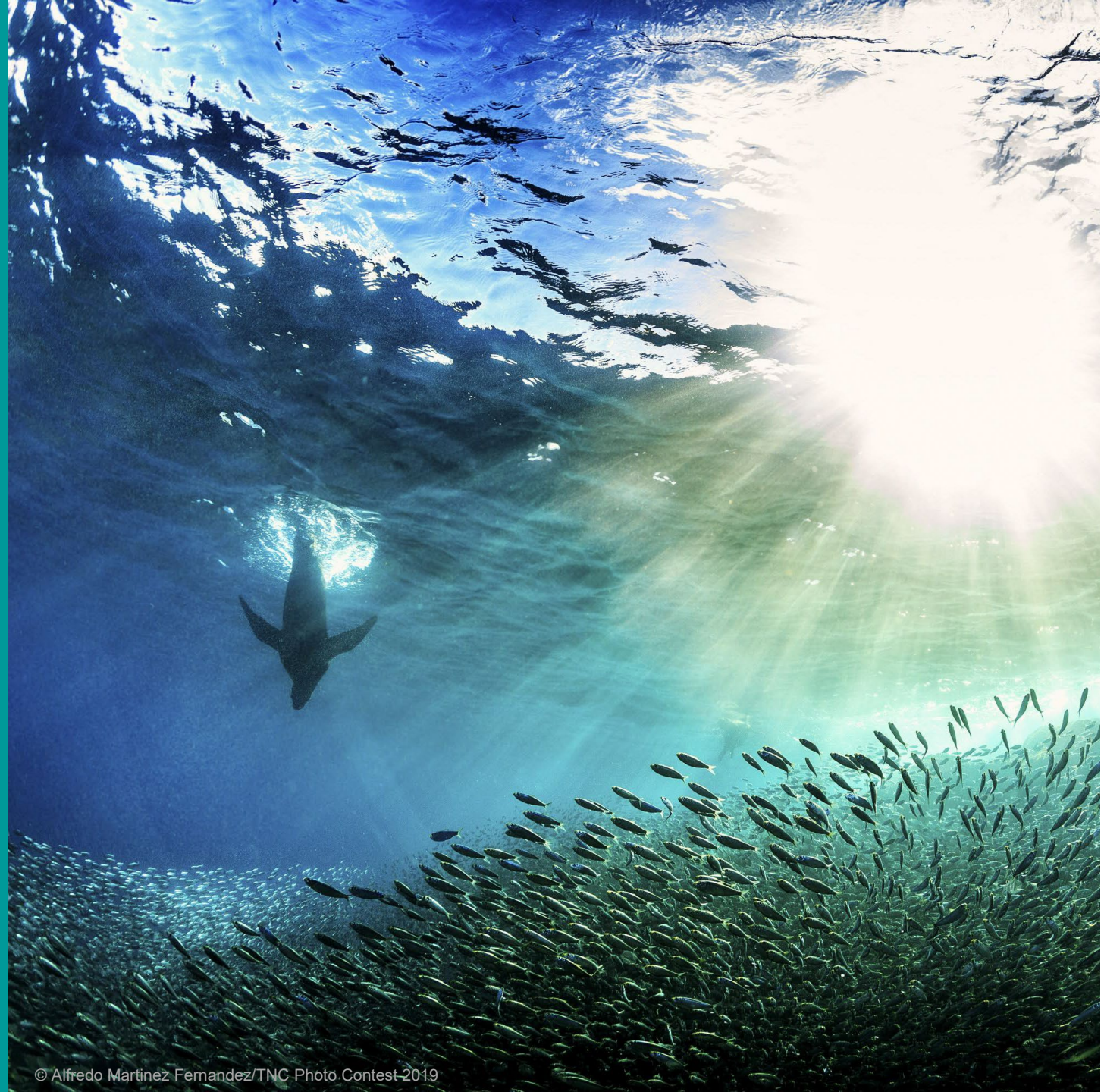

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# Financing Marine Conservation thru Sovereign Debt Solutions

March 2022

The Nature Conservancy

# Who We Are

The Nature Conservancy is a leading global conservation organization with a mission to protect the lands and waters on which all life depends.

**Our strength starts with our team:**

**400** scientists

**4,000** conservationists

**A FAR REACHING ALUMNI NETWORK** of leaders in the conservation community

**72** countries

**50** U.S. states

**1 MILLION** dedicated members

**1,300** prominent volunteer leaders

# Debt for Nature Swaps

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## A Debt for Nature Swap…

- restructures part of a country's sovereign debt (commercial or bi-lateral)
- provides reduction in national debt service & funding for conservation
- to help government commitment to achieve & finance conservation goals

## Results of TNC Debt for Nature Swaps:

| | |
|---|---|
| $250M+ | Funds raised for conservation |
| 11 | Countries participated |
| 17:1 | Leverage: $1 philanthropy / $17 conservation capital |

## Evolution of Debt for Nature Swaps:

**1990**
First Debt Conversion: Costa Rica

**1998**
US Tropical Forest Conservation Act

**2001 -2010**
TNC Tropical Forest Conservation Act: Belize – Costa Rica

**2016**
Seychelles Debt Conversion: Paris Club

**2021**
Belize Debt Conversion: Capital Markets

# Blue Bonds Program Overview

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## SCIENCE-BASED ENVIRONMENTAL CONSERVATION

### Marine Spatial Planning Support

- MSP technical assistance to achieve 30% MPAs and fishing refuges
- Ensure that 100% of MPAs are managed effectively
- Community and stakeholder participation

## SUSTAINABLE MARINE CONSERVATION FINANCING

### Conservation Fund & Endowment

- Legally establish and operationalize Conservation Fund – existing or new
- Semi-annual cash flows for conservation
- Capitalize endowment

## LOWER DEBT AND IMPROVED CASH FLOW

### Fiscal Benefits from Debt Conversion

- Interest rate reduction
- Reduce debt service and recirculate funds into the economy
- Extend pay-back period
- Conservation note paid in local currency
- PRI and parametric insurance protections

## COMMITMENTS & CONSERVATION GAIN

### Commitments Required by Government

- Complete MSP
- Place 30% of marine areas **under** protection (per MSP)
- Support Conservation Fund that meets TNC's criteria

# Belize Transaction Summary

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**Blue Bond & Blue Loan**

1. A TNC vehicle (BIC) raises **$364 million through a 20-year "Blue Bond"** issuance with CS as placement agent
2. BIC purchases **PRI from USDFC** → **Blue Bond** obtains **Aa2 rating** from Moody's
3. BIC loans **$364 million to Belize for 20 years through a "Blue Loan"** to:
   - **Retire the $553 million Superbond** @ 55cents/dollar ($301 million)
   - **Liquidity reserves/OID** to ensure resilience of the structure ($28 million)
   - **Pre-fund a conservation endowment** ($24 million)
   - Pay for closing costs ($10 million)

**Conservation Funding Agreement**

4. Government signs a binding **Conservation Funding Agreement** with BIC:
   - Establishment of **Conservation Fund in Belize** → Broad representation in the Board
   - **Belize commits to protecting 30% of its oceans** following a conservation roadmap
   - TNC leads a collaborative process to **develop a comprehensive Marine Spatial Plan**
   - **$4 million per year to fund Conservation Fund** grant projects over 20 years

**TNC**

5. **TNC leads the deal** in every stage and commits **own resources:**
   - **$45 million in equity and contributed investments** into BIC for liquidity reserves
   - Support development of **MSP**, creation of **Conservation Fund** and a **monitoring program**

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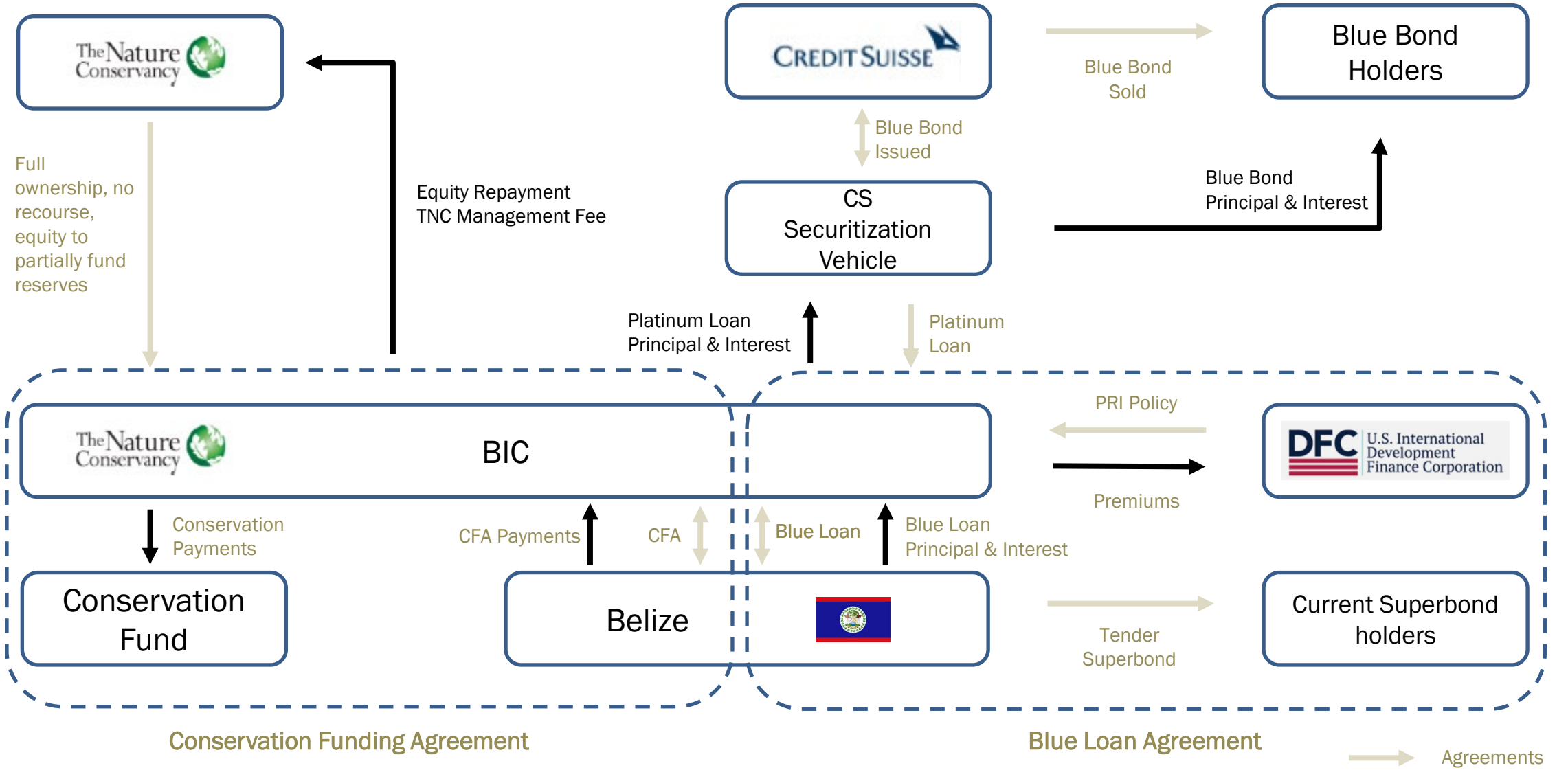
# Overall Structure

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# Conservation & Financial Outcomes

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- **$180 million towards marine conservation** projects over the next 20 years
  - **$4+ million per year** ($85 million overall) of conservation payments → grants channelled through Conservation Fund
  - **$92 million estimated endowment** in 20 years to support conservation in perpetuity
- **Restructuring of full external commercial debt**
  - **$189 million** in commercial external face value **debt written off** ($553 million down to $364 million)
  - **$200 million** of debt service savings over life of new loan
  - **Reduction of debt to GDP ratio of more than 10 percentage points**
  - **Extension of final maturity** from 2034 to 2040
- **Parametric insurance** (WTW/MunichRe) which promptly pays for one semi-annual debt service pmt if pre-defined weather events occur (no need of damage assessment, not a deferral as per usual hurricane clauses)
- Bottom line: significant conservation commitments & cash flows <u>combined</u> with net debt reductions
- **S&P raised Belize's credit rating from "selective default" to B- shortly** after closing

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