

## Debt-for-Nature Swap [UPSC Notes]

Credit Suisse buys Ecuadorian Bonds at discounted rates in a Debt-for-Nature swap. In this context, it is important to understand what debt-for-nature swaps are, what is the Galapagos Bond and other details for the [IAS exam](#) environment segment of GS paper III.

### What is a Debt-for-Nature Swap?

A debt-for-nature swap is a financial arrangement where a debtor nation makes payments to a creditor, typically in a foreign currency, in exchange for that creditor's agreement to channel debt-relief funds into conservation or reforestation programs in the debtor country.

- The goal is to promote environmental conservation and sustainability while simultaneously relieving debt.

### Credit Suisse Buys Ecuadorian Bonds

- Swiss bank Credit Suisse was acquired by Swiss banking giant UBS in an emergency takeover aimed at stabilizing the financial markets during a banking crisis.
- Due to the political crisis in Ecuador, where the National Assembly is attempting to impeach President Guillermo Lasso over allegations of embezzlement, the value of the country's bonds has slumped.
  - The situation was dire enough that investors believed that non-payment was probable, resulting in a decrease in bond prices.

### Details of the Deal:

- Credit Suisse has purchased Ecuadorian bonds worth \$1.6 billion at less than half their original value in a debt-for-nature swap.
- In exchange, Ecuador has committed to investing \$18 million annually for the next two decades in the conservation of the Galapagos Islands.
- A slump in bond prices led Credit Suisse to purchase the bonds at a knock-down price.
- The \$656 million "Galapagos Bond" will replace the old debt, and it will be partly underwritten by the Inter-American Development Bank and the US International Development Finance Corporation.
- The IDB has approved a financial guarantee of \$85 million for a debt swap of \$800 million of Ecuador's sovereign bonds.

**Impact:**

- Ecuador's commitment to invest in the conservation of the Galapagos Islands will help protect one of the world's most precious ecosystems.
- The debt-for-nature swap has allowed Ecuador to buy back its own debt at a lower price and reduce its debt burden.
- The deal has highlighted the potential of debt-for-nature swaps to protect valuable ecosystems and provide economic benefits to debtor countries.

**Galapagos Islands**

- The Galapagos Islands, situated around 1,000 km west of Ecuador in the Pacific Ocean, are known for their extraordinary and varied wildlife that influenced Charles Darwin's evolutionary theory.
- The islands are home to a variety of unique and exclusive species such as the Galapagos tortoise, marine iguana, and Galapagos penguin.
- The Galapagos Islands are renowned for their diverse biodiversity, resulting in their designation as a UNESCO World Heritage site and a Biosphere Reserve.
- These islands are also famous for ecotourism, attracting numerous visitors each year.
- Despite their distant location, the Galapagos Islands are facing environmental challenges, including climate change and invasive species, which put the fragile ecosystem of the islands at risk.