Galápagos green turtles, the only turtles to breed and nest in the archipelago, are protected but still face threats as they are often caught unintentionally.
Chris Schmid/Ledunfly Philanthropy

To Protect Galápagos Islands, Ecuador Turns to Innovative Financing

Debt conversion will fund perpetual conservation of renowned marine habitat

Overview

Giant tortoises, marine iguanas, and birds unique to the area greeted Charles Darwin when he arrived on the Galápagos Islands in 1835. If he could have peeked below the waves, Darwin would have found an abundance and diversity of life to rival his famed finches. The confluence of three major ocean currents brings an upwelling of cold, nutrient-rich water to the tropical Galápagos Islands, which harbor some 3,000 species including whales, dolphins, sharks, sea lions, rays, sea turtles, tuna, and tropical fish, as well as some of the world's highest levels of endemism—that is, species found nowhere else on Earth.

Although these waters have long been under some level of protection, they have remained vulnerable to a range of threats, most notably illegal fishing and climate change. So, in 2023, it was welcome news that Ecuador completed what is known as a debt conversion, which will provide a sustainable source of conservation funding that will be used to improve safeguards in the Galápagos Islands.

Leveraging existing debt to create sustainable conservation resources

Debt conversions for nature are arrangements intended to help governments fund conservation. Typically, these transactions involve reducing debt alongside financial commitments to conservation. In May 2023, Ecuador, with technical and financial support from the Pew Bertarelli Ocean Legacy Project and other partners, converted $1.6 billion in existing commercial debt into an $656 million loan financed through a bond issued by Credit Suisse. The deal provides significant and dedicated financial resources for conservation in perpetuity through a long-term funding commitment by Ecuador, which includes building an endowment that will pay for conservation activities in the future.

In addition to repaying the new loan for about 18 years, Ecuador will also provide about $17 million annually for conservation—about $12 million for activities and about $5.4 million to seed a permanent endowment. In 2040, when those payments from Ecuador conclude, the endowment assets, estimated to total about $227 million from the accumulated payments and stable investments, should be sufficient to continue financing conservation activities at the same level (slightly more than $12 million annually) in perpetuity.

The new arrangement will also save the country more than $1 billion in total borrowing costs—resulting from forgiven debt, known as write-offs, and reduced interest—and generate conservation resources totaling more than $450 million (including payments and assets) for the Galápagos Islands over the next 20 years, and far more over time. The transaction is the world's largest debt refinancing for ocean conservation to date.

A U.S. Congressional Research Service report found that since 1987, at least 16 countries—including Bolivia, Brazil, Costa Rica, Ecuador, and Peru—have completed nearly 50 debt conversions for nature. In total, these three-party debt conversions involved approximately $200 million in reduced, restructured, or converted debt and generated about $167 million for conservation activities. Ecuador's debt conversion total and expected benefits are greater than all those previous transactions combined.

Working with industry to improve fisheries management

The deal should also help improve sustainability in Ecuador's fisheries. To accurately monitor catch and bycatch, the government—in cooperation with the fishing industry—will equip industrial purse-seine and longline fishing vessels with electronic monitoring devices and have onboard observers on at least 70% of purse-seine vessels by the end of 2024 and on at least 20% of longline vessels by the end of 2025.

Additionally, in keeping with the best available science, Ecuador will start to limit the use of fish aggregating devices (FADs)—raftlike objects that fishers commonly use to attract tuna, making it easier for purse seines to scoop up fish. The use of FADs generally results in significant bycatch—because they attract nontargeted and juvenile species—and produces marine debris because the devices are often abandoned at sea after use.

How Debt Conversion Creates Perpetual Conservation Financing

Innovative approach helps safeguard nature

Transaction highlights

Key transaction components

- Ecuador converted $1.6 billion in commercial debt into an $656 million loan that included a long-term conservation finance commitment totaling more than $323 million over about 18 years.
- To create and close the deal, Ecuador collaborated with the Pew Bertarelli Ocean Legacy Project, Oceans Finance Co., and Aqua Blue Investments.
- U.S. International Development Finance Corp. and Inter-American Development Bank provided political risk insurance and loan guarantees.
- Credit Suisse issued the $656 million marine conservation-linked Galápagos Marine Bond, which was used to finance the new $656 million loan.
- The deal created a significant, dedicated, and permanent source of conservation funding to protect the Galápagos Islands.

Key conservation impacts

- The Galápagos Life Fund, a trust, was established to oversee allocation of conservation funding. The fund has an 11-member board of directors composed of five government and six nongovernment representatives of the artisanal fishing, local tourism, and academic communities.
- The funding can be used to strengthen management, monitoring, and enforcement in the Hermandad and Galápagos marine reserves.
- Funds can also support research-based efforts to achieve sustainable fisheries, climate resilience, and a sustainable blue economy.
- Electronic monitoring device requirements have been established for industrial purse-seine and longline fishing vessels.
- Onboard fishing observer requirements will be implemented.
- Restrictions will be placed on the use of fish aggregating devices for industrial fishing vessels.

Conservation finance

- The deal will provide more than $12 million (on average) in annual conservation funding in perpetuity starting in September 2023.
- Payments and investments will capitalize the endowment with the accumulated assets, growing to an estimated $227 million by 2040, when payments conclude.
- The deal provides more than $450 million (including assets and spending) for conservation financing over the next 20 years—and far more over time.

Continued on next page

Transaction

- The deal enables Ecuador to convert $1.6 billion in existing commercial debt into an $656 million loan financed by a marine conservation-linked bond and a long-term conservation funding commitment.
- Ecuador will realize more than $1 billion in debt savings from write-offs and reduced borrowing costs over about 18 years, including all transaction costs.
- Ecuador will fund conservation and build the endowment over about 18 years.

Marine conservation

Recognizing the importance of this ecological, scientific, and economic resource, Ecuadorian President Guillermo Lasso signed a decree in 2022 conserving 60,000 square kilometers (23,166 square miles) of ocean between the Galápagos Islands and the Costa Rican maritime border northwest of the islands. The new Hermandad Marine Reserve includes a 30,000-square-kilometer (11,583-square-mile) fully protected area to help safeguard a migratory corridor used by sharks, whales, sea turtles, manta rays, and many other species between the Galápagos Islands and Cocos Island, Costa Rica.

The measure builds on the existing Galápagos Marine Reserve (GMR), which was established in 1998 and prohibits extractive activities in certain areas—while allowing artisanal fishing in others—across 133,000 square kilometers (51,352 square miles). Although the GMR has helped to safeguard habitats for some species, including hammerhead sharks and green sea turtles, pressure from climate change, pollution, and overfishing continues to threaten this unique and biodiverse ecosystem—and the local economy and communities that depend on an abundance of wildlife.

A growing body of science shows that fully protected, well-designed, well-managed, and well-enforced marine protected areas are the best available tool to conserve biodiversity and ecosystems, improve long-term food security, and protect ocean-based livelihoods. However, establishing and effectively implementing, monitoring, managing, and enforcing the protections can require significant resources. Financial mechanisms such as the debt conversion can help to secure this much-needed financing for decades.

New conservation funding—and local involvement—will benefit Galápagos

Local conservation funding allocation decisions will be made by the Galápagos Life Fund (GLF), a nonprofit trust established in 2023 as part of the debt conversion deal. The GLF will be governed by an 11-member board of directors that includes five Ecuadorian government ministers and six nongovernment representatives. A seat reserved for a local nongovernmental organization will be temporarily assigned to Pew for two years, and possibly up to four years, so that Pew can share expertise on marine conservation and support the startup.

With a mission of addressing overfishing, illegal fishing, climate change, and pollution, the GLF will help to support the Galápagos National Park Service and direct funding to efforts that help strengthen the local economy; improve the management, monitoring, and enforcement of the Galápagos Marine Reserve and Hermandad Marine Reserve; advance sustainable fishing practices; and build climate resilience for the local community.

Highly mobile megafauna such as whale sharks, rays, sea turtles, marine mammals, and seabirds provide the foundation for the tourism-based economy of the Galápagos Islands. *Chris Schmid/Ledunfly Philanthropy*

In developing the conservation commitments and funding priorities, the Ecuadorian government sought consensus by working inclusively with the artisanal and industrial fishing sectors and local communities through a process that included numerous formal and informal consultations. Additionally, securing the political risk insurance required significant community involvement and transparency. This included ongoing environmental and social impact assessments and reporting, which detail engagement efforts, stakeholder concerns, and any economic or ecological impacts resulting from the conservation measures or funded activities.

Additionally, since 2019, government officials, community members, and other local partners have worked with the Pew Bertarelli Ocean Legacy Project in supporting scientists, economists, and nongovernmental organizations in assessing options for expanding and generating financial resources to support marine protections near the Galápagos that could benefit the economy, fishers, and nature.

Conclusion

The Galápagos Marine Reserve is one of the most important and well-known marine protected areas in the world. Addressing the wide range of challenges that threaten this rich and delicate marine ecosystem requires significant and ongoing resources. Ecuador's debt conversion provides the sustainable funding needed to support the effective implementation and management of new and existing marine protections, which will help protect biodiversity, enhance fisheries, and preserve an economy that depends on this vibrant ecosystem.

This fact sheet was updated in September 2023 with the correct date of the transaction.

For further information, please visit: pewtrusts.org/oceanlegacy

Pew Bertarelli
OCEAN LEGACY

Contact: Ken Willis, communications director
Email: kwillis@pewtrusts.org
Project website: pewtrusts.org/oceanlegacy

The Pew Bertarelli Ocean Legacy Project | The Pew Charitable Trusts and Dona Bertarelli created the Pew Bertarelli Ocean Legacy Project, with the shared goal of establishing the first generation of ecologically significant, large, and effective marine protected areas (MPAs) around the world. Today, the Pew Bertarelli Ocean Legacy Project also seeks to connect MPAs and help conserve key migratory species and entire marine ecosystems. These efforts build on more than a decade of work by Pew and the Bertarelli Foundation, led by Dona Bertarelli, to create large-scale, highly or fully protected MPAs. Between them, they have helped to obtain designations or commitments to safeguard nearly 12.6 million square kilometers (4.8 million square miles) of ocean by working with communities, local leaders, philanthropic partners, Indigenous groups, government officials, and scientists. Dona Bertarelli is a philanthropist, investor, sportswoman, and strong advocate for ocean conservation. The Pew Charitable Trusts is driven by the power of knowledge to solve today's most challenging problems, including the need for effective marine conservation.