

# GREENING SOVEREIGN DEBT

## THE NATURE CONSERVANCY'S NATURE BONDS PROGRAM

addresses the severe lack of funding and technical support for low and middle income countries to finance and implement their nature conservation, and climate mitigation and adaptation goals. As these countries face increasingly limited budgets and rising debt burdens, TNC's Greening Sovereign Debt initiative was launched to scale and replicate the Nature Bonds Program's approach by influencing the policies and practices of international financial institutions and borrower and lender countries.

Developing and emerging market countries are facing a triple crisis of high debt burdens, ever-increasing costs of climate change and climate-induced disasters, and critical biodiversity loss. Countries increasingly cannot afford to address their nature and climate-related needs due to high debt service payments, coupled with reduced access to financing in a context of high interest rates and constrained development funding. According to the latest International Monetary Fund (IMF) and World Bank Debt Sustainability Framework, more than half (37 out of 69) of all low-income countries are assessed to be at high risk of debt distress, with most of the external debt owed to private creditors<sup>1</sup>. Of particular concern are the 58 countries of the Climate Vulnerable Forum whose economies are systemically vulnerable to climate change and face \$435 billion in debt payments between 2022 and 2028<sup>2</sup>.

<sup>1</sup> [International Debt Report 2022, Updated International Debt Statistics, World Bank Group, 2022.](#)

<sup>2</sup> [V20 Debt Review, Boston University Global Development Policy Center, 2022.](#)

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TNC believes debt conversions linked to climate and nature outcomes, while not a panacea, are one of the key tools available for countries to address this triple crisis. In this regard, TNC developed the *Nature Bonds* Program that combines commercial debt refinancing and robust conservation planning and implementation to help countries protect ecosystems, address climate change challenges and support their communities without increasing, or at times even reducing, their debt burden. The Greening Sovereign Debt initiative builds on TNC's experience in arranging these novel transactions (*Seychelles 2016*, *Belize 2021*, *Barbados 2022*, *Gabon 2023*) securing commitments to conserve more than 1.8 million km<sup>2</sup> of marine area. When adding the recent transaction arranged by Pew in *Ecuador* in 2023, these last four transactions enabled countries to refinance \$2.8 billion of sovereign debt while unlocking around \$725 million of additional climate and conservation funds through 2041.

## RATIONALE OF THE GREENING SOVEREIGN DEBT INITIATIVE

Interest in TNC's Nature Bonds projects is growing, with support from the Climate Vulnerable Forum<sup>3</sup> and the IMF<sup>4</sup> which concluded that debt-for-climate transactions can, at times, be a superior debt solution rather than grants. Many countries are exploring or pursuing these innovative transactions, while multiple investment banks are exploring the deals and already two International Finance Institutions have provided different forms of credit enhancement.

## PRIORITIES OF THE GREENING SOVEREIGN DEBT INITIATIVE

To help scale and replicate TNC's Nature Bonds Program's approach of combining debt conversions and technical assistance to achieve climate and nature conservation outcomes, the Greening Sovereign Debt initiative focuses on four main streams of work, building on our expertise and the identified needs and gaps of the international financial architecture.

## COMPONENTS OF THE GREENING SOVEREIGN DEBT WORKSTREAM



Supporting providers of credit enhancement, Multilateral Development Banks, Bilateral lenders, other financial institutions and the private sector to increase coverage available for Nature Bonds and other sovereign borrowing linked to nature and climate outputs



Enhancing the capacity of developing and emerging market countries to assess and execute these types of transactions as part of their debt management strategies



Advocating for a better incorporation of nature and climate in the IMF/World Bank Debt Sustainability Framework and in credit rating agencies methodologies



Working with other sovereign lenders, as well as advisors, think-tanks, and academics, to explore potential Nature Bonds style transactions as part of their international financial strategy

The Greening Sovereign Debt initiative is poised to expand and support an increase in the number of urgently required Nature Bonds projects and debt conversion transactions. The challenge is vast, and we must collectively shore up support to meet the nature conservation and climate adaptation needs of emerging countries without increasing debt burden and importantly, channeling funds where they can be the most beneficial to stabilize the climate, economies, livelihoods and halt the loss of nature.



## CONTACT

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<sup>3</sup> <https://www.v-20.org/v20-ministerial-dialogue-xi-communique>.

<sup>4</sup> [Debt-for-Climate Swaps: Analysis, Design, and Implementation, IMF, August, 2022.](#)