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Debt to Health

A TESTED APPROACH TO **UNLOCK** ADDITIONAL FINANCING FOR Health

Dr. Christoph Benn, April 2024

Global health **challenges** are on the rise

Climate change and conflict are driving up the number of crises and health emergencies, while increasing the burden on health systems and the complexity of health care provision.

At the same time, the importance of investments in health is recognized to increase (economic) resilience at all levels.

Public **capacity to invest** is severely constrained

The cost of responding to competing crises affecting communities and ecosystems while stimulating economic growth has stretched governments' budgets – many severely affected by the COVID-19 response.*

Elevated public debt is in many countries adding to the challenge.

How to mobilise financing at the needed scale?

* Six decades of ODA: insights and outlook in the COVID-19 crisis (2023), OECD

Debt Swaps for climate and environment

Debt swaps have been used by official creditors since 1990 for claims covered by a restructuring agreement, on a bilateral and voluntary basis for low-and middle-income countries. Currently they are often used to spur climate and nature investments.

NEWS RELEASES

Ecuador Completes World's Largest Debt-for-Nature Conversion with IDB and DFC Support

May 09, 2023

- *For the first time, a multilateral institution combines the provision of guarantees with political-risk insurance to improve sustainability.*
- *Operation supports the creation of the Reserva Marina Hermandad in the Galápagos Islands area.*

Ecuador completed a debt conversion supported by **the Inter-American Development Bank (IDB) and the U.S. Development Finance Corporation (DFC).**

This conversion will enable the allocation of resources for long-term marine conservation in the Galápagos Islands, promoting sustainability and improving the quality of life for Ecuadorians. Additionally, the debt purchase with cheaper financing is projected to generate **lifetime savings exceeding $1.126 billion.**

Debt Swaps for nature often exceed in size and complexity current health swaps

Belize: Swapping debt for nature

Belize’s barrier reef is a marvel of biodiversity. Stretching 170 miles through the warm waters of the Caribbean and around atolls, cays, and coastal lagoons, the Western Hemisphere’s longest reef is home to some 1,400 species, from endangered hawksbill turtles and manatees to several threatened types of sharks. But climate change and warming oceans, excessive fishing and mangrove felling, and unchecked coastal development all pose risks to the fragile ecosystem.

Belize's signing of a debt-for-nature swap with The Nature Conservancy reduced the country's external debt by 10% of GDP and significantly improved the prospects for marine protection.

TNC subsidiary lent funds to Belize to buy back its entire external commercial debt, amounting to $553 million, at a discounted rate of 55 cents per dollar. This was achieved through the issuance of $364 million in "blue bonds," facilitated by Credit Suisse. The International Development Finance Corporation provided insurance, enabling favorable terms including a low interest rate, a 10-year grace period with no principal payments, and a long maturity period of 19 years.

The IMF on Debt-for-Climate Swaps

Conclusions of an in-depth analysis of debt swaps:

Debt-climate swaps can be **useful instruments when** the main constraint to climate investment is **lack of fiscal space**.

Hence, debt-climate swaps are worth promoting, so long they (1) expand the fiscal resources of debtor countries that cannot shoulder climate investments based on loans alone, and (2) are **designed to maximize the benefits to the debtor**.

Beyond **policies that reduce the transactions and agency costs**, debt-climate **swaps** and related climate finance instruments **deserve official financial support**.

Chamon, Marcos, Erik Klok, Vimal Thakoor, and Jeromin Zettelmeyer. 2022.
"Debt-for-Climate Swaps: Analysis, Design, and Implementation." IMFWorking Paper 2022/162, International Monetary Fund, Washington, DC

The Debt to Health (D2H) experience

Debt to Health combines **debt reduction** with an **increase in domestic funding** for health.

Launched in 2007, D2H turns debt repayments into funding for measurable activities with health impact through **established health programmes** at the Global Fund.

To date, the Global Fund has conducted 12 transactions, generating over **US$226 million in health funding for 10 debtor countries**, and US$373 million in debt cancelled through D2H swaps since the program began.

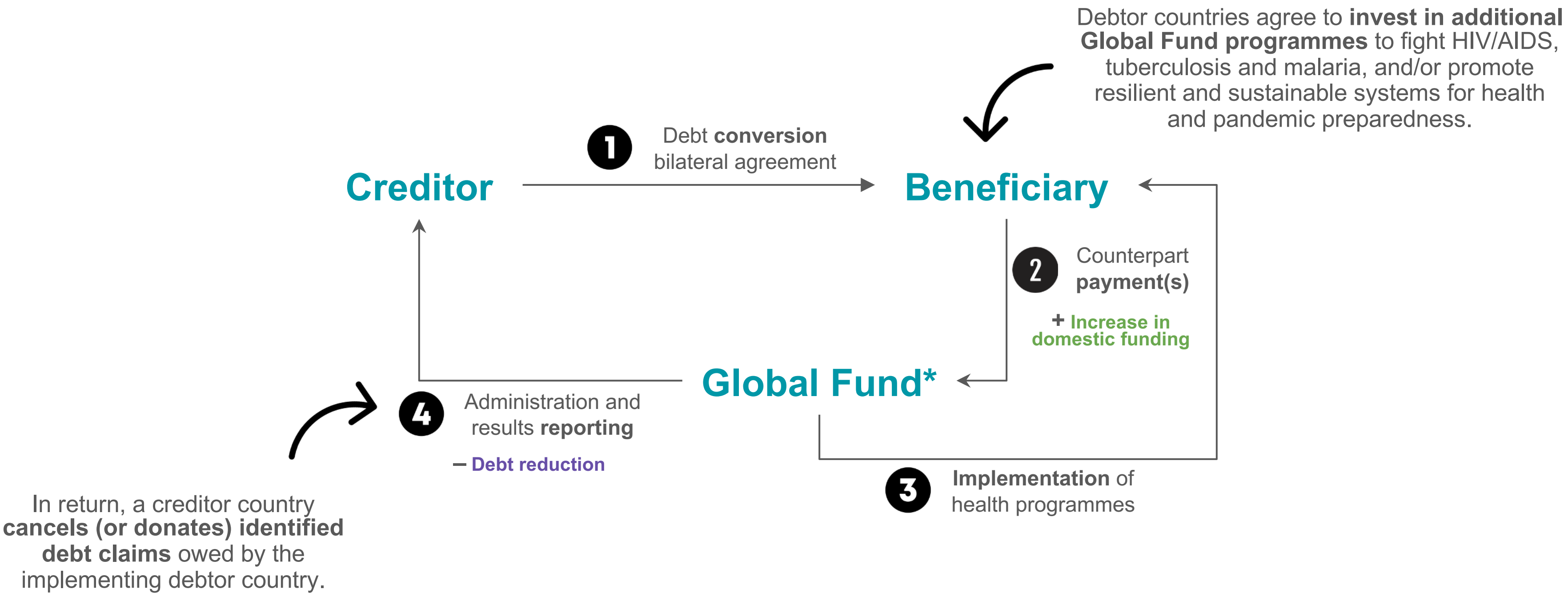
Australia, **Germany**, and **Spain** have participated and converted debt into health investments with Cameroon, Democratic Republic of Congo, Egypt, El Salvador, Ethiopia, Indonesia, Ivory Coast, Jordan, Pakistan, and Sri Lanka.

Debt to Health requires a high level of political support

The **first Debt to Health Agreement** was signed by ministers from **Indonesia and Germany at the Global Fund Replenishment Conference in 2007.**

D2H turns debt repayments into funding for measurable activities with health impact through **established health programmes, in this case using the established mechanisms of** the Global Fund.

Debt to Health (D2H): how does it work?



*Other global health organizations and initiatives could also be considered as **vehicles for implementing D2H**.

Debt to Health (D2H): how does it work?

What is D2H?

- A **bilateral** agreement between a creditor country and a debtor country.
- A **debt conversion** mechanism rechannelling debt payments to domestic investments in health.
- One tool to manage **debt distress** and direct additional resources to critical health investments.
- **Flexibility** regarding deal size and structure, conversion ratio, maturities and repayment schedule.

D2H is not

- A **multilateral** agreement.
- A **debt restructuring** or cancellation mechanism.
- A solution to the **debt crisis**.

Beyond debt swaps: D2H's value

- Creates fiscal space for debtor countries to **increase domestic funding in health (in local currency)**, encouraging also bolder and broader investments in health.
- Adds to **country ownership** of domestic health investments.
- Creditors can pair D2H with **other measures that encourage countries to invest in health**. For example, Australia, Germany and Spain have offered debt discounts in accordance with their respective regulations.
- Debt converted into health investments can be **counted as ODA** for creditor countries.
- **No need to set up new governance structures** by using established mechanisms to execute and monitor health programmes (such as those managed by the Global Fund).
- The health programme implementer (e.g. the Global Fund) ensures **quality, alignment, transparency and accountability**.

Addressing some concerns expressed about debt swaps

Political support: The **political support** of the G20 **is key**. Moving forward, it will be instrumental to **agree on a desired financial level and a time frame** to expand debt swaps for health and to report on progress.

Transaction cost/speed: The **full engagement** of all **necessary actors** in the debtor and the creditor countries is a **decisive factor,** e.g. MOH, MOF, parliament, multilateral partner/s. Once policies are established, transaction costs can be reduced significantly

Meaningful scale: National regulations and **ceilings for debt swaps** provide **a barrier** to the expanded use of the instrument (for health as well as other sectors) and will need to be revisited.

Common definitions/principles: Moving forward, a **shared definition and common principles by the G20** of debt swaps for health and development seem relevant to the maximum net value add for debtor countries. These should be based on the experience of both, creditor and debtor countries.

Ethical considerations:

- Debt for Health swaps **cannot replace international concessional funding**
- Debt swaps **are not appropriate for highly indebted countries** in need of larger solutions
- In the governance of program elements funded by debt swaps, the same **governance standards need to be applied**, especially the **inclusion of affected communities and civil society**

Conclusion

- Debt to Health swaps **have mobilized domestic investment to finance quality approved elements of national health programs** (in the Global Fund context). Debt swaps are **one element** of the health financing puzzle.

- When planning the **expansion** of debt swaps for health, one can build on the **experience with multi-party debt swaps in climate and health.**

- Political and practical **barriers need to be removed to reduce transaction costs**.

- The **collaboration between the finance and health sectors has been key** to D2H. Therefore, the Health Working Group (HWG) under the Sherpa Track and the Joint Finance-Health Task Force (JFHTF) under the Finance Track of the G20 are best placed to move this agenda forward.

Thank you very much.

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