

Climate Financing:

Debt-To-Nature and Debt-For-Climate Swaps

The Emergence
of a new approach
to Debt Mitigation



AUTHORS

Solagbade Sogbetun
PARTNER

Adekola Thompson
ASSOCIATE

www.alp.company



Abstract

Sub-Saharan Africa has a significant debt profile, owed mostly to international lenders, including sovereign States, multi-lateral agencies and multi-nationals. For instance, with a projected external debt of \$88.7 billion in 2025, African countries are currently experiencing the highest levels of debt in over a decade. This has culminated in Sub-Saharan African governments reportedly allocating approximately 40-50% of their domestic revenue to debt servicing. These debt obligations affect the development of key infrastructure, ultimately affecting the economic outlook of these countries.

Coupled with these debt obligations, Sub-Saharan Africa is mostly impacted by changes in climate. It is estimated that Africa needs \$2.8 trillion between 2020 -2030 (circa \$277 billion annually) to implement its Nationally Determined Contributions (NDCs) under the Paris Agreement. However, the debt profile makes it almost impossible for Sub-Saharan Africa to address the funding gaps in this regard. This paper considers climate financing as a means to address debt obligations while also taking corrective actions to mitigate and build a resilient environment against climate change.

1 Sara Harcourt, Jorge Rivera, Fiona Robertson, African Debt, accessed via OneData : <https://data.one.org/analysis/african-debt/#~:text=Key%20numbers%20%2D%20%20low%20income%20countries%20in%20tr%20the%20debt%20service%20in%202025>

2 Wiers, A. (2024, Oct 16). Sub-Saharan Africa faces an alarming debt burden that could hinder progress on sustainable development goals. Retrieved from UNU WIDER : <https://www.wider.unu.edu/publication/sub-saharan-africa-faces-alarming-debt-burden-could-hinder-progress-sustainable#~:text=SSA%20governments%20are%20now%20grappling%20revenue%20to%20service%20%20debt>

3 Antonia Guleres, United Nation's Secretary-General at the 2023 African Climate Summit, accessed via <https://www.un.org/sg/en/content/1/sg/statement/2023-09-05/secretary-generals-remarks-african-climate-summit#~:text=We%20must%20all%20work%20together,hear%20a%20a%20renewable%20future%20on%206/9/23>

4 Chavi Meattle et al. Landscape of Climate Finance in Africa. Accessed via <https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-in-africa/> on 24/03/2025 at 08:34 hrs.

Introduction

According to the United Nations, climate finance is “local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.” The International Rescue Committee (IRC) defines climate finance as “funding and other resources used to take action against climate change through investments in adaptation, mitigation and resilience.” Climate finance is therefore, financing, whether through debt instruments, raised to mitigate the impact of the climate on communities and/or to build resilient

communities/environment to adapt to changes in the climate while transitioning to a more efficient energy source. Recognising the importance of providing finance for climate related projects/initiatives, the UN Convention and the Paris Agreement call for financial assistance from parties with abundant financial resources to those that are less endowed and more vulnerable . Climate related financing and instruments are becoming increasingly popular especially where it positively impacts the debt profile of developing countries, while raising the needed capital for climate mitigation and adaption.

Why Climate Financing

The impact of carbon on the planet is well documented thus the focus is on energy transition to ensure the universe is preserved for the next generation. It is estimated that emerging markets require \$95 trillion to transition, according to a report from Standard Chartered Bank. Additionally, most countries are not relinquishing their oil ambitions in the exercise of what could be termed “energy sovereignty”, while others argue that a just transition would admit the continued use of hydrocarbons by the developing world as they industrialise. These highlight the need for measures to protect the environment while in this transitioning phase. Therefore, climate finance is essential in helping the world’s most vulnerable communities cope with the growing impacts of climate change by providing resources for adaptation, resilience building and anticipatory action, safeguarding livelihoods and resources.

Moreover, research shows that these emerging markets (the most vulnerable countries to climate change) have the most debt and 28 of the world’s top 50 most climate-vulnerable countries are at the risk of defaulting on their debt obligations. It is reported that 20 low-income African countries are either in or at risk of debt distress, such that they are collectively expected to pay up to \$88.7 billion in external debt service by this year . Therefore, these countries often make little or no accommodation in their budgets for climate-related issues and respond poorly to climate emergencies.



5 United Nations, C. c. (n.d.). Introduction to climate change accessed via United nations Climate Change : <https://unfccc.int/topics/introduction-to-climate-finance>
6 International Rescue committee, International Rescue Committee, accessed via <https://www.rescue.org/article/what-climate-finance-and-why-it-is-important>
7 United Nations, C. c. (n.d.). Introduction to climate change accessed via United nations Climate Change : <https://unfccc.int/topics/introduction-to-climate-finance>
8 World economic forum . (2024, April 24). World economic forum accessed via <https://www.weforum.org/stories/2024/04/climate-finance-debt-nature-swaps/>
9 For instance, the UK oil project in the North Sea
10 World economic forum accessed via <https://www.weforum.org/stories/2024/04/climate-finance-debt-nature-swaps/>
11 UNDP accessed via <https://www.undp.org/future-development/ignite-spotlight-2023/new-wave-debt-swaps-climate-orature>
12 Sara Harcourt, Jorge Rivera, Fran Robertson “African Debt” accessed via <https://data.inec.org/analysis/african-debt>

Climate financing models such as debt-for-nature or debt-for-climate swaps are innovative mechanisms that allow these countries combat climate issues while reducing their external debt in exchange for environmental commitments. These climate financing instruments present a unique opportunity for African countries to significantly mitigate their sovereign debt profile with pre-existing natural abundant natural resources.



Types of Climate Financing

While there are various modes of climate financing, including but not limited to green bonds, carbon credits & offsets and blue bonds; we will be considering debt-for-nature and debt-for-climate swaps and its potential for Nigeria.

Debt-to-Nature

This is a concept that overlaps traditional debt financing and environmental conservation/sustainability. The idea is rooted in alleviating or restructuring a country's external debt in exchange for investments in environmental conservation projects. It is a financial mechanism that enables countries to channel funds into conservation and climate resilience initiatives without accumulating additional debt. Accordingly, through debt-for-nature swaps, countries raise capital to support green growth and build resilience communities while reducing their debt burden.

Debt-for-Climate-Swap (DFCS)

DFCS is an attempt to unlock climate financing by offsetting environmental debt/damage. This concept has been in existence and practice from the late 1980's through till 2000, after which it experienced a sharp decline in application due to the emergence of alternative debt relief mechanisms that were not linked to environmental objectives such as poverty reduction and macroeconomic reforms among others. DFCS is designed to free up revenue generating capacity for indebted countries, granting it more flexibility to invest in its economy and generate revenue. Further implications are such that a DFCS enables an indebted country to manage its debt while promoting climate action and sustainable development.

Both debt-for-nature and debt-for-climate swaps can take the following structures:

¹³ Resor, J. P. (n.d.). Debt-for-nature swaps: a decade of experience and new directions for the future accessed via fao.org : <https://www.fao.org/4/w/3247e/w/3247e66.html#:~:text=AS20debt%20for%20nature%20swap%20invest%20purchasing%20reign%20debt%2C,value%20of%20the%20originat%20loan>

¹⁴ United Nations Economic Commission for Africa (ECA). Debt-for-nature swaps, a game-changer for the SDC's climate action. Available <https://www.uneca.org/stories/debt-for-nature-swaps%2C-a-game-changer-for-the-drc%E2%80%99s-climate-action>, accessed 23 June 2025

Bilateral Arrangements

Under a bilateral structure, the two parties involved include the creditor (which could be another country or an organisation) and the government of the indebted country. The parties restructure the debt obligation i.e. the creditor reduces the debt owed by a debtor government. In return, the debtor designates an agreed amount (usually in local currency) for a specified purpose, such as funding conservation and/or adaptation projects. The functionality of this structure enables a streamlined process and works best in circumstances where a cordial relationship exists between the parties involved and/or a short deadline is imminent.



Multipartite Arrangements

These apply when there are multiple parties involved and are typically associated with transactions involving a large pool of funds. The structure varies according to the party acquiring the debt.

Structure I: Under this structure, a percentage of the debt of the indebted country is acquired by a third party from the creditors. The debt of the indebted country is restructured, and in exchange the indebted country commits funding to climate-related projects. This model is no longer frequently applied due to its limited capacity for transactions involving a large amount of funds.

Structure II: In this instance, the indebted country buys its own outstanding debt back from creditors at a discount. The debtor country is often sponsored by third party donor institutions that provide the financing needed for the debtor country to buy-back its debts through grants and loans (which could include government bonds). An example of this structure is Seychelles’ debt-for-nature swap and Blue Bond.

Seychelles developed the sustainable financial plan through converting \$21.6 million of its sovereign debt to the world’s first Blue Economy for Nature swap through the Seychelles’ Conservation and Climate Adaptation Trust (SeyCCAT) for the competitive distribution of funds to support the administration and enlargement of the Seychelles Marine Protected Areas (MPAs). Under the swap deal, Seychelles repurchased the debt at \$20.2 million; structured as \$15.2 million in loans and \$5 million in grants. The deal will allow the Seychelles to redirect approximately \$11 million in debt servicing to investments in the country spanning¹⁷ over twenty (20) years while extending the maturity periods from eight (8) years to thirteen (13) years. The deal will:

- Support new and existing marine and coastal protected areas and sustainable use zones;
- Empower the fisheries sector with robust science and knowhow to improve governance, sustainability, value and market options;

¹⁵ The debtor country could also issue bonds to investors to raise funds to buy-back the debt.

¹⁶ The Commonwealth Blue Charter “Case Study: Innovative Financing – Debt for Conservation” Swap, Seychelles’ Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles (on-going)” accessed via <https://thecommonwealthbluecharter.org/case-study/case-study-innovative-financing-debt-for-conservation-swaps-seychelles-conservation-and>

¹⁷ Angélique Pouponneau: Applicability of Innovative Finance for Addressing Loss and Damage, Lessons from the Seychelles. Accessed via https://unfccc.int/sites/default/files/resource/1_TC_Lessons%20from%20the%20Seychelles.pdf at 6:15pm on 23/3/2025

- Promote the rehabilitation of marine and coastal habitats and ecosystems that have been degraded by local and global impacts;
- Develop and implement risk reduction and social reliance plans to adapt to the effects of climate change; and
- Trial and nurture business models to secure sustainable development of the Seychelles blue economy.

Potential for Nigeria and Africa

Nigeria is a country with abundant natural resources (forests, vegetation and rich marine resources) that can potentially impact its carbon footprint and has a significant sovereign debt profile which is projected to reach N187.79 trillion, this year . However, despite the significance of these resources in helping to build a more resilient environment, they are degraded, damaged or exploited without concern for the climate. Moreso, human activities, such as waste disposal clog water channels, further exacerbating conditions of coastal cities that are already prone to flooding. While the Federal Government and State Governments have taken measures to safeguard these natural resources such as ad-hoc forest marshals, ban on usage of single-use plastics, etc, the debt profile implies that the country lacks the financial resources to undertake capital intensive projects in this regard.

The foregoing provides opportunities for the country to consider innovative means of dealing with our imminent climate crisis while also reducing her debt profile and freeing up capital to invest in needed critical infrastructure such as housing, power and transportation. For instance, Nigeria’s mangrove forest is said to cover an area of 10,500km²/sq; making it the



largest in Africa and third in the World. However, these natural resources, which also serve as carbon sinks, have been depleted and continue to face depletion. Nigeria could consider a swap deal that sees her commit to protecting these natural carbon sinks in exchange for the restructuring of its debt obligations. Sub-states that are within the coast could think of adaptation mechanism (for instance the great seawall of Lagos) and within a well-defined arrangement with the central government seek a restructuring of the country’s debt that allows the central government to commit some of the liberated funds into developing such projects.

The forests also have the potential for conservation and adaptive projects. Through restructuring of our debt, the government can commit resources to protecting our forest and natural habitats while also intensifying reforestation projects.

18 Angelique Poupponneau *supra*
 19 Ali, W. (2025, January 25). Nigeria’s debt to hit N187.8tn in 2025 amid rising borrowing costs. Retrieved from [Businessday.ng](#)
 20 A. C. Odey, Analysis of Mangroves Resources in Nigeria for State Specific Restoration Policy, Science World Journal Vol. 18(No 1) 2023 ISSN: 1597-6343
 21 For instance, in exchange for the conservation and protection of the mangroves within Bayelsa, the restructured debt could be used to develop project to deal with floods in this coastal State.

Nigeria has been dubbed the ‘generator capital of the world’, and this negative reputation can stimulate the government’s willingness to engage in the decommissioning of diesel generators especially in urban cities by investing in renewable energy products such biomass, small hydro and solar. While one of the objectives of the Distributed Access to Renewable Energy Scale-up (DARES), initiatives implemented by the Rural Electrification Agency (REA) focuses on the decommissioning of diesel generators, the government and sub-nationals (whose debts contribute to the national debt profile) have an equally important role in such decommissioning projects. The Federal government, with the support of international finance institutions, could act as a catalyst by engaging the private sector and pooling funds through green-bonds that can be used to restructure national debt with a firm commitment to tackle the decommissioning within a specified period.

Other African countries with nature projects can explore the innovations of this financing instrument in restructuring debt while undertaking climate conservation projects. For instance, the Democratic Republic of Congo (DRC) is considering a debt-for-nature swap utilising its forest, agriculture and vast minerals resources in the production of electric vehicles. Other projects within Africa include the preservation of coastline stretching from Angola to South Africa and the Great Blue Wall project,

aimed to protect the marine ecosystems of the Indian Ocean (this project will involve Kenya, Madagascar, Mauritius and Tanzania).

The biodiversity of African countries offers a unique opportunity to explore this innovative financing solution to tackle both an increasing debt profile and climate action for a sustained economy and environment.



What Nigeria and other African Countries Need to Do

To position itself as a potential beneficiary of these financing opportunities, Nigeria and other African countries need to consider the following:

Regulatory and Governance

The establishment of a strong regulatory framework that provides a mechanism that underpins Nigeria climate policies and actions would give investors and finance partners the parameters to assess the impact of these commitments.

The regulatory framework will enhance transparency, giving investors’ confidence in the certainty of outcomes. For instance, Nigeria’s Climate Change Act establishes a REDD+ registry, but there is the absence of a framework for determining the impact of forest conservation projects. Additionally, while a strong framework may provide the foundation, challenges with enforcement of laws and contracts, poor property rights, accountability and transparency in public procurement and project contracts may impede the realisation of the regulatory framework.

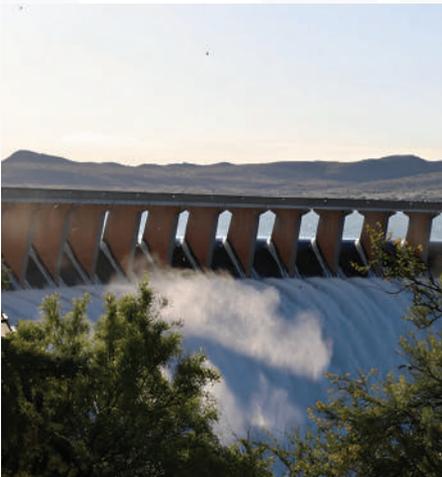
Capacity Building

Most developing countries lack the institutional and structural capacity required for these types of financing. These often range from a dearth of institutional expertise in the formulation of sectoral regulations to structural such as procurement, administrative and financial inefficiencies due to non-compliance with mandatory regulations. In some cases, financial reporting and disclosure mechanisms are manipulated or lacking, inhibiting reliable and complete information on the management of funds as well as reliable verification agent and mechanism to audit performance and ascertain the impact of institutional funding in managing climate-related funding.

Bankable Project

Misalignment between a country National Determined Commitments (NDC), National Adaptation Plans and other climate-disaster relief plans could derail in ascertaining which projects require climate financing. Hence, coherence in government policies as regards climate change at all levels of government, from the sub-nationals to the MDAs is required. Nigeria’s Climate Change Act of 2021 provides for an “Action Plan” to be formulated once every five years, this forum should also be the avenue to discuss climate actions required and how these actions will be implemented. This process also identifies the priority of projects and impact, allowing for a coordinated approach.

Additionally, technical deficiency in choosing a project site, availability of technologies, service inefficiency and human resources may impact identifying bankable projects; for instance, where human resources are inadequate to implement and execute a project, or the absence of data to conduct a feasibility study prior to project implementation. Such deficiencies potentially impact the viability of projects and further putting off potential financing for such project.



Conclusion

As the world moves increasingly towards its net zero commitments by fully satisfying NDCs, more financing opportunities in climate-related project may emerge. Nigeria and Africa have significant degrees of untapped potential in this market, that can unlock new revenue streams through developing mitigation and adaptation strategies to build resilient communities and environmental ecosystems.



Authors



Solagbade Sogbetun
PARTNER



Adekola Thompson
ASSOCIATE

CONTACT US:

♦ Lagos

15 Military Street, Onikan, Lagos

☎ +234 201 700 2570-9

♦ Abuja

3 Lobito Crescent, Wuse 2, Abuja

☎ +234 209 700 2570-9

🌐 www.alp.company

✉ alp@alp.company

🏢 ALP NG & Co

🌐 alp.ng.co

🌐 ALPNigeria