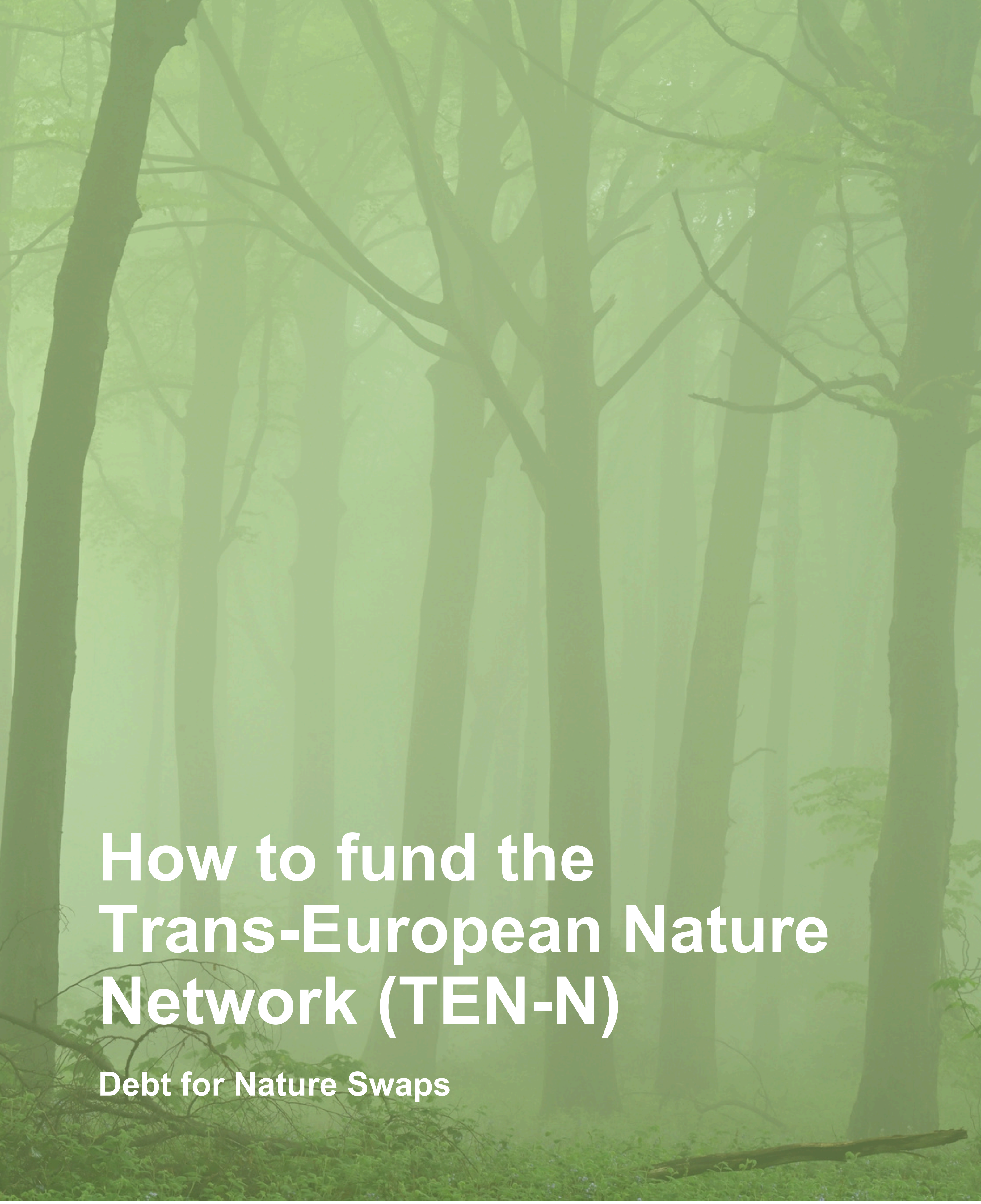

How to fund the Trans-European Nature Network (TEN-N)

Debt for Nature Swaps

Funded by the European Union

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Debt for Nature Swaps

A Debt for Nature Swap is an agreement that involves the **reduction of a country's debt** in exchange for **more protection and/or restoration of its natural areas**. The structure of the deal involves a voluntary transaction between a debt provider and debt holder, where the provider cancels or reduces the size of the holder's debt in return for the savings from a reduction in debt repayments to be applied to nature conservation and restoration actions.

To date, such swaps have only been used for developing countries. However, some developed countries in Europe also have great potential to reduce their public debt through Debt for Nature Swaps.s For example, the countries richer in biodiversity, along the Mediterranean bioclimatic region, also have higher levels of debt (e.g. Portugal, Spain, France, Cyprus, Italy and Greece).

Debt for Nature Swaps could also be aligned with the Nature Restoration Law and EU 2030 Biodiversity Strategy targets.

Assessment of Debt for Nature Swaps as a funding opportunity for connectivity measures

Who is this factsheet for?

- ✓ EU Member State representatives
- ✓ Local and central governments, and public sector agencies
- ✓ Pension funds, hedge funds, financial institutions, or asset holders

Debt for Nature Swaps can be a win-win solution both for biodiversity and the economy. They reduce the debt burden of a country while allocating additional funds and land to the restoration and conservation of nature.

Debt for Nature Swaps can be relevant for:

- ✓ Governments looking to reduce their debt burden and scale up their investment in natural areas.
- ✓ Commercial banks open to selling debts at a discount rather than waiting for an uncertain repayment in the future.
- ✓ Pension funds, hedge funds, financial institutions or asset holders looking for high-quality, nature-positive investment opportunities.

Important considerations

- A part of the funds made available are shifted from one use to another, from paying off debt and interest to financing nature protection and recovery.
- A hard economic fact is that many countries' debt burden is unsustainable. As a result, commercial banks may prefer to sell debts at a discount rather than wait for an uncertain repayment in the future.
- It is sometimes better for debt holders, central banks, and commercial banks to sell government debt at a discount than to rely on an uncertain payment in the future.
- There are different ways debt swaps can be designed, as an example, they can be led by NGOs that mediate the deals, agreements between countries or agreements through development banks.
- The funds raised by Debt for Nature deals can be invested directly (e.g. the state uses the money in national protected areas) or indirectly (e.g. the state creates a fund that other organisations such as local governments, NGOs or universities can apply for).

Strong points

Interest from the banking sector: For example, the Network for Greening the Financial System (NGFS) aims to look at ways central banks can facilitate finance for green and climate issues.

Medium to long-term: Finance generated by debt swaps has the ability to be used for a long period of time (10 - 30 years), not only in the short term (1 - 5 years), given that the majority of the debt tends to be long term.

Reputational benefits in the perception of governments and countries' green credentials that issued the debt as well as investors and banks open to restructuring it.

Proven mechanism: More than 140 deals have been made since the 1980s, worth more than 1 billion US dollars in total.

Potential to raise money locally: Instead of depending on funds from outside the country, the money is allocated from national budgets.

Mobilise and catalyse funds: The size of individual deals has been increasing and the milestone/barrier of 1 billion US dollars was recently reached for the Debt for Nature Swap in Ecuador.

Weak points

Lack of previous examples in developed countries.

Complexity: The negotiations leading to the deal are long, can take years, and the structure of the deal tends to be complex.

High costs: Both the transaction as well as monitoring can cost between 3% to 7% of the value of the deal.

What activities can Debt for Nature Swaps fund?

Debt for Nature Swap deals can free up significant amounts of money to be used for a wide range of actions:

Types of measures Debt for Nature Swaps can be used for		
Network planning costs	Administrative	✓
	Spatial planning	✓
	Biogeographical network planning	✓
	Monitoring and reporting of the protected area network	✓
Protected area establishment costs	Site/corridor designation and management planning	✓
	Administrative	✓
	Remaining knowledge gaps and research needs	✓
	One-off establishment actions	✓
	Compensation	✓
	Land purchase	✓
Management costs	Site (cluster) administration	✓
	Enforcement	✓
	Monitoring and reporting	✓
	Maintenance and restoration measures for species and habitats	✓
	Additional green infrastructure measures (outside protected areas)	✓
	Protected area infrastructure maintenance	✓
Communication and awareness raising costs	Natura 2000-related communication and awareness raising measures, education and visitor access	✓
	Best practice exchange	✓

Examples of use of funds for Debt for Nature Swaps (dependant on what is agreed in advance of the Debt for Nature Swap):

Land purchase to expand or create protected areas or to establish ecological corridors, sometimes across borders.

Fund for reintroductions and restocking that civil society such as NGOs, universities and others can apply to develop nature restoration actions.

Removal of dams and weirs: Debt for Nature Swap deals can include conditions such as the removal of man-made river barriers and restoration of free-flowing rivers.

Operational costs: Debt for Nature Swap deals could be used to cover operational expenses for protected areas, enabling improved management and more activities to be undertaken.

Annex I: How to structure a Debt for Nature Swap? List of steps

While no two Debt for Nature Swaps are the same, they usually include:

Establish general guidelines

- A country established guidelines for its debt for nature programme in collaboration with relevant partners (e.g. universities or NGOs).

Identify partners

- Identify government debt owners that might be open to such a deal (pension funds, central banks, development banks among others).
- Contact possible intermediaries such as banks or NGOs with previous experience in mediating Debt for Nature Swaps.

Details of the Debt for Nature Swap

- The size of the deal.
- Define clear targets for funding, as an example consider if the resources go to a group of protected areas or only to one, to create new protected areas or to improve existing ones, to design ecological corridors or to reinforce existing ones.
- Decide how to use the funds on the ground, if through direct public investment or in the form of grants to NGOs, universities or others.
- Establish a clear monitoring mechanism to ensure the funds are being invested and having an impact on the ground.

After issuing

- Ensure the funds are used to implement the plans proposed.
- Maintain continuous reporting to guarantee that the funds are invested where initially planned, ideally by an external partner (e.g. consultancy or university).
- Communicate the deal through local, national and international news media.

Annex II: Examples of Debt for Nature Swap deals

Ecuador Debt for Nature Swap

Aim: Long-term conservation and restoration of the Galápagos Marine Protected Area.

Details: The deal was closed in May 2023, it transformed 1.6 billion US dollars of sovereign debt into 644 million US dollars' worth of obligations, saving around 1 billion US dollars in repayments for a period of 18 years.

The initial debt was acquired in the secondary market at a discount by Credit Suisse, who then refinanced it. The deal is supported by the Inter-American Development Bank (IDB) and the U.S Development Finance Corporation (DFC). The IDB guarantees the deal in 85 million US dollars and the DFC provides political-risk insurance worth 656 million US dollars.

The resources will be used for long-term marine conservation and restoration of sea waters around the Galápagos archipelago. The biggest measures are the creation and enforcement of no-fishing areas, and the protection of an ecological corridor connecting the archipelago with another marine protected area in Costa Rica, which is a key passage for sharks, mantas, sea turtles and whales.

Yearly, 12.05 million US dollars will be used directly to finance the marine protected areas around Galápagos and 5.41 million US dollars will go to an endowment fund, named Galapagos Life Fund (GLF), which is estimated to grow to 227 million US dollars by 2041.

Funds made available: Starting with around 18 million US dollars every year (with potential to grow) for an initial period of 18 years, fully dedicated to the preservation of the Galápagos ecosystem.

Belize Debt for Nature Swap

Aim: Strengthen Belize marine protected areas.

Details: The Belize Debt for Nature Swap in 2021 decreased its sovereign debt from 570 million US dollars to 330 million US dollars, and reduced the country's overall debt by 12%.

The deal was mediated by The Nature Conservancy (TNC), an NGO, through its impact investment branch NatureVest that purchased Belize debt in the secondary market, and Credit Suisse which structured the deal and raised the funds for refinancing the debt. The U.S. International Development Finance Corporation (DFC) provided political risk insurance.

The funds will be used to scale-up marine protected areas in Belize to reach 30% of the total sovereign ocean waters by 2030, conserve and restore coastal forests of mangroves (an important habitat that protects shores from erosion), and to protect coral reefs (one of the most threatened and rich marine habitats).

The funds generated annually, around 4 million US dollars, were placed in an independent fund that finances marine and coastal projects, and a part of the total, around 23 million US dollars, was placed in an endowment to ensure the availability of long-term funds. It will be available from 2041.

Funds made available: 4.2 million US dollars per year

Annex III: References and further recommended reading

Ecuador Debt for Nature Swap

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Belize Debt for Nature Swap

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Recommended reading

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Debt for Nature Swaps

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