

## Green Debt Swaps

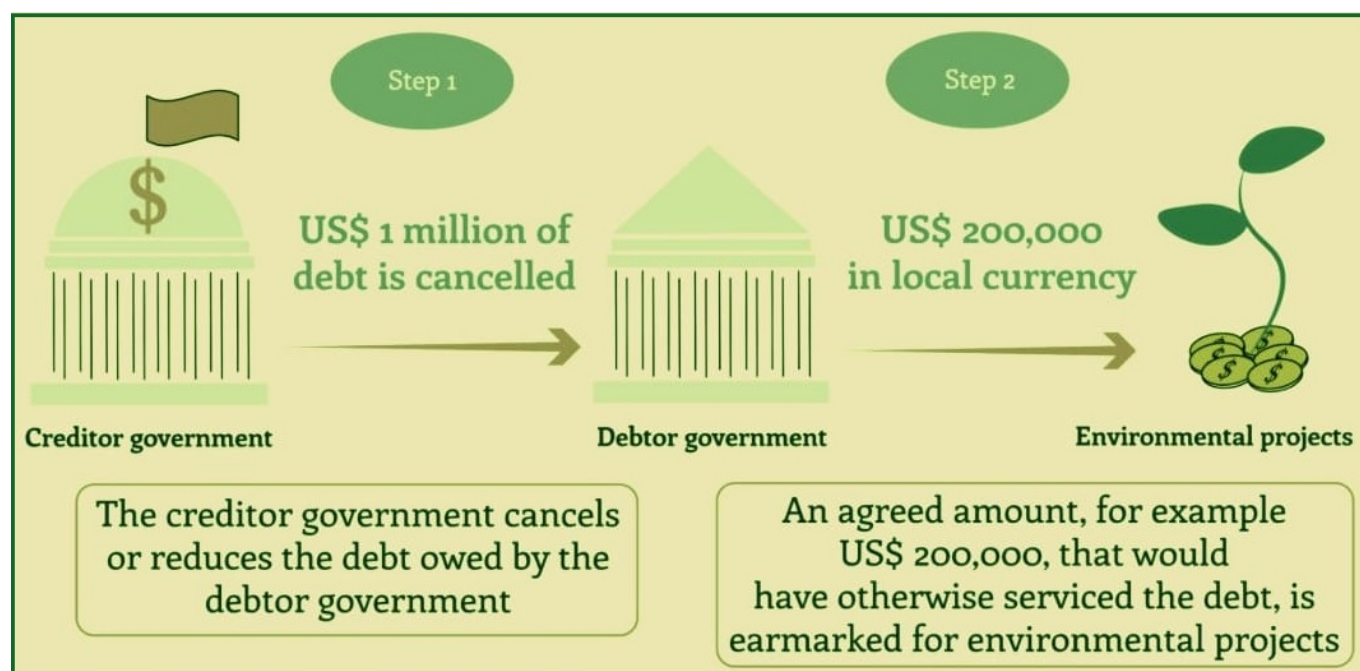
### Why in news?

With many developing nations facing a triple whammy of rising debt loads, climate change and nature loss, conservationists say the answer could lie with the debt-for-environment swaps.

### What are green debt swaps?

*The first debt-for-nature swaps were agreed in the mid-1980s, mostly in Latin America, with rich nations the main creditors.*

- **Debt for Climate (DFC) swaps** - Debt swap in which the debtor nation, instead of continuing to make external debt payments in a foreign currency, makes payments in local currency to finance climate projects domestically on agreed upon terms.
- **Need** - Developing nations are pushing for these swaps as they are struggling to pay back creditors and are at the risk of defaulting.
- According to the World Bank, the world's poorest countries owe \$62 billion in annual debt service, a year-on-year increase of 35%.
- Even as debt burdens grow, there is now an urgent need for countries to invest more in climate and biodiversity protection to meet their international and national commitments.



## What are the advantages?

- **For creditors** - Debt swaps can reduce their risk through additional guarantees and ensure that at least part of a loan is eventually repaid.
- **For debtors** - DFC swaps can
  - Reduce external sovereign debt
  - Free up fiscal resources to be spent on green investments
  - Boost economy recovery

**Deals** - A 2015 deal with the Seychelles saw the government commit to protect 30% of its waters in exchange for \$22 million of debt restructuring.

Egypt presented a swap with Germany as a model for others seeking to raise money for clean energy projects when it hosted the U.N. climate summit 2022.

## How can green debt swaps be encouraged?

- Arranging debt-for-environment swaps (DFES) is not an easy task as it requires the concerted efforts of the whole government and very thorough preparations, including
  - Robust pre-feasibility studies
  - Strong fiscal capacity
  - Commitment to transparency
  - International credibility of the domestic spending
- A **global framework or standard** that sets the rules for green debt swaps would enable more creditors to join such initiatives and help increase the size of deals.
- A **public campaign** could also encourage green debt swaps.

## References

1. [The Indian Express | Can debt swaps be a game-changer for poor nations?](#)
2. [OECD | Debt-for-environment swaps](#)
3. [Carbon Credits | Debt for nature swaps](#)