SUMMARY

VIRTUAL SEMINAR ON SOVEREIGN DEBT SWAPS

December 2, 2025

The persistent debt vulnerabilities in developing countries and the urgent need to scale up financing for climate and sustainable development have brought renewed global focus on sovereign debt swaps as an innovative financing mechanism. Unlike the large-scale comprehensive initiatives of the past, recent debt-for-nature and debt-for-development swaps tend to be project-based, combining debt relief with concrete commitments to environmental conservation, education, and climate adaptation, often supported by guarantees and blended-finance structures from international financial institutions. The seminar examined recent experiences with debt-for-climate and debt-for-development swaps, focusing on their effectiveness and scalability within the broader architecture of sovereign debt management, climate finance, and multilateral reform. The discussion drew on the experience of Ecuador, Gabon, Egypt, and Côte d'Ivoire.

SEMINAR DISCUSSION

From the Brady Plan initiative to modern debt-for-climate and debt-for-nature swaps

The Brady Plan and the Highly Indebted Poor Countries / Multilateral Debt Relief Initiative (HIPC/MDRI) initiatives marked major milestones in the history of sovereign debt relief. Debt relief was tied to the implementation of specific policy reforms, which in the case of the HIPC/MDRI, included meeting the erstwhile *Millennium Development Goals* on health, education, and other human development indices. Both initiatives delivered substantial debt reduction for developing countries: the Brady Plan (late 1980s) facilitated debt restructuring through bonds, achieving face-value reductions of approximately 30–35 percent, while the HIPC and MDRI initiatives (1990s) provided debt relief of approximately USD 76.2 billion and USD 50 billion, respectively. Between 1999 and 2015, participating countries experienced an average decline of 13 percentage points in debt service-to-GDP ratios and a reduction of 92 percentage points in debt-to-GDP ratios.

While the Brady Plan and HIPC/MDRI initiatives focused primarily on macroeconomic stabilization and long-term growth, recent debt swaps combine liability management with project-based approaches, linking debt operations to concrete outcomes on environmental conservation, education, and climate adaptation. These transactions are often supported by credit enhancements and blended-finance structures. Across the cases examined, the evidence suggests that well-designed swaps can generate liquidity relief, smoother debt-service profiles, and modest improvements in market perceptions, while channeling resources toward priority development and climate objectives.

Evidence from Recent Country Experiences

Debt for Nature Swaps: Ecuador and Gabon

Ecuador implemented a landmark debt-for-nature operation focused on protecting the Galápagos Marine Reserve. The country repurchased commercial debt at a deep discount of around 60%, supported by IDB guarantees and DFC political risk insurance. The transaction generated fiscal savings earmarked for marine conservation through a dedicated trust fund and improved the debt-service profile, with the newly issued "blue bond" rated significantly above the sovereign's rating. Gabon pursued a similar conservation-focused swap aimed at protecting forest and marine ecosystems. However, with old debt swapped for new ones at only around 13% discount, the financial gains were smaller. Transaction costs and the need to issue new debt exceeding the value of the retired bonds limited the net debt reduction, illustrating how market conditions and bond pricing critically shape outcomes.

Debt for Development Swaps: Côte d'Ivoire and Egypt

Côte d'Ivoire executed a debt-for-development swap backed by a World Bank Policy-Based Guarantee (PBG). A new guaranteed loan refinanced more expensive liabilities, reducing the net present value of debt and near-term debt service, while channeling savings into school construction, with disbursements adjusted based on construction performance, through national budget systems. The design avoided a costly Special Purpose Vehicle and preserved country ownership, representing an institutional innovation. Furthermore, given the improvement in the country's debt profile, it was able to reenter the international market and obtain new commercial loans at favorable terms. Egypt pursued bilateral and hybrid arrangements with different creditor countries. These were aligned with its Vision 2030, with a focus on renewable energy, private-sector development, and climate-related investments. While implementation is ongoing, the case illustrates how swaps can be embedded within broader development strategies.

Guarantees, Blended Finance, and Market Signaling

Countries relied on different types of guarantees, which function as risk-transfer mechanisms by shifting specific political or credit risks from private investors to multilateral development banks (MDBs) and development finance institutions, thereby enabling broader market participation. By reducing risk to investable levels, guarantees can crowd in private lenders, insurers, and co-guarantors, multiplying the impact of public resources. This crowding-in effect is strongest when guarantees are transparent, well priced, and embedded in credible governance frameworks that preserve market discipline.

MDB guarantees are often justified by a presumed "halo effect," whereby limited multilateral involvement could contribute to significantly lower borrowing costs in other markets. In practice, markets price only the guaranteed portion of debt, limiting interest-rate gains. Some presenters argued that larger transaction sizes increase the need for MDB guarantees. However, guarantees are not costless. Evidence suggests that markets do not always fully price their value, leading to potential value erosion. The signaling role of swaps is particularly relevant for countries seeking to restore market access. PBG-backed operations may reduce spreads by magnitudes comparable to those achieved under IMF programs, but this effect depends on the credibility of the signal and the design of the guarantee. The modest gains from Cote d'Ivoire's subsequent market-based loan, which priced in the PBG, confirms this.

The broader experience with blended finance, including the pioneering Seychelles debt-for-nature swap and subsequent blue bond issuances, demonstrates both the promise and the complexity of these instruments. By combining concessional loans, grants, and guarantees, the Seychelles operation created a permanent financing mechanism for marine conservation and provided a template for replication in other countries. However, long preparation periods, heavy reliance on guarantees, and complex governance arrangements highlight the challenges of scaling such models across a large number of countries,

POLICY LESSONS

Several overarching policy lessons emerge from the seminar:

- Debt swaps can provide meaningful, though limited, fiscal flexibility and support development and climate objectives when they are well designed and implemented in appropriate macroeconomic contexts.
- The size and impact of swaps are inherently constrained; they are best understood as complements to, rather than substitutes for, broader debt-restructuring and relief frameworks. Sovereign debt swaps are best suited to liquidity problems rather than deep insolvency. When countries are in an illiquid but solvent situation, with sovereign bond prices close to par, debt swaps are a viable policy option. Therefore, there are savings from refinancing expensive debt with lower-cost, longer-term debt to finance priority investments.
- Governance arrangements matter greatly: transparency, monitoring, and clear accountability are essential to ensure that savings are used as intended and that swaps strengthen, rather than fragment, public financial management.
- World Bank guarantees are structured as loans, they do not leverage MDB capital, and their overly subsidized treatment weakens their signaling value. Making guarantees cheaper than loans on MDB balance sheets, while preserving some countries' costs, would restore both financial efficiency and credibility.
- MDBs and other official actors should play important roles in standardizing swap frameworks, improving reporting practices, and refining guarantee instruments to enhance leverage and effectiveness while safeguarding balance sheets.

PANELISTS

Moderator:	**Daniel Munevar Sastre,** Alternate Executive Director (representing Colombia), at the IMF.
Speakers:	**Ishac Diwan,** Professor of Economics, American University of Beirut, and Director of Research, Finance for Development Lab, Paris School of Economics and Member of Stiglitz Commission on Debt and Development Crises
	Joan Prats Cabrera, Sector Principal Specialist, Financial Markets, InterAmerican Development Bank
	Ayesha Bery, Associate Director, Convergence Blending Global Finance
	Iyabo Masha, Director, the G-24