Climate Action Network
Position on Debt Swaps

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Climate Action Network (CAN) is a global network of more than 1,900 civil society organisations in over 130 countries driving collective and sustainable action to fight the climate crisis and to achieve social and racial justice.

Debt-for-climate/nature swaps are not an adequate solution to the debt and climate crises. Furthermore, their implementation can pose significant risks and challenges, causing harm to Global South governments and citizens. Instead, our attention must remain focused on the solutions that will adequately address both crises - large-scale debt cancellation for all countries that need it across all creditors, a renewed consensus on responsible lending and borrowing, and significantly scaled-up new, additional and grant-based climate finance.

There is an urgent need for action on both the debt and climate crises. One of the proposals that has been gaining attention is debt-for-climate/nature swaps, proposed as a ‘win-win’ solution to addressing both crises at once. Those who have been calling for debt-for-climate / nature swaps include the World Bank and IMF[1], Global South leaders such as in Pakistan[2] and Argentina[3], regional groups such as AOSIS, and some academics and civil society groups[4].

Most simply, a debt swap is when a government has a part of its external sovereign debt cancelled or otherwise restructured in exchange for committing to mobilise the same amount or less, for an agreed purpose like health, nature or climate change goals[5]. However, debt swaps can take many different forms and may involve complex transactions involving third-party groups such as NGOs or private sector actors. These are referred to as ‘third-party swaps’. In this model, third-party groups may purchase some of the debt of a Global South country and then offer to cancel (some of) it, or offer discounted repayment terms, in return for the borrowing country allocating liberated funds to an agreed purpose (such as conservation)[6].

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[1] https://wtvbam.com/2021/04/08/imf-world-bank-to-unveil-green-debt-swaps-option-by-november-georgieva-says/
[2] https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1945/attachments/original/1610462143/debt-and-climate-briefing-final.pdf?1610462143
[3] https://dialogochino.net/en/climate-energy/argentina-debt-for-nature-swap/
[4] https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1945/attachments/original/1610462143/debt-and-climate-briefing-final.pdf?1610462143
[5] https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1945/attachments/original/1610462143/debt-and-climate-briefing-final.pdf?1610462143
[6] https://climateanalytics.org/media/debt_for_climate_swap_impact_briefing.pdf

Debt-for-climate swaps refer to when liberated funds are invested in climate change adaptation or mitigation while debt-for-nature swaps refer to when funds are invested in conservation goals.

In the last few years, a number of debt-for-nature swaps have taken place, such as in Barbados, Belize and the Seychelles.

Proponents of debt-for-climate/nature swaps argue that such transactions enable countries to simultaneously reduce their debt burden, whilst also liberating funds that can be put towards climate change or nature goals. For some countries, such as many small island states who cannot often access unconcessional finance or debt relief schemes, debt-for-climate/nature swaps may look especially attractive. For creditors too, participating in a swap allows them to demonstrate a commitment to addressing climate change/nature goals in the Global South, and in the case of third-party swaps, would be able to recoup some of their losses through a discounted sale of the original debt[7].

However, in many cases, the promises of debt swaps have not materialsed, and they have been shown to have a number of risks and challenges that are difficult to overcome. Generally speaking, debt-for-climate/nature swaps present the following challenges and risks:

1. **They are unlikely to cancel enough debt to meaningfully contribute to the debt crisis**
   For debt-for-climate/nature swaps to meaningfully reduce debt levels, two things must happen together. First, a significant proportion of a country's debt needs to be included in the swap, and second, there must be a significant amount of debt cancellation included (i.e. not all the freed-up resources are allocated to climate change or other commitments).

   While there are some examples of debt swaps having meaningful impacts on debt sustainability levels (e.g. see Poland's debt-for-environment swap in 1991[8]) this has not been the case in most instances. As the UN financing for Sustainable Development Report 2020 notes, "debt swaps generally do not reduce a country's debt burden; rather they swap a country's debt-servicing payments for investments in sustainable development"[9].

   For example, in 2016 the Seychelles agreed a debt-for-nature swap with The Nature Conservancy and other private investors who bought 5% of the country's debt (worth $21 million). The debt was then transferred to a trust that offered lower interest rates on repayments, enabling the Seychelles to save $8 million which was then spent on projects to protect marine life. This agreement did nothing to alleviate the country's debt

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[7] Eurodad, 'DEBT CONVERSION FOR DEVELOPMENT: A Handbook for NGOs', 2007
[8] https://www.boell.de/sites/default/files/2020-12/BackgroungPaper2%20Lessons%20from%20Experience.pdf?dimension1=division_ip
[9] https://developmentfinance.un.org/fsdr2020

burden as all the liberated funds were allocated to nature projects. Furthermore, the $8 million that was saved equated to less than 2% of the country's total debt[10].

Even if debt swaps do cancel a high percentage of a country's debt, without wider debt cancellation across all creditors, these liberated funds may just be used to repay other creditors, bailing them out and incentivising continued irresponsible lending. Furthermore, there is not a balanced burden sharing of the debt cancellation (if any) across creditors, as only one creditor or one set of similar creditors (ie. bondholders or bilateral Paris Club creditors) participate in the operation.

2. **They are unlikely to liberate enough funds to meaningfully contribute to climate change or nature goals**

   While not meaningfully reducing debt levels, some debt swaps could still liberate funds to be allocated to climate change or nature goals. For example, the Seychelles 2016 debt-for-nature swap mentioned above had little impact on the total debt levels of the country, but did liberate $8 million which was allocated to marine conservation efforts[11].

   However, it is not always so simple. If the participating government did not have the resources to pay the original loan in the first place, it is unlikely that they will have the resources to invest in areas agreed in the debt swap. This could potentially lead to increased budget deficits which may need to be covered by loans, thereby adding to debt burdens, or by diverting resources through austerity measures in other areas[12]. With this in mind, debt swaps are especially inappropriate for countries in debt crisis[13].

3. **They open the door to conditionality, undermining citizen participation and democratic ownership**

   Debt swaps inherently open the door to conditionality as lenders have much more control over where freed up resources are allocated than if the debt was just cancelled outright. As such, debt swaps provide yet another way for powerful lenders to exert their own interests in countries in the Global South, often at odds with the needs of the population[14]. For example, some have highlighted how debt-for-nature swaps can

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[10] https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1945/attachments/original/1610462143/debt-and-climate-briefing-final.pdf?1610462143

[11] https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1945/attachments/original/1610462143/debt-and-climate-briefing-final.pdf?1610462143

[12] https://www.boell.de/sites/default/files/2020-12/BackgroungPaper2%20Lessons%20from%20Experience.pdf?dimension1=division_ip

[13] https://assets.nationbuilder.com/eurodad/pages/1945/attachments/original/1610462143/debt-and-climate-briefing-final.pdf?1610462143

[14] https://www.boell.de/sites/default/files/2020-12/BackgroungPaper2%20Lessons%20from%20Experience.pdf?dimension1=division_ip

impose a specific model of nature conservation that causes harm to sustainable small-scale fisheries by denying them access to historical fishing grounds[15].

This also poses a challenge to citizen participation in debt swaps, which to date has been underwhelming. For example, The Nature Conservancy (TNC) has recently launched a plan to scale up debt-for-nature swaps in 20 countries (having already implemented swaps in Seychelles, Belize and Barbados). However, their debt swap model lacks transparency as the "contracts signed between governments and TNC, which set out the terms of the financial transactions and the conservation commitments, are treated as confidential documents"[16]. In many of these agreements, TNC also becomes one of the key organisations with considerable power over where funds committed to conservation should be allocated to (often via a new fund that runs parallel, or potentially in conflict with government agencies) and the policies affecting the management of marine resources, once again undermining nationally led decision-making. [17][18]

Another way lenders and other actors involved can exert their own interests through debt swaps is through tied aid, where the lenders stipulate that freed up resources must be spent on products or services in their own countries. For example, a debt swap between Spain and Cuba aimed to reduce some of Cuba's debt to free up resources for infrastructure investment. The swap, however, was conditional on Cuba purchasing products and services from Spanish companies, generating profit for them rather than spending the money in Cuba, or getting the best value deal from around the world[19].

It is important to note that the language of 'debt swaps' has also been used by a number of actors to refer to large scale debt cancellation, using the allocation of liberated funds to climate change and nature goals as a powerful argument for why debt cancellation is required (see proposals made by the President of Colombia, and the proposal for a "Debt Relief for a Green and Inclusive Recovery" (DRGR) by Heinrich-Böll-Stiftung et al echoed by this 2021 V20 statement for example). These are not traditional swaps in the technical sense, but rather adopt the language of swaps and the need for climate action to make the case for debt cancellation. The potential for these proposals to meaningfully contribute to debt sustainability and liberating funds for climate action could be much more significant than technical debt swaps depending on how they are structured. However, like traditional swaps, they could also open the door to conditionality by removing (some) national level decision making power on where liberated revenue (if it

[15] https://www.cffacape.org/publications-blog/joint-statement-financing-the-30x-30-agenda-for-the-oceans-debt-for-nature-swaps-should-be-rejected
[16] https://www.cffacape.org/publications-blog/joint-statement-financing-the-30x-30-agenda-for-the-oceans-debt-for-nature-swaps-should-be-rejected
[17] https://www.cffacape.org/publications-blog/joint-statement-financing-the-30x-30-agenda-for-the-oceans-debt-for-nature-swaps-should-be-rejected
[18] https://longreads.tni.org/the-financialization-of-conservation
[19] https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1945/attachments/original/1610462143/debt-and-climate-briefing-final.pdf?1610462143

exists) should be allocated (although some of these proposals, especially the DRGR, make efforts to reduce this risk).

4. **They do not create new and additional funds**

Debt-for-climate/nature swaps do not generate new funds for the Global South from the Global North - rather, they free up the resources of a Global South government that are then directed towards agreed investments. It is therefore problematic to propose that the resources mobilised through debt swaps can be counted towards official climate finance or Official Development Assistance (ODA).

There is also a risk of these commitments being double-counted, for example, in the case of concessional lending where the part of the loan to be included in the swap may have already been counted as ODA when it was first agreed[20].

5. **They can be slow, burdensome and have high transaction costs**

They can be extremely complex and lengthy to negotiate, sometimes taking several years to reach an agreement[21]. Because of the time they can take to finalise, debt-for-climate/nature swaps are unlikely to present an adequate urgent response to either the debt or climate crises.

Furthermore, because of their complexity, debt-for-climate/nature swaps may involve hiring professionals with specific skills to assist with negotiating an agreement which can be expensive for the borrowing government (alongside other costs) and actually far outweigh the amounts of money allocated to nature or climate change goals. Borrowing countries cannot justifiably be considered to be in the driving seat in debt-swaps negotiations, even though they are technically at the table, when they have to rely on external support that often has a self-interest in the deal. This level of complexity also makes it almost impossible for local CSOs and grassroots communities to scrutinise the deals being negotiated first and implemented later.

For example, Belize recently took part in a complicated third-party debt-for-nature swap. In this agreement, Belize's private creditors agreed to a reduction in Belize's debt repayments, and then Belize took out a new loan in the form of a blue bond arranged by The Nature Conservancy and Credit Suisse to be able to meet its new repayment schedule. As a part of the agreement, Belize committed to allocate some of the funds made available through the blue bond towards marine conservation[22]. According to Barclays, a blue bond is a form of green bond where "100% of the proceeds that are

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[20]https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1945/attachments/original/1610462143/debt-and-climate-briefing-final.pdf?1610462143
[21]https://www.boell.de/sites/default/files/2020-12/BackgroungPaper2%20Lessons%20from%20Experience.pdf?dimension1=division_ip
[22]https://blogs.lse.ac.uk/internationaldevelopment/2023/02/28/do-debt-for-nature-swaps-work-learning-from-belize/

raised are spent on environmental projects”. However, for Belize's blue bond, only $84 million of the $553 million deal actually went toward marine conservation, while $86 million was allocated to intermediaries and service providers such as re-insurers, advisers and credit providers and an additional $10 million provided by Belize to help cover the closing cost for the transaction[23].

In addition, "The deals were likely a good source of profits for the bank, according to Daniel Munevar, an economic affairs officer at the United Nations Conference on Trade and Development. The Belize deal was “free money for Credit Suisse because they hold no risk whatsoever,” he said. Part of the transaction was insured by the US International Development Finance Corp., which agreed to effectively cover payments if Belize defaulted. Credit Suisse helped design a similar instrument for Barbados, this time backed by the Inter-American Development Bank and TNC."[24]

6. **They can legitimise illegitimate debt**

   Illegitimate debt refers to debt taken on by governments that do not benefit the population or that causes them harm. This can include loans given to undemocratic regimes that use the funds to oppress the population (such as using the loans to purchase weapons which are then used against citizens) or enrich themselves.

   A key demand of the global debt justice movement is to cancel illegitimate debt - it is deeply unjust for populations to have to repay loans that they did not benefit from. There is a risk that debt-for-climate/nature swaps include debt considered illegitimate by citizens of the participating country, thus legitimising the debt and undermining wider calls for it to be outright cancelled.

7. **Debt-for-climate/nature swaps distract attention away from the solutions we urgently need**

   It is well understood that we need urgent action now to address both the climate and the debt crises. While seeming like a ‘win-win’ solution, debt-for-climate/nature swaps are unlikely to deliver the scale of debt cancellation and national level resource mobilisation required, and present a number of risks and challenges that are hard to overcome and can cause significant harms within borrowing countries.

Instead of being distracted by debt-for-climate/nature swaps, our attention and action must remain focused on what is really needed to address the debt and climate crises – large scale debt cancellation for all countries that need it across all creditors, a renewed consensus on responsible lending and borrowing, and significantly scaled up new, additional and grant-based climate finance.

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[23]https://www.bloomberg.com/news/articles/2023-01-23/barclays-sees-real-risk-of-greenwashing-in-esg-debt-swap-market
[24]https://www.bloomberg.com/news/articles/2023-03-21/credit-suisse-collapse-throws-climate-debt-market-into-turmoil

Further Reading

- Blog: https://debtjustice.org.uk/blog/debt-for-climate-swaps-not-a-silver-bullet
- Reports:
  - "A tale of two emergencies" Eurodad, pages 19-21
  - "CLIMATE CRISIS, DEBT AND RECOVERY IN A CONTEXT OF MULTIPLE CRISES", Latindadd, page 25
  - "The debt and climate crises: Why climate justice must include debt justice", Debt Justice and CAN International, page 14-15
  - "Detrás del canje de deuda por acción climática", FARN (In Spanish)
- Statement: Financing the 30x30 agenda for the Oceans: Debt for Nature swaps should be rejected
- Article: https://longreads.tni.org/the-financialization-of-conservation