PROSOPAL FOR HIGH INTEGRITY PRINCIPLES FOR DEBT SWAPS

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CDES Centro de Derechos Económicos y Sociales

Latindadd Red Latinoamericana por Justicia Económica y Social

PROPOSAL FOR HIGH INTEGRITY PRINCIPLES FOR DEBT SWAPS

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1.Introduction

Debt swaps, particularly those linked to nature and climate action, have been promoted as an

important tool for developing countries seeking to alleviate their external debt burden while advancing environmental and social sustainability. However, these mechanisms have raised concerns about a lack of transparency, limited governance, and the imposition of conditionalities by creditors.

Criticisms, such as those raised by Linsley-Parrish (2023), point to issues of transparency and conflicts of interest. In some cases, private actors or international organizations impose their priorities, which can leave aside the interests of local communities and governments. These concerns pose serious challenges to the ability of debtor countries to implement their own development plans autonomously and democratically (Standing et al., 2023; Latindadd, 2023).

These challenges highlight the need to establish clear principles that ensure that debt swaps not only alleviate financial burdens, but also respect human rights and promote environmental and social sustainability. This paper aims to propose key principles to guide the structuring and implementation of high-integrity debt swaps. This proposal is inspired by the principles established by the United Nations Economic and Social Council (UNESC, 2018) on effective governance for sustainable development. The purpose is to ensure that these transactions not only alleviate debt, but also respect the rights of communities, promote climate and financial justice, and contribute to sustainable development in a transparent and equitable manner (UNCTAD, 2023).

2. Conceptual Framework

A debt swap involves the cancellation of a portion of a country's external debt in exchange for commitments related to environmental conservation or sustainable development. This concept has evolved since its creation in the 1980s, when Bolivia and Conservation International agreed to the first debt-for-nature swap (see Figure 1).

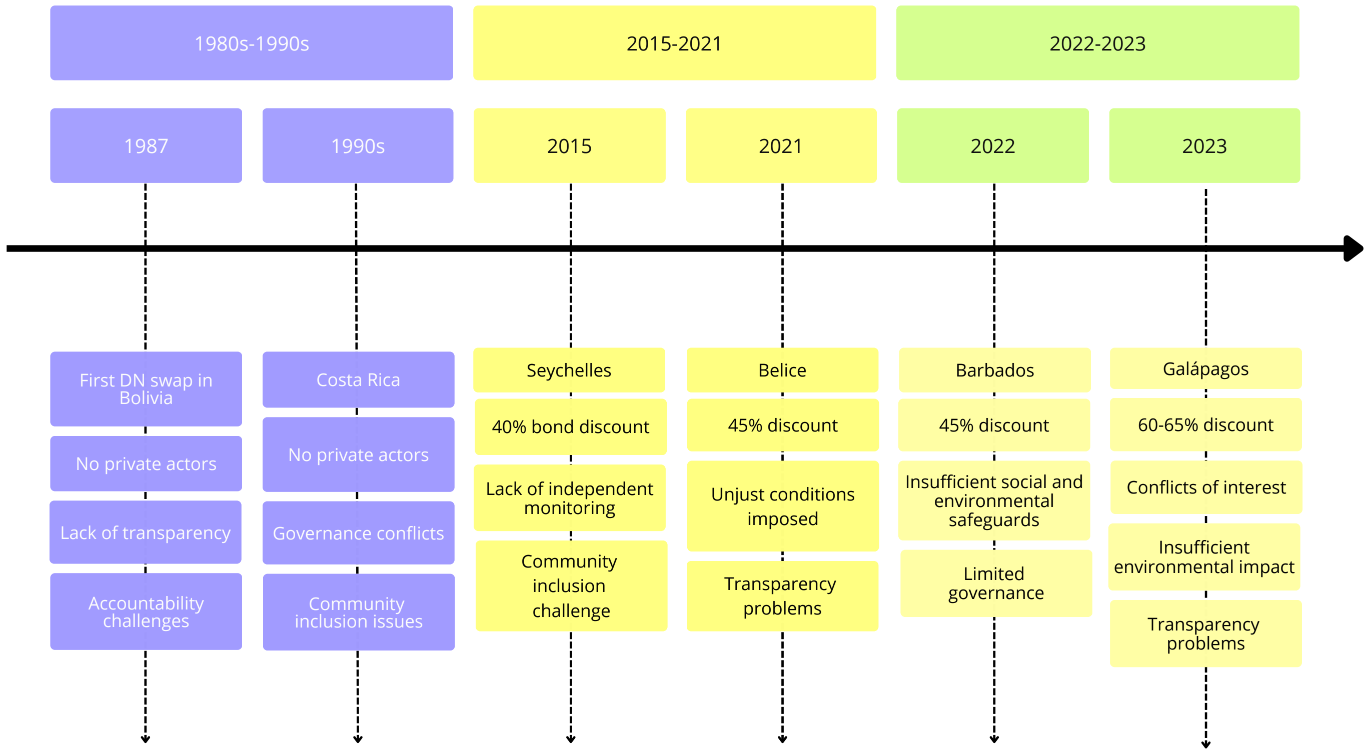
There are various modalities, such as bilateral swaps, trade swaps, and the more recent nature and climate swaps. In practice, significant challenges have been observed regarding the clauses imposed, such as pari passu and most-favored-nation, which limit the ability of countries in the Global South to negotiate more favorable terms.

In recent decades, this mechanism has been used by several countries, but it has not been free of controversy, especially regarding the lack of transparency, limited governance (Kessel, 2006), the imposition of conditionalities and the limited impact on actual debt reduction (Pierce & Adger, 1995).

2.1 Evolution of Debt Swaps

Over the past few decades, the evolution of swaps has led to innovations such as “Blue Bonds,” which connect debt relief with environmental commitments. A notable example is the Belize swap in 2021, where a $553 million deal was restructured into a $364 million blue bond, with a clear commitment to protecting 30% of the country’s marine areas (Booth & Brooks, 2023).

Evolution of Debt for Nature swaps with negative implications



Debt-for-nature swaps involve a number of key players that play different roles at each stage of the process. Below is a summary of the roles of the players and the potential opportunities to optimize costs and increase the efficiency of the process, in line with the proposed financial integrity principles.

- **Governments (Debtor Countries):** They are central players in the agreements, as they exchange their sovereign debt for commitments to nature conservation.

- **Private Actors (e.g. Banks, SPVs):** Recent deals (such as Galapagos) often involve Special Purpose Vehicles (SPVs) and private financial intermediaries, such as Credit Suisse.

- **Multilateral Institutions (IDB, US-DFC):** They provide guarantees or insurance to reduce risk to creditors and facilitate the repurchase of distressed debt.

- **Conservation Trusts (e.g., Galapagos Life Fund):** They manage and direct funds towards conservation projects.

- **NGOs:** They collaborate in monitoring and ensuring that environmental commitments are met (e.g., The Nature Conservancy).

Note: In some countries, actors such as the Ministry of Finance are organised into Economic and Monetary Regulatory Boards. Specific powers may vary depending on the regulatory framework of each country.

2.3 Comparative evolution

- **Original Model**In this traditional model, the flow is simpler, where the government interacts directly with multilateral institutions, which in turn allocate funds for conservation projects.

- **Recent Models**: These include private actors and more complex financial structures. Governments establish a Special Purpose Vehicle (SPV), which manages the issuance of structured debt bonds for debt repurchase and coordinates with private actors and conservation trusts to finance access to buyback liquidity and the implementation of post-swap projects. In the case of Ecuador (Galapagos), the intervention of multiple private actors is central, including multilateral institutions that guarantee payments and risks.

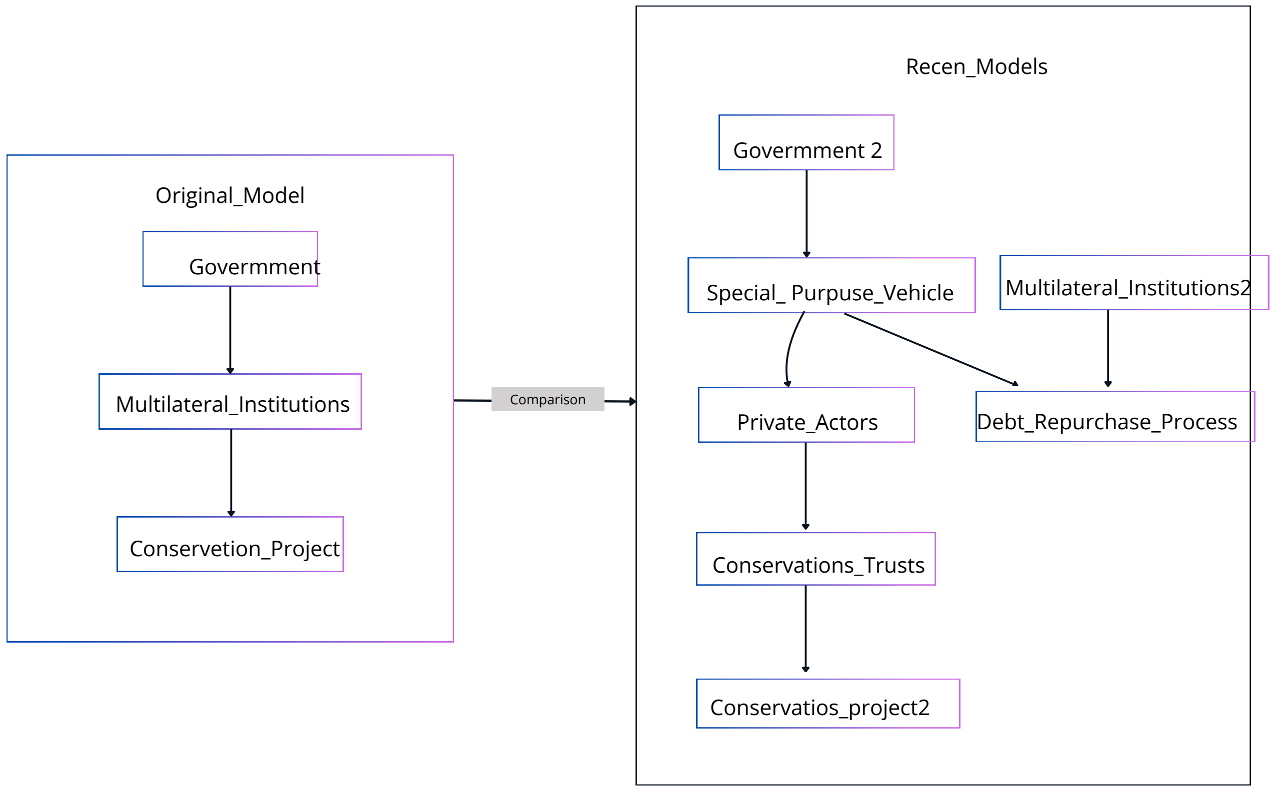


Table 1. Summary of Swaps and Stylization of Cases

Country	Redemption Amount	Haircut	Actors Involved	Reported Environmental Impact
Seychelles	$21.6 million	40%	NGO, Government, Bilateral creditors	Protection of 400,000 km^2 of marine area
Belize	$553M -> $364M (Blue Bond)	45%	Government, NGOs, Private, Financial service providers, development agency type	Protection of 30% of marine areas
Barbados	$50 million	45%	Government, NGOs, Private, Multilateral Development Bank	Conservation of marine ecosystems
Galapagos	$1.1 trillion -> (Blue Bonds)	60-65%	Government, NGOs, Private, Financial service providers, development agency type, Multilateral Development Bank	Protection of marine areas in the Galapagos

3. Current Challenges of Debt Swaps

Despite their potential, debt swaps face several important challenges. These limitations are observed at three key moments: before, during and after the swap.

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Table 2. Summary of critical challenges

Phase	Challenges	High Integrity Principles Violated
Before	Lack of Transparency in Negotiation	Effectiveness: Transparency
During	Imposition of Unfair Conditions	Inclusivity: Democratic Participation
After	Poor Monitoring of Environmental Impact	Accountability: Independent Audit

3.1 Governance

Governance challenges are critical, especially when swaps involve private actors that may generate conflicts of interest., many of them even established in tax havensIn the case of the Galapagos swap, it was observed that the use of funds from private sources limited the capacity of the Ecuadorian government to establish a clear and equitable direction for conservation projects (Ortega-Pacheco et al., 2023).

3.2 Transparency

Transparency is one of the most recurrent weaknesses in debt swaps. In many agreements, the details of the transactions are not available for public scrutiny, which generates mistrust and reduces citizen participation (Kessel, 2006). An example of a lack of transparency occurred in the Belize and Seychelles swaps, where the financial and environmental conditions were not fully disclosed at the beginning of the negotiations.

3.3 Sovereignty and Conditionalities

A central concern in debt swaps is the loss of sovereignty when debtor countries are required to comply with strict conditions imposed by creditors. In many cases, such as Greece in 2012, countries have been forced to implement structural reforms that are not always compatible with their development priorities (Nasdaq, 2012).

3.4 Limited fiscal contribution and accountability

Debt-for-nature swaps have shown limited contribution to significant sovereign debt reduction due to several key factors. First, the transactions typically involve relatively small amounts compared to the debtor country's total debt, which reduces the overall impact on the fiscal burden (Nedopil et al., 2023). Additionally, high transaction costs and the complexity of structuring these deals, such as setting up financial vehicles and hiring multiple external advisors, absorb a significant portion of the potential benefits (Kozul-Wright, 2024).

Another important factor is that, in many cases, the new loan taken on to finance debt repayment is not obtained under preferential conditions or with a significant improvement in the interest rate with respect to the bonds purchased (Booth & Brooks, 2023). This further limits the positive fiscal impact of the swap, since a significant reduction in the cost of debt service is not always achieved. Consequently, although these agreements often provide environmental benefits, the contribution to debt relief is affected by the combination of their limited scale, high administrative costs and the lack of improvement in financing conditions, which reduces their capacity to generate substantial fiscal relief.

Text Box. Limitations in Haircut Estimation

A haircut in a debt swap refers to the discount applied to the face value of the original debt during the process of restructuring or exchanging it for new debt instruments. The aim is to reduce a country's debt burden by allowing it to access better payment terms, particularly when it faces difficulties in meeting its financial obligations.

Steps to estimate the haircut:

1. **Nominal Value of Original Debt**: Identify the face value of the bonds or loans that are being restructured.

2. **Present Value of New Debt**: Calculate the present value of the new instruments issued as part of the swap, discounting future payments according to an appropriate discount rate that reflects the country's credit risk.

3. **Haircut Calculation**: The proportion of debt reduction is estimated through the following formula:

$$\text{Haircut (\%)} = \left(1 - \frac{\text{Present Value of the New Debt}}{\text{Nominal Value of the Original Debt}}\right) \times 100$$

For example, if the face value of the original debt is $100 million, and the present value of the new debt is $70 million, the haircut would be:

$$\text{Haircut (\%)} = \left(1 - \frac{70}{100}\right) \times 100 = 30\%$$

Application to the Case of the Galapagos Islands

A major limitation in the Galapagos case is the lack of transparency in the disclosure of the actual purchase price of the bonds and the relative price in the secondary market. In this case, detailed information on the exact terms of the purchase price of the bonds was not fully disclosed to the public, limiting the ability to accurately assess the actual level of haircut applied. This lack of transparency creates uncertainty about the actual benefit obtained compared to the market value of the bonds (Standing & Ortega-Pacheco, 2023). The omission of key information prevents a full assessment of the value of the deal for all parties involved and raises questions about whether the terms were sufficiently favorable to the debtor country.

Comparative Importance

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The haircut is a key measure in debt restructuring, as it directly affects the sustainability of the agreement for both the debtor country and the creditors. From the debtor country's point of view, a larger haircut implies a significant reduction in the debt burden, which can free up resources for sustainable development projects. From the creditors' perspective, a moderate haircut may be acceptable if it guarantees a higher probability of payment in the long term.

Limitations of Haircut

In addition to the lack of transparency, the haircut has other limitations that must be considered:

1. **Reaction of Creditors**: A significant haircut could be perceived as a loss by creditors, which could make future debt negotiations more difficult or increase the interest rates demanded of the country in the future.

2. **Future Tax Risk:** While a haircut may offer temporary relief, long-term sustainability depends on the country's ability to implement fiscal and economic reforms that avoid the need for further restructuring in the future.

3. **Market conditions**: The effectiveness of the haircut depends on global economic conditions and the discount rates applied. An unfavourable market environment may make the terms of the new agreement more onerous for the debtor country, even after the discount applied to the original debt.

4. **Limited Transparency in the Terms of the Agreement**: As observed in the Galapagos case, the lack of disclosure of the purchase price and the relative price of the bonds in the market raises serious doubts about the accuracy of the haircut calculation and the real benefit obtained by the country. This lack of transparency can erode confidence in the debt swap process and limit the public scrutiny necessary to ensure that the agreements are favorable to the debtor country (Standing & Ortega-Pacheco, 2023).

Conclusion
The haircut is a key tool to reduce the debt burden in debt-for-nature or climate swaps. However, its effectiveness and the actual benefit obtained depend on multiple factors, such as transparency in the disclosure of financial terms, creditor reaction and market conditions. The case of the Galapagos Islands highlights the importance of improving transparency in future agreements to ensure greater scrutiny and evaluation of the benefits.

Text Box: Governance of Endowment Funds in Debt-for-Nature Swaps and its Impact on Transparency

The use of endowment funds to manage the proceeds from these swaps has proven problematic in several cases. An analysis of swaps in Latin America, the Caribbean, and Africa shows common patterns of deficiencies in transparency and accountability, which must be addressed to ensure the integrity of future debt swaps.

Common Problems in Using Endowment Funds

Endowment funds, designed to generate stable, long-term income, have been used in multiple debt-for-nature swaps, such as in Belize, Seychelles, Peru, and the Galapagos in Ecuador. While they provide financial stability, these funds have had similar structural deficiencies:

Lack of Transparency and Accountability

Endowment funds often operate with little public oversight, leading to problems in resource management. For example, in the case of Belize, financial and impact reports of projects funded by the swap were not disclosed in an accessible manner, raising concerns about the proper management of funds (Blackman et al., 2019). Similarly, the Galapagos Life Fund (GLF) has been criticized for a lack of transparency in decision-making and the lack of participation of local actors in resource management (Ortega-Pacheco et al., 2023).

Exclusion of Local Actors

The exclusion of local actors in governance is a recurring problem in several debt swaps. In the case of the Seychelles debt swap, local communities were not significantly involved in decisions on resource allocation, resulting in the implementation of projects that did not fully reflect local needs (Seychelles Conservation and Climate Adaptation Trust, 2020). In Galapagos, the GLF faces similar problems, as local communities have not been adequately involved in decision-making, despite being the most affected by conservation projects (Ortega-Pacheco et al., 2023). Similarly, in the case of the Peru debt swap, the GLF has been unable to adequately involve local communities in decision-making, despite being the most affected by conservation projects (Ortega-Pacheco et al., 2023).[1], local actors were also excluded from the governance process (Spergel & Taïeb, 2008).

Conflicts of Interest

Conflicts of interest are a recurring concern in the management of endowment funds. In the case of Galapagos, a potential source of conflict of interest has been pointed out in the management of the GLF, where the fund manager, The Bank of New York Mellon, also acts as a liquidity provider and is one of the main creditors of Ecuador's debt. This duality of roles raises questions about whether decisions are being made in favour of conservation objectives or for the benefit of financial managers. Similar cases have been observed in Seychelles, where the lack of clarity in the roles of financial managers has also raised concerns about the independence of decisions (Seychelles Conservation and Climate Adaptation Trust, 2020).

Deviation from Conservation Objectives

In several cases, endowment funds have been criticized for failing to meet originally stated conservation goals. In the case of Belize, a significant portion of the resources were used on activities not directly related to marine conservation, leading to criticism about the lack of alignment with the original objectives of the swap (Bladon et al., 2014). In Galapagos, GLF reports reveal that projects funded so far have faced significant delays, and the resources mobilized have

1 This quote refers to a debt swap executed in 2008 between the Peruvian government and the World Wildlife Fund (WWF) to finance conservation projects in protected areas for the preservation of biodiversity in the Amazon.

been insufficient to meet the conservation goals set out in the Hermandad Marine Reserve Management Plan (Ortega-Pacheco et al., 2023).

Lessons Learned and the Need for Governance Reform

The challenges observed in the management of endowment funds in several cases underline the need for a more transparent and participatory approach to the governance of conservation funds. Lack of accountability and exclusion of local actors in decision-making compromise the long-term success of conservation projects funded by debt swaps.

Galapagos Case and Relevant Lessons

The case of the Galapagos Life Fund (GLF) is a critical example of governance deficiencies. The structure of the GLF, which is heavily controlled by international financial actors, has been criticized for its lack of transparency and local participation (Ortega-Pacheco et al., 2023). Furthermore, the conflict of interest between the fund managers and Ecuador's debt creditors raises serious questions about the integrity of the process. Despite ambitious marine conservation goals, the financial resources allocated so far have not been sufficient to achieve the proposed goals, which questions the effectiveness of using endowment funds in this type of debt swaps.

Recommendation: Use of Sustainable Investment Funds Aligned with the European Union SFDR Regulation

Instead of endowment funds, this High Integrity Principles proposal recommends the use of Sustainable Investment Funds aligned with international regulatory frameworks, such as the European Union's Sustainable Finance Disclosure Regulation (SFDR). This structure offers greater transparency and ensures that resources are managed with a focus on sustainability and accountability. Benefits of this option include:

- **Mandatory Transparency**: The SFDR regulation requires sustainable investment funds to disclose detailed information on their objectives and results, ensuring greater clarity and access to public information (European Union, 2019).

- **Structured Accountability**Through regular audits and public reporting, Sustainable Investment Funds ensure that resources are used responsibly and aligned with conservation objectives (Financial Times, 2020).

- **Greater Inclusion of Local Actors**These funds allow for better participation of local actors, ensuring that decisions are aligned with the needs and priorities of affectedcommunities (Spergel & Wells, 2009).

Adopting a Sustainable Investment Fund regulated under the SFDR would ensure that resources mobilized in future debt swaps are managed in a transparent manner, with adequate accountability and a clear focus on long-term sustainability (See Table 3).

The use of endowment funds in debt-for-nature swaps has shown weaknesses in terms of governance, transparency and accountability. Cases such as Galapagos highlight the need to reform the management structures of these funds, especially to ensure the participation of local actors and alignment with conservation objectives. The implementation of Sustainable Investment Funds, aligned with regulatory frameworks such as the SFDR, can offer a more robust and transparent solution for the management of resources from debt-for-nature swaps.

Table 3. Comparison of Sustainable Investment Funds (SFDR) vs Endowment Funds

Criterion	Sustainable Investment Fund (SFDR)	Endowment Fund
Transparency	High, with detailed disclosure	Limited, depends on national regulation
Governance	Clearly defined and regulated	Less rigorous in sustainability criteria
Environmental Compliance	Focused on the SDGs	Does not always prioritize sustainable objectives

3.5 Equity in the Distribution of Benefits

Debt swaps, while potentially beneficial, do not always distribute resources equitably. In several agreements, local communities have not benefited from funds earmarked for conservation, while international actors have been the main beneficiaries (Kozul-Wright, 2024).

3.6 Social and Environmental Safeguards

One of the biggest challenges in debt swaps is the lack of adequate safeguards to protect human rights and the environment in the financed projects. Often, local communities are not involved in decisions about the projects to be implemented as part of the swaps, which can lead to violations of fundamental rights and environmental degradation. Examples such as the case of the debt swaps in Seychelles and Belize show how conservation projects can negatively affect local populations when effective safeguards are not implemented.

Protecting human rights and the environment This not only involves taking steps to ensure that conservation interventions are sustainable, but also that they do not harm the livelihoods of local communities. In many cases, the lack of social safeguards has led to conflict situations where the most vulnerable populations have not benefited from the resources allocated to swap projects, and instead have been displaced or have had their access to the natural resources on which they depend limited.

To overcome this challenge, debt swaps must include social and environmental safeguards that

ensure that community rights and environmental integrity are respected at all stages of the project.

4. Key Principles for High Integrity Debt Swaps

4.1 Principles of Effectiveness

4.1.1 Transparency

It is essential that all details of the agreement, from negotiation to project implementation, are published openly and accessible to the public in a timely manner to ensure trust between the actors involved.

4.1.2 Sustainable Fiscal Impact

The terms of the swap should be flexible to adapt to the economic and environmental circumstances of the debtor countries. This will allow the debt swap to have a sustainable fiscal impact without imposing additional burdens on the countries.

Text Box: Conflicting Clauses Identified:

One of the biggest challenges to the fiscal sustainability of countries implementing debt swaps lies in the inclusion of conflicting clauses that limit the debtor country's flexibility. These clauses, although common in international financial agreements, can increase countries' vulnerability to economic crises and reduce their ability to meet the debt swap's objectives in terms of sustainable development and conservation.

1. **Cross Default Clause:**This clause states that a default on any external debt may trigger a default on all other debts, including those included in the debt swap. In the Galapagos Islands debt-for-conservation swap agreement, the cross default clause specifies that if any of Ecuador's external debt is not paid within the grace period, it will be considered a default event, potentially affecting the country's other financial commitments. This risk increases Ecuador's exposure to systemic fiscal crises (Ministry of Economy and Finance, Republic of Ecuador, 2023, p. 57).
2. ***Pari Passu* Clause:**This clause ensures that all debts must receive equal treatment and priority. Ecuador's agreement states that obligations under financial documents are backed by the full faith and credit of the debtor and must be treated equally with other external debts (Ministry of Economy and Finance, Republic of Ecuador, 2023, p. 62). However, this requirement may limit Ecuador's ability to prioritize financing for conservation and sustainability projects if other debts become more pressing in nature.
3. **Most Favored Nation Clause:** This clause prevents the debtor from granting more fa-

vorable terms to other creditors in the future without offering the same benefits to current creditors. In the case of the agreement signed by Ecuador, the clause establishes that any benefits offered to other creditors must be extended to the creditors of the present agreement (Ministry of Economy and Finance, Republic of Ecuador, 2023, p. 65). This limits the country's ability to renegotiate or restructure debts under more favorable terms with other creditors in the future, affecting financial flexibility.

Effect on Fiscal Sustainability: These clauses present considerable challenges for public debt management, as they limit the country's ability to adjust to changes in economic conditions or to renegotiate the terms of the debt in its favor. This could turn a localized debt crisis into a broader fiscal crisis, compromising both the objectives of the debt swap and the country's long-term economic stability. It is crucial that both debtor countries and international creditors consider revisions to these clauses, allowing for greater fiscal flexibility and preventing these financial mechanisms from becoming a source of greater economic instability (Ministry of Economy and Finance, Republic of Ecuador, 2023, pp. 57-65).

Recommendation: To mitigate the fiscal risks arising from these clauses, it is recommended that future debt-for-conservation swap agreements include mechanisms that allow for greater flexibility in cases of economic hardship. These measures could include the elimination or modification of *cross default* and *pari passu* clauses, or at least the creation of exceptions for projects related to sustainability or environmental conservation.

4.2 Accountability Principles

4.2.1 Independent Audit and Monitoring

Auditing should be regular and carried out by independent entities to ensure the correct use of funds, guaranteeing that environmental conservation and sustainable development objectives are met.

4.2.2 Effective Governance

Governance should include clear and accountable structures that allow for local participation in decision-making on the use of swap funds.

4.3 Principles of Inclusivity

4.3.1 Democratic Participation

Local communities must be involved from the earliest stages of swap negotiations. It is essential to ensure that their voices are heard and that they have a decisive role in the projects that will be implemented. Democratic participation is essential to ensure that the interests of vulnerable communities are respected and prioritized throughout the process.

4.3.2 Equity in the Distribution of Benefits

Benefits generated by debt swaps should be equitably distributed among stakeholders, ensuring that local communities most affected by the projects receive their fair share of resources. Equity in benefit sharing also implies that international and private actors do not monopolize the funds allocated to environmental projects.

4.3.3 Social and Environmental Safeguards

Protecting human rights and the environment must be a key principle in the implementation of any debt swap. Social and environmental safeguards ensure that conservation and development projects financed through swaps do not have negative impacts on vulnerable populations. Projects must incorporate social and environmental impact assessments that include communities in the design, implementation and monitoring of interventions.

It is essential that complaints and consultation mechanisms be established so that affected communities can voice their concerns and that the institutions responsible for implementing the swaps can take corrective measures if the projects have adverse effects.

5. Recommendations for Implementation

5.1 Principles of Effectiveness

Before the Swap:

- **Transparency in negotiation:**Full details of swap agreements should be disclosed from the earliest stages. Public scrutiny and stakeholder participation should be allowed, ensuring that financial and environmental terms are understood by all parties (Booth & Brooks, 2023).
- **Fiscal impact assessment:**Before formalizing the swap, debtor countries must conduct studies on the long-term fiscal impact, ensuring that the conditions do not overburden the country once implemented.
- **Evaluating the best alternative:**The government must ensure that several fiscal alternatives were analyzed before deciding on a debt swap.

During the Swap:

- **Continuous supervision:**As the swap is formalized, real-time monitoring of the transactions is necessary to ensure that the agreed terms are being met, particularly in terms of transparency of funds and use of resources for environmental projects (Nedopil et al., 2023).

- **Flexibility in Debt Restructuring**: Agreements must allow for adjustments in the terms or deadlines for debt payment, depending on the success or progress of environmental projects.

- **Growth-Based Payments**: Payments arising from the swap should be adjusted according to the economic or environmental success of the projects, avoiding imposing additional burdens on the debtor countries (Pierce & Adger, 1995).

After the Swap:

- **Periodic review of terms:** The terms of the agreement should be reviewed and adjusted if economic or environmental conditions change. Flexibility clauses should be included to adapt to changes in financial markets and the progress of conservation projects.

5.2 Accountability Principles

Before the Swap:

- **Independent audit in planning:** Before the agreement is signed, independent audit mechanisms must be established to monitor and audit the funds and ensure that the agreed terms align with the fiscal and environmental objectives of the debtor country (Kessel, 2006).

During the Swap:

- **Monitoring implementation:** It is recommended that an audit team be created to monitor the implementation of the swap in real time, ensuring that the funds are used as agreed and that there are no deviations. This team should be composed of representatives from the government, civil society and international actors.

After the Swap:

- **Evaluation of results:**It is essential to evaluate the results of projects financed by the swap, measuring their environmental and economic impact. If the results are not satisfactory, it should be possible to renegotiate the terms or redirect the funds towards more effective initiatives.

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5.3 Principles of Inclusivity

Before the Swap:

- **Community involvement in negotiations:**Local communities must be involved from the initial stages of the swap negotiation. An inclusive process must be carried out that allows interested parties to express their concerns and suggestions about the projects that will be financed with the swap funds (Latindadd, 2023).

- **Due diligence**: Even prior to the swap, multilateral organizations that provide guarantees should comply with their policies and implement review and due diligence to understand the downstream and upstream implications of the swap operation they will support before extending the guarantee.

During the Swap:

- **Implementation with local participation:**During the implementation phase, it should be ensured that local communities are involved in the implementation of projects, ensuring that interventions respect their rights and livelihoods.

After the Swap:

- **Community-Inclusive Monitoring:**Monitoring and evaluation mechanisms should include local actors, allowing them to participate in project oversight and ensuring that benefits reach affected communities directly (Ortega-Pacheco et al., 2023).

- **Social and Environmental Safeguards:**Funded projects must have clear safeguards in place to ensure the protection of human rights and the environment. It is essential to conduct social and environmental impact assessments and establish consultation mechanisms with affected communities. Countries must implement grievance and remediation systems for any potential negative impacts of projects.

6. Conclusions

Key Principles in Debt-for-Nature Swaps

Table 4. Summary of best practices for implementing high-integrity debt swaps

Principle	Before the Swap	During the Swap	After the Swap
Effectiveness	Comprehensive assessment of financial and environmental conditions to ensure long-term sustainability. Transparency essential to align objectives (Booth & Brooks, 2023).	Adequate oversight and robust monitoring to ensure compliance with environmental objectives (Kozul-Wright, 2024).	Periodic reviews to adjust to changing circumstances and maintain sustainability (Nedopil et al., 2023).
Accountability	Establishing clear audit and governance mechanisms. Assigning responsibilities from the beginning (Kessel, 2006).	Continuous and independent auditing to ensure objectivity in the use of funds (Standing, 2023).	Post-swap audits to assess effectiveness and transparency, with results available to the public (Ortega-Pacheco et al., 2023).
Inclusivity	Early participation of local communities in negotiations to protect their interests (Latindadd, 2023).	Active participation of communities to ensure that projects respect their rights and distribute benefits equitably (Standing, 2023).	Post-swap monitoring with the inclusion of communities to ensure fair distribution of benefits (Ortega-Pacheco et al., 2023).

Critical overview and justification for accelerated adoption of integrity principles

Given the growing concerns about the efficacy of debt-for-nature swaps, as highlighted by Linsley-Parrish (2023), it is crucial to quickly adopt integrity principles. Without strong governance and social safeguards, these agreements risk failing to meet their objectives. Adopting principles that foster transparency, accountability and inclusiveness ensures that debt swaps contribute meaningfully to sustainable development.

Given the growing urgency of simultaneously addressing debt crises and environmental challenges, it is vital that the integrity principles proposed in this report are adopted in an accelerated manner. Experience shows that without strong principles that ensure transparency, accountability and inclusive participation, debt swaps can generate limited impacts, perpetuate inequalities and fail to achieve their environmental objectives. The immediate adoption of these principles will not only increase the effectiveness of swaps, but will also strengthen trust in these mechanisms, foster greater international collaboration and ensure that resources are used appropriately.

Furthermore, it is imperative that this framework of integrity principles is not seen as a static solution, but rather as a starting point for a broader public debate. Communities, governments and international institutions must collaborate to enrich and adapt these principles to local and global realities. Effective implementation will depend on ongoing discussion, in which all voices are heard and ensuring that lessons learned from previous experiences are integrated to improve sustainability and fairness in future debt swaps.

Next steps

This proposal of principles is a first step aimed at energizing the public debate among the different actors involved in debt swaps. We recognize the urgent need for guiding principles that ensure integrity in these agreements and promote greater transparency and fairness. We invite all interested parties to participate in this debate by sharing their contributions and opinions.

All inputs received will be incorporated into the process of improving this proposal, and structured dialogues will be held within the framework of the Conference of the Parties (COP 16) on Biodiversity and the Conference of the Parties (COP29) on Climate Change in Baku. Contributions can be sent to the following email address: [insertaemail@domain.com]. These contributions will be key to enrich the revised version, which will be discussed and widely disseminated among interested parties.

As a next step, we will seek partners to mobilize resources and work on developing a set of objective metrics to systematically assess both debt swaps already carried out and those proposed in the near future. The objective is to determine the level of integrity achieved in each transaction and provide this information to multilateral organizations that use public funds to facilitate these agreements, as well as to investors who wish to publicly participate in them. This scrutiny will also be useful for credit rating agencies, which will be able to adjust their current and future assessments, respecting the interests of the users of the information generated.

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Debt swaps, particularly those linked to nature and climate action, are being promoted as an important financial tool for developing countries, with the aim of lightening their external debt burden, while promoting sustainability objectives. environmental and social. However, the swaps carried out have raised concerns related to a lack of transparency, limited governance and the use of conditionalities imposed by bond creditors. These limitations may compromise the ability of debtor countries to implement their own development plans autonomously and democratically. Likewise, challenges are observed in the distribution of risks and benefits, which often do not reach the most vulnerable communities and transfers the risk disproportionately to governments and their inhabitants.

This document seeks to present key principles that guide the structuring and implementation of high-integrity debt swaps, ensuring that these transactions not only relieve debt, but also respect the rights of communities, promote climate and financial justice, and ensure the sustainable development in a transparent and equitable manner. These principles must address transparency, equity in the distribution of benefits and the limitation of conditionalities that affect the sovereignty of debtor countries (Standing et al., 2023).

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