

Debt for Climate and Nature Swaps in Sri Lanka

Scoping Study



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Occasional Paper Series No. 75

July 2025



INSTITUTE OF POLICY STUDIES OF SRI LANKA

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for Environment
and Development



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Abbreviations

DfCN	Debt-for-Climate and Nature
EFF	Extended Fund Facility
GOSL	Government of Sri Lanka
KII	Key Informant Interview
MOE	Ministry of Environment
MOF	Ministry of Finance
NDCs	Nationally Determined Contributions
NGO	Non-Governmental Organisation
PEA	Political Economy Analysis
SDG	Sustainable Development Goal
TNC	The Nature Conservancy
USD	United States Dollars

Executive Summary

In addressing the triple challenges of high indebtedness, climate change and loss of nature, debt-for-climate and nature (DfCN) swaps are recognised as an effective fiscal instrument for developing economies. These are agreements between the debtor and creditor where debt repayments are restructured to reduce the debt burden, with the funds allocated to climate-positive investments that support environmental commitments. Debt swaps, therefore, can be used to reduce foreign debt obligations and unlock fiscal space for environment-related investments.

With the conclusion of debt restructuring, Sri Lanka is in a more favourable position to implement a DfCN swap. An early start to the preparatory work would enhance the government's readiness for successful implementation.

Externally, implementing DfCN swaps requires a transformed global financial architecture where developing countries are better supported to maintain sustainable debt levels and higher climate investments. Multilateral financial institutions have a bigger role to play in this regard. Internally, long-term planning, stringent commitments across all sectors and capacity building are critical in implementing DfCN swaps.

DfCN swaps have the potential to re-establish financial and governance credibility and accomplish the financing needs of debtor countries. However, whether the benefits of DfCN swaps can be fully capitalised depends significantly on the government's willingness to implement broader policy reforms and its ability to negotiate more favourable debt agreements.

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Acknowledgement

We extend our sincere thanks to Dr. Dushni Weerakoon, Executive Director of IPS, Dr. Nisha Arunatilake, Director of Research, IPS, and Paul Steele, Chief Economist at IIED, for entrusting us with the opportunity to conduct this research project and for their valuable support throughout.

We are grateful to Dr. Asanka Wijesinghe, Research Fellow at IPS and Mr. Michael Iveson, ODI Fellow, for their detailed review and constructive feedback, Sejal Patel for technical guidance; and to Sydney Church for administrative assistance, which greatly strengthened the quality of this paper. Very special thanks to Theo Maret and all other stakeholders for their contribution.

Our sincere appreciation goes to Gayendri Karunaratne for editorial support, Shannine Daniel for Infographics, and Dinali Perera for her overall coordination efforts—all of which played a vital role in the successful completion of this publication.

1. Introduction

Addressing the triple challenges of high debt, climate change, and environmental degradation requires developing economies to mobilise greater financial resources and implement comprehensive financial reforms. Debt-for-climate and nature (DfCN) swaps are financial transactions that offer partial debt relief in exchange for new climate or nature related investments in debtor countries (Chamon et al. 2022). Hence, DfCN swaps can free up fiscal resources, enabling governments to enhance resilience without triggering fiscal crises. Further, with a lack of access to affordable finance, DfCN swaps can be useful in expanding expenditure on climate change initiatives. While early debt swaps have had limited impact on debt relief, adopting a programmatic approach and enhancing transparency in negotiations can lead to more significant debt relief (Kelly, Ducros, & Steele, 2023).

Debt-for-climate and nature (DfCN) swaps are financial transactions that offer partial debt relief in exchange for new climate or nature related investments in debtor countries.

The initial issuance of debt-for-equity swaps occurred in the 1980s, following the Latin American debt crisis (Buchheit, 1986). Later, these swaps were diversified involving diverse stakeholders and country needs. For instance, swaps included environmental projects which involved environmental non-governmental organisations (NGOs); thereafter, these turned into bilateral swaps when debtor and creditor governments were directly involved; and expanded to non-environmental fields like education and health. With recent changes in international climate finance architecture, debt swaps are receiving more attention. While these transactions have not yet been scaled up significantly, debt swaps have the potential to tackle high debt levels and climate concerns simultaneously. Debtor countries can negotiate on reduced contractual debt obligations with a commitment to local climate-related spending. However, several limitations remain to

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be addressed through careful design. Limitations include negligible impacts on the overall debt burden; implementation follows a project- or activity-based approach rather than programmatic approach; lack of additionality and creation of parallel implementation structures (Steele & Patel, 2020; Mengdi & Wang, 2021; Essers, Cassimon, & Prowse, 2021).

Sri Lanka, a small island economy, is highly vulnerable for climate impacts.¹ Its diverse and rich biodiversity is in danger due to river diversion, habitat loss, pollution, invasive species and overexploitation. Besides, the country is recovering from its worst economic crisis that stemmed from pre-existing vulnerabilities, policy missteps and external shocks (International Monetary Fund [IMF], 2023). Sri Lanka defaulted on its debt in 2022 with a total debt stock of United States Dollars (USD) 92 billion (Bn), indicating a 128% debt-to-GDP ratio and entered into an IMF programme in 2023.² Sri Lanka qualifies for IMF four-year extended arrangement under the Extended Fund Facility (EFF) of USD 3 Bn in March 2023 (Figure 1).³ Figure 2 illustrates foreign debt accumulation over the years. This was not initially a concern due to the concessional nature of the debt. However, with graduation to middle-income status, Sri Lanka began borrowing at commercial rates. As a result, foreign debt portfolio shifted from mainly concessional loans to a complex mix of bilateral, multilateral, and commercial debt, including

1 The ND-Gain Index – measures a country's current vulnerability to climate disruptions and assesses a country's readiness to leverage private and public sector investment for adaptive actions – ranked Sri Lanka 104th in 185 countries in 2021 (UND, 2024).

2 GDP denotes gross domestic product.

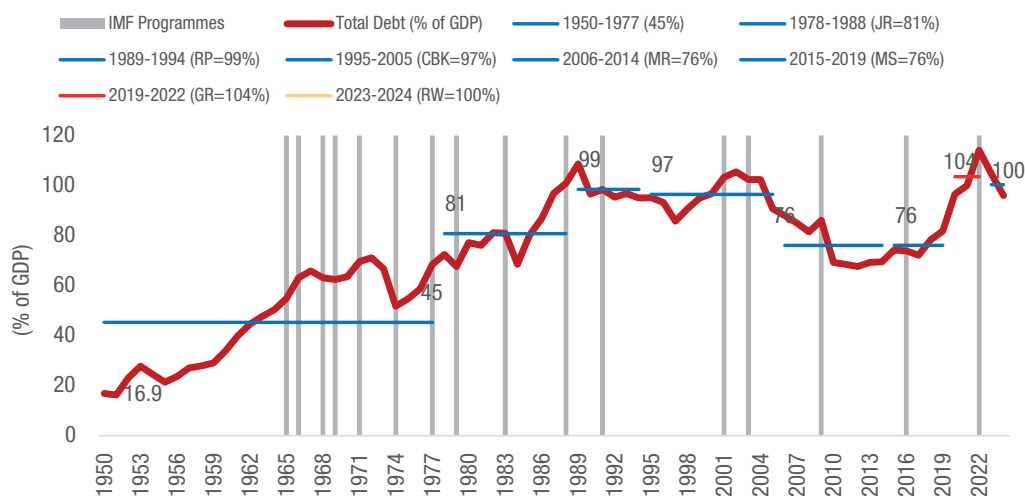
3 With unsustainable debt, the prime focus is on debt restructuring (Essers, Cassimon, & Prowse, 2021). Hence, a year following the EFF approval, Sri Lanka has initiated restructuring its foreign debt and concluded successfully in 2025.

international sovereign bonds (ISBs). In 2022, external debt comprises 40% of the total debt accounting to USD 36 Bn in 2022 (Ministry of Finance [MOF], 2023). Of these, commercial debt contributes the most (41%), followed by bilateral (31%) and multilateral (28%) debts (Figures 3 and 4). Bilateral debt includes both Paris Club (13%) and non-Paris Club (19%) countries (Table 1A in the Annex 1).

Attracting innovative, non-debt-creating financing mechanisms would diminish the need for further borrowing while supporting a strong recovery and rebound (Golub, et al., 2025). Therefore, the main aim of this scoping study is to explore the government's readiness in implementing the DfCN swap in addressing debt and climate vulnerabilities. While readiness depends on several factors, this study focuses on timing, institutional capacity and quality, and political stability. For a crisis-hit economy, timing is crucial to ensure debt restructuring remains undisturbed. Success also relies on strong institutions and the capacity to negotiate and implement such financial mechanisms effectively. Accordingly, this study has three key objectives: (1). Review the history and benefits of DfCN swaps for Sri Lanka; (2). Evaluate the government's readiness for DfCN swaps by employing a simple political-economy analysis; and (3). Identify potential creditors and propose a strategic action plan for implementing DfCN swaps in Sri Lanka.

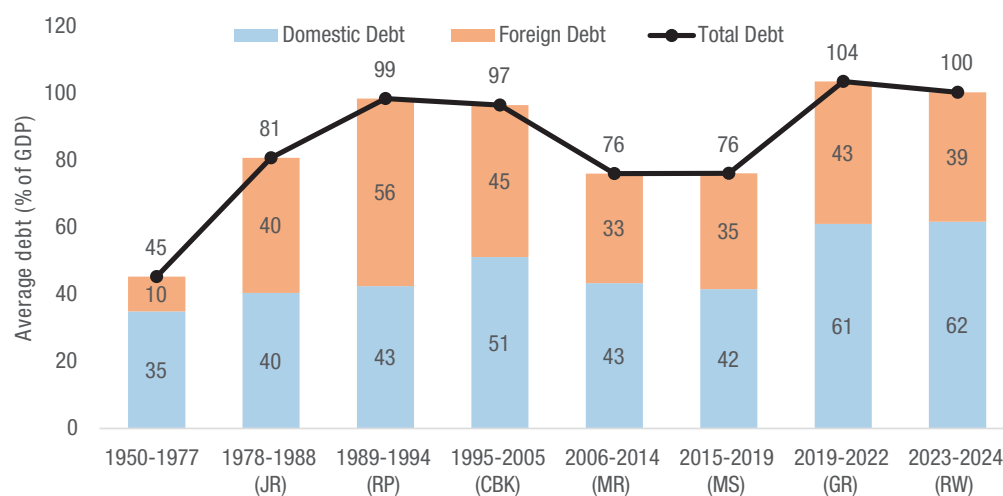
The remainder of the report is structured as follows: Section 2 provides an analysis of the evolution of DfCN swaps and its potential benefits for Sri Lanka. Section 3 presents a political economy analysis, while Section 4 estimates potential debt swap negotiations for Sri Lanka. Section 5 offers conclusions and recommendations, and Section 6 outlines the strategic next steps for implementing DfCN swaps in Sri Lanka.

Figure 1: Sri Lanka's Central Government Debt (1950-2022)



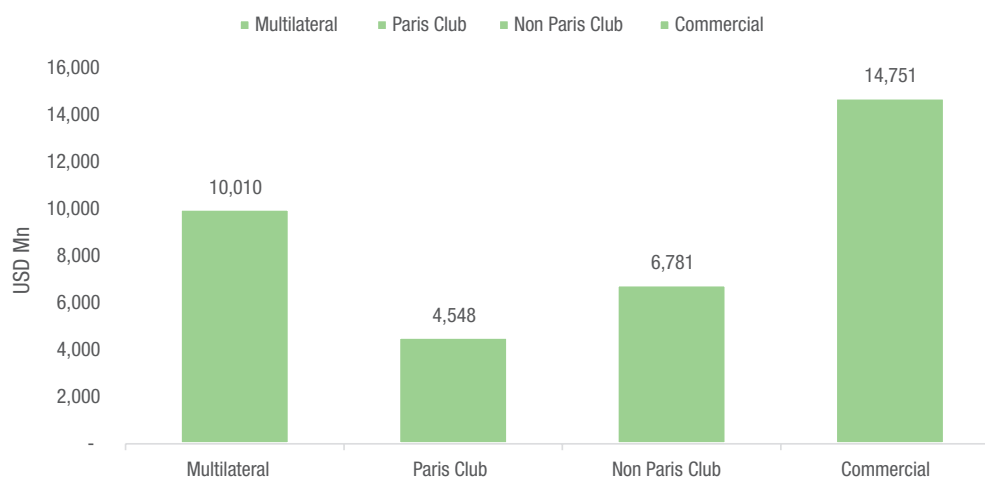
Notes: Sri Lanka has engaged in 16 IMF programmes since obtaining IMF membership in 1950. Only 9 times out of 16, were successful. In March 2023, Sri Lanka qualifies to receive USD 3 Bn in a 4-year extended arrangement of the External Fund Facility (EFF) of the IMF (17th programme) (Annex 2). RP-President Ranasignhe Premadasa; CBK-President Chandrika Bandaranaike Kumaratunga; MR-President Mahinda Rajapaksa; MS-President Maithripala Sirisena; GR-President Gotabaya Rajapaksa; RW-President Ranil Wickremesinghe. The highest average total debt of 104% of GDP was recorded during President Gotabaya Rajapaksa (2019-2022).

Sources: Annual Report 2020 and 2024.

Figure 2: Composition of Sri Lanka's Central Government Debt (1950-2022)

Notes: The highest average foreign debt of 56% of GDP was recorded during HE RP (1989-1994), yet, the post-war highest foreign debt accumulation was during HE GR (2019-2022). The highest foreign debt of 62% of GDP was recorded during HE RP in 1989. Foreign debt was higher than domestic debt only during 1984-1995, otherwise domestic debt contributes the most to total public debt in Sri Lanka. JR-President JR Jayewardene; RP-President Ranasinghe Premadasa; CBK-President Chandrika Bandaranaike Kumaratunga; MR-President Mahinda Rajapaksa; MS-President Maithripala Sirisena; GR-President Gotabaya Rajapaksa; RW-President Ranil Wickremesinghe.

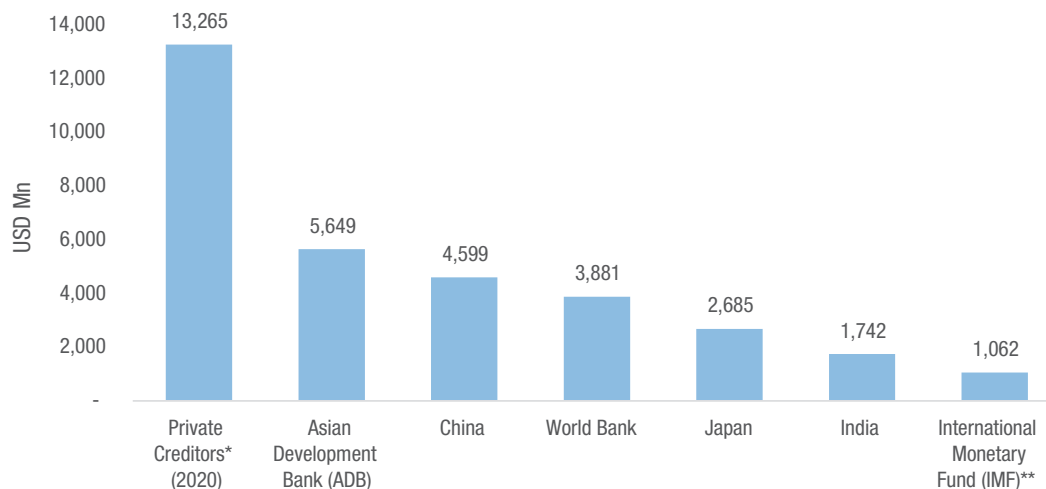
Sources: Annual Reports 2020 and 2024 of Central Bank of Sri Lanka (CBSL).

Figure 3: Composition of Central Government External Debt, by Main Creditor Category

Notes: Commercial debt shares consist 41% of external debt stock followed by bilateral debt (31%) and multilateral debt (28%). Bilateral debt comprises non-Paris Club (19%) and Paris Club (13%).

Source: Quarterly Debt Bulletin 2023, MOF.

Figure 4: Composition of Central Government External Debt, by Selected Creditors



Sources: Quarterly Debt Bulletin 2023, MOF; *Article IV Consultation IMF 2021; **Annual Report 2022, CBSL.

2. Evolution of Debt for Climate and Nature (DfCN) Swaps

2.1 Global Context

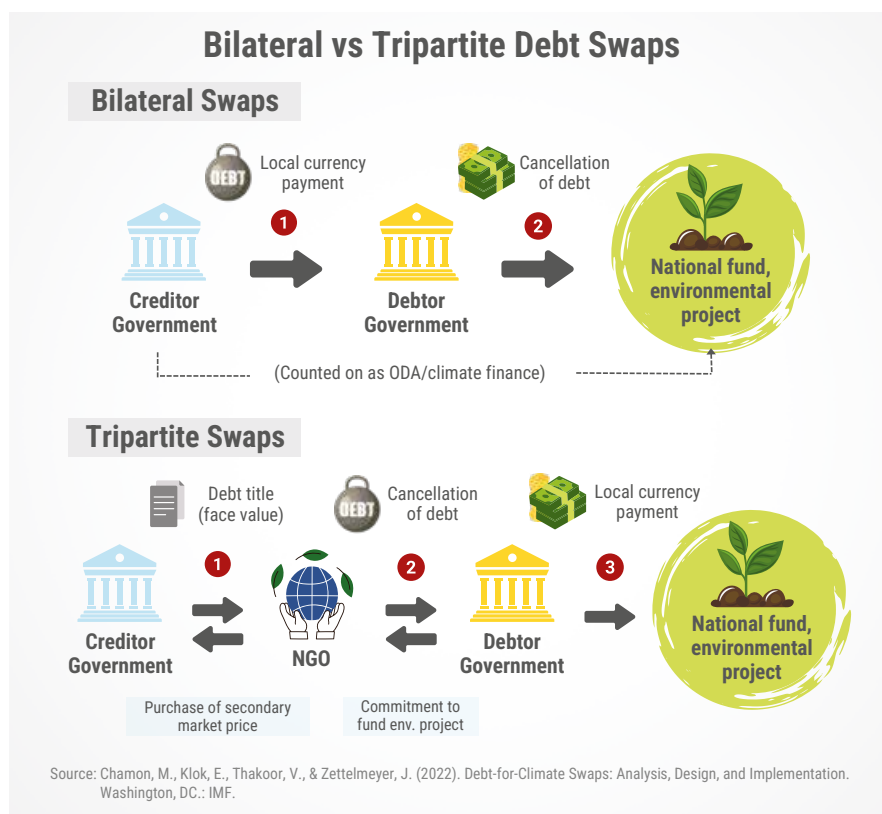
Increasing indebtedness in developing countries is marking the beginning of a new debt crisis (Gaspar et al., 2023). Thus, financial innovation is critical to bridge the gap in development needs. Debt swaps are a form of innovative financial transaction in which an existing debt obligation is exchanged for another type of asset, equity or restructured debt under different terms. These swaps are commonly used by governments, corporations, and financial institutions to manage debt burdens, improve financial stability, or achieve policy goals.

Types of Debt Swaps

Debt swaps have evolved over the decades, adapting to the changing financial landscapes and priorities of both creditors and debtors. There are a few different kinds of debt swaps (Hansen, 1988; Dollery, Schulze, & West, 1995). **Debt-for-debt swaps** involve a transaction between creditors who exchange foreign loans. **Debt-for-equity swaps** involve the conversion of external debt into some form of equity but foreigners continue to hold a claim on debtor country resources. **Debt-for-rescue swaps** (“buy back”) consist of a repurchase of a country’s debt in the secondary markets. **Debt-for-development swaps** redirected debt repayments towards funding social programmes like education and healthcare. The Paris Club incorporated debt swap clauses in agreements emphasising developmental objectives. In **debt-for-policy swaps**, creditors agreed to restructure or forgive debt in return for implementing specific economic or policy reforms by debtor nations. The exchange of debt with debtor country could be either in local-currency climate-related investment or funding for a conservation project.

Architecture of Debt Swaps

Debt swaps could involve both official bilateral and commercial debt (Chamon et al., 2022). Based on the number of entities involved, the mechanism of debt swaps can be broadly categorised as bilateral and tripartite debt swaps. Bilateral swaps are between two parties, a debtor and an official bilateral creditor, where debt service is redirected to finance climate or nature-related projects. Tripartite swaps include three parties (debtor, creditor and an intermediary) and involve a buyback of debt, which is usually intermediated by an international NGO. The NGO lends funds to the debtor at below-market interest rates to buy back commercial debt at a discount and invest a portion of the debt relief in climate or nature-related projects.



The bilateral swaps are simple and involve fewer parties. Hence, the agreement process is faster and more flexible. However, it involves high risk due to the high likelihood of financial mismanagement in the absence of external oversight. In contrast, the tripartite debt swaps are more complex and the negotiation process is longer as agreements must satisfy all three parties. The third party ensures compliance and proper fund allocation and lower the risk of corruption or mismanagement of funds.

Impacts of Debt-for-Climate and Nature Swaps (DfCN)

Debt-for-nature swaps are a kind of debt-for-equity swaps which involve the purchase (at discounted value in the secondary debt market) of a developing country's debt, and cancelling this in return for environmental-related action on the part of the debtor nation. Debt-for-climate swaps originate from debt-for-nature swaps and encourage investments in climate change adaptation and mitigation (Chamon et al., 2022). Accordingly, DfCN swaps can be used to address indebtedness and environmental vulnerabilities together. Here, the creditors provide debt relief in return for increased government commitments to the environment and climate-resilient investment (Georgieva, Chamon, & Thakoor, 2023).

Case Studies

The concept of debt-for-nature swaps was first introduced in response to tropical deforestation and mounting debt obligations in Latin America in 1984 (Yue & Wang, 2021). Since then, many countries have adopted DfCN swaps to address both financial and environmental challenges. The first actual implementation of a debt-for-nature swap occurred in 1987 between Conservation International (American NGO) and the Bolivian government. It provides USD 0.65 (Mn) and agree to protect 3.7 Mn acre tropical forests in Bolivia (Yue & Wang, 2021). Initially, the focus of debt swaps was on environmental commitments within the marine and forestry sectors. Thus far, over 20 swaps have been completed, particularly involving developing countries.

The United States of America (USA) is actively engaged in several debt swaps around the world, under their Tropical Forest Conservation Act (TFCA). In 2002, the USA and Peru engaged in a tripartite swap of USD 20 Mn and committed to invest in conservation projects in collaboration with three other NGOs: the Nature Conservancy (TNC), Conservation International and World Wildlife Fund (WWF) (Bove, 2021). The USA did not forgive the debt outright, but the debt payments were redirected into a local conservation fund managed by a third party. The NGOs ensured proper allocation of funds for conservation projects in the Amazon. In 2006, the USA and Guatemala engaged in a USD 24 Mn swap which equals to one-fifth of Guatemala's total debt (ESP, 2006), of which, USD 2 Mn was donated by TNC and Conservation International, with the remaining USD 22 Mn received from the US government. In return, Guatemala committed to invest additional resources into rainforest conservation for 15 years. In 2009, the USA and Indonesia engaged in a bilateral swap of USD 30 Mn to protect Sumatra's tropical forests (USDT, 2009). In 2021, the USA and El Salvador agreed to redirect USD 20 Mn debt to a conservation fund to conserve natural forests and coral reefs (US, 2024).

Seychelles was the first country to engage in a 'Blue Economy Swap', which consisted of marine sector investments supported by the restructuring of USD 21.6 Mn of its national debt with Paris Club creditors in 2015 (World Bank, 2018). In 2021, Belize engaged in a 'tripartite blue economy swap' with TNC, which reduced its external debt to commercial creditors by 10% of GDP (Owen, 2022). TNC financed the repurchase of USD 553 Mn of its national debt (30% of GDP) by issuing USD 364 Mn blue bonds. This allowed the loan to have a low interest rate, a 10-year grace period during which no principal is paid, and a long maturity of 19 years. In exchange, Belize agreed to invest USD 4 Mn annually in marine conservation until 2041. The impact of DfCN swaps extends beyond individual countries when these are used in either marine or terrestrial-related biodiversity conservation efforts.

In 2022, Barbados was successful in completing a USD 150 Mn swap with TNC with financial security from the Inter-American Development Bank (IDB) (IDB, 2022). In 2023, Cape Verde and Portugal swapped the entire USD 153 Mn of debt for investments in an environmental and climate fund (Goncalves, 2023). In 2023, the world's largest debt-for-nature swap of USD 1.6 Bn (60% discount) was made by Ecuador with the support of IDB, US Development Finance Corporation (DFC) and Credit Suisse. In return, Ecuador agreed to allocate resources (USD 12 Mn a year) for long-term marine conservation in the Galápagos Islands (IDB, 2023).

Limitations of DfCN

While DfCN swaps yield positive environmental policy outcomes, the debate continues regarding their effectiveness in delivering debt relief. The complexity in operational architecture might increase the administrative costs, thus, the benefits may be limited. Private sector involvement can increase financial risks, as these may not prioritise environmental goals in the same way governments do. This misalignment of objectives could increase risks. The complexity in the negotiation process, may reduce transparency of the terms of the deal and how the funds are being allocated. Thus, the genuine contribution towards a positive

outcome is in question. Swaps often have equity concerns. Countries with the most environmental or climate change-related vulnerabilities (often developing countries) may be more likely to engage in such swaps, but they could still face financial pressures due to the structure of these deals. Sometimes, wealthy countries or private investors are perceived to gain disproportionately from these swaps, rather than the affected nations themselves.

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Although DfCN swaps offer positive environmental outcomes, its effectiveness in providing debt relief remains a concern (Chamon et al., 2022). Swaps could improve credit standing and access to financial services, however, implementation efficiency could significantly impact the outcome. Debt swaps often require several years to negotiate. Delays lead to increased operational costs, and there is no assurance that negotiations will conclude with favourable terms for debtor governments. As such, these swaps can be expensive and time consuming.

The complexity in operational architecture might increase the administrative costs, thus, the benefits may be limited.

Mechanisms like DfCN can allow countries to reduce debt by committing to invest in climate-related projects. Yet, empirical evidence suggests that these mechanisms might have a limited effect on debt sustainability. Swaps may provide temporary relief, but not the overall debt burden. In many cases, the amount of debt that is eligible for swap is only a small fraction of the country's total external debt (IMF, 2020).

Another concern is the 'conditionality' of debt swaps, which is often attached to debt relief (Schneider & Setzer, 2020). Countries that engage in DfCN agreements are often required to meet specific climate goals or make climate-related investments.

These obligations might not align with the most urgent economic or social needs of the country, and the funds directed toward these climate projects are often insufficient to make a significant dent in debt levels.

DfCN agreements are often slow to implement (World Bank, 2021). The complexity of negotiating between debtor countries, creditor nations, and multilateral institutions can lead to long delays. Thus, it further delays the financial relief these countries need. Even when debt is restructured or reduced through a DfCN agreement, the amount of climate finance provided through these arrangements often falls short of the needs. Countries might get some funds for climate-related projects, but the funds might not be large enough to offset the debt burden (UNFCCC, 2021).

Although a portion of debt is forgiven or restructured, countries may continue to accrue more debt due to structural issues such as low economic growth, volatility in commodity prices, or the ongoing impacts of climate change itself. Without addressing these underlying structural economic vulnerabilities, DfCN may only provide short-term relief, leaving countries vulnerable to new debt cycles. Further, without broader reforms in the international debt system, DfCN will struggle to offer sustainable debt relief in the long run (Martin & Cohen, 2022).

DfCN agreements typically cover only a small portion of a country's debt, often focusing on external debt rather than domestic debt or other forms of financial obligations (World Bank, 2022). As a result, these swaps may not have a substantial impact on reducing the overall debt burden. Many debtor countries have a mix of domestic and external debt, and DfCN agreements primarily target the external portion. This limited coverage further weakens the potential for significant debt reduction.

DfCN agreements primarily aim to restructure debt rather than reduce the total debt burden. For example, in a typical DfCN agreement, a portion of the national debt is restructured or forgiven in exchange for the debtor country committing to certain environmental goals, such as climate adaptation or renewable energy projects.

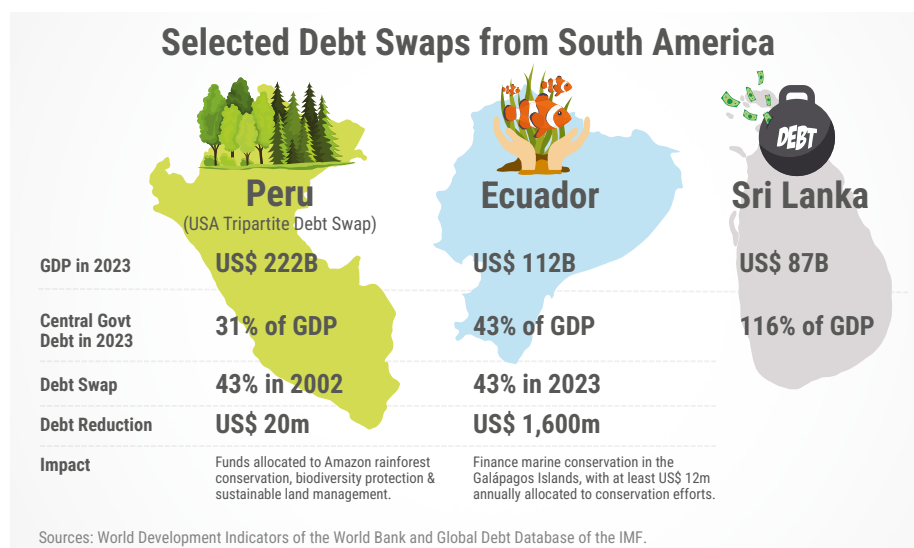
Upon the completion of debt restructuring in early 2025, the government may consider integrating innovative financial instruments into its financing strategy to enhance fiscal resilience and support development priorities.

DfCN Swaps: A Solution for Debt and Climate Crisis

Sri Lanka is recovering from its multiple crises, yet, debt sustainability is a concern. Upon the completion of debt restructuring in early 2025, the government may consider integrating innovative financial instruments into its financing strategy to enhance fiscal resilience and support development priorities. The Draft-National Climate Finance Strategy of Sri Lanka 2025-2030 identified 12 such instruments including Environmental, Social and Governance (ESG) swaps focused on nature, energy, water and agriculture.

Historical evidence of debt swaps suggests that not all debt swaps have reduced the debt burden or been effective in achieving debt sustainability (Table 1 and infographic). Also, the debt reduction might be smaller compared to the economy size. Despite these limitations, some countries have concluded one or more debt swaps (e.g.: Ecuador and El Salvador). This could be due to fiscal constraints faced by these highly indebted countries and instruments like debt swaps which provide them the opportunity to redirect their public funds in local currency toward climate or nature-related actions.

Debt swap in Ecuador is thus far the largest USD 1.6 Bn and its success is due to effective negotiations involving various stakeholders, including academia and the private sector. Therefore, debt swap negotiations should be a collaborative effort with the involvement of all relevant stakeholders.



The real impact of DfCN swap negotiations on lowering debt burdens has been underwhelming in most cases. While they offer a partial debt reduction, especially in external debt, the benefits are often limited due to the magnitude of the debt relief being small, slow implementation processes, and insufficient funding for climate projects. Additionally, DfCN agreements often do not address the deeper structural issues of debt accumulation and climate vulnerability, meaning that countries remain at risk of further debt crises in the future. Thus, while DfCN has potential, the current evidence suggests that its impact on significantly

lowering debt burdens is modest and insufficient to address the broader challenges that debtor countries face. However, a careful design or structure of DfCN has the potential to provide the benefits expected. Henceforth, it is proposed to design the DfCN swaps to maximise the benefits to both debtor and creditors. This is because these swap arrangements allow debtor governments to restructure the public funds in local currency towards targeted climate action.

Table 1: Selected Debt Swaps

Country (Creditor and Swap Type)	GDP 2023 (USD Bn)	Central Government Debt 2023(% of GDP)	Debt Swap(Year/Debt)	Value of the Debt Exchanged (USD Mn)	Impact
Sri Lanka	87	116%			
Bolivia (USA Bilateral)	40	74% (136%)	1987	0.65	Protected 1.5 Mn acres of rainforest.
Peru (USA Tripartite)	222	31%	2002 (43%)	20	Amazon rainforest conservation, biodiversity protection and sustainable land management.
Guatemala (USA Tripartite)	81	27%	2006 (21%)	24 (1/5 of total debt)	Rainforest conservation.
Costa Rica (USA Tripartite)	73	61%	2007-2010 (27%-28%)	26	Fund conservation efforts in coastal and forest regions.
Madagascar (France Bilateral)	14	56%	2008 (31%)	20	Expand national parks and biodiversity programmes.
Indonesia (USA Tripartite)	1,179	39%	2009 (26%)	30	Protected tropical forests in Sumatra.
Seychelles (Paris Club Tripartite)	2	56%	2015 (109%)	22	First blue economy debt for nature swap. Marine conservation and sustainable fisheries to protect the ocean ecosystems.
El Salvador (USA Bilateral)	28	54%	2021 (58%)	20	Tropical forest and the coral reef ecosystem conservation.
Belize (Private Creditors Tripartite)	3	67%	2021 (82%)	553	Marine conservation. Reduce debt by 10% of GDP.

Barbados (Private Creditors Tripartite)	6	113%	2022 (116%)	150	Protect marine ecosystems, enhance resilience to climate change and support sustainable development.
Cape Verde (Portugal Bilateral)	2	114%	2023 (114%)	153	Establish an Environmental and Climate Fund to support transition to renewable energy.
Ecuador (Private Creditors Tripartite)	112	43%	2023 (43%)	1,600	Marine conservation in the Galápagos Islands.

Sources: World Development Indicators of the World Bank and Global Debt Database of the IMF.

2.2 Sri Lankan Context

DfCN swaps are relatively unexplored as a new sovereign debt restructuring tool for Sri Lanka. However, Steele & Patel (2020) recognised Sri Lanka as a priority country for DfCN swaps based on its debt, climate and nature characteristics. Similarly, many other national and foreign entities have been proposing DfCN swaps as an alternative fiscal instrument. Moreover, the MOF has identified 12 instruments, including ESG swaps focused on nature, energy, water and agriculture to form the core of Sri Lanka's Climate Finance Strategy.⁴



A joint study by the United Nations Development Programme (UNDP) Sri Lanka and the Lakshman Kadiragamar Institute of International Relations and Strategic Studies (LKI) suggested that rich marine resources could be a potential source for considering the blue economy swap for Sri Lanka (Gunasekera, David, & Iveson, 2023). The study shows that such an initiative needs to be further supported through marine spatial planning. The Shamba Centre, a Geneva-based donor organisation, also suggested that Sri Lanka use DfCN swaps to support sustainable agriculture through the practice of regenerative agriculture (SCFC, n.d.). However, identifying institutions and individuals with relevant expertise remains a key concern. Further, Iveson (2023) proposed the use of DfCN swaps to mobilise capital for climate-resilient energy

⁴ Validation Workshop on National Climate Finance Strategy 2025-2030 held on 26 March 2025 in Colombo.

infrastructure investment. Given the significance of increasing the share of renewable energy in the energy mix, this proposal is encouraging. However, high capital investment requirements would pose significant challenges in this sector.

The success of debt swaps depends on several factors including **'budget accountability'**, where managing funds through the national budget is encouraged rather than setting additional establishments (e.g.: Trust Funds) (Steele & Patel, 2020) and taking the **'perspective of creditors'** where deeper awareness/discussions and transparency are critical for success (Mun, 2023). Moreover, the success of DfCN swaps depends not only on the willingness of the debtor country but also on its continuous commitment to meet agreed debt obligations.

3. Political Economy Analysis

Political economy analysis (PEA) is crucial for understanding the complexities of debt restructuring and climate finance, as it helps identify key stakeholders, power dynamics, and institutional constraints. This study conducted a PEA to assess the readiness to implement DfCN swaps in Sri Lanka focusing on three primary dimensions: ideas, institutions, and power dynamics. Data were gathered from 13 key informant interviews (KIIs) during March 4-28, 2024. Stakeholders were selected from three broad categories: (1) international NGOs, think tanks, and research institutions; (2) government institutions; and (3) the private sector.

3.1 Ideas

3.1.1 Timing

Overall, most key informants expressed the belief that this type of DfCN financing mechanism is suitable for Sri Lanka only as a medium-term measure. While acknowledging the idea and intentions behind the concept of DfCN swaps, they expressed concerns and questioned the feasibility of introducing such a mechanism as an immediate debt relief measure, citing major bottlenecks (which will be discussed later in detail). They also emphasised that introducing such a mechanism would further complicate the ongoing debt restructuring process, suggesting that it would be best to prioritise the ongoing process and consider DfCN swaps as a substitute. Furthermore, it was suggested that if Sri Lanka is to implement this strategy, then starting with a low debt commitment would be preferable rather than going for a higher debt value. This cautious approach was advocated because failing to fulfil commitments could tarnish the country's reputation and damage its financial credibility in the sector, which has not been built so far on a commitment to nature protection.

However, in contrast to this perspective, a few key informants argued that Sri Lanka should take immediate action. One key informant from a research institution stated that Sri Lanka is already late and should have introduced this mechanism earlier. Similarly, a key informant from the private sector emphasised the urgency of taking action, expressing concern that excessive discussions and studies could cause delays. However, notably, while urgency is important, it is equally critical to ensure that due diligence is conducted to assess feasibility, risks, and long-term sustainability before implementation.

Given the diverse ideas regarding the timing of introducing DfCN, it would be beneficial to explore this within the context of the feasibility of integrating climate and nature objectives into the ongoing debt restructuring processes.

3.1.2 Capacity

Regarding Sri Lanka's capacity to handle DfCN swaps, most key informants highlighted the need for capacity improvement. Similarly, Essers, Cassimon, & Prowse (2021) highlighted the importance of building the capacity of existing debtor government institutions and developing local expertise as crucial balancing factors when involving creditor organisations and other international partners in the DfCN process. Given the inherently complex nature of the mechanism and the limited experience, both nationally and globally, there is demand for intensive capacity development among the officers involved in the process - from formulation to implementation, and monitoring and evaluation. Particularly, capacity development for officers at the MOF and the Ministry of Environment (MOE) was also emphasised. Additionally, clear definitions of expected outcomes and the relevant performance indicators are necessary. Identifying and assigning parties to monitor this process and its outcomes were also identified as important areas requiring capacity development. Key informants from INGOs expressed their willingness to assist the government of Sri Lanka (GOSL) in technical capacity development needed for the formulation and implementation of this mechanism. Yet, they insisted that the government should make formal requests in this regard. A component of enhancing technical capacity also includes collaborating with sovereign debt attorneys and financial institutions that can assist the government in conducting such transactions—often with firms already established and trusted by the government. Resources are accessible for this endeavour. For example, a manual published by the International Institute for Environment and Development (IIED) outlines these advancements in a practical strategy that connects sovereign debt with climate and nature goals (IIED et al., 2021).

However, indicating a divergent perception of capacity, a few key informants stated that Sri Lanka already possesses the required capacity, and only a few areas need capacity development. For instance, a key informant from a research institution mentioned that Sri Lanka has the capacity and policies related to this mechanism, and required are the strategies, actions, and finally, the financing process to operationalise these ideas.

3.1.3 Government's Interest and Commitment

These swaps require strong political will and fiscal commitment from debtor governments to ensure that climate investments are successfully realised.

The key informants also discussed their perception of the government's interest and commitment to proceed with this type of financing mechanism. GOSL expressed interest in DfCN swaps, yet, commitment to the implementation remains a concern. Consequently, the success of DfCN initiatives is likely to hinge on the government's sustained engagement, which is critical to both their design and execution. Similarly, Chamon et al. (2022) emphasise that these swaps require strong political will and fiscal commitment from debtor governments to ensure that climate investments are successfully realised (Chamon et al., 2022).

3.1.4 Bottlenecks

The interviewees highlighted some bottlenecks or concerns regarding the introduction of DfCN swaps for Sri Lanka.

Governance – Sri Lanka confronts serious governance issues. For the first time in history, the IMF has included governance-related conditions for Sri Lanka in the External Fund Facility (EFF) agreement, indicating the severity of governance issues in the country. Much of Sri Lanka's debt crisis stems from economic mismanagement and governance issues. Hence, Sri Lanka's ability to manage such a complex mechanism and deliver the promised outcomes remains a concern. Addressing governance issues is crucial for the effectiveness of debt restructuring and for the successful integration of climate finance into fiscal policy

(Nishizawa, 2024). Weak governance and regulatory frameworks can hinder effective climate financing. Poor governance can result in misallocating climate-related funds, a lack of transparency, and inefficient implementation of environmental projects (Capizzi, Dell’Atti, & di Biase, 2023). Hence, strengthening governance structures and regulatory oversight is essential to ensure that climate finance reaches its intended targets and delivers long-term sustainability benefits.

Regulatory frameworks - Currently, Sri Lanka lacks a comprehensive regulatory framework tailored specifically for such innovative financing mechanisms. Without clear guidelines and regulations in place, uncertainty surrounds the legal and procedural aspects of implementing DfCN swaps. This ambiguity may deter potential investors and lenders from participating in these initiatives, as they may hesitate to engage in transactions without a solid legal foundation. Moreover, the absence of a robust regulatory framework can hinder effective governance and oversight of DfCN swap projects, potentially leading to mismanagement or misuse of funds. Naumenkova et al. (2023) emphasise that clear regulatory guidelines are crucial for aligning debt conversion programmes with national environmental policies and international financial agreements. Establishing a well-defined regulatory framework ensures that debt-for-climate initiatives are implemented transparently, efficiently, and in a way that maximises their environmental and economic impact.

Fragmentation of government institutions and coordination issues – Currently, there is a lack of cohesive collaboration and alignment among various governmental bodies responsible for environmental management, finance, and policy formulation. This fragmentation leads to inefficiencies, overlaps in responsibilities, and conflicting strategies, hindering the effective implementation of DfCN swaps. For instance, institutions related to the environment operating under different ministries are one key reason. The Central Environmental Authority is under the purview of the MOE, while the Department of Wildlife Conservation and the Department of Forest Conservation come under the Ministry of Wildlife and Forest Resources. Additionally, the Coast Conservation and Coastal Resource Management Department falls under the Ministry of Urban Development and Housing. However, this has been partially addressed in the new grouping of environment-related agencies under the MOE.

Acceptance of the lenders – Given the unique nature of these financing mechanisms, lenders may be cautious or hesitant to participate due to unfamiliarity or scepticism regarding the effectiveness and feasibility of such initiatives. Additionally, Sri Lanka’s history of economic challenges and debt restructuring efforts may contribute to lenders’ apprehension about the country’s ability to successfully manage and deliver on the commitments associated with DfCN swaps. As expressed by one of the key informants, choosing to utilise DfCN swaps to finance the country’s debt may construe about the country’s financing credibility to both existing and potential lenders. This is because some lenders still regard DfCN swaps as a measure of last resort for financing a country’s debt.

Political stability – Political stability is crucial, particularly in a country that has recently faced the brunt of political turmoil. The uncertainty and potential volatility of the political landscape can create hesitancy among both domestic and international stakeholders in committing to long-term environmental initiatives such as DfCN swaps. Political transitions often result in ad hoc shifts in policy priorities and decision-making processes, further complicating the implementation of new environmental financing mechanisms. In light of the most recent peaceful elections and orderly transition of power, political instability is now seen as less of a concern, with perceived risks having subsided.

3.2 Institutions/Actors and Power Dynamics

Table 2 below indicates the different institutions related to DfCN swaps process in Sri Lanka. The list of all stakeholders is in Annex 3. In the realm of DfCN swaps, power dynamics among various actors are pivotal in shaping the outcomes of such initiatives. Understanding and mapping these power dynamics are essential for effective negotiation, decision-making and implementation processes.

Table 2: Institutions and Actors in Possible DfCN Swaps for Sri Lanka

Government	Lenders	Other
- Central Bank of Sri Lanka (CBSL) - Ministry of Finance (MOF) - Department of National Planning (NPD) - Department of External Resources (ERD) - Department of Fiscal Policy (FPD) - Securities and Exchange Commission (SEC) - Ministry of Environment (MOE)	- Bilateral - Paris Club - Non-Paris Club - Multilateral - Commercial	- UNDP - Research Institutions/Academia - International organisations involved in climate/nature debt swaps - e.g. IIED - Private sector institutions who facilitate the process - Sovereign debt lawyers and financial service firms - Environmentalists, advocacy groups

Source: Authors' compilation based on KILs.

The government plays a central role in DfCN swaps by negotiating agreements with lenders, ensuring alignment with national policy priorities, and overseeing implementation. Key institutions involved include the Central Bank of Sri Lanka (CBSL) and the MOF, which manage debt transactions and financial stability, while the Department of National Planning (NPD) and the Department of External Resources (ERD) coordinate financial strategies and external funding. The Department of Fiscal Policy (FPD) and the Securities and Exchange Commission (SEC) contribute to regulatory oversight and fiscal sustainability, ensuring transparency in financial mechanisms. Additionally, the MOE is responsible for aligning these financial instruments with national climate and conservation goals, and global commitments. DfCN swaps present several compelling incentives for government uptake. Amid growing fiscal pressures and the need to maintain debt sustainability, these swaps offer an opportunity to ease the external debt burden while simultaneously financing critical environmental and climate priorities. They also provide access to concessional funding and international technical expertise, enhancing institutional capacity in managing complex financial and environmental programs. Moreover, successful implementation of DfCN swaps can bolster Sri Lanka's global image as a committed actor in climate action and environmental stewardship, attracting further international support and investment.

The role of lenders, too, is crucial in DfCN swaps by offering financial relief in exchange for commitment to climate and conservation initiatives. This category includes bilateral lenders, such as the Paris Club and Non-Paris Club countries, which renegotiate debt terms based on diplomatic and economic considerations. Multilateral lenders, including international financial institutions like the IMF and the World Bank, influence the structuring of these swaps by integrating climate and sustainability objectives into debt restructuring frameworks. Commercial lenders, such as private banks and bondholders, are other key stakeholders within this category who assess the financial viability of these mechanisms, often requiring guarantees or risk mitigation strategies before participating. The willingness and terms set by these lenders significantly shape the feasibility and scope of DfCN swaps, making their engagement essential for successful implementation.

For lenders, engaging in DfCN swaps offers a chance to recoup parts of outstanding debt while supporting global climate and conservation objectives. In Sri Lanka, where concerns about debt sustainability persist, these swaps present a viable alternative to traditional restructuring by tying repayment to quantifiable environmental results. This involvement also enhances lenders' reputations by adhering to sustainable finance principles. However, lenders will exercise caution when entering into such agreements with Sri Lanka, given the country's difficulties and obstacles in implementing DfCN swaps. Factors like sustained political commitment, limited institutional capability, or insufficient transparency could jeopardise the swaps' effectiveness. As a result, lenders might seek guarantees, third-party verification, or the participation of reliable intermediaries to protect the integrity and outcomes of their investments.

Beyond the government and lenders, several other stakeholders are vital in DfCN swaps in supporting, facilitating, and shaping these initiatives in Sri Lanka. International organisations, such as the UNDP and the IIED, are incentivised by their mandates to promote sustainable development and climate action, offering technical expertise, policy guidance, and financial support to help Sri Lanka meet its environmental goals. For instance, in 2022, UNDP partnered with the MOE and the MOF to implement the Climate Finance Network (CFN) Project, further strengthening Sri Lanka's capacity to integrate climate finance into national policies. Research institutions and academia contribute evidence-based insights and feasibility studies, motivated by advancing knowledge and influencing policy in ways that promote sustainability.

Private sector institutions, including financial advisors and transaction facilitators, are driven by business opportunities to provide specialised services and efficiently bridge governments and lenders. Additionally, the role of sovereign debt lawyers and financial service firms remains crucial in ensuring the legal and financial integrity of these agreements, assisting in structuring deals in conformity with both international standards and national priorities. Environmentalists and advocacy groups also play a key role by generating public awareness, advocating for strong environmental safeguards, and ensuring that DfCN initiatives are aligned with social and ecological justice. Their involvement is often motivated by a commitment to protecting biodiversity, promoting climate resilience, and holding stakeholders accountable for the environmental outcomes of such swaps. Together, these actors help create a supportive ecosystem for implementing DfCN swaps effectively.

3.3 Limitations and Directions for Future Research

The main limitation of this PEA lies in its lack of inclusion of the perspectives of the creditors (bilateral and private creditors). Hence, provides an incomplete understanding of the power dynamics and decision-making processes of the DfCN swaps. The absence of a creditor perspective could result in overlooking critical factors that influence negotiations, such as their preferences, risk perceptions, and expectations regarding debt repayment. To address this limitation, future iterations of the PEA should aim to incorporate the creditors' perceptions through direct engagement, interviews, or consultations.

Another critical limitation arises from a lack of understanding among some key informants regarding the DfCN swap process. This lack of comprehension may stem from various factors, such as limited exposure to the concept, insufficient information, or the complexity of the subject matter. Consequently, these key informants may struggle to provide accurate or insightful perspectives during interviews or discussions, hindering the depth and quality of data collected for the analysis. Additionally, researchers encountered reluctance among certain key informants to disclose information or details related to the process. This reluctance could be due to concerns about confidentiality or fear of repercussions. Addressing these issues is essential to gaining a clearer understanding of the factors that contribute to the successful implementation of DfCN swaps.

4. DfCN Swap Options for Sri Lanka

Potential Sectors: The magnitude of a swap is difficult to predict as it hinges on the negotiations between the debtor and creditor(s). Debt swap negotiations would typically include relief or waiver of principal, an interest concession, or conversion to a new green debt instrument (Boland, 2023). The Public Investment Programme (PIP) published by the Department of National Planning (NPD, 2020), Sri Lanka Green Finance Taxonomy 2022, Nationally Determined Contributions (NDCs) 2021 and Sustainable Development Goals (SDGs) provide feasible areas for consideration in selecting environment-related investments. Table 3 below shows selected activities.

Table 3: Potential Green Finance Initiatives for Sri Lanka

Macro-sector/Target	Activity
Green Finance Taxonomy 2022	
Forest and Logging	Afforestation Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event Forest management Conservation forestry
Agriculture	Certified agriculture projects Management of soil and biomass for net carbon sequestration Other agricultural practices: Introduction of polycultures or associated crops in permanent crops Implementation of clean energy and energy efficiency measures
Manufacturing	Manufacture of organic basic chemicals Manufacture of iron and steel Manufacture of liquid biofuel for use in transport
Manufacture of liquid biofuel for use in transport	Electricity generation using solar photovoltaic technology Electricity generation using concentrated solar power (CSP) technology Electricity generation from wind power/ ocean energy technologies/ hydropower/ bio-energy/ geothermal energy/ natural gas-fired power plants

Gas, steam and air conditioning supply	Construction and operation of natural gas transmission, storage, and peak load regulation facilities District heating and cooling
Water supply, sewerage and waste management	Sewage sludge treatment-anaerobic digestion Collection and transport of non-hazardous waste in source segregated fractions Recycling non-hazardous waste
Construction	Renovation of existing buildings Infrastructure enabling low-carbon road transport Low-carbon airport infrastructure
Transportation and storage	Construction and operation of the public transportation system in urban and rural areas Construction and operation of rail freight transport and upgrade of existing railways
Nationally Determined Contributions (NDCs) 2021	
Achieve Carbon Neutrality by 2050	Adopting 'Colombo Declaration' on Sustainable Nitrogen Management' with an ambition to halve nitrogen waste by 2030 Banning agro-chemicals and chemical fertiliser Promoting organic fertiliser and farming Banning single-use plastics Promoting e-mobility Promoting the circular economy
Forestry Sector	Increase the forest cover of Sri Lanka up to 32% by 2030 Improve the quality of the growing stock of natural forests and plantations Strengthen catchment protection of major rivers and cascade systems Improve and increase in trees outside forests Generic enabling activities
Coastal and Marine Sector	Establish an accurate sea level rise forecasting system for Sri Lanka Prepare updated vulnerability and risk maps for the coastal belt of Sri Lanka Identify and declare coastal and marine natural areas of high priority for building resilience for climate change impacts

Notes: The Green Finance Taxonomy is designed to achieve four distinctive objectives: Climate change adaptation, climate change mitigation, pollution prevention and control and ecological conservation and resource efficiency.

Source: Sri Lanka Green Finance Taxonomy 2022, CBSL.

Potential negotiations: Assuming buyback of existing debt at discount rates of 40%, 45% and 50% on face value in a tripartite negotiation, Sri Lanka has the potential to reduce debt in the range of USD 400-500Mn; USD 600-750 Mn and USD 800-1,000 Mn, respectively, for a debt swap of USD 1.0 Bn, 1.5 Bn or 2.0 Bn.

These negotiations may call for agreement on climate- or nature-related annual investment for a certain period. Currently, the annual average public sector investment in the environment sector approximates Sri Lankan Rupees (LKR) 17 Bn (or USD 60 Mn) (NPD, 2020). Assuming a dip in interest rate from 10% to 5%, the annual debt repayment cost will be abated in the range of USD 50-100 Mn. Higher deals will benefit the most, yet, climate investment conditionality is a concern.

Potential Creditors: In selecting suitable creditors or donors, three criteria were considered (Boland, 2023). These are the magnitude of debt, lending type (whether commercial or concessional loan) and creditors' profile (track record). Accordingly, Sri Lanka may consider the following countries for possible DfCN swaps in future.

Table 4: Potential Creditors for Sri Lanka

Potential Creditors	Debt (As a % of Total External Debt)	Remarks
China	USD 4.6 Bn (13%)	China's recent agreement with Egypt on debt swapping for developmental projects could be modified to match the Sri Lankan context.
Japan	USD 2.7 Bn (7%)	Favourable country partnerships and Japan's commitment to climate change initiatives make Japan a high-potential country for DfCN swaps.
USA	USD 132.5 Mn (0.4%)	The USA has already engaged in DfCN swaps with Indonesia, Bolivia, Peru and Guatemala.
Asian Development Bank (ADB)	USD 5.6 Bn (16%)	Favourable country partnerships and the recently agreed 'Task Force' of the multilateral development banks at the COP28 to scale up the number and size of debt-for-nature swaps, make ADB a high-potential creditor for DfCN swaps. Further, the ADB could provide technical assistance to bridge knowledge/skill gaps on DfCN swaps.

Notes: Potential creditors were proposed based on Boland, D. (2023). Debt for Nature: Opportunity in Lao PDR. Vientiane: UNDP.

Sources: Quarterly Debt Bulletin, September 2022 and March 2023, MOF.

5. Conclusions and Policy Recommendations

This study explores the possibility for Sri Lanka to use DfCN swaps in achieving the dual objective of debt sustainability and climate investments. Debt swaps are increasingly recognised as an effective instrument for debt relief in developing economies. The availability of supportive financial and environmental regulations is, however, crucial in expediting the debt swap negotiations. Capacity and skill gaps can prevent effective design and implementation, hence, these need the backing of multilateral financial institutions.

Debt swap is no panacea to exclude use of other financing options, thus, continuous commitment to policy reforms is a must. As political and macro-stability are crucial in the negotiation process, Sri Lanka may consider initiating a DfCN swap with the conclusion of debt restructuring under stable political leadership.

Changing international financial system: Debt swaps for Sri Lanka or any other developing countries require considerable changes to the international financial architecture. Multilateral financial institutions need to provide a credible reform plan that meets the requirements of climate and nature. Multilateral development banks should prioritise climate and nature at the centre of their operations. For instance, as agreed at the United Nations Biodiversity Conference in Montreal in December 2024, the Global Biodiversity Framework requires these institutions to ensure that their portfolios are both nature-positive and aligned with the 2015 Paris Climate agreement.

Government's commitment to climate finance: The current investment allocations for the climate and environment sectors must be thoroughly reviewed and revisited. Also, in selecting potential green activities for investment, Sri Lanka may choose from the already agreed commitments, including the predominant project pipeline available in the PIP, Green Taxonomy 2022, NDCs 2021, and the SDGs. Also, the most recent IMF suggestion to implement an energy pricing formula is another area of significant concern (IMF, Article IV Consultation, 2021). It is strongly recommended that green initiatives be selected following wider stakeholder and public consultations to avoid possible mishandling of investments.

Institutional fragmentation: Implementing DfCN swaps requires the backing of a stable and quality institutional structure. As institutional fragmentation is common with shifts in political leadership, the government's commitment to maintaining a stable institutional structure is crucial for the success of debt swaps. Thus, strict adherence to agreed conditions is expected.

Bridging capacity and skill gaps: Considerable effort to improve financial and environmental skills is a key concern. Generally, debt swaps negotiations extend for nearly a year or more. Any skill gap may further delay the process. Hence, agreeing on better deals and skill enhancement deserves to be a priority.

6. Strategic Next Steps for DfCN Implementation

The strategic next steps are prepared considering the current developments in financial policies in Sri Lanka and the “Seven next steps for a Sri Lankan debt swap deal” proposed by Paul Steele of the IIED.

1. Create an **inter-ministerial task force** and agree on national objectives (with buy-in from MOF and the CBSL)

Sri Lanka has some experience in DfCN swap negotiations. Thus, DfCN swap negotiations could be easily recommended under stable political leadership with the conclusion of debt restructuring. A task force can be set up under the Presidential Secretariat and national objectives to be agreed upon following wider consultation.

2. Access and coordinate **capacity building** and advice

Providing technical assistance to enhance financial and environmental/climate skills in the public sector is suggested.

3. Choose type of **sovereign debt transaction**: i.e., swap

This needs to be a collective decision by the MOF, CBSL, and the MOE. It is suggested that all these key institutions be engaged in the discussions from the beginning throughout the process for better results.

4. Structure climate and nature **key performance indicators** (KPIs)

The CBSL has already published a green taxonomy where sectors, KPIs are already identified. Also, the PIP, SDGs and NDCs are other sources that can be used in the selection of performance criteria.

5. Design **financing aspects** of the transaction

With technical assistance and guidance, the key ministries would be able to work in this regard. However, the necessary regulatory frameworks must be built up.

6. Engage with **market participants**, including creditors, credit rating agencies, and investors

This study has not covered these aspects mainly due to the time constraints.

7. Execute **debt transaction**

As stakeholders had mixed ideas on best timing, DfCN swap process could be started with the conclusion of debt restructuring.

Appendices

Annex 1

Table 1A: Creditor-wise Central Government External Debt Stocks, March 2023

Creditor	2022		2023	
	USD Mn	As a % of Total	USD Mn	As a % of Total
Central Government External Debt	35,052.9	100.0	36,089.9	100.0
Bilateral	10,813.9	30.9	11,329.3	31.4
Paris Club	4,339.7	12.4	4,718.4	13.1
Sweden	35.0	0.1	34.7	0.1
France	383.5	1.1	428.2	1.2
Australia	25.0	0.1	25.0	0.1
Spain	88.1	0.3	98.5	0.3
Austria	95.5	0.3	106.8	0.3
Belgium	8.9	0.0	10.0	0.0
United Kingdom (UK)	343.1	1.0	347.3	1.0
Hungary	42.8	0.1	47.7	0.1
United States (US)	132.6	0.4	132.5	0.4
Canada	18.0	0.1	18.3	0.1
Germany	181.0	0.5	201.4	0.6
Japan	2,464.0	7.0	2,684.7	7.4
Korea	277.0	0.8	307.8	0.9
Russia	35.0	0.1	35.4	0.1
Netherlands	210.2	0.6	240.1	0.7
Non-Paris Club	6,474.2	18.5	6,610.9	18.3
China	4,555.0	13.0	4,599.2	12.7
China Development Bank	535.2	1.5	535.2	1.5
EXIM - China	4,005.8	11.4	4,049.4	11.2
Government of China	14.0	0.0	14.6	0.0
Iran	32.9	0.1	32.9	0.1
India	1,651.7	4.7	1,741.8	4.8
EXIM - India	1,337.3	3.8	1,246.4	3.5
Government of India	14.4	0.0	14.4	0.0
State Bank of India	300.0	0.9	481.0	1.3
Kuwait	94.6	0.3	95.6	0.3
Pakistan	2.1	0.0	2.1	0.0
Saudi Fund for Arab Economic Development	137.9	0.4	139.3	0.4
Multilateral	9,499.0	27.1	10,009.7	27.7

Asian Development Bank (ADB)	5,391.0	15.4	5,648.8	15.7
Asian Infrastructure Investment Bank (AIIB)	46.0	0.1	78.7	0.2
European Investment Bank (EIB)	100.0	0.3	101.3	0.3
International Fund for Agricultural Development (IFAD)	158.0	0.5	165.4	0.5
Nordic Development Fund (NDF)	14.0	0.0	15.2	0.0
OPEC Fund for International Development (OFID)	121.0	0.3	119.7	0.3
World Bank	3,669.0	10.5	3,880.6	10.8
Commercial	14,740.0	42.1	14,751.0	40.9
International Sovereign Bond Issuances	12,550.0	35.8	12,550.0	34.8
Term Financing Facilities - China Development Bank	2,190.0	6.2	2,201.0	6.1
Total	35,052.9	100.0	36,090.0	100.0

Sources: Quarterly Debt Bulletin, September 2022 and March 2023, MOF.

Annex 2

Table 2A: History of IMF Programmes Obtained by Sri Lanka (Mn SDRs)

Facility	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn	Amount Outstanding
EFF	2023 March 20	2027 March 19	2,286.0	1,270.0	On-going
EFF	2016 June 03	2020 June 02	1,070.8	952.2	892.3
SBA	2009 July 24	2012 July 23	1,653.6	1,653.6	0
ECF	2003 April 18	2006 April 17	269.0	38.4	0
EFF	2003 April 18	2006 April 17	144.4	20.7	0
SBA	2001 April 20	2002 September 19	200.0	200.0	0
ECF	1991 September 13	1995 July 31	336.0	280.0	0
SAFC	1988 March 09	1991 March 08	156.2	156.2	0
SBA	1983 September 14	1984 July 31	100.0	50.0	0
EFF	1979 January 01	1981 December 31	260.3	260.3	0
SBA	1977 December 02	1978 December 01	93.0	93.0	0
SBA	1974 April 30	1975 April 29	24.5	7.0	0
SBA	1971 March 18	1972 March 17	24.5	24.5	0
SBA	1969 August 12	1970 August 11	19.5	19.5	0
SBA	1968 May 06	1969 May 05	19.5	19.5	0
SBA	1966 June 15	1967 June 14	25.0	25.0	0
SBA	1965 June 15	1966 June 14	30.0	22.5	0

Notes: EFF-Extended Fund Facility; SBA-Stand by Agreement; ECF-Extended Credit Facility; SAFC-Structural Adjustment Facility Commitment.

Source: Annual Report 2022 of CBSL.

Annex 3: Stakeholder Consultations

1. Mr. R.H.W.A. Kumarasiri, Director General, Department of National Planning, Ministry of Finance
2. Dr. Dushni Weerakoon, Executive Director, Institute of Policy Studies of Sri Lanka
3. Dr. R.D.S. Jayathunga, Additional Secretary (Environment Development), Ministry of Environment
4. Ms. Vishaka Amarasekara, Additional Director General, Capital Market, Investments, Sustainable Financing & Advanced Economies, Department of External Resources, Ministry of Finance
5. Ms. Sepali Rupasinghe, Additional Director General, Department of National Planning, Ministry of Finance
6. Ms. Rajitha Kisagothami, Director, Department of National Planning, Ministry of finance
7. Ms. Jayani Wickrama Arachchi, Director, Department of Fiscal Policy, Ministry of Finance
8. Mr. N.D.Y.C. Weerasinghe, Superintendent & Registrar, Public Debt Department, Central Bank of Sri Lanka
9. Mr. Kasunka Herath, Public Debt Department, Central Bank of Sri Lanka
10. Ms. Sanduni Kulatunga, Public Debt Department, Central Bank of Sri Lanka
11. Mr. Michael Iveson, ODI Fellow and Former Research Fellow at Lakshman Kadirgamar Institute of International Relations and Strategic Studies
12. Mr. Theo Maret, Associate, Global Sovereign Advisory – France
13. Mr. David Thirkill, Director, Potomac Group LLC, Washington, D.C.
14. Mr. Utsav Kumar, Deputy Country Director, Principal Country Economist, Sri Lanka Resident Mission, Asian Development Bank
15. Mr Santosh Pokharel, Asian Development Bank
16. Dr. Herath Gunatilake, Executive Director, Centre for Poverty Analysis
17. Prof. Hemesiri Kotagama, Centre for Poverty Analysis
18. Dr. Vagisha Gunasekara, United Nations Development Programme
19. Mr. Manjuka Fernandopulle, Legal Counsel, Sri Lanka

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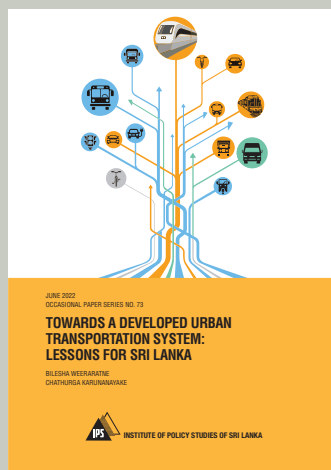
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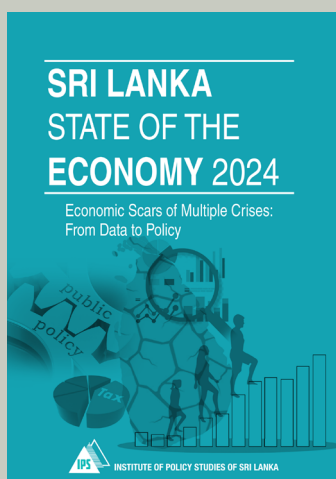


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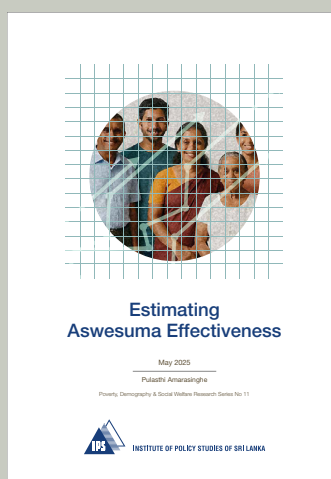


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