



SWAPPING DEBT FOR RESILIENCE AND DEVELOPMENT INVESTMENTS

Credit enhancement as a critical enabler for commercial debt swaps

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EXECUTIVE SUMMARY

As countries seek practical ways to finance their investment plans to meet the Sustainable Development Goals and advance resilience, commercial debt swaps in particular are gaining traction. The Bridgetown Initiative sees this instrument as an important component of the wider solution space for both debt management and for financing country priorities - be those social, nature or climate-related. Indeed, swaps are one of the few options available to governments that can unlock finance without consuming scarce borrowing headroom. This brief outlines the key actions needed to scale debt swaps where they are applicable, with a focus on the key role of credit enhancement.

Commercial debt swaps are a proven tool to free up financing for national priorities. By refinancing expensive loans (typically issued by private creditors) on better terms, sovereign borrowers can generate substantial savings and redirect them toward key national development priorities – be that social infrastructure, protection of natural resources, or strengthened climate resilience – critically, *without eating into government’s borrowing headroom*.

Demand is real and growing. Since 2021, eight debt swaps have refinanced US\$6 billion, mobilizing nearly US\$2 billion for investment. From Ethiopia and Rwanda to the Bahamas and Barbados, more countries are exploring debt swaps to unlock financing for priority investments.

Scaling credit enhancement is key to maximizing debt swaps’ potential. The cost at which financing is available to governments is tightly tied to a sovereign’s credit rating. While emerging market and developing economy (EMDE) governments owe around 40–45% of total sovereign commercial debt,¹ more than two-thirds of rated EMDE sovereigns are below investment grade (BBB).² This limits their ability to refinance on more affordable terms and mobilize long tenor loans. Credit enhancement – a form of protection, like a guarantee or insurance, that makes a lender whole up to a certain amount, even if the borrower defaults – lowers risk and therefore also borrowing costs, creating the fiscal savings for governments that make debt swaps viable and attractive.



¹ World Bank (2024), *International Debt Statistics 2024*.

² S&P Global Ratings, *Sovereign Ratings Distribution – March 2024 update*.

The Bridgetown Initiative is calling for targeted efforts to scale commercial swaps – not for every country or every case but wherever they can meaningfully support countries' investment strategies for development and resilience.

Six actions taken by the ecosystem's main actors can together unlock the potential of debt swaps:

EMDE governments

1. Consider the potential role of swaps as part of the financing strategies for their investment plans, as well as in wider debt management strategies;

Development partners – multilateral development banks (MDBs), development finance institutions (DFIs) and international organizations:

2. Standardize transaction archetypes and approaches;
3. Expand and harmonize credit enhancement capacity;
4. Scale technical assistance and capacity building for governments where possible in a coordinated manner rather than transaction-by-transaction;

Philanthropies

5. Dovetail efforts more systemically with MDBs, DFIs and other development agencies to fill critical gaps in country needs;

Insurers

6. Step directly into the risk stack to close gaps and make larger swaps possible, including through reinsurance markets.

 **Debt swaps are not a silver bullet.** They can't replace concessional finance, nor substitute for broader debt sustainability reforms, and are unsuitable for countries in distress. But when integrated into sound national investment strategies, they can unlock savings to fund underfinanced priorities – especially where fiscal space is tight and grant flows are stagnating.

ABOUT THE BRIDGETOWN INITIATIVE

Championed by Barbados' Prime Minister Mia Amor Mottley, the [Bridgetown Initiative](#) is a call for urgent and decisive action to reform the international finance architecture to better address the climate crisis faced by vulnerable countries and the achievement of the Sustainable Development Goals (SDGs). Its latest set of priorities ([Bridgetown 3.0](#)) focuses on three pillars:

- 1. Changing the rules of the game** – Reforming the governance and policies of international financial institutions to give developing economies a stronger voice, addressing debt burdens that currently hinder resilience investments, and making climate finance more accessible for climate-vulnerable countries.
- 2. Shock-proofing economies** – Strengthening resilience by enhancing disaster preparedness and pre-arranged financing, ensuring vulnerable nations have the fiscal space to invest in adaptation and recover from climate shocks.
- 3. Scaling financing** – Mobilizing trillions in capital for climate action and the SDGs, leveraging public and private funds, *external* and *domestic* capital, and exploring innovative financing sources, channeled through country-owned platforms to deliver on national plans.

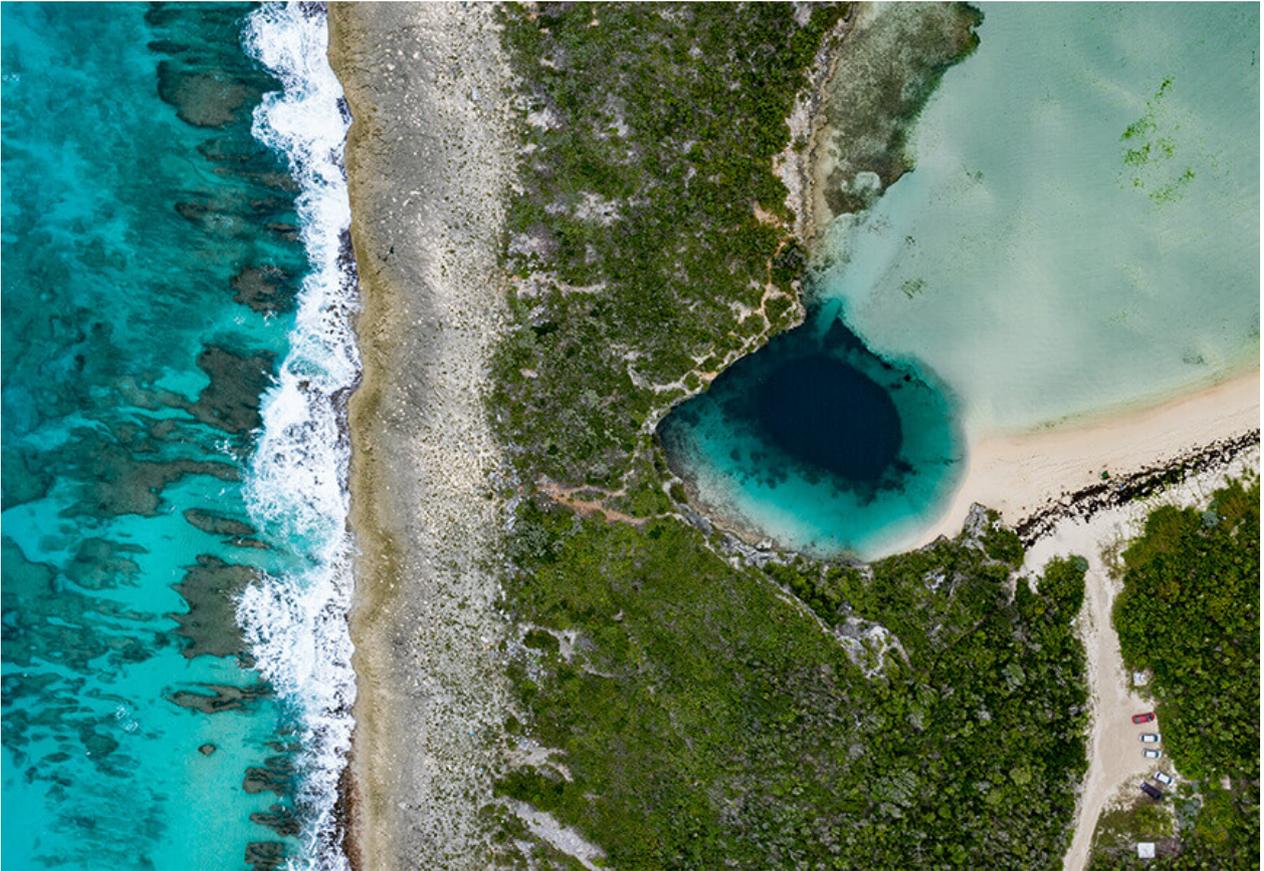
Leveraging robust analysis on options to scaling financing, the Bridgetown Initiative drives high-level strategic and political engagement to advance the agenda into meaningful action, unlocking resources for climate-vulnerable nations and strengthening economic resilience in developing countries.

This note contributes to Priority 14 of Bridgetown 3.0, which speaks to the role of credit enhancement as a tool for scaling private financing, under Pillar 3.

Pillar 1: Change the rules of the game	IFI governance reform (1)	G20 reform Common Framework and debt relief (2)	IMF/WB reform growth forecasting and DSA (3)	Credit rating agencies increase methodology transparency and consistency (4)	Expand criteria for concessional finance beyond GNI (5)	Multilateral trading system regime, carbon pricing and carbon markets (6)
Pillar 2: Shockproof economies	Enhance SDR use (7)	Reduce IMF cost of lending (8)	Enhance disaster preparedness and post-disaster finance (9)			
Pillar 3: Dramatically increase finance	Replenish IDA (10)	Replenish existing vertical climate funds (11)	MDB reform and increase financing (12&13)	Private capital mobilization (14)	Progressive finance sources (15)	L&D fund and biodiversity finance commitments (16)

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1. RAISING AMBITION REQUIRES SCALING UP INVESTMENT

Emerging markets and developing economies (EMDEs) require an estimated **US\$4 trillion annually by 2030** to deliver on climate action and achieve the Sustainable Development Goals (SDGs).³ The scale of investment required is enormous – and urgent.

Many governments are already mapping out their priorities through Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs), strategic investment plans, and country platforms. These plans outline ambitious pathways covering for social service delivery, economic growth, decarbonization, nature and climate resilience. For example:

- **Bangladesh's NAP (2023–2050)** is costed at **US\$84 billion**, targeting climate-vulnerable areas with resilience measures in agriculture, water, and coastal protection.
- **Barbados' 2025–2035 Investment Plan for Prosperity and Resilience** defines a **US\$11.6 billion** investment program covering social welfare, infrastructure, environmental protection and climate resilience.
- **Sri Lanka's Climate Prosperity Plan** identifies a resource mobilization opportunity of **US\$26.53 billion** through to **2030** to climate-proof the nation.

But for plans to lead to impact, they must be matched with suitable finance.

The **Baku to Belém Roadmap**⁴ sets out how the world could mobilize the external component of this investment – about **US\$1.3 trillion annually in public and private international finance**. However, even if that target is met, **30–40% of total investment will still need to come from government budgets, including public sector borrowing**.⁵ Here lies the contradiction: countries need more – not less – debt to achieve their ambitions.

Yet fiscal space is vanishingly small. Today, **40% of the global population lives in countries spending more on debt service than on health or education**⁶ – for instance, Ghana spends more on interest payments than on schools.⁷ And the combination of climate shocks and natural resource degradation further erode revenues and drive up costs, creating a vicious cycle where high debt service limits investment in resilience – and weak resilience fuels deeper vulnerability and debt.

The reality is that debt itself is not inherently bad. What matters is the purpose, structure and cost of debt to ensure that it is a tool for progress. Well-managed debt finances the schools, hospitals, roads, ports and other assets that underpin sustainable growth. When made available at fair terms and appropriate tenors, it becomes an affordable instrument rather than multigenerational burden. Simply put, delivering on the increasingly ambitious climate and development priorities that the world needs demands **more, cheaper, and longer-term financing**.

Multilateral development banks (MDBs) play a crucial role in this space, offering sovereigns critical loans through their concessional financing windows. But these resources are limited and often inaccessible to middle-income yet climate-vulnerable states such as Fiji or the Dominican Republic.

³ UNCTAD (2025). *World Investment Report 2025: Investing in Sustainable Development*. United Nations Conference on Trade and Development, Geneva.

⁴ UNFCCC (2024). *Baku to Belém Roadmap: Advancing Climate Action between COP29 and COP30*.

⁵ UNCTAD (2025). *World Investment Report 2025: Investing in Sustainable Development*. United Nations Conference on Trade and Development, Geneva.

⁶ UNDP (2023). *Global Debt Report 2023: Inequality and Debt*. United Nations Development Program.

⁷ World Bank (2023). *International Debt Report 2023: Updated International Debt Statistics*. Washington, DC.

That is why **alternative financing sources** must be added to the toolkit. Without new innovations, as well as scaling instruments that have been proven to work, EMDEs risk being trapped in a cycle of debt and vulnerability. With them, we can go from a financing challenge to a pathway to prosperity, resilience, and sustainable growth.

The good news is that MDBs and development finance institutions (DFIs) are increasingly deploying creative tools to finance development and resilience. The World Bank pioneered the **green bond** market, raising over **US\$20 billion** for projects from renewable energy in India to flood management in Vietnam.⁸ The Asian Development Bank (ADB) has launched the **Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP)** – a multi-donor financing partnership through which bilateral partners provide guarantees on parts of ADB’s sovereign loan portfolio, freeing up capital and enabling an additional **US\$11 billion** in climate lending.⁹ The Inter-American Development Bank (IDB) has supported Uruguay’s first sovereign sustainability-linked bond – tying interest payments to emissions-reduction targets, thereby incentivizing resilience and decarbonization.¹⁰ Marking the first time a **multilateral climate fund has tapped capital markets** directly to mobilize large-scale private finance for climate action, the Climate Investment Funds (CIFs) recently made a historic capital markets debut, raising **US\$500 million** through their inaugural bond issuance.¹¹ And the IDB has facilitated **debt-for-climate and debt-for-nature swaps**, such as Belize’s **US\$553 million** restructuring for marine conservation and Ecuador’s **US\$1.6 billion** swap to protect the Galápagos Islands.

Together, these instruments show how DFIs and MDBs are turning innovation into affordable financing at scale. **The focus of this document is on debt for climate/nature/social (debt-for-development) swaps as one specific approach to helping advance countries’ needs.**



⁸ World Bank Treasury (n.d.). *Green Bond Program*. Washington, DC.

⁹ Asian Development Bank (2023). *Q&A: Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP)*. Manila.

¹⁰ Inter-American Development Bank (2022). *Uruguay issues global sustainability-linked bond with IDB support*. Washington, DC.

¹¹ Climate Investment Funds (2025). *CCMM's inaugural bond issuance raises \$500 million*. Washington, DC.

2. SWAPPING DEBT FOR DEVELOPMENT AND RESILIENCE

What is a debt swap?

A debt swap enables a country to redirect debt service payments into investments that advance national development priorities. There are two main types:

- **Bilateral debt swaps:** These involve official creditors – for example, when one government cancels or reduces another government's debt in exchange for that country investing in development priorities. They rely on creditor countries' fiscal space and political will.
- **Commercial debt swaps:** These involve expensive debt – typically issued by private creditors (like bondholders or commercial banks). Here, the sovereign debt is prepaid or bought back with new, lower-cost and/or long-tenor debt. This is made possible by credit enhancement – guarantees or insurance from MDBs, DFIs, or philanthropies that lower borrowing costs by reducing investor risk. The resulting fiscal savings are then directed to development or resilience investments.

This note focuses on commercial debt swaps. Unless otherwise stated, 'debt swaps' refers to this type.

A new generation of swaps for a new debt landscape

Bilateral debt swaps first emerged in the 1980s, when creditor governments linked debt relief to development outcomes. Some lenders cancelled debt outright in exchange for investments in public goods ([Germany-Indonesia Debt-for-Education Swap, 2002–2004](#)); others converted loans into local-currency payments channeled into jointly-managed funds for priorities such as health, education, or conservation ([Italian-Egyptian Debt Swap Program, 2001–2021](#)). These were largely development cooperation tools, counted as Official Development Assistance (ODA) and dependent on the fiscal space and political will of creditor countries.

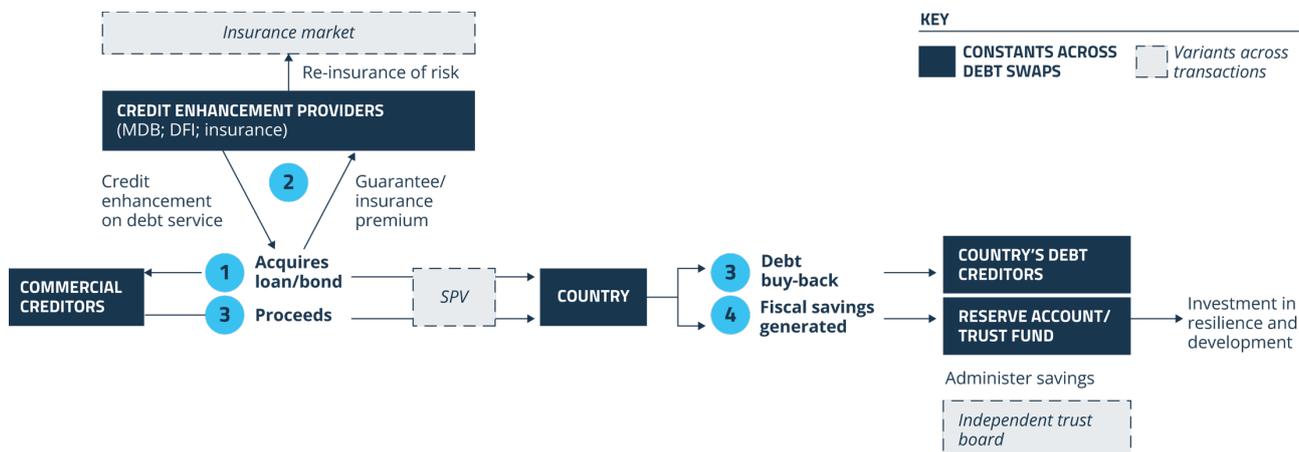
Today's debt landscape looks very different. The share of EMDE sovereign debt owed to private creditors as opposed to other governments has doubled since 2010 – from around 20% to over 40%.¹² These obligations typically carry shorter maturities and higher interest rates, increasing both their cost and volatility. Against this backdrop, a new generation of debt swaps – **commercial debt swaps** – has emerged. The principle is different: **debt is refinanced at a lower cost and/or longer-tenor.**

¹² World Bank (2023). *International Debt Report 2023: Updated International Debt Statistics*. Washington, DC: World Bank.

How commercial debt swaps work

The exact structures of commercial debt swaps vary but they share a common foundation: the savings on refinanced debt are directed towards national priorities – often through a dedicated fund or earmarked for implementation by a specific national or international entity. This provides governments with new financial resources without eating into their fiscal headroom.

Figure 1: Typical debt swap transaction



While structures vary by case, transactions generally follow four steps (see *Figure 1*):

- 1. Issuance:** Government issues a sustainability-linked loan or bond, either directly or through a special-purpose vehicle (SPV) that manages proceeds and channels them into an agreed investment fund.
- 2. Credit enhancement:** A guarantee or insurance from an MDB, DFI, philanthropy, or private insurer lowers borrowing costs by improving credit risk. The guarantee provider charges a small premium, and the risk is often reinsured through the private market.
- 3. Debt buyback:** Proceeds from the swap are used for liability management – repurchasing and retiring existing, higher-cost sovereign debt.
- 4. Investment of savings:** The fiscal savings generated – through lower interest payments and/or discounted buybacks – are allocated to development and resilience projects via a trust fund or reserve account. In some cases, these funds are independently managed; in others, they are administered directly by the government in line with national priorities.

Momentum and evolution of commercial debt swaps

Recent experience underscores both the potential and the adaptability of commercial debt swaps. Since 2021, at least eight commercial debt swaps have refinanced a combined US\$5.9 billion in sovereign bonds, generating an estimated US\$1.9 billion in savings over 15 years (see *Table 1*).

While this market is still nascent, completed deals show that debt swaps are not one-size-fits-all but a flexible family of models tailored to each country's needs and priorities.

Four key trends define this evolution:

- **From discounted buybacks to exchanges at face value**

Early swaps occurred in distressed markets where bonds traded at deep discounts on the original value of the paper (e.g. Belize, 2021 – 45% discount). More recent transactions, however, show that debt swaps are not limited to countries on the verge of default. Barbados (2022) refinanced high-cost debt (7.2%) with lower-cost debt (4.9%) through guarantees from the IDB and The Nature Conservancy (TNC), freeing up US\$50 million that was allocated for marine conservation.

- **From long-term savings to upfront capital**

Most swaps to date spread savings via lower interest payments over the tenor of the loan. But new structures are emerging that enable countries to bring those savings forward. In Barbados (2024), bridging loans from the Green Climate Fund (GCF) and IDB, repaid over time using the savings created by the swap, provided upfront capital for wastewater treatment and irrigation infrastructure. This model shows that swaps can finance both steady, long-term programs and capital-intensive projects, depending on a country's needs.

- **From nature conversation to broader developmental priorities**

Initially focused on environmental protection, swaps are now funding social and economic priorities. Côte d'Ivoire's 2024 debt-for-education swap, supported by the World Bank Group, pioneered their use for education reform. Similar discussions are emerging around health, vaccination, and food security. The ability to pair swaps with bridging loans widens their reach to critical infrastructure, making them potentially integral to national development strategies.

- **From externally managed funds to government-led investment**

Early swaps often placed savings in non-governmental organization (NGO)-managed trusts for instance to ensure continuity across political terms. Recent deals, however, show a shift toward government-led implementation. In Barbados, savings are now channeled through public entities into nationally defined projects – demonstrating how swaps can evolve into strategic tools within sovereign debt management and long-term priority financing plans.

Taken together, these shifts mark a maturing and increasingly versatile instrument.

When they make sense

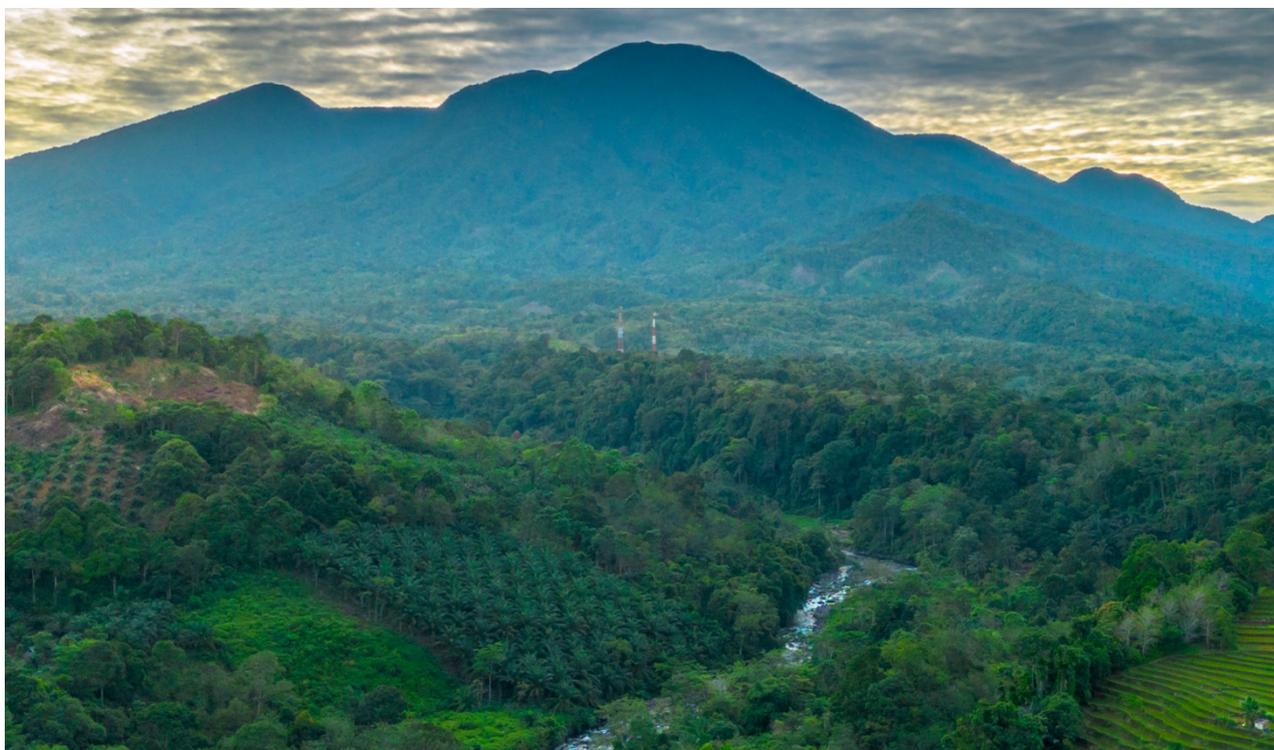
Debt swaps are not a silver bullet for financing climate or development goals, nor do they follow a single template. They are a flexible instrument, adaptable to different contexts and objectives. Their effectiveness depends on country circumstances and alignment with broader strategies.

To deploy them effectively, countries and partners must be strategic in prioritizing where swaps add most value. A consistent set of criteria – considering debt sustainability outlook, likelihood of future restructuring, exchange rate conditions, and status of debt management agendas, for example for countries under International Monetary Fund (IMF) programs – can help identify viable opportunities. The World Bank–IMF Approach Framework on Debt-for-Development Swaps¹³ offers a useful foundation for such assessments and for harmonizing approaches across institutions.

At a minimum, **debt swaps should always be understood as part of two complementary toolkits:**

1. **Financing toolkit.** Swaps should fit within a country's broader **investment strategy**, alongside other sources of public and private finance. They are not a substitute for new capital inflows, but one instrument that helps channel limited fiscal space toward underfunded priorities.
2. **Debt management toolkit.** Because swaps involve restructuring existing obligations, they must align with sound debt management. According to the World Bank–IMF framework, swaps are best suited to countries at moderate or high risk of distress but with a sustainable outlook, and should complement, not replace, other debt treatments. Where debt is unsustainable, restructuring or cancellation would take precedence.

In practice, swaps are most relevant for countries with an adequate macroeconomic framework, **sustainable debt with pockets of high-yielding debt** and investment needs that are constrained by governments' existing debt service obligations.



¹³ IMF & World Bank (2024). *Debt-for-Development Swaps: An Approach Framework*. Policy Paper. Washington, DC.

What it takes to make swaps happen: View from the ground

But even when conditions are suitable on paper, delivering a swap requires **significant efforts on the ground**. Debt swaps only work when governments are willing to put in place the required financial expertise and project management capacity, commit political capital, and allocate institutional time and resources to support the core project team. They require strong ownership and coordinated action across the Ministry of Finance, Cabinet, and even the Central Bank, with almost continuous input from the debt management office and the relevant line ministries – whether environment, education, or infrastructure – so that priorities are aligned and savings are directed to the right investments. The resulting structures must be backed by transparent governance and monitoring arrangements to ensure savings are used as intended – again requiring commitment of resources and detailed reporting. Teams must also juggle the different processes, risk appetites, and timelines of multiple guarantee and funding partners, while navigating legal, regulatory, and market complexities. Successful transactions depend on disciplined project preparation, clear political direction on intended investment outcomes, and a core group inside government able to engage consistently with external stakeholders. When these elements come together, swaps can be delivered effectively and at speed.



What they can unlock: Cash-flow to finance long-term national priorities

For eligible countries, the value of debt swaps lies not only in the **scale and predictability** of the savings they generate, but also in their ability to strengthen debt management and market confidence. By refinancing expensive, short-term debt into lower-cost, longer-tenor instruments, swaps act as a liability-management tool – smoothing repayment profiles, reducing rollover risk, and limiting exposure to interest-rate volatility. This stabilizes fiscal planning and helps countries maintain or regain market access on better terms.

Instead of leaving governments dependent on the vagaries of market access or short-lived donor cycles, debt swaps can generate a stable stream of fiscal space for over a decade. Because these flows come from reduced debt service they are **additional to regular budgets**, offering governments a new, contractually guaranteed flow that can be factored into long-term investment planning.

This makes swap-generated savings ideally suited to **long-term, non-revenue-generating priorities that are essential but underfunded**. Conservation was the natural starting point – marine and forest protection, biodiversity management, and land restoration all benefit from steady, multi-decade flows. But, as mentioned previously, the scope of projects for which swaps are relevant is expanding.

There is also an opportunity to innovate on how savings are used. Because swap flows are both predictable and additional, they could fund hard-to-finance priorities such as insurance premiums for disaster preparedness or capitalization of guarantee pools that help develop local capital markets and crowd in private investment. These models remain untested but illustrate the possibilities for building systemic resilience and financial capacity beyond direct spending.

Ultimately, decisions on how to deploy swap-generated savings must rest with governments themselves, anchored in national investment plans. To maximize impact and alignment, KPIs should be drawn directly from these national plans, ensuring that swap proceeds reinforce priority sectors and deliver measurable progress.¹⁴ When structured this way, debt swaps help to finance underfunded sectors and reinforce country ownership, accountability, and the benefits of long-term planning.

Benefits of debt swaps for countries



Unlocking large-scale funding without eating into their fiscal headroom for investments that would otherwise be funded from stretched national budgets.



Generate savings over the long-term or, depending on the nature of the project funded, bring savings forward to finance capital investments.



Improve overall debt profile by replacing high-interest debt with lower-cost debt, potentially at longer tenors. Resulting investments can also enhance growth projections, further improving debt profiles.



Develop local capital markets where financing is raised locally, further reducing foreign currency risk and macroeconomic vulnerability.

¹⁴ IIED (2023). Redesigning debt swaps for a more sustainable future. Briefing.

Table 1: Recent commercial debt swaps and credit enhancement structures:

SOVEREIGN ISSUER (YEAR)	ORIGINAL DEBT AMOUNT	NEW DEBT AMOUNT	FISCAL SAVINGS		FUNDING UNLOCKED	INVESTMENT PRIORITY	CREDIT ENHANCEMENT STRUCTURE	
			DEBT STOCK REDUCTION	DEBT SERVICE REDUCTION			CREDIT GUARANTEE /INSURANCE	PRI
Seychelles (2017)	\$21.6m	\$15m	~\$6.6m (30% discount)		\$13m over 20 years	Ocean conservation	TNC (\$5m)	DFC
Belize (2021)	\$553m	\$364m	\$189m (45% discount)	\$200m over 20 years	\$180m over 20 years	Ocean conservation		DFC
Barbados (2022)	\$150m	\$150m		\$50m over 15 years	\$50m over 15 years	Ocean conservation	IDB (\$100m); TNC (\$50m)	
Gabon (2023)	\$500m	\$500m		\$163m over 15 years	\$163m over 15 years	Ocean conservation		DFC
Ecuador (2023)	\$1.6bn	\$644m	\$1bn (60% discount)		\$450m over 18.5 years	Ocean conservation	IDB (\$85m)	DFC
El Salvador (2024)	\$1.031bn	\$1bn		\$352m over 20 years	\$350m over 20 years	River conservation	CAF (\$200m)	DFC
Bahamas (2024)	\$300m	\$300m		\$124m over 15 years	\$124m over 15 years	Ocean conservation	IDB (\$200m); Builders' Vision (\$70m); AXA XL (\$30m)	
Ecuador (2024)	\$1.53bn	\$1bn	\$527m	\$273m over 11 years	\$460m over 17 years	Amazon conservation	IDB (\$155m)	DFC
Barbados (2024)	\$293m	\$293m		\$125m over 10 years	\$110m (\$70m GCF & IDB loans; \$40m GCF grant)	Water infrastructure	IDB (\$150m); EIB (\$150m)	
Cote d'Ivoire (2024)	€400m	€400m		€60m over lifetime	€60m	Education	World Bank (€240m)	

3.

WHY CREDIT ENHANCEMENT IS A CRITICAL ENABLER FOR SWAPS

Credit enhancement improves the risk profile of a transaction, enabling borrowers to secure longer maturities and lower borrowing costs. This matters especially for those countries that are stuck at speculative-grade ratings and forced to borrow at rates above 10%.¹⁵

In the case of debt swaps, credit enhancement is the linchpin – without it, refinancing would be too costly and the fiscal savings needed for investment would not materialize. Take the **Bahamas' 2024 debt swap** for example, which involved a US\$300 million, 15-year loan arranged by Standard Chartered Bank and priced at just 4.7% – far below what the government could access on its own. This was only possible thanks to a credit enhancement package combining a US\$200 million IDB credit guarantee, a US\$70 million collateralized facility from the philanthropy Builders' Vision, and US\$30 million credit insurance from AXA XL. The result: US\$124 million in savings that went to finance marine conservation projects.¹⁶

Credit enhancement instruments

Political risk insurance (PRI) helps achieve investment-grade rating for bonds issued in higher-risk countries. While useful, PRI has its limits: it requires premium payments and only pays out once an arbitral award is obtained against the government – adding cost and complexity. Supply is also limited, with coverage provided mainly by specialist institutions such as the DFC and MIGA.

Credit guarantees directly improve the credit rating of new sovereign debt and typically deliver the greatest fiscal savings. They are highly effective instruments – historically defaults are extremely low because of MDBs' and DFIs' preferred creditor status: the World Bank's default rate is just 0.3%¹⁷, the IDB's 0.2%¹⁸, and the DFC's under 1%¹⁹. Even when defaults occur, they are usually partial – in 2022, 72% of sovereign defaults affected 10% or less of total debt²⁰. As a result, providers face limited budgetary exposure relative to the scale of finance unlocked.

Private credit insurance is offered by commercial insurers or reinsurers rather than public institutions. It covers non-payment risk on sovereign or sub-sovereign debt, typically for a defined layer of the risk stack. Although it is priced higher than MDB guarantees, it provides valuable additional capacity to scale transactions and crowd in private capital.

¹⁵ IMF (2022). *Global Financial Stability Report*. Washington, DC: IMF.

¹⁶ **The Nature Conservancy** (2024). *The Nature Conservancy Announces New "Nature Bonds" Project in The Bahamas*. Press release, November 22, 2024.

¹⁷ **World Bank** (2023). *IBRD Management's Discussion & Analysis and Financial Statements, FY2023*

¹⁸ **IDB** (2023). *Annual Report 2023: Financial Statements*

¹⁹ **DFC** (2022). *FY2023 Congressional Budget Justification*, p. 6; GAO (2020). *U.S. International Development Finance Corporation: Status of Portfolio and Risk Management*.

²⁰ **DFC** (2022). *FY2023 Congressional Budget Justification*, p. 6; GAO (2020). *U.S. International Development Finance Corporation: Status of Portfolio and Risk Management*.

The market for credit enhancement is beginning to mature but still faces constraints

Credit guarantees – contracts in which a guarantor assumes repayment if a borrower defaults – have long been scarce for sovereign debt. Yet they are among the most powerful tools to lower the high cost of capital faced by many EMDEs.

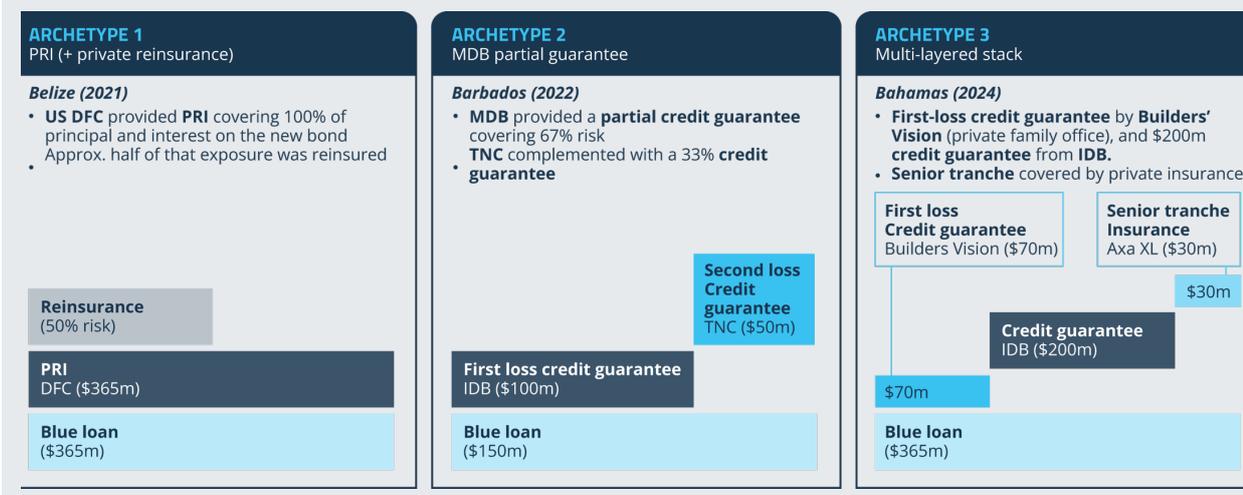
For debt swaps, this constraint is particularly acute. To date only a handful of institutions have provided credit enhancement systematically: the IDB through credit guarantees, and the Development Finance Corporation (DFC), through political risk insurance. A few others, such as the European Investment Bank (EIB) and the Development Bank of Latin America and the Caribbean (CAF) have supported individual transactions, but overall provision remains patchy. DFC’s continued engagement in this space is also uncertain for the time being given evolving US government policy priorities and eligibility criteria.

The landscape, however, is starting to shift in a positive direction. In 2024, the World Bank Group entered the space for the first time through Côte d’Ivoire’s education debt swap – not as a one off, but as the start of a broader commitment to make swaps a regular part of its financing toolkit.²¹ Other MDBs have signaled readiness to follow suit, many of them now participating in the Taskforce on Credit Enhancement for Sustainability-Linked Sovereign Financing, which brings together MDBs, DFIs, with the aim of scaling credit enhancement for sustainability-linked sovereign financing, including through collaboration with additional stakeholders, such as insurers and philanthropic entities.²²

Regionally, new initiatives are also emerging. At COP30 in Belém, the IDB, CAF, and the Caribbean Development Bank (CDB) launched the Caribbean Multi-Guarantor Debt-for-Resilience Facility to coordinate guarantee provision and streamline debt-for-resilience swaps across the Caribbean.²³

Figure 2: Evolving credit enhancement structures

Credit enhancement structures are evolving as the market matures. Early transactions relied heavily on **PRI**, often reinsured to increase deal size. Over time, models have diversified: Barbados’ 2022 debt swap was the first to achieve full guarantee coverage by combining **partial credit guarantees** rather than PRI, while the Bahamas’ 2024 debt swap integrated a broader mix of public and private actors into the same risk stack. As these innovations mature, countries are beginning to secure more **optimized credit enhancement packages**, lowering their borrowing costs and making debt swaps more viable for both creditors and governments.



²¹ Bloomberg (2025). *World Bank Plans Securitization, Debt Swaps to Boost Development*. July 30, 2025.

²² Sustainable Sovereign Debt Hub (2025). *Scaling credit enhancement models for sustainability-linked sovereign financing*. Taskforce on Credit Enhancement for Sustainability-Linked Sovereign Financing.

²³ IDB (2025). *CAF, and CDB Launch Caribbean Debt-for-Resilience Joint Initiative*. Press release.

The market is also broadening beyond public institutions. The Bahamas 2024 debt swap demonstrated how private insurers (AXA XL) and private family offices (Builders' Vision) can enter the risk stack directly alongside an MDB guarantee. Private insurers are not new to this space – most MDB guarantees are already reinsured by them – but their willingness to hold **visible, primary** risk is new. This should become a **more consistent feature of swaps**, and more insurers should be encouraged to participate in this way to expand and diversify available credit enhancement.

Despite progress, the current credit enhancement ecosystem remains too limited to unlock debt swaps at scale. Without a broader and more flexible base of guarantors, along with stronger movement on standardization and more support to governments to commit the resources necessary to undertake these often highly complex transactions, swaps risk remaining a niche instrument, unable to deliver their full potential for financing national investment priorities.

Specifically on credit enhancement, **three main constraints stand in the way:**

1. Individual guarantee providers cannot do it alone.

- **Multiple actors are needed to carry the risk.** MDBs typically cover only 40–60% of a transaction, requiring more than one institution to share exposure and reach affordable borrowing costs. In some cases, partial coverage suffices – Côte d'Ivoire's 2024 debt-for-education transaction was 60% covered – but where coverage remains too limited or fragmented, borrowing terms stay higher than necessary, reducing the fiscal savings that debt swaps could achieve.
- **Insurers are willing to participate, but only if there is a robust first-loss layer.** Like other financial actors, they also face country and portfolio limits that restrict the size of deals, while pricing necessarily reflects the level of risk assumed.

2. Lending-envelope constraints limit scale and force choices

Guarantees issued directly by MDBs count against countries' borrowing envelopes, forcing difficult trade-offs. Rules vary: the IDB counts guarantees 1:1 against country limits, while the World Bank Group applies a 1:4 ratio. In all cases, governments must choose between using scarce concessional finance to guarantee a debt swap or for direct sovereign lending.

3. There are gaps in geographic and credit coverage

Some countries are effectively locked out of access. The World Bank Group's Multilateral Guarantee Agency (MIGA) requires a minimum borrower credit rating of B-, which effectively excludes most low-income and climate-vulnerable countries (e.g. Suriname, Burkina Faso, Mozambique, Gabon). The IDB, while the most active regional player, can only operate in Latin America and Caribbean, and while the African Development Bank (AfDB) and Asian Development Bank (ADB) are exploring swaps, they have not yet participated in any transactions – leaving large parts of Africa and Asia without comparable support.

Several actions could expand credit enhancement for debt swaps - from streamlining transaction costs and revisiting how guarantees are counted against country envelopes, to bringing more MDBs into the market and encouraging them to take on a more balanced share of risk. The World Bank Group's commitment to protecting its AAA rating is core to its mandate, but rules such as MIGA's long-standing BB- minimum rating threshold can unnecessarily restrict support for countries most in need. Exploring ways to extend coverage to lower-rated contexts, including B- markets, would better enable the Bank to deploy its balance sheet where development impact is greatest.

Bilateral donors can help to alleviate some of these constraints

One practical solution that this paper focuses on lies with bilateral development partners.

Unlike MDBs, bilateral donors are not bound by country lending envelopes. While they do not have unlimited resources, these actors typically have greater flexibility to deploy guarantees without forcing governments to choose between using scarce borrowing space for a debt swap or for project lending.

For countries, this would mean greater access to credit enhancement in turn leading to lower-cost refinancing – freeing up space for investment in development and resilience.

For bilaterals, this offers a high-leverage way to deliver on their mandates: catalyzing private capital, crowding in MDBs, insurers, and philanthropies that often require a co-guarantor, and directly responding to the growing demand from governments that want to integrate debt swaps into their financing strategies.

Of course, the scale of bilateral institutions is smaller than that of MDBs, and their role is not the same. But **bilaterals could play a complementary and catalytic part in expanding guarantee capacity for debt swaps**. There are at least two illustrative routes:

- (i) **Participating directly alongside MDBs, DFIs, or insurers, taking a share of overall risk.** In such cases even a modest bilateral guarantee could enable far larger volumes of private and MDB participation, lowering costs for the sovereign. However, it is important to note that transaction pricing is typically driven by the first layer of cover: if a bilateral provides first-loss protection but has a lower credit rating than the senior guarantor, the overall cost of the transaction will reflect the lower rating.
- (ii) **Backstopping MDB guarantees.** Bilaterals can provide guarantees that sit behind an MDB's guarantee. This helps MDBs extend their guarantee capacity without exceeding institutional thresholds or eating into countries' borrowing envelopes. It enables more transactions while leveraging the MDB's AAA rating and preferred creditor status.

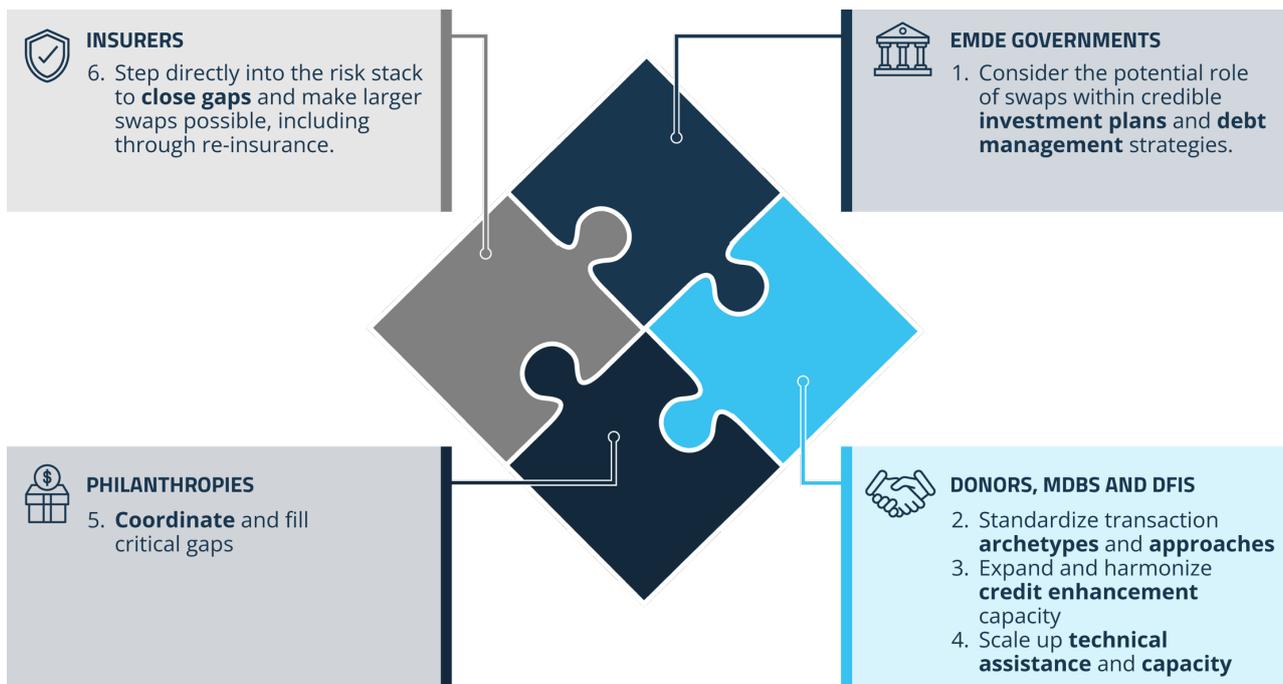
These examples are not prescriptive but show how bilateral development partners might complement the existing system and support it in overcoming current bottlenecks. Importantly, this would not require upfront financing: guarantee providers receive a premium based on the risk they take, and their exposure is usually limited relative to the volume of capital mobilized.

4. SIX ACTIONS TO UNLOCK THE POTENTIAL OF DEBT SWAPS

While the exact amount of commercial debt that could potentially be swapped is hard to quantify, there is broad agreement that this number is in the hundreds of billions. The challenge is turning potential into transformative impact. Debt swaps have proven they can work – unlocking billions for investment in EMDE climate, nature, and social infrastructure priorities – but delivering at scale will require deliberate, coordinated action across the system.

The Bridgetown Initiative is calling for a concerted push to make debt swaps a mainstream option for financing development and resilience in the context of country-led investment plans – not for every country or every case, but wherever they can meaningfully move the needle. For this to happen, there are six critical actions required from the ecosystem of players, as shown in Figure 3.

Figure 3: Six critical actions to unlock the potential of debt swaps

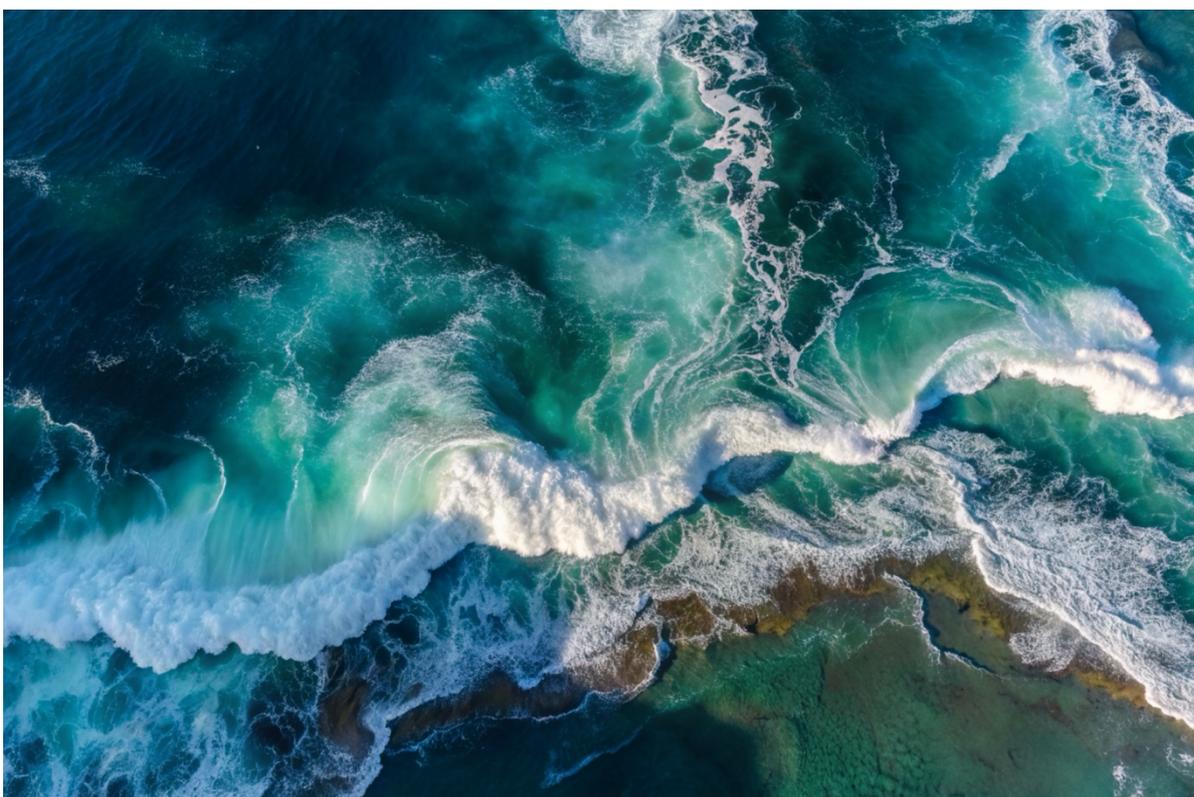


EMDE governments

1. Consider the potential role of debt swaps within holistic investment plans and debt management strategies.

Where things stand: Debt swaps are most effective when anchored in country-led investment plans. Among the seventy-four CVF/V20 countries, only four have so far published Climate Prosperity Plans (CPPs) – a critical first step toward defining robust, costed investment pathways. Once countries establish these plans and outline their financing strategies, they can determine whether and how debt swaps fit within them. Barbados, for instance, has already done so, with swaps expected to finance around 20% of the estimated US\$5 billion of the total US\$11.6 billion [Investment Plan for Prosperity and Resilience](#) requiring public funding by 2035.

What needs to happen now: Governments should move from ambition to implementation by defining clear, costed investment priorities and identifying how to finance them. Where Ministries of Finance and debt management offices see potential for debt swaps, they should integrate them early into financing strategies which would then form a good basis for engaging with development partners, and coordinate closely with line ministries to ensure savings are directed to the sectors where the cash flow and impact potential are greatest.



Development institutions

2. Standardize transaction archetypes and approaches.

Where things stand: Every swap to date has been bespoke, driving up cost, time, and complexity and often overwhelming governments with processes. However, a foundation for standardization now exists on paper: [The Debt-for-Nature Coalition's practice standards for debt conversions](#), [Taskforce's Principles for Credit Enhancement](#), and the [World Bank's Group Approach Framework](#) all point toward greater consistency in design and execution. The announcement of the Caribbean Multi-Guarantor Facility signals that regional standardization is beginning to take shape.

What needs to happen now: These paper frameworks must now be translated into practice. Models that work should be replicated and adapted, not reinvented, so that standardization efforts are reflected in real transactions. The goal is to make swaps faster, cheaper, and easier to scale – moving from individual pilots to a consistent, replicable market.

3. Expand and harmonize credit enhancement capacity.

Where things stand: Guarantees are the linchpin of viable swaps, yet – as outlined in Section 3 – currently availability is insufficient and fragmented. The World Bank Group has entered the market but has completed only one swap as at the time of writing. The Caribbean Multi-Guarantor Facility offers a promising regional model, while other MDBs have expressed intent to engage and several bilateral donors are now exploring how they can contribute.

What needs to happen now: Capacity must increase and providers must work together. MDBs, and DFIs need to add more guarantee volume and align their terms, documentation, and risk-sharing so guarantees can be pooled or combined without unnecessary complexity. MDBs should also assess and address the constraints that limit expanded coverage – such as MIGA's long-standing BB- rating threshold – and identify where additional headroom can be unlocked. Bilaterals should work with MDBs to understand how they can support expanded capacity, including through backstopping guarantees. Finally, all credit-enhancement providers should move quickly on transactions already in preparation and replicate regional models like the Caribbean Facility to turn isolated pilots into a consistent, scalable system.

4. Scale technical assistance and capacity support for governments.

Where things stand: Many governments need help to determine whether swaps are the right tool, structure transactions and/or design eligible projects, and coordinate across ministries both at the project development and implementation stages. The **Global Debt Swap Hub**, launched by Spain and the World Bank Group, is a promising start – but with only US\$3 million committed to date it remains under-resourced and is not yet operational.

What needs to happen now: Where there are gaps, development institutions should provide targeted technical assistance to help countries translate potential into interest and implementation. Support might be sector-specific or span the full lifecycle from early feasibility assessments to transaction design and post-swap monitoring. Coordination between providers is essential to avoid duplication and ensure complementary support. The Global Hub's design phase should consider this, with structured knowledge exchange across institutions to create a coherent support system rather than fragmented efforts.

Philanthropies

5. Coordinate and fill critical gaps.

Where things stand: There is growing interest from philanthropies in supporting swaps. **Builders' Vision** was the first to provide credit enhancement in a transaction, and **Enosis Capital** has created a **Private Credit Enhancement Facility** with US\$100 million committed from Zoma Foundation recently. Some foundations are also exploring funding technical assistance and transaction costs. But current efforts are still relatively ad hoc and there is room for greater coordination to lift all boats.

What needs to happen now: Philanthropies should engage more systematically with MDBs and DFIs, sharing lessons and, where these exist, aligning around platforms to more effectively fill gaps not covered by other development institutions. Pooling resources into a shared facility to cover guarantee premiums and technical assistance costs, for example, could have an outsized catalytic impact.

Insurers

6. Make larger swaps possible by stepping into the risk stack and through reinsurance.

Where things stand: Insurers already underpin MDB guarantees through reinsurance, enabling development banks to recycle capital and lend more. Direct participation, however, remains limited – aside from the Bahamas' 2024 swap, where **AXA XL** joined the risk stack.

What needs to happen now: More insurers should take direct risk positions alongside MDBs, DFIs, or bilateral partners – targeting roughly 20% participation to optimize credit enhancement costs. This would expand guarantee capacity, enabling larger and more predictable deal pipelines for countries while expanding the market for insurers who, like other financial actors, have a critical role to play in the wider resilience agenda.

The building blocks are on the table – successful transactions, growing demand, and a widening circle of actors. **The next phase in scaling debt swaps is about coordination, scale, and speed:** turning individual success stories into a global mechanism that channels savings from strategic debt management into investment in development and resilience.

