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Sustainable Financing for Marine Conservation via Debt Conversions

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Challenges in SIDS & Developing Coastal Countries

1. Marine systems are under threat from overfishing, pollution, climate change, etc.; are under-represented in managed areas; and lack sustainable funding

2. Debt levels in many countries are unsustainable
   - Some debt attributable to natural disaster recovery costs

3. Low GDP growth in SIDS and many coastal developing countries

4. Limited fiscal space for investments in environmental protection and climate change adaptation

5. SIDS and coastal developing countries are highly vulnerable to external shocks:
   - Natural disasters and climate change
   - Global Financial Crisis
Opportunities

1. Financial/ Governance architecture being created in the Caribbean

2. Existing Micronesian Challenge, Caribbean Challenge Initiative, and West Indian Ocean Challenge Commitments (e.g. 20-30% marine protection by 2020)

3. Rio+20 SIDS “Blue Economy” focus
   • Fisheries, Coral Reefs, Climate Change Adaptation
What is a Debt for Nature Swap?

1. Emerged during the Latin American debt crisis on the 1980s
   - US cancelled $875 million of debt to 7 LA countries

2. Two types:
   - **Commercial or Private**: involving debt owed to banks
   - **Bi-lateral**: involving debt owed to governments
TNC’s Experience

• From 1988 to 1992 participated in commercial debt for nature swaps totaling $50M

• Since 2001, participated in 11 of 17 Tropical Forest Conservation Act (TFCA) deals
  • Including Belize, Jamaica, Costa Rica, Guatemala
  • Resulting in $240M (P+I) in new funding for forest conservation

• Seychelles Debt Swap using impact capital in 2016
Government’s Conservation/Policy Commitments

- 30% of waters in protected areas (400,000 Sq. Km)
- 15% of waters in no take fish replenishment zones (200,000 Sq. Km)
- Adopt recently completed Marine Spatial Plan to guide updating of Coastal zone management/fisheries/marine policies

Deal summary

- Create a permanent funding source for local conservation & climate change adaptation through **$22 M of sovereign debt restructuring**, via the Paris Club
- Blend grants & impact capital to purchase & restructure foreign debt into a domestic obligation to invest in conservation & adaptation.
- Deal results in upwards of $8 M to fund activities (over 20 years) and $6.6 M endowment capitalized for conservation
Saint Lucia Debt Conversion Model

Current Situation:

Purchase of Debt: $40 M
Discounted Note: FV: $47 M
Loan: $25 M

1st Note: $25 M
2nd Note: $19.7 M
Debt Forgiveness: $2.3 M + $2.4 M

Saint Lucia Blue Investment Fund LLC
Commercial Notes (Creditor)
Saint Lucia (Debtor)

Saint Lucia National Conservation Fund (SLNCF)

1. Grant: $15 M
2. Loan: $25 M
3. Repayment of Loan: $35.6 M (P+I)
4. Purchase of Debt: $40 M
5. Discounted Note: FV: $47 M
6. Capitalize $18.8 M (P+I) Over 20 years
7. Funding for the Program of Activities
8. KfW
9. Debt Forgiveness: $10.1 M (P+I) Over 20 years
10. Capitalize Endowment (EV: $17.6 M)
Focal Areas for Transaction Proceeds

1. Biodiversity Conservation and Management;
2. Disaster Risk Reduction;
3. Ecosystem-Based Adaptation;
4. Ecosystem-Based Fisheries Management;
5. Financial Tools, Mechanisms and Instruments;
6. Integrated Coastal Zone Management;
7. Protected Areas; and
8. Sustainable Livelihoods
Catastrophic Coverage

1. Parametrically triggered insurance that pays out if specific weather event occurs

2. In-Country Conservation Trust Fund required to purchase coverage of one year’s payment for the Sovereign ($5 M), used to offset the Sovereign's payment, freeing up cash for hurricane recovery
   - Estimated 3.33% annual premium for Hurricane Coverage
Benefits to the Government

- **Redirection of $29 million external debt service** for investments in country
  - With two thirds payable in local currency
- **Debt Relief** of 5% of face value of debt purchased, plus additional savings on interest not paid (post restructuring), for total of **$5 million**
- **Extend maturity** of debt from 9 year avg. to 14 year avg.
- **Reduce interest rate** from 7% avg. to 5.5% avg.
- **Catastrophic Hurricane coverage** of $5 M
- Government & nonprofit entities eligible to apply for funding from Trust entity
- Serves as match to the CBF annual proceeds of $200K per year
- Proceeds will pay for the completing of a Marine Spatial Plan completed for entire EEZ, and will cover the costs of MPA management
TNC Commitments

- Work with the Sovereign to raise necessary grant and impact capital to conclude debt restructuring
- Work with the Sovereign and a DFI (World Bank, MIGA, OPIC, etc. to secure credit enhancement through a loan guarantee or Political Risk Insurance
- Provide pro bono legal service ($100K value)
- Source grant capital to initiate EEZ-wide Marine Spatial Plan
  - Outcome to guide design of expanded MPA and fish replenishment zones
  - Outcome to guide improving marine, fisheries and coastal zone policy and regulatory protection regime
- Conduct a science-driven MSP process, guided by stakeholder engagement
Enabling Conditions

To finalize negotiations:

- Willing Buyer (Debtor Country)
  – Conservation/ Policy Commitments finalized via Cabinet Endorsement
- Willing Seller (Creditor)
- Financing in place (grant and/or loan capital)

To close:

- Trust fund created and operational
- Legal agreements finalized
Debt Swap Pipeline

- Grenada
- Barbados
- Dominica
- Kenya
- Mauritius
# Blue Investment Fund Projects

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| Small and Medium-Sized Enterprise (SME) Investment | Attract low-cost capital to on-lend to SMEs looking to enter the blue economy.                                                                                                                                | • Increase the economic value of MPAs;  
• Provide funding needed for enterprises to transition to a blue economy;  
• Create jobs that support a sustainable economy;  
• Increase the capacity for local entrepreneurs to conduct their business sustainably.                                                                                                               |
| Climate Resilient Housing                    | Attract low-cost capital to finance climate-smart housing projects in areas outside of flood plains.                                                                                                | • Housing for vulnerable communities that can withstand up to 150 mph winds, in areas that are not prone to frequent flooding;  
• Restoration of flood plains to their natural purpose – absorb heavy rains, reduce run-off;  
• Reduce recovery costs for residents and governments after heavy rain events                                                                                                                       |
| Waste/ Sanitation Infrastructure             | Attract investment into large-scale waste management and sanitation projects.                                                                                                                                  | • Reduce marine pollution from untreated waste;  
• Reduce pollution and litter from solid waste;  
• Increase water quality in coastal areas.                                                                                                                                                    |
Lessons Learned

- Patience
- Scale matters
- The Ministry of Finance is key
- Broad stakeholder consensus is necessary
- High level commitment is helpful
- Concept is well received by SIDS, public and private donors, impact investors, etc.
- Possible to raise loan capital directly from private markets
- Possible to de-risk deal for sovereign and catastrophic risk