An aerial photograph of a tropical atoll, likely in the Maldives. The image shows several small, green islands with white sandy beaches, surrounded by shallow turquoise water that transitions into deeper blue ocean water. The water's clarity reveals the sandy bottom and coral reefs. The overall scene is serene and beautiful, with vibrant colors and a clear sky.

Structuring a Debt Conversion

Robert Weary
CEO and Founder, Aqua Blue Investments
June 22, 2021

What is a debt for nature swap?

- **Emerged during Latin American debt crisis of the 1980s**
 - US cancelled \$875 million of debt to 7 LA countries
- **Two types:**
 - Commercial or Private: involving debt owed to banks
 - Bi-lateral: involving debt owed to governments

Seychelles Debt Conversion & Commitments



Deal summary

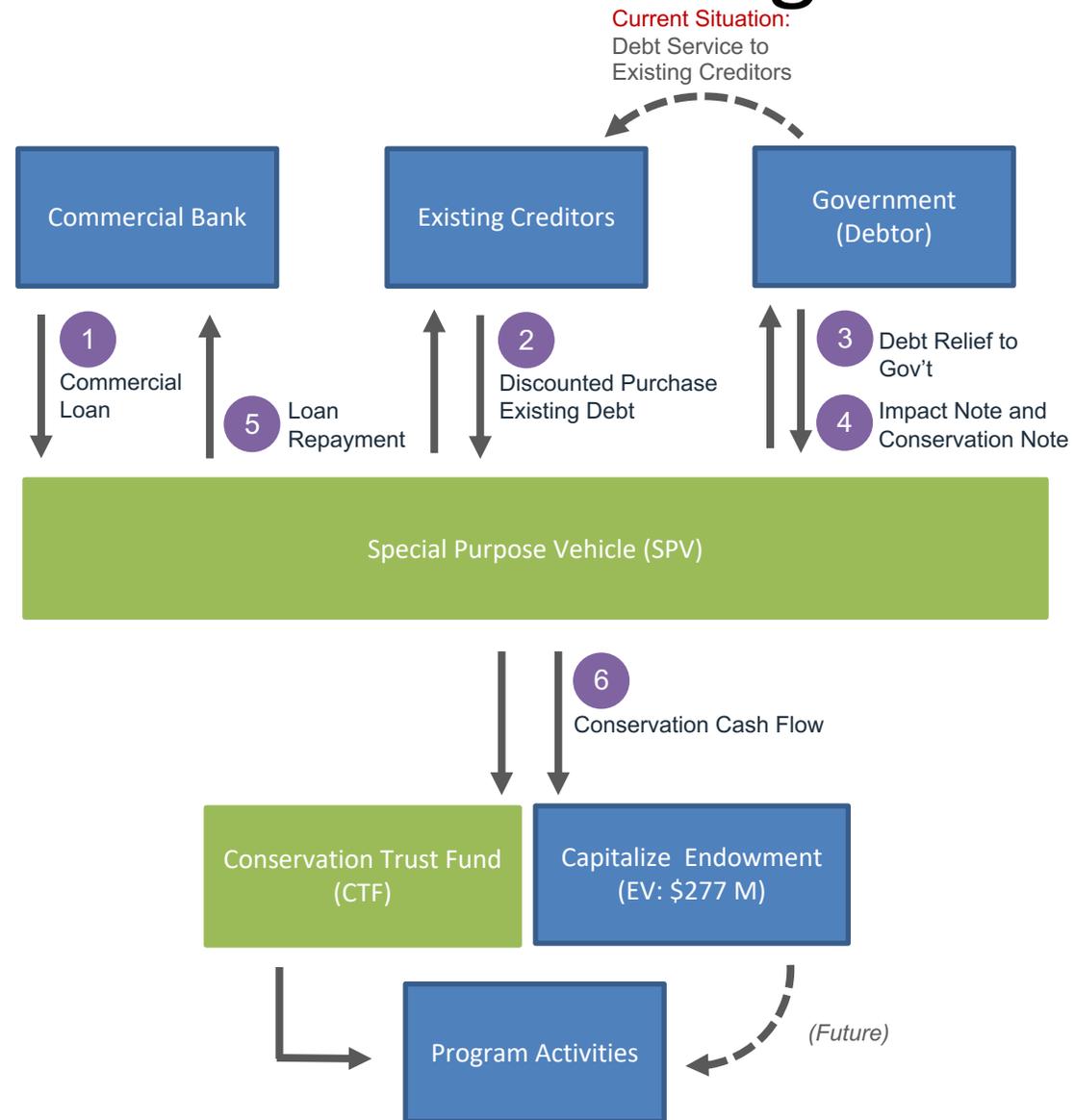
- Create a permanent funding source for local conservation & adaptation to climate change through **\$22 M of sovereign debt restructuring**, via the Paris Club
- Blend grants & impact capital to purchase & restructure foreign debt into a domestic obligation to invest in conservation & adaptation.
-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

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

Example Debt Restructuring

- ① New Commercial Loan: **\$600 M**
- ② Purchase of Existing Debt: **\$940 M** (35% discount to FV)
- ③ Debt/Interest Savings to Government:
 - › **\$94 M** write-off (10% of FV)
 - › **\$63 M** savings via interest rate reduction
 - › **\$157 M** total savings
- ④ New Gov't Debt Structure:
 - › **\$600 M** Impact Note, 5.9% (TBC), 15 years, first 5 years interest only, last 10 years amortized
 - › **\$247 M** Conservation Note, 4%, 20 years, amortized
- ⑤ Repayment of Impact/Commercial Loan: **\$813 M** Principal + Interest
- ⑥ Conservation Cash Flow (over 20 years):
 - › **\$235 M** for on-the-ground activities
 - › **\$137 M** endowment funding with ending value of **\$277 M**



Activities funded by the Transaction

1. Management and enforcement of existing and new Marine Reserves
2. Coral and mangrove restoration projects
3. Improvement of marine, fisheries and coastal zone policies and regulatory protection regimes
4. Investment for economic diversification (sustainable fisheries and sustainable tourism)
5. Social resiliency to climate change in coastal communities

Parties and Roles to the Transaction

- Government: would need to agree on the terms of the debt conversion.
- SPV: will execute the transaction with gov't, DFC and a major commercial bank, and help set up and manage the CTF.
- Commercial Bank: will arrange the issuance of Blue/Green Bond and support both SPV and the Gov't in sourcing the commercial debt for the debt conversion (including advising on and implementing any liability management that may be required).
- DFC: will provide the political risk insurance policy over the "Impact Note".

Benefits to Government

- **Redirection of external debt service for investments in the country: upwards of US\$362 million** of principal and interest payments (over 20 years)
 - **Provide annual funding of approx. US\$11.8 million, over 20 years, for marine conservation** and climate adaptation activities in Ecuador (managed by a Conservation Trust Fund (CTF), to be created under US law)
 - **Capitalize an endowment with an ending value of upwards of US\$277 million, after 20 years**
- **Potential savings of over US\$157 million in debt write off and on interest not paid;**
- Government entities eligible to apply for funding from debt conversion proceeds, managed by the CTF

Enabling Conditions

- **To finalize negotiations:**
 - Willing Government
 - Conservation/Policy Commitments finalized
 - Willing Seller (Creditor)
 - Financing in place
- **To close:**
 - Trust fund created and operational
 - Legal agreements finalized

Indicative Steps

1. Draft Term Sheet for proposed debt conversion: May-June 2021
2. Government approval of debt conversion Term Sheet, including conservation commitments: July 2021
3. Development Finance Corporation (DFC) approval to provide Political Risk Insurance: Mar- Oct 2021
4. Hire commercial bank to finance the deal: Mar-July 2021
5. Draft and finalize debt conversion legal documents, based on term sheet: July-Oct 2021
6. Special Purpose Vehicle (SPV) and the Government sign debt conversion legal documents: Oct 2021
7. Government officially expands Marine Reserve
8. Commercial bank provides SPV with \$600 M loan to finance debt conversion : Oct 2021
9. SPV initiates buy back operation w/ creditors: Oct-Nov 2021
10. SPV and Government restructure debt purchased by SPV: Nov 2021

Lessons Learned

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