DEBT SWAPS FOR NATURE AND CLIMATE

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WHAT ARE DEBT SWAPS FOR NATURE AND CLIMATE?

Debt swaps are financial agreements where a national government receives a certain amount of "debt relief" in exchange for commitments to invest the liberated funds in agreed-upon terms. Projects under debt-for-nature swaps typically include conservation and restoration projects, while debt-for-climate swaps refer to investments in climate change mitigation and adaptation initiatives.

The classic structure is based on bilateral swaps, where public funds are directly transferred between creditor and debtor governments. In such swaps, the creditor "cancels" a portion of the debt owed to them, and the debtor commits to mobilizing the equivalent of the canceled debt in the local currency for predetermined investments. In more recent modalities of debt swaps, such as debt swaps for nature and climate, the scheme can include international non-governmental organizations (NGOs) as a third party.

These "third-party swaps" allow the NGO to purchase the debtor country's external debt on the secondary market, usually at a discount, and restructure the debt on more "favorable terms" for the debtor. In return, the debtor country commits to investing the money that it saves from debt servicing into conservation and climate-related initiatives.

Debt swaps are an inefficient tool to address the root causes of the interlinked crises of global debt, development, climate finance and climate change. Further, debt swaps for nature and climate are inherently undemocratic and risk further violation of the rights of Indigenous Peoples and undermine Indigenous Peoples' sovereignty and self-determination.

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RELEVANCE TO COP 28

Given the pressing need to mobilize resources for developing countries to cope with the locked-in impacts of climate change and biodiversity loss, along with the looming debt crisis exacerbated by the COVID-19 pandemic, debt swaps for nature and climate are expected to emerge as a crucial topic at the upcoming COP28, particularly in the context of climate finance. Already, the promotion of debt-for-nature swaps was prominent at the UN Convention for Biological Diversity (UNCBD) COP15, and was endorsed by influential institutions including the International Monetary Fund (IMF), World Bank, The InterAmerican Development Bank, World Wild Fund (WWF), and The Nature Conservancy (TNC).

While still unclear, there is concern that some actors are attempting to connect conservation and climate projects resulting from debt swaps to the generation of carbon offsets, effectively reinforcing carbon market mechanisms. The IMF proposed structuring debt swaps deals around climate objectives such as energy decarbonization, adaptation, and mitigation, by linking swaps to “simple to monitor” metrics such as carbon emissions, deforestation, and ocean exploitation. Such propositions are followed by proposals to offer incentives to creditors by allowing them to trade in carbon credits arising from the transactions.

WHY IS THIS IMPORTANT FOR INDIGENOUS PEOPLES?

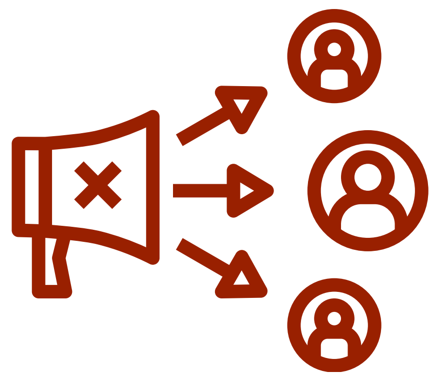
Debt swap agreements often prioritize the interests of the creditor over the genuine needs of the debtor country and communities, thereby infringing on self-determination, sovereign autonomy and perpetuating colonial relations. **These concerns are rooted in the complex dynamics of power and control within these financial agreements that lack transparency and accountability, often leading to violations of Indigenous Peoples’ rights and self- determination and sovereignty.** Therefore, the Free, Prior, and Informed Consent (FPIC) of Indigenous Peoples affected by these deals will not be meaningfully achieved within the debt swap model.

In addition, some countries are changing laws to accommodate debt swaps that could have impacts on Indigenous communities living in ‘National Parks’ and other colonized spaces. Further, the terms of the deals often occur behind closed doors without legitimate consent, engagement, consultation or partnership with Indigenous Peoples.

WHY IS THIS IMPORTANT TO INDIGENOUS PEOPLES?

More recently, one tactic of debt swaps for nature and climate has taken on a different form. Rather than evicting people from land, conservation action is being directed at protecting marine life, coral reefs, and related ocean protection measures. This is a prime feature of Belize's 2022 debt swap for nature, and more swaps are being structured after this example.

The danger, however, is that **indebted countries may be eager to welcome the deal as an opportunity to help them achieve their 30x30 goals, and as a way to enact some form of climate mitigation in the absence of climate finance.** Deals may even generate additional revenue through selling blue carbon offsets.



DEBUNKING MYTHS

WHAT THEY SAY	*WHAT WE SAY*
Debt Swaps for nature and climate is a new instrument.	Similar forms of debt swaps for health, development, and education were implemented in the late 1980s, not without controversy and adverse impacts on debtor governments, citizens, local communities and Indigenous Peoples. While the concept and practice of swaps have evolved somewhat over time, the core model remains the same.

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DEBUNKING MYTHS

WHAT THEY SAY	WHAT WE SAY
Debt swaps include a cancellation of debt.	**Debt swaps is a debt restructuring mechanism. There is no debt being canceled or written off. Creditors usually only modify the terms of repayment.** Any "liberated funds" that the debtor saves from traditional debt servicing is then redirected into agreed-upon terms. The use of the term "cancelation" is misleading. It's crucial to differentiate between true debt cancellation and the redirection of debt servicing obligations to other specified purposes and agreements.
Debt swaps provide climate finance to developing countries in debt.	Debt swaps are not and cannot be counted as part of existing commitments to climate finance and/or climate-related Official Development Assistance (ODA). In terms of climate finance, debt swaps are not channeling funds from developed countries to developing countries, instead, investment from debt swaps are coming from the debtor country's domestic resources, posing a challenge to already strained capacities to address climate change and biodiversity loss.
Debt swaps can bring debt justice.	The debt crisis is a result of long histories of colonial and exploitative development and international finance systems that were designed to accumulate wealth and power in developed countries. **Debt swaps as a tool disregards the ecological and climate debt owed to communities in developing countries.** Governments might be compelled to repay loans that did not benefit their citizens and communities, thereby compromising broader calls for outright cancellation of such debts.

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