

Case Study

BELIZE DEBT CONVERSION FOR
MARINE CONSERVATION

Executive Summary

In November 2021, The Nature Conservancy (TNC) and the Government of Belize (Belize) announced the completion of a USD 364 million debt conversion for marine conservation that reduced Belize’s debt by 12 percent of GDP, created long-term sustainable financing for conservation, and locked in commitment to protect 30% of Belize’s ocean, in addition to a range of other conservation measures. The transaction is the world’s largest debt refinancing for ocean conservation to date.

The debt conversion enabled Belize to repurchase USD 553 million, a quarter of the country’s total public debt, from bondholders at a 45% discount through a “Blue Loan” arranged by TNC. The “debt conversion” resulted in a USD 189 million reduction in principal outstanding. The savings achieved in the refinancing allowed Belize to create an estimated USD 180 million in conservation funding over 20 years, composed of annual cashflows from the government and an endowment capitalized through the Blue Loan.

As part of the transaction, Belize committed to ocean conservation undertakings, including placing 30% of its ocean, including parts of the Mesoamerican Reef, under protection by 2026, using a transparent, participatory Marine Spatial Planning process, and establishing an independent Conservation Fund to allocate the conservation funding to in-country partners.

The financial transaction was arranged by NatureVest, TNC’s impact investment unit, in support of TNC’s *Blue Bonds for Ocean Conservation* strategy. Credit Suisse arranged and financed the Blue Bond. The structure was credit enhanced by the United States International Development Finance Corporation (DFC) and incorporated a commercial parametric insurance policy to mitigate the financial impact of natural disasters.

The transaction was recognized in *Environmental Finance’s* 2022 Bond Awards, winning the sovereign sustainability bond of the year and the award for sustainability bond structure innovation.



Transaction Highlights

Key Transaction Components	<ul style="list-style-type: none"> • Belize repurchased 100% of its “Superbond” at a 45% discount • A TNC subsidiary provided the Blue Loan to finance the repurchase • DFC provided Political Risk Insurance wrap on Blue Loan • Credit Suisse financed the Blue Bonds, which funded the TNC subsidiary to make the Blue Loan • Blue Bonds Moody’s rating: Aa2 • Belize committed to achieving marine conservation targets and using a portion of the financing savings to fund conservation over 20 years
Key Conservation Impact	<ul style="list-style-type: none"> • 30% of ocean area under protection by 2026, half in high biodiversity protection zones • Science-based, participatory Marine Spatial Planning to design protected areas and ocean management plans • Creation of a Conservation Fund
Conservation Finance	<ul style="list-style-type: none"> • USD 4.2 M per year (on average) • USD 23.5 M endowment to grow to USD 92 M (est.) by 2041
Blue Loan Transaction	<ul style="list-style-type: none"> • Original Superbond: USD 553 M • Superbond repurchase price: 0.55c on dollar • New Blue Loan: USD 364 M • Principal reduction: USD 189 M • Blue Loan IRR: 6.1% (inclusive of all insurance premiums, fees, reserves, etc.) • Maturity extension: 6.5 years

How the Transaction Worked

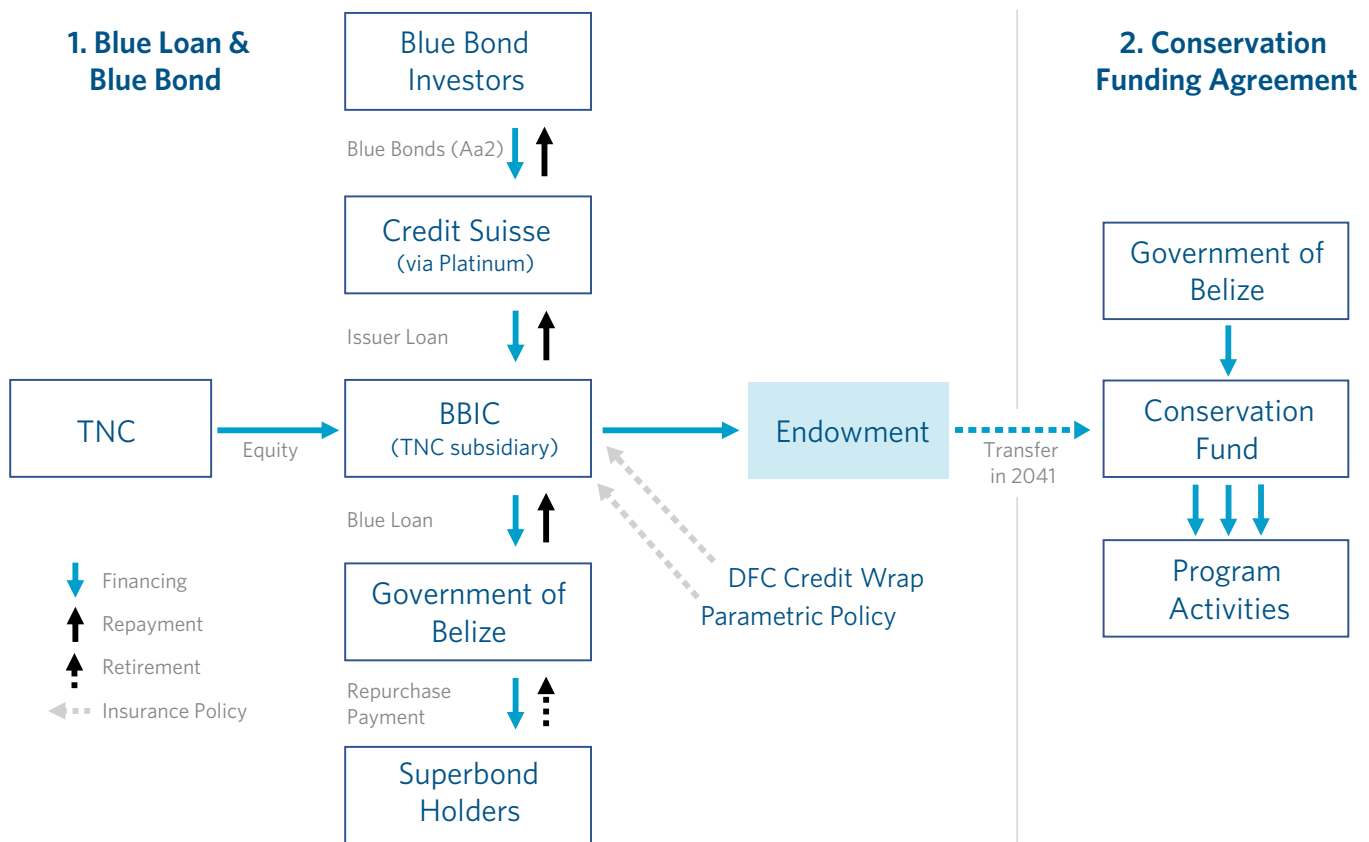
Belize had USD 553 million in a single Eurobond known as the “Superbond”, as it represented all of Belize’s external commercial debt and a quarter of its total debt. The Superbond was trading at a deep discount (see graphic on page 3) due to bondholder concerns over Belize’s ability to pay given an economic slowdown and high debt burden. As a result of this transaction, Belize was able to source funding and negotiate the repurchase of the Superbond at 55 cents on the dollar.

Belize could not borrow the funds in the market to pay the bondholders as the interest rate would have been too high to create savings. At Belize’s request, TNC arranged an innovative financial structure, the DFC-insured Blue Loan between the Belize Blue Investment Company (BBIC) and Belize, that allowed the country to repurchase the Superbond. The DFC credit enhancement allowed BBIC to

raise funding from Credit Suisse via the issuance of highly-rated Blue Bonds and pass through below-market rates to Belize.

The Superbond refinancing created both immediate and longer-term fiscal savings for Belize. Belize signed a Conservation Funding Agreement with BBIC committing to finance marine conservation efforts over 20 years. These payments are transferred to an independent Conservation Fund in Belize and mostly paid in Belizean dollars. Belize also capitalized an endowment for the Conservation Fund via borrowing from the Blue Loan. Drawdowns from the endowment are expected to replicate Belize government’s payments after year 20 when the Conservation Funding Agreement expires. Finally, Belize agreed to significant ocean protection commitments (as discussed in more detail below).

Belize Blue Loan/Blue Bond & Conservation Funding Agreement Structure



Background

TNC is the world's largest conservation organization currently working in over 70 countries with a mission to conserve the lands and waters upon which all life depends. TNC's *Blue Bonds for Ocean Conservation Strategy* works with countries to refinance a portion of their national debt to reduce debt burden, use the savings to secure funding for conservation activities, and allow countries to achieve their conservation goals.¹ The strategy targets commitments for 600,000 km² of new ocean protection and 4 million km² under improved ocean management. The strategy also seeks to leverage approximately USD 40 to 60 million in donor support to generate an estimated USD 1.6 billion in marine conservation finance. The strategy consists of multiple integrated parts:

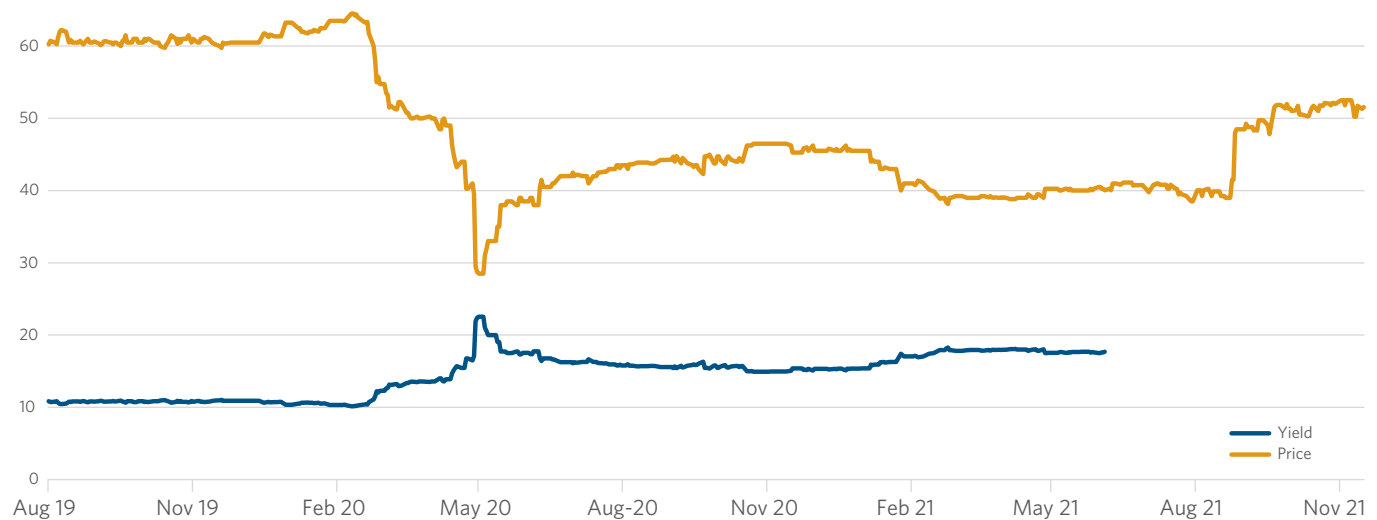
1. TNC works with countries to identify their conservation commitment goals including a timebound plan to put 30% of its ocean areas, including coral reefs, seagrass beds, mangroves, and other important marine habitats, under protection
2. TNC arranges the debt conversion that refinances debt on better terms to create savings to convert into conservation finance and monitors repayments of the new loan
3. TNC helps countries create a Marine Spatial Plan working with stakeholders to identify activities that combine conservation and sustainable economic opportunities

4. TNC works with local stakeholders to lead the design and establishment of an independent Conservation Fund to disburse the funding to conservation partners and programs

The relationship between Belize and TNC has spanned three decades, including TNC's first Debt for Nature Swap in 2001 protecting 23,000 acres of forest and the recent purchase of 236,000 acres of the Selva Maya's tropical forest in north-western Belize. TNC's history in Belize is built on strong partnerships with Government, NGOs, communities, and the private sector with a shared vision for sustainable management and protection of the country's natural resources. These partnerships include the development of sustainable fisheries and mariculture programs and innovative financing mechanisms through carbon development programs.

The Belize economy, heavily dependent on tourism and hard hit by the Covid-19 global slowdown, contracted by 16.7% in 2020 and the debt equaled 133% of GDP. Belize was in negotiations with bondholders to defer payments on the Superbond, which was trading between 38-47 cents on the dollar. Given these factors, the Government of Belize initially started discussions with TNC on refinancing the Superbond in mid-2020 but discontinued. After a pause around the national elections in late 2020, Belize restarted discussions with TNC and, upon extensive negotiations with TNC and the external commercial bondholders, the transaction successfully closed in early November 2021.

Belize Superbond 2034 Historical Price and Yield through Retirement²



¹ For more see: <https://www.nature.org/en-us/what-we-do/our-insights/perspectives/an-audacious-plan-to-save-the-worlds-oceans/>

² Source: S&P Capital IQ

Financial Results of the Debt Conversion

Debt Benefits:

- » USD 189 million debt stock reduction: USD 553 million (Superbond) refinanced into USD 364 million (Blue Loan)
- » USD 200 million total debt service reduction over 20 years (USD 53.6 million debt service reduction over initial five years)
- » Avoidance of a USD 58.4 million principal reinstatement—part of agreement from previous Superbond restructuring that would add back the negotiated haircut in a default
- » 6.5 year extension of debt tenor; increase in weighted-average life of 3.7 years
- » Standard & Poor's upgrade of Belize's unsecured foreign currency credit rating from Selective Default to B- post refinancing

Conservation Finance Benefits:

- » USD 180 million (estimated) of Conservation Financing created over 20 years comprised of:
 - USD 84 million for conservation finance over 20 years; USD 4.2 million (annual average)
 - USD 23.45 million pre-funded endowment, borrowed by Belize through the Blue Loan
 - USD 71 million in anticipated market return (estimated at 7% annually) over 20 years
- » Creation of an independent Conservation Fund to manage conservation funding

Conservation Commitments

As part of the transaction, Belize, with the support of TNC, committed to implement pre-defined ocean conservation milestones. The milestones are time-bound and delays in achieving the commitments will result in increased payments under the Conservation Funding Agreement. The key conservation commitments are:

- » Increase in Biodiversity Protection Zones from 15.9% to 30% of ocean area by 2026—half in high protection areas (Replenishment Zones) and half in medium protection areas (Multi-use Zones)
- » Completion of a Marine Spatial Plan by 2026 (initiated in 2022)

- » Protection of the public lands within the Belize Barrier Reef Reserve System, a UNESCO World Heritage Site, as mangrove reserves
- » Revision and implementation of Belize's Integrated Coastal Zone Management Plan to include marine and coastal biodiversity offsets
- » Application for three formally designated marine protected areas as International Union for Conservation of Nature (IUCN) Green List Areas
- » Other (non-legally binding) conservation commitments, including creation of a national blue carbon policy framework, regulatory framework for high value, sustainable aquaculture, mariculture, as well as a governance framework for domestic and high seas fisheries consistent with transparent, science based, socially responsible international best practices³

Marine Spatial Plan

TNC will facilitate Belize's undertaking of a stakeholder-driven Marine Spatial Plan. The plan will determine where to expand ocean protection and management to cover 30% of Belize's oceans and best deliver benefits to people, livelihoods, and biodiversity. This process involves stakeholders representing local communities, fishing associations, tourism businesses and government officials and uses a transparent and science-based framework to guide planning. Stakeholder engagement is critical to ensure that the Marine Spatial Plan will sustainably support the country's economy while protecting marine habitats.

Conservation Fund

TNC will help establish an independent Conservation Fund in Belize to disburse funding generated through the Conservation Funding Agreement (and potential future sources). The funds will go to projects and partners working in Belize to achieve conservation outcomes that are in alignment with the conservation commitments and Belize's national conservation priorities. Both government and non-governmental actors, including non-profit organizations, civil society, academia, and the private sector, shall be eligible to apply for funding. A funding allocation will be earmarked for the government in support of the conservation commitments. The Conservation Fund will be established in 2022 pursuant to an extensive stakeholder engagement process coordinated in collaboration with the Ministry of Blue Economy & Civil Aviation. The fund will

3 For full list see: <https://www.nature.org/en-us/about-us/where-we-work/latin-america/belize/belize-blue-bond/>

have a Board of nine directors appointed from government and the non-government sectors (academia, fisheries, tourism, and NGOs) and at all times will be an independent legal entity with a majority non-government representation.

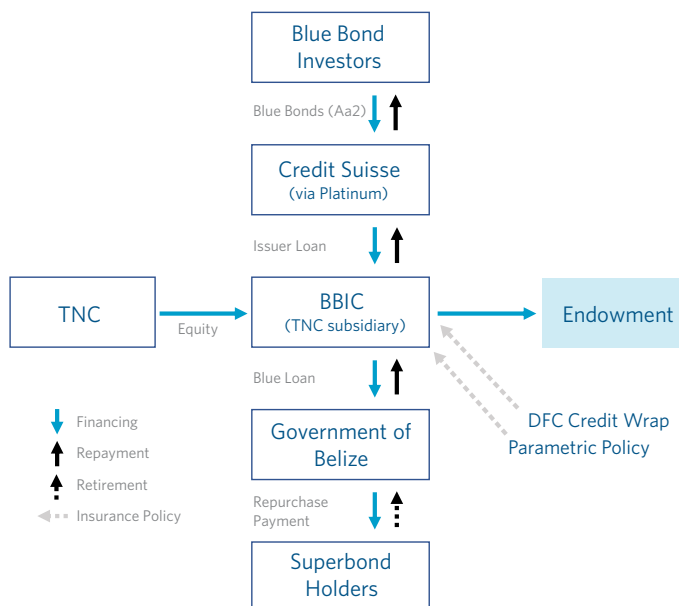
The Transaction Structure

The transaction had two key pillars: 1. the *debt conversion* (centered on the Blue Loan) used to finance Belize for the repurchase and retirement of the Superbond, and 2. the *conservation financing* (based on the Conservation Funding Agreement) committing Belize to long-term conservation financing to the Conservation Fund and adherence to the conservation commitments. The Blue Loan and the Conservation Funding Agreement have cross-default provisions.

The Debt Conversion

The debt conversion structure is a series of back-to-back financial transactions, including the Blue Loan and Blue Bonds, as displayed in the graphic below. To facilitate the transaction, TNC formed a subsidiary called BBIC (a Delaware limited liability company) to act as the lender of record of the Blue Loan. BBIC wrote the Blue Loan to Belize to finance the purchase and retirement of the Superbond in full. Credit Suisse fully financed BBIC via the issuance of the Blue Bonds by a repackaging vehicle (Platinum) which Credit Suisse syndicated to institutional investors post-closing.

Debt Conversion Transaction Diagram



BBIC provided USD 364 million to the Government of Belize via the Blue Loan with the retirement of the Superbond as the primary use of funds. In addition, the Blue Loan financed the Conservation Fund's initial endowment, a debt service reserve account, and certain transaction costs.

Components of the \$364 million Blue Loan financing:

USD 301 million	Retirement of the \$553 million Superbond at -55 cents/dollar
USD 24 million	Prefunded Conservation Fund endowment
USD 39 million	Liquidity reserves, transaction costs, and original issue discount

The Blue Loan was issued with an original issue discount and a step-up semi-annual coupon shown in the table below. The step-up coupon and discount structure reduced the near-term debt payments to align with Belize's debt sustainability strategy. The tenor of the amortizing loan is 19 years with a grace period of principal payments of 10 years.

Blue Loan Step-up Coupon Schedule:

Date	April 2022	April 2023	April 2024	April 2026 onward
Coupon Rate	3.0%	3.55%	5.15%	6.04%

The DFC political risk insurance covers Belize's payment of the Blue Loan to BBIC. BBIC also holds the parametric insurance policy (see below). Credit Suisse solely financed BBIC, with a loan of USD 364 million, via a repackaging vehicle (Platinum) which issued RegS/144A Blue Bonds. Due to the DFC credit enhancement of the Blue Loan, coupled with the back-to-back legal structure, funded reserve accounts, and other enhancements, the Blue Bonds received an Aa2 rating from Moody's Investor Service.⁴ Post-closing, Credit Suisse successfully placed the Blue Bonds with institutional investors globally. The syndication received high interest from investors and was multiple times oversubscribed.

TNC supported the transaction through equity funding to its subsidiary that covered part of the liquidity reserve requirements. The TNC participation is covered under the DFC's Political Risk Insurance policy.

4 https://www.moody.com/research/Moodys-assigns-a-definitive-Aa2-rating-to-Platinums-Blue-Bonds--PR_457728

Political Risk Insurance

The Blue Loan is covered by a DFC political risk insurance policy covering “non-payment of an arbitral award” and “denial of justice”. Belize and TNC agreed to arbitration under the International Chamber of Commerce’s expedited procedure provision. Belize became a signatory of the New York Convention in March 2021, which was necessary to ensure enforceability of an arbitral award. As DFC is the development finance institution of the United States government, the policy is supported by the full faith and credit of the United States. The DFC policy covers 100% of an arbitration award arising from loan default and was heavily supported by private market reinsurers organized by Alliant Insurance Services. The structure has a 24-month debt service reserve account, consisting of part cash and part investments, to ensure Blue Bond interest payments and legal and other fixed costs will be met during the arbitration process.

The political risk insurance cover, supported by the extensive reserve accounts, facilitated the Moody’s Aa2 rating for the transaction compared to Belize’s sovereign rating of Caa3 at the time (a 16 notch rating upgrade).

Parametric Catastrophic Insurance

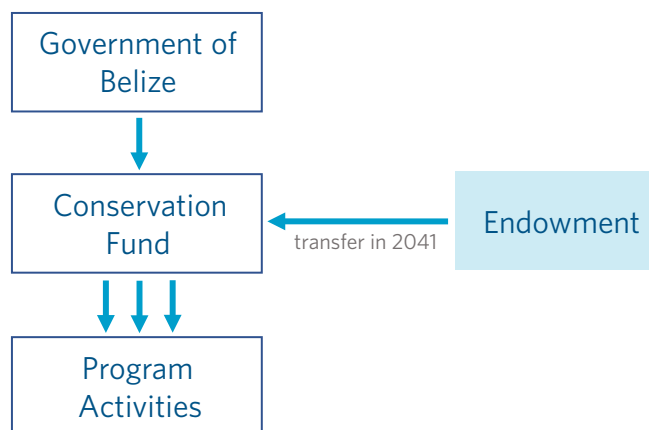
The Blue Loan structure incorporates the world’s first commercial sovereign debt catastrophe insurance cover. The Belize economy is highly exposed to economic slowdown and reduced government revenues resulting from hurricanes and large storms. The parametric insurance policy provides coverage for a Blue Loan debt payment (coupon and principal) following an eligible hurricane event in Belize. The payment can be triggered in several ways: 1) based on the intensity of the hurricane (minimum of Category 3) and proximity to economic hubs—meaning larger storms can be further away and still trigger payment; 2) the occurrence of two hurricanes of any intensity in the same 12-month period; or, 3) a hurricane of any intensity accompanied by very heavy rainfall. The policy was designed by Willis Towers & Watson and underwritten by a subsidiary of Munich Re. The initial insurance policy covers up to May 2024 (and is expected to be rolled forward over time).

Conservation Funding Agreement

Belize committed to channel a portion of the savings from the transaction into long-term financing for marine conservation via the Conservation Funding Agreement. The 20-year agreement, signed between Belize and TNC, creates financing to defray the cost of implementing the

conservation commitments. Belize will pay an average of USD 4.2 million equivalent in local currency per year to the Conservation Fund. The funds will be disbursed as grants to government agencies, NGOs, and local businesses and partners working on marine conservation and related “blue economy” projects. This agreement more than triples the pre-transaction government budget allocated to marine conservation.

Conservation Funding Agreement



The USD 23.5 million pre-funded endowment, capitalized through the Blue Loan, will ensure funding for conservation activities after the Conservation Funding Agreement expires. Assuming a 7% annual return on investment, the endowment will grow to over USD 90 million by the end of 20 years. The annual flows plus the ending value of the endowment create an estimated USD 180 million for marine conservation over 20 years.

The Conservation Funding Agreement has a cross-default provision with the Blue Loan. If Belize does not meet its payment obligations, both the Conservation Funding Agreement and the Blue Loan will enter into default.

The government’s conservation commitments are covered in the Conservation Funding Agreement. If Belize does not achieve a conservation milestones by the agreed date (and additional grace period), the annual conservation payment will increase by USD 1.25 million per year for the first missed milestone and an additional USD 250,000 for each additional missed milestone.

Innovation

This transaction is a replicable model for achieving conservation and climate outputs and creating sustainable conservation funding. The transaction was innovative in several ways:

1. **Refinancing of Sovereign Commercial Debt at Scale:**

The transaction proved that debt conversions for conservation and climate can be accomplished targeting commercial debt at scale. Previous Debt for Nature Swaps were mostly small (typically less than USD 50 million) and refinanced bilateral (government-to-government) lending. The Belize debt conversion refinanced external commercial debt—often the most expensive and burdensome debt for a country due to higher interest rates. This product allows countries to take advantage of discounts available in the capital market and therefore does not require negotiating write-offs from official bilateral creditors. This transaction adds another tool to the conservation finance toolbox.

2. **Use of Debt Conversion for Conservation to Assist Debt Sustainability:**

The IMF stated that the debt conversion was one of two key reasons Belize made “significant progress towards restoring debt sustainability in 2021.”⁵ While the IMF also stated that Belize’s debt would remain unsustainable “in the absence of additional measures”, the debt conversion reduced the public debt by 12 percent of GDP and helps support the Belize fiscal strategy, mapped out in its Medium-Term Recovery Plan, seeking to reduce public debt to 85 percent of GDP in 2025. The conservation flows, which absent the transaction would have been paid to external creditors in USD, will be paid in local currency and recirculated back into the local economy creating much needed economic stimulus.

3. **Use of Political Risk Insurance:**

The transaction was the first structure to utilize the combination of Arbitral Award Default and Denial of Justice policies from DFC for environmental protection and conservation financing.

4. **Investor Class Substitution:**

The DFC credit enhancement facilitated the Aa2 Moody’s credit rating on the Blue Bonds which allowed Credit Suisse to place the bonds with institutional investors seeking low risk assets. The investor market for Aa2 paper, consisting

of global insurance companies, pension funds, high-net-worth individuals, asset managers, is significantly larger than the (distressed) emerging market bond market. This larger investor pool has strong demand for Environmental, Social, and Governance (ESG) linked bonds. Moving from distressed high-yield investors to the Aa2 segment allows for the identification of investors with the highest ESG appetite to lower the cost of borrowing, which in turn unlocks more funding for conservation.

5. **New Method of ESG Verification:**

The involvement of TNC in multiple aspects of the transaction provides high-level comfort to Blue Bond investors and credit enhancers seeking verification of ESG outputs. Investors require verification that the conservation promised from Blue Bonds, and similar instruments such as Green Bonds and Sustainability Linked Bonds, will be achieved and that the sustainability achievements will be properly audited and reported. The involvement of TNC in the project (arranging the debt, negotiating the conservation commitments, leading the marine spatial planning, establishing the Conservation Fund, monitoring and reporting on the conservation milestone achievements, enforcing any fees on missed milestones, etc.) for the full 20 years provides a very high level of comfort that conservation outcomes will be achieved. Separately, as the structure is based on existing bondholders’ exit of positions, a mechanism to acknowledge and certify a seller’s role in an ESG transaction could increase motivation to participate in the tender process.

6. **Commercial Parametric Insurance:**

The transaction introduced the first use of commercial catastrophe insurance for a sovereign debt issue. Unlike provisions found in some Caribbean sovereign bonds that allow sovereign borrowers to *defer* bond payments in the event of a natural disaster, this policy allows the government to maintain the original debt repayment schedule. The parametric insurance directly addresses the IMF warning that natural disasters present a key risk to Belize.⁶ Moreover, the inclusion of the parametric cover follows recent market guidance to integrate climate insurance products into sovereign debt issuances to improve financial management.⁷

5 Belize: *Staff Concluding Statement of the 2022 Article IV Mission*, IMF. February 24, 2022.

6 Belize: *Staff Concluding Statement of the 2022 Article IV Mission*, IMF. February 24, 2022.

7 University of Cambridge Institute for Sustainability Leadership (CISL, 2021). Risk Sharing in the Climate Emergency: Financial regulation for a resilient, net zero, just transition. <https://www.cisl.cam.ac.uk/news/new-report-calls-risk-sharing-be-expanded-urgently-response-climate-emergency>

Scalability/Replicability

The TNC debt conversion structure is highly scalable and replicable. Transaction sizes and overall market are limited by three criteria:

1. Countries committed to achieving the conservation outcomes: as the threat of climate change and awareness of the role that natural resources and biodiversity play in economic growth rapidly increase, most developing countries will require additional financing for conservation.
2. Availability and affordability of credit enhancement: DFC can replicate the insurance structure in other countries and other bilateral and multilateral development finance institutions can consider providing similar risk mitigation products (e.g., credit guarantees) to do more deals in more markets.
3. Availability of debt to refinance: while debt conversions work well with sovereign debt trading at a discount in the capital markets, they are not exclusively for countries threatened by high debt distress. Many countries have high-coupon bonds. Even if these trade at little

to no discount, they can still be refinanced with lower coupons and longer tenors to create significant funding for conservation. Many also have commercial bank loans (or other liabilities) that, while not often traded in the market, have high interest rates and/or short tenors that may be candidates for refinancing into a lower interest rate and/or longer tenor loans.

Transaction Participants

This transaction was made possible through the strong collaboration of many participants. A special thanks is due to all partner organizations/entities and the many individuals who committed their time, energy, and resources to see this through to fruition.

Philanthropy is instrumental in supporting innovative debt strategies and allowing TNC to help countries access millions of dollars in long-term funding for conservation. Donors who made TNC's Blue Bonds strategy possible include: Becht Family Charitable Trust, Oceans 5, MacKenzie Scott, TED Audacious Project, Jeff and Laurie Ubben, and Wyss Foundation.

ROLE	ENTITY
Deal Arranger	The Nature Conservancy through NatureVest
Debtor	Government of Belize
Blue Loan Lender	Belize Blue Investment Company, LLC, a limited liability company subsidiary of TNC
Blue Bond Arranger & Funder	Credit Suisse International
Political Risk Insurance Provider	U.S. International Development Finance Corporation with approximately half of total exposure reinsured by private insurers: AXA XL, Chubb, Fidelis, Sovereign, and others. Insurance Broker: Alliant Insurance Services
Parametric Insurance Provider	Munich Re (via Great Lakes Insurance SE) Policy Design & Insurance Broker: Willis Towers Watson
Legal Advisors to TNC	Shearman & Sterling; Ropes & Gray; DLA Piper; and Barrow & Co., LLP
Sovereign Debt Advisor to TNC	Potomac Group