Financing Marine Conservation and Adaptation to Climate Change in the Seychelles via a Debt Swap

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Why the Seychelles?

- Huge Exclusive Economic Zone – 1.4 million square kilometers
- Top regional marine mammal site
- Key global seabird breeding ground
- 174 species of coral
- Natural resources (fisheries/tourism) over 60% of GDP
- Global leader in promoting SIDS, Blue Economy
- Leading the West Indian Ocean Challenge
Issues/Threats

• SIDS Debt levels unsustainable
  – Some debt attributable to natural disaster recovery costs
• Low growth
• Limited fiscal space for investments in the environment and adaptation to climate change
• SIDS highly vulnerable to external shocks:
  – Natural disasters and climate change
  – Global Financial Crisis
Opportunities

• Adaptation & Mitigation funding huge & growing
  – Development Finance Institutions alone have $80 B a year available—challenge for middle income countries

• Existing Caribbean Challenge Initiative, Micronesia Challenge Commitments, West Indian Ocean Challenge (e.g. 20-30% marine protection by 2020)

• Rio+20 SIDS and SAMOA Pathway “Blue Economy” policy focus:
  – Improved Fisheries Management
  – Improved Coral Reef Management
  – Adaptation to climate change
What is a debt swap?

• Emerged during Latin American debt crisis of the 1980s
  – US cancelled $875 million of debt to 7 LA countries

• Two types:
  – Commercial or Private: involving debt owed to banks
  – Bi-lateral: involving debt owed to governments
Partner - TNC’s Experience

- From 1988 to 1992 participated in commercial debt for nature swaps totaling $50M
- Since 2001, participated in 11 of 17 Tropical Forest Conservation Act debt swaps w/ USG
  - Invested $14 million to purchase $210 million of debt
  - Resulting in $240 million (P+I) in new funding for forest conservation
The Transaction

• Buy debt from Paris Club Creditors for total sum of US$ 21.6 million
• Paid by US$ 16.6 impact loan from TNC at 3% interest and US$ 5 million grant funding
• Seychelles got 5% discount over and above 45% in 2008
• Creation of SeyCCAT to facilitate repayment, manage the funds and invest in local priorities (US$5 million over 20 years)
• Creation of Endowment Fund to support future investments (US$ 3 million)
Activities funded by the Debt Swap

1. Expand and secure marine protected areas and replenishment no-take zones, minimum of 30% and 15% of EEZ respectively
2. Coral and mangrove restoration projects
3. Develop and/or reform fisheries, coastal zone management, and marine policies
4. Economic diversification for affected users (sustainable fisheries, sustainable tourism)
5. Support the Blue Economy, innovation and research through wise use of blue capital
6. Social resiliency to climate change in coastal communities
Direct Benefits to Government

• **Redirection of external debt service** to investments in country:
  – With almost a quarter of this payable in local currency

• **Improved Fiscal Space**
  – Extended maturities on $21.6 M of debt from 8 years to 20 year average
  – Debt relief of 5%

• Government entities eligible to apply for funding from SeyCCAT
Outcomes from Seychelles Swap

Via loan of US$16.6 million (impact capital) and US$5 million in grants:

– 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

– $9.4 million for marine and climate adaptation work (over 20 years)

– capitalize $6.6 million endowment
Debt Swap Pipeline

• **Grenada**
  – US$19.4 M Bi-lateral Debt
  – US$115 M Commercial Debt

• **St. Kitts & Nevis**
  – US$29 M Commercial Debt

• **Jamaica**
  – US$250+ M Bi-lateral Debt

• **Palau**
  – $41 M Bi-lateral Debt

• **Marshall Islands**
  – US$27 M Bi-lateral Debt

• **Federated States of Micronesia**
  – US$25 M Bi-lateral Debt
Enabling Conditions

• To finalize negotiations:
  – Willing Buyer (Debtor Country)
    • Conservation/Policy Commitments finalized (via Cabinet Endorsement)
  – Willing Seller (Creditor)
  – Financing in place (grant and/or loan capital)

• To close:
  – Trust fund created and operational
  – Legal agreements finalized

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Lessons Learned

• Patience
• Scale matters
• Ministry of Finance key
• High Level commitments helpful
• Concept very well received by SIDS, public and private donors, impact investors
• Broad stakeholder consensus necessary
• Swap discussions:
  – Advanced conservation commitments
  – Mobilized funding
THANK YOU