Economics & Finance

Zero Carbon Analytics

Explainer · August 2024

Reforming climate finance: Debt for nature swaps in Latin America

Key points:

- Debt-for-nature swaps are designed to address climate change, protect biodiversity and mitigate debt crises. Part of a country's foreign currency debt is cancelled in exchange for putting local currency towards environmental projects.
- Public debt in developing countries has risen at twice the rate of developed countries since 2010. In 2023, developing countries held 30% of total public debt and one in three allocated more funds to interest payments than to crucial areas such as health, education, environmental protection and climate action.
- 93% of the countries most vulnerable to the climate crisis are at significant risk of or are already experiencing debt distress.
- Climate and biodiversity finance has mainly come to developing countries as loans which accrue market-rate interest, rather than grants, deepening the debt crisis. 81% of the climate finance received by countries in Latin America and the Caribbean between 2016 and 2020 was in the form of loans.
- The market for debt-for-nature swaps is very small. Estimates vary, but calculations by Eurodad show that such swaps only offset around 0.11% of debt payments by low- and middle-income countries between 1987 and 2023.
- The International Monetary Fund (IMF) indicates that debt-for-climate swaps only make economic sense in a limited number of cases. Other solutions, like conditional grants or debt restructuring, may be more effective.
- Since the first debt-for-nature deals were struck in Latin America in the 1980s, experiences in Bolivia, Costa Rica and Ecuador have shown other limitations of the tool, including its reliance on local currency and the fact it does not channel any new international financing into the country. Concerns have also been raised around the loss of national sovereignty over land.

Finance will be key at COP16 and COP29

Climate finance is set to be a central topic at the United Nations Biodiversity Conference (COP16) and the UN Climate Change Conference (COP29) this year, with Global South countries seeking accountability in financial pledges and access to finance on equitable terms.

This series of reports, titled 'Reforming climate finance', illustrates the influence of global financial institutions on high debt burdens and limited access to climate finance in the Global South. The reports examine the financial tools and institutional changes being discussed in international forums to address these challenges.

The series includes briefings on debt-for-nature swaps in Latin America and the Caribbean, the impact of sovereign credit ratings on highly indebted countries, the inconsistencies between the International Monetary Fund's climate policies and conditionalities imposed on debtor countries, and transition finance in Asia.

Debt-for-nature swaps are one of the tools presented to help developing countries address climate, biodiversity and debt challenges simultaneously. Colombian President Gustavo Petro has declared that "COP16 must achieve... a public debt-for-climate-action swap".[1]

Developing countries face growing public debt

Global public debt reached a record high of USD 97 trillion in 2023, according to United Nations Trade and Development (UNCTAD),[2,3] fuelled by a series of economic, biodiversity and climate crises and slow growth in the global economy.[4,5] The proportion of this debt held by developing countries increased from 16% in 2010 to 30% in 2023, meaning public debt in developing countries rose at twice the rate of that in developed countries.[6] Of this, more than three-quarters is owed by countries in Asia and Oceania, 17% by countries in Latin America and the Caribbean, and 7% by countries in Africa.[7]

Since 2022, interest payments on public debt have grown faster than public expenditure on essential sectors like health, education, environmental protection and climate action globally. In the developing world, one out of every three countries spends more on interest payments than in these areas.[8]

In 2024, debt service is projected to consume 41.5% of expected budget revenue and 8.4% of gross domestic product (GDP) on average across 144 developing countries.[9] This is a higher proportion than was seen during the debt crisis in Latin America in the 1980s[10] before debt relief was provided. Debt service accounted for 35.3% of national incomes in Latin America in 1981, one year before the debt crisis began.[11] Analysis by ActionAid revealed that 93% of the countries most vulnerable to the climate crisis are either already experiencing or at significant risk of debt distress,[12] meaning they are unable to fulfill their financial obligations and debt restructuring is required.[13] 60% of these climate-vulnerable countries are likely to reduce their spending on public services as a result.[14]

---

[1] Translated from the Spanish version 'La COP16 tiene que lograr una declaración a favor del cambio climático inmediato, un cambio de deuda pública por acción climática": presidente Gustavo Petro,' Presidencia de la República de Colombia, accessed July 24, 2024.
[2] According to the IMF, public sector debt "combines general government with public nonfinancial corporations and public financial corporations, including the central bank". It also covers publicly guaranteed debt and external public debt.
[3] UNCTAD, 'A world of debt 2024: A growing burden to global prosperity,' (UNCTAD, 2024), 4.
[4] Kose, M. Ayhan, Peter Nagle, Franziska Ohnsorge, and Naotaka Sugawara. 'Global Waves of Debt: Causes and Consequences.' (The World Bank, 2021). 209.
[5] UNCTAD, 'A world of debt 2024: A growing burden to global prosperity', 4.
[6] UNCTAD, 'A world of debt 2024: A growing burden to global prosperity', 5.
[7] UNCTAD, 'A world of debt 2024: A growing burden to global prosperity', 6.
[8] UNCTAD, 'A world of debt 2024: A growing burden to global prosperity', 3.
[9] Matthew Martin and David Waddock, 'Time for a Nordic Initiative? Resolving the Worst Ever Global Debt Crisis', (Norwegian Church Aid, June 2024), 8.
[10] The Latin American debt crisis was a financial crisis that began in the early 1980s when public debt of Latin American countries surpassed their capacity to generate income, making them unable to repay it.
[11] Alicia Barcenas. "La Crisis De La Deuda Latinoamericana: 30 años después" in *La crisis latinoamericana de la deuda desde la perspectiva histórica,* ed. José Antonio Ocampo et al, (Economic Commission for Latin America and the Caribbean, 2014), 14.
[12] ActionAid, 'The Vicious Cycle: Connections between the Debt Crisis and Climate Crisis,' (ActionAid International Secretariat, 2023), 2.
[13] Dalia Hakura, 'What Is Debt Sustainability?,' *Finance and Development Magazine,* (IMF, September 2020).
[14] Calculations by Zero Carbon Analytics - 38 out of 63 most climate vulnerable countries from: ActionAid International, 'The Vicious Cycle: Connections between the Debt Crisis and Climate Crisis,' 2.

Certain aspects of climate financing are deepening this problem. Between 2015 and 2020, around 54% of direct climate finance came as loans rather than grants – a total of USD 189 billion[15] – and 89% of finance provided via multilateral institutions came in the form of loans, totalling USD 164 billion.[16] Such climate loans entail repayment of accrued market-rate interest on top of the original value of the loan. Some have conditions attached, known as conditionalities, which require recipient countries to fulfill objectives which are set by, for example, contracting companies, nonprofits, or public agencies from donor nations, limiting the recipient government's ability to decide how they spend the money. Some loans (and grants) require the recipient country to buy materials, or hire companies, organisations or public agencies, from the lender country, channeling money back into the lender's economy.[17]

Developing economies will be most impacted by nature loss

In this context, it is vital to avoid further economic crises that could lead to more debt. More than half of the world's GDP is highly or moderately dependent on nature and the goods and services it generates.[18] The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) reported that nature is deteriorating at a rate unprecedented in human history[19] and on the current trajectory 30-50% of all species may be lost by mid-century.[20]

The World Bank has predicted global economic losses of USD 2.7 trillion per year by 2030 due to the collapse of nature services.[21] Developing economies rich in nature and biodiversity are expected to bear the highest costs. Sub-Saharan Africa would see the largest relative contraction in real GDP of 9.7% annually by 2030, with South Asia facing GDP contraction of 6.5%.[22]

USD 722.1 billion–966.9 billion is needed annually by 2030 to manage biodiversity and maintain ecosystem integrity, equivalent to 0.73-0.97% of 2022 global GDP.[23] Financing for biodiversity conservation was estimated to be only USD 166 billion per year in 2021.[24] As with climate finance, the main instruments used for biodiversity finance between 2011 and 2020 were loans (61%), followed by grants (38%) and equity (0.2%).[25]

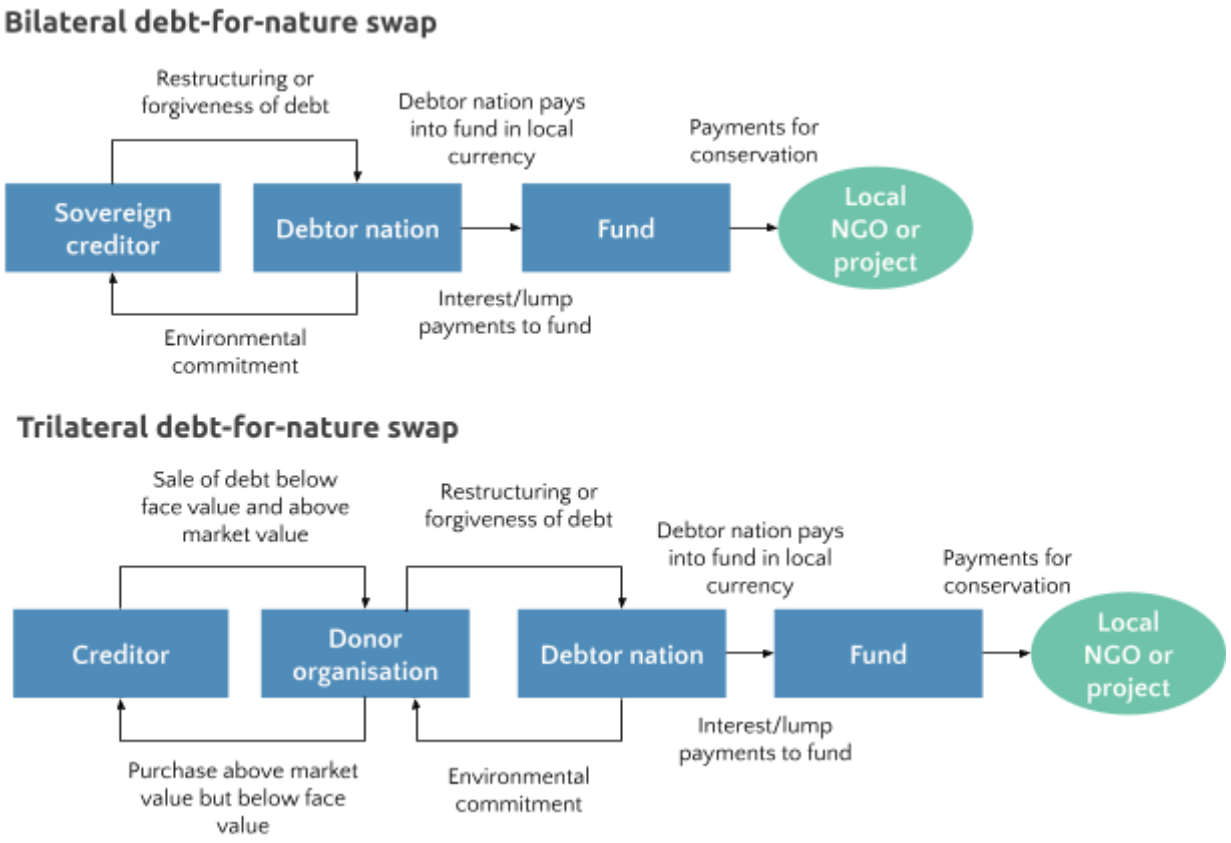
Debt-for-nature swaps

According to the OECD, a debt swap is the cancellation of part of the external debt of a country in exchange for the debtor government's commitment to mobilise domestic

[15] 'Rich Nations Are Earning Billions from a Pledge to Help Fix Climate', *Reuters*, May 22, 2024.
[16] OECD, 'Climate Finance Provided and Mobilised by Developed Countries in 2013-2022,' (OECD Publishing, 2024), 8.
[17] 'Rich Nations Are Earning Billions from a Pledge to Help Fix Climate', *Reuters*.
[18] Celine Herweijer et al, 'Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy', (World Economic Forum, 2020), 8.
[19] Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), 'Media Release: Nature's Dangerous Decline 'Unprecedented'; Species Extinction Rates 'Accelerating', May 5, 2019.
[20] Victoria Cuming and Hugh Bromley, 'Biodiversity Finance Factbook 1H 2023 Edition,' *BloombergNEF,* (April 2023).
[21] Justin Andrew Johnson, Giovanni Ruta and Uris Baldos, 'The Economic Case for Nature: A Global Earth-Economy Model to Assess Development Policy Pathways,' (International Bank for Reconstruction and Development and The World Bank, 2021), 9.
[22] Johnson et al, 'The Economic Case for Nature: A Global Earth-Economy Model to Assess Development Policy Pathways,' 10.
[23] Andrew Deutz et al., 'Financing Nature: Closing the Global Biodiversity Financing Gap,' (The Paulson Institute, The Nature Conservancy and the Cornell Atkinson Center for Sustainability, 2020), 68.
[24] Cuming and Bromley, 'Biodiversity Finance Factbook'.
[25] OECD, 'A Decade of Development Finance for Biodiversity', (OECD Publishing, 2023), 48.

resources, either local currency, bonds or another asset, for an agreed purpose and on agreed terms.[26] The core concept of a debt-for-nature swap is that rather than paying back loans to the lender in a foreign currency, the debtor country funds local environmental projects in local currency. The swaps can be bilateral, meaning they occur directly between the creditor and the debtor country, or trilateral, with an intermediary involved (Figure 1).

Fig. 1: Bilateral and trilateral debt-for-nature swaps



Source: Adaption by Zero Carbon Analytics of Jared E Knicley.[27]

The concept was first suggested after the 1980s debt crisis in Latin America, when environmental groups argued that the large amortisation payments – scheduled payments to repay debt – and interest payments were causing "irreparable damage" to the natural resources of highly indebted countries. They argued that the need to accumulate foreign currency for debt service led countries to increase exports of primary commodities, which were their main source of foreign-currency income.[28] The concept of a debt-for-nature swap was first used by Thomas Lovejoy from the World Wildlife Fund (WWF) in an article for the New York Times in 1984, where he presented it as a mechanism to raise local currency.[29]

There are different estimations about the total amount of debt treated in swaps since the concept first arose. The African Natural Resources Management estimates that between

[26] OECD, 'Lessons Learnt from Experience with Debt-for-Environment Swaps in Economies in Transition', (OECD Papers Volume 7/5, 2007), 16.
[27] Jared E Knicley, 'Debt, Nature, and Indigenous Rights: Twenty-Five Years of Debt-for-Nature Evolution', *Harvard Environmental Law Review* 36, no. 1 (2012): 79–122.
[28] Michael Occhiolini, 'Debt-for-Nature-Swaps' (International Economics Department, The World Bank, 1990), 2.
[29] Thomas Lovejoy, 'Opinion | Aid debtor nations' ecology', *The New York Times*, October 4, 1984.

1987 and 2021 around 145 debt-for-nature deals were struck globally, treating a total of around USD 3.7 billion of debt face value.[30,31] USD 2.4 billion (65%) of this was in Latin America and the Caribbean (LAC).[32] Eurodad calculated that 202 debt-for-nature deals were struck between 1987 and 2023, worth roughly USD 8.4 billion, but that these covered only 0.11% of total debt payments made by low- and middle-income countries during the same period (USD 7.6 trillion).[33]

Pros and cons of debt-for-nature swaps

Despite the small proportion of debt covered by debt-for-nature swaps, the idea has been gaining popularity in recent years. There are arguments for and against such swaps (Table 1), which should be evaluated before implementation.[34]

As a financial tool, debt-for-nature swaps are not a silver bullet. The International Monetary Fund (IMF) indicates that the economic rationale for debt-for-climate swaps[35] as conditional debt relief is limited:[36]

- In situations where debt is sustainable – as the government is able to meet its payment obligations – conditional grants are often more effective than debt-for-climate swaps for supporting climate action, as part of the debt relief may benefit creditors not involved in the swap.
- When debt is unsustainable – as the government is not able to meet their payment obligations – comprehensive debt restructuring, which may include climate conditionality, is usually more advantageous.
- Debt-climate swaps can be economically viable when climate adaptation is efficient and fiscal risks are high, even if the debt is not unsustainable, as they create more fiscal space for the country than conditional grants, and could avoid the poor reputation and "economic dislocations" that come with debt restructuring.[37]

Although debt-for-nature swaps can help alleviate debt service payments and attract other conservation donors, the swaps themselves do not create new international financing for nature conservation and instead rely on the availability of local currency to fund the projects, which can limit feasibility. Like biodiversity offsets and nature-based solutions, debt-for-nature swaps have faced criticism for commodifying nature and treating it as a financial asset. The swaps have been criticised for entailing a loss of sovereignty over land,

[30] Calculations by Zero Carbon Analytics based on data from: African Natural Resources Management and Investment Centre, 'Debt-for-Nature Swaps - Feasibility and Policy Significance in Africa's Natural Resource Sector' (African Development Bank, 2022), 69-73.
[31] Face value is defined by the OECD as "the original amount of loans owed under a loan or other credit agreement, prior to debt rescheduling or reduction. Also referred to as the nominal value of debt."
[32] Calculations by Zero Carbon Analytics based on data from: African Natural Resources Management and Investment Centre, 'Debt-for-Nature Swaps - Feasibility and Policy Significance in Africa's Natural Resource Sector', 69-73.
[33] Iolanda Fresnillo, 'Miracle or Mirage? Are Debt Swaps Really a Silver Bullet?', (Eurodad, November 2023), 20.
[34] Convention on Biological Diversity, 'Debt-for-Nature Swaps', November 2001;
United Nations Environment Programme, Navigating New Horizons: A Global Foresight Report on Planetary Health and Human Wellbeing (United Nations Environment Programme, 2024).
[35] The IMF's analysis of the design and implementation of debt-to-climate swaps deploys the same financial structure as debt-to-nature swaps, which are described as the predecessor.
[36] Marcos Chamon et al., 'Debt-for-Climate Swaps: Analysis, Design, and Implementation', (IMF, August 2022), 7.
[37] Marcos Chamon et al., 'Debt-for-Climate Swaps: Analysis, Design, and Implementation', (IMF, August 2022), 7.

and in some cases being implemented without consultation with Indigenous and local communities.[38]

Table 1: Strengths and weaknesses of debt-for-nature swaps

Strengths	Weaknesses
Rather than paying off debt in foreign currency, the payments into environmental projects are made in local currency. This eases the burden of debt repayment, allowing the country to more easily pay off its debt and improve its balance of payments.	Debt swaps often provide negligible overall debt relief. This means they are generally not the right tool for addressing unsustainable debt.
The swap could help alleviate debt-servicing pressures that might otherwise lead to the exploitation of natural resources.	Debt swaps typically do not bring new financial resources to the country, they redistribute existing ones.
Funds are allocated for protecting and conserving nature.	They can be time-consuming, complex and labour-intensive, with high transaction costs. The debtor country's lack of fiscal resources to make a prepayment may limit feasibility.
The initial capital obtained through debt swaps can attract matching contributions from other donors.	High inflation risk can outweigh expected leverage gains, as debt swaps inject local currency into the economy.
Money that would have been used to service the debt can now be redirected into other priority sectors.	There is a risk that the debtor may not be able to meet its obligations to repay in local currency.
The swap can improve the debtor country's credit standing, provide greater access to credit markets and potentially increase investment in the country.	There is a tendency for the price of the remaining debt to increase.
The initial capital obtained through debt swaps can attract matching contributions from other donors.	The swap may damage a country's reputation for being able to repay debt, leading to an increased perceived risk for future lending.
	Conditions attached to debt swaps are seen by some as interfering with the debtor country's sovereignty, for example its right to decide how to spend public resources.
	Debt swaps might be used as an incentive for the privatisation of nature, undermining the principles of equal access to nature and the quality of life it brings, and circumventing the shared responsibility for conservation.
	Implementation has been criticised for a lack of consultation processes with Indigenous peoples and local communities.

Sources: Zero Carbon Analytics, Chandrasekhar and Quiroz; Convention on Biological Diversity; OECD; United Nations Environment Programme; Chamon et al.

Zero Carbon Analytics

Sources: Chandrasekhar and Quiroz; Convention on Biological Diversity; OECD; United Nations Environment Programme; Chamon et al.

Debt crisis and biodiversity in Latin America and the Caribbean

General government gross debt in Latin American and the Caribbean (LAC) rose from 46% of GDP in 2007 to around 66% of GDP in 2022.[39] Although this is still significantly lower than the 2022 OECD average of 109.8%, debt levels in LAC are compounded by low government revenue from income taxes and social security contributions. Debt-to-tax

[38] Aruna Chandrasekhar and Yanine Quiroz, 'Q&A: Can Debt-for-Nature "Swaps" Help Tackle Biodiversity Loss and Climate Change?', *Carbon Brief,* July 16, 2024.
[39] OECD, Government at a Glance: Latin America and the Caribbean 2024, (OECD Publishing, 2024), 15.

ratios have risen sharply in most LAC countries since 2013, requiring governments to devote a significant portion of their expenditure to debt repayments and leaving less funds for other services. Annual payments to service this debt represented an average of 18% of countries' total exports in 2023.[40]

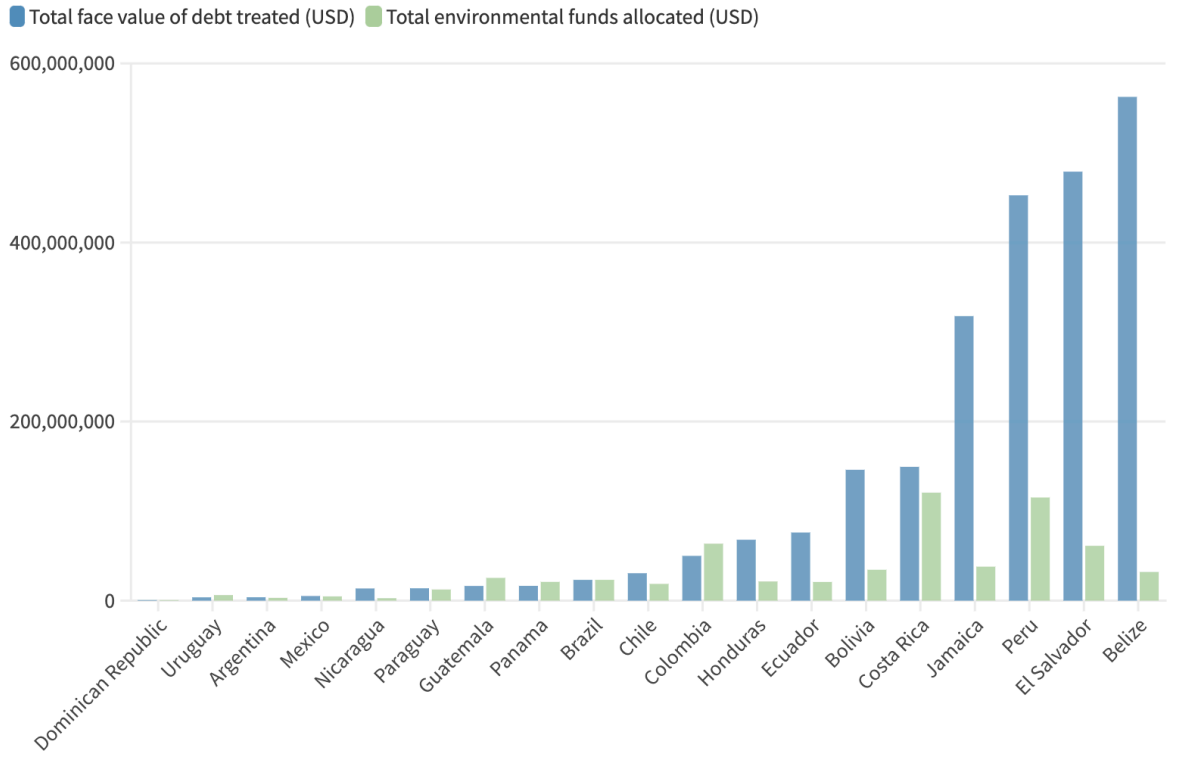
Although LAC is not a major contributor to global greenhouse gas emissions – the region produces 6.7% of gross global emissions – it is highly vulnerable to climate change.[41] Between 2016 and 2020, the average annual flow of climate finance mobilised to LAC was 17% of total climate finance worldwide, 81% of which was loans rather than grants, further exacerbating the region's debt crisis.[42]

LAC is home to about 50% of the world's biodiversity, has 33% of global water resources and has 23% of the world's forests.[43] Between 1990 and 2020, the proportion of regional forest cover decreased from 53% to 46% of the total territory.[44] Forest loss is primarily driven by land change use for agriculture, timber production and urban expansion.[45]

The economies of most LAC countries rely on natural resources, meaning that in order to increase export revenues and pay off debts, countries have to, for example, expand agribusiness, mining or fossil fuels extraction.[46] The concept of debt-for-nature swaps has re-emerged in a context where climate and biodiversity-related hazards will significantly impact these key sectors of countries' economies.[47]

Fig. 2: Debt-for-nature swaps in Latin America 1987-2021

[40] World Bank, 'International Debt Report 2023', (World Bank, 2023), 50.
[41] OECD, 'Environment at a Glance in Latin America and the Caribbean: Spotlight on Climate Change', (OECD Publishing, 2023), 10.
[42] Carola Mejía, 'Climate crisis, debt and recovery in a context of multiple crises. A look from a Climate Justice perspective in Latin America and the Caribbean', (Latindadd, 2021), 17.
[43] OECD et al., 'Latin American Economic Outlook 2022: Towards a Green and Just Transition', (OECD Publishing, 2022), 171.
[44] Economic Commission for Latin America and the Caribbean (ECLAC), 'Statistics and Indicators: Environmental – CEPALSTAT Statistical Databases and Publications', accessed 7 August 2024.
[45] OECD, 'Environment at a Glance in Latin America and the Caribbean: Spotlight on Climate Change', 28.
[46] Carola Mejía, 'Climate crisis, debt and recovery in a context of multiple crises. A look from a Climate Justice perspective in Latin America and the Caribbean', 10.
[47] OECD, 'Environment at a Glance in Latin America and the Caribbean', 15.



Source: Zero Carbon Analytics, African Natural Resources Management and Investment Centre

Debt-for-nature swaps in Latin America and the Caribbean

The first debt-for-nature swaps worldwide took place in countries in LAC. Since the first was signed by Bolivia in 1987, others have been struck in 19 countries across the region (Figure 2).

Acceptance of debt-to-nature swaps has not been universal. In 1989, for example, Brazil rejected the model on the grounds that foreign players should not have the right to dictate how domestic natural resources were protected. Then-President José Sarney said "The Amazon is ours... After all, it is situated in our territory," and criticised "great powers or international organisations... that would come to dictate to us how to defend what is ours to defend."[48] Brazil has since signed two debt-for-nature swaps in 2002 and 2010, treating USD 2,192,000 and USD 21,000,000 of face value debt respectively.[49]

Bolivia

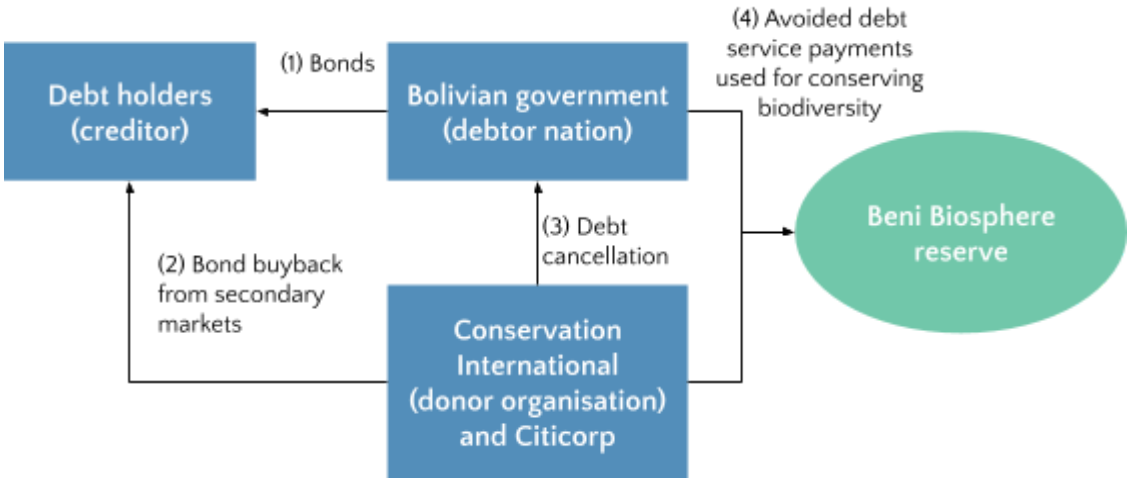
The first debt-for-environment swap took place in Bolivia. Conservation International acquired USD 650,000 of Bolivia's USD 4 billion external debt (Fig. 3)[50] in exchange for a commitment to create three conservation areas covering 3.7 million acres, adjacent to the existing Beni Biosphere reserve in the Amazon Basin, and the establishment of a USD 250,000 operations fund to manage the area, to which Bolivia contributed USD 100,000 in local currency.[51] Citicorp Investment Bank acted as Conservation International's agent to

[48] Eugene Robinson, 'Brazil Angrily Unveils Plan for the Amazon', *Washington Post*, April 7, 1989.
[49] Data from: African Natural Resources Management and Investment Centre, 'Debt-for-Nature Swaps - Feasibility and Policy Significance in Africa's Natural Resource Sector', 69-73.
[50] John Willis et al., 'Green Debt Swaps - Firmly on the Agenda', (Planet Tracker, July 2021), 5.
[51] Occhiolini, 'Debt-for-Nature-Swaps', 30.

purchase the debt from other lenders in the secondary market.[52] The bonds were bought at an 85% discount, for USD 100,000, funded by Conservation International.

The deal came with some problems. At first, many Bolivians felt the country had surrendered its sovereignty to the international environmental group.[53] The Bolivian government was slow to disburse the local currency funds, and disputes emerged regarding the use of additional conservation land, known as 'buffer' areas, as the decisions were not based on agreements between the local environmental groups, the government, and the regional communities.[54] The swap unilaterally designated the land as under the Bolivian government's control, effectively halting Indigenous peoples' efforts to obtain land tenure in reserve areas. Furthermore, the agreement imposed restrictions on traditional activities of the Indigenous communities that were considered 'detrimental' to forest conservation and granted logging concessions to operate in the area surrounding the reserve.[55]

Fig. 3: Bolivia's 1987 trilateral debt-for-nature swap



Source: Adaption by Zero Carbon Analytics of Willis et al.

Costa Rica

In 1988, Costa Rica established a USD 5.4 million debt-for-nature program to create a Natural Resources Conservation Fund composed of bonds whose interest would pay for various conservation projects. In exchange for its notes, Costa Rica offered bonds at 75% of face value.[56] These bonds in local currency, with a maturity of up to six years, carry an average of 25% interest. International organisations gave the funds to purchase the debt, including the Nature Conservancy, WWF, Asociacion Ecologica La Pacífica and Pew Charitable Trust, among others.[57] The funds were intended to expand, manage and protect many of Costa Rica's parks, and build up infrastructure for tourism and research.[58]

[52] John Willis et al., 'Green Debt Swaps - Firmly on the Agenda', 5.
[53] Occhiolini, 'Debt-for-Nature-Swaps', 8.
[54] Occhiolini, 'Debt-for-Nature-Swaps', 8.
[55] Steven Freeland and Ross Buckley, 'Debt-for-Nature Exchanges: Using External Debt to Mitigate Environmental Damage in Developing Countries', *West Northwest Journal of Environmental Law,* 16. Winter 2010: 4.
[56] Barbara Bramble et al., 'A Brief Summary of Debt-for-Nature Swaps'. (Agency for International Development, 1988), 4.
[57] Barbara Bramble et al., 'A Brief Summary of Debt-for-Nature Swaps', 4.
[58] Bramble et al., 'A Brief Summary of Debt-for-Nature Swaps', 4.

However, the fixed costs of the parks, which are set by law, consume 90% of the budgeted public funds. So, no public money was made available for new programs, such as reforestation or initiatives involving the local population.[59]

In 1989, Costa Rica was the first country to involve creditor governments in a new debt-for-nature program. The government of the Netherlands purchased USD 33 million of Costa Rica's debt on the secondary market, purchasing it from commercial banks instead of relieving the historic debt that Costa Rica had with the Netherlands.[60] The value of this program was diminished when the Costa Rican government lowered the redemption rate for the bonds from 70% to 30% of face value after the market price of the government's debt fell on the secondary market, thus reducing the amount paid to environmental groups for conservation.[61] Furthermore, the environmental bonds issued within the swap yielded interest rates lower than the rate of inflation (a 15% interest compared to a 25% inflation rate), leading to negative real interest and making the investment less attractive.[62]

Ecuador

In 1987, Fundacion Natura, the leading private conservation group in Ecuador, obtained an agreement with the government which enabled the foundation to exchange up to USD 10 million in debt for local currency bonds.[63] These bonds were to be used exclusively to finance activities to conserve and improve Ecuador's national parks. WWF US offered to buy the first USD 1 million in debt.[64] The government provided the bonds at the total amount of the debt note – 100% of face value – and converted them into local currency at the official exchange rate.[65] However, Ecuador has partially offset this support by redeeming its debt at an exchange rate considerably less than the market rate and issuing domestic 'environmental' bonds with interest rates lower than the inflation rate.[66]

Ecuador completed the world's biggest debt-for-nature deal to date in May 2023.[67] The deal allows Ecuador to convert USD 1.6 billion of existing debt into a USD 656 million blue loan – designated to finance activities that promote sustainable use of ocean and marine resources – issued as a bond by global investment bank Credit Suisse.[68] This would effectively wipe out interest on some of its debt in exchange for its protection of the Galápagos Islands. The loan, to be repaid over 18 years, will also provide around USD 18 million annually to conserve the waters surrounding the island.[69]

The tool involves transferring sovereignty of the natural marine area to a private entity, the Galapagos Life Fund (GLF).[70] Another issue is that 'blue loans' can include all types of investment projects related to the ocean, including activities such as the construction of ports or mining on marine floors that may cause damage to coastal marine ecosystems and prevent coastal communities from accessing their traditional food sources.[71] The swap had limitations in monitoring and enforcement, as well as a lack of transparency and

[59] Bramble et al., 'A Brief Summary of Debt-for-Nature Swaps', 5.
[60] Occhiolini, 'Debt-for-Nature-Swaps', 29.
[61] Occhiolini, 'Debt-for-Nature Swaps', 9.
[62] Occhiolini, 'Debt-for-Nature-Swaps', 17.
[63] Bramble et al., 'A Brief Summary of Debt-for-Nature Swaps', 6.
[64] Bramble et al., 'A Brief Summary of Debt-for-Nature Swaps', 6.
[65] Bramble et al., 'A Brief Summary of Debt-for-Nature Swaps', 6.
[66] Occhiolini, 'Debt-for-Nature-Swaps', 13.
[67] 'Ecuador to boost protection of Galápagos in biggest debt-for-nature deal ever', *Mongabay*, May 11, 2023.
[68] Latindadd, 'Galapagos deal: an ignominious legacy', 25 May 2023.
[69] Latindadd, 'Galapagos deal: an ignominious legacy'.
[70] Latindadd. 'Galapagos deal: an ignominious legacy'.
[71] 'Galápagos: ¿Canje de deuda por conservación o cuidado de la vida?', Acción Ecológica, July 11, 2023.

accountability and little clarity on potential fiscal risks for Ecuador, according to Latindadd.[72]

[72] Latindadd, 'Initial Assessment of Galapagos Debt-for-Nature Swap: A Look from Civil Society after One Year of Operations', May 7, 2024.11.