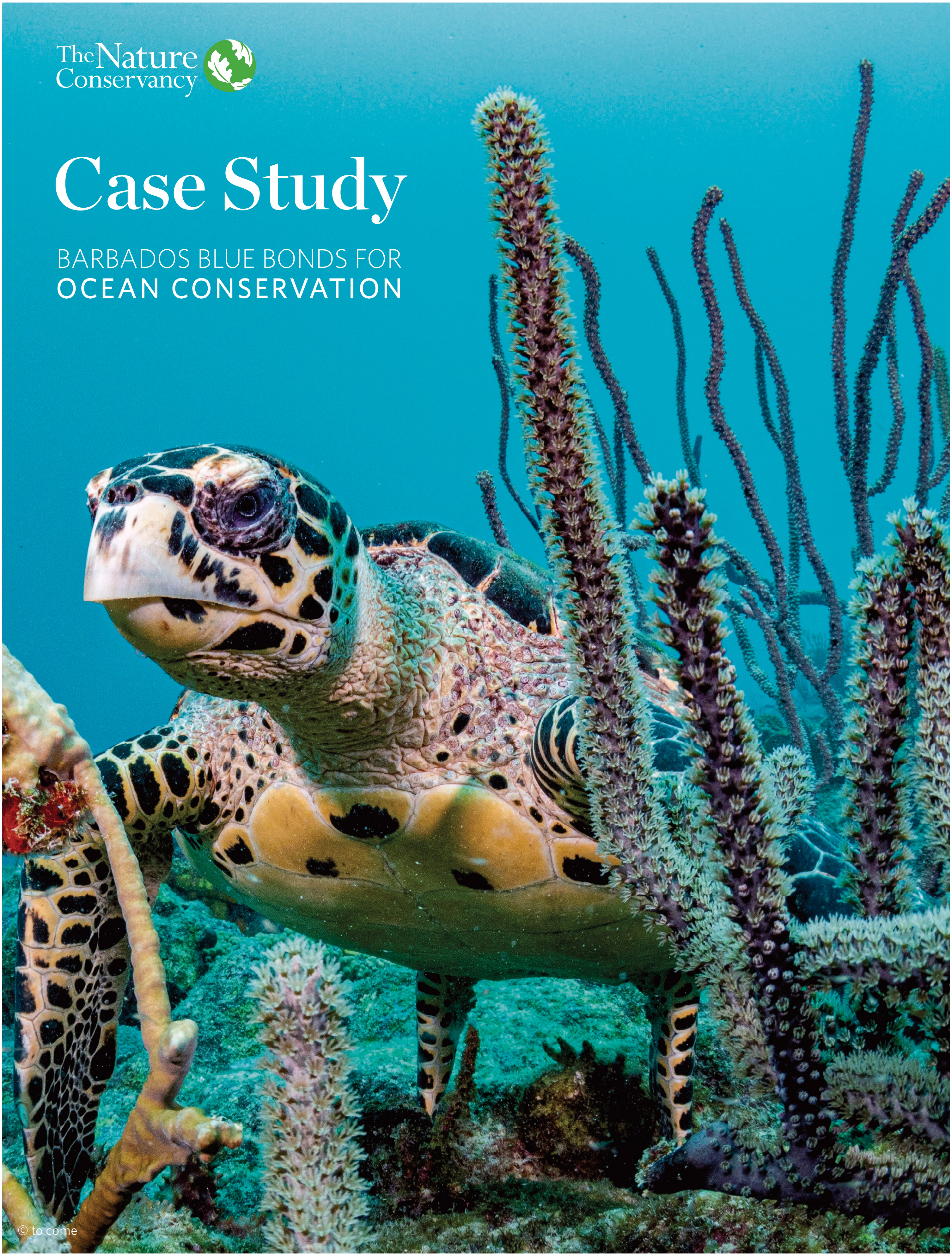
The Nature Conservancy

Case Study

BARBADOS BLUE BONDS FOR OCEAN CONSERVATION



Executive Summary

In September 2022, the **Government of Barbados** (GoB), **The Nature Conservancy** (TNC), and the **Inter-American Development Bank** (IDB) announced the completion of a USD 150 million *debt conversion* that created long-term sustainable financing for marine conservation and secured a GoB commitment to protect up to 30%, or ~55,000 square km, of its Exclusive Economic Zone (EEZ) and Territorial Sea. This project will facilitate Barbados' commitment to the United Nations Global Biodiversity Framework, which aims to protect 30% of the world's land, ocean, and inland waters by 2030.

The transaction, as part of TNC's *Blue Bonds for Ocean Conservation Program,* enabled Barbados to replace relatively expensive pre-existing debt (7.2% average cost) with significantly lower all-in cost of financing (4.9%). This debt repurchase was funded by new financing (the "Blue Loan") arranged by **Credit Suisse** and **CIBC FirstCaribbean** in USD (50%) and Barbadian Dollars (BBD) (50%), and co-guaranteed by IDB and TNC. The net savings will allow Barbados to channel an estimated USD 50 million into conservation funding over 15 years: USD 23 million into an independent conservation fund, the *Barbados Environmental Sustainability Fund* (BESF) (USD 1.5 million per year on average), and USD 17 million towards a long-term endowment for BESF, which is expected to generate an additional USD 10 million of returns over 15 years.

The project incorporates ocean conservation commitments including developing a transparent, participatory, and collaborative *Marine Spatial Plan (MSP)* that is guided by the best available science, data, and information; an aspirational goal to protect 30% of the country's ocean by 2030; and the establishment of BESF to allocate conservation funding in Barbados through a grants program aligned with national conservation, environmental, and sustainable development priorities. TNC will support these activities with technical assistance.

Transaction Highlights

Key Transaction Components

- Barbados repurchased:
  - USD 77.6 million of its 6.5% 2029 Eurobond at a price of 92.25 cents on the dollar and
  - USD 72.9 million (BBD 145.9 million) of its 8% Domestic Bond Series E at par.
- Credit Suisse and CIBC FirstCaribbean arranged a 15-year amortizing Blue Loan of USD 146.5 million (50% in USD and 50% in BBD).
- IDB (USD 100 million) and TNC (USD 50 million) co-guaranteed the Blue Loan covering outstanding principal + one semiannual coupon.
- Barbados committed to binding marine conservation targets and directing 100% of the debt service savings towards conservation over 15 years.

Key Conservation Impact

- Aspirational goal of 30% of ocean area under protection by 2030, half in high-protection biodiversity zones.
- Science-based, participatory, and inclusive Marine Spatial Planning to identify new protected areas and develop an ocean management plan.
- Creation and funding of the *Barbados Environmental Sustainability Fund* (BESF); an independent conservation fund to disburse grants to conservation practitioners in Barbados.

Key Conservation Funding

- USD 1.5 million per year (on average) into BESF for grant funding.
- USD 17 million endowment to grow to USD 27 million (est.) by 2037.

Blue Loan

- Principal: USD 146.5 million
- Debt stock reduction: USD 4.1 million
- Interest Rate: 3.8%
- Maturity: 2037 (9.3 WAL)
- All-in cost: 4.9% (inclusive of guarantee fees + TNC Conservation Advisory, Monitoring, and Reporting Cost Recovery)
- Option to defer up to 2 years of principal payments following a Natural Disaster or a Pandemic Event

Environmental Finance Bond Awards 2023

IFR AWARDS 2022

UXOLO Development Finance Pathfinder Awards 2022
CAPITAL MARKETS DEAL OF THE YEAR
TNC Barbados Blue Bond Refinancing

Background

TNC is the world's largest conservation organization, currently working in over 79 countries and territories, with a mission to conserve the lands and waters upon which all life depends. TNC's *Blue Bonds for Ocean Conservation Program* seeks to refinance a portion of partner governments' debt to generate savings in support of large scale biodiversity conservation and climate commitments, allowing countries to achieve their conservation goals and reduce their debt burden.[1] The program targets commitments for 600,000 km^2 of new ocean protection and 4 million km^2 under improved ocean management.

1. TNC works with countries to identify their conservation priorities, developing a timebound plan to conduct an MSP with the ambition to protect up to 30% of their ocean areas using a range of protection levels.

2. TNC engages development finance institutions and investment banks to arrange debt conversions that refinance debt on better terms than what the country can achieve on its own. The savings are then channeled into long-term, reliable conservation funding.

3. TNC helps countries develop a participatory MSP that includes objectives for ocean conservation, biodiversity protection, and a sustainable ocean economy.

4. TNC works with local stakeholders to lead the design and establishment of an independent conservation fund to manage and disburse the debt service savings from the transaction to local conservation practitioners.

Barbados is the third country to partner with TNC on a Blue Bond project, after Seychelles (2016) and Belize (2021). The successful closing of the Barbados transaction illustrates how TNC can innovate to address ocean protection and climate mitigation and adaptation. While Belize's debt was trading at deep discounts at the time of the TNC transaction, Barbados' was close to par (100 cents on the dollar) and yet TNC and its partners were able to structure a financing that will generate meaningful savings that will be applied to ocean conservation and sustainable blue economy.

Back in 2018, Barbados' debt to GDP ratio was at 178%, one of the highest in the world. The country went through a debt restructuring process and participated in an IMF program to improve its debt sustainability. At the same time, Prime Minister Mia Mottley established a new ministry responsible for Maritime Affairs and the Blue Economy, recognizing the sector's potential to generate sustainable and shared economic wealth for Barbados. One of the government's priorities was to develop an MSP for the Barbados ocean to the boundary of its EEZ. Given Barbados' sustainable blue economy strategy, there was a promising fit with TNC's Blue Bonds program and discussions on the Blue Bond accelerated in late 2022.

Conservation Commitments

As part of the transaction, the GoB made certain legally binding conservation commitments, which TNC will support as a conservation technical advisor, including:

1. Completing an ocean-wide MSP process using global best practices to protect up to 30% of Barbados' EEZ and promote ocean sustainability.

2. Designing and implementing legal, regulatory, and institutional frameworks to effectively implement the MSP and manage Barbados' ocean.

3. Completing and adopting comprehensive management plans for all protected areas.

The conservation commitments are defined as time-bound milestones effectively, (key performance indicators or KPIs). Delays in achieving a milestone, beyond grace periods, may result in incremental payments from the GoB. Incremental payments for missed milestones are set aside in an escrow account, not paid to bondholders. When a milestone is ultimately met, escrowed funds are returned to the GoB. If the milestone is never met, the funds flow into the conservation fund.

Marine Spatial Plan

TNC will support the government-led Barbados MSP process that involves all key stakeholders. Draft MSP goals include sustaining the benefits that the ocean provides to people, livelihoods, and biodiversity. The MSP process will undertake new research and gather the best available data to develop scenarios for expanding ocean protection towards the aspirational goal of placing 30% of Barbados' ocean in Biodiversity Protection Zones/Marine Protected Areas. This process will engage stakeholders representing government agencies, local communities, and the private sector such as fishing associations, tourism, oil and gas, renewable energy, and shipping, among others. The MSP will use science and a transparent and evidence-based framework to guide planning and decisions. Stakeholder participation is essential for decision-making to ensure that the MSP will develop a plan for a sustainable ocean economy and protect marine habitats and wildlife.

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

Barbados Environmental Sustainability Fund

TNC has supported the establishment of BESF as an independent conservation fund in Barbados that will receive, manage, and disburse the conservation funding generated through the debt conversion (and potential future funding sources). BESF will evaluate and disburse grants to local projects to achieve conservation, environmental management, and sustainable development outcomes that are in alignment with the Blue Bond's conservation commitments and national priorities. Both government and non-governmental actors, including non-profit organizations, community-based organizations, academia, and the private sector, will be eligible to apply for funding. Part of the funding will be earmarked for the government agencies to carry out the MSP. BESF will monitor the projects supported and track results. It will be externally audited and will publish annual reports detailing how the conservation funding was used.

BESF was successfully established before the closing of the deal and was the product of an extensive stakeholder engagement process coordinated with GoB to ensure strong and effective stakeholder representation across critical sectors. Following international best practices, BESF is an independent legal entity with a majority non-government board of 11 directors appointed from government and the non-government sectors (academia, fisheries, tourism, and NGOs).

The Structure and Agreements of the Transaction

The transaction was supported by two main pillars:

1. **Finance Agreements**, in which Barbados used new financing at a lower cost—key components being the Blue Loan and the Credit Guarantee—with proceeds used to repurchase more expensive debt; and

2. **The Conservation Agreements**, in which Barbados commits to achieving specific conservation milestones (via a *Conservation and Sustainability Commitments Agreement*) and to direct the savings achieved through the debt conversion over time into BESF for ongoing grantmaking and for an endowment to support the BESF's operations beyond the 15-year term of the transaction (via a *Conservation Funding Agreement*).

Non-payment of any amounts under the conservation agreements can lead to a default and acceleration on the Blue Loan. The lenders can also accelerate the Blue Loan (with the consent of the guarantors) if one or more major commitments have not been achieved (beyond pre-determined grace periods).

The Debt Conversion

The debt conversion (see Figure 1, below) was a capital markets transaction where two banks (Credit Suisse and CIBC First Caribbean) arranged the new financing (the Blue Loan) co-guaranteed by the IDB and TNC to lend funds to Barbados to repurchase external and domestic debt, generating lower debt service payments and directing the savings into BESF and an endowment.

Pre-Existing Debt

The commercial debt targeted by GoB included a portion of the country's sole USD 530 million 6.5% 2029 Eurobond and a domestic USD 1.1 billion 8% 2043 "Series E" issuance in a 50/50 split.

USD 77.6 million face value of the Eurobond was repurchased through a modified Dutch auction[2] at a price of 92.25 cents on the dollar. BBD 145.9 million of domestic debt (equivalent to USD 72.9 million) was repurchased at par (GoB had the option to buy back this debt at par).

The 7.2% average cost of the debt repurchased was 340 bps higher than the interest rate of the Blue Loan (3.8%) and 235 bps higher than the all-in cost of the new financing (4.9%, including guarantee fees of 90 bps on outstanding principal), with a similar weighted average life (9.3 years).

The Blue Loan

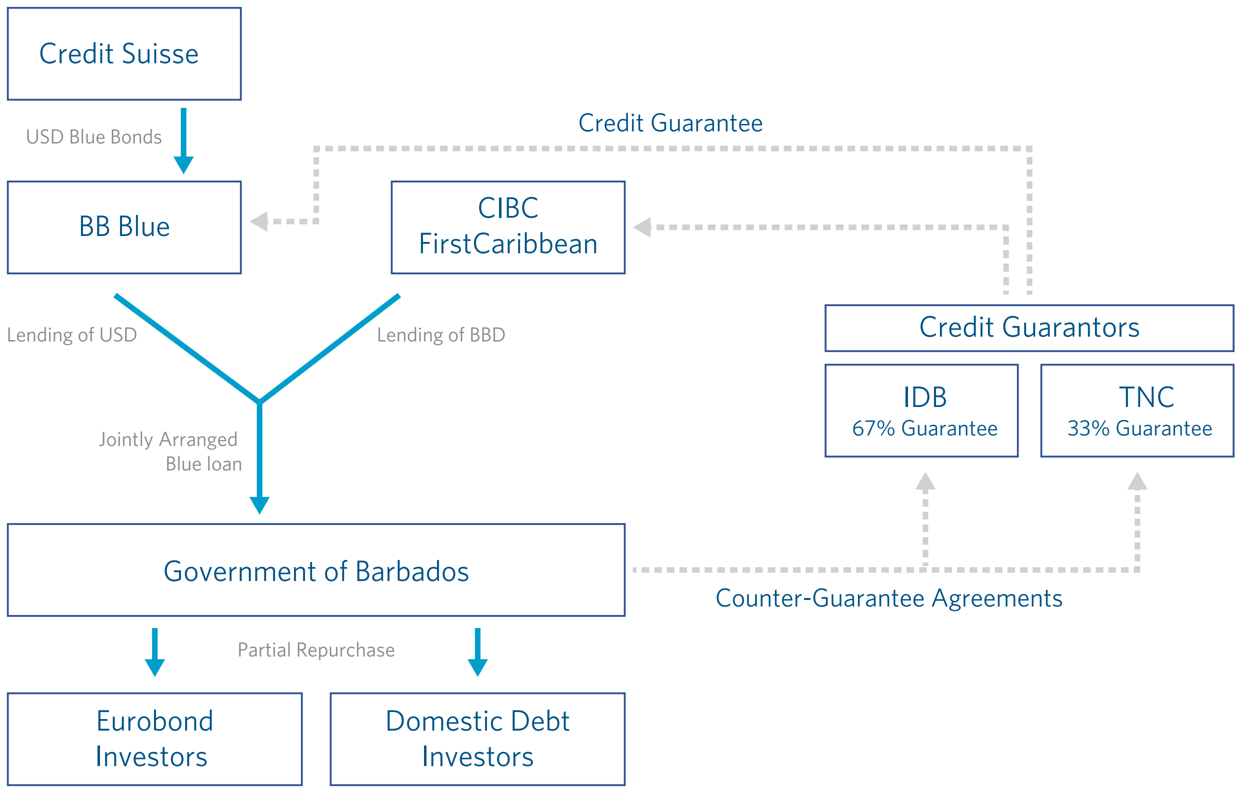
Barbados raised a total of USD 146.5 million via the Blue Loan from the joint arrangers' Credit Suisse (through a special purpose vehicle, "BB Blue") and CIBC FirstCaribbean (Figure 1).

1. **Blue Loan USD Tranche:** Credit Suisse, serving as global lead arranger, financed BB Blue to fund USD 71.6 million (net of reserves and transaction costs) used by the GoB to repurchase USD 77.6 million face value of the 6.5% 2029 Eurobond at 92.25 cents on the dollar. The co-guarantee provided by IDB (Aaa) and TNC (Aa2) enabled BB Blue to issue two new bonds (Class A and Class B) with credit ratings of Aaa and Aa2, respectively.[3]

2 Credit Suisse and CIBC World Markets, as Dealer Managers, completed a modified Dutch auction tender offer which allowed the bondholders to indicate how many of their bonds and at what price within a specific range provided by the GoB they wish to tender their bonds

3 Guarantee fees are paid by GoB to the co-guarantors separately of the Blue Loan and are included in the all-in cost of financing disclosed in this document.

Figure 1—Debt Conversion Diagram



2. **Blue Loan BBD Tranche:** CIBC FirstCaribbean, serving as the domestic lead arranger, extended a local currency (BBD) tranche of BBD 145.8 million (USD 72.9 million net of reserves and transaction costs) to repurchase USD 72.9 million of the 8% 2043 Series E domestic debt.

The remaining proceeds of the Blue Loan—USD 2 million—paid for transaction costs and reserves.

The Blue Loan was issued with a 3.8% fixed rate. The tenor of the amortizing loan is 15 years with a grace period of principal payments of 3 years (weighted average life of 9.3 years). The refinancing achieved a decrease in debt service for Barbados, reducing borrowing costs when compared to the cash interest cost of the pre-existing debt (7.2%) and to Barbados's long-term Eurobond market yield of 8.54% at the time of closing, and directed 100% of the net savings to conservation, totaling nearly USD 40 million (Figure 3). Over 15 years, the BESF endowment is expected to generate additional returns totaling USD 10 million.

Figure 2— Components of the Blue Loan Financing

Use of Proceeds	USD (millions)
Repurchase of USD 77.6 million 6.5% Eurobond at 92.25 cents on the dollar	71.6
Repurchase of BBD 145.8 million 8% Series E Domestic Debt at par	72.9
Transaction costs and reserves	2.0
TOTAL—Use of Blue Loan Proceeds	**146.5**

Figure 3—Debt Conversion Financial Benefits to Barbados

	Pre-Existing Debt	All-in New Financing	Benefit
Principal (USD million)	USD 151 M	USD 147 M	USD 4 M
All-in debt service (USD million)	USD 254 M	USD 214 M	USD 40 M[2]
All-in Rate	7.2%	4.9%[1]	2.4%
Maturity	2029 / 2043	2037	N/A
Weighted Average Life (years)	9.1	9.3	0.2
Funds for conservation[3] (USD million)	N/A	USD 40 M[3]	USD 40 M[3]
Deferral Option	Natural Disaster	Natural Disaster & Pandemic	N/A

(1) Includes Blue Loan debt service (USD equivalent), IDB and TNC guarantee fees, and TNC Conservation Advisory, Monitoring and Reporting Cost Recovery;
(2) The savings created net of all transaction costs will be directed to conservation—USD 23M cashflows for BESF and USD 17M cashflows for the endowment;
(3) An additional USD 10 million of expected return on the endowment is expected over the next 15 years (assumes 7% net return on investment)

The Credit Guarantee

TNC and IDB developed a credit guarantee structure that allowed Barbados to generate significant savings although the existing debt was trading close to par. Compared to the Belize debt conversion where the Government repurchased debt at 55 cents on the dollar, the Barbados Eurobond was tendered at 92.25 cents and the domestic Series E was called at par. This co-guarantee provided by two entities with ratings of Aaa (IDB) and Aa2 (TNC) enabled the Blue Loan to achieve a very low 3.8% interest rate.

In a pioneering MDB/NGO[4] co-guarantee structure, IDB guaranteed USD 100 million on a first loss position, while TNC guaranteed USD 50 million on a second loss position, of the Blue Loan. This USD 150 million co-guarantee covers the principal (USD 146.5 million) and a maximum accrued interest of USD 3.5 million under the Blue Loan. The amount covered by the guarantors will decline in line with the amortization of the Blue Loan with TNC's guarantee obligations reducing first.

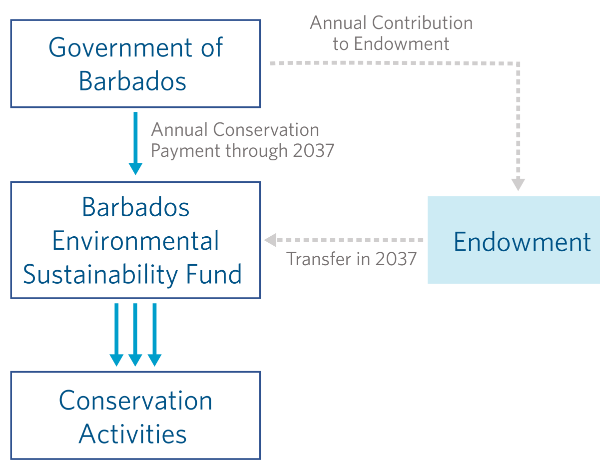
The Conservation Agreements

Conservation Funding Agreement

Barbados committed to channeling 100% of the savings generated by the Blue Loan into long-term financing for marine conservation via the Conservation Funding Agreement (Figure 4). Barbados will pay an average of BBD 3 million (USD 1.5 million equivalent) per year to BESF and an average of USD 1.1 million annually into a separate trust (Barbados Blue Conservation Trust) to capitalize an endowment to provide long-term funding to BESF, which will disburse the funds as grants to government agencies, NGOs, local businesses, and other partners working on marine conservation and related blue economy projects.

The USD 17 million flowing into the endowment will ensure funding for conservation activities beyond the 15-year term of the transaction. Assuming a 7% net annual return on investment, the endowment is expected to grow to over USD 27 million by the end of 15 years. The annual funding channeled through the Conservation Funding Agreement plus the return on the endowment is estimated to generate USD 50 million for marine conservation over 15 years. Due to a cross default provision, payments under the Conservation Funding Agreement have the same seniority as the payments under the Blue Loan.

Figure 4—Conservation Funding Agreement



4 MDB: multilateral development bank; NGO: non-governmental organization

Conservation and Sustainability Commitments Agreement

The Conservation and Sustainability Commitments Agreement includes the conservation commitments made by Barbados, including completing an ocean-wide, participatory, representative, science-led MSP process; designing and implementing legal and institutional frameworks to effectively manage up to 30% of Barbados's ocean; completing and adopting comprehensive management plans for all ocean space under protection; and regular assessments of how effectively the newly-protected areas are being managed, including the implementation of remedial actions when the sites are not meeting their pre-defined goals and objectives. TNC and IDB are providing technical support to the GoB in achieving these commitments.

If GoB does not achieve a conservation milestone by the agreed date (subject to grace periods), an incremental conservation payment is triggered, which will be deposited in an escrow account and will be refunded to GoB once the milestone is achieved (or into BESF if never cured). The GoB has committed to an early prepayment of the financing if certain major conservation commitments are not met after grace periods: (i) failure to start the MSP process, (ii) failure to complete and implement the MSP, (iii) failure to adopt management plans for marine protected areas, (iv) failure to implement protection zones, or (iv) nationalization or expropriation of BESF.

Innovation

This project is a replicable model for achieving conservation and climate outcomes at scale and creating sustainable long-term conservation funding.

1. **Scale & Impact:** Following the Belize debt conversion in November 2021 led by TNC[5], this transaction demonstrates again that debt conversions for conservation and climate can be accomplished by targeting commercial debt at scale. Using this approach, over three transactions (including the Seychelles) for ocean conservation, TNC has supported the refinancing of USD 725 million in sovereign debt at a lower cost and generated an estimated USD 250 million for marine conservation to date.

   Traditionally Debt-for-Nature Swaps were mostly small (typically less than USD 10 million) and involved bilateral (government-to-government) loans. The Barbados debt conversion (like Belize's) refinanced external commercial debt—often the most expensive and burdensome sovereign debt. This product allows countries to take advantage of capital market-based approaches and therefore does not require negotiating write-offs from bilateral creditors, which depend on the often elusive "political will" of the creditor.

   Furthermore, this transaction demonstrates how TNC's *Blue Bonds for Ocean Conservation Program* can provide access to conservation finance for countries that are not in debt distress but are facing high market yields, which characterizes most developing countries today.

2. **Pioneering Co-Guarantee Structure:** The transaction was the first to combine a Policy-Based Guarantee from an MDB (IDB) with the credit guarantee of an NGO (TNC), providing a 100% wrap for the entire issuance (100% of principal plus accrued interest is covered). Typically, guarantees are limited to 75% of principal and accrued interest. TNC's co-guarantee complemented IDB's and allowed Barbados to finance the repurchase of pre-existing expensive debt at a lower cost compared to a typical MDB partial guarantee structure where a portion of the financing would be uncovered and therefore placed at a high yield.

3. **Investor Class Substitution:** IDB and TNC's co-guarantee helped the Blue Bonds secure an Aaa/ Aa2 Moody's credit rating, allowing (i) Credit Suisse to finance the bonds and place them with institutional investors seeking low-risk assets, and (ii) CIBC FirstCaribbean to provide a local currency loan at a low rate. The investor market for Aaa/ Aa2 paper, consisting of global insurance companies, pension funds, and other institutional asset managers, diversifies GoB's funding sources. This larger investor pool also has a strong demand for environmental and climate impact assets.

4. **New Method of ESG Verification:** The involvement of TNC in multiple aspects of the transaction provides high-level comfort to Blue Bond investors seeking verification of conservation KPIs. The involvement of TNC in the program (sourcing and developing the project, negotiating the conservation commitments, supporting the marine spatial planning, participating in the governance of the conservation fund, monitoring and reporting on the conservation milestone achievement) for the full 15 years provides greater likelihood that conservation outcomes will be achieved.

5. **Natural Disaster and Pandemic Clause:** Following the pioneering role of the natural disaster clause introduced by Barbados in its Eurobond, the new financing reprises that clause and adds a first-of-its-kind *pandemic protection clause*. Following the occurrence of a qualified natural disaster or a pandemic event, Barbados can defer up to 2 years of principal payments of the Blue Loan (USD

5 https://www.nature.org/content/dam/tnc/nature/en/documents/TNC-Belize-Debt-Conversion-Case-Study.pdf

18 million). These provisions illustrate how innovation and adaptability in sovereign debt terms can help countries be more resilient to external shocks.

Scalability/Replicability

The TNC debt conversion structure is highly scalable and replicable and fully aligns with the Kunming-Montreal Global Biodiversity Framework adopted in December 2022. Transaction sizes and the overall market are determined by three principal factors:

1. **Partner Government Interest.** Developing countries face triple biodiversity, climate, and debt crises; combined, they require hundreds of billions of US dollars annually to finance conservation and climate adaptation and mitigation programs. At present, there is a USD 700 billion annual global funding gap[6] to address biodiversity needs. Additionally, emerging markets and developing economies will require about USD 1 trillion in climate finance per year (according to a recent Rockefeller Foundation/BCG report), or about one-third of global need—but they are currently receiving only 27% of the necessary flows.[7] Debt financing for those objectives is also cost-prohibitive in many cases. As of the date of this case study, more than 30 emerging market sovereigns that had issued Eurobonds faced yields to maturity exceeding 10% or were in default effectively preventing their access to capital markets. As these are typically middle and upper-middle-income countries, the situation is even worse for poorer and frontier markets. These factors point to the desirability of debt conversions, which do not require incremental borrowing but rather generate funding through refinancing for countries committed to implementing climate and conservation objectives. TNC is in discussions with multiple potential sovereign partners who are interested in replicating this approach.

2. **Availability and Affordability of Credit Enhancement.** Following the Belize debt conversion, which was based on political risk insurance, the Barbados transaction demonstrated that other forms of credit enhancements such as credit guarantees are feasible. Other bilateral and multilateral development finance institutions should consider providing similar risk mitigation products to mobilize private capital.

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 debt distress as Barbados has shown. Most developing countries have high-interest bonds and/or syndicated loans. Even if these trade at little to no discount, they can be refinanced with lower coupons and longer tenors to create significant funding for conservation.

Transaction Participants

This transaction was made possible through the strong collaboration of many partners. Special gratitude is due to all partner organizations and the many individuals who committed their creativity, energy, and resources to close this landmark transaction.

Philanthropy is instrumental in supporting innovative conservation strategies that allow TNC to assist countries to achieve large scale durable ocean protection and access significant long-term funding through debt conversions. Many supporters made this project possible, including Bank of America, the Becht Foundation, the Isdell Family Foundation, Anna Marie Pavlik and Richard Rosen, Lyda Hill Philanthropies, Oceans 5, MacKenzie Scott, TED Audacious Project, Jeff and Laurie Ubben, and Wyss Foundation.

Role	Entity
Country Partner	Government of Barbados
Co-Guarantor	Inter-American Development Bank
Conservation Advisor and Co-Guarantor	The Nature Conservancy
Joint Deal Arrangers and Dealer Managers	Credit Suisse International and CIBC FirstCaribbean
Legal Advisors to TNC	Shearman & Sterling; Dentons; DLA Piper; Gilbert LLP
Financial Advisor to Barbados	White Oak Advisory
Legal Advisor to Barbados	Cleary Gottlieb Steen and Hamilton
Legal Advisor to IDB	Norton Rose Fulbright
Legal Advisor to Arrangers	Clifford Chance
Endowment Trustee	BNY Mellon
Administrative Agent & Paying Agent	CIBC FirstCaribbean

6 *Financing Nature: Closing the global biodiversity financing gap.* The Paulson Institute, The Nature Conservancy, and the Cornell Atkinson Center for Sustainability (Deutz, A. et al. 2020).
7 Source: https://www.rockefellerfoundation.org/report/what-gets-measured-gets-financed-climate-finance-funding-flows-and-opportunities/