Editorial: Transforming Climate Finance in an Era of Sovereign Debt Distress

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On the sidelines of the Africa Climate Summit this week, the African Sovereign Debt Justice Network will launch its book - Transforming Climate Finance in an Era of Sovereign Debt Distress. This book published by Sheria Publishing House is the result of a two-year long project that brings together the carefully researched insights of a team of talented African researchers. The most significant insight developed in the book is that the emerging dominance of debt driven climate finance solutions is the latest and most significant indicator that the global finance and sovereign debt architecture is irretrievably broken. Further, after over three decades of proliferation of and experimentation with a set of diverse instruments and frameworks, climate finance remains precipitously low. The failure of the climate finance regime can be attributed to its dislocation from the binding legal and moral obligations States have to address climate change.

Since the global finance industry rather than States are the primary provider and underwriters of climate finance, the responsibilities States have to address climate change have been sidelined. Two further pernicious consequences have followed. First, the solutions the climate finance industry are providing are being marketed as if they were magic potions that will definitively address the climate crisis. Second, the overwhelming majority of climate finance instruments are sinking countries of the Global South, including African States, further into unsustainable debt. Climate finance, the book shows, is entrenching the cycle of indebtedness among indebted countries in addition to impeding an adequate response to the climate crisis.

Since climate finance is built on top of a broken global financial and debt architecture, the fundamental flaws embedded in this architecture are being amplified instead of being addressed. As noted above, one immediate consequence of crafting climate finance solutions within the global debt and financial architecture is how these instruments are adding to the debt burden of already heavily indebted countries. One example is the $500 million debt for nature swap that Gabon completed in August 2023. Like other debt for nature swaps, this swap was justified as necessary to conserve nature and lower preexisting sovereign debt. Yet, Gabon's August 2023 swap only bought back $95 million of a bond that would have required refinancing in 2025. This swap did not include two of Gabon's other bonds totaling $405 million that mature in 2031. Even more, Bank of America which was the initial purchaser, structuring agent and bookrunner of this swap declined to disclose its transaction fees. Further, there is no evidence that the swap meets the integrity of its asset class as a type of sustainability commitment. The swap has not been opened up to independent second party opinions and third-party verification as required by the International Capital Markets Association Principles for green and sustainability linked bonds.

A major assumption of climate finance initiatives is that the primary issue arising from the climate crisis is the shortage of funds. This simplistic framing informs solutions which focus on the 'availability' of funds. While there has been a steady increase in climate finance as the Gabon debt for nature swap shows, a key question is on what terms climate finance is being made available. The major trends so far indicate that climate finance to the Global South has been dominated by loans than grants, and it is focused more on adaptation than mitigation, with little to no funding for loss and damage.

The assumption that shortage of funds is key to addressing the climate crisis has in turn justified the increased involvement of private corporations as the inevitable source of the overwhelming needs of climate finance. It is, therefore, not surprising that the International Monetary Fund reports a record $250 billion ‘private sustainable finance’ in 2021/2022, with a clarion call to at least double private finance by 2030. Yet, the private sustainable finance reported by the IMF for 2021/2022 was entirely debt-based through instruments such as green bond, green loans, sustainability bonds, sustainability-linked bonds, and sustainability-linked loans.

A cross-cutting message in this book is that the Global South (particularly, African countries) should therefore be very cautious in adopting green finance instruments and other related market-based proposals addressing climate change. The book highlights the ongoing global commodification and corporatization of nature which fuels the trend of extractivism from Africa by developed countries. This commodification is evidenced by how critical minerals have been promoted as solutions for a “green transition” notwithstanding the dire environmental consequences associated with this extractivism.

With regard to history, a central theme is the importance of ecological debt. Having contributed the most to global emissions, the Global North bears the primary responsibility for the climate crisis. The Global North should therefore bear the primary responsibility of financing not merely adaptation and mitigation, but also the costly loss and damage needs of the countries of the Global South. Since the countries of the Global North owe an ecological debt to the countries of the Global South, climate finance must be transformed so that those who contributed the least to the climate crisis are no longer bearing the highest costs of the climate crisis particularly through higher levels of sovereign debt. In other words, there is a case to be made for an ecological debt for fiscal debt swap.

Hence, rather than basing all climate finance initiatives on the profit-driven global finance industry, this book makes the case for transforming how the negative impacts of the climate crisis are mitigated to avoid the entrenchment of historical injustices. That can only happen if climate finance initiatives and their design center the wellbeing of people, communities, and ecosystems. Such a transformed climate finance regime must also be accompanied by adequate financing that is not accompanied by further indebtedness and that reflects the massive scale and unpredictability of climate impacts in the Global South.

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