Profile: NatureVest, The Nature Conservancy and JPMorgan Chase & Co

Winner: Achievement in Transformational Finance
In this series, we profile the winners and commendees of the 2016 FT/IFC Transformational Business Awards to share how they are delivering sustainable solutions and making a difference in their markets, countries and communities.

Protecting The Big Blue

What do you see when you think of the Seychelles? Miles of pristine beaches, clear blue water, gentle waves, and a vacation to remember? Perhaps that’s true. But there’s more to the picture than meets the eye.

The Seychelles, a nation of 115 islands in the Western Indian Ocean, is heavily dependent on the Blue Economy. Commercial activity directly and indirectly sustained by the ocean - like tourism and tuna fisheries - generate over 90% of its GDP. Its warm, shallow waters are home to many threatened and endangered species like electric stingrays, sharks and leatherback turtles.

But like many low-lying island states, it is vulnerable to the perils of climate change. Frequent storms, rising sea levels and coral bleached by warmer ocean temperatures threaten vital building blocks of its economy and may trigger a vicious circle where environmental damage and shrinking biodiversity make the islands less attractive for visitors - which means less revenue, and even less left for marine conservation after meeting the essential needs of the citizens.

The country is also burdened by a high level of sovereign debt, which again hampers its ability to fund climate adaptation and conservation work. It is currently making payments to a number of other state creditors convened by the Paris Club.

Yet where others may have seen high debt levels and economic uncertainty, NatureVest – the impact investing unit of The Nature Conservancy – and its founding sponsor JPMorgan Chase & Co. saw opportunity for innovation. In a ground-breaking finance transaction, the team managed to lighten the sovereign debt load, secure a steady stream of funding for marine conservation, and expand protected coastal areas in the Seychelles by 400,000 square kilometers. The project earned NatureVest and JPMorgan Chase the 2016 FT/IFC Transformational Business Award in the Transformational Finance category.

How the deal works

The Nature Conservancy bought back $21.6 million of the Seychelles’ sovereign debt with a $15.2 million impact capital loan and $5 million more in grants. The debt was restructured and made payable to a newly formed SeyCCAT (Seychelles Conservation and Climate Adaptation Trust).

The Seychelles government will issue two promissory notes to SeyCCAT to repay the debt, with one of the notes mostly paid in local currency. The first note’s proceeds, paid in US dollars, will go directly to the loan balance. Payments under the local currency note will be used to fund conservation, including $281,000 per year for marine conservation and climate adaptation activities for 20 years, and $151,000 more per year placed in an endowment with an expected final value of approximately $6.7 million.

Under the terms of the deal, the Seychelles also committed to convert 400,000 square kilometers – an area larger than Germany - into new Marine Protected Areas.

“We are very proud of the work we’ve done to build the conservation investing marketplace,” said NatureVest managing director Marc Diaz. “This project took tremendous time, partnership, effort and dedication to pull off.”

“Having our work recognized by the FT/IFC Award was a great honor,” he added. “It validates the model we’re working with, and shows that this type of financing is viable and highly impactful for conservation.”
Good Ideas are Spreading

The Seychelles deal has made a lot of firsts. It’s the first debt restructuring designed explicitly for marine conservation and climate adaption, and the first to include impact investments. It is also the first time a transaction of this scope has been negotiated in the Paris Club with the help and leadership of the French government.

And because it created a new model for the “debt-for-nature” swap, it has caught the attention of other small island states grappling with similar challenges. At the COP21 conference in Paris, where the deal was announced, four additional states including Jamaica, Grenada, Palau and the Republic of Marshall Islands voiced their intent to conclude similar deals with the help from The Nature Conservancy (TNC).

“We hope to replicate our model around the world,” said NatureVest senior director of product development Rob Weary. “We are currently working on similar debt conversions with Small Island Development States around the globe, and aim to close them in the next year to 18 months.”

The big players in the development finance community agree. The IMF has recently endorsed the Seychelles debt swap as an innovative finance mechanism for funding the Blue Economy in Small Island Development States. The deal has also caught the attention of the European Investment Bank, which is looking at buying out TNC’s $15.2 million loan to SeyCCAT, and TNC is exploring issuing Blue Bonds to finance additional deals. The World Bank is considering a loan of $50 million to support a proposed Jamaica debt conversion. Finally, the Conservancy is working with the German Development Bank on a concessionary loan/grant package to finance a Grenada debt conversion.

The Long View

At the end, the people who will benefit most from the Seychelles deal are the citizens of this small island nation, where protecting the ocean and making a living are connected so closely. Replicating this mechanism in other island states will help ensure that the Blue Economy will flourish and continue to sustain their communities for many years in the future.

The 2017 FT/IFC Awards are now accepting applications from the forward-thinking organizations and municipalities. Click (xx) to learn more.