INTERGOVERNMENTAL GROUP OF TWENTY FOUR

G-24

Policy Lessons from Sovereign Debt Swaps in Ecuador, Gabon, Egypt, Côte d'Ivoire*

*Based on a forthcoming G-24 Research Paper

by

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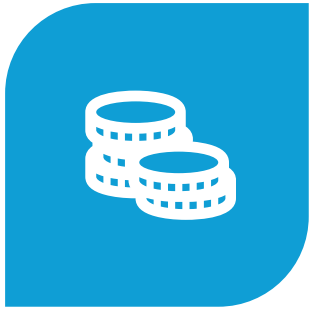
Motivation & Context

GLOBAL CLIMATE FINANCE NEEDS: $2.7 TRILLION ANNUALLY BY 2030 (IHLEG)

DEBT DISTRESS: >50% OF LOW-INCOME COUNTRIES AT RISK



FISCAL SQUEEZE: DEBT SERVICE CONSUMES ~38% OF REVENUES

WHY SWAPS? UNLOCK FISCAL SPACE + FUND CLIMATE/DEVELOPMENT

Debt Swaps: Financing & Liability Management

- Debt swaps = Financing + Stronger debt management
- Advance development, social, and environmental targets
- Align debt strategy with macroeconomic goals
- Smooth debt-service profiles & reduce fiscal vulnerability

- Bilateral swaps:

  Exchange official debt for targeted investments in policy programs
- Trilateral swaps:

  Retire commercial debt; Redirect savings to climate or conservation investments
- Multilateral initiatives: Comprehensive sovereign restructuring and debt relief

Historical Precedents

Brady Plan (1980s): debt restructuring via bonds – 30-35 % reduction of face value

36 small debt swaps from 1987-2023

HIPC & MDRI (1990s): $76.2 billion, $50 billion, relief, respectively, tied to reforms

Between 1999 and 2015, average debt service to GDP fell by 13 percentage points, and debt to GDP fell by 92 percentage points, in participating countries.

Evolution → targeted, project-based swaps (nature, SDGs)

The Evidence

1. Debt for Nature Swap: Ecuador, Gabon

Mechanism of Debt for Nature Swaps

Creation of a **Special Purpose Vehicle (SPV):** to issue the new bond, with an international commercial bank as a global lead arranger for the new bond. For most of the recent cases, the SPV is domiciled in a tax haven rather than in the borrowing country.

Trust Fund created to finance conservation projects, to be governed by a diverse Board. The fund's role is to receive payments from the government, usually in local currency, and direct it to the agreed projects.

Endowment Fund: the endowment will capitalize pre-funded investments and will ensure projects continue after the loan matures.

Third parties: Strong involvement of international NGOs and private investment agents focusing on the blue economy.

Distressed bond debt: In most cases, sovereign bonds were being traded in financial markets at a discount before the debt swap.

Credit enhancement and risk mitigation through insurance and guarantees.

SPV issues a new bond on better terms than existing bonds, lends the proceeds of the new bond to the debtor country through a "blue loan"

Proceeds used to buy back existing debt, establish an endowment fund for the conservation, and cover transaction costs.

Debt-for-Nature Swaps: Motivation

Ecuador: Debt 53% GDP, Fifth largest exposure to IMF

Significant investment required for adaptation and mitigation

Annual climate investment needs projected at $3.7 b per year through 2050.

Gabon: debt 70% GDP, high vulnerability and low debt carrying capacity limit access to finance

Debt service projected by IMF at 80-115 % of revenue in the medium term

Ecuador: Climate objective focused on biodiversity and sustainability

Protection of Galapagos Marine Reserve

Stem sea level rising

Gabon: Protection of 30% of its biodiverse assets by 2030 to stem the acceleration of climate change

Improve economic outcomes through strengthened enforcement of fishing regulations.

Debt-for-Nature Swaps: Outcome

ECUADOR

Key indicators	$ Millions, unless otherwise indicated
Face value of debt repurchased	1,629.00
Average repurchase price	0.4
Debt bought back	656
New blue loan after swap	656
Galapagos project funding from swap savings	450
IDB guarantee	85
DFC political risk insurance coverage	656
Memorandum items:	
Debt reduction	
Percent of GDP	0.8
US$ Millions	973
Percent of external public debt	1.7
Country sovereign credit rating *	Caa3
Blue bond credit rating	Aa2

Data sources: Ecuador government and public sources

* A credit rating below 'Baa' is considered “non-investment” grade by Moody’s

GABON

Key indicators	$ Millions, unless otherwise	
Face value of debt repurchased	$	500.00
Average repurchase price	$	0.87
Debt bought back	$	436.25
New blue loan after swap	$	500.00
Project funding from swap savings	$	163.00
DFC political risk insurance coverage	$	500.00
Memorandum items:		
Debt reduction		$0.00
Percent of GDP		-
US$ Millions		-
Percent of external public debt		-
Country sovereign credit rating *		Caa1
Blue bond credit rating		Aa2

Data sources: Gabon government and public sources

* A credit rating below 'Baa' is considered “non-investment” grade by Moody’s

The Evidence

Debt for Development Swap: Cote D’Ivoire, Egypt

Debt-for-Development Swaps: Motivation

CIV: debt 60% GDP, moderate risk of debt distress, but lost access to financial markets during post-COVID liquidity squeeze. Limited the capacity for public investment in priority areas.

Egypt: Faced financial stress and soaring debt servicing costs in 2024, public debt-to-GDP ratio was 90.9%, debt service 43 % of revenue. In addition, the country holds the third largest IMF loan balance.

CIV: Liability management to improve liquidity, with savings channeled to construct additional classrooms to meet education goals

Bilateral creditor swaps redirected to SDG projects **on** private sector development, renewable energy, social infrastructure, healthcare, digital transformation, and climate action.

Debt-for- Development Swaps: Outcome

COTE D'IVOIRE

Key indicators	Euro Millions, unless otherwise indicated
Face value of debt repurchased	400.00
Average repurchase price	1
New loan after swap	400
Education project funding from swap savings	300
World Bank Policy Based Guarantee	240
Memorandum items:	
Net debt reduction (NPV)	60
Savings in nominal debt service (5 years)	330
Country sovereign credit rating (before)*	BB-
Country sovereign credit rating (after)	BB+

Data sources: Cote D'Ivoire government and public sources

* S and P, October 2024

EGYPT

Partners	Projects	US$ Millions
Germany	Renewable energy projects to support the energy transition and national grid upgrades (multiple agreements)	365
Italy	Initiatives in nutrition, education, vocational training, and environmental protection (multiple agreements)	349
China	Development and climate adaptation projects, aligning with Egypt's 2030 National Development Strategy and the Global Development Initiative (GDI).	1,200
Memorandum items:		
Debt reduction		
Percent of GDP		0.5%
US$ Millions		1,914
Percent of external public debt		1.2%

Data sources: government and public sources

Lessons and Recommendations

Policy Lessons

- **Swaps provide fiscal flexibility for national development and climate objectives**. Ecuador and Gabon linked swaps to biodiversity, marine protection, and coastal economies; Côte d'Ivoire prioritized education; Egypt focused on Vision 2030 with multisectoral projects. High debt levels previously prevented these projects due to limited resources.

- **Well designed swaps help countries lower risk perception and borrowing costs**, enabling short-term macroeconomic adjustments. Guarantees raise credit ratings and contribute to restoring financial market access, reducing the risk of disruptive economic adjustments tied to previous debt trends.

- **Swaps can bolster macroeconomic stability** by improving debt sustainability, mitigating fiscal risks, and creating fiscal flexibility, especially when alternatives like grants or full-scale debt relief are costly or unavailable.

Policy Lessons (contd)

- **Size of swap:** Swaps are limited in scope and serve as complements, not substitutes for broader restructuring. Their value is usually small compared to a country's debt, climate, or development needs, with relief restricted and funds earmarked for specific projects. Negotiated individually, swaps depend on creditor mixes and don't resolve underlying debt sustainability, so scalability is limited. Swaps cannot resolve systemic debt, fiscal or broader balance of payments crises, which require broader restructuring and policy reforms.
- **Structure and governance models**: Designing swap arrangements involves balancing simplicity, innovation, and governance models (domestic or offshore). In Ecuador and Gabon, SPVs are mainly controlled by external intermediaries with limited national involvement. Côte d'Ivoire's straightforward structure uses national institutions directly, as does Egypt, where swaps occur between government entities and partners, lowering costs and increasing project benefits.
- **The role of guarantees:** Guarantees differ in impact. Ecuador's DFC insurance and IADB guarantee raised transaction costs but lowered interest rates, increasing the savings from swap. Cote D'Ivoire's PBG also reduced costs but had limited overall effect. The financial benefits of PBGs depend on market conditions and the borrower's situation.

Policy Lessons (contd.)

- **Tenor / Maturity of Bonds:** The discounted value of debt plays a significant role in the financial outcomes of swap transactions. Swaps may offer limited financial benefit to countries whose bonds are trading with minimal or no discount. For example, Ecuador was able to repurchase its debt at an approximate 60 percent discount, whereas Gabon's was only about 13 percent. Furthermore, Gabon's new bond was 15% more than the value of the swapped bonds.

- **Post-swap project management and financing.** Unlike concessional financing or debt cancellation, swaps redirect future debt service to targeted expenditures. This can create inefficiencies and limit budget flexibility. In countries with weak fiscal discipline, such arrangements risk future diversion. Monitoring swap-funded programs adds administrative demands and may require new institutions. Success depends on strong governance among stakeholders, which is challenging where capacity is limited.

Policy Recommendations

- Advance climate and Sustainable Development Goals, in swap design, with clear frameworks for monitoring and reporting to ensure **measurable outcomes and market confidence**.
- **Prioritize local ownership**, integrate swaps into budgets to foster transparency and resilience.
- **Thoroughly evaluate all costs** and requirements associated with structuring commercial debt swaps to ensure these arrangements effectively reduce sovereign debt burdens and are financially viable.
- **Multilateral and regional financial institutions** can strengthen the debt swap process by standardizing debt swap frameworks, making the instruments more transparent, accessible, cost-effective and easier to monitor.
- **The WB Policy-Based Guarantee** (PBG) needs further improvement. In the context of its balance sheet optimization agenda, some WBG initiatives focus on increasing lending capacity by leveraging guarantee commitments from shareholders. The evidence from the Cote D'Ivoire PBG backed loan indicates that WB guarantees could be further improved to lower private market debt service costs and maximize benefits for borrowers. This could require adjustment to the provisioning for PBG guarantee in the WB balance sheet.
- **Debt swaps are not a substitute** for debt relief; comprehensive sovereign debt resolution frameworks modeled on successful past initiatives such as the Brady, HIPC and MDRI initiatives remain necessary.

QUESTIONS?