



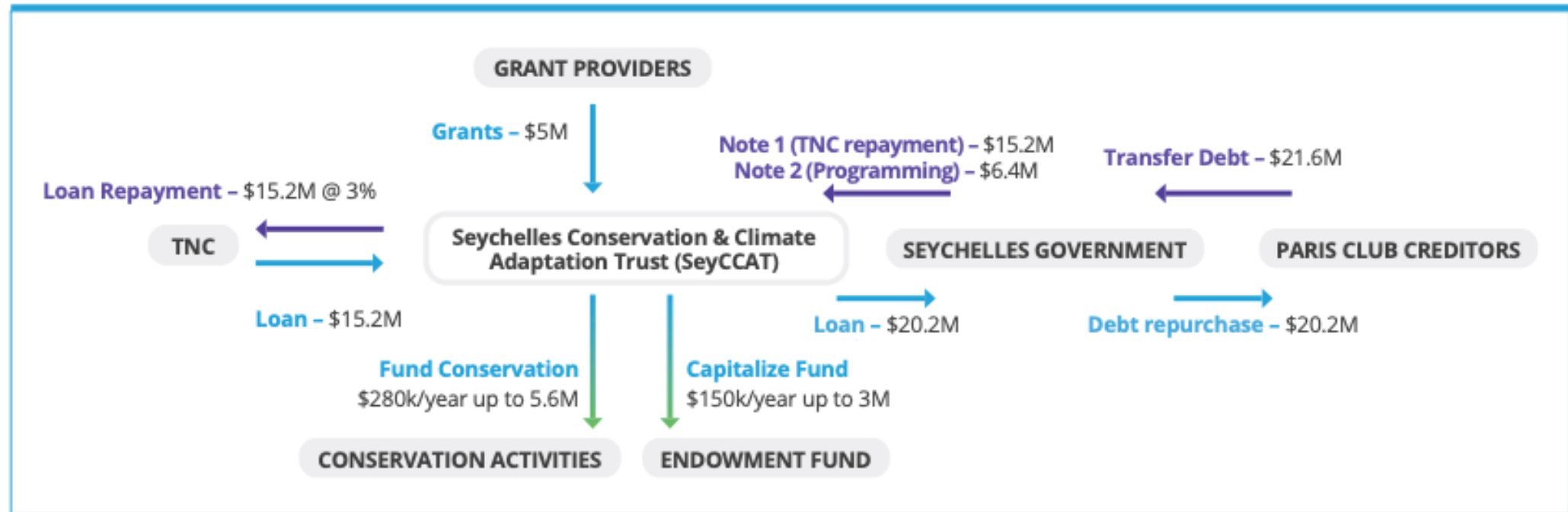
CONVERGENCE

BLENDING GLOBAL FINANCE

EXAMINING BLENDED FINANCE IN SOVEREIGN DEBT SWAPS

SEYCHELLES DEBT CONVERSION FOR MARINE CONSERVATION AND CLIMATE ADAPTATION

TRANSACTION SUMMARY



1. TNC financing package: \$15.2M concessional loan (10 yrs, 3%) + \$5M grants to enable Paris Club refinancing.

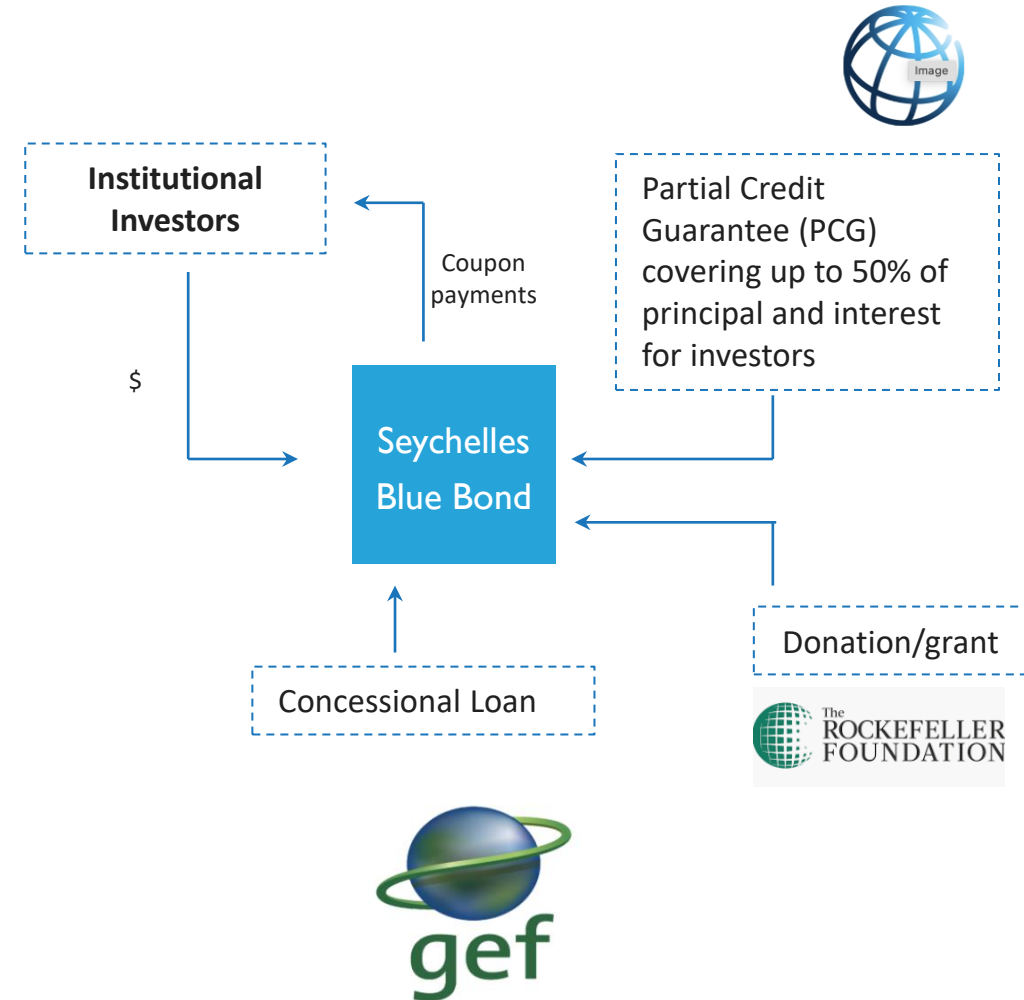
2. Buyback via SeyCCAT: \$20.2M on-lent to government to repurchase \$21.6M Paris Club debt at ~93.5 cent on the \$1.

3. Repayment + conservation: Government issues two 3% promissory notes—\$15.2M over 10 yrs (loan repayment) and \$6.4M over 20 yrs (marine conservation fund)

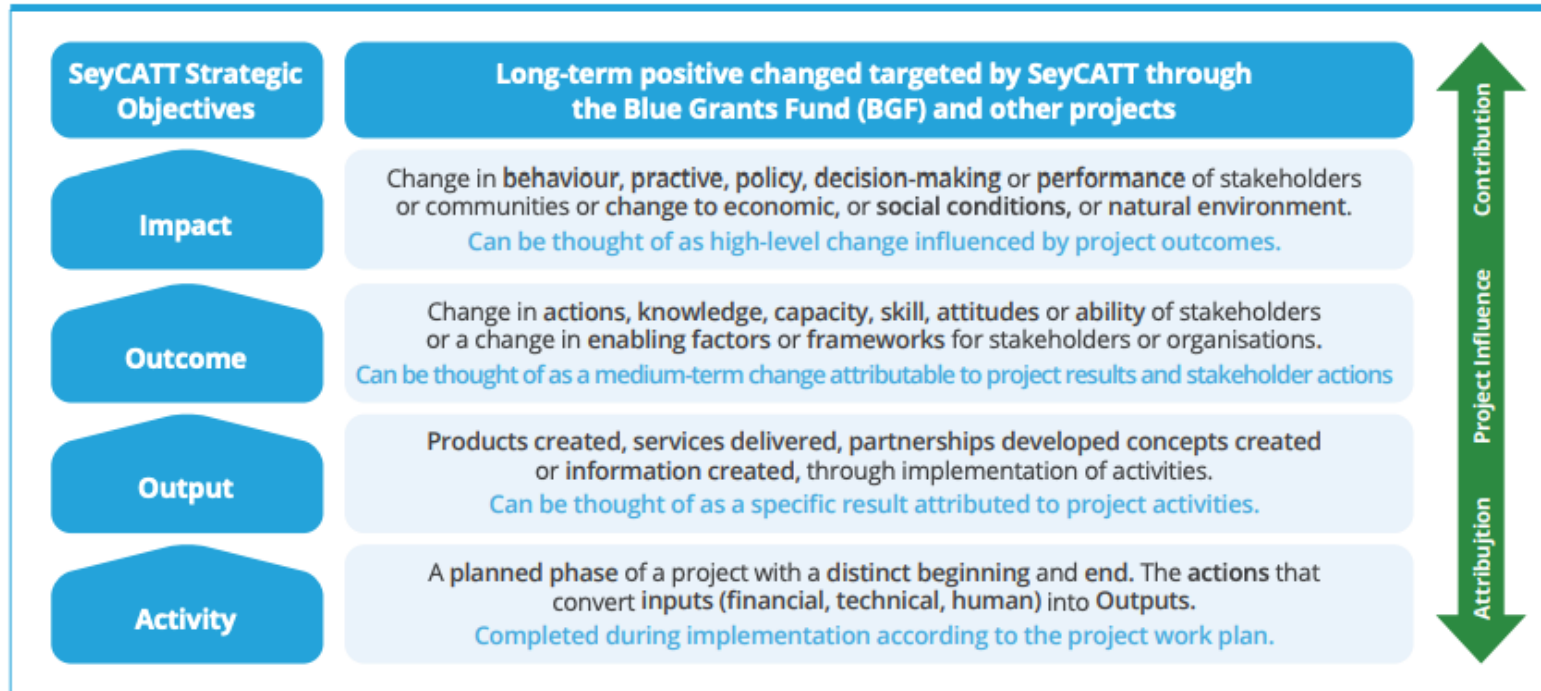
ADDITIONAL FINANCING MECHANISM: SEYCHELLES BLUE BOND

TRANSACTION SUMMARY

- In 2018, the Seychelles government issued the world's first commercially financed Blue Bond
 - The bond is supported by a partial **guarantee from the World Bank (USD 5 million)** and a **concessional loan from Global Environment Facility (GEF)** to partially subsidize payment of the bond coupons.
 - The bond raised USD 15 million through a 10-year, 6.5% private placement from international investors:
 - Calvert Impact Capital (USD 5 million)
 - Nuveen Investments (USD 5 million)
 - Prudential Investment Manager (USD 5 million)
- Proceeds of bond were directed to SeyCCAT



ACHIEVED IMPACT IN SEYCHELLES



Two impact outcomes:

1. Increase area under protection (MPA) from less than 1% to 30% of the Seychelles ocean (Achieved in March 2020)
2. Create a permanent funding stream for climate adaptation and marine conservation

REPLICATING AND SCALING DEBT SWAPS AT SCALE

- The Seychelles debt-for-nature swap provided template for the impact framework for follow-on Nature Bonds (e.g., Belize, Ecuador, Gabon); each country has committed to protect 30% of its ocean and developing a Marine Spatial Plan
- Although TNC explored a multi-country Blue Bond, the following constraints led to a single country approach:
 1. Challenges in aligning timelines with multiple sovereign entities
 2. Balancing variable geographic mandates of investors and guarantors
 3. Potential issues arising from cross-defaults
 4. Coupon rate that was lowering risk-adjusted returns

	TNC Seychelles Debt Swap	TNC Nature Bonds (e.g., Belize, Ecuador, Gabon)
Existing Creditors	Paris Club (official governments)	Bondholders (institutional investors)
Private capital	No	Yes
New funding source	Concessional loan + Philanthropic grants	Private capital markets / commercial debt
Credit rating	None	Investment grade
Type of blended finance	TA, Investment Grants, Concessional Loans	Design grants, TA, Concessional Loans, Guarantees / Insurance
Size	\$20.2 million	\$150 million +

KEY INSIGHTS

- i. Debt conversions are complex but justified by scale and policy commitments by debtor countries
- ii. There is a potential for capital markets to scale sustainable conservation and economic opportunity
- iii. Guarantees and other credit enhancements are critical to catalyze private investment
- iv. Debt conversions can be used for various development areas
- v. Debt swaps can be – but are not always – blended



APPENDIX

MECHANICS OF A DEBT FOR NATURE SWAP

How TNC's Debt for Nature Swap Works:

1. TNC raises concessional capital (mix of grants and concessional loans into a non-profit trust)
2. Trust lends to debtor government on better terms (e.g., cheaper and longer-term)
3. Government refinances existing debt from creditors
4. Government repays trust on improved terms
5. Trust uses repayment to i) pay back original funders, and ii) refinance long-term conservation goals

Structuring Process:

1. Identify debtor country to purchase sovereign debt; secure commitments to improve policy and investments into specific development area
2. Identify and reach agreement with creditors
3. Fundraise for repayable loan and non repayable grant
4. Establish a local trust fund / non-profit entity to lend to debtor country to repurchase debt, receive debt payments, and fund programming