DEBT FOR HEALTH SWAPS

Report Commissioned by The Rockefeller Foundation for Brazil's G20 Presidency

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Summary

(a) **More than half the world's population has no access to essential health services.** Globally, 1 billion people are exposed to catastrophic out-of-pocket health expenses and inequality in access to health services remains pervasive in many countries;

(b) While recognizing the need for increased investment in health, in many countries, **adequate resource allocation to health is hampered by the burden of debt**;

(c) **Global debt levels and debt servicing by developing countries have reached new records.** In 2022, developing countries spent a record USD 443.5 billion to service their external public debt. In 2024, on average, **debt servicing by the poorest countries will exceed their combined spending on health, education and infrastructure**;

(d) The Brazilian G20 Presidency initiated a discussion in the Joint Finance Health Task Force (JFHTF) on **the potential role of debt for health swaps** with regard to financing urgent health priorities;

(e) Debt for health swaps can be a **useful tool in counties where the primary constraint to health investment is fiscal space** but they cannot effectively address systemic debt sustainability issues. Rather debt swaps are one additional tool in the toolbox of financial cooperation for development. If debt swaps are approached solely from the point of view of the international financial architecture and over-indebtedness, crucial value-added is likely to be missed;

(f) **Experience with debt for health swaps to-date is largely based on the Global Fund Debt2Health (D2H) as the only active program in the health sector.** Older transactions include health spending under the French Debt-for-Development Contract (C2D) program and a debt-buy-back to combat "river blindness" disease;

(g) **D2H swapped USD 367 million in ODA debt and mobilized USD 225 million in health funding**. Creditors have been Australia, Germany and Spain. Indonesia has been the largest beneficiary. The **D2H swap face value is expected to reach USD 500 million in 2024**.

(h) **D2H swaps have helped close health funding gaps in ten countries** by redirecting interest payments towards Global Fund-approved but unfunded national programs. In one case, the swap beneficiary (Egypt) donated the counterpart funds to a third party (Ethiopia).

(i) **D2H swaps have helped increase national ownership of health finance** through the national budget, aligned national health priorities and by demonstrating value of additional national health investments;

(j) **Transactions costs of debt for health swaps could be divided into two broad categories:** financial costs/ efficiency of the instrument and administrative and operational costs for executing a transaction.

(k) **With regard to financial efficiency, debt swaps can be as good as conditional grants**: when the amount of debt relief exceeds the new spending commitment, thus providing fiscal relief to the budget and in this sense providing more benefits to the debtor, and when the health expenditure is prioritized over remaining debt service and thus saving donor cash, which would be required in grant financing;

(l) **Alignment of occurring debt service savings with incremental health investments is also important** to avoid any adverse effects on the national budget or other spending priorities;

(m) **The administrative costs for debt for health swaps can vary significantly. Costs for identification of activities and reporting** has been traditionally high in other swaps but under D2H there are no extra costs for identification and implementation of health interventions due to **near complete integration into existing Global Fund policies**, procedures and systems with no new or additional structures necessary to define and agree on programmatic activities while at the same time ensuring that any activities are country-driven and country-owned;

(n) **For creditors and debtors, administrative costs can vary depending on complexity of their internal policies and procedures** for executing debt swaps, including but not limited to coordination among concerned government entities. **For the Global Fund,** transaction costs are roughly **equal to grant management costs**;

(o) **The future perspective on debt for health swaps depends on enhanced exchange of information, best practices and cooperation** as a foundation on which this tool could be used effectively on a voluntary, case-by-case basis;

(p) **To-date, debt for health swaps have been limited to one organization** and mandate, offering **limited support to the wider national health priorities.** A wider utilization of debt for health swaps would require further creditor commitment and established policies, possibly voluntary and/or coordinated targets.;

(q) Enhanced **creditor cooperation on debt for health swaps on a voluntary basis could have credit enhancing effects** for debtors and minimize free-rider and other risks. The group of potential swap beneficiaries could be expanded by lowering financial transaction costs funding premiums;

(r) **Financial terms of debt for health swaps could be improved** by increasing debt face values, reducing counterpart payment requirements and better aligning their payment with accruing debt service savings;

(s) **Any future non-D2H swaps could possibly make use of national structures already in place for D2H** to keep administrative transaction costs low but reach additional health system priorities beyond what is possible by mandate of the Global Fund;

(t) **Uniform key performance indicators (KPIs)** on debt for health swaps, an obstacle to engagement of ESG institutional and private investors, could be developed to facilitate public-private collaboration;

(u) **Enhanced systematic facilitation of debt for health swaps, exchange of information** on best practices in terms of country ownership, transparency and accountability, technical assistance, standardization of agreements could prove useful, possibly via a **platform or dedicated SPV**;

(v) **Debt-for-health swaps are not a "silver bullet"** but in the current environment of a high debt burden, severe fiscal space constraints and limited new financing options, exacerbated by the adverse impact of climate change and biodiversity loss on health systems, they have potential to direct resources to health systems while at the same time providing some debt relief to sovereign borrowers and bolstering sustainability credentials.

I. Background

1. Access to essential health services remains an important challenge with more than half of the world's population still not covered.[1] While services for infectious diseases saw significant gains since the year 2000, there has been only marginal improvement in areas such as noncommunicable diseases, reproductive, maternal, newborn and child health services in recent years.[2] Even where there was national progress, inequality in access to health services remained pervasive.[3]

2. Globally, financial hardship due to out-of-pocket health spending continues to rise, with an estimated 1 billion people exposed to catastrophic out-of-pocket health spending and 344 million people forced deeper into extreme poverty due to health costs.[4] The trade-offs many families are forced to make between shelter, food, water, education and health can spell the difference between early treatment of a preventable disease and severe illness or even death.[5]

3. The COVID-19 pandemic has impacted the functioning of health systems by shifting already tight resources towards pandemic response and stretching the health work force. The post COVID-19 environment faces its own set of challenges, ranging from the economic recovery to the adverse impacts of climate change, biodiversity loss and pollution on public health.

4. Given the key role health systems play in fostering resilience and in delivering substantial economic and social benefits, the Brazilian G20 Presidency is carrying forward G20 work on assessing global health and addressing vulnerabilities and risks with a broader of discussion of methods for enhancing health financing.[6] In this context, while acknowledging the necessity of health investments, many countries experience increasing expenditure needs and particularly developing countries are faced with escalating challenges hindering adequate resource allocation to health, including the burden of debt.[7]

5. Global debt is at record levels and has been rising for decades, amounting to 238 per cent of global gross domestic product (GDP) - or in U.S. dollar terms USD 235 trillion, of which USD 92 trillion was public debt.[8] Although debt levels have increased across all regions, for the Least Developed Countries (LDCs), the debt increase in relation to revenue has been most dramatic, rising from 3.1 per cent of revenue in 2010 to 12 per cent of revenue in 2023.[9]

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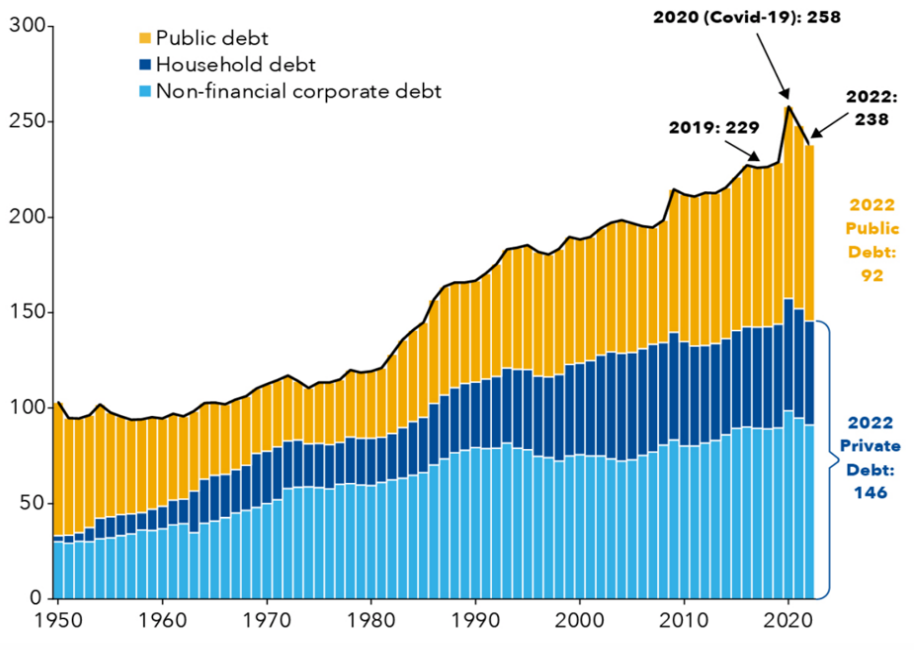
[1] WHO. Universal Health Coverage (UHC), 5 October 2023, available at: https://www.who.int/news-room/fact-sheets/detail/universal-health-coverage-(uhc)
[2] Ibid.
[3] UN. SDG Goal 3 Good Health and Well-being, available at: https://www.un.org/sustainabledevelopment/health/#
[4] Ibid.
[5] World Bank. Billions Left Behind on the Path to UHC, available at: https://www.worldbank.org/en/news/press-release/2023/09/18/billions-left-behind-on-the-path-to-universal-health-coverage
[6] G20 Brazil (2024). Issues Note. Joint Side Event on Debt-for-Health. Past Experience and Lessons Learned, p. 2.
[7] Ibid.
[8] IMF. Global Debt is Returning to its Rising Trend, available at: https://www.imf.org/en/Blogs/Articles/2023/09/13/global-debt-is-returning-to-its-rising-trend
[9] UN. Financing for Sustainable Development Report 2024, available at: https://desapublications.un.org/sites/default/files/publications/2024-04/2024_FSDR_ExecSum.pdf

Figure 1. Global debt has been rising for decades and peaked during the COVID-19 pandemic



Source: IMF, 2023

6. The high debt levels, surging interest rates and a strong U.S. currency have driven debt servicing costs for developing countries to all-time high and intensified debt vulnerabilities. In 2022, developing countries spent a record USD 443.5 billion to service their external public and publicly guaranteed debt.[10] The 75 countries eligible to borrow from the World Bank's International Development Association (IDA) paid a record USD 88.9 billion in debt servicing costs in 2022.[11]

7. High debt servicing costs significantly affect national budgets of developing countries and impact the development prospects of more than 3.3 billion people who are residing in countries, where interest payments dominate a significant portion of the national budget.[12] According to World Bank estimates, the total debt servicing of IDA-eligible countries in 2024, on average, will be higher than the combined public spending on health, education and infrastructure.[13]

8. As debt servicing costs increase, finding new financing options becomes more difficult. New external loan commitments to public and publicly guaranteed entities in developing countries dropped by 23 per cent - the lowest level in a decade - and private creditors largely abstained from

[10] World Bank, International Debt Report Press Release, available at: https://www.worldbank.org/en/news/press-release/2023/12/13/developing-countries-paid-record-443-5-billion-on-public-debt-in-2022

[11] Ibid.

[12] UNCTAD. A World of Debt, available at: https://unctad.org/publication/world-of-debt

[13] UN. United Nations Statement to the Joint Development Committee, 17 April 2024, available at: https://www.undp.org/speeches/united-nations-statement-development-committee-joint-ministerial-committee-boards-governors-bank-and-fund-0#

developing countries, receiving USD 185 billion more in principal repayments than they disbursed in loans.[14]

9. Against this backdrop of current health challenges, high debt burden, exploding debt servicing costs and constrained financing options, the Brazilian G20 Presidency has set a priority to discuss debt for health swaps in the Joint Finance-Health Task Force (JFHTF). In line with the JFHTF Workplan Priority 2 - "increasing resource mobilization to the health sector through assessing debt for health swap arrangements - the Brazilian G20 Presidency has also organized a side event on debt for health swaps in Brasilia on 9 April 2024 and this paper will be presented at the 2nd meeting of the JFHTF on 19 June 2024.

II. Mandate, Scope and Methodology

10. This report was requested by the Brazilian G20 Presidency with the view to provide information and a retrospective analysis on debt for health swaps to-date.

11. In consultation with members and the JFHTF secretariat, the Brazilian G20 Presidency requested the Rockefeller Foundation to support the development of the report. This request was made in the context of the overall engagement and support provided by The Rockefeller Foundation to the Brazilian G20 Presidency and the Foundation's past support to other G-20 Presidencies such as the Expert Review of MDB's Capital Adequacy Frameworks (CAF) under the Italian and Indonesian G20 Presidencies, the Foundation's support to the G20 Indian Presidency as a Knowledge Partner, and the Foundation's work on climate and health financing, including the development of the Guiding Principles for Financing Climate and Health, endorsed by nearly 50 cross-sectoral organizations at COP 28.

12. This report focuses primarily on debt for health swaps conducted within the framework of the only active debt for health swap program, the Global Fund "Debt2Health" (D2H) program. Excluded from the scope of this report is an in-depth discussion of other debt swaps, debt relief and debt restructuring in the context of debt sustainability, debt suspensions, debt buy-backs of commercial paper and debt-based innovative financing mechanisms for development such as debt securitization. Only where prudent or necessary, for the sake of understanding or completeness, references are made to debt swaps that involve debt types other than public and publicly guaranteed public debt and transactions with private actors.

13. While there is an abundant literature available on the subject of debt swaps in general and debt-for-nature and debt-for-climate swaps in particular, only a handful peer-reviewed publications exists on the subject of debt for health swaps. Therefore, this report is predominately an expert report based on first-hand experience in negotiating and implementing some of the first health swap agreements. To the extent possible, quoted references in this

[14] World Bank, International Debt Report Press Release, available at: https://www.worldbank.org/en/news/press-release/2023/12/13/developing-countries-paid-record-443-5-billion-on-public-debt-in-2022

report are official, publicly available publications by the United Nations, the International Monetary Fund (IMF), the World Bank Group, the World Health Organization (WHO) and the Global Fund. A special effort was made to solicit and incorporate country perspectives into the report in form of information provided during the JFHTF side event on 9 April, the G20 International Financial Architecture (IFA) Working Group meetings on 13 May and through interviews conducted with government officials from both creditor and debtor countries.

14. The report is divided into five sections. The first section sets out the contextual background for the report, offering basic data on global health challenges, global debt levels and debt servicing costs for developing countries. This second section describes the mandate, scope and methodology of the report. The third section discusses the general purpose and utility of the debt swap instrument, addressing the question when the instrument makes sense, its role in relation to fiscal space and fiscal relief, its financial efficiency compared to alternatives such as conditional grants and the basic transaction structures. The fourth section discusses the experience with D2h swaps to-date in light of fiscal space for health investments, funding generated, use of funds and health outcomes, transaction costs and country ownership, transparency and accountability. The final fifth section illuminates some gaps and lessons learned in the debt for health landscape and takes a forward-looking perspective and offers ideas on how debt for health swaps could become a more effective financing tool in the face of the many challenges to public health, the high levels of global debt and exploding debt servicing costs.

III. The Debt Swap Instrument

A. Purpose and Utility

15. Debt swaps are voluntary transactions in which a creditor cancels (buys back) an amount of outstanding debt in exchange for a mutually agreed spending commitment by the debtor. The purpose of a debt swap is to expand fiscal space through debt service savings to the national budget and re-direct them towards environmental and developmental priorities.

16. The concept was first proposed in 1984 by the then vice president of the World Wildlife Fund, Thomas Lovejoy, in response to the deteriorating tropical rain forests and mounting debt obligations in developing countries, especially in Latin America at the time. The first debt-for-nature agreement was signed in 1987 between Bolivia and Conservation International, a US non-profit environmental organization.

17. To-date, a total of 235 debt swaps with a face value of USD 11.5 billion have been concluded and mobilized funding for a wide range of environmental and developmental purposes.[15] Despite some recent large debt swaps for nature and climate, debt swaps have only involved less than 0.4 per

[15] UNCTAD. Debt for Development Swaps, p. 8

cent of total public and publicly guaranteed debt.[16]

18. Debt swaps in the health sector make up a small subsegment of overall debt swap transactions, with 12 signed agreements at a face value of USD 367 million as part of the Global Fund Debt2Health (D2H) program launched in 2007.[17] Older debt swaps that benefitted the health sector include about 8 per cent of the French bilateral add-on program to Heavily Indebted Poor Country (HIPC) debt relief, called the Debt-Reduction-Development-Contract (C2D)[18] and a debt-buy-back of Nigerian debt by the River Blindness Foundation to combat onchocerciasis ("river blindness") in 1993.

19. A number of important interlinked concepts are implicated in the definition and discussion of the purpose and utility of debt swaps: (a) debt sustainability, (b) fiscal space and (c) fiscal relief/ net fiscal transfer. They are discussed here in a cursory manner simply to establish a baseline for discussion.

20. *Debt sustainability*: A country's public debt is considered sustainable if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default.[19] Ad-hoc debt swap support would not be able to provide the exceptional financial assistance required to address unsustainable debt and restore solvency.

21. Debt sustainability issues have been tackled through coordinated debt relief and restructuring programs led by creditors, for example in the Paris Club. Paris Club creditors have cancelled over USD 100 billion in official LDC debt via the now discontinued *Heavily Indebted Poor Country (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI)*.[20] Treatments have spiked in the 1980s and 1990ss and have been falling since 2005.[21] In this context, a type of cross-over model, known as *Debt Reduction-Development Contract* (C2D), has been deployed on a bilateral voluntary basis by France, which swapped remaining French ODA claims for conditional grants.[22] More recent efforts to assist countries in relation to their debt burden are the G20-led *Debt Service Suspension Initiative* (DSSI) established in May 2020 that temporarily suspended USD 12.9 billion in debt service payments for developing countries in light of the financial needs to response to the COVID-19 pandemic and the recession caused by it.[23] Finally, the G20 *Common Framework*, also endorsed in 2020, provides for a platform (Creditor Committee) to facilitate coordinated debt restructuring in cases of debt sustainability challenges on a case-by-case basis.[24]

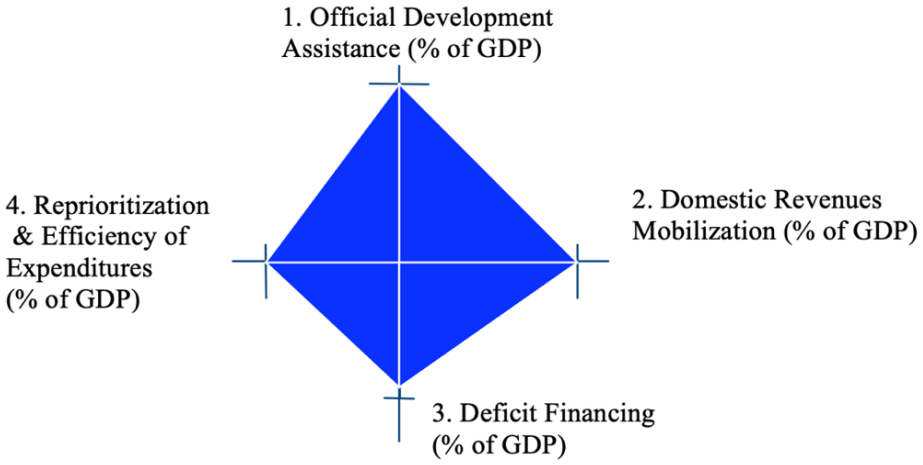
22. *Fiscal space*: There are numerous definitions of "fiscal space" and ways to calculate it. Some economists define it as the difference between the debt

[16] Ibid.
[17] All the debt swaps since 2007 have been within the Global Fund Debt2Health (D2H) program. The Global Fund debt swap data is available at: https://www.theglobalfund.org/media/12284/publication_debt2health_overview_en.pdf
[18] PFDD, Two Decades of C2Ds, available at https://dette-developpement.org/IMG/pdf/pfdd_c2d_uk.pdf
[19] IMF. What is Debt Sustainability, available at : https://www.imf.org/en/Publications/fandd/issues/2020/09/what-is-debt-sustainability-basics#
[20] World Bank. HIPC at https://www.worldbank.org/en/topic/debt/brief/hipc.
[21] GFDC. Debt-for-Nature-Swaps. A Triple Win, Febuary 2021, available at https://greenfdc.org/debt-for-nature-swaps-in-the-belt-and-road-initiative-bri/
[22] AfD. C2D. A Mechanism to Relieve Indebted Countries, available at: https://www.afd.fr/en/c2d-mechanism-relieve-indebted-countries
[23] World Bank. DSSI, available at: https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative
[24] IMF, Questions and Answers on Sovereign Debt Issues, available at: https://www.imf.org/en/About/FAQ/sovereign-debt#Section%205

limit and the current debt, whereby the debt limit is the point beyond which debt would be unsustainable and at which either extraordinary efforts are necessary or a country defaults.[25] Others define fiscal space by the number of years of tax revenues necessary to repay a country's debt, calculated by dividing the total public debt by the de-facto tax base of a country. Yet others focus on the ratio of the current level of revenues to potential tax revenues, based on indicators such as GDP per capita.[26] For the purpose of this report, a somewhat more accessible but widely accepted definition is used, which defines fiscal space as "the room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy".[27]

23. The general options available to government to create fiscal space include (a) tax increases, (b) expenditure re-prioritization, (c) borrowing, (d) external grants.[28] The "fiscal space diamond" (*Figure 2*) provides a useful analytical framework, which illustrates fiscal space as a dynamic area determined by actions on the four options as well as their interdependence.

Figure 2. Determinants of Fiscal Space



Source: Roy et al., 2007

24. Judgments on fiscal space are complex, inherently country-specific and vary over time. While some economies may have the capacity to exercise any of the options at a given point in time, others may face major constraints to act on even one of the options without serious economic, financial and political risks. Some developing countries may also face additional challenges related to climate vulnerability, security and political instability. Understanding a government's fiscal space requires detailed assessments of a government's fiscal position, its revenue and expenditure structure, the characteristics of its outstanding debt obligations, the underlying structure of its economy, the prospects for enhanced external resource inflows, and a

[25] Ghosh, A., Kim, J., Mendoza, E., Ostry, J. and Qureshi, M. (2013), Fiscal Fatigue, Fiscal Space and Debt Sustainability in Advanced Economies'. The Economic Journal, available at: https://www.jstor.org/stable/23470568
[26] ECB, Fiscal Rules, Fiscal Space and Procyclical Fiscal Policy, available at : https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1872.en.pdf
[27] Heller, Peter. Fiscal Space: What is it and How to Get it, IMF, available at: https://www.imf.org/external/pubs/ft/fandd/2005/06/basics.htm
[28] Ibid.

perspective on the underlying external conditions facing an economy.[29]

25. In countries, where the main constraint to health investment is a lack of fiscal space, debt for health swaps could be a useful tool. In particular countries with limited options to raise revenue, including through concessional loans and grants, for example as a result of their income qualification as middle-income countries, which under current rules limits access to funds and facilities of multilateral development banks (MDBs), may find debt for health swaps a useful tool.

26. *Fiscal relief/ Net fiscal transfer*: For the debtor, one potential risk of fiscal support from a debt for health swap arrangement is that the agreed health expenditure exceeds the debt servicing costs or that the present value (PV) of the legacy debt is lower than the cash required to fund the project. Therefore, the most beneficial arrangement for the debtor is one that includes a larger share of debt, thereby providing fiscal support in excess of what is needed to finance the health expenditure. In 8 out of the 12 D2H swaps to-date, a discount of up to 60 per cent was offered, reducing the counterpart expenditure requirement.

27. In addition to the amount, the timing of counterpart payments is also an important element for consideration in terms of fiscal relief and debtors should reconcile, or at least analyze, the typically slowing accruing debt service savings and counterpart payment requirements under a debt swap in order to avoid adverse impact on the national budget and other spending priorities.

28. Finally, the issue of fiscal relief from a debt for health swap is related financial efficiency and relative attractiveness of the debt swap instrument compared to other financing options such as the debt market, concessional loans and conditional grants, provided these options are actually available because one of the reasons to consider debt swaps in the first place is a distinct lack of alternatives.

B. Financial Efficiency

29. The financial efficiency of the debt swap option depends on a wide range of factors, including cost of capital and financial transaction costs. Within the framework of this G20-JHFTF process, UNCTAD has applied a set of select benchmarks and metrics from the year 2023, including costs of accessing the market, transaction costs and credit ratings, and found that debt swaps would have been financially beneficial for around 8 per cent of developing countries in 2023.[30] The share of developing countries for which swaps could be a financially efficient option would almost double to close to 15 per cent, if the transaction cost funding premium was reduced from 250 basis point over U.S. benchmark rates to 150 basis points.[31]

30. In addition to the scope of countries for which debt swaps would be financially attractive, a frequent question is also how debt swaps compare in

[29] Ibid.
[30] UNCTAD. Debt-for-Development Swaps. G-20 Report, 2024, p. 14.
[31] Ibid., p. 15.

terms of financial efficiency to alternatives such as concessional loans and conditional grants.

31. A number of studies offer financial benefit-cost analysis of debt swaps versus grants, mainly in the context of debt-for-nature and debt-for-climate swaps[32] but the analysis is also valid for debt for health swaps.

32. Generally, a creditor/ donor may prefer a conditional grant because the grant is a more direct way to support a targeted health investment without the risks of diversion or substitution.[33] In cases of risky sovereign debt, a conditional grant is probably a safer way of supporting health spending because the grant can be structured to ensure that the investment will be made regardless of debtor country resources.[34] In such a case, also the debtor should prefer the conditional grant because of the greater chance to realize the health investment.

33. There are at least two positive scenarios, one for the creditor and one for the debtor, in which a debt for health swap is at least as good as a conditional grant: (a) when the counterpart payment has priority over the remaining debt service and thus lower financing costs for creditor wishing to fund a health-related investment, and (b) when the amount of debt relief exceeds the new spending requirement and thus providing a net fiscal transfer for the debtor.

34. In the first scenario, where the health investment has priority over remaining debt service, a debt for health swap would be a cheaper way of financing the health expenditure because the expenditure would be partially financed by curtailing debt servicing when resources were too low to both invest and service the debt.[35] In other words, when a creditor grant-finances the health expenditure, cash will be spent while the debt claim remains at zero in nominal terms but if the creditor finances the health expenditure via swap, it will keep the cash but reduce a debt claim and the expected debt repayment to zero, which makes the debt for health swap a cheaper way of financing for the creditor.[36] If the debt swap arrangement is structured to ensure that the expenditure commitments are senior to the remaining debt service, there is lower sovereign risk (or insolvency risk for commercial debtors) if the support takes the form of a swap as opposed to a conditional grant.

35. In the second scenario, where the debt for health swap leads to debt relief in excess of what is needed to finance the health investment, the swap is more "generous" to the debtor than a grant because it provides a net fiscal transfer for the debtor whereas the grant can only be expected to cover the cost of the investment that it is supposed to fund.

36. The decline in total external commitments may lead to a decline in the probability of debt distress and beyond that, may even lead to credit

[32] For example, MF. Debt-for-Climate Swaps: Analysis, Design and Implementation, August 2022, available at: https://www.imf.org/en/Publications/WP/Issues/2022/08/11/Debt-for-Climate-Swaps-Analysis-Design-and-Implementation-522184
[33] Ibid.
[34] Ibid.
[35] Ibid.
[36] Ibid.

enhancement for the debtor country, improving future outlook and sovereign credit rating.

C. Transaction Models

37. There are two basic debt swap transaction structures: the bilateral debt swap and the multi-party debt swap.

38. *Bilateral debt for health swaps*: In this type of swap, an official creditor cancels a portion of debt claims (or sells the debt to the debtor at a discount) on the condition that the debt service budget savings are invested in agreed health projects. This arrangement results in a redirection of previously committed debt servicing costs to the financing of mutually agreed activities in the health sector. The agreed health investment can be implemented via an existing national entity, a dedicated structure such as a national fund or by a third party such as a non-governmental organization (NGO).

39. All D2H swaps to-date have followed the bilateral model, treating official ODA debt claims. The swaps are facilitated by the Global Fund, where the incremental spending commitment is received and implemented by the Global Fund using standard Global Fund rules and regulations and the D2H agreements are signed by all three parties. This has sometimes given rise to the misconception that D2H swaps are multi-party debt swaps but in fact, a D2H swap is a bilateral debt swap with a tri-partite agreement, in which the third party (the Global Fund) is only represented with regard to the flow of counterpart funds and issues of implementation of the health investment, including identification of activities, fiduciary management, reporting and so on.

40. Swap negotiation can last anywhere between six to eighteen months. Typically, issues range from the identification of the loan to be swapped to related debt servicing costs, alignment of the expected counterpart funding with the debtor's budget, foreign exchange rates for calculation of swap value in local currency and counterpart funding and implementation modalities and fiduciary and accountability standards.

41. *Multi-party debt for health swaps*: In a multiparty swap, one or more third parties such as NGOs or other donor institutions purchase outstanding debt from the creditor through the secondary market at a significant discount, and then renegotiate the debt obligation with the debtor in exchange for the debtor's commitment to undertake certain health expenditures. Rather than renegotiating the debt obligation, the third party may opt to (i) sell the debt back to the debtor at a discount but still at a higher price than what it has paid for the debt in the secondary market in exchange for the health investments; or (ii) lend funds to the debtor at below-market interest rates on the condition that the debtor uses the funds to buy back outstanding debt at a discount and uses a portion of the resulting debt relief to fund the agreed health expenditure.

42. Although the operations in a donor and debtor-conducted buy-back are essentially the same, the amount of realized debt relief upside can differ based on who conducts the buy-back. Donor-conducted buybacks will likely

achieve greater debt relief than debtor-conducted buybacks to the extent that the donor can buy back debt at a lower price.[37]

IV. Experience with Debt for Health Swaps

43. This section discusses the experience with debt for health swaps to-date, essentially D2H transactions, in light of three main reasons why a country might consider a debt for health swap, namely fiscal space for health investments, additional health funding and more health outcomes. It also addresses the issue of transaction costs in those swaps and how the principles of country ownership, transparency and accountability were managed.

A. Fiscal Space for Health Investments

44. With regard to fiscal space for health specifically, potential government actions as per the fiscal space diamond (see Figure 2) could include reprioritization of health within the government budget, an increase in health-sector-specific resources through earmarked taxation, an increase in the efficiency of existing health expenditure and an increase in health sector-specific grants and foreign aid.[38]

45. The increase in external aid to the health sector, in particular through the Global Fund and Gavi, the vaccine alliance, both in absolute terms and as a share of health expenditure, has been an important source of fiscal space expansion in many countries.[39] However, many significant funding still gaps remain, especially in health areas outside the mandates of the large global health funding organizations and for newer mandates such as pandemic prevention, preparedness and response (PPR).

46. Debt for health swaps can be a useful tool to help close health funding gaps by providing conditional debt relief, freeing-up fiscal space in the national budget re-directing debt service payments towards heath spending commitments, also referred to as "counterpart payment". The debtor will benefit from a measure of fiscal relief to the extent that the spending commitment does not exceed the debt service commitment it replaces is it paid for by resources that would otherwise have been used to service the debt.

47. There are at least two risks associated with a debt swap-related fiscal space expansion that should be considered and mitigated:

48. First, there may be a time gap between the typically slowly maturing debt service savings and the required time sequence of counterpart payments. If unmitigated, this could result in adverse effects on the national budget or other spending priorities, even temporarily reduce fiscal space.[40]

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[37] IMF. Debt-for-Climate Swaps: Analysis, Design and Implementation, August 2022, Annex 1, available at: https://www.imf.org/en/Publications/WP/Issues/2022/08/11/Debt-for-Climate-Swaps-Analysis-Design-and-Implementation-522184

[38] Tandon, A., Ch. Cashin, Assessing Public Expenditure on Health From a Fiscal Space Perspective, World Bank, February 2010, available at: https://documents1.worldbank.org/curated/en/333671468330890417/pdf/560530WP0Box341penditureFiscalSpace.pdf

[39] Ibid.

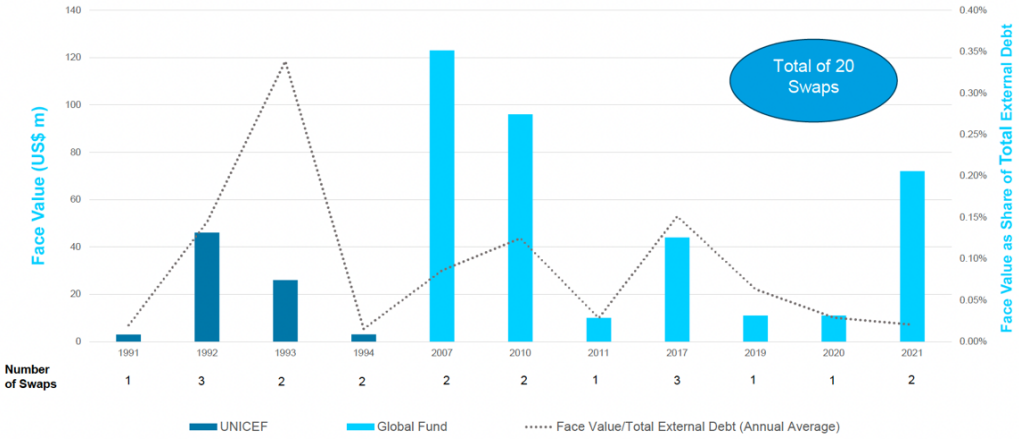
[40] Cassimon, D. et al. Indonesia Debt-for-Development Swap Experience, University of Antwerp, 2013, available at : https://medialibrary.uantwerpen.be/oldcontent/container2143/files/Publications/WP/2013/10-Essers-Cassimon-Fauzi.pdf

49. Second, the fiscal space created could be of short- and medium-term duration. Therefore, debt for health swaps, like all development aid, should be assessed for sustainability in the event that external assistance is not forthcoming or that fiscal space from any increase in domestic revenues is insufficient or not prioritized to maintain activities.[41]

B. Additional Health Funding

50. The main purpose of debt for health swaps is the mobilization of additional resources for health. Since 1991, a total of 20 debt for health swaps have been recorded (see Figure 3) with a long pause in agreements between 1994 and 2007, the year when the D2H program of the Global Fund was launched.

Figure 3. Health-Related Debt Swaps (1991-2021)



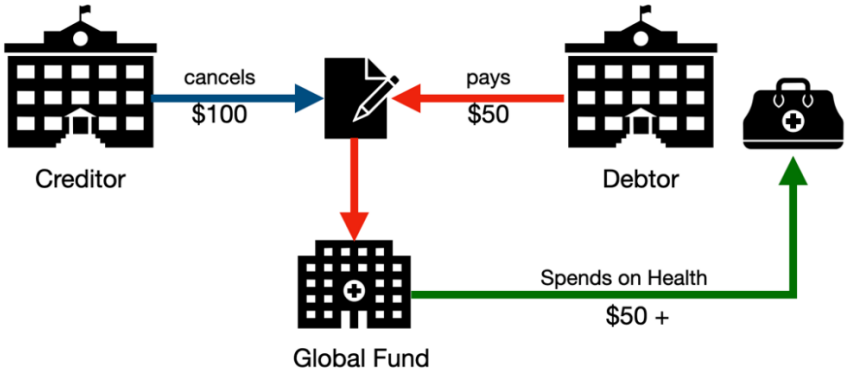
Source: UNCTAD, April, 2024

51. The D2H program is a voluntary innovative financing mechanism of the Global Fund. The participating creditors to-date have been Australia, Germany and Spain. Indonesia has been the largest beneficiary of the D2H debt swaps with a total swap face value of USD 197 million.[42]

52. Under the D2H arrangement, the participating creditor provides on a voluntary basis debt relief to the debtor on the condition that the debtor spends an agreed counterpart amount, often half of the face value of the debt swapped, on health programs. The counterpart amount is used to fund gaps ("unfunded quality demand") in an already approved but unfunded part of the Global Fund program in line with the national health strategy in HIV, tuberculosis (TB), malaria and resilient and sustainable systems for health (RSSH).[43] Counterpart payments are usually made over the duration of the particular Global Fund program. A special case of the D2H was the debt for health swap between Germany and Egypt, in which Egypt opted to donate the counterpart funds to Ethiopia for their malaria program.

[41] Heller, Peter. Fiscal Space: What is it and How to Get it, IMF, available at: https://www.imf.org/external/pubs/ft/fandd/2005/06/basics.htm
[42] Author's calculation based on Global Fund data.
[43] Global Fund. Debt2Health, available at: https://www.theglobalfund.org/media/12284/publication_debt2health_overview_en.pdf

Figure 4. Debt2Health Mechanism



Source: The Authors

53. To-date, the total face value of debt swapped under the D2H program was USD 367 million, which resulted in USD 225 million in additional heath funding.[44] The average face value of a D2H swap - at USD 30 million - is at par with debt-for nature swaps, although their total volume is considerably higher.

Figure 5. Resources Mobilization from Global Fund Debt2Health Swaps

Debt2Health Agreement	Signed	Health Investments	Debt Swap Amount	Benefiting Program
Germany – Indonesia	Sept. 2007	US$35M	US$70M	HIV and AIDS
Germany – Pakistan	Nov. 2007	US$26M	US$53M	Tuberculosis
Australia – Indonesia	July 2010	US$35M	US$71M	Tuberculosis
Germany – Côte d'Ivoire	Sept. 2010	US$13M	US$25M	HIV and AIDS
Germany – Egypt	June 2011	US$5M	US$10M	Malaria (Ethiopia)
Spain – Cameroon	Nov. 2017	US$10M	US$27M	HIV and AIDS
Spain – Democratic Republic of the Congo	Nov. 2017	US$3M	US$9M	Malaria
Spain – Ethiopia	Nov. 2017	US$4M	US$8M	RSSH
Germany – El Salvador	Feb. 2019	US$11M	US$11M	RSSH
Germany – Jordan	Nov. 2020	US$11M	US$11M	MER[2]
Germany – Indonesia	April 2021	US$56M	US$56M	Tuberculosis
Germany – Sri Lanka	June 2021	US$16M	US$16M	RSSH
TOTAL		**US$225M**	**US$367M**	

Source: Global Fund, 2024

54. In comparison to the total Global Fund resources provided by donors through the regular replenishment process, the funding mobilized from debt for health swaps made up only 0.38 per cent of the USD 60 billion disbursed by the Global Fund.[45]

55. Given that additional funding mobilized by D2H has been modest compared to total global health funding, the question can be posed whether

[44] Global Fund. Debt2Health, available at: https://www.theglobalfund.org/media/12284/publication_debt2health_overview_en.pdf
[45] Author's calculation using Global Fund data.

the instrument is worth the while. A number of elements have to be considered in this context:

56. First, with a group of only three participating creditors, and on a voluntary basis, the D2H instrument has raised over USD 200 million in additional health financing. It is expected that in the next 12 months, with additional swaps under negotiation, this amount will increase to approximately USD 300 million. This is significant additional funding from the point of view of debtor-beneficiary countries.

57. Second, the instrument offers the advantage of earmarking of funds for the national program of the debtor country. It means that the country does not have to compete in competitive funding rounds for those resources, thereby increasing the opportunity to close existing funding gaps that may exist as a result of resource constraints in the country allocation by the Global Fund.

58. Third, the instrument has only minimal administrative costs for the creditor and the debtor with respect to the identification and implementation of activities to be funded by the debt swap counterpart funds. Given that the counterpart fund spending is entirely integrated into the Global Fund systems and procedures, there is no need to create new structures. The administrative transaction costs for the implementation of a D2H swap are included in the costs for grant management, excluding costs at the country level, the costs for grant management mentioned here are the costs for the implementation of all Global Fund Grants. The administrative transactions costs for the implementation of a D2H swap (excluding in-country costs) are absorbed by the existing operational infrastructure. The global grant management costs of the Global Fund are currently 5.1 per cent[46] in addition to costs incurred at the country level. The grant management costs at country-level can vary greatly depending on the country situation but irrespective of the number, the same costs apply across the board to the D2H swap counterpart funds.

C. Health Outcomes

59. The ultimate objective of debt for health swaps is the achievement of health outcomes. In theory, these outcomes should be additional to what is already being funded. In practice, this can be challenging to establish. However, in the case of D2H, the flow of debt for health swap counterpart funds through the Global Fund facilitates confidence of creditor and debtor in the appropriate use of funds and accepted fiduciary and accountability standards.

60. Enhanced efficiency, in particular in pharmaceutical procurement, has helped stretch every dollar and reach more people and families. For example, anti-malaria treatment is available in the 15 U.S. cents range, the cost of anti-malaria bed nets is in the range between USD 2-5, the cost of drug-sensitive tuberculosis around USD 50 and anti-retroviral therapy (ART) is around USD 250 per year. The integration of swap funds into the country program process, including large-scale procurement, has helped maximize the return on the debt swap counterpart funds. Figure 6 below provides a summary of the use

[46] As percentage of pledges.

of funds, interventions and health outcomes attributed to debt for health swaps under the D2H program.

Figure 6. Use of Funds and Health Outcomes in Global Fund D2H

Use of Funds/ Health Outcomes	*Country*	*Debt Swap*	*Net Funding in USD*
- Reduction of HIV-related morbidity and mortality - Strengthening of Community and Health Systems	Indonesia	Germany-Indonesia	35m
- Reduction of morbidity, mortality and transmission of tuberculosis - Prevention of MDR-TB emergence - Improved access to quality TB treatment and MDR-TB care services	Pakistan	Germany-Pakistan	26m
- Accelerated progress towards universal access to quality treatment against TB	Indonesia	Australia-Indonesia	35m
- Reduction of new infections among People Living with HIV (PLHIV - Reduction of AIDS-related mortality	Cote d'Ivoire	Germany- Cote d'Ivoire	13m
- Reduction of malaria morbidity and mortality through procurement and distribution of long-lasting insecticide-treated bed nets	Ethiopia	Germany-Egypt	5m
- 30,000 people living with HIV receiving with anti-retroviral therapy (ART) between 2018-2020	Cameroon	Spain-Cameroon	10m
- Reduction of malaria morbidity and mortality through procurement and distribution of 2.2 million long lasting insecticide treated bed nets in the province of Tschopo	Democratic Republic of Congo (DRC)	Spain-DRC	3m

- 8 new regional laboratories equipped, which during the grant timeframe (2018-2021) allowed for: - diagnosis & treatment of 4,800 cases of multi-drug resistant tuberculosis (MDR-TB) - increased access to HIV testing from 30% to over 80%	Ethiopia	Spain-Ethiopia	4m
- Program under implementation: relocation, equipping and refurbishment of El Salvador's national reference laboratory (Laboratorio Nacional de Referencia LNR).	El Salvador	Germany-El Salvador	11m
Strengthening of national health and laboratory services for tuberculosis and HIV for Syrian Refugees in Jordan: - improved diagnosis and treatment of tuberculosis and multi-drug-resistant TB (MDR-TB); - subsidized healthcare for refugees living in Jordan to access public health services paying the same as uninsured Jordanians (20% out-of-pocket payments); - improved staff training, information management, disease tracking and surveillance	Jordan	Germany-Jordan	11m
Program under implementation; results so far (2021-2022): - provision of over 2,000 GeneXpert® machines at 1,946 health facilities; - Tuberculosis (TB) treatment to one quarter (3,500) of the country's diagnosed drug resistant TB cases from 2021-2022; - Increase in tuberculosis case notification by 52% in public health facilities and 102% private health facilities.	Indonesia	Germany-Indonesia	56m

Program under implementation. Goal is to link the country's 31 existing vertical health information systems through an unified Digital Health Platform (DHP) and ensure that healthcare providers can access critical data as patients are referred up, down and across the system.	Sri Lanka	Germany-Sri Lanka	16m

Source: Global Fund, 2024

D. Transaction Costs

61. While there is consensus that debt for health swaps can establish fiscal space and mobilize additional domestic funding for health, the involved transaction costs are regarded more controversially. Some have argued that the relatively small amounts mobilized by debt swaps did not justify the transaction costs, and that more efficient alternatives were available. Others have taken the view that debt swaps mobilize, however modest, provide critical additional domestic resources for health in the absence of any other viable options to raise revenue domestic revenue or increase external funding, and that it cannot be automatically assumed that conditional grants have low transaction costs.

62. Transaction costs are the total costs of executing a transaction, including the cost of planning, deciding, changing plans, resolving disputes, and monitoring and reporting.[47] The transactions costs discussed in this section are the operational/ administrative costs for scoping, negotiating, and implementing a bilateral swap transaction specific to the D2H program. These transaction costs are distinct from financial opportunity costs and issues of financial efficiency of the debt swap instrument as discussed in previous sections of the report, in particular section III.

63. Operational transaction costs can be divided into three broad categories: (a) search and information costs, (b) bargaining and decision costs, (c) policing and enforcement costs.[48]

64. *Search and information costs*: Creditor policies on debt swaps form the legal basis on which a creditor can undertake debt for health swaps in whatever transaction model. Factors that are likely to influence the creditor position are the state of bilateral relations, the state of the borrower's economy, fiscal policy, debt profile, the choice of implementing partner(s) and their fiduciary and accountability standards. It is essential for stakeholders interested in debt for health swaps to understand these policies. The transaction costs in this category consists of staff time and travel costs required to understand creditor policies, requirements and procedures.

[47] Downey, Lucas. What are Transaction Costs? March 2024, available at: https://www.investopedia.com/terms/t/transactioncosts.asp
[48] Dahlman, Carl J. (1979). "The Problem of Externality". *Journal of Law and Economics*. **22** (1): 141–162. doi:10.1086/466936. ISSN 0022-2186. S2CID 154906153

Naturally, debtors may also have policies and political priorities with respect to the debt swaps and such information is valuable and complements the total picture. However, clarity about capacity of the creditor is most critical in order to enter into a debt swap negotiation.

65. In previous D2H transactions, the creditor-donor provided relevant information concerning the policies and intentions with regards to debt for health swaps, either within the framework of bilateral development cooperation consultations with the potential beneficiary country or at the time of the replenishment conference of the Global Fund or both. In these cases, the transactions costs related to scoping were very low.

66. In some cases, the Global Fund in its role as D2H facilitator pro-actively approached creditor-donors when they expressed a general interest in exploring debt for health swaps in some context or another. In such cases, transaction costs tended to be higher as the information could be incomplete, outdated (for example due to change of government) or limited to a specific technical aspect or level of government. Generally, transaction costs for scoping tended to be lower when there was unwavering political commitment at the highest level of government.

67. For the creditor and the debtor, transactions costs related to scoping information were generally low as each actor maintains regular dialogue on a range of bilateral issues, including development cooperation. Therefore, in most cases, it appeared that no additional transaction costs were incurred for information gathering on debt swaps.

68. The identification of the health intervention, implementation modalities and agreement on fiduciary and accountability standards is an area that tends to be resource-intensive and time consuming and constitutes a major transaction cost in "conventional" debt swaps, in particular swaps that intend to create new structures or expand mandates of existing national structures.

69. In the D2H model, costs for the identification of health interventions have been zero in nominal terms because the debt swap counterpart funds are programmed and spent for approved but unfunded "quality demand" in national programs that have been vetted by the Global Fund in accordance with existing Global Fund policies, rules and procedures. While this system creates important efficiency in the transaction costs regarding the new health spending activities, it is limited in scope and mandate to one organization.

70. *Bargaining and decision costs*: The negotiation of a D2H swap can take anywhere from 6 to 18 months, which is considerably shorter than most debt-for-nature or debt-for-climate swaps.[49] The transaction costs in this category have consisted of staff time and travel costs for the creditor, debtor and the Global Fund as the intermediary and can vary greatly depending on experience, complexity of internal procedures to execute a debt swap and coordination among entities mandated by law to implement the debt swap on behalf of the creditor.

[49] Earth.org. What are Debt-for-Nature Swaps, February 2021, available at : https://earth.org/debt-for-nature-swaps/

71. In the case of the initial Global Fund-facilitated debt for health swaps, the negotiations were subsidized with a grant from the Bill& Melinda Gates Foundation, which not only helped reduce costs but create goodwill for engagement in negotiations within a novel debt swap model. It might be feasible to solicit philanthropic support for debt for health swaps in order to reduce risks, overcome barriers and increase incentives for parties to scale-up debt for health swaps.

72. *Enforcement*: Fiduciary standards, transparency with regard to monitoring and reporting and accountability are important elements in the implementation of a debt for health swap. These costs can vary greatly depending on the level of information that is required to be generated and when. Generally speaking, transaction costs for monitoring and reporting increase the more the requirements need to be met that are outside of the scope of an existing system deployed by the implementing entities. In organizations highly dependent on earmarked donor funding, these costs are likely to be lower than in organizations that predominately work with unearmarked donor funding.

73. In the case of D2H program, one of the advantages has been the integration of all monitoring, reporting and fiduciary issues into the existing Global Fund systems and procedures. This did not only lower transaction costs of the debt for health swap but also assured all stakeholders of an accepted standard that has been successfully applied to more than USD 60 billion in grant financing. However, implementing entities and Global Fund may incur additional costs when requested to provide a level of detail beyond what is standard. A good understanding of Global Fund systems, procedures and standards by the involved creditor and debtor entities will facilitate speed and cost of debt swaps execution.

74. In sum, the total costs for the implementation of the health intervention funded by the debt swap counterpart funds are largely included in the grant management costs incurred by the Global Fund (secretariat structures and the national implementing entities).

E. Country Ownership, Transparency and Accountability

75. The principles of country ownership, transparency and accountability are central in any development assistance arrangement, including in debt for health swaps. Given that the origination of D2H swaps has been a function of creditor policies, the question is raised sometimes whether this was consistent with the principles of country ownership.

76. *Country ownership*: One definition of country ownership describes it as a "continuum of actions taken by political and institutional stakeholders to plan, oversee, manage, deliver and finance the health sector and achieve health goals ".[50] Country ownership has been a founding principle of the Global Fund and is enshrined in its Framework Document.[51] Other Global

[50] US Global Health Initiative (GHI), available at: https://pdf.usaid.gov/pdf_docs/pdacx587.pdf

[51] Global Fund Framework Document, available at: https://www.theglobalfund.org/media/6019/core_globalfund_framework_en.pdf

Fund founding principles are performance-based funding and partnership.[52]

77. The selection and implementation process of health interventions funded by the debt swap involves a range of key actors, including the Principal Recipient (PR), the Country Coordinating Mechanism (CCM) and the Global Fund country team, assisted by the Local Fund Agent (LFA) work together throughout the lifecycle of a grant. In addition, a Technical Review Panel (TRP) reviews the technical quality of proposed activities. These activities do not involve the creditor and are carried entirely outside the sphere of influence of the creditor. Only the debtor can exert influence on these activities within the accepted boundaries (for example inclusive decision-making in the CCM) of the applicable rules and regulations.

78. The transfer of counterpart payments to the Global Fund makes no material difference in terms of country ownership because funds are earmarked for the agreed health expenditures in the debtor country and agreement on activities is entirely outside the influence of the creditor.

79. *Transparency*: Applied principles of participation and inclusivity, have helped strengthen credibility in the design and implementation of D2H swaps by offering information and data that can add value to the process, in particular with regard to the implementation of debt swap-funded health interventions. Monitoring and reporting on the use of funds, efficiency and effectiveness of interventions funded, and ultimately a credible presentation of health outcomes is of critical importance for all stakeholders involved in the debt for health swap transaction and for the local beneficiaries.

80. In past D2H negotiation process, a wide range of stakeholders, from professional association of the health work force, civil society organizations and members of the CCM to finance experts, have been convened by the Global Fund, the creditor and debtor and provided detailed information with respect to the contemplated debt swap.

81. In the implementation of the debt for health swap, the policies of the Global Fund regarding transparency are followed as in all other grants, ensuring compliance with disclosure policies with respect to financial and programmatic data and providing protections under a whistleblower policy to reports of fraud and abuse. In the past, the Global Fund has ranked "Good" in the Aid Transparency Index by Publish What You Fund, performed best in the finance and budgets component. 53 Nevertheless, maintaining the highest transparency standards requires continuous improvement.

82. *Accountability*: Performance-based funding is a founding core principle of the Global Fund. There are a number of control mechanisms in place to provide stakeholders with timely quality information about the funding activities. The LFA plays an important independent control function with respect to financial management at the country level. The Office of the Inspector General (OIG) reports conducts independent audits and investigations and reports directly to the Global Fund Board and the Finance

[52] Global Fund. Local Fund Agent Manual, available at: https://www.theglobalfund.org/media/3233/lfa_manual03sectiona_manual_en.pdf
[53] Publish What You Fund, available at: https://www.publishwhatyoufund.org/app/uploads/dlm_uploads/2022/06/Aid-Transparency-Index-2022.pdf

and Audit Committee on all its activities in the interest of transparency and accountability.[54] It also provides a channel to report fraud and abuse.

83. The OIG can access all books and records maintained by the Global Fund relating to grants funded by the Global Fund, whether maintained by grant recipients or LFA, access the sites where these records are kept and where the programs are implemented, as permitted under applicable arrangements, seek any information required from any personnel involved in the Global Fund's projects and require such personnel to cooperate with any reasonable request made by the OIG and obtain independent professional advice and secure the involvement in its activities of outside persons with relevant experience and expertise, if and when determined necessary.[55]

84. In the case of non-D2H debt for health swaps without an intermediary with fiduciary and monitoring and reporting standards already recognized by creditors/ donors and debtors/ beneficiaries, these arrangements must be negotiated as part of the swap agreement. There are several models from debt swaps in other sectors how this aspect of the transaction can be organized, whether through a national entity, a civil society organization (CSO), a special purpose vehicle (SPV) or any other arrangement. Irrespective of the arrangement, what remains critical, however, are quality standards and the trust of stakeholders in this aspect of the debt swap implementation.

V. Lessons Learned and Forward Looking Perspective

85. The surge in emergency spending for responses to the COVID-19 pandemic, inflationary pressures and monetary tightening, limited fiscal space with fewer funding options, have on the one hand contributed to a worsening of debt sustainability of developing countries, and on the other hand renewed interest in debt swaps. The latest round of swaps in Barbados, Belize and the Seychelles are a testament to this trend. Similarly, Ecuador successfully swapped USD 1.6 billion of its debt through a bond-to-loan conversion.

86. Over the last seventeen years, debt for health swaps with the ambit of the D2H program of the Global Fund have proven a viable instrument in providing a modest amount of conditional debt relief in exchange for over USD 200 million additional domestic funding for health. In 2024, D2H face value is expected to reach the USD 500 million.

87. Although the funding mobilized by D2H has been modest by global comparison, it has made a difference for beneficiary countries by reducing debt stock, offering fiscal savings and closing funding gaps in approved but unfunded national programs health programs/priorities/systems (including those already shared with, but unfunded by, international financing institutions).

88. Nevertheless, the limited use of debt for health swaps to-date begs the

[54] Global Fund OIG, available at: https://www.theglobalfund.org/en/oig/
[55] Ibid.

question how to make the most of the current landscape and how to improve instrument itself to offer additional efficiencies and scale of debt for health swaps.

89. The current scope of debt for health swaps is limited to the Global Fund mandate, which narrows the reach of the instrument to other important national health priorities. The up-take of debt for health swaps for other national health priorities has not yet materialized. If debt for health swaps were to play a more comprehensive role in funding gaps in health system finance, additional modalities must be explored. One way to possibly breach the gap between the current D2H model and any non-D2H swaps in the future that may target other national health priorities could be to utilize existing national structures for the implementation of non-D2H swaps. This might not only help lower transactions costs but also increase the confidence of stakeholders in other debt for health swaps.

90. The financial terms of debt for health swaps could be improved. The share of developing countries for which swaps could be a financially efficient option could reach 16 per cent if the financial transaction costs (funding premiums) were to be improved.[56] The financial terms of debt for health swaps could also be more attractive by increasing debt swap face values, reducing counterpart payment requirements through higher discounts (more fiscal relief) and by better aligning timelines for the payment of counterpart funds with the accruing debt service savings.

91. Creditor policies on debt swaps are central to the potential of the debt swap instrument as they form the legal basis on which the creditor can engage in debt swaps. The engagement of more creditors is indispensable for a scale up of the instrument, whether in relation to an existing program such as D2H or other transaction models. Some strategy and policy documents have called for the promotion of new financing methods unlock investment in health systems, some of which include debt swaps and/or loan buy-downs that could facilitate the conversion of debt to social development investments.[57] Voluntary targets for debt for health swaps could not only increase much needed resource for resilient health systems but have a credit enhancing affect for many developing countries and improve future outlooks. According to UNCTAD, scaling up debt for development swaps to 1 per cent of all public and publicly guaranteed debt in countries for which debt swaps are financially beneficial, would result in USD 21 billion in additional funding.[58]

92. The engagement of more participants in debt for health swap, including the multilateral development banks (MDBs), Environmental, Social and Governance (ESG) private and institutional investors and philanthropic organizations could help mobilize significant funding for debt swaps, in particular debt-buy-backs. Investor interest and philanthropic support to those issues could help create new opportunities for enhanced public-private collaboration on debt swaps in the current environment.

[56] Ibid., p. 15.
[57] EU Global Health Strategy, available at https://health.ec.europa.eu/document/download/25f21cf5-5776-477f-b08e-d290392fb48a_en?filename=international_ghs-report-2022_en.pdf
[58] UNCTAD. Debt for Development Swaps, p. 8

93. The systematic exchange of information on creditor policies, provision of technical assistance, collaboration on due diligence, standardization of agreements, the development of uniform key performance indicators (KPIs), currently a major obstacle to the engagement of institutional and private ESG investors in debt swaps, and facilitation of debt swap opportunities could help deepen the debt for health swap landscape. An appropriate dedicated collaboration platform or a special purpose vehicle (SPV) could facilitate public-private debt swap collaborations and increase the up-take of debt swaps in manner that is credit-enhancing and health-positive.

94. While debt for health swaps are not a silver bullet, in the current environment of a high debt burden, exploding debt servicing, fiscal space constraints and limited new financing options, exacerbated by the adverse impact of climate change and biodiversity loss on health systems, the instrument has untapped potential to direct much needed resources to health systems while at the same time providing some debt relief to sovereign borrowers, bolstering sustainability credentials.