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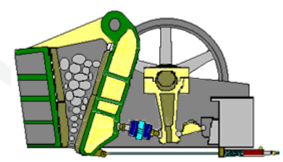
DEFI Developing Finance

FROM COUNTRY RISK, TO FINANCIAL CRISIS AND DEBT RESTRUCTURING



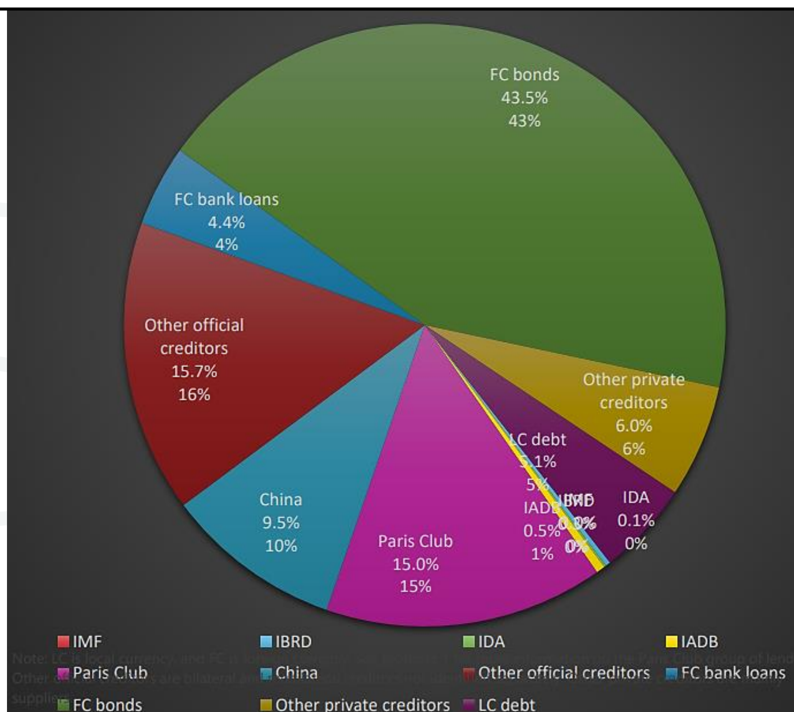
CIFE SEMINAR ROMA-BERLIN-NICE 2025-26

AUTHOR: MICHEL-HENRY BOUCHET

1

SHARE OF DEBT IN DEFAULT BY CREDITORS

SOURCE: BANK OF ENGLAND 2025



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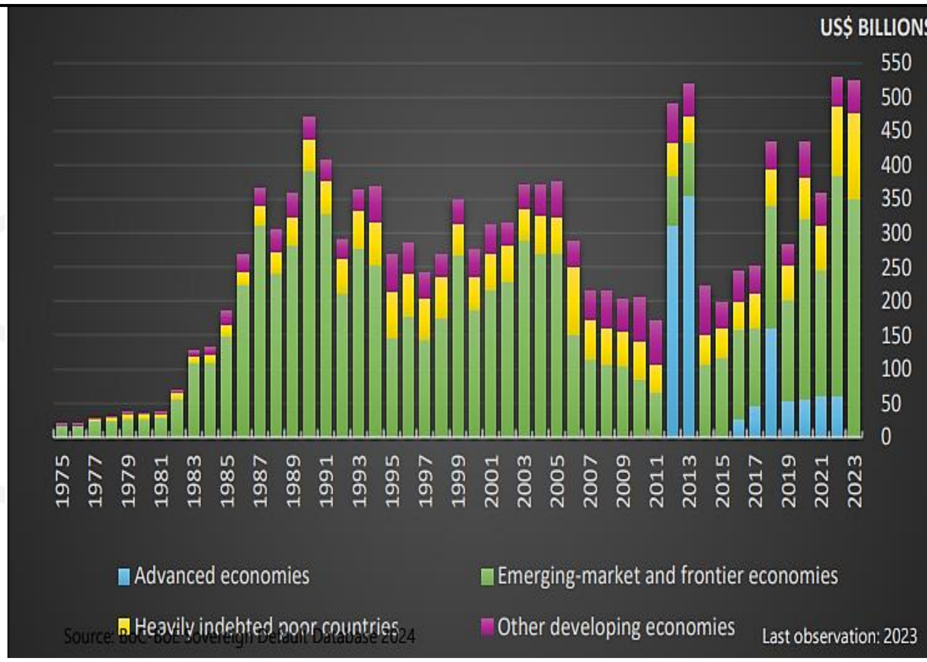
2

SOVEREIGN DEBT IN DEFAULT BY DEBTORS

SOURCE: BANK OF ENGLAND 2024



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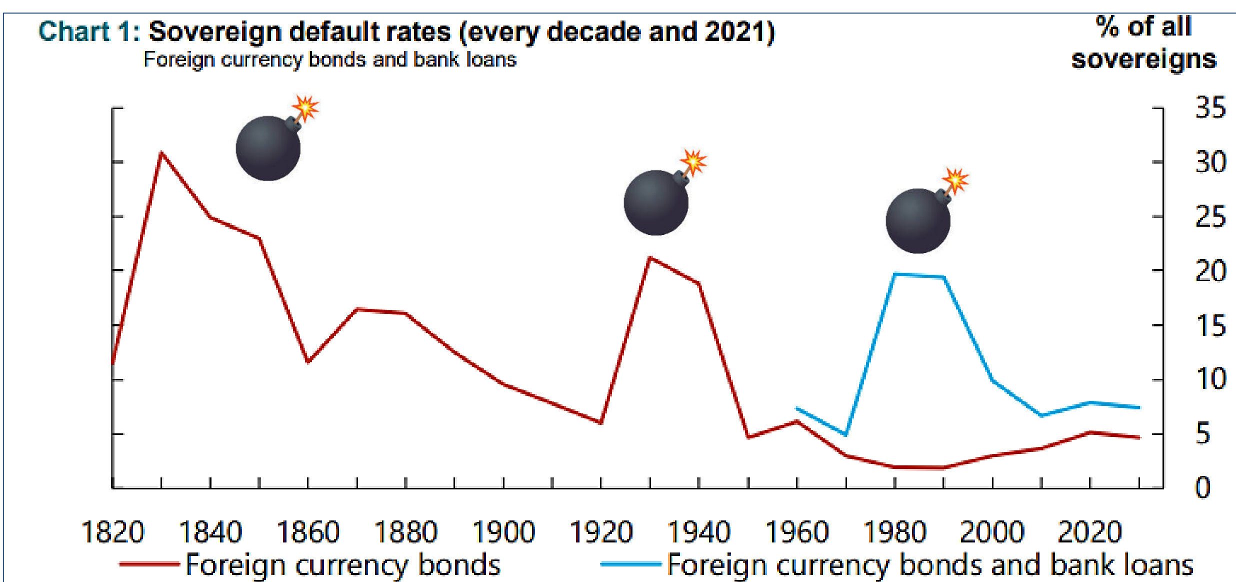
SOVEREIGN DEFAULT RATES IN % OF ALL SOVEREIGNS



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LIQUIDITY AND SOLVENCY THRESHOLDS

Flow variable

▶ **Liquidity** = Debt Service ratio < 33% of X

Interest/X ratio < 25%

Stock variable

▶ **Solvency** = Debt/GDP < 66%*

Debt/Exports < 150%

Reserves/months of Imports > 6 months

* average debt crisis threshold 1970-2010 Reinhart/Rogoff (Maastricht)

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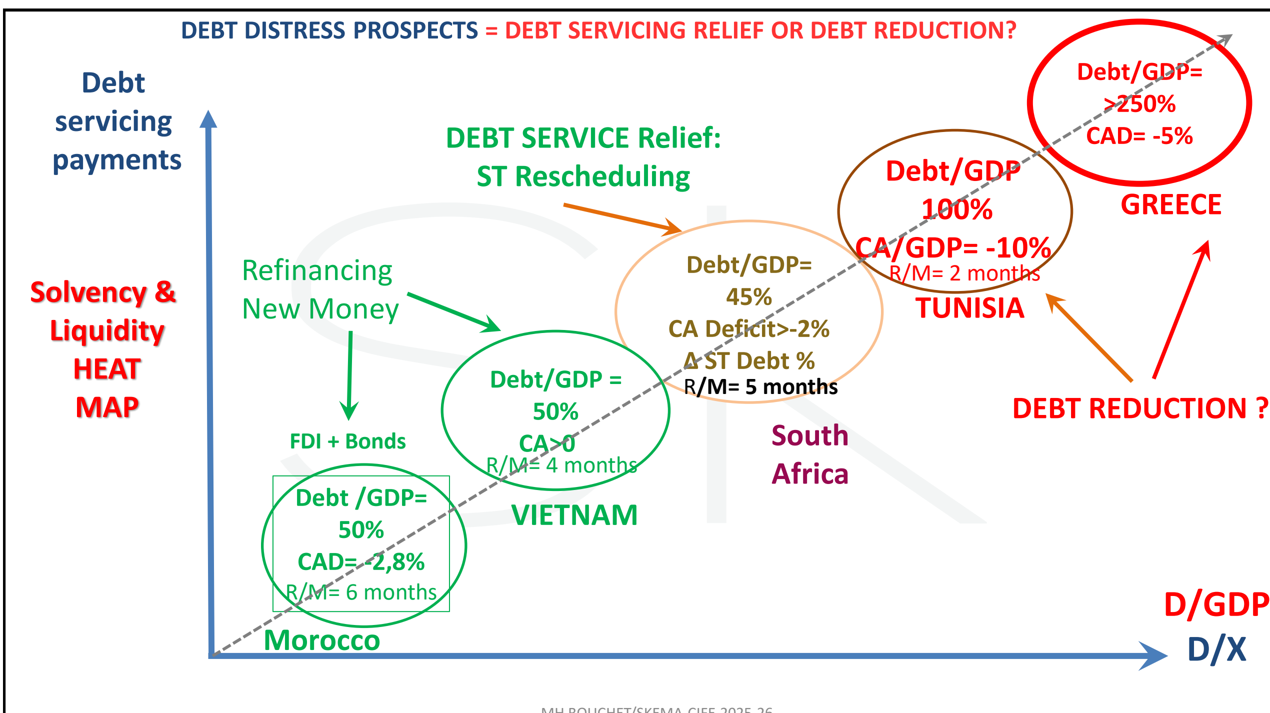

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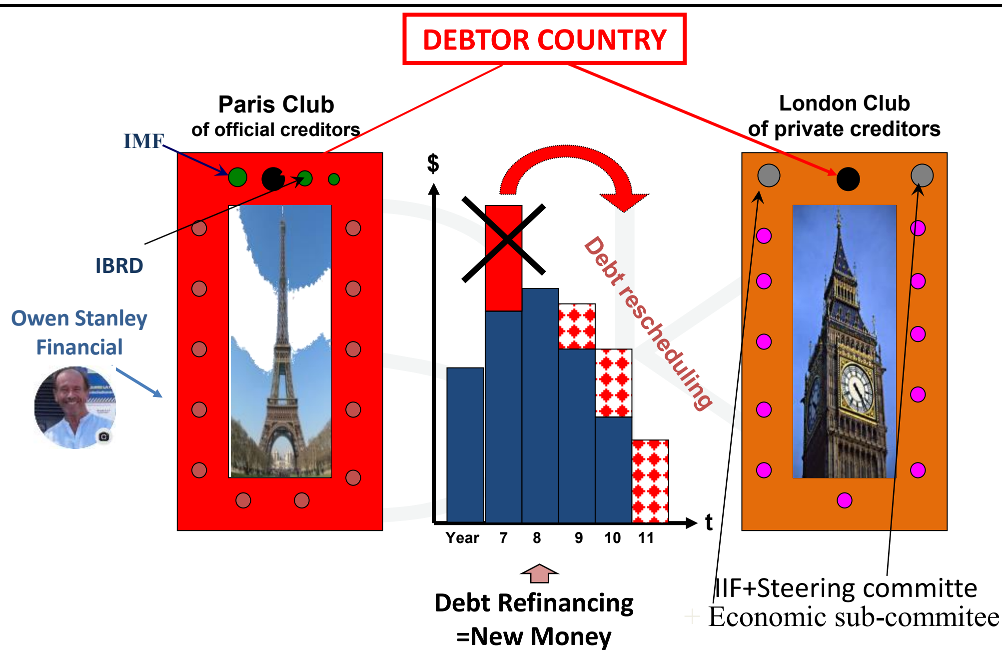
WHO's WHO?

Five main groups of private and official creditors:

1. The IFIs: IMF and World Bank + RDBs
2. The Paris Club of OECD governments
3. Private suppliers: trade debt
4. The London Club of international banks
5. Institutional investors (pension and investment funds, hedge funds): Eurobond holders

7



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THE PARIS CLUB 1956-2026

KEY NUMBERS

Total number of agreements	479
Total number of debtor countries	102
Total amount of debt	616 Billion $
Total number of countries in "Classic Terms"	61
Total number of countries in "Houston Terms"	21
Total number of countries in "Naples Terms"	33
Total number of countries in "Cologne Terms"	37

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TOTAL DEBT OUTSTANDING OF ARGENTINA

Paris Club's claims as of 31 December 2019, excluding late interest (In USD million)

ODA: Official Development Assistance
NODA: Non-Official

DEBTOR COUNTRIES	ODA claims	NODA claims	TOTAL
Afghanistan	24	1 378	1 401
Albania	610	10	620
Algeria	285	1	286
Angola	475	1 187	1 662
Antigua and Barbuda	4	123	127
Argentina	336	1 863	2 198

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Table1 Joint BIS-IMF-OECD-World Bank Statistics on External Debt (mill. US$)

Data are in millions	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2
A1. Loans and other credits (Debt of)					
01_Cross-border loans, by BIS reporting banks	13,585	12,839	12,461	12,014	..
02___o/w to nonbanks	12,333	11,591	11,379	10,964	..
03_Official bilateral loans, total	..	..	..	..	..
04___o/w aid loans	..	..	..	..	..
05___o/w other	..	..	..	..	..
06__Multilateral loans, total	65,619	69,435	67,376	69,486	67,563
07___o/w IMF	40,218	43,493	40,804	42,965	41,548
08___o/w other institutions	25,401	25,942	26,572	26,520	26,015
09_Insured export credit, Berne Union	16,437	16,437	15,334	15,334	..
10___o/w short term	6,728	6,728	6,132	6,132	..
11_SDR allocations	6,750	6,673	6,809	6,719	6,675
A2. Loans and other credits (Debt due within a year)					
12_Liabilities to BIS banks (cons.), short term	8,548	8,532	9,009	9,081	..
13_Multilateral loans, IMF, short term	13,566	10,917	7,428	5,682	3,684
B1. Debt securities (All maturities)					
14_Debt securities held by nonresidents	28,678	..	28,919	..	..
B2. Debt securities (short term, original maturity)					
15_Debt securities held by nonresidents	645	..	115	..	..
C. Supplementary information on debt (liabilities)					
16_International debt securities, all maturities	81,125	79,695	80,254	78,937	77,052
17___o/w issued by nonbanks	80,324	78,894	79,454	78,137	76,252
18_International debt securities, short term	5,109	5,811	5,594	5,319	4,084
19___o/w issued by nonbanks	5,109	5,811	5,594	5,319	4,084
20_Paris Club claims (ODA)	PARIS CLUB	..	282	..	..
21_Paris Club claims (non ODA)	..	..	1,491	..	..
22_Liabilities to BIS banks, locational, total	17,345	16,329	16,502	16,722	..
23_Liabilities to BIS banks, consolidated, total	14,185	13,689	14,275	15,433	..

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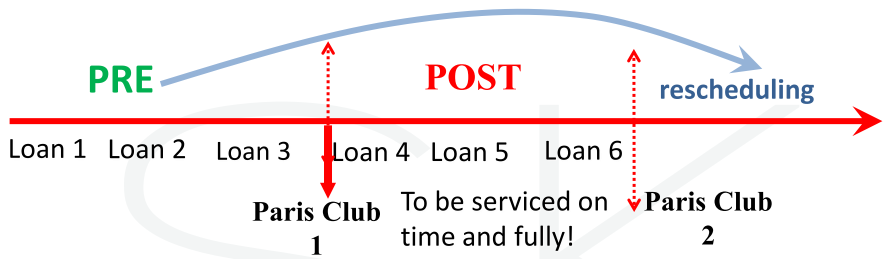
PARIS CLUB DEBT RESTRUCTURING

- **Official bilateral debt (government to government)** is renegotiated under the auspices of the Paris Club since 1956
- Since then, the 21 Paris Club creditors have reached 479 agreements concerning 102 debtor countries.
- Total amount of debt covered = **$614 billion**
- Only official debt + officially-guaranteed credits (Coface, Hermes, ECGD, US Eximbank…)
- Total claims on EMCs: $310 billion
- 10 times meetings/year, for negotiation sessions or to discuss the situation of the external debt of debtor countries or debt related methodological issues (sometimes with the IIF)
- Russia joined in 1997 and Brazil in end-2016, as sizeable lender in African countries such as Nigeria, Angola and Mozambique. China??

PARIS CLUB
7 DEBT RESTRUCTURING GUIDELINES

1. Consensus
2. Comparability of treatment
3. Solidarity among creditors with on-going information exchanges
4. Case by case treatment of debt crisis
5. Conditionality based on IMF adjustment program and monitoring
6. No restructuring of « post-cut off date » debt so as to preserve access to new financing
7. Secretariat provided by French Treasury

PRE AND POST CUT-OFF DATE DEBT?



- Time + Money = To preserve new money and market access, only **pre cut-off date** debt is eligible to debt relief negotiations through rescheduling, refinancing, debt conversion and debt reduction

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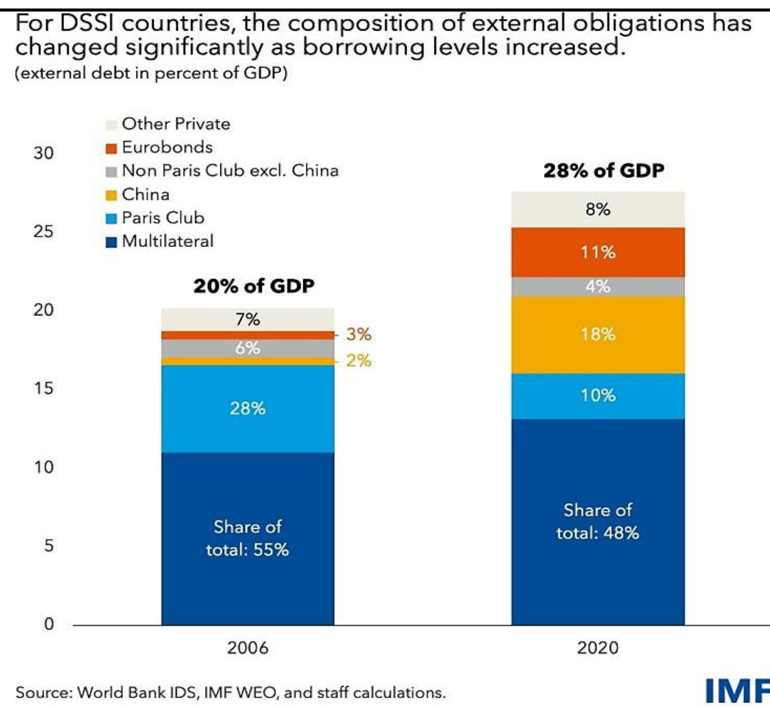
THE CHANGING STRUCTURE OF EXTERNAL LIABILITIES WITH RISING SHARE OF CHINA = DEBT RESTRUCTURING MORE COMPLEX AND UNCERTAIN!



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THE THORNY ISSUE OF EMC’S DEBT TO CHINA

Africa

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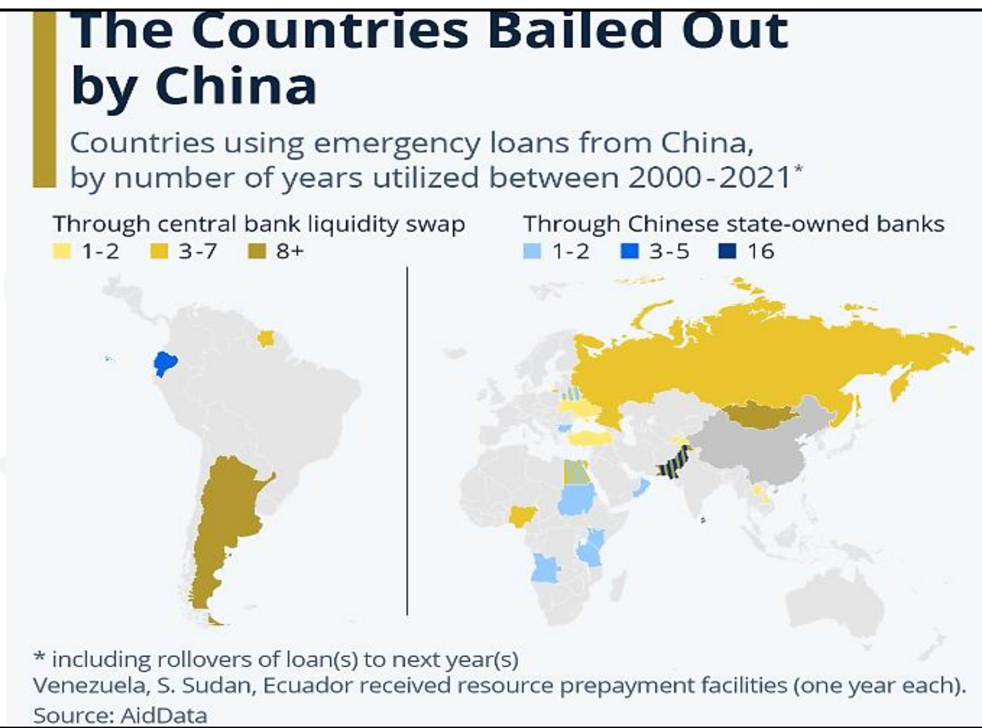
CHINA: TRANSFORMING FINANCIAL CRISIS MANAGEMENT INTO GEOPOLITICAL POWER



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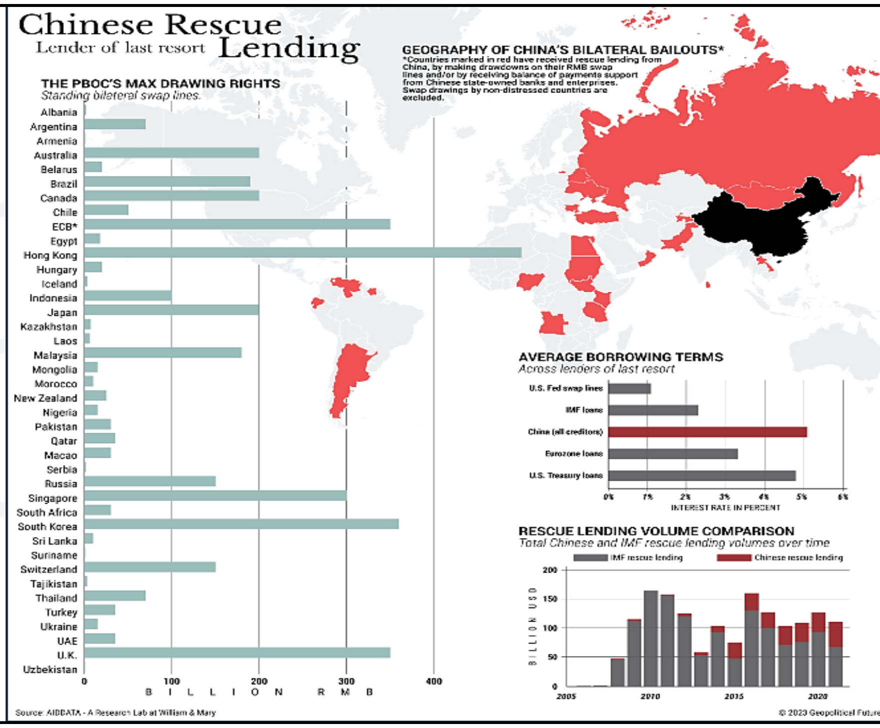
IS CHINA ABOUT TO COMPETE WITH THE IMF FOR RESCUE LENDING OPERATIONS?



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CHINA: GROWING GLOBAL FINANCIAL ROLE IN CRISIS MANAGEMENT & RANGE OF INTERNATIONAL RESCUE LENDING INSTRUMENTS

>20 debtor countries have received $240 billions in Chinese rescue lending since 2000

Lending instrument	Example Cases
Rescue loans (general purpose / liquidity support) Chinese state-owned banks, in particular CDB, have provided USD credit lines that allow recipients to service external debts, increase reserves or finance general budgetary expenditures	Egypt 2016, Belarus 2019
Commodity prepayment facilities Chinese oil importers have provided large upfront USD cash payments on long-term oil delivery contracts	Ecuador 2009
Drawings from PBOC swap lines Recipient country central banks have drawn down their RMB swap lines to increase gross reserves	Argentina 2014 - 2020, Turkey 2021
Central Bank deposit loans Chinese banks and the PBOC have provided USD deposits to foreign central banks to help increase their gross reserves	Pakistan 1997 - 2021

Source: AIDDATA March 2023 Working Paper 124

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CHINA'S FINANCIAL RESCUE PROGRAMS

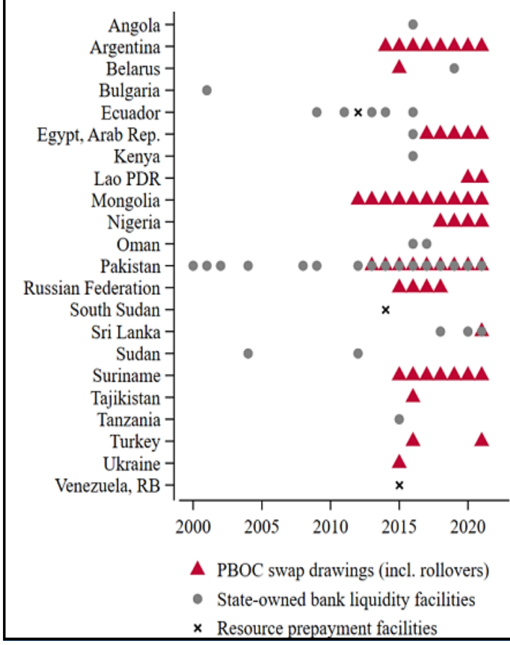
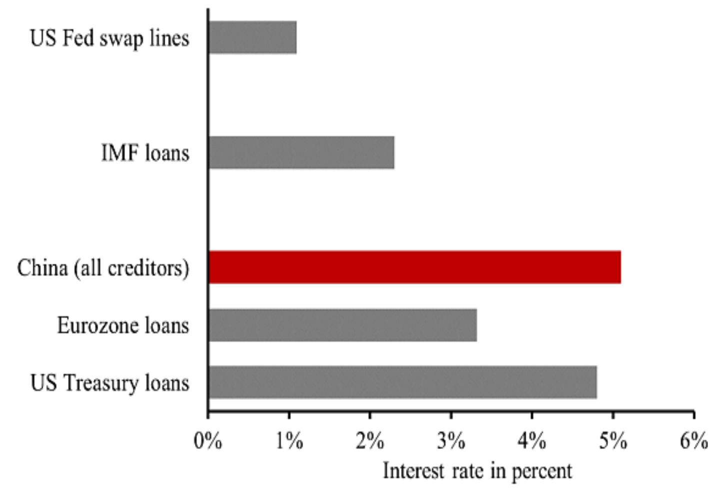


Figure 6. Average borrowing terms across different lenders of last resort



Source: AIDDATA WP 124 March 2023

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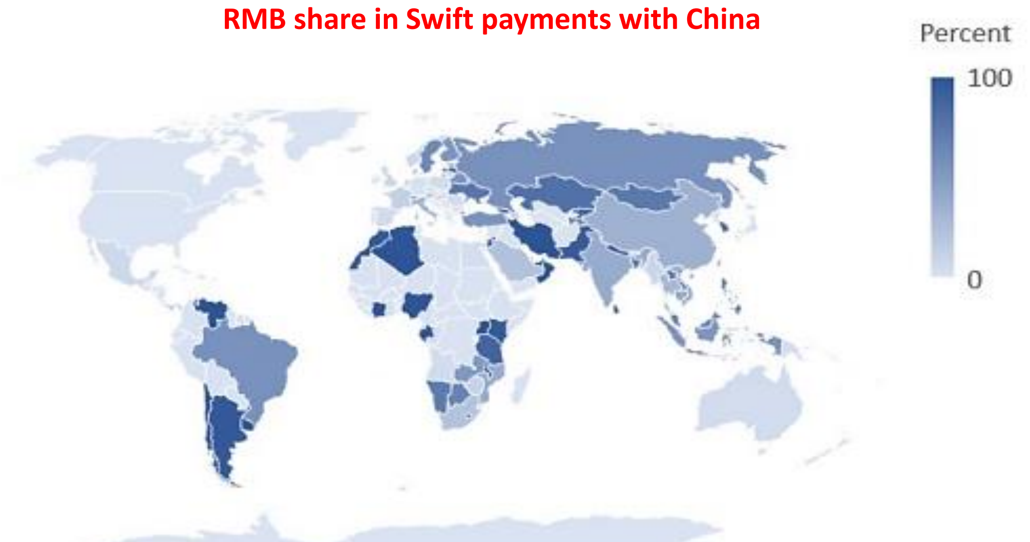
THE LARGER CHINA'S RESCUE LOANS THE LARGER THE RELIANCE ON RMB IN BILATERAL TRADE TRANSACTIONS

RMB share in Swift payments with China



Source: IMF WP23/77 March 2023

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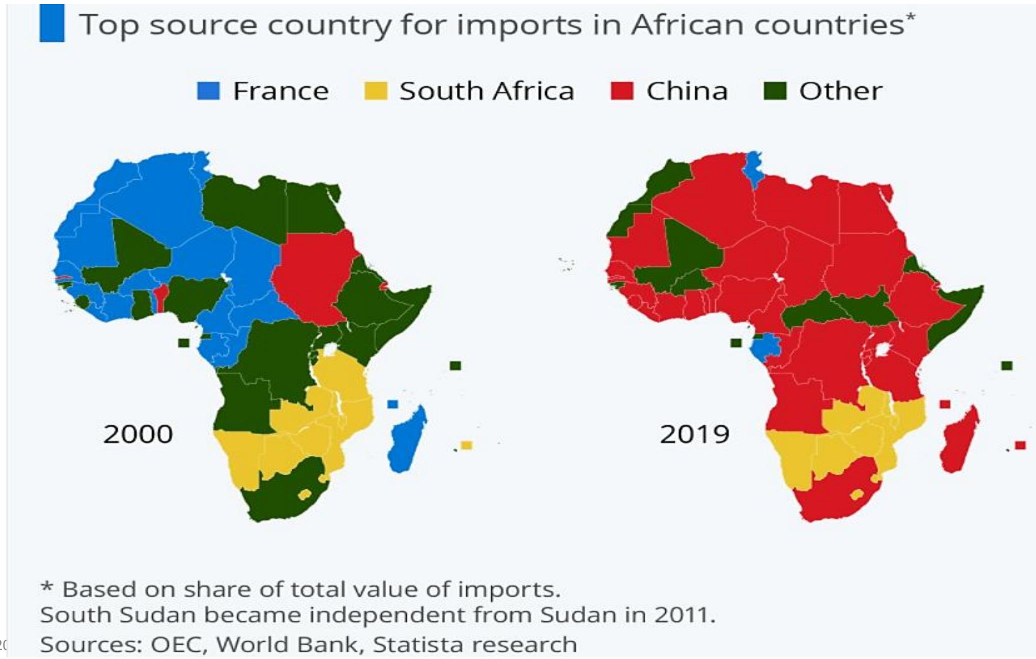
CHINA HAS BECOME A KEY CREDITOR AND TRADE PLAYER IN AFRICA



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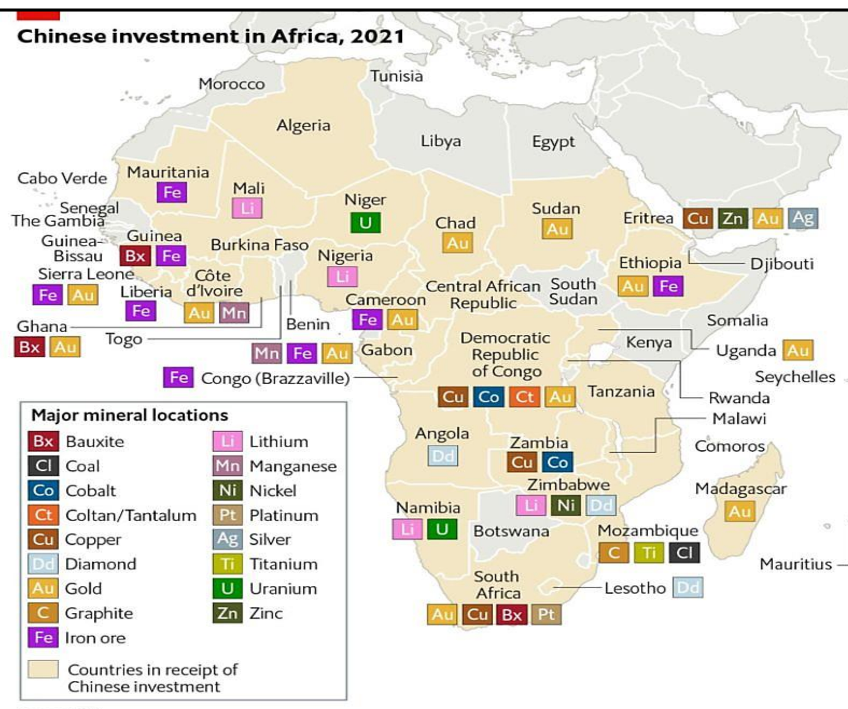
CHINA IN AFRICA: INVESTOR, CREDITOR & IMPORTER



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The London Club of debt restructuring

WHAT IS THE « LONDON CLUB »?

- Since the 1970s, countries facing default have used the London Club process to restructure sovereign debt owed to banks.
- The London Club has evolved as an ad hoc forum for restructuring negotiations.
- Each London Club is formed at the initiative of the **debtor country** and is dissolved when a restructuring agreement is signed.
- Ad hoc London Club "Advisory Committees" are chaired by a leading financial bank.
- The IIF plays a key role in London Club meetings: BOP and debt analysis!

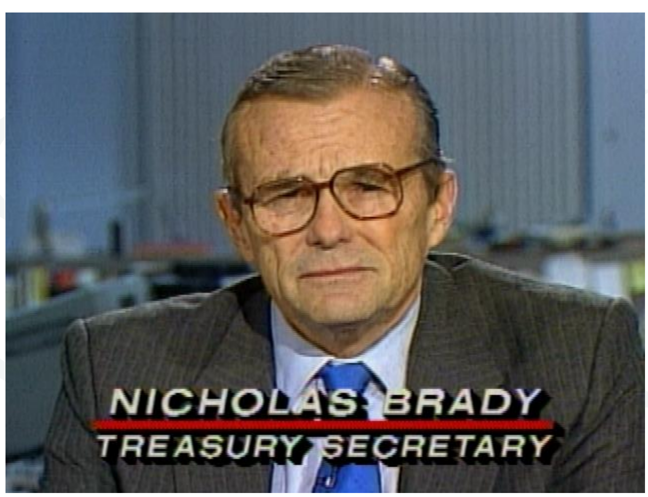
WHAT IS THE IIF?

Tim Adams
President and CEO

- The Institute of International Finance, Inc. (IIF), is the world's global association of financial institutions.
- Created in 1983 in response to the international debt crisis, the IIF has evolved to meet the changing needs of the financial community.
- Members include most of the world's largest commercial banks and investment banks, as well as insurance companies and investment management firms. Among the Institute's Associate members are MNCs, trading companies, ECAs, and multilateral agencies.
- The Institute has > **400 members**

headquartered > 70 countries.

THE BRADY PLAN OF DEBT RESTRUCTUIRNG



MENU-BASED DEBT RESTRUCTURING:
THE BRADY PLAN AND BEYOND

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THE SECONDARY MARKET OF LOANS AND BONDS PRICES

When BOP tensions rise, with falling reserves, looming debt crisis and default, bondholders and creditor banks prefer selling their claims at a discount in the secondary market while buyers anticipate better future.
The market discount translates into accounting losses in balance sheets, though tax-incentives driven bank reserves offset the loss.
The price of the claim is the inverse of the discount and closley reflects « country risk »

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THE 1989-2024 PROCESS OF LONDON CLUB DEBT RESTRUCTURING

- **London Club banks** grant debt relief to debtor nations, in some proportion of secondary market discount through interest or debt stock reduction
- Accounting and regulatory incentives (loan-loss provisioning)
- Shift to specific purpose financing and voluntary lending

- **Debtor countries** adopt tough macroeconomic adjustment programs under the monitoring of the IMF/WB (SALs)
- Current account financing + Reserve build-up
- Objective: back to market-access for EMCs or to grants for low-income countries

Means and Tools

- Defaulted sovereign London Club debt to be exchanged for easily tradeable **Brady bonds** guaranteed by 30-year zero-coupon US Treasury bonds which the defaulting nation purchases with its reserves and official financing support (IFIs + Paris Club)
- Principal guarantee + x semi-annual interest payments, whose guarantee is rolled over
- **Bullet repayment** (e.g., 30 years)
- **Cross-default clause**
- **Debt conversion clauses**

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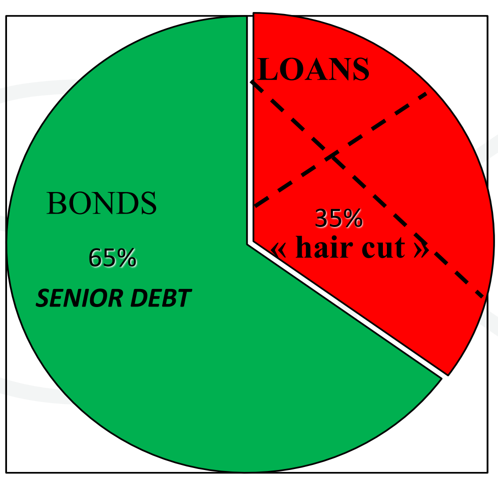
THE BRADY PLAN IN ACTION: HAIR CUT!

New senior debt with long-term maturity, principal collateralization, rolling interest
Guarantee + cross-default clause



Debt cancellation backed up by commercial banks' reserves for loan-losses with regulatory incentives

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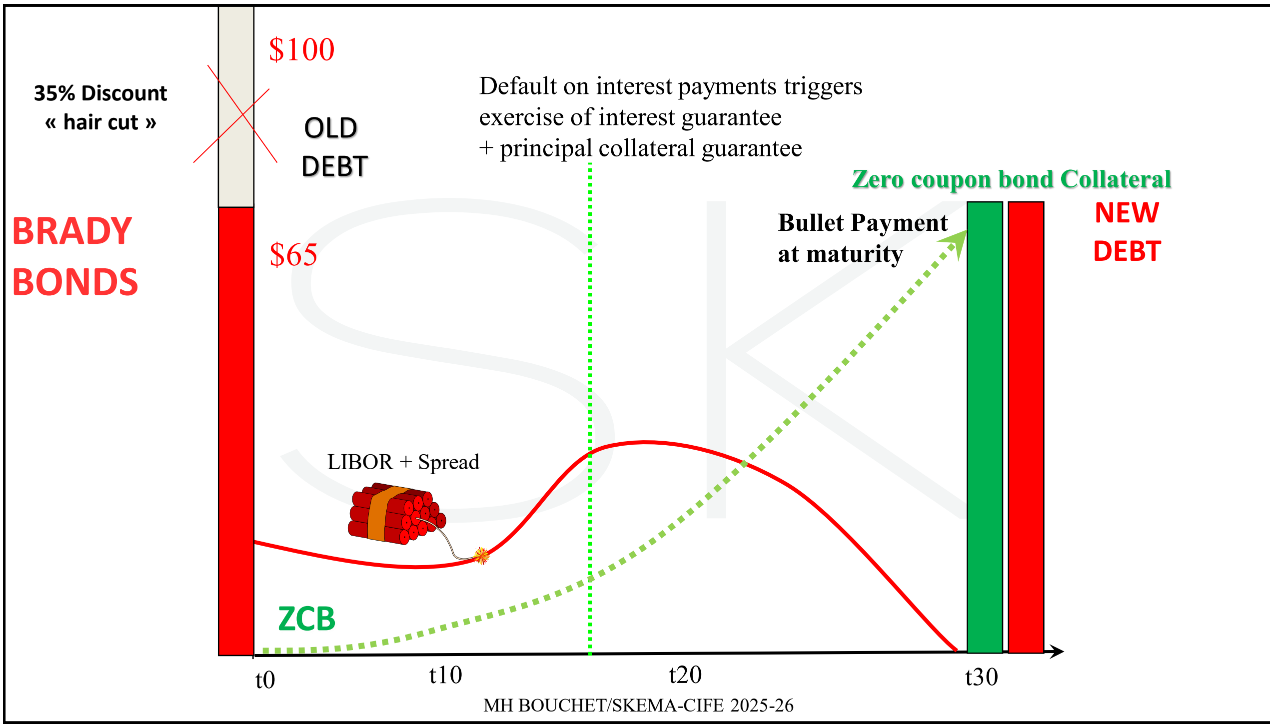

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BURDEN-SHARING STANDARDS & LEGAL ARCHITECTURE OF DEBT RENEGOTIATIONS WITH BONDHOLDERS

03/2024: sovereign debt stability act:

New York lawmakers have moved to limit how much creditors can recover from defaulted sovereign debt in the state's jurisdiction, proposing to rewrite the law that governs about half of the foreign currency bonds issued by EM governments

The new draft could deter "holdout" creditors, who buy up defaulted government bonds for cents on the dollar and then sue for full payment even as other creditors agree to take losses

"bailing out" and "free riders"!

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Brady bond deals of the 1980s & 1990s
(at the very least Brady-style with a menu of options)

- Baker plan launch 1985
- Brady Plan launch 1989

- Mexico: defaulted 1982, Brady deal 1989
- Costa Rica: defaulted 1981, Brady deal 1990
- Morocco: defaulted 1982, Brady deal 1990
- Venezuela: defaulted 1982, Brady deal 1990
- Philippines: defaulted 1983, Brady deal 1990
- Poland: defaulted 1981, Brady deal 1993
- Uruguay: defaulted 1983 (again in 2003), Brady deal 1991
- Nigeria: defaulted 1982, Brady deal 1992
- Jordan: defaulted 1988, Brady deal 1993
- Argentina: defaulted 1982 (again in 2001), Brady deal 1993
- Brazil: defaulted 1983, Brady deal 1994
- Bulgaria: defaulted 1990, Brady deal 1994
- Dominican Republic: defaulted 1982, Brady deal 1994
- Albania: defaulted 1990, Brady deal 1995
- Ecuador: defaulted 1982 (again in 1999), Brady deal 1995
- Panama: defaulted 1982, Brady deal 1996
- Peru: defaulted 1984, Brady deal 1997
- Ivory Coast: defaulted 1984 (again in 2001), Brady deal 1998
- Vietnam: defaulted 1982, Brady deal 1998
- Russia: defaulted 1998, Brady-like operation 1998

bondvigilantes.com

Bond Vigilantes

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VIETNAM = LONDON CLUB DEBT RESTRUCTURING

Brady debt restructuring (12/97)=

► (P= 335 million) + (PDI= 515) *interest arrears*

= $**850 million**

► 30-year bonds with 50% discount + par bonds + buyback at 44%

Paris Club Debt Restructuring 12/1993: LONDON Terms = 54% debt reduction

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LEGAL CLAUSES AND CONVENANTS IN DEBT RESTRUCTURING NEGOTIATIONS

- Waiver on negative pledge clause: it prevents a borrower from pledging any assets if doing so would jeopardize the lender's security : risk of subordination with regard to a senior status lender!
- It ensures **financial equality** and democracy in a community of creditors
- In Brady deals, the Paris Club, the IMF and the World Bank **waived the clauses**

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THE GREEK 2011-15 MENU-BASED « BRADY DEBT RESTRUCTURING » = 65% « *HAIR CUT* »

1. **Par Bond** Exchange into a 30 year instrument (4% coupon)
2. **Par Bond** with refinancing of rolling-over maturing Greek government bonds over 30 years
3. **Discount Bond** Exchange into a 30 year instrument with 20% discount and 5% coupon
4. **Discount Bond** Exchange into a 15 year instrument with 5,9% coupon
5. **Buyback** at 35% price (65% discount) of London Club debt (11/2012)

- For instruments, 1, 2 and 3 the principal is fully collateralized by 30 year zero coupon AAA Bonds.
- For instrument 4, the principal is partially collateralized through funds held in an escrow account.

Calculation: IIF & http://www.voxeu.org/index.php?q=node/6818

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CHALLENGES OF THE GREEK DEBT RESTRUCTURING WORKOUT 2011-20

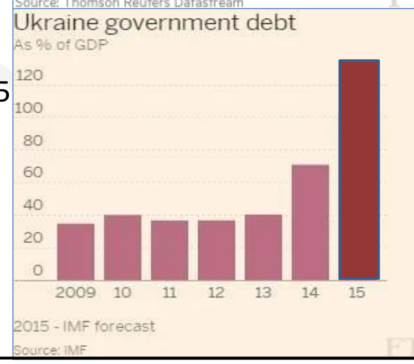
- 1. *Pari passu*: Private investors insist that government bail-out lenders would be treated the same way as the private sector, to lessen the risk of another cut in their payouts down the line
- 2. New bonds issued to private investors as part of the hair cut to be governed by London rather than Greek law
- 3. Threat of free riders and legal actions: VEGA Hedge Fund

IVORY COAST'S BANK DEBT RESTRUCTURING SAGA

- 03/1998 - Ivory Coast issued six bonds totalling $2.4 billion under the Brady scheme in a restructuring of outstanding external commercial debt.
- 09/2000 - Default on the bonds, following a coup in 1999.
- 03/2009 - The IMF and the World Bank declared Ivory Coast eligible for debt relief under the HIPC (highly indebted poor countries) initiative.
- 03/2009 - Paris Club agreement leading to immediate cancellation of $845 million in debt (**80% debt relief**)
- 04/2010 - **Debt exchange of the defaulted Brady bonds**, replacing the old bonds with a $2.3 billion bond **due 2032**, with semi-annual coupon payments and 6-year grace period (2016): discount of 20 percent on the exchangeable debt.
- 11/2010 - Presidential run-off ballot : Gbagbo is declared winner = civil war
- 12/2010 - World Bank freezes funding
- 12/2010 - Ivory Coast does not make $29 million coupon payment on $2.3 billion bond. Failure to pay = "event of default"

UKRAINE'S ECONOMIC AND FINANCIAL CRISIS IN 2015

1. Widening budget and current account deficits
2. No more FDI
3. Economic recession
4. Massive depreciation of the hryvnia
5. Drop in official reserves (R/M = 3 months in 2015)
6. IMF emergency loan
7. External liquidity crisis! (Ext Debt/GDP= 131% in 2015



UKRAINE'S DEBT RESTRUCTURING 2015-2025

- 2015: 37% write off on **$20 billion of bonds**

condition for the IMF to press ahead with 4-year $40 billion package

- Main creditors: PTG Pactual, VR Capital, Aurelius Capital Management, T Rowe Price, TCW, Franklin Templeton…
- Warrants: Inclusion of GDP-linked instrument
- Between 2021-2040 investors will receive up to 40% of the value of economic growth > 3%

- 04/2024: London-based hedge fund VR Capital & bondholders push for Ukrenergo's (power plants) **state-guaranteed $825mn green bond** to be excluded from the country's looming debt restructuring, as creditors start to take a tougher stance after a two-year reprieve on repayments in the wake of Russia's invasion
- 12/2024: Ukraine's bonds are trading at about **30 cents** on the dollar. Ukrenergo's bond has risen from 18 cents on the dollar in 2023 to 36 cents in 2024.
- 04/2025: Kyiv's dollar bond maturing in 2036 and offering extra payments linked to GDP growth dropped **to 50 cents on the dollar**, having risen to nearly 70 cents just before US-Russian talks began. Meanwhile, older GDP-linked securities issued by Ukraine fell by about 3 cents to below 72 cents on the dollar, when Trump was elected president in November.

ZAMBIA'S 10/2023 PRIVATE DEBT RESTRUCTURING I

Debt relief on $4bn owed to private bondholders: Investors will see 18% cut in face value of their bonds as three-year restructuring concluded. The deal will extend maturities and slash interest payments on terms matching recent deals with China, Zambia's biggest lender. The agreement with bondholders comes after Zambia formalised deals to rework $6.3bn of official debts in 10/2023, allowing the country to proceed with a $1.3bn IMF bailout.

Bondholders have gone beyond official creditors and agreed to directly write off $700mn of their claims, which have grown to $3.8bn as post-default interest on bonds originally due in 2022, 2024 and 2027 piled up, due to a long delay in restructuring $13bn in external debt, including $3bn of foreign currency bonds, since a 2020 debt default.

Both agreements provide upfront relief but have also been made possible by a promise to repay more debt if Zambia's economy fares better than expected in the next few years. This will be based on exports and tax revenue data and an IMF assessment of how much debt Zambia can sustain.

The scale of debt relief will depend on whether better economic performance for Zambia in the next three years triggers higher payments on a third of the new restructured bonds. These will either mature in 2035, or not be paid back until 2053 if Zambia misses IMF targets.

(Asset managers represented on the bondholder committee include Amundi, Greylock Capital Management, Amia Capital and RBC BlueBay)

ZAMBIA'S 02/2024 OFFICIAL DEBT RESTRUCTURING II

Chinese (Export-Import Bank of China and some Chinese commercial banks) and other official creditors failed for years to agree on where losses would fall, meaning Zambia's restructuring was widely seen as a precedent for other developing countries that had borrowed heavily from Beijing.

The process has also been viewed as a test case for a G20 "common framework" for sovereign debt restructuring.

Zambia agreed outline terms to modify $6.3bn in debt owed to official lenders in 2023, including debt owed to China and India

China and India agreed on the debt reduction terms in 02/2024

EMCS SECONDARY MARKET DEBT PRICES

COUNTRY / ISSUE	Low Price	High Price
Africa Hyper-Exotics		
Angola / Trade	50.000%	55.000%
Angola / Loans	55.000%	59.000%
Cameroon / Trade (non-HIPC)	14.000%	20.000%
Congo / Trade (non-HIPC)	22.000%	26.000%
DR Congo / Loans, Trade (non-HIPC)	16.000%	20.000%
Ghana / Trade (non-HIPC)	78.000%	82.000%
Kenya / Trade	39.000%	49.000%
Mozambique / Trade (non-HIPC)	20.000%	26.000%
Senegal / Loans, Trade (non-HIPC)	12.000%	16.000%
Sudan / Loans (non-HIPC)	11.000%	14.000%
Tanzania / Loans, Trade (non-HIPC)	10.000%	13.000%
Uganda / Trade (non-HIPC)	14.000%	16.000%
Zambia / Loans, Trade (non-HIPC)	13.000%	20.000%
Zimbabwe / Trade	1.000%	4.000%
Latin America & Caribbean Hyper-Exotics		
Cuba / Trade	2.000%	4.000%
Cuba / Loans	5.000%	10.000%
Suriname / Loans, Trade	14.000%	18.000%

COUNTRY / ISSUE	Low Price	High Price
Eastern Europe Hyper-Exotics		
Azerbaijan / Trade	18.000%	23.000%
Bosnia / Trade	36.000%	41.000%
Georgia / Trade	11.000%	15.000%
Serbia / Trade	44.000%	54.000%
Turkmenistan / Trade	23.000%	33.000%
Ukraine / Trade	18.000%	25.000%
Uzbekistan/Trade	20.000%	24.000%
Middle East Hyper-Exotics		
Egypt Trade	65.000%	75.000%
Iraq / Paris Club	84.000%	89.000%
Iraq / Bonds	91.000%	92.000%
Libya / Trade	25.000%	35.000%
Syria / Trade	6.000%	11.000%
Asia Hyper-Exotics		
Mongolia / Trade	22.000%	30.000%
North Korea / Loans, Certificates	9.000%	12.000%

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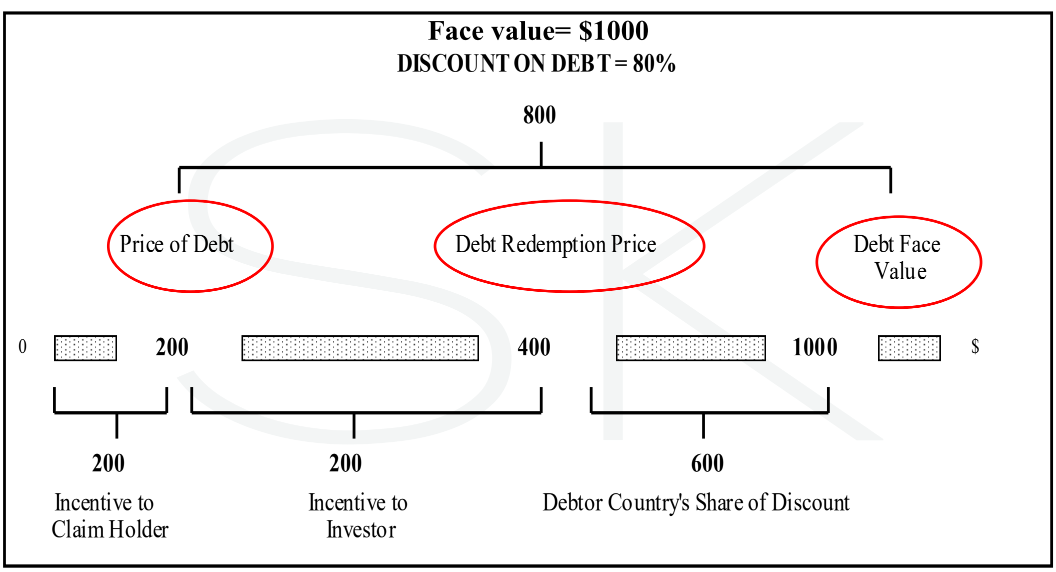
DEBT CONVERSION: A POSITIVE SUM GAME?



Source: Bouchet/OSF

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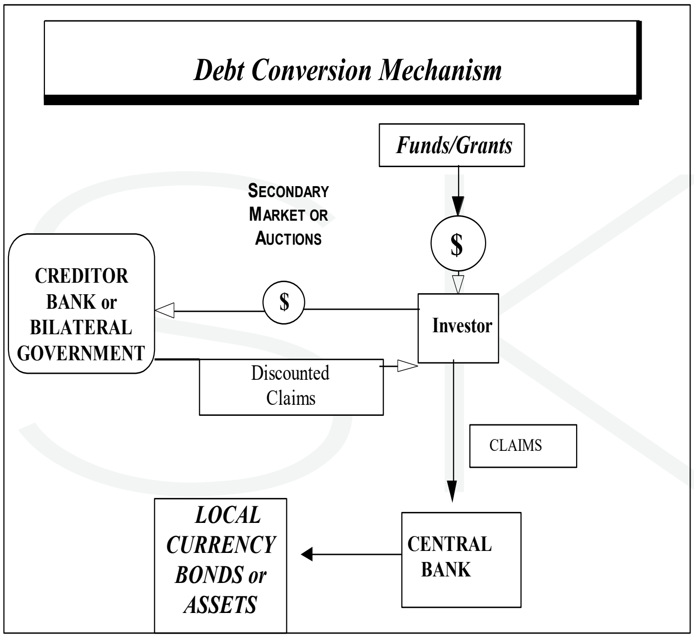

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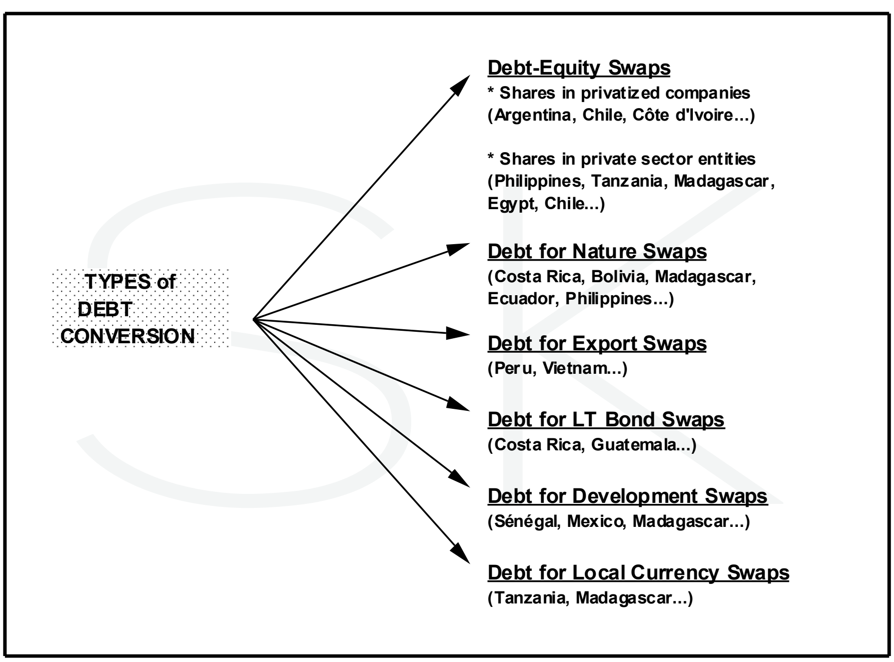

Source: Bouchet/OSF

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SEPTEMBER 2021: BELIZE'S DEBT FOR NATURE CANCELLATION

Belize reached a deal with international bondholders after admitting it cannot afford to pay back its debt, and counting on an unusual asset to help: its coral reefs. The Caribbean nation, with its tourism-heavy economy ravaged by the pandemic, agreed to buy back its only international bond from investors at a huge discount, using cash lent by the Nature Conservancy, a US-based environmental group.

As part of the deal, Belize will pre-fund a $23.4m endowment to support marine conservation projects on its coastline, home to the world's second-largest barrier reef. Some more investors still need to agree to the scale of the buyback discount before the deal is done.

But if Belize can achieve the approval it needs on this $530m bond, the country could secure the first **green-tinged debt restructuring**, capitalizing on the hunger among big fund managers to demonstrate their commitment to environmental, social and governance-driven investing.

BELIZE'S DEBT FOR NATURE CANCELLATION SEPTEMBER 2021

Investors and advisers say the agreement could serve as a template for future restructuring talks, in which cash-strapped nations use the promise of environmental conservation to drive a harder bargain — in effect creating a mechanism for investors in rich countries to pay poorer nations to protect the natural world. The buyback operation, which is offering investors **55 cents for every dollar of debt** they hold, needs the support of a further quarter of bondholders in order to go through.

A group of investors led by GMO, Abrdn and Greylock Capital, representing half of the bondholders, has already given the scheme its blessing. Carlos de Sousa, a portfolio manager at Vontobel Asset Management — a member of this group holding about 10 per cent of the bond — said the proposal chimes with his company's focus on ESG.

For Belize, whose debt stands at **133 per cent of GDP** despite restructuring its borrowing five times over the past 15 years, the deal offers the chance to mend its reputation as a serial defaulter. Ocean conservation is crucial to the country's economy, with 40 per cent of output coming directly or indirectly from tourism, and one in every 10 workers employed in the fishing sector.

SEPTEMBER 2022: THE NATURE CONSERVANCY THIRD GLOBAL DEBT CONVERSION IN BARBADOS

Barbados, the country worked with Credit Suisse, who acted as Global Lead Arranger, and CIBC FirstCaribbean, as Domestic Lead Arranger, to raise approximately $150 million through a dual currency term loan facility. This Blue Loan, which was partially funded via the issuance of Blue Bonds in the capital markets, **funded the buyback of a portion of Barbados' existing debt.**

With TNC and IDB each providing repayment guarantees on Barbados' behalf, the new financing features a lower interest rate than the old debt, and 100% of the resulting cost savings will be channeled into marine conservation.

The innovative financial deal will enable the Government of Barbados to redirect a portion of its sovereign debt service into marine conservation funding in support of the nation's commitment to conserve approximately 30% of its ocean and sustainably develop its "blue economy".

NOVEMBER 2021

GALAPAGOS ARCHIPLAGO ECUADOR'S DEBT FOR NATURE SWAP PROJECT

November 2021: President of Ecuador Guillermo Lasso decided to extend by >50% the protected territory of the archipelago of Galapagos during the COP26 à Glasgow. «This decision will lead to debt for nature swap transactions in view of reducing our debt while increasing environment protection expenditures. » Such transactions entail forgiving part of a developing nation's debt in exchange for local investment in conservation programs. The overall territory of the biodiversity reserve established in 1998 is of 130.000 km² and it will grow by 60.000 km².

The country's external debt reaches nearly $46 billion, equivalent to 45% of GDP, of which 16% is owed to foreign governments and Paris Club creditors, including the UK, the US, and Spain.

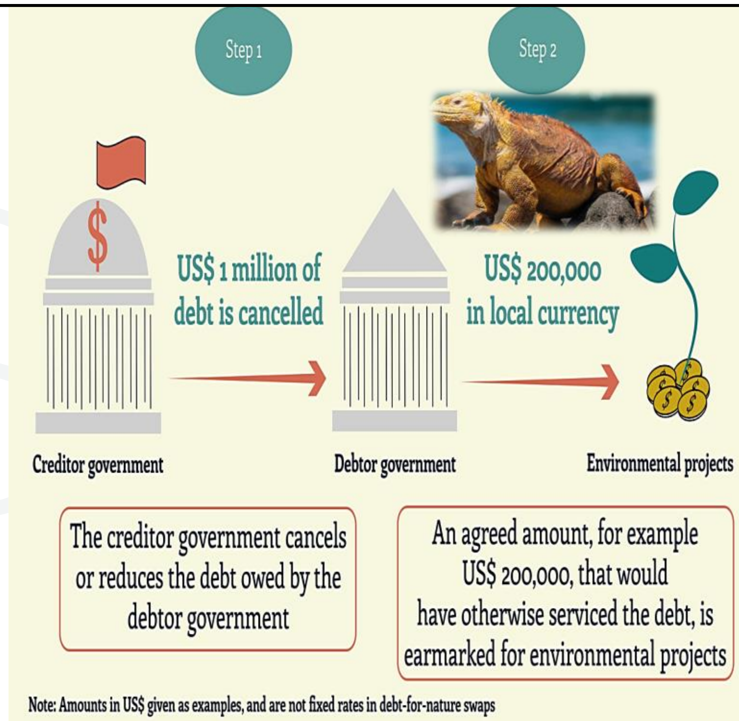
(Actually, official data from the Paris Club dated end-2021 give total claims of … only $1,185 billion).

NOVEMBER 2021-MAY 2023
GALAPAGOS ARCHIPLAGO ECUADOR'S DEBT FOR NATURE SWAP PROJECT

Debt-for-nature swap: voluntary transaction in which an amount of debt owed by a developing country government is cancelled or reduced by a creditor, in exchange for the debtor making financial commitments to conservation.

In financially distressed countries, the earnings generated through swaps are often administered by local conservation or environmental trust funds.

May 2023: $450 funding over 18 years by cancelling $1,6 billion of bonds with hep of AIDB & US DFCorp



12/2024: ECUADOR'S DEBT FOR NATURE SWAP

Ecuador published the results of its second debt-for-nature swap in two years on 11 December 2024.
Bondholders tendered US$7.6bn in principal (just over half the eligible outstanding), of which the government will purchase US$1.5bn (9.9% of the stock), with the ECUA 5.5% 2035 seeing the largest absolute amount of principal being retired (US$949.8mn).

Ecuador tender results

Bond	Amount outstanding (US$)	Tender purchase price	Closing price on day before offer (US$)	Premium offered	Amount tendered (US$)	Amount accepted for purchase (US$)	% of tenders accepted for purchase	Amount outstanding after buyback (US$)
6.9% 2030	3,499,085,944	73	67.8	7.6%	1,750,476,921	457,961,680	26.2%	3,041,124,264
5.5% 2035	7,452,636,245	60.5	54.9	10.1%	4,294,169,676	949,845,553	22.1%	6,502,790,692
5% 2040	2,982,942,422	55.5	50.2	10.6%	1,411,928,847	0	0%	2,982,942,422
5% 2040 (amended notes)	270,412,782	47.5	40.1	18.5%	154,680,417	119,680,118	77.4%	150,732,664

Table: Geronimo Mansutti • Source: Tellimer Research, Ecuador tender announcement, S&P • Created with Datawrapper

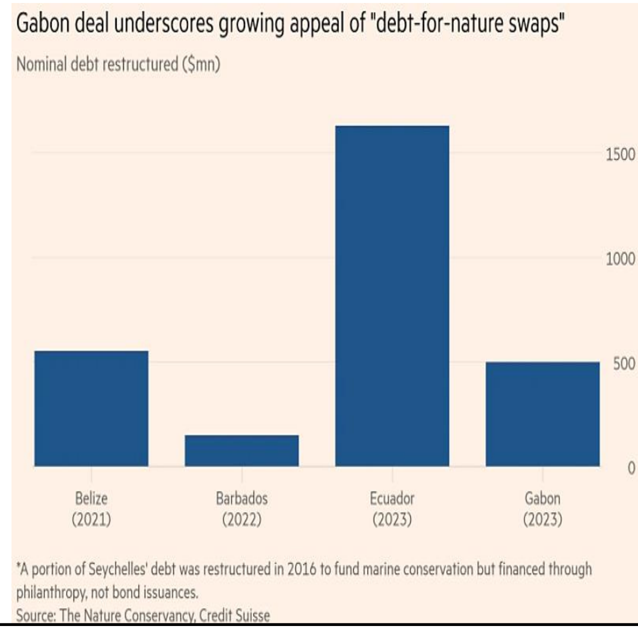
09/2023 DEBT FOR NATURE TRANSACTION IN GABON
WHAT ABOUT ITS GOVERNANCE QUALITY?

The $500mn deal, arranged by Bank of America, lowers the interest rate on Gabon's debt and gives it longer maturities.

Gabon in turn has promised to spend at least $125mn to widen a marine reserve and strengthen fishing regulations, which could help protect endangered humpback dolphins.

Activist investor Ubben, who sits on the board of oil and gas giant ExxonMobil and is part of the advisory team for the UN climate summit COP28, has helped fund The Nature Conservancy, which helped arrange the deal.

Gabon's deal will be cheaper in part due to the political insurance provided by the International Development Finance Corporation, a development agency backed by the US government.



OCTOBER 2024: WORLD'S LARGEST DEBT CONVERSION FOR CONSERVATION OF A RIVER AND ITS WATERSHED COMPLETED IN EL SALVADOR

The U.S. International Development Finance Corporation, the Government of El Salvador, the Development Bank of Latin America and the Caribbean, Catholic Relief Services, the Environmental Investment Fund of El Salvador, and ArtCap Strategies: **$1 billion in financing** for El Salvador's repurchase of $1.031 billion of its outstanding bonds at discounts to par.

All savings will be applied over time to support conservation, water security, and ecosystem restoration in the Lempa River watershed. JPMorgan Chase Bank, N.A. acted as sole arranger and lender for the loan.

DFC, the U.S. Government's international development bank, is providing $1 billion in political risk insurance while CAF is providing a $200 million standby letter of credit. The combination of the DFC PRI and the CAF SBLC will provide integral credit enhancements that support the transaction, which in turn catalyzes the additional investment in El Salvador's conservation and ecosystem restoration efforts in the Rio Lempa watershed.

El Salvador will realize more than **$352 million** in lifetime savings

POSITIVE SUM GAME!

- Debtor: debt cancellation with local currency payments while stimulating foreign direct investment and enhancing the role of private sector activity in the local economy (privatization)

- Creditor: cleaning up of portfolio with upfront cash payment while accounting losses get absorbed by loan-loss reserves

- Investor: access to local currency at a discounted exchange rate that boils down to an investment subsidy, thereby mitigating the overall country risk and the specific project risk