Afronomicslaw Sovereign Debt Quarterly Brief, No. 4: Debt-for-Nature-Swaps: Fit for Africa?

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Abstract

In this report, we consider the trends and drivers of the debt-for-nature swap (DNS) in Africa—its design frameworks, problems, and potentials as currently implemented—and the specific design principles for a fit-for-Africa DNS. The participation deficit that characterizes DNS informs the survey approach adopted for this report. In reaching our conclusions, we compare the positions of survey participants with viewpoints from DNS literature, highlighting agreements and disparities. As of 2024, African nations have completed thirty-six DNS transactions, with two more under negotiation. These swaps have processed US$921 million in debt, with US$311 million (34%) specifically directed towards environmental and climate initiatives. While Africa's DNS activities represent 22% of global debt swap transactions, they make up a tiny

fraction—less than 0.1%—of Africa's total external debt. Although DNS fell out of favor in the early 2000s due to various criticisms, it has recently gained renewed attention as countries seek innovative climate financing solutions in response to growing environmental urgency. However, concerns about transparency and effectiveness that plagued early DNS programs continue to affect modern versions of these financial instruments.

For this research, we invited forty-five potential respondents from seven African countries and five respondents working with pan-African non-governmental organizations (NGOs) located outside the selected countries to participate. The survey was administered and collected using Qualtrics, an online survey platform.The survey was anonymous. As some of the surveyed countries are non-English-speaking, the survey was translated into French and Portuguese. Participants could respond in English, French, or Portuguese through a drop-down feature onQualtrics. The anonymous survey was open from May to July 2024, and seventeen participants (34%) engaged with the survey to varying degrees. Survey results reveala distinct pattern in how countries view debt-for-nature swaps (DNS). Countries thatadopt DNS prioritize both climate change action and debt restructuring, while non-adopting countries focus primarily on alternative debt restructuring methods andplace less emphasis on climate concerns. Indeed, a country’s stance on climate change appears to be a key indicator of its willingness to participate in DNS programs. Bilateral creditors and international financial institutions are considered the most likely creditors to engage in DNS, although the report suggests that the traditional division between private and public creditors may be oversimplified.

Creditors’ motivations appear to be mixed. While reputational benefits and international commitments are primary drivers, more pragmatic interests, such asthe opportunity to redeem discounted loans above market rates, also play a role. Asignificant finding is that most respondents feel their countries lack agency in DNS operations. The survey also indicates skepticism about DNS’s effectiveness inreducing sovereign debt, although respondents acknowledge its potential foraddressing environmental challenges. Transparency emerges as a major concern. Respondents consistently describe DNS transactions as opaque or minimally transparent, with local communities rarely, if ever, involved in the process. While DNS is not widely endorsed as either a preferred debt restructuring tool or climate finance mechanism, respondents do recognize its

limited but meaningful role, particularly in environmental initiatives.

We conclude that, as it is, DNS is not fit for Africa. To align with Africa's needs, DNS must respect the sovereignty of African countries in its design and implementation; guarantee and protect human rights; recognize the cultural and religious significance of ecosystems; meaningfully involve and benefit local communities; andpromote debt relief and sustainability.

Download the Full Report here: Debt-for-Nature-Swaps: Fit for Africa?

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