

# Closing the Humanitarian Financing Gap: Rethinking Debt Swaps in Fragile Contexts



# Executive Summary

The humanitarian financing landscape has deteriorated sharply. In 2025, international humanitarian assistance fell to \$12 billion against a global appeal of \$44 billion, the lowest funding rate in a decade.<sup>1</sup> The 2026 Global Humanitarian Overview calls for \$33 billion to reach 135 million people in urgent need. This takes place against a backdrop where commitments of major donors have fallen dramatically, compounding a structural shortfall that shows no near-term signs of reversal. According to estimates published in the Lancet, ongoing aid cuts could result in 22.6 million excess deaths by 2030.<sup>2</sup>

At the same time, the countries with severe humanitarian needs carry some of the world's heaviest debt burdens. In 2024, the external debt stock of low- and middle-income countries hit a record \$8.9 trillion, of which \$1.2 trillion was owed by the 78 most vulnerable countries.<sup>3</sup> Developing countries paid a record \$921 billion in interest payments that year, over double the share of government revenue devoted to debt service than a decade ago. According to UNCTAD, more than 3.4 billion people now live in countries that spend more on interest payments than on health or education.<sup>4</sup> In these contexts, debt obligations and public investment compete directly for the same scarce fiscal resources, impeding development progress and the provision of essential services.

Debt swaps offer an important tool to address these dual challenges, while strengthening countries' long-term economic sustainability. Unlike traditional aid flows, which have proven vulnerable to shifting political priorities, debt swaps leverage a sovereign's existing obligations to creditors, and can mobilize private capital to generate new funding streams. They do not resolve the broader humanitarian financing crisis, nor do they eliminate sovereign debt distress. Rather, they offer one of the few mechanisms capable of linking debt management to social outcomes in a way that is multi-year, nationally anchored, and scalable - creating fiscal space precisely where needs are most urgent and underfunded. Since the 1980s, these instruments have mobilised over \$3 billion for environmental and conservation goals through 'debt-for-nature' swaps.<sup>5</sup> Despite their recent expansion to areas like education and food security, debt swaps are yet to realise their full potential for development and humanitarian programming, particularly in fragile and conflict-affected contexts.

One of the central challenges in debt swap transactions is the provision of guarantees. In debt swaps involving commercial

debt, a government's liabilities are bought back from the capital markets at a discount and refinanced on more favourable terms. This relies on guarantees – which are third-party commitments to cover losses if a government defaults on an obligation – to make the terms of the new debt feasible for investors. Transactions completed to date have depended on guarantees and credit enhancement from development finance institutions (DFIs) - namely the U.S. Development Finance Corporation (DFC) - and multilateral development banks (MDBs), and have largely taken place in middle-income countries with relatively stable governance and market credibility. In fragile and conflict-affected contexts, the risk profile can be elevated, and it can be difficult for a single institution to offer full coverage of a debt swap. This is made all the more challenging by the levels of debt distress in some countries in crisis, which lack the commercial debt to make a swap transaction immediately viable. Nonetheless, where the right conditions exist, there is considerable scope to apply debt swap instruments to humanitarian ends, and to mobilise the credit guarantees that make them possible.

This paper argues that the most viable path to humanitarian debt swaps is a blended guarantee model that distributes risk across institutions, delivers meaningful impact on the ground, and is able to scale across fragile contexts. This means layering partial guarantees from multilateral banks, development finance institutions, private insurers and/or concessional donor capital in a single transaction, in partnership with humanitarian organisations that can provide programmatic oversight and accountability. Multilateral banks, such as the World Bank, are particularly well-placed to anchor these commitments as part of their broader economic and policy engagement with debtor nations.

Initially, this blended approach may be tested in countries where commercial debt trades at a discount, government commitment is secured, and humanitarians have deep presence, in order to develop the frameworks and appetite to scale more widely. Realising these early transactions will require financial actors to take concrete steps toward addressing the mandate, exposure and capital constraints that currently limit guarantee provision in these contexts. Significant guarantee capacity already exists across multilateral banks and DFIs that has not yet been applied to humanitarian ends. The U.S. DFC's recent withdrawal from this space makes the need for a coordinated approach among DFIs and MDBs both urgent and compelling.

**Cover:** M'berra camp in southeastern Mauritania, which hosts over 120,000 refugees fleeing violence and instability in Mali.

# Background

Debt swaps are financial mechanisms that convert a portion of a country's debt obligations into commitments toward social, development, or environmental outcomes. The mechanics vary: in bilateral arrangements, a creditor government forgives or reduces debt in exchange for the debtor country's commitment to invest in specific policies and programmes. In more complex multi-party arrangements, transactions involve buying back a country's commercial debt at a discount and issuing new debt instruments on more favourable terms, generating savings for the country. Across both structures, the resources freed through the swap are channelled toward pre-agreed outcomes - such as environmental conservation, climate adaptation, or humanitarian programmes - rather than flowing to external creditors. This reduces a country's debt burden while creating fiscal space for critical domestic spending.

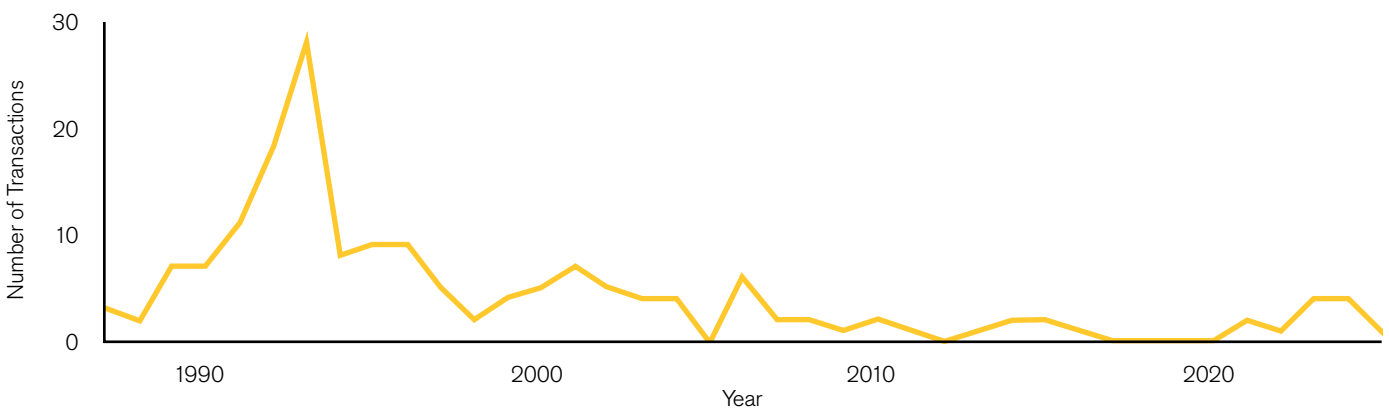
Debt swaps gained traction in the late 1980s through debt-for-nature transactions in Latin America, which redirected debt repayments from countries experiencing economic crises

toward conservation projects. For many years, these deals were relatively small and largely bilateral, relying on donor governments or NGOs to refinance distressed sovereign debt in exchange for environmental commitments. Over the past decade, the mechanism has evolved to include commercial debt (such as sovereign bonds and syndicated loans traded on secondary markets) and to leverage third-party credit enhancements such as guarantees and risk insurance. This has allowed countries to buy back hundreds of millions in commercial debt at market discounts and refinance through new bonds that attract institutional investors. Recent transactions in Belize (\$553 million in 2021), Ecuador (\$1.6 billion in 2023), Gabon (\$500 million in 2023), and El Salvador (\$1 billion in 2024) demonstrate that debt swaps can mobilise private capital at scale, generate sustained funding streams for governments, and provide meaningful debt relief.<sup>6</sup> As of 2025, 169 such transactions have been concluded by 45 countries since 1987, involving over \$8 billion in face-value debt and releasing more than \$3 billion for conservation and development projects.<sup>7</sup>

**Figure 1:** The number of debt swaps has fallen from its peak as debt relief initiatives have grown prominent; in recent years, the instrument has shifted toward larger, privately mediated debt swap transactions.

Source: Dryden (2025) "Threading the Needle: The Delicate Art of Designing Debt-for-Nature Swaps" [SOAS Economics Working Paper 270](#)

## DEBT-FOR-NATURE SWAPS OVER TIME (1987-2025)



Debt swaps	Period	Typical structure	Average deal size (face value of debt treated)
First generation	1987 - early 1990s	NGO-led purchases of sovereign debt on secondary markets and conversion into local-currency conservation funds	~\$3.5m
Second generation	1990s - early 2000s	Bilateral government-to-government swaps linked to official debt relief initiatives (e.g. Enterprise for the Americas Initiative)	~\$40m
Third generation	2015 - present	Market-based debt buy-backs financed through new bonds, often supported by DFIs, guarantees or insurance	~\$636m

Humanitarian debt swaps apply this mechanism to crisis-affected contexts, directing proceeds towards social and humanitarian programmes, rather than environmental projects. They can be understood as part of the broader family of development swaps, but catering to communities affected by conflict, crisis and disaster, and places where humanitarian response is the critical first step to achieving longer-term development and stability. For example, a debtor country may renegotiate part of its external debt on the condition that savings are used to improve maternal health outcomes in crisis zones, enhance disaster preparedness in areas vulnerable to climate shocks, or expand access to education in regions with protracted conflict. To ensure accountability and effectiveness of these programs, implementation of humanitarian debt swaps relies on dedicated governance structures - such as trust funds jointly overseen by government authorities and humanitarian organisations - to track the use and impact of funds.

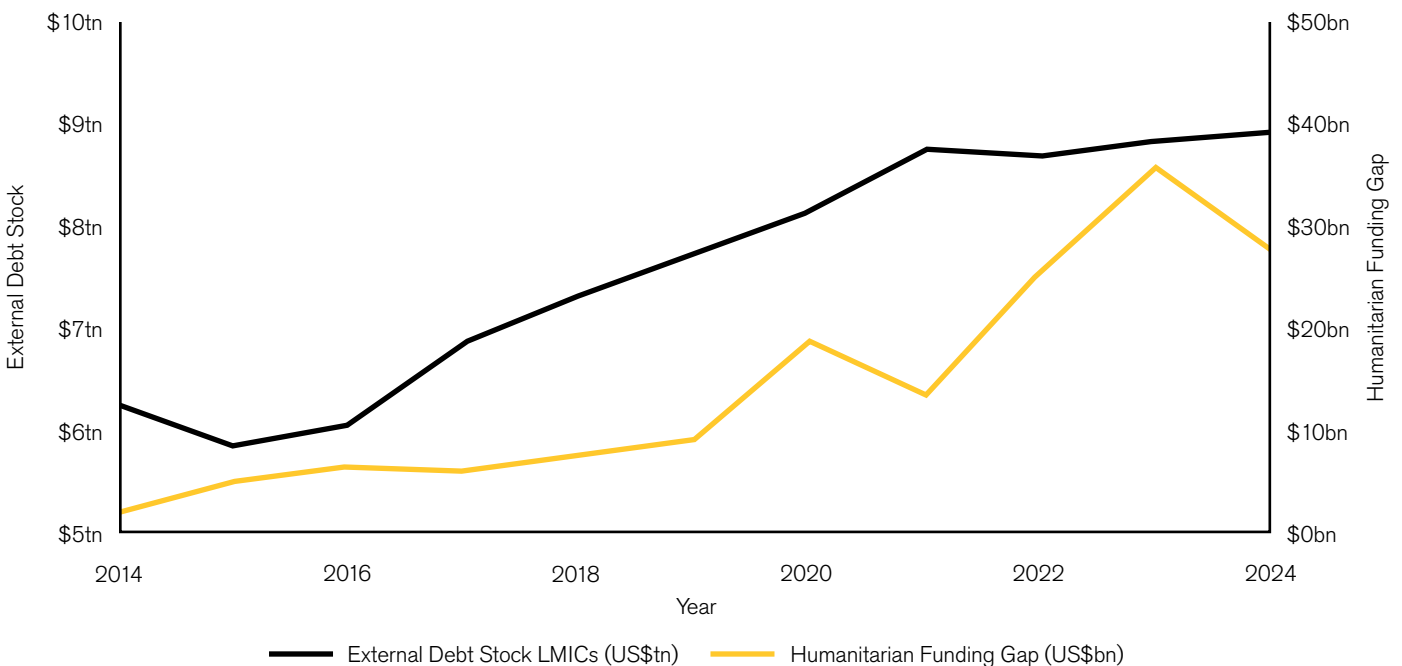
While application of debt swap mechanisms to the humanitarian sector has been limited, recent transactions show potential to fund priorities beyond environmental conservation through both bilateral and multi-party structures. Italy's

Debt-for-Development swap, announced in July 2025, is an example of a bilateral swap that commits to converting €230 million of eleven African countries' debt obligations into investments in development projects.<sup>8</sup> Kenya's recent \$1 billion debt-for-food-security swap, guaranteed by the U.S. Development Finance Corporation, redirects savings towards investments in agriculture and nutrition initiatives. Cote D'Ivoire's €400 million debt-for-education swap, the first development swap of its kind to be guaranteed by the World Bank, frees up €40 million in fiscal space to invest in schools and education in the country. While no transaction has solely focused on humanitarian response, these swaps offer important examples of how debt relief can be structured around social objectives and attract institutional interest.<sup>9</sup> Given fragile contexts are often underserved by traditional development financing, are subject to short term grants, and face declining aid budgets, there is a strong case for adapting debt swap structures to support humanitarian priorities, which can in turn lay the foundations for sustained recovery. In early transactions, these swaps may be structured and framed not as purely humanitarian instruments, but as hybrid structures that align with development and climate objectives while directing resources to those in acute need.

**Figure 2:** Debt service obligations and humanitarian funding needs have grown in tandem, and increasingly compete for the same resources.

Source: World Bank, [International Debt Report](#) 2025; OCHA, [Global Humanitarian Overview](#) 2026,

**RISING DEBT BURDEN IN LMICS VS. DECLINING HUMANITARIAN FUNDING COVERAGE (2014-2024)**



# Why Now?

The case for applying this mechanism to humanitarian contexts is both clear and urgent. Over the past decade, global humanitarian needs have risen steadily, driven by protracted conflict, displacement, and climate-related shocks. As of 2026, 239 million people require humanitarian assistance globally, many of whom live in countries with weak institutions, limited fiscal capacity, and repeated exposure to shocks.<sup>10</sup> In many of these countries, debt obligations and humanitarian response compete directly for the same fiscal resources. Pakistan devotes \$30 billion - over half its budget - to annual debt servicing costs, leaving limited resources for social and humanitarian programmes. Ethiopia, although classified as debt unsustainable by the IMF in 2025, requires \$3.5 billion in debt relief while 21.4 million people need humanitarian assistance amid ongoing conflict and climate shocks. As of mid-2025, Nigeria allocated 45% of government revenue to debt servicing, while over 30 million people face acute hunger.<sup>11</sup>

Debt swaps can be well-suited to address such challenges because they work with existing sovereign obligations rather than relying on new aid commitments. They also address a structural mismatch between humanitarian financing and humanitarian need: country-level response plans are funded predominantly through short-term grants - with the average grant cycle in the humanitarian sector running 12 to 18 months<sup>12</sup> - which can make investment in health systems, social protection, or emergency response difficult to achieve.

Because swap savings are typically generated and disbursed over time, the mechanism is particularly well-suited to protracted crises and refugee-hosting contexts where governments and partners face recurring costs, including health, education, protection, nutrition, social protection, and preparedness<sup>13</sup>.

The scale of impact that debt swaps can enable is meaningful even by conservative estimates. A debt swap transaction of \$500 million can, depending on discount rates, debt composition and guarantee terms, generate \$50-150 million in committed fiscal space for the debtor country, which can be directed to humanitarian programming. In countries like Pakistan, Nigeria and Ethiopia, where annual humanitarian funding gaps range from \$300 million to \$2 billion dollars, proceeds of this order represent a meaningful and durable contribution to meeting need than short-term grant financing alone<sup>1</sup>. At the same time, fiscal space alone does not guarantee delivery, particularly where conflict, access, or political dynamics limit government-led humanitarian response. This makes it critical to structure implementation in partnership with humanitarian and local partners, and to select contexts where funds can be deployed to reach affected populations. It is also important to ensure the debt profile fits the proposed transaction structure: countries without commercial debt, or in too high distress, may not be able to realise upfront savings through market-based swaps, and may be better suited to bilateral swaps or refinancing measures.

**Figure 3:** As debt-for-development swaps gain traction, there is need to ensure savings reach communities in conflict and crisis.

Development Debt Swaps	Humanitarian Debt Swaps
<p>Savings are directed toward long-term development priorities such as education systems, infrastructure, food systems, or climate adaptation. Programmes are typically implemented through government development plans and aim to support sustained economic and social development in relatively stable contexts.</p>	<p>Savings are directed toward populations affected by crisis, conflict, or disasters. Funding is used to address critical humanitarian needs in perceived high-risk contexts, while creating fiscal space for long term resilience. These swaps can still align with and support government development plans, but often focus on response led by humanitarian and civil society organisations in areas like education, health and protection, as a critical step toward achieving development outcomes.</p>

# Types of Debt Swaps: Structures and Mechanisms

Debt swaps vary in structure, depending on the composition of a country's debt and the mechanism being used to generate savings. Debt portfolios in fragile states typically fall into three categories<sup>3</sup>: concessional bilateral loans from donor governments, which together constituted \$4.5 billion of flows to low- and middle-income countries in 2024; multilateral debt from development banks (particularly the World Bank), which totalled \$70 billion in flows in 2024; and commercial debt - which includes Eurobonds, syndicated loans, and other instruments traded on secondary markets - which totalled \$55 billion in flows in 2024. Countries with commercial debt, and in particular sovereign bonds that trade on secondary markets at observable discounts are the primary target for multi-party swap structures.

To assess the relative merits of different structures for humanitarian applications in fragile contexts, this paper evaluates mechanisms across five criteria: size of proceeds; transaction costs and complexity; speed of execution; applicability in fragile contexts; and ability to achieve humanitarian outcomes.

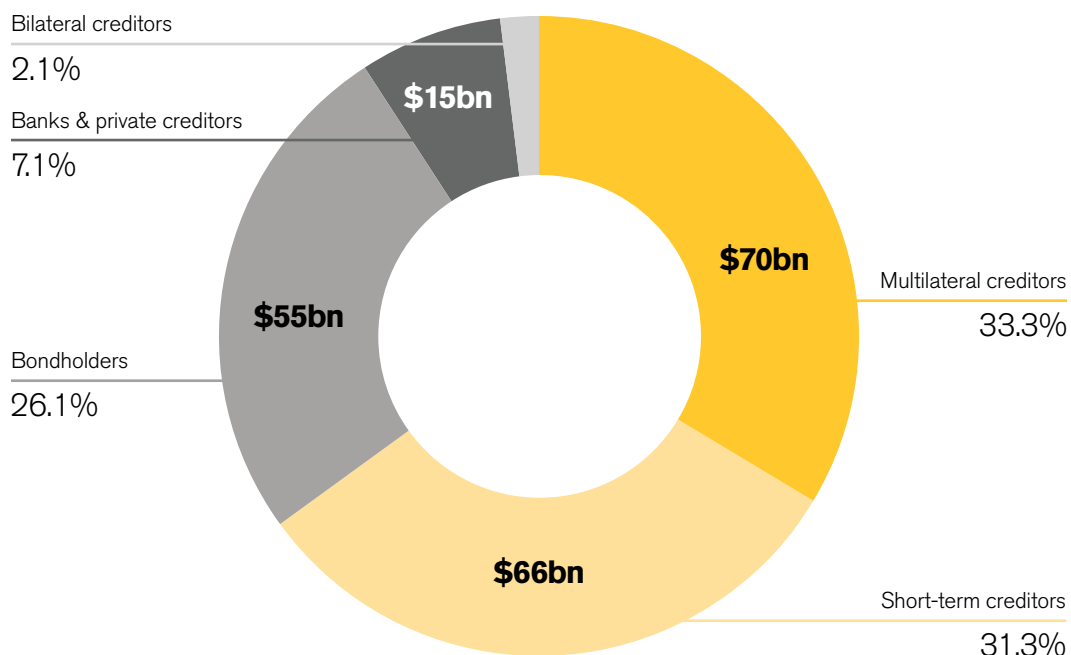
## Bilateral Swaps

Bilateral swaps involve direct negotiations between two governments, where a creditor cancels or reduces debt owed to it by a debtor country in exchange for the debtor investing in specific domestic programmes. These transactions typically take 1-2 years to negotiate and implement, requiring coordination across finance ministries and often legislative approval. The principal advantage is debt forgiveness: the creditor writes off part or all of the loan, directly reducing the debtor's obligations rather than simply extending repayment terms. This provides immediate relief to debt-distressed countries, can count toward the creditor's official development assistance (ODA), and often strengthens diplomatic relations. Scale of these transactions, however, is constrained by the size of bilateral loan portfolios and political will, with most such deals averaging less than \$50 million of savings. Nonetheless, these swaps have collectively mobilised billions of dollars towards development, climate and health objectives, and have potential to be applied to social programming in crisis contexts.

**Figure 4:** Bilateral debt is a small part of total debt owed by low and middle income countries; multi-party swaps involving mark-to-market commercial debt present a significant opportunity to free fiscal space.

Source: World Bank, [International Debt Report](#) 2025

### DEBT FLOWS TO LMICS BY CREDITOR, 2024 (US\$BN)



### Multi-party Debt Swaps

Multi-party swaps are more complex: they primarily deal with a country's commercial debt and involve a broader range of actors, such as multilateral development banks, private investors, development finance institutions, NGOs, or philanthropic funders. The mechanism works by buying a country's existing commercial debt back at a discount and reissuing new debt

on more favorable terms, such as lower interest rates, longer maturities, or both. While these savings can be generated through refinancing commercial loans, this structure is most straightforward in countries with tradable sovereign bonds, where nominal savings can be realised and directed toward social programs upfront.

#### How It Works

A country's commercial debt trades on secondary markets, often at substantial discounts when investors doubt the country's ability to repay. A country might owe \$100 million in bonds, but those bonds trade at 60 cents on the dollar because of perceived default risk stemming from governance concerns, economic instability, or exposure to conflict and climate shocks. A multi-party debt swap "takes advantage" of this dynamic: the country buys back its bonds at the discounted market price (often via a special purpose vehicle) and issues new debt on more favourable terms, such as lower interest rates, longer maturities, or both. The proceeds from the new debt finance the buyback of the old debt, and the savings generated are directed toward the agreed domestic priorities.

The challenge is that the same risk perceptions that lead the country's debt to trade at a discount also make investors skeptical of any new bonds it issues. A country struggling to service debt at 12% interest cannot simply issue new bonds at 5%, given investors would not see returns of 5% as sufficient to compensate for the risk of default or non-repayment. This is where credit enhancement can be essential. A multilateral bank (MDB) like the World Bank or IDB, or a development finance institution (DFI) like the U.S.

Development Finance Corporation, can guarantee the new bonds in a debt swap. This can help reduce investors' exposure to risk, transferring a portion of the default risk to an institution with a AAA credit rating and a strong track record of honouring its commitments. Such credit enhancements help lower servicing costs, enabling the new bonds to be structured at more favourable terms than standalone sovereign debt would command. This allows interest rates to drop from 12% to the desired 5% (indicative figures). The country captures savings through two mechanisms, depending on the transaction structure. First, buying back bonds at 60 cents on the dollar can immediately reduce the nominal debt burden by 40% (the precise discount varies by transaction). Second, refinancing at a lower interest rate reduces annual debt service costs going forward. These combined savings can be substantial, often reaching hundreds of millions of dollars over the life of the transaction (especially if, for instance, they are placed in an endowment). The savings are legally committed to specific domestic outcomes, and managed through governance structures that ensure transparency and accountability in how savings are deployed. This in turn creates the confidence that incentivises guarantors to underwrite the new bonds.

### UNDERSTANDING KEY TERMS IN DEBT SWAP TRANSACTIONS

Term	What it refers to
<b>Debt treated (face value)</b>	The total nominal value of debt that is repurchased, restructured, or refinanced through the transaction
<b>Purchase price/ buyback price</b>	The price paid to repurchase existing debt, often at a discount to face value (e.g. 60 cents on the dollar)
<b>New financing issued</b>	The size of the new loan or bond used to refinance the debt (often supported by guarantees)
<b>Debt service savings</b>	Reduction in future interest and principal payments due to lower rates or longer maturities
<b>Program funding</b>	Portion of savings contractually committed to specific outcomes (e.g. education, conservation)
<b>Fiscal space generated</b>	Total budgetary relief over time, combining discount and reduced debt service

Several distinct models have emerged within multi-party debt swaps, differentiated primarily by who provides the credit enhancement.

**MDB-guaranteed swaps** involve multilateral development banks such as the World Bank, IDB, AfDB, or ADB providing credit guarantees or political risk insurance that improve the credit rating of newly issued bonds to investment grade. MDBs are international financial institutions owned by member governments whose AAA credit ratings allow them to provide meaningful credit enhancement. Their backing compensates investors in the event of loss and allows the debtor government to raise new funds at lower interest rates.

**DFI-backed swaps** rely on development finance institutions - bilateral, government-owned agencies that support private and public investment in developing countries - to provide political risk insurance covering events like political violence, expropriation, or currency inconvertibility. If these risks materialise and the country defaults, the DFI compensates investors, giving them confidence to refinance existing debt on better terms. The most prominent in this role has been the U.S. Development Finance Corporation (DFC), which backed several of the largest transactions to date.

**Private insurer-backed swaps**, while less common due to commercial constraints, involve private insurance companies providing credit insurance or political risk coverage that protects investors against specific scenarios. These guarantees often sit alongside other public guarantors, given their limited risk appetite in some political contexts.

**Concessional capital-enabled swaps** involve grants or concessional financing from bilateral donors or philanthropic foundations that can improve the financial viability of a transaction. So far, such funding has primarily been used to cover transaction costs and support the repurchase of existing debt at a discount - and not to provide a guarantee. This has been

particularly relevant in NGO-facilitated debt conversions, where philanthropic funding helps NGOs purchase the commercial debt of the country undergoing a swap in high-risk environments. In the future, concessional capital could play a more explicit risk-sharing role by providing first-loss or junior tranches that help absorb potential losses and improve the overall risk profile for investors and guarantors.

**Blended models** layer multiple sources of credit enhancement, such as MDB guarantees, DFI political risk insurance, private insurance, and concessional capital, to distribute risk across parties. This approach can enable transactions in higher-risk environments where no single guarantor may be willing or able to provide full coverage, with each institution absorbing a manageable share of exposure while collectively making the transaction viable.

Both bilateral and multi-party swaps have distinct roles in addressing debt and humanitarian challenges in fragile contexts. Bilateral swaps offer the advantage of direct debt forgiveness and can be deployed in countries where commercial debt markets are too small or nonexistent, such as Yemen, Somalia and South Sudan. The application of these swaps to humanitarian response has been limited, and warrants a greater role in the toolkit to ease debt burdens in fragile contexts, even if in modest amounts. For countries with substantial commercial debt - such as Pakistan, Nigeria, and Kenya - multi-party swaps offer the potential to generate fiscal space in hundreds of millions of dollars and remain largely untapped as mechanisms to address humanitarian needs.

Such multi-party debt swaps require sophisticated financial structuring and, critically, credit enhancement through guarantees or insurance. Understanding who provides these guarantees, under what conditions, and with what constraints is essential for determining whether and how these debt swaps can work in fragile and conflict-affected contexts.

**“Debt swaps offer one of the few mechanisms capable of linking debt management to social outcomes in a way that is multi-year, nationally anchored, and scalable—creating fiscal space precisely where needs are most urgent and underfunded.”**

**TYPES OF DEBT SWAPS AND FEASIBILITY FOR HUMANITARIAN CONTEXTS**

Structure	Key Entities Involved	Indicative Scale (Debt Treated)	Transaction Cost / Complexity	Speed of Execution	Applicability to Fragile Contexts	Ability to Achieve Humanitarian Outcomes	Examples
<b>Bilateral Swaps</b>	Creditor government; debtor government; implementing partners (e.g. UN agencies or NGOs); coordination platform (e.g. Paris Club)	<b>Low.</b> Often limited by the modest size of bilateral loan portfolios.	<b>Medium.</b> Requires direct negotiation between governments and often legislative approval in the creditor country.	12 to 24 months. Relatively fast given lack of commercial market access; subject to political and legislative timelines.	<b>Medium-High.</b> Structurally simple and requires no guarantee mechanism. Scale is constrained by bilateral portfolio size and political will.	<b>High.</b> Savings can be earmarked for agreed social or humanitarian programmes (health, nutrition, education), though typically at modest scale and subject to political negotiation.	US-Peru (2023): debt repayments to US reduced by \$20 million over 13 years; Portugal-Cape Verde (2023): \$152 million debt owed to Portugal expected to be forgiven; Italy (2025): €230 million of debt owed by 11 African countries forgiven; Debt2Health: series of swaps that redirected repayments toward health programs (e.g. Germany-Indonesia, €75m)
<b>MDB-Guaranteed Swaps</b>	Multilateral development bank (e.g. World Bank, IDB, AfDB, ADB); debtor government; private investors; monitoring and implementation partners (via trust fund)	<b>High,</b> ranging from \$100 million to over \$1 billion in treated debt. AAA credit ratings enable strongest credit enhancement and largest potential savings.	<b>High.</b> Guarantee capacity may compete with lending for capital; approval processes can be lengthy.	18 to 24 months. Driven primarily by internal processes and ongoing portfolio engagement.	<b>Medium.</b> Country exposure limits and mandate constraints restrict deployment in fragile and conflict-affected states.	<b>Medium-High.</b> Scale can be significant, but humanitarian application depends on use-of-proceeds framework, alignment with government priorities and existing MDB country systems.	Côte d'Ivoire (2024): ~€400m debt treated (€40 million in education investment), with World Bank guarantee; Barbados (2024): ~\$293m debt treated, with IDB/EIB guarantees.
<b>DFI-Backed Swaps</b>	Development finance institution (e.g., U.S. DFC, BII, Proparco, FinDev); debtor government; private investors; arranging bank (often via SPV); monitoring and implementation partners (via trust fund)	<b>High,</b> ranging from \$350 million to over \$1 billion if US DFC engaged. More moderate with European DFIs given smaller individual balance sheets.	<b>Medium-High.</b> Requires extensive due diligence and can be subject to timelines and engagement with Ministries of Finance. European DFIs currently lack sovereign guarantee mandates at the required scale.	12 to 24 months where DFC precedent exists. May be longer if new for DFIs	<b>Medium.</b> European DFIs have experience in fragile contexts but face mandate gaps for sovereign guarantee work.	<b>Low-Medium.</b> Most DFI swaps have focused on environmental objectives, though have potential to broaden scope. Recent shift in U.S. DFC may limit near-term application to humanitarian contexts.	Belize (2021): \$553 million debt treated, supported by DFC political risk insurance; El Salvador (2024): ~\$1bn in debt swap supported by DFC.
<b>Private Insurer-Backed Swaps</b>	Private insurer (e.g. AXA XL); MDB or DFI co-guarantors; debtor government; investors; monitoring and implementation partners (via trust fund)	<b>Low-Medium</b> as standalone guarantee tranche, though can be catalytic as part of larger transactions.	<b>High.</b> Requires co-guarantees and first-loss protection from public institutions before private insurers will accept exposure.	Variable, and dependent on co-guarantor timelines.	<b>Low.</b> Most private insurers will not provide coverage in contexts of active conflict or political instability.	<b>Low.</b> Typically supports transactions in more stable middle-income countries rather than fragile contexts. Could mobilise humanitarian funding within stable contexts depending on use-of-proceeds credibility.	Bahamas (2024): \$300 million debt transaction, with \$30 million from AXA XL alongside \$200 million IDB guarantee (blended participation).
<b>Concessional Capital-Enabled Swaps (not guarantees)</b>	Bilateral donors or philanthropic foundations; NGOs or trust funds.	<b>Low-Medium,</b> constrained by fundraising capacity and budgets. Mostly funds transaction costs.	<b>Low-Medium.</b> Simpler structure that relies on secondary market debt purchases rather than capital market issuance.	12 to 24 months. Subject to legal structuring and trust fund establishment.	<b>Medium.</b> Well-suited to difficult political environments but limited by size of available philanthropic capital.	<b>Medium.</b> Funding can be tied directly to social or humanitarian objectives, though there is limited precedent on use of such capital as partial guarantees.	Seychelles (2016): ~\$21.6m facilitated by The Nature Conservancy with concessional funding used to purchase debt.
<b>Blended Models</b>	MDB partial guarantees; DFI political risk insurance; concessional donor or philanthropic capital; private investors; arranging bank debtor country; monitoring and implementation partners	<b>Medium-High,</b> ranging from \$200 million to \$2 billion in debt treated. Aggregating guarantees across institutions enables larger transactions than any single guarantor may support.	<b>High,</b> with initial coordination costs that reduce as frameworks become standardised and precedent is established.	12 to 24 months for first transactions, with timelines shortening as experience builds.	<b>High.</b> Distributing risk across institutions, making this the most viable structure for fragile and conflict-affected contexts.	<b>High.</b> Most promising for fragile contexts because risk-sharing can unlock scale while securing multi-year funding and credible program oversight.	Ecuador Galápagos (2023): \$1.6bn debt, with \$85m IDB guarantee and \$656m DFC insurance. Gabon (2023): ~\$500m blue bond supported by \$500m DFC insurance + 50% participation from private insurers.

# Guarantee Mechanisms for Fragile and Conflict-Affected Contexts

Debt swaps have historically been deployed in middle-income countries with relatively stable governance and credibility within international financial markets. Fragile and conflict-affected contexts present a different profile: weaker governance, higher perceived default risk, limited debt management capacity, and varying levels of commercial debt.

## Why Guarantees Matter

Guarantees are critical to facilitating debt swaps. They serve as credit enhancements, transforming risky sovereign obligations into instruments that institutional investors (such as pension funds, insurance companies, and asset managers) are willing to purchase. Without these enhancements, countries facing debt distress often cannot access capital markets at rates that would generate savings, rendering the swap structure unworkable. They can also be understood to function like insurance: the guarantor's commitment is contingent on default, so if the country services its new debt as agreed, the guarantor does not bear any costs.

## Development Finance Institutions

DFIs represent the traditional anchor of debt swap guarantees. The U.S. DFC has been the most prominent player in debt swaps, having backed several major transactions including Belize (2021), Ecuador (2023), and Gabon (2023), and refinancing over \$2 billion in the past five years with zero claims. Its political risk insurance product, which covers sovereign default, political violence, expropriation, and currency inconvertibility losses up to \$1 billion, transfers sovereign risk to the U.S. government and allows DFC-backed bonds to achieve credit ratings as high as AA. DFC's broader portfolio also demonstrates capacity to work in challenging environments: 25% of its exposure is in countries rated CCC+ or below, with an additional 50% in B-rated countries.

This track record would ordinarily make the DFC well-positioned to expand its work to fragile contexts, relative to other guarantors. However, the agency's strategic priorities have more recently shifted toward energy projects and strategic sectors under the current administration, and are likely to limit its near-term availability for humanitarian debt swap initiatives.

This creates both constraint and opportunity for other DFIs. Institutions such as Germany's DEG, France's Proparco, the UK's British International Investment, Canada's FinDev, and similar agencies in the Netherlands (FMO), Switzerland

(SIFEM), and Scandinavian countries (Swedfund, Norfund, Finnfund), collectively represent an important untapped source of guarantee capacity. Several already transact in fragile contexts, and have expanded their innovative finance portfolios in recent years, albeit through debt and equity investments. These DFIs nonetheless face several challenges: first, their balance sheets are substantially smaller than the U.S. DFC's - they collectively manage approximately €60 billion in development finance assets, equivalent to what the U.S. DFC manages alone (with individual portfolios ranging from €15 billion for FMO, the largest, to under €1 billion for the smallest members). In many cases, how guarantees are treated on institutional balance sheets (and whether they count against capital adequacy requirements) can further constrain the ability to extend guarantee capacity. Second, DFI mandates typically focus on direct lending and investment in the private sector, rather than sovereign guarantees or political risk insurance. Expanding their role would require mandate adjustments permitting sovereign guarantee provision, while reaching necessary scale may require coordination mechanisms to pool resources across multiple agencies. Given the scale of financing needs in fragile contexts, as well as the gap created by the U.S. DFC's recent shifts, facilitating this risk-sharing represents a critical opportunity for such DFIs. Progress also depends on engagement from DFI shareholders and donor governments in order to support a broader use of guarantees in these contexts.

## Multilateral Development Banks

MDBs offer another prominent avenue for guarantee provision in fragile contexts. In principle, MDB guarantees offer several advantages: their AAA credit ratings provide strong credit enhancement, and their mandates allow them to price risk below market rates when transactions advance development or social objectives. Many already work in humanitarian contexts, maintain ongoing relationships with indebted countries, and can provide technical assistance to help under-resourced governments structure transactions. Institutions like the Inter-American Development Bank have provided guarantees in several multi-party swaps (e.g. Ecuador's 2023 Galapagos transaction), while others, like the World Bank, have developed broader credit enhancement capacity across equity and debt financing, and begun deploying this towards guaranteeing debt-for-development swaps.

Despite these developments, MDB guarantees can face structural constraints when applying credit enhancement tools to fragile contexts. Most MDBs have mandates to prioritize direct lending to debtor nations, which means guarantees

compete for capital that could otherwise support concessional loans. Several MDBs, including the World Bank, face sovereign exposure limits which can restrict additional loan commitments to heavily indebted nations (which are often those faced with greatest humanitarian need). Providing guarantees can strain these institutions' credit ratings if exposure grows too large. This explains why MDB involvement in debt swaps has been limited to partial guarantee provision (50-70%), and in countries with modest debt burdens. Nonetheless, this track record positions them to participate in blended guarantee structures, where they can take on a partial, senior layer of risk alongside other partners, and help strengthen debt sustainability for a wider range of countries. Aggregating exposure across a portfolio of countries, rather than structuring guarantees on a single-country basis, could also help MDBs manage concentration risk and build a more sustainable model for engagement in fragile contexts.

Among MDBs, the World Bank has the scope to play a particularly important role. Through its arms - the International Bank for Reconstruction and Development (IBRD) and the Multilateral Investment Guarantee Agency (MIGA) - the Bank has the ability to provide partial credit guarantees and political risk insurance that can sit alongside broader efforts to strengthen debt sustainability. For instance, the Cote D'Ivoire swap reduced transaction costs by working with the Bank's existing country systems, and was structured alongside a Sustainability-Linked Loan offered by the Bank. As the largest multilateral creditor for low- and middle-income countries, the Bank also helps develop the debt sustainability frameworks upon which feasibility of a swap for a particular country is assessed, and advises governments and ministries directly on debt management strategies. This combination of instruments, creditor relationships, and policy engagement means the Bank can help facilitate the common risk-sharing

and coordination frameworks that blended guarantees are likely to require.

Recent developments suggest progress towards such coordinated approaches. The Inter-American Development Bank launched a Credit Enhancement Task Force at COP28 to standardize best practices and scale up regional debt-swap mechanisms. The World Bank launched a Global Hub on Debt for Development Swaps in Seville in July 2025<sup>14</sup> and has consolidated its IBRD and MIGA guarantee offerings into a unified platform. While nascent, and not yet tailored to debt swaps in fragile contexts, these efforts could support the cooperative frameworks needed to extend MDB guarantees to a broader range of borrowers and contexts.

Without such adaptation, some fragile and crisis-affected countries risk falling between the gaps of current MDB guarantee frameworks. Many countries face acute humanitarian needs and debt distress, but do not meet the eligibility fiscal thresholds typically required for IBRD or MIGA-supported operations. It is important to note that unlike new lending, debt swaps can reduce debt service obligations and strengthen fiscal sustainability over time. This makes them distinct from the risk assessments entailed in traditional lending and guarantee operations, and warrant a more holistic approach to assessing risk that takes into account their unique humanitarian and fiscal situation. While many fragile countries do not currently hold the commercial debt to make multi-party transactions viable, developing these frameworks for pilot transactions (in countries such as Nigeria or Colombia) can set the precedent for scaling these tools in the future. In more distressed contexts, including many IRC Watchlist countries, MDBs can draw on other tools (such as refinancing existing debt) to help create the conditions for swap transactions and broader economic stability in the future.

**“Success of these transactions will also depend on how savings are deployed—** humanitarian organisations can help strengthen oversight and de-risk investment through thoughtful programme design and trust fund governance.”

**Figure 5:** Countries with most acute humanitarian needs may require debt relief or restructuring before they can become viable candidates for debt swaps

Source: IRC Watchlist 2026 ([irc.org/watchlist](http://irc.org/watchlist)); IMF Debt Sustainability [Analyses](#); OCHA Global Humanitarian [Overview](#) 2026; Note: Latest OCHA figure for Ethiopia is from 2024

**IRC WATCHLIST COUNTRIES: ACUTE HUMANITARIAN NEED & DEBT VULNERABILITY**

IRC Watchlist Country	Region	Latest Debt Distress Classification	People in Need (millions, OCHA 2026)
Sudan	East Africa	In Debt Distress	33.7
Occupied Palestinian Territory	Middle East	N/A	3.6
South Sudan	East Africa	In Debt Distress	10.0
Ethiopia	East Africa	High Risk of Distress	21.4
Haiti	Caribbean	High Risk of Distress	6.4
Myanmar	South-East Asia	High Risk of Distress	16.2
DRC	Central Africa	High Risk of Distress	14.9
Mali	West Africa	In Debt Distress	5.1
Burkina Faso	West Africa	High Risk of Distress	4.4
Lebanon	Middle East	In Debt Distress	15.3
Afghanistan	South Asia	In Debt Distress	22.0
Cameroon	Central Africa	High Risk of Distress	2.9
Chad	Central Africa	In Debt Distress	4.0
Colombia	Latin America	<b>Moderate Risk</b>	<b>6.9</b>
Niger	West Africa	High Risk of Distress	2.6
Nigeria	West Africa	<b>Moderate Risk</b>	<b>5.9</b>
Somalia	East Africa	In Debt Distress	4.8
Syria	Middle East	In Debt Distress	16.5
Ukraine	Eastern Europe	High Risk of Distress	10.8
Yemen	Middle East	In Debt Distress	23.1
<b>Total (20 Countries)</b>			<b>230.5</b>

**Colour guide (IMF/WB DSA classification):**

In Debt Distress: when a distress event, like arrears or a restructuring, has occurred or is considered imminent
High Risk of Distress: when debt burden thresholds are breached in the baseline scenario
Moderate Risk: when debt burden thresholds are breached in risk scenarios
Low Risk: when there are no breaches of debt burden thresholds

For debt burden thresholds: <https://www.imf.org/external/pubs/ft/dsa/lic.htm>

**Philanthropic and Donor Capital**

In principle, concessional funding from donors or philanthropy can be structured to absorb losses in debt swap transactions, making senior guarantees from MDBs or DFIs more feasible. In a “first-loss” structure, donor capital covers losses up to a predetermined threshold - typically 10-20% of transaction value - while senior guarantors cover remaining exposure only if investor losses exceed that threshold.

This can significantly de-risk transactions for senior guarantors. In a \$100 million debt swap, \$15 million in first-loss capital would absorb any losses up to that amount, meaning an MDB or DFI guarantor would face exposure only to losses

exceeding \$15 million. For donors seeking to maximise impact per dollar, this leverage compares favourably to traditional grant programming - representing a potential 10-20x multiplier - though with the risk that funds are fully expended if transactions fail. Alternatively, donor capital can be structured in a “second-loss” structure, sitting between layers of guarantees, though this arrangement has yet to be tested. (So far, donor capital has been used to cover transaction costs - such as legal structuring, financial advisory, and due diligence fees - or to support debt buybacks directly, as in NGO-facilitated swaps where philanthropic funds are used to purchase distressed debt on secondary markets.)

Regardless of how this capital is deployed, the challenge is mobilising concessional resources at scale. Traditional government donors face competing priorities and may resist allocating official development assistance to absorb potential losses rather than fund direct programme delivery. Philanthropic actors may have more flexibility to provide catalytic capital, but resources at the scale required (\$10-20 million per transaction) may be limited. Where this is the case, donor governments and institutions may be well-placed to use their relationships with DFIs and MDBs to build the institutional appetite for these transactions.

### Private Insurance Companies

Private insurers represent an emerging but promising source of guarantee capacity. The Bahamas' 2023 blue bond included approximately \$30 million in credit insurance from AXA XL supplemented by IDB guarantees and philanthropic risk capital. Although not solely anchored by a private insurance guarantee, this blended approach demonstrates the potential for private insurers to take a slice of the risk in a carefully structured transaction. Private participation is appealing because it could significantly expand the pool of available guarantee capital beyond what public institutions can provide alone - the global political risk insurance market is estimated to have nearly \$4 billion in underwriting capacity.

However, private insurers remain cautious about sovereign risk, particularly in fragile settings. They require higher premiums for elevated risk, which can erode the savings that make swaps attractive. They typically insist on substantial due diligence, clear legal frameworks, and may demand first-loss protection from public guarantors before accepting exposure. Most importantly, they may simply decline to provide coverage for countries experiencing active conflict or severe political instability, viewing the risk as uninsurable at any price. This makes private insurance more suitable for fragile contexts within otherwise stable middle-income countries (e.g. Nigeria) which may offer a potential entry point for expanding broader participation. There may also be scope to engage ESG and impact-oriented investors as a source of demand, positioning these instruments along-

side the green and social bond markets that have attracted significant institutional interest in recent years.

## Blended Guarantee Models

Blended structures are likely the most promising approach for transactions in fragile contexts. Rather than relying on a single guarantor, these structures combine partial guarantees from multiple sources to achieve the credit enhancement necessary for a successful transaction. A typical layered structure might include: an MDB providing a partial guarantee (e.g. 20-30% of the transaction); one or more bilateral DFIs providing partial political risk insurance (covering another 30-40%); private insurers absorbing an additional layer of risk (10-15%); and philanthropic capital or donor commitments accepting the residual risk. Ecuador and the Bahamas' 2024 conservation deals exemplify this approach, combining multiple guarantee sources to achieve scale without over-concentrating risk in any single institution. For fragile contexts, and with the U.S. DFC's trajectory uncertain, such blended models may be most feasible where no single guarantor is willing or able to accept full exposure.

The challenge will lie in coordination: assembling multiple guarantors can require extensive negotiation, alignment of policies and procedures, agreement on risk allocation and pricing, and sophisticated transaction structuring. This complexity drives up costs and extends timelines, potentially making smaller transactions uneconomical. It also demands strong technical capacity on the part of both the debtor country and the facilitating organizations, which may be constrained in fragile contexts.

Nonetheless, blended structures remain largely untapped for debt swaps in humanitarian contexts, and show significant potential to scale once precedent is established. Realising this potential requires confronting significant operational, financial, and institutional barriers that are particularly acute in fragile and conflict-affected settings.

### Case Study: The Bahamas Debt Swap (2024)

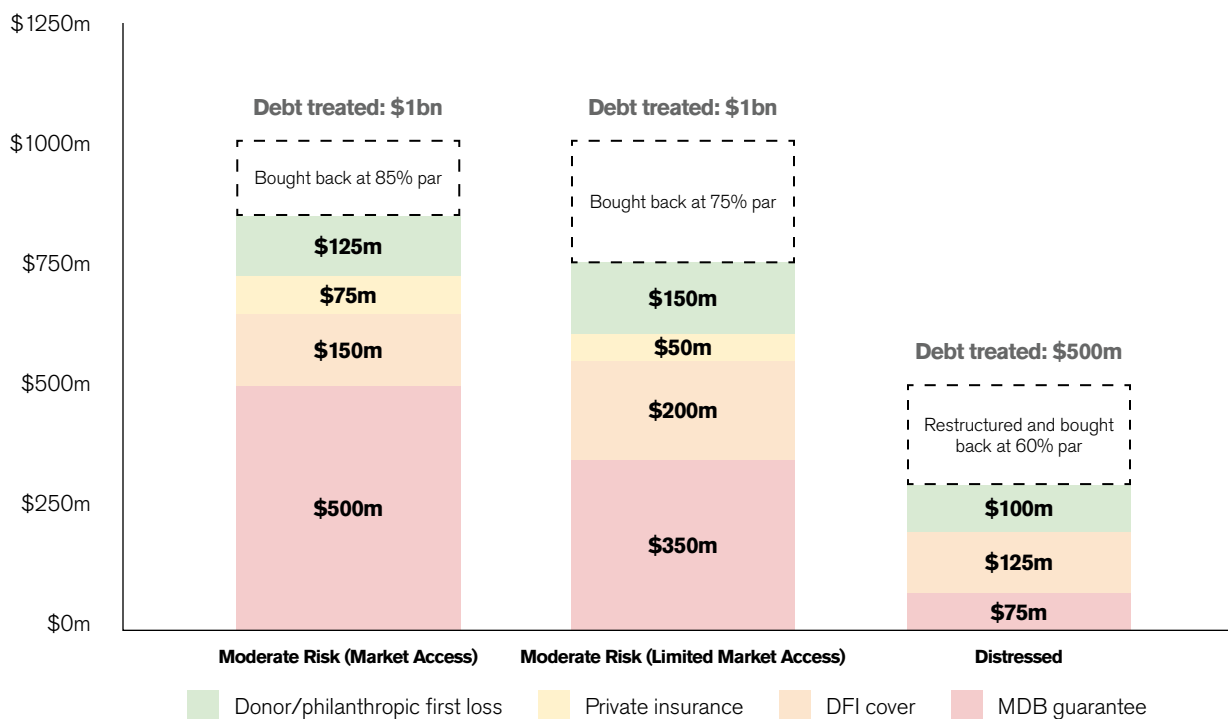
In 2024, The Bahamas completed a \$300 million debt conversion, repurchasing its external commercial debt using proceeds from a new loan arranged by Standard Chartered. The transaction was supported by \$300 million in credit enhancement, including \$200 million partial guarantee from the Inter-American Development Bank (IDB), \$70 million in philanthropic capital from Builders Vision, and \$30 million in private insurance from AXA XL. The swap is expected to generate \$124 million in savings over 15 years, alongside the establishment of a conservation endowment expected to reach \$20 million by 2039. Savings are channelled through the Bahamas Protected Areas Fund to finance marine conservation and management of the country's protected areas system. The transaction is a powerful example of a blended structure, combining MDB guarantees, philanthropic capital, and private insurance within a single debt conversion.

### ILLUSTRATIVE HUMANITARIAN DEBT SWAP STRUCTURES BY COUNTRY PROFILE

The table illustrates how blended guarantee structures can be adapted to different country contexts. In middle-income markets with capital market access, MDBs may be able to provide larger guarantees and anchor transactions within existing sovereign exposure frameworks. In moderate-risk markets with limited market access, transactions are likely to depend on both MDB and DFI participation to cover political risk, though below-par debt may create greater potential to capture fiscal savings. In distressed contexts, concessional refinancing or debt treatment will likely need to precede a market-based debt swap, and private insurance participation is unlikely.

	Moderate risk and market access <i>e.g. Colombia</i>	Moderate risk and limited market access <i>e.g. Nigeria</i>	Distressed/refinancing-first <i>e.g. Ethiopia</i>
<b>Debt treated</b>	\$1bn commercial debt	\$1bn commercial debt	\$500m restructured/ refinanced exposure
<b>Illustrative buyback/ refinancing price</b>	85% of par	75% of par	60% of par, after debt treatment
<b>New financing required</b>	\$850m	\$750m	\$300m
<b>MDB guarantee</b>	<b>\$500m</b>	<b>\$350m</b>	<b>\$75m</b>
<b>DFI cover</b>	<b>\$150m</b>	<b>\$200m</b>	<b>\$125m</b>
<b>Private insurance</b>	<b>\$75m</b>	<b>\$50m</b>	<b>\$0m</b>
<b>Donor/philanthropic first-loss or reserve</b>	<b>\$125m</b>	<b>\$150m</b>	<b>\$100m</b>
<b>Total guarantee package</b>	<b>\$850m</b>	<b>\$750m</b>	<b>\$300m</b>
<b>Indicative fiscal space/ programme proceeds</b>	\$85m - 170m	\$75m - 150m	\$30m - 60m
<b>Debt stock reduction</b>	\$150m	\$250m	\$200m

### ILLUSTRATIVE BLENDED GUARANTEE STRUCTURES



**Note:** Figures are indicative. Programme proceeds assume a 1-2 percentage point reduction in the cost of financing over a 10-year period, excluding transaction costs. Programme proceeds also exclude reduction in debt stock generated through the buyback.

# Barriers to Guarantee Provision in Humanitarian Debt Swaps

Fragile and conflict-affected contexts, while not a clearly defined category, present unique challenges for guarantee provision and transaction execution, spanning operational, financial, and political barriers. These challenges are most acute at the level of financial structuring and credit enhancement. Partnering with humanitarian organisations through the transaction design can help alleviate modest risk and reduce implementation uncertainty. Selecting countries with suitable debt profiles can also help establish precedent and build confidence among guarantors.

## Elevated Credit Risk and Weak Governance

Many fragile states carry credit ratings in the B or CCC range, which reflects their high probability of defaulting on their debt obligations. Governance institutions in such countries can be weak, non-functional, or in transition, while political instability creates uncertainty about policy continuity. These factors make traditional underwriting difficult, and raise the barrier for guarantors to participate in debt swap transactions. Traditional metrics used to evaluate risk - such as debt-to-GDP ratios, fiscal balances, and institutional quality indicators - can be unavailable or unreliable in fragile contexts, making appraisal challenging and costly. Executing debt swaps in these contexts requires willingness among guarantors to accept higher risk on their balance sheets, combined with strategies to mitigate that risk through partnering with humanitarian organisations to de-risk investments (for example, by improving programme design and governance, and reducing uncertainty around implementation performance) and careful country selection (for example, identifying fragile states where debt trades at steep discounts so that even modest interest rate improvements generate significant buyback savings).

## High Transaction Costs

Debt swaps are expensive to structure, often involving millions of dollars in legal fees, financial advisory services, due diligence, rating agency fees, and other transaction costs. Even in relatively stable contexts, these costs can be prohibitive: if costs are too high relative to potential savings, transactions below a certain size can become uneconomical. For a country with large amounts of commercial debt and relatively low risk premiums, \$5-10 million in transaction costs may be manageable relative to overall debt relief gained. For fragile states with smaller commercial debt stocks and lower interest savings, these same fixed costs risk making the transaction unviable.

The problem is compounded by the need for even more intensive due diligence in fragile contexts. Guarantors may require extensive political risk analysis, security assessments, governance reviews, and ongoing monitoring - as well as coordination costs if multiple actors are involved in structuring guarantees. Given that even relatively modest swaps can generate significant fiscal space in crisis-affected countries, it is important to keep these costs as low as possible. Potential solutions include standardising transaction structures to reduce fixed costs, developing replicable legal and financial frameworks adapted to fragile contexts, pooling multiple small transactions within single platforms, and mobilising donor funding to cover transaction costs. These approaches remain untested at scale but offer important pathways to improve the viability of such swaps. It is also important to weigh these transaction costs against alternative instruments: in settings where grants and donor financing are declining, a swap that generates substantial, multi-year fiscal space represents meaningful value, even accounting for structuring costs.

**“In fragile and conflict-affected contexts, the risk profile can be elevated, and it may be difficult for a single institution to offer full coverage of a debt swap.”**



### Uncertainty Around Use of Proceeds

A critical element of any debt swap is agreement on how generated savings will be spent. In debt-for-nature swaps, this typically involves establishing a trust fund with an independent board, defining eligible projects, and implementing monitoring frameworks to ensure funds reach their intended purpose. For humanitarian debt swaps in fragile settings, this can be more complex. Humanitarian needs are diverse and can shift rapidly based on political dynamics, economic volatility, or shocks. Defining “use of proceeds” in advance requires balancing specificity (to give guarantors confidence that funds will be well-used) with flexibility (to allow adaptation as circumstances change). Where possible, use-of-proceeds frameworks should build on existing government and humanitarian monitoring systems rather than creating parallel reporting structures, while preserving independent oversight through the trust fund. Clear and credible governance arrangements around use of proceeds can strengthen confidence among guarantors and investors, helping to reduce perceived implementation risk and support more favourable credit terms - thereby reinforcing the case for guarantee provision.

There is also effort needed to align government priorities with the priorities of guarantors and other transaction partners. Governments, humanitarian organisations, and guarantors may disagree on how savings from a swap are best utilised, what programmatic areas they should target, and how implementation and oversight are managed. Reaching agreement can require sustained coordination that can extend transaction timelines and raise costs. There are also sensitivities around sovereignty: external requirements on how savings must be

spent, however well-intentioned, can be perceived as imposing conditions on national decision-making. This tension is inherent to debt swaps but becomes acute in humanitarian contexts where needs are urgent, capacity is limited, and political sensitivities are high.

### Lack of Precedent

Perhaps the most fundamental challenge is simply that humanitarian debt swaps in fragile contexts have not been executed at scale. Investors, guarantors, and governments often look to precedent when evaluating new transactions, and the absence of track record in fragile contexts may make first-movers cautious about committing capital or guarantee capacity. While several debt conversions have been structured around social or development objectives - such as food security and education - explicitly humanitarian applications, particularly in fragile and conflict-affected settings, remain limited despite the scale of need.

Breaking this cycle may require selecting initial country contexts where conditions are relatively favourable: states where debt trades at sufficient discounts, where governments demonstrate commitment to humanitarian priorities, where NGOs have strong operational presence, and where political conditions are stable enough to support multi-year commitments. Success in these early cases could demonstrate feasibility and build momentum for transactions in more challenging environments. Coalition-building across MDBs, DFIs, and humanitarian organisations could develop common frameworks, share due diligence costs, and document lessons learned - building knowledge for subsequent transactions while reducing duplication of effort.

# Recommendations for Stakeholders

The central recommendation of this paper is that a coordinated blended guarantee structure - combining partial MDB guarantees, DFI political risk insurance, and concessional first-loss capital, with humanitarian organisations as programmatic partners - represents the most viable and underexplored pathway to humanitarian debt swaps in fragile contexts. The recommendations below set out the concrete steps each group of actors must take to make this possible at a time of urgent need.

## NGOs, Humanitarian, and Civil Society Organisations

Humanitarian and civil society organisations are uniquely positioned to address the credibility gaps that make fragile states appear uninvestable. They bring programmatic expertise, local presence, and accountability mechanisms that can derisk transactions, improve programme outcomes and strengthen national systems.

- Design and govern use-of-proceeds mechanisms through trust fund boards and oversight committees, ensuring debt savings translate into evidence-based, contextual, and cost-effective humanitarian programmes.
- Develop credible project pipelines demonstrating how resources create measurable impact, backed by feasibility assessments, risk-mapping and implementation plans that give financial actors confidence in investable opportunities.
- Where relevant, structure use-of-proceeds frameworks to integrate humanitarian priorities within broader development objectives and policies, supporting transaction feasibility and strengthening existing systems.
- Serve as independent validators and monitors of implementation, verifying funds reach beneficiaries, and measuring outcomes.
- Where possible, convene MDBs, DFIs, donors, and host governments on blended guarantee structures, helping to align expectations on risk allocation, facilitate knowledge-sharing and reduce coordination friction during structuring.

## Development Finance Institutions

The U.S. DFC's strategic reorientation creates immediate opportunity for European and other bilateral DFIs to deploy and coordinate guarantee capacity that is critical to debt swap transactions.

- Expand political risk insurance products and lending programmes to cover humanitarian debt swaps as components of blended structures (or independently for smaller transactions).
- Develop risk-sharing frameworks across peer DFIs to reduce transaction costs and enable coordinated participation.
- Review how guarantee exposure is accounted for on institutional balance sheets, where this presents barriers

to guarantee provision alongside mandate constraints.

- Consider portfolio approaches that aggregate multiple small or medium-sized swaps across countries to improve risk diversification and internal capital efficiency.
- Anchor co-guarantee structures in contexts where DFIs already have country exposure, leveraging existing due diligence, local knowledge, and policy dialogue to shorten timelines and reduce perceived execution risk.

“**Across both MDBs and DFIs, debt swaps must be treated as part of a broader financing toolkit.**”

## Multilateral Development Banks

MDBs should deploy their partial guarantee products to provide credit enhancement in humanitarian debt swap transactions, positioning these instruments as complements to lending operations that strengthen long-term fiscal sustainability, not in competition with them.

- Deploy partial credit guarantees as senior layers within blended structures, adjusting sovereign exposure ceilings where possible, or identifying countries with suitable debt profiles in pilot transactions.
- Review and adapt risk assessment frameworks to account for countries with high debt burdens and humanitarian needs, taking into account unique fiscal dynamics of debt swap transactions.
- Explore portfolio-level approaches to guarantee provision across multiple countries as a means of managing concentration risk in fragile contexts.
- Ensure existing coordination platforms, such as the IDB Credit Enhancement Task Force and World Bank Global Hub, incorporate humanitarian applications within their mandates.
- Explore expedited approval pathways for transactions that meet defined criteria, reducing the 18-24 month structuring timelines that can deter participation.
- Draw on precedent transactions, such as the Côte d'Ivoire swap (which delivers development outcomes) and the Bahamas transaction (where layered guarantees have been deployed), to inform a replicable approach to structuring, governance, and implementation.

The World Bank, given its role across financing, debt sustainability and country-level policy dialogue, has particular scope to move this agenda forward:

- Integrate debt conversion into country-level debt management, particularly where debt service is constraining development progress
- Recognise swap transactions in fragile settings as instruments for delivering core development outcomes, including nutrition, protection and education
- Review sovereign exposure frameworks to allow for greater flexibility given the role these instruments play in strengthening fiscal profiles and supporting stability.

### Philanthropic and Donor Capital

Donors and philanthropic actors can provide first-loss tranches and transaction cost funding that make deals viable in contexts with elevated risk.

- Pool resources across multiple contributors to establish first-loss facilities covering 10-15% of transaction value.
- Provide grant funding to cover transaction costs - such as legal structuring, financial advisory, due diligence, and rating agency fees - in order to support viability of ongoing deals.
- Recognise first-loss and second-loss capital as catalytic mechanisms, representing 10-20x multipliers compared to traditional grant programming.
- Where possible, leverage relationships with DFIs and MDBs to advocate for a broader application of guarantee capacity in fragile contexts.

### Debtor Governments

Debtor country governments have an active role to play in transaction design and implementation of debt swaps. Political commitment at senior levels, credible governance frameworks for use of proceeds, and coordination across finance ministries are essential to engaging with guarantee providers and sustaining multi-year programmes.

- Designate dedicated debt management capacity within ministries of finance to lead transaction structuring and coordinate across government counterparts, drawing on technical assistance from MDBs or bilateral partners where capacity is limited
- Engage with MDBs, DFIs, and humanitarian organisations at early stages of transaction design to align on programmatic priorities, governance arrangements, and risk allocation
- Coordinate with potential guarantee providers to share data on debt composition and sustainability, enable feasibility assessments, and signal political commitment

- Establish trust fund and oversight mechanisms, in partnership with humanitarian organisations as needed, to provide independent verification of how savings are deployed and ensure alignment between fiscal relief, policy goals and outcomes
- Where implementation is constrained by conflict or access limitations, work with humanitarian partners to ensure proceeds reach affected populations and priority areas
- Engage bilaterally with creditor governments to explore swap opportunities in contexts where commercial debt markets are limited

### Member Governments and Broader Policy Ecosystem

While not a direct source of guarantee provision, member governments play a central role in shaping the mandates, risk appetite, and operational priorities of MDBs and DFIs. For MDBs, this occurs through board-level governance, capital frameworks, exposure policies and strategic priorities; while for DFIs, shareholder governments may have more direct influence over mandate design and instrument use. In both cases, expanding the use of guarantees in fragile contexts will depend in part on political and shareholder backing to enable greater flexibility in risk-taking and instrument deployment. Alongside multilateral bodies, policy actors, and financial intermediaries, member governments can play a role in shaping the political conditions and institutional appetite that will determine whether debt swap instruments are taken up at scale.

- Provide clear political direction to MDBs and DFIs to expand the use of guarantees in support of humanitarian, development and social outcomes, including through board-level guidance, strategic frameworks, and capital allocation discussions.
- Leverage finance and governance channels to support the mandate adjustments and policy flexibility that would allow DFIs and MDBs to provide sovereign guarantees in fragile contexts, particularly given current aid financing landscape.
- Use convening power and institutional relationships to support coordination, including across MDBs, DFIs, and transaction partners, helping to align approaches and reduce fragmentation in how guarantees are deployed.
- Back a small number of early transactions through diplomatic engagement, including alignment with sovereign borrowers and MDB/DFI leadership, helping to establish precedent and reduce perceived execution risk.
- Continue to utilise bilateral swap mechanisms where appropriate, particularly in contexts where market-based structures are not viable, drawing on recent precedents such as Italy's debt-for-development programme to demonstrate feasibility and build momentum.



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# Conclusion

The convergence of declining humanitarian aid and protracted crises has created an acute financing challenge. In many countries, collapsing aid budgets and mounting debt service obligations increasingly compete for the same scarce resources. Traditional approaches, such as debt relief initiatives or foreign aid, remain important but insufficient to meet the scale of need.

Debt swaps offer a powerful, underutilised mechanism to bridge this gap. By linking debt burdens to humanitarian outcomes, they free resources that can be reinvested in essential services while strengthening long-term fiscal sustainability. In countries with suitable debt profiles, this can be an impactful way of meeting humanitarian needs at a time when traditional sources are under immense strain, and millions of people are left unserved. Debt swaps have mobilised billions in private capital for environmental and conservation projects across 169 transactions in 45 countries since 1987, and extending them to humanitarian financing is both timely and urgent.

Guarantees are critical to making these transactions work. They reduce borrowing costs for debtor countries in order to generate savings, while mobilising private capital to scale. Guarantee mechanisms designed for middle-income countries must be thoughtfully adapted for fragile contexts, and blended structures that distribute risk across MDB partial guarantees, DFI political risk insurance, and concessional donor capital can make transactions viable where no single institution could provide full coverage alone. This paper argues that building these coordinated structures, in a small number of initial countries, is both urgent and possible.

For DFIs, that means addressing the mandate constraints that currently prevent sovereign guarantee provision and developing joint risk-sharing frameworks with peer institutions. The U.S.

DFC's strategic reorientation creates immediate opportunity for European and bilateral DFIs to deploy guarantee capacity more actively and in coordination. For MDBs, this means deploying partial credit guarantees as senior tranches and reviewing country exposure limits where possible to enable participation in fragile contexts. Existing initiatives like the IDB Credit Enhancement Task Force and the World Bank Global Hub provide infrastructure that must extend its scope to countries in crisis and humanitarian applications. Across both MDBs and DFIs, debt swaps must be treated as part of a broader financing toolkit that advances humanitarian and development objectives rather than competing with existing debt sustainability or private-sector strengthening initiatives. Member governments can help enable this shift.

Success of these transactions will also depend on how savings are deployed. Humanitarian organisations can help strengthen oversight and de-risk investment through thoughtful programme design and trust fund governance, ensuring resources reach intended beneficiaries, align with government priorities, and give financial actors confidence to invest.

Debt swaps are not a silver bullet. Initially, they may be feasible only in fragile states with sufficient debt capacity, government buy-in, and strong humanitarian presence. But where these conditions hold, well-designed transactions - underpinned by a handful of institutions - can create fiscal space precisely where needs are most acute and traditional financing most constrained. These early successes could establish precedents for standardisation, reduce transaction costs, and demonstrate the viability of blended humanitarian debt swap models to a broader set of contexts. The question is whether the institutions with the guarantee capacity to enable them will treat the current moment as an imperative to act.

**“The question is whether the institutions with the guarantee capacity to enable these swaps will treat the current moment as an imperative to act.”**

**Previous Page:** IRC Child Protection Specialist attends to an internally displaced family in Cameroon's Far North region, where ongoing violence has forced hundreds of thousands of people to flee their homes over the past ten years.

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