

Debt2Health

What is it?

Debt2Health is a recently introduced innovative financing mechanism that targets additional funds to health systems through debt relief. Instead of repaying debt owed in the future, countries invest in health systems in the present.

Debt2Health involves a three-way partnership between creditors, grant-recipient countries, and a multilateral institution, currently the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

Under an agreement facilitated by the Global Fund, creditors forgo repayment of a portion of their loan to a poor country on the condition that that country, in return, invests an agreed amount in health. The investment is made through the Global Fund according to the systems and principles it regularly uses to disburse grants.

To date, Germany has cancelled €50 million and €40 million, respectively, of Indonesia's and Pakistan's bilateral debt through this mechanism. These amounts represent a 50% discount in repayments to the German government, and are generating payments to the Global Fund of €25 million and €20 million (amounts that will then be disbursed to health systems in Indonesia and Pakistan). Australia has also joined this initiative to cancel AUS\$75 million of Indonesia's debt.

It has been estimated that this mechanism could raise about US\$100 million per year.

However, the potential revenue depends on donor willingness to cancel debt through the mechanism, and on the amount of debt that is available to cancel.

Debt2Health could be scaled up by the Global Fund to support its health systems strengthening programmes. It could also be extended to other multilateral institutions. It would take about one year to develop a new Debt2Health swap, and 6 to 12 months to implement one.

Why is the Taskforce supporting it?

The pilot Debt2Health has demonstrated the feasibility of targeting additional funds to health systems through debt conversion.

The trilateral structure of its agreements transforms recipients into donor/partners, thereby potentially increasing their ownership, accountability and local participation

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See also :

www.theglobalfund.org/en/funds_raised/innovative_financing/initiatives/debt2health/

www.theglobalfund.org/en/innovativefinancing/debt2health/incentives/