Briefing | November 2024

# Debt Swaps Won't Save Us:

## The Urgent Need for Debt Cancellation and Grant-Based Climate Finance

**Debt swaps for climate and conservation goals have experienced a resurgence in recent years. While they are presented as a dual solution for debt and climate issues, debt swaps fall short in practice and pose risks that threaten to harm Global South countries and communities. Instead of debt swaps, we need urgent debt cancellation and grant-based climate finance.**

## What are debt swaps?

**Debt swaps** cancel or restructure part of a government's external sovereign debt in exchange for commitments to agreed development goals. Debt-for-climate swaps liberate funds to be allocated to climate change adaptation or mitigation, and debt-for-nature swaps liberate funds to be allocated to conservation goals.

Debt swaps can take **various forms**, ranging from relatively simple debt swaps with external bilateral creditors, to more complex buy-back swaps involving external commercial debt and third-party actors, such as those completed by Barbados, Belize, Ecuador and Gabon in the last few years. At least 10 climate or nature swaps have been completed in the last five years.

## Why is there a resurgence in debt swaps?

Debt levels across Global South countries have reached their **highest levels in 25 years**, with many spending more on debt payments than on **addressing the climate crisis**. Some countries are deepening their dependence on the exploitation of natural resources, including **fossil fuels**, to generate the revenue needed to meet payments. While the G20's Common Framework seeks to address this debt crisis, it has been slow and insufficient, leaving many countries stuck in a cycle of unsustainable debt and austerity.

At the same time, climate finance from wealthy nations also falls woefully short, with much being **provided as loans**. This is worsening debt burdens and fuelling a **vicious debt-climate crisis cycle**.

**Proponents claim** that debt swaps reduce debt levels and free up funds for climate or nature goals at the same time - a win-win. But **recent experiences** make clear how debt swaps fall short in practice and pose risks that threaten to harm Global South countries and communities.

## Why debt swaps won't save us

### 1. Debt-for-climate and nature swaps do not meaningfully reduce debt levels

**Recent cases** have shown that debt swaps do not provide substantial or adequate debt reduction and, as such, are not an alternative to debt cancellation. For example, **Seychelles' 2016 debt-for-nature swap** provided only $8 million in debt relief — just 2% of its total debt at the time — and allocated all funds exclusively to marine conservation, with no reduction in Seychelles' overall financial burden.

Furthermore, if the borrowing country did not have the resources to pay back the original loan in the first place, it is unlikely they will have the resources to invest in areas agreed in the debt swap. This could potentially lead to **increased budget deficits** that need to be covered by loans or diverting resources from elsewhere. A recent **policy note** by the IMF and World Bank on debt swaps makes clear the importance of ensuring debt swaps do not impose "undue constraints on the debtor country" and noted that there have been "cases when swaps lead to additional spending to meet the expenditure commitments."

Where debt swaps do result in some unallocated debt cancellation, without wider debt cancellation, freed-up funds may be simply used to pay other creditors.

### 2. Debt swaps can fail to deliver on nature and climate goals

Debt swaps can mobilise resources for nature or climate goals that would not have otherwise been available. However, many have critiqued the type

of **climate and conservation commitments** that are included in debt swaps, and there is evidence that commitments are not being, or cannot be, achieved. In the case of Ecuador's debt-for-nature buy-back swap, communities, organisations and conservation experts have **highlighted** that resources mobilised for conservation through this deal are insufficient to pay for the conservation commitments Ecuador has agreed to. Furthermore, they have **not been able to find any evidence** of investments made towards protection, monitoring and surveillance of marine conservation as a result of the Ecuador debt swap, over a year after the deal was finalised.

**3. Debt swaps are based on conditionality**

Debt swaps inherently involve conditionality as lenders have much more control over where freed up resources are allocated than if the debt was just cancelled outright. This takes autonomy away from indebted countries as powerful lenders are provided with another way to exert their own interests onto countries in the Global South, sometimes at odds with the needs of local populations, for example through **tied aid** or by imposing a certain form of conservation **at odds with local knowledge** and needs. Fishers in Belize are currently **raising concerns** about the conservation elements of the country's debt-for-nature swap and how it could undermine local fishers' livelihoods. In the past, debt-for-nature swaps have triggered **human rights violations.**

In their **policy note**, the IMF and World Bank called for greater flexibility to spending commitments in debt swaps and outlined how greater country ownership will lead to better implementation and sustainability of outcomes.

**4. Debt swaps lack transparency and undermine local communities' participation**

There is a lack of accessible information on recent debt swaps, as information can be treated as **commercially sensitive and confidential**. This includes information on costs to the borrowing country, such as fees and insurance costs which are important in assessing the true benefits of a swap. The Inter-American Development Bank's investigation mechanism has **accepted a complaint** from local communities and groups in Latin America about the lack of information and transparency in the management of funds in Ecuador's debt-for-nature swap.

This lack of transparency poses a significant barrier to the participation of local communities in decision-making and oversight of debt swaps. Local groups in Belize are **sounding the alarm** about a lack of transparency and effective stakeholder consultation related to the debt-for-nature swap.

**5. Debt swaps can be slow, burdensome and expensive**

Debt swaps can be extremely **complex and lengthy to negotiate**, sometimes taking several years. If a country is in a debt crisis, it needs rapid and comprehensive debt cancellation to restore its debt sustainability and fiscal capacity to act - so debt swaps are wholly inappropriate for countries with unsustainable debt. According to the IMF and World Bank, debt swaps can **"be an obstacle to debt restructuring, rather than help in those situations".**

There can also be steep costs associated with debt swaps. $96 million of Belize's $553 million debt-for-nature swap went on **fees and intermediaries** such as insurers, advisors and credit providers. Such deals are likely to be a **good source of profit** for third parties involved.

**6. Debt swaps can legitimatise illegitimate debt**

Illegitimate debt refers to loans taken on by governments that do not benefit the population or even cause harm. These loans should not be repaid, as populations that have not benefited from such loans should not be burdened with their cost. Debt swaps risk legitimising illegitimate debt by including harmful loans within debt swap agreements. Thus, the opportunity to assert the need to cancel or repudiate these illegitimate debts, and shift funds to strengthen public services, is ultimately lost.

**7. Debt swaps distract attention away from Global North countries' unfulfilled commitments and 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. Despite the risks, problems and ineffectiveness demonstrated by recent experiences of debt swaps, many continue to promote them as a solution to both the debt and climate crises. Multiple initiatives are underway, such as a **global taskforce** launched at COP28 by top development banks to expand the number and scale of debt-for-nature swaps, The Nature Conservancy's **'audacious plan'** to expand debt buy back swaps linked with conservation goals, and new efforts by the **Green Climate Fund**. A growing emphasis is also being placed on debt swaps in key decision-making spaces such as the UNFCCC, UN Financing for Development Processes, and the G20.

Instead of being distracted by a risky solution that does not match the scale of need and distracts from Global North countries' failure to deliver on commitments, our attention needs to remain firmly focused on adequate solutions.

## Urgent solutions for addressing the intersecting debt and climate crises

**Rich countries must cancel the debt, across all creditors for all countries that need it, free from conditions. This must go alongside climate finance, not replace it.**

- Accelerate debt cancellation by compelling private lender participation in debt restructuring through legislation in major jurisdictions, including New York and the UK.
- Promote systemic debt architecture reform by agreeing a UN framework convention on sovereign debt. The Fourth UN International Financing for Development Conference (FfD4) is a key opportunity to open an intergovernmental process towards the debt architecture reform that Global South countries need.

**Automatic debt standstill and cancellation in the wake of a catastrophic external shock.**

- When a climate-extreme event such as a tropical storm takes place that significantly worsens a country's economic outlook, there should be an immediate, interest-free suspension of all debt payments from that country across all external creditors. This must go alongside additional, grant-based financing for addressing Loss and Damage.

**Rich countries must pay their climate and ecological debts by providing grant-based climate finance.**

- To deliver this, a new post-2025 climate finance goal must be agreed at COP29 via the New Collective Quantified Goal process, which delivers grant-based, public, predictable, accessible, new and additional climate finance in line with the needs of Global South countries, across mitigation, adaptation and Loss and Damage.

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