

Policy Lessons from Sovereign Debt Swaps

Joan Prats, Principal Specialist, Connectivity, Markets and Finance Division **(VPS/IFD/CMF)**

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IDB Experience in Debt Swaps

- Sovereign Debt Swaps in a Global Context
- IDB Experience with “Market Based Debt Swaps”
- Main policy lessons
- The way forward



1. Sovereign Debt Swaps main models

Sovereign Debt

Bilateral Debt

Commercial Debt

Capital Market Debt

Debt Forgiveness by Sovereign Government or Banks in exchange of development outcomes

Debt Repurchase using MDBs guarantees in exchange of development outcomes

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Debt and Capital Markets Swaps



1. Sovereign Debt Swaps main models

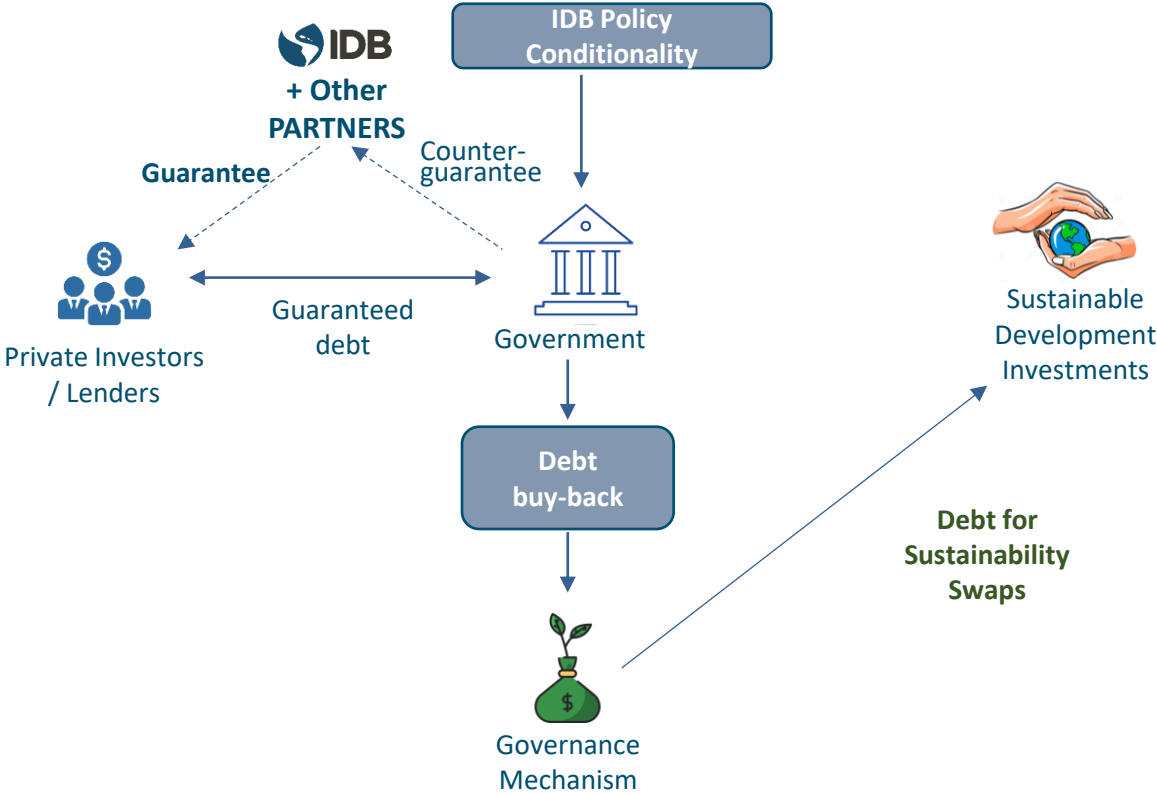
Debt and Capital Markets Swaps:

- 1. Larger minimum size** (average transaction size of USD 800M vs USD 33M bilateral debt swaps)
- 2. Much larger debt reductions and development finance** (savings).
- 3. Intense use of MDB and DFIs use of credit enhancement** (opportunity cost)
- 4. Capacity to mobilize private market players as co-guarantors and co-insurers.**
- 5. Limited to countries with high-yielding debt.**



2. IDB Experience in Debt Swaps

Basic model



2. IDB Experience in Debt Swaps

IDB debt swaps results:

- Five capital markets debt for development swaps (out of 10)
- Total debt repurchased of USD 2.6B
- Fiscal savings of USD 2.7B
- Total financing for nature and climate of USD 1.2B.
- IDB Credit Guarantee provided of USD 890M
- Third parties guarantees of USD 1,9B. Including others MDBs, DFIs, Philanthropies and insurance sectors.
- Results in terms of Sqr. Meters of marine and terrestrial protection and water security.
- Long term financing in the creation of endowments for permanent nature protection for the Galapagos, the Amazon Biocorredor and marine space of Barbados and Bahamas.

3. Main policy lessons

Main lessons learned:

- A debt management solution not a debt sustainability solution
- Building financing structuring capacities within MDBs
- Importance of transparency: balancing market and social requirements
- Required structuring in terms of stakeholder engagement processes.
- Strengthen local project management
- Coordination among guarantors
- Markets practices (ICMA sustainability linked bond principles).

4. Road Ahead

- **Standardizing MDBs guaranteed debt as a new asset class.** (*i.e. Work of Task Force on Credit Enhancement for Sustainability Linked Finance*)
- **Increasing coordination among guarantors to scale up interventions** and increase demand (*i.e. Caribbean Multiguarantor Debt for Resiliency Facility*).
- **Create international standards for monitoring and reporting swaps** (ICMA Principles and High-Level Principles for Sustainability Linked Financing).
- **New credit enhancement models through potential sovereign guarantees from developed countries and increase private participation as philanthropies** (*i.e. BAM*).
- **Increase the scale of debt swaps as a means or incentives for enhanced debt sustainability**