

Debt Restructuring Programs

Tropical Forest Conservation Act (TFCA)

FY2002 Appropriation	FY2003 Request
\$5.0M	\$0

The Tropical Forest Conservation Act (TFCA) was re-authorized in FY 2001 for three years (FY2002 – 2004) to provide debt relief for low and middle-income countries with tropical forests to support conservation of endangered forests. To date, Congress has appropriated \$31 million for this initiative, including \$5 million in FY2002.

For FY2003, the Administration has not requested any funding for TFCA. However, the Administration's FY2003 request includes \$50 million in USAID funding for forestry conservation, up to \$40 million of which may be made available for activities under the TFCA.

Under the program, eligible countries can, in negotiation with the United States, treat a portion of their U.S. debt by engaging in one or more of the following activities: a debt buyback, a debt swap with an eligible third party (usually an international environmental NGO), or a debt reduction/restructuring. The U.S. uses appropriated funds to subsidize the associated costs.

Resulting local currency payments from buybacks or reductions are used to establish a Tropical Forest Fund in the country that will in turn make grants to local non-government organizations (NGOs) and other entities engaged in a variety of forest conservation activities. Such conservation activities may include: research on the protection and sustainable use of local plants and animals, development of sound forest management systems, training local organizations in forest conservation management, and parkland purchases. Priority is given to projects that involve local communities in their planning and execution.

The TFCA program is modeled after the successful Enterprise for the Americas Initiative (EAI) established by the Bush Administration in 1992, which supported environment and child survival programs in seven Latin America and Caribbean countries. Argentina, Bolivia, Chile, Colombia, El Salvador, Jamaica, Peru, and Uruguay have all received debt relief through the EAI.

Key Facts

- TFCA received bipartisan support and was signed into law in 1998. The Executive Order implementing the legislation was signed in July 1999.
- During FY2000, the first debt reduction agreement under the TFCA was signed with Bangladesh. This agreement allowed Bangladesh to save over \$10 million in U.S. dollar payments over 18 years. In return for the cancellation of this debt, Bangladesh will set aside \$8.5 million (dollar equivalent) in local currency to endow a Tropical Forest Fund with a mandate to protect and conserve Bangladesh's mangrove forests and Bengal tigers.
- During FY2001, TFCA reduction agreements were negotiated with El Salvador and Thailand. Also, the first debt swap agreement under the TFCA was signed with Belize in FY2001.
 - Together with The Nature Conservancy, the USG negotiated a debt swap which will allow Belize to contribute \$9 million towards conservation of the Maya Mountain Marine Corridor, while saving about \$10 million in dollar payments over 26 years.
 - The TFCA agreement with El Salvador will allow the country to save \$21 million in dollar payments. In return, El Salvador will contribute \$14 million towards conservation activities over 18 years. This agreement will help protect El Salvador's cloud forest, home to exotic and endangered flora and fauna such as orchids, rare spider monkeys, pumas, toucans, and striped owls.
 - Thailand will save more than \$11 million under the TFCA agreement, and contribute \$9.5 million towards conservation over a 28-year period. The TFCA agreement will help protect Thailand's mangrove forest, one of the country's most valuable coastal resources, from deforestation and other threats.
- Other countries declared eligible for TFCA include:
 - Jamaica
 - Panama
 - Peru
 - Philippines

Supporting U.S. Objectives

- TFCA indirectly encourages economic reform and strengthens democracy. In order to qualify, countries must demonstrate they have a credible economic reform program in place, an open investment regime, a democratically elected government, and do not engage in terrorism, narcotics trafficking, or gross human rights violations.
- This legislation thus helps developing nations strengthen their economies, while achieving the worldwide goal of protecting tropical forests and bio-diversity.
 - First, a country is able to substitute some portion of its debt payments for domestic forestry protection directly.
 - Second, the domestically channeled resources generate a multiplier effect by creating jobs in conservation and related activities that can help promote sustainable economic growth.

Good Governance

- TFCA should encourage good governance in the recipient countries through the cooperation between the government and the NGO community in addressing tropical forest issues, and in the successful management of tropical forest funds. Like the EAI, one of the most rewarding outcomes of TFCA will be the fostering of close cooperation between government and civil society.