

Lessons from the Global Fund’s successful implementation of debt swaps – The Debt2Health program

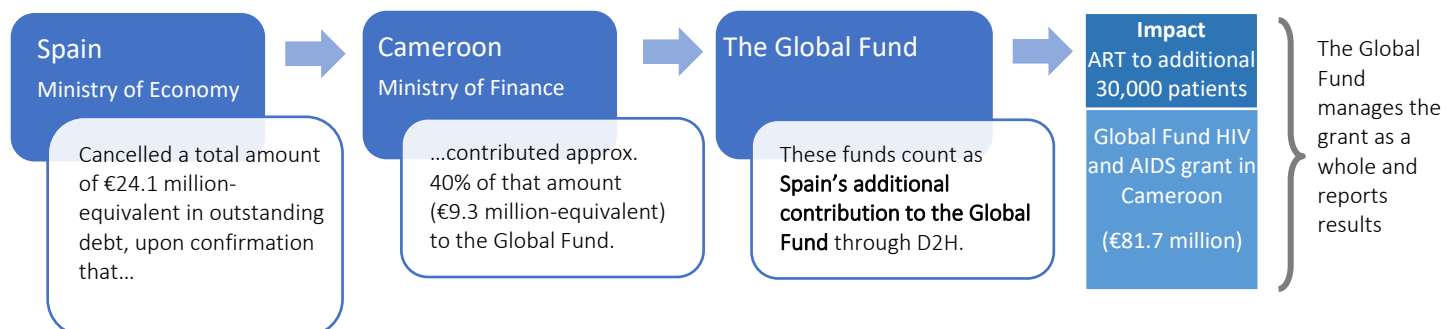
Debt swaps have been used by official creditors since 1990 for claims covered by a restructuring agreement, on a bilateral and voluntary basis for low-income countries. They were used in particular in debt cancellation and are still implemented by official creditors today. Debt Swaps are a bilateral financial mechanism that aims at transforming sovereign debt claims into ODA investments in a developing or emerging country¹.

Debt2Health – How it works

Launched in 2007, Debt2Health (D2H) turns debt repayments into funding for measurable activities with health impact through the Global Fund. In a D2H transaction, Global Fund implementing countries agree to invest in additional programs to fight HIV/AIDS, tuberculosis and malaria, and/or promote resilient and sustainable systems for health and pandemic preparedness. In return, a creditor country cancels (or donates) identified debt claims owed by the implementing debtor country.

The way this works can be illustrated through an example. Consider the Cameroon-Spain D2H transaction:

1. At the request of Spain, the Global Fund proposed and negotiated a debt swap whereby Cameroon would contribute the equivalent of €9.3 million to its own health programs in the country.
2. This investment provided an additional 30,000 people living with HIV with lifesaving antiretroviral therapy (ART), complementing the Global Fund’s grant support for HIV programs in Cameroon. The Global Fund integrated the debt swap proceeds into its grants to implement, monitor, audit and report results.
3. Spain canceled the equivalent of €24.1 million in official bilateral claims owed by Cameroon.



¹ Source: Summit for a New Global Financial Pact 22-23 June 2023 – Working group documents: Debt swaps – lessons learnt and way forward. <https://nouveau Pacte financier.org/pdf/debt-swaps-lessons-learnt-and-way-forward.pdf>

To date, the Global Fund has conducted 14 transactions, generating US\$330 million in health funding for 11 debtor countries, and almost US\$0.5 billion in debt canceled through D2H swaps since the program began.

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\$8M	Malaria
Spain – Ethiopia	Nov. 2017	US\$4M	US\$9M	RSSH
Germany – El Salvador	Feb. 2019	US\$11M	US\$11M	RSSH
Germany – Jordan	Nov. 2020	US\$11M	US\$11M	MER*
Germany – Indonesia	April 2021	US\$56M	US\$56M	Tuberculosis
Germany – Sri Lanka	June 2021	US\$16M	US\$16M	RSSH
Germany – Mongolia	Dec. 2024	US\$29M	US\$29M	HIV/AIDS, TB & RSSH
Germany – Indonesia	Dec. 2024	US\$75M	US\$75M	TB, Malaria & RSSH

* Middle East Response: https://www.theglobalfund.org/media/12029/impact_middle-east_report_en.pdf

Challenges and lessons learned – What lies behind the successful implementation of Debt2Health

Several challenges have been associated with debt swap programs. The key element behind the D2H successful track record of transactions is the Global Fund model itself, which addresses most (if not all) of those challenges, thanks to the unique way it operates.

Set up a multilateral platform that oversees ongoing projects at scale. Debt swap proceeds can flow to pre-defined funding gaps.

Every three years, as part of the Global Fund's grant-making and grant implementation processes for more than 100 countries that implement our grants, national strategies are aligned with SDGs and "translated" into: a) funding requests that are vetted by experts for their quality and strategic orientation; and thereafter b) grants that support health systems and the fight against AIDS, tuberculosis and malaria. Funding gaps (i.e., over and above what the Global Fund can fund) are registered and, as soon as other funding sources become available, integrated into our grant implementation processes in a cost-efficient manner.

This addresses a major challenge often associated with debt swaps. Very often, proceeds of debt swaps flow into a stand-alone project (insufficiently aligned with broader strategies and long-term planning) with the need to set up a new mechanism to design, assess for quality and strategic orientation, execute, and monitor implementation. This can result in high costs of implementation, especially in transactions where debt swap proceeds are small amounts.

Make this platform set the standard for transparency, inclusion, country ownership, accountability and measurable outcomes

Concerns have been raised on the exclusion of stakeholders, in particular indigenous populations, vulnerable and local communities, in the implementation of debt-for-nature swaps. Furthermore, critics have noted that in certain conservation-based swap transactions, monitoring and evaluation tend to privilege fiscal evaluations of protected areas over the direct outcomes of conservation measures. The process of performance assessment and verification needs to involve local stakeholders and to be based on a system of KPIs that everyone concerned (from local parties to international investors) accept as independent, transparent, and accurate.

The Global Fund's leadership and universal acceptance as a platform that ensures transparency, civil society and community inclusion, country ownership, accountability, and measurable outcomes addresses the above criticisms. Countries submit their funding requests to the Global Fund through national committees that include representatives of all sectors concerned: government, civil society, faith-based organizations, multilateral and bilateral agencies, nongovernmental organizations, people living with the diseases, the private sector and technical agencies. Grant performance assessment is using established and transparent processes producing measurable outcomes. For example, the €9.3 million of proceeds of Spain's D2H swap with Cameroon mentioned above provided life-saving treatment for 3 years to 30'000 additional People Living With HIV/AIDS (PLHIV).

Decouple the "Project" from the debt swap implementation timeline and schedule of payments of resulting proceeds

Entering into any debt swap transaction can be a complex, and lengthy undertaking: from identification of interested countries, to negotiation and signing of the agreement, it can take between a few months to several years. This makes it challenging to know when the debt swap proceeds will be available for a pre-defined project (e.g. it cannot be seen as source for immediate funding needs). In addition, debt swap proceeds flow into the project in varying amounts, installments, and periods, often spanning several years. As such, the respective supported Projects need to be custom-made to fit this cashflow profile.

The Global Fund solves this problem because it always has **a pipeline of health programs awaiting to be funded, should additional funds be available**. As explained above, these programs have already been approved by its technical quality and strategic orientation (i.e. aligned to the country's health strategy) and are listed in the Global Fund's [Register of Unfunded Quality Demand](#). As soon as proceeds from debt swaps are generated, they flow to fill in those gaps using the established Global Fund systems.

Focus on incremental impact, not debt relief

Debt swap programs have often been criticized as too small to make a dent in a country's debt burden. Individual debt swap transactions have also been blamed for diverting efforts from multilateral debt-relief initiatives. In addition, individual debt swaps often produce too small amounts in comparison to a country's overall healthcare gaps. The Global Fund refocuses the primary attention of debt swaps away from debt relief. In fact, debt swaps are not suited to countries with unsustainable debt. In such cases, debt swaps could still be helpful (by converting debt into SDG priorities) but they don't replace a comprehensive debt restructuring program through multilateral debt relief initiatives. The primary purpose of D2H swaps is **to mobilize additional resources for health**. Their health impact is more important than the debt reduction component. Even when relatively small amounts are treated, these are important if debt swaps are part of a broader strategy that includes the pursuit of a variety of financing alternatives to raise and pool resources for health.

Complement, don't replace

Debt swap arrangements have been criticized as a mechanism that may potentially "crowd out" other resources, either domestic or international, to a state's budget for health, education and social programs. In the Global Fund, a dedicated team of health finance experts work with governments to ensure a progressive increase (not replacement) of domestic resources for health, in tandem with Global Fund support; and gradual uptake of program costs, in accordance with [the Global Fund's Sustainability, Transition, and Co-Financing \(STC\) Policy](#).

Impact for the debtor country, a health contribution for the creditor country: Germany's leadership

The same principle as above ("complement, don't replace") should apply in the incentive mechanism that should be put in place to recognize each creditor country that participates in debt-for-health swaps. In the case of D2H, donor governments can increase (not replace) their conventional (i.e. cash) contributions to the Global Fund by supporting debt swaps. This was the case of Germany's pledge at the Global Fund's Seventh Replenishment Conference², which consisted of a €1.2 billion core pledge and an additional €100 million D2H pledge, where contributions will be generated from additional debt swap transactions. Germany has been the leading supporter of D2H, both in piloting the concept in 2007 and in supporting the scheme as a creditor in most subsequent transactions.

² See article: <https://www.bmz.de/de/aktuelles/aktuelle-meldungen/deutschland-erhoeht-beitrag-an-den-globalen-fonds-121064>

