

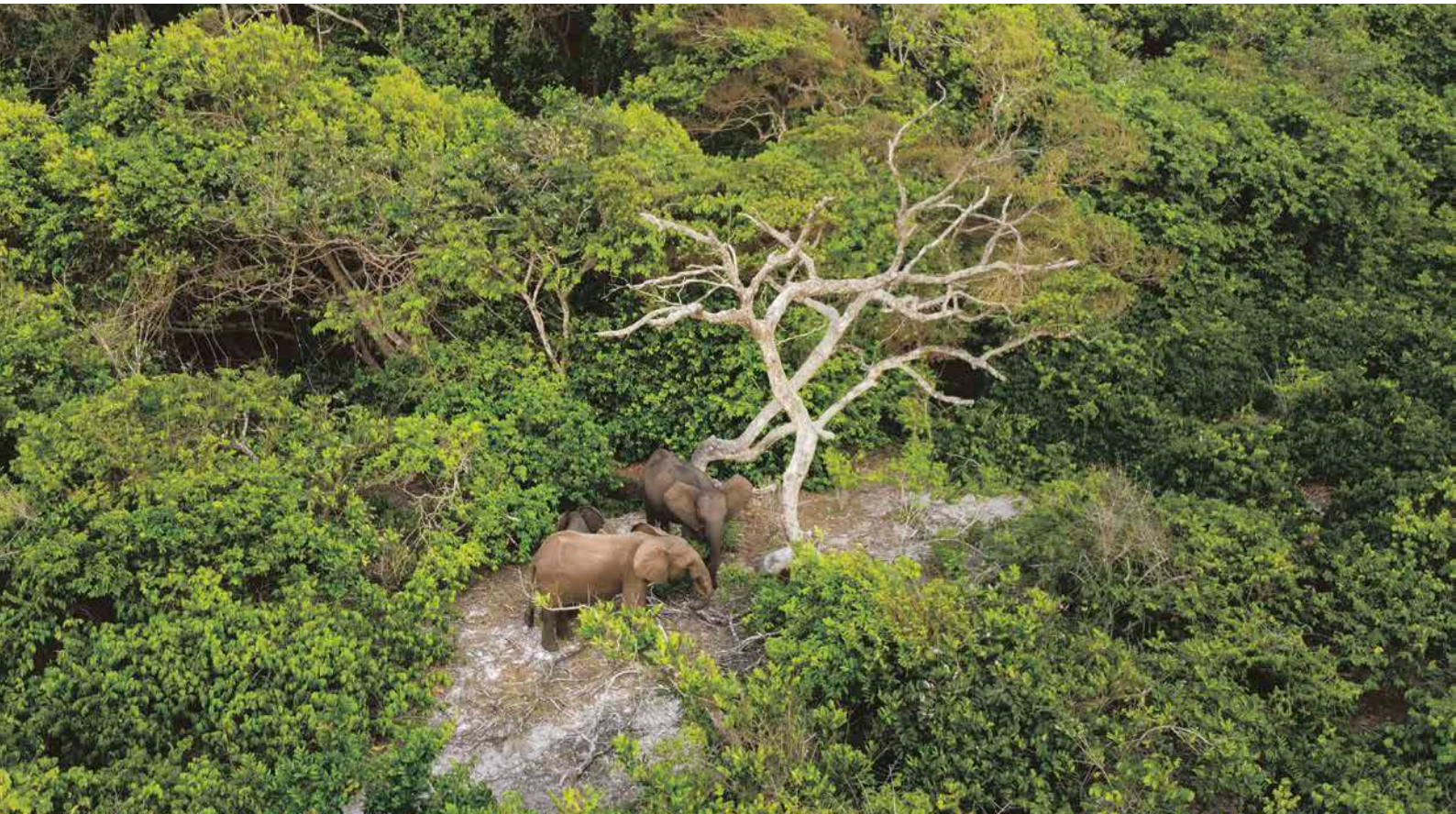
Debt relief wanted: offering lush forests and protected seas

The Covid-19 pandemic, the war in Ukraine, and rising interest rates on the international financial markets have pushed many countries in the global south to the brink of bankruptcy. Now a portion of their debt is to be exchanged for conservation measures, writes **Roman Goergen**

Last year a *coup d'état* in Gabon threatened to derail a new trend in financing global conservation and climate protection projects. The small central African nation, the Bank of America and the US environmental organisation The Nature Conservancy (TNC) had reached a deal with the government to refinance the country's massive sovereign debt in a so-called debt-for-nature swap (DNS). However, the military coup in late August 2023 highlighted the risks associated with such international debt restructuring.

Accordingly there was great relief among creditors when the new regime made the first payment to the conservation fund in November, thus signalling continuity. "The current administration has shown strong interest in understanding our ongoing and potential future conservation work in Gabon," TNC said in a statement.

The turbulence in Gabon has erupted into a veritable boom for Nature- and climate-friendly debt swaps. TNC alone claims to have brokered the refinancing of more than US\$1 billion in sovereign debt from various



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countries since 2021, freeing up around US\$400 million for conservation in debt-ridden nations.

In April this year, the UK-based non-profit International Institute for Environment and Development (IIED) published a report calculating that such DNS could free up more than US\$100 billion of debt in developing countries to spend on restoring Nature and adapting to climate change. IIED's Laura Kelly says: "Many of the countries most threatened by rising temperatures have huge debt burdens and are forever paying interest to wealthier nations that have contributed much more to the climate crisis."

In Gabon, the now secured DNS will enable the country to buy back US\$500 million of its sovereign debt from private creditors at a discount, saving US\$125 million, which the country must invest in protecting its coastal areas.

Gabon's marine ecosystem is home to more than a thousand species listed as threatened by the International Union for Conservation of Nature on its Red List, including whales, dolphins and sharks. The country has the largest leatherback turtle population in the world and the highest nesting density in Africa, accounting for as much as 30% of the global population of this critically endangered species estimated at less than 50,000 individuals. In addition, Gabon's extensive mangrove forests form one of the largest and most secure carbon sinks in West and Central Africa.

"At present, we simply do not have the financial resources to conserve even a fraction of the world's biodiversity," says Alice Hughes, a British conservation biologist based at the University of Hong Kong. "The funding gap is absolutely huge, meaning that if we do not think creatively and find ways that are both economically viable and sustainable, we cannot maintain global biodiversity." According to Hughes, DNS could turn out to be exactly that creative solution: "Many economies will not be able to conserve their biodiversity unless we do something to rectify the fact that these countries are at risk of debt default. DNS offer the opportunity to address both problems," she says.

Correcting past mistakes

The concept of DNS was developed in the 1980s, particularly by the late US ecologist and WWF expert Thomas Lovejoy. At the time, the focus was primarily on the debt crisis in Latin America. Saleem Ali, an expert on energy, natural resources and related environmental issues at the University of Delaware, who worked with Lovejoy on international advisory boards, paraphrases the original idea: "The primary benefit is to provide incentives to countries in the global south. They are likely to be more responsive to incentives for Nature conservation rather than penalties such as sanctions." He also sees the concept as a means of correcting past mistakes: "Much of the developing world's

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debt historically resulted from unfair economic policies by industrialised countries and flawed economic modelling by institutions like the World Bank, leading to debt traps.”

However, after the turn of the millennium the financial instrument fell increasingly into oblivion. In an era of low interest rates, it was relatively cheap even for developing countries, which normally have to offer higher interest rates on their sovereign bonds to compensate for political risks, to borrow money. At the same time, climate breakdown and the loss of biodiversity had not yet developed into a global crisis.

But since 2020 the situation has changed drastically. The Covid-19 pandemic has put a severe financial strain on countries in the global south, not least because it destroyed the tourism revenues of these mostly tropical nations. The war in Ukraine and the associated supply bottlenecks have aggravated the situation. Interest rates rose drastically. Now new loans are once again expensive, especially for developing countries. According to the UN, more than 50 countries are on the verge of insolvency. They would have to repay debts of over US\$500 billion by 2027.

At the same time, the climate crisis and the global extinction of species have worsened. But the countries of the south particularly affected by rising temperatures lack the money to protect Nature and climate – they have to spend it on servicing debt instead. Moreover, vicious cycles are emerging. In search of quick debt financing, some of the affected states are turning back to the exploitation of their resources, with the accompanying damage to climate goals. Since 2022, DR Congo has been auctioning off blocks for the exploitation of new oil and gas fields in sensitive ecosystems in the heart of Africa. Uganda and Tanzania are building a controversial oil pipeline across East Africa, and Sri Lanka had additional oil and gas blocks opened up in the Gulf of Mannar in 2021.

Thus, according to experts, it is a matter of preventing the negative interactions between the three main causes of these developments: the over-indebtedness of developing countries, the loss of global biodiversity, and the consequences of climate change. “These developments have set the stage for a resurgence of interest in DNS,” explains Ali.

TNC has been increasingly promoting these swaps since 2021. “The countries we are working with see that investing in Nature now is also a long-term investment in their economies and the wellbeing of their people.

Over half of global GDP depends on Nature and the services it provides,” says TNC’s Managing Director for Europe, Marianne Kleiberg.

With four projects in Gabon, Belize, Barbados and the Seychelles, TNC aims to free up US\$400 million for the protection of marine ecosystems through debt restructuring. Other organisations, industrialised nations and banks have launched projects in countries such as Ecuador, Cape Verde and Peru. In addition, countries including Colombia, Gambia, Pakistan, Namibia, Kenya and Argentina are also seeking such refinancing of their debts.

A particularly large deal in Ecuador to protect species on the Galápagos Islands is considered a milestone for DNS. It allows Ecuador to convert a record-breaking US\$1.6 billion in sovereign debt into a US\$656 million loan issued as a bond by Credit Suisse. Ecuador is to repay this amount over 18 years and provide approximately US\$12 million annually for the protection of the waters around the Galápagos Islands.

However, the DNS boom is also attracting critics. They warn primarily against the danger of greenwashing – that banks, investors and other financiers only give their profits a thin green coat. Countries with poor records in social benefits, poverty reduction and democracy could also gain a positive green image. “We must be vigilant above all against the greenwashing of development,” warns Ali. In an academic paper from October 2023, he and colleagues from Africa, Europe and the US note that Nature conservation in numerous countries is not sufficiently linked with the fight against poverty. “The danger lies not in the basic concept of DNS themselves, but in their implementation,” he emphasises.

Ali and Hughes are now calling for strict and specific international monitoring mechanisms such as those that also apply to charities. In addition to conservation, equal focus must be on poverty reduction and a fair debt policy of the global north. Only then can ordinary people be convinced that this financial policy also benefits them. Hughes warns: “If DNS are primarily being used to make bankers even richer, it’s also going to undermine people’s faith in that tool.” R

Roman Goergen is a journalist reporting on natural sciences, biology and ecology. After spending a total of more than 13 years in Southern Africa, he moved to London in 2021. From there he continues to focus on international conservation issues.