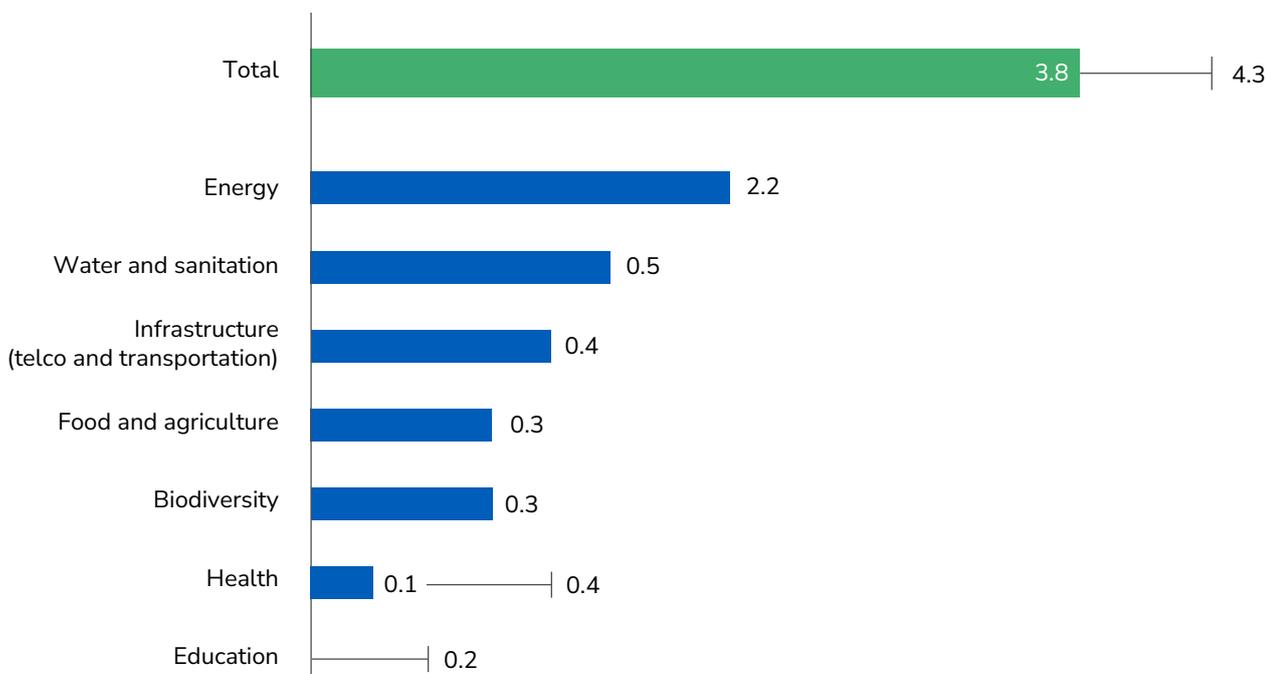


For professional clients only. Capital at risk.

Filling the gap: Mobilising emerging market private credit

Over 50 developing nations are in danger of defaulting on their debt¹. Many of these could be considered to be among the most biodiverse and climate vulnerable countries in the world. Additionally, the annual financing gaps for the UN Sustainable Development Goals (SDGs) and climate action is quickly becoming overwhelming, measuring in the trillions of dollars (see chart below).

Approximately US\$4 trillion is the estimated annual funding gap required to achieve the Sustainable Development Goals (SDGs) by 2030²



Source: SDG Investment Trend Monitor, 2023. Bars denote estimates, while lines denote higher estimates. **Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.**

In our view, emerging markets will play a pivotal role in delivering climate solutions, conserving important ecosystems and supporting communities. However, capital flows remain limited due to challenges such as perceived risk, regulatory uncertainty, and weak financial infrastructure.

We believe emerging markets – and specifically emerging markets private credit – present institutional-ready investment opportunities, while potentially delivering resilient and attractive financial returns. We also see an opportunity to target particular sustainability themes or UN SDGs via exposure to these markets.

1. United Nations, 'A new wave of debt swaps for climate or nature', 2023.
2. UNCTAD SDG Investment Trends Monitor September 2023.



Investment-grade credit

We believe compelling investment-grade opportunities in emerging markets can arise by leveraging innovative financing structures. These approaches use credit enhancement through multilateral guarantees and insurance, mitigating emerging market credit risk and elevating ratings to align with the guarantor. This creates a pathway to invest in emerging markets with investment-grade credit quality.

Likely the most well-known form of these investment-grade transactions are **debt-for-nature swaps**, now frequently referred to as **debt conversions for nature**.

Such transactions involve refinancing a sovereign borrower's debt with more favourable repayment terms. This comes with an agreement that a portion of the savings made are to be used for conservation efforts, such as protecting forests, marine areas and biodiversity. This model can also support social outcomes, such as education initiatives.

Conservation initiatives are independently audited by reputable charities to ensure that funds are allocated responsibly. Strong, long-standing relationships combined with deep expertise in asset management and sustainability are essential for engaging in these transactions. This foundation enables a clearer understanding and greater transparency appropriateness of the funding, sustainability commitments, governance and pipeline of the projects and their reporting requirements.

Another often investment-grade opportunity available to institutional investors is exposure to **use-of-proceeds bonds**. As the name suggests, these instruments see their proceeds tied to specific projects – such as constructing schools, hospitals or infrastructure. The benefitting projects are aligned with an environmental or social agenda.



Case study: Ecuador

In May 2023¹, Ecuador entered into its first major debt conversion for nature transaction. The arrangement involved the sovereign exchanging US\$1.63bn of dollar-denominated bonds for a US\$656m loan with more favourable repayment rates. L&G acted as the cornerstone investor with a US\$250m investment in the transaction.

The deal has the potential to generate lifetime savings of over US\$1bn, with US\$323m of these directed to financing conservation activities in the Galapagos Islands over an 18.5-year period.

Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

¹ [International Development Bank](#), May 2023.





Case study: Partnering to accelerate development finance at scale

In February 2026, L&G formed a strategic partnership with development credit firm Enosis Capital, committing up to US\$1 billion over five years to support the next generation of development finance projects in emerging markets.

As the market expands and competition increases, the partnership gives L&G earlier and more direct access to opportunities across Enosis's pipeline, as well as deeper engagement with sovereigns and implementing partners, like NGOs. This helps us shape how projects are structured and measured, improving delivery for issuers as we aim to support better outcomes for our clients.

Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

We believe both debt conversions for nature and use-of-proceeds bonds have the potential to represent strong investment-grade credits, offering the possibility of competitive returns and the ability to contribute to nature conservation and sustainable development in emerging markets.

As mentioned, such transactions typically have multilateral guarantees or insurance to attract foreign investment. These are provided by organisations such as the US International Development Finance Corporation (DFC), World Bank, African Development Bank, and developed-nation governments.

We believe these types of opportunities may be attractive to any investor who invests in investment-grade credit, and who can afford at least a portion of their portfolio to be relatively illiquid.

Insurers are obvious potential buyers given the characteristics of such transactions, and there have been instances where many of these deals have been structured to be matching-adjustment eligible. Given the risk-return characteristics, and the range of durations on offer, we believe these opportunities could also sit well in other institutional investment-grade credit portfolios.

‘Unwrapped’

For investors who would like to take more credit risk, we also see potential ‘unwrapped’ opportunities. This is when a deal has some form of credit enhancement as previously described but also has a portion where there is no insurance or guarantee. Therefore, the investor is taking naked risk on the emerging market sovereign.

This unwrapped portion typically ranks *pari passu* with the ‘wrapped’ portion (the part that is insured or guaranteed), meaning the underlying sovereign cannot choose to default on this without also defaulting on the protected portion. The entities providing the guarantee or insurance are typically preferred creditors to the underlying sovereign, meaning they are usually given priority for debt repayment when a country faces financial distress.

Therefore, these unwrapped opportunities potentially benefit from being part of the same deal. This is known as the ‘halo effect’. In these opportunities, an investor may receive a higher spread, commensurate with providing finance to the underlying sovereign, while also potentially benefitting from this ‘halo effect’.

A recent example involves our investment in an Côte d’Ivoire debt-for-development swap. This facilitated the repayment of prior commercial debt and replaced it with newer debt which generates savings for the government. Of these savings, a portion is being used for the construction of secondary schools.

Key Risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.



In the spotlight: Insurance-ready investment opportunities

With an enhanced credit rating, and by carefully structuring deals that aim to meet clients’ needs, including matching-adjustment eligibility, we believe long-term insurance capital can be directed to drive real-world impact in emerging markets. Investing in this manner also presents the potential of attractive risk-adjusted returns for insurers.

Matching-adjustment eligibility can often be achieved through careful deal structuring. For example, a recent partnership with the African Development Bank Group supported Togo’s first sustainable loan from international commercial lenders*.

This enabled the country to raise up to US\$200m via a 20-year facility, which L&G is providing alongside Deutsche Bank. The loan was backed by a partial credit guarantee from the African Development Fund, the concessional lending arm of the African Development Bank.

To meet regulatory and risk requirements, collaboration was sought with a consortium of Lloyd’s of London insurers to secure principal and interest protection. This means that, in the event of default, all cash flows remain fixed and fully covered until maturity.

As an asset manager, we have increasingly been approached by development banks and sovereigns directly and early in these processes. In our view, this puts us in an advantageous position to be able to feedback directly what is necessary to make these transactions work for insurance clients.

***Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.**

Impact-focused

We believe individual investments and overall portfolios in this space can be tailored to more impact-focused investments and those which could be linked to a specific positive outcome.

Outcome bonds are a great example of this. These are bonds that are linked to specific development projects and their outcomes, adjusting returns depending on levels of success. These bonds will typically first price inside the guarantor's (i.e., the World Bank's) yield curve. However, if the projects are a success the securities will then pay above that level, with returns designed to increase the more successful a project is.

One such example of an investment made through the World Bank's Outcome Bond programme* is a 2025 issuance looking to make cleaner cooking accessible to more than one million people in Ghana.

It's intended that, through this transaction, over US\$30m in private capital will be mobilised to sustainable development projects. These projects are expected to make cleaner cooking accessible to 1.3 million people, cutting reliance on biomass which has the potential to significantly reduce greenhouse gas emissions. Reduced air pollution, improved health outcomes and the creation of local jobs are also potential benefits of this scheme. The transaction involves both a fixed coupon and a variable component linked to the projects' success in generating carbon credits.

As the financing gap for the UN SDGs and climate action continues to widen, the need for scalable, institutional-grade solutions has never, in our view, been more urgent. At L&G, we believe that emerging markets private credit offers a compelling pathway to mobilise capital at scale while seeking to deliver measurable impact. These opportunities not only have the potential to align with global development goals but can also meet the rigorous standards of institutional investors seeking the potential for risk-adjusted returns and portfolio diversification.

Key risks

***Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. It should be noted that diversification is no guarantee against a loss in a declining market. It should be noted that diversification is no guarantee against a loss in a declining market. Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.**



In the spotlight: IFC corporate B-loan

In December 2025, L&G participated in the B-loan programme of the IFC – World Bank's private lending arm. \$10m was provided as financing to a European construction business focusing on projects in Africa and Latin America.

It's anticipated that the transaction will aid local job creation – with 35,000 local jobs slated to be created by 2031 across five projects. This will also involve a focus on increasing female participation and supply chain development.



Contact us:

For further information about the Asset Management business of L&G, please visit am.landg.com or contact your usual L&G representative.



Key risk

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

Important information

The views expressed in this document are those of Legal & General Investment Management Limited and/or its affiliates ("LGIM" - or "L&G", "we" or "us") as at the date of publication. This document is for information purposes only and we are not soliciting any action based on it. The information above discusses general economic, market or political issues and/or industry or sector trends. It does not constitute research or investment, legal or tax advice. It is not an offer or recommendation or advertisement to buy or sell securities or pursue a particular investment strategy. Past performance should not be taken as an indication or guarantee of future performance and no representation, express or implied, is made regarding future performance.

No party shall have any right of action against L&G in relation to the accuracy or completeness of the information contained in this document. The information is believed to be correct as at the date of publication, but no assurance can be given that this document is complete or accurate in the light of information that may become available after its publication. We are under no obligation to update or amend the information in this document. Where this document contains third-party information, the accuracy and completeness of such information cannot be guaranteed and we accept no responsibility or liability in respect of such information.

This document may not be reproduced in whole or in part or distributed to third parties without our prior written permission. Not for distribution to any person resident in any jurisdiction where such distribution would be contrary to local law or regulation.

© 2026 Legal & General Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 119272. Registered in England and Wales No. 02091894 with registered office at One Coleman Street, London, EC2R 5AA.

L&G Global

Unless otherwise stated, references herein to "L&G", "we" and "us" are meant to capture the global conglomerate that includes:

- **European Economic Area:** LGIM Managers (Europe) Limited, authorised and regulated by the Central Bank of Ireland as a UCITS management company (pursuant to European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (as amended) and as an alternative investment fund manager (pursuant to the European Union (Alternative Investment Fund Managers) Regulations 2013 (as amended)).
- **Japan:** Legal & General Investment Management Japan KK (a Japan FSA registered investment management company).
- **Hong Kong:** issued by Legal & General Investment Management Asia Limited which is licensed by the Securities and Futures Commission.
- **Singapore:** issued by LGIM Singapore Pte. Ltd. (Company Registration No. 202231876W) which is regulated by the Monetary Authority of Singapore.

The L&G Stewardship Team acts on behalf of all such locally authorised entities.