INITIAL ASSESSMENT OF GALAPAGOS DEBT-FOR-NATURE SWAP
A LOOK FROM CIVIL SOCIETY AFTER ONE YEAR OF OPERATIONS

INTRODUCTION

This document reports findings and recommendations of an independent initial evaluation of the impact associated to the Galapagos Debt Swap Project, in the framework of the guarantee granted by the Interamerican Development Bank (IADB) to the government of Ecuador1 hereby “the Contract”, that was signed in April, 25th, 2023. The purpose of the Contract was to agree on the terms and conditions under which the IADB granted a guarantee that enable the Galapagos Debt-for-Nature Swap in support of the execution of the Program for Sustainable Development and Biodiversity in Ecuador1, hereby “The Program”.

This evaluation carried out by Latindadd in coordination with its member organizations in Ecuador, CDES and Jubilee 2000 Red Ecuador, as well as with national and international experts, with the intention of reporting the impacts resulting from the implementation of the Galapagos Debt Swap. Knowledge generated from this research aims to guide initiatives promoting debt swaps as an alternative financing mechanism to support climate action while resolving developing countries sovereign debt distress.

(1) Resolución DE-90/22 - CONTRATO DE REEMBOLSO POR CONTINGENCIA No. 5619/OC-EC entre la REPÚBLICA DEL ECUADOR y el BANCO INTERAMERICANO DE DESARROLLO (BID) (LEG/SOC/CAN/EZSHARE-263631146-20297 EC-U0005)
JUSTIFICATION

Initial lessons from the Galapagos case can shed some light on the challenges and opportunities of debt conversion as financial instrument. Despite the significant attention mobilized by promoters of debt for climate swaps, there is little evidence of their effectiveness and efficiency. This research explores the Galapagos Debt Swap with the aim to assess:

- Impacts from investments resulting from the resource availability originated by the Galapagos Debt Swap.
- Risks linked to the achieved performance during the initial year of operation and management of the financial mechanism associated to the Galapagos.

BACKGROUND

First, it is important to know that the Program objective is to strengthen environmental sustainability in Ecuador. The specific development objectives are: (i) strengthen the institutional framework to support sustainable finance and proper management of natural resources; and (ii) improve debt management capacity with a focus on environmental and financial sustainability. The program is implemented through 3 components. Given its relevance to the Galapagos Debt-for-Nature Swap, this evaluation focuses on Component 2: Environmental governance. The target group for this specific component is the Hermandad Marine Reserve and the Ecuadorian population, particularly in Galapagos.

This component aimed at:

- (i) develop and update the limits of the Galapagos Maritime Reserve (RMG) through Ministerial agreement;
- (ii) declare the area called Hermandad (60,000 km2) located in the Exclusive Economic Zone of Ecuador a Maritime Reserve;

(2) 1) Macroeconomic stability; 2) Environmental governance; 3) Improvement of financial regulation for sustainable development.
• (iii) prepare an Area Management Plan following best practices and including:
  (a) the dialogue of the main economic and social actors; and
  (b) the cost of implementation;

• (iv) create a Conservation Fund (FC) for the protection of the Galapagos Maritime Reserve following best practices in terms of governance, ESG standards, and mandate;

• (v) approval of the operating regulations of the FC, including:
  (a) mechanisms for allocation of funds;
  (b) mechanisms for appointing and changing directors; and
  (c) investment guidelines; among others; and

• (vi) approval of an institutional strengthening plan of the Ministry of Environment, Water and Ecological Transition (MAATE) focused on:
  (a) personnel training;
  (b) improvement of the evaluation and monitoring capabilities of environmental programs; and
  (c) development of methodologies for valuing actions and natural capital.

To achieve this objective and move towards satisfying the desired effects, the project planned to carry out various activities following the chain of results as publicly available in the Monitoring and Evaluation Plan.
Table 1. Relationship between outcome indicators and IADB supported reforms

<table>
<thead>
<tr>
<th>Result indicator</th>
<th>Program's associated first set of policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific development objective 1: Strengthen the institutional framework to support sustainable finance and the proper management of natural capital.</td>
<td>2.1.1 Declare a Maritime Reserve the area called Hermandad (60 000 km²) located in the Exclusive Economic Zone of Ecuador.</td>
</tr>
<tr>
<td>Budget allocated for marine control of the RMG space as a percentage of the total budget needed.</td>
<td>2.1.2 Develop and update the limits of the RMG through Ministerial Agreement.</td>
</tr>
<tr>
<td>Environmental, social and governance regulation index</td>
<td>2.1.3 Prepare a RMG's Management Plan following best practices and including: (i) the dialogue of the main economic and social actors; and (ii) the cost of implementation.</td>
</tr>
<tr>
<td>Percentage of resources mobilized to the FC that are destined to finance conservation activities</td>
<td>2.2.1 Validation of a FC for the protection of the RMG following best practices in terms of governance, ESG standards, and mandate.</td>
</tr>
<tr>
<td></td>
<td>2.2.2 Approval of the draft operational regulations of the FC, including: (i) mechanisms for allocation of funds; (ii) mechanisms for appointing and changing directors; and (iii) investment guidelines.</td>
</tr>
<tr>
<td></td>
<td>2.3.1 MAATE and/or Ministry of Economy and Finance (MEF) training plan in FC governance.</td>
</tr>
</tbody>
</table>

**METHOD USED TO DEVELOP THE IMPACT ASSESSMENT**

Policy evaluation contributes fundamentally to sound public governance. Through different criteria, such as the relevance; effectiveness; efficiency; sustainability and/or impact of a specific intervention. This initial evaluation adopts IADB Evaluation Policy Framework, as the basis for this report.

The purpose of this evaluation is to carry out an independent assessment of the relevance of the design and actions implemented by the Program in its first year of operation (from May 2023 to April 2024), its effectiveness in achieving results and objectives, the efficiency in the use of resources, the probabilities that the effects obtained will be sustained once funding ceases and the incorporation of transversal perspectives. All this with the view of generating findings and recommendations aimed at improving the potential impact of the execution of other initiatives (See table 2).
The territorial scope of the assessment, which corresponds to the area of intervention, is national, based in virtual data collection. This duty was not straightforward, considering that the IADB’s program web page and the Project Monitoring Report EC-U0005 for the first period Jan-Jun 2023 are the only publicly available resources that include impact measures.

Also, an indirect methodological approach was used, oriented towards learning, based on the theory of change conceptual framework according to Global Impact Investing Network and mixed methods for data collection. In this way, quantitative and especially qualitative collection techniques and instruments were combined. Once the instruments were applied and the different techniques were implemented, each of the findings recovered were analyzed, to then triangulate the background and in this way, obtain a reliable explanatory basis for the assessment of the different aspects of the Program.

The background collection techniques (direct observation and bibliographic review) were applied differentially, depending on the result indicator and the information associated to the relevant output.

Table 2. Summary of evaluation questions

<table>
<thead>
<tr>
<th>Evaluation criteria</th>
<th>Evaluation question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance</td>
<td>to what extent do the (original) objectives (still) correspond to needs and issues?</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>to what extent did a policy/public intervention generate observed effects and changes?</td>
</tr>
<tr>
<td></td>
<td>To what extent do the observed effects correspond to the objectives?</td>
</tr>
<tr>
<td>Efficiency</td>
<td>were the costs involved justified, given the changes and effects achieved?</td>
</tr>
<tr>
<td>Sustainability</td>
<td>does the policy/public intervention present net benefits at the long term?</td>
</tr>
<tr>
<td>Impact</td>
<td>what are the effects produced by an intervention (i.e. positive or negative, primary and secondary long-term effects produced, directly or indirectly, intended or unintended)?</td>
</tr>
</tbody>
</table>

Fuente: OCDE-CAD (2020)
FINDINGS

i) Relevance

There is no evidence to prove that the program's monitoring report EC-005 has been validated by IADB’s Office of Evaluation and Oversight (OVE) or is aligned to IDB Group's Evaluation Policy Framework. There is no evidence to prove that the Program’s observed performance of the associated debt swap is aligned with IADB strategic priorities.

There is no information available to verify that the Program is relevant and contributes to the RMG Plan and goals achievement. In addition, it was identified that there is no evidence publicly available by the FC to verify that it has in place a robust environmental and social due diligence process in line with best practices to resolve potential downstream risks of the project portfolio.

There is no evidence that an impact investment policy or eligibility requirements have been designed in a participatory manner and that will be aligned with Sustainable Development Goals achievement.

Regarding the relevance in relation to the needs of the target group, this initial independent evaluation concludes that the there is no evidence to confirm that the design and execution of the Program’s strategy has satisfactorily strengthen the institutional framework to support sustainable finance and the proper management of natural capital. The initial strategy and objectives proposed were relevant to target population needs; and the assumptions concerning expected results and impacts were not realistic. Resources available implementation timeline and monitoring planned budget were limited. (See Table 3)
### Table 3. Work Plan and Cost of IADB’s Program Monitoring

<table>
<thead>
<tr>
<th>Activities</th>
<th>2022</th>
<th>2023</th>
<th>Responsible</th>
<th>Cost (US$)</th>
<th>Funding Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission(s) to coordinate and monitor compliance with commitments</td>
<td>IADB</td>
<td>IADB</td>
<td>IADB</td>
<td>5 000</td>
<td>Administrative budget, Bank supervision plans</td>
</tr>
<tr>
<td>Monitoring mission and potential determination of alternative plans to guarantee compliance with established commitments</td>
<td>IADB</td>
<td>IADB</td>
<td>IADB</td>
<td>5 000</td>
<td>Administrative budget, Bank supervision plans</td>
</tr>
<tr>
<td>Meetings, workshops and inter-institutional dialogues</td>
<td>IADB</td>
<td>IADB</td>
<td>IADB</td>
<td>2 000</td>
<td>Administrative budget, Bank supervision plans</td>
</tr>
<tr>
<td>Total costs</td>
<td></td>
<td></td>
<td></td>
<td>12 000</td>
<td>Administrative budget, Bank supervision plans</td>
</tr>
</tbody>
</table>

**Fuente: IADB (2023)**

Along with the above, there is no evidence to confirm that the Program is relevant for the advancement of national policies and strategies for the protection of the Hermandad Marine Reserve as there is not signal of additional resources mobilized to the FC that are destined to finance conservation activities. There is no evidence that FC has managed to adapt, take advantage of and successfully support the regulatory and institutional changes that are needed for the effective implementation of the Program.

In particular, there is no publicly available evidence that shows that FC has followed best practices in terms of governance, ESG standards, and mandate nor that it has approved draft operational regulations, including: (i) mechanisms for allocation of funds; (ii) mechanisms for appointing and changing directors; and (iii) investment guidelines in consultation with relevant stakeholders.
<table>
<thead>
<tr>
<th>Operational Regulation</th>
<th>Procedure</th>
<th>Example Best practices standards</th>
<th>Expected approval according to best practices</th>
<th>Observed issues</th>
<th>Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic operating agreements with foreign non-governmental organizations</td>
<td>Agreement signed between FC and the Ministry of Foreign Affairs (MoFA)</td>
<td>Defined by Ministry of Foreign Affairs</td>
<td>Before start of operations</td>
<td>7 months after start of operation 14/12/2023 †</td>
<td>Not published in CF, MAATE MEF, MOFA web sites</td>
</tr>
<tr>
<td>Mechanism for allocation of funds</td>
<td>Transparency best practices: 1) Proactive disclosure of information 2) Budget transparency 3) Open government data 4) Registries of beneficial ownership 5) Lobby registries</td>
<td>UN Principles of effective governance for sustainable development ‡</td>
<td>Initial meetings of the Governing Body</td>
<td>Not clear the composition of FC sub-committee and management of conflict of interests</td>
<td>Not published in CF, MAATE MEF web sites</td>
</tr>
<tr>
<td>Mechanism for appointing and changing directors</td>
<td>General: - Support effective supervision and enforcement. Related to Boards: - Ensure the effective monitoring of management by the board, and the board’s accountability to the organization and the shareholders</td>
<td>G20/OECD Principles of Corporate Governance</td>
<td>Initial meetings of the Governing Body</td>
<td>Before operations starts, including 5 members with exposure to Political, Economic, and Policy (PEP) factors that should not be underestimated.</td>
<td>Not published in CF, MAATE MEF web sites</td>
</tr>
<tr>
<td>Investment guidelines</td>
<td>Regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘do no significant harm’, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports</td>
<td>EU Sustainable Finance Disclosures Regulation (SFDR) §</td>
<td>Initial meetings of the Governing Body</td>
<td>Not clear how it will properly identify and manage environmental and social impacts or disclose material risks to inform investors</td>
<td>Not published in CF, MAATE MEF web sites</td>
</tr>
</tbody>
</table>
Table 5. Approval of draft operational regulations by CF

<table>
<thead>
<tr>
<th>Operational Regulation</th>
<th>Approval Procedure</th>
<th>Consultation with relevant stakeholder</th>
<th>Expected approval according to best practices</th>
<th>Observed approval</th>
<th>Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statues</td>
<td>Not evidence found</td>
<td>Not evidence found</td>
<td>Initial meetings of the Governing Body</td>
<td>During 1st meeting of CF Governing body 26/05/2023 [ii]</td>
<td>Not published in CF, MAATE MEF web sites</td>
</tr>
<tr>
<td>Mechanism for allocation of funds</td>
<td>Not evidence found</td>
<td>Not evidence found</td>
<td>Initial meetings of the Governing Body</td>
<td>During 8th meeting of CF Governing Body 02/02/2024 [iv]</td>
<td>Not published in CF, MAATE MEF web sites</td>
</tr>
<tr>
<td>Mechanism for appointing and changing directors</td>
<td>Not evidence found</td>
<td>Not evidence found</td>
<td>Initial meetings of the Governing Body</td>
<td>By Executive Decree 735 before CF was officially authorized to operate in Ecuador 09/05/2023</td>
<td>Not published in CF, MAATE MEF web sites</td>
</tr>
<tr>
<td>Investment guidelines</td>
<td>Not evidence found</td>
<td>Not evidence found</td>
<td>Initial meetings of the Governing Body</td>
<td>Not evidence found</td>
<td>Not published in CF, MAATE MEF web sites</td>
</tr>
</tbody>
</table>

### ii) Effectiveness

**Program Design**

The logical framework designed for evaluation and monitoring by IADB does not allow for monitoring aimed at adequately assessing the effects achieved by the Program in general, and each of its components in particular. This deficiency means that the results achieved are difficult to detect by monitoring its planning matrix and observing results indicators. In the absence of public available data, there is no evidence to evaluate the effectiveness of the Program. Only information available is related to RMG Hermandad's proposed management plan \[v\] which is currently underfunded.
Capacity development

As the MAATE and/or Ministry of Economy and Finance (MEF) training plan is linked to the FC governance, and the FC has no publicly available information, there is no evidence to support the implementation of actions or whether these actions, if implemented, have contributed to the development of technical capacities and the acquisition of knowledge in beneficiary groups from the public, private, academia and civil society organizations sectors.

Communication, awareness and dissemination

There is no evidence to confirm that the Program activities have contributed to disseminate, raise awareness and position the importance and benefits of straightening institutional framework to support sustainable finance and the proper management of natural capital. The observed communication strategies implemented have been targeted to persuade public perception to support the executed debt-for-nature swap and to mobilize international support for additional debt conversion operations as well as to secure reputational gains of private and public organizations orchestrating the conversion. There is also no evidence that it was assertively communicated to the people directly affected as determined by Article 6^3 of the Escazú Agreement of which Ecuador is a party.

Institutional strengthening

The Program conditions a possible scenario of favorable debt service against the adoption and implementation of a structural adjustment program related to environmental policies. The Program associates the establishment of a FC without a national accountability system in place. According to the National Public Debt bulletin May 2023^vi, it has resulted, in the first year, in additional debt service in the form of IADB guarantee and commissions of intermediaries promoting the debt conversion operation.

(3) Generation and dissemination of environmental information
iii) Efficiency

Considering the design of the Contract and the Program, there is no evidence to confirm that the Program had an organizational structure and financial resources adjusted to the necessary requirements to promote the different strategies aimed at achieving targeted impact.

The FC has not been able to show evidence of additional financial contributions being disbursed or received in national accounts from international or national donors that can be readily available for supporting the RMG’s plan and to satisfy the Hermandad monitoring needs. By contrasting IADB’s programmatic documents and observed evidence of results, it was found that there is no evidence to confirm that expectations of the public institutions, and the debt conversion promoting team included IADB’s program team have been achieved during the execution of the Program during its initial year.

iv) Long-term sustainability

The sustainability of the results and capacities developed at local level is not assured in the medium and long term. It will be conditional on continuity in the technical and methodological support from the Ministry’s staff within the framework of the new government. Meanwhile, there is not publicly available information regarding secured financing to develop the monitoring that Hermandad urgently needs. This limitation has been identified as the main risk to the sustainability of the results in terms of impact generation.

v) Transparency and accountability

This initial assessment notes that IADB’s Project Monitoring Report EC-U0005 contains only basic and financial data. Results matrix and all other relevant sections implementation including lessons learned are reported blank or indicating process of Intra/Inter Coordination.
RECOMMENDATIONS

For the IADB:

a. Full Ex-post initial evaluation

IADB should provide financial support for an additional thorough ex-post evaluation including interviews and focus groups to enable instruments to be constructed and designed based on the evaluation questions and the objectives of the study. This full ex-post evaluation should also assess implications across all 3 components of the Contract.

At the outset, this report points to severe limitations to achieving Objective 1. Result indicator related to “amount mobilized for the FC” and the expected outputs such as “3.1.3 Definition of government coordination bodies for sustainable finances through the creation of an Institutional Financing and Thematic Monitoring Committee”; and, “3.2.1 Creation by the MEF of the regulations, including the applicable structure, to Debt Conversions by Nature (CDPN)” may show sub-optimal performance relevant to best practices in terms of governance, ESG standards, and mandate.

b. Transparency and accountability

IADB should ensure that Project Monitoring Report EC-U0005 and any other relevant information follows Quality Assurance and Quality Control best practices.

Initial Monitoring and Evaluation Plan, Means of Verification Matrix and timeline should be updated through a participatory process involving all relevant stakeholders including new members of government and interested parties in the civil society in Galapagos, Ecuador and the global community.
c. Promotion of Debt for Climate/Nature swaps

IADB’s OVE should aim to prepare country-focused products before continuing to promote the relevance, efficiency and effectiveness or allegedly potential impacts of debt-for-nature/climate swaps and associated conservation linked bonds issuances. This initial independent evaluation provides evidence for the immediate need of: Independent Country Program Reviews (ICPR) and Extended Country Program Evaluations (XCPE) to provide the IADB Board and Management with useful information to consider the next Country Strategies and the accountability needed to take decisions on the observed performance of the IDB Group.

For Ecuador:

The National Assembly and the Comptroller office should consider initiating audits to the relevant authorities of the Ministry of Economy and Finance as well as the Ministry of Environment, Water and Ecological Transition.

As the fiscal benefit and debt service impact it is not clear, it would be relevant exploring the implementation of a mixed audit commission including civil society organizations. The outcome of this audit should precede any additional intentions to extend applications of debt-for-nature swaps in Ecuador and elsewhere.

For Investors:

Investors should consider assessing reputational and other ESG material risks that could be associated to conservation-linked bonds issued using the Contract and Program as supporting elements.
For other International Finance Institutions:

IFIs should consider identifying limits to debt conversions and associated policy programs associating structural adjustments programs and demonstrate empirically the contribution to resolve debt pressures before continuing to promote and implement additional efforts.

For those pursuing both debt and climate justice:

This report provides initial evidence supporting concerns about the desirability of debt-for-climate swaps. Policy evaluation is a rigorous tool that can contribute to making them work in the interest of Southern countries rather than the interests of creditors and international conservation finance organizations. This initial evaluation indicates specific areas where threats to democratic governance, transparency and accountability must be resolved.

For Ecuador citizens, in particular from Galapagos:

A constitutional action⁴ by the Center for Economic and Social Rights (CDES) was presented in September 2023 to Ecuador’s judiciary system to request that information be made transparent about the controversial debt exchange for conservation in Galapagos. This action was supported by Galapagos citizens through Amicus Curiae. During its visit to Ecuador, the UN Special Rapporteur on extreme poverty and human rights, indicated that “the governance of the program, and the role of the private financial sector in particular, lacks transparency and accountability. Some see it as a problematic limitation on the country's sovereignty.”

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⁴Ecuador: Juicio No. 17460202303255
REFERENCES:

(vii) https://www.oecd-ilibrary.org/sites/9fa07ac8-en/index.html?itemId=/content/component/9fa07ac8-en
(viii) https://www.oecd-ilibrary.org/sites/9fa07ac8-en/index.html?itemId=/content/component/9fa07ac8-en
(xvii) Ecuador Juicio 17460202303255