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

SHANKAR IAS PARLIAMENT
Information is Empowering