Debt for Environment Swaps
Environmental Finance in the Debt & Ecological Crises Briefing #1

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Key Points:
Debt for Environment Swaps are a tool meant to reduce Global South countries’ debt burden to enable increased investment in environmental priorities like biodiversity conservation or climate change adaptation.

Debt for Environment Swaps have a long history dating back to the 3rd World Debt Crisis and can be a useful stopgap measure to contend with debt distress and environmental degradation in limited ways.

These swaps have a number of drawbacks and are not a substitute for a new, comprehensive global debt architecture or increased direct funding for environmental priorities flowing from North to South.

The world is in the midst of a polycrisis—crises that overlap in challenging, unpredictable, and sometimes contradictory ways. Some aspects of the polycrisis are new versions of old problems, like the current Global South debt crisis that has strong precedence in the 3rd World debt crisis of the 1980s. Other aspects of the polycrisis are newer, like the need to take urgent, concerted action on climate change mitigation and adaptation, and to protect biodiversity while enabling its sustainable use. In this briefing series we examine financial mechanisms that have been designed to contend with some aspect of the debt/environmental degradation nexus. One mechanism that attempts to operate most directly on these issues is debt for environment swaps, often referred to either debt-for-nature or debt-for-climate swaps depending on the deal’s specific focus.

The concept of a debt for environment swap is straightforward. Countries in debt distress generally have little public fiscal space to invest in critical priorities, from education, to healthcare, to environmental protection and low carbon development. Worse, the need to make debt payments denominated in global reserve currencies like US Dollars puts pressure on these governments to accelerate destructive economic practices like export-oriented agriculture, mining, or gas development. Debt swaps aim to alleviate these pressures by offering some level of debt relief in return for commitments to devote freed up financial resources toward achieving environmental objectives.

The simplest version of a debt for environment swap is a bilateral agreement between creditor and debtor governments. The creditor government writes down, or cancels, debt owed by the borrowing country and in return the debtor government agrees to set aside a pre-defined sum of local currency to pay for specified environmental actions. Historically these actions have focused on the creation of new national parks or other protected areas in vulnerable areas with high levels of biodiversity, but newer swaps may aim to create fiscal space for investment in climate adaptation or mitigation as well.

In practice, most debt for environment swaps are more complicated arrangements between at least three parties: public or private creditors, debtor countries, and International Environmental NGOs acting as intermediaries. In these three-way swaps, international NGOs like The Nature Conversancy or Conservation International buy official debt directly from creditor governments or multilateral development banks, or through negotiations with private creditors. At the same time, the NGO negotiates with debtor governments to structure a dedicated fund and sometimes policy reforms for pre-defined environmental actions. In these arrangements, the NGO will often have a role not only in administering the fund, but also implementing the prescribed environmental action.

The first debt for nature swap, executed between Conservation International and Bolivia in 1987, was a straightforward swap that canceled US$650,000 in debt, but modern debt swaps are often complicated feats of financial engineering, involving a range of investors and creditors bound by dense multi-party legal arrangements. These more complex deals typify the

1 This is the first in a series of briefings on financial mechanisms meant to address aspects of the debt and ecological crises. All entries in the series can be found at climateandcommunity.org/debt-and-ecological-crisis
debt for environmental swaps is growing, as evidenced by the Seychelles overarching debt burden. While the scale of debt is considerable, and the Nature Conservancy marine conservation swap between the Seychelles, deployed. For example, the much-vaunted debt swap in 2015 for marine conservation swap between the Seychelles, private creditors, and the Nature Conservancy took four years to assemble, resulted in only US$21.6 million in restructured debt at only a 6.5% reduction in nominal value, and ultimately doing very little to reduce the Seychelles overarching debt burden. While the scale of debt for environmental swaps is growing, as evidenced by Belize’s US$550 million debt swap in 2021 that reduced that country’s debt load by more than 10%, more than 60% of low-income countries are in, or at risk of, debt distress. The number of countries at risk of default is only going to get worse as interest rates rise and the effects of a strong US dollar continue to reverberate across the global economy. And even if debt swaps continue to grow in size, they do little to change the overarching rules of the political economic game that produce over indebtedness in the first place.

Furthermore, there are structural constraints to these kinds of arrangements. Debt for nature swaps that contributed to funding protected areas played a significant role in facilitating Indigenous and small holder dispossession. This is especially troubling given Northern government and NGO goals for the 30x30 initiative that makes new protected areas a centerpiece of Global South biodiversity and climate mitigation plans. How the money is spent is linked to questions about conditionality, or the policy demands that Northern Governments or NGOs make of Southern governments in return for debt restructuring or cancellation; done poorly, the imposition of conditions for debt relief are redolent of structural adjustment, impinging on Southern sovereignty and limiting effectiveness. On the resource mobilization side, there are serious concerns that Northern governments could use debt swaps to get around their environmental funding commitments, like the Paris pledge to provide $100 billion in climate funding by 2020- a goal that has not been reached, and has instead been used to promote private sector investment rather than channel public funds as was originally envisioned.

There is a place for debt for environment swaps in the polycrisis response toolbox, but they cannot and will not be the primary mechanism that creates definitive, just resolutions to these issues. Done well, swaps can provide meaningful fiscal space for Southern governments to pursue self-defined environmental goals that benefit local communities and the planet. Swaps, cannot, however, be a substitute for massively scaled up, non-debt environmental funding from North to South, nor replace structural reform to the global debt architecture that is crushing Southern economies and their financial capacity for achieving sovereign social and environmental priorities to contend with crises, like climate change and mass extinction, for which they bear little responsibility.