

Sovereign Nation in Central America

Debt for Nature Swap

Case Study

The Challenge	<p>Following a severe drought and the Covid-19 pandemic, the Government of this country concluded that its debt stock was unsustainable, and it needed cashflow relief. With public debt standing at 126% of GDP and deep primary deficits, there was a consensus that restoring debt sustainability required substantial debt restructuring and an ambitious fiscal consolidation.</p> <p>As an initial attempt to reduce cash outflows during the pandemic, the government successfully executed a consent solicitation to capitalize one year's worth of coupon payments. However, as the grave impact of the pandemic materialized, it needed more meaningful debt relief.</p>
The Solution	<p>Citi was the architect of a structure that leveraged the involvement of an environmental protection entity to restructure the country's debt at favorable terms in exchange for environmental commitments. In this debt for nature transaction, Citi advised the issuer, leading the dialogue with bondholders regarding the rationale and valuation of the offering, while concurrently negotiating with the parties involved in the Impact loan provided by the environmental agency to restructure the issuer's debt.</p>
The Result	<p>The country was able to execute an innovative transaction leveraging ESG concerns to unlock value in the sovereign restructuring context. The country committed to protect 30% of its total ocean area and prefund ~\$23.5 million into a conservation endowment while it reduced 45% of its nominal debt.</p>