Ecofondo was established in 1993 by a group of NGOs, the National Department of Planning (DNP) and the National Institute of Natural Resources (now the Ministry of Environment). The fund has always been capitalized by the Enterprise for Americas Initiative (EAI), a bilateral agreement signed by the United States and Columbia, which cut the interest owed on Columbia's remaining debt to USAID (\$279 million USD) to \$41.6 million USD over 10 years. Eight other Latin American and Caribbean countries support EAI programs.²⁶ EAI was created to reduce debt burden, while promoting environmental conservation and child survival. In 1998 the EAI program was expanded to include the Tropical Forest Conservation Act, for countries with tropical forests and meeting other criteria.²⁷ In 2000, due to lack of satisfaction with Ecofondo, USAID created FPAA, which manages the Funds resources, but which utilizes other organizations for implementation.²⁸

Introduction

Financing Mechanism: Debt Swap

Financial Structure: A mixed independent fund, which combines the characteristics of sinking funds, endowment funds, and revolving funds

Management: The Directive Council, the highest decision making body of the Fund, is responsible for the administration, direction, and control of the program. (see key national actors below).

Operation: The Council implements its policies and decisions through the Executive Secretary, who is appointed by the Council and serves as its authorized representative. The Executive Secretary works with a planner, financial advisor, systems and databases technicians, secretary, contracted accounting firm, and a messenger. Price Waterhouse is the external auditor. Other services such as website maintenance are contracted externally.

Today the operation of the Fund is carried out through 13 specialized Technical Support Units. These support units are established organizations and implement the projects by providing technical support, operational support and follow up to the execution of the project. Technical support units are chosen considering of their expertise, technical and administrative capabilities.²⁹

²⁶ USAID. "Introduction to Enterprise for the Americas Initiatives Funds." http://www.usaid.gov/our_work/environment/forestry/intro_eai.html

²⁷ Norris, Ruth (editor). The IPG Handbook on Environmental Funds.

²⁸ Botero, Luis Germón. Administrative and Financial Director of the Fondo para la Acción Ambiental y la Nicez (FPAA). Personal Interview. 21 July, 2005.

²⁹ Ibid

Feasibility Assessment	<p>National Government: The Enterprise for the Americas Initiative was created in the context of growing interest in environmental conservation and sustainable development generated by the Earth Summit in Rio de Janeiro and institutional progress in Colombia, including the search for a more participative democracy.³⁰</p> <p>Donor Interest: In 1991 the EAI was established by USAID. This program allowed Latin American and Caribbean countries, which had moved to open investment regimes, to redirect their portion of their debt payments from the US Government into a local fund to support child survival and environmental programs. Until recently, USAID was the only donor supporting FPAA. Currently, administrators are designing a program where GEF will provide funding for protected areas.</p>
Strategy to accomplish the development of the SD Fund	<p>FPAA's dual focus on both, children and the environment makes it unique. FPAA currently supports projects in four thematic areas: Environmental management in natural areas and sustainable management of biodiversity, Environmental management of agricultural ecosystems, Urban environmental management, Human (esp. child development)</p> <p>The Fund also has a policy of social participation in conservation for the national park system. The goal is to improve local communities' quality of life and in turn these communities offer protection to the park. At the same time, the Fund gives priority in its work to minorities, including indigenous communities, communities of African origin, and to regions of special interest by natural, economic, and social characteristics.</p>
Foreseen risk	<p>A major challenge for FPAA was ongoing armed conflict and political instability. The Fund focused on means of creating social legitimacy, political continuity and management</p>
Key actors	<p>Sources of Funding: USAID</p> <p>National Management: The current Directive Council is composed of eight members: a representative of the business sector, representative of USAID, the Minister of Environment, the Director of Environmental Policy in the National Department of Planning, a delegate of the Academy and three representatives from environmental and child development NGOs.</p> <p>Implementation: The FPAA has 13 Technical Support Units that work in different parts of the country.</p>
Impacts and results of the TF	<p>At the moment approximately 220 projects are being executed, and to date 470 have been executed (\$54.000 million Colombian pesos). The projects were mainly focused on environment and a small percentage of them were on childhood, as long as they had links with environmental issues as well. Now, the funding emphasis has shifted to childhood projects.</p>
Lessons learned	<p>A change in the methodology of presenting projects in 2002 was an important decision. The budget format that had been 66 pages was reduced to one. The complete format, including the text of the call for proposals and instructions, was streamlined to 24 pages. This change was very well received.</p> <p>The policy of decentralization and specialization proved to be effective. It is advisable to work through varied approaches, procedures and priorities specific to the context of each program to assure agility and relevancy.</p>

³⁰ "Columbia: Corporaciyn ECOFONDO." Red de Fondos Ambientales de Latino America Y El Caribe Fund Profile. http://www.conservationfinance.org/IPG_pages/IPG_LAC.htm.

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Botero, Luis Germón, Administrative and Financial Director of the Fondo para la Acciyn Ambiental y la Nicez (FPAA). Interview. 21 July, 2005.

Colombia Corporaciyn ECOFONDO. "Fondo para la Acciyn Ambiental Colombia." http://www.conservationfinance.org/IPG_pages/IPG_LAC.htm

Parques National de Colombia. "Fund for the Conservation of Protected Areas in Colombia."

Prepared by Economic Analysis Unit of UAESPNN with the collaboration of TNC and WWF.USAID. "Introduction to Enterprise for the Americas Initiatives Funds." http://www.usaid.gov/our_work/environment/forestry/intro_eai.html

ECUADOR: ENVIRONMENTAL FUND

Like, FPAA Fondo Ambiental del Ecuador (FAN) is a fund that was created amidst and has survived, significant government and economic instability. While the focus of FAN is only on the conservation of protected areas, its structure, narrow focus, and debt swap negotiations may provide significant lessons for Kyrgyzstan.

Location/Timeframe Created in 1996 and began operating in 1999. Provides funding at national level

Objective: FAN supports the establishment of a mechanism for long-term financing of the national system of protected areas.

Origin: Due to political changes and lack of economic growth during the 1990s the establishment of national environmental policies in Ecuador had been greatly hindered. A group of leaders from various sectors of society decided that a fund was necessary to provide consistent financing of environmental management. In 1994 this founding group initiated a process of consultation and discussion with civil society leaders, the donor community, and other Latin American Environmental Funds in order to identify a suitable funding mechanism. After 5 years of planning and pauses in progress, operations began in 1999 with the support of GEF/World Bank, Nature Conservancy, Ministry on the Environment, Summit Foundation and the Government of Ecuador.³¹ After further consultations and negotiations, assistance to protected areas began in 2002.

Introduction

Financing Mechanism: The Fund For Protected Areas (FAP) is FAN's first initiative and is endowment fund. An endowment fund was chosen due to a need for long-term, consistent funding, the system of protected areas was already established, and establishing transparent financial and legal procedures was possible.

Management: "The highest governing body is the Board, composed of seven members: (1) one representative of the business sector; (2) one representative of the academic sector; (3) one NGO representative; (4) the Minister of Environment; and (5) three individuals from the private sector, not linked to government, who are elected on the basis of personal leadership, and who have experience in areas the Fund considers necessary."³²

³¹ "Ecuador: Fondo Ambiental de Ecuador (FAN)." 2003. Red de Fondos Ambientales de Latino America Y El Caribe Fund Profile. http://www.conservationfinance.org/IPG_pages/IPG_LAC.htm.

³² Ibid

Feasibility Assessment

Operation: FAP is currently working to support 9 protected areas with the objective of financing basic recurrent costs of protected areas. FAP has created a methodology where Funds are transferred directly to park managers and accountants in protected areas.³³

Environmental Setting: Ecuador is a country with both high levels of culture and biodiversity. One of the first decisions of the fund was to determine a niche to focus on, since the available resources were limited and would not have an impact if dispersed. Biodiversity conservation was one priority of the Environmental Strategy for Sustainable Development, and hence, after consultations with NGOs, FAN chose to focus on protected areas and created the Protected Areas Fund (FAP).

National Government: In the early 1990s, the government of Ecuador ratified the international Convention on Biological Diversity, and amended the national constitution to include the need to create and consolidate a National System of Protected Areas for the public good. Out of that framework Fondo Ambiental was created on “paper” in 1996. In 1998 The Special Law of the Galapagos established that revenues from the Galapagos would stay in the islands, which cut funding to continental protected areas, creating a need to activate FAN. It was determined that the creation of FAN is not a substitution for the government’s responsibility to continue current funding sources. FAN and the government agreed that the funding policies and practices will not change with successive governments.

Donor Interest: Initial donors were the German government, GEF, and the Netherlands. Before FAN Germany had engaged in debt for nature swaps but it had not agreed to capitalize endowment funds with those resources. With Ecuador, Germany agreed for the first time to fund not only one, but two debt for nature swaps to capitalize the protected areas fund (total market value of both swaps of 7.04\$ US, June 2005).

Design and Consultations: During the initial feasibility assessment FAN spent considerable time examining the lessons learned from other funds and consulting with the NGO community and other funds.

Strategy to accomplish the SD Fund

FAN created a priority setting process for supporting protected areas. FAN also promotes the establishment of improved planning mechanisms for the protected areas. “The methods devised to channel resources to the field, and to monitor and evaluate results, will facilitate the use of results-oriented management practices by the environmental authority. FAN’s role goes beyond that of a financial mechanism. Channeling resources implies additional activities, including institutional strengthening, networks of key actors, and training in financial management, planning, accounting, and monitoring and evaluation, among other topics.”³⁴

Foreseen risks and Obstacles

The 1990s was a politically and economically challenging decade for Ecuador. From 1990 to 1999 the currency devalued rapidly and annual economic growth was zero. From 1996 to 2001 Ecuador had five different presidents.³⁵ Such instability was a key reason for creating the fund, but also a potential hurdle for the survival of the fund. Including international cooperation in the fund was essential to manage this risk.

³³ Sangeza, Samuel Pardo. Executive Director of Fondo Ambiental Nacional, Ecuador. Personal Correspondance. 23 July, 2005.

³⁴ “Ecuador: Fondo Ambiental de Ecuador (FAN).” 2003.

³⁵ Ibid

Key actors	<p>Sources of Funding: “Between 1999 and 2000, FAN conducted initial negotiations for the capitalization of its first initiative, assistance to protected areas, which began in 2002. The funding included: (1) US \$2.9 million through a debt swap with the German government; (2) \$4.3 million from the GEF; and (3) \$700,000 from the Netherlands.”³⁶</p> <p>National Management: The Ministry of the Environment is the national government’s connection to the fund.</p>
Impacts	<p>Implementation: The fund is implemented by park managers and administrators in 9 protected areas</p> <p>FAP started financing the basic recurrent costs of four protected areas and is now financing nine</p>
Lessons learned	<ul style="list-style-type: none"> • Inclusion of the public sector and independence from the government has been essential • A strategic focus and clear links to national priorities has improved FAN’s ability to leverage resources • The negotiations and design of the form took far longer than expected, but were important for creating a stable fund. • “The design of investment strategies requires extremely specialized skills. The Fund needs to treat the development of this capacity as a priority.”³⁷
References	<p>Fondo Ambiental de Ecuador http://www.conservationfinance.org/IPG_pages/IPG_LAC.htm</p> <p>Samuel Sangreza, Executive Director Fondo Ambiental de Ecuador. Personal correspondence. 23 July 2005.</p>

POLAND: ECOFUND

The Polish EcoFund is the largest environmental fund currently in existence. It is an example of a fund that supports projects in a wide range of issues and that has been able to leverage additional funds to achieve its objectives.

Location	<p>Established in 1992 by Poland and the Paris Club countries. Provides funding at national level</p> <p>Objective: EcoFund was created to support important activities in the field of environmental protection in Poland. Supported projects are consistent with the National Environmental Policy and contribute to Poland’s compliance with obligations arising from international conventions and agreements.</p>
Introduction	<p>Origin: The Polish EcoFund was established with the purpose of managing resources from a debt for nature swap, created by Poland’s debt relief agreement with Paris Club nations. This agreement included an option for creditor countries to make bilateral agreements with Poland for the conversion of up to an additional 10% of debt for environmental protection purposes.</p> <p>Eco-Fund was the first fully- fledged institution established in Central and Eastern Europe for the purpose of managing debt- for- environment swap proceeds.³⁸ The US was the first country to contribute to the fund, followed by France, Switzerland, and more recently Sweden. Prior to the Fund’s creation Finland also agreed to a debt- for- environment swap with Poland, but the revenues are not managed by the fund.</p>

³⁶ Ibid

³⁷ Ibid

³⁸ “Swapping Debt for the Environment: The Polish Ecofund.” OECD and Phare. March 1998.

	<p>Financing Mechanism: Debt Swap</p> <p>Financial Structure: Under current agreements, total contributions to the fund until 2010 will be USD 474 million. This EcoFund is the largest environmental fund managed by a single institution.³⁹</p> <p>Management: The interests of primary stakeholders are represented by a Supervisory Council. A management board is responsible for its operational objectives and performance. The Supervisory Council may consist of 7 to 15 representatives from the Polish national and local government authorities, the Parliament, NGOs, and the Governments of donor countries. All members are appointed for a 3- year term.</p> <p>Operation: The Management Board is the executive body of the EcoFund and consists of 2-5 persons. This Board is responsible for managing the daily activities of the fund, such as: Project appraisal, applications and selection, Conclusion of grant agreements, Monitoring of project expenditures, and evaluations, and Public Relations</p>
Feasibility Assessment	<p>National Government: The Debt for Nature swap was initiated by the then Polish Minister of Environmental Protection, Natural Resources and Forestry, and officially put forward by Poland's Prime Minister.</p> <p>Donor Interest: The Debt for Nature swap was part of larger negotiations with Paris Club member for debt relief. These negotiations were while Poland was facing huge costs in rebuilding a post- communist society.</p>
Strategy to accomplish the development of the SD Fund	<p>The EcoFund provides grant support for projects in Poland addressing: Transboundary air pollution, Pollution and eutrophication of the Baltic Sea, Global climate change gases, Biological diversity, Waste management and reclamation of contaminated soil.</p> <p>In 1996, funding was provided to public institutions (63%); publicly owned institutions (30%), private enterprises (5%) and to NGOs (2%)</p> <p>EcoFund additionally provides:</p> <p>Financing for environmental priorities insufficiently supported by other institutions, Financial leverage to existing projects, Assisting with project preparation skills among applicants, Providing a "least-cost" project model to increase the cost- effectiveness of projects, Promoting the development of the environmental goods and services sector and encouraging investment, Providing a benchmark for similar institutions in Poland and around the world.⁴⁰</p>
Foreseen risks	<p>Since the fund covers a broad range of issues a list of short- term, medium term, and long-term priorities were created, balancing priorities from the 1990s to 2020.⁴¹ A list of priority areas was also created.</p>
Key actors	<p>Sources of Funding: United States, France, Switzerland, Sweden and Norway</p> <p>National Management: Minister of Environment/Minister of Finance</p>

³⁹ Ibid

⁴⁰ Ibid

⁴¹ Kazmierczyk, Pawel (editor). The Environmental Technology Market in Central and Eastern Europe: An Overview of the Czech Republic, Hungary, Poland, Slovakia and Slovenia. 1997. <http://www.rec.org/REC/Publications/ETSurvey/cover.html>

Impacts and results of the TF	<p>From 1992 to 2004, the receipts from the Polish-debt-for-environment swap scheme totaled about 350 million US dollars, which is about 60% of the total amount to be received by EcoFund from 1992 till 2009. The fund has supported about 1,100 projects.⁴²</p> <p>Supported projects include the following: Elimination of the combustion of coal within the Old Town area of Cracow, Effective protection of eagles and other endangered species of birds of prey (planned for the period till 2010); Protection and reintroduction of the European pond turtle; Restoration of water cleanliness in the Biebrza River in the Biebrza, Improvement of the quality of water supplied to the urban agglomerations of Cracow, Upper Silesia, and Wroclaw; Protection of the environmental quality of the Tuchola Forest; Elimination of low sources of air pollutant emissions in the Klodzko Valley; Modernization of the PTTK (Polish Tourist Country-Lovers' Association) shelter-homes situated in national parks to reduce the environmental impact of such facilities; Green Energy for the Warmia and Mazury Region." Further information is available at http://www.ekofundusz.org.pl.</p>
Lessons learned	<p>The Polish EcoFund portrays the potential for a SD Fund, which has established a positive reputation and the trust of creditors, to leverage funds. It also portrays the importance to government commitment and smart negotiations for managing debt negotiations. Moreover, rigorous project management, and transparent decision making has further contributed to the success of the fund.⁴³</p>
References	<p>Kazmierczyk, Pawel (editor). The Environmental Technology Market in Central and Eastern Europe: An Overview of the Czech Republic, Hungary, Poland, Slovakia and Slovenia. 1997. http://www.rec.org/REC/Publications/ETSurvey/cover.html</p> <p>"Polish Debt for Environmental Swap." http://www.ekofundusz.org.pl/us/index.htm</p> <p>"Swapping Debt for the Environment: The Polish EcoFund." OECD and Phare. March 1998.</p>

Additional examples are presented in Appendix 1

OVERALL LESSONS LEARNED

Key issues learned from the design and implementation of SD Funds are presented in this section. The information is organized according to: (i) Advantages and challenges of SD Funds, and (ii) Factors contributing to successful SD Funds.

ADVANTAGES AND CHALLENGES OF SD FUNDS

The creation of Sustainable Development Funds conveys many advantages:

SD Funds are ideally stable, long-term sources of funding and can represent a low risk, high benefit means of financing projects. In environments with political instability, budget cuts, and economic austerity programs, a Fund may mitigate risk since it remains largely independent of such events. While mitigating risks, SD Funds may also effectively leverage funds, attracting important additional funding from various sources. Once SD Funds have absorbed funding from a diverse range of national and international funding sources, they can "retail" these funds into national and local initiatives.

SD Funds may also represent effective means of facilitating communication between various international and national actors. Since broad participation of government and non-

⁴² "Polish Debt for Environmental Swap." <http://www.ekofundusz.org.pl/us/index.htm>

⁴³ "Swapping Debt for the Environment: The Polish EcoFund." OECD and Phare. March 1998.

governmental representatives in the governing bodies contributes to a transparent decision-making process, different stakeholders are generally consciously brought together to manage funds. By bringing together various actors (donors, government, and civil society) and through the support of NGOs, community-based organizations and the commercial sector, SD Funds also make an important contribution towards the development of civil society.

A key characteristic of SD Funds is that they are independent from national governments. Due to this independence, SD Funds can react more flexibly to new challenges and can conduct long-term planning independent of changes of government and shifts in political priorities.

While the above benefits can be significant, SD Funds are not without challenges:

In some circumstances environmental funds are not an appropriate choice since they cannot generate significant amounts of funding in a short timeframe – which may be required to manage major, urgent threats. At the same time, the minimum size for a SD Fund to be cost effective is typically US\$5 million, which can often be difficult to raise. Once created, some types of funds, such as endowment funds tie up large amounts of money and only generate relatively modest income, a part of which is spent on administrative costs. Once a Fund is created, the possibility exists that the funds will be utilized for political and other purposes outside its original objectives and restrictions, and that endowment will be “invaded.” Establishing proper legal safeguards is essential to minimize this possibility. It is also essential to consider the influence the establishment of a Fund will have on governmental policies. The existence of an SD Fund can prompt cutbacks in conservation funds by host governments and donors.

FACTORS CONTRIBUTING TO A SUCCESSFUL SUSTAINABLE DEVELOPMENT FUND

Factors contributing to a successful SD Fund are as follows:

Political

- Government support for a SD Fund, and for the concept of a fund outside government control that involves both the public and private sectors is essential. Support should be active and broad-based, from senior political leaders to regional and local bodies, extending beyond environmental ministries and departments to include ministries of finance and planning. Governments should also be prepared for co-ordination among host-country government agencies as well as with non-governmental organizations. Most governments will be required to make a reasonable financial contribution to illustrate its support for the Fund and project activities.

Social / Environmental

- An effective demand for the fund’s “product” is critical. The interest of donors and supportive organizations interested in carrying out social and conservation activities on the scale envisioned needs to be determined. At the same time, critical environmental or social issues that would benefit from long term funding should be determined. In many cases currently protected areas or social programs have already been established but are in need of funding.

Financing

- A reasonable financial contribution or a reasonably high expectation that the SD Fund will be able to secure sufficient funding from national or international sources.

Stakeholder Involvement

- A key factor for success for many funds is the involvement of diverse stakeholder groups. The feasibility assessment should determine who the stakeholders are; who the beneficiaries might be; functional supporting institutions (e.g. banking, auditing, and contract-

ing) available in the host country; the possibility for cooperation among stakeholders, and the existence of a common vision. At the same time availability of one or more mentors should be determined— e.g. an experienced donor agency or international NGO or more experienced trust fund — to provide technical, fundraising and other support to the fund during the start-up and early implementation phases. Local NGOs may assist in establishing an EF and later benefit from grants from the EF. It is important that rules regarding conflict of interest for an EF are established so that NGO support is not perceived as primarily being motivated by a desire to receive grant funding.

PHASES GENERALLY INVOLVED IN THE DEVELOPMENT OF SUSTAINABLE DEVELOPMENT FUNDS

In general there are three phases linked to the development of SD Funds:

- Feasibility Phase
- Design Phase, and
- Implementation Phase

Since the key issue in Kyrgyzstan is to evaluate whether or not it is feasible and appropriate cost-effective to create a new administrative mechanism as a Fund, this section will only include information regarding the feasibility phase. For information related to the design and implementation please refer to The Conservation Finance Guide to Environmental Funds.

FEASIBILITY PHASE & REVIEW OF CURRENT CONDITIONS

Activities usually developed during the feasibility assessment include: meetings with the participation of interested stakeholders and the development of an independent feasibility assessment. During this assessment the political, legal, social/ environmental, financial, and stakeholder situation should be carefully considered since each of these arenas will play a critical role in the design and implementation of the fund. Among the steps to be followed are:

Among the key issues to be established during the feasibility phase are:

- **Establishment of a clear vision of the SD Fund main goals.** Through a participatory process, which includes key stakeholders – including donors, NGOs, and government representatives - the goals, the scope (national, regional), the areas of investment, as well as who will benefit from it and why should be defined. National policies or priorities may also influence Fund objectives and should be considered during this phase

- **Assess interest and possible concerns for establishing the SD Fund from different stakeholders:**

- In country support (political and financial);
- Level of interest from donor community;
- If the idea is to support environmental issues such as biodiversity sustainable management , assess interest from the Global Environmental Facility (GEF).

- **Assess local legal conditions and identify options for legally structuring the Fund** as a trust, foundation, agency or the legal entity that better fits in country legal and institutional conditions. During the feasibility assessment it should be determined if the national legal framework permits establishing an autonomous trust fund, foundation, or similar organization and if it can be relied on to protect the Fund's financial assets and legal independence. It should also be determined if tax laws allowing such a fund to be tax exempt, and providing incentives for donations from private contributors are in existence. If they are not, these laws can be created, such as in the situation of Peru's PROFONANPE fund. However, national government willingness to bring about and support such a framework is equally important.

- **Assess the existence of realistic prospects for attracting a sufficient level of capital for supporting social and environmental programs** while keeping administrative costs to a reasonable percentage. The interests of donors in the type of projects to be funded need to be taken into consideration. Hence, discussions with donors are an important aspect of the feasibility assessment while keeping national and local priorities clear. Examining internal sources of funding is also important. The presence of possibilities to harness in-country resources (user fees, taxes and levies, donations, etc.) to ensure long-term financial sustainability is a key means of attracting donors and portraying national government commitment.

- **Identify ongoing or past experiences in the design and implementation of Funds** or any other administrative mechanism within the country which can provide lessons learned and good practices or that can serve as a platform to administer the debt swap proceeds

- **Assess the cost-effectiveness of establishing the Fund** a SD Fund may not always be the most cost-effective choice, therefore a quick assessment of the cost-effectiveness of establishing the Fund vs. realistic potential capacity to mobilize the level of capital adequate for the fund to support a significant program while keeping administrative costs to a reasonable level, needs to be developed at the feasibility phase.

THE SITUATION IN KYRGYZSTAN

During the mission it was possible to gather and analyze information about some of the key issues to be addressed during the feasibility analysis. The issues analyzed include:

- **Establishment of a clear vision of the SD Fund main goals:** In the case of Kyrgyzstan, the Fund goals may include: (i) the support to DS operations and funding mobilization from additional sources, (ii) support sustainable development, mainly through programs aimed at poverty alleviation, sustainable environmental management, and social improvements⁴⁴. A participatory process involving key stakeholders has already taken place in Kyrgyzstan and a list of potential areas to be supported through the debt for sustainable development swap and its administrative mechanism has been developed.

- **Assess interest in establishing the ES-Fund from different stakeholders:** Meetings with governmental officials (Ministry of Finance, Ecology and Emergency Situation), as well as members of the Parliament and the International community including both multi-lateral and bilateral donors were held. During these meetings it was possible to identify in country support for the debt swap initiative as well as for an administrative facility to manage in a transparent and efficient way the debt swap proceeds. Regarding possible interest from GEF, it is important to point out that currently the GEF is supporting the development of Environmental Funds in many countries worldwide including Surinam and Kazakhstan (UNDP-GEF), Brazil and Colombia (World Bank GEF). Some GEF projects have incorporated a social fund component in support of alternative economic development activities aimed at relieving pressure on conservation areas.

- **Concerns regarding a potential debt swap operation and its administrative mechanism:** In the course of the consultancy some concerns were raised including the current shortage of cash flow faced by the government of Kyrgyzstan that would make an immediate payment of the debt swap proceeds difficult. It was suggested that this difficulty could be overcome either by proposing that the government could service the debt payments (under the debt swap operation) with in-kind contributions during the first years and use cash payments once the shortage of cash flow is overcome. Another option is to arrange the payment schedule in such a way that smaller payments are made during the initial

⁴⁴Mainly, programmes supporting the development of social, economic and environmental capitals as referred to USAID glossary of terms, "Economic and social growth that does not exhaust a country's resources; that does not damage the economic, cultural or natural environment; that creates incomes and enterprises; and that builds indigenous institutions."

years and larger payments later. A recent bilateral debt service forecast developed by the Ministry of Finance indicates that the Kyrgyz Republic will be able to service the debt and therefore the payments linked to a potential debt swap operation.⁴⁵

- **Assess local legal conditions and identify options for legally structuring the Fund:** Kyrgyzstan is a civil law country and as mentioned above, there is no legal foundation to establish a trust fund per se. A few years ago, an analysis of Kyrgyzstan's legal conditions was carried out for the establishment of a mechanism, which allows the participation of governmental (both national and local), as well as non governmental institutions in the administration of funds aiming to support community development. This analysis concluded that an Agency was the most appropriate legal form given Kyrgyzstan's legal conditions and as a consequence the Community Development and Investment Agency (ARIS) was created by presidential decree.⁴⁶ The analysis recently carried out by the OECD arrives at the same conclusion.⁴⁷

- **Identify ongoing or past experiences in the design and implementation of administrative mechanisms including Trust Funds, Association or Agencies:** During the mission existent administrative mechanisms in Kyrgyzstan including ARIS and the Republican Environmental Fund, and existing international organization umbrellas, such as that provided by UNDP, were analyzed. Based on these experiences, many useful lessons can be learned. The experience of ARIS will be especially helpful for the debt swap initiative since it has been able to develop administrative procedures, which support efficient, transparent use of the resources administered while ensuring high impact at local level. UNDP input is also valuable since it combines administrative and substantive capacity with poverty, environmental, and governance initiatives developed at local level. It can also provide experience in the development of local capacities, as well as lessons learned from the implementation of Debt Swaps and its related administrative mechanism in many other regions of the world.

NEXT STEPS

As mentioned above, in December 2004 UNDP produced the, Strategic Paper on External Debt for Sustainable Development Swap in the Kyrgyz Republic: Next Stages Proposal. In this paper a follow up strategy including next steps was presented.

STAGE 2. The establishment of a multi-sectoral working committee under the government of Kyrgyzstan for coordinating external debt for sustainable development swap and consisting of representatives of key ministries and the NGO community was proposed. The creation of this committee should be considered under the new administration.

Among the expected results to be produced by the working committee, should be included:

- Establishment of a clear vision of the SD Fund main goals;
- Assessment of the interest in establishing the ES-Fund from different stakeholders including the donor community;
- Oversight of the feasibility study to be developed to propose a possible mechanism to be used to administer the debt swap proceeds.

STAGE 3 The International consultant for the government develops a detailed feasibility study and proposes a possible mechanism to be used to administer the debt swap proceeds. This report already advances some the issues to be considered in such a study, but a deeper analysis needs to be carried out:

- Study the legal conditions in Kyrgyzstan, consider current experiences including ARIS and

⁴⁵ Information submitted in July 2005 by Public Debt Department – Ministry of Finance

⁴⁶ Interview with Elmira Ibraimova, ARIS Executive Director

⁴⁷ OECD 2005

the international umbrella provided by International organizations such as UNDP and recommend:

- Analysis of institutions that could serve as the administrative mechanism identifying advantages and disadvantages;
- Analyze if it is cost effective to create a new institution or if it is more cost effective to work with one of the existent institutions. This analysis will include a preliminary assessment of potential sources of funding beyond the DS, including potentiality to mobilize resources from GEF, bilateral donors, bilateral agreements such as the Memorandum of Understanding between Kyrgystan and Denmark on co-operation for the implementation of the Kyoto Protocol to the UN Framework Convention on Climate Change;
- If the proposal is to work with one of the existent institutions, propose the changes needed to guarantee that the goals of the potential DS will be achieved;
- Stages needed to be followed to implement the recommendation, including legal, institutional arrangements and capacity development activities.

Once these stages are completed, it is recommended to continue with steps 4 to 8 as presented in the strategic paper.

APPENDIX 1. ADDITIONAL CASE STUDIES (PERU, BELIZE, MEXICO, BOLIVIA AND HAITI)

Name of Fund	The Peruvian Trust Fund for National Parks and Protected Areas – PROFONANPE
Location/Time	Created in 1992. Provides assistance at the national level
Introduction	<p>Objective: PROFONANPE was created in 1992 as a private nonprofit organization to promote long term financing of the natural protected areas of Peru.</p> <p>Origin: Since the end of the 1980s, Peruvian NGOs have shared the increasing global concern of identifying sustainable financing mechanisms for environmental management. Thus, these organizations, with the assistance of international partners, began efforts to establish an Environmental Fund. The primary factor behind the creation of PROFONANPE was the need for the protected areas system – SINANPE – to be able to rely on a solid institutional partner that could raise, administer and channel stable funding over the long term to contribute to the conservation of biodiversity and to strengthening the institutions involved. At the beginning of the 1990s, this group prepared a proposal to the GEF/World Bank for the creation of a fund dedicated to financing the country's protected natural areas. During the design phase, a committee of NGOs, government representatives, and members of the private sector was formed to support the project and to develop general guidelines for operation and decision-making. In 1991, the GEF/World Bank established a requirement for the creation of a private institution, with participation and support from government agencies, international assistance agencies, and Peruvian NGOs, before the funds could be transferred. On December 29 1992, PROFONANPE was established by legal decree, as a private nonprofit organization. Its statutes provide for a long-term grant making program and the creation of independent sub-accounts, in coordination with different donors, to finance the country's protected areas</p>

Strategy to Accomplish the Fund

Finances & Instruments: PROFONANPE implemented Peru's first debt-for-nature swap, with the Government of Canada for \$354,920 for an endowment whose interest was used to finance baseline studies for a public use plan for Rho Abiseo National Park. Since 1996, PROFONANPE has concluded six debt swaps with Germany, Finland and the United States for a total of \$34.6 million. Each of the swaps has created a sinking fund. However, in some cases these sinking funds have been combined with endowment funds or plans for conservation areas to generate their own income to cover recurrent costs through entry and concession fees, and other mechanisms.

Fund Governance: The highest governing body is the Directive Council, with seven members: THREE representatives of the public sector: Ministry of Economy and Finance, INRENA, and the Presidency of the Council of Ministers, THREE representatives of the private sector selected from the Peru Environmental Network (RAP); and ONE representative of international donor agencies (currently the UN Development Program, UNDP). The private sector and international cooperation representatives serve for two-year terms. The presidency of the Council is held by one of the government representatives (INRENA).

Operations: Fund operations are managed by an executive and staff of 20 people, organized into technical and finance/administration departments. In addition, PROFONANPE works with an external technical committee officially constituted to assist and advise in the planning, supervision and evaluation of projects, and in the development of annual work plans, finance, and other technical tasks. This committee includes 20 professionals in the fields of conservation, environmental economics, finance, and environmental law.

Legal Framework: Peru has a national Strategy for Protected Areas that identifies the priority areas for conservation, and this, together with the Law and Regulations of Protected areas form the framework for protected area management. These documents also are the basis for PROFONANPE's financing decisions. The by-laws governing PROFONANPE were drafted by a working group comprised of representatives from the GOP and 7 Peruvian conservation NGOs.

Sources of Funding: Since 1996, PROFONANPE has concluded six debt swaps with Germany, Finland and the United States for a total of \$34.6 million.

Key actors

Management: The Directive Council includes representatives from: the Ministry of Economics and Finance, INRENA, and the Presidency of the Council of Ministers; three representatives of the private sector selected from the Peru Environmental Network (RAP); and one representative of international donor agencies (currently the UN Development Program, UNDP).

UNDP role

UNDP representative on management board.

Impacts and results of the TF

Lack of published reports documenting implementation. One of PROFONANPE's challenges is to identify a system of institutional evaluation and evaluation of the impact of its programs. This will also be indispensable for observing changes in the field and identifying lessons that will enrich the organization's management.

Lessons learned

PROFONANPE has adjusted the structure of its portfolio throughout its institutional life. In the beginning, the organization invested the entire portfolio in the local market, a strategy that later was revised due to the risks involved. Currently, an asset manager selected from among the country's five leading banks administers the resources.

Raising endowment funds in any area is one of the most difficult tasks, since most donors have limits on channeling funds for this purpose. Some donors permit the use of interest earned on sinking funds to develop endowments. PROFONANPE has used this type of approach to build its endowments. However, this is not a replacement for seeking additional funds to capitalize endowments, since it takes a long time to generate the desired capital.

Although PROFONANPE is a private institution, at the beginning three members of its Council were appointed by the Ministry of Agriculture. This has been modified to allow the Ministry of Agriculture to appoint the representatives from the public sector. It is important to maintain independence in the Fund's decision making processes so that the needs of the beneficiaries will be fully represented (GEF, 1998). PROFONANPE's experience has demonstrated that its work can be adversely affected if the government representatives do not support the intended development of the Fund, or fail to play the role accorded to them.

The lack of government strategies for management of protected areas has obligated the Fund to establish its own priorities and regularly interact with the government and other organizations to assist in the development of common strategies.

It is important to review the investment strategy continuously, especially if the strategy is risky. Investing in high-risk instruments may impede the achievement of the most important objective: assuring financing for conservation activities.

References

Global Environment Facility Report. "Republic of Peru: National Trust Fund for Protected Areas." 1995.
Fondo Nacional para Ereas Naturales Protegidas por el Estado (PROFONANPE)

Name of Fund Location/ Time- frame

Belize Protected Areas Conservation Trust (PACT)

Created in 1996 in Belize provides assistance at national level

Introduction

Objective: Generating sustainable financing for the country's protected areas.

Origin: In 1992 the report, Strategy for Generation of Funds for the Protected Areas of Belize showed the need to establish a trust fund for protected areas. In 1992, the Belizean Cabinet approved a law for the creation of the Protected Areas Conservation Trust of Belize (PACT). However, it was not until 1996 that the law was promulgated and put into effect. The demand to create PACT was driven largely by NGOs involved in managing protected areas, and responded to two fundamental needs: (1) raising funds from national and international sources to consolidate the national system of protected areas, and (2) institutional strengthening of the system of protected areas.

	<p>Finances: In 1996, a charge of US \$3.75 was approved as a conservation tax on visitors departing the country. These revenues generate an annual flow representing 81.09% of PACT's total income. Additionally, the organization receives 20% of the fee paid by cruise ships for their visits to Belize (6.3% of PACT's total income) and 20% of the revenue from recreation permits in protected areas. PACT's annual flow of funding is approximately US\$ 750,000. These funds constitute the principal source of revenue for financing projects and to date, PACT has not relied on other methods of capitalization. However, the organization is revising its strategic plan for fundraising in the future. Currently it directs 5% of its income to an endowment fund whose objective is to give continuity to institutional management, in case for any reason the annual resources were not raised or transferred.</p> <p>Disbursement of Funds PACT operates as an endowment fund. In 2001 Belize signed a debt for nature swap with the United States government</p> <p>Management & Structure: The trust institution has a private sector majority on its board of directors and is capitalized through independent fund generation mechanisms. PACT's ultimate governing body is its board of directors, comprising seven members representing NGOs, the private tourism sector, community council, marine protected areas, the Ministry of Tourism, the Ministry of Natural Resources, and Ministry of Finance, whose representative, like the executive director, serves ex officio. The board of directors has recently established a Projects Committee and a Scholarship Committee that participate in the evaluation of projects. PACT is re-structuring its board of directors to include better representation of the private entrepreneurial sector and increase the number of members to 11. The executive staff is the operational body of the Trust. It comprises a team of eight staff in two units, Operations/Finance, and Grants Program.</p>
<p>Feasibility Assessment</p>	<p>The importance of the environment was recognized by the government and the country's biodiversity was valued at international level. NGO's involved in managing protected areas were eager for the development of PACT.</p> <p>The environment is one of the primary sources of income for the country and some 42% of the national territory is under some form of conservation status.</p> <p>The feasibility and design was determined after years of consultations and workshops with sectors of civil society, government, the private sector and international conservation organizations.</p>
<p>Strategy to accomplish the development of the Fund</p>	<p>Use of a conservation tax on visitors: PACT has been working on the design of an independent private foundation that could receive grants and other types of resources, and can now receive donations from foundations and individuals. PACT makes small donations to NGOs and government agencies working in protected areas</p> <p>The thematic focus areas are management and conservation of protected areas; promotion and development of protected areas; environmental education; and community development around protected areas</p>

Foreseen risks and obstacles	Among the conditions identified by PACT as challenges and barriers to success, the most important is the legal structure and the limitations it imposes. The organization intends to modify its legal bodies to expand the board of directors, assure greater participation by the private sector, and create a PACT Foundation to raise additional resources.
Key Actors	<p>Operation: NGOs representing the private tourism sector, community council, marine protected areas, the Ministry of Tourism, the Ministry of Natural Resources, and Ministry of Finance</p> <p>Donor: USAID</p>
UNDP role if any	PACT is a member of REDLac. UNDP is not directly involved with the fund.
Impacts and results	From 1997 until 2002 PACT supported 23 projects for a total of approximately \$450,000. The thematic focus areas are: management and conservation of protected areas; promotion and development of protected areas; environmental education; and community development around protected areas.
Lessons learned	Define a specific niche of working with legally established protected areas. Training for the executive staff that has improved productivity and efficiency in recent years. Establishment of mechanisms for teamwork with the agencies that collect taxes and tourism fees. A board of directors that is autonomous and independent of national government is essential to assure the efficiency and effectiveness of the Fund. Continuous training of the operative staff is fundamental to assure good customer service. Working with limited resources, it is important to maintain a close relationship and work collaboratively with communities and NGOs in order to identify the most efficient mechanisms to invest in conservation.
References	Belize Protected Areas Conservation Trust (PACT) http://www.conservationfinance.org/IPG_pages/IPG_LAC.htm PACT Belize website. http://www.pactbelize.org

Name	Mexico National Environmental Fund
Location/ Time-frame	Created in 1992 provides assistance at national level.
Introduction	<p>Objective: To conserve Mexico's extraordinary biodiversity through economic support and strategic management.</p> <p>Origin: FMCN was initiated by the World Wildlife Fund-US and then President of Mexico Carlos Salinas de Gortari during the United Nations Conference on Environment and Development in Rio de Janeiro. It was agreed that the principle of biodiversity conservation in Mexico was a responsibility to be shared by both the US and Mexico and that a permanent, autonomous organization was needed in Mexico to guarantee stable financing for conservation projects.</p> <p>To transform the idea of a trust fund into a reality, US Government agencies and philanthropic organizations contributed \$475,000 USD</p>

Feasibility Assessment

over the course of two years to lay the groundwork for the fund. In late 1993, a 21-person consultative committee that included several of Mexico's leading conservationists was established to steer the project through the design phase. Efforts to finalize the Fund's capital endowment took another two years. Although the US and Mexican governments had agreed in 1993 to endow the fund, and Mexico made its first contribution in 1994, it wasn't until 1996 that FMCN signed formal agreements with both governments to actually release the funds.⁴⁸

Finances: The total US contribution was \$19.5 million USD and the Mexican contribution was US\$10 million USD. Part of the delay in receipt of the funds was that the US was not willing to commit its share of the endowment until a financial mechanism was designed ensuring that the Mexican government would contribute one-half the amount of the US donation. With additional contributions from the Mexican government and a group of US private philanthropic donors, FMCN's endowment reached \$75 million USD in 2002. In 2002 pledges for an additional \$20 million USD were secured. FMCN operates as an endowment and sinking fund. Management FMCN is governed by a cross-section of Mexican society as well as by representatives from the international conservation community. The Fund's General Assembly is the highest authority of the organization and is composed of 32 members. This entity is responsible for, among other duties, approving the composition of the Board of Directors, the annual audited Financial Statements and adjusting the by-laws to the evolving operational needs of the institution. The Fund's General Assembly is the highest authority of the organization and is composed of 32 honorary members.

The next level of authority is the Board of Directors, which includes 21 representatives from various sectors of society, including business, government and civil organizations. The Board is responsible for supervising the Executive Director's operation of the organization, including project selection and budget allocation.

During the creation of the fund the national and international political climate was favorable. "The trust fund was first discussed in 1992 as a vehicle of cooperation between the North American countries. NAFTA, which became effective on January 1, 1994, provided a good opportunity to discuss and implement this type of regional cooperation. By endowing a Mexican trust fund, the US Government was also able to demonstrate that it was not just focusing on trade, but on the environmental responsibilities the two countries shared."⁴⁹ At the same time, in the 1990s Mexico had enacted legislation to expand its protected areas network and strengthen environmental management. However, a constant shortage of funds severely hindered the implementation of these new conservation policies. The fund was focused on biodiversity from the beginning, an important point since the Mexican government was more eager to work on issues such as pollution and waste management.

⁴⁸ "Fondo Mecicano para la Conservacion de la Naturaleza." http://www.fmcn.org/int_related.htm

⁴⁹ Ibid

Strategy to accomplish the development of the Fund	<p>FMCN has a major focus on community development, connecting sustainable development with environmental protection. For example, after it was realized organizations submitting proposals needed training in proposal writing and project design. In response in 2000 FMCN formed the “Mexico Conservation Learning Network” which is designed to strengthen the capacities of conservation organizations. Other strategies included creating a diverse board and hiring an independent financial expert to help supervise the asset managers.</p>
Foreseen risks and obstacles	<p>One difficulty was creating and pulling together a list of experts to advise the fund, since numerous addresses and phone numbers were dated.</p> <p>Applicant organizations needed training in writing and project design</p>
Key Actors	<p>Donors: USAID, US private donors, World Bank/GEF, Government of Mexico</p> <p>Management: World Wildlife Fund- US, Mexican government (Minister of Environment), The Nature Conservancy, Pronatura</p>
Impacts and results of the Fund	<p>To date, through five open calls for proposals, FMCN has funded close to \$11.0 million USD in support of 380 conservation projects. Since 1996, FMCN has also disbursed approximately \$9.5 million USD through their other programs (see the FMCN website for more detail: www.fmcn.org)</p>
Lessons learned	<p>All sectors of society have something to contribute to the conservation of biodiversity, engendering participative processes at all levels of fund administration:</p> <ul style="list-style-type: none"> • A CTF cannot operate in isolation nor single-handedly address all challenges - It must nurture linkages with a wide variety of conservation stakeholders • An organization must constantly engage in self-reflection to learn from experience – monitoring and evaluation must be built into the design of projects in order for them to succeed • Establish capable leadership • Consider more carefully whether the benefits provided by asset managers outweigh the costs. • Make sure that the fund’s income from its investment strategy covers the fixed costs of the fund. • Work from the beginning to raise non-earmarked endowment funds that are sufficient to cover the basic operative and administrative costs of the core staff of FMCN. • Establish an internal communication strategy and staff reviews early on. • Consider carefully the implications involved in how often the board of directors rotates.
References	<p>“Fondo Mecixcano para la Conservacion de la Naturaleza.” http://www.fmcn.org/int_related.htm</p> <p>“The Mexican Nature Conservation Fund.” GEF Lessons Notes. April 1997.</p> <p>Mexican Nature Conservation Fund. “Creating Value for Conservation: Strategic Plan 2001-2006.</p>

Name	Fondo Nacional para el Medio Ambiente (FONAMA)
Location/ Time-frame	<p>Created in 1992.</p> <p>Provides assistance at national level</p>
Introduction	<p>Original Objective: To permit the government to complete its plans to generate financing and organize investment in conservation projects and programs, as well as sustainable use of natural resources.</p> <p>New Objective: To raise funds internally and internationally for financing plans, programs, projects, and scientific research related to sustainable development, natural resources, and the environment with a special emphasis on forests and urban environmental quality.</p> <p>Origin: FONAMA was established by law in 1992 as a decentralized institution, dependent on the Presidency of the Republic with its own legal status and autonomy of management to support the implementation of environmental policies and priorities. Its initial three years in operation were considered a success. With a change of government in 1994, the organization's credibility eroded leading to lost donors and a restructuring in 1997. It is now in the process of transformation to a new Fund to Support Sustainable Development.</p> <p>Finances: FONAMA was one of the first environmental funds created to generate financial resources for environmental management through debt swaps, grants, and concessionary loans.</p> <p>Original Management: A board of four representatives of national ministries, four representatives of civil society, three representatives of the Departmental Environmental Councils, and an executive director (without a vote).</p> <p>New Management: FONAMA's board was broadened to include representatives from academia, business, and community organizations. It is a decentralized public institution, with its own funding and autonomy for technical, financial, and economic management.</p> <p>Original Structure: FONAMA was a modular fund with several separate accounts operating under the FONAMA umbrella.</p> <p>New Structure: FONAMA is now a decentralized public institution, with its own funding. It operates under the jurisdiction of the Bolivian Presidency.</p>
Feasibility Assessment	<p>Government: The Bolivian government (in 1990) supported environmental conservation and its importance to economic revitalization and poverty alleviation</p> <p>Donors: After initial donations in (1990-1993) FONAMA decided that fundraising was not a limitation and that funds were readily available. However, an efficient coordination mechanism was missing. Hence, FONAMA assisted in the design and financing of a national action plan and the first draft of a national investment program.</p>

Strategy to accomplish the development of the Fund	<p>Initially (1990-1993) funds were plentiful; however an efficient coordination mechanism was missing. FONAMA assisted in the design and financing of a national action plan and investment program.</p> <p>After loss of credibility in 1997, the use of an external consultant was important to address the organization's issues.</p> <p>The new FONAMA has worked to involve civil society as well as promote transparency</p> <p>Many of FONAMA's initial strategies were not effective. Hence, some major donors, such as GEF, transferred funding elsewhere.</p>
Foreseen risks and obstacles	<p>Original risks included: government instability, dependence on government, and lack of capacity for implementation. In 1994 with a change of government in Bolivia FONAMA became dependant on the Ministry of Sustainable Development and Environment, instead of the president. This led to: (1) the loss of autonomy and assimilation into the state hierarchy, (2) constant turnover of executive and technical staff, (3) delays in processing applications for funding; and (4) ineffective fund management.</p> <p>During the reformatting of FONAMA outside consultants pointed out numerous issues in FONAMA's operations such as, lack of understanding of the legal structure; high turnover rate of decision makers; lack of operating manuals; lack of consistency; lack of technical capacity; and high operating costs.</p>
Key Actors	<p>National Government: National ministries, select members from civil society (Environmental Defense League, LIDEMA) and Departmental Environmental Councils.</p> <p>Donors: GEF, EIA, Bolivian Government, Dutch and Swiss governments, USAID.</p>
UNDP role if any	UNDP plays an indirect role through Capacity 21.
Impacts and results	A lack of published documentation of actual results.
Lessons learned	<p>Insulate funds from political considerations.⁵⁰</p> <p>Create a management board with a mix of representatives.</p> <p>Have administrative, financial, and project cycle manuals that spell out clear policies for the management of the organization and avoid inconsistencies in the management of distinct accounts.</p> <p>Selection of the executive should be competitive and made on the basis of merit, to ensure that the Fund's leadership has the necessary technical, personal, and professional attributes required to carry out the job.</p>
References	<p>After FONAMA lost credibility several donors moved funds elsewhere, despite restructuring efforts. This portrays the importance of considering donor needs and advice.</p> <p>Bolivia: Fondo Nacional para el Medio Ambiente (FONAMA). http://www.conservationfinance.org/IPG_pages/IPG_LAC.htm</p> <p>GEF Monitoring and Evaluation Program. http://www.gefweb.org/M&E/Eval_TF/Eval_AnxC.pdf</p>

⁵⁰ GEF Monitoring and Evaluation Program. http://www.gefweb.org/M&E/Eval_TF/Eval_AnxC.pdf

Name of Fund	The Haitian Environmental Foundation (FHE)
Location /Time	<p>Created in October 1999. Provides assistance at national level</p> <p>Objective: FHE was created as a private, nonprofit organization responding to the need to seek long-term financing for environmental activities in Haiti. It supports sustainable management of natural resources, conservation of biodiversity, and environmental restoration, both rural and urban.</p> <p>Origin: In 1994, several civil society organizations saw the need to seek long-term financing mechanisms for environmental protection in Haiti. In February 1997, the Ministry of Environment organized a seminar on “Management of Protected Areas and Financing Biodiversity Conservation” with the participation of government and other sectors of society. In October 1998, a workshop assessing Haiti’s Environmental Action Plan concluded that it was urgently necessary to create a fund that could contribute to the long-term financing of the plan. FHE was created in 1999 to support the priorities established in the plan.</p>
Introduction	<p>Finances: FHE has had three principal sources of funding: (1) USAID; (2) UNDP and (3) contributions from its founders. In October 2000, USAID, through the consulting firm Winrock International, contributed resources to support FHE’s institutional development through technical assistance valued at US \$340.000. In 2002, FHE negotiated a new agreement with USAID for US \$600.000 over two years. 22% of these funds were directed to projects, and the rest to support FHE’s operations through 2003. FHE also received \$23.000 from UNDP to support a specific project.</p> <p>Management: The highest decision making body is the General Assembly, comprising the 42 active members. From among its members, the Assembly elects the nine-member Board of Directors. The Board has authority over operating policies, annual audited financial statements, annual operating plan and budget, the strategic plan, and investment policies. Operations are managed by the executive directorate, a 4-person team. FHE has four working committees: finances, projects, internal procedures, and renewable energy.</p>

Feasibility Assessment	While many environmental funds are biodiversity conservation oriented, the Haiti fund ideally would also help with income generation. The EF should derive its instrument policies through the national environmental action plan (NEAP), investment interest was considered high before fund was created. It is important to distinguish between paying recurrent costs versus supporting new projects. The HEF was under pressure to demonstrate results and success quickly.
Strategy to develop the Fund	The principal criteria applied in project design are: (1) global impact; (2) consistency with the National Environment Action Plan, (3) one year implementation period, and (4) counterpart support by the implementing organization, amounting to 25% of the project. To select implementing organizations, FHE established a Project Selection Committee to evaluate proposals and select finalists. The Board makes the final decision.
Foreseen risks and obstacles	Current Challenges: All of FHE's operating funds come from USAID. FHE has two challenges for fundraising in the short term: diversifying the portfolio of donors financing projects, and (2) designing a strategy for institutional sustainability that will permit the continuation of FHE's work after the USAID funding ends. Acknowledgement that the design committee needed to include individuals widely acknowledged as being interested in Haiti's future but not having political or economic conflicts of interest. Realization that it is critical to have a vision of the objective of the fund before making design choices. Hence, the goals and objectives were explored in a participatory process involving a broad range of stakeholders and worked to narrow the focus of the fund.
Key actors	Sources of Funding: (1) USAID; (2) UNDP and (3) contributions from its founders.
UNDP role	UNDP is a major source of funding
Impacts	To date, there has been neither monitoring nor evaluation; methods for doing this are in design, and expected to be applied in 2004. FHE has not developed methods for evaluating the impact of its projects or their sustainability after funding ends.
References	Conservation Finance. "Fondation Haitienne de L'Environnement (FHE)." 2003. http://www.conservationfinance.org/IPG_pages/IPG_LAC.htm .

APPENDIX 2. PRE-FEASIBILITY ANALYSIS FOR THE DEVELOPMENT OF A SD FUND IN KYRGYZSTAN

SUMMARY OF ANALYSIS OF KEY CONDITIONS FOR SUCCESSFUL SUSTAINABLE DEVELOPMENT FUND

(Modified from Conservation Finance)

(Modified from Conservation Finance)		1	VERY LOW
		2	LOW
		3	MEDIUM
		4	HIGH
		5	VERY HIGH
CONDITIONS	(1 - 5 scale)		
Political Conditions			
Active, broad-based and financially significant government support of a fund outside government control, that involves both the public and private sectors.			
Support for EFs within Finance Ministry	5	Based on an interview with the Head of the Public Debt Department	
Support for EFs within Central Bank			
Support for EFs within Sectoral Ministry (Ecology and Emergency Situation)	5	Not relevant in the case of Kyrgyzstan	
Support for EFs within Sectoral Ministry (specify)	4		
Government prioritization of the environment	2	Any other Ministry supporting	
Political stability (minimum political risk)	3		
Previous experience with use of financial aid	4		
Mentors — donors, international agency, international NGO, experienced trust fund — for moral and technical support	4		
Other			
Economic Conditions			
Realistic prospects for attracting adequate, significant capital and low administrative costs. (Clear commitments from other donors beyond the GEF, or debt swap mechanisms) before starting the fund.	1		
The prospect of diversified revenue sources particularly the possibilities to harness in-country resources (user fees, taxes and levies, donations, etc.) to ensure long-term financial sustainability	1		
An effective demand for the fund’s product, i.e. a client community interested in and capable of carrying out biodiversity conservation activities on the scale envisioned, and sufficient to achieve significant impact	4		
Stable currency (minimum foreign exchange risk)	3		
Other			

Legal Conditions

Existence or likelihood of trust (or foundation, agency) laws

in reasonable time and with suitable enforcement

4

Legal and financial practices and reliably functioning supporting institutions (including banking, auditing, and contracting).

4

UNDP is a good example

Other

Other conditions

Organizational capacity of the government to execute debt swaps and other high-volume funding mechanisms

4

Support of other key domestic stakeholder groups

4

Existence of a globally significant biodiversity resource whose conservation is feasible.

4

Critical Mass of people with common vision from all sectors

3

The conservation and actions required are long term and addressable with the flows a trust fund could produce

3

A participative process which involves a broad set of stakeholders during the design process, and willingness of stakeholders to use these mechanisms.

4

CONCLUSION

Thus, the submitted documents contain the analysis of:

- The situation with Kyrgyzstan's external debt;
- Options for external debt swaps available to the Kyrgyz Government;
- Needs of the Kyrgyz Republic in financing sustainable development;
- The summarized experience of European and Latin American countries in the area of debt for sustainable development swap;
- Options to create transparent implementation mechanisms in the form of fiduciary funds, their advantages as well as the role of international organizations in their establishment. Also, political support at country level has been highlighted;
- Some recommendations have been suggested for a stage-by-stage steps to implement external debt for sustainable development swaps in the Kyrgyz Republic;
- The introduction of transparent mechanisms for external debt for sustainable development swaps.

On the basis of the above Kyrgyzstan will have to overcome political and institutional obstacles in the course of DSDS, explain the priorities of conversion operations, their compliance with the CDF goals and further sustainable development strategy. Undoubtedly, these will be social projects and programmes aimed at poverty alleviation, economic development of the country, environmental protection, etc. with each creditor's interests and policy taken into account.

With this goal in mind and the support provided by UNDP, other donors, civil society and the private sector an information package on DSDS mechanisms is being prepared, a project portfolio with proposals and projects is being thoroughly developed, a regulatory and the legal basis for establishing a monitoring system is being comprehensively reviewed to supervise the efficient use of funds received.

The materials contained in this publication are of an intermediary nature and of practical value for the Kyrgyz Government. In the light of forthcoming bilateral negotiations with creditors the recommendations given will be used to utilize additional options to relieve the external debt burden.

If you have any questions, proposals, or comments on this review as far as further cooperation with the UNDP project "Institutional Strengthening and Capacity Building for Sustainable Development" is concerned within the framework of which this work has been done.

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