



# Debt for Nature Swaps:

## A Primer for Interested Stakeholders

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This document is part of a series of knowledge products under the 'Nature in Public Finance' knowledge and advocacy programme, which aims to improve Sri Lankan stakeholders' understanding on sovereign financing instruments that are linked to nature. They are meant to be discussion starters and contribute to the public policy debate around these topics, and bridge understanding between the economics, finance, and public financial management community, and the conservation, environmental science, and sustainability practitioner community. CSF is an Asia-focussed interdisciplinary public policy think tank based in Colombo, with a network of researchers, practitioners, and policy professionals around the world. To know more about the Natural Capital Forum visit [here](#).

Disclaimer: Views expressed in this paper are based on secondary research and are believed to be accurate at the time of writing. Any errors and omissions are regretted, and we welcome constructive feedback ([connect@csf-asia.org](mailto:connect@csf-asia.org)). CSF did not receive any external funding to produce this document.

## EXECUTIVE SUMMARY

- There has been rising interest in debt for nature swaps in the recent years, especially in the post-pandemic era with increase in instances of sovereign debt crises in developing countries and emerging markets. With the help of the World Bank and International Monetary Fund's debt suspension initiative and talks at COP27, there has been an increase in traction and reports of debt for nature swap negotiations in process and of such deals that have already taken place.
- DFNS provide countries a means of tackling sovereign debt issues, and strengthen public finances, while simultaneously making investments in conservation and improving environment outcomes.
- Debt for nature swaps (DFNS) involve a deal in which the creditor forgives a partial or, in some cases, the full debt amount in exchange for a commitment to nature. They often exist in 2 forms, commercial debt for nature swaps and bilateral debt for nature swaps.
- The nature of DFNS and a country's eligibility for such deals are dependent of the level of debt sustainability. Inherently unsustainable debt often must undergo intense restructuring before debt for nature swap deals can be engaged in. In other cases, the impact of climate action on sovereign risk is a key determinant of a country's eligibility to engage in swap deals. This coupling is crucial to manage debt while investing in nature, simultaneously.
- While debt for nature swaps have risen in popularity amidst negotiations and in recent conversation, they come with some limitations that must be taken into consideration. These include significant transaction costs, local currency devaluations, dependence on fiscal stability, the strength and credibility of local institutions and potential impacts on already existing conservation programmes and efforts.
- There are several examples of countries that have engaged in such swap deals like, Bolivia, Seychelles, and Belize that other countries interested in such deals can learn from by drawing on these individual country's experiences. Key takeaways and details of these countries' experiences have been highlighted to add value to influence a learning curve for other countries.

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## 1. Introduction and Context

As Sri Lanka's sovereign debt crisis has unravelled during 2022, many stakeholders are calling for alternative sources of capital to ease the foreign financing constraints. In this regard, Debt for Nature Swaps (DFNS) are being put forward as a possible financial instrument. In recent years DFNS have grown in popularity with several countries (notably the Seychelles and Belize) utilizing this instrument to settle existing debt, while mobilizing finance for nature conservation.

In 1984 the WWF introduced debt for nature swaps as a means to strengthen conservation efforts through sustainable investments.<sup>1</sup> This concept recognises that a large proportion of the world's biodiversity is located in countries that face significant financial strain from sovereign debt, thus posing financial constraints on these country's ability to invest in conservation and climate mitigation/adaptation.<sup>1</sup>

This primer looks at what debt for nature swaps are, how they are typically structured, examples of their use, and some overview of challenges and issues to look out for. This document is intended to provide knowledge and awareness to Sri Lankan stakeholders in both the economics and finance communities as well as the environmental science, nature conservation, and ecology communities.

## 2. What are DFNS and how do they work?

A debt for nature swap refers to a scenario in which a creditor, forgives owed debt in exchange for a commitment by the debtor to utilize the outstanding debt service payments for an investment in nature. The reasoning behind this is highlighted to be that the redemption of debt is often given at a discounted rate. A deal exists where this partial (or in some cases complete) cancellation of debt is met by the debtor government committing to mobilise/utilise the equivalent value of the debt reduction in local currency for agreed purposes on pre-decided terms.<sup>2</sup> Debt for nature swaps are agreements that reduce a developing country's debt stock/service in exchange for a commitment to protect nature.<sup>3</sup>

Through a debt-for-nature swap, the debtor country's debt stock is reduced in exchange for commitments from the debtor government to protect nature in a multitude of ways. When the original creditor-debtor government relationship based on loans and interest payments is under stress due to a default risk, negotiations may lead to a debt-for nature swap as a solution. The creditor government or entity sells the outstanding debt (or its parts) at a discounted rate (sometimes up to 100%) to an environmental trust fund. This trust fund is often funded by international NGOs or donor countries, allowing the trust fund to buy the debt. Following this, the debtor government – rather than paying interest to the creditor pays (reduced) interests – often in local currency – to the environmental trust fund. With this revenue, the trust fund invests in and maintains local conservation projects.<sup>4</sup>

Debt-for-nature swaps often fall into two categories: commercial debt-for-nature swaps and bilateral debt-for-nature swaps.

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<sup>1</sup> *Debt-for-nature swaps: A decade of experience and New Directions for the future* (no date) *Unasylva - No. 188 - Funding sustainable forestry - Debt-for-nature swaps: a decade of experience and new directions for the future*. Available at: <https://www.fao.org/3/w3247e/w3247e06.htm> (Accessed: November 21, 2022).

<sup>2</sup> Essers, D., Cassimon, D. and Prowse, M. (2021) "Debt-for-climate swaps: Killing two birds with one stone?," *Global Environmental Change*, 71, p. 102407. Available at: <https://doi.org/10.1016/j.gloenvcha.2021.102407>.

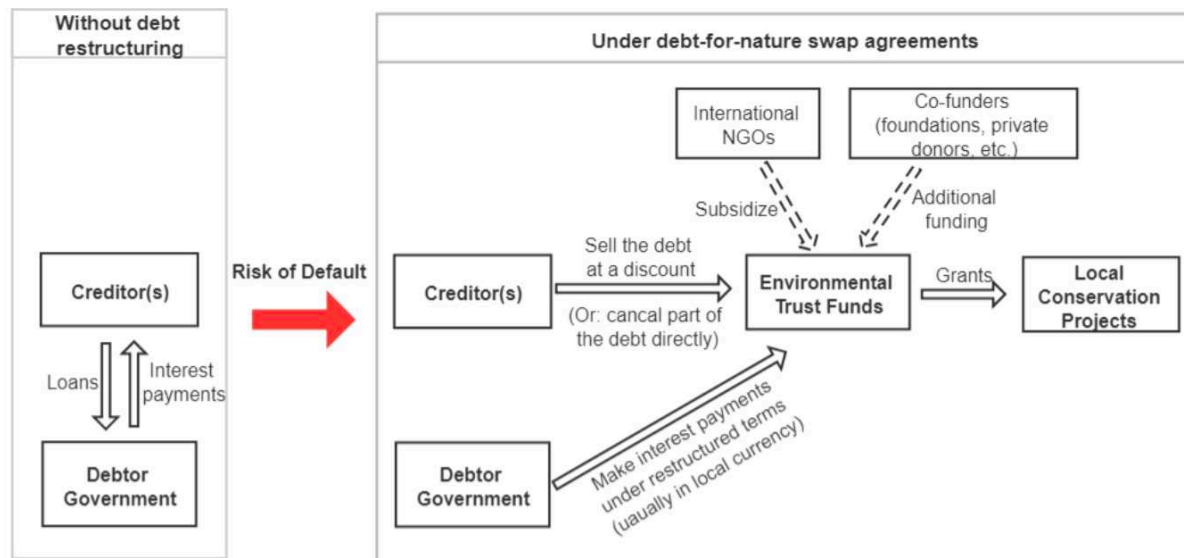
<sup>3</sup> Thomas, A. and Theokritoff, E. (2021) "Debt-for-climate swaps for small islands," *Nature Climate Change*, 11(11), pp. 889–891. Available at: <https://doi.org/10.1038/s41558-021-01194-4>.

<sup>4</sup> Bolton, P. et al. (2022) "Environmental protection and sovereign debt restructuring," *SSRN Electronic Journal* [Preprint]. Available at: <https://doi.org/10.2139/ssrn.4040395>.

<sup>5</sup> Mengdi Yue and Christoph NEDOPIL WANG and WANG, C.N.E.D.O.P.I.L. (2022) *Mengdi Yue and Christoph Nedopil Wang, Green Finance & Development Center*. Available at: <https://greenfdc.org/debt-for-nature-swaps-in-the-belt-and-road-initiative-bri/> (Accessed: November 21, 2022).

Commercial debt-for-nature swaps: The debtor government's debt that is traded on markets (e.g., through government bonds) is restructured. In these particular swaps, a third-party organization (usually NGOs or sometimes governments and individuals) purchases the commercial debt of a developing country in the secondary market at a discounted price that reflects the market's expectation on the possibility of repayment. In exchange, the debtor country commits to invest the full face-value of the debt (in local currency) in conservation projects. Therefore, the success of commercial debt-for-nature swaps depend on the agreement on the discount rate placed on the outstanding debt. Meaning, the higher the discount rate, the more debt can be restructured.

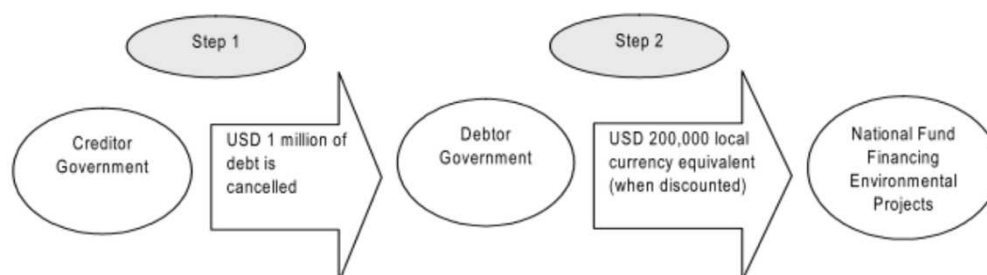
Figure 1: Illustration of Commercial Debt for Nature Swaps



Source: IIGF Green BRI Center (2021).

Public (or bilateral) debt-for-nature swaps: In a public debt-for-nature swap, the debt to be restructured is not traded on public markets. Instead, it is the bilateral debt between the debtor and creditor governments (or sometimes between the debtor government and a development bank).<sup>5</sup> In public debt-for-nature swaps, the creditor government agrees to forgive a portion of the public bilateral debt within the debtor country in return for a financial commitment pertaining to conservation efforts. On occasion, an NGO provides additional resources to the debt-reduction commitment from the creditor, making it a subsidized debt swap.<sup>5</sup>

Figure 2: Debt for Nature Swap Basic Model



Source: Fuller et al. (2018)<sup>6</sup>

<sup>5</sup> Mengdi Yue and Christoph NEDOPIL WANG and WANG, C.N.E.D.O.P.I.L. (2022) *Mengdi Yue and Christoph Nedopil Wang, Green Finance & Development Center*. Available at: <https://greenfdc.org/debt-for-nature-swaps-in-the-belt-and-road-initiative-bri/> (Accessed: November 21, 2022).

<sup>6</sup> Fuller, Frances & Zamarioli, Luis & Kretschmer, Bianka & Thomas, Adelle & Marez, Laetitia. (2018). *Debt for Climate Swaps: Caribbean Outlook*.

### 3. Rising Interest in Deploying Debt for Nature Swaps

Debt for nature swaps are gaining interest in the post-pandemic era in developing nations as several developing and emerging economies are experiencing an accelerating sovereign debt crisis not solely caused by, but certainly propelled by Covid-19. This is supported by the fact that 58 of the world's developing countries, that are most vulnerable to climate change, also have an accumulative total of almost \$500 billion to pay in debt servicing payments all due in the next 4 years.<sup>7</sup> The rise in interest in debt for nature swaps can also be attributed to the World Bank's Debt Service Suspension Initiative (DSSI).<sup>8</sup> The World Bank and the International Monetary Fund along with the G20 established the DSSI in 2020 to guide countries in allocating resources to tackle the pandemic and to provide a safety net to the most vulnerable populations. They established a list of 73 eligible countries of which 48 participated, allowing the scheme to suspend \$12.9 billion in debt servicing payments.<sup>9</sup> This scheme brought to light the applicability of debt for nature swaps as 67 of the 73 countries on the eligibility list, with unsustainable debt levels, have 22% of global priority areas.<sup>9</sup> Of these global priority areas, 82.96% are unprotected, thus, accentuating the potential scope for debt for nature swaps in a post pandemic economy.<sup>8,9</sup> It is also clear that debt for nature swaps are gaining traction in developing countries following the COP27 conference earlier this year where representatives from Gambia, Colombia, Pakistan Eswatini and Kenya all made statements in showing interest in this financing method.<sup>7</sup> Furthermore, Cabo Verde has announced that they have begun negotiations for a potential deal of this nature and Gabon has indicated its plan of action as of last month regarding a \$700 million debt for nature swap deal to fund marine conservation, thus taking the lead in what is potentially the largest swap deal to date.<sup>10</sup>

The need for debt for nature swaps are driven by two parallel developments:

1. Rising national public debt leading to risk of debt default particularly in emerging economies.
2. The reduction in financial resources and minimised availability of fiscal space for conservation caused by increasing debt which is stimulating the urgency for unsustainable economic growth while shifting away from the focus on sustainable growth.

Sovereigns that are unable to pay what they are contractually obligated to pay are unlikely to be able to devote financial resources to environmental conservation or climate adaptation/mitigation. Thereby, making the subset of countries undergoing debt restructuring, the main candidates with access to this alternative avenue for funding these types of projects through debt swaps. This alternate route allows debtor countries to simultaneously reduce their debt burdens while establishing protected areas.<sup>11</sup>

### 4. What Governments and Countries Must Be Mindful Of?

The debtor country must exude trustworthy governance credentials, so that its financial and other commitments related to climate mitigation/adaptation are trusted

<sup>7</sup> White, N. (2022) *Debt-for-nature swaps gain traction among developing countries*, Bloomberg.com. Bloomberg. Available at: <https://www.bloomberg.com/news/articles/2022-11-07/debt-for-nature-swaps-offer-option-for-developing-countries?leadSource=uverify+wall> (Accessed: November 29, 2022).

<sup>8</sup> Nedopil, C., Yue, M. and Hughes, A. (2022) "Scaling debt for nature swaps - which nature, how much debt and who pays?" Available at: <https://doi.org/10.21203/rs.3.rs-1358929/v1>.

<sup>9</sup> World Bank Group (2022) *Debt service suspension initiative*, World Bank. World Bank Group. Available at: <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative> (Accessed: November 21, 2022).

<sup>10</sup> White, N. (2022) *Debt-for-nature swaps gain traction among developing countries*, Bloomberg.com. Bloomberg. Available at: <https://www.bloomberg.com/news/articles/2022-11-07/debt-for-nature-swaps-offer-option-for-developing-countries?leadSource=uverify+wall> (Accessed: November 29, 2022).

<sup>11</sup> Bolton, P. et al. (2022) "Environmental protection and sovereign debt restructuring," *SSRN Electronic Journal* [Preprint]. Available at: <https://doi.org/10.2139/ssrn.4040395>.

by the creditor, thereby minimising concerns regarding moral hazard.<sup>12</sup> The involvement of creditor organizations and/or other international partners like, but not limited to, international financial institutions, multilateral development banks, or international NGOs in the selection, implementation, monitoring and evaluation steps of the programmes is essential. This will help satisfy creditors' by providing assurance and thus, improving overall learning outcomes in the debtor country with regards to such swaps. However, this must be balanced against the need for the debtor country's ownership of the swap programmes, the capacity of debtor government institutions that already exist or need to be developed and the development of local expertise, in order to maintain and minimise transaction costs while maximising opportunities for already existing institutions.<sup>12</sup>

It is important to understand and recognise the varying occasions in which countries may resort to or deem themselves eligible for debt for nature swaps. Studies show that there are four distinguished types of climate-conditional financial operations: loans, grants, debt swaps and comprehensive debt restructurings<sup>13</sup>. The main factor determining eligibility between debt swaps and debt restructuring is 'debt sustainability'. According to the IMF, debt sustainability refers to a situation in which a borrower is expected to be able to continue servicing its debts without an unrealistically large future correction to the balance of income and expenditure.<sup>14</sup> To the extent that debt is unsustainable, comprehensive debt restructurings will seek to restore sustainability unlike with debt swaps. Additionally, comprehensive debt restructurings involve a broad restructuring perimeter, including most categories of creditors, however, debt swaps often involve debt relief by one creditor or possibly one class of creditors.

The optimal approach to address both unsustainable debt and large climate investment requirements depend on whether climate actions have a strong impact on sovereign risk.<sup>13</sup> This will help determine whether a country requires complete restructuring or if they are eligible for debt swaps. For countries with unsustainable debt, it generally makes most sense to first restore debt sustainability through comprehensive debt restructuring and then support climate investment through climate-conditional grants and loans. Debt restructurings consist of frameworks that seek to ensure and entice wider participation (such as debt exchange offers to all bondholders, or Paris Club comparability of treatment provisions).<sup>13</sup> <sup>15</sup>Therefore, decoupling the restoration of debt sustainability from fiscal support of climate action is beneficial.<sup>13</sup> Thus, establishing that the debt relief required to restore sustainability should ideally come in the form of conditional grants (or a combination of grants and loans) rather than debt-climate swaps.

However, in the case that climate actions do materially lower sovereign risk, there is an economic case for climate-conditional debt restructuring. In some countries, a culmination of both climate impelled catastrophes and significant climate financing needs may aggravate debt. In this respect, providing debt relief without managing climate adaptation action could give rise to a moral hazard.<sup>13</sup>

It is critical to determine between the case for linking debt relief to climate conditionality and the specific case for debt-climate swaps. When climate adaptation has a significant impact on sovereign risk, linking debt relief to adaptation actions is essential to address the issue of moral hazard.<sup>13</sup> However, more commonly this link must be made in the occasion of comprehensive debt restructurings rather than debt swaps involving one creditor or a group of creditors. An exception may arise where debt swaps are expected to have a substantial impact on debt risks especially in

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<sup>12</sup> Essers, D., Cassimon, D. and Prowse, M. (2021) "Debt-for-climate swaps: Killing two birds with one stone?," *Global Environmental Change*, 71, p. 102407. Available at: <https://doi.org/10.1016/j.gloenvcha.2021.102407>.

<sup>13</sup> Chamon, M. et al. (2022) "Debt-for-climate swaps: Analysis, design, and implementation," *IMF Working Papers*, 2022(162), p. 1. Available at: <https://doi.org/10.5089/9798400215872.001>.

<sup>14</sup> Thomas, A. and Theokritoff, E. (2021) "Debt-for-climate swaps for small islands," *Nature Climate Change*, 11(11), pp. 889–891. Available at: <https://doi.org/10.1038/s41558-021-01194-4>.

situations where the economic cost of a more comprehensive debt restructuring is exorbitant.<sup>13</sup>

## 5. Cognizance of Drawbacks and Limitations

While debt for nature swaps have several advantages, it does not come without some implications and obstacles that must be considered when countries are engaging in such debt for nature swap deals.

Customarily, debt for nature swaps involve multiple transactions between several groups (debtor, creditors, donors, NGOs), in several stages, including its preparation, negotiation, and implementation. Thus, making this a multifaceted and extensive process, which can take approximately 2-4 years in some cases. Additionally, disagreements between the varying stakeholders may cause further delays and increase the associated transaction costs,<sup>15</sup> thereby making debt-for-nature swaps less efficient when compared with other financial instruments. Furthermore, to add to its potential to cause inefficiencies, debt swaps are likely to misallocate resources by earmarking the foreign exchange proceeds of capital inflows for the retirement of external debt. Misallocation may occur due to the reliance on preferential exchange rates which can send incorrect signals for investments and land allocation.<sup>16</sup>

It is common practice, in debt for nature swaps, to use local currency to service the SWAP. Therefore, local currency devaluations or inflation can reduce the real cash value and investment into conservation commitments. This impact may also be reversal in that the injection of a large sum of local currency may instigate inflation.<sup>14</sup> Moreover, the conversion of payment to local currency is not always promised within a deal, thus implying that payments may still have to be in foreign currency. This may prove to be difficult for countries in a sovereign debt crisis. Furthermore, this will not create fiscal space in the debtor country as they may still have to pay the original debt service with little or a negligible discount.<sup>14</sup>

The outcomes of debt-for-nature swaps are contingent on a debtor country's ability to make stable and long-term commitments to the conservation programs. This depends on their fiscal stability. However, these commitments are hard to predict and predetermine due to their inherent nature to be easily undermined in case of a fiscal or liquidity crisis alongside governance issues including mismanagement and corruption.<sup>14</sup>

Additionally, Debt-for-nature swaps include designs for the conservation of local resources or biodiversity, which may lead to conflict with already existing conservation programs. Furthermore, there is a chance for 'greenwashing' to occur where previously planned and existing activities are presented as new climate-related projects thereby undermining and potentially tarnishing the reputation of such deals.<sup>17</sup>

## 6. Country Examples

There are several countries that, in recent years, have engaged in debt for nature swaps to finance sovereign debt alongside investing in climate mitigation/adaptation and conservation. The following section provides information on debt for nature swap deals that have taken place in some countries. A vital disclaimer here is that this paper does not provide any independent evaluation of these country examples, but only describes them and provides an overview, for information of the reader.

<sup>15</sup> Mengdi Yue and Christoph NEDOPIL WANG and WANG, C.N.E.D.O.P.I.L. (2022) *Mengdi Yue and Christoph Nedopil Wang, Green Finance & Development Center*. Available at: <https://greenfdc.org/debt-for-nature-swaps-in-the-belt-and-road-initiative-bri/> (Accessed: November 21, 2022).

<sup>16</sup> Cassimon, D., Prowse, M. and Essers, D. (2011) "The pitfalls and potential of debt-for-nature swaps: A US-Indonesian case study," *Global Environmental Change*, 21(1), pp. 93-102. Available at: <https://doi.org/10.1016/j.gloenvcha.2010.10.001>.

<sup>17</sup> Bolton, P. et al. (2022) "Environmental protection and sovereign debt restructuring," *SSRN Electronic Journal* [Preprint]. Available at: <https://doi.org/10.2139/ssrn.4040395>.

## Bolivia

The first ever debt for nature swap agreement was signed in 1987 between Bolivia and Conservation International (CI), a US non-profit environmental organization. In that agreement, CI purchased USD 650,000 of Bolivia's foreign debt in the secondary market at a discounted price of USD 100,000. In exchange, the Bolivian government set aside 3.7 million acres in three conservation areas as buffer zones.<sup>18</sup>

## Seychelles

The Republic of Seychelles defaulted on its debt in 2008. Seychelles is an archipelago of 115 islands in the Western Indian Ocean and is home to precious coral reefs and endangered species. The Seychellean economy is severely dependent on marine tourism and fishing. Despite some successful reform mechanisms and recovery from its sovereign debt default in 2008, Seychelles remained vulnerable to external economic shocks, while its marine ecosystem deteriorated considerably. In 2016, The Nature Conservancy (TNC), a US-based environmental group, put forward a "debt-for-nature swap" deal that restructured Seychelles' sovereign debt of US\$21.6 million owed to Paris Club members. The 2015 Seychelles transaction involved the government of Seychelles and TNC to buy back \$21.6 million of public bilateral debt, primarily to Paris Club creditors, for \$20.2 million (at a discount of 6.5 %).<sup>19</sup> x The Seychelles government used private philanthropic funding and loan capital raised by TNC's NatureVest conservation investment unit to buy the debt through a newly established Seychelles Conservation and Climate Adaptation Trust (SeyCCAT).<sup>19</sup> In return, the government issued two promissory notes amounting to the same \$21.6 million, to pay off the TNC loan as well as to endow SeyCCAT. SeyCCAT presented itself as the new owner of the debt, to which the government pays back over a longer period, providing a cash-flow relief on repayments.<sup>20</sup> The government committed to protect 30 percent of its waters, protect 15 percent of its high- biodiversity areas, and adopt a marine spatial plan to guide the update of coastal zone management, fisheries, and marine policies.<sup>21</sup> Since 2015, in line with its commitment under the debt swap, Seychelles has progressed from protecting 0.04 percent to 30 percent of its national waters<sup>22</sup>

## Belize

Belize is home to 30% of the renowned Mesoamerican barrier reef, and had already restructured its Eurobond issued in 2007 three times before reaching out to its bondholders with a fourth restructuring proposal in 2021. Including a multitude of other factors, the Covid-19 pandemic and natural disasters caused Belize to default on its Eurobond interest payments.<sup>22</sup> The 2021 restructuring was a "tripartite plus" transaction involving the government of Belize, TNC and the US Development Finance Corporation (USDFC) commercial creditors holding a sovereign bond with face value of \$553 million (approximately 30 percent of GDP), and providers of new market finance<sup>22</sup>. Using the proceeds of a "blue bond", a subsidiary of TNC arranged a "blue loan" to the Belizean government to finance a bond-for-cash exchange at 55 cents per dollar of the face value. In return, Belize agreed to use part of the debt relief to pre-fund a \$23.4 million endowment supporting marine conservation.<sup>22</sup> It also committed to spending \$4.2 million per year on marine conservation and to expand

<sup>18</sup> Nedopil, C., Yue, M. and Hughes, A. (2022) "Scaling debt for nature swaps - which nature, how much debt and who pays?" Available at: <https://doi.org/10.21203/rs.3.rs-1358929/v1>.

<sup>19</sup> Case study: *Innovative financing - debt for conservation swap, Seychelles' Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles (on-going)* (no date) Commonwealth. Available at: <https://thecommonwealth.org/case-study/case-study-innovative-financing-debt-conservation-swap-seychelles-conservation-and> (Accessed: November 21, 2022).

<sup>20</sup> *Seychelles swaps debt for nature* (2020) *The Economist*. The Economist Newspaper. Available at: <https://ocean.economist.com/blue-finance/articles/seychelles-swaps-debt-for-nature> (Accessed: November 21, 2022).

<sup>21</sup> *The deal that saved Seychelles' troubled waters* (2020) *BBC Future*. BBC. Available at: <https://www.bbc.com/future/article/20200803-the-deal-that-saved-seychelles-troubled-waters> (Accessed: November 21, 2022).

<sup>22</sup> Chamon, M. et al. (2022) "Debt-for-climate swaps: Analysis, design, and implementation," *IMF Working Papers*, 2022(162), p. 1. Available at: <https://doi.org/10.5089/9798400215872.001>.



its protected ocean area from about 16 percent to 30 percent by 2026. To attract the funding necessary, TNC set up the Belize Blue Investment Company (BBIC), a subsidiary incorporated in Delaware. The Credit Suisse Group AG lent US\$364 million in the form of a Blue Loan, to the BBIC, which they lent on to Belize.<sup>23</sup> Belize utilized these funds to buy out its bondholders and to supply a freshly created conservation trust. The parties employed a non-recourse structure, which authorised Credit Suisse to claim repayments only from the BBIC and not from any other of Belize's assets. The United States International Development Finance Corporation (DFC) provided political risk insurance in the amount of US\$610 million to the BBIC to provide assurance for bondholders.<sup>23</sup> It is said that the new terms of the Blue Loan posed to be considerably more favourable to Belize than the terms of its Eurobond due to a lower interest rate and a maturity date that extended beyond 2034, the maturity date of the Eurobond. This is bolstered by TNC's claim that replacing the Eurobond with the Blue Loan, will save Belize US\$54 million in debt service in the five years following the restructuring.<sup>23</sup> This swap deal invited and a large amount of press and coverage revolving this method of sovereign financing. Thus, having the exact effect the Belize authorities hoped for. This presented itself as an 'ESG sweetener', enticing bondholders the chance to overtly express their commitment to sustainability.<sup>23</sup> Part of this program's success, in terms of incentivising bondholders, can be attributed to the IMF's latest debt sustainability analysis which accentuated Belize's fiscal position, in that it is and will continue to be vulnerable and fragile— despite the leeway provided by this debt for nature swap. Belize's debt for nature swap is part of a collective program TNC set up under the name "Blue Bonds for Ocean Conservation Program".<sup>24</sup> This was also used in the Seychelles' sovereign debt restructuring in 2015 as mentioned above. Under this specific program, a sovereign's debt is restructured in exchange for its tailor-made commitment to protect at least 30% of its (maritime) area.<sup>24</sup> TNC provides scientific support and research to the sovereign and local stakeholders to aid the identification of goals, creation of plans for conserving critical ocean areas, and establishment of the policies and regulations needed for implementation.

## 7. Key Summary Messages

- There is increasing global pressure for economies to extend their investments in climate action due to the added and ever-increasing pressure on the environment.
- Various sovereign financing instruments linked to nature, like DFNS, provides developing economies under severe macroeconomic and public financial strain the opportunity to increase climate action and environmental outcomes, while taking new steps to tackle sovereign debt issues.
- Governments and country stakeholders must prepare their technical knowledge, and institutional and legal frameworks when embarking on instruments such as these for the first time. Stakeholder collaboration in both the economics, finance, and public financial management fraternity as well as the environmental science, conservation and sustainability fraternity is key to ensuring that the right pathways are chosen, and good governance is embedded.
- Increasingly, private creditors are looking to deploy finance with a stronger sustainability lens, and have created frameworks to invest money in sovereign instruments - the financing envelopes available globally are substantial.
- With DFNS having taken place in several countries already, economies with the ability to engage in such deals now have the resources and capacity to learn from other country's past experiences to bring such plans into action in a meaningful and impactful way that is relevant to the specific country.

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<sup>23</sup> Schweinberger, M.C. (2022) *The Belize Sovereign Debt Restructuring, Plumber in a Pantsuit*. Plumber in a Pantsuit. Available at: <https://plumberinapantsuit.com/blog/the-belize-sovereign-debt-restructuring> (Accessed: November 21, 2022).

<sup>24</sup> *ibid.*