



Nature Bonds PROJECT TOOLKIT

A proven approach to leveraging debt refinancing and technical assistance for effective, durable conservation and climate action

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For this toolkit, our team built upon TNC's expertise in debt conversions for nature and climate, through its Nature Bonds program and mobilized external experts on various subjects, including via consultations with external parties involved in closing the projects to date.

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Disclaimer

This toolkit represents The Nature Conservancy's views and does not represent the views of any other institution or organization. This toolkit serves as a general guide and should not be considered financial or legal advice. Individuals considering any subjects addressed in this toolkit are strongly encouraged to seek consultation with their advisors.



Foreword

Purpose of this toolkit

This toolkit provides interested stakeholders, primarily from the Ministries of Environment and Finance or their equivalents, with a high level and comprehensive overview of Nature Bonds projects, focusing exclusively on commercial debt conversions.

It provides information on the steps before and after the transaction close, describes expectations of the parties regarding processes and documents, and the rationale and best practices needed for a successful outcome.

The toolkit will also benefit governments, advisors, credit enhancers, NGOs, communities and other key parties, such as other government ministries, public agencies, banks and Development Finance Institutions who want to better understand the impact and processes of Nature Bonds projects.

About The Nature Conservancy

The Nature Conservancy (TNC) is a global conservation organization dedicated to conserving the lands and waters on which all life depends. Guided by science, we create innovative, on-the-ground solutions to our world's toughest challenges so that nature and people can thrive together. We are tackling climate change, conserving lands, waters, and oceans at an unprecedented scale, providing food and water sustainably, and helping make cities more sustainable. Working in more than seventy countries and territories, we use a collaborative approach that engages local communities, governments, the private sector, and other partners.

Our Values

TNC consistently collaborates with and respects the leadership of countries, upholding the highest standards of diversity and inclusion. We prioritize working alongside governments as equal partners, ensuring that Nature Bonds projects are co-developed in alignment with national priorities and values. By valuing and incorporating diverse perspectives, we enrich the process of designing the project, ultimately fostering more effective and sustainable outcomes. TNC remains committed to promoting diversity, equality, and inclusion in all aspects of our work, recognizing that these principles are essential for achieving lasting conservation and climate impacts.

Contact

If you are interested in learning more, providing feedback, or exploring a Nature Bonds project for your country, please contact naturebonds@tnc.org.



Introduction

Water producing forests, Mongui, Boyacá, Colombia.
© Daniel Tadeo Garcés Jurado/TNC Photo Contest 2021

What are Nature Bonds projects?

Nature Bonds projects are a holistic approach that uses debt refinancing coupled with technical assistance with ecological and social science, in policy and conservation planning, to help countries achieve their conservation and climate goals, close the nature-finance gap, and support local communities.

Nature Bonds projects are characterized by robust, legally binding conservation commitments that are tied to a debt conversion transaction. Long-term conservation and climate partners support national governments in their planning efforts, such as developing Marine Spatial Plans, and the implementation of Nature Bonds projects through direct investments and technical assistance in science and policy. These investments support communities, protect nature, address climate change, and preserve the well-being of land, ocean, and freshwater ecosystems.

The debt conversion component of a Nature Bonds project aims to refinance a country's commercial debt to generate new funding for conservation and/or climate. Through this mechanism, a sovereign issuer, with a credit rating below investment grade, accesses international capital markets by issuing bonds with an enhanced credit rating which results in debt service savings typically due to a

reduced interest rate. Collaborations between international NGOs and development banks facilitate the provision of credit enhancement mechanisms such as credit guarantees and political risk insurance. The savings from these transactions, whether derived from reductions in debt volumes, interest rates, or other means, can then be allocated towards nature and climate initiatives without adding extra strain on government budgets or debt levels. TNC pioneered this type of approach and refers to them as Nature Bonds projects.

Funds generated by Nature Bonds projects are managed through an independent Conservation Trust Fund (CTF), which ensures transparency, accountability, and compliance in managing and distributing finances. Once established, the CTF can also be used as a mechanism to mobilize, monitor, and report on additional funding sources and/or manage finances for additional conservation and or climate objectives in the country.

GO DEEPER



[What is the history of debt conversions for nature and climate?](#)



[Nature Bonds Practice Standards](#)



What are the benefits of Nature Bonds projects?

Supported by The Nature Conservancy, countries that undertake a Nature Bonds project can expect to:



Unlock Additional Sources of Funding

Generate long-term, sustainable financing for conservation and climate priorities, without increasing debt, while catalyzing additional support from diverse new sources such as private capital, development finance institutions (DFI) and philanthropists.



Achieve National and International Commitments

The funding unlocked, and technical assistance delivered, with a Nature Bonds project can help countries achieve global pledges and plans such as Nationally Determined Contributions (NDCs) and National Biodiversity Strategies and Action Plans (NBSAPs). Achieving these commitments is done in a meaningful and durable way, as determined through transparent and participatory planning processes.



Support Climate Resilient Ecosystems and Communities

Direct conservation investments support communities, protect nature, and improve the health of land, ocean, and freshwater ecosystems.



Channel and Mobilize Conservation and Climate Funding

By setting up an independent Conservation Trust Fund with global best practices, Nature Bonds projects channel funding to conservation activities and can mobilize additional funding from other sources, including bilateral and multilateral parties.



Reduce Debt Burden

Countries that undertake Nature Bonds projects often have more time to service their debt, can receive lower interest rates and benefit from potential debt stock reduction. Countries also have options to make conservation payments in local currencies



Improve Financial Position

In some cases, the refinancing component of the project can enable countries to achieve fiscal savings. Debt payments that would otherwise be made outside of the country are kept in the local currency and invested into a country's local economy.



Case Studies: Nature Bonds Projects

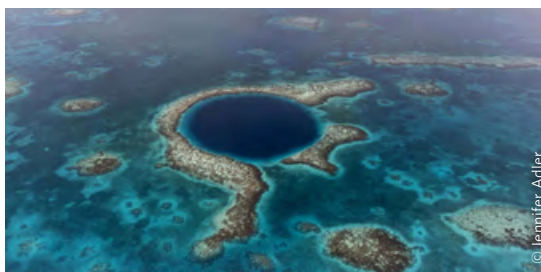
The case studies shown below emphasize marine and ocean projects, showcasing TNC's experience to date. Additional case studies focused on terrestrial, freshwater, and climate will be provided soon.



© Roshmi Lodhia

Seychelles

TNC supported the Seychelles in putting over 30% of its ocean space into marine protection before 2020, via the mechanics of a Marine Spatial Plan. A debt conversion of approximately USD 22 million of Paris Club debt provided USD 430 thousand in annual funding for conservation and climate.

[LEARN MORE](#)


© Jennifer Adler

Belize

USD 553 million was bought back from bondholders at a 45% discount through a "Blue Loan," which supports Belize's goal of protecting up to 30% of its ocean space. It has enabled the creation of a Sustainable Ocean Plan by 2026 through USD 180 million in marine conservation funding over the next 20 years.

[LEARN MORE](#)


© Shane Gross

Barbados

A TNC-organized USD 150 million debt conversion supports Barbados with the protection and effective management of up to 30% of its waters and has enabled a Sustainable Ocean Plan through USD 50 million in conservation funding over 15 years.

[LEARN MORE](#)


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Gabon

Currently supporting Gabon in protecting up to 30% of its oceans by 2030 and enabling a Marine Spatial Plan through USD 163 million in conservation funding over 15 years, which was made possible by refinancing USD 500 million of Eurobonds.

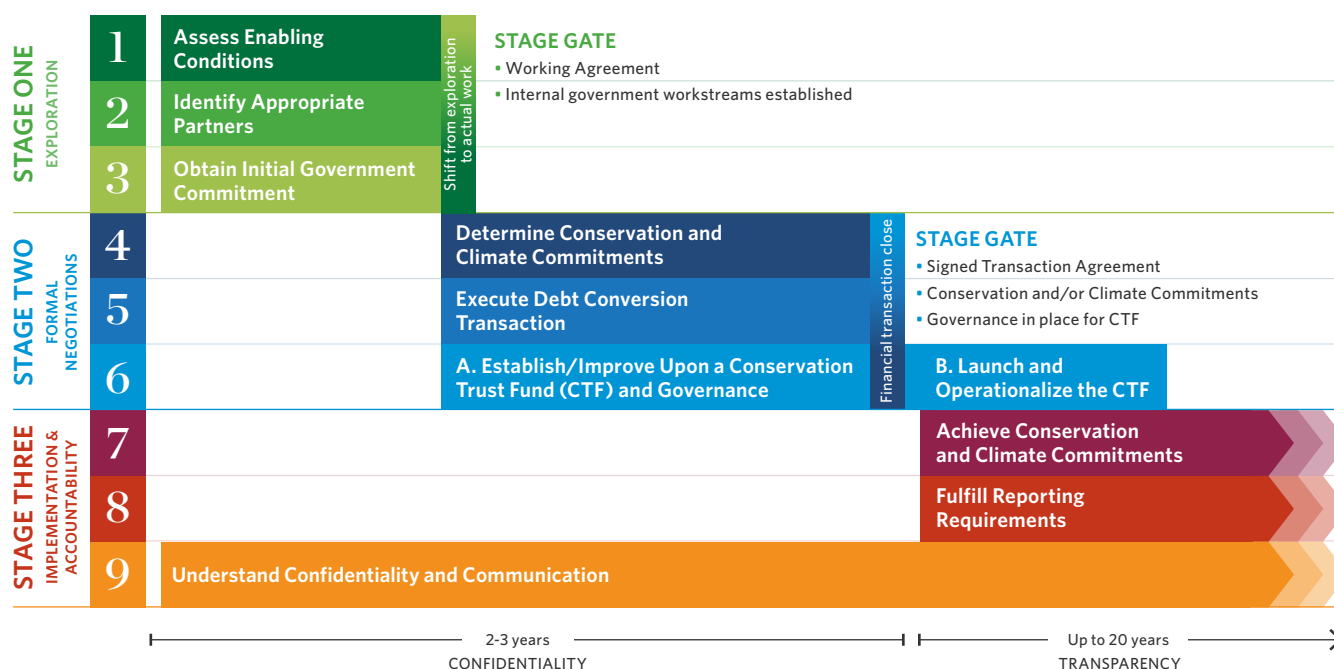
[LEARN MORE](#)



EXECUTIVE SUMMARY:

How Nature Bonds projects work

There are nine sections to a Nature Bonds project, which often overlap in time. They can be grouped into three main stages which run sequentially across the project.



1. Assess Enabling Conditions:

Understand the feasibility and suitability of a Nature Bonds project, including determining eligible debt. Assess if a Conservation Trust Fund (CTF) already exists and meets the [Nature Bonds Practice Standards](#). Understand the country's conservation and climate priorities and opportunities.

2. Identify Appropriate Partners:

Coordinate and consult with global and local partners, including internal government stakeholders and credit enhancers, as well as conservation/climate partners necessary for project implementation.

3. Obtain Initial Government Commitment:

Government signals a commitment to proceed, which may include signing a Technical Assistance letter and setting up an internal government working team to coordinate across ministries.

Stage Gate:

Transaction agreements including Conservation and Climate Commitments executed. Financial transaction close, loan agreement and other transaction documents signed.

4. Determine Conservation and/or Climate Commitments:

With the government, define and draft legally binding, time-bound commitments to the specific conservation, sustainable development, community, and/or climate outcomes of the country.

5. Execute Debt Conversion Transaction:

Refinance the government's existing commercial debt into a new loan with more favorable terms. The unlocked funds will support the country's conservation and climate goals.

6A. Conservation Trust Fund (CTF) and Governance:

Establish or improve upon, a private, transparent, independent CTF that receives the funds unlocked from the debt conversion.

Stage Gate:

Loan agreements including Conservation and Climate Commitments executed. Financial transaction close, agreement signed.

6B. Launch and Operationalize the CTF:

The CTF can take up to a year to operationalize and disburse grants after the transaction closes. The CTF operates for the length of the entire project, usually up to 20 years and potentially even beyond.

7. Achieve Conservation and Climate Commitments:

Identify an agency lead within the government to head interagency coordination on the Conservation Commitments work. Translate Conservation and Climate Commitments into government workplans and undertake actions and progress towards achieving legally-binding conservation Milestones.

8. Fulfill Reporting Requirements:

Fulfill Milestone and annual conservation reporting requirements outlined within the [Nature Bonds project conservation agreement](#), including sharing the outcomes achieved, validated by subject matter experts.

9. Understand Confidentiality and Communication:

Before the financial close, confidentiality is crucial to prevent market speculation that could inflate bond prices and potentially lower the amount of funding unlocked, or even jeopardize the project as a whole. Post-financial close, implementing accountable communication strategies is essential.



Glossary

Biodiversity: The variety of life in the world or in a particular habitat or ecosystem.

Blue Bonds Program: Previous name of TNC's program, now called the Nature Bonds program.

Conservation: Protecting ecosystems and the species within them.

Conservation Agreement: Agreement between the government and the long-term conservation partner encapsulating the Conservation and Climate Commitments and related Milestones, can also be directly included in the loan agreement depending on the project.

Conservation and Climate

Commitments: Legally binding commitments made by governments under Nature Bonds projects, aimed at achieving ambitious conservation, sustainable development, and/or climate outcomes.

Conservation Trust Fund (CTF):

A private, transparent, independent fund established or improved upon to receive funds unlocked from debt conversions to support conservation and climate goals.

Credit Enhancement: Tools used to improve the creditworthiness of a borrower, such as credit guarantees and political risk insurance.

Debt conversion transaction:

A financial process where a portion of a government's existing commercial debt is refinanced through a new loan with more favorable terms, enabling funds to be redirected towards specific purposes such as conservation and climate goals.

Environmental, Social, and

Governance (ESG): Criteria used by investors to evaluate a company's impact on society and the environment alongside its financial performance.

Eurobonds: Bonds denominated in a currency other than that of the country or market in which they are issued.

Global standards: Internationally agreed-upon guidelines for measuring conservation success.

IUCN Monitoring Framework:

A set of guidelines developed by the International Union for the Conservation of Nature to track conservation progress.

Long-term conservation and climate

partner: An organization (like The Nature Conservancy) with expertise in protecting natural areas which participate in a Nature Bonds project to support conservation activities on the ground over the life of the project.

Marine Spatial Plan: A comprehensive plan that outlines the sustainable use and management of marine resources within a defined geographic area.

Milestones: Specific goals or targets within Conservation and Climate Commitments, which must be achieved within a specific time period.

Nationally Determined Contributions

(NDCs): Commitments made by countries under the Paris Agreement to reduce greenhouse gas emissions and adapt to climate change.

Nature Bonds Practice Standards:

TNC is developing standards to guide the design, management, implementation, monitoring, and assessment of Nature Bonds projects, aiming to ensure consistent and impactful conservation performance across all project aspects.

Nature Bonds Projects: A holistic approach utilizing debt refinancing coupled with ecological and social science, policy, and conservation planning to help countries deliver on their nature and climate international and national commitments, close the nature-finance gap, and support local communities.

Project Facilitator: Individual or organization responsible for guiding and coordinating the various stakeholders involved in a Nature Bonds project.

Project Finance for Permanence

(PFP): A proven approach to conservation designed to secure the policies, capacity, institutional arrangements, and full funding for the effective and long-lasting protection of ecosystems at scale.

Acronyms

CBD: Convention for Biological Diversity

CRAs: Credit Rating Agencies

CTF: Conservation Trust Fund

DFC: United States International Development Finance Corporation

DFIs: Development Finance Institutions

ESMS: Environmental and Social Management System

HRDD: Human Rights Due Diligence

IDB: Inter-American Development Bank

IMF: International Monetary Fund

IPLC: Indigenous Peoples and Local Communities

LULUCF: Land use, land-use change, and forestry

MDBs: Multinational Development Banks

NBSAPS: National Biodiversity Strategies and Action Plans

NDCs: Nationally Determined Contributions

NDA: Non-Disclosure Agreement

NGOs: Non-Governmental Organizations

PFP: Project Finance for Permanence

PRI: Political Risk Insurance

RFP: Request For Proposal

TNC: The Nature Conservancy

USAID: United States Agency for International Development

USD: United States Dollar



1 Assess Enabling Conditions

Stage 1 : Section 1

- 1.0 Overview
- 1.1 Determine Eligible Debt
- 1.2 Sign Technical Assistance Letter
- 1.3 Determine Conservation and Climate Priorities
- 1.4 Understand The Policy Framework and Approval Process

Ancient forest, Monteverde, Costa Rica
© Christopher Becerra / TNC Photo Contest 2019

1.0 Overview

Assessing the enabling conditions allows governments to make informed decisions about the feasibility and suitability of a Nature Bonds project that will strike a balance between realizing fiscal benefits and reaching conservation and climate goals.

Macro enabling conditions include:

Adequate time:

Assuming it takes 2-3 years to complete the design and transaction stages, is there sufficient time to pursue such a project before any change in national strategy?

Adequate capacity:

Does the government have adequate capacity and/or willingness to build capacity to dedicate to the project?

If these macro enabling conditions are favorable, an informal assessment is conducted through conversations between the government and the project facilitator, involving the following questions:



Can a Nature Bonds project unlock funds given a country's debt profile and eligible credit enhancement?



What conservation and climate opportunities exist, and how are they prioritized to determine focal regions and actions?



What policies and processes must the parties navigate to approach a Nature Bonds project?



The below points, 1.1 to 1.4, should be considered as being undertaken in parallel, rather than sequentially.

1.1 Determine Eligible Debt

Not all debt can be refinanced. Identifying what debt to refinance is key.

Usually, the lower the repurchase price of the debt, the greater the savings created and the more funding unlocked for conservation and climate action. However, there are other features of the debt to be analyzed in addition to deeply discounted trading level, including high pre-existing interest rates, constrained access to capital markets, and upcoming maturities.

In Nature Bonds projects, TNC works with the Ministry of Finance and its advisors to identify what debt is best to refinance. The goal is to maximize the unlocked funds and create the most funding over time for the country's [Conservation and Climate Commitments](#).

For a Nature Bonds project to work, the payments on the new loan plus the conservation payments should be equal to or less than the payments on the original debt being refinanced.

In the case of refinancing a maturing debt, there needs to be a sufficient improvement in total borrowing costs relative to the market rate.

[Eurobonds](#) are often the best solution as they are usually the most expensive type of debt, repurchase price is easy to obtain, and there is a transparent process to repurchase debt that attracts willing-to-sell investors.

Once the eligible debt is identified, it is important to explore options from different development finance institutions to mobilize [credit enhancement](#). Not all institutions can operate in every geography and early high-level dialogue with financial advisors and TNC can help the country identify the right next steps and avoid blatant non-possibilities.



See sections 5.2 [Credit Enhancement](#) and 5.3 [Refinancing Existing Debt](#) for more details.

1.2 Sign Technical Assistance Letter

In the initial stages of exploration, governments indicate their interest in gaining further insights into Nature Bonds projects. The project facilitator and the government may want to document this request for technical assistance. TNC requires that the government formally requests technical assistance in writing. This letter does not commit any of the parties to complete a transaction.



You don't get the big wins with real, lasting, meaningful conservation results from just doing little projects. Big initiatives like this really open doors to achieving meaningful outcomes.

DR. SHERRY CONSTANTINE
FORMER DIRECTOR OF THE NATURE CONSERVANCY'S
EASTERN CARIBBEAN PROGRAM



1.3 Determine Conservation and Climate Priorities

The next step is to identify and decide on the key conservation and climate outcomes that will be supported by the funds unlocked from the debt conversion, based on the government's existing conservation and/or climate goals and strategies.

Determining these priorities, and assessing the capacity to meet them, is an iterative collaboration between the government, the project facilitator and the long-term conservation and climate partner. It includes answering, where applicable, the following key questions:



What is the current conservation and/or climate status of the country?

Assess the current status of conservation and climate actions, ambitions, and opportunities for the country and the project's key partners. Review current international commitments, such as the Convention on Biological Diversity's Global Biodiversity Framework, the National Biodiversity Strategies and Action Plans (NBSAPs), and the National Determined Contributions (NDCs) to understand what priority actions would lead to achieving existing targets.



What is the conservation and/or climate vision for the country over the next 10 years?

At a high level, where does the government want to go and what do they want to achieve? The vision may include biodiversity and improved management goals for sustainable uses.



What is the conservation and/or climate vision at a subnational level of, and for, local communities?

In addition to the national vision and priorities, it is important to look for overlap, synergies, and complementarity with conservation and climate vision and actions at a subnational level, from different actors including local communities, and when applicable, Indigenous peoples.



Are the identified priorities feasible, ambitious and measurable?

Assess selected priorities to ensure they are achievable, impactful, and quantifiable in the lifetime of the project, and provide a clear framework for assessing the success and impact of the project.



Do the identified priorities consider social and economic issues?

Assess the potential benefits and impacts of conservation and climate priorities on social and economic issues.



Do the government's identified priorities align with key partners in the Nature Bonds project?

Have conversations early to gain clarity on key partners' goals and capacity, including the project facilitator and long-term conservation and climate partner, to ensure that there is sufficient overlap and alignment.



What is the current and potential capacity to meet those priorities?

Identify existing capacity and future needs to deliver on the Conservation Trust Fund's goals and projects, as well as monitoring and reporting obligations over the long term, not just the launch/set up stages.



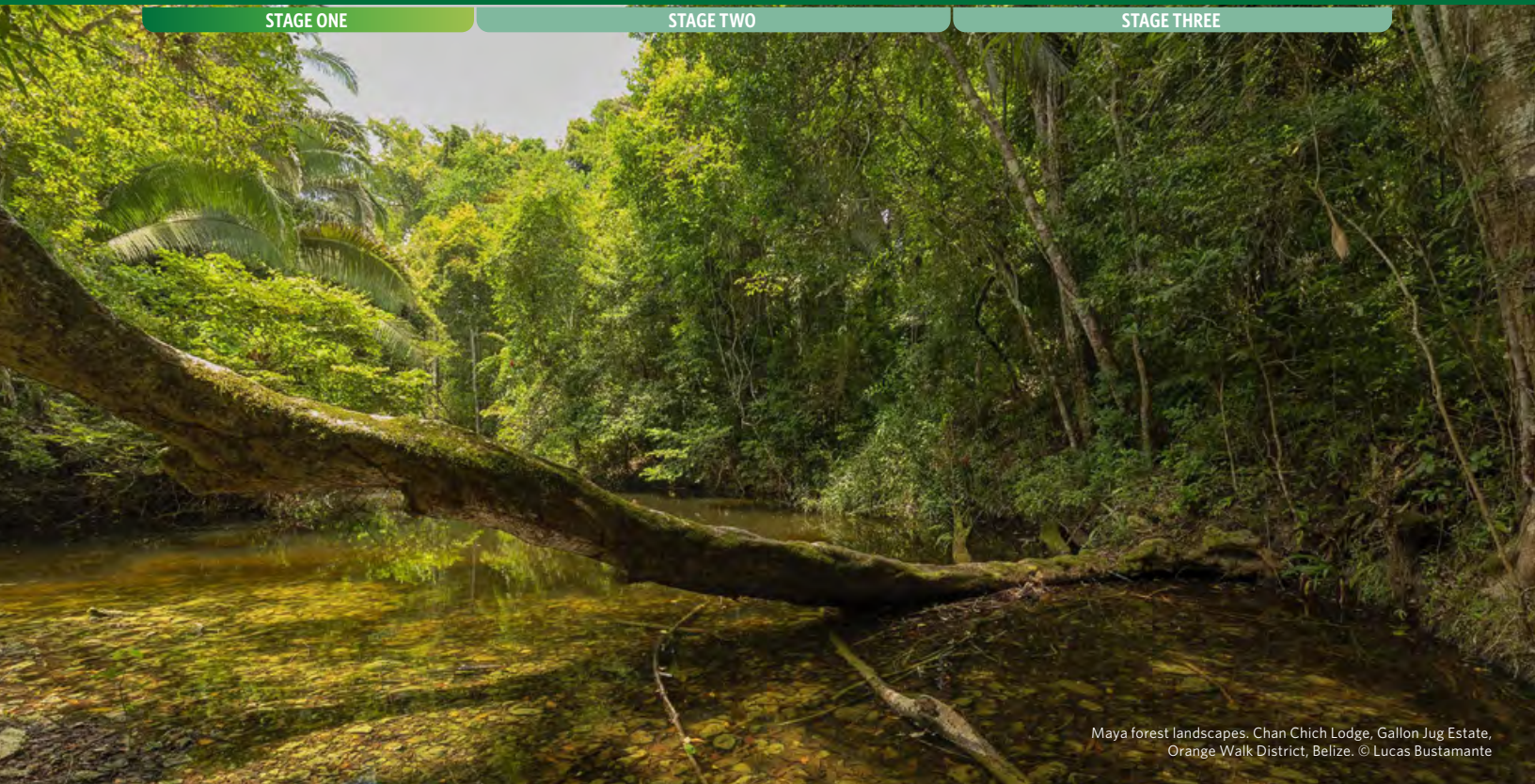
Are there other conservation and climate benefits to consider?

Nature Bonds projects may include non-binding undertakings alongside legally binding Conservation and Climate Commitments. These non-binding aspects may be included to provide a connection to other conservation funding and projects, or to address high levels of risk or uncertainty. While guided by the same principles as commitments, there are no penalties for non-completion by governments.

GO DEEPER



For more information on determining conservation and climate priorities and the right time to undertake a Nature Bonds project, [see this report](#).



Maya forest landscapes. Chan Chich Lodge, Gallon Jug Estate, Orange Walk District, Belize. © Lucas Bustamante

1.4 Understand The Policy Framework and Approval Process

To efficiently coordinate and successfully execute a Nature Bonds project, it is crucial to have a comprehensive understanding of a country's policy framework and approval process from the outset.

This involves providing the project facilitator with guidance on the following key questions:

- ❓ **What policies, regulations, national strategies, and plans currently govern conservation and climate investments and interventions?**
- ❓ **What processes and laws regulate the policy-making and planning processes in the country concerning climate, conservation and local constituencies?**
- ❓ **What processes and laws regulate the debt management framework in the country concerning liability management, debt refinancing and budgetary decisions?**
- ❓ **What government entity (department, directorate, agency, etc.) would be the lead for a project like this?**
- ❓ **What processes and laws in addition to best practices exist to engage with local key parties and Indigenous Peoples and Local Communities (IPLC)?**



See the [Nature Bonds Practice Standards](#) for relevant best practices and guidance for Operations and Governance.



2 Identify the Appropriate Partners

Stage 1 : Section 2

- 2.0 Overview
- 2.1 Who are the Appropriate Partners To Reach Your Goals?
- 2.2 Project Facilitator and Advisors
- 2.3 Internal Government Stakeholder Groups
- 2.4 Long-term Conservation and Climate Partners
- 2.5 Credit Enhancers
- 2.6 Banks
- 2.7 International Actors
- 2.8 Investors
- 2.9 Local Key Parties

Members of the Pate Women's Association in Pate, Lamu, Kenya. It is home to 60% of Kenya's mangrove forest, an important ecosystem that stores carbon and defends coastlines from storm impact. © Sarah Waiswa



2.0 Overview

A strategic selection of partners is vital for the success of Nature Bonds projects. Within that selection, clear roles for diverse stakeholders and coordinated efforts are essential for the effective execution and long-term viability of a project.

2.1 Who are the Appropriate Partners to Reach Your Goals?

To ensure confidentiality, stakeholder engagement before financial close should prioritize understanding and identifying conservation priorities, benefits, and the impacts of spatial planning and other conservation actions. It should be conducted without mentioning the funding mechanism or Nature Bonds project.

The successful execution of Nature Bonds projects requires coordination and consultation with a diverse array of global and local partners, including project facilitators and advisors, government ministries and agencies, long-term conservation and climate partners, credit enhancers, [credit rating agencies](#), banks, international actors, investors, and local stakeholder groups. Engaging with this spectrum of partners is essential for the effective undertaking of a project.



See [section 9.0 Confidentiality and Communications](#) for more details.



Note: *These partners are sometimes brought in at different stages of the process but should be engaged as early as possible to work on the features of the project that are the most relevant to them. We have shared an extensive list [here](#) for reference and note when later engagement is advised.*

2.2 Project Facilitator and Advisors

Project facilitators and advisors play a pivotal role in Nature Bonds projects, and they must have a deep understanding of both financial structuring and achieving conservation and climate outcomes. Their expertise is essential for effectively linking different parties involved in the process.

A project facilitator's role includes:

- **Facilitating Communication and Tailored Support:** The project facilitator provides the country with tailored support across all stages of the project and facilitates communication between all parties, ensuring a successful and efficient execution.
- **Supporting Financial Transaction:** At the country's request, the project facilitator orchestrates the moving parts of the innovative financial structure and brings together diverse stakeholders, including investors, public funders and international development organizations. This effort aims to optimize debt on more favorable terms, encompassing lower interest rates and extended loan maturities. The project facilitator also typically monitors the repayments of the new loan.
- **Maximizing Benefits for Conservation, Climate and Communities:** The project facilitator, alongside the long-term conservation and climate partner and advisors, seeks to maximize the country's Conservation and Climate Commitments and incorporate them into the country's strategy to support sustainable development, local communities and Indigenous peoples.

TNC often acts as both a project facilitator and long-term conservation and climate partner for Nature Bonds projects. To broaden market participation, TNC plans to collaborate with other potential project facilitators who have experience in managing complex projects, including large conservation [NGOs](#), climate finance advisors, and consulting firms.



2.3 Internal Government Stakeholder Groups

Nature Bonds projects necessitate collaboration among diverse decision-makers, across ministries, public agencies, and other bodies.

Establishing effective communication early on among key decision-makers is crucial to avoid delays and to align on high-level project goals.



See section 3.2 *Set up Internal Government Governance/Coordination* for more details.

2.4 Long-term Conservation and Climate Partners

Successful long-term conservation and climate partners contribute expertise and support to Nature Bonds projects during the design phase of the project and for up to 20 years after the financial closure. Ideally, they exist already in-country and have on the ground expertise.

A long-term conservation partner, such as TNC, undertakes the following key responsibilities:

- **Co-Designing Conservation and Climate Commitments:** The conservation partner lends its credibility and expertise to the country by providing technical assistance in co-developing and agreeing on the Conservation and Climate Commitments and how to monitor them long term.
- **Conducting Necessary Planning:** Long-term conservation and climate partners engage in strategic and participatory conservation and spatial planning, as necessary, to support Conservation and Climate Commitments and engage accordingly with local communities and stakeholders. In the context of marine protection, this includes the completion of a Marine Spatial Plan (MSP) or a Spatial Conservation Plan (SCP).



See Appendix *Creating A Marine Spatial Plan* for more information.

- **Providing Long-term Technical Advisory:** Post-close, long-term conservation partners validate Milestones and support the government in the implementation of the project by building capacity, serving as technical advisors, guiding on global best practices, social and environmental safeguarding frameworks, and ensuring meaningful conservation and climate outcomes.
- **Conservation Trust Fund Oversight:** They may serve as founding members of the Conservation Trust Fund (CTF) board, overseeing grants and commitments. This active involvement supports effective management and the allocation of resources for conservation initiatives.

TNC often acts as both a long-term conservation and climate partner and a project facilitator, however, in some situations some or all of the responsibilities listed above can be taken on by other long-term conservation and climate partners.



2.5 Credit Enhancers

Credit enhancement, which improves the credit rating of the financing and thus reduces the cost of borrowing, is an essential element of any Nature Bonds project and is provided mostly but not exclusively by third parties such as Multinational Development Banks (MDBs) and Development Finance Institutions (DFIs).

We expect the pool of credit enhancers to expand in the medium term.

The type of credit enhancement needed, and the process to engage with credit enhancers varies widely depending on the country's debt profile, geographical location, and existing relationships with MDBs and DFIs. Project facilitators support the country in identifying and engaging with potential credit enhancers.



See section 5.2 [Credit Enhancement](#) for more details.

2.6 Banks

Banks play a key role in arranging, financing, and the issuance of investment grade bonds whose interest rate allows the borrowing country to obtain attractive interest rates. Banks normally become formally engaged later in the process, typically once a government determines that it wants to proceed with formal negotiations.

The best practice is to engage a bank through a formal Request For Proposal (RFP) process led by the government, project facilitator, and/or credit enhancer. The goal of the RFP is to make an informed decision on the financing. It is best practice to avoid accepting a proposal from a single bank without exploring what other banks could provide.



See section 5.0 [Execute Debt Conversion Transaction](#) for more details.

2.7 International Actors

International actors, such as the World Bank and the International Monetary Fund (IMF), play a crucial role in supporting Nature Bonds projects. Their involvement extends to incorporating assessments of these transactions into policy reviews, ensuring alignment with broader economic and environmental objectives.

The support from Multilateral Development Banks and major shareholders of these international actors is important, as it adds credibility and reinforces the country's commitment to its conservation, climate and sustainable development goals. Collaborating with these influential international entities enhances the overall impact of a Nature Bonds project and reinforces the global significance of such initiatives.



2.8 Investors

Investors play a critical role in the transaction phase of a Nature Bonds project, purchasing the high-rated (typically Moody's Aa2 or higher) financial instruments to fund the initiative. As a condition to investing in a Nature Bonds project they require a robust and verifiable Environmental, Social and Governance (ESG) impact. For the existing bondholders, engaging in a Nature Bonds project offers a financial exit above the market price. Investors in the new issuance are engaged by the country's chosen bank once the formal transaction negotiations are in progress.



Note: Given the nature of debt refinancing operations, the final instrument may not be categorized as an ESG-bond or ESG-loan due to specific use-of-proceeds restrictions.

2.9 Local Key Parties

Local key parties' engagement is critical to implementing robust, informed, long-term conservation projects that benefit communities and build on their experience and successes. Indigenous Peoples and Local Community (IPLC) groups have stewarded lands, waters, and resources for generations. Learning from and integrating IPLC's methods, visions, and capacity is a crucial factor for a successful conservation project.

Engagement timelines and approaches may vary depending on the specifics of each Nature Bonds project and the identified conservation priorities (i.e., ocean, freshwater, terrestrial, and climate). These engagements should align with international best practices, such as Free, Prior and Informed Consent (FPIC) and environmental and social safeguards, especially when engaging with IPLC groups.

Engagement on the conservation project early in the process is ideal. However, due to confidentiality requirements, engagement may need to begin after the financial transaction closes.



See section 9.0 Confidentiality and Communications for more details.

We recommend working closely with your long-term conservation and climate partner to develop a comprehensive engagement plan to determine how to support and uphold IPLC autonomy, decision-making, and self-determination alongside Nature Bonds projects.



See the Nature Bonds Practice Standards for relevant best practices and guidance for Stakeholder Engagement and Communications and Risk Management.



3 Initial Government Commitment

Stage 1 : Section 3

- 3.0 Overview
- 3.1 Sign a High-Level Commitment Letter
- 3.2 Set up Internal Government Governance / Coordination
- 3.3 Confirm and Foster Agreement with Key Partners
- 3.4 Confirm Conservation Trust Fund Approach
- 3.5 Confirm Confidentiality Expectations

Rain transforms the vast, dry Savannah of the Ngorongoro crater in Tanzania, painting shades of green onto erstwhile dry grass and blotting out the penetrating African sun with its clouds. A male African Savannah (Loxodonta africana) elephant forages his way through fresh new shoots of grass, one of many that would have migrated into the crater to take advantage of the lush growth.. © Sandesh Kador/TNC Photo Contest 2022

3.0 Overview

Until this point, all conversations between the government, the project facilitator, and partners will have been exploratory. Before transitioning into formal negotiations (i.e., detailed discussions, workshops, and drafting legal documents), it is important that the government makes a commitment to proceed further.

This section outlines the approaches to confirm a government's commitment while building the foundations of a successful project with all partners.



3.1 Sign a High-Level Commitment Letter

The signing of a high-level commitment letter signifies the government's endorsement and support for the Nature Bonds project, showing serious intent to engage in the transaction. This commitment is essential for building confidence among the project facilitators and partners, including credit enhancers and long-term conservation and climate partners who will dedicate resources to work and develop the project.

The high-level commitment letter also serves as a starting point for more detailed negotiations and ensures that all parties are aligned on the project's objectives and scope, fostering a smoother and more effective formal negotiation process.

3.2 Set up Internal Government Governance/Coordination

The below recommendations, coupled with the active participation of key government decision makers, significantly contribute to the overall success of Nature Bonds projects:

1.

Pre-Financial Close

Designate an Internal Government Coordination Workstream to facilitate communication between ministries, ensuring seamless coordination and information flow. For example, a coordination unit was established in Belize within the Office of the Prime Minister to ensure maximum internal leadership in coordinating all government parties in the different phases of the project.

2.

Pre-Financial Close

Establish Three Internal Government Workstreams that could comprise existing teams, a working group, steering committees or a series of intensive workshops:

1. Conservation: Draft and agree on Conservation and Climate Commitments, aligning them with relevant ministries.

2. Transaction: Agree to transaction terms and streamline financial aspects of the debt conversion transactions with relevant ministries.

3. Conservation Trust Fund (CTF): Agree on the establishment of the CTF and its governing documents and manage decisions related to the Conservation Trust Fund with relevant ministries.

3.

Post-Financial Close

Ensure a Formal Implementation Unit is tasked within the government to support conservation, reporting and compliance, and the Conservation Trust Fund workstreams over the long term.



3.3 Confirm and Foster Agreement with Key Partners

Transitioning from exploratory discussions, the project facilitator, the long-term conservation and climate partner and the government should secure commitments from key partners, such as credit enhancers, who will provide support for both the transaction and long-term technical assistance post transaction close.



See section 2.0 *Identify the Appropriate Partners* for more details.

To ensure the long-term partners are aligned regarding their roles both pre- and post-transaction close, it may be helpful to draft a working agreement that details the roles and responsibilities of all parties.

3.4 Confirm Conservation Trust Fund Approach

Governments committing to a Nature Bonds project should confirm willingness to either build on an existing Conservation Trust Fund (CTF) or establish a new CTF.



See section 6.0 *Establish Conservation Trust Funds* for more details on the advantages and considerations of both options.

3.5 Confirm Confidentiality Expectations

In line with common practices in debt refinancing negotiations, the details of the Nature Bonds financial transaction should not be disclosed publicly until a formal announcement is coordinated between the country and its partners at the close of the transaction.

It is crucial to establish clear expectations regarding confidentiality with all partners and advisors early in the process to avoid unintentional public disclosure of sensitive information. Market knowledge of the debt conversion would likely result in raising the purchasing price of the bonds and therefore reduce the savings and funds unlocked for conservation and climate.



See section 9.0 *Confidentiality and Communications* for more details.



See the [Nature Bonds Practice Standards](#) for relevant best practices and guidance for Stakeholder Engagement and Communications and Risk Management.



4 Determine Conservation and Climate Commitments

Stage 2 : Section 4

- 4.0 Overview
- 4.1 What are Conservation and Climate Commitments?
- 4.2 Conservation and Climate Commitments Guiding Principles
- 4.3 How are Conservation and Climate Commitments Co-developed?
- 4.4 Conservation and Climate Commitment Examples
- 4.5 Legal and Financial Commitment Considerations

The great barrier reef of Belize. © Alejandro Velasco/TNC Photo Contest 2019



4.0 Overview

This section delineates the framework for establishing Conservation and Climate Commitments in Nature Bonds projects, emphasizing their legally binding nature to secure ambitious conservation and climate outcomes. It outlines the co-development process with government and long-term partners, detailing principles like ambition, measurability, and feasibility and explains how these commitments are integral to building trust with partners to secure the project's success.

4.1 What are Conservation and Climate Commitments?

The Conservation and Climate Commitments under a Nature Bonds project capture the government's legally binding commitment to ambitious conservation, sustainable development, and/or climate outcomes. The commitments are co-developed with the government's long-term conservation and climate partner to support the country's existing conservation and climate priorities.

Conservation and Climate Commitments include several clauses that contain:

- Milestones
- Timelines
- Lists of applicable best practices and global standards related to the Milestones
- Defined terms for the Milestones

Each Milestone takes into consideration the resources unlocked from the debt conversion; however, the resources unlocked are not intended to cover all costs.

Example of a Conservation Commitment¹: Undertaking and completing a Marine Spatial Plan (MSP), a document that allocates ocean space for multiple uses for a country's national waters. The Conservation Commitments may include an objective to expand marine protections from existing baselines.



See section 7.2 for a case study of a Marine Spatial Plan as a Commitment.

¹Note: Examples included within this Toolkit largely emphasize marine projects, showcasing The Nature Conservancy's experience to date. Future versions will include additional case studies from terrestrial, freshwater, and climate projects.



Jamal Galves, program coordinator for the Belize Manatee Conservation program at the Clearwater Marine Aquarium, flies his drone to look for manatees in Belize. © Jennifer Adler



4.2 Conservation and Climate Commitments

Guiding Principles

Conservation and Climate Commitments are tailored to meet the conservation goals of the individual country and are co-developed with these guiding principles:

Ambitious	A commitment that sets a challenging and substantial outcome for the country. A commitment typically represents a long-term ambition that has not been pursued due to insufficient funding. The commitment is material, substantive, and impactful.
Measurable	A commitment, along with its corresponding Milestones, should be easily assessable to report on progress and the successful completion of each Milestone should be objectively verifiable through documentation and data.
Feasible	A commitment should be realistic and achievable within designated timeframes given real, on-the-ground circumstances in the country.
Unambiguous	A clearly stated commitment lacks ambiguity or uncertainty, making the meaning easily understood by all key parties without room for confusion or misinterpretation.
Flexible	While a commitment should be unambiguous and the outcome clearly defined, the path to achieving it should not be prescriptive. A country should have the flexibility to fulfill commitments in changing contexts over the 15 to 20-year lifecycle of a project while also leaving room for changes or advances in science, information, and techniques that could be used to achieve the commitment.
Additional	Commitments resulting from Nature Bonds projects should be additional, surpassing what would have occurred in the absence of the Nature Bonds project, and not displacing existing government commitments or funding.
Best practice	International best practice guidance is used to achieve commitments including a rights-based approach, and inclusive and participatory processes for any planning or protection commitments.

These elements are key to establishing trust with all key partners, including credit enhancers and investors, who are interested in Nature Bonds projects, based on solid conservation and climate outcomes and accountability.

4.3 How are Conservation and Climate Commitments Co-developed?

Conservation and Climate Commitments are co-developed and approved using the following high-level process:

1. Identify Conservation and Climate Priorities:

Discuss and make initial determinations on the most impactful and substantive conservation, sustainable development, and climate actions to prioritize with the funds unlocked from the debt conversion. These priorities are usually based on the government's existing national and international Conservation and Climate Commitments, such as those in National Biodiversity Strategies and Action Plans (NBSAPs) for instance.

See section 1.0 *Assess Enabling Conditions* for more details.

2. Discuss Priorities and Draft Ideas:

Meet with government agencies and, where appropriate, communities and key parties, to discuss and work towards a draft of Conservation and Climate Commitments. Engagement will be specific to each Nature Bonds project and the context for co-developing commitments.

a. Government Workshops: The project facilitator/long-term conservation and climate partner will gather key government staff in a series of workshops, starting with rough verbiage based on indicated priorities and work towards a draft that includes the overall scope and intent of the Conservation and Climate Commitments. In some cases, a working group could be created to co-draft these.

See section 3.2 *Set up Internal Government Governance / Coordination* for more details.

b. Ground Truthing Conservation Priorities: Bring together local communities, Indigenous peoples, local government, stakeholders, and local non-profits to discuss suggested topics for Conservation and Climate Commitments so they can contribute meaningfully to a Nature Bonds project.

Engagement and communication should follow Practice Standards, see section 9.0 *Confidentiality and Communications* for more details.

3. Draft High-Level Commitments and Milestones:

Using inputs from the consultations, the long-term conservation and climate partner puts together an initial draft of Commitments and Milestones for review by the government. The draft typically contains a pre-ambule to capture the expectations for using international best practice and global standards. Consider the total number of Milestones, (typically 3-7), and length of time needed (typically all being completed within 10 years), to achieve them.



4.3 How are Conservation and Climate Commitments Co-developed? (continued)

- | | |
|---|--|
| <p>4. Identify Any Non-Binding Undertakings:</p> | <p>The government and conservation partner identify any conservation and climate outcomes to be included as non-binding. These often arise from priorities identified during the process that are not suitable to be binding Milestones because of factors such as timeline, subjectivity, difficulty to measure and verify, etc.</p> |
| <p>5. Undertake An Intergovernmental and Advisor Review:</p> | <p>The government coordination body, which ideally includes members of both financial and environmental ministries, consults with relevant ministers, technical officials, advisors, and those in government that will be involved with the implementation of the commitments and Milestones to:</p> <ol style="list-style-type: none"> a. Assist in ground-truthing the commitments (e.g., are they ambitious yet feasible in the proposed timeline?) b. Flag capacity needs early, ensuring those involved in implementation are planning for this work once the project starts c. Gain buy-in for the project through consultations during the co-development of the commitments |



Note: Take care to set appropriate expectations with all key partners, including a) the project is probable but only certain once legal documents are signed, and b) strict confidentiality is necessary to avoid unintentional public disclosure of sensitive information.



See section 9.0 *Confidentiality and Communications* for more details.

- | | |
|--|---|
| <p>6. Refine and Right-Size Commitments and Milestones:</p> | <p>Align the commitment size with the transaction's scale, timeline, and the government's capacity now and in the future. Work with the long-term conservation and climate partner to conduct a high-level estimated costing analysis and fit the commitment size to the resources from the debt conversion. If needed, identify other resources such as large-scale private/public funding, or other approaches such as <u>PFP (Project Finance for Permanence)</u>, to achieve the commitments. Consider the number of Milestones over the life of the project.</p> |
| <p>7. Approve Final Commitments and Milestones:</p> | <p>By the time agreements are being finalized, legally binding Milestones, plus any non-binding undertakings, should be in near final draft form for the term sheet. They are then approved and are included within the transaction agreements. It is important when drafting the Milestones' timeframe to do it in a coordinated manner with the financial discussion to reflect on cross-document clauses and constraints.</p> |



See section 4.5 *Legal and Financial Commitment Considerations* for more information on the financial consequences of not meeting Milestones.

4.4 Conservation and Climate Commitment Examples

The following examples feature some of the real-world applications of Conservation and Climate Commitments across different focus areas.

OCEAN COMMITMENTS EXAMPLES:

1. Develop a legally enforceable Marine Spatial Plan (MSP)

The MSP commitment includes marine conservation outcomes for biodiversity protection, including expanding the percentage of the ocean that is in biodiversity protection zones to 30% (at least 10% in High Protection Biodiversity Zones, and at least 15% in Medium Protection Biodiversity Zones) and denoting the permissible activities that may be lawfully carried on in any part of the ocean.

Example Milestones

- Initiate the MSP
- Complete a Draft Marine Zoning Design for the MSP
- Gazette Biodiversity Protection Zones and Approve MSP
- Implement the MSP



See section 7.0 *Achieve Conservation and Climate Commitments* for more details.

2. Develop A Fisheries Conservation Commitment

This specifies environmental commitments related to fisheries that are not specifically addressed by the MSP process.

Example Milestones

- Adopt fisheries regulation requiring 100% electronic monitoring
- Approve National Plan of Action for Illegal, Unreported, Unregulated (IUU) Fishing
- Implement fisheries regulation for 100% electronic monitoring

GO DEEPER



See case studies of our work in *Seychelles, Belize, and Barbados* for more commitments and, in the cases of Belize and Seychelles, their progress since financial transaction closure.

Natalie Ifill of Nat's Fish at the Millie Ifill Fish Market in Barbados. TNC is helping Barbados protect 30% of its waters. © Shane Gross



4.4 Conservation and Climate Commitment Examples (continued)

The examples for terrestrial, freshwater, and climate below are illustrative, as The Nature Conservancy does not yet have signed agreements for these focus areas.

FRESHWATER COMMITMENT EXAMPLES:

Commitment: Issue a regulation addressing agricultural runoff into large freshwater systems. For example, this commitment may include requiring a 200-meter buffer around all freshwater bodies.

Commitment: Issue a regulation addressing the protection of designated rivers as free flowing (free of dams or other barriers), or for the prevention of barriers within particular protected area designations.

TERRESTRIAL COMMITMENT EXAMPLE:

Commitment: Complete effective management assessments for all existing Protected Areas using an internationally accepted tool (e.g., the METT: Management Effectiveness Tracking Tool).

For example, develop and approve management plans meeting specified criteria for all new Protected Areas, and update plans for existing, Protected Areas within the country's Network of Protected Areas.

Expand protections for the country's terrestrial territory to at least 30% coverage.

CLIMATE COMMITMENT EXAMPLES:

Commitment: Climate Mitigation and Adaptation through mangrove protection.

This commitment may include protecting national mangroves that are at risk of conversion and/or restoring a percentage of hectares of degraded mangrove habitat to achieve a target of tons of carbon sequestration and build resilience for local communities.

Commitment: Implement or enhance a country's Nationally Determined Contribution (NDC).

For example, a country could consider options within its NDC such as:

- Increasing unconditional NDC ambition by X%
- Increasing an unconditional land use, land-use change, and forestry (LULUCF) by a defined target
- Achieving a conditional LULUCF target
- Implementing specific nature-based solutions to improve community resilience to climate risks



A freshwater system in Krupa River in Croatia. © Ciril Jazbec



Alpacas in Chimborazo, Ecuador where Pew has helped the country find USD 323 million over the next 18.5 years for conservation. © Paola Trujillo/TNC Photo Contest 2019



Young mangroves in Seychelles. In 2016, the Seychelles worked with TNC to restructure part of its national debt, freeing up money to reach the conservation goal of protecting 30% of its marine territory. © Roshni Lodhia



4.5 Legal and Financial Commitment Considerations

Conservation and Climate Commitments and the associated time-bound Milestones are legally binding and agreed to within the Conservation Agreement. Past projects facilitated by The Nature Conservancy have generally included the following four elements related to the achievement of Milestones, including consequences if they are not met. These could vary across projects and different project facilitators may have different approaches:

1 MILESTONE AND ANNUAL REPORTS

The Government must submit Milestone and annual reports verifying that the Conservation and Climate Commitment Milestones are completed according to the terms in the agreement. The long-term conservation and climate partner conducts a technical and legal review of all materials submitted and communicates the verification to the government.

2 GRACE PERIODS

In the case of a missed Milestone, a grace period or extension can be requested by the government by providing a summary of the deficiencies in meeting the Milestones, and the steps being taken to remedy those deficiencies. Typically, a maximum of two, 6-month extensions may be given for any Milestone.

3 INCREMENTAL PAYMENTS

Not meeting Milestones by the due date (plus grace periods if they are approved) will trigger “incremental payments” by the government into an escrow account. These payments are returned to the country once the Milestone has been achieved, or directed to the CTF if the Milestone is not achieved and should not be directed to investors in any situation.

4 MAJOR COMMITMENT BREACH

Failure to meet certain conservation Milestones, deemed major, beyond a cut-off date may trigger a loan default, resulting in the acceleration of the loan, also referred to as Major Commitment Breach.



Note: The above elements are general terms provided for reference only and should be detailed within the specific transaction documents for each particular country.



See the [Nature Bonds Practice Standards](#) for relevant best practices and guidance for Conservation and Climate.



5 Execute the Debt Conversion Transaction

Stage 2 : Section 5

- 5.0 Overview
- 5.1 Key Features of Debt Conversion Transactions
- 5.2 Credit Enhancement
- 5.3 Refinancing Existing Debt
- 5.4 Obtaining Conservation Financing
- 5.5 Linking Conservation and Climate Commitments to the Transaction
- 5.6 Other Considerations for Debt Conversion Transactions

Sugarloaf Mountain Cable Car, Rio de Janeiro, Brazil. © Marcio Roberto A. Rocha /TNC Photo Contest 2019

5.0 Overview

The debt conversion transaction provides the necessary funds to uphold the implementation of the Conservation and Climate Commitments within the Nature Bonds project.

Debt conversion transactions first refinance a portion of a government's existing commercial debt through a new loan on terms (e.g., lower interest rate, longer tenor) that enable a new funding stream for conservation. Then, the government uses the new loan to repurchase and retire the pre-existing debt.

Refinancing unlocks sustainable, long-term funds that are used to support the country's conservation and climate goals. The benefits of debt conversions for nature and climate, such as Nature Bonds projects, have been acknowledged by the IMF².

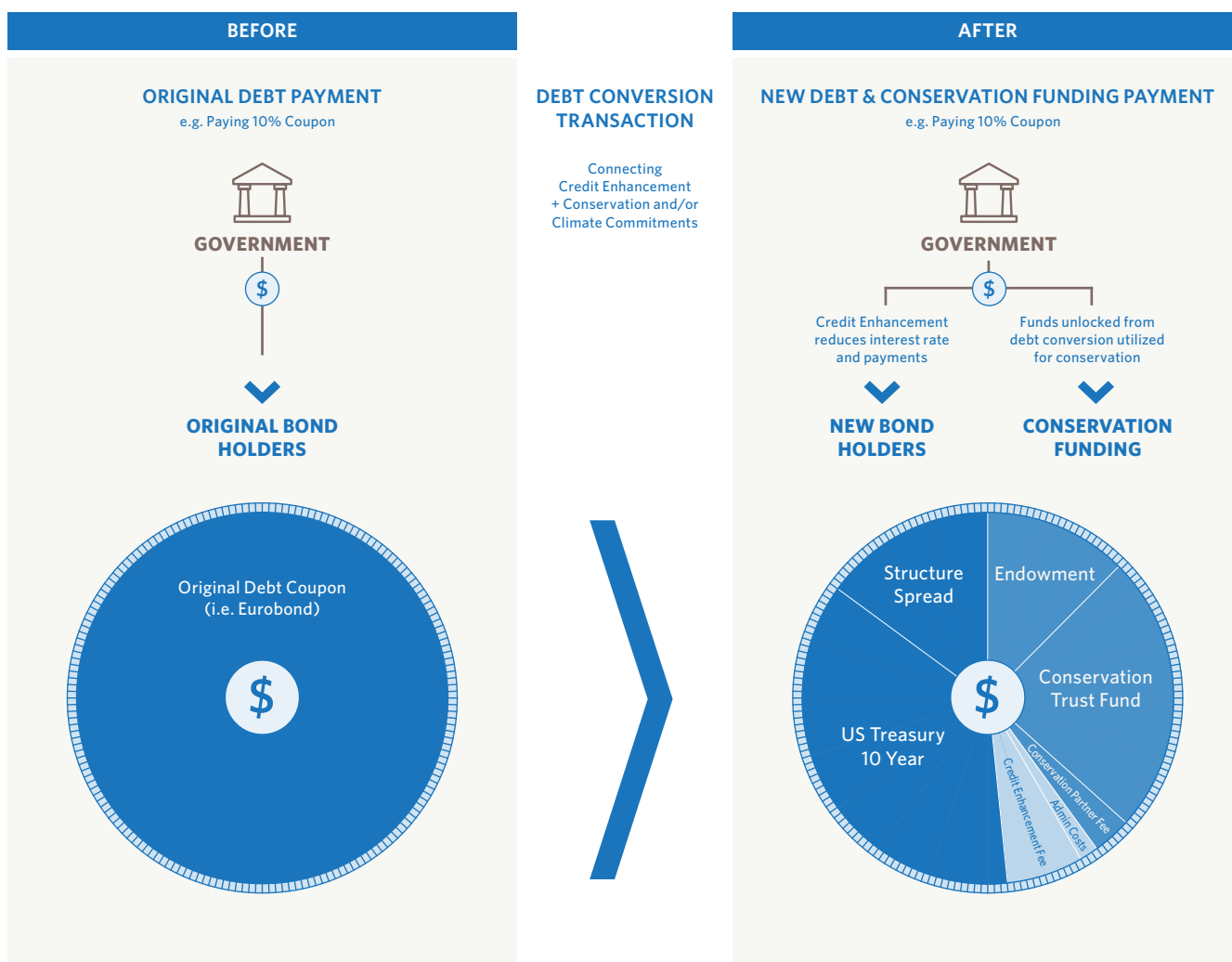
²Chamon, Marcos, Erik Klok, Vimal Thakoor, and Jeromin Zettelmeyer. 2022. "Debt-for-Climate Swaps: Analysis, Design, and Implementation." IMF Working Paper 2022/162, International Monetary Fund, Washington, DC.

5.1 Key Features of Debt Conversion Transactions

Debt conversions for Nature Bonds projects differ from 'regular' sovereign liability management exercises in several core aspects. They:

1. Reduce the cost of new financing through credit enhancement
2. Repurchase the existing debt at a discount, or with reduced interest rates, or refinance maturing debt
3. Obtain financing from new categories of investors
4. Link the new financing to the government's Conservation and Climate Commitments
5. Allow the government to access the international capital market with the backing of credit enhancement

Debt Conversion Transaction Example





5.1 Key Features of Debt Conversion Transactions (continued)

ADDITIONAL CHARACTERISTICS OF NATURE BONDS PROJECTS INCLUDE:

Funds Raised Pay Off Existing Debt

Unlike a Green Bond, where all of the funds raised go to climate and conservation projects, in a debt conversion project such as Nature Bonds, most of the money borrowed goes to pay off the existing debt. The terms of the new loan may create a reduction in debt service, typically as lower interest and principal payments over the life of the loan. This savings is then utilized to fund conservation.

Sustainable Funds, Rather Than Lump Sum

The unlocked funds do not come at one point in time but instead are realized every time the government makes a payment of interest and principal over the life of the loan. For example, if the government was paying USD 10 million a year in interest and converted that debt to pay USD 6 million per year, there would now be up to USD 4 million per year to fund conservation. The result is a sustainable and predictable stream of payments, usually paid every six months over the life of the loan, to fund conservation and, if applicable, to build an endowment. An endowment ensures the cash for conservation projects continues long after the loan matures. Also, unlike Green Bonds and Sustainability-linked Bonds, incremental payments or penalties are returned to the government or channeled to the CTF versus bond holders.

Intergovernmental Coordination

Given the need to integrate financing and conservation and climate workstreams, Ministries of Finance and Environment benefit from communicating early and often, typically in the form of a workstream or working group.



See section 3.2 *Set up Internal Government Governance / Coordination* for more details.

Limits to Eligible Debt and Credit Enhancement

Unfortunately, not all debt can be refinanced and not all countries can obtain credit enhancements. Countries should work with the project facilitator and their advisors to identify what debt is eligible to refinance and if a Nature Bonds project is the best solution.



See section 1.1 *Determine Eligible Debt* and 5.2 *Credit Enhancement* for more details.

Case Studies



Belize's Blue Hole from the sky. © Jennifer Adler

BELIZE

TNC structured a debt conversion that enabled Belize to target its sole Eurobond, repurchase it in full and lock-in a commitment to protect 30% of its ocean. USD 553 million was bought back from bondholders at a 45% discount through a “Blue Loan” arranged by TNC, credit enhanced by DFC (United States International Development Finance Corporation). The DFC policy covers 100% of an arbitration award arising from loan default. DFC reinsured approximately half of its exposure in the private market. Credit Suisse arranged and placed the [Blue Bonds](#) used to finance the Blue Loan.

The Blue Loan was USD 364 million with an all-in cost (inclusive of reserves, expenses, fees, political risk insurance premiums, etc.) of 6.1%. The Blue Loan structure incorporates a parametric insurance policy providing coverage for one Blue Loan debt service payment following a qualifying extreme weather event in Belize.

Proceeds of the Blue Loan were used to retire the entirety of the Eurobond (USD 301 million), prefund the Conservation Trust Fund endowment (USD 24 million), and cover liquidity reserves, transaction costs, and original issue discount (USD 39 million). Due to the DFC credit enhancement of the Blue Loan, coupled with the back-to-back legal structure and funded reserve accounts, the Blue Bonds received an investment grade rating of Aa2 from Moody's.

The debt conversion resulted in a USD 189 million reduction in principal outstanding and 6.5 years maturity extension, and unlocked an estimated USD 180 million in conservation funding over 20 years comprised of:

- USD 84 million for conservation finance over 20 years; USD 4.2 million (annual average)
- USD 23.45 million pre-funded endowment, borrowed by Belize through the Blue Loan
- USD 71 million in anticipated market return on the endowment (estimated at 7% annually) over 20 years

The government's Conservation Commitments are structured within the Conservation Funding Agreement that stipulates that if Belize does not achieve a conservation Milestone by the agreed date (and additional grace period), the annual conservation payment will increase by USD 1.25 million per year for the first missed Milestone and an additional USD 250,000 for each additional missed Milestone. The payment increase will continue until the Conservation Commitments are met, at which point the funds will be returned to the government of Belize. Any funds remaining at maturity will be transferred to the CTF.

[READ FULL CASE STUDY](#)



Philip Als and his row boat on Porter's Beach in Barbados. © Shane Gross

BARBADOS

Barbados participated in a USD 150 million debt conversion, organized by TNC, that created long-term sustainable financing for marine conservation and secured its commitment to protect up to 30% of its ocean from virtually zero. Barbados targeted external and domestic debt, repurchasing USD 77.6 million of its 6.5% 2029 Eurobond at a price of 92.25 cents on the dollar and USD 72.9 million (BBD 145.9 million) of its 8% Domestic Bond Series E at par.

The debt conversion enabled Barbados to reduce its debt coupon from 7.2% to 4.9%, reducing its debt stock by USD 4.1 million.

This debt repurchase was funded by new financing, the Blue Loan, principal of USD 146.5 million, placed by Credit Suisse and CIBC FirstCaribbean in USD (50%) and Barbadian Dollars (BBD) (50%), and co-guaranteed by the IDB (International Development Bank) and TNC. In this co-guarantee structure, IDB guaranteed USD 100 million on a first loss position, while TNC guaranteed USD 50 million on a second loss position.

Proceeds covered the repurchase of the Eurobond (USD 71.6 million), the domestic debt (USD 72.9 million) and transaction costs and reserves (USD 2 million). The Blue Loan included an option for Barbados to defer up to two years of principal payments following a Natural Disaster or a Pandemic Event.

The operation is expected to channel an estimated USD 50 million into conservation funding over 15 years:

- USD 23 million into an independent conservation fund, the Barbados Environmental Sustainability Fund (BESF) (USD 1.5 million per year on average)
- USD 17 million towards a long-term endowment for BESF, which is expected to generate an additional USD 10 million of returns over 15 years.

When a conservation Milestone is not achieved by the agreed date (subject to grace periods), an incremental conservation payment is triggered, which will be deposited in an escrow account and will be refunded to the country once the Milestone is achieved (or into the Conservation Trust Fund if never cured). Default and acceleration of the financing occur if certain major Conservation Commitments are not met after grace periods.

[READ FULL CASE STUDY](#)

ECUADOR

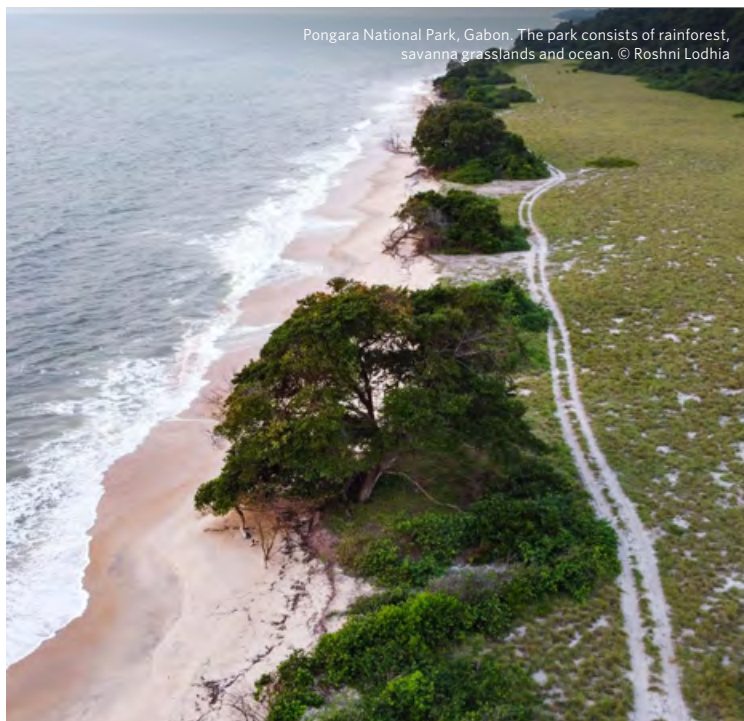
In 2023, Ecuador completed the largest to date debt conversion that will allow the country to allocate resources for long-term marine conservation in the Hermandad and Galápagos marine reserves, improve fisheries' sustainability, climate resilience, and support a sustainable blue economy which benefits Ecuadorians. This operation mixed credit guarantee from the IDB (USD 85 million) and political risk insurance (US 656 million) from US DFC (United States International Development Finance Corporation) to refinance USD 1.6 billion of Eurobonds maturing in 2030, 2035 and 2040 and was arranged by Credit Suisse/UBS. The deal will provide more than \$12 million (on average) in annual conservation funding in perpetuity starting in September 2023. Additional payments will capitalize a Conservation Trust Fund; this endowment is projected to grow to an estimated \$227 million by 2040. Technical and financial support was provided by the Pew Bertarelli Ocean Legacy Project and other partners.

[READ FULL CASE STUDY](#)



Galapagos Sea Lion, Ecuador who have complete the largest debt conversion to date.
© Sebastián Dávila/TNC Photo Contest 2021

Pongara National Park, Gabon. The park consists of rainforest, savanna grasslands and ocean. © Roshni Lodhia



GABON

In August 2023, Gabon refinanced USD 500 million of sovereign debt (Eurobonds) and generated an expected USD 163 million in new funding for ocean conservation. Eurobonds maturing in 2025 and in February and November 2031 were tendered as arranged by Bank of America. This transaction, organized by TNC, marks the launch of a comprehensive, long-term conservation project with a new funding stream to help Gabon finance ocean protection and management for 30% of its ocean, and support sustainable blue economic activities.

[READ MORE](#)



5.2 Credit Enhancement

Why is Credit Enhancement Necessary?

Credit enhancement allows sub-investment grade sovereign borrowers to obtain lower-cost financing and generate funds that are used to finance conservation and climate outcomes. Credit enhancement gives investors the comfort that, in the event of a default and assuming certain other conditions are met, a third-party guarantor or insurer will pay them back.

Country	Credit Rating Pre-Debt Conversion	Debt Distressed Exchange (DDE)?	Comments	New Bond Credit Rating (Moody's)
Belize (2021)	Caa3	Yes	S&P upgraded Belize's credit rating from Selective Default to B-post transaction due to the decrease in \$190M of debt stock of the country.	Aa2
Barbados (2022)	Caa1	No	Transaction refinanced \$75M out of \$500+M Eurobonds at 93c and \$75M of domestic debt at par	Aaa Aa2
Ecuador ³ (2023)	Caa3	Yes	Eurobonds were repurchased at deep discounts: \$650M bought back \$1.6B nominal (-60% discount)	Aa2
Gabon (2023)	Caa1	No	Moderate repurchase discounts, mix of short and medium maturities	Aa2

³The operation was classified as a DDE only by one out of three major credit rating agencies.

Multilateral development banks (MDB) and development finance institutions (DFI) are traditional providers of credit enhancement, typically through political risk insurance and credit guarantees, to facilitate capital market access, lower the cost of financing and help countries achieve their ambitious biodiversity/climate goals. Therefore, Conservation and Climate Commitments are key to the financing.



See section 4.0 *Determine Conservation and Climate Commitments* for more details.



5.2 Credit Enhancement (continued)

What Types of Credit Enhancement are Available?

Historically in Nature Bonds transactions, credit enhancement comes in one of two forms:

1.

Political Risk Insurance (PRI):

While PRI comes in different forms, the coverage for debt conversion for nature capital market transactions has been arbitral award default and denial of recourse. Arbitral award cover protects lenders against the risk of not receiving the money they are owed following a binding legal decision against a defaulting country. If a country defaults on payment, the lender takes the country to arbitration (expedited arbitration under the International Chamber of Commerce rules). If the country does not pay what is awarded in arbitration, the insurer will pay that amount to the lender and then look to directly recover from the country. DFC (United States International Development Finance Corporation) and MIGA (Multilateral Investment Guarantee Agency) are the leading public sector political risk insurers. There are many private insurers who reinsure public-sector players and sometimes write direct policies. In the future, we expect that other types of coverage will be available.

2.

Credit Guarantee:

Ensures repayment of a loan, either in part or in full, if the borrower cannot meet their payment obligations. Credit enhancers usually offer a partial guarantee, covering less than 100% of the loan. In case of default, the credit enhancer compensates the lender for their covered portion on demand. Most global/regional MDBs and DFIs have the ability to offer credit guarantees.

To date, DFC and the InterAmerican Development Bank (IDB) have provided credit enhancement for Nature Bonds projects through political risk insurance and credit guarantees. We anticipate additional credit enhancement providers to offer coverage in the future.



See Appendix [Comparing Credit Guarantee and Political Risk Insurance](#) for an in-depth explanation of their product attributes.

“The Gabon Blue Bond will generate an expected \$163 million in financing for new marine conservation efforts over the next 15 years, advancing critical conservation goals, protecting endangered species, and supporting the country’s sustainable ‘blue economy.’ Like previous transactions DFC has supported in Belize and Ecuador, the Gabon Blue Bond illustrates how DFC can effectively lift the credit-profile of a bond issuance to deepen capital markets. We are proud to have partnered on this transformative transaction.

SCOTT NATHAN CEO OF UNITED STATES INTERNATIONAL DEVELOPMENT FINANCE CORPORATION



5.3 Refinancing Existing Debt

Purchasing Existing Debt at a Discount

In most cases, refinancing allows the repurchase of debt at a discount (below par or face value). Generally, the lower the price below par the greater the savings. However, the transactions may also be worth doing even if the debt is trading close to par or at par if the pre-existing coupon rate is relatively high and the country does not have capital market access.

Usually, longer-term debt trades at a deeper discount and the refinancing funding unlocks more financing for conservation and/or climate.

However, there are times when other factors/benefits are important to the Ministry of Finance such as tackling immediate upcoming maturities or high-coupon debt.

While typically USD-denominated bonds are refinanced with new USD bonds, there are variations. For example, local currency debt was refinanced with cheaper local currency debt in the Barbados transaction and official bilateral debt was refinanced in the Seychelles project.



See Section 5.1 *Key Features of Debt Conversion Transactions*

The primary goal of a Nature Bonds project is to help a country finance and achieve its conservation and climate goals with no net burden to the public purse.

In some cases, particularly in more debt distressed situations, Nature Bonds projects can also achieve net reduction in debt stock and/or debt service. However, net debt reduction is not an explicit or realistic goal of debt conversions except in limited circumstances (such as shown in the Belize and Ecuador examples).

If there is no discount, there are other options to reduce the debt service.

Other potential benefits/sources of savings include:

1. **Debt Stock Reduction:** Where debt is repurchased at a deep discount, the government can achieve an immediate debt stock reduction.
2. **Yield Compression / Lower Coupon / Tenor Extension:** Secure a lower interest rate with the same principal, or refinance debt, or obtain a longer payment tenor to alleviate medium-term liquidity risks.
3. **Reduce Rollover Risk of Short-term Debt:** Lower interest rate compared to market yields.

Sustainable seaweed farm in Belize provides economic opportunity, as well as creates habitat for marine species. © Jennifer Adler



5.4 Obtaining Conservation Financing

Type of Financing Instrument & Tender

The issuance of the new bonds to finance the repurchase of the existing debt and the process of buying that debt is done by an investment bank.

Investment banks should be hired via a competitive tender, such as a Request for Proposal (RFP), led by the government and/or the project facilitator, based on experience and ability of arranging and placing credit-enhanced, structured bonds. These bonds are different from typical emerging market sovereign debt and require different skills to structure and market.

To repurchase existing sovereign bonds, an investment bank works with governments to run a tender offering a price to current bond holders that typically includes a small premium above the current market price. The tenders are voluntary actions.

To finance the repurchase of the existing debt, an investment bank supports the issuance of new hard-currency denominated bonds in the global bond market.

Historically these bonds have been rated Aa2 or higher by Moody's Investor Service. For example, Barbados received an Aaa and Aa2 rating for its Blue Bonds Project in 2022, while Gabon received an Aa2 in 2023.

The Ministry of Finance works closely with the investment bank to decide on the best issuance strategy, such as whether to seek a best-efforts transaction, where the placing agent does its best to sell all the bonds offered but does not ensure all the funds will be raised, or a firm commitment, where the investment bank guarantees to purchase all the bonds offered regardless of market demand but usually at a higher interest rate given that the bank is taking on placement risk.





5.4 Obtaining Conservation Financing (continued)

Credit Ratings

Several aspects of Nature Bonds projects require the involvement of one or more Credit Rating Agencies (CRAs).

Country Credit Rating:

Debt conversions can be beneficial to a country's debt sustainability, particularly if a country's debt and/or debt service is decreased and should not lower the country credit rating. However, a CRA may view a Nature Bonds' debt conversion as a government's attempt to avoid a default and classify the operation as a Distressed Debt Exchange (DDE), which would negatively affect the sovereign rating during the time of the financial transaction. While CRA methodologies clearly distinguish between normal liability management and DDE, CRA do not have public guidelines on when Nature Bonds projects transactions would be considered a DDE.

DDE have the following characteristics:

- (i) they constitute a material reduction in value for investors and
- (ii) they are done to avoid a likely default.

Nature Bonds projects transactions in Barbados (2021) and in Gabon (2023) were not classified as DDE by any CRA. The Ecuador transaction (2023) was assessed by only one of three major CRAs as a DDE for a day before reinstating the previous credit rating of the country. The Ministry of Finance and its advisors should explore the CRAs' view of a debt conversion early in the process.

New Bonds Credit Rating:

Bonds issued to fund the transaction, in the global capital market, will be credit rated. For guaranteed transactions, these bonds will likely be rated the same as the guarantor—often Aaa/AAA or Aa2/AA. DFC-insured bonds that fund Nature Bonds' transactions have all received an Aa2 rating by Moody's. The credit rating is a powerful tool that helps investors understand the risk and structure of the transaction; which reduces the cost of borrowing. A transaction funded by a bank loan may not need a rating.

The difference in the country credit rating and the new bond rating shows the risk benefit of the credit enhancement and structure.

5.5 Linking Conservation and Climate Commitments to the Transaction

The Conservation and Climate Commitments are included as part of the legal documentation at closing and are legally binding obligations to the government. Non-achievement could have different consequences under the different agreements.



See section 4.5 *Legal and Financial Commitment Considerations* for more details.



5.6 Other Considerations for Debt Conversion Transactions

Costs of Debt Conversion Transactions

There are various types of costs in a Nature Bonds project:

1. Upfront costs, paid once the funds are lent to the government

Upfront costs consist of expenses regularly associated with sovereign borrowing, including legal and other advisory fees, arranging fees, credit rating fee and small administration fees. These fees can be paid from the funds borrowed. A global law firm, and sometimes financial advisors, are needed to advise the government on the drafting of the loan agreement and other documentation. Investment banks charge a fee to arrange the bond issuance and raise the funds from bond investors. The fee to run the tender purchase of the existing debt is usually taken out of the tender process and not charged to the bond proceeds.

Sometimes countries prefer that an investment bank underwrites the issue, ensuring the full amount of the issue will be provided regardless of market demand. The initial credit rating analysis fee and other small administration fees must be paid upfront.

Private transaction arrangers charge upfront fees. NGOs, such as TNC, may provide these services at no charge to the country. TNC does not charge fees or the reimbursement of TNC expenses for services provided before close, though TNC will often be reimbursed for certain costs at closing.

2. Ongoing costs, which are paid out of the coupon payment or in a separate conservation funding agreement

Ongoing costs are paid every time a loan payment is made and are incorporated into the coupon. However, in some projects, funding for conservation may be documented in a separate agreement. Ongoing costs vary with by transaction depending on the structure but often include the cost of credit enhancement, credit rating fee (as the loan must have a rating over the life of the loan), and administration costs, including operational costs of processing payments, managing the endowment's investment portfolio, annual credit rating reviews, audit fees, etc.

They also include the below:

Conservation costs are payments that fund conservation activities. These payments are disbursed to the CTF to make the conservation grants and may also fund an endowment to fund future CTF payments. The payments may be part of the loan payments or may be documented in a separate conservation funding agreement. The conservation funding generated in the debt conversion may not cover the full costs of achieving the Conservation and Climate Commitments.

Project facilitator/conservation partner's fee covers the long-term conservation and climate partner and project's facilitator obligations, including transaction management, compliance, reporting, capacity building, and technical assistance. This ensures efficient project monitoring and adherence to conservation commitments, facilitating long-term collaboration between governments, TNC, and other partners, while emphasizing capacity building, knowledge transfer, and adherence to global standards for effective conservation and climate action.

5.6 Other Considerations for Debt Conversion Transactions (continued)

Confidentiality and Communication

It is necessary to keep the debt conversion transaction confidential until launching the tender to purchase the existing debt. There is often considerable interest by the press and market coverage of these transactions. Investors' knowledge, or belief a debt repurchase is coming, could raise the price of the debt in the market, thereby potentially reducing the funds available for conservation and climate. Once the tender is launched, the investment bank will market the new bonds.



See section 9.0 *Confidentiality and Communications* for more details.

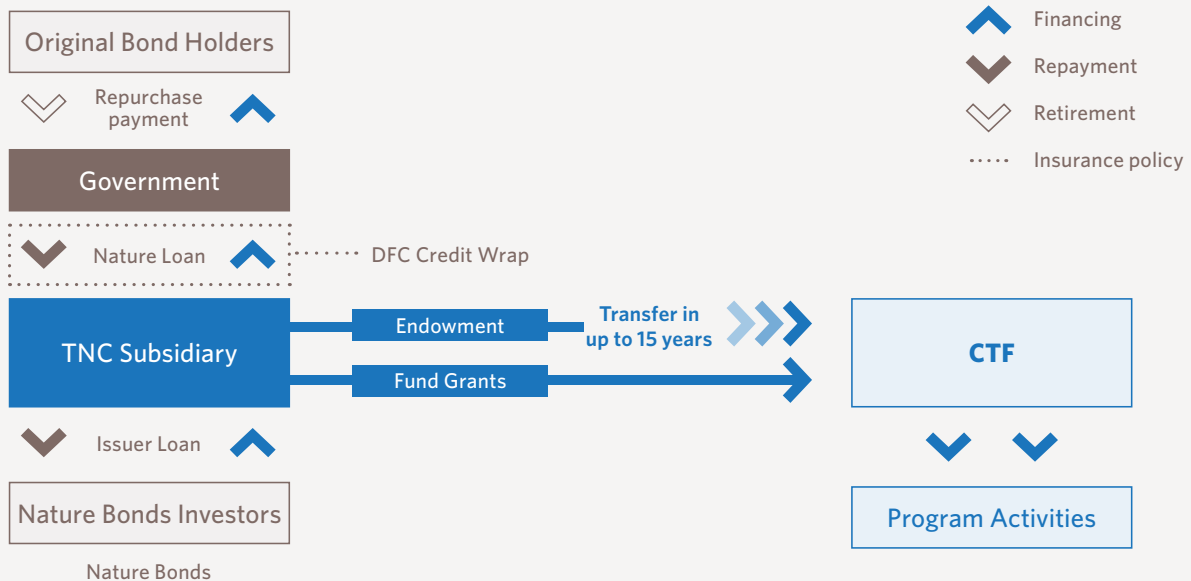
Government Commitment and Approval Process

Every country has its own unique government approval process to follow. As a Nature Bonds project is likely a new structure, governments should map out the approval requirements early in the process. It is beneficial to have a dedicated team or workstream to lead the approval process that includes the in-house legal counsel from the relevant ministries (Environment, Finance and others), the office of the Attorney General, and the Office of the President or Prime Minister.



See section 1.4 *Understand the Policy Framework and Approval Process* for more details.

Debt Conversion Transaction





5.6 Other Considerations for Debt Conversion Transactions (continued)

Legal Documents and Agreements

A Nature Bonds project involves multiple legal documents. The review and approval of these documents will involve the government's lawyers (within relevant ministries, Attorney General's office etc.) plus local and global external legal advisors for all parties. The main legal documents in the debt conversion transaction are:

Financing Agreements

The agreement by which funds are provided to the government. Typically, it is a loan agreement, but may include an indenture in the case of a direct or indirect securities offering. This category also includes the political risk insurance contracts and/or guarantee agreements under which credit providers indemnify lenders/bondholders in case of payment defaults by the government. In some instances, governments counter-guarantee the guarantors through Counter-Guarantee or Indemnity Agreements by promising to repay them in case their guarantee is called.

Conservation Agreement

Government obligations related to conservation, climate and community may be included in a separate agreement or incorporated into the financing agreements. These agreements also specify the level of conservation funding and when and how conservation payments will be made from the government into the Conservation Trust Fund. The agreements also specify the consequences for breaches of conservation Milestones, payment obligations, and other undertakings. There may also be separate agreements related to funding for the CTF or required by the credit enhancement provider related to the CTF's activities.

Tender Offer Documents

Required for debt swaps that involve retiring existing debt. These may not be needed in the case of prepayment of loan(s) or refinancing of maturing bond(s).

High-Level Services and Implementation Framework

Framework that outlines the respective roles and responsibilities of implementation partners (government, long-term conservation and climate partner, credit enhancer as appropriate) and their agreed way of working together (i.e., monthly working group) as well as management, administrative, and operational expectations.



See the [Nature Bonds Practice Standards](#) for relevant best practices and guidance for the Transaction.



6 Establish Conservation Trust Funds

Stage 2 : Section 6

- 6.0** Overview
- 6.1** What is a Conservation Trust Fund?
- 6.2** Why are CTFs important?
- 6.3** How are CTFs structured?
- 6.4** Two Approaches to CTFs
- 6.5** CTF Board and Committees
- 6.6** Operationalizing the CTF
- 6.7** CTF Operations
- 6.8** CTF Reporting
- 6.9** Mobilizing Additional Funding Sources
- 6.10** Practice Standards for CTFs

Mariko Wallen and Louis Godfrey are seaweed farmers in Placencia, Belize. They farm two species: Eucheuma (for consumption) and Gracilaria (used for skin treatments and cosmetics). Their farm is part of a program sponsored by TNC to bring seaweed aquaculture to the area in cooperation with the Placencia Fishermen Cooperative. © Randy Olson

6.0 Overview

This section explains the role and structure of Conservation Trust Funds (CTFs) as independent, transparent entities tasked with managing and disbursing funds for conservation efforts. It details the importance of them in fostering trust among investors and stakeholders, facilitating public and private funding, and the operational standards, governance models, and strategic importance of CTFs in maintaining financial integrity and supporting sustainable development goals through effective fund management.

6.1 What is a Conservation Trust Fund?

A Conservation Trust Fund (CTF) is a private, transparent, efficient, independent entity that receives resources from a variety of stakeholders and mechanisms, including but not limited to, funds unlocked from debt conversions.

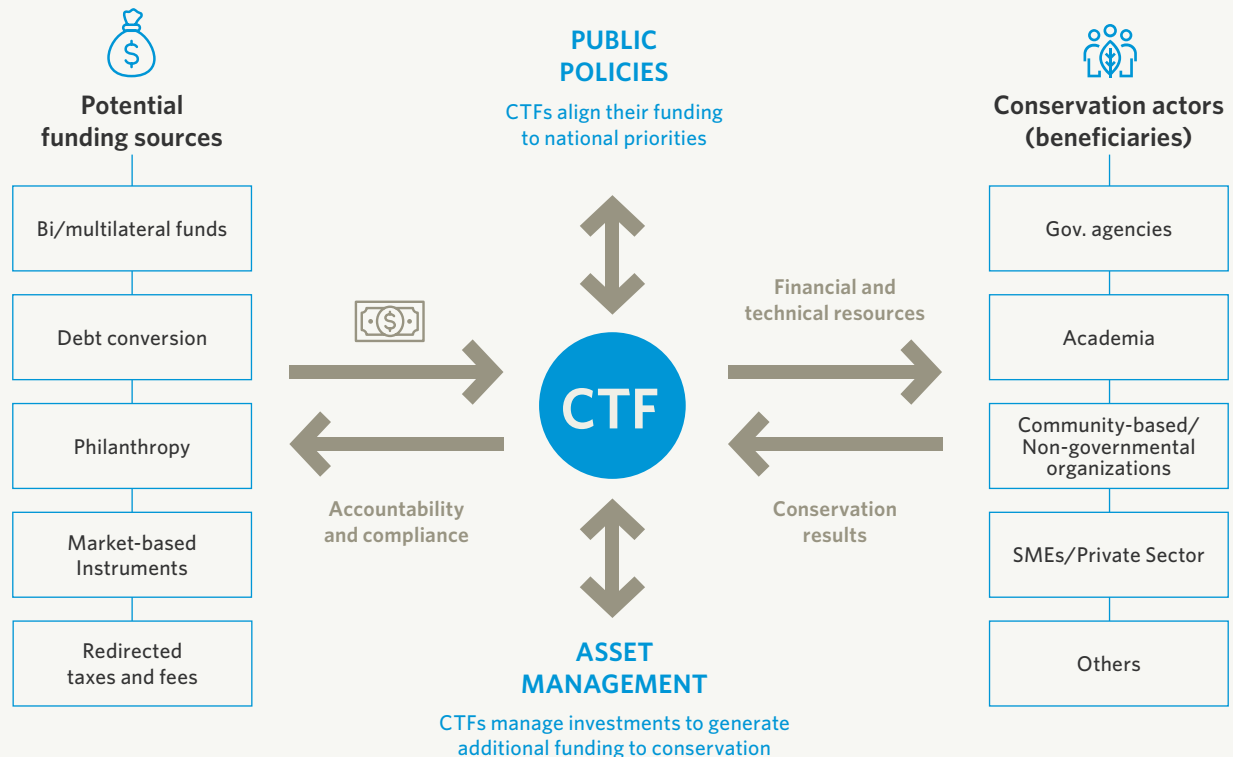
The CTF then funds grants and disburses the resources to local project implementers, including government agencies and ministries, while ensuring compliance with local legislation, donor agreements, social and environmental standards, and its own institutional policies.

The CTF also ensures monitoring and reporting on the conservation Milestones.

Popularized after the Earth Summit in Rio de Janeiro, Brazil, in 1992, Conservation Trust Funds (CTFs) are grant-making entities established to secure and manage resources for the sustainable development of local communities and habitats and the protection of biodiversity and ecosystems.

CTFs are an essential element for all Nature Bonds projects led by The Nature Conservancy.

How Do Conservation Trust Funds Work?



6.2 Why are CTFs important?

CTFs are necessary to support successful environmental, social and financial outcomes for governments undertaking Nature Bonds projects.

CTFS ALLOW GOVERNMENTS TO:

- 1. Build Trust with Investors and Donors**


Investors, donors, multilaterals and bilaterals (e.g., [USAID](#)) prefer CTFs because they provide a more direct, transparent, and accountable avenue for supporting conservation and environmental outcomes in the long term.

- 2. Fund Public Entities**

Public funds, agencies and programs are often grantees for independent CTFs, while the CTF maintains the benefits of being a private, independent entity that can keep all grantees accountable.

- 3. Mobilize Additional Funding**

Beyond the funds unlocked from the debt conversion, CTFs offer a targeted and flexible platform for future private donors, multilateral development banks, bilateral development banks, and national funding sources to support ongoing conservation impact locally.

 See section 6.8 [CTF Reporting](#) for more details.

- 4. Rely on Proven Experience**

CTFs rely upon established international best practices that draw upon a collective 30 years of global experience in various contexts and environments.

- 5. Protect their Legacy**

CTFs ensure conservation is implemented in the long term, ultimately protecting the government's legacy by ensuring continuity through different political cycles.

- 6. Build Trust with Communities and Constituent**

CTFs follow environmental and social safeguards, as well as provide transparency around how the funds are invested, fostering trust with communities and constituents.

“Blue Bonds will help us support the vibrant marine life that reside here, and maintain the rich biodiversity that is crucial for the health of our ecosystem and the planet. We are proud to be pioneers in this work, and to lead the way for other countries to join us as we conserve our oceans for Belize and beyond.

JOHN BRICEÑO BELIZEAN PRIME MINISTER



6.3 How are CTFs structured?

To provide these benefits and comply with the international standards expected from CTFs by most bilateral and multilateral donors, development banks, and international funders, CTFs must:

1. BE AN INDEPENDENT ENTITY

CTFs are not controlled by the government or any other third party. As an independent entity, they should not be subject to regulations specific to public or government-controlled entities, as they will exist across numerous political cycles.

- a. Government should not have more than 20-30% of the board or committees' seats to be effectively independent.
- b. The CTF should have full legal recognition in the country where conservation activities will take place.
- c. The CTF does not engage in public policy development or set targets or priorities for protection; instead, it aligns with the government's public policy objectives and functions as a grant-making and financing institution, ensuring proper management of funds and handling fiduciary matters.

2. HAVE AN INCLUSIVE GOVERNANCE SYSTEM

CTFs adopt a multi-stakeholder independent governance system, with clear decision-making, policies and procedures, in order to:

Provide transparent and equitable application and selection processes for grant allocation.

- a. Ensure risk screening and independent technical review of proposals.
- b. Encourage trust from local communities and key parties via a transparent process.
- c. Oversee compliance with agreements, legislation, policies and required standards, including the conflict-of-interest policy and environmental and social safeguards during selection and implementation of projects.



See section 6.5 [CTF Board and Committees](#) for additional details on CTF governance systems

3. HAVE AN EFFECTIVE BUT LEAN OPERATIONAL STRUCTURE

CTFs boast a professional and experienced staff, led by an Executive Director or Chief Executive Officer and a secretariat team that includes financial and technical personnel, who are responsible for:

- a. Providing the efficient disbursement of grants, technical assistance support and capacity-building. This is possible thanks to transparent grant-making procedures and due diligence protocols assessing impact at project level. Safeguards on the social impact of projects are part of screening procedures.
- b. Developing and managing an Environmental and Social Management System (ESMS) that includes the following elements:
 - (i) environmental and social policy;
 - (ii) clearly defined procedures for the identification, assessment and management of the environmental and social impacts, risks and co-benefits of subprojects (including Human Rights Due Diligence);
 - (iii) organizational capacity and competency;
 - (iv) stakeholder engagement and information disclosure;
 - (v) monitoring and reporting.
 Integrating these standards and processes is essential to operationalizing the Environmental and Social Management Framework (ESMF)
- c. Publishing monitoring and impact assessment reports and audited financial statements annually.
- d. Managing financial assets professionally and efficiently for long-term continuity.
- e. Designing innovative financial arrangements to diversify their funding sources and programs.
- f. Furthering partnerships and coordination with and between public and private sectors.



See section 6.10 [Practice Standards for CTFs](#) for more information.



The Sierra Gorda de Querétaro, Mexico.
© Mariana Meztli Ramírez/TNC Photo Contest 2021

6.4 Two Approaches to CTFs

Governments considering a Nature Bonds project have two options for CTFs:

1. BUILDING ON AN EXISTING CTF

If a suitable CTF exists, a new sub-account to receive funding can be created.

Advantages

Reduces time and cost of launching, operation costs and capitalizes on an experienced staff and previous activities/programs.

Considerations

Must ensure CTF has a strong and positive track record, is fully independent from the government (and is not subject to regulations specifically designed for public entities and public funding) and meets CTF international standards.

2. ESTABLISHING A NEW CTF

If a CTF does not exist or if an existing one does not fit the requirements, a new CTF can be created.

Able to tailor the design and governance of the CTF to meet international standards, avoids potential constraints or limitations of existing CTFs while enabling collaboration with public or government-controlled entities.

Incurs higher initial costs and longer lead times for establishment, which can be underestimated by parties.



Note: Depending on the available legislation in country to protect the assets of the CTF and maximize charitable donations, it may be advisable to register the CTF in a jurisdiction with proven regulations (such as the US or the UK), with all unlocked funds going back to the country through a branch or a representative office.

6.5 CTF Board and Committees

The CTF board and committees play a pivotal role in governance, decision-making, and oversight, ensuring effective management and strategic direction for the CTF's activities in alignment with international standards.

CTF BOARD

Government (or any other party) should not have more than 20-30% of the board seats to be effectively independent.



Other board members are appointed to reflect the diversity of the local stakeholders and to offer competencies such as financial management, scientific expertise or donor relationships.

The CTF board or governing body normally consists of 7-11 members, including the government, in minority, and the long-term conservation and climate partner as potential founding members.

Ideally the majority of the Board should be comprised of members from within the Nature Bonds country.

CTF COMMITTEES

Board members, including government officials, can act and serve in the various committees of the CTF, which can also include additional invited specialists. The following permanent committees are typically created to advise the CTF Board and follow crucial issues in-between Board meetings:



Executive Committee

Follows the work of the CEO more closely in-between Board meetings. The Board can delegate some approvals to this group.



Finance and Investment Committee

Assesses the performance of the external professional asset manager, reviews the external audits and budgets prepared by the Finance Manager before they are presented by the CEO to the Board, among other functions.



Governance and Nomination Committee

Assesses the performance of the Board and recruits new board directors for the Board's approval when there is a vacant seat.



Technical Committee

Selects grants/screen projects based on pre-established criteria and safeguards, which can follow public priorities and conservation Milestones.

The CTF can organize new additional committees to follow specific issues. For instance, in cases where the CTF is responsible for managing sources of funding outside the debt conversion, a dedicated committee can be created for different programs.



Blue macaws in Aquidauana, Brazil. Conservation Trust Funds are an essential part of the Nature Bonds process.
© Marcos Rocha/TNC Photo Contest 2023

6.6 Operationalizing the CTF

In the context of a Nature Bonds project, the CTF will benefit from funding in the long-term (over 15 years in most of the debt conversions supported by TNC), and most likely of an unprecedented scale, compared to climate and biodiversity public and international spending in the country. To effectively use and manage the resources unlocked from the debt conversion, stakeholders should plan for the gradual operationalization of a new CTF or a ramp up for a pre-existing one and offer technical support accordingly.

1.

FOR AN EXISTING CTF

Stakeholders to the debt conversion and the CTF staff should plan for a ramp up of the activity of the CTF.

- a. A first step is to assess the capacity and policy gaps of the CTF.
- b. Bridge the gaps identified in the CTF's policies and frameworks such as Environmental and Social Management System (ESMS) to reach an appropriate operational status. New policies and frameworks can be adopted, building on best practices from other CTFs and with inputs from parties to the debt conversion (credit enhancer, conservation partner, philanthropists, government).
- c. Hire additional staff, providers and systems, to complement existing capacities.

2.

FOR A NEW CTF

Stakeholders to the debt conversions will have to plan for a window of time for the CTF to be able to start its operations. It is important to note, that an established CTF with a nominated Board can be a prerequisite for a credit enhancer ahead of the financial close of the project. This strategic planning should enable the CTF to:

- a. Establish and train the Board, elect officers and install committees.
- b. Establish and adopt institutional policies and procedures, including safeguards, develop an initial strategic plan and a monitoring and evaluation framework.
- c. Hire and train staff.
- d. Set-up systems (accounting, grants management) and initial and necessary logistical issues.



6.7 CTF Operations

Efficient and well-managed operations are crucial to the success of CTFs, ensuring the effective grant-making (and thus successful implementation by local stakeholders to reach conservation Milestones) and the fulfillment of fiduciary responsibilities. The CTF has operational duties and obligations which include:

Compliance with National Laws, Regulations and Requirements:

Regardless of the jurisdiction of establishment, the Conservation Trust Fund operates within the country in compliance with national laws, regulations and requirements.



Note: *The CTF benefits from an endorsement from the government at launch, in line with the leadership of the country in completing a Nature Bonds project.*

Clear Policies and Procedures:

The CTF works under bylaws, institutional policies and procedures that are adopted by the Board and that can be amended as needed. The CTF needs internal policies and procedures in the form of operation manuals to guide its actions and to inform its partners, including grantees. Such frameworks allow the CTF to improve performance of its activities and comply with international criteria such as environmental and social safeguards. Safeguards at the project-level ensure an additional level of granularity to monitor impact on local ecosystems, communities and Indigenous peoples. A clear grievance mechanism such as a formal complaint channel is considered best practice for applicable individuals or groups to file a claim that a project-affected community has been negatively affected by a funded project.

Develop An Environmental and Social Management System:

To ensure a consistent approach to, and process for, managing environmental and social risks and impacts, each CTF must also develop (or have developed) and operationalize a project-level Environmental and Social Management System (ESMS). It should include (i) environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of the environmental and social impacts, risks and co-benefits of sub-projects (including HRDD); (iii) organizational capacity and competency; (iv) stakeholder engagement and information disclosure; and (v) monitoring and reporting.

Funding Disbursement Mechanisms:

To operate, the CTF will disburse funding for conservation activities led by different types of local stakeholders (government agencies, NGOs, academic institutions, community-based organizations, small enterprises, etc.).

- It is expected that the CTF will provide funding to applicants mainly through the award of grants, but different disbursement options and financial mechanisms can and should be envisioned as well (e.g., performing procurement, capacity building or technical assistance to projects, among others).
- Grants to non-government entities are usually awarded through a competitive “Call for Proposals” process. The project proposals received through these calls are assessed for compliance and scored by a technical committee according to pre-established criteria, so that the CTF selects the strongest projects. The grant-making process should be described in the CTF’s operations manual and awarded projects can be made public.
- In the case of resources that are earmarked to public grantees (such as ministries and agencies), a specific process is normally designed, under a master agreement with the government, for them to benefit from a pre-defined funding envelope. This specific process offers enhanced predictability and thus ensures effective planning for the government and its agencies. Under this process, public applicants complete funding requests using the CTF templates. Funding requests are screened by the CTF to ensure compliance and monitoring, but it is a common feature that they are not assessed on a competitive basis.

Training & Capacity Building:

The CTF should also be ready to provide training to potential applicants if they need help in submitting their applications to broaden the pool of applicants and maximize its inclusiveness toward local stakeholders of varying capacity. Training is also provided for grantees for improving monitoring and reporting practices.



6.8 CTF Reporting

An important aspect of a successful long-term CTF lies in its ability to build trust and credibility with local and international stakeholders, as well as parties to the Nature Bonds project and interested partners. CTFs report on the aggregated information collected from the grantees on their projects. In a Nature Bonds project transaction, the CTF has reporting duties and obligations which include:

Government, Credit Enhancer, and Investor Reporting:

The CTF assumes reporting obligations to key parties, as outlined within Nature Bonds projects' legal documents, and should aggregate grantee results. The CTF should adopt a monitoring, evaluation, and learning (MEL) framework, so that all grantees are oriented to track a few common indicators and this monitoring system should assist the tracking of long-term conservation impact.



See section 8.1 [Reporting Responsibilities](#) for more information.

Annual Reports: It is good practice to strive for transparency and provide annual reports that share outcomes of the CTF's activities with a wide variety of local and international key parties to enhance understanding and raise awareness around the crucial work supported. Annual reports (and audited financial statements) are normally published on the CTF's website and should include the local language and English.

6.9 Mobilizing Additional Funding Sources

A important feature of a CTF is its ability to serve as a mobilizing vehicle for all types of nature and climate-oriented funding. A Nature Bonds project unlocks long term predictable funding for activities in the country and can also serve as a catalyst to mobilize resources from additional interested donors, investors and partners, including:

Large International Donors: Thanks to its establishment under a robust jurisdiction providing assurances and benefits to philanthropists, the CTF can be the perfect vehicle to receive and manage funding from large international donors, whether individuals or foundations.

Example: In Nature Bonds projects arranged by the Nature Conservancy (TNC), TNC can mobilize its network of donors to complement the funding unlocked from the transaction.

Development Finance institutions (Bilateral or Multilateral):

It is common that bilateral and multilateral agencies include the use of an existing CTF as part of their agreements with the national governments for multi-year programs, as they see the CTF as a robust, agile and local partner that can ensure continuity.

Example: The Global Environment Facility (GEF) has often partnered with CTFs to disburse GEF funding.

Innovative Financing Mechanisms: Because the CTF is designed and organized in a flexible and outcome-oriented manner, it can be a vehicle to collect, develop, and structure innovative financing mechanisms and collect and manage their revenues, such as carbon credits, payment for ecosystems services, or royalties from natural resources exploitation. CTFs are, for instance, a perfect vehicle to receive funding for larger-scale strategic approaches such as the ones under Project Finance for Permanence (PFPs).

Example: Water Funds are a specific type of CTFs that receive resources from water users, normally paid as an extra fee in their water bills, and direct funding to conservation projects in the upstream part of the watersheds.

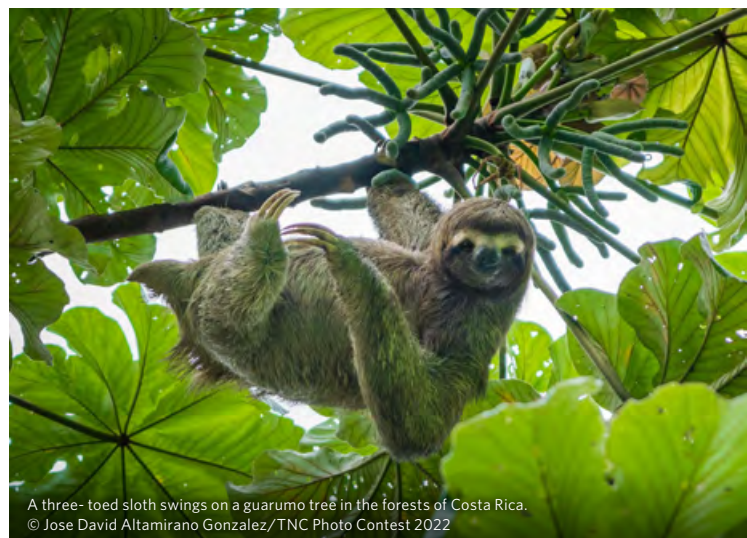


More on water funds can be found in the [Latin American Water Funds Partnership](#).

Examples of Successful CTFs

COSTA RICA

In Costa Rica, Forever Costa Rica was created in 2010 as a private non-governmental organization to support the country in meeting its commitments made under the Convention on Biological Diversity (CBD) of the United Nations with resources from a PFP (Project Finance for Permanence). Forever Costa Rica manages resources from a wide variety of sources, including from funds from a [bilateral debt conversion agreement](#) between the country and the USA aiming at protecting tropical forest.



A three-toed sloth swings on a guarumo tree in the forests of Costa Rica. © Jose David Altamirano Gonzalez/TNC Photo Contest 2022

SEYCHELLES

In 2015, the [Seychelles Conservation and Climate Adaptation Trust \(SeyCCAT\)](#) was established as an independent trust to manage the proceeds of the debt refinancing between The Paris Club and Seychelles, supported by The Nature Conservancy. Operationalized in the following years, the SeyCCAT provided its first grants in 2017 and since then, a large number of projects have been supported. Completed and on-going projects are made [public](#) in the spirit of transparency and build awareness among national stakeholders and potential applicants.



Beau Vallon beach on Mahé in the Seychelles. © Roshni Lodhia

BELIZE

In March 2022, the [Belize Fund for a Sustainable Future \(Belize Fund\)](#), a private, non-profit Conservation Trust Fund, was established to channel the funding unlocked from a 2021 Nature Bonds sponsored by The Nature Conservancy. The Belize Fund is mobilizing investment for the responsible development of Belize's marine and coastal resources and has published its first [Annual Report](#) for 2022.



Fish, including Bermuda chubs and sergeant majors, swarm a dive boat off Lighthouse Reef Atoll, Belize. © Jennifer Adler

Many other CTFs are active globally. They gather in networks to exchange knowledge and establish operational standards, such as [RedLAC](#) and the [Conservation Finance Alliance](#).

6.10 Practice Standards for CTFs

The international [Practice Standards for Conservation Trust Funds \(2020\)](#) are voluntary, yet are relied upon by most bilateral and multilateral donors, development banks, and international funders. They are intended to serve as a tool for improving the design, management, and monitoring and evaluation of CTFs and can be used, aspired to, or adapted to fit a CTF's particular needs.

The standards are organized in the seven core areas listed below, which are considered essential to the effective development and management of CTFs:

- 1. Governance** Addresses the composition, functions and responsibilities of a CTF governing body or bodies and the content and role of governing documents.
- 2. Institutional Effectiveness** Addresses strategic planning, interactions with government, partnerships with other organizations, and effective communications.
- 3. Programs** Covers how CTFs achieve their missions through grant-making and other expenditures, set goals and targets, manages the grant cycle, and monitors and evaluates both grants and projects.
- 4. Administration** Takes up the themes of human resource policies, staff roles and responsibilities, operations manuals, the use of financial resources, audits, and the use of technology.
- 5. Asset Management** Discusses the components of investment strategies, fiduciary responsibilities, and relationships with various types of investment professionals.
- 6. Resource Mobilization** Covers fundraising and managing relationships and funding sources to enhance the overall financial sustainability of biodiversity conservation, particularly protected area systems, but also includes funding for sustainability goals and climate action programs.
- 7. Risk Management and Safeguards** Addresses the policies and procedures needed to identify and address risks and adopt national and internationally used environmental and social safeguards.

The Practice Standards for CTFs, updated in 2020, provide evidenced-based norms for use by CTFs and those institutions and individuals who provide CTFs with financial and technical support.



See the [Nature Bonds Practice Standards](#) for relevant best practices and guidance for Operations and Governance and Post-close Financial Management.



7 Achieve Conservation and Climate Commitments



Stage 3 : Section 7

- 7.0** Overview
- 7.1** Initiation
- 7.2** Achieving Milestones
- 7.3** Monitoring, Evaluation, and Learning

A school of Blackbar Soldierfish (*Myripristis jacobus*) hide under a shipwreck in Barbados. © Shane Gross



7.0 Overview

After the agreement is signed and the CTF and the Climate and Conservation Commitments are finalized, the work focuses on achieving the Milestones and overall Commitments.

7.1 Initiation

After the signing of the Nature Bonds project agreements, a good deal of organizing is required to create a project team, develop workstreams, build capacity, formalize operations, and secure the expertise needed to achieve Milestones. The post-close initiation phase includes the following items, some of which are iterative and will need multiple efforts to define or identify:

Allocate Short-term Resources

It can take 12-18 months to operationalize the CTF and begin granting after the transaction closes, including strategic allocations to government agencies.



See section 6.6 [Operationalizing the CTF](#) for more details.

Short-term resources may need to be allocated to initiate work on the Milestones while the CTF is unable to disburse grant funding. Assessing and matching resource needs with available funding is a key step after signing of the agreement especially for the early period of the project.

Form or Delegate a Nature Bonds Coordination Unit or Group

It is recommended that an inter-governmental or multi-institutional coordination unit or group is delegated or formed with the principle objective of ensuring the government meets the commitments in the timeframes specified in the agreements.



See section 3.2 [Set up Internal Government Governance/Coordination](#) for more details.

Liaise with Key Parties to be Involved in the Planning Process

An introduction and socializing of the Nature Bonds project will be needed for all key parties including government agencies, industry representatives, environmental groups, and Indigenous Peoples and Local Communities (IPLC). Engagement early in the planning process is ideal. However, due to confidentiality restrictions, most Nature Bonds projects engage with local key parties after transaction close.



See section 9.0 [Confidentiality and Communications](#) for more details.

Post-close an ongoing dialogue between these key parties is essential to the overall success of the project⁴. The purpose of the initial engagements with key parties is to introduce the Nature Bonds project and to aid in initiating planning processes for the Commitments that will require participatory and inclusive processes (e.g., developing a regulation or management plan). Inputs will be needed for Terms of Reference and work plans, among other items.

Define the Purpose and Scope of the Planning Effort

Meet with key parties to begin forming or creating the vision, goals and objectives of the conservation and climate planning. The questions at this stage relate to identifying or articulating what is in scope and what is out of scope for the planning, including topics, activities and the spatial boundary of the planning area. These discussions are not to pre-empt the broader discussions about values and priorities but rather prepare governments to respond to questions including the purpose and scope of the conservation and climate planning effort.

⁴We recommend working closely with the long-term conservation and/or climate partner to develop a comprehensive engagement plan to determine how to support and uphold IPLC autonomy, decision-making, and self-determination alongside Nature Bonds projects.



7.2 Achieving Milestones

After the agreements are signed, the processes or steps to achieve the Milestones under the Conservation and Climate Commitments must be defined, including using global best practices and international standards. The timeline to achieve Milestones will vary depending on the type of Commitment(s) and due date(s).

A key first step may be to identify the lead government agency or authority to be the point of contact to address the different Commitments.

Planning processes to achieve Commitments can have spatial and/or non-spatial components. When Conservation and Climate Commitments contain Milestones to expand protections or protected areas and/or need to complete a spatial plan, the initial steps are to establish goals, define strategies, and organize resources. For other Milestones not related to expanding protection, such as addressing illegal fishing or developing a new regulation, a spatial planning effort may not be required.

Key questions to inform the steps to achieve Milestones include:



What are the existing planning frameworks that should be followed?

Plans should be built using internationally recognized standards and best practices for marine, terrestrial, freshwater, and climate. For example, Marine Spatial Planning (MSP) is the global best practice for ocean environments.



What plans already exist?

All existing plans need to be reviewed and incorporated with the Commitments, where appropriate. Institutional, local, Indigenous and sector knowledge may provide important information regarding previous efforts related to planning and biodiversity protection. The long-term conservation and climate partner may offer technical assistance for reviewing existing plans (such as an [Ecosystem Services Assessment](#)) which may need updates or additional planning, implementing, and monitoring of outcomes to fulfill the Conservation and Climate Commitments.



What data exists to support planning?

A data assessment and gap analysis would be completed relatively early to initiate data gathering and compilation. This is an iterative process and data updates are usually needed throughout a planning process. Examples of data sources include spatial data catalogues, atlases and cadasters.



Who will be involved in the planning process?

Stakeholder analysis (also called stakeholder mapping) as well as a key parties' engagement strategy need to be developed. When a Milestone requires a planning process, global best practices include a science-based or evidence-based approach that is participatory, inclusive, and transparent. A planning process would ensure there is a comprehensive engagement plan to determine how to support and uphold IPLC autonomy, decision-making, and self-determination alongside Nature Bonds projects.



How will a plan be implemented and monitored?

The planning process design should help practitioners think ahead to what will be needed and the cost to implement a plan and protections, including the baseline data to compare existing and future conditions, as well as staffing needs, cost and budget to monitor, evaluate, and enforce the plan's outputs.



The above section on implementation will be further developed as TNC engages more deeply in post-close projects. See sections 4.5 [Legal and Financial Commitment Considerations](#) and 8.0 [Reporting](#) for more details.



A young green turtle in the Seychelles
© Christophe Mason-Parker / TNC Photo Contest 2019

CASE STUDY⁵:


Creating A Marine Spatial Plan

In ocean environments, a Marine Spatial Plan (MSP) provides spatial and non-spatial information for marine activities and uses. Developing and approving a legally-enforceable Marine Spatial Plan has been a key commitment for all Nature Bonds projects that focus on oceans.

What is a Marine Spatial Plan?

Marine spatial planning (MSP) is a public process to allocate space and address ecological, economic, cultural and social objectives, defined through a political process. A MSP engages multiple sectors and stakeholders that are using, or will be using, the marine environment such as tourism, fisheries, energy, conservation, shipping and transportation, and recreation.

Global best practices for MSPs are defined through international guidebooks (e.g., UNESCO-IOC MSP Global Guide 2022). A Nature Bonds project has specified additional requirements such that an approved Marine Spatial Plan is legally enforceable.


 See Appendix [Creating A Marine Spatial Plan](#) for additional details.


⁵This case study emphasizes planning and implementation in the context of marine projects, showcasing The Nature Conservancy's experience to date. Future versions of this Toolkit will include additional planning and implementation insights from projects focused on terrestrial, freshwater, and climate.

7.3 Monitoring, Evaluation, and Learning

Monitoring, Evaluation, and Learning (MEL) is the ongoing process of observing and assessing post-close project implementation, adapting strategies based on outcomes, and continuously acquiring knowledge to improve the effectiveness of implementation. In the Nature Bonds project context, the MEL is assessed post-close and incorporated into reporting (annual conservation and Milestones), where appropriate.

For example, for Milestones related to management plans of marine protected areas, monitoring effectiveness assessments are incorporated in a Milestone report and subsequent annual conservation reports, guided by international best practices and standards, (such as the [IUCN Monitoring Framework](#), and Protected Area Management Effectiveness Assessments), which are conducted every two to three years to assess a protected area management plan.

 See section 8.0 [Reporting](#) for further details on how monitoring data corresponds to impact reports, Milestone reporting, and compliance requirements.

 See the [Nature Bonds Practice Standards](#) for relevant best practices and guidance for Conservation, Climate, and Monitoring and Reporting.



8 Reporting

Stage 3 : Section 8

- 8.0 Overview
- 8.1 Reporting Responsibilities
- 8.2 Government Capacity Needs
- 8.3 Project Reporting and Validation
- 8.4 Reporting Transparency
- 8.5 Types of Government Conservation Reports



Grey heron at sunrise on Alphonse Island, Seychelles. © Christophe Mason-Parker/TNC Photo Contest 2022

8.0 Overview

The legal documents for a Nature Bonds project outline the annual and Milestone reporting requirements that must be fulfilled by various parties involved over the lifetime of the transaction, which can last over 15 years.

Reporting obligations for investors and credit enhancers should be completed holistically and be made public to capture the full picture of the outcomes achieved through the transaction and are validated by subject matter experts.

8.1 Reporting Responsibilities

In a Nature Bonds project, the responsibility for achieving conservation outcomes and intended impact is shared between different parties that play different roles in implementation:

The government is responsible for:

- achieving the Conservation Commitments agreed to under the transaction agreements
- making conservation payments in the amount agreed to in the transaction agreements to support the implementation of the conservation program
- reporting on the conservation Milestones to investors and credit enhancers

The Conservation Trust Fund is responsible for receiving the conservation payments made by the country and disbursing and managing grants in support of the conservation program activities.

Both the country and the Conservation Trust Fund are responsible for reporting on the aspects that fall under their respective roles in implementation, which is defined among parties in the debt conversion ahead of the financial closure.

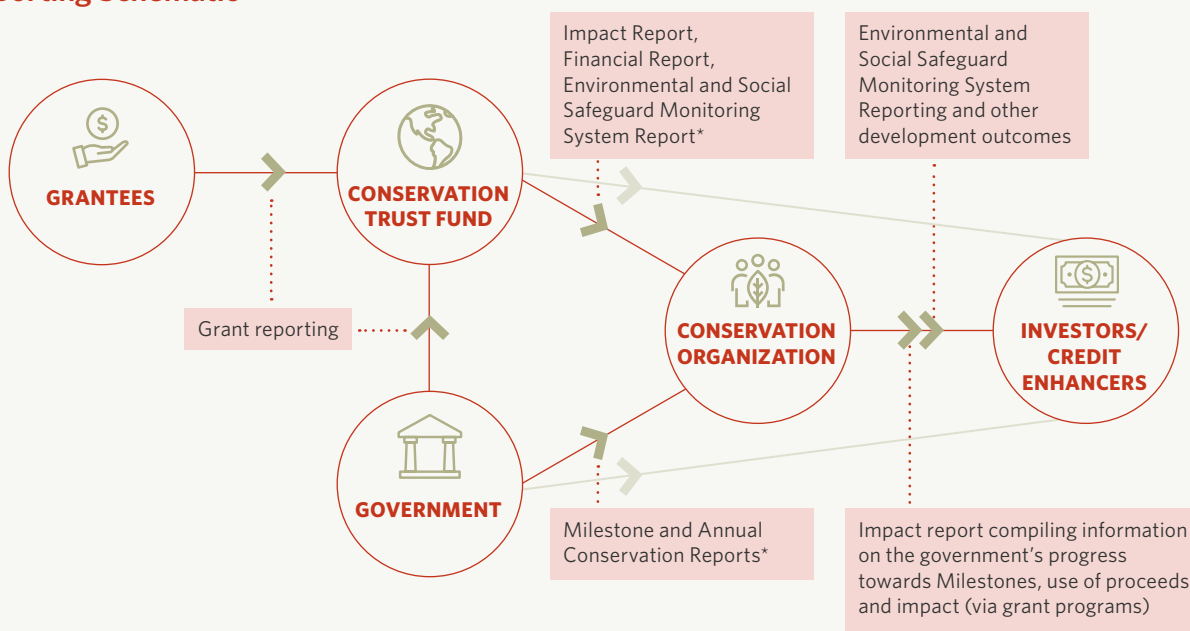
The long-term conservation and climate partner is responsible for validating reports from the country and Conservation Trust Fund and compiling all information into holistic impact reports that cover all aspects related to transaction performance and conservation impact. This impact report is typically required to be shared with investors and credit enhancers and should be made publicly available.



See the [Belize Impact Report](#) for an example of outputs and learnings from Nature Bonds projects.

It is likely that all parties to the debt conversion will have their own reporting and compliance requirements. Hence, all parties should aim for a seamless cooperation and working relationship over the life of a transaction to support one another in meeting their requirements.

Reporting Schematic



*Note that the Government and CTF may also be obligated to share reports directly with investors/credit enhancers



8.2 Government Capacity Needs

To prevent a breach of compliance obligations, the Government should set up capacity early to ensure compliance with its reporting obligations.

In this context, capacity refers here to dedicated staff to process, share, communicate and archive the information being reported on – especially as the transaction will take place over a long period, building institutional memory is key. This dedicated capacity should be empowered within the government administration to ensure that the unit and staff dedicated to reporting have the ability to collect and coordinate across various ministries, agencies and key parties.

It is good practice for the reporting obligations to be undertaken by a government unit that has also been involved in the project development and implementation phases.

8.3 Project Reporting and Validation

All stakeholders in a Nature Bonds project strive for impact and a credible, sound, scientifically based verification process is vital. The long-term conservation and climate partner will verify the reports provided by the country and can ask for clarification, details, and data. This verification effort could also be undertaken by a third party in a Second Party Opinion (SPO) capacity who could bring strong conservation expertise and on the ground capabilities.

A breach of compliance obligation may have severe consequences for all parties to the transaction. For the government, a breach of Milestones and legal agreements may trigger penalties and even default. Thus, the long-term costs of the verification process and reporting by the long-term conservation partner, or by a SPO, or any other party, need to be built into the transaction.

8.4 Reporting Transparency

Over the term of a Nature Bonds project, the reporting transparency will change. Pre-close, confidentiality is important and will be defined and guided by the stakeholders.

However, post-close, the country should expect and welcome the project's impact to be made public. This enhanced transparency is an important success factor for a Nature Bonds project, as it can enable a feeling of ownership and appropriation among local partners and stakeholders. The project's transparency supports and showcases conservation efforts undertaken by the country and can help attract additional support.



8.5 Types of Government Conservation Reports

A country will be required to provide two conservation reports for parties to the Nature Bonds project and when released to the public those reports are made available to interested audiences, both in country and globally:

- 1. Milestone Reports**

On the date a conservation Milestone is due, the country is required to submit a report providing evidence that the Milestone has been achieved. Templates that outline the expectation for what information should be provided in each Milestone report should be developed ahead of financial close. The data provided in this report is needed for the long-term conservation and climate partner to perform its role in assessing whether or not the country has achieved each conservation Milestone. Preparation for the Milestone report should be discussed during the pre-close period including the inclusion of a 90-day preliminary report to the long-term conservation and climate partner for a preliminary assessment of meeting the Milestone on the due date.
- 2. Annual Conservation Reports**

A country will typically also be required to submit an annual conservation report that includes confirmation that the government remains committed to achieving the Conservation and Climate Commitments it made under the transaction; a summary of the progress made on implementing the conservation program to date; the current measurement of the KPIs the transaction is supporting (e.g. total area in Biodiversity Protection Zones/Protected Areas); and a summary of any constraints or deficiencies in achieving the conservation Milestones. A template that outlines the information that is provided in each annual conservation report should be developed ahead of financial close. This annual reporting allows the long-term conservation partner to monitor progress towards achieving the targeted conservation outcomes, ensure that there is no backsliding on conservation Milestones that have previously been met, and identify implementation risks so that mitigation strategies can be developed.



See the [Nature Bonds Practice Standards](#) for relevant best practices and guidance for Operations, Governance, and Monitoring and Reporting.



9 Confidentiality and Communications

Stage 3 : Section 9

- [9.0 Overview](#)
- [9.1 Stage One - Exploration](#)
- [9.2 Stage Two - Formal Negotiations](#)
- [9.3 Stage Three - Implementation and Accountability](#)

Starfish in the seagrass near the mangroves forest, on the coast of Belize. © Jennifer Adler



9.0 Overview

Nature Bonds projects require confidentiality during the pre-close negotiations. Once the transaction closes, robust, multi-layered, ongoing communications are necessary to integrate the project locally and highlight the country's undertaking globally.

TNC typically champions maximum transparency and disclosure, however on a Nature Bonds project there are several overriding confidentiality factors:

1. Confidentiality is essential to the project before the transaction closes.

2. Confidentiality agreements between financing partners may limit what can be disclosed about the project. For example, specific closing fees are typically considered proprietary information.

3. Where specific line items are confidential, the parties may agree to disclose information on an aggregated basis. For example, in Belize, TNC disclosed the all-in cost of the financing which aggregates premiums and certain fees subject to NDAs.

Nature Bonds projects require a comprehensive confidentiality and communications approach across all project stages. The following are high-level best practices and considerations for each stage of a Nature Bonds project.



Note: Needs vary greatly between contexts, so it is crucial to seek appropriate legal counsel and plan communications approaches based on advisor input and in close coordination with all partners.

“ With strong partnerships and collaboration between governments, funders, and multilateral development banks, the Nature Bonds Program is helping countries refinance debt and re-invest the savings in nature conservation and climate action.

JENNIFER MORRIS CEO OF THE NATURE CONSERVANCY



9.1 Stage One – Exploration

During the initial development stages of a project (i.e., when a country and its partners are determining the viability and feasibility of a Nature Bonds project) confidentiality and communications considerations include these five issues:

1. **Adhere to Strict Confidentiality** Reinforced by NDAs, governments, partners, and advisors should maintain high levels of confidentiality while engaging in the early stages of a Nature Bonds project for the following reasons:
2. **Legal Restrictions** Nature Bonds projects typically involve offerings of securities, and key actors need to ensure that they comply with applicable securities laws in their communications.
3. **Financial Implications** A country's existing debt trades at a market price, which can be influenced by public perception and the media. In certain cases, breaches of confidentiality can drive up the buyback cost of an existing bond and decrease the feasibility of a project. Even if such effects are temporary, premature disclosures of a project under development – which may or may not ultimately happen – can lead to market fatigue and ultimately make the financing more difficult to execute.
4. **Reduce Distractions** Confidentiality ensures that any “buzz”, anxiety, or questions about a project are minimized while partners work together to develop the transaction.
5. **Create a Holding Statement** To prepare for potential inquiries from media or other stakeholders, the government, alongside partners, should draft and agree upon a holding statement to acknowledge the inquiry and protect confidentiality during the project's development phase. Leaked information is not uncommon, so having a holding statement and response protocol is essential.



Sorting seaweed at Mariko Wallen and Lous Godfrey's farm in Belize. Their farm is part of a program sponsored by TNC to bring seaweed aquaculture to the area in cooperation with the Placencia Fishermen Cooperative. They farm two species: *Eucheuma* (for consumption) and *Gracilaria* (used for skin treatments and cosmetics). © Randy Olson



9.2 Stage Two – Formal Negotiations

Once the formal negotiations of the project have begun (i.e., working on the Conservation and Climate Commitments and legal documents supporting a Nature Bonds project), confidentiality and communications considerations include:

1. **Continued Confidentiality until Announcement**
Governments, partners, and advisors are advised to maintain high levels of confidentiality during the negotiations until a coordinated public announcement is made at transaction close.
2. **Develop a Response Plan**
Develop a comprehensive response plan that incorporates communication protocols in the event of a confidentiality leak, which includes the expectation of frequent and brief touch-base meetings to promptly address potential media inquiries.
3. **Designate a Government Spokesperson and Communications Point Person**
The government should identify a spokesperson for the announcement and designate a key individual responsible for communication within the project. That person should work closely with the project facilitator and coordinate efforts with the key internal colleagues and external partners involved in developing the communications strategy, announcement plan and materials.
4. **Draft a Joint Announcement Communications Charter**
With the support of the project facilitator, co-create a document that details the target announcement timing, specific entities participating in communication (i.e., government and partners), responsibilities and processes, priority audiences, deliverables, media spokespeople, and communication team member’s contact details.
5. **Collaborate on Announcement Deliverables**
The project facilitator works closely with the government and partners, to co-create deliverables that support consistency across key messages during launch. Recommended deliverables include:
 - Key messages document
 - Partner credit boilerplate paragraph
 - Core paragraph describing the deal for use in press release and other materials
 - Quote sheet highlighting all partners
 - Agreed review process for social media text
 - Global events engagement coordination
6. **Assign Responsibility for Messaging Specific Media / Audience Groups**
It is crucial for the government, project facilitators, multilaterals, and investment banks to effectively communicate with their respective audiences. Given the potential for overlap, it is essential for the government to consider its most significant in-country stakeholders and constituents, while the project facilitator can play a role in coordinating partners to ensure one media outlet is not contacted by two different partners.



9.3 Stage Three – Implementation and Accountability

In the weeks and months after a Nature Bonds project transaction closes, communications shift from a one-time announcement event to ongoing, programmatic communications support. Considerations for the post transaction close stage include:

1. **Continued Emphasis on In-Country Communications**

Following the formal announcement, global communication activity typically decreases, and the communication responsibility typically shifts towards the government’s public information campaign and local key parties’ engagement with support from local and/or regional staff of the project facilitator.
2. **Anticipate Public Interest**

Governments are advised to plan for additional staffing and resources to handle heightened public interest after the project closes. This includes addressing public questions, sharing the key parties’ engagement process used during planning and development, and anticipating that a level of educational awareness will be needed around complex aspects of the project. Post-close the CTF can make key information available such as grant-making manuals and its board composition to build trust among community groups. The project facilitator’s government relations team can offer valuable talking points and guidance for effective inquiry responses.
3. **Case Studies and Impact Reports**

As the Nature Bonds project moves into the implementation and monitoring phase, key learnings and results are shared publicly by the long-term conservation partner and/or project facilitator via case studies and impact reports.



See section 8.0 *Reporting* for more details.



See the [Nature Bonds Practice Standards](#) for relevant best practices and guidance for Stakeholder Engagement and Communication.



Appendix

Sunset over the surroundings at Gallon Jug town, Orange Walk District, Belize. © Lucas Bustamante

Appendix materials provide supplementary information for toolkit readers seeking a more comprehensive understanding of key topics. These materials can be found in the below linked public digital folder:

[VIEW APPENDIX MATERIALS](#)

At the time of publishing this PDF, the appendix folder includes:

1. [The History of Debt Conversions for Climate and Nature](#)
2. [Nature Bonds Practice Standards](#)
3. [Comparing Credit Guarantee and Political Risk Insurance](#)
4. [Creating A Marine Spatial Plan](#)

This folder will evolve as new materials and templates are added or updated. If you have trouble accessing appendix materials, please contact naturebonds@tnc.org.



If you are interested in learning more, providing feedback, or exploring a Nature Bonds project for your country, please contact naturebonds@tnc.org.