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COALITION FOR FAIR FISHERIES ARRANGEMENTS

Financialisation and blue economy # 2

Debt-for-nature swaps and the oceans: The Belize Blue Bond

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This article covers…

- TNC's recent debt-for-ocean swap in Belize, involving half a billion USD.
- News about TNC's "audacious plan" of other debt swaps in countries including Kenya, Ecuador, Barbados and St.Lucia, with another 15 in the pipeline.
- The history of debt swaps and how the recent swaps reflect the financialisaton of conservation
- Reasons why these debt swaps are worrying for small-scale fisheries

Introduction: leveraging debt to save the oceans

> *"The novel financial engineering, effectively swapping debt for dolphins and other marine life, aims to throw a lifeline to corals, tuna and turtles being caught in a storm of overfishing and climate change. If it works, it will also secure the economic future of the nation, which depends entirely on tourism and fishing. With other ocean states lining up to follow, the approach could transform large swaths of the planet's troubled seas."*

Dan Carrington, writing for the Guardian newspaper on how TNC helped the Seychelles in 2015 to swap debt for marine conservation spending.[1]

[1] CARINGTON, D. "Debt for dolphins: Seychelles creates huge marine parks in world-first finance scheme", 22 February, 2018. Available at: https://www.theguardian.com/environment/2018/feb/22/debt-for-dolphins-seychelles-create-huge-new-marine-parks-in-world-first-finance-scheme

International efforts to address the climate and bio-diversity crisis have been transformed by the concept of "conservation finance". It is the idea that saving nature is an imperative for sustaining economic growth, and that the only way to make this happen is to design conservation as a profit-making industry. The origins of this approach, and its impacts on the largest conservation organisations in the world, was set out in our introduction to the financialisation of the blue economy.[2]

The conservation finance industry provides many ideas on how private investors can be sold conservation projects. The Nature Conservancy (TNC), the wealthiest environmental NGO in the world, is the industry leader in this regard. One of its recent strategies is known as a debt swap, which involves: purchasing the debts of developing countries and in return asking for developing country governments to commit to save biodiversity and valuable ecosystems. These deals apparently solve two interrelated problems; they increase spending and political commitments on conservation, and they lower the debt burdens of developing countries. Many organisations supporting these deals also argue that reducing debt in developing countries has an indirect benefit for protecting nature; highly indebted countries are often struggling to pay the costs of protecting their wildlife as they divert a substantial proportion of public revenues to foreign creditors.

Debt swaps financed by conservation organisations were first used in the late 1980s, as a response to the global debt crisis of that era. At that time, they were based on the purchase of debts owed by developing countries to Western banks, and the proceeds of the swaps were largely used on tropical forest conservation. These deals were called "debt-for-nature swaps". By the late 1990s debt swaps involving commercial debt dried up, although debt swaps involving bi-lateral aid were developed and these have continued to be used, predominantly by the US government. However, after the financial crash of 2008, TNC, working in partnership with investment banks such as JP Morgan and Goldman Sachs, recognised the opportunity to revitalise commercial debt swaps. A primary reason was that developing country governments were heading towards a new debt crisis and debts owed to private lenders were escalating.

TNC has radically changed the structure and characteristics of these deals. One significant change has been a focus on the oceans. Another reflects the influence of financialization; the new deals being developed by TNC use money from private investors to purchase much greater sums of developing country's debt than was the case in the 1980s and 90s. By working in partnership with investment banks, they have turbo-charged debt swaps.

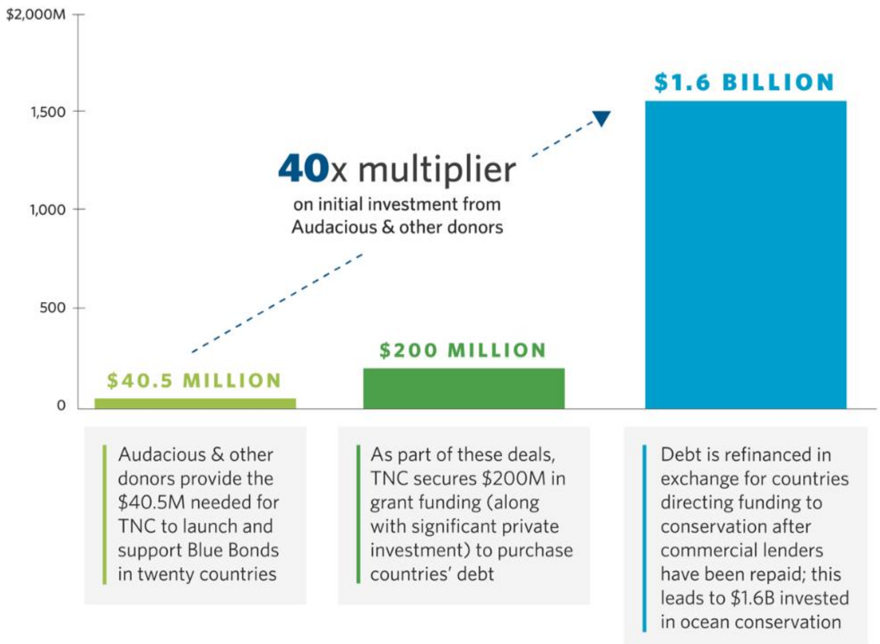
The first major debt-for-nature swap finalised by TNC for the oceans was with the Seychelles in 2015. It was the world's largest debt-swap financed by an environmental NGO, involving the purchase of $21 million of debt owed by the Seychelles to European donors. In return, the Seychelles government committed to turning half of their oceans into a marine protected area. It was widely hailed as one of the most successful conservation deals ever achieved. TNC, however, described it as a first step; merely a proof of concept.

In 2018, TNC announced what it called the "audacious plan", with the ambition of buying up over a billion dollars of debt owed by tropical coastal and small island

[2] STANDING, Andre, "Understanding the conservation finance industry", CFFA-CAPE website, 14 December 2021. Available at: https://www.cffacape.org/publications-blog/understanding-the-conservation-finance-industry

states, thereby massively increasing the coverage of marine protected areas on the planet. TNC provided limited documentation, but presented their audacious plan with a diagram (see Figure 1) on a short blog post, as a financial instrument that would multiply private investors' money by a staggering 40 times, resulting in the largest ever stream of funding for marine protected areas. In an academic journal, TNC also developed an index covering 85 countries on their "risk profile" for debt purchases, thereby showing where they had the greatest chances of success.[3] TNC was optimistic because the index showed how the debt crisis was making more and more countries prime candidates for debt swaps. It is a perplexing state of affairs; an environmental NGO considering a mounting debt crisis as opportune to increase conservation funding and green commitments from developing countries. They wrote:

> "*The global economy is experiencing another wave of rapid debt accumulation; debt loads in emerging market and developing economies reached a record high of US$55 trillion in 2018 [...]. Changes over the last few decades in financing instruments available to developing countries and economies in transition means there is more high-risk, commercial sovereign external debt available to purchase on secondary markets than ever before*".



When TNC released this audacious plan, it received limited international coverage; barely mentioned in the large number of reports on conservation financing. It is possible that it was so audacious, few people took it seriously. However, during the COVID pandemic, when the scale of developing country's debts reached unbearable limits, TNC finalised in late October 2021 with Belize the first debt swap involving commercial debt. In this deal, TNC, in partnership with Credit Suisse, financed the

[3] MCGOWAN, J. *et al.*, "Prioritizing debt conversion opportunities for marine conservation", *Conservation Biology*. 34. 2018.

purchase of $533 million worth of debt. In the history of debt swaps, this is an extraordinary amount of money.

After announcing the debt swap in Belize, TNC suggested this was indeed the first in a pipeline of deals. But TNC is secretive about which other countries will be involved. This is understandable. Announcing the intention of buying a large proportion of a country's debt may have unpredictable effects on financial markets and the behaviours of other creditors. However, it is possible to locate information on the countries where TNC is currently negotiating debt swaps. Rumours of these deals can be found on financial industry news websites. But another source of information can be found on the website of the US government's Development Finance Corporation (DFC). This is because TNC's audacious plan requires investment guarantees from the US government, and the agreements of these guarantees are published.

In 2021, the DFC provided TNC investment guarantees to finalise debt swaps in three other countries: Kenya, where TNC is finalising a debt purchase of $460 million,[4] St Lucia, of $235 million[5] and Barbados, of $237 million.[6] In the DFC documentation, there is also reference to a "master plan" which gives TNC the green light to purchase debts in 20 countries in total. At the time of writing, it has not been possible to find information on which these others are.

Until deals are finalised it is impossible to know how much debt TNC will purchase to finance ocean conservation and what will be the financial outcome. It is possible that the debt swaps in Kenya, St Lucia, Barbados fail to get over the line. Debt swaps are complex legal arrangements that can take years to finalise, easily scuppered by a wide range of events, such as an election. But if the US financial guarantees are evidence of deals nearing completion, then TNC may be on the brink of securing debt for oceans swaps amounting to billions of dollars; far in excess of what it originally forecast for its audacious plan.

The implications of TNC's new "debt-for-ocean swaps" go well beyond the oceans. TNC's work is proving inspirational to numerous other organisations that see similar debt swaps as providing the solution to the climate crisis, hence the proposal for "debt-for-climate swaps".[7] There is now a deluge of reports and studies on how debt swaps can be used to help developing countries *build back better*, and also help address the ecological debt owed to developing countries by industrialised ones.[8] The Seychelles and Belize experiments are being used as the inspiration for how this can be done.

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[4] The signed agreement and project document for Kenya can be found here: https://www.dfc.gov/sites/default/files/media/documents/BDR%2820%2910_TheNatureConservancy%28BlueBond-Kenya%29.pdf and https://www.dfc.gov/sites/default/files/media/documents/9000093270.pdf
[5] The project document can be found here: https://www.dfc.gov/sites/default/files/media/documents/9000093268.pdf
[6] The project document can be found here: https://www.dfc.gov/sites/default/files/2019-08/9000093328.pdf
[7] "Belize shows the growing potential of debt-for-nature swaps", The Economist, 13 November 2021. Available at: https://www.economist.com/finance-and-economics/2021/11/13/belize-shows-the-growing-potential-of-debt-for-nature-swaps
[8] AINO, S., "How debt for climate swaps could spur a green recovery", World Economic Forum, 7 October 2020. Available at: https://www.weforum.org/agenda/2020/10/debt-climate-swaps-spur-green-recovery/ and VITERBO, A., et al., "The architecture for a debt-for-climate initiative", Heinrich Boll Foundation, 2020.

WHY THIS MATTERS FOR SMALL-SCALE FISHERIES?

For organisations working on the blue economy concept, particularly from the perspective of small-scale fisheries, responding to the advance of these debt-for-ocean swaps is a critical task. It is challenging because the financial instruments are themselves complex, and they also require engaging with policies that are usually not considered a priority for advocacy in fisheries, including national debt and debt restructuring. Yet the case of debt swaps highlights the relevance to stakeholders in maritime sectors of these macro-economic issues.

While highly indebted countries usually cut back on social services to rural communities, efforts by foreign organisations to assist developing countries restructuring debt have so often come with policy conditions that undermine the sustainable use of natural resources. Today, debt is linked to calls for industrialised countries to not only raise development assistance, but also to provide meaningful reparations for their ecological debts owed to developing countries, which includes the vast damage caused to coastal communities by the climate crisis.

In responding to debt-for-ocean swaps, almost all the media reports consider them to be ingenious financial instruments. Yet this overlooks considerable criticisms in the 1980s and 1990s, when many organisations discredited debt-for-nature swaps as symptomatic of conservation merging with neo-liberal economic dogma.

Debt swaps are easily misunderstood and their benefits in lowering debt for developing countries and saving nature are exaggerated. There is a lack of transparency in these transactions and the power and profit they provide organisations such as TNC in the governance of maritime sectors in developing countries is worrying. Debt swaps can come with a wider set of obligations, including the privatisation of fishing rights, advancing blue carbon trading, expanding high end eco-tourism and commercial fish farming. These are policies that small-scale fishing communities have often opposed.

Furthermore, while many people marvel at the large sums involved, they overlook how these deals create excessive dependence for developing countries on the global private financial sector. Debt swaps do not simply transfer money owed to foreign creditors into local funds for marine protected areas; they perpetuate a flawed vision of saving the planet that requires a never-ending stream of income to investment banks, hedge funds and asset managers. These deals not only greenwash the institutions that have created the debt and ecological crisis in the first place, they offer them the chance to make more money in trying to solve these problems. These commercial debt swaps could undermine more progressive proposals for both debt justice and the need for reparations for the ecological debts owed to developing countries.

Part 1: Understanding the debt-for-ocean swap in Belize

The debt swaps being developed by TNC are complex financial arrangements. Understanding them is compounded because critical details are often not made public. However, superficial reports on debt swaps, based on limited information, are often misleading. This section describes the Belize debt swap in four parts, although some aspects remain unknown.

A. THE EUROBOND DEBT

At the centre of the debt swap in Belize was a sovereign "Eurobond," a loan raised from private investors where payments to these investors are in a foreign currency. This name is confusing because the loan is not necessarily in Euros, and most Eurobonds are in US dollars. A Eurobond raised by a government is referred to as a "sovereign bond," as opposed to those raised by companies. They are issued by investment banks in the US and Europe, who have the role of marketing them to investors. Eurobonds can be contrasted to other sovereign debt, which includes bi-lateral loans made by foreign governments and multi-lateral loans made by intergovernmental organisations (such as the EU or the UN) or development banks (such as the World Bank).

Before the late 2000s most foreign debt owed by developing countries was in bi-lateral and multilateral loans, and most met the definition of being Official Development Aid (ODA); with interest rate payments below those on commercial markets. Since then, Eurobonds have grown dramatically in developing countries. Today, most of the foreign debt owed by developing countries is borrowed on the Eurobond market, and bi-lateral and multilateral debt has been declining, apart from the loans issued by China.

Eurobonds are the primary driver of a debt crisis that has worsened during the pandemic. With higher interest rates and commission fees and in foreign currency, they can become more expensive to repay when domestic currency depreciates. They are popular with foreign investors as they are high yielding assets. Indeed, the scale of money raised through bonds is often based on foreign demand for investments, rather than what is needed by the country to fund specific spending projects. Borrowing too much is therefore a common problem.

Eurobonds are also appealing for governments of developing countries because they provide an easy route to raising capital; without transparency and public oversight.[9] Inevitably, several Eurobonds issued by developing countries have been marred by fraud and corruption, and the Eurobond market is considered poorly regulated by many experts.

Governments frequently run out of cash to pay bondholders. It is also habitual that developing countries issue new Eurobonds to repay old ones. This bond bonanza has resulted in the growth of "sovereign vulture funds"; hedge funds that buy up bonds of a country just before it goes bankrupt, and then aggressively sue the country (usually in UK courts) for the full-face value of the bond.

[9] ROCHE, A., "Africa's Eurobonds are a blank cheque", *The Financial Times,* 17 October 2019. Available at: https://www.ft.com/content/25589487-78ba-4892-9fcf-cfe8556861b7

Like many other developing countries, Belize issued Eurobonds (with the assistance of CitiBank and JP Morgan) which were too large and expensive to repay. The Belize "superbond" launched in 2008 restructured all its outstanding commercial foreign bank loans into a single bond payable in USD. Over the years Belize has regularly defaulted on interest rate payments (known as coupons), and it has restructured the superbond 3 times, the last one in 2017.

Restructuring involves paying off bondholders at a discount, and then re-issuing the bond on different terms. In restructuring debt, governments promise, often supported by the IMF, to enact economic policies to increase economic growth, such as a reducing government spending, liberalising the economy or raising taxes.

"Superbond 3" in Belize gave new bond holders a coupon rate of about 5% (rising to 6.7% in 2021) and the final premium (the original value of the debt) was due to be paid back to investors in instalments between 2030 and 2034. In October 2021, exacerbated by the impacts of the COVID pandemic, Belize announced to its bondholders that coupon payments of over $13 million could not be met and Belize's superbond was trading at a value 40% lower than its original face value. Financialisation is therefore considered by many people to be the fundamental dynamic that has contributed to such vast inequalities in the world, while also becoming an existential threat to democracy. It transfers the ownership and control of so much of society to a tiny group of extraordinarily wealthy financial investors and institutions, therefore making everything work towards maximising profits over shorter and shorter time frames.

B. THE DEBT BUYOUT

In this context TNC was able to offer a loan, with interest, to the Belize government to buyout the bondholders at a discount. That is possible because owners of a bad debt can be satisfied with a lump sum pay out in cash, even if it is not for the full amount that was offered when the bond was issued. The required of 75% of the bondholders reached an agreement in a matter of a few months; suggesting the bondholders were eager to sell up.

The loan by TNC was issued by a new company established in 2021, called the Belize Blue Investment Company (BBIC), which appointed Credit Suisse to facilitate raising the loan. BBIC, subsidiary of TNC, is registered in the US Tax haven of Delaware.[10] The loan of $363 million to the Belize government was made conditional on an agreement on how the money was to be used by them. The text remains confidential, but according to a statement given to parliament by the Prime Minister of Belize, John Briceno, the agreement on the use of the loan was for the following:[11]

- **$301 million was used to pay off the bond holders**, a discount for Belize in repaying the loan of about 45% of the original face value of the superbond, meaning Belize cleared its debt with an initial saving of about $260 million. Critically the settlement agreement with the bondholders seemed better than paying them the present market value of the bonds; the agreement managed to shave off another 5%. It is reported that this extra 5% was agreed to because the savings of the deal would be spent on saving ocean

[10] See: https://www.bizapedia.com/de/belize-blue-investment-company-llc.html
[11] See the media report by Belize's leading National newspaper, *Amandla*, "Blue Loan Agreement Passed", 30 October 2021: https://amandala.com.bz/news/blue-loan-agreement-passed/

biodiversity. Bondholders could therefore claim to be gifting money for marine conservation.[12]

- **$24 million was used as an endowment for a national Marine Trust Fund** which works as a local bond. The interest on this amount is made available to a new local NGO that will be registered in Belize and set up by TNC. The premium of the endowment, $24 million, has a maturity rate of 20 years, meaning the original $24 million will be given to the NGO in 2041. It is noteworthy that the figure of $24 million corresponds to the estimated 5% extra discount that was achieved in settling the debt with bondholders. In addition to this investment, the government of Belize has also promised to give the Marine Trust Fund $4 million a year for the next 20 years, although that money will be raised from the government's own funds, not the loan from BBIC.
- **$10 million is to be set aside in a debt reserve account**, to be used as an insurance for times when interest on the loan to the BBIC cannot be serviced.
- **$10 million is for various legal and advisory fees** incurred as a result of the buyout of the original bondholders.
- **$18 million is set aside as an "original issue discount"** as the BBIC, with the help of Credit Suisse, will sell their debt owed to them by the Belize government to private investors. Since the initial capital for the Belize Blue Bond was provided by Credit Suisse from its own reserves, Credit Suisse will recover their investment by selling the loan. To attract these investors, these $18 million will be used to finance a discounted price for first customers.

The loan made by the BBIC was made conditional on a series of commitments by the Belize government to improve the management of its oceans. As it was also partly used to finance the Marine Trust Fund, TNC refers to the loan as the "Belize Blue Bond". The idea of blue bond was first developed for the Seychelles by the World Bank and TNC, and it describes a Eurobond where the proceeds of the loan are used to finance projects that support the sustainable development of maritime sectors and ocean conservation. It is an informal label as there are yet to be any international guidelines on the definition of a blue bond, although green bonds have more developed industry standards.

Referring to the loan given to Belize as a "blue bond" is dubious because the use of proceeds from the loan is predominantly for a debt buyback and servicing a new debt ($339 million out of $353). A minority of the proceeds ($24 million) is to be used for financing projects for conserving the oceans. A loan that is predominantly used for a debt buyback would not meet the criteria of a green bond.[13]

In the address made by the Prime minister of Belize to parliament he indicated that the interest rate of the loan they have with BBIC would start at around 6% and the full amount of the loan would have to be paid back within 9 years.

The US government, through its International Development Finance Cooperation (DFC) provided TNC with an investment guarantee. This means that buyers of the Belize Blue Bond are assured that if the Belize government fails to keep up

[12] SPINK, C., "First deadline for Beize blue tender", *International Finance Review,* 1 October 2021: https://www.ifre.com/story/3065701/first-deadline-for-belizes-blue-tender-32hmg0nczn
[13] The most important guidelines are the "Green Bond Principles" by the International Capital Market Association. Available at: https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf

repayments, they have the support of the US government in getting their money. With this support it becomes much easier for TNC and Credit Suisse to sell the debt to other investors.

Another benefit of an investment guarantee by a powerful guarantor such as the US is that it can allow the issuer of the debt to offer lower interest rates, which means developing countries can raise money at a lower cost. It makes buying debts of developing countries less risky and therefore means that credit rating agencies provide a more favourable assessment. But this dividend does not seem to have happened for Belize. Despite the US investment guarantee, the interest rate on the Belize Blue Bond is similar to the interest rates they owed on the original superbond (around 6%).

C. THE CLIMATE INSURANCE POLICY

Another feature of the deal is that the new debt established for Belize has been offered with insurance against the economic impacts of climate change. There has been a growing market developed by the private insurance industry for climate related risks, for which "catastrophic bonds" are one derivative. As a result of these insurance instruments, governments or companies can raise loans or insurance policies that protect them from costly fallout from natural disasters, such as hurricanes. In tropical coastal and small-island states, these events are occurring more regularly and are becoming more extreme. In fact, the failure of the Belize government to keep up with payments on its previous superbonds has been partly caused by economic shocks caused by tropical storms.

The so-called Belize Blue Bond was the first ever sovereign Eurobond to be offered with what is called a "parametric insurance deal",[14] an insurance policy that is tied to specific climate measurements. If values reach a threshold (i.e. the severity of a hurricane), then the insurance policy will cover the costs of Belize in maintaining interest rate payments to bondholders. In theory this will allow the Belize government to prioritise domestic spending to deal with the impacts of the disaster rather than divert funds to foreign investors.

The climate insurance policy for the Belize Blue Bond was issued by the German underwriters Munich Re, and was developed by Wills Tower Watson, an Anglo-American insurance firm that is majority owned by Elliott Management, one of the world's largest hedge funds. Elliott Management is one of the most prominent "vulture funds" in the world.[15]

The climate insurance policy for the Belize Blue Bond is issued for 30 months and will then be considered for renewal on different terms. However, the contract is not published and no information is available on the costs involved for Belize. It is reported that the climate insurance was critical to the success of the Belize Blue

[14] DELANEY, R., "Will Towers Watson places parametric solution for soverign debt", *Captive Insurance Times,* 21 December 2021. Available at: https://www.captiveinsurancetimes.com/captiveinsurancenews/reinsurancearticle.php?article_id=7823&navigationaction=reinsurancenews&newssection=reinsurance
[15] KOLHATKAR, S., "Paul Singer: Doomsday Investor", *The New Yorker*, 20 August 2018. Available at : https://www.newyorker.com/magazine/2018/08/27/paul-singer-doomsday-investor

Bond, a "game changer" that will encourage other developing countries to access more capital on the Eurobond market.[16]

These climate insurance policies carry several risks for developing countries.[17] Although these seem prudent arrangements that give a degree of economic protection to governments from climate disasters, they are inevitably deals that favour insurance companies, as they are more likely to keep their money than pay out. The generosity of the insurance policy will be revealed when the next hurricane hits the Caribbean. Additionally, such innovations by the private insurance industry could undermine bi-lateral assistance (such as from the US) for developing countries suffering climate disasters.

D. THE ENVIRONMENTAL DIVIDEND

The environmental conditions of the Blue Bond are set out in a confidential agreement signed between the Belize government and the BBIC, although a draft annex to this agreement is published by TNC on its website which provides summary details.[18] It is arranged into three main clauses. The first two clauses come with financial penalties for non-delivery, whereas the third does not.

Clause 1: The Marine Spatial Plan

This includes the obligation to enact laws that expand the percentage of Belize's oceans designated as a Protected Zone from 15.9% to 30%. The agreement stipulates that at least half of this area should be designated as a "High Protection for Biodiversity Zone" whereas the other half as "Medium Protection". The definition of these categories is not provided.

The agreement refers to the "Guidelines for Applying Protected Area Management Categories to Marine Protected Areas", which were published by the International Union for the Conservation of Nature (IUCN) in 2019.[19] There is no reference in the guidelines to the categories of a High or Medium Protection Biodiversity Zone. Instead, there are 7 categories of different types of protected areas, distinguished by the degree to which human activities are allowed to take place in these areas.

The TNC agreement also requires the Belize Government to follow international best practice in establishing marine protected areas. This includes respecting transparency and participatory processes.

There are 4 milestones that must be met by the Government, spanning 8 years: The first is to legally gazette 20.5% of the oceans as protected zones, and the second is to set up a multistakeholder group of government, industry and non-government organisations, including TNC, to develop a marine spatial plan. The gazettement of 30% of the oceans as a marine protected zone is due by 2026. Detailed Management

[16] "Game changing parametric insurance deal for Belize blue bond", *Environmental Finance,* 21 December, 2021. Available at: https://www.environmental-finance.com/content/news/game-changing-parametric-insurance-deal-for-belize-blue-bond.html
[17] HIRSH, T. (2020) "Climate risk insurance and risk financing in the context of climate justice", *Act Alliance.* https://reliefweb.int/sites/reliefweb.int/files/resources/Climate-Risk-Insurance-Manual_English-1.pdf
[18] Although classified as confidential, this document can be found on the website of TNC: https://www.nature.org/content/dam/tnc/nature/en/documents/Belize_Blue_Bond_Annex_A.pdf
[19] See: https://www.iucn.org/content/guidelines-applying-iucn-protected-area-management-categories-marine-protected-areas-0

Plans for how these zones are governed and what activities are permitted inside them are for 2029.

Clause 2: three other conservation milestones

- Six months after the agreement the Government must pass legislation that designates **all remaining public lands adjacent to the Belize Barrier Reef as "strict mangrove reserves"**, which also prohibits the sale of any land in this area.
- No later than four years after the agreement, the government should pass **a new law on Integrated Coastal Zone Management**, which must include a chapter on marine and coastal biodiversity offsets. This is a market-based system that allows the costs of conservation of coastal and marine biodiversity to be used by third parties (such as mining companies) to compensate the destruction of coastal and marine biodiversity elsewhere.
- No later than 6 years Belize will apply for **three marine protected areas to be listed by the IUCN as "Green List Areas"**, a voluntary certification scheme for protected areas.

Clause 3: General Conservation Undertakings:

There are an additional seven commitments for which there are no financial penalties set:

- To develop a high-value **sustainable aquaculture and mariculture industry** according to international best practices.
- To improve the governance of fisheries by **complying with international agreements and voluntary guidelines on responsible fisheries**.
- To develop a **national regulatory framework for blue carbon projects**, including legislation that allows for private ownership of blue carbon by investors or private landowners.
- To implement **an independent evaluation of the country's "Managed Access Programme"**, a programme implemented in Belize since 2015 in partnership with TNC, the World Conservation Society and the Environmental Defence Fund (all US conservation organisations) that has introduced private fishing licenses for Belize's small-scale fishers, replacing the "open access" common right to fish for citizens.[20]
- To **improve regulations on Environmental Impact Assessments** for the oceans.
- To meet the minimum standards for the **development of World Heritage Sites.**
- To undertake **2 "watershed management plans"** to address water quality monitoring and ocean pollution.

Although penalties are attached to the non-delivery of milestones under clauses 1 and 2 of the agreement, they are not publicly available. However, the Prime Minister of Belize said in his statement to the parliament that a failure to deliver on any milestone would mean the government has to pay $250,000, plus an additional

[20] See: https://belizeinvest.net/2018/05/02/managed-access-a-rights-based-approach-to-managing-small-scale-fisheries-in-belize/

$50,000 for each of the milestones not delivered to the BBIC. It is not clear how this money will then be used.

Part 2: Appreciating TNC's debt-for-ocean swaps in historical perspective

Many of the reports written about TNCs debt-for-ocean swaps explain it is merely replicating deals that have been used for decades and therefore, it is a tried and trusted model. However, what TNC is negotiating today is much larger than anything that has happened before, and the structure of the deals are different. A brief history to debt swaps is needed to appreciate these changes.

FROM DEBT-FOR-EQUITY SWAPS TO DEBT-FOR-NATURE SWAPS

First proposed by WWF in 1984, Conservation International concluded the first one in 1987, with the government of Bolivia. For a decade they were used by several conservation organisations from the US and Europe to launch environmental projects throughout the developing world, mostly in Latin America, but also in Africa, Asia and Eastern Europe.

They were inspired by, and were dependent on, "debt-for-equity swaps".[21] These were pioneered by advisors to developing country governments (Chile in particular) and foreign banks in the early 1980s and were considered a way to rescue banks and developing countries from the global debt crisis. Debt-for-equity swaps involved western banks selling a proportion of the loans owed to them by developing countries at a discount to a foreign investor. This created a secondary market in debt, with some country's debt being sold for as little as 5% of its face value. The debt sale required the agreement of the debtor country, who would reward the foreign investor by paying them the equivalent of the face value of the debt in a stake of a local national industry, or in local currency to be spent within the country.

It was considered a win-win-win situation; foreign banks got paid for a part of their debts that developing countries could not repay, foreign investors got a cheap deal to acquire business interests in developing countries and developing country governments transferred payments they had to make in foreign currencies into payments in local currencies that would benefit their national economies. They were controversial because they facilitated the acceleration of privatisation in developing countries, and also because they gave foreign investors business opportunities at a knock-down price, without there being evidence this led to an increase in foreign direct investment.

US conservation organisations recognised that developing countries had other valuable assets they could trade for foreign bank loans; their forests and wildlife. Conservation organisations therefore began buying discounted debt off banks in the US and Europe based on an agreement that the debtor country would reward them through conservation projects of an equivalent value of the original debt. Most commonly the payment was in cash, which conservation NGOs then used to invest

[21] COLE, DANIEL H., "Debt-Equity Conversions, Debt-for-Nature Swaps, and the Continuing World Debt Crisis", *Columbia Journal of Transnational Law* (57) 1992.

in conservation projects in that country. These payments came in the form of a local currency bond and were therefore spread out over many years.

In the late 1980s and 1990s most swaps targeted commercial debts. However, bilateral donors became interested in debt swaps as well. Donors such as the US and Germany allowed developing countries the option of clearing a proportion of loans with an upfront payment, on the condition that forgone payments were spent on nature conservation. Some donors expected developing countries to use 100% of the owed money for local spending, whereas other asked for a smaller proportion. The most generous deals therefore combined debt swaps with debt cancelation.[22]

Bilateral debt swaps also presented an opportunity for conservation organisations to subsidise these deals; thereby contributing to the buy-back of bi-lateral loans on condition of receiving local payments for conservation projects. Other organisations created debt-for-health swaps, debt-for-education swaps and so on.

Commercial debt swaps financed by conservation NGOs dried up by the mid to late 1990s. This was due to changes in tax and accounting rules for banks, and because of other international policies that restructured debt in different ways, including the US's Brady Plan that allowed debtor countries to restructure multiple bank loans into one single US backed bond. These changes meant there was no longer an easy market for discounted debt available to conservation organisations. Only bilateral debt swaps continued, with the US being the main donor country using these deals, although some others have used them occasionally. For example, in 2008, WWF negotiated a debt-swap with France and Madagascar. Both France and Russia also provided Mozambique with dept swaps in 2015, with a component earmarked for conservation.

THE FINANCIALISATION OF DEBT-FOR-NATURE SWAPS

TNC's debt-for-nature swap in Belize is the first commercial swap since the 1990s. However, it is a new form of debt-swap, demonstrating a growing sophistication in designing these deals, partly conditioned by changes to the way in which developing countries have raised money through international financial markets.[23] The most important innovation, which it pioneered in the Seychelles, is in the way in which they are financed.

Previously, conservation organisations bought debt with their own money, derived from charitable grants. The benefit was that they could spend, for example, 100,000 USD to get the equivalent of $1 million in local currency to spend on a conservation project. However, debt swaps are now to be financed by "impact investors"; private people or institutions that provide money with the expectation that they will receive a profit in return. This is what makes debt swaps relevant to the theme of conservation finance; the partnership between investment banks and hedge funds to make saving nature profitable.

Therefore, TNC borrows money to finance its debt-for-ocean swaps, and debtor governments are required to repay these loans, with interest. TNC is not a purchaser of debt, it is acting as a financial service provider and developing country

[22] SHEIKH, P., "Debt-for-Nature Initiatives and the Tropical Forest Conservation Act: Status and Implementation", Congressional Research Service report to Congress, 2004.
[23] In the 1970s and 80s, foreign debt was predominantly raised through syndicated banks loans that could be sold on a secondary market. To leverage commercial debt in an era dominated by Eurobonds, TNC realises that it must influence the restructuring of the entire bond.

governments are not simply swapping foreign debt for local currency payments, they are paying off foreign loans for buying back the debt.

The consequence of this approach is that TNC can operate at a much greater scale. Before the Seychelles deal, 47 separate debt-for-nature swaps paid for by conservation organisations involved a total net spend by them of $42.5 million,[24] which bought developing country debt with a combined value of $326 million. In Belize, TNC has borrowed money to enable it to refinance debt worth $533 million in one go. And as these new debt swaps are designed to generate profit, they have the potential to become an important stream of income for conservation organisations. In the Seychelles, TNC made $2.5 million through financing a deal worth just over $20 million.

Part 3: The controversies of debt swaps

According to most international organisations working on the blue economy, debt swaps are positive deals that generate essential funding to save the oceans, while simultaneously reducing the debt burdens of developing countries. However, this enthusiasm overlooks how controversial debt-swaps have been in the past. In the run up to the first Earth Summit in 1992, large numbers of organisations, including those representing indigenous peoples and small-scale farmers, denounced debt swaps categorically.[25] These deals were criticised by mainstream economists, including from the World Bank.[26] They were also reviewed by the US government in 1991, and were found to be disappointing, benefiting US banks more than they did developing countries.[27] None of this literature on debt swaps makes it into the glowing reports today.

The previous criticisms remain valid to TNC's new deals. However, the way in which these deals have evolved in the era of financialization means they are more controversial than the previous ones. The following pages discuss 5 themes of concern.

1. TRANSPARENCY

TNC's debt-for-oceans swaps raise concerns over a lack of transparency. It appears as an inherent characteristic to these types of financial deals, as debt buybacks are always negotiated with a high degree of confidentiality. Parties in these negotiations are worried about releasing information prematurely that might have unpredictable effects on other creditors and financial markets. It is therefore impossible for the public, or parliament, to scrutinise these deals before they are finalised; prior, informed consent of citizens is never achieved.

Thus, while TNC emphasises the need for the Belize government to follow international best practice in establishing a marine protected area, which includes transparency and participation, TNC cannot respect these principles in approaching

[24] SHEIK, P., "Debt-for-Nature Initiatives and the Tropical Forest Conservation Act (TFCA): Status and Implementation" (2018). Available at: https://sgp.fas.org/crs/misc/RL31286.pdf
[25] MAHONY, R., "Debt-for-nature swaps: Who really benefits?", *The Ecologist, vol. 22,* 1992.
[26] MICHAEL, O. "Debt-for-nature swaps", World Bank Working Paper, Debt and International Finance, 1990. Available at: https://documents1.worldbank.org/curated/en/300181468739253960/pdf/multi0page.pdf
[27] United States General Accounting Office (1991), "Developing country debt: Debt swaps for development and nature provide little debt relief". Available at: https://www.gao.gov/assets/nsiad-92-14.pdf

the debt-for-ocean swap in the first place. The government's legal commitment to creating a huge marine protected area is covered in a confidential agreement, devoid of public debate.

However, even if TNC was open about its desire to start negotiating a debt-swap in a specific country, it would be impossible to know the outcome of the deal until it was finalised. Reports published after the Seychelles debt swap was finalised reveal that TNC initially approached the Paris Club of donors for a deal worth $80 million with a discount of 25%, but eventually managed to get a debt swap worth $21 million with a discount of only 6.5%.

There is also a lack of transparency surrounding the details of these agreements, even after they have been completed. In Belize, the legal contract between the Belize Blue Investment Company and the Belize government has not been published. Additionally, TNC has only published a "draft" annex to the agreement that sets out the environmental obligations of the Belize government. The text of the penalties for non-compliance with the agreement is not public. The insurance policy used for the Blue Bond is also unavailable.

2. THE ILLUSION OF GENEROSITY

Advocates of debt swaps describe them as a producing a transfer of wealth from northern governments, banks or investors to developing countries. The source of this transfer of wealth comes from the owners of debt agreeing to sell their financial assets to conservation organisations at a discount. The resulting savings created by this are then transferred into additional spending on conservation. However, how generous have creditors actually been in these deals and what exactly have they sacrificed?

The sacrifice made by creditors is often not as significant as reported. In any debt swap, it is in the financial interest of creditors to sell debts at a discount to receive a lump sum up front for debts that have an uncertain future. That is why debt swaps flourish during debt crisis, when creditors are willing to sell off bad debts before things get worse.

In the case of Belize, owners of the country's "superbond" were quick to accept the offer of a buyout, because the economic forecast of the country was so dire. Many media reports mistook the entire discount of the deal to be the charitable donation, whereas in fact insider reports to the deal claimed at most the "blue" component of the deal lowered the buyout amount by approximately 5%, or about $24 million.[28] Indeed, it is unlikely that private creditors will simply donate money for a charitable cause given that they are duty bound to maximise revenues for their clients.

To calculate the real sacrifice, other factors come into play: TNC's loan to the Belize government included $18 million to entice new investors for its Blue Bond. Some of the original bondholders may have accepted a "haircut" from one bond but got a free "hair extension" from the next one, which is more attractive because it comes with a US government guarantee. Additionally, even if the debt swap saved Belize $24 million because of the commitments to marine conservation, the new Blue Bonds cost the country an extra $18 million for the Original Issue Discount. That cancels out

[28] GULATI, M., "The Super Cool Belize "Debt for Coral Reefs" Restructuring", *Credit Slips,* 10 October 2021. Available at: https://www.creditslips.org/creditslips/2021/10/the-super-cool-belize-debt-for-coral-reefs-restructuring.html

the savings, leaving only $6 million. The deal has only marginal benefits for reducing the debt obligations of the country as a result of linking the debt buyout with commitments for ocean conservation.

What further complicates understanding the sacrifices made by bondholders is that there are ways in which they recover their apparent losses, shifting the costs to other people. In the past, when banks sold debt at a discount for swaps, they could recover losses via their tax obligations. In the US this was explicitly allowed in federal tax law, although changes to tax laws eventually prevented this and it became one of the reasons why commercial banks lost interest in selling debt to conservation organisations. What this meant for most commercial debts swaps in the past is that they were subsidised by citizens in the home countries of the banks.[29]

Could the owners of Eurobonds offset their losses when negotiating discounted buyouts, particularly where these deals are claimed to support a good cause? This depends on the interpretation of tax and accounting laws of the jurisdiction of the bond owners. However, undoubtedly investors will seek innovative ways to offset any losses and there are several proposals on how governments can help compensate their apparent sacrifices. One proposal, for example, is exchanging forgone debt payments in debt-for-climate swaps and debt-for-nature swaps for the equivalent value in carbon offsets.[30]

The case of bi-lateral debt swaps

The question of generosity is also relevant in debt swaps that involve bi-lateral aid, as opposed to commercial loans. Donors have consistently reported the full-face value of debt swaps as a development aid grant. For donors that cap aid spending—which most do—the money used in debt swaps is accounted as part of their annual aid commitment. They do not subtract the money paid back to them for debt swaps from their aid budget either. The overall effect is that no wealth transfer takes place, and in fact swaps work to artificially inflate the reported aid giving by donors.[31] Debt swaps can therefore reduce the amount of aid to developing countries, not increase it.

This was evident in the Seychelles debt-for-ocean swap. Media stories consistently described this deal as the foreign donors generously forgiving Seychelles millions of dollars in aid payments to help the Seychelles save its marine biodiversity. However, the donors did not write off debts, they sold it. The donors agreed to sell $21 million at a discount of only 6.5%. It was one of the least generous discounts ever achieved through a debt-for-nature swap involving bi-lateral aid. Furthermore, in the debt swap the forgone debt repayments were reported by the donors to the OECD as a grant.[32] Because of this, the deal cost the donors nothing and it artificially increased their reports on aid giving.

[29] BLACKWELL, M., & NOCERA, S.," Debt-Equity Swaps". In *Analytical Issues in Debt*, USA: International Monetary Fund, 1989. Available at: https://www.elibrary.imf.org/view/books/071/00298-9781557750419-en/ch15.xml
[30] WIDGE, V., "Debt-for-Climate Swaps – are they really a good idea and what are the challenges", DEVEX 5 January 2021. Available at: https://www.devex.com/news/opinion-debt-for-climate-swaps-are-they-really-a-good-idea-and-what-are-the-challenges-98842
[31] CASSIMON, D. & VAESSEN, J., "Theory, practice and potential of debt for development swaps in the Asian and Pacific region", *Economic Systems,* 2007, 31(1). Available at: https://ideas.repec.org/a/eee/ecosys/v31y2007i1p12-34.html
[32] OECD data on aid: https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/

A genuine case of debt cancelation in 2011 wrote off $70 million of outstanding debt owed by the Seychelles as part of a restructuring deal arranged by the IMF.[33] In comparison, the 2015 ocean-swap provided debt relief to the Seychelles of only $1.5 million, an amount that did not warrant the considerable media flattery the donors received.

3. DEBT SWAPS AS A FALSE SOLUTION TO A DEBT CRISIS

Debt swaps receive political support as they are presented as beneficial for developing countries because they reduce foreign debt obligations. However, given the lack of sacrifice evident by creditors, the actual contribution of debt swaps to reducing the debt obligations of developing countries is likely exaggerated.

In a swap the forgone payments to foreign creditors are usually transferred into another debt obligation. Debts are shifted from one place to another. This can be beneficial for developing countries if the result is to reduce the overall levels of debt and if it transfers debt owed in foreign currency to foreign creditors, who do not spend their revenues nationally, into debts owed in local currency to national organisations that are spending the revenues at the national level.

The recent deals in Belize and the Seychelles, both governments committed to paying for the entire amount used by TNC to purchase the debt. In the case of Belize, the Blue Bond lent to Belize for the debt buyout was only part of the loan; an additional $28 million was added to the loan for payments to private financial organisations for buying the new blue bond (including the reserve fund), and $10 million was added for legal fees. Another $24 million was added to the loan to pay money to the marine trust fund. Belize has therefore agreed to a loan that is over $60 million more than the value of the discounted debt that was purchased by TNC.

Furthermore, the loans made by TNC to the Seychelles and Belize are transformed into new debts owed by the government with high interest rates and in foreign currency. One is the money to be paid back to TNC, the other is the debts owed to the newly established marine trust funds.

What is more troubling is that these deals may have negative impacts for better policies for dealing with a debt crisis. EURODAD, one of the world's leading organisations on debt justice, describes what has happened in Belize as a "terrible deal".[34] Belize will struggle to service the blue bond, as it has with previous bonds. However, the longstanding debt crisis in Belize requires a co-ordinated response across all creditors to stand a chance of success. This must be based on debt cancelation where necessary, combined with efforts to increase more sustainable sources of government revenue, which includes convincing governments not to return to reckless borrowing. Now the Eurobond is refinanced, a more co-ordinated and sustainable opportunity to debt restructuring may have been lost.

Greenwashing odious debt?

Debt-swaps are also controversial when the origin of debts being swapped are scrutinised. In the 1980s, a large part of the debt crisis was due to greed by both

[33] ROJID, S. et al., "Seychelles: How Classic Policies Restored Sustainability", World Bank, 2013. Available at: https://www.worldbank.org/content/dam/Worldbank/document/Africa/Seychelles/sc-how-classic-policies-restored-sustainability.pdf
[34] MUNEVA, D., "Making sense of Belize's blue bond proposal", EURODAD, 4 November 2021. Available at: https://www.eurodad.org/making_sense_of_belizes_blue_bond_proposal

bankers and government elites in recycling petro-dollars from the oil conflict in the Middle East.[35] In this context, high profile debt for nature swaps not only gave creditors money for potentially illegitimate debts, but they offered the creditors valuable political legitimacy, or greenwashing.

The same argument is valid for debt-for-ocean swaps. In the Seychelles, the Paris club of donors that were praised for swapping debt to fund marine conservation include France, that has loaned money to the Seychelles to develop industrial fishing. This is in fact development aid that directly benefits French fishing companies and contributes to the degradation of marine ecosystems.

In Belize TNC has now moved to purchase Eurobond debts. The escalating debts of developing countries over the past decade raised through Eurobonds have been due to widespread unethical banking practices and reckless borrowing, often by governments who have raised this money without transparency and accountability.[36] It is problematic that conservationists are paying off creditors to leverage conservation funding.

This greenwashing of illegitimate debts will be contentious in other countries: TNC's debt-for-ocean swap in Kenya, for example, will necessarily involve refinancing the commercial loans raised by the Kenya government, which includes successive multi-billion Eurobonds. These were raised without parliamentary debate and the use of the proceeds has not been fully accounted for.[37]

Conflict of interests further contribute to the unethical aspect of debt swaps. The investment banks that partnered with TNC are the same banks that are responsible for arranging the Eurobonds to developing countries. In Belize, TNC is working with Credit-Suisse, which is the Bank that has been at the centre of the Eurobond scandal in Mozambique where $2 billion was raised to launch a national tuna fishing company and strengthen maritime security. Credit Suisse is celebrated on one side for arranging a blue bond to save marine ecosystems, while on the other is at the centre of one of Africa's largest ever corruption scandals surrounding a maritime themed bond, causing a debt crisis that has impoverished millions of people.

4. THREATS TO SOVEREIGNTY AND DEMOCRACY

Debt-for-nature swaps threaten national sovereignty because they transfer considerable power in the governance of large areas of land or oceans in developing countries to foreign conservation organisations. In the 1980s and 90s, bad publicity on debt swaps was caused by cases where the management of protected areas was given to foreign NGOs without recognition of the customary rights held by local communities.[38]

Conservation organisations have responded by arguing that they rarely receive legal rights over protected areas through these deals. That is the case with the debt-for-ocean swaps with TNC. Furthermore, usually debt swaps channel funds to local NGOs to implement environmental projects. TNC also asks national governments to

[35] TURNER, T. & BENJAMIN, C., "Not in our nature: the male deal and corporate solutions to the debt-nature crisis", *Review (Fernand Braudel Center)*, 18, no.2, 1995.
[36] MUNEVAR, D., "Sleep now in the fire: Sovereign Bonds and the Covid-19 Debt Crisis", EURODAD, May 2021.
[37] "Ensure transparency in the next Eurobond", *People Daily*, 18 June 2021. Available at: https://www.pd.co.ke/news/ensure-transparency-in-the-next-eurobond-82133/
[38] ALIGRI. P., "Give Us Sovereignty or Give Us Debt: Debtor Countries' Perspective on Debt-for-Nature Swaps." American University Law Review 41, no.1 (1992): 485-516. Available at: https://core.ac.uk/download/pdf/235408573.pdf

establish a multi-stakeholder process for developing marine protected areas, which aims to involve otherwise marginalised groups, including small-scale fishers. This may be positive, particularly in countries where governments are resistant to civil society participation.

There are, however, reasons to be concerned about these deals from the perspective of democratic participation. Although TNC partners local NGOs and advances participatory processes, it nevertheless achieves a dominant position in national policy debates on the management of marine resources. The contract of the Belize Blue Bond not only commits the government to enlarge marine protected areas, but it also covers a wide range of other national policies, including new legislation on the tenure rights of citizens over coastal lands and the advancement of controversial policies on carbon trading and marine offset projects.

Whether one agrees with these policies or not, the issue is that a foreign organisation is dictating long term policy decisions on a developing country through its power as a financial service provider, and without the necessary public debate. This undermines democracy and the political strength of social movements in developing countries.[39]

Furthermore, TNC makes it a contractual requirement of the loan to have a position on the national multistakeholder steering committee that develops management plans. To respect the principle of democratic governance, TNC should remove this obligation, and allow national stakeholders to decide the composition of representative bodies themselves.

This issue needs to be put in wider perspective. TNC is the world's largest conservation organisation, with assets and annual revenues that surpass those of many of the small coastal and island states where it is working and proposing to implement debt swaps. It is run by former investment bankers and business consultants, with a governing board comprising some of the world's largest hedge funds and investment banks in the world. If the audacious plan is successful, TNC will achieve unprecedented powers of a NGO over the national policies of scores of countries across the world, and it will gain a dominant position on national multi-stakeholder processes.

This wider perspective also raises concerns over conflicts of interests. Foreign conservation organisations could leverage their power through debt swaps to further the interest of partners and donors in the private sector. The risk is plausible, given how dependent conservation organisations have become on the private sector. Past debt swaps have been used by conservation organisations to sign deals with companies back home for undertaking bioprospecting.[40] Likewise, debt-for-ocean swaps could be opportune deals that facilitate private investment opportunities in developing countries for businesses such as in commercial aquaculture, eco-tourism, nature offsets and carbon trading projects.

Geo-political considerations?

There can be extra conditions attached to these deals. The US legislation on bi-lateral debt swaps, as set out in its Tropical Forest Conservation Act, sets up certain criteria

[39] BANKS, N., et al. "NGOS, states and donors; still too close for comfort", *World Development,* 2015 Vol 66. Available at: https://www.sciencedirect.com/science/article/pii/S0305750X14002939
[40] ALIGRI, *Ibid*.

developing countries must meet to be eligible. For example, criteria that compliments US foreign policy objectives, including that the country implements free-market policies and has a free-trade trade deal with the US or in relation to the countries' commitment to aid US military operations on the war on drugs.[41]

The fact that the US is providing increased financial support for debt-repurchasing in developing countries raises the question of whether this serves wider geo-political interest? The US DFC has been criticised for its obsession with financing projects that help it address China's dominant position in developing countries.[42] Debt swaps might work to further other agendas, and do not simply seek to save the planet.

5. DEBT SWAPS AS A FALSE SOLUTION TO SAVING NATURE

In media reports, debt-for-oceans swaps have been presented as a saviour to marine biodiversity. What this overlooks is that they have so often been unsuccessful initiatives for the conservation of bio-diversity. There are three main arguments.

The paper park syndrome

Governments agree to lofty commitments on their environment to help secure the deals, but these commitments have short-term financial interests and publicity. There are many examples where governments have publicly committed to enlarge or strengthen protected areas, but then have authorised extractive industries in these places. They create "paper parks". Since concluding the debt swaps in the Seychelles, there have been concerns that the government has retained the right to authorise exploration of offshore oil and gas deposits, as well as concerns about developing industrial aquaculture.[43]

TNC's deal with Belize attempts to limit this problem by introducing financial penalties for non-compliance with the deal. This is unprecedented; national governments have never consented to pay a foreign NGO money for failing to deliver on environmental promises. The question is how it will be enforced, particularly if a new government is elected that denounces the deal.

A lack of funds?

Debt swaps do not generate as much money for conservation spending as their advocates claim. Part of the problem lies with "fungibility". If funds are earmarked for conservation spending through a debt swap, it is usually assumed that this money will be provided in addition to what the host government spends on conservation. However, usually when governments committed to spend revenues through a debt swap on environmental projects, they reduce public funding for conservation.[44] This is not necessarily a problem, but it means that debt-swaps might not provide additional financing for the oceans. Despite fungibility being a well-known risk for debt swaps, little is done to monitor it.

Additionally, because debt swaps involve governments establishing long-term bonds to finance conservation, what is paid out every year is merely the interest on the

[41] *Ibid.*
[42] SALDINGER, A., "US DFC at 1: Ambition, investments, and mission drift?", DEVEX, 22 November, 2020. Available at: https://www.devex.com/news/us-dfc-at-1-ambition-investments-and-mission-drift-98797
[43] SAIGAL, K. "Conservation finance: Seychelles' troubled waters", *Euromoney,* 10 October 2019. Available at: https://www.euromoney.com/article/b1hhzxrs8z0syh/conservation-finance-seychelles-troubled-waters
[44] CASSIMON, D. PROWSE, M & D. ESSERS, "The pitfalls and potential of debt-for-nature swaps: A US-Indonesian case study", *Global Environmental Change,* 21, 2011.

value of the new debt. The full amount (the premium) will only be paid out several years later, depending on the maturation period of the bond. What first looks like a substantial amount of additional money for conservation, ends up as a modest trickle of funds. And since these deals involve setting up a new NGOs, a significant amount is consumed in their running costs.[45]

Looking back at the audacious plan diagram, $1.6 billion is presented as funds for ocean conservation. However, this is actually the value of the debts owed by developing countries to TNC, not what is committed to be spent on ocean conservation. The value of the Belize Blue Bond is $363 million, with only 6.6% of this being earmarked for conservation. Belize has committed to a further $4 million a year to finance the projects set out in the agreement with TNC, but this is money from the central budget, not from the Belize Blue Bond.

The ambitious commitments made by governments to enlarge marine protected areas and transform the governance of their blue economy are not joined by estimates of the various costs involved. If they are to be managed effectively, then the annual costs of monitoring and surveillance are likely to be in excess of the funds earmarked through the debt swaps. The new marine protected area in Seychelles is estimated to require as much as $42 million a year, which the government does not have.[46] But if the debt swap does not pay for these commitments, where will the money come from?

The contradiction of saving nature to drive economic growth

At the heart of the debt swap idea is a belief that biodiversity loss is predominantly caused by a lack of government funding, the “funding gap”. However, lack of funds is not the root cause of biodiversity loss in tropical forests as it is not in the oceans. In many countries, the most threatening problems impacting marine ecosystems and local communities depending on them for their livelihoods derive from too much foreign investment and commercial exploitation. Such unsustainable governance of nature is also caused by forms of state-corporate corruption. Debt swaps carry the assumption that more money in government budgets will translate to better environmental governance.

Unfortunately, this flawed approach allowed TNC to complete debt swaps with Seychelles and Belize without any serious documentation on the drivers of biodiversity loss and the costs and vulnerabilities of creating a marine protected area.

Conservation organisations convey the belief that saving nature must be a profit-making endeavour. A blue bond is therefore dependent on blue growth; the oceans should provide a source of never-ending surplus profits. This becomes a self-fulfilling cycle; more blue growth, which inevitably causes environmental destruction, will be dependent on more blue bonds. It is an unsustainable pathway, with the only people guaranteed to benefit being the rentier class—those with surplus money to lend. In a meeting before the Earth Summit in 1991, organisations working on the rights of rural communities and indigenous peoples described this problem.

[45] In the Seychelles, SeyCATT—the new NGO to receive the money from the debt swap– receives $430,000 a year through the interest of the bond, from which it administers a programme worth $250,000. The debt swap is far too small to help finance the costs of enlarging a marine protected area and actually the money from the deal is not used for it anyway.

[46] VYAWAHARE, M., “Seychelles extends protection to marine area twice the size of great Britain” *Mongabay*, 30 March 2020. Available at: https://news.mongabay.com/2020/03/seychelles-extends-protection-to-marine-area-twice-the-size-of-great-britain/

> "*Debt for nature swaps divert attention from the main arena of conflict where the existing model of wealth accumulation and international relations favours the extraction and transference of a significant part of the labour, natural resources and wealth of Third World countries to the dominant points of the capitalist economy. Sadly, it is not ignorance of the weakness of debt-for-nature swaps that has led NGOs to become involved in debt conversion schemes, believing they will obtain financial resources or influence official environmental policies. Rather their involvement would seem to indicate a movement increasingly co-opted by the financial ethic*".[47]

5. Conclusion

TNC's debt-for-ocean swap in Belize had an impact on a large part of the country's foreign debt, while also advancing several important policies on the management of the country's blue economy. It is the first example of a wider global initiative, with similar debt swaps being negotiated in many other developing coastal and small-island states. The international response has been overwhelmingly positive, and TNC's debt swaps are being used as the inspiration for other proposals on how developing countries currently drowning in debt can be traded into funds for responding to the climate crisis.

Organisations working with small-scale fisheries need to engage more in debates about the desirability of debt-for-ocean swaps. Unfortunately, the main international organisations influencing policy debates on the blue economy are so enthusiastic about these "innovative" financial instruments that they are not providing a platform for open exchanges, but simply aiding the marketing of these deals.

In taking forward these debates, critics need to treat the glossy presentations with upmost caution. Debt swaps are routinely presented in misleading ways that exaggerate the financial benefits for the debtor country, while overlooking the financial benefits to the creditors.

A key question is whether debt swaps can be reformed to be more beneficial for small-scale fisheries, or whether they should be opposed outright? Several policy recommendations could be advanced to improve these deals, such as strengthening democratic accountability and inclusion, while also reducing the transfer of power to organisations such as TNC. Campaigns might force bondholders to be more generous in agreeing to discounts? Yet these improvements will be difficult to achieve, partly because the success of the debt swaps requires confidentiality in their negotiation and because gaining political leverage in developing countries would seem to be one of the main reasons why organisations such as TNC engage in these deals. Expecting bondholders to be more charitable is naïve since they exist to maximise profits. Real transfers of wealth are unlikely to occur if left to voluntary commitments of the private financial industry.

Reforms to financial instruments may improve slightly the governance and financing of the blue economy, without moving towards a more sustainable and equitable future. Small-scale fisheries should rather add their voices to debt cancelation. More

[47] The declaration was published in *The Ecologist*, vol. 22, 1992.

importantly, perhaps, is the demand for meaningful efforts to address the ecological debt. Developing countries are now being enticed to borrow more money from foreign creditors to save nature and pay for climate insurance, to respond to the debts and ecological destruction predominantly caused by the unsustainable economic growth and demand for natural resources of industrialised countries. From such a perspective, debt swaps must surely be seen as a symptom of the injustice, not a solution.

From a global perspective, debt swaps simply reiterate the belief that a sustainable blue economy must be wedded to boundless economic growth. It is a view that the financialised global economy depends on, but this is false and if left unchallenged, it will destroy the ability for a truly sustainable future for millions of people currently relying on the oceans for their livelihoods.

Kenya, 15 March 2022