BLOG POST

HPL

SOVEREIGN DEBT-FOR-NATURE SWAPS: A SOLUTION FOR CONSERVATION AND ECONOMIC STABILITY

By Sofía Saldívar, Analyst at HPL

April 16th, 2025

As environmental concerns intensify and developing countries continue to face substantial debt repayments, the financial landscape is evolving, with a growing interest in innovative mechanisms that aim to address both economic and environmental challenges. Among these, Debt-for-Nature Swaps (DFNS) have emerged as financial structures that enable the restructuring of a portion of a sovereign's debt in exchange for investments on environmental conservation and climate resilience commitments and initiatives [1].

The first DFNS emerged in 1987 as a strategy to alleviate the external debt of developing countries in exchange for commitments to environmental conservation, with Bolivia becoming the first nation to implement such a mechanism. Since then, around 140 DFNS structures have been completed [2]. After years of limited activity, DFNS recently re-emerged in Latin America, driven by innovative structuring incorporating combinations of concessional finance, guarantees and investors looking for impact.

DFNS can offer significant advantages to sovereigns with lower rated external debt, vulnerability to climate change and/or biodiversity loss. These liability management structures provide countries with the opportunity to secure improved financing costs through debt exchanges where part of the cost reduction is invested in projects to support vulnerable regions exposed to the effects of climate change and/or to address unsustainable human practices that destroy natural capital [3]. DFNS are not only strategic solutions to achieve economic stability, but also drivers for advancing sustainable development initiatives.

HOW DO DEBT-FOR-NATURE SWAPS WORK?

DFNS structures are often innovative solutions for debtor countries facing fiscal challenges that can take different shapes. One simplified example of such a structure is where existing sovereign creditors may agree to sell portions of the outstanding debt at a discount to new impact investors with environmental conservation objectives. Other structures may involve debt exchanges involving multilateral finance institution guarantees. An environmental trust fund typically supported by a combination of non-governmental organizations (NGOs), donor nations, and other international stakeholders committed to advancing sustainable development goals is created to manage the funds to be applied for conservation/positive environmental projects. [4].

After the transaction is completed and financial savings are realized, the debtor country will redirect a portion of these savings to the environmental trust fund, which will use these resources to support initiatives for the conservation and protection of ecosystems [5]. The figure below illustrates the DFNS mechanism of this example:

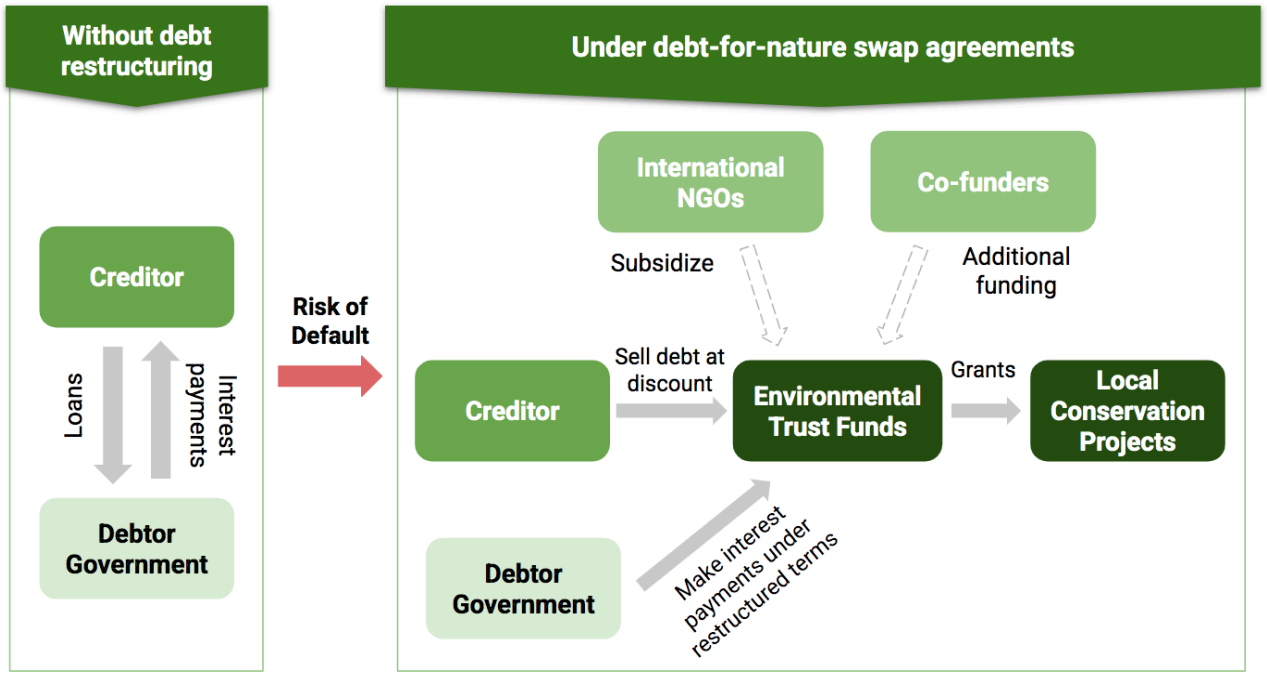

Figure 1. Debt-for-nature swaps*

*Own elaboration based on IIGF Green BRI Center illustration [6]

DEBT-FOR-NATURE SWAPS IN LATIN AMERICA AND THE CARIBBEAN

Debt-for-nature swaps have gained increasing attention in recent years, largely in response to the significant rise in global public debt. According to the 2024 report published by the United Nations Conference on Trade and Development (UNCTAD), global public debt reached a record of USD $97 trillion in 2023. Of this total, the share held by developing countries in Africa, Asia, Oceania and Latin America and the Caribbean, rose from 16% in 2010 to 30% in 2023. Within this proportion, LAC countries accounted for approximately 17% of this debt, highlighting the region's growing exposure to debt-related vulnerabilities. LAC has a borrowing cost of 6.8% that is 430 bp higher than the USA and 600 bp higher than Germany [7].

The emergence of innovative financial instruments such as DFNS present an opportunity to ease sovereign debt burdens while simultaneously channeling resources toward critical environmental conservation efforts. By linking fiscal relief with environmental objectives, these instruments support a dual agenda of economic stability and environmental preservation.

However, despite their potential, DFNS operations in the LAC region have remained limited in number. Expanding the implementation of these instruments could offer tangible benefits for the region, particularly in a context of high public debt burdens and increasing climate vulnerabilities [8].

NOTABLE CASE STUDIES

LAC has witnessed many notable debt-for-nature swaps that have successfully generated significant fiscal savings and restructured external debt, enabling the redirection of funds toward biodiversity conservation and environmental protection. Some of the most recent and impactful examples in the region are outlined below:

- In 2024, **Barbados** also launched the world's first DFNS structured as a Sustainability-Linked Loan (SLL). This innovative transaction replaced expensive debt of US$293,3 million with more affordable financing terms, generating an estimated US$125 million in fiscal savings. The funds will be used primarily to upgrade Barbados' South Coast wastewater treatment plant into a water reclamation facility, with the goal of reducing marine pollution and enhancing national water and food security [9].
- In 2023, **Ecuador** completed the world's largest DFNS to date, transforming approximately US$1.63 billion of external debt into a new loan of US$656 million. This operation resulted in fiscal savings of approximately US$1.1 billion. Of this amount, roughly US$450 million will be channeled to the Galapagos Life Fund (GLF), a non-profit organization established to finance the conservation of marine biodiversity in the Galapagos Marine Reserve, the Hermandad Marine Reserve, and the Galapagos National Park [10].
- In 2024, **Bahamas** executed a DFNS involving the repurchase of US$300 million in foreign debt, unlocking approximately US$124 million for marine conservation and climate resilience actions. The allocated funds will support the expansion and strengthening of Marine Protected Areas, mangrove restoration, the development of a National Mangrove Management Plan, and the implementation of a Marine Spatial Management Plan [11].

CONCLUSIONS

The LAC region is experiencing interest in debt-for-nature swaps, as countries explore innovative financial mechanisms to simultaneously address environmental and fiscal challenges. There are some challenges associated with DFNS that must be carefully considered, as they have the potential to hinder the effective implementation of these structures. Among them, DFNS require robust monitoring systems and transparent governance structures to ensure that funds are effectively allocated to conservation initiatives. In addition, the complexity of these instruments require effective coordination between different stakeholders, as well as preparation and negotiation processes that can take between two to four years [12].

Despite these challenges, it is important to highlight that the long-term benefits of DFNS may outweigh their associated costs if they are implemented with strong commitment, transparency, and adequate institutional capacity. Redirecting financial resources toward conservation contributes to biodiversity protection, climate adaptation, and sustainable land use. In summary, DFNS are valuable financial structuring solutions for countries with abundant natural resources but limited fiscal capacity [13]. Moreover, DFNS transactions can help establish long-term financial mechanisms for ecosystem protection, while also improving debtor countries' fiscal position by reducing external debt burdens and strengthening their financial reputation over time [14].

REFERENCES

[1] UNECA (2024). Debt-for-nature swaps, a game-changer for the DRC's climate action. Available online here.
[2] World Economic Forum (2024). Climate finance: What are debt-for-nature swaps and how can they help countries?. Available online here.
[3] World Economic Forum (2024). Climate finance: What are debt-for-nature swaps and how can they help countries?. Available online here.
[4] IIGF Green BRI Center (2021). Debt-For-Nature Swaps: A Triple-Win Solution for Debt Sustainability and Biodiversity Finance in the Belt and Road Initiative (BRI)?. Available online here.
[5] Climate & Clean Aire Coalition. Debt-for-climate swaps can help developing countries make a green recovery. Available online here.
[6] IIGF Green BRI Center (2021). Debt-For-Nature Swaps: A Triple-Win Solution for Debt Sustainability and Biodiversity Finance in the Belt and Road Initiative (BRI)?. Available online here.
[7] UNCTAD (2024). A world of debt Report 2024. Available online here.
[8] IMF (2023). Debt-for-Nature Swaps in Latin America and the Caribbean. Available online here.
[9] European Investment Bank (2024). Barbados launched the world's first debt-for-climate-resilience operation. Available online here.
[10] Ministerio del Ambiente, Agua y Transición Ecológica (2023). Ecuador Anuncia el Canje de Deuda por Naturaleza más Grande del Mundo para Proteger Las Islas Galápagos. Available online here.
[11] Office of the Prime Minister (2024). The Bahamas Launches Historic Debt Conversion Project for Marine Conservation. Available online here.
[12] Norton Rose Fulbright (2023). Debt-for-nature swaps: A debt restructuring tool with ESG benefits. Available online here.
[13] UNECA (2024). Debt-for-nature swaps, a game-changer for the DRC's climate action. Available online here.
[14] International Institute for Environment and Development (2024). Debt swaps could release $100 billion for climate action. Available online here.

AUTHOR

Sofía Saldívar *is an analyst at HPL, graduated with honors in International Relations from the Instituto Tecnológico Autónomo de México (ITAM). At HPL she has conducted research, comparative studies, structuring thematic Bond Frameworks and preparing reports for financial institutions, development banks, sovereigns in LAC and international organizations. She also has experience in the analysis and interpretation of information, as well as in communicating with stakeholders from the public and private sectors.*

ABOUT HPL

HPL is a dedicated consulting firm that strongly recognizes the significance of sustainable financing in mobilizing resources for the betterment of society and the environment. Our specialized services are designed to accelerate capital flows towards sustainable initiatives.

If you're looking to elevate your organization to the next level in sustainable finance, or if you're interested in issuing a green, social, or sustainability-linked bond, our expert team is here to provide you with guidance and assistance every step of the way. You can reach out to us through LinkedIn, email, or our website to explore the comprehensive services we offer. Together, we can embark on a path towards making a meaningful contribution to the global sustainability agenda. HPL has developed user-friendly methodologies and tools to help their clients assess compliance with international climate finance taxonomies and adopt international methodologies to measure financed emissions. HPL has designed the HPL CAT (Carbon Accounting Tool), which aims to enhance clients' ability to track financed emissions of scope 3 (category 15). This tool focuses on improving the quality of data related to greenhouse gas emissions. HPL CAT offers a detailed and personalized approach for each client, helping them set realistic and achievable goals and develop action plans that facilitate an orderly and effective transition to a low-carbon economy.