Technical & policy segment

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DEBT FOR DEVELOPMENT SWAPS

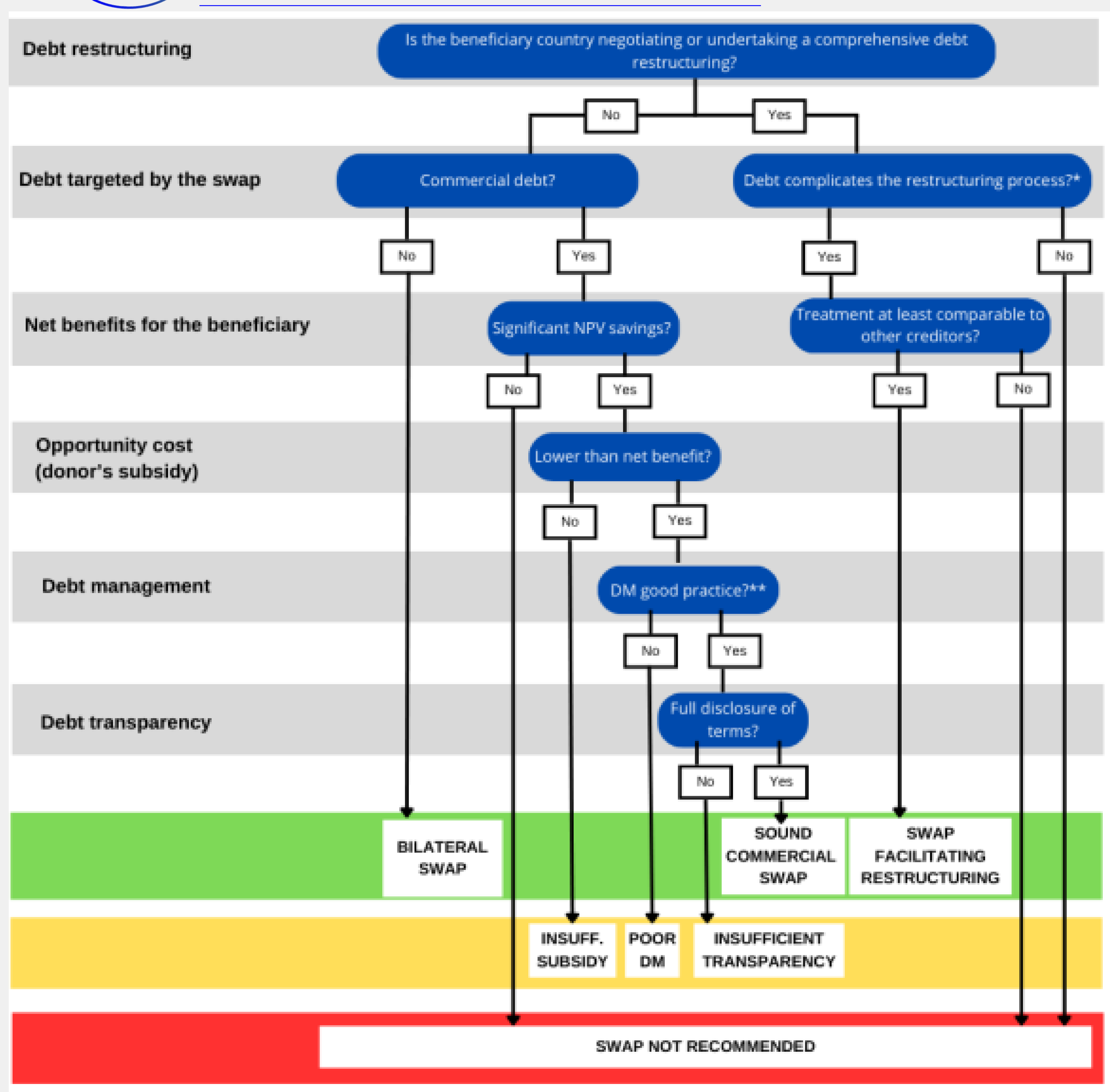
1. Introduction

Debt for development swaps (“debt swaps”) replace sovereign debt with cheaper and/or lower debt alongside a spending commitment towards a development goal (conservation, climate, education, etc.)

Debt swaps have been used since 1980s, typically involving small volumes of debt write-off from bilateral creditors. Recent high-profile transactions are larger and more complex involving buying back bonds at a discount and replacing it with new debt with credit enhancement from a donor.

In 2024, the World Bank and IMF developed a joint approach framework help stakeholders optimize their decision-making on when, where, and how to use debt swaps alongside a WB note discussing its potential role in such transactions.

2. Decision Tree



3. Lessons from recent swaps

	BENEFITS	COSTS / RISKS
Fiscal	Help mobilize financing that may otherwise not be available and create fiscal space	Transaction cost Opportunity cost of the subsidy
Debt	Depending on size, pricing and type of debt repurchased, it can alleviate liquidity pressures and improve debt sustainability	It does not replace comprehensive debt restructuring (but may complicate it) Risk of “distressed exchange” by credit rating agencies
Expenditures	It delivers on development commitments, thanks to remedies in case of non-compliance	Budget rigidity Remedies can be costly (e.g., default)
Governance	Enhanced project monitoring and supervision	New units / strong inter-governmental coordination needed

4. WB-IMF approach

Assess benefits from debt and financial perspective based on:

- the country’s initial debt position and the swap’s effects on debt sustainability
- the net financial gains for the debtor calculated using present value
- the country’s debt management capacity and commitment to transparency
- the opportunity costs for the borrower and donors.

Apply more flexible approach to spending commitment:

- focusing on results, rather than rigidly earmarking spending on specific inputs
- relying more heavily on country systems with WBG monitoring and avoiding structures with costly transaction fees and offshore trust funds
- combining support for policy reforms with additional spending on development priorities to maximize potential impact.

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Scan to access the kiosk documentation & further references