

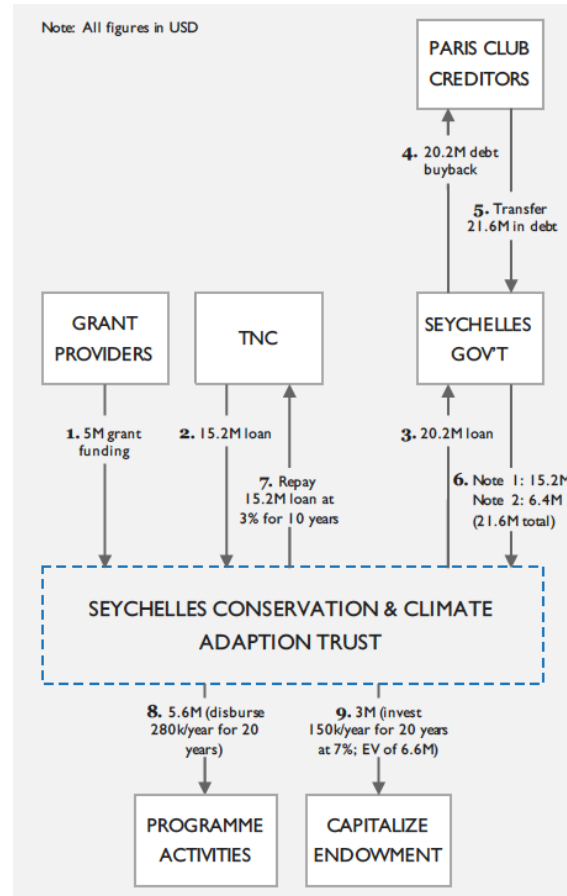
ADAPTATION
BLENDED

PROJECT NAME	Seychelles debt conversion for marine conservation and climate adaptation ¹
COUNTRY/REGION	Seychelles
SECTOR	Marine conservation, Adaptation
PROJECT/INVESTMENT AMOUNT	\$21.6 million
DEVELOPMENT PARTNER(S)/STAKEHOLDERS	Official creditors include Belgium, France, Italy, and the United Kingdom
BENEFICIARY MINISTRY/ INSTITUTION	Government of Seychelles
INVESTOR(S) AND FUNDERS	Grant providers (foundations and individuals), Loan capital (The Nature Conservancy)
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	Philanthropy, private donors and impact investors Public Balance Sheet
PROJECT OVERALL GOAL	Disburse USD \$280K/year over 20 years in local currency by converting sovereign debt payments into funding towards marine conservation and climate adaptation programming.
PROJECT OUTCOMES	Increase protection for Seychelles waters from less than 1% to more than 30% of the country's Exclusive Economic Zone (400K square kilometers); support the creation of the Indian Ocean's second largest marine reserve (200k square kilometers classified as a "no take" zone to protect tuna feeding grounds improving tuna availability for the Seychelles tuna industry; provide permanent funding for ongoing climate adaptation and marine conservation by restoring coral reefs and mangroves, which will buffer sea level rise and force of storms, while also developing a coastal zone management policy and programs to cope with climate change.
ALIGNMENT WITH COUNTRY IDENTIFIED CLIMATE STRATEGIES, NDCs, ETC. (IF APPLICABLE)	N.A.
CONTRIBUTION OF THE PROJECT TO THE UN SDGs	The transaction will support SDGs 8 (decent work and economic growth), 12 (Responsible consumption and production), 12 (climate action) and 14 (life below water) by supporting adaptation measures that conserve both natural infrastructure and the marine natural ecosystems the country uses to develop its fishing industry.
SOCIOECONOMIC IMPACT	By establishing a new marine conservation area with a sizeable "no take" zone, the transaction protects the country's fishing industry, representing 20% of GDP and 17% of employment. Additionally, by conserving mangroves and coral reefs (both nursery habitats for the reproduction of marine species), fishery populations are conserved and maintained to support the livelihood of individuals and families who work in the fishing industry.
ENVIRONMENTAL IMPACT (ON CLIMATE MITIGATION AND/OR ADAPTATION)	Because of the Seychelles policy and investment commitments, as well as the trust programming activity, the following conservation impact is expected: Marine Protected Areas: The Seychelles will increase its marine protected areas from 1% to 30% of its territorial waters - this area amounts to roughly 400,000 square kilometers, or an area the size of Germany. The increase is expected to be complete by the end of 2020, with the first phase increase to 15% complete by the end of 2017. Coastal protection: The Seychelles will restore coral reefs and mangroves, which will buffer sea level rise and the force of increasing, severe storms. It will also develop and

¹ This case was provided by Convergence as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

	reform coastal zone management, fisheries, and marine policy and regulatory protection to cope with climate change.
ENABLING ENVIRONMENT (SUPPORTING POLICIES)	N.A.
TECHNICAL ASSISTANCE (IF PROVIDED)	N.A.
FINANCING MODEL/APPROACH (EX: BLENDED FINANCE)	Grant and loan capital raised for Seychelles Conservation and Climate Adaptation Trust. Trust extends loan to the Seychelles gov't to purchase sovereign debt at a discount. The Seychelles government repays the trust on more favorable terms compared with official creditors. The Trust repays loan capital and uses remaining funding (grant capital, discount on debt) to fund marine conservation and climate adaptation activities.
RATIONALE FOR FINANCING MODEL/APPROACH	The Seychelles had encountered debt payment difficulties because of the 2008 financial crisis. In 2008, total public debt of the Seychelles stood at over 150% of GDP, with external public debt representing 95% of GDP. A large part of this external public debt was in arrears. In 2009, this debt was restructured under the umbrella of the Paris Club and the Seychelles embarked on a five-year, International Monetary Fund (IMF)-backed economic reform program to reduce external public debt. Official creditors within the Paris Club were identified as potentially willing sellers, and negotiations began to convert up to USD 80M of Seychelles debt with an average tenor of 8 years. Approximately half of the USD 80M target was concessional debt owed to France that had already been reduced in value through the first Paris Club restructuring, and the remainder was non-concessional debt owed to a combination of Belgium, France, Germany Italy, Japan, and the United Kingdom. Due to several factors, the target debt conversion amount of USD 80M was not realized. Germany and Japan opted not to participate, and France chose not to include the already-restructured concessional debt in the conversion. The debt conversion mechanism was favored given it could achieve both fiscal goals of debt restructuring, and overall increases in adaptation and conservation spending.
FINANCIAL INSTRUMENT(S) (LOANS (COMMERCIAL/ CONCESSIONAL), EQUITY, GUARANTEE)	Debt buyback, concessional loan, grant.

DIAGRAM OF THE FINANCING STRUCTURE



Executive Summary

NatureVest, the conservation investing unit of The Nature Conservancy (TNC), structured a groundbreaking debt conversion for marine conservation and climate adaptation with the Seychelles government. TNC created the Seychelles Conservation and Climate Adaptation Trust to raise grant and loan capital for the debt conversion and, in exchange, the Seychelles government committed to improved policies and increased investment around marine conservation and climate adaptation. The trust extended a specific-purpose loan to the Seychelles government to purchase USD 21.6M of its sovereign debt at a discount. The debt conversion effectively redirects the Seychelles’ debt payments from official creditors to the newly created local trust, and restructures debt payments to more favorable terms (i.e., longer term and partial conversion to local currency). The trust will use the Seychelles’ debt payments to repay the initial capital raised, and fund ongoing marine conservation and climate adaptation programming. The debt conversion is expected to contribute to the creation of the Indian Ocean’s second largest maritima reserve. While debt conversion instruments are complex and context-specific, debt conversion does represent a potentially high-impact model for small island and coastal nations that face high levels of sovereign debt and lack funding for important environmental and development priorities. NatureVest aims to work with other countries facing similar challenges to structure debt conversions that will support ecosystem-based adaptation strategies and improve fisheries and marine management.

Analysis

<p>WHAT MADE THIS PROJECT SUCCESSFUL?</p>	<p>Debt conversions are complex and require several pre-conditions for success: The complex process of structuring the Seychelles debt conversion took approximately four years and required extensive negotiations with multiple stakeholders. Further, the Seychelles presented the ideal pre-conditions for a debt conversion - a government interested in promoting marine conservation and climate, and official creditors willing to sell debt owed by the Seychelles.</p>
<p>TO WHAT EXTENT IS THIS MODEL SCALABLE?</p>	<p>The Seychelles is one example of the many small island and coastal nations that are highly threatened by the effects of climate change but lack the funding to adequately manage their marine resources. NatureVest aims to work with other small island and coastal nations facing similar challenges to structure debt conversions that will support</p>

	ecosystem-based adaptation strategies and to improve fisheries and marine management. With the support of Convergence grant funding, NatureVest is also exploring the potential of issuing a blue bond to aggregate the raising of loan capital to support multiple debt conversions. Following this case study, Convergence anticipates it will publish a case study on the structuring process for the Blue Bond as well.
WHAT ARE THE NECESSARY CONDITIONS TO MAKE IT REPLICABLE IN OTHER COUNTRIES/REGIONS?	Long term negotiations with debt holders and associated stakeholders, in addition to government funding commitments and policy alignment, as well as early funding commitments, are all conditions necessary to make the model replicable in other countries and regions.
CONSTRAINTS/DRAWBACKS OF FINANCING MODEL	The debt buyback model requires long term commitments from all parties involved, making it a highly context-dependent model which may cease to function if one or more of the involved parties shift interest and/or support.
LESSONS LEARNT	The complexity and high transaction costs of the structure can be justified by the outsized investment and policy commitments from the participating government. Additionally, the sustained interest of funders providing patient capital, and counterparties (structuring agent and debt holders) is fundamental for a buyback to succeed.