

Gabon 'blue bond' swap raises hopes for wave of African debt-for-nature deals

By [Rachel Savage](#)

16 Aug 2023

A \$436m "debt-for-nature" swap by Gabon to fund marine conservation has backers hoping for more such money-saving environmental deals, but some investors still see room for improvement in the increasingly-popular transactions.



Image: Gabon's President Ali Bongo Ondimba addresses the 77th Session of the United Nations General Assembly at UN Headquarters in New York City, US, 21 September 2022. Reuters/Brendan McDermid

The central African country, whose beaches and coastal waters are home to the world's largest population of endangered leatherback turtles, as well as Atlantic humpback dolphins, manatees and sawfish, bought back \$436m of its international bonds last week.

It switched the debt to a new \$500m "blue bond" with a lower interest rate and longer maturity in a transaction finalised on Tuesday that is expected to generate \$163m for marine conservation projects over the next 15 years.

At their simplest, debt-for-nature swaps see a country's debt bought up by a bank or specialist investor and replaced with cheaper loans, usually with a development finance "credit guarantee" or "risk insurance" helping bring the cost down. The savings are meant to fund conservation.

Gabon's deal has long been anticipated and its finalisation ensures it gets completed just before presidential elections due later this month.

President Ali Bongo, who is bidding for a third term, said the swap was an important moment for eco-friendly finance deals in Africa.

"All too often talk of these new mechanisms to reward countries like my own remain just that," he said in an emailed statement. "In this case... we have made it a reality."

Slav Gatchev, head of sustainable debt at The Nature Conservancy, a U.S. non-profit that advised Gabon's government on the deal, said it addressed at once biodiversity, climate and debt problems.

Question marks

The organisation has also worked with Belize and Barbados and expects to do between one and three deals per year until 2030, Gatchev told Reuters.

He would not name any countries, but said the eco-friendly swaps it advises on could total \$10bn by the end of the decade.

Excitement about debt-for-nature swaps has built this year after Ecuador secured a record \$1.6bn swap in May, freeing up \$18m annually for the Galapagos Islands - the inspiration for Charles Darwin's theory of evolution.

The US Development Finance Corporation provided risk insurance for Gabon's new "blue bond", which gave it an Aa2 investment grade credit rating from Moody's - a full 14 notches above the government's own "junk" Caa1 grade.

Some savings are to be put in a investment fund that should support conservation efforts in perpetuity. The government is also planning to spend about \$5m a year tackling illegal fishing and fulfilling a pledge to protect 30% of its coastal waters.

"From a fiscal point of view, it's brilliant," said Andrew Stanners, investment director at emerging market investor Abrdn, which holds some of Gabon's current bonds. The new bond comes with 6.097% interest, much cheaper than the 9-10.5% yield other bonds have been trading at.

Stanners said, however, there were question marks over how Gabon's conservation promises would be enforced and how the DFC insurance pledge would work if Gabon did one day default.

Gregory Smith, a fund manager at M&G Investments, also questioned why the swap had bought back just \$95m of a bond that needs refinancing in 2025 compared to \$405m of its two 2031 maturing bonds, referring to the bonds' nominal values.

"This transaction offered a chance to eliminate this debt risk," he wrote on the Bond Vigilantes blog. "But after this transaction that risk remains."

ABOUT THE AUTHOR

Reporting by Rachel Savage, editing by Marc Jones and Tomasz Janowski