Financing the Blue Economy through debt for nature swaps and blue bonds: The Seychelles’ experience

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1. The Blue Economy development framework
2. The Seychelles debt for nature swap
3. Creation of the Seychelles Conservation and Climate Adaptation Trust
4. Blue Bonds
5. Financing sustainable development and climate change adaptation
1. The Blue Economy Development framework

- The Rio+20 Summit (2012) focused countries efforts around transitioning to a Green Economy
- A number of coastal and island nations adopted the terminology of the Blue Economy, situating the transition to sustainable and ecologically responsible within their predominantly marine environments
- ECA Blue Economy Handbook
- AU Blue Economy Strategy
Seychelles Exclusive Economic Zone
The Blue Economy in Seychelles’ context

- Highly impacted by climate change (rising sea level, coral bleaching....)
- Increasing pressures on fish stocks
- Tourism (38% GDP, 25% of formal employment) and
- Fisheries (20% GDP, 20% of formal employment)
- Importance of eco-tourism, high quality- low impact- and high yield

- Globally important sea-bird breeding ground/Important for marine mammals/ 174 species of coral
- The Seychelles Blue Economy Roadmap- seeks to achieve a model of sustainable development that embraces the opportunities of Seychelles’ oceanic environment to create jobs, ensure equitable sharing of wealth, promote innovation, address climate adaptation and build resilience to shocks.
The Seychelles debt swap- 2015 (1)

- Following economic reforms of 2008, Seychelles successfully reduced its debt levels from a high of 175% of GDP to 60% of GDP by 2015- this included a 45% haircut granted in 2010 by the Paris Club of creditors.

- But limited fiscal space, and Seychelles relatively high GDP per capita, meant that access to concessional finance was limited.

- Slow and limited access to Green Climate Fund.

- The Nature Conservancy started discussions with Seychelles government in 2012 about supporting a possible debt swap to address marine conservation and climate adaptation- Initial goal was for swap of total remaining debt. Paris Club limited transaction to public debt, and also limited quantum due to previous haircut.
The Seychelles debt swap- 2015 (2)

- Debt buy-back of USD21.6 million
- Financed through loan from The Nature Conservancy – 15.2 million
- USD, 5 million USD grants (Waitt Foundation, Oceans 5, Oak Foundation, Leonardo DiCaprio Foundation, LH Foundation, The Grantham Foundation)
- + Paris Club Discount
- Creation of Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) through legislation. Equal representation of Government and civil society on board.
- SeyCCAT new owner of the debt, to which the Seychelles Government pays back over a longer tenure. Portion of payments used to refund TNC- while interest payments contribute towards grants disbursed by SeyCCAT
The Seychelles debt swap- 2015 (3)

- 30% of waters in protection areas (400,000 Sq. Km) in line with goals of CBD
- 15% of waters in high protection biodiversity replenishment zones (200,000 Sq. Km)
- Adopt recently completed Marine Spatial Plan to guide updating of coastal zone management/fisheries/marine policies
Outcomes of Seychelles’ swap

- 400,000 sq. km of new MPAs in the Seychelles, half no-take fish replenishment reserves, based on MSP
- New/revised CZM, fisheries, and marine policies, based on MSP
- $5.6 million for marine and climate adaptation work (over 20 years)
- Capitalize $6.6 million endowment
Summary of key benefits to the Government

Redirection of external debt service to investments in country: upwards of US$11 M (over 20 years)
- With two thirds of this payable in local currency

Improved Fiscal Space
- Extended maturities on $21.6 M of debt from 8 years to 13 year average

Government entities eligible to apply for funding from SeyCCAT
- Civil Society and private sector also have access
2. SeyCCAT in summary

- ... a world first - capitalised with **blended proceeds** from a US$21.6M **debt restructuring**, enabling the Government of Seychelles with its **MSP policy**.

- ... and now with the addition of the US$3 million of the blue bonds. (2017)

- ... **independent, public-private trust**, legally established under its own Act (2015)

- ... governed by a **Board of Directors**, and **Finance and Grants committees**

- ... committed to developing strong and lasting **creative collaborations**

- managing various long-term (20 years) cash flows:
  1. to repay the **Impact Investor**
  2. to distribute funds via our **Blue Grants Fund**
  3. to capitalise our **Blue Endowment Fund**
3. SeyCCAT financial flows

- **GEF Credit US $5M**
- **Blue Bond US $15M**
- **IBRD Guarantee US $5M**

**Impact Investors, Grants**
- $15.2M impact capital
- $5M grants

**Seychelles’ Conservation and Climate Adaptation Trust - SeyCCAT**
- Note 1: $15.2M (3% 10 yrs): $17.7M
- Note 2: $6.4M

**Debt purchase $20.2M**
- Transfer debt $21.6M

**Seychelles (Debtor)**
- Loan $20.2M

**BLUE INVESTMENT FUND (US $12M)**
- DD Proceeds $3M
- BB Proceeds $3M
- DS Proceeds $5.6M (P&I)

**BLUE GRANTS FUND ($8.6M)**

**BLUE ENDOWMENT FUND (EV $6.6M)**

**Note**: $15.2M

**BLUE GRANTS FUND ($8.6M)**
- Note 1: $15.2M
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**BLUE GRANTS FUND ($8.6M)**
- Note 1: $15.2M
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Seychelles’ Blue Bond - 2017

The package consists of a loan of $5 million from the International Bank for Reconstruction and Development (IBRD) and a grant of $5.29 million from the Global Environment Facility (GEF). In addition, a guarantee of EUR5 million from the IBRD and a credit of $5 million from the GEF’s Non-Grant Instrument Pilot will enable the future issuance of the world’s first Blue Bond by Seychelles. The Blue Bond is expected to mobilize public and private investments to finance the country’s transition to sustainable fisheries.

The Seychelles Model

THE WORLD’S FIRST SOVEREIGN BLUE BOND
Supported by World Bank partial guarantee and GEF concessional loan

INVESTORS

Calvert Impact Capital
Nuveen
Prudential

GOVERNMENT OF SEYCHELLES

$3 MILLION BLUE GRANTS FUND managed by the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT)

$12 MILLION BLUE INVESTMENT FUND managed by Development Bank of Seychelles (DBS)
The Seychelles Blue Bond (2)

- Blended Finance Model providing 15 million Bond-
- USD5 million guarantee from World Bank
- GEF 5 million soft loan (non-grant facility)
- Raised money from international capital markets at more affordable rates- 4% for on-lending through the Development Bank of Seychelles. Seychelles pays less than 3%
- Funds ear-marked to support the “sustainable Fisheries Master-plan for the Mahe Plateau’
- 3 million USD worth of grants from the transaction channeled through SeyCCAT
- Soft loans channeled through the Seychelles Development bank to improve participation in the fisheries value chain, and to improve use of technology while capping number of vessels and gradually moving away from fuel subsidy. Focus on investments in cold stores, value addition etc.
- Challenge in ensuring pipeline of appropriately structured projects
The Seychelles Blue Bond - From shark finning to shark monitoring
Results of Blue Financing

**US$ 700,000**
Available annually as grants financing for projects supporting ocean conservation and climate adaptation projects. (Administered by SeyCCAT)

**US$ 12 million**
Available as loans at 4% interest rates compared to commercial interest rate is 12-13%. (Administered by the Development Bank of Seychelles)
4. Financing Sustainable development and climate adaptation in Africa

- Green and Blue Bonds/ SDG Bonds may well be able to be upscaled to generate significant flows of blended capital for SDG financing and climate adaptation
- The results of the debt swap and Blue Bond financing have contributed substantially to an ambitious NDC by Seychelles under the Paris Agreement
With an estimated US$63.8 bn in annual financing needs for 10 years to meet the SDGs, COVID-19 raises annual gap to US$92.8 bn as a result of an estimated $29bn loss due to COVID-19.

On the climate adaptation side, the UNEP *Adaptation Finance Gap Report* estimates that US$140 – 300 billion in adaptation financing will be needed by 2030 (roughly 6 to 13 times greater than the international public finance available today), with between USD 280 – 500 billion per year needed by 2050
Challenges and Opportunities

- High debt levels, vulnerability to external shocks, low growth, limited fiscal space
- Green washing - a lot of initiatives branded as green bring limited benefits
- Increasing willingness of impact investors and activist investors to place money in sustainability bonds
- 80 billion USD per annum available from DFIs in adaptation and mitigation financing
- CBD target of 30% of oceanic spaces under protection
- Blue Carbon - Mangroves and Seagrass beds absorb 3-5 times more carbon than tropical rainforest (Pew Charitable Trust)
**Africa and its marine resources**

- Seychelles EEZ - 1.3 million square km. Additional 400,000 sq km of co-managed extended continental shelf with Mauritius

<table>
<thead>
<tr>
<th>Country</th>
<th>EEZ in sq KM</th>
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<tr>
<td>South Africa</td>
<td>1,535,538</td>
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<tr>
<td>Seychelles</td>
<td>1,336,559</td>
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<td>Mauritius</td>
<td>1,284,997 ( + approx 545,000 Chagos Archipelago)</td>
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<td>Madagascar</td>
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Climate Change is an immediate issue impacting African economies.

Africa’s growth is correlated with an increase in GHG emissions.

GDP and CO2 emissions in SSA 1990-2014

GDP and CO2 emissions in SSA 1990-2014

Data source: ECA based on World Bank database
Impacts of climate change on African economies

Most African countries projected to lose 3-5% GDP to climate change by 2030 in conservative estimates.

In some scenarios, climate change leads up to 15% GDP loss.
Conclusions

- Climate adaptation is a matter of urgency for African countries
- Nature based solutions using oceanic spaces provide opportunities to upscale adaptation significantly
- More engagement needed by international financing institutions
THANK YOU!