

Q&A Debt2Health

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What is Debt2Health?

Debt2Health involves Global Fund-facilitated agreements under which creditors forgo repayment of a portion of their sovereign debts (i.e., development aid credits) on the condition that the beneficiary countries invest an agreed upon counterpart amount in health through the Global Fund.

Who is involved in Debt2Health?

A Debt2Health agreement involves creditors, the beneficiary country, and the Global Fund. Civil society has a role to play in monitoring the conversions.

Why Debt2Health?

Debt2Health increases resources channelled through the Global Fund's proven and tested mechanism, thus strengthening coherence and coordination of donors while at the same time using processes and mechanisms known and appreciated in beneficiary countries.

What is innovative about Debt2Health?

For the first time, debt swaps are carried out through trilateral arrangements involving a multilateral organization, thus enhancing aid harmonization and implementing the "Paris Declaration on Aid Harmonization and Effectiveness". Through the counterpart payments the beneficiary country becomes a donor to the Global Fund. This strengthens the ownership of these countries.

Who can benefit from Debt2Health?

In the pilot phase (2007-2009): Indonesia, Peru, Pakistan and Kenya. More countries may follow if the pilot phase is successful.

What are the criteria for a country to qualify for Debt2Health?

- high disease burden
- demonstrated need
- potential and capacity for scale-up
- good past performance of Global Fund grants
- liquidity to invest in the counterpart fund
- an adequate mix of potentially convertible debt
- potential for involvement of civil society

How are the counterpart funds paid in?

Counterpart funds can be paid in cash or by promissory note.

When will the debt cancellation occur?

The cancellation occurs up-front as soon as the counterpart funds are received by the Global Fund. This is an important difference from former debt swaps, where the cancellation occurred only after implementation, final evaluation, and auditing of the project financed.

What is the volume of debts targeted in the pilot phase?

Debt volume offer of US\$500 million is expected. It is difficult to estimate how much this will translate into in funds for Global Fund programmes, as the conditions of the debt swap will vary among creditors. A conservative estimate is US\$250 million.

Does debt offered under Debt2Health count towards Global Fund contributions?

Debt offered for conversion will not count towards the core budget contribution, but it will be counted and reported as additional efforts made by the countries involved.

Can non-concessional debt be included in Debt2Health?

In principle yes, but it is more challenging. While debtor countries are servicing their debt (nearly) in full, export credit agencies are less than likely to provide discounts during the sale of their claims. Moreover financing cancellation of foreign obligations from development budgets will meet with criticism from the development community.

Is there a risk that illegitimate debt be converted?

This question is of concern to all parties involved in Debt2Health. The Global Fund collaborates with debt cancellation movements around the world to ensure that adequate attention is paid to this issue, especially since criteria for what makes debt illegitimate are still evolving.

Can Debt2Health work for Heavily Indebted Poor Countries (HIPC)?

HIPCs are benefiting from two debt reduction initiatives, the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). Still there might be opportunities for HIPCs if the range of creditors can be successfully extended to regional multilateral creditors, which hold some US\$10 billion in claims.

Does Debt2Health affect the official development assistance (ODA) quota of the creditor country?

ODA loans count towards the ODA quota at the time of loan agreement. Any repayments would actually have to be deducted from ODA. Debt2Health prevents the ODA quota from dropping.

Do creditors have to offer a discount rate?

No. Whether or not a discount is offered depends on the legal regulations in the creditor countries.

Can additional creditors be included?

Germany is the first creditor to offer debt for conversion under Debt2Health. An important objective of the Initiative is to involve more creditors.

What will be funded through Debt2Health?

This depends on what the beneficiary country applies for, as determined by the Country Coordinating Mechanism (CCM); the Technical Review Panel (TRP) recommends; and the Board approves. Anything entitled to funding from the Global Fund can be financed through Debt2Health.

Who decides on how the Debt2Health funds are spent?

Decisions for Debt2Health funds are made in the exact same way as for other Global Fund grants.

Could Debt2Health crowd out regular grants?

No, because a country's entire programme package is approved by the Technical Review Panel irrespective of the source of funds.

What impact could Debt2Health have on the health budget in beneficiary countries?

Debt2Health funds are made available additionally and shall increase the health expenditure of the beneficiary country. They will not be included in the health budget of the beneficiary country. In order to avoid the dropping of health expenditure the health budget shall be monitored.

To what extent is Debt2Health funding additional?

For the Global Fund, Debt2Health resources will be an additional source of income. Like all Global Fund grants, Debt2Health funds are in principle additional to the country's health budget. Monitoring a country's health budget will help sustain its level.

Why should the Global Fund get involved in debt conversions?

The Global Fund is a financing institution well positioned to facilitate a win-win scenario between creditors and debtors. Channelling money through the Global Fund helps to harmonize development spending and increases financing to fight HIV/AIDS, tuberculosis, and malaria.

Is Debt2Health a sustainable way of financing?

Donors may for quite some time struggle to deliver on their ODA promises while poorer countries do have considerable debt outstanding. Debt2Health brings these sides together while generating domestic funding for health.

Who supports Debt2Health?

The governments of Germany and Indonesia, UNAIDS, the Bill and Melinda Gates Foundation, the Global AIDS Alliance, Erlassjahr.de, and the Make Poverty History Campaign in Australia all support the Initiative. Others have expressed interest to join.

What will happen after the pilot phase of Debt2Health?

If the pilot phase delivers convincing results, the Global Fund Board will consider whether to expand the pilot.