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From Galápagos to the Gulf of Guinea:

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

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Abstract

Growing debt challenges in developing nations, along with the pressing need for increased funding for climate and sustainable development investments have sparked renewed global focus on sovereign debt swaps as innovative financing tools. Unlike earlier initiatives like the Brady Plan and the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI), today's *debt-for-nature* and *debt-for-development* swaps tend to concentrate on specific, project-driven activities. This report examines how four G-24 member countries - Ecuador, Gabon, Egypt, and Côte d'Ivoire - have recently utilized debt swaps, assessing both their effectiveness and potential scalability within the wider context of sovereign debt management, climate finance, and multilateral reforms.

Keywords: Sovereign debt, debt swap, climate finance

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I.Introduction

The growing urgency to scale up climate finance has intensified interest in debt swaps as a viable solution. Developing countries require substantial annual investments, reaching into the trillions of dollars, to effectively address climate change and its associated impacts. For example, the High-Level Expert Group on Climate Finance (IHLEG) estimates developing countries (excluding China) need to spend $2.7 trillion annually by 2030 to meet climate and nature-related goals, split roughly half between domestic and external sources.[1]

A major obstacle to mobilizing these resources is the limited fiscal space resulting from the high debt burden faced by many developing countries. According to World Bank-IMF reports, more than half of sixty-eight low-income countries are already at, or near, debt distress.[2] In 2024, about half of the rated Emerging Market (EM) and developing economies were graded as high-risk, and ten were in very high-risk or default status, with sovereign dollar debt trading at distressed levels. Indebtedness to multilateral institutions remains elevated, especially among middle-income countries. Meanwhile, Official Development Assistance (ODA), a traditional source of concessional finance, has been on a declining trend, reaching its lowest level since 2019.

Heavy debt service obligations exacerbate the problem. On average, debt service consumes 38 percent of government revenue**,** with some countries spending as much as 90 percent. UNCTAD estimates that around 40 percent of the global population lives in countries that spend more on debt servicing than on health or education.[3] In Africa, this applies to 34 of the continent's 54 countries. Rising interest payments and shrinking fiscal space compel governments to intensify efforts to mobilize domestic revenue to maintain debt sustainability. Yet, where tax bases are narrow or revenue collection is constrained, governments are forced to make difficult trade-offs, often cutting social spending and investment to meet debt-service commitments. Under these conditions, the fiscal capacity to assume additional debt is extremely limited, regardless of financing availability.

Debt swaps are increasingly becoming a focus of both academic research and policy as a viable source of financing. The World Bank and the IMF recently jointly released a framework report addressing debt swaps, and the G20 Brazil Presidency developed a corresponding guidance note on the issue[4]. Debt-for-climate swaps have also featured prominently in climate negotiations under the UN Framework Convention on Climate Change (UNFCCC). Furthermore, UN Secretary-General Antonio Guterres has endorsed advancing debt-for-climate and debt-for-SDGs swaps.[5] In addition, the *Serville Commitment*, the outcome document of the 2025 FFD called for both the strengthening of current facilities and the establishment of a new *Debt Swaps for Development*

[1] See Bhattacharya et al, 2024.
[2] Based on latest data from Debt Sustainability Framework for Low Income Countries (LIC-DSF), IMF .
[3] UNCTAD, 2023
[4] IMF, 2024a
[5] UN, 2023

Hub to facilitate enhanced collaboration and expansion of debt swap initiatives[6]. Against this background, many highly indebted countries are examining debt swaps as mechanisms to unlock fiscal space and direct resources toward sustainable development and climate goals.

Debt swaps not only create new sources of financing through liability management, but they also often contribute to better debt management. Swaps involve agreements between debtor countries and creditors to exchange existing debt for new ones tied to policy targets. Bilateral swaps reduce official debt in exchange for investments in agreed programs, while trilateral swaps allow countries to retire old commercial debt and allocate savings to investments such as climate adaptation or conservation. Both types convert unsecured liabilities into structured obligations with guaranteed debt and earmarked spending pledges. Beyond financing, debt swaps support emerging markets in strengthening debt management and fiscal sustainability. Recent debt crises highlight the importance of liability management operations—like buybacks and exchanges—to smooth debt-service profiles, reduce vulnerability, and align debt strategies with macroeconomic objectives. Thus, debt swaps serve dual purposes: supporting debt sustainability and advancing development, social, or environmental priorities.

This paper analyzes the debt swap experiences of Côte d'Ivoire, Ecuador, Egypt, and Gabon, focusing on objectives, structures, outcomes, and lessons. It examines conceptual and practical issues for government debt managers in buyback and swap operations, as well as the role of international financial organizations in improving debt swap outcomes. Section II presents the theoretical framework and mechanisms, Sections III–IV review country cases, Section V distills lessons learned, and Section VI discusses policy implications for future operations.

II. Theoretical Framework

Mechanisms of Debt Swaps

Debt swaps fall into three main types: commercial swaps via loans, non-commercial swaps from official creditors, and commercial swaps via capital markets.

Commercial swaps via loans involve buybacks of debt held by private banks or third-party creditors. Donors or new lenders provide financing, often facilitated by international NGOs or trust funds. Typically, an NGO secures donor funds to extend lower-interest credit to the debtor country, which repurchases its commercial debt at a discount. Part of the debt relief—the difference between the retired debt's face value and the new obligation's value—finances designated development or conservation projects. Until recently, these operations were modest in scale, averaging around $2.4 million, valued for flexibility but limited by transaction costs and financial impact. Since 2022, larger deals—such as Ecuador's 2023 debt-for-nature swap—have occurred.

[6] UN 2025

Non-commercial swaps from official creditors redirect debt service payments owed to bilateral or official creditors toward development or environmental initiatives. Creditors may modify lending terms and forgive part of the debt without new financing. These swaps arise either as part of broader debt restructuring or as alternative financing when swaps are more efficient than grants or concessional loans. Egypt's debt-for-development swaps exemplify this category.

Commercial swaps via capital markets involve large-scale buybacks of sovereign bonds held by private investors, often exceeding $500 million and incorporating credit enhancements like partial guarantees or political risk insurance from multilateral development banks or bilateral partners. Elements of the Brady Plan of the 1980s are included here.

While these swaps can mobilize significant resources for development or climate initiatives, they are complex and time-consuming, requiring clear criteria, sophisticated structuring, and robust monitoring. Their success depends on market confidence and the borrower's ability to design credible investment commitments.

Objective and Trend of Debt Swaps

Debt swaps aim to provide relief and expand fiscal space, allowing governments to redirect resources to priority sectors, particularly climate, environment, and development goals. Depending on their structure, swaps can attract private sector participation by channeling funds into sustainable financing instruments. In a typical commercial debt swap, the debtor issues credit-enhanced bonds to repurchase existing debt at a discount, allocating savings to environmental or social programs, often managed through a Special Purpose Vehicle (SPV). Debt-for-Nature Swaps (DNS) specifically reduce debt service obligations while earmarking fiscal savings for climate or biodiversity initiatives. Though generally standalone and modest in size, DNS aligns debt sustainability with environmental and social objectives. Starting in 1987, over forty countries undertook DNS, with deals averaging $20 million and accounting for a small fraction of total external debt. The 1990s saw about ten deals annually, but volumes declined as attention shifted to broader sovereign debt challenges.

The evolution of debt swaps was strongly influenced by the broader global policy agenda on sovereign debt resolution that arose from the emerging market debt crisis of the 1980s. This lineage began with the Brady Bonds in the 1980s, which helped countries restructure their commercial debt by issuing new, government-backed bonds in exchange for old commercial bank loans. While Brady Bonds did not channel debt relief into specific development or environmental programs, the conditionality requiring IMF and World Bank-supported structural adjustment and economic programs established a clear precedent for linking debt relief to policy commitments.

Figure 1: The Brady Bond Plan, 1987

Participating Countries (18)	Argentina, Brazil, Bulgaria, Costa Rica, the Dominican Republic, Ecuador, Ivory Coast (Cote d'Ivoire), Jordan, Mexico, Nigeria, Panama, Peru, the Philippines, Poland, Russia, Uruguay, Venezuela and Vietnam.
Total debt restructured	$160 billion
Average Debt Forgiveness	30-35 % reduction in face value
Official Financial Support for credit enhancement of new bonds	IMF $12 billion
	World Bank: $12 billion
	Japan EXIM: $8 billion

Data source: Shenai and Bolhuis (2023)

The Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiatives (MDRI) of the 1990s targeted low-income countries, offering comprehensive debt cancellation contingent on reforms. These initiatives closely resembled debt swaps by linking relief to policy commitments at a cost of $76.2 billion in relief for HIPC and $50 billion in MDRI costs (IMF, 2019). Modern debt-for-nature and debt-for-development swaps are direct descendants, offering targeted, project-based relief tied to specific investments.

Figure 2. HIPC and MDRI Initiatives

	HIPC Initiative		MDRI Initiative
Coverage	IDA eligible countries with debt indicators above set thresholds.		Countries at HIPC completion point
Participating creditors	All multilateral, official bilateral and commercial creditors.		World Bank-IDA, International Monetary Fund, Africa Development Bank-ADF, Inter American Development Bank
Debt relief provided	External public and publicly guaranteed debt is reduced to the HIPC Initiative thresholds, as calculated at the time of the decision point.		Debt disbursed before end-December 2004 (IMF, AfDF and the IADB) and end-December 2003 (IDA) and still outstanding at the time of qualification (after HIPC Initiative debt relief) is cancelled.
Cost of debt relief	US$76.2 billion (nominal terms)		US$50 billion (nominal terms)
Beneficiary countries	37		37
Candidate countries / in	2		2
Memorandum items:			
Outcome	**1999**	**2015**	
Debt to GDP	114	22	
Debt to export	457	87	
Debt service to export	18	6	
Debt service to revenue	22	9	

Data source: World Bank sources.

After these multilateral initiatives, the early 2000s saw large debt buyback and swap operations driven mainly by liability management. These aim to lower costs, mitigate risk, and strengthen capital markets. A few small value swaps focused on health, education, water and sanitation also took place bilaterally. Following the 2020-21 surge in EMDEs debt levels associated with the COVID-19 shock, and the subsequent tightening in global financial conditions, interest in innovative financing, especially swaps, has grown again. Reducing debt burden and debt service offer longer-term benefits, such as budget flexibility and enhanced capacity to address development needs without the need for large scale restructurings, which could happen only in the case of a default.

The selection of swap types depends on factors such as fiscal position, debt structure, market access, and eligibility for concessional finance or guarantees. Swaps are typically tied to specific projects requiring careful identification, structuring, and monitoring, and may involve third-party participation such as NGOs or trust funds. Guarantees, monitoring, and oversight arrangements vary by case, increasing transaction costs and limiting scalability. Small scale and complex structures often render swaps less cost-effective than traditional instruments like concessional loans or grants. High transaction costs and limited scope reinforce each other, restricting the broader use of swaps despite their innovative potential.

III. Debt-for-Nature Swaps

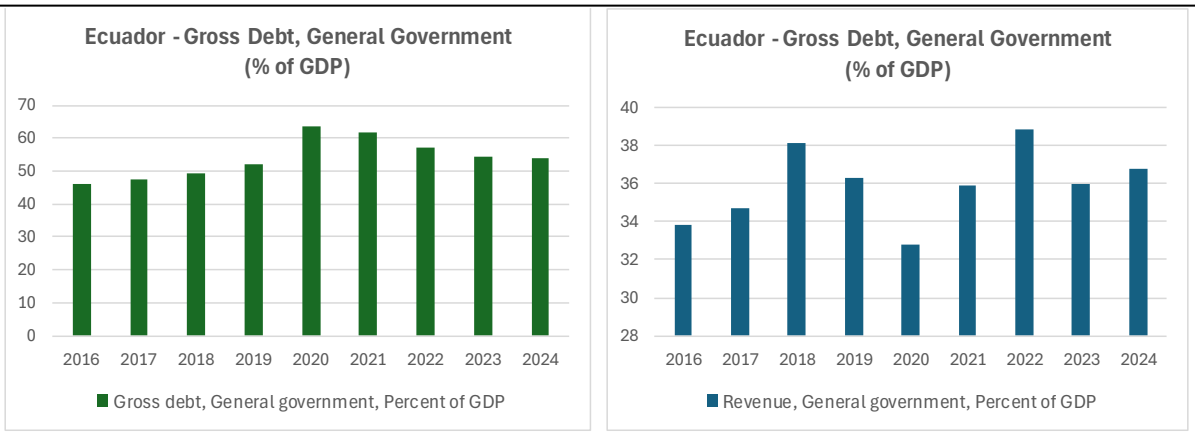
Ecuador

Background and Rationale

Ecuador's debt is estimated to reach 53 percent of GDP in 2024, while annual debt service is projected to be 7.1 percent of GDP (about $10 billion in 2024). The country holds the fifth largest loan balance with the IMF, and debt service obligations constrain fiscal capacity. Concurrently, Ecuador faces significant investment requirements for climate adaptation and mitigation. According to the World Bank (2024a), annual climate-related investments are projected to average US$3.7 billion per year—approximately 3 percent of GDP—between 2025 and 2050. Given the substantial financing imperative to enhance climate resilience, the associated debt servicing costs represent a notable limitation.

A central component of Ecuador's climate objectives is the commitment to biodiversity and sustainability, in alignment with the *Global Biodiversity Framework* established at COP 15. Ecuador's coastal and marine areas present substantial opportunities for tourism, fisheries, and blue carbon initiatives. The Galápagos Marine Reserve, which supports more than 3,500 species, plays a vital role in supporting both the nation's tourism industry and artisanal fisheries. Nevertheless, climate change and environmental degradation pose significant threats to oceanic biodiversity and jeopardize these sectors as well as local livelihoods. Indeed, the annual average cost of sea level rising without adaptation is estimated at 0.6 percent of GDP from 2020 to 2099, in a moderate emission scenario, according to IMF 2024b.

Figure 3: Ecuador – Gross debt and Government Revenue, 2016-2024



Data source: IMF WEO, various years

Structure, Institutional Arrangements, and Governance

In 2023, Ecuador pioneered the world's largest debt-for-nature swap as part of its innovative approach to climate finance. This landmark transaction was designed to alleviate fiscal pressures while providing long-term funding for the conservation of the Galápagos Islands. The operation restructured US$1.629 billions of sovereign debt into approximately US$656 million in new "blue bonds" at an average rate of $0.40, representing a 60 percent discount. To enhance investor confidence and reduce borrowing costs for Ecuador, the U.S. Development Finance Corporation (US DFC) guaranteed the full value of the new bonds—$656 million—in case of default.[7] Additionally, the Inter-American Development Bank (IADB) provided $85 million to cover the first six interest payments if Ecuador were to default. These guarantees significantly improved the credit quality of the new bonds, resulting in minimal financial risk for investors and a better credit rating than Ecuador's sovereign debt. Through this refinancing, Ecuador reduced its $2.7 billion in scheduled payments (principal and interest) on the tendered external debt by more than half. Compared to the original debt, the new arrangement led to lower annual payments, with an extended repayment period.

The institutional arrangement involved the creation of a special purpose vehicle (SPV), the GPS Blue Financing, which repurchased US$1.6 billion in outstanding commercial debt. The SPV issued new blue bonds, using the proceeds to finance the buyback and generate ongoing funding for conservation. Simultaneously, the government entered a "blue loan" agreement with the SPV, structuring repayments to cover both debt service and contributions to marine protection programs.

[7] This contributed to improved ratings. See Moody's .

To fulfill these conservation commitments, Ecuador established the Galápagos Life Fund (GLF), an independent trust dedicated to conserving and enhancing the region's natural capital and marine ecosystems. Funding for the GLF comes from a portion of Ecuador's interest payments on the blue loan, providing roughly US$12 million annually for 18.5 years (2023–2041). Additionally, the arrangement capitalized an endowment fund projected to reach US$227 million by 2041, ensuring sustained resources for future conservation efforts. The GLF is responsible for managing both endowment and direct conservation programs, maintaining transparent governance and alignment with biodiversity objectives.

Figure 4: Key Indicators of Ecuador Debt-for-Nature Swap

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

Outcomes, Impact and Lessons

The transaction retired $1.6 billion of Ecuador's international bonds, reducing its debt stock by almost $1 billion. Furthermore, due to the credit enhancement and de-risking support, the lower interest rate relative to the retired debt results in a debt-service burden reduction by about US$1.1 billion through 2041, equivalent to roughly 0.8 percent of 2023 GDP, while generating US$450 million for conservation activities in the Galápagos Islands. The deal has been widely cited as a milestone in sustainable finance, illustrating how market-based instruments, credit guarantees, and conservation commitments can be combined to mobilize large-scale funding for

global public goods. In December 2024, Ecuador extended this approach through a similar debt-for-nature transaction focused on the Amazon region, signaling the potential to replicate the model for other ecological priorities. Beyond fiscal relief, the swap achieved substantial environmental outcomes. It secured long-term protections for roughly 198,000 square kilometers of marine ecosystems surrounding the Galápagos Islands—a globally significant step toward biodiversity and climate goals.

Despite its ambition and innovation, the Ecuador swap faced criticisms. Concerns were raised about governance, particularly the degree of local stakeholder participation in decision-making and the reliance on an SPV structure that reduced direct government oversight and overall transparency. Nonetheless, the transaction showcased how financial innovation and international cooperation can mobilize resources for global environmental goods while simultaneously improving debt sustainability. Ecuador's experience highlights the potential and pitfalls of large-scale, conservation-focused swaps, offering lessons for balancing ambition, inclusivity, and long-term governance.

Gabon

Background and Rationale

Gabon high public debt of 70 percent of GDP (at end-2023) increases fiscal vulnerability that limits access to finance. IMF (2024c) indicates that Gabon's debt carrying capacity is overstretched in the medium term, as total debt service could account for about 80–115 percent of revenues, (depending on oil prices), one of the highest in sub-Saharan Africa. Yet, the country hosts some of the most biodiverse ecosystems in Africa, the destruction of which could accelerate climate change. Subsequently, it committed to protecting 30% of its land, ocean, and freshwater habitats by 2030**.** In 2023, seeking both fiscal relief and environmental financing, Gabon launched Africa's first blue bond–backed debt-for-nature swap, which linked debt sustainability with ocean conservation. The project was also designed to help Gabon strengthen and enforce regulations in its fishing industry, where, by some estimates, $610 million annually is lost to illegal, unreported, and unregulated fishing[8].

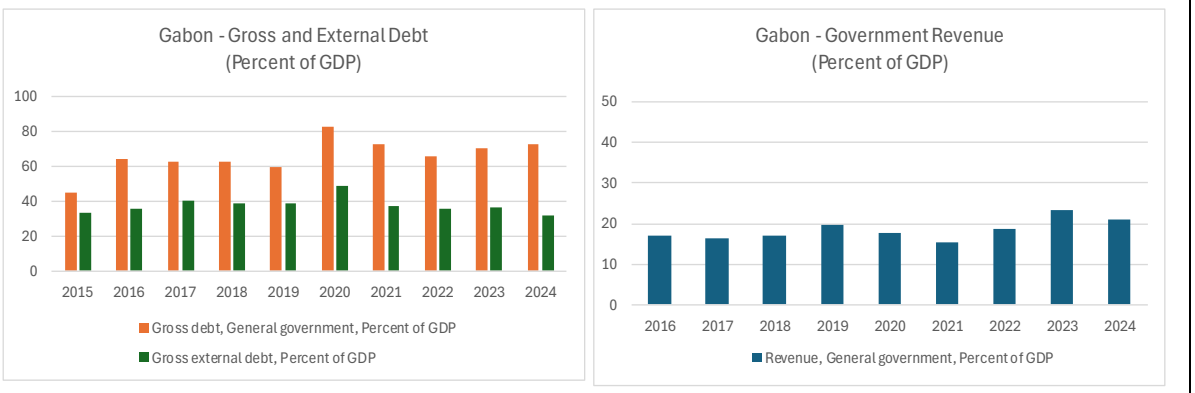
Structure, Institutional Arrangements and Governance

Gabon bought back three of its international bonds with a nominal value of $500 million at an average cost of $0.87 cents, representing about 13 percent discount. The country issued a new $500 million "blue bond" to fund the buyback. Though the new bond exceeded the total value of the buy-back, the more favorable terms, mainly a lower interest rate (6.097%) and a later maturity date helped to reduce Gabon's overall debt service payments, improving debt sustainability indicators. These savings are then channeled into conservation efforts. Specifically, an estimated $5 million annually over 15 years will fund conservation, and an additional endowment of approximately $88 million is expected to be created by 2038 for future projects.

[8] The Nature Conservancy, 2023

A separate trust, the Gabon Blue Bond Master Trust was set up to administer the conservations. To attract investors to the blue bond, the U.S. International Development Finance Corporation (DFC) provided political risk insurance, which boosted the bond's credit rating to Aa2, well above the Moody's sovereign rating of Caa1 Gabon's.

Figure 5: Gabon – Gross Debt, External Debt and Government Revenue, 2016-2024



Data source: IMF WEO reports, various years

Outcomes, Impact and Lessons

The swap is expected to generate around US$163 million savings over 15 years, to be channeled to marine protection programs, supporting the government's ambitious marine conservation goals. This includes conserving 30 percent of Gabon's ocean territory, improving enforcement of overfishing, and protecting endangered species.

The debt-for-nature swap in Gabon has received both praise for its innovation and criticism for its limitations, and some analysts noted that net fiscal savings were modest—partly offset by the costs of structuring and guarantees. Furthermore, the exact terms of the "blue loan" and the conservation agreement were not made public, leading to questions about the transparency and accountability of the deal. Nonetheless, the DFC's political risk insurance proved critical in stabilizing the bond's performance in the period after the deal was finalized, when Gabon experienced a military coup.[9]

Despite its complexity and relatively limited fiscal savings, Gabon's swap represents an important innovation in sustainable sovereign finance. It demonstrated the feasibility of large-scale, market-based debt-for-nature mechanisms in Africa and the potential to attract blended finance through partnerships with conservation organizations and private investors. The use of traditional financial markets for the blue bond through syndication in traditional bond markets provided access to a wider pool of investors and encouraged a wider range of emerging market

[9] The bond received a provisional investment-grade rating of Aa2 from Moody's, much higher than Gabon's sovereign debt rating. See https://www.reuters.com/sustainability/gabon-blue-bond-swap-raises-hopes-wave-african-debt-for-nature-deals-2023-08-15/ .

bond investors to make more sustainable investments. However, the experience also underscores the importance of transparency, rigorous monitoring, and realistic assessment of fiscal benefits relative to transaction costs.

Figure 6: Key Indicators of Gabon Debt-for-Nature Swap

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

IV. Debt-for-Development Swaps

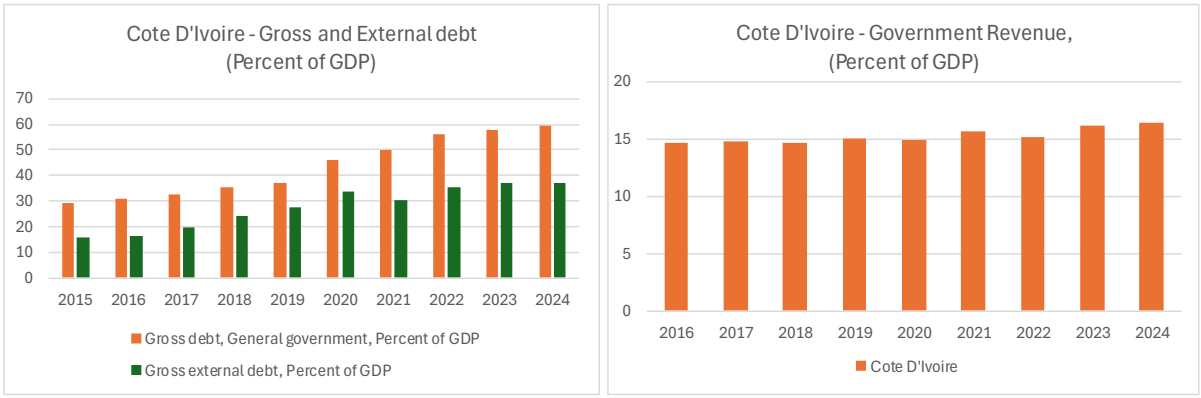
Côte d'Ivoire

Background and Rationale

In the aftermath of the COVID-19 pandemic, Côte d’Ivoire, like many developing nations, faced tightened financing conditions. Though the risk of debt distress was moderate, the country lost access to the Eurobond market during 2022-23. Public debt stood at 60 percent of GDP, and elevated debt service obligations limited the government's capacity for public investment in priority areas. With mounting liquidity pressures, education, a key pillar of the country’s human capital strategy, was particularly underfunded. Given the limited source of external financing, stabilization policies helped to stabilize the economy and reduce the deficit. As access to markets reopened in 2024, the government approached the World Bank Group (WBG) for support to

pursue a comprehensive liability management operation, which includes a debt-for-development swap aimed at restructuring expensive commercial debt while redirecting savings toward the education sector.

Figure 7: Cote D'Ivoire – Gross Debt, External Debt and Government Revenue, 2016-2024



Data source: IMF WEO, various years

Structure, Institutional Arrangements and Governance

The operation involved securing a €240 million WBG Policy-Based Guarantee (PBG), for 60 percent of €400 million new commercial loan.[10] The PBG mitigates the risk for private lenders by covering them against the government's potential debt service default. To make PBGs more attractive, the World Bank "subsidizes" them by reducing its country exposure limit by only 25 percent of the guaranteed amount. In terms of provisioning, guarantees are booked at full value, meaning they take up as much equity capital as a direct loan. The proceeds of the new loan were used to retire €400 millions of Côte d'Ivoire's high-cost commercial loans at par. The debt buy back targeted external commercial loans maturing between 2029 and 2033 and carrying variable interest rates, with a total cost currently higher than 8 percent p.a. The new PBG-backed loan's more favorable terms include 15-year maturity, 6% interest rate, and a six-year grace period. Even though the country had older loans trading at high discount, it chose to retire near term maturing debt which were trading mostly at par because the gains from immediate improvement in liquidity outweigh the benefits of a higher discount on the swap, especially since the debt burden is, at around 40 percent of GDP, moderate. The rest of the PBG, amounting to €260 million, will be used to mobilize financing through a sustainability-linked loan (SLL) of about EUR 400 million planned for 2025.

Given that the arrangement is part of a World Bank Development Policy Operations (DPO), it sent important signals of reform credibility. The DPO was aligned to the IMF program that preceded it, and together, the large operations of the two institutions played catalytic roles in improvement

[10] This analysis is focused only on the EUR240 m PBG, which directly created the fiscal room for the debt-for-development swap. The operation is part of a World Bank €800m arrangement, which includes, in addition to the €240 million PBG, another €260 million guarantee to support a planned sustainability-linked loan, and €300 million for direct budget support.

in country risk perception. As with WB and IMF programs, the financing provided by the swap prioritized the utilization of Côte d'Ivoire's national budgeting and monitoring systems for implementation instead of offshore trust structures, thereby promoting stronger country ownership, reducing transaction costs, and ensuring better alignment with governmental objectives. Implementation is managed through Côte d'Ivoire's existing public financial management systems, with oversight by the Ministries of Finance and Education in collaboration with the World Bank. The absence of an offshore Special Purpose Vehicle (SPV) reduced administrative costs and enhanced alignment with policy priorities.

Outcomes, Impact and Lessons

The swap transaction generated an estimated savings of €330 million over a 17-year period (2023–2040). The restructuring reduced the country's debt service, saving Euro 330 million in nominal debt service over 5 years with at least €60 million in net-present-value savings. The PBG-backed swap further strengthened debt sustainability, thanks to the lower interest rate and longer average maturity of the new loan, leading to over one percentage point reduction in the debt service-to-revenue ratio from its peak in 2025.[11] These resources were earmarked for constructing more than thirty new schools and expanding educational access for an estimated 30,000 students, primarily in underserved areas. The lengthening of maturities and lowering of interest costs simultaneously improved debt sustainability indicators, thereby contributing to improvement in the country's risk rating, with an upgrade of Moody's in March 2024 from Ba3 with positive outlook to Ba2 with stable outlook and S&P in October 2024 from BB- with positive outlook to BB+ with stable outlook.[12] These outcomes supported the country in mobilizing private capital.

Figure 8:: Key Indicators of Cote D'Ivoire Debt-for-Development Swap

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

[11] IMF 2025a Côte d'Ivoire: Staff Report for the 2024 Article IV Consultation

[12] See https://www.bloomberg.com/news/articles/2024-03-01/ivory-coast-credit-score-upped-by-moody-s-on-economic-resilience and https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3270607

The Côte d'Ivoire experience illustrates how simple, domestically managed swaps can achieve strong developmental outcomes. Its success lies in the emphasis on local ownership, fiscal discipline, and the integration of swap proceeds into the national budget—offering a model that other developing countries can replicate at low administrative cost. The swap was the first application of the new approach to debt swaps, under the joint WB-IMF framework for debt for development. The outcome of the swap has been twofold: strengthening debt sustainability while making tangible contributions to human capital development. Côte d'Ivoire's experience demonstrates how debt swaps can be structured to deliver direct social development outcomes, with an emphasis on simplicity, efficiency, and integration into domestic systems. This model offers useful lessons for other developing countries seeking to combine debt relief with investments in key sectors.

The PBG-backed deal provides Cote D'Ivoire with important gains. Compared to its situation without the operation, it ends up with reduced debt service obligations during the first next five years and provided fiscal flexibility for the country to meet its education goals. This confirms the WBG's basic tenet of the guarantee, which is to "enhance the sovereign's credit profile, facilitating access to capital markets or commercial financing on more affordable terms".[13] Nonetheless, there are important tradeoffs between liquidity and long-term savings. As argued in a recent study, though the PBG swap performed better than a market loan without a guarantee, especially on liquidity relief, an equivalent blend of 60% IBRD and 40% market loans could have yielded higher NPV savings (and probably more schools) than the PBG backed swap.[14] This calls for further work on the part of the World Bank to enhance the effectiveness of guarantees.

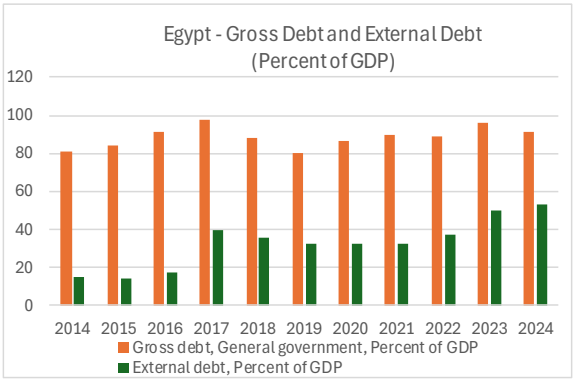
Egypt

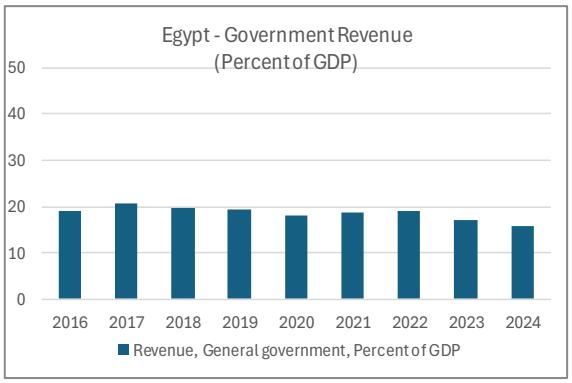
Background and Rationale

In early 2024, Egypt emerged from a period of acute financial stress, which included currency devaluation, tightened foreign exchange reserves, and soaring debt servicing costs. Egypt's public debt-to-GDP ratio was approximately 90.9%, with debt service accounting for 43 percent of revenue. In addition, the country holds the third largest IMF loan balance. Apart from macroeconomic challenges, the country is also highly vulnerable to the impacts of climate change, including rising temperatures and sea-level rise, which threaten coastal areas and agriculture.

[13] Policy-Based Guarantee
[14] See Diwan and Devie, 2025

Figure 9: Egypt – Gross Debt, External Debt and Government Revenue, 2016- 2024





Data source: IMF WEO, various years.

Following a period of swift reforms, along with a transformative $35 billion investment deal with the UAE and substantial support packages from the IMF, World Bank, and EU, Egypt secured macroeconomic stabilization. Amid ongoing external debt pressures, the government decided to pursue innovative arrangements with international partners—Germany, Italy, and China—to unlock development financing while easing debt burdens and fostering fiscal resilience.

Structure, Institutional Arrangements and Governance

The government concluded a series of swaps with each partner focusing on specific sectors. These swaps will result in the conversion of portions of official bilateral debt into grants in domestic-currency funds, earmarked for development programs, without increasing Egypt's overall debt stock. The arrangements with Germany and Italy, now valued at more than US$900 million will focus on private sector development, renewable energy projects, and social infrastructure. The Egypt–China deal, worth about $1.2 billion, is the first of its kind between the two nations, and its focus is on channeling investments toward healthcare, digital transformation, and climate action.

Figure 10: Key Indicators of Egypt Debt-for-Development Swap

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

Each swap operates under a joint committee comprising representatives from Egypt's Ministry of International Cooperation, the Ministry of Finance, and the partner country's development agency. These committees ensure transparency, project selection integrity, and policy alignment with Egypt's national development priorities.

Impact, Outcomes and Lessons

Together, the transactions are projected to create fiscal space equivalent to roughly US$1 billion in redirected debt-service payments**,** facilitating ongoing projects in renewable energy, transport, and human capital development. The swaps helped cushion fiscal and exchange rate pressures while advancing Egypt's transition toward a greener and more diversified economy.

Egypt's experience demonstrates how bilateral swaps can complement broader fiscal reforms, offering flexibility and diversification of financing sources. The alignment of swaps with national strategies (Vision 2030 and climate goals) reinforces the value of using these instruments not just for debt relief, but also as a strategic development cooperation tool. Successful implementation will depend on maintaining transparency, monitoring outcomes, and ensuring that local institutions have the capacity to manage the resulting funds effectively.

V. Comparative Analysis and Key Insights

The experience of Ecuador, Gabon, Côte d'Ivoire, and Egypt show that swaps can be effective tools for advancing climate and development initiatives while also supporting wider economic

goals. At the project level, swaps help direct funding and expertise toward specific policy priorities. In the aggregate, they bolster macroeconomic stability by improving debt sustainability, mitigating fiscal risks, and creating fiscal flexibility. For creditors, swaps offer a way to finance operations that further development aims, while governments can count bilateral swaps as Official Development Assistance (ODA) allocations.

Swaps create fiscal space to achieve economic growth and strengthen environmental resilience, in line with national development and climate goals. In Ecuador and Gabon, initiatives matched pre-existing objectives relating to biodiversity, marine protection, and coastal economic opportunities. Côte d'Ivoire focused on expanding educational opportunities, and Egypt centered swaps around its Vision 2030 agenda with multisectoral projects. These projects may not have been undertaken because, with high debt burden and debt service, additional resources could not be mobilized. Although Côte d'Ivoire and Egypt did not face immediate debt distress, both required additional fiscal space to advance development priorities and improve their debt service profiles.

Well-designed swap arrangements play an important role in short-term macroeconomic adjustments as improved liability management contributes to reducing countries' risk perception and borrowing costs. Before the swaps, Ecuador and Gabon were on the brink of debt distress, with government bonds trading at highly distressed levels, and new private market financing practically inaccessible. Guarantees from US DFC and IADB helped lower borrowing costs, provided short-term relief by raising sovereign credit ratings, and reopened access to financial markets. Regaining access to global financial markets reduced the likelihood of disruptive economic adjustments that would have been warranted given past debt trends. Côte d'Ivoire experienced similar results, though in lower magnitude, and Egypt's swap outcomes are still unfolding. Overall, all swap cases achieved varying degrees of short-term fiscal relief and macroeconomic stability.

There are important trade-offs between structural simplicity and innovation in the governance models of swap arrangements. Simpler structures enhance operational efficiency and ease of administration, which is important for low-capacity jurisdictions. Complex frameworks require robust governance and transparency to maintain legitimacy and effectiveness. Furthermore, integrating commitments into domestic legal and budgetary systems promotes resilience and local know-how. Côte d'Ivoire's structure is notable for its simplicity, utilizing established national and budgetary institutions for direct flows without intermediary bodies. Egypt's swaps demonstrate a similar approach, with transactions occurring directly between government entities and bilateral partners, minimizing transaction costs, and maximizing benefits for targeted projects. These are less complex than nature swaps in Ecuador and Gabon, which involve intricate SPV arrangements and private market debt exchanges.

A key insight is that not all guarantees are equal. Ecuador's DFC insurance and IADB guarantee increased transaction cost but contributed to lower interest rate which amplified the savings from the swap. Cote D'Ivoire's World Bank PBG, also lowered cost, but yielded modest overall results. As previously stated, the PBG offered less financial advantage compared to a plain World Bank loan, as the interest rate on the non-guaranteed part of a PBG-backed loan may be higher than the country could otherwise borrow at. This implies that while PBGs generally lower

aggregate interest rates, the extent of the financial benefits varies widely depending on the prevailing market context and the borrower's specific situation at the time of issuance. This could be a reflection of the value that the private marketplaces on the design and terms of the guarantee.

Despite their potential, swaps have limitations, which make them complements, not substitutes for broader restructuring. The value is usually small relative to a country's debt stock, climate, or development needs. Debt relief is limited, and most of the resources are not fungible, only earmarked for specific projects. Swaps cannot resolve systemic debt, fiscal or broader balance of payments crises, which require broader restructuring and policy reforms. Furthermore, to the extent that the discounted value of the debt is a major factor in the financial value derived from a swap, the term structure of outstanding debt is important. So, while Ecuador was able to buy back its debt at almost 60 percent discount, Gabon’s discount was only around 13%.

Another limitation of swaps is the challenge of post-swap project management and financing. Unlike alternatives such as concessional financing, conditional grants, or outright debt cancellation, swaps commit countries to redirect future debt service to agreed expenditures. Swaps that require ringfencing public spending through trust funds or similar entities, as seen in Ecuador and Gabon, can introduce inefficiencies in the management of public resources and increase budget rigidity. Furthermore, monitoring swap-funded programs imposes administrative burdens and may require institution-building. Effective implementation demands strong governance across multiple domestic and external stakeholders, which can be challenging in countries with limited capacity.

VI. Policy Recommendations

Many developing countries face tight fiscal and balance of payments constraints, making it difficult to fund essential social and developmental priorities such as the SDGs, nature preservation, and climate change mitigation. While economic theory supports the use of swaps to mobilize additional financing, decades of experience show that swaps are not a systemic solution for investment gaps, unsustainable debt, or fiscal crises. Instead, they represent a tactical policy tool that must be evaluated on a case-by-case basis, weighing costs and benefits against alternative approaches.

Swaps can be particularly useful when the primary constraint is limited in fiscal space, allowing countries to redirect debt service savings toward critical investments. A country demonstrating a robust commitment to climate and development objectives, while experiencing a medium-to-high debt burden, elevated borrowing costs, and weak credit ratings, may find substantial benefit in a strategically structured swap operation. However, because of their size relative to debt burden, swaps alone are insufficient to lower the debt burden substantially, and comprehensive debt restructuring with appropriate conditionalities could deliver better results. The experience with the Brady Bonds, the HIPC, and MDRI, does confirm that such generalized, comprehensive, and large-scale sovereign debt workouts provide large reliefs that allow countries to start on a clean slate and resume growth and development.

To maximize the development impact of swaps, stakeholders should be attentive to the following:

- Countries should carefully assess the full costs of structuring commercial debt swaps, including the need for credit enhancements, the term structure of existing debt portfolio, long-term financing and options for project implementation structures. These elements are key to the financial viability of the swap, and to whether it improves the sovereign debt burden or debt service.
- More focus on thematic priorities based on country climate or medium-term development plans rather than individual projects could maximize the development or climate impact of swaps while reducing fiscal rigidity. Using medium-term plans as a strategic framework could improve overall outcome as it enhances country ownership, reduces administrative burdens, and allows governments to align spending with national strategies. This approach can reduce transaction costs and improve transparency, accountability, and scalability. As is the case with Egypt, financing should be diversified beyond single-donor swaps and supported by strong institutional frameworks.
- The design of monitoring and evaluation processes must demonstrate measurable impacts. Achieving project goals and maximizing effectiveness necessitates rigorous budget discipline and robust implementation capacity. Market uncertainty regarding the genuine allocation of bond proceeds towards net positive climate or nature outcomes can be alleviated by establishing a clear performance and project management framework.
- The use of guarantees presents a strong potential for IFIs and regional MDBs to strengthen their support for developing countries, consistent with the MDB reform agenda focus on *risk mitigation and credit enhancement through innovative financial instruments*. Furthermore, considering IADB's role in Ecuador's swap, other regional MDBs should stand ready to mitigate risks, lower costs or both. This could further lower the barriers to undertaking swap operations by otherwise distressed countries**.** Furthermore**,** IFIs and MDB working as a system could develop principles and standards for debt swaps aimed at making them easier to design and cheaper to transact. Standardization would make it much easier for such instruments to be adopted by a larger number of countries as well as potential creditors and contribute to the reduction of both their time and financial transaction costs.
- As currently designed, the World Bank PBG has room for improvement to win the confidence of the markets and contribute meaningfully to lowering private market debt service costs. While some reforms have been implemented as part of WBG's broader efforts to evolve its mission and operational effectiveness, more needs to be done to enhance the effectiveness of the guarantee and address perceived shortcomings. More attention needs to be paid to the cost impact of raising additional private finance, especially the benefits or cost of the non-guaranteed portion of the loan.
- Swaps do not obviate the need for debt relief**.** Multilateral organizations should focus on designing sovereign debt resolution frameworks that are comprehensive and have similar outcomes to past efforts in the Brady Plan, the HIPC, and the MDRI.

VIII. Conclusion

Debt swaps, as demonstrated by the experiences of Ecuador, Gabon, Côte d'Ivoire, and Egypt, represent an increasingly sophisticated and valuable tool in the sovereign debt manager's arsenal. While the market-based debt-for-nature swaps (Ecuador and Gabon) offer a powerful mechanism for mobilizing large-scale private capital and achieving headline-grabbing conservation goals, they carry inherent complexities, high transaction costs, and governance challenges, particularly when relying on offshore SPVs. Conversely, the official and quasi-official debt-for-development swaps (Côte d'Ivoire and Egypt) demonstrate a more straightforward, replicable model emphasizing country ownership, integration into domestic budgetary systems, and alignment with core human capital and infrastructure development priorities. The design of guarantees or risk insurance could make a lot of difference in financial and economic outcomes.

The central lesson is that the effectiveness of a debt swap is less about its size and more about its structure and context. For countries facing acute debt distress, a swap offers only limited, tactical fiscal space and cannot substitute for comprehensive debt restructuring. However, for nations with a moderate debt burden but severe constraints on critical development or climate spending, a well-designed swap, particularly one backed by multilateral guarantees (as in Côte d'Ivoire), is effective in lowering borrowing costs, extending maturities, and ensuring dedicated long-term funding for strategic national objectives. Moving forward, the global community must work to standardize the design, governance, and reporting of these instruments to lower transaction costs and enhance transparency, ultimately positioning debt swaps as a crucial complement to, but not a replacement for, broader concessional financing and systemic debt resolution frameworks.

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