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Sustainable Financing for Health:

A User Guide for African Governments

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This user guide is based on research funded by the Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect the positions or policies of the Gates Foundation.

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Foreword

For many decades, the question of how African countries can sustainably finance essential public health services has remained both urgent and complex. The continent's development aspirations are ambitious, yet traditional financing sources have proven insufficient to meet the scale of current needs. Today, African governments simultaneously face the challenges of underfunded health systems and the escalating demands brought about by pandemics, rising incidents of non-communicable diseases, and other public health crises.

These pressures have compelled policymakers, development institutions, and financial advisors to rethink conventional approaches to public financing. The African Legal Support Facility (ALSF) recognises and supports the pressing need of governments to identify and implement tools that enable effective and sustainable health sector financing. Innovative instruments are now central to global conversations on how countries can responsibly mobilise resources while maintaining fiscal stability.

It is against this backdrop that the ALSF, with the support of the Gates Foundation, convened a diverse group of leading experts in law, finance, public health, and policy to develop "Sustainable Finance for Health: A User Guide for African Governments" ("the User Guide"). This first-of-its-kind resource responds directly to the growing interest in mechanisms such as health-focused bonds and loans, sustainability-linked debt instruments, debt-for-health swaps, and health PPPs - instruments that have been deployed globally to catalyse key investments in priority health programmes.

Despite their promise, these innovative health financing mechanisms remain underutilised, in some cases due to their legal and structural complexities. The User Guide aims to close that knowledge gap. It provides clear, practical guidance to support governments in navigating the full lifecycle of these instruments: from conceptualisation

and policy alignment, to transaction structuring, documentation, negotiation, and implementation. Drawing on lessons from global initiatives such as the Global Fund to Fight Aids, tuberculosis and malaria (the "Global Fund") and other pioneering models, it presents best practices in an accessible, actionable format.

As with previous ALSF knowledge products, this User Guide reflects the collective expertise of contributors, in this case, drawn from multilateral institutions, law firms, academia, global health organisations, and advisory practices. Their perspectives have been shaped not only by sectoral knowledge but by extensive on-the-ground experience working with and within African governments. The result is a balanced, multidisciplinary reference designed to strengthen institutional capacity across ministries of finance, health, and planning as well as among debt managers and policymakers. To ensure a collaborative and time-efficient drafting process, the User Guide was produced using the Book Sprint methodology, an intensive group writing workshop. This approach, grounded in discussion, experience sharing, and expert insight, has ensured that the final product is firmly relevant to Africa's real-world challenges and opportunities.

We hope this User Guide will support African governments in making informed and strategic decisions as they work to scale up health sector investments and strengthen public financial management. While these materials offer guidance and practical tools, they are not a substitute for professional advice. They should be used in conjunction with tailored legal and transactional expertise - which the ALSF was established to provide and stands ready to offer.

On behalf of the African Legal Support Facility, I extend my sincere appreciation to all contributing authors, remote collaborators, facilitators, and reviewers whose dedication and expertise made this User Guide possible. I also acknowledge our partners and stakeholders across the continent, whose continued commitment to advancing sustainable financing for health consistently informs and inspires our work. In particular, I wish to express special thanks to the West African Institute for Financial and Economic Management (WAIFEM) and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) for their valuable support during the review process, as well as to the senior African government technical experts whose insights ensured that the User Guide reflects the practical perspectives, priorities, and collective voice of its intended end users, the African governments.

As African countries navigate a rapidly shifting global landscape, the ALSF remains steadfast in its support for solutions that promote responsible borrowing, strengthe-

ned health systems, and long-term socio-economic development. We trust that this User Guide will be a valuable resource in advancing those goals.

Olivier Pognon
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THE AFRICAN LEGAL SUPPORT FACILITY

The African Legal Support Facility (ALSF) is an international organisation which broadly aims to remove asymmetric technical capacities between public- and private-sector stakeholders. The ALSF was initially established in response to the rise in vulture fund litigation against African sovereigns, but quickly expanded to assist African governments in negotiating complex commercial transactions. The ALSF intervenes in matters related to sovereign debt, power, infrastructure and the extractive sectors.

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Executive Summary

Sustainable Financing for Health: *A User Guide for African Governments* (the Guide) is a practical resource designed to support African governments in financing priority health investments in a fiscally responsible and sustainable manner. It is written primarily for Ministries of Health (MoHs) and Ministries of Finance (MoFs) and is intended to strengthen collaboration between them as they identify health priorities, assess financing options, and structure transactions that align with national development plans and macro-fiscal frameworks. The Guide responds to growing demands from governments for clear, action-focused guidance at a time of tightening fiscal space, rising debt pressures, shifting donor support, and increasing health system demands.

The Guide does not introduce new instruments. Rather, by building on established global practices and African experiences, the Guide demonstrates how existing financing mechanisms can be applied effectively to health priorities. It examines debt-for-health swaps, sustainability-linked and use-of-proceeds instruments, public-private partnerships (PPPs), and credit enhancement tools, explaining how each can be structured, governed, and implemented within national legal and institutional frameworks. Through case studies, practical tools, and structured guidance, the Guide helps officials assess readiness, manage risks, understand documentation and process requirements, and adapt these instruments to country-specific fiscal conditions and health sector needs.

Why This Guide, and Why Now?

The timing of this Guide is critical. Many African countries are experiencing sharp reductions in Official Development Assistance, heightened debt burdens and lingering post-COVID fiscal constraints. Simultaneously, the continent faces signific-

ant population growth, persistent health service delivery gaps, and a need to increase domestic health investments. Meeting these challenges requires not just more funding but smarter financing.

This Guide fills an important gap in existing resources by offering an Africa-specific, government-facing tool that brings together legal, fiscal, and technical dimensions. It seeks to enhance collaboration between MoHs and MoFs, and to foster a shared understanding of what instruments are appropriate, feasible, and impactful in various circumstances.

1. Key Features

- **Modular design.** The Guide is structured so that users can consult individual chapters or specific financing instruments as needed, depending on their context and role in the financing process.
- **Country ownership.** Emphasises country-led planning and health sector prioritisation as the foundation for any financing solution.
- **Capacity building.** Encourages institutional strengthening through embedded tools, guidance, and references complementary to ALSF and partner resources.
- **Legal clarity.** Outlines the relevant legal frameworks, documentation requirements, and workflow processes required to support each instrument and related transactions.

2. Chapters

The Guide is designed for use by cross-functional teams of policymakers, legal experts, and technical officials working across MoHs and MoFs. It walks users through:

- Key considerations when selecting financing instruments, including fiscal implications, regulatory requirements, and institutional capacity;
- Practical structuring pathways and steps to design transactions that deliver tangible health impacts;
- Decision tools to help with planning, negotiation, and implementation; and

- Risk mitigation and governance approaches to safeguard public interest and improve execution.

The Guide is organised into the following nine chapters.

1. CHAPTER 1: SETTING THE SCENE

This chapter establishes the context and rationale for the Guide. It outlines the structural pressures facing African health systems, including persistent underfunding, growing disease burdens, demographic change, constrained fiscal space, and evolving donor priorities. The chapter explains why governments must move beyond reliance on traditional budgetary allocations and external aid alone, and instead take a more strategic, coordinated approach to financing health. It clarifies the purpose of the Guide as a practical tool to support MoHs and MoFs in jointly identifying, assessing, and operationalising financing solutions that are aligned with national priorities and fiscal realities.

2. CHAPTER 2: FINANCING FOR HEALTH

This chapter provides the conceptual foundation for the rest of the Guide. It explains how health financing systems function, including revenue collection, pooling of funds, and purchasing of services. It examines the different sources of health financing, domestic public expenditure, private expenditure, and external assistance, and discusses their implications for sustainability and equity. The chapter also sets out the respective and complementary roles of MoHs and MoFs, highlighting the importance of coordination between sectoral planning and macro-fiscal management. By mapping the institutional architecture and key actors involved in health financing, the chapter anchors later discussions of specific instruments within the broader system in which they must operate.

3. CHAPTER 3: COMMON CONSIDERATIONS

Chapter 3 focuses on the cross-cutting conditions that must be in place for financing instruments to be effective and sustainable. It highlights the legal, regulatory, and institutional frameworks that shape health financing decisions, including public financial management systems, debt management rules, procurement frameworks,

and approval processes. The chapter underscores the importance of regulatory alignment, fiscal risk assessment, transparency, and inter-ministerial coordination. It also addresses institutional capacity, governance arrangements, and the need to tailor financing solutions to country-specific legal and fiscal contexts. This chapter serves as a readiness lens, helping officials assess whether the enabling environment can support the instrument under consideration.

4. CHAPTER 4: HEALTH FINANCE AND KEY PERFORMANCE INDICATORS

Chapter 4 links financing to outcomes. It begins by situating national health financing within the broader global health architecture, including the role of major international institutions and financing partners that support health investments across Africa. It then outlines the main categories of health expenditure and typical programmatic areas financed within the sector. The central focus of the chapter is the role of key performance indicators (KPIs). It explains how measurable indicators are used to connect financing to results, particularly in performance-based, sustainability-linked, and results-oriented instruments. By clarifying how KPIs are defined, monitored, and verified, the chapter provides the analytical bridge between financial structuring and measurable improvements in health outcomes.

5. CHAPTER 5: SUSTAINABLE FINANCE INSTRUMENTS

Chapter 5 aims to guide officials from MoFs and MoHs, as well as practitioners, on the design and implementation of sustainable financing instruments - specifically use of proceed and sustainability-linked bonds and loans, and impact bonds as mechanisms to mobilise public and private capital for health objectives. It explains core structuring elements, including the identification of eligible health expenditures or measurable KPIs and sustainability performance targets, and highlights the importance of credible monitoring, reporting, and verification systems aligned with market standards.

The chapter also addresses the supporting legal and transactional frameworks for such instruments, including the preparation of sustainable finance frameworks, external reviews, and the incorporation of binding use of proceeds, reporting, and performance related provisions in bond or loan documentation. It sets out enabling conditions, inter-ministerial coordination requirements, and includes practical

checklists and workflow processes to guide governments from preparation through issuance and ongoing compliance.

6. CHAPTER 6: DEBT-FOR-HEALTH SWAPS

This chapter explains the structure and rationale of debt-for-health swaps, under which a portion of external debt is cancelled, reduced, or restructured in exchange for a commitment to invest agreed amounts in priority health programmes. The chapter distinguishes between bilateral debt swaps, concluded between official bilateral creditors and debtor governments, and commercial debt conversions involving private creditors, often supported by intermediaries or credit enhancers. The chapter outlines the potential benefits, including fiscal space creation and targeted investment in health, as well as key risks such as complex negotiations, governance and fiduciary challenges, and possible implications for credit ratings and future market access.

In addition, the chapter sets out the transaction architecture and process steps required to operationalise a swap. It describes the preparatory phase, including debt stock analysis, identification of eligible obligations, stakeholder mapping, and alignment with national health priorities. It outlines the negotiation and structuring phase, including term sheet development, creditor engagement, and the design of governance and oversight arrangements for the health investment component.

Finally, the chapter highlights the legal documentation typically required, such as framework agreements, swap agreements, trust or fund arrangements, and implementation protocols, as well as monitoring and reporting mechanisms to ensure transparency, accountability, and measurable health outcomes. Practical process maps and checklists are provided to guide ministries through feasibility assessment, negotiation, documentation, and post swap implementation.

7. CHAPTER 7: THE USE OF PUBLIC-PRIVATE PARTNERSHIPS IN HEALTHCARE PROJECTS

Chapter 7 provides structured guidance on the application of PPPs in the health sector. Part 1 of this chapter clarifies the defining features of health PPPs, the policy objectives they can serve, and the circumstances in which they are suitable. It emphasises value for money, fiscal affordability, risk allocation discipline, and the need to

align PPP structures with national health priorities and public financial management frameworks.

Part 2 sets out the full PPP lifecycle, from project identification and screening through feasibility analysis, structuring, procurement, contract award, and long-term contract management. The chapter includes practical tools such as project screening criteria, feasibility and affordability assessment guidance, risk allocation matrices, procurement integrity safeguards, and contract management checklists. It also highlights the key legal considerations underpinning health PPPs, including enabling legislation, procurement compliance, contractual documentation, performance and payment mechanisms, dispute resolution provisions, and ongoing monitoring and reporting obligations. Together, these tools and process maps are intended to guide officials in structuring bankable, transparent, and accountable health PPP transactions.

8. CHAPTER 8: CREDIT ENHANCEMENT

Chapter 8 explains how credit enhancement can improve access to finance for health by reducing perceived risk and lowering the cost of capital. It sets out the main credit enhancement options used in practice, including partial and full guarantees, political risk insurance, liquidity facilities, reserve accounts and cash collateral structures, and other forms of risk sharing with development finance institutions and insurers. The chapter guides officials on how to select an appropriate instrument based on the underlying transaction, the risk being addressed, and the intended impact on pricing, tenor, and investor appetite.

The chapter also provides practical guidance on structuring and implementation. It outlines key questions for assessing feasibility, including the trigger conditions, coverage scope, claims process, and interaction with the base bond or loan terms. It highlights the main legal and governance considerations, including authority to issue or accept guarantees, approval and procurement requirements, disclosure and reporting obligations, and recording contingent liabilities in line with public debt and fiscal risk management frameworks.

9. CHAPTER 9: RECOMMENDATIONS

The final chapter provides recommendations aimed at strengthening the enabling environment for health financing transactions and improving decision-making. It

separates recommendations for MoHs and MoFs, focusing on planning, cross government collaboration, realistic budgeting, and stronger risk and contingent liability management.

Key recommendations at a glance

Recommendations for MoHs include:

- Advocate for fair and realistic allocations to health.
- Take a long-term, strategic view in financing health priorities.
- Build credible execution capacity and data-driven delivery.
- Collaborate closely with the MoF to design and execute health financing instruments.

Recommendations for MoFs include:

- Put blended finance tools at the centre of national borrowing plans.
- Ensure visibility over budget execution for the health sector.
- Standardise and improve health finance data.
- Establish a task force to mobilise credit enhancement for health funding.
- Build the capacity of the MoF and the MoH to jointly engage in innovative financing instruments.

Overall, the Guide supports governments to make better structured choices, grounded in law, public finance rules, and implementation capacity. It encourages early collaboration between health and finance teams, careful use of indicators and safeguards, and disciplined use of advisors and documentation so that financing decisions translate into deliverable health outcomes.

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Chapter 1: Setting the Scene

Health is central to sustainable development. Across Africa, governments face the dual challenge of improving health outcomes and access to healthcare while preserving fiscal sustainability. Historically, African countries have relied heavily on Official Development Assistance (ODA) to finance their health objectives, with ODA accounting for 30-50% of Total Health Expenditure (THE) in low-income settings. Yet, global aid is contracting and health support is declining even faster, reaching its lowest level in over a decade.

This comes at a time when public health emergencies are on the rise (a report by Africa CDC: Africa's Health Financing in a New Era - April 2025, reports a 41% increase, from 152 in 2022 to 213 in 2024), exposing chronic underinvestment in health infrastructure and in healthcare workers (HCWs). The COVID-19 pandemic highlighted that health is not only a social priority but also a foundation of economic resilience and national security. Meanwhile, global health institutions such as the World Health Organisation (WHO), the Global Fund to Fight Aids, tuberculosis and malaria (Global Fund), Gavi and the World Bank continue to play a pivotal role in financing and technical assistance. Still, their focus is shifting toward catalytic funding models (a type of financing that seeks to create positive social and environmental impacts in addition to generating financial returns), co-financing requirements and greater country ownership, underscoring the need for governments to mobilise sustainable domestic resources and to leverage innovative financing instruments.

Objectives of the User Guide

This User Guide is a practical, action-oriented resource for African governments, particularly for ministries of health and finance, on designing, negotiating and implementing sustainable health financing solutions - in particular sustainable financing instruments, debt swaps and public-private partnerships. It simplifies these complex tools and provides clear frameworks for assessing readiness, structuring transactions and ensuring long-term value for health systems. While the Ministry of Finance (MoF) leads on fiscal and debt-related engagements, the Ministry of Health plays a critical role in defining the investment case, aligning interventions with national priorities and ensuring that the proceeds of innovative financing directly strengthen health outcomes and systems. The User Guide promotes a shared understanding of how finance and health authorities can collaborate to leverage financial innovation for tangible benefits to population health and resilience.

Note on One Health and Cross-Sectoral Collaboration

Throughout this Guide, references to the "Ministry of Health" should be understood in a broader context that aligns with the *One Health* approach. In many countries, the health sector includes several line ministries and government agencies working across human, animal, and environmental health. While the Ministry of Health is typically the lead actor, successful health financing strategies often require coordination with other relevant ministries, including those responsible for agriculture, environment, social protection, and infrastructure. This Guide encourages governments to adopt inclusive approaches that reflect their national institutional arrangements and health priorities.

For more details on the One Health approach and its implications for health financing and cross-sectoral coordination, the reader is referred to the World Health Organization (WHO), Food and Agriculture Organization (FAO), and World Organisation for Animal Health (WOAH) joint One Health framework, which highlights the interdependence of human, animal, and environmental health sectors and the importance of integrated planning and resource mobilisation at https://www.who.int/health-topics/one-health

How the User Guide Complements Existing Tools

While several frameworks and publications exist on health financing, this User Guide provides an African-led perspective on health systems and their funding challenges. It also suggests frameworks for undertaking transactions with deliverable financing instruments that are grounded in legal and institutional realities. It builds on existing strategies and tools by bridging the gap between planning and execution, offering practical guidance on additional options for revenue mobilisation, deal structuring and legal considerations. It complements national health financing strategies, expenditure frameworks and toolkits developed by the WHO, Gavi, the Global Fund and other partners.

How to Use It

Rather than being read from cover to cover, the User Guide is organised in a modular format. Users can engage with specific instruments or tools based on their needs, stage of the financing process or institutional role. The resource can be used in several ways:

- As a capacity-building tool, it aims to deepen understanding of instruments like thematic and sustainability-linked bonds, debt-for-health swaps and health-related public-private partnerships (PPPs).
- As a readiness assessment tool, it guides policymakers in understanding and evaluating the enabling conditions, fiscal space and institutional preparedness required to obtain such financing.
- As a legal and negotiation reference, with model clauses and checklists to support transaction teams.
- As a decision-support guide, it helps policymakers assess the appropriateness of different instruments in light of fiscal realities and health priorities.
- As a coordination guide, supporting joint planning between MoHs and MoFs, other government departments and agencies and other stakeholders.

Throughout, the User Guide draws on real-world examples. Importantly, however, it is intended to complement, not replace, national policies, legal frameworks or planning processes.

Users are also encouraged to consult related resources such as the ALSF Sovereign Debt Handbook and *ALSF Debt Document Commentaries* for technical insights into legal structuring and compliance, in particular, the ALSF Sustainability Financing Debt Guide and the ALSF Debt Swaps Guide.

What This User Guide Is Not

While this User Guide provides a robust foundation for understanding and applying health financing instruments, it does not purport to contain all the information each user may require on such instruments. It is also not a substitute for professional legal, financial or technical advice. The design and execution of complex transactions, especially those involving PPPs or sovereign borrowing, require the expertise of qualified professionals. Governments are strongly encouraged to seek such support in all phases of implementation.

Chapter 2: Financing for Health

This chapter provides the background and rationale for the User Guide. It explains why health is central to sustainable development, outlines the current financing challenges related to health systems in African countries and introduces the key financing instruments outlined in the resource. It also begins to identify everyday health expenditures and indicators that lend themselves well to these external financing options, as well as key considerations that governments must take into account when choosing the indicators.

Why Health Matters

Health is both a moral imperative and a foundation for economic and social development. The global community's commitment to health is enshrined in the Sustainable Development Goals (SDGs), particularly SDG 2 (Zero Hunger) and SDG 3 (Good Health and Well-being). These set ambitious goals to substantially and sustainably improve the health of all people. Yet, beyond moral obligation, the case for investing in health is also profoundly economic. Healthier populations are more productive, more resilient and more capable of driving long-term national growth.

Evidence from across regions shows that investments in health yield among the highest returns of any public expenditure. Global analyses from the World Health Organisation (WHO) and the Global Fund suggest an average return on investment exceeding 30:1. These gains reflect the multiple channels through which health fuels development, from reducing absenteeism and increasing labour productivity to enhancing children's learning outcomes and enabling women's greater participation in the workforce.

Most importantly, health remains one of the issues citizens care about the most. The 2024 Afrobarometer survey found that health ranks second, on average, among the most critical problems for governments to address, behind only unemployment. This demand reflects a simple reality: when people are healthy, communities thrive, economies function and social contracts are strengthened.

For policymakers, therefore, investing in health is not just about meeting humanitarian goals; it is about safeguarding the very foundations of growth and stability. Recognising this link between health and prosperity is essential for both Ministries of Health (MoHs) and Ministries of Finance (MOFs) as they navigate the choices and trade-offs that shape national development.

The Funding Crisis

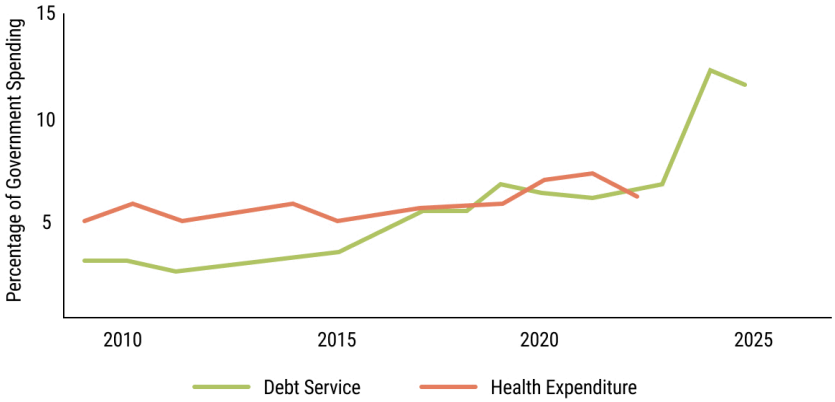
Over the past two decades, Africa has made remarkable gains in health: access to care has expanded, maternal and child mortality have fallen, and coverage of key services, such as immunisation, human immunodeficiency virus (HIV) treatment and other disease programmes, has increased significantly. These achievements reflect the dedication of governments, communities and development partners working to strengthen health systems and broaden service reach.

Much of this progress has been underpinned by external financing. For years, organisations such as the Global Fund, Gavi, the World Bank and significant bilateral donors have provided the resources that have helped to close domestic funding gaps.

That financial landscape is now changing rapidly. In 2024, total Official Development Assistance (ODA) from the Organisation for Economic Co-operation and Development - Development Assistance Committee members declined by 7.1% in real terms**.** In 2025, countries in sub-Saharan Africa are expected to see a 16-28% reduction compared to 2021, the most significant reduction among all regions. Additionally, health-specific aid is declining at a faster rate than other sectors. The most prominent donors, accounting for 80% of bilateral health and population aid, are expected to reduce their ODA contributions, with the United States alone providing over half of the historical contributions. These contractions occur at a time when health systems are under increasing pressure, as evidenced by the 41% increase in public health emergencies between 2022 and 2024.[1]

The decline in donor funding is exacerbated by a dramatically tightening fiscal space within African governments. At least 22 countries on the continent are now in or at high risk of debt distress, and more than 30 countries pay more annually on debt servicing (the total amount of money required to pay the interest and principal on existing debt) than on their health sectors.

1. OECD. (n.d.). *Official development assistance (ODA)*. Organisation for Economic Co-operation and Development. https://www.oecd.org/en/topics/policy-issues/official-development-assistance-oda.html



Source: International Debt Statistics (IDS), UNESCO Institute for Statistics, WHO GHED, IMF WEO

Fig. 2.1: Trends in Government Spending on Debt Servicing and Health Expenditure

This triple pressure - shrinking external support, increasing healthcare needs and increasing debt servicing on existing debt obligations - forces governments to balance the imperative of improving health outcomes with the need to preserve macro-economic fiscal stability. The result is a growing mismatch between what citizens need and what national budgets can sustainably deliver.

This is where collaboration between MoHs and MoFs becomes essential. Together, they must look beyond traditional budget allocations to identify and implement financing instruments, such as public-private partnerships (PPPs), debt swaps and other sustainable debt instruments that can expand fiscal space for health while maintaining financial sustainability. They should also consider the shifting roles of major health funders, such as the Global Fund, Gavi and the World Bank, as described in Chapter 4: *Health Finance and Key Performance Indicators.*

Case Study: Situating This User Guide Within National Health Financing Strategies

Every country's path to universal health coverage (UHC) is unique, but the principles of sound health financing remain the same. Health financing strategies are designed to chart a financially feasible pathway toward UHC, ensuring that everyone can access the health services they need without suffering financial hardship. Progress is measured along three dimensions: the range of services provided, the share of the population covered and the extent to which individuals are protected from out-of-pocket costs.

Within this broader framework, this User Guide offers practical options for governments seeking to increase health expenditure and move closer to UHC sustainably. It focuses on three financing instruments - PPPs, debt swaps and sustainable debt instruments - that can help countries mobilise and channel additional resources for health. However, these options are not stand-alone solutions. They should be considered complementary tools that operate within and are guided by a country's overarching health financing strategy.

As the WHO Health Financing Guide explains, effective financing systems rely on three interconnected functions:

1. Resource mobilisation - generating sufficient and predictable funding for the health system.
2. Pooling - spreading financial risk so that those in need can access services without facing financial hardship.
3. Strategic purchasing - allocating funds in a way that maximises efficiency and improves health outcomes.

The instruments discussed in this User Guide primarily strengthen the first of these functions - resource mobilisation - while also linking to aspects of strategic purchasing, particularly through the PPP approach and impact bonds.

It is important to emphasise that this User Guide is not a substitute for a comprehensive health financing strategy. MoHs should continue to lead on developing and updating such strategies as a roadmap toward UHC - setting priorities, defining service packages and identifying reforms that improve efficiency and effectiveness. This includes maximising the impact of existing budgets through better prioritisation, stronger budget execution and more effective provider payment mechanisms.

Ultimately, the guidance provided here is intended to complement those broader efforts - equipping MoHs and MoFs with the tools, language and frameworks needed to explore new financing opportunities, while maintaining alignment with national health goals and fiscal sustainability.

Proposed Solutions

Overview of Financing Structures

Several potential solutions exist for filling the financing gap that can be used simultaneously. This User Guide focuses on three categories of instruments, some of which have been rarely used in the health sector. However, they provide promising new opportunities for additional funding in the health sector. The User Guide does not address private funding that is channelled towards private sector implementers, but instead focuses on raising funds for the public sector. These instruments have been prioritised based on the African Legal Support Facility's (ALSF) experience in responding to country requests for technical assistance in exploring and implementing them.

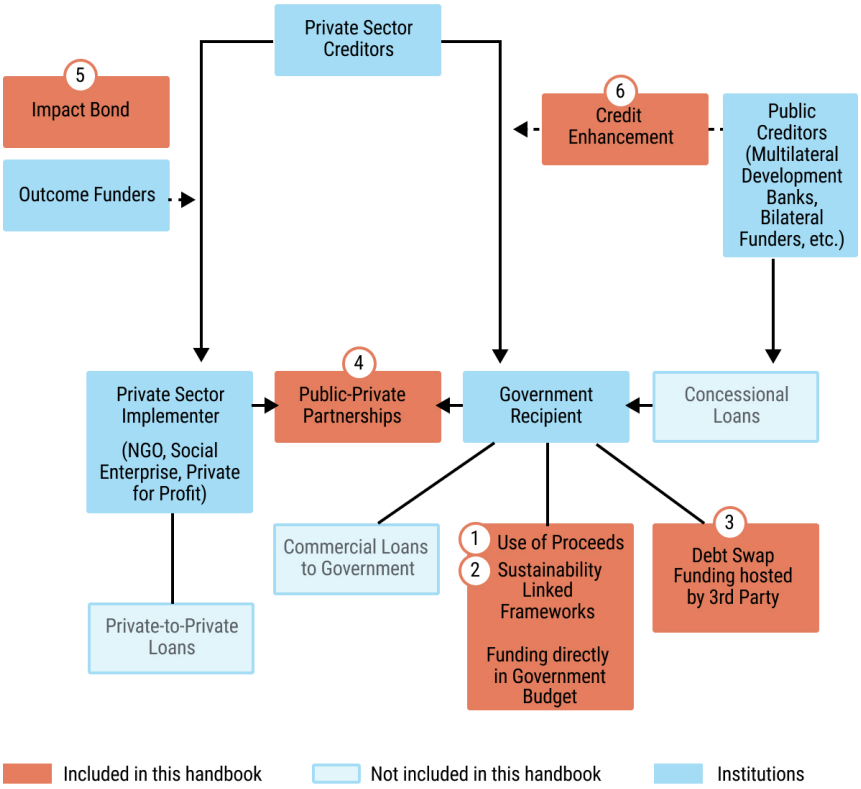


Fig. 2.2: Range of Potential Financing Structures

These instruments can be applied across different levels: the sovereign level (I.e. national level), sub-sovereign level (I.e. state or county level) or based on a specific project:

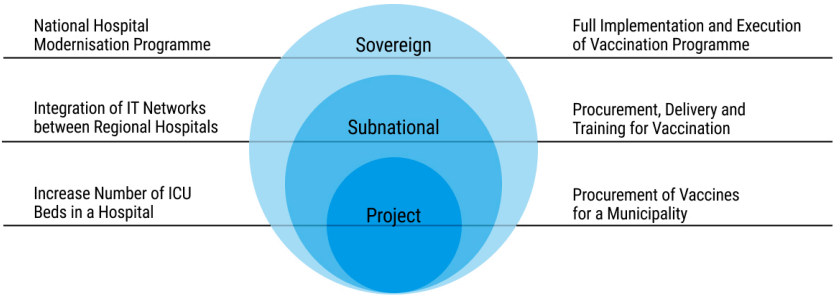


Fig. 2.3: Levels of Application of Financing Instruments

Financing Instruments

Some of the financing solutions discussed in this User Guide are novel to the health sector but have already been successfully used in other sectors. For instance, sustainable financing solutions often include those focused on deforestation or renewable energy, as well as debt swaps for marine conservation or education. PPPs, in contrast, have been in use in the health sector since the 1980s but have received more attention recently.

This User Guide outlines the following instruments:

USE OF PROCEEDS BONDS OR LOANS

A use of proceeds loan or bond ties financing to specific projects and expenses (see Chapter 5: *Sustainable Finance Instruments* for a detailed description of use of proceeds loans and bonds).

Such instruments typically follow market best practices (e.g. relevant International Capital Market Association (ICMA) and Loan Market Association (LMA) Principles), as described in Chapter 4: *Health Finance and Key Performance Indicators*, as well as Chapter 5: *Sustainable Finance Instruments*.

SUSTAINABILITY-LINKED FINANCING (SLF): SUSTAINABILITY-LINKED LOANS (SLL) AND SUSTAINABILITY-LINKED BONDS (SLB)

An SLF is new funding, such as a loan or a bond, that is tied to specific Key Performance Indicators (KPIs), which are the basis for setting Sustainability Performance Targets (SPTs). The proceeds from the SLF will be allocated to the general budget.

The key component of an SLF, as opposed to a plain loan or bond (the distinction between loans and bonds is described in more detail in Chapter 5: *Sustainable Finance Instruments*), is that the investor is interested in the country achieving agreed performance metrics. Accordingly, the level of interest payments on the instrument will increase or decrease depending on whether the SPTs are met. For example, the SLF may outline a Human Immunodeficiency Virus (HIV) prevention performance target to be achieved within 5 years. Regular monitoring will be necessary for the performance metrics, and the country may be incentivised or penalised for over- or under-achieving against these targets.

Such instruments are structured in accordance with market best practices (e.g. relevant ICMA and LMA Principles), as described in Chapter 5: *Sustainable Finance Instruments*.

IMPACT BONDS

An impact bond is a results-based financing arrangement between a government or grant funder, an investor and a service provider. The investor provides upfront funding for service delivery, and the funder only pays if pre-agreed health outcomes are achieved. Although named as a "bond", it is not a tradable instrument; rather, it is a private investment where returns depend entirely on whether the agreed-upon outcomes are met. Impact bonds are typically small in size, usually under USD 10 million.

DEBT SWAPS

A debt swap is when part of a country's debt is cancelled or replaced with cheaper debt, and the government agrees to use some, or all, of the money it saves to fund specific priority programmes. In effect, the transaction creates fiscal savings that are

allocated to health expenditures. Debt swaps enable governments to earmark regular, predictable government spending over a long period, and are well-suited for funding long-term health priorities.

Two forms of debt swaps are covered in this User Guide:

1. **Bilateral debt swaps.** A bilateral debt swap is an agreement between a debtor country and a creditor government to cancel or convert part of the debt owed in exchange for the debtor investing an equivalent amount in agreed national projects or programmes.
2. **Commercial debt conversions.** This occurs when private sector debt is replaced with a new instrument (e.g. a new loan) under more favourable terms. Some or all of the money saved through the lower interest rate (obtained through the involvement of a credit support provider) and potentially a debt reduction is then contractually obligated to be utilised on specific spending or outcomes.

PUBLIC-PRIVATE PARTNERSHIPS

A PPP is a mechanism that mobilises private funding for delivering public infrastructure and/or services. Blending commercial funding with government grants and/or concessional loans helps improve the financial viability of PPPs where projects are economically or socially essential but not commercially attractive enough for private investors.

Financing may come entirely from public sources, such as national programmes to control infectious diseases, from private sources, such as out-of-pocket expenditure for elective procedures or dentistry and from a mix of both, such as public insurance that pays for services delivered by private providers.

Instrument	Primary Objective	Typical Scale	Relevance to Health	Chapter
Health Bonds & Loans	The borrowed amount has to be spent on equivalent health-related expenditures	Medium - Large	Incentivise the increase in the health budget	Chapter 4: *Health Finance and Key Performance Indicators*
SLFs	Tie borrowing costs to measurable health outcomes	Medium - Large	Incentivise performance and accountability	Chapter 4: *Health Finance and Key Performance Indicators*
Impact Bonds	Combine public and private funds to achieve pre-agreed outcome targets delivered by a service provider	Small	Incentivise the performance of a non-governmental implementer	Chapter 4: *Health Finance and Key Performance Indicators*
Debt Swaps	Convert significant amounts of debt repayments into health investments	Small - Medium	Free up fiscal space for priority programmes	Chapter 6: *Debt-for-Health Swaps*
PPPs	Mobilise private investment in health infrastructure/services	Large	Expand capacity sustainably	Chapter 7: *The Use of Public-Private Partnerships in Healthcare Projects*

Table 2.1: Overview of Key Features of Financing Instruments

Key Considerations in Selecting Instruments and Health Priorities

There are three common considerations when selecting the type of instrument to use:

SCALE OF FUNDING

Both MoHs and MoFs are interested in how much funding can be mobilised to support health or the general budget. When considering the instruments, how much money is mobilised will be a key consideration.

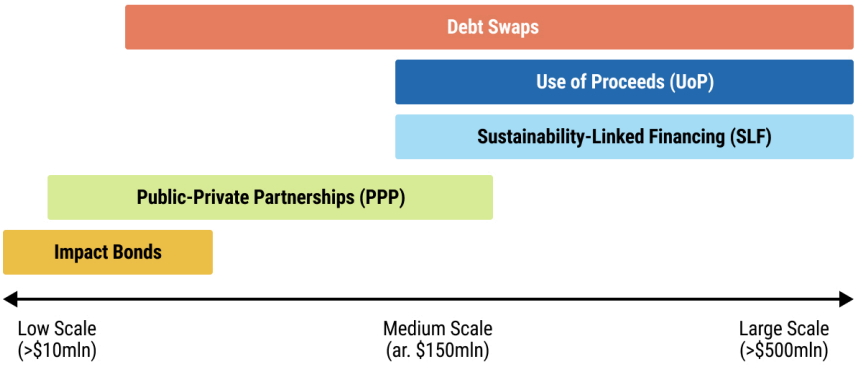


Fig. 2.4: Financing Instruments

INDEBTEDNESS

In addition to considering the amount of debt raised, MoFs need to consider the country's debt-carrying capacity (I.e. the maximum level of debt a country can sustainably incur and service without entering into financial distress). When debt levels are low, instruments such as health bonds and SLFs may be suitable as they allow governments to raise capital for sustainable development. For countries with high but still manageable debt, PPPs can be appropriate, as they mobilise private and/or concessional capital without significantly adding to public debt burdens. Note that SLFs can also help improve debt sustainability by refinancing or buying back outstanding debt.

Debt swaps can be helpful by way of liquidity support, as they offer a tailored and effective way to lower debt servicing costs and in some instances also the debt to GDP ratio of the country (especially where any publicly traded bonds repurchased as part of the debt conversion are trading at high discounts) and channel fiscal savings into health-related programmes which would otherwise be unfunded.

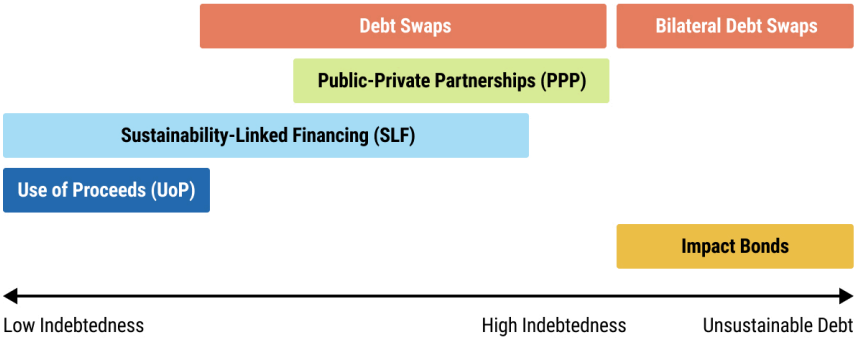


Fig. 2.5: Liquidity Support

SPECIFICITY

Financing instruments differ in the extent to which the funds raised must be used for specific purposes. In some cases, such as health loans, bonds and impact bonds, the funding is tied to specific activities or outcomes. Other instruments, such as SLLs and SLBs, are included in the general budget, allowing for significant flexibility in spending decisions during the implementation phase.

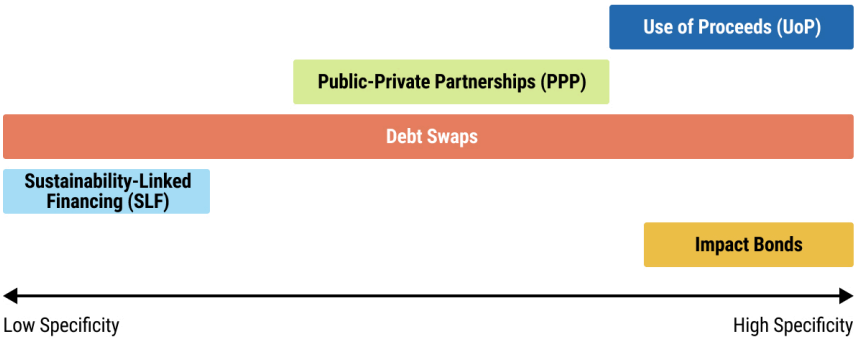


Fig. 2.6: Specificity of Funding Support

Chapter 3: Common Considerations

This chapter outlines a set of common considerations that underpin the effectiveness of the various financing instruments for health presented in this User Guide, including sustainability-linked financing (SLF), debt swaps and public-private partnerships (PPPs). Each component is based on international best practices and shaped by lessons from country experiences.

For Ministries of Health (MoHs), this chapter explains how to maximise the sectoral impact of financing by identifying priority interventions, strengthening reporting and monitoring systems and ensuring that health results remain central throughout the design process. For Ministries of Finance (MoFs), it emphasises the importance of fiscal prudence, debt sustainability and coherent integration into macroeconomic frameworks. Both institutions share the responsibility of ensuring that any innovative instrument aligns with the country's institutional capacity, legal frameworks, debt-carrying capacity and broader development strategy.

Ultimately, success in health financing innovation depends on collaboration. The design of these instruments must build on, not bypass, national systems and processes. They work best when treated as an extension of sound governance and coordinated reform, not as isolated financial products.

By the end of this chapter, readers will understand the common factors that determine whether non-traditional and structured financing instruments, such as SLFs, debt swaps and PPPs, can achieve meaningful and lasting results in a particular country context. Success depends not only on financial design but also on how each mechanism strengthens national systems, aligns with fiscal and health priorities and fosters institutional learning.

Prioritising Health Financing Impact

Financing instruments are most effective when financial innovation is matched with strategic alignment. The goal is not simply to mobilise new resources for health, but also to ensure that all funds raised deliver measurable and lasting results. This requires clear linkage to national health strategies, well-defined activities and realistic assessments of financing needs and absorptive capacity.

Every transaction should begin with clarity on the health priorities it will support and how the proceeds will be used. These priorities must be anchored in existing national plans or sectoral strategies, transparently costed and matched with a financing mechanism suited to their scale, purpose and timeline.

Governments also need credible data and reporting systems to meet the accountability standards tied to these instruments. Where national data systems are still maturing, temporary reliance on established global or regional platforms may be appropriate, but should be paired with efforts to build domestic capacity for tracking both financial and health outcomes. Over time, this ensures that financing arrangements strengthen country systems rather than create parallel ones.

For sustainability-linked financing, the careful selection of key performance indicators (KPIs) is essential. Indicators must be measurable, meaningful and achievable - ambitious enough to drive results, but realistic enough to be credible. Well-designed KPIs enhance confidence and attract further investment; weak or superficial ones erode both confidence and investment.

The MoH has a vital advocacy role in securing an appropriate share of funds for health within debt or SLF arrangements. Together, MoHs and MoFs must assess the

full cost of each mechanism, including the overall costs and expenses of the transaction at inception (including advisory, legal and third-party fees), ongoing costs and expenses and debt servicing costs, to ensure that the net fiscal and health benefits justify the investment.

Ultimately, the measure of success is not the volume of financing mobilised, but whether the application of such funding strengthens, sustains and makes health systems more equitable and resilient over time.

For more detailed information on KPIs and health systems, see Chapter 4: *Health Finance and Key Performance Indicators.*

Managing the Fiscal and Debt Implications of Financial Instruments

Before considering sustainability-linked or health-related financing, debt management offices (DMOs) must first ensure these instruments fit within the annual borrowing plan defined in the national budget and align with the national Medium-Term Debt Strategy (MTDS). Indeed, potential instruments need to be assessed against the country's financing needs as well as its debt management objectives, including impact on refinancing risk, interest rate risk and foreign currency risks.

DMOs also need to assess, *ex ante*, the overall impact of the financing instrument on public debt sustainability in the context of the country's debt carrying capacity. This will often involve modelling debt sustainability analysis (DSA) scenarios reflecting the target structure of the contemplated instruments. This analysis will inform the range of acceptable terms, including the total amount of funding to be raised, acceptable interest rates (and, in this context, whether third-party credit support would be beneficial) and repayment periods. For PPPs, a contingent liability risk assessment enables the safeguarding of longer-term fiscal and debt sustainability.

Exploring credit-enhancement mechanisms will be crucial to improving terms and reducing funding costs for borrowers. However, as these solutions often come with additional expenses, such as guarantee or insurance premiums, performing a comprehensive cost assessment is essential to determine whether the participation of credit enhancement providers lowers the overall costs of funding (see also Chapter 8: *Credit Enhancement*). In some cases, philanthropic or concessional capital can be mobilised to cover these premiums, partially or entirely. In the case of loan-based financing,

running a competitive and transparent selection process among several international lenders can also help optimise pricing and terms.

While these instruments generally signal a strong commitment to macroeconomic fiscal sustainability, governments must remain alert to potential credit perception risks. For instance, some commercial debt swaps could be classified by rating agencies as distressed exchanges, where low-rated countries buyback bonds in the capital markets as part of a debt swap under liquidity stress. Early engagement and transparent communication with rating agencies is therefore essential to understand the rating methodologies of the respective rating agencies and their implications for the proposed debt swap.

Finally, countries need to ensure that the proposed transaction aligns with their existing country programmes and those of multilateral development institutions. For example, if the government is supported under an International Monetary Fund (IMF) programme, it is essential to ensure the transaction complies with the agreed-upon programme parameters and conditionalities.

Regulatory and Institutional Framework Alignment

When selecting financing instruments, it is crucial to ensure their alignment with the country's statutory, legal, regulatory and institutional frameworks, thereby ensuring both effectiveness and sustainability.

All contracts and agreements should be duly authorised; legal, valid, binding and enforceable under national law as well as any applicable foreign law. They should clearly articulate the roles and responsibilities of the parties involved, their performance obligations, remedies for breaches, including any default or termination rights and incorporate an agreed-upon governing law and dispute resolution mechanism. This means that any proposed sustainability-linked instruments, debt swaps or PPP contracts should be permitted under existing frameworks or that such frameworks may need to be amended or supplemented.

Compliance with debt, fiscal and procurement laws should therefore be looked at critically. Debt instruments under consideration should fall within the limits and procedures established by relevant public finance management acts, debt management laws and public procurement frameworks. Some countries may require parliamentary and/or Cabinet approval, as well as listing in national budgets. Early consideration should be given to the approvals needed.

To address transparency and accountability issues, instruments should incorporate disclosure, auditing and oversight provisions to meet both domestic and international standards, as applicable in each case. Abiding by budget transparency principles or sectoral transparency tools (e.g. national health accounts) is also essential.

Whether through sustainable finance instruments, debt-for-health swaps or PPPs, governments should align disclosure practices with recognised international standards - such as the relevant International Capital Market Association (ICMA) and Loan Market Association (LMA) Principles for bonds and loans or the World Bank PPP Disclosure Framework for partnerships. This entails publishing key transaction terms, establishing appropriate governance and management of the funds raised, as well as regular performance and spend reports, capable of verification by independent reviewers when necessary. This can help trace how resources are mobilised, allocated and translated into measurable health outcomes.

Institutional capacity is another critical dimension: both lead ministries need adequate technical skills, operational systems, and coordination mechanisms to evaluate, manage and monitor the funding instruments and related contractual arrangements. Clarifying the roles of the MoF, specifically their existing debt management office or PPP unit, and that of the MoH, is critical, especially regarding who leads negotiations, execution and ongoing monitoring.

Intra-governmental Coordination

Every non-traditional and structured financing transaction, whether an SLF instrument, a debt swap or a PPP, cuts across fiscal, legal and sectoral mandates. Collaboration between ministries and agencies is therefore indispensable, not only for technical soundness but also for political and operational coherence.

The MoF and MoH should work together from the outset, jointly defining objectives, suitability of funding type, timelines and communication strategies. The MoF typically leads negotiations with banks, credit enhancement providers and investors, ensuring alignment with the country's debt management strategy, budgetary cycle and the necessary technical expertise. Meanwhile, the MoH ensures that proposed activities are grounded in national health priorities and that health outcomes remain visible throughout the process. Suppose the transaction involves a third party implementing agreed health spend outcomes or programmes. In that case, the MoH should

also lead on these aspects and the structure of any ongoing monitoring and reporting activities.

Because ministries have different mandates, each must see the value of the transaction through its own lens. The lead ministry should therefore frame messages in terms of the specific problems or concerns each counterpart is trying to solve, whether debt servicing elements for the MoF, service delivery performance for the MoH or legal safeguards for the Attorney General's Office. This approach strengthens ownership and minimises resistance as discussions evolve.

Relevant MoF officials should include officials from the DMO and budget departments. In contrast, MoH representatives should consist of the Permanent Secretary, Head of Planning and relevant directorate leads, depending on the health programme or intervention being financed.

Other key public institutions may include:

- The Office of the President or the Cabinet Office provides political backing and facilitates high-level decision-making.
- The Attorney General's Office ensures the transaction complies with national laws and provides legal opinions required as part of the transaction.
- The Ministry of Planning and/or Economy aligns the transaction with national development priorities.
- The National Statistics Office supports credible, timely and accurate reporting.
- The Central Bank ensures consistency with foreign exchange management and monetary policy objectives.
- The Ministry of Foreign Affairs is consulted specifically regarding bilateral debt swaps with other countries.
- National health sector regulators are responsible for regulatory oversight, standards-setting, licensing, and compliance across the health system.

To support effective coordination across all stages of the transaction, countries may establish a dedicated intergovernmental committee with representatives from key institutions. The composition of this committee should reflect each country's governance context, as there is no single model that fits all. For example, while the Office of the President may be listed here as a source of political support, in some countries, its early involvement is crucial to securing high-level buy-in and sustaining

momentum. In other countries, the Office of the President has, through advisors, actually driven the transaction.

The list of potential members provided in this User Guide is therefore indicative, not prescriptive. Countries should adapt it to include any additional ministries, agencies or oversight bodies relevant to their context. To prevent duplication or reputational risk, the MoF and MoH should coordinate all external engagement through this mechanism, ensuring consistency, transparency and a unified national voice.

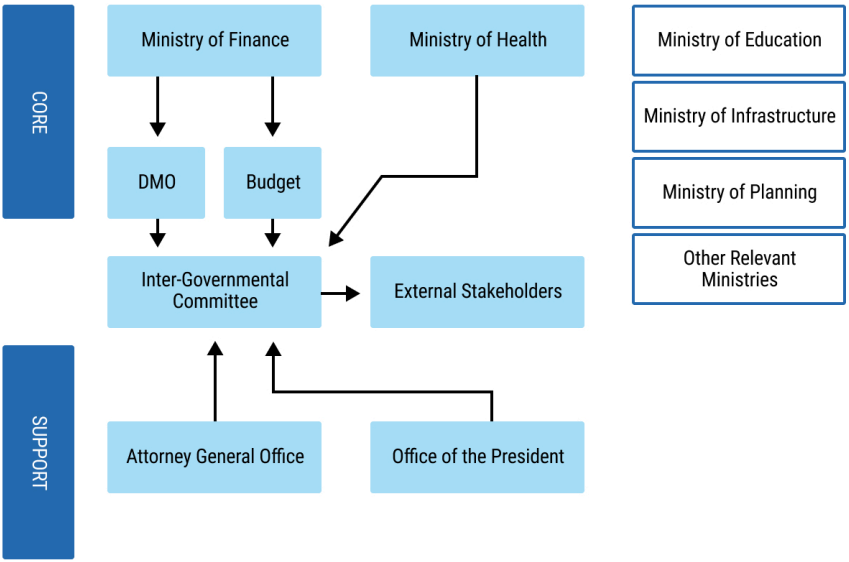


Fig. 3.1: Schematic Overview of Cross-Governmental Coordination Committee for Health Financing

External Stakeholder Engagement

In addition to inter-governmental coordination, early and regular engagement with the various external parties involved in the transaction can enhance credibility, mitigate political and reputational risk and reinforce the development impact.

Relevant external stakeholders encompass international institutions, the private sector and civil society actors. The engagement process would benefit from identifyi-

ng dedicated officials within the intergovernmental coordination committee to engage with external partners regarding the envisaged transaction. These officials could include, for example, one person from the MoH and one from the MoF.

The following partners would need to be engaged, depending on the type of instrument and each at different parts of the process:

- Global health institutions and partners can support activity design and implementation, including monitoring and reporting.
- Banks and private investors would need to be tested to assess their appetite for the transaction and structure the financial parameters.
- Credit enhancement providers can critically enable some of the financing structures presented in this User Guide. They can assess the feasibility of different financing structures, specify the availability of specific products and discuss the terms and conditions of their support.
- Foreign governments, when considering bilateral debt swaps.
- The IMF, the World Bank and other multilateral partners can ensure that the transaction aligns with the country's programme objectives, if relevant, and, in the case of the IMF and World Bank specifically, is consistent with their debt sustainability assessments.
- Credit rating agencies will need to be brought on board early to share relevant information and understand credit rating considerations.
- Engaging private sector companies early on is crucial for PPPs to ensure early market sounding and transparent procurement, thereby attracting qualified operators and financiers.
- Civil society organisations can input on the objectives of the transaction and help socialise the positive impact of the transaction.
- The media can help ensure accurate reporting on the transaction and its health benefits.

TRANSPARENCY AND COMMUNICATION MANAGEMENT

How governments communicate around financing mechanisms can be as important as the design of the mechanisms themselves. In the early stages, careful control of information is essential. Premature or poorly coordinated announcements can be

easily misinterpreted by markets, creditors or rating agencies, potentially creating reputational, market and fiscal risks.

Confidentiality during the exploration and negotiation phases of any transaction allows the government to refine its proposal, align internal stakeholders and shape the narrative before it enters the public domain. Such confidentiality is vital in the case of commercial debt swaps involving the potential buyback of publicly traded bonds, as any announcement of a transaction could lead to a rally in the country's bond prices, resulting in reduced fiscal savings from the debt swap. Once the design is finalised, transparency should take precedence. Public communication should focus on the transaction's purpose, its alignment with national priorities and the mechanisms for accountability and reporting.

Effective communication strategies build confidence, both domestically and internationally. They signal that the government is managing innovation responsibly, safeguarding fiscal stability and ensuring that citizens and partners understand the rationale for new approaches to financing health.

Ideally, communication should evolve with the process: discreet and coordinated in early stages, open and transparent once agreements are finalised.

Building Country Ownership and Learning

The true legacy of any financing transaction should be a stronger national capacity. Beyond mobilising additional funds, each transaction provides an opportunity to build institutional knowledge, refine systems and strengthen governance.

Governments should document lessons learned, develop best practices, create templates and retain experienced teams to create continuity for future transactions. Over time, this institutional learning reduces transaction costs, accelerates timelines and increases national autonomy in managing complex financial instruments.

Every transaction, regardless of size, should therefore be seen not only as a means of mobilising resources but also as an investment in institutional capability. When capacity grows, credibility follows, and with it, greater access to sustainable financing opportunities in the future.

Debt management is consolidated at the DMO and governments should ensure that any fundraising, whether for health or other policy objectives, follows international best practices in public debt management. To support this, the IMF and World Bank have developed a set of voluntary principles to help debt managers strengthen institutional frameworks and reduce financial vulnerability. The key principles are summarised below:

- Debt management objectives and coordination. Public debt management should aim to meet financing needs over the medium- to long-term at the lowest possible cost, while maintaining a prudent level of risk. It covers the main financial obligations under central government control while being grounded in sound macroeconomic and financial-sector policies to ensure that public debt remains sustainable. Debt managers, fiscal and monetary authorities, and financial regulators should exchange information and coordinate closely, while keeping debt management and monetary policy separated. While fiscal authorities are responsible for maintaining prudent debt levels and conducting debt sustainability analyses, debt managers should track emerging risks and alert the government promptly.
- Transparency and accountability. Debt management arrangements should be clear and transparent, with publicly disclosed objectives, roles and responsibilities across the finance ministry, central bank, and any dedicated debt management agency. Governments should publish key operational information, ensure easy access to the legal framework, report annually on the debt strategy, and release regular data on debt levels and composition, including derivatives. Accountability should be reinforced through annual external audits (including IT and risk controls) and regular internal audits of operations and systems.
- Institutional framework. A strong institutional framework for debt management requires a clear legal mandate defining authority to borrow, hold assets, and undertake transactions on behalf of the government, supported by an organisational structure with well-defined roles. Operational risks should be controlled through clear staff responsibilities, robust monitoring and reporting, ethical and conflict-of-interest rules, and reliable, safeguarded information systems. Debt offices should maintain business recovery procedures and obtain legal advice to ensure transactions are legally sound, including the potential use of collective action clauses.
- Debt management strategy. Governments should continuously assess the risks in the debt portfolio and mitigate them where feasible, balancing risk reduction against cost. Borrowing should be guided by an assessment of the government's cash-flows, with close attention to the risks posed by foreign-currency, short-term, and floating-rate debt. Cost-effective cash management is also essential to ensure obligations are met on time.
- Risk management framework. A risk management framework should balance expected costs against risks in the debt portfolio, supported by regular stress testing. Any portfolio management to benefit from interest rate and exchange rate views should be controlled and accountable. When derivatives are used, managers should assess potential costs, redemption scenarios, and counterparty risks, while also managing credit and settlement risks. Finally, debt strategies should also account for the fiscal and liquidity impact of contingent liabilities.
- Development and maintenance of an efficient market for domestic government securities. To minimize borrowing costs and risks over the medium to long term, governments should foster an efficient domestic government securities market. This includes broadening and diversifying the investor base and treating investors equitably. Primary issuances should be transparent, predictable, and largely market-based, while resilient secondary markets and sound clearing and settlement systems should be supported.

For more details, the reader is referred to the Guidelines for Public Debt Management (2014) by the World Bank and IMF.

Chapter 4: Health Finance and Key Performance Indicators

Key Takeaways

Global health institutions, such as the Global Fund, Gavi, and the World Bank, continue to play a crucial role in the health sector and can be considered key partners in discussions on financing instruments outlined in this User Guide.

Understanding the composition of health spending is crucial for matching financing tools with the appropriate type of health expenditure, ensuring that resources are utilised efficiently.

Health-related key performance indicators (KPIs) are applied across various financing instruments. They can determine interest rates, ensure debt-swap savings are appropriately directed, and measure and incentivise service delivery and asset functionality in public-private partnerships (PPPs).

The four key components of KPI selection are controllability, observation, absolute or relative measures, and frequency and lag, each of which serves a purpose in making KPIs relevant, measurable and achievable.

KPI selection is intrinsically linked to the instrument to which it is tied, with PPPs being primarily focused on operational effectiveness. In contrast, sustainable finance instruments and debt swaps employ KPIs to measure broader health system outcomes.

Setting Health Priorities

Governments set their health priorities through a combination of long-term planning processes and annual budget cycles. These processes are designed to align health goals with broader national development objectives, while ensuring that public resources are used effectively and transparently. For those engaging with the health sector - whether from Ministries of Finance (MoFs), development institutions, or debt management offices - understanding how these priorities are set is essential for navigating the financing landscape and identifying where different instruments can add value.

National Development Plans (NDPs) form the broadest and most strategic layer of this process. These 5- to 10-year visions outline a country's economic and social transformation objectives, with health typically embedded as a core pillar of human capital development. They set the direction of travel: expanding access to essential services, improving the health workforce, strengthening disease control, or modernising infrastructure. While these plans are often ambitious, they signal government commitment and serve to provide an important reference point for investors and partners seeking alignment with national priorities.

Below the national vision sit sector-specific frameworks, most notably the national health sector strategic plans. These multi-year plans translate high-level aspirations into concrete priorities for the health system, defining service delivery goals, workforce needs, infrastructure requirements, digital health plans, and the reforms necessary to improve efficiency and equity. They guide Ministries of Health (MoHs) in preparing annual budgets, shaping investment cases, and coordinating support across development partners. Complementing these are targeted strategies for major disease areas or system needs, such as national HIV strategies, reproductive and maternal health plans, immunisation strategies, or human resources for health plans.

These documents provide detailed, measurable targets that inform both government and partner financing decisions.

While these plans are comprehensive, not every activity is funded immediately. Each year, MoHs must translate their strategic priorities into an annual budget submission that reflects available fiscal space, existing commitments, and the realities of implementation capacity. As a result, long-term plans remain partly aspirational, with only a subset of priorities incorporated into the government budget at any given time. Understanding this pipeline, from long-term vision to sector strategies and annual budgets, is essential for anyone looking to support or finance health investments. It reveals not only what a country hopes to achieve, but also which priorities are ready for investment and which require sustained dialogue, planning, and resourcing. MoHs can use these costed and prioritised plans to make a case for inclusion in financing instruments.

The remainder of this chapter provides the practical foundation for engaging with health financing instruments. It begins by outlining the global health institutions (GHIs), such as the Global Fund, Gavi, and the World Bank, that play a central role in shaping and supporting health investments across Africa, before summarising the major budget categories and types of activities commonly funded within the health sector. The chapter then introduces the key performance indicators (KPIs) that underpin many of the financing tools described in this User Guide. These indicators provide the measurable link between resources and results, helping governments structure agreements that reward progress, strengthen accountability, and align financial terms with tangible improvements in population health.

International and Domestic Financing for Health

The Evolving Role of Global Health Initiatives

Global health institutions such as Gavi, the Global Financing Facility, and the Global Fund to fight AIDS, tuberculosis and malaria (Global Fund), have been instrumental in improving health outcomes and strengthening health systems across Africa. Although they continue to play a vital role, their focus is evolving. Increasingly, these institutions act not only as sources of grant financing but also as platforms for co-financing, technical support, and transition planning.

As countries move toward greater domestic resource mobilisation, GHIs are shifting from gap-fillers to enablers, helping governments design sustainable investment cases, align donor contributions with national priorities, and strengthen data and accountability systems. Their programmes now serve as building blocks for more integrated, country-led financing approaches, paving the way for mechanisms such as sustainability-linked loans, debt swaps, and PPPs to complement and reinforce existing health investments. The main active GHIs in Africa are treated below.

THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA

The Global Fund is a multilateral financing mechanism that mobilises and disburses resources to fight HIV/AIDS, tuberculosis and malaria, while strengthening health

pandemic preparedness. It operates on a country-led model, meaning African governments and civil society set priorities through country coordinating mechanisms (CCMs). Countries that benefit from Global Fund support operate under a performance-based grant model, where country ownership plays a key role through the CCMs. Funds are channelled through Principal Recipients (e.g. MoHs, Non-Government Organisations (NGOs) or United Nations (UN) agencies). Global Fund programmes cover disease prevention, diagnosis, and treatment, and also strengthen health systems (supply chains, labs, community health workers).

GAVI, THE VACCINE ALLIANCE

Gavi focuses on routine immunisation, introducing new vaccines, and strengthening immunisation systems. It provides vaccine subsidies, and receiving countries contribute co-financing based on income level. Gavi utilises a pooled procurement system in collaboration with the United Nations Children's Fund (UNICEF) Supply Division and the World Health Organisation (WHO) to negotiate vaccine prices and ensure supply security. Gavi develops multi-year immunisation plans and funds vaccine-delivery infrastructure (cold chain, logistics, digital systems, workforce training). A key feature is that, as countries become wealthier, they gradually assume full vaccine financing.

THE GLOBAL FINANCING FACILITY (GFF)

The GFF, launched in 2015 and hosted by the World Bank, supports countries to improve reproductive, maternal, newborn, child, and adolescent health and nutrition (RMNCAH-N). It aims to catalyse domestic financing and align donor investments for long-term sustainability. Countries develop a national investment case - a prioritised plan linking health and nutrition goals with financing strategies that will define the GFF's support as a combination of grant funding and World Bank loans. The GFF operates through a single national platform that unites ministries, donors, civil society, and the private sector under one financing framework.

The table below provides a summary of the focus areas and operating models for each of these entities. All three have significant links with MoHs and MoFs on the continent, although they often do not have staff based in country. Instead, they provide support through established, in-country governance mechanisms.

	Global Fund	Gavi	Global Financing Facility
Main function	Disease programmes	Preventive immunisation	Health system financing backbone
Core purpose	HIV, TB, malaria, and health systems	Vaccination and immunisation systems	RMNCAH-N and health financing reform
Delivery Model	Grants via Country Coordinating Mechanisms (CCMs)	Vaccine co-financing and supply partnerships	Blended financing with World Bank loans
Health System Role	Funds workforce, labs, procurement, surveillance	Builds immunisation cold chains, logistics, and data	Strengthens health financing, data, and budgeting
Key Implementers	MoHs, NGOs, Civil Society, and UN agencies	MoHs, NGOs, UNICEF, and WHO	MoFs and MoHs, World Bank
African Coverage	~45 countries	~40 countries	~30 countries

Table 4.1: Mapping of the Largest Global Health Institutions

These institutions do not provide debt or credit enhancement solutions (see Chapter 7: *The Use of Public-Private Partnerships in Healthcare Projects*). However, they can play an essential convening role in designing financing instruments and in bringing together international and domestic stakeholders. They are a potential trustworthy partner to help create and monitor programme activities, providing credibility to in-country execution. Specifically, these institutions could act as third-party implementers for debt swaps (see Chapter 6: *Debt-for-Health Swaps*) and provide oversight on programme execution and data quality for sustainable debt instruments (see Chapter 5: *Sustainable Finance Instruments*).

Components of a Health Budget to be Financed

For MoFs and other financial planners, health budgets can sometimes appear complex - a mix of recurrent costs, capital investments, and programmatic expenditures that do not always align neatly with health objectives and outcomes. Yet, understanding the composition of health spending is crucial for identifying which areas are best suited to different financing solutions. Health systems rely on a range of inputs, including infrastructure, equipment, digital systems, healthcare workers, pharmaceuticals, energy and utilities, as well as service delivery contracts, training programmes, and community-based interventions. Each category carries distinct financing charact-

eristics - some suited to long-term capital instruments, while others are suited to results-based or blended approaches.

The table below provides an overview of everyday activities within the health sector. It does not aim to be exhaustive, but rather to illustrate different elements of a typical health budget - such as infrastructure upgrades, supply-chain improvements, workforce investments, and preventive health programmes. Policymakers can identify the specific type of expenditures that require financing and match them with the appropriate financing tool, ensuring that limited resources are used strategically and sustainably.

Programme Type	Example strategic priorities	Description		Added value for the MoF
		Capital Expenditure	Operating Expenditure	
Reproductive, maternal, newborn and child health (Family planning, pregnancy care, immunisation, child treatment)	Family planning service provision		*Training the health workforce *FP commodity procurement *Behaviour change communication	Reducing the birth rate will have downward pressure on health and education budgets
	Local manufacturing for immunisations	*Construction of a factory	*Input costs *Running costs	Potential taxation and employment generation
	Immunisation service delivery	*Procurement of cold chain equipment (fridges, etc.)	*Procurement of vaccines *Vaccination campaigns *Improving data systems for tracking *Staff training	Strong immunisation programme reduces cost and supports pandemic preparedness
Infectious Diseases (TB, HIV, malaria, water & sanitation, neglected tropical diseases)	Disease elimination campaigns	*Investments in laboratory capacity (I.e. equipment/lab sites)	*Data and tracking systems improvements *Surveillance systems *Delivery of prevention and treatment activities (e.g. bed nets, trachoma surgeries)	Disease elimination reduces treatment costs and increases workforce productivity.
	HIV treatment integration	*Investment in testing equipment (CD4 / Viral Load)	*Training of staff *Data systems improvements *Procurement of test and treatment commodities *Behaviour change	Successful HIV treatment reduces the transmission of HIV and improves workforce productivity

Programme Type	Example strategic priorities	Description		Added value for the MoF
Service capacity and access (Health workforce, hospital access, health facility availability, pandemic preparedness)	Construction of new hospitals/health centres to increase access to services	*Hospital/health centre construction *Equipment procurement	*Salaries for hospital staff *Running costs (I.e. utilities)	The construction of hospitals should be considered in the context of spending on preventive care to understand the value for money.
	Health workforce and community health workforce development	*Construction of staff housing	*Salaries for the workforce (including community health workers) *Ongoing training for quality and retention *Incentives/benefits *Pre-service training (I.e. cost of universities)	Moving community health workers into the salaried workforce has a substantial impact on prevention activities and the improvement of health service delivery.
	Pandemic preparedness	*Procurement of laboratory systems	*Coordination mechanism for disease monitoring across animal and human health *Staff trainings *Surveillance (I.e. travel to outbreaks) *Salary for public health institutions (e.g. CDC) *Develop a sample transportation system for lab testing *Strengthen data systems for tracking and surveillance	Pandemic preparedness is essential to respond to localised outbreaks and potential epidemics/pandemics

Table 4.2: Examples of Health Expenditure by Health Programme and Strategic Government Priorities

Key Performance Indicators for Health

Role of Key Performance Indicators for Sustainable Health Financing

KPIs are key components for sustainable finance instruments, debt swaps and PPPs. For sustainably-linked financing instruments (SLFs) (I.e. sustainability-linked loans (SLLs) and sustainability-linked bonds (SLBs)), the KPI target describes which health aspect the instrument targets and links the setting of interest rates relative to achieving the sustainability performance targets (SPTs) for the relevant KPI, such that:

- If the issuer achieves the KPI target, they will benefit from lower interest rates.
- Conversely, they will face higher interest rates if they fail to meet the KPI target.

Hence, a key component of SLFs is the monitoring, reporting, and verification (MRV) system, which tracks the progress of KPIs throughout the instrument's lifetime (see Chapter 5: *Sustainable Finance Instruments*).

In debt swaps, KPIs serve as safeguards to ensure that commitments made available through debt reductions are utilised to support projects and initiatives that improve health outcomes. Similar to SLFs, KPI tracking helps creditors verify the impact and therefore shape the scale and acceptability of the debt swap. If these commitments are not fulfilled, issuers will face recourse through contractually agreed-upon remedies (see Chapter 6: *Debt-for-Health Swaps*).

In PPPs, KPIs also serve to incentivise the longevity of the asset and good operational performance. This requires monitoring implementation and operations through the

Contract Monitoring Regime, ensuring that parties continue to bear the risk allocation specified in the PPP Agreement (see Chapter 6: *Debt-for-Health Swaps*).

Principles of KPI Selection for Sustainable Debt Instruments

The selection of KPIs is critical for setting goals and incentives for the issuers. This is particularly evident for SLFs, where the achievement of KPIs has a direct impact on the cost of debt; however, the same criteria apply to health bonds, loans, and debt swaps. Developing health KPIs that are economically and financially material for a government can positively affect the whole economy in the long term.

While not a focus of this chapter, it is worth mentioning that, in addition to the KPI selection, the carrots and sticks of an SLF ultimately depend on its SPT (see Box A on the following page). This target-setting exercise is not trivial and must be conducted with the country's own economic context, priorities, history, and peers in mind. One way to identify strong targets is to use the Feasibility and Ambitiousness (FAB) framework, developed by the World Bank. The FAB dashboard is a tool that enables users to conduct an assessment for a KPI of their choice, provided it is covered in the World Bank's Sovereign Environmental, Social and Governance (ESG) Data Portal.

Four key dimensions should be considered when selecting a KPI for these instruments:

Controllability. KPIs serve a dual purpose. First, they define what indicator the instrument aims to improve, which is then formalised as the SPT. Second, they set the carrots and sticks (see Box A on the following page) for the issuer to ensure the SPT is reached. The controllability principle (see Nobel Prize lecture by Bengt Holmström (2016) on *Pay for Performance and Beyond*) is a helpful guideline for selecting KPIs, as the MoH will be unlikely to commit to a target if the outcome is driven mainly by outside or predetermined factors, such as life expectancy, and not only influenced by national policy action. The concept of controllability is closely related to attributability described in Flugge et al. (2021)

Box A: The "Carrots and Sticks" of Sustainability-Linked Financing

The controllability principle states that KPIs in SLFs should reflect outcomes that the issuer can meaningfully influence. For governments, this principle is central because they are risk-averse and accountable for the use of taxpayer resources. If a KPI is heavily driven by external shocks, such as global food prices or extreme weather, the government may face financial penalties despite taking all reasonable policy actions. This reduces willingness to issue sustainability-linked instruments and weakens the credibility of the financing structure.

To address this, KPIs should be selected or constructed to isolate the portion of performance that is within governmental control. For example, suppose a government aims to improve nutrition outcomes. In that case, the metric should be defined in a way that removes exogenous price effects or focuses on controllable drivers such as distribution efficiency, targeted safety-net coverage, or domestic programme delivery. Designing KPIs in this way protects the issuer from uncontrollable volatility, aligns incentives between the government and investors, and increases the feasibility of adopting SLF at scale.

(For an explanation of the controllability principle in the context of nutrition-related KPIs, see Wang and de Smit (2026, forthcoming),[2] or in the context of forestry KPIs, see Wang et al (2023).)

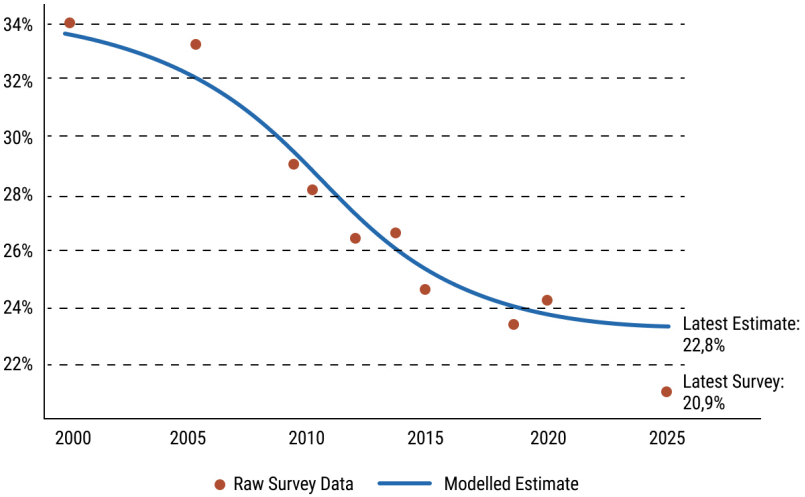
Observability. KPIs require annual observation frequencies that can be reported and verified. Ideally, these KPIs have historical data and comparable data in peer countries. Measurement errors need to be accounted for, as they may lead to SPTs or commitments being reached or broken despite being within the margin of error of surveys. Box B describes the specific challenges when relying on KPIs that use modelled estimates.

Absolute or relative measures. KPIs are often available in two formats. First, in absolute numbers (e.g. number of nurses) and second, in relative terms (e.g. number of nurses per 100,000 population). The former tends to be more accurate as the denominator of the second (e.g. population statistics) may come from a different source and introduce new sources of measurement errors and survey uncertainties. However, the benefit of relative numbers is that it facilitates comparison with peer countries.

2. Wang and de Smit. (2026, forthcoming). *Sustainability-Linked Financing with Health KPIs in Africa*. World Bank Policy Research Working Paper.

Box B: Challenges with health KPIs based on modelled estimates

A recurring challenge in health-sector KPIs is that the underlying data are often sparse, noisy, or inconsistent across sources. To address these limitations, international agencies publish modelled estimates that systematically fill data gaps and produce long-run trajectories that are internally consistent across time and countries. These approaches impose a degree of smoothness on the data and aim at identifying generalisable trends across countries. Before the issuance of the debt instrument, this stability can help characterise a business-as-usual (BAU) trajectory and serve as a benchmark against which future progress or policies can be assessed, without allowing single irregular observations to skew the picture (see the blue line in the figure below).



After the debt is issued, during monitoring and evaluation, these same properties can make modelled estimates inappropriate for use as KPIs. KPIs are intended to track meaningful departures from the BAU path. Yet, modelled estimates are designed to down-weight abrupt changes, even when those changes may reflect genuine policy action or structural shifts. Smoothing techniques such as penalised splines or mixed-effects models are used with the explicit intention of limiting volatility and outliers. While these methods eventually adjust to new patterns that persist, they are not designed to capture rapid movements that may be critical for assessing the outcomes of policy change. For this reason, when evaluating impacts or determining the achievement of SPTs, alternative data sources such as unmodelled survey data can provide a clearer signal of real-time change (see the last red dot in the figure above). However, we should note that survey data can carry its own uncertainties. For details, see Wang and de Smit (2026, forthcoming).

Frequency and lag. The KPIs should be observed at least annually. If the KPIs are reported with a significant lag, it will introduce complications with the carrot and sticks (see Case Study below), which in turn weakens the financial incentive structures. The lag should also account for the time necessary to verify the KPIs.

EXAMPLES OF HEALTH KPIS FOR SUSTAINABLE DEBT INSTRUMENTS

Unless the sustainable debt instruments are used to fund a specific PPP project, health KPIs for SLFs, use of proceeds (UoPs), and debt swaps typically address system-wide issues. This section describes three health KPIs in the context of the lifecycle of a health outcome, starting from the high-level national policy, to the observable activities, outputs and outcomes, and the final impact measure. We also describe the suitability of the three financial instruments for each step of the health improvement journey, borrowing the terminology of the Donabedian framework.

The examples provided below were chosen to be illustrative. The indicators chosen for debt instruments will need to be considered and evaluated on a case-by-case basis, in line with the country's context, health priorities, and data availability and quality. For example, indicators on TB, immunisation or health facility access could equally be considered, based on data availability.

As seen in the examples below, health bonds and loans are typically aligned with activity-level interventions, which can be easily mapped and tracked within the budget. Investors in an SLF are generally interested in more outcome- or impact-oriented data; however, the MoH must propose indicators that are within their control to influence and that have strong data systems capable of regular updates. Debt swaps are the most versatile instrument and can incorporate KPIs from different levels, including policy or legal commitments from the government. As with SLFs, they will require strong data systems that can be monitored and verified for each indicator.

Step	Policy Commitment	Process			Outcome
KPI / Policy	Plan to integrate HIV test and treatment into the benefit package and national insurance plan	Number of health workers trained in HIV testing and treatment	Number of people tested for HIV Number of people on Treatment	% of people on ART who achieved viral suppression	HIV new incidence rate
Controllability	High	High	High	High	Medium
Observability	High	High	Medium	Medium	Low
Health Bond/Loan	❌	✅	❌	❌	❌
SLF	❌	❌	✅	✅	❌
Debt Swaps	✅	✅	✅	✅	❌

Table 4.3: Reduction of HIV Incidence Rate

Reduction of HIV incidence rate (Table 4.3). In the case of HIV, the incidence rate may not be ideal for the SLF instrument or debt swap in cases where it relies on prevalence surveys that are not conducted annually. Where data quality is strong for the number of people tested and treated for HIV or the % of people on antiretroviral therapy (ART) who are virally suppressed, these could serve as strong KPIs for SLF and debt swaps.

Step	Policy Commitment	Process			Outcome
KPI / Policy	Health workforce development plan addressing key challenges (retention, brain drain)	Number of health colleges built, and students enrolled (in collaboration with the Ministry of Education)	Number of doctors/nurses per 1,000 population	Retention rate for public health workers	Patient satisfaction surveys (measuring quality of care)
Controllability	High	High	Medium	Medium	Medium
Observability	High	High	High	Medium	Low
Health Bond/Loan	❌	✅	❌	❌	❌
SLF	❌	✅	✅	❌	❌
Debt Swaps	✅	✅	✅	✅	❌

Table 4.4: Improving the Access to and Quality of the Health Workforce

Improving the access to and quality of the health workforce (Table 4.4). In this example of the health workforce, the indicators available for the SLF may be more limited. Given that the retention rate is complex to influence and even more challenging to monitor (due to limitations in the HRIS data system), the outcome indicator may not be suitable for the SLF. However, the ratio of doctors or nurses to the population could be a good option, as this is an internationally recognised indicator with reasonably robust underlying data.

The retention rate may be selected for the debt swap. If this is a key priority for the government, additional indicators or support will be provided to improve data quality on this indicator.

Step	Policy Commitment	Process			Outcome
KPI / Policy	Guidelines produced to promote exclusive breastfeeding	Number of School-based deworming campaigns run	Number of children who have taken deworming treatment	Prevalence of under-5 stunting	Under-5 mortality rate
Controllability	High	High	High	Low	Low
Observability	High	High	High	Medium	Medium
Health Bond/Loan	❌	✅	❌	❌	❌
SLF	❌	❌	✅	❌	❌
Debt Swaps	✅	✅	✅	❌	❌

Table 4.5: Improving Children's Health and Nutrition

Improving children's health and nutrition (Table 4.5). In this example for child nutrition and under-five mortality rate, the country may not feel confident in its ability to influence under-5 stunting with a health-only intervention, as this is a multi-sectoral effort. Additionally, data collection methods for this indicator, as well as the under-5 mortality rate, rely on surveys and may not be updated frequently enough to be used in an SLF or debt swaps. In this case, focusing on the provision of services, such as deworming campaigns or deworming coverage, may be preferable, provided there is strong data availability.

FURTHER EXAMPLES OF HEALTH KPIS

The KPIs shown above are selected from a larger set of health-related KPIs provided by the WHO. They are indicative examples. Countries should consider their own data and priorities when identifying KPIs that are appropriate for their specific financing instruments.

A comprehensive list of KPIs is forthcoming from Wang and de Smit (2026)[3] identifying a shortlist of standardised health indicators that satisfy a set of data availability criteria, which include temporal coverage, country coverage, average and median lag, controllability, and observability for countries in Latin America, sub-Saharan Africa and the Asia Pacific.

Principles of KPI Selection for PPPs

PPPs are fundamentally concerned with the transfer of risk. If the private partner does not manage their operations effectively, they may incur financial losses in the form of penalties and payment deductions. If this persists, they may also face termination of their contract. This is typically incorporated into the payment and performance quality regime for a PPP, which generally addresses two matters: the availability of the facility and the quality of services being delivered.

Measurement is conducted through a series of quality indicators (QIs), with availability assessed through technical and operational tests (referred to as availability indicators (AIs)), which determine whether a health facility (e.g. a hospital, laboratory, hospital wing, or health centre) is available or not. As availability payments are, by definition, made for the available facilities, this means that part or all of the availability payment is at risk if the private partner does not keep the entire facility available at all times.

Performance is measured through a series of performance indicators (PIs), some of which are generic (e.g. infection control) and others that are specific to the facility's clinical services profile (e.g. cardiology-specific PIs). If the private partner persistently fails to meet some or all of its PIs, it can stand the risk of the PPP Agreement being terminated.

3. Wang and de Smit. (2026, forthcoming). *Sustainability-Linked Financing with Health KPIs in Africa*. World Bank Policy Research Working Paper.

The most critical patient safety and clinical outcome parameters are used to calculate and apply payment deductions from the due payments. These are referred to as KPIs.

Therefore, the selection of AIs, PIs, and KPIs is critical for setting goals and incentivising good performance. AIs, PIs and KPIs need to be realistic and representative, reflecting safety and quality of care standards. If QIs are set too harshly, they can render a PPP transaction unbankable or significantly impact the risk margins and/ or cost of capital. This is because harsh QIs can attract significant penalties and payment deductions. It is therefore advisable to set the measures, drawing on realistic practical experience, and to incorporate alongside them a realistic notification and rectification regime, which at the same time safeguards patient and people safety. Financial modelling is used to calibrate the penalty deduction mechanism and set the penalty deduction quantum such that the financial impact on the private partner is limited.

Chapter 5: Sustainable Finance Instruments

Key Takeaways

The mobilisation of sustainable finance instruments by African countries is accelerating, but their potential for use of proceeds (UoP) structures is being leveraged to earmark funds for health-related expenditures. They benefit from international standards, market familiarity and a strong track record among African issuers.

Health-linked instruments provide flexibility in the UoP and tie financing costs to achieving predefined health-related performance targets. The instruments promote shared accountability across the Ministry of Health (MoH) or the Ministry of Finance (MoF), but require complex structuring and calibration of targets.

Impact bonds can also link financial returns to health outcomes and attract additional funding, though at a smaller scale.

The successful design and execution of all these financing instruments will depend on a strong political commitment, inter-ministerial coordination, credible data collection and monitoring systems and clear institutional roles.

Development Finance Institutions and global health actors can support the use of these instruments through technical assistance, capacity building and credit enhancement, thereby improving financing terms and reducing borrowing costs.

Financing Sustainable Health

This chapter aims to guide officials from Ministries of Finance (MoFs) and Ministries of Health (MoHs), as well as practitioners, on the design and implementation of sustainable financing instruments - specifically UoP and sustainability-linked bonds (SLB) and sustainability-linked loans (SLL) - as mechanisms to mobilise public and private capital for health objectives. These instruments represent two complementary approaches to integrating sustainability into financing strategies: one through the earmarking of funds for eligible health-related projects (the UoP approach), and the other by linking financial terms to measurable health and sustainability performance (the sustainability-linked approach).

Globally, the issuance of these instruments has grown rapidly in emerging markets, with UoP structures still dominating the market. Sustainability-linked financing, although less common, is gaining traction as performance-based mechanisms are seen to reflect progress toward national sustainable development goals better. In Africa, over 150 sustainable UoP bonds have been issued in both foreign and local currencies, totalling more than USD 15 billion. South Africa, Nigeria, Egypt and Côte d'Ivoire lead in terms of volume and diversity of instruments. A notable milestone occurred in August 2025, when Côte d'Ivoire issued Africa's first foreign currency-denominated sustainability-linked loan, supported by the World Bank.

International financial institutions and development banks increasingly promote these instruments for their potential to channel private capital into sustainable development across the region. Together, they offer governments and health authorities practical tools to mobilise private resources while aligning debt management strategies with national development and sustainability objectives.

Setting the Scene

Three types of financing instruments are covered in this section:

- **Health bonds and loans.** Models based on the UoP approach and would require the country to earmark the funds raised towards health projects and activities, such as infrastructure development or disease-specific programmes. This commitment will be contractually binding and must be reflected in the mandatory annual allocation reports. Therefore, robust project selection, transparent fund management and rigorous reporting are essential to ensure that resources achieve their intended outcomes and to maintain investor confidence.
- **SLBs and SLLs.** Instruments in which the cost of financing is directly contingent upon the achievement of predefined sustainability targets. In the health sector, these targets could include expanding access to essential health services through improved health workforce availability or the expanded utilisation of quality services, such as for human immunodeficiency virus (HIV) patients with suppressed viral loads. When targets are met or exceeded, issuers benefit from more favourable financial terms; conversely, underperformance triggers penalties or adjustments, thereby incentivising continuous improvement.
- **Impact bonds.** Performance-based approach bonds involving contractual arrangements between a government and/or donor and investors. In these arrangements, the government and/or donor commit to making payments contingent on the achievement of pre-agreed outcomes, specifically health-related objectives. These instruments typically operate on a more limited scale, but still offer a targeted mechanism for linking financing to measurable impact.

Case Study: Differences Between Bonds and Loans

Throughout this chapter, reference to two distinct debt instruments will be made: (i) loans and (ii) bonds.

- **Loans are typically private financing agreements** negotiated between a borrowing State entity and one or a few lenders (which can be commercial banks, private investors, another government or a development bank). Terms are privately negotiated between the involved parties.
- **Bonds are financial instruments issued by a borrowing State entity (the "issuer") and placed on the capital markets** among a multitude of investors. After their issuance, they can be very easily exchanged among investors in a secondary market. Terms are typically standardised for all issuers globally.

Summary of main differences

Instrument	Loan	Bond
Lender	Usually, one or a few lenders	Many investors (via capital markets)
Tradability	Not tradable or with limitations	Can be traded on secondary markets
Structure	Customised terms are negotiated between the borrower and the lender	Standardised terms, often fixed interest
Access	Typically, smaller-scale bank financing	Issued to raise large sums from multiple sources

For further details of the range of creditor types, instruments and financing structures, see the African Legal Support Facility's (ALSF) handbook Understanding Sovereign Debt: Options and Opportunities for Africa.

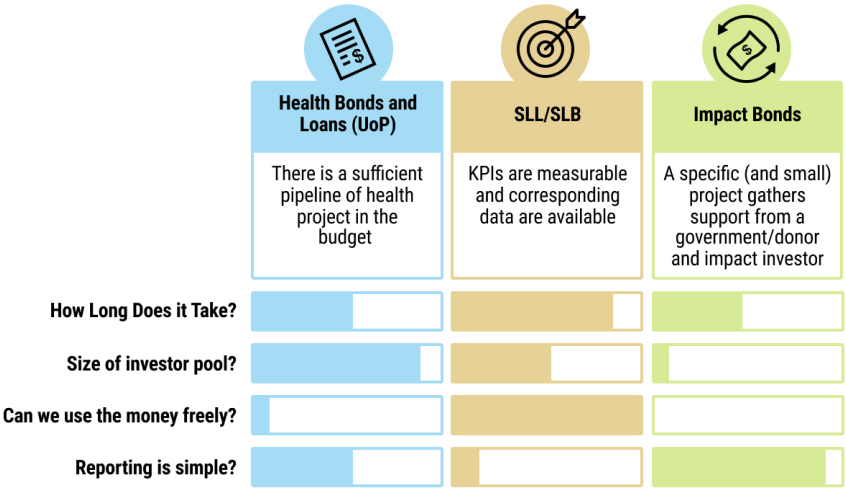


Fig. 5.1: Comparative Overview of Instruments

Health Bonds and Loans (UoP)

Description and Rationale

Unlike traditional debt instruments that finance general budget needs, UoP bonds and loans allocate funds to projects with clear environmental or social benefits. There are three main types.

- **Green bonds/loans.** Finance environmental initiatives (e.g. renewable energy, forestry, marine conservation).
- **Social bonds/loans.** Support social programmes (e.g. healthcare, education, gender equality).
- **Sustainable bonds/loans.** Combine both environmental and social objectives.

A health bond or loan would fall under the social category, funding health-related expenditures such as hospital construction, medical equipment purchases, vaccination programmes and improved access to care.

UoP instruments are not new - they have been widely used for years by governments, development banks and corporations, including in Africa. They operate under internationally recognised guidelines set by two key market bodies: the International Capital Market Association (ICMA) for bonds and the Loan Market Association (LMA) for loans. These guidelines are, in principle, voluntary, but in practice, it is highly recommended to follow them.

For sovereign borrowers, UoP instruments offer four significant benefits:

- **Alignment with global standards.** Clear, comprehensive and regularly updated guidelines enhance transparency and credibility.
- **Reputation building.** Health bonds and loans generate positive visibility, allowing governments to showcase their development strategies and highlight ongoing policies and projects.
- **Investor confidence.** These instruments are familiar to investors, who value the assurance that funds are earmarked for specific, budget-identified projects aligned with social goals.
- **Unlocking new funding sources.** UoP issuance attracts investors focused on social impact and taps into environmental, social and governance (ESG)-dedicated funding sources.

Enabling Conditions

The following enabling conditions establish the institutional and operational foundation necessary to support a credible and successful health bond issuance or loan contraction.

High-level political buy-in. Strong political leadership is indispensable to overcoming bureaucratic barriers and facilitating cooperation across ministries, agencies, and government departments. Issuing and managing health loans and bonds throughout their life cycle requires a high degree of inter-ministerial coordination, which can be challenging without a political champion, typically originating from either the MoH or the MoF (for example, the head of the debt management office (DMO)).

Conducive legal and regulatory frameworks. A country's statutory, legal and regulatory framework defines how public borrowing is authorised and managed. It typically covers borrowing approvals, parliamentary oversight, debt contracting and recording procedures and limits on government borrowing or guarantees. For health bonds or loans, national frameworks must allow - or at least not prohibit - earmarked borrowing for specific purposes, such as health programmes. If the legal framework is silent or unclear, governments should consider amending laws to explicitly authorise debt for defined policy objectives (e.g. health). Such clarity reduces legal risk and strengthens investor confidence in the legitimacy and enforceability of the instrument.

Experience and market readiness. Countries with experience issuing foreign-currency bonds or contracting external loans are generally better positioned to adopt a UoP framework for health. While prior issuance of conventional debt is not a requirement, it helps build investor relationships - a sound foundation before moving to more specialised instruments like health-linked debt. Regardless of experience, early engagement with international investors is critical. This dialogue helps clarify their expectations, particularly around which health expenditures are most attractive to the market. These insights allow governments to design the structure of the operation in a way that maximises investor interest and confidence.

Sufficient project and expenditure pipeline. Before issuing a health bond or loan, the government needs to identify a sufficiently large amount of eligible health expenditures in its budget to match the target amount of the new debt. Typically, for a health bond in the international capital markets, a country would ideally identify health-related projects/programmes requiring funding from the national budget of at least USD 500 million, typically spent over 2-3 years. Smaller transactions could nevertheless be privately placed in the bond markets with a smaller group of investors or funded through loans. It is important to note that governments retain flexibility on the list of expenditures to be financed by the new debt instrument:

- **Multi-year allocation.** Eligible expenditures can span several fiscal years. For example, a bond issued in 2026 can cover past (2025) and future (2026-2028) health spending.
- **Adjustable list.** The exact list of expenditures does not need to be finalised at issuance. Governments can update it later during the subsequent reporting phase, based on actual budget execution.
- **Broader scope.** Expenditures do not have to be limited to health: governments could opt for a broader social bond or loan, where health can be combined with other social sectors (e.g. education).

Opportunities and Challenges

OPPORTUNITIES

- **Significant issuance potential**. UoP instruments can mobilise substantial financing volumes, particularly when structured as a bond issued on

international markets.

- **Market familiarity**. Based on well-established ICMA and LMA frameworks, UoP bonds and loans are easily understood by investors, enhancing demand.
- **Visibility and credibility**. Linking borrowing to health-related expenditures strengthens the government's social commitment and improves investor confidence. A case can even be made that increased health expenditures can support economic growth and, ultimately, debt sustainability.
- **Access to a broader pool of investors**. Socially responsible and ESG investors are more likely to participate in addition to the existing investor base, increasing the chances of success for these instruments.

CHALLENGES

Complex transaction preparation. Developing a dedicated national social or health bond or loan framework aligned with relevant standards like ICMA or LMA takes time and coordination across key ministries (e.g. MoH). It is resource-intensive and demands strong administrative commitment and technical capacity. In addition, identifying sufficient eligible expenditures in the budget to meet the minimum transaction size (especially for bonds) might be challenging for some countries.

Firm reporting commitments. Borrowers must report annually on how proceeds are used until all funds are allocated. Reports detail financed programmes and may showcase flagship projects with expected impacts. While not mandatory, investors often request third-party audits for added assurance. This process can be demanding and requires close collaboration between the DMO, the budget department and relevant ministries (I.e. the MoH). Meeting these standards on time is crucial to establishing credibility as an ESG issuer and enhancing future market access. Importantly, reporting requirements can be legally binding - failure to comply may trigger events of default with serious consequences for the country.

Implementation

Issuing a UoP debt instrument will require thorough preparation and specific execution workstreams compared to more standard debt instruments. Figure 5.3 below summarises a checklist of all activities that need to be conducted through the process.

Fig. 5.3: UoP Finance Transaction Framework

Across this process, three elements are core to UoP debt financing.

1. **Preparation of a dedicated UoP Finance Framework for health.** If the ICMA or LMA guidelines are being followed, the national framework will be mandatory for any borrower that wants to issue a UoP debt instrument on the international markets. The Framework serves as the reference for all future UoP issuances. It aims at (i) presenting the country's national social and/or health priorities, (ii) defining clear eligibility criteria to select expenditures and projects financed by UoP instruments (e.g. health-related spending), and (iii) presenting the country's governance structure in charge of selecting eligible expenditures and managing reporting. Such Frameworks need to be reviewed by an external third party, which will provide a second party opinion (SPO)

confirming the document's alignment with international standards. The Case Study below details the content and format of a UoP Finance Framework.

Case Study: Format and Content of a UoP Finance Framework

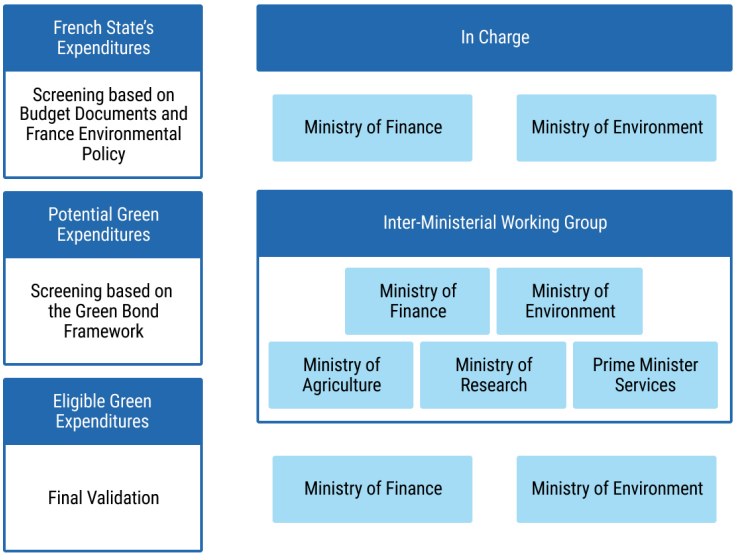
20-30 page document to be published on the Ministry of Finance's website, and articulated around five main sections:

1 Use of Proceeds	Presentation of the various issuance formats of sustainable instruments (e.g. bonds, loans)	Definition of the categories of eligible projects and expenditures to be financed under this framework
2 Project Selection	Presentation of the internal ESG project selection process, including its articulation with the budget elaboration and the existence of a dedicated ESG committee	
3 Management of Proceeds	Identification of the timeframe under which proceeds must be allocated to selected projects	Presentation of the fund disbursement process
4 Reporting	Presentation of the type of reporting to be communicated to investors on issued instruments (typically annual allocation reports)	
5 Auditing	Review of the framework by an external auditor, which will provide a second party opinion (SPO) confirming the framework's alignment with ICMA and LMA principles	

2. **Extensive stakeholder engagement.** Health bonds and loans require coordination among various key stakeholders throughout the process (see example of France in the Case Study below). The MoF and its DMO typically lead the process, ensuring alignment with government priorities and managing structuring and negotiations with investment banks and advisors. The MoH provides sector expertise, confirming that the proposed health-related eligibility criteria outlined in the UoP Finance Framework align with existing health plans. The Attorney General's office or the Ministry of Justice ensures legal

compliance by issuing necessary approvals and opinions. To streamline this complex process, it is recommended that a dedicated task force be created to oversee each step and maintain coordination among all parties.

Case Study: Example of the French UoP Bond - Selection of Eligible Expenditures and Interministerial Coordination



3. **Robust monitoring, reporting and verification (MRV).** Post-issuance obligations for health bonds or loans involve three main areas, which should be documented in the UoP Finance Framework:

   - **Monitoring eligible expenditures.** The MoF (typically with the Budget Directorate) tracks eligible spending in the national budget, ensuring it matches the total debt issued and is disbursed within a reasonable timeframe (usually within two to three years). To facilitate this process,

expenditures and budget execution must be easily traceable in the accounting system.

- **Reporting to investors and the public.** Annual allocation reports, which synthesise how funds were distributed throughout eligible budget expenditures, are mandatory for UoP debt instruments as per ICMA and LMA Principles. Although not compulsory, borrowers can also provide impact reports, depending on the availability of data. Reports would usually be co-drafted by the Finance and Health ministries and published on the MoF's website.
- **Independent verification.** Although not compulsory, it is strongly recommended to have an external third-party audit the reports to provide a limited assurance audit report. This is often a requirement by investors and lenders.

Sustainability-Linked Bonds and Loans for Health

Description and Rationale

SLBs and SLLs are especially suited for sovereigns in need of flexible funding, while embedding health goals. Unlike UoP debt instruments, there is no restriction on specific line-item or project spending. Instead, the country will commit to achieving pre-agreed performance targets on environmental and/or social key performance indicators (KPIs) within a specified time horizon. The cost of financing SLBs and SLLs will be tied to the borrower's performance across these KPIs:

- If the pre-defined performance targets are successfully met, the borrower may benefit from an interest rate step-down. This means that for the remaining duration of the instrument, the lenders will reduce the interest amounts that the borrower will need to service.
- If the targets are not met, the borrower may suffer an interest rate step-up. In this case, lenders will increase the interest amounts that the borrower will need to service until the end of the instrument's life.

The selection of the KPIs and associated performance targets (commonly referred to as sustainability performance targets (SPTs)) should reflect the borrower's national social and/or health commitments. It will be thoroughly monitored and verified throughout the life of the SLB/SLL. As such, KPIs should be relevant, material, quantifiable and externally verifiable metrics that can be reliably benchmarked against standard-setting norms (ICMA/LMA). The associated targets should be ambitious

and represent a material improvement beyond a business as usual scenario (I.e. without funding).

SPTs and KPIs also play a crucial role in securing credit enhancement from international institutions that aim to support the health sector. See Chapter 8: *Credit Enhancement* for more details.

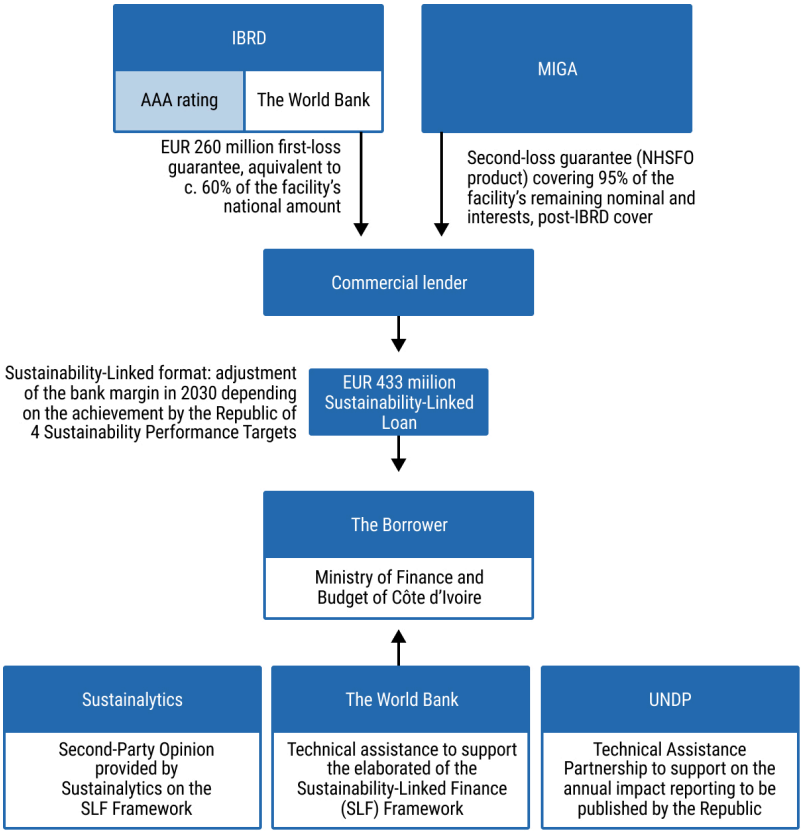
Case Study: Republic of Côte d'Ivoire - Sustainability-Linked Loan Structured with the Support of the World Bank (August 2025)

In August 2025, the Republic of Côte d'Ivoire issued its first EUR 433 million SLL, building on its inaugural Sustainability-Linked Finance Framework published in June 2025, with the support of the World Bank Group.

This Framework is articulated around 3 KPIs in the forestry and energy sectors. For each KPI, an SPT has been defined, to be achieved by the Republic by 2030 and which would result in interest rate changes from 2031 until the final maturity of the loan (2040). The table below summarises these KPIs and SPTs.

KPI	Objective	Outcome in 2030	2030 interest rate change
Renewable energy KPI 1	Increase the share of non-hydro renewables in installed electricity capacity from 1% (2023)	<11%	Step-up
		Between 11% and 13%	No change
		>13%	Step-down
Reforestation KPI 2.1	Convert 1 million hectares of land area into forest cover between 2021 and 2030	Below 1m hectares	Step-up
		Above 1m hectares	No change
Deforestation KPI 2.2	Limit forest cover loss to no more than 300,000 hectares between 2025 and 20230	Above 300,000 hectares	No change
		Below 300,000 hectares	Step-down

The SLL issued based on this Framework has benefited from strong support from the World Bank Group: it was the first-ever combination of two different World Bank guarantee products: (i) a Policy-Based Guarantee by the International Bank for Reconstruction and Development (IBRD), and (ii) a Non-Honouring of Sovereign Financial Obligations by the Multilateral Investment Guarantee Agency (MIGA). The graph below highlights the highly innovative structure.



Enabling Conditions

Strong political buy-in. Strong political leadership is essential to ensure coordination across ministries and agencies - especially for SLBs/SLLs, which require more collaboration than UoP instruments. These instruments involve continuous monitoring of KPIs and SPTs throughout their life. The MoH must have adequate resources to meet its targets, while the MoF needs regular updates to report to investors. Identifying a political champion can help sustain this long-term effort. Leadership and ownership should ideally come from both the MoF (via the DMO or directly) and the MoH. To manage the process efficiently, establishing an interagency coordination body is recommended.

Conducive legal and regulatory frameworks. Similar to health bonds and loans described above, the borrowing country's statutory, legal and regulatory framework must also allow for the issuance of a sustainability-linked debt instrument or be supplemented to do so. However, because SLL and SLBs do not specify the use of funds, countries should not be constrained by legal restrictions related to the earmarking of funds.

Robust data infrastructure. SLBs and SLLs require strong, reliable data that investors can trust. According to ICMA and LMA Principles, KPIs must be relevant and material to economic, social and governance policies, aligned with national sustainability priorities such as health strategies, measurable using consistent methodologies, externally verifiable and benchmarkable.

Health-related KPIs can be particularly challenging due to poor data quality, reliance on infrequent surveys, limited historical records and gaps in coverage. Some areas, like HIV/AIDS screening, are well supported by data, while others, such as non-communicable diseases, lack robust information because many cases go undetected. These gaps must be addressed to ensure transparency, verification and credible reporting. National authorities responsible for health data, such as the Statistics Office and the MoH, should regularly confirm their ability to collect and report reliable data. Ultimately, KPIs should be chosen based on the quality, availability and verifiability of the underlying data.

Opportunities and Challenges

OPPORTUNITIES

Significant issuance potential: Similar to health bonds and loans, SLBs/SLLs can mobilise substantial financing volumes, particularly when structured as a bond issued on international markets.

Access to a broader pool of investors. Issuing SLBs or SLLs with health-related KPIs should expand the country's investor base, appealing to social and ESG-focused funds and institutional investors that need to meet and report on sustainability targets. Most importantly, improvements in health not only deliver social benefits but should also support economic growth, creating an additional incentive for investors to engage with the country.

Gathering support from development finance institutions. In addition, these instruments could unlock interest from development finance institutions (DFIs), which could provide innovative credit-enhancement schemes. (See Chapter 8: *Credit Enhancement*). Global health institutions (GHIs) could also be engaged to provide technical assistance to MoHs in selecting their KPIs. Together, these could lower borrowing and transaction costs.

Flexible use of funds. Unlike health bonds and loans, SLBs/SLLs allow issuers to use funds for general budgetary needs while embedding agreed sustainability commitments, making them particularly attractive to sovereign borrowers balancing health goals with economic priorities. The money raised can also be used to repay pre-existing debt (e.g. but not exclusively, as part of a debt swap operation. For more information see Chapter 6: *Debt-for-Health Swaps*.)

Driving long-term health policy alignment. Sovereign SLLs and SLBs can be designed to drive policy change by linking borrowing costs to performance. Missing agreed targets can increase financing costs, therefore creating a strong incentive for governments to allocate sufficient resources to health. For example, a transaction could include a commitment to update a Universal Health Care law to provide free maternal health services.

CHALLENGES

Credibility and KPI enforcement. Weak or vague health KPIs risk undermining the effectiveness of SLBs and SLLs. Ensuring that targets are material, ambitious, measurable, independently verified and aligned with ICMA or LMA Principles mitigates these concerns. Governments can seek technical assistance from GHIs or other implementation partners to strengthen their national MRV systems.

Investor awareness and market depth. The market for health-related SLBs and SLLs is still emerging, as most sustainability-linked issuances have focused on climate or nature KPIs. Building investor confidence will require transparent reporting and standardised KPI frameworks. Conducting investor soundings alongside the development of a Sustainability-Linked Finance Framework, as Côte d'Ivoire did in 2025, helps ensure that KPIs and SPTs align with market expectations. In parallel, multilateral development banks (MDBs) and other credit enhancement providers should advocate with private lenders to encourage the broader adoption of sustainability-linked instruments, including the acceptance of more meaningful interest step-downs than are currently offered.

Need for capability-building. Many sovereigns lack experience in integrating health KPIs into financial instruments and structuring adequate SLBs/SLLs. Policy and technical support, capacity building and regulatory guidance from multilateral institutions can strengthen implementation.

Complex transaction preparation. Developing an SLL/SLB framework aligned with relevant standards like ICMA or LMA takes time and coordination across key ministries (e.g. MoH, MoF). However, this framework can be reused in the future: if the government wants to issue another bond, the existing framework can be expanded to include other KPIs in the Framework (see Case Study on the example of Chile below).

Case Study: Evolution of the SLB Framework in Chile, Including Social KPIs

In its initial SLB Framework, published in March 2022, Chile established two KPIs with their corresponding SPTs.

The KPIs are as follows:

KPI 1. Greenhouse gas (GHG) emissions per year, measured in metric tons of carbon dioxide equivalent.

KPI 2. Non-conventional renewable energy generation.

Later, in June 2023, considering the relevance of gender equality and social factors to the country, which were also reflected in the previous expansion of its Green Bond Framework to include social projects, a similar approach was followed in the SLB Framework, incorporating an additional KPI.

The new KPI is as follows:

KPI 3. Women's representation on corporate boards is typically measured as a percentage of the total number of board members.

Implementation

Issuing a sustainability-linked debt instrument will require thorough preparation and specific execution workstreams compared to conventional debt instruments. Table 5.1 below summarises a checklist of all activities that need to be conducted through the process.

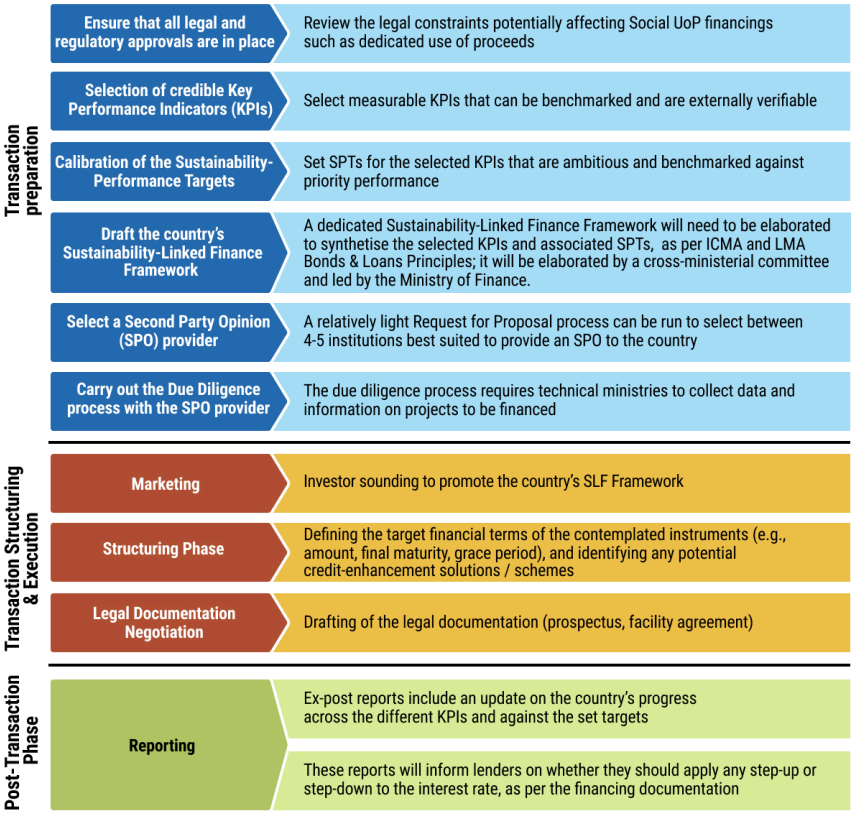
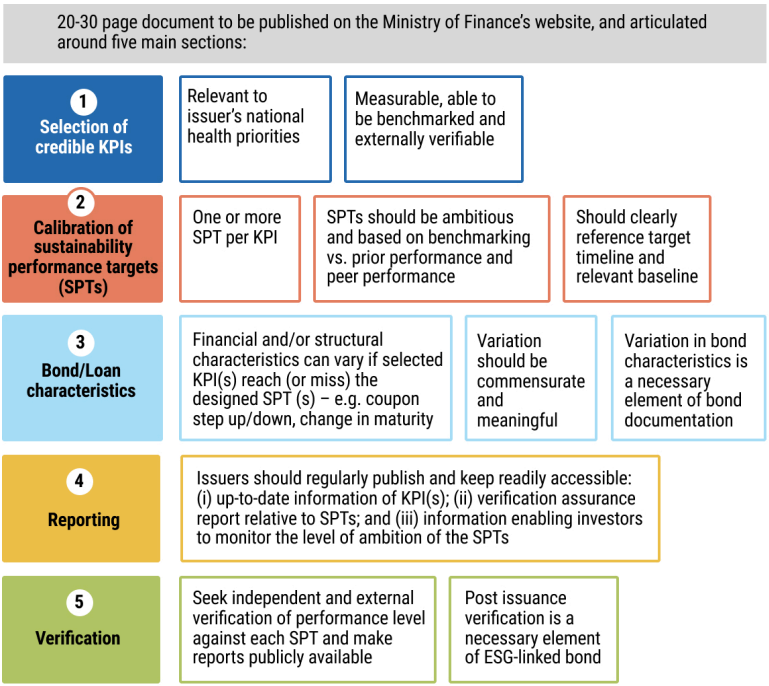


Table 5.1: SLB/SLL Transaction Implementation Checklist

1. **Preparation of a dedicated Sustainability-Linked Finance Framework.** Similar to health bonds and loans, having this national framework is a mandatory requirement by ICMA and LMA for any borrower that wants to issue a sustainability-linked debt instrument on the international markets aligned with their Principles. The existence of a national strategy with clear health policy priorities will be crucial in developing the Framework, particularly in selecting KPIs and calibrating SPTs. Indicators and targets should be sufficiently ambitious to ensure the Framework's credibility and attract investor interest, yet realistic given the country's capacity for monitoring, reporting and

verification. The MoH should play a leading role in developing any such Framework, in close collaboration with the MoF.

Case Study: Format and Content of a Sustainability-Linked Finance Framework (In Line with ICMA and LMA Principles)



2. **Strong stakeholder engagement.** Like health bonds and loans, SLBs and SLLs require close coordination among key stakeholders. The MoF and its DMO typically lead the process, ensuring alignment with government priorities and managing structuring and negotiations with investment banks and advisors. The MoH plays a critical role in defining and selecting appropriate KPIs and targets,

bringing sector expertise to the design phase and ensuring alignment with existing national health plans.

3. **Robust financial structuring.** The structure of the instrument, including the total amount, final maturity and any credit-enhancement mechanism, must be carefully aligned with the country's debt-carrying capacity to avoid creating undue fiscal pressure. Equally important is the calibration of interest step-down and step-up mechanisms associated with the SPTs. These adjustments should be meaningful enough to incentivise governments to meet their targets and not incur additional interest payments, while remaining realistic and proportionate to the country's fiscal capacity. Striking this balance ensures that the financial structure reinforces policy objectives without compromising debt sustainability.
4. **Monitoring, reporting and verification.** Regarding a health bond or loan, sustainability-linked instruments will require thorough annual reporting to be executed following the completion of the operation. Therefore, an effective MRV system must deliver reliable, publicly accessible and regularly updated data. It should define clear processes and transparent commitments for issuers, using trusted public databases such as those provided by the World Health Organisation (WHO) or the World Bank. This ensures investors and other stakeholders have accurate, verifiable information on the financial and structural characteristics of health SLBs and SLLs. In addition, since funding from an SLB/SLL is not explicitly earmarked for KPI achievement, it will be essential to ensure that these commitments are considered during the annual budget formulation process, allowing the MoH to implement essential activities on time and avoid potential penalties.

KPI policy area	SDGs	KPI	Frequency:	Data source:
Communicable diseases	SDGS 3.3: By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases	HIV Viral Suppression- People on HIV treatment who have suppressed viral loads Ratio of: Number of people living with HIV who have a suppressed viral load / Number of people living with HIV who are on treatment	Annual	https://indicatorregistry.unaids.org/ indicator/people-living-hiv-who-have-suppressed-viral-loads
Health systems - vaccination	SDG3:3.b Support the research and development of vaccines and medicines for the communicable and non-communicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the Trade-Related Aspects Of Intellectual Property Rights Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health, and, in particular, provide access to medicines for all	Proportion of the target population covered by all vaccines included in their national programme	Annual	https://unstats.un.org/sdgs/metadata/files/Metadata-03-0b-01.pdf
Maternal and child health and nutrition	SDG 3.2 By 2030, end preventable deaths of newborns and children under 5 years of age, with all countries aiming to reduce neonatal mortality to at least as low as 12 per 1,000 live births and under-5 mortality to at least as low as 25 per 1,000 live births	Neonatal mortality rate	Annual	https://data.who.int/indicators/ i/E3CAF2B/A4C49D3

Table 5.2: Examples of Health KPIs for SLBs/SLLs That Would Meet ICMA Requirements

Impact Bonds

Description and Rationale

An impact bond is a contractual arrangement that funds a project between a government and/or donor, an investor and a service provider. The grant funder pays out only if, and only if, pre-agreed outcomes are achieved - the term "bond" is thus somewhat of a misnomer. The contracts commit the government/donor to make payments upon achievement of pre-agreed health outcomes, which the investor finances for the service providers to deliver. The donor may be a development partner or a private philanthropic organisation. Examples of impact bonds include improvements in weight gain for low-birth-weight or premature newborns, as well as a defined increase in the number of cataract surgeries and in visual acuity post-surgery.

An impact bond brings multiple parties together, each focusing on their specialisation:

- Government and/or donor(s) who seek to maximise the benefits for target populations using scarce grant resources. They are defined as outcome funders because they pay based on the achievement of outcomes.
- Socially-oriented investor(s) who seek both to have a positive social impact and a return on capital to reinvest in the future.
- Service provider(s) such as a non-profit or social enterprise, which are incentivised to constantly adapt and innovate in their programmes to achieve the pre-agreed outcomes and for the maximum benefit of the populations they work with.

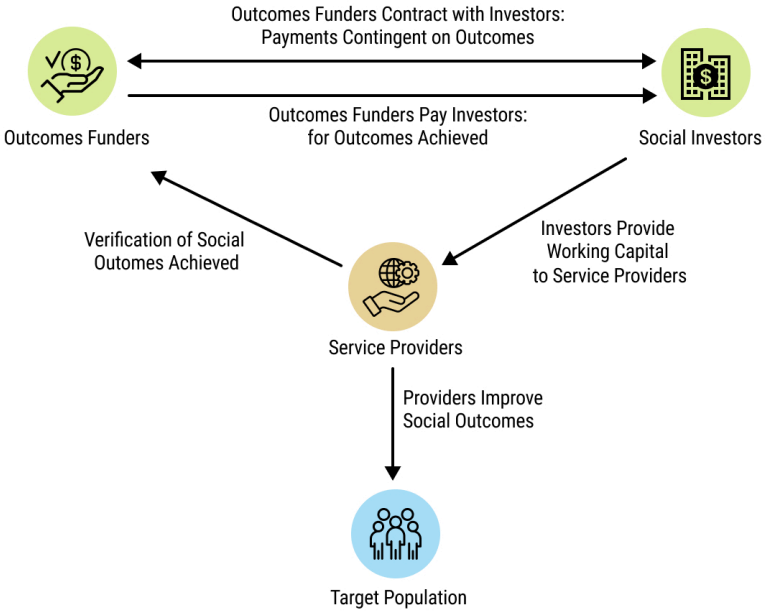


Fig. 5.4: Structure for Social Impact Bond

As impact bonds are typically less than USD 10 million, they are often best suited to piloting new ways of delivering health services and adding value when:

- There is a demonstrated need for an outcome-focused approach in the specific target sector/geography.
- There are promising interventions with some but incomplete evidence behind them, which could be refined through innovation and adaptation.
- The chosen service providers lack access to adequate working capital or are unable to bear the risk of implementation.

Impact bonds in the health sector (follow to this link here for details) have been successfully used in Africa in:

- Cameroon (neo-natal health; cataract surgery; hepatitis treatment)
- Ethiopia (menstrual health and hygiene)

- Kenya (adolescent sexual and reproductive health)
- South Africa (vulnerable adolescent girls and young women)
- Democratic Republic of Congo, Mali, Nigeria (physical rehabilitation)

Enabling conditions

Legal/regulatory. Impact bonds require that investors and the outcome funder establish a legal agreement (including, as needed, the establishment of a special-purpose vehicle (SPV), a temporary and ring-fenced legal entity set up for this specific purpose). Unlike the instruments described above, the government is not incurring any debt; instead, it is committing to make payments to investors upon achieving outcomes. Therefore, considerations regarding government debt issuance do not apply in this case.

Political buy-in. Ideally, outcome funding will either come from, or be channelled through, the government. This requires government buy-in notwithstanding that the government is not incurring any debt. Instead, an impact bond is beneficial to the government since it only makes outcome payments if the agreed, independently verified outcomes are achieved.

Data. Robust data at the project level are needed for the baseline against which outcomes are measured, to set ambitious yet reasonable targets, and for the outcomes themselves. This data needs to be verifiable by a third party, similar to an SLB/SLL.

Opportunities and Challenges

OPPORTUNITIES

Impact bonds foster:

- **Accountability for results.** Payments will not be made unless outcomes are achieved. This creates accountability for results throughout the programme.
- **Innovation.** Service providers are only accountable for delivering outcomes, not a work plan, and can therefore adapt, innovate, and respond to evolving circumstances to achieve that. Up-front capital from the investor gives the financial space for this innovation.

- **Incentives to outperform.** A well-designed impact bond typically features a graduated bonus for outperformance, capped at a certain level.
- **Cost-effectiveness.** If the structuring is efficiently managed, impact bonds can improve cost-effectiveness by incentivising the maximisation of outcomes delivered per dollar.

CHALLENGES

Impact bonds require:

- **Risk.** An investor willing to take on the delivery risk (although in practice, this has often not been an obstacle given the volume of social capital available globally).
- **Metrics.** Clear outcome metrics agreed by all parties.
- **Data.** Availability of outcome data that can be independently verified at a reasonable cost and in a reasonable time.
- **Legal Structuring.** A sometimes complex legal structure that may take time and legal fees to define and agree, especially for those participating in their first impact bond.

Implementation

The implementation of an impact bond is the responsibility of the investors, subject to the observance of the government's and the outcome funder's (if different) fiduciary, social and environmental standards. Government contractual involvement centres on a standard funding agreement with a donor (if any).

An impact bond may require an Independent Verification Agent (IVA), depending on the chosen verification approach. If outcomes can be verified using data that is already being collected, a third-party verification is not necessarily required. In particular, the following questions need to be addressed:

Questions That May Need to Be Answered During Structuring

- Are there restrictions on cross-border fund flow?
- Are there restrictions on the repayment of capital invested in development projects?
- What are the tax implications of different contracting structures?
- Under what conditions can the contract be terminated?
- What is the investment cap?
- What is the outcome of the payment cap?

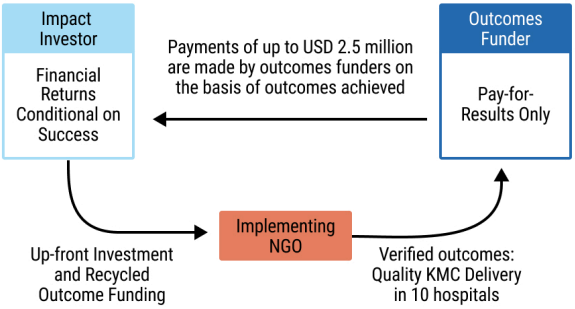
Case Study: Impact bond for Kangaroo Mother Care (KMC), Cameroon

Description: Tackling neonatal mortality for premature and low-birth-weight infants
Launch date: February 2019
Duration: 2.5 years
Maximum outcome payments: USD 2.5 million
Outcomes Funder: Ministry of Public Health, Cameroon and Nutrition International
Implementer: Kangaroo Foundation Cameroon
Investor: Grand Challenges Canada
What is Kangaroo Mother Care? KMC is an evidence-based method that combines:

- Extended skin-to-skin contact between premature and low birthweight infants and their carers
- Exclusive breastfeeding
- Regular follow-up after discharge

The approach has been demonstrated to reduce infant mortality and morbidity significantly in low-resource contexts.

Structure:



Objectives, Metrics and Results: The impact bond aimed to reduce mortality among premature and low-birth weight infants by scaling and improving KMC practice across Cameroon.

- 10 public hospitals equipped to deliver quality KMC. *Achieved*
- 750 premature and low birthweight infants receive quality KMC before discharge. *Over-achieved by 28%*
- 460 infants return for their 40-week follow-up appointment, having reached an adequate weight while receiving appropriate nutrition. Achieved

Key Legal Considerations

Understanding the legal documentation (as well as its relevant jargon) that underpins sustainable finance transactions is essential for effective transaction implementation and ensuring that terms are both fit for purpose and adequately reflect the local context.

A standard loan or bond refers to a debt instrument with conventional terms and conditions governing principal, interest, repayment and default, without any thematic or performance-linked provisions. The legal documentation for health and sustainability-linked instruments largely mirrors that of standard instruments, with modifications that align the financing with predefined performance objectives.

For health and sustainability-linked instruments, the transaction's objectives (I.e. specifying health financing or performance-related objectives) are typically achieved through additional or revised provisions within otherwise standard documentation. As a result, these instruments are less complex to structure than debt swaps, which require multiple interlinked contracts and counterparties. Please refer to Chapter 5: *Sustainable Finance Instruments* for the key legal considerations associated with debt swap transactions.

This section outlines the key clauses that are found in documentation for sustainable finance instruments. It also explains how debt documents can be enhanced to increase resiliency to potential health crises in countries through the use of debt pause clauses.

For details on the key provisions and negotiation points typically found in a standard sovereign loan agreement or bond offering document, please see the ALSF's *Loan Agreement and Bond Offering Document Commentaries*.

Health Loans and Bonds: What is Unique About these Instruments?

Whether structured as a loan or a bond, a health-related financing instrument is distinguished from a standard instrument by the UoP being dedicated explicitly to health-related purposes. In the case of a health loan, the terms and conditions outlined in the loan (or "credit" or "facility") agreement between the borrower and the lender(s) will expressly prescribe the health-related purpose of the borrowing, in line with the LMA's *Social Loan Principles* (SLP) that the health investment be appropriately detailed in the documentation. Similarly, for a health bond issuance, the offering document (or prospectus) and the fiscal agency or trust deed will together outline the terms and conditions of the bonds, with a dedicated UoP specified, defining the relevant health project or programme and category of eligible expenditures set out in the agreed underlying Framework, in line with ICMA's Social Bond Principles (SBPs). Notably, while the dedicated UoP is a defining characteristic of these instruments, failure to apply the funds in accordance with the stated health purpose does not typically constitute an event of default under the debt documentation. Instead, this is generally addressed through monitoring and reporting mechanisms.

Sustainability-Linked Instruments: What is Unique About These Instruments?

SLLs and SLBs share a common feature that distinguishes them from UoP instruments such as health loans or health bonds: the proceeds are not earmarked for specific projects or categories of expenditure. Instead, both instruments link their financial terms to the achievement of predefined SPTs measured against KPIs as described above.

In the case of an SLL, the loan agreement entered into between the sovereign and the lender(s) will include provisions that tie the interest margin to performance against the agreed SPTs, incorporating a step-up or step-down mechanism whereby the interest amounts owed increase if the SPTs are not met and decrease if they are met or exceeded. The loan documentation will also typically include a requirement for independent verification of performance, as a reporting obligation outlined in the

transaction documentation, to confirm whether the relevant SPTs have been achieved for the applicable period.

The box below reflects the LMA's draft provisions for SLLs.

Sample Step-Up/Step-Down Clause

Sustainability Margin Adjustment

Subject to Clause · (Declassification Event) and the other paragraphs of this Clause, · following the receipt by the Agent of the Sustainability Compliance Certificate in respect of a SLL Reference Period in accordance with Clause · (Sustainability Compliance Certificate, Sustainability Report and Verification Report), the Margin applicable to each Loan shall be adjusted (a Sustainability Margin Adjustment) (or not adjusted, as the case may be) to the applicable rate determined using the table set out below and the number of SPTs that the Sustainability Compliance Certificate for that SLL Reference Period certifies have been met:

Number of SPTs met	Revised Margin following Sustainability Margin Adjustment
4	The rate is [X]% per annum lower than the rate which would otherwise have been applicable.
3	[The rate which is [X]% per annum lower than the rate which would otherwise have been applicable.]/[No adjustment.]
2	[The rate which is [X]% per annum lower than the rate which would otherwise have been applicable.]/[No adjustment.]/[The rate which is [0]% per annum higher than the rate which would otherwise have been applicable.]
1	[The rate which is [X]% per annum lower than the rate which would otherwise have been applicable.]/[No adjustment.]/[The rate which is [0]% per annum higher than the rate which would otherwise have been applicable.]
0	[The rate which is [X]% per annum higher than the rate which would otherwise have been applicable.]

SLBs also link the bond's financial characteristics (e.g. coupon rate or redemption premium) to the issuer's achievement of specified SPTs, consistent with ICMA's Sustainability-Linked Bond Principles. This will also be outlined in the bond's documentation, like that of the SLLs.

Impact Bonds: What is Unique About These Instruments?

Impact bonds represent a distinct contractual structure from those described above. Rather than adapting a standard debt instrument, they comprise a series of contracts among governments, donors, investors and service providers, under which repayment is contingent upon the achievement of predefined social or health outcomes.

An impact bond requires the following contracts:

- Outcomes contract, between government/other outcomes funders and investors to define the amounts to be paid against achievement of each unit of outcome (or the whole outcome if it is not divisible). A clause may be necessary to permit some payment to investors in the event of force majeure events that prevent the desired outcomes from being achieved. In some cases, the service provider may also be involved in the contracting structure, but this is unusual.
- Investors and Service Providers to define programme implementation, disbursement triggers and possible bonus to service providers on achievement or over-achievement of outcomes. Experience suggests that investors will want to maintain a significant degree of flexibility in the contract to allow for learning and adaptation (feedback loops).
- Government/other Outcome Funders and the IVA to define the role of, and payments, to the IVA (in some cases, an IVA may not be needed if all parties agree it is not necessary).

Pandemic or Epidemic Pause Clauses

Loan and bond documentation can also be drafted to include clauses that allow the borrower or issuer to pause repayments in the case of an exogenous health event, such as a pandemic or epidemic. These are typically structured as contingent debt

service deferral clauses, which provide for a temporary standstill on principal and/or interest payments upon the occurrence of a predefined trigger event such as a declaration of a public health emergency by a recognised international body (e.g. the WHO) or a national authority. The clause typically specifies the duration of the deferral period, the conditions for resuming payments and the treatment of accrued interest during the deferral. Because they provide certainty and predictability for all parties to the debt contract, these should be beneficial for both the sovereign and its creditors.

ICMA has published a sample pandemic-related pause clause, which would tie the repayment pause to a WHO declaration of a Public Health Emergency of International Concern. This formulation provides an objective trigger linked to an authoritative international body, reducing ambiguity around when the deferral trigger can be invoked.

The following is the sample pandemic event pause clause published by ICMA. The language below can be adapted as appropriate for epidemics or other health crises that may impact a country.

Sample Pandemic Event-Related Debt Clause

"Deferral Event" means the occurrence of any of the following:

(a) Pandemic Event,

(b) Other.

"Pandemic Event" means the occurrence of the following sequence of events after the Issue Date:

(a) The WHO declares a Public Health Emergency of International Concern (as defined in the International Health Regulations of the WHO) with respect to any disease that grants such disease phase 6 status, or any other categorisation as the WHO may use to describe an active ongoing pandemic from time to time (PHIO) (excluding the continuation of the COVID-19 pandemic in the form of the current variants of COVID-19 existing as of the Issue Date);

(b) The [Sovereign] or any other competent political or regulatory subdivision thereof declares a state of public health emergency with respect to any PHIO declared under (a) above;

(c) And either:

(i) The occurrence of a Real Gross Domestic Product (GDP) contraction over [two consecutive quarters], which in aggregate results in a contraction of at least [•]% of Real GDP relative to [the same two quarters in the previous fiscal year (based on estimated realised GDP at constant prices for the current year and provisional realised GDP at constant prices for the prior year], as published by [•] and reported to at least [two] of: the International Monetary Fund (IMF), the World Bank and [insert any appropriate regional MDB]); and/or

(ii) The events described in paragraphs (a) and (b) above result in the [Sovereign] approving and enacting an increase in governmental spending (that is not rescindable) (the Pandemic Increased Spending) directly relating to the relevant PHIO (and the measures taken by the [Sovereign] in response thereto) that is at least equal to USD [•].

For the purposes of paragraph (c)(ii) above, any reduction in budgeted government spending as a result of payments due under these [terms and conditions/Conditions] being deferred as a result of a Pandemic Event occurring shall be disregarded when determining whether Pandemic Increased Spending has been approved and enacted.

"Real GDP" means the gross domestic product of [Sovereign] at constant prices as adjusted for inflation.

For the full text, please see CRDC's November (2022) notice.

At the time of writing this User Guide, the first country known to integrate a pandemic clause into its sovereign debt documentation is Barbados, which included a trigger tied to a pandemic emergency in its debt swap in 2022 and subsequently, including in its June 2025 sovereign bonds.

Case Study: Government of Barbados - Pandemic Clause (2022)

In September 2022, the Government of Barbados completed a debt conversion (refer to Chapter 5: *Sustainable Finance Instruments* for an overview) for marine conservation that featured the world's first pandemic clause. This provision, added alongside a natural disaster clause, allows the Government of Barbados to defer up to two years of principal payments (approximately USD 18 million) in the event of a qualified pandemic or natural disaster. This feature was designed to make the country's debt terms more resilient to external shocks.

This transaction was financed by Credit Suisse and the Canadian Imperial Bank of Commerce, with The Nature Conservancy as co-guarantor and conservation advisor and the Inter-American Development Bank (IDB) as co-guarantor. It helped Barbados refinance USD 150 million of its existing debt, generating an estimated USD 50 million in savings over 15 years. These funds are dedicated to marine conservation and support Barbados's commitment to protect up to 30% of its ocean territory.

Barbados also included these clauses in its USD 500 million eurobond, marking its return to international capital markets in July 2025.

References:

https://www.insurancejournal.com/news/international/2022/09/22/686174.htm

https://www.nature.org/content/dam/tnc/nature/en/documents/TNC-Barbados-Debt-Conversion-Case-Study.pdf

https://nationnews-brb.newsmemory.com/?publink=29e7314b6_134fa25

Nonetheless, pandemic deferral clauses and wider debt pause clauses are gaining traction. Indeed, bilateral official lenders, MDBs, governments and investors are increasingly recognising the value of such pause or deferral mechanisms in the face of exogenous shocks that can impact countries' liquidity and debt sustainability. These clauses should be considered as another tool in the toolbox.

The Importance of Legal and Financial Advisors

For government officials designing and negotiating health or sustainability-linked debt instruments, it is critical not to go it alone. The technical and legal complexity of these structures necessitates specialised advice. Integrating experienced legal and financial advisors into the transaction team ensures that the documentation is aligned with best practices, international standards and domestic law, and that pricing and risk allocation are appropriately calibrated. Governments should also involve their Attorney-General's Office (or equivalent) from the outset of the transaction to ensure that any transaction is consistent with national laws and regulations, and required approvals and legal opinions can be provided. (See also above on legal and regulatory frameworks).

The ALSF is an international organisation dedicated to providing legal advice and technical assistance to African countries in the structuring and negotiation of complex commercial transactions, including those outlined in this User Guide.

For more information on how the ALSF can support you, please visit https://www.alsf.int/

Summary of Instrument Implementation Processes and Stakeholders

The three instruments outlined in this chapter each have their own specific requirements for designing, structuring and implementation, with particular input needed from each key stakeholder. There is also a difference in the expected timeframe before issuance, ranging from 6 to 12 months for an impact bond to over 18 months for an SLB/SLL.

Figure 5.5 below summarises these key activities by instrument.

Table 5.3 following outlines the specific key role of each stakeholder.

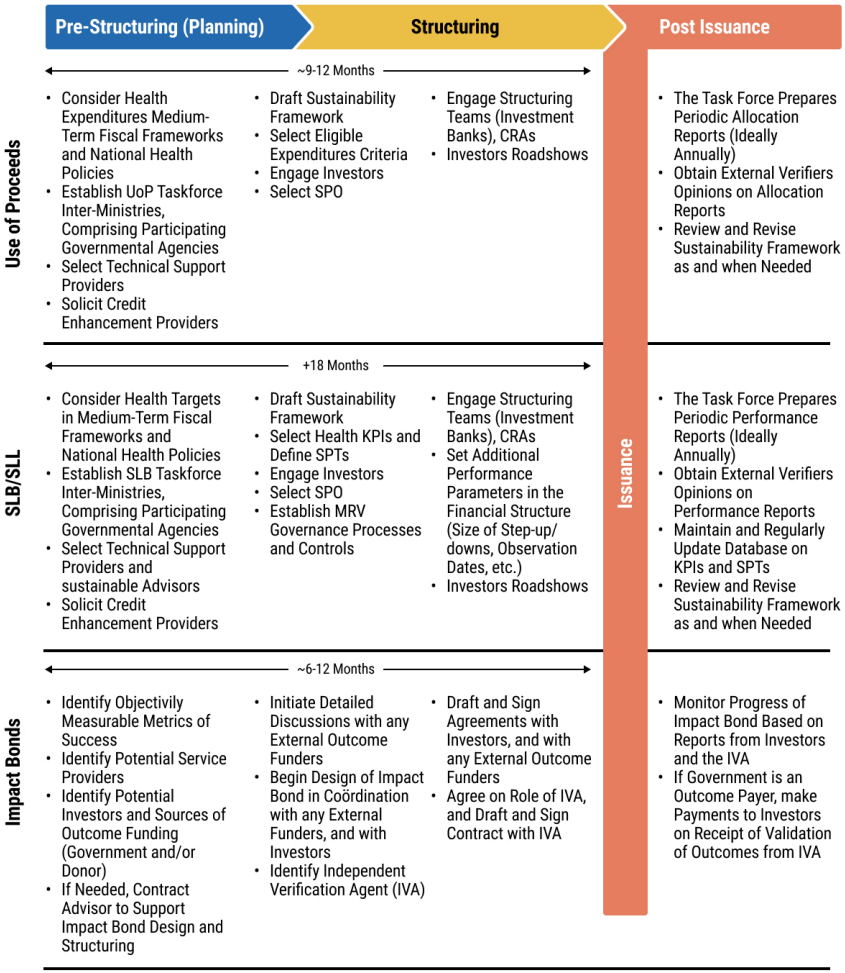


Fig. 5.5: *Summary of Instrument Implementation Process*

Stakeholder / Institution	Core Role in UoP Bond/Loan or SLL/SLB	Interest / Incentive	Potential Concern / Risk	Engagement Strategy / Framing	Phase of Involvement
Minister of Health Included here could be the Deputy Ministers of Health/Ministers of State for Health	* Health bond/loan: Defines eligible health projects and investment areas. * SLB/SLL: Identifies relevant KPIs, helps set ambitious SPTs, and develops/manages the MRV framework. *SLB/SLL: responsible for advocating for funding needed to achieve SPT during the annual budgeting process, and ensuring strong, evidence-based implementation of the relevant activities for the selected KPI * Both: Provides technical health input for the issuance framework.	* Health bond/loan: Secures ring-fenced funding for specific, planned health programmes. * SLB/SLL: Drives and demonstrates national health improvements; incentivised to meet SPTs to avoid financial penalties and gain reputational benefits.	* Health bond/loan: Risk of funds being diverted or misallocated from intended projects. * SLB/SLL: Risk of failing to meet SPTs, triggering financial penalties (e.g. coupon step-up) and reputational damage.	Frame as a fiscal innovation to achieve core health mandates. Align with the national health strategy, development plan, and debt management strategy.	Early concept through final reporting (entire lifecycle).
Minister of Finance Also captured here could be the Chief Economic Advisor, the Financial Secretary (Permanent Secretary for the MoF)	Both: Custodian of sovereign debt and lead coordinator of the sustainability framework across government. *SLB/SLL: The Budget department must ensure the KPI-related activities are budgeted and monitored during the budget cycle.	* Health bond/loan: Secures funding for specific national priorities. * SLB/SLL: Raises general-purpose funds while demonstrating commitment to national goals. * Both: Diversifies the investor base; signals market leadership.	* Dependency: Heavy reliance on other ministries (e.g. Health) for data and performance to meet reporting obligations or SPTs. * Financial: Risk of financial penalties (step-ups) if SPTs are missed. * Admin: High administrative burden for UoP tracking or SLB/SLL verification.	Frame as a co-created fiscal innovation, aligning with the national debt management strategy and development plan. Emphasise market access and investor diversification.	Early concept through final maturity (entire lifecycle).

Stakeholder / Institution	Core Role in UoP Bond/Loan or SLL/SLB	Interest / Incentive	Potential Concern / Risk	Engagement Strategy / Framing	Phase of Involvement
Presidency Actors here could include the Chief Minister, Minister of State, etc.	Provides high-level political leadership, ensures cross-ministerial alignment, and sets strategic direction.	Enhances national prestige as an innovator. Builds credibility with international partners. Secures a political legacy and drives national ownership of reforms.	Competing political priorities or timelines. Risk of reform fatigue or political opposition. Concern over the complexity of the commitments.	Frame as a high-visibility, legacy-defining reform. Link to the national development agenda and international commitments (e.g. SDGs).	Beginning (to provide mandate) and at key inflection points (to resolve bottlenecks).
Parliament Actors here could include the chairs for the parliamentary committee on health, finance, etc.	Approves national debt operations. Ensures accountability for public expenditure and performance commitments.	Ensures transparency, fiscal prudence and public accountability Gains political capital by championing innovative and effective solutions for citizens.	Concern that the instrument is too complex or bypasses traditional oversight functions. Political opposition or lack of cross-party support.	Engage early with clear, non-technical briefings. Demonstrate fiscal discipline and tangible benefits for citizens. Identify and empower cross-party champions.	Early consultation (pre-approval) and at key reporting/inflection points.

Table 5.3: Summary of Key Stakeholders for Health Bond/Loan and SLL/SLB

Chapter 6: Debt-for-Health Swaps

Key Takeaways

Debt-for-health swaps enable the simultaneous reduction of debt burdens and the unlocking of predictable, longer-term financing for national health priorities.

There are two broad types of debt-for-health swaps: (i) bilateral debt swaps, where a creditor country cancels or reduces debt in exchange for the debtor country's commitment to invest the savings in health programmes; and (ii) commercial debt swaps (debt conversions), where debt is refinanced through market mechanisms to free resources for health.

Bilateral debt swaps generally require a strong relationship with the creditor country. Their financial structure is less complex compared to debt conversions, but these swaps are also limited in size, generally mobilising smaller amounts for health priorities.

Debt conversions have the potential to mobilise substantial health financing for countries with outstanding commercial debt eligible for buyback. However, these market-based mechanisms involve a broad range of stakeholders, which can weigh on timelines. Their success depends on the country's access to credit enhancement, which could substantially improve the overall debt profile.

There is no standard template for debt-for-health swaps. Considerations are country-specific, and terms must reflect, among others, debt characteristics, national laws, creditor frameworks and international requirements.

Common enabling factors include (i) having a well-defined, measurable and investment-ready national health priority, (ii) robust governance through a transparent and accountable mechanism to manage the funds, (iii) stakeholder alignment and strong coordination, and (iv) institutional and technical capacity at the government.

Fiscal Savings for Health Objectives

This chapter aims to guide officials from Ministries of Finance (MoFs) and Health (MoHs), as well as practitioners, through the design and implementation of debt-for-health swaps, which provide a powerful tool to unlock fiscal savings for health objectives. The chapter emphasises that the decision to pursue a debt swap, as well as the choice of debt swap type (bilateral versus commercial, bond versus non-bond, international versus domestic), must be informed by country-specific debt profiles, fiscal objectives and health sector priorities. Each section provides a practical framework to support this decision-making process, outlining the key steps for structuring and executing successful transactions.

Debt swaps are emerging as a financial tool that can help progress towards achieving universal health coverage (UHC) in a context of narrowing fiscal space and increasing debt service pressures, through a dual impact of unlocking additional long-term health funding and reducing debt burdens. MoFs have traditionally employed debt swaps as a liability management instrument to create fiscal savings, which can be channelled to development objectives, while optimising public debt profiles, reducing refinancing risks and improving fiscal sustainability.

The traditional bilateral debt swap approach originated in the late 1980s in Latin America to support nature conservation. These transactions exchanged portions of sovereign debt for commitments to biodiversity conservation and climate resilience. Over time, other sectors have benefited from bilateral debt swaps, including health, education and food security. According to the United Nations Conference on Trade and Development, more than 230 bilateral swaps have been concluded in 58 countries since 1987, with a combined face value of nearly USD 8 billion. The Global

Fund has been a major player in bilateral debt-for-health swaps, concluding 14 agreements since 2007 with an average deal size of USD 23.5 million to support national health programmes targeting human immunodeficiency virus (HIV), tuberculosis (TB) and malaria. While these operations have delivered a meaningful impact, their scale remains modest relative to the growing financing needs of health systems across Africa, primarily because they depend on the generosity of a creditor country to cancel their debt.

Since 2021, a new generation of commercial debt swaps (known as debt conversions) has emerged, significantly increasing the volume of potential transactions. It began with nature conservation in Latin America but is now being applied to a broader range of sectors, including education. This new generation of debt swaps has expanded beyond purely financial objectives to encompass structures that align debt management strategies with national development priorities. These innovative mechanisms, where a country exchanges part of its existing debt for new, guaranteed borrowing under more favourable terms, then reallocates (part of) the associated savings to specific projects, have gained traction across emerging markets as governments seek to leverage debt relief for broader socio-economic and environmental outcomes. In the environmental space, large-scale operations include transactions in Belize (2021), Barbados (2022; 2024) and Gabon (2023). Ecuador's debt swaps in respect of the Galápagos Islands (2023) and the Amazon (2024), Bahamas (2024) and El Salvador (2024) unlocked over USD 2.1 billion for conservation, with over USD 4.6 billion of debt exchanged.

This model has also been extended to education, with Côte d'Ivoire's (2024) transaction, which mobilised EUR 40 million for education over 5 years.

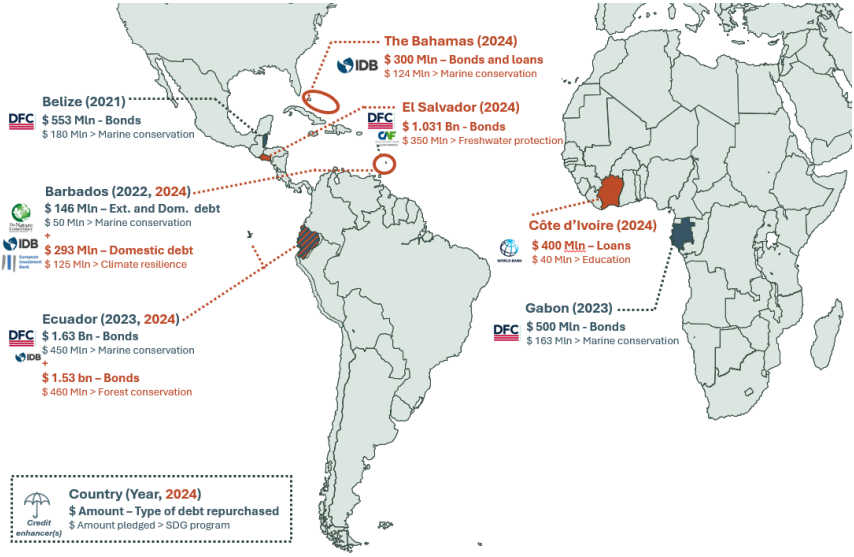


Fig. 6.1: Map of Debt-for-Development Swaps Since 2018 (Source)

This context underscores the urgency of exploring debt conversions to support the health sector, through refinancing existing debt with both bond and non-bond instruments. By leveraging credit enhancement and market-based mechanisms, debt conversions could significantly amplify fiscal savings and channel resources toward health priorities at scale.

Debt Swap Structures: Bilateral versus Commercial

Bilateral debt swaps and debt conversions have distinct features. Country-specific objectives and fundamentals should guide the selection of the most suitable instrument. Table 6.1 below summarises the key characteristics of each structure.

	Bilateral Debt Swaps	Debt Conversions
Debt swap mechanisms	- Debt cancellation or reduction	- Step 1: Issuance of a new financing facility (bonds or loans) - Step 2: Buyback of existing debt (bonds or loans)
Target existing debt facilities	- Bilateral loans	- Commercial loans - Bonds
Involved third-parties	- Bilateral creditors, who approve a debt cancellation or reduction - Global health institutions, such as the Global Fund, to channel the funding and monitor the project	- Development Finance Institutions and private sector participants that provide credit enhancement to lower the cost of the new facility through guarantees, insurance. - Commercial lenders/investors, providing a new facility instead of existing debt - Commercial investors holding existing debt - Technical partners, supporting the design and/or reporting, along with technical assistance in implementation
Range of debt swapped	- USD 5-100 million	- USD 150-1,500 million
Range of programme funding	- USD 1-75 million	- USD 50-450 million
Typical programme design timeline	- 0 to 12 months	- 6 to 12 months
Typical financial execution timeline	- 6 to 12 months	- 6 to 9 months

Table 6.1: Brief Comparison of Bilateral Debt Swaps vs Debt Conversions

Note: The programme design phase includes agreeing on the health-linked application of freed-up fiscal savings, policy and spend commitments, as well as related monitoring and verification. The financial execution phase includes defining the structure, negotiating and executing. Depending on the situation, these two phases can be successive or run in parallel. Ranges are based on historical transactions that have been executed.

Several factors need to be evaluated to assess whether a debt swap provides the right tool in the country's specific context. For countries facing unsustainable debt

burdens, a comprehensive debt restructuring, generating substantial debt relief, is likely required. While debt swaps serve as a liability management tool, they do not address solvency issues and should be viewed as a means of providing liquidity support. The decision tree below helps to navigate the decision-making process.

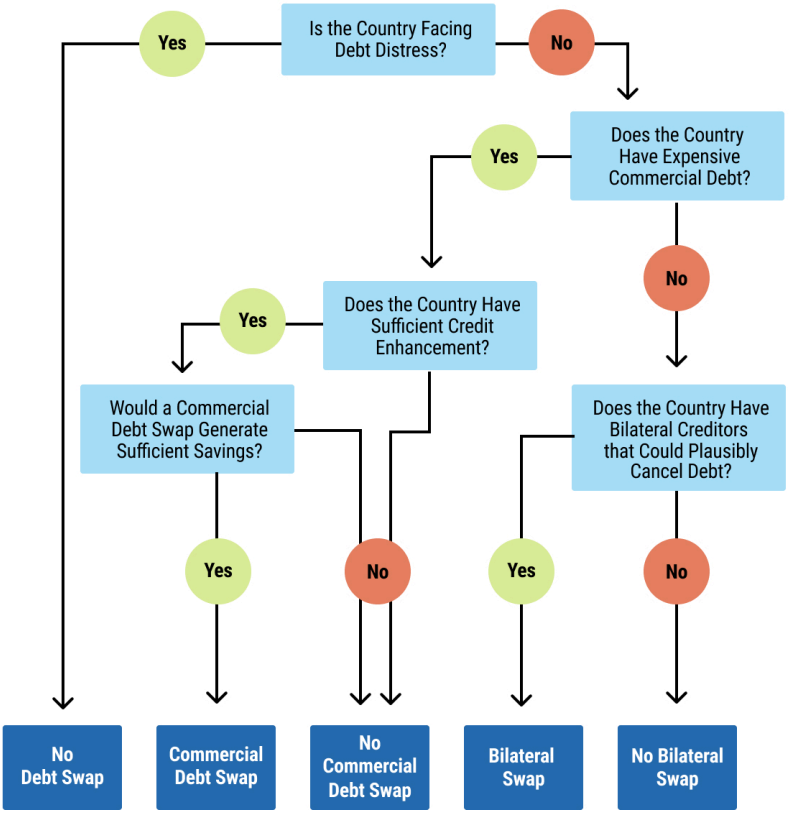


Fig. 6.2: *Debt Swap Decision Tree*

Debt Swaps to Support Health Programmes

ALIGNING FINANCIAL FLOWS WITH HEALTH PROGRAMMES

The financial flows generated through a debt swap are well-suited to health financing needs, as they tend to be long-term, regular and predictable. Debt swaps are not one-off grants or loans. Instead, they enable countries to redirect their savings towards long-term health objectives. When a country enters a swap arrangement, it agrees to make fixed, periodic payments into a development fund or to a specified third party, instead of paying those amounts to the original creditors. These payments are often set for the life of the swapped debt, which can be up to 20 years, as in the case of Belize, and typically above 10 years - although bilateral debt swaps can have a shorter tenure. Because they are linked to the sovereign's debt-servicing obligations, the payment flows can become a legally binding, long-term commitment.

The unique structure of these financial flows warrants careful consideration to fully harness their potential in advancing health outcomes. Three guiding principles can help orient the nature of spending that a debt-for-health swap could support:

- **Long-term vision and government ownership.** Define a clear long-term vision for what swap resources will achieve, align it with national plans, utilise consultations at both design and operational levels, and establish measurable results and outcome-based commitments to guide spending over many years.
- **Spending that benefits from long-term financing.** Direct resources to expenditures with predictable multi-year costs or high long-term returns, for example, maintenance programmes, infectious disease surveillance systems, vaccine financing and campaigns, workforce training, climate-resilient infrastructure and broader human capital.
- **Additionally, with government budgets.** Implement governance and selection rules that ensure swap funds do not displace baseline government spending but are instead accretive to it. Practical measures include prioritising programmes that the budget would not reliably fund, and channelling quick-release funds for emerging needs and sustained finance for longer-term programmes.

Figure 6.3 below highlights examples of health spending that could be aligned with those principles - depending on the country context.

Program Type	Description/Why it works for Swap Funding
Disease Elimination Campaigns	Large-scale, periodic efforts with measurable outcomes; funding needs are episodic but predictable. Requires ongoing operational financing for surveillance and control systems. Clear outcome targets and KPIs.
Community Health Workers	Supporting salaries, training, supplies for CHWs yields high returns in access and prevention. Long-term financing helps stability. Many CHW groups have been defunded due to aid cuts, governments struggle to fund. Job creation a plus.
Infrastructure Maintenance	Capital & upkeep intensive; often underfunded; swap funds can secure upkeep and resilience. Opex financing otherwise hard to secure and sustain. Could apply to hospitals, labs, solar installations, expensive lab equipment etc.
Pandemic Preparedness	Strengthening national and regional public health institutions (e.g. CDC-like centers) and laboratory networks for outbreak detection, surveillance, and rapid response. Swap financing can provide stable, long-term funding for preparedness systems that are chronically underfunded between crises.
Local Manufacturing	Bulk purchasing, predictable pipelines; economies of scale; aligned with existing procurement channels (Gavi, UNICEF). Could create reliable offtake agreements to enable scaling of local manufacturing of health commodities.
Digital Infrastructure and AI	Health programs should accommodate changing epidemiological, economic, or political conditions (e.g. new disease outbreaks, inflation, donor cycles). There is a need for investment in digital infrastructure, plus ongoing upgrades.
MNCH & HSS Programs	Investments in maternal and child health (e.g. skilled birth attendance, antenatal care, neonatal units) are a high priority for governments and donors. Many countries face persistent gaps due to funding volatility. Swap proceeds could support staffing, equipment, and service delivery platforms with strong equity and outcome alignment.

Fig. 6.3: Examples of Concrete Health Programmes That Could Leverage Debt Conversions

DELIVERING HEALTH PROGRAMMES

Debt swap-funded programmes have traditionally been delivered by implementing entities that are accountable for the programme implementation. Often, the debt swap enabler (the bilateral creditor in a bilateral debt swap or the development finance institution providing credit enhancement in a debt conversion) requests that such intermediaries provide them with comfort regarding the programme delivery. There can be transaction costs for setting up those intermediaries, and different models have been used thus far, with costs typically going in decreasing order:

- **Setting up a dedicated trust fund.** A legally independent, separate entity, with board members from the government, the implementing partner, and other

independent technical experts and professionals, which ensures that the resources freed by the debt swap are applied as agreed and subject to strong governance. For example, Belize's 2021 blue bond debt swap led to the creation of an independent conservation trust fund - the Belize Fund for a Sustainable Future (BFSF). The BFSF receives long-term payments from the Government of Belize and allocates these flows towards marine and coastal protection. It is essential to determine upfront whether a new trust fund will be used for future operations, not just the specific transaction, as this informs its design and governance, allowing transaction costs to be spread across different operations. For example, the Seychelles utilised the Seychelles Conservation and Climate Adaptation Trust, established for Seychelles' 2015 debt swap, to receive proceeds from a blue bond transaction.

- **Using existing structures.** Leveraging existing structures to facilitate the objectives of the debt swap, either at the national or global level.
    - National structures: Country-specific, national trust funds. For example, the Bahamas 2024 commercial debt swap was implemented through the Bahamas Protected Areas Fund (BPAF). The BPAF was previously established in 2014 by an Act of Parliament to provide "sustainable financing into perpetuity" for the management of the country's protected-areas system. The El Salvador debt swap involved a collaboration between the already existing Environmental Investment Fund of El Salvador and Catholic Relief Services.
    - Global structures: Instead of channelling the funds to a separate trust fund, the fiscal savings can be channelled to international organisations or development institutions already present in the country and with mandates that are aligned with the debt swap objectives. For example, the Global Fund, through its debt-for-health model, has been widely used as an implementing channel for bilateral debt-for-health swaps owing to its strong fiduciary systems, large in-country delivery footprint, and ready pipeline of technically vetted programmes that allow countries to rapidly and transparently translate debt swap proceeds into measurable health impact (see the box below: *The History of Debt-for-Health Swaps*).
- **Using country systems.** For its 2024 commercial debt swap, Côte d'Ivoire is utilising its existing systems and institutions to deliver the programme. In this

case, the savings are channelled into an already existing education-sector programme-for-results supported by the World Bank.

The History of Debt-for-Health Swaps

Debt-for-health swaps had a brief history with the United Nations Children's Fund (UNICEF) between 1991 and 1993, during which the institution served as the implementing organisation for seven debt-swap operations, totalling approximately USD 75 million. Older debt swaps that benefited the health sector included approximately 8% of the French add-on programme to Heavily Indebted Poor Country (HIPC) debt relief, known as the Contrat Désendettement Développement, and a debt buyback of Nigerian debt by the River Blindness Foundation to combat river blindness in 1993.

It was only after the Global Fund launched its debt-for-health programme in 2007 that debt swap resources started supporting the health sector at scale. Leveraging its role as the most prominent global health financier and its extensive operational footprint across more than 120 countries, the Global Fund introduced Debt2Health (D2H), a structured, high-integrity model that transformed debt swaps from ad hoc instruments into a reliable and scalable financing tool for health. Unlike earlier swaps, D2H embedded rigorous fiduciary oversight, transparent reporting and measurable programmatic commitments - giving creditors the assurance they needed and enabling countries to channel resources immediately into technically vetted, high-impact health interventions.

Three features of the Global Fund's model proved catalytic. First, its existing grant architecture and trusted assurance systems (including independent audits, procurement controls and in-country grant management structures) dramatically reduced transaction costs and implementation risks. Second, its Register of Unfunded Quality Demand (UQD) (See: https://resources.theglobalfund.org/en/grant-life-cycle/grant-making/unfunded-quality-demand/) provided a ready pipeline of technically reviewed, country-owned programmes, allowing debt-swap proceeds to be rapidly absorbed without lengthy design phases. Third, the Global Fund's established relationships with MoFs and MoHs created the political and operational alignment needed to turn cancelled debt into sustained domestic investments.

As a result, D2H became the first mechanism to deliver debt-for-health swaps at a meaningful scale, demonstrating that well-structured swaps could reliably produce additional, predictable funding for national HIV, TB, malaria and health-systems priorities - while maintaining full country ownership and alignment with national strategic plans. Between 2007 and 2025, the Global Fund closed 14 transactions involving three creditor countries (Australia, Germany and Spain), converting nearly USD 500 million of bilateral debt into USD 330 million in health funding for 11 debtor countries. Germany, in particular, contributed to more than 84% of the health investments generated by the D2H programme.

Bilateral Debt-for-Health Swaps

Description and Rationale

Bilateral debt-for-health swaps are voluntary operations whereby a bilateral creditor agrees to cancel or reduce existing debt in exchange for a predetermined health spending commitment by the debtor country. The debtor country will reallocate all or part of the debt service on the cancelled or reduced debt to support a pre-approved health programme over time. In other words, instead of repaying the debt to the creditor, the debtor country spends it on an in-country programme. The health programme may be implemented by a reputable international organisation and/or by the government or public institutions.

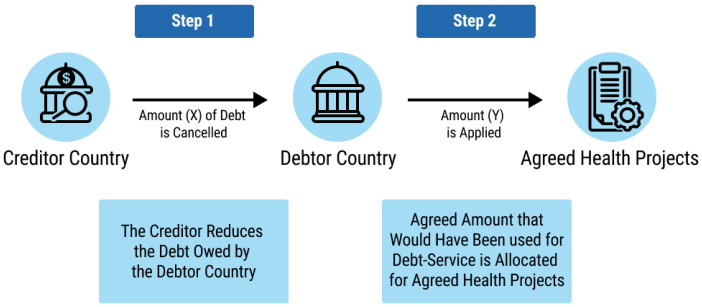


Fig. 6.4: Bilateral Debt Swap Schematic

The incentives for the parties on a bilateral debt swap typically include the following:

- For the debtor country, the transaction unlocks additional health financing while advancing national development goals.
- For the creditor country, the swap provides a vehicle to reinforce its commitment to global health diplomacy, potentially increasing Official Development Assistance (ODA) under specific conditions.
- For the health intermediary, it enables them to expand their operations and demonstrate a greater impact in the country.

Case Study: A Large-Scale Debt-for-Health Swap Accelerating Tuberculosis Elimination

In 2022, as part of the 7th Replenishment, Germany announced a significant new commitment to the Global Fund, explicitly reaffirming that EUR 100 million of this commitment would be delivered through debt-for-health (D2H) mechanisms. Building on more than a decade of successful D2H cooperation, Germany and Indonesia initiated discussions to convert a portion of Indonesia's bilateral debt into predictable financing for national health priorities - primarily tuberculosis (TB), a disease for which Indonesia carries the world's second-highest burden.

The pathway from political commitment to implementation followed a structured, multi-step process:

1. Political signalling and resource availability (2018-2022). Following Germany's confirmation of available D2H funding, Indonesia's MoH and MoF jointly expressed interest and submitted a formal request to the German Federal Ministry for Economic Cooperation and Development (BMZ). Germany's public pledge at the 7th Replenishment reinforced the feasibility and political momentum behind the deal.
2. Joint design and negotiation (2019-2021). Technical teams from Indonesia, the BMZ, KfW and the Global Fund collaborated to define priority interventions, align the operation with Indonesia's National TB Strategy, and confirm that the Global Fund would serve as the implementing and fiduciary platform. This ensured that all debt-swap proceeds would flow into technically vetted, high-impact TB interventions - leveraging the Global Fund's existing grant architecture and UQD pipeline.
3. Agreement and signing (April 2021). Germany and Indonesia signed a debt-for-health agreement converting USD 56 million of Indonesian debt into USD 56 million of additional health investments. All funds were channelled through the Global Fund's TB programme, enabling rapid absorption, transparent reporting and reliable monitoring through established assurance systems.

4. Implementation and results (2021-2025). Debt-for-health proceeds have supported major national initiatives to strengthen TB diagnosis, treatment and surveillance. This includes the roll-out of over 2,000 diagnostic machines, significant expansion of drug-resistant TB treatment coverage, financial enablers for patients and new digital tools linking frontline facilities to the national TB reporting system. These investments directly support Indonesia's goal of eliminating TB by 2030 while building lasting health system capacity.

This operation demonstrates how a clear political commitment by a creditor (Germany), strong country ownership (Indonesia) and a trusted delivery platform (the Global Fund) can turn public debt into measurable health impact at scale. It also illustrates the strengths that make the Global Fund a partner of choice for debt-for-health swaps. Through its long-standing relationships with MoFs and MoHs, the Global Fund has consistently helped align priorities between debtor and creditor countries, grounding each transaction in nationally endorsed strategies and measurable outcomes. Its established governance, fiduciary and assurance systems provide the accountability that creditors require, while dramatically reducing implementation risk and transaction costs. The Global Fund's UQD pipeline provides a ready pool of vetted interventions, addressing capacity constraints, accelerating programme design and ensuring additionality. Moreover, by integrating swap proceeds into existing grants and national planning cycles, debt-for-health avoids parallel structures and reinforces existing systems for implementing, auditing, measuring and reporting impact. These strengths have enabled the Global Fund to deliver a series of timely, mutually beneficial debt swaps over nearly two decades, helping turn complex political and operational challenges into a durable health impact.

Enabling Conditions

1. **Identifying plausible debt for a bilateral swap**

A first step is to identify the list of potential bilateral creditors. The exercise can involve compiling a list of bilateral creditor countries, including the respective size of their claims and the remaining duration, as well as whether the debt was provided based on concessional official development assistance (ODA) loans. In addition to the country's internal debt management database, this information can also be found in public databases such as the World Bank International Debt Statistics. It would be essential to focus on the size and terms of the debt, prioritising creditors with outstanding amounts in line with the country's health programme's financing needs and potentially the more expensive bilateral debt.

The second step is to identify, among the existing creditor countries, those who would most likely support a debt swap. That identification exercise depends on a spectrum of indicators, including:

- Creditor countries that have a strong bilateral relationship with the debtor country. In close collaboration with the Foreign Ministry, the debtor country can identify key creditors most likely to provide financial support, particularly for its health system.
- Creditor countries that have a track record of supporting debt swaps, especially in health. Historically, Germany and Spain are the two countries that have supported the most debt-for-health swaps.
- Creditor countries that have recently announced debt swap programmes.
    - Spain announced at the Fourth International Conference on Financing for Development in July 2025 that it would step up its debt-for-development swap efforts.
    - In June 2025, Italy announced a EUR 235 million debt swap programme to support local development projects over 10 years.
    - In July 2025, China and Egypt signed a framework agreement for the first phase of a debt swap programme through China International Development Cooperation Agency loans, marking the first such initiative by China, which may pave the way for additional debt swaps.

2. **Political and institutional arrangements in the debtor country**

Countries considering a debt-for-health-swap can leverage lessons learned from previous cases to identify the leading enablers for global implementation:

- Strong political leadership and buy-in signal that the instrument is accepted at the political level, and therefore, that the government will be willing to invest political capital in championing the full implementation of the swap and ensuring accountability.
- A clear institutional structure that defines the lead ministry, supported by other relevant ministries, departments and agencies (MDAs). The lead ministry is typically the MoF, supported by the MoH, which leads the implementation of the agreement once finalised.
- Alignment with national development goals is crucial to ensure that the swap proceeds complement the government's plans and priorities and do not establish a separate and potentially fragmented set of priorities.

- Building country ownership from the start is essential to ensure transparency, accountability and the use of country systems to deliver on the debt swap, aligning with the principles of aid effectiveness and the Lusaka agenda.
- The formation of an oversight and coordinating mechanism ensures that all relevant stakeholders have an opportunity to weigh in and are part of the decision-making process.

3. **Early political buy-in**

A debt-for-health swap involves multiple actors with distinct roles, so securing early political buy-in from a small group of high-level stakeholders is essential. These individuals will vary by country, but their endorsement signals government commitment and alignment around the process. Early engagement should be interactive and tailored, framing the debt swap in terms of each stakeholder's priorities, pain points and incentives. To do this effectively, their internal concerns must be well understood in advance, anticipated and directly addressed in the briefing materials prepared for these discussions.

For further details on the different stakeholders involved, please see the Implementation section which follows.

Opportunities and Challenges

OPPORTUNITIES

Bilateral debt swaps can mobilise additional funding for health services that align with national health strategies. This should be the starting point for a debt-for-health swap, and the government should play a key role in identifying potential uses of the proceeds. The MoH can identify health programmes that are more likely to be additional and that will not come at the expense of budget allocations from the MoF.

A bilateral debt swap can also come with additional financial benefits.

- A bilateral debt swap might free up additional fiscal space through debt relief, which was the case in 8 of the 14 swaps implemented by the Global Fund.
- Additionally, debt swaps should lower demand on foreign reserves because they typically allow the debtor country to make the repurposed payments in local currency.

- Lastly, rating agencies should view bilateral debt swaps as positive even if they have typically represented only a marginal portion of the debtor country's total debt. Given the involvement of official bilateral partners and the smaller size of the debt swaps, credit rating considerations carry less weight for bilateral debt swaps compared to debt conversions.

Working through a global health institution, such as the Global Fund, has significant upsides. The institution ensures that funding flows to pre-defined funding gaps that the government vets for their quality. In addition, its platform sets standards for transparency, inclusion, country ownership, accountability and measurable outcomes based on indicators that are independent, transparent and accurate and that involve civil society. While debt swap negotiations timelines can be protracted, the institution should have the advantage of having a pipeline of health programmes awaiting funding, for example, through its Register of UQD in the case of the Global Fund. Lastly, funds generated by debt swaps can serve as the country's co-financing payment. This helps explain why all the identified debt-for-health swaps since 2007 have been channelled through the Global Fund.

CHALLENGES

The primary challenge of a bilateral debt swap is aligning the incentives between the creditor and debtor countries. This involves identifying the appropriate health activity supported by the swap, as well as the implementing agency that will provide comfort to both countries. Moreover, convincing the creditor country to cancel or reduce its debt claims demands substantial negotiation.

Identifying an organisation that will be the custodian of the fiscal savings released by the debt swap and help to implement the debt swap is a key parameter in the negotiation. This organisation needs to have credibility for the implementation, monitoring and evaluation of health programmes in the country. As mentioned above, a new entity could be established, or an existing organisation identified.

Implementation

LIFE CYCLE OF A BILATERAL DEBT SWAP

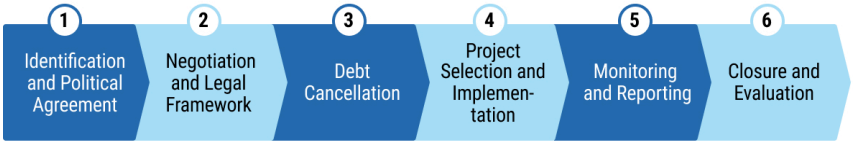


Fig. 6.5: Bilateral Debt Swap Life Cycle

1. **Identification and political agreement.** Both creditor and debtor governments agree in principle on converting part, or all, of the outstanding debt into health-related funding. They assess feasibility, alignment with health and development objectives and mutual interest.
2. **Negotiation and legal framework.** A formal agreement defines the debt amount and associated treatment, including the share to be cancelled or reduced, the application of the savings generated towards an agreed domestic investment, the implementing agency and the governance structure.
3. **Debt cancellation.** The creditor cancels all, or a portion, of the agreed debt, while the debtor commits the pre-agreed payments to a national or dedicated fund, if needed, for the agreed-upon projects or programmes.
4. **Project selection and implementation.** Funds are allocated to vetted programmes aligned with national priorities and implemented through established systems or a dedicated fund.
5. **Monitoring and reporting.** Performance is tracked and reported transparently to all parties, ensuring accountability and measurable impact.
6. **Closure and evaluation.** Upon completion, results are evaluated, lessons are documented and the agreement is formally closed.

STAKEHOLDER ENGAGEMENT

Once the decision to swap debt for health has been made, the lead ministry identifies all critical stakeholders from relevant MDAs and incorporates them into the process. Involved stakeholders should be adapted to each country's institutional and political context.

In many cases, the initiators of bilateral debt swaps are the MoF or the creditor nation. The role of the MoH in these situations is to be responsive to requests for information on priority interventions and their costs, and ensure follow-up with the MoF, leading the transaction.

That said, the MoH could be the originator of the idea of the debt-for-health swaps. In this instance, the MoH carries greater responsibility for early-stage preparation, including ensuring that the proposal is technically sound, supported by credible data, and clearly articulates the rationale for why such a mechanism is needed and how funds would be effectively utilised. If the MoF has previously raised concerns, for example, about absorptive capacity or financial management, these should be proactively addressed in an initial briefing note or concept note shared with the MoF and other high-level stakeholders. Clear, evidence-based communication at this stage builds confidence. It facilitates cross-ministerial alignment once the MoF aligns with the plan and becomes the lead for the debt swap. The MoH's role then shifts to follow up and continued engagement in proposal writing, creditor engagements and implementation plans.

Stakeholder / Institution	Core Role in Debt Swap Process	Interest / Incentive	Potential Concern / Risk	Engagement Strategy / Framing	Phase of Involvement
Minister of Health Deputy Ministers of Health/Ministers of State for Health	Sector policy leader; defines investment priorities and measurable outcomes for the fiscal savings generated by the debt swap; Could be the originator of the swap idea	Stable, predictable funding for planned healthcare interventions and programmes; alignment with Sustainable Development Goal (SDG) and Universal Health Coverage (UHC) goals	Concern that resources may not materialise or that MoF may redirect the fiscal savings generated by the debt swap elsewhere	Frame as debt and fiscal innovation and point to alignment with national documents (national development strategy/plan, debt management strategy)	From the early concept to the end
Minister of Finance Debt Management Official (DMO); the Financial Secretary (Permanent Secretary for the MoF)	Custodian of debt; face of external transactions; engages with the creditor	Fiscal space creation; Debt sustainability; demonstration of fiscal innovation and credibility with partners	Concern about losing control of the debt policy; concern about transaction complexity; scepticism about sector-driven proposals; concerns about absorptive capacity	Frame as co-created fiscal innovation for health; point to alignment with health financing strategy; identify unfunded health programmes	From the early concept to the end
Creditor Country / Institution	Counterparty to the swap	Diplomatic and ESG visibility	Fiduciary or reputational risk	Emphasise transparency, accountability and co-benefits	From the initial engagement until the end
Health Development Partners	Technical and policy support	Programme success, portfolio impact	Fragmentation or overlap	Promote joint planning and unified messaging	Feasibility → Agreement
Other relevant stakeholders					
Presidency Actors here could include the Chief Minister, Minister of State, etc.	Provides political leadership, cross-ministerial alignment and strategic direction	Mobilising funding for strategic priorities; country being seen as a leader in reforms/innovations and credibility in the comity of nations; political legacy; national ownership	Concern about timing of reform; competing political interests	Frame the high visibility reform potential; links to the national development agenda and regional goals	From the beginning and at inflexion points in the process

Other relevant stakeholders					
Attorney General / Ministry of Justice	Legal review, compliance, approvals and provision of legal opinions	Safeguarding sovereign integrity, ensuring due process	Concern over liability or precedent	Engage early; emphasise role as guardian of national interest	From the negotiation until the agreement is signed
Ministry of Foreign Affairs	Manage the diplomatic relationship with the creditor nation; ensure alignment with foreign policy objectives; facilitate communication through official diplomatic channels	Maintain and strengthen the integrity of the diplomatic relationship and international credibility; advance the country's image as a reform-oriented and responsible partner	Concern about frayed relationships if swaps don't work out; risk of being bypassed in technical discussions	Engage early; emphasise their role as custodians of the diplomatic relationship	From early on in the process until the implementation
Central Bank	Foreign exchange and payment management	Accuracy, compliance, reporting integrity	Transaction complexity	Involved as a technical assurance partner	Negotiation until the implementation
Health regulatory agencies	Provide technical oversight, quality assurance and regulatory approvals for interventions funded through the swap, such as procurement of medicines, construction of health facilities or deployment of digital health tools	Ensuring that swap-funded programmes meet national quality, safety and ethical standards; an opportunity to strengthen institutional visibility and capacity through well-managed projects	Insufficient consultation leading to delays in approvals or non-compliance with national standards; risk of being perceived as bypassed in implementation oversight	Co-opt regulators early based on the nature of funded interventions; frame participation as safeguarding quality and ensuring accountability of public investments; use them as technical verifiers or members of project review committees	Feasibility → Implementation → Monitoring
Civil Society / Academia / Media	Oversight, communication, public trust	Accountability, participation	Limited access to information	Share regular updates and accessible data	Implementation → Monitoring

Table 6.2: Summary of Stakeholders for Bilateral Debt Swaps

REPORTING

Transparency regarding monitoring, reporting and accountability is an essential element in the implementation of a debt-for-health swap, both for debtor and creditor countries. The reporting costs can vary significantly depending on the level of information required and when it is needed. Organisations that already have existing systems set up are likely to provide more credible reporting at a lower cost.

Debt Conversions

Description and Rationale

Commercial debt swaps are referred to as debt conversions. They are a type of liability management operation that allows a sovereign nation to replace its existing private-sector debt (such as bonds or loans) with new instruments under more favourable terms. The central purpose of this refinancing is to generate fiscal savings, which are then contractually allocated to fund specific national priorities, specifically healthcare.

Unlike bilateral swaps, which restructure government-to-government loans, debt conversions are implemented through the capital markets or banking sector, where the sovereign refinances debt held by private sector investors or lenders using proceeds from new debt ("New Debt") to finance the buyback of the old debt. These transactions are structured around three key features:

1. **Credit enhancement.** The New Debt is typically credit-enhanced through guarantees or insurance from MDBs, development finance institutions (DFIs) or private sector parties (e.g. insurers or guarantors). This enhancement reduces the risk for new investors, enabling the government to secure lower all-inclusive borrowing costs (e.g. reduced interest rates) and more favourable repayment terms (e.g. longer repayment periods), resulting in financial savings (see Chapter 8: *Credit Enhancement*.)
2. **Performance-linked objectives.** To ensure alignment of the new financing to desirable health objectives, the New Debt is tied to legally binding policy commitments or key performance indicators (KPIs).
3. **Governance system.** A robust and accountable mechanism is utilised to manage and deploy the savings generated by the operation into the designated

development objective. These can be channelled through a dedicated trust fund, through existing multilateral organisations' programmes or through domestic government systems with equivalent oversight.

Ultimately, debt conversions can be a powerful tool for governments to create significant funding for national priorities without increasing their overall debt burdens - and often by reducing them (if the debt being repurchased, for example, trades at a considerable discount). They work by reducing fiscal expenditure on debt servicing and reallocating a portion of those savings toward financing gaps that require consistent, predictable and long-term investment. This approach can also provide a stable, long-term financing source for sovereigns that typically face costly or limited access to capital markets, offering them access to a new investor base due to their creditworthiness and pro-development features.

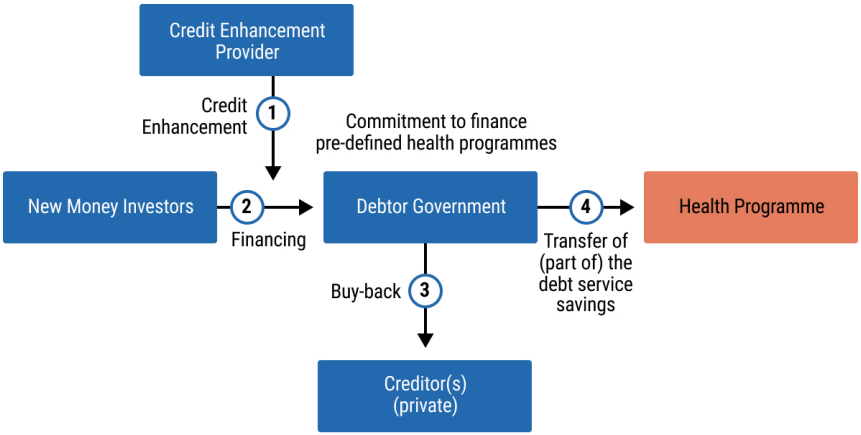
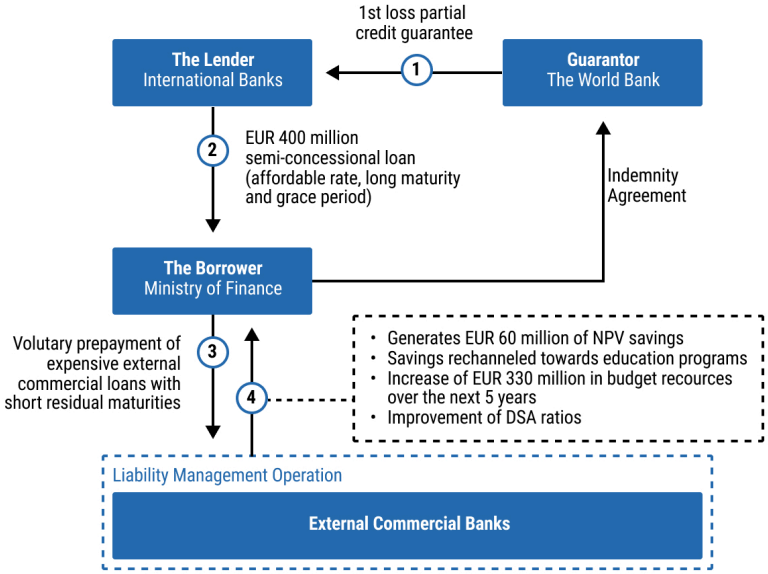


Fig. 6.6: Debt Conversion Schematic

Case Study: Republic of Côte d'Ivoire, Debt-for-Development swap supported by the World Bank (2024)

The transaction is the first "Debt for Development" swap supported by the World Bank following the publication of its reference framework in July 2024. It aimed to improve Côte d'Ivoire's public debt profile and generate fiscal space for the education sector.

By refinancing expensive external commercial loans via a loan partially guaranteed by the World Bank, the transaction freed up around EUR 330 million in budget resources over the next five years, generating lifetime savings of at least EUR 60 million in net present value terms. Part of the savings will be repurposed towards an ongoing education programme supported by a World Bank Programme for Results financing instrument, which monitors the newly agreed-upon results and outcomes in the education sector, leveraging country systems already in place. The development objective of the *Programme de Renforcement du Système Éducatif de Base* is to improve: (i) equitable access to education and school health services at pre-school and primary level; (ii) improve learning outcomes; and (iii) strengthen performance-based management along the education service delivery chain.



Enabling Conditions

Before embarking on a debt conversion, it is essential to evaluate the following criteria to assess the applicability of this financing mechanism.

1. **Debt eligibility and availability.** Debt conversions provide the most significant savings when the cost of existing debt is high. Hence, countries should prioritise existing debt facilities that carry high interest rates and/or shorter-term maturities. Significant savings and debt-to-GDP reductions can also be achieved if the country purchases bonds trading at substantial discounts.

2. **Availability of credit enhancement.** A highly-rated third party, typically an MDB or DFI, must be willing to provide a guarantee or political risk insurance (PRI) for the New Debt. Such credit support is also provided by private sector entities (e.g. insurers, impact guarantors, family offices). Such schemes will lower the interest rate on the new loan, making the debt conversion viable.

3. **A clear and credible purpose.** The country must have a well-defined, measurable and investment-ready national priority that is typically part of its national development strategy (e.g. funding a public health programme). This priority should feature clear SDG-related benefits for the country, which would form the basis for the commitments and targets embedded in the operation.

4. **A robust governance system, characterised by transparency and accountability, is essential to manage funds effectively, meeting the requirements of investors and stakeholders.** In the case of a trust fund, governance typically includes a board comprising representatives from government, private sector and civil society, supported by clear reporting requirements on fund allocation and impact.

5. **Stakeholder alignment.** There must be broad buy-in from local communities, civil society and relevant non-governmental organisations (NGOs). These

groups are often responsible for implementing the on-the-ground projects and add crucial credibility and accountability.

6. **Government's institutional and technical capacity.** To execute a debt conversion efficiently and ensure its long-term success, governments need strong political backing and adequate technical capacity. After closing, they must provide regular data and progress reports to meet performance-linked obligations.

Opportunities and Challenges

OPPORTUNITIES

Managing public debt. Commercial debt-for-health swaps enable countries to utilise financial market solutions to reduce their debt stock and/or servicing costs, thereby freeing resources for health sector investment. These debt conversions are most suitable for countries with commercial debt valued below its original value and/or with expensive repayment terms, as well as those with strong financial and health partners willing to support the transaction. While not appropriate for situations of imminent default or unsustainable debt, these swaps can play a significant role in easing fiscal pressures and addressing budget constraints.

Advancing health priorities. Debt conversions can secure substantial, long-term funding for health programmes through legally binding frameworks that include monitoring and reporting requirements. This dedicated financing supports measurable health outcomes, strengthens government policy implementation and enables longer-term planning - particularly critical amid declining external funding for health. These transactions also foster improvements in data systems and reporting practices, while promoting inter-ministerial collaboration - a valuable institutional outcome in itself.

International market signalling. Such transactions signal a high level of sophistication in a country's debt management strategy, enhancing investor confidence and broadening the investor base. They often attract attention in financial markets and media, generating positive visibility and reinforcing the country's reputation for innovative financing.

CHALLENGES

Process management. Executing a debt conversion requires inter-ministerial cooperation and clear ownership of the execution process by a designated ministry. A dedicated team of officials should manage the transaction, as these operations are resource-intensive and involve technical aspects that span multiple areas of responsibility. Technical assistance may be considered where capacity gaps exist. To ensure alignment, an initial workshop with all involved officials, supported by case studies and best practices, can be highly effective.

Additionally, peer-to-peer exchanges with countries that have completed similar transactions are recommended. Given the complexity and the number of parties involved, robust project management is essential. A lead entity - either within government or an external financial advisor or arranging bank - should be appointed to oversee execution, supported by detailed timelines, document checklists and step plans. Early priorities should include modelling transaction economics, including all-in costs and expenses, assessing liability management strategies for any buyback operations and projecting debt service implications to ensure all stakeholders are aligned on the financial impact.

Transaction economics. Securing credit support is a critical early step in structuring a debt swap. Indeed, credit enhancement tools - such as partial credit guarantees, insurance, collateralised schemes - will further improve the financial terms of the new instrument to be issued under the debt conversion (for further details see Chapter 8: *Credit Enhancement*). Early engagement increases the range of available credit enhancement solutions and helps manage complexity - particularly when multiple providers are involved, as seen in recent debt-for-nature swaps that combined political risk insurance with additional liquidity support. In such cases, intercreditor arrangements and the approach of the different credit enhancement providers to the health-related commitments should be clarified upfront, ideally through an early-stage term sheet.

Capital market volatility. For debt conversions involving the buyback of bonds listed on public markets, the bond yields or prices of those existing bonds can fluctuate significantly due to country-specific factors and global geopolitical events, potentially altering the deal economics. To mitigate this risk, confidentiality must be maintained, and external developments - such as International Monetary Fund

(IMF) programme announcements, budget presentations, election cycles or ratings actions - should be factored into the timeline. Continuous monitoring of market conditions and readiness to launch when an opportune window arises are essential. This requires being fully documentation-ready and leveraging regular market updates from financial advisors, as well as arranging with banks.

Legal implications. Unlike health bonds, loans and sustainability-linked loans/sustainability-linked bonds (SLLs/SLBs), breach of health-related commitments or KPIs could lead to events of default. It is therefore essential for governments to understand the implications of such defaults, including acceleration rights (I.e. lender's ability to declare the entire loan outstanding amount immediately due and payable following an event of default) and any consent or veto provisions required by credit enhancement providers, given the potential for cross-default provisions across other external debt obligations.

It will also be important for governments to understand the implications of any security granted as collateral and the conditions that can trigger enforcement of such security, especially if these could lead to security being enforced over funds generated by the debt swap-related savings (e.g. in relation to any endowments required to be established by credit enhancement providers such as the Development Finance Corporation (DFC)).

Data availability and monitoring system. Debt-for-health swaps require strong data systems to enable regular and transparent monitoring of progress. Depending on the design of the debt swap, this could include regular monitoring of health budget execution, tracking of programmatic indicators (such as the number of workers trained and drugs procured) or reporting of outcomes and impact (such as HIV treatment coverage or HIV incidence). The availability of reliable and consistent data is critical to building credibility in service delivery - especially as the achievement of debt-swap conditions is legally binding. Debt conversions could provide an opportunity for the MoH to invest in robust data systems and establish credibility in their data, both internally with the MoF and externally with their creditors and credit enhancement providers.

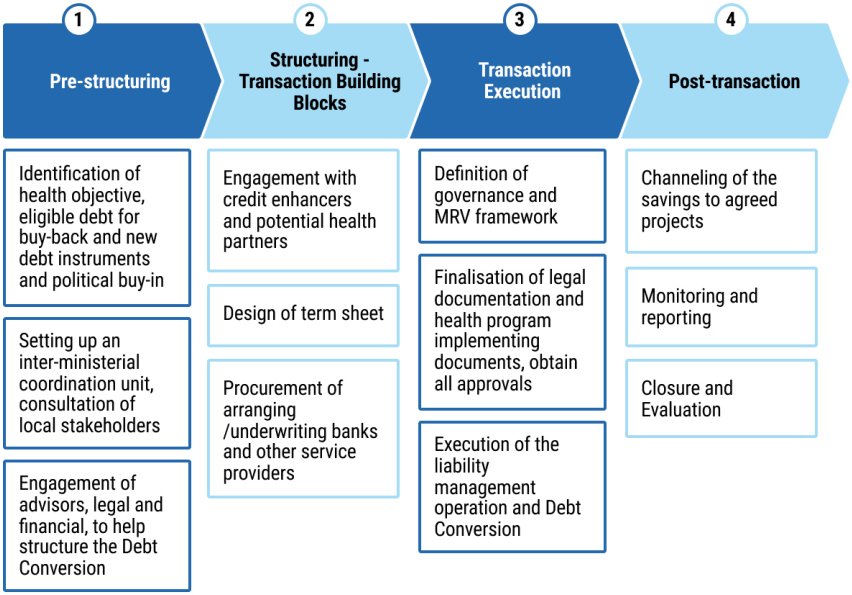


Fig. 6.7: *Key Stages in Structuring and Implementing a Debt-for-Health Swap*

STRUCTURING OF THE OPERATION

The structuring of a health debt conversion must address two fundamental objectives:

- Maximising the financial resources allocated to the health sector, and
- Ensuring alignment with the country's public debt sustainability framework.

To achieve these goals, three critical structuring questions must be addressed at the outset: (i) identification of eligible debt instruments to be bought back, (ii) selection of the target health programme and delivery mechanism, and (iii) design of an adequate credit enhancement mechanism. While these considerations are inherently complex and context-specific, external support from specialised third-party institut-

ions can be mobilised to provide technical expertise, analytical input and strategic guidance throughout the process. The sections below outline these questions and potential partners.

IDENTIFICATION OF ELIGIBLE DEBT INSTRUMENTS FOR BUYBACK

A debt swap must be coherent with the country's overall debt profile and fiscal strategy. Accordingly, a preliminary economic assessment should be conducted across the public debt facilities to identify suitable debt obligations for buyback. Priority should be given to commercial debt instruments characterised by high interest costs and short-term maturities, as well as bonds trading at significant discounts.

- Historical precedents have focused on either bond debt (e.g. Barbados, 2022; Ecuador, 2023 and 2024; El Salvador, 2024), loans (e.g. Côte d'Ivoire, 2024) or a mix of both (e.g. Bahamas, 2024).
- While the focus has typically been on external debt, certain operations (e.g. Barbados, 2024) have also targeted debt instruments denominated in local currency.

While there is no one size fits all solution, the selection of targeted debt instruments must be tailored to the specific needs and debt profile of each country, with the over-arching objective of maximising available fiscal space.

It is also necessary to undertake a thorough legal review of the underlying debt contracts to assess the operational feasibility of repurchasing such debt. In the case of loan instruments, particular attention should be paid to voluntary prepayment clauses (I.e. loan-specific clauses allowing the borrower to repay the loan, in whole or in part, before its scheduled maturity date) and any associated breakage costs (I.e. the financial penalty incurred when a loan or other financial arrangement is terminated earlier than agreed), which may materially affect the economic viability of the transaction.

Legal and financial advisors can assist government authorities in performing these analyses.

SELECTION OF THE TARGET HEALTH PROGRAMME

The health programme to be financed through the savings generated by the debt conversion must reflect a national priority and demonstrate the potential for measurable, transformative impact over the medium to long term.

Selecting an appropriate programme is essential not only for maximising developmental outcomes but also for strengthening the narrative of the transaction. A well-chosen programme can enhance stakeholder engagement and foster broad-based support for the initiative.

Global health and development institutions can support the government in selecting existing in-country programmes. In such cases, savings can constitute a top-up to the already approved programme and funding.

Design of the credit enhancement mechanism

Incorporating credit enhancement mechanisms into the transaction structure can enable the borrower to secure more favourable financing terms - such as lower interest rates and extended maturities - thereby amplifying fiscal savings and improving the overall risk profile of the country's public debt portfolio.

Various credit enhancement solutions are available, including partial credit guarantees, PRI or collateral arrangements. These instruments may be combined within a layered guarantee structure to optimise risk mitigation and investor confidence.

Please see Chapter 8: *Credit Enhancement* for more details of the different instruments.

Credit enhancement mechanisms - particularly when structured as multi-layered schemes - may entail additional costs for the borrowing country. In this context, philanthropic organisations and grant providers can play a catalytic role by contributing grant funding to cover, either partially or fully, the premiums associated with guarantees or insurance instruments. The key element is to map out all transaction and financing-related costs early on.

MDBs, DFIs and philanthropics can support governments in providing a specific guarantee instrument. Financial advisors can further support governments in brokering different credit enhancement providers and structuring multi-layered guarantee schemes.

The structuring elements outlined above are instrumental in determining the key financial parameters of the proposed transaction, most notably the total size of the facility. This amount should reflect an optimal balance between (i) the aggregate value of the debt instruments identified for the buyback, and (ii) the financial capacity of the selected credit enhancement providers.

Given that these structuring considerations fall within the respective mandates of both the MoF and the MoH, it is essential to ensure close inter-ministerial coordination throughout the design and implementation phases. Establishing a joint taskforce or working group can facilitate this collaboration, promote coherence in decision-making and enhance the overall effectiveness of the debt swap operation.

STAKEHOLDER ENGAGEMENT

Effective stakeholder engagement is also essential for ensuring its successful implementation. This engagement must be structured across two key dimensions:

Internal coordination within the government

Sustained collaboration between the MoF and the MoH is critical throughout the entire process to ensure coherence between fiscal strategies and national health priorities. In particular, the involvement of health authorities should extend across all levels of the health system - central, regional and local - and include any related national regulators where relevant, depending on the structure of the debt conversion and the nature of the targeted health programmes.

Engagement with external stakeholders

A range of external actors may be mobilised to support the transaction at various stages:

- **Global health and development institutions.** Technical assistance in identifying appropriate health programmes and expenditures, support implementation, post-implementation monitoring and reporting.
- **Credit enhancement providers.** Including (i) Multilateral and Regional Development Banks (e.g. World Bank, African Development Bank (AfDB), Asian Infrastructure Investment Bank (AIIB), European Investment Bank (EIB)) offering partial credit guarantees, (ii) insurance providers (e.g. African Trade & Investment Development Insurance, Islamic Corporation for the

Insurance of Investment and Export Credit) and (iii) private insurers (e.g. AXA, Lloyds market) offering PRI instruments. Additionally, philanthropic actors (e.g. Builders' Vision) may also contribute by financing collateral arrangements, covering guarantee premiums or subsidising interest rate reductions linked to any sustainability-linked instruments, which may also be used in the debt conversion transaction.

- **Credit rating agencies (CRAs).** Play an important role rating (i) any new bonds that may be issued in a debt conversion transaction as the rating informs investors and lenders on the intrinsic risk of the operation and in this regard CRAs may raise issues which impact the structuring of elements of the debt conversion, and (ii) any potential implications on the sovereign credit rating. In particular, regarding the latter, CRAs will assess whether the operation qualifies as an opportunistic exchange aligned with the country's debt management strategy or as a distressed exchange intended to mitigate imminent liquidity pressures. Where possible, early discussions should take place with the CRAs.

The participation of well-established and internationally recognised institutions can significantly enhance the legitimacy and credibility of the operation.

REPORTING

Robust reporting undertakings are a cornerstone of sustainable finance, particularly in the context of debt swap transactions. Transparent and credible monitoring of both the allocation of proceeds and the resulting impact is essential to meet the expectations of global health and development institutions, as well as international investors and lenders. These requirements are reinforced by established market standards, such as the principles of the International Capital Market Association (ICMA) and the Loan Market Association (LMA) on sustainable finance.

In the case of debt conversions, three distinct types of reporting should be implemented at various stages of the transaction lifecycle:

VERIFICATION OF THE GENERATED SAVINGS

This involves monitoring the execution of the debt buyback operation to confirm the actual savings generated. The timing of this verification may vary depending on the nature of the underlying debt instrument:

- For bond-based swaps, verification can be conducted concurrently with the issuance of the new instrument.
- For loan-based swaps, verification typically occurs after the transaction, once the buyback has been completed.

VERIFICATION OF SAVINGS ALLOCATION

Ensuring that the fiscal savings are effectively channelled to the designated health programmes is critical. The verification process will depend on the structure of the health programme that is targeted in the debt swap operation:

- If the programme is managed by a recognised global health or development institution, internal mechanisms may suffice, and external verification may not be required.
- However, if the savings are administered through a dedicated trust fund or a bespoke financing vehicle, an independent external verification report from a verification agent will likely be necessary to ensure transparency and accountability.

MONITORING OF HEALTH OUTCOMES AND IMPACT

The relevant party (which could be the MoH and MoF, and any administering third party) must commit to reporting on the health outcomes and broader developmental impact of the financed programme. This includes tracking agreed KPIs, evaluating progress against predefined targets and assessing long-term benefits to the population, depending on the beneficiaries targeted by the programme. Some credit enhancement providers may require additional independent verification.

The capacity to deliver on these reporting requirements will vary across countries. In contexts where institutional capabilities are sufficiently developed, reporting may be conducted internally through coordinated efforts between the MoF and MoH. In other cases, technical assistance from international or regional partners may be required to support data collection, analysis and reporting.

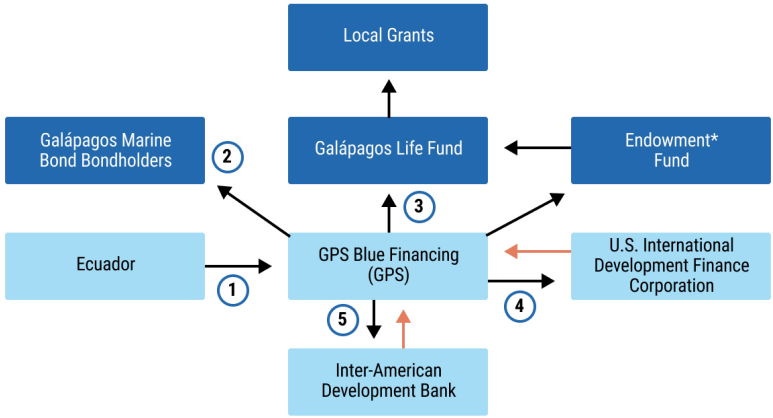
Establishing a clear and credible monitoring framework not only enhances transparency but also strengthens investor confidence, reinforces the legitimacy of the transaction, and contributes to the broader objectives of sustainable development.

Case Study: Republic of Ecuador, Debt-for-Nature Swap (2023)

In May 2023, Ecuador's government executed a debt conversion to protect the Galápagos Islands. This innovative transaction enabled the country to exchange USD 1.63 billion of its existing high-interest commercial bonds for a new, significantly smaller USD 656 million loan, reducing the nation's debt by nearly USD 1 billion. It is projected to save Ecuador over USD 1.1 billion in debt service payments over the term of the transaction.

The new loan was credit-enhanced with political risk insurance from the U.S. International DFC and a USD 85 million guarantee from the Inter-American Development Bank (IDB). This combination significantly lowered the borrowing cost for Ecuador, making the entire conservation funding scheme financially viable.

The transaction is projected to generate USD 450 million for marine conservation, which will be managed and disbursed over the next 18.5 years by a newly created nonprofit entity, the Galápagos Life Fund (GLF). The fund's governance system is a public-private partnership, ensuring accountability through an 11-member board of directors. This board comprises five members from the Ecuadorian government and six non-governmental members, representing various stakeholders. This structure governs how the funds are spent on key priorities, which are tied to new conservation commitments made by Ecuador. These commitments broadly aim to strengthen the management, monitoring and enforcement of its marine protected areas and improve the overall sustainability of its fisheries. The GLF will also support scientific research and build an endowment to provide funding in perpetuity.



*The endowment fund is expected be fully funded by 2041 and can then continue funding local grants with about USD 12 million annually in perptuity

1. Principal and interest payments on Galápagos Marine Loan
2. Principal and interest payments
3. Grant and endowment funding
4. Political risk insurance
5. Loan guarantee

Key Legal Considerations

This section will provide an overview of the principal legal and documentation issues that typically arise in the negotiation and implementation of debt conversion transactions. It is intended to guide government officials and other potential stakeholders and transaction participants through the key instruments, contractual provisions and procedural steps involved in structuring a bilateral debt swap or debt conversion.

It begins by outlining the contractual framework for bilateral debt swaps, describing some of the main documents and key provisions that should be considered when negotiating these transactions. The second part discusses legal considerations related to debt conversions, including relevant legal documentation, credit enhancement considerations, the contractual treatment of health-related commitments and KPIs, the establishment of trust or project implementation funds, the inclusion of back-to-back funding arrangements and security structures. The discussion also outlines additional legal processes and operational considerations that are critical to execution.

Bilateral Debt Swaps

From a documentation perspective, bilateral debt swap agreements are simpler than debt conversions (described below). A bilateral debt swap is usually implemented through formal international contracts, usually comprising three tiers:

- **Intergovernmental framework agreement.** This treaty-level instrument establishes the principle of the swap and is typically signed between the creditor and the debtor country. The agreement defines the total amount of debt to be

cancelled or reduced and the broad purpose (e.g. for health system strengthening).

- **The debt swap agreement.** This agreement outlines the financial and legal details of the arrangement, including the nominal amount, exchange rate, payment schedule, eligible sectors, project approval process and default provisions. The payment schedule may deviate from the initial debt repayment schedule to reflect the absorptive capacity of the programme or, if the debtor has negotiated a grace period, to ensure funds are transferred to the relevant fund, third-party entity or health project or programme. The agreement also defines how the debtor country will make counterpart payments to the fund, the implementing entity or the health project.
- **The implementation agreement.** This agreement is usually signed between the debtor country and the implementing entity (e.g. the Global Fund). The agreement governs disbursement, fiduciary controls and monitoring.

It is important to note, however, that in a bilateral debt swap transaction, there is no standardised approach to legal documentation. In some cases, key provisions will be included in a single comprehensive debt swap agreement, while in others, various conditions and terms may be contained in separate agreements (e.g. a separate implementation agreement or trust agreement).

Two additional legal frameworks might be necessary on the creditor side:

- Some creditors may have a nationally approved framework to support debt swaps, or they may require one that needs to be approved by their Parliament. For example, Germany's Federal Budget Code empowers ministries to defer, reduce or write off federal claims - the core legal tool enabling debt cancellations/conversions. The Budget Act sets binding amounts annually for debt swaps.
- Since the late 1980s, the Paris Club has included a debt swap clause in its agreements under specific conditions. That clause allows Paris Club creditors to convert part of their eligible claims (typically concessional loans) into a debt swap under agreed parameters. The quantitative limit is a 10-20% cap of the total restructured amount, and creditors are requested to inform other Paris Club members of any planned debt swap.

Provisions to be mindful of:

- **Debt reduction or cancellation clause.** This clause specifies the scope and structure of the fiscal relief being provided in exchange for the debtor's commitment to fund specific programmes or projects. Debtors should confirm whether relief takes the form of partial or full debt cancellation, debt reprofiling or rescheduling. In addition, to the extent that any partial write-off or cancellation has been negotiated, the debtor should suggest that this occur upfront rather than being conditional upon programme completion, so that the country obtains immediate fiscal relief. Finally, it is crucial to clarify in the documentation how and when debt obligations are extinguished - whether progressively as funds are transferred, or once the full amount is committed - and that once debt is deemed extinguished, it cannot be reinstated or clawed back by the creditor.
- **Transfer mechanics and schedule.** This language in the debt swap agreement defines how, when and in what currency the debtor transfers freed-up resources to any designated fund, escrow account or programme administrator. When negotiating this clause, the debtor should carefully consider the duration and frequency of the transfer obligation, taking into consideration factors such as budget cycles, transaction costs, administrative simplicity and project absorption considerations. In some instances, depending on the debtor's fiscal position, the debtor may also seek to negotiate a grace period before transfers begin to avoid budgetary strain.
- **Currency of transfer.** Debtors typically prefer local currency transfers to align with local expenditures. However, if currency conversion is required, it is vital to ensure a fair and transparent exchange rate reference (e.g. central bank rate).
- **Monitoring and evaluation clause.** This clause, to the extent it is included in the debt swap agreement, establishes oversight, reporting and audit mechanisms to ensure that resources are appropriately used for the agreed-upon purposes. Of note, this may also be included in a separate legal document, such as an implementation agreement. When reviewing this clause, debtors should clarify the format, frequency and responsible party for any reporting. It is also essential to avoid overly burdensome monitoring requirements that create excessive administrative costs or delays.
- **Transfer default and remedies clause.** This clause defines the consequences of the debtor's failure to fulfil its transfer obligations under the agreement and the

remedies available to the creditor. Creditor remedies may include (i) reinstatement of the original debt (I.e. reverting to the original loan terms) and (ii) acceleration of payments under the original debt (I.e. requiring all remaining payment obligations to become immediately due). Debtors should negotiate a reasonable cure period (e.g. 2-6 months) during which the government can cure any default before the creditor can exercise its remedy rights.

Debt Conversions

Documenting a debt conversion requires a broader set of agreements than a standard bond issuance or loan transaction. The Attorney General's Office (or equivalent) and the heads of relevant ministries' legal departments should be aware early on of the transaction, as additional legal approvals may be required. The legal review process can also take longer due to the more structured and bespoke elements involved, which are not typical of other transactions that MoFs are accustomed to.

Negotiations often involve multiple ministries and agencies; therefore, forming a cross-government working group or task force can be beneficial. Clearly defining each ministry's role, e.g. the MoF for liability management and funding aspects, and the MoH for health-related commitments, will help coordinate documentation, execution and ongoing monitoring. Holding regular check-ins will also facilitate this coordination.

Required documentation generally falls into the following categories:

- Documents supporting the participation of initial stakeholders (e.g. mandate letters for lenders and arrangers, engagement letters for legal and financial advisors, appointment letters for third-party technical assistance, application for credit enhancement mechanisms)
- Liability management documents (e.g. tender offer memorandum)
- Debt conversion documents
- Credit enhancement agreements (e.g. guarantee agreements, insurance policies)
- Health-related policy and funding commitments for using the fiscal savings generated by the debt conversion
- Documents establishing any trust fund or project implementation fund

- Agreements for back-to-back funding, if applicable
- Security and intercreditor documentation, in some cases

These are each described in more detail below.

DOCUMENTATION SUPPORTING THE PARTICIPATION OF THE INITIAL PARTICIPANTS IN THE PROPOSED TRANSACTION

Once the sovereign has determined that it wishes to undertake a debt conversion, several third parties will need to be brought on board, and each of them will need to be mandated through a separate bilateral engagement letter with the government (usually through the MoF). This will include, *inter alia*:

- Legal advisors and potentially financial advisors, who will advise on the contemplated transaction.
- International and/or domestic banks, which could act as arrangers and/or underwriters of the new bond/loan at the heart of the debt conversion, as well as dealer managers in respect of any tender of the sovereign's existing bonds (in case the debt conversion targets outstanding bonds).
- Credit enhancement providers (e.g. MDBs, DFIs) typically support operations and usually require formal application requests from governments, as well as thorough due diligence processes. As such, a common understanding of these requirements, as well as any associated fees and expenses (including guarantee/insurance premia), should be sought early on. It is to be noted that these credit enhancement providers will require separate legal advice (often both international and national).
- Global health institutions or NGOs can provide technical assistance on the health aspects of the operation and the health-related applications of the fiscal savings generated by the debt conversion, as well as monitoring and reporting components.
- Rating agencies are typically involved at two levels: (i) rating the new debt instrument; and (ii) assessing any potential implications of the debt buyback on the sovereign rating.
- Other third parties (e.g. trustee, facility agent, tender agent to manage and administer the tender offer and other parties' legal advisors), whose roles will

depend on the target operation's structure and can be mapped out by the banks mandated to arrange the operation. Typically, banks will obtain quotes from two or three providers of such services to ensure competitive pricing and optimisation of transaction costs for the government.

Procurement/Request For Proposals (RfPs)

Thought will need to be given to any country-specific procurement processes to mandate the required parties or other ways of doing so, which will comply with national requirements - such requirements may lead to the need for an RfP to be drafted to invite financial advisors, legal advisers and banks to submit proposals to the MoF. These can be very useful, as would interviewing parties submitting proposals. The scope of each such mandate, as well as timing and fee coverage, will need to be clearly established (typically in a mandate or engagement letter).

At this initial step, and given the number of participants, it will be critical to ensure alignment across all parties on (i) the technical and commercial parameters of the deal, and (ii) the overall execution timeline - especially as the disbursement date should be in line with the overall MoF's funding plan for the year.

Other documents

As such, beyond the bilateral mandate and engagement letters, four other documents can be elaborated and circulated to all relevant parties:

- A financial model is used to map out the overall costs of the transaction and debt servicing costs. There should be a regular review of the model as the transaction moves from concept to execution. This model can be elaborated and maintained by the MoF team and its financial advisor.
- A Term Sheet with the main commercial and legal parameters of the proposed transaction. This can ensure that, before moving to the full documentation stage, all the parties agree on the main parameters of the debt conversion.
- A detailed execution timeline mapping out the different workstreams (e.g. alignment on commercial terms, negotiation of all legal documents, selection of all third parties, approval of the project by the credit-support providers' boards, government approvals, ratings).
- A document list with allocated responsibilities, indicating who has primary responsibility for drafting each document, the parties involved, who will review the document, and its position in any timeline.

Partners

In large debt conversion transactions involving multiple parties and legal advisors, having a strong coordinating partner can make a significant difference to the success of transaction execution, and it should be clear from the outset who will assume this role. In past transactions, this has ranged from a presidential advisor to a minister, the external financial advisor to the MoF or even an arranging bank. If a party outside of government, there should be clear lines of access to senior government officials and staff.

CONFIDENTIALITY

Whilst the country is working on a debt conversion, it is often preferable that this should remain confidential. Where the subject of the debt conversion is publicly traded bonds in the capital markets, this is especially important, as the bond price may rally upon such information being known, and the fiscal savings the country seeks to obtain may diminish. The need to maintain confidentiality also applies to any credit enhancement providers who may inadvertently disclose a proposed transaction through the process of obtaining board approval. For example, early discussions should address these guidelines and any related measures put in place with all parties to the transaction and their respective employees/officials.

LIABILITY MANAGEMENT DOCUMENTATION

At the heart of many transactions is the buying back of sovereign bonds. The greater the discount at which such bonds are trading, the greater the fiscal savings that could be generated from the debt conversion. The buyback component of the transaction is similar to any simple liability management transaction that a country would undertake as part of its day-to-day debt management strategy, based on a cash tender offer.

Documentation will involve agreeing on a tender offer (I.e. an offer by the sovereign issuer to repurchase outstanding debt securities from existing holders) memorandum, a letter appointing a tender agent and related internal approvals. Where the tender is to be executed by way of a cash tender, it would not usually require country disclosure on the sovereign. Thought will primarily need to be given to selecting the target bonds based on maturity, trading price, and the bunching of maturities, among

other factors. Additionally, it is essential to consider whether any bonds include call options, which could also support the liability management strategy. In many cases, the tender offer would be fronted by the sovereign (indeed, this may be a legal and/or contractual requirement in some instances). Still, there have been some transactions fronted by third parties (with the tacit approval of the sovereign).

There are several key elements to consider in this regard, including national requirements, any constraints within the terms of the existing bonds (e.g. if combined with the use of a bond call option upon reaching certain thresholds of bonds tendered), and the preferences of the credit support provider. Some credit enhancement providers prefer that funds be used directly to pay the cash tender without first flowing through the sovereign. Arrangements can be put in place for the funds raised to flow to tendering bondholders. However, parties should agree on a funds flow and related letters of instructions to third parties to effect such a funds flow as part of the liability management discussions.

DEBT CONVERSION DOCUMENTATION INCLUDING CREDIT ENHANCEMENT (IF ANY)

The existing bonds that are being bought and cancelled will be replaced by a loan or bond, often with credit enhancement and lower debt servicing costs. Whether the replacement instrument is a bond or a loan will be determined by sovereign preferences, credit support provider preferences and lender/investor preferences. In some instances, a country may not have the approvals to issue/enter into a particular instrument and will prefer the other. Credit enhancement providers may only be authorised to provide credit support in relation to a bond or a loan. The arranging bank may wish to remain the lender of record and prefer a loan. Early in the process, these preferences should be discussed and an understanding reached regarding the funding instrument. The term sheet should reflect the positions reached.

LOAN OPTION

Where the debt replacement instrument is a loan, the country will be required to enter into a facility (or loan or credit) agreement through its MoF or a usual contracting party. A facility agent will also be required to administer the loan. The lender(s) may be a bank(s) or a special purpose vehicle (SPV) established to act as a conduit in the transaction, if a back-to-back financing arrangement is being put in

place to raise funding from the capital markets. The loan will be similar to other facilities the country may have entered into but will also include some additional features: provisions required by the credit enhancement providers; additional mandatory prepayment events or events of default related to loss of the credit support; additional representation, covenants and events of default and transaction specific acceleration rights triggering early repayment; provisions relating to subrogation rights and transfer/assignment rights related to the credit support and any back to back funding strategy.

Care will be needed to review any counter-guarantees or counter-indemnities required by credit enhancement providers carefully and to understand the consequences of default on the sovereign's broader access to the credit support provider's offerings (especially if a multilateral development bank on which the sovereign is highly reliant). For further information, see Chapter 8: *Credit Enhancement*.

Thought will also need to be given to the hierarchy of credit support if more than one, and any sharing clauses and subrogation rights that the parties will require. Whilst the country may not have access to the full suite of guarantee documents that the credit support provider may require in the transaction, it should seek to understand the implications of such documents, including consent/subrogation/Personal Care Services rights, especially in a default scenario.

The facility agreement will also typically include an undertaking by the MoF to make available the agreed-upon portion of the savings generated by the transaction to the party that is due to receive such payments (be it a government agency, trust fund or project implementer). A decision will need to be made in advance whether such an undertaking requires all the savings to be granted in one payment at the outset of the transaction or to be gradually released over a specified timeframe. In the health space, this will require special consideration in view of the potentially increased benefits of early investment in the well-being of any targeted group.

In either case, if such payments are not made, this would result in an event of default under the loan. The facility agreement will also include specific mechanisms whereby, if the agreed-upon health KPIs or policy health commitments are not met, the government may have an obligation to make additional payments.

The health KPIs and commitments, along with their related remedies, are to be carefully negotiated separately, as described below. Unlike thematic bonds, debt conversions have hitherto been structured (following appropriate grace periods) to be capable of resulting in a default (with broader cross-default implications), so addit-

ional care must be exercised in understanding the links between the facility agreement and the agreements containing the health-related commitments.

BOND OPTION

Where a country cannot enter into a loan, it may decide to issue a bond, which can be held by a single entity (e.g. an SPV). In such cases, the bond terms and conditions will not be the same as other bonds issued by the sovereign, but will, as per the loan description above, also include bespoke elements. Thought will need to be given as to the implications of U.S. securities laws on the structure, applicable exemptions from U.S. registration requirements and the role of the bank(s) or an SPV as initial purchasers. Banks will be very focused on potential underwriter liability and will need to map out an approach on whether country disclosure is necessary or not. Providing such disclosure can be quite onerous for some countries; therefore, addressing this in conversation with the arranging bank(s) early in the process is essential.

Where a debt conversion transaction involves a credit support provider which does not favour funding flowing through the sovereign, a separate exchange and settlement agreement may be entered into specifying that the lending obligation under the loan by the lender is discharged by the latter's settling of the tender offer in exchange for an undertaking by the sovereign to instruct the cancellation of the bonds tendered in the cash tender.

DOCUMENTATION RELATED TO HEALTH POLICY COMMITMENTS AND KPIS

From a documentation and structuring perspective, these can differ transaction to transaction. It may be that the country has partnered with an underlying international organisation working in the health sector, which has its own objectives in participating in a debt-for-health swap with the government and the types of country commitments, spending of the savings generated by the transaction and implementing strategy for doing so will be framed by the ongoing partnership (the first scenario).

The country and such organisations have specific bilateral multi-year plans, and the funding freed up by the transaction can support programmes that would otherwise not be funded. Alternatively, the credit support provider is particularly focused on specific outcomes to participate in the transaction, and it will have contractual

requirements that need to be embedded in separate agreements (the second scenario).

The various approaches can significantly impact the documentation. In relation to the first scenario, it is essential to note that investors will expect any transaction to be accretive to existing spending arrangements (and not just a replacement). However, good use could still be made of existing plans.

Typically it will be necessary, however, to enter into an additional commitments agreement setting out government specific health policy and other commitments and/or KPIs, breach of which will lead in the first instance to an obligation to make additional payments and in due course termination of the agreement (in turn potentially leading to an event of default under the sovereign loan/bond).

In the second scenario, the credit support provider may have additional requirements, including the participation of a third-party non-profit or trust fund in the structure, which will require additional documentation (see below).

On debt conversions undertaken in the last few years, the inclusion of such trust funds in the structure has resulted in the savings generated by the transaction being paid by the MoF under the primary loan/bond to the lender/purchaser thereof and this party agreeing under a separate agreement to pay the funds to the third-party trust fund with certain suspension in the funding being envisaged in case of non-compliance by the fund with KPIs agreed to by it.

The MoH should allocate considerable time to negotiating relevant health-related policy commitments and KPIs, including appropriate grace periods and monitoring and reporting mechanisms, as breaches could result in financial penalties and ultimately lead to default. Credit enhancement providers and investors are typically willing to agree to implementation delays and catch-up periods if the terms are appropriately structured.

Regular reporting will also be expected, with third-party verification agents being required in certain transactions (accompanied by related documentation that reflects the scope of work, frequency of verification, coverage of fees and other relevant details). To the extent that the country already does regular reporting that can be repurposed, that would be beneficial, especially if such reporting already involves external third parties.

Case Study: Identifying KPIs and Health Commitments for a Debt Conversion

As outlined in this chapter, a debt swap must embed government health-related policies and other commitments, funding and health-related KPI targets within a contractually binding framework. This makes the selection of the right obligations a critical success factor for debt conversion. Failure to meet these commitments will result in financial penalties and ultimately lead to default under the sovereign loan or bond.

Creditors and credit enhancers are typically looking for commitments that prove additionality to their funding and which are accretive to existing government expenditure in the health sector. For example, certain credit enhancement providers may be interested in seeing improvements in communicable diseases, specifically, while others may be interested in health systems strengthening more broadly.

Generally, two types of commitments can be included in a debt conversion: government policy or planning commitments and KPIs.

1. Policy or Planning Commitments:

- These are similar to a World Bank Development Policy Operation.
- They can include commitments to change a policy, implement a new law or develop a new strategy to address a specific issue.
- To be compelling to the investor/credit enhancement providers, the commitments should be strongly linked to the performance of the chosen KPIs. These should be policies or plans that will move the needle on specific health outcomes or health performance.
- Including a policy or planning commitment in a debt conversion may help to elevate this policy action in terms of political priority. A debt conversion that embeds compliance with such a policy or commitment could be an opportunity to accelerate a change that has been lagging or delayed.

2. Key Performance Indicators (KPIs)

- These could be outputs, outcomes or impact measurements that the country agrees to improve through the debt conversion.
- As outlined in Chapter 4: *Health Finance and Key Performance Indicators*, KPIs should be controllable, observable and realistic, with minimal external factors affecting their success. They also need to be measured regularly. Choosing an indicator that can be easily tracked periodically to monitor performance will help ensure compliance with any targets that have been agreed upon.

There is flexibility to define the commitments based on the country's own needs and priorities. They should align with national strategic plans and health priorities. They should also be verifiable by a third party. It is essential to consider how the MoH or the MoF data systems enable this external verification, and where needed, are strengthened to provide accurate and timely data on the KPIs for reporting purposes.

The expectation is that the government itself will provide the policy and other related commitments through the MoH, but that the KPI-related undertakings will be provided by the party assigned to receive the fiscal savings under the debt conversion.

ESTABLISHMENT OF A THIRD-PARTY/ NON-PROFIT TRUST FUND

As referred to in the second scenario above, where such entities are required, careful consideration will need to be given to several issues: is the entity to be for sole use or could it be a conduit for future grant funding etc.; who will be on its board (typically the entity would not be government controlled but would have some ministerial representation on the board); what will its corporate governance be; will it have a physical office and staff; how will its funding from the savings generated by the transaction be applied (agreed upfront or some discretion over time and related governance); frameworks for investment of any unutilised financing, auditing, risk and compliance, appropriate environmental and social standards policies.

In transactions where such an entity is required, establishing the trust fund should become its own workstream, and consideration should be given to the timing of establishment, preparatory work, and adequate discussions with government officials, among other factors. A key evaluation will also determine whether the trust fund will directly implement part of the project itself or provide funding to third parties, in which case it will also need to consider the monitoring and accountability of such third parties. Another key question will be whether the trust fund needs to be established in the country (as per local regulations, for instance) or offshore (as per the credit support provider's preference).

BACK-TO-BACK FUNDING STRUCTURES

Unless the arranging bank(s) can lend and keep a loan on the balance sheet on day one, a back-to-back funding structure may likely be required. In such instances, an SPV may be suggested as the lender of record under the primary loan or bond, to then become the issuer/borrower under the back-to-back bond or loan. The use of SPVs may also be necessary as a result of credit enhancement providers' requirements related to their coverage.

SECURITY DOCUMENTS AND INTERCREDITOR ARRANGEMENTS

More complex structures may require agreement on security arrangements. This is particularly likely to arise in a transaction which has a back-to-back funding arrangement, as investors will want to have recourse via any SPV to the credit support and

any cash available. If the transaction involves more than one credit support provider, this may also give rise to the need for intercreditor arrangements, which must be documented.

Similarly, some credit enhancement providers may require some security to be granted on savings generated by the transaction (famously, where such parties have required the establishment of a longer-term endowment to be partly funded by the savings generated over time). Discussions on security can often lead to requirements for accounts to be held offshore, and the sovereign should be aware of such features as early as possible.

APPROVALS

Several government approvals and local legal opinions will be required to support any debt conversion. Early consideration should therefore be given to this, as such elements will be required as conditions precedent to any transaction closing. Thought should be given as to what approvals/opinions will be required from the Attorney General/Minister of Justice, and early involvement of such parties to describe the structure is always beneficial and can avoid last-minute delays.

Similarly, if any parliamentary approval is needed, consideration should be given to the required documentation and timing implications for the overall transaction execution. The country should also seek information regarding the approvals required by the other parties to the transaction and their own documentation requirements for such approvals, as this can also significantly impact overall timings. In each case, the concerns raised under confidentiality should be taken into account on an ongoing basis.

KNOW YOUR CUSTOMER (KYC)

Know your customer (KYC) requirements can also be a factor that can delay transaction execution. These requirements generally involve collecting and verifying information to confirm the identity, nature and risk profile of a counterparty. Early in the process, a party should map out the KYC requirements and ensure that the relevant parties begin to provide documentation to satisfy these requirements.

ESTABLISHMENT OF REQUIRED BANK ACCOUNTS

The transaction may also require the opening of multiple bank accounts, both onshore and offshore. These should be mapped out early on, and the bank account opening documentation becomes a separate legal documentation workstream to avoid unnecessary delays.

FUNDS FLOW

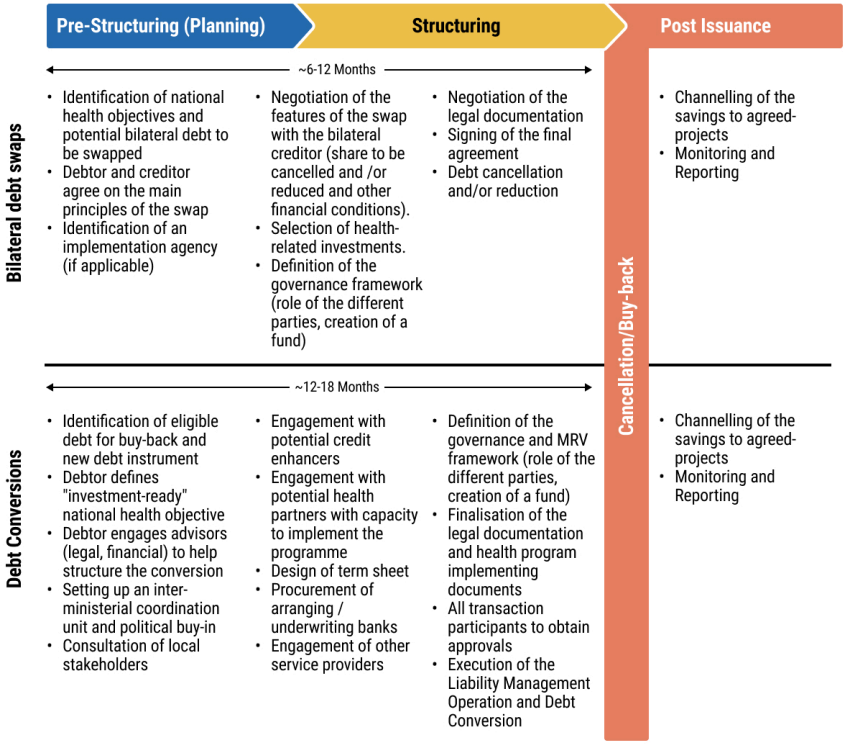
In view of the multiple parties involved and various layers to any debt conversion, it is advisable to draft and agree on a funds flow to capture the various steps required to enter into all the relevant documents, satisfy conditions precedent and ensure the effectiveness of any credit support before new money flows and the required cash flows and supporting instructions.

DEBT PAUSE CLAUSES

The MoF may request the arranging bank(s) to include a debt pause clause or a pandemic debt pause clause in the loan or bond replacing its existing debt. This would enable the country to defer payments on a loan or bond under certain circumstances. It would be beneficial to discuss with the arranging bank(s) early the inclusion of such a debt deferral mechanism, including in the request for proposals (RfP) for bank proposals, if one is issued.

Please see Chapter 5: *Sustainable Finance Instruments* (Key Legal Considerations) for a detailed description of pandemic and epidemic-related pause clauses, and for a template pandemic clause.

Summary of Transaction Implementation Steps



1 Decision and Internal Preparation

- ☑ Decide to pursue a debt conversion (Cabinet / MoF approval).
- ☑ Map eligible debt (identify commercial debt suitable for buyback or exchange).
- ☑ Confirm policy objective (e.g. health, climate or development).
- ☑ Ensure internal coordination between MoF, MoH (or relevant line ministry), Attorney General (or equivalent) and Central Bank.
- ☑ Maintain strict confidentiality, especially if bonds are publicly traded.

2 Mandate and Procurement of Key Participants

- ☑ Appoint and contract:
  - Legal advisors (international and domestic).
  - Financial advisors.
  - Arranging/underwriting banks (for new bond or loan issuance).
  - Credit enhancement providers (MDBs, DFIs) - begin formal application and due diligence process.
  - Rating agencies (for rating the new instrument and assessing the impact on the sovereign rating).
  - Other service providers: trustee, facility agent, tender agent, verification agents, etc.
- ☑ Clarify procurement process - RfPs, interviews, evaluation and selection in line with national rules.
- ☑ Sign engagement/mandate letters, defining scope, fees and timelines.

3 Initial Structuring and Coordination

- ☑ Designate a coordinating partner (e.g. minister, presidential advisor, financial advisor or lead bank).
- ☑ Prepare and circulate key core documents:
  - Financial model - mapping costs, debt service and savings.
  - Term Sheet - outlining main commercial and legal parameters.
  - Execution timeline - sequencing approvals, documentation, rating & credit-support milestones.
  - Document responsibility matrix - identifying drafters, reviewers and deadlines.
- ☑ Align all parties on parameters, deliverables and funding schedule.

4 Liability Management and Buyback Execution

- ☑ Identify target bonds or loans for buyback (based on maturity, pricing, liquidity).
- ☑ Prepare liability-management documentation:
  - Tender offer memorandum.
  - Appointment of tender agent and trustee.
  - Internal MoF approvals and instructions.
- ☑ Agree on funds flow arrangements - especially if credit enhancement providers prefer funds not to pass through sovereign accounts.

5 Structuring the Replacement Instrument

Option A - Loan Structure:

- ☑ Draft and negotiate facility agreement, incorporating:
  - Credit enhancement-related clauses and subrogation rights.
  - Representations, covenants, events of default.
  - Undertakings on allocation of savings (e.g. to health trust fund or programme).
  - Potential debt pause or pandemic clause.
- ☑ Coordinate back-to-back funding structure if SPV or private placement is involved.

Option B - Bond Structure:

- ☑ Draft bespoke bond terms and conditions (reflecting credit enhancement-related provisions).
- ☑ Ensure compliance with securities laws (ensure compliance with U.S. securities laws).
- ☑ Determine whether the issuing structure requires an SPV to act as intermediary.

6 Credit Enhancement

- ☑ Finalise guarantee or insurance arrangements with MDB/DFI.
- ☑ Review counter-guarantees and subrogation provisions carefully.
- ☑ Clarify ranking and interaction of multiple credit supports if applicable.

7 Third-Party Structures

- ☑ If required, establish a trust fund or third-party vehicle to manage savings, with defined:
  - Governance and board composition.
  - Spending rules and audit requirements.
  - Location (onshore vs. offshore) and regulatory approvals.

8 Health Commitments and KPIs

- ☑ Define policy/planning commitments and KPIs aligned with national strategies.
- ☑ Ensure commitments demonstrate additionality and can be monitored and verified.
- ☑ Draft and negotiate a commitment agreement, linking non-performance to financial penalties or default triggers.
- ☑ Arrange for independent verification and reporting (define scope, frequency, costs).

9 Approvals, Legal Opinions and KYC

- ☑ Obtain all government approvals (Parliament, Cabinet).
- ☑ Secure approvals from credit enhancers and arrangers.
- ☑ Obtain legal opinions from the Attorney General's Office or equivalent.
- ☑ Complete KYC requirements for all parties early to avoid delays.

10 Account Setup and Funds Flow

- ☑ Identify and open required bank accounts (onshore/offshore).
- ☑ Finalise funds flow statement and sign related letters of instruction.
- ☑ Ensure mechanisms are in place for disbursement, tender payments and savings transfers.

11 Execution, Monitoring and Reporting

- Execute tender and new financing transactions.
- Issue new loan/bond and retire old bonds.
- Transfer and allocate savings as agreed.
- Maintain confidentiality and communication discipline until closing.
- Implement monitoring and third-party verification of KPIs.

12 Post-Closing Follow-Up

- Begin regular reporting to partners, credit enhancers and investors.
- Review compliance with KPIs and covenant performance.
- Manage ongoing relationships with trust fund, DFIs and verification agents.
- Document lessons learned for future transactions.

Chapter 7: The Use of Public-Private Partnerships in Healthcare Projects

Key Takeaways

Health public-private partnerships (PPPs) are long-term contracts that mobilise private capital, innovation and management to deliver public health infrastructure and services, helping bridge funding and capacity gaps in pursuit of universal health coverage (UHC).

Successful PPPs require stable legal and regulatory frameworks, transparent procurement, enforceable contracts and political commitment to attract private investment and ensure sustainable delivery.

There are various types of health PPPs: infrastructure, medical equipment, digital health, training and management contracts.

PPPs work best when risks are allocated to the party best able to manage them. In a health PPP, risks include typical risks in PPP projects (such as site risk, design risk and completion risk) and health-specific risks (such as changes in the volume of demand for patient services, infection risk and unexpected changes in medical technology). Poorly structured risk transfer can lead to inflated costs, limited competition and reduced value for money.

Each PPP should be grounded in a national health masterplan, strong feasibility studies and clear business cases that align infrastructure investment with evolving population health needs.

Governments must establish competent PPP units, skilled procurement teams and clear governance hierarchies to plan, procure and manage complex health PPPs effectively over their lifecycle.

Early and continuous engagement with key stakeholders - including ministries, developers, investors, health professionals and communities - reduces resistance, builds trust and ensures alignment between health and finance authorities.

The choice of PPP contractual model (e.g. build-own-operate (BOO) or design-build-finance-operate (DBFO)) should consider factors such as value for money, project manageability, accessibility of healthcare and bankability.

PPPs can leverage blended finance or concessional resources to reduce project costs and enhance affordability, provided sound financial structuring and oversight mechanisms are in place.

Health Sector PPPs

This chapter, presented in two parts, provides a comprehensive overview of PPPs in the health sector. **Part 1** explores the foundational aspects of health PPPs, beginning with an explanation of what PPPs are and the benefits they can bring to healthcare delivery. It examines the enabling conditions that contribute to successful implementation, compares traditional procurement methods with PPP approaches, and outlines the different types of health PPPs and their financing considerations. The section also emphasises the importance of effective stakeholder management in achieving project objectives.

Part 2 builds on this foundation by focusing on the practical dimensions of developing and managing health PPP projects. It provides technical guidance to the team designing and implementing the health PPP project. Specifically, it discusses how to build a pipeline of viable PPP projects, prepare and structure them for procurement, allocate risks appropriately and select suitable contractual models. The section concludes with guidance on the key contracts used by procuring entities and best practices for managing PPP contracts over their lifecycle.

Part 1: Understanding Health Public-Private Partnerships

Description and Rationale

PPPs are a globally recognised method of procurement. There is no single, internationally accepted definition of PPPs, but broadly speaking, a PPP can be defined as:

"A long-term contract between a private party and a procuring entity, for the provision of a public asset and/or service, in which the private party bears significant risk and management responsibility, and where remuneration is linked to performance."

Procuring entities can include central government ministries, state departments, state agencies, state-owned entities and municipal entities. In a healthcare context, these entities typically include the Ministry of Health (MoH), health boards and hospital trusts (or equivalent entities), among others.

The duration of a PPP contract is typically between 10 and 30 years, allowing sufficient time for the asset to be affordable on an annual basis. However, the duration of a PPP contract can be shorter (e.g. for a service-only contract or digital health technologies) or longer (e.g. larger-scale projects where the private provider needs longer to recoup its investment).

Some key considerations related to PPPs include:

- The functions for which the private party is responsible vary, but may include design, construction, renovation, financing, maintenance and operation.
- PPP projects often involve the procurement of new assets; however, some PPP arrangements also involve the rehabilitation and/or maintenance of existing assets.
- Risks are allocated to the party best able to bear them.
- Each of the phases of the PPP project is generally addressed in one contract (e.g. a project agreement or concession agreement).
- The private party typically operates through a special purpose vehicle (SPV), a separate, legally independent company that is created to carry out a specific project.
- The payment mechanism in a PPP contract may include a tariff or user fee model, an availability-based model or a combination of these, with or without a subsidy. There will also typically be a performance management system with key performance indicators (KPIs) and a payment deduction mechanism.
- PPPs can be applied across different sectors (including the health sector), but there might be some government limitations (e.g. some countries cannot have PPPs in the defence sector).

RATIONALE

PPPs can be an effective way of supporting UHC as they mobilise private sector financing and expertise, which can close the funding gap while bringing efficiencies into health systems. Governments should be clear on the issues they are seeking to solve by involving the private sector in healthcare delivery. This can take several forms or a combination thereof:

- **Closing the infrastructure gap.** Through PPPs, governments can accelerate the delivery of infrastructure needed for a range of facilities such as clinics, hospitals and diagnostic centres without bearing the full upfront fiscal burden, while ensuring long-term performance and service quality through outcome-based partnership contracts.
- **Closing the medical equipment gap.** PPPs enable access to medical technologies through various mechanisms, including leasing, build-operate-

transfer (BOT) and managed equipment service (MES) models that improve clinical outcomes and operational efficiency. By aligning incentives between public health objectives and private sector innovation, PPPs help strengthen resilience, expand access to care and modernise health systems in a financially sustainable and scalable way.

- **Dealing with shortages in healthcare workers and specific skill sets.** The shortage in healthcare workers (HCWs) and specialised skills is a significant global challenge. These issues are most profound in low and middle-income countries, particularly in Africa, which has 25% of the world's disease burden but has only 3% of global HCWs. PPPs can work towards increasing the employment and utilisation of HCWs in Africa by providing additional employment opportunities, focusing on training and professional development, particularly in areas where there is a shortage of specialists, improving retention and optimising the utilisation of HCWs. Moreover, the private sector can leverage medical equipment, digital health technologies and artificial intelligence to enable healthcare delivery in resource-scarce environments.

Case Study: Applicability of PPP in the Improvement of Clinical Services and Renovation of Existing Facilities

The Ministry of Public Health had received a public hospital from a donor but was unable to operate the hospital to acceptable clinical standards. The need to improve clinical services, as well as renovate the existing facilities and develop a new pharmaceuticals facility, led the Ministry to explore the possibility of harnessing private sector investment and managerial skills for the hospital. The Ministry outlined its requirements for the core clinical services to be provided to patients, including maternity health services, neonatology services, paediatric health services, oncology, medical, surgical and radiotherapy services, as well as diagnostic services. A key consideration was the patient mix, ensuring that not only private patients but also a percentage of low-income patients could access the enhanced facilities at no cost.

- **Improving operational efficiency and realising cost savings.** PPPs can improve operational efficiency and realise cost savings in healthcare systems by introducing private sector innovation, management expertise and performance-driven accountability into the delivery of healthcare services. Through well-structured PPP contracts, the public sector can shift from input-based spending to outcome-based models (value-based healthcare) that reward efficiency, quality and patient satisfaction. The private sector's ability to optimise workflows, deploy digital health solutions and implement preventive

maintenance systems can reduce inefficiencies in hospital operations. Economies of scale can be achieved through integrated procurement, supply chain management and shared service models. The public partner must be able to meet its payment obligations and monitor outcomes and KPIs.

Enabling Conditions

To incentivise investments in healthcare PPP projects, countries need a transparent, stable and predictable investment ecosystem that allows for transparent and efficient contracting processes and contract enforcement. This needs to be underpinned by sound health policies and embedded into institutions that enable the private sector, both domestic and international, to operate efficiently, profitably and with maximum development impact. Therefore, promoting and protecting health-related investments requires special emphasis from governments to ensure that appropriate regulatory and policy frameworks are in place.

Potential investors will assess the domestic legal and regulatory environment in the relevant country before deciding to participate in any healthcare PPP project. Each country will have their own legal and regulatory considerations and risks, which will naturally impact the nature and extent of any investment that may be provided for a specific healthcare PPP project. Any such assessment will need to be carried out by potential investors on a case-by-case basis, and each investor will have their own particular requirements that must be satisfied before any investment is contemplated.

A list of the common issues or risks that need to be considered by investors as part of their country due diligence before investing in health PPP projects includes:

- The rule of law is a fundamental pillar and indicator of a country's readiness for investment. Linking to a variety of risk categories, including a country's legal and regulatory environment, control of crime and corruption, and disputes, the rule of law underpins the legal certainty in and of a jurisdiction.
- The legal and regulatory environment allows investments (foreign direct investment limits, bankruptcy and insolvency laws and investment and assurance laws).
- The availability of international arbitration as a dispute resolution mechanism.

There should be a solid legal framework which clearly applies to health PPP projects. A critical part of this framework is having a robust PPP law. The key requirements

for an effective PPP law include:

- Harmonisation of the institutional framework for the implementation of PPP projects, which would apply to health projects.
- Enabling the participation of the private sector in the development and implementation of PPP projects, including through the incentivisation of public/private collaboration.
- Provision for clear procurement procedures, including guidelines on competitive procedure and the unsolicited procedure.
- Identification of the types of state support which may be available for health PPP projects on a case-by-case basis, such as sovereign guarantees and undertakings, viability gap financing, subsidies, tax exemptions and/or benefits (See also Chapter 8: *Credit Enhancement*).

Challenges

In Table 7.1 below, we have identified a selection of typical challenges that can adversely affect the implementation of health PPPs, along with suggested solutions for each challenge.

Typical Challenge	Solution
Inadequate legal framework, policies and enforcement	There should be a solid legal, policy and regulatory framework which clearly applies to health PPP projects. This should include laws relating to PPP, procurement, investment and private sector participation in healthcare. A robust institutional framework is usually best enforced through a central PPP unit, typically housed within the Ministry of Finance (MoF).
Lack of prioritisation within government ministries or interference from government ministers which can lead to delays.	There should be political will to support health PPPs and ongoing political stability. Long-term health PPP projects need appropriate long-term support. To avoid interference, proper governance and approvals procedures should be introduced and consistently applied.
A weak payment mechanism for remunerating the private partner (e.g. public and/or mandatory private health insurance or inadequate remuneration levels).	This does not enable payments to be output-based. While it does not prevent PPP schemes from proceeding, the payment mechanism will be based on cost reimbursement and a margin.
Lack of capacity and capability among government officials.	A programme of health PPP capacity building should be introduced to ensure that there are trained and experienced public sector personnel, focused on delivery.
Lack of interest from tenderers, possibly due to a lack of knowledge about the jurisdiction and publicity about the health PPP programmes/projects.	The procuring entity should publish a visible and credible pipeline of health PPP projects. It is recommended that the procuring entity carry out preliminary market engagement with the private sector market and understand what might be the competing projects to their health PPP programme.
Poor contract packaging occurs when PPP contracts are too small, too diverse or too risky.	The procuring entity should undertake comprehensive feasibility studies and business cases as part of preparing the PPP project. Bundling projects together or separating them into parts may be advisable to match the scope that the market is ready to undertake.
Inappropriate or unrealistic risk transfer, for example, occurs when all risks are fully allocated to the private partner.	The procuring entity should undertake a full risk assessment of the proposed PPP project.
Failure to comply with and/or apply health PPP contractual provisions, which can result in delays, disputes, fraud and corruption.	The procuring entity should undertake robust contract administration.
Failure to establish strong stakeholder arrangements.	It is essential to engage all necessary stakeholders and manage their expectations, and to spend time planning and managing both the development and implementation of the health PPP.
Relegation of sustainability considerations	Environmental, social and governance (ESG) principles align closely with public health objectives - reducing waste, improving working conditions and ensuring equitable access to care. ESG considerations should be built into health PPP procurement and operation (e.g. sustainable hospital design or climate-resilient infrastructure).

Table 7.1: Typical Challenges in PPPs

Types of Health PPPs

Health projects can be procured in several ways, ranging from full public delivery to arrangements where private partners are responsible for ongoing service provision. This chapter focuses on PPPs where the private partner contributes private finance and delivers the project. The chapter does not include engineering, procurement and construction (EPC) projects where the private provider does not provide an ongoing service after the completion of the construction phase.

Figure 7.1 illustrates the continuum of procurement from fully public to PPP models. This section elaborates on how PPP models, shown at the latter end of this spectrum, are used to deliver specific activities in the health sector.

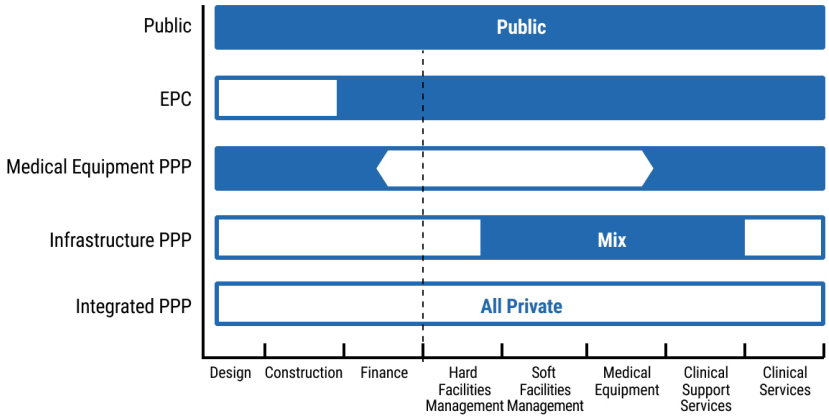


Fig. 7.1: *Indicative Types of Health Projects*

Various types of PPPs are described briefly below.

INFRASTRUCTURE PPPS

In infrastructure PPPs, the private partner undertakes the planning, design, construction, equipping, financing, facilities management and non-clinical services while the public partner is responsible for the clinical services. This method has been widely adopted in the U.K., Canada, Australia, Europe and recently in Saudi Arabia.

The diagram below presents a simple organisation chart showing how the parties in an infrastructure PPP are interrelated. The private partner is shown as an SPV, which enters into the PPP agreement with the procuring entity (shown as the Public Partner) and receives payment from the public partner in the form of an availability payment (a payment made once the asset is available for use per the contract). The funding comes primarily from the sponsor (or investor) as equity and from the lender as debt. The SPV then enters into subcontract arrangements for the design and build of the facility, for providing and installing medical equipment, and for undertaking facilities management.

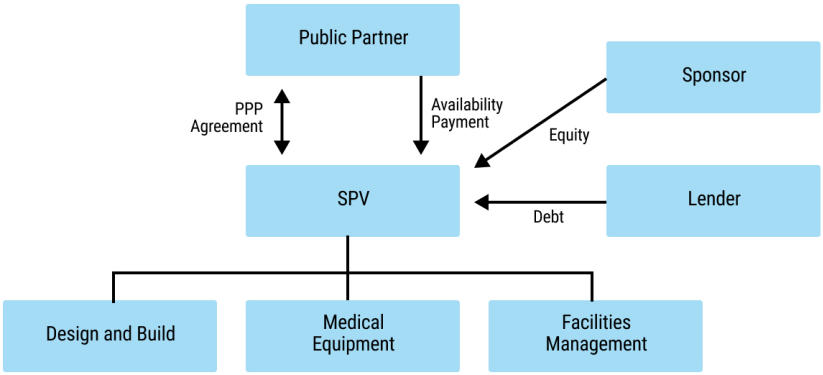


Fig. 7.2: Infrastructure PPPs

Infrastructure PPPs typically have long tenors of 20-30 years, and require financing with favourable terms to keep the cost of capital affordable.

The private partner typically receives an availability payment for making the asset available and a service payment for providing the non-clinical services.

The hospital's capacity is planned to meet the public sector's requirements, often leaving limited scope for optimising the design and operations. This model is attractive to funders and investors as it carries no demand risk. The private partner's key risks are the completion of the development works on time and meeting the availability criteria, as well as ensuring the facility meets its key performance requirements.

The PPP can additionally help incentivise efficiencies within the private partner. For example, the private partner could be responsible for energy and water consumption costs at a set tariff. This shares the risk between the public and private partners, with the private partner designing and building energy-efficient buildings and the public provider incurring the risk if the tariff rate increases.

Case Study: Private Sector Innovation Through a New Health PPP Model in the U.K.

The New Velindre Cancer Centre (nVCC) is one of three Welsh Government pilot projects and the first hospital to use the new Mutual Investment Model (MIM). This model includes a 15% public sector stake in the SPV and a significant community benefits package mandated through procurement. Key innovations include:

- The nVCC is the first significant Welsh investment to target the government's zero-carbon goals and will be the first all-electric U.K. hospital.
- The hospital has been designed based on smart principles and will be the first PPP to employ a comprehensive digital twin to support facilities management and clinical operations within the hospital.
- The hospital integrates the best practices from leading projects to combine state-of-the-art cancer diagnostics with a welcoming and supportive environment for cancer patients and their families.

MEDICAL EQUIPMENT PPPS

Similar to infrastructure PPPs, in the medical equipment PPP model, the private partner undertakes the planning, design, equipping, and, if needed, any construction or retrofitting. In addition, the private partner finances the project and undertakes the maintenance and any facilities management services associated with the medical equipment and its surroundings.

There are two options for operating the medical equipment itself:

- By the public partner, in which case the model is akin to an infrastructure PPP.
- By the private partner, where the public partner would be required to agree on the diagnostic service volumes and agree to a set of tariffs.

This PPP type typically has shorter tenures of 7-12 years, which is compatible with the life cycle of the equipment.

Case Study: Managed Equipment Services (MES) in Kenya

The Kenyan government entered into contracts with several original equipment manufacturers (OEMs) to enhance access to and equity in healthcare. Under the MES arrangement, OEMs were responsible for supplying, installing, maintaining and replacing medical equipment, as well as providing user training across hospitals nationwide.

The MES programme was successfully implemented, significantly upgrading specialised health infrastructure and expanding access to critical healthcare services nationwide. Previously unavailable services, such as dialysis, critical care, surgical theatres, sterilisation and advanced imaging, were introduced or expanded in multiple hospitals.

The programme ensured reliable equipment installation and maintenance, enhanced the capacity of healthcare workers (HCWs) through training and fostered a more enabling work environment. Key lessons learned included the importance of: (i) defining detailed equipment specifications, (ii) ensuring comprehensive stakeholder engagement, and (iii) allocating sufficient time for assessment, procurement, and implementation.

DIGITAL HEALTH PPPS

Digital health PPPs support the transformation of healthcare businesses and sector-wide processes and operations by adopting digital technology, creating new opportunities and driving change. PPPs in digital health typically require combining the agility of the private sector with public sector access to patients and medical records. They tend to have even shorter tenors, given the short lifespan of these technologies. These partnerships rely on speedy implementations of ready solutions or those at the beta test stage.

Case Study: Digital Health - Estonia, Electronic Health Record

Estonia's journey towards digital healthcare has involved collaboration between the government and various technology providers to develop, implement and manage its national electronic health record (EHR) and e-Health systems. While the specific details of the agreements and partnerships that facilitated the rollout of Estonia's EHR system may vary and involve multiple contracts and collaborations, the overarching strategy aligns with the PPP model. This model leverages both public oversight and governance, as well as private sector innovation and efficiency, to achieve public health goals. Its digital health ecosystem, known for its e-Health Record system, integrates data from various healthcare providers, providing patients and doctors with online access to medical histories, prescription information and test results.

This initiative has significantly enhanced the efficiency of healthcare delivery, improved patient safety and strengthened data security. According to the Estonian e-Health Foundation, the system has led to a 30% reduction in duplicate testing, saving time and resources.

Case Study: Artificial Intelligence - United Kingdom, Google and the National Health Service

The collaboration between Google's DeepMind and the U.K.'s National Health Service on improving eye disease detection through AI technology exemplifies successful PPPs in healthcare. This project utilised AI to analyse eye scans for conditions such as diabetic retinopathy and age-related macular degeneration, which specialists traditionally diagnose. By leveraging DeepMind's artificial intelligence to interpret optical coherence tomography (OCT) scans, the partnership aimed to enhance diagnostic speed and accuracy. Trained on a vast dataset of de-identified OCT scans from Moorfields Eye Hospital, the AI system matched the accuracy of leading experts in identifying eye diseases. This collaboration enhanced diagnostic efficiency, alleviated specialists' workload through automation, and demonstrated the potential for scaling AI solutions across the healthcare system.

TRAINING AND EDUCATION PPPS

Where the construction of a training institution is required, a PPP could be used, similar to infrastructure PPPs. This could be extended to a model where the private partner provides the facilities and pedagogical services (I.e. gives pre-service training to HCWs).

PRIVATE WINGS IN PUBLIC FACILITIES

Under the private wings in the public facilities model, a public hospital enters into an arrangement with a private partner to establish a private patients' wing on its premises. In that case, the private partner attracts private paying patients and admits them to that wing, providing all the hotel services (e.g. catering) while utilising the diagnostic and treatment services offered at the hospital to public patients. This arrangement typically takes the form of a lease or sublease of the private patient wing, with admission rights granted and a service level agreement (SLA) in place for the services provided by the public hospital. The SLA specifies matters such as response times, prices, risk and liability.

Case Study: Expansion of Commercial Activities at a Public Hospital

A public hospital in the U.K. had already expanded its commercial activities with the objective of cross-subsidising the costs of public healthcare. As part of its commercial strategy, the public hospital assessed the potential to further increase the profitability of its private patient income, generating additional funds to reinvest in public hospital services. The benefits of using the Private Patient Admissions model included:

- Providing consultants with easy access to private practice as part of the strategy for attracting and retaining world-class consultants.
- Enabling potential self-pay and private medical insurance patients who would otherwise wait for public hospital treatment to access private care for complex therapies.
- Providing excellent quality private patient services further enhances the public hospital's reputation.
- Enabling patients to access innovative technologies that are not yet available through public hospital services.
- Enhancing the staff value proposition to ensure staff continue to see the public hospital as a place to build a long-term career.

INTEGRATED PPPS

The Integrated PPP model involves comprehensive outsourcing, whereby planning, design, construction, equipping, staffing, financing, operations and management are outsourced on a long-term contract basis to a private partner. This PPP type introduces significant efficiencies into the operations as the contracting is based on a set of clinical activities, not based on capacity parameters - such as bed count - (as is the case with infrastructure PPPs).

The diagram below provides a simple organisation chart showing how the parties in an integrated PPP are interrelated. The private partner is shown as an SPV, which enters into the PPP agreement with the public partner and receives payment from the public partner in the form of an availability payment. In addition, the SPV receives payment for clinical services provided to patients, typically from the payer system (e.g. the public partner or national health insurance scheme). The funding it receives comes primarily from the investor (or sponsor) as equity and from the lender as debt. The SPV then enters into subcontract arrangements for the design and build of the facility, for providing and installing medical equipment and for undertaking facilities management. Importantly, the SPV is responsible for all the inputs required to deliver clinical services to patients, including hiring staff and procuring all necessary consumables.

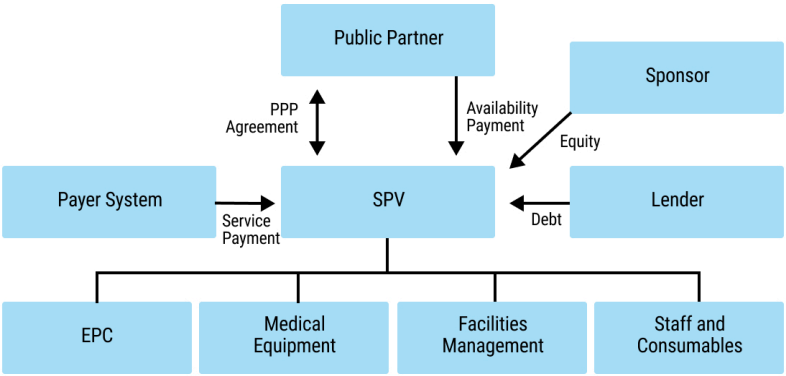


Fig. 7.3: Diagrammatic Representation of Integrated PPPs

The payment mechanism can be calculated based on the catchment population (I.e. a capitation system) or using a fee-for-service model (e.g. using diagnostic-related groups), or a combination of both.

Case Study: La Ribera Hospital, Valencia, Spain

This PPP combined the development and operation of a 300-bed hospital with four integrated health-care centres and 46 public primary care centres, covering a catchment population of 250,000 people in the Alzira region. The project was structured as a 15-year concession (5-year extension option) with payment on a capitation basis. Payment covered the entire care continuum for patients, which incentivised the provider to encourage the population to undergo screening, preventative and awareness programmes.

This resulted in improved patient satisfaction and increased efficiency, with shorter waiting lists, lower lengths of stay and higher utilisation of surgical theatres.

Case Study: Managing Capacity Constraints in a Health Sector PPP

A major healthcare PPP in a lower-income country illustrated that, while such arrangements can improve healthcare infrastructure and service delivery, strong government capacity and effective contract management are critical for success. The project, which replaced a national referral hospital and introduced new clinical services, initially achieved higher-quality care and efficiency.

However, costs escalated dramatically due to weak oversight, unclear risk allocation and inadequate financial controls, consuming an unsustainable share of the national health budget. The main lesson learned is that PPPs in social sectors such as health require robust institutional capacity, transparent monitoring and flexibility to adjust terms over time to prevent fiscal strain and ensure long-term sustainability.

MANAGEMENT CONTRACTS

The management contracts PPP model is used in countries where there is insufficient capacity in the public system and/or resources to operate its hospitals. In such cases, a facility would be built, and then a private operator would be brought in to commission and manage it.

PURCHASING SERVICES

Under a purchasing services model, the public health system purchases specific procedures from the private sector, such as dialysis, diagnostics, angiograms and certain surgeries.

Financing Considerations

PPP projects are typically financed using a range of financial instruments, each bearing a level of risk and attracting a certain cost of capital. By allocating different levels of risk across the capital structure, it is possible to have a more acceptable weighted average cost of capital (WACC). Typical instruments found across the capital structure are listed below (in decreasing order of risk):

- **Equity.** This is the capital invested by the private partner to own the project (or part thereof), taking on the highest risk but also receiving the highest potential return. Unlike investors in debt instruments, equity investors are owners with a stake in the project's success and are liable for any initial losses.
- **Quasi-equity.** This type of financing falls between a traditional loan and an equity investment. It behaves somewhat like shares - because the investor can earn a higher return and, in some cases, the loan can later be converted into an ownership stake - but it does not give the investor control or equity from the outset. It is sometimes referred to as mezzanine or subordinated debt. Because it carries more risk than a standard loan, the investor receives a higher, fixed return (similar to a guaranteed dividend). This kind of capital can help make a health PPP viable by filling the gap between regular bank loans and full equity investment.
- **Senior debt.** This refers to the debt that takes priority over other types of financing, in the event of a default or liquidation. It is typically the first to be repaid before others in the capital structure. In PPPs, senior debt is usually provided by banks or other financial institutions and is secured against the project's assets and proceeds, ensuring a lower risk for the lenders. Senior debt can also be arranged as a bond issue. See also Chapter 5: *Sustainable Finance Instruments* for a description of bonds and loans. Given its priority, senior debt often comes with lower interest rates compared to junior debt. A key component

in the financing structure of PPP projects is providing funding for the initial capital investment required for infrastructure projects.

An essential aspect of making healthcare projects more affordable and sustainable is to introduce efficiencies in the design and delivery of the infrastructure and remove unnecessary costs in service delivery. However, in the context of a PPP, it is also essential to lower the WACC of the project by:

- Maximising the amount of senior debt.
- Lowering the cost of senior debt.
- Lowering the cost of equity by introducing quasi-equity instruments to the extent permissible under the PPP law or the PPP agreement.
- Utilising viability gap funding in one or more of the forms listed below, and blending them with equity and, as required, quasi-equity and senior debt. This serves as a form of credit enhancement (see Chapter 8: *Credit Enhancement* for more details). This mechanism is referred to as blended finance and could leverage:
    - Grant funding that could be provided by the public sector or by donor partners.
    - Concessional loans, supplied by development finance institutions (DFIs) or multilateral development banks (MDBs).
    - Debt-for-health swaps (see Chapter 6: *Debt-for-Health Swaps*) could generate financial flows over time to enhance the PPP financing structure.

To maintain the oversight and governance structure that can be required to manage blended finance resources, special trust funds may be set up for disbursing the funds and overseeing the achievement of the applicable health programme and/or KPIs.

Channelling blended finance into PPP projects comes with the benefit of financial sustainability. These additional resources will lower the WACC, making the project more affordable to the government and/or to users.

Beyond the mobilisation of financing instruments, there are key financial considerations that are inherent to the PPP project, some of which have already been mentioned in the section above on Enabling Conditions:

- **Demand risk.** The extent to which demand risk is transferred to the private partner in the first place. If demand risk is transferred, whether this is

accompanied by a minimum patient volume guarantee, such that utilisation rates are predictable and sufficient to ensure revenue stability for the private partner.

- **Payment mechanism.** Clarity and reliability of how the private party is paid (e.g. availability payments, service fees, user tariffs or combination thereof).
- **Government support.** Extent and enforceability of guarantees, subsidies or minimum revenue undertakings to enhance financial confidence.
- **Creditworthiness of offtaker.** The financial health and payment history of the government or public entity making payments.
- **Tariff or fee setting.** Establishing a tariff in the first place, and if so, the ability to adjust tariffs or payments in line with inflation, cost changes or performance targets.
- **Project preparation.** Quality of feasibility studies, demand forecasts and risk allocation frameworks underpinning the project.
- **Regulatory environment.** Clarity, predictability and stability of healthcare and PPP regulations affecting licensing, pricing and service delivery.
- **Political and policy stability.** Government commitment to the PPP structure and avoidance of arbitrary policy changes.
- **Risk allocation.** Appropriate distribution of construction, demand, operational and regulatory risks between public and private parties.
- **Land and site issues.** Secure access to the project site, clear title and timely availability of utilities and supporting infrastructure.
- **Approvals and licensing.** Streamlined processes for health facility accreditation, environmental and operational approvals.
- **Performance standards.** Precise service level requirements and measurable KPIs linked to payments.
- **Termination regime.** Fair compensation framework in the event of early termination due to government or private default.
- **Step-in rights.** The right of lenders to step in and cure defaults before termination to protect their interests.
- **Currency and forex risk.** Mechanisms to mitigate foreign exchange volatility where financing is in hard currency but revenues are local.

- **Dispute resolution.** Efficient, neutral and enforceable mechanisms (e.g. arbitration) for resolving contractual disputes.
- **ESG and social impact.** Compliance with environmental, social and governance standards and alignment with public health goals.
- **Capacity of public counterparty.** Institutional ability to manage and monitor complex PPP contracts over the project lifecycle.
- **Bankable documentation.** Well-drafted concession, project and finance agreements that align with lender requirements.

Stakeholder Management

Health PPPs bring together diverse actors drawn from government agencies, financiers, developers, operators, healthcare professionals and communities. The success or failure of these partnerships often hinges on how stakeholders are identified, engaged and managed throughout the PPP lifecycle. This section explores the critical role of stakeholders in health PPPs, emphasising stakeholder management, cross-governmental collaboration and best practices that drive successful project outcomes.

The first step involves mapping the stakeholder landscape in health PPPs to identify who matters most, their level of influence and potential risks associated with ignoring their interests. The typical players who are engaged in health PPPs are:

- Public Sector Stakeholders such as the MoH, MoF, PPP units and procuring entities (also known as contracting authorities) and regulators.
- Private Sector Stakeholders such as developers and investors, operators and facility managers, contractors and suppliers, health professionals and institutions, professional associations and unions.
- Other stakeholders include development partners, donors, communities and civil society more broadly.

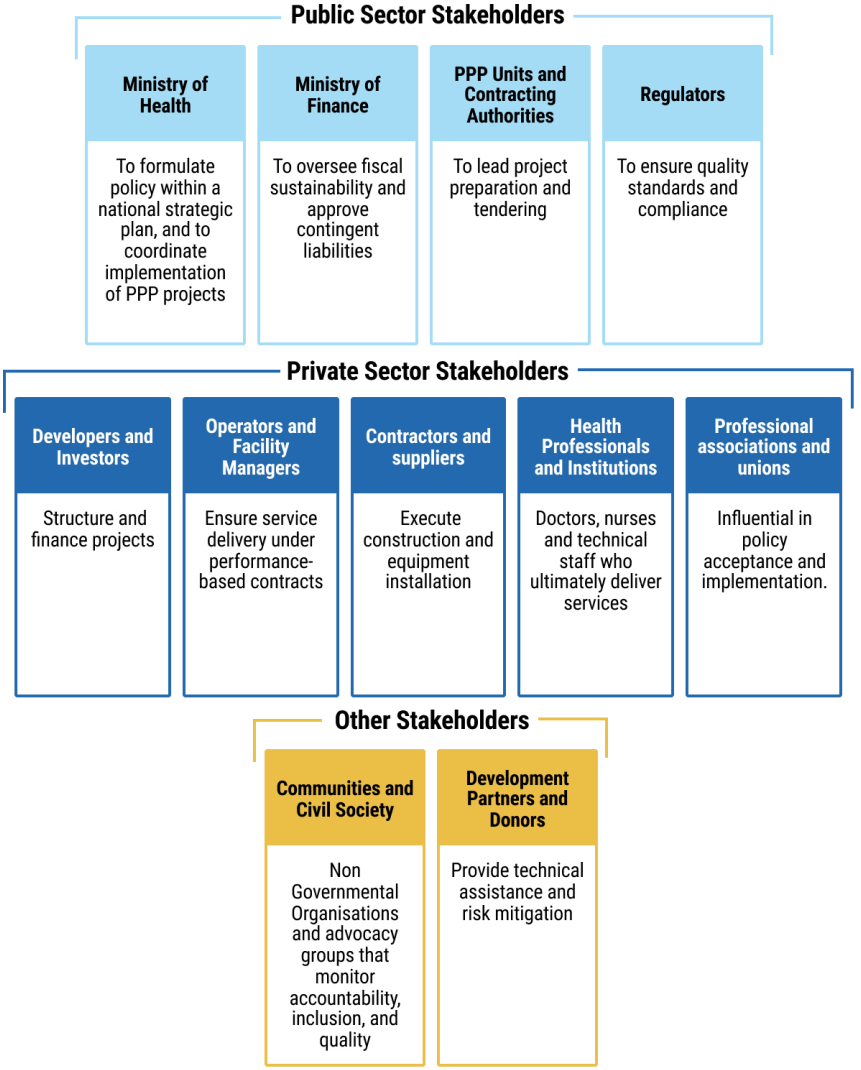


Fig. 7.4: Stakeholders

The second step is stakeholder management, a strategic process that ensures alignment, communication and collaboration among actors with differing interests. The four pillars of stakeholder management consist of identification, analysis, engagement and monitoring/feedback:

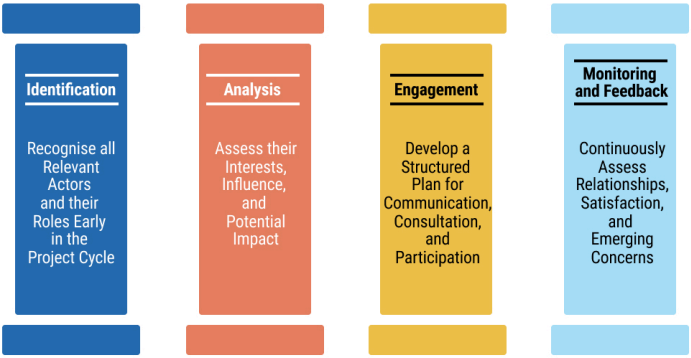


Fig. 7.5: The Four Pillars of Stakeholder Management

Common challenges in stakeholder engagement include:

- Asymmetric information between technical agencies and communities.
- Competing priorities among ministries, e.g. the MoF and the MoH.
- Limited stakeholder capacity to understand complex PPP structures.
- Resistance from health workers when not adequately consulted.

Case Study: Underestimating the Influence of Professional Stakeholders

One health-sector PPP demonstrated the significant risks that can arise when stakeholder engagement is insufficient during project preparation. The initiative, aimed at enhancing service delivery through private sector participation in a major public hospital, encountered strong resistance from health professionals. Their objections stemmed from limited consultation and a lack of transparency around the proposed involvement of a private partner in managing selected clinical services within a public facility.

Health workers expressed concern that the PPP project could undermine job security, professional autonomy and the quality of patient care. The absence of structured dialogue and communication channels led to mistrust, culminating in legal action against the government. The ensuing dispute generated reputational and political risk, discouraged potential bidders, and ultimately, the project was considered for restructuring and retendering.

This case study highlights a recurring challenge in health PPPs - the underestimation of professional stakeholder influence. Health workers, as frontline service providers, hold both technical expertise and moral authority that can shape public and policy perception. Failing to meaningfully engage them early in the project cycle can therefore jeopardise project legitimacy and investor confidence. This example highlights the importance of governments establishing formal stakeholder engagement frameworks, including structured consultations with professional associations, transparent communication of project objectives and mechanisms for addressing concerns related to employment and service quality. Proactive engagement not only mitigates resistance but also builds ownership, enabling smoother implementation and greater sustainability of health PPP projects.

Case Study: Weak Stakeholder Coordination Undermining Health PPP Implementation

One health-sector PPP demonstrated how insufficient stakeholder management can compromise the effectiveness of otherwise well-structured initiatives. The partnership, intended to expand reproductive and child health services through collaboration with non-state providers, faced significant implementation challenges arising from unclear roles, weak communication and limited involvement of frontline health personnel. Divergent expectations among stakeholders, coupled with the absence of structured dialogue, contributed to mistrust, slow decision-making and uneven service delivery.

The study further revealed that local government authorities lacked the capacity and governance systems necessary to coordinate multiple actors within the partnership. Power imbalances between public and private partners, combined with inadequate monitoring mechanisms, meant that accountability was weak and collaboration often depended on personal rather than institutional relationships. This experience highlights a central lesson for health PPPs: without deliberate, well-resourced stakeholder engagement and clear governance arrangements, even promising partnerships struggle to achieve their intended impact.

Case Study: Vietnam - The Critical Importance of Stakeholder Engagement in Health Sector Reform

Vietnam's experience with PPPs demonstrates the critical importance of stakeholder engagement in health sector reform. As the government explored converting public hospitals into PPP-operated facilities, the World Bank's report *Public-Private Partnerships for Health in Vietnam: Issues and Options* found that resistance quickly emerged - not because the PPP model was technically weak, but because many stakeholders felt uninformed and uncertain. Clinicians, hospital managers and frontline workers worried about losing professional autonomy, facing new performance pressures or seeing patient care compromised by commercial priorities.

Public perception posed an equally significant barrier. Communities viewed public hospitals as social assets that should remain accessible to all. Without clear communication, many feared PPPs would lead to higher user fees or reduced access for poorer households. Political actors, sensing public unease, grew cautious about championing PPP reforms. This lack of coordinated communication created an environment where rumours and misconceptions spread faster than official information, weakening confidence in the reform process.

The Vietnam case shows that the success of PPPs depends as much on managing people, expectations and trust as it does on financial or technical design. Transparent communication, early consultation with clinicians and proactive public outreach are crucial in reducing fear and building legitimacy. The core lesson is clear: without deliberate stakeholder engagement, even well-designed PPP initiatives risk delay, opposition or failure - while effective engagement can transform reforms into shared, socially supported solutions.

Cross-governmental collaboration is essential to deliver a PPP and ensure coherence in policy, financing and service delivery. Often, MoHs lead project design without adequate coordination with the MoF and Planning. This leads to delays, unclear mandates and inconsistent expectations. Some mechanisms could help address those coordination challenges:

- Establishing inter-ministerial committees to align decision-making among key ministries and scoping responsibilities across agencies
- Establishing a PPP committee to provide a unified project governance structure
- Joint planning and budgeting to harmonise resource allocation between the MoFs and MoHs

These mechanisms could benefit from consistently applying some of the following principles:

1. Engage early and continuously. Involve stakeholders from project identification through to operations. Early engagement reduces resistance and improves design relevance.

2. Ensure transparency and communication. Public disclosure of project information enhances trust. Use communication plans that are proactive and multi-channel, e.g community meetings, social media and local radio.

3. Institutionalise participation. Establish stakeholder advisory forums or oversight committees that meet regularly to discuss project progress and address grievances.

4. Build capacity. Train both public and private actors on PPP processes, risk sharing and performance monitoring.

Part 2: The Preparation, Procurement and Delivery of Health PPP Projects

Health PPP projects generally involve high-value, complex procurements. Careful preparation and management, both before, during and after the procurement competitions, will be required to ensure the successful delivery of the health PPP project and to obtain maximum value for money.

Specific rules for structuring procurement competitions for PPP projects should be set out in a local PPP or procurement law. However, the relevant law may not foresee every eventuality that might arise during the course of a procurement competition.

Procuring entities must, therefore, exercise individual discretion in some circumstances and, in doing so, must act in accordance with the general principles of transparency, equal treatment of tenderers and taking steps which are proportionate to the outcome to be achieved.

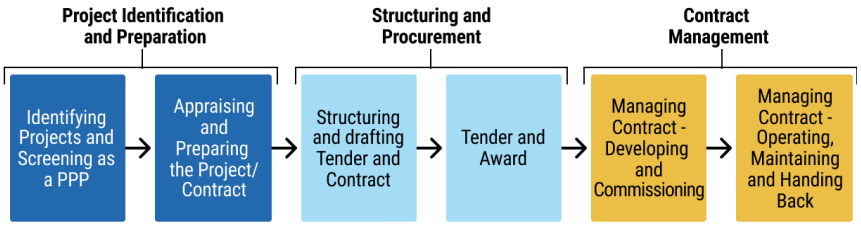


Fig. 7.6: The PPP Process Cycle

Developing a Pipeline of Health PPP Projects

To plan health PPPs effectively, the public sector first needs a clear pipeline of priority projects. This begins with a health master plan that identifies the gap between the services people need and what the system currently provides. The master plan should utilise demographic and disease-burden data - both current and projected - to determine the types of facilities required, their optimal locations and the services they should offer. These may include primary care centres, diagnostic hubs, hospitals, rehabilitation facilities and palliative care services.

The planning process should consider how to optimise operations, such as reducing lengths of stay, incentivising preventive care, shifting to outpatient settings and increasing the use of day surgeries. These improvements reduce both capital and operating costs, the latter of which typically make up most of a facility's budget. The master plan, for example, may highlight a need for a healthcare network in a specific region that includes improved preventive care and outreach models, rather than just a new hospital.

This analysis will produce a list of potential projects that governments should prioritise based on impact, cost and feasibility. Where conditions allow, selected projects can then be developed as PPPs using appropriate PPP models.

Preparation of Health PPP Projects

Each procuring entity will need to comply with the business case approval process applicable to their health PPP project. In addition to the key decisions required as part of the business case approval process, each procurement procedure requires a

considerable amount of planning and preparation by the procuring entity before a tender notice can be advertised for the health PPP project.

The readiness of each procuring entity to commence procurement will be assessed as part of the consideration of the business case for their PPP project. The issues which will be evaluated include:

1. **Clear scope for the health PPP project.** Have the needs and requirements of the procuring entity been determined?
2. **Governance arrangements for the PPP project.** Has governance been adequately considered and resolved? Has an accountable line of responsibility been established to which the procurement team can report? Are all the responsible players named and committed to their roles? Each health PPP project requires an appropriately skilled and experienced procurement team that leads the procurement competition, supported by informed decision-makers. The governance hierarchy for decisions to be made during the procurement competition should be circulated to all decision-makers and those involved in evaluating tenderers.
3. **Procurement documents (including the PPP contract).** How advanced is the draft documentation? Have any applicable template documents and guidance issued by the PPP unit been used, and any derogations approved? Have the risks of the health PPP project been fully identified and allocated in the PPP contract?
4. **Appropriate market sounding.** Assessing the market (for example, through market research or direct engagement with potential tenderers) to determine whether the level of private sector interest is likely to be sufficient to ensure genuine competition is crucial.
5. **Practical matters.** Have issues such as the availability of internal resources, the appointment of external advisers and the provision of electronic procurement platforms been adequately considered and resolved?

The typical procurement pitfalls set out in the diagram below must be considered and avoided (where at all possible) by the procuring entity to ensure successful procurement and implementation of their health PPP project.

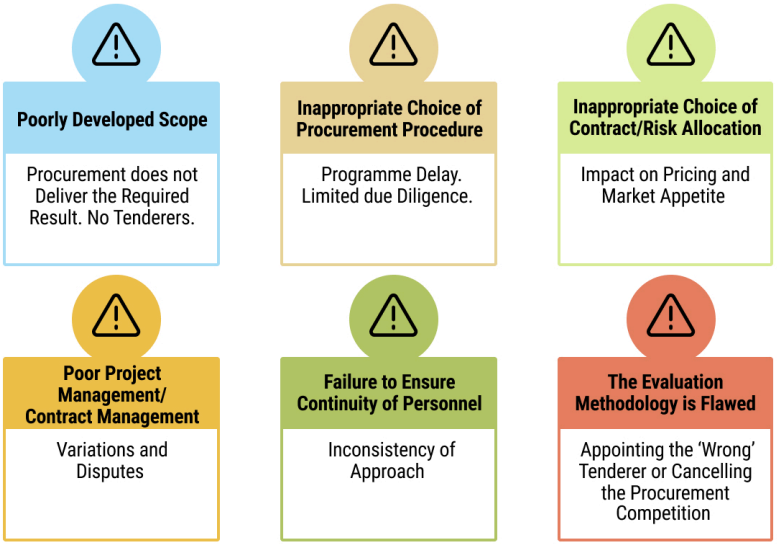


Fig. 7.7: *Common Pitfalls in Public Procurement of PPPs*

Development of the Procurement Strategy for a Health PPP Project

Several public procurement decisions will need to be made early in respect of the procurement of health PPP projects. These decisions will influence not only the structure of each procurement competition and the content of the associated tender documentation, but also market perception and the procurement timetable. In all instances, the procurement strategy must be consistent with the principles of the applicable local policy, and an appropriate procurement team, with the necessary knowledge and mandate, will have been appointed. The following key decisions are required:

THE PUBLIC PROCUREMENT PROCEDURE

In each jurisdiction, there will be various types of procurement procedures for health PPP projects, which could include the open procedure, the restricted procedure, the negotiated procedure and competitive dialogue.

Generally speaking, open procedures are unsuitable for the procurement of complex financed PPP projects as they do not allow for the shortlisting of bidders and have no mechanism for dialogue or negotiation with tenderers.

Restricted procedures are generally designed as a one-step tender process. While a shortlist of tenderers may be invited to participate (following a Request for Qualification (RfQ)), there is only one round of tenders and no mechanism for dialogue, negotiation or down-selecting after pre-qualification. This procedure would be unsuitable for the procurement of PPP projects with a complex financing structure.

The negotiated procedure or competitive dialogue permits the shortlisting of tenderers at the RfQ stage, and negotiation or dialogue during the Request for Proposals (RfP) stage. Limited negotiation and clarification is usually also permitted under the competitive dialogue procedure (following submission of final tenders). Negotiated and competitive dialogue procedures are generally more appropriate for the procurement of health PPP projects because:

- The needs of the procuring entity cannot be met without adaptation of readily available solutions.
- The PPP contract includes design or innovative solutions.
- The PPP contract cannot be awarded without prior negotiation due to specific circumstances related to its nature, complexity, legal and financial makeup or because of risks attached to it.
- The technical specifications cannot be established with sufficient precision by the procuring entity.

TYPICAL STRUCTURE FOR A COMPETITIVE DIALOGUE PROCUREMENT FOR A HEALTH PPP PROJECT

It is recommended that the competitive dialogue procedure for the procurement of health PPP projects should be structured in the following successive stages:

- Preliminary market engagement
- Advertisement
- Prequalification and shortlisting

- RfP issued to shortlisted tenderers
- Dialogue period
- Close dialogue and invitation to submit final proposals
- Contract award

The diagram set out below illustrates the successive stages of a typical competitive dialogue procedure for a health PPP project.

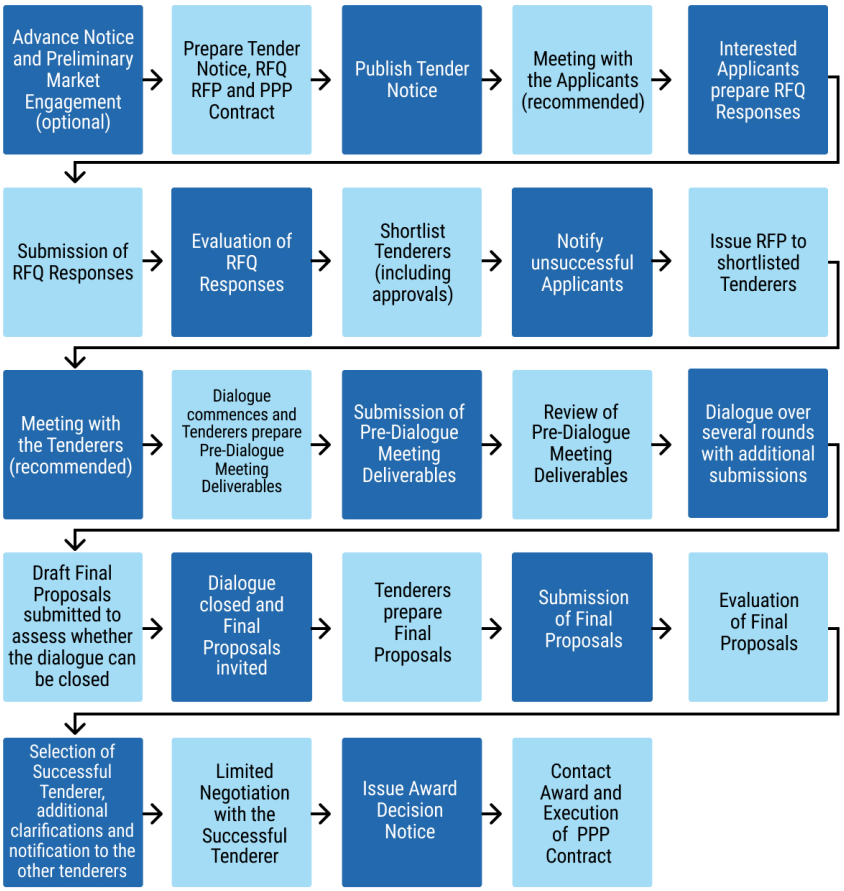


Fig. 7.8: *Typical Competitive Dialogue Procedure for a Health PPP Project*

SHORTLISTING AND INVITATION OF BIDDERS TO THE PROCUREMENT COMPETITION

There will be procurement cost and time savings if fewer tenderers are shortlisted and invited to participate in the procurement competition for each health PPP project. However, there is a risk to competitive tension if fewer tenderers are shortlisted and subsequently a tenderer withdraws without submitting a final tender. It is recommended that three tenderers be shortlisted for each health PPP project. However, shortlisting more than three tenderers could be reviewed on a project-by-project basis, taking into account potential market changes.

EVALUATION CRITERIA FOR SHORTLISTING BIDDERS TO THE PROCUREMENT COMPETITION AND CONTRACT AWARD

Robust evaluation methodologies will be required for the shortlisting of bidders and the evaluation of tenders. In essence, shortlisting entails evaluating the economic and financial standing, as well as the professional/technical ability, of each bidder. Tender evaluation involves assessing the tenders received. Therefore, two sets of evaluation criteria will be required.

Tender Documents for a Health PPP Procurement Competition

There are two key tender documents for a health PPP procurement competition: the RfQ and the RfP. The purpose of the RfQ is to enable the procuring entity to identify suitably qualified and experienced tenderers who will be invited to participate in the procurement competition for the PPP project.

The RfQ should provide detailed information regarding the procuring entity's requirements for the PPP project and arrangements. The RfQ is also an essential document for the private sector, as it enables potential tenderers to make an informed decision on whether to participate in the procurement competition.

The issue of the RfP represents a formal invitation from the procuring entity to tenderers to participate in dialogue or negotiation (where negotiated or competitive dialogue procedures are being used). The purpose of the RfP is to initiate and develop dialogue with the tenderers with a view to identifying the most advantageous tender.

The RfP should provide detailed information regarding the procuring entity's requirements and arrangements for the conduct of the RfP stage of the procurement competition, including the submission of tenders and their evaluation.

REQUIRED RESOURCES

Health PPP procurements require significant resourcing, both internally from the procuring entity's personnel and externally from advisors, such as legal, financial, technical, clinical, equipment, insurance and environmental and social advisers. Roles and responsibilities for matters such as procurement, evaluation, contract negotiation and stakeholder engagement should be determined at the business case stage. A skills audit should be carried out to assess available in-house capabilities, any training requirements and the level of external support required.

PROCURING ENTITY PROJECT TEAM'S ROLE

Following the approval of the business case for a health PPP project, the procuring entity's project team is responsible for:

- Structuring the procurement competition and providing input to, and reviewing, the procurement documents (including the PPP contract).
- Managing the RfQ process, including the clarifications process and notifying unsuccessful applicants, and evaluating RfQ responses.
- Managing and participating in procurement competitions (including clarifications, dialogue and negotiations), and evaluating the tenders submitted.
- Managing the contract award process (including notifying unsuccessful tenderers) and financial close.
- Obtaining internal approvals for the health PPP project and managing other stakeholder requirements.

There must, therefore, be absolute clarity on the role and responsibilities of each member of the procuring entity's project team.

Effective management of a procurement competition requires strict scoping of the timetable for the procurement competition, and for the procurement competition to be mapped from start to finish to allocate the necessary time and staffing resources.

This is important in terms of identifying any pinch points where additional resources may be required.

An analysis must be conducted to determine the likely time commitment required from each member of the procuring entity's project team. This will enable a procuring entity to determine whether its internal personnel (e.g. clinical, financial, technical, legal, estates, insurance/risk, etc.) should be part of the project team on a full-time basis or whether a more tailored approach using those personnel on an *ad hoc* basis with support from external advisors is more appropriate. In addition, thought should be given to ensuring continuity of personnel throughout the pre-procurement, procurement and contract management stages.

DURATION OF THE PROCUREMENT COMPETITION

The length of the procurement competition will depend on several factors, including the type of PPP being procured, the chosen procurement procedure and whether there is an urgent requirement for the procurement. Above all else, the procuring entity should not be pressured into accelerating the timescales for the procurement competition by senior officials. A typical DBFO procurement using the competitive dialogue procedure could take 18 to 24 months.

In terms of developing and applying the programme for the procurement competition, it is recommended that the following general principles be used for fixing time limits:

- When receiving RfQ responses, pre-dialogue meeting deliverables, and tenders, procuring entities should consider the complexity of the health PPP project and the associated PPP contract.
- When asked for time extensions, procuring entities should extend the time limits for the receipt of RfQ responses or tenders in the following cases:
    - Where additional information, although requested by the tenderer in good time, is not supplied by the procuring entity in a reasonable time before the time limit fixed for the receipt of RfQ responses or tenders.
    - Where significant changes are made to the tender documentation.

The length of the extension of time must be proportionate to the significance of the information or change. Where additional information has either not been requested

promptly or its importance in preparing responsive tenders is insignificant, procuring entities do not need to extend the time limits.

Case Study: Getting the Timelines Wrong

A healthcare PPP was well-structured and demonstrated strong feasibility during the feasibility study phase. However, in the subsequent procurement stage, insufficient time was allocated to assessing market appetite and effectively marketing the opportunity to potential investors. Compounding this, political pressure led the procuring authority to adopt overly ambitious timelines, including a compressed window for submission of RfQ responses. As a result, only one bidder submitted a response, forcing the procuring entity to reconsider its approach.

Risk Allocation in Health PPP Projects

In a health PPP project, each risk should be allocated to the party best able to manage that risk. The provisions in the PPP contract should be drafted in such a way as to incentivise that party to mitigate such risk. Incentives could include performance or availability deductions, or damages and reliefs under the PPP contract.

If risk is not allocated effectively by the procuring entity in the PPP contract, unnecessary risk premiums will be levied by the private partner, meaning:

- Less value for money for the public sector
- Less market participation
- Less effective competition

The approach to risk allocation varies by jurisdiction, and what may be a market norm in one country may not be in another. Additionally, different sectors have varying standards for risk allocation. The diagram below illustrates examples of typical PPP risks and health PPP risks.

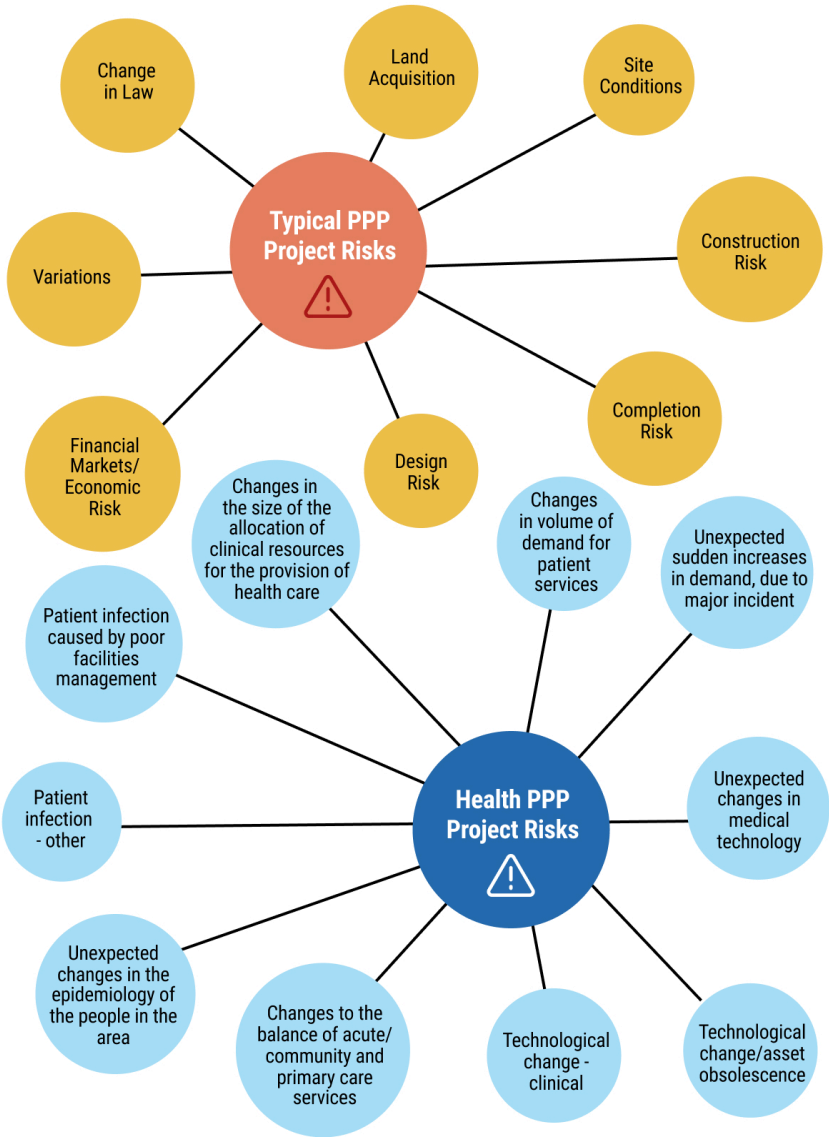


Fig. 7.9: Typical Risks Facing Health PPPs

Choosing a Contractual Model for Health PPP

A range of different PPP contractual models can be used to deliver health PPP projects. Choosing the right contractual model involves considering several key factors, as illustrated in Figure 7.10 below.

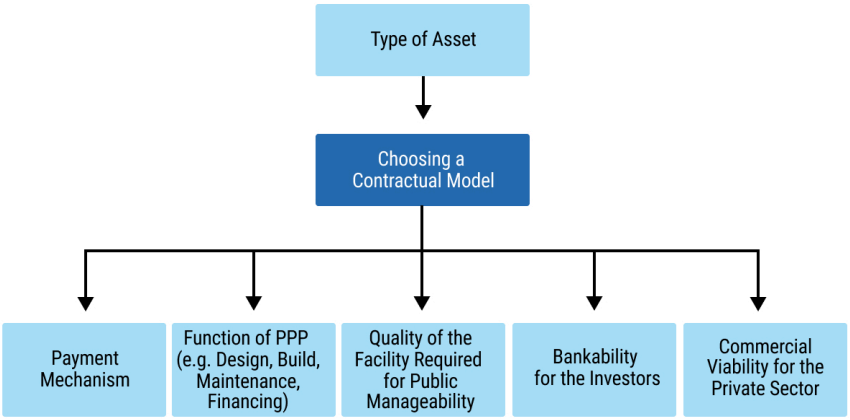


Fig. 7.10: Choosing a PPP Contractual Model

Table 7.2 below sets out a selection of the PPP contractual models which could be chosen for a health PPP.

PPP Contractual Model	Type of Asset	Overview	Payment Source
Management Contract	Existing infrastructure	The government retains ownership of assets and responsibility for capital expenditure. The private sector is responsible for maintenance and operation. Typically shorter in duration (3-10 years).	Management fees are extended to the contractor
Output-Based Performance Contract	Existing infrastructure	The private sector is provided with the freedom to meet performance requirements.	Typically, the monthly fee from the government is based on performance indicators
Build-Own-Operate-Transfer (BOOT)	New infrastructure	Private sector builds, owns and maintains the asset for the duration of the contract. Handed back to the public sector upon termination or expiry of the contract.	Government or user
Build/Rehabilitate-Operate-Transfer (BOT/ROT)	New infrastructure	The private sector builds or rehabilitates and maintains assets for the duration of the contract. Handed back to the public sector upon termination or expiry of the contract.	Government or user
Build-Own-Operate (BOO)	New infrastructure	The private sector builds and maintains the asset for the duration of the contract. The asset is not handed back to the public sector.	Government or user
Design-Build-Finance-Operate (DBFO)	New infrastructure	The private sector designs, builds, finances, operates and maintains an asset, then leases it back to the government (typically for 25-30 years).	Government or user
Build, lease, transfer (BLT)	New infrastructure	The private sector builds and leases the asset back to the government. Handed back to the public sector upon termination or expiry of the contract.	Government or user
Concession	New or existing infrastructure	Varies depending on the jurisdiction, but typically, a grant by a government of the right to provide a service or use an asset.	User

Table 7.2: Overview of PPP Contractual Models

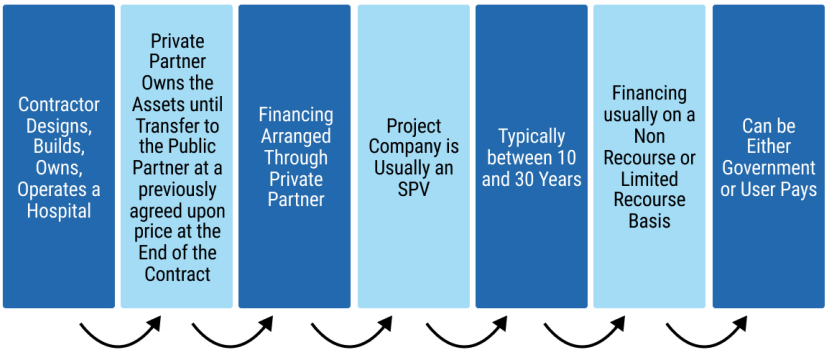


Fig. 7.11: Diagrammatic Representation of a Health BOOT Project

To further assist in selecting the right PPP contractual model for a health PPP project, the appraisal criteria and considerations outlined in Table 7.3 below should be applied.

Appraisal Criteria	Considerations
Accessibility of Public Medical Services	The potential for the PPP model to provide health care and services to patients (including patients who may not be insured or able to pay for medical care).
Quality of the Project	The potential for the PPP model to deliver a good quality project, resulting in a positive experience for patients and staff.
Manageability of the Project	The potential for the PPP model to be within the capability of the procuring entity to effectively administer, including (i) management and delivery of the procuring entity's responsibilities in the PPP contract, and (ii) ensuring that the private partner is effectively managed in accordance with the terms of the PPP contract.
Potential for Better Value-for-Money	The potential for the PPP model to offer a good combination of price and quality risk in the delivery and operation of the PPP project.
Potential for Lifecycle Optimisation	The potential under the PPP model is that the design and construction of the PPP project can be optimised to present the best value over the lifetime of the PPP project.
Leveraging Key Private Sector Capabilities	The extent to which the private sector will be capable of being involved in, and performing its required role under, the PPP model.
Commercial Viability of the PPP Project for the Private Sector	Will there be sufficient commercial potential and interest for private operators (and investors) in the PPP model?
Bankability for Investors	The extent to which the PPP model will allow for the provision of sufficient (debt) financing.
Potential for Competitive Procurement	Whether the PPP model will allow for sufficient competition in the procurement.

Table 7.3: Appraisal Criteria for PPP contractual model selection

The Health PPP Project Agreement

The PPP contract, also known as the project agreement, is the key contract that the procuring entity is required to enter into with the private partner, in connection with, for example, the DBFO of the health PPP project being procured. Figure 7.12 below illustrates the location of the project agreement within a DBFO contractual model, as well as the key contracting parties and other contracts that form part of the DBFO contractual model.

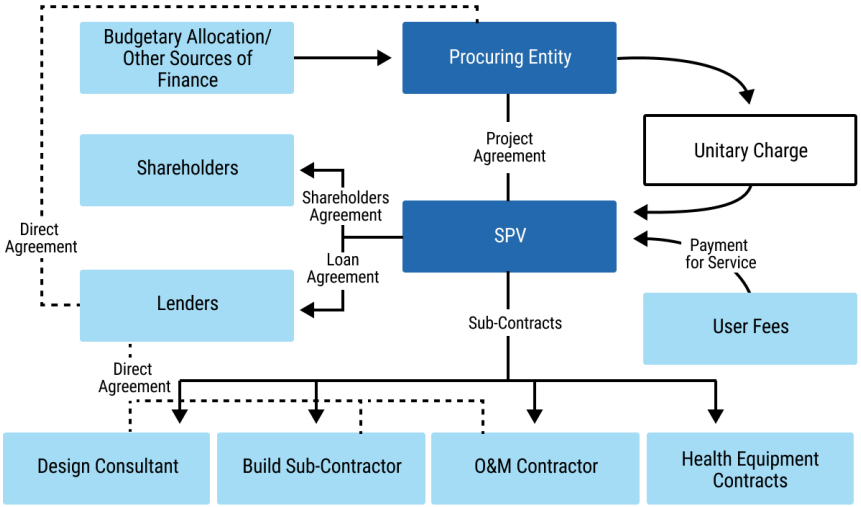


Fig. 7.12: Diagrammatic Representation of an Example Health DBFO Project

The project agreement should be developed by the procuring entity prior to the commencement of the procurement competition and will then be the subject of dialogue or negotiation (in the context of a competitive dialogue or negotiated procurement procedure) between the procuring entity and tenderers.

The development of the project agreement should reflect the outcome of the risk identification and allocation process, which should have been undertaken with respect to the health PPP project. In addition to the normal matters which are considered in the development of a project agreement (e.g. grounds for termination and compensation on termination, dispute resolution, force majeure and land issues,

amongst many others), key issues for the development of a project agreement for a health PPP include consideration of:

- **Maintenance.** Does the scope of the project agreement include soft facilities management (soft FM) and hard facilities management (hard FM) or just hard FM? Hard FM relates to the physical aspects of buildings. This means that any service carried out on a bodily structure falls under hard FM. Often, hard FM services are required by law to ensure that facilities are safe for staff, patients and any visitors. Hard FM services include: fire safety services, gas maintenance, plumbing, heating, ventilation, air conditioning, building maintenance, electrical and lighting maintenance and accessibility maintenance. Soft FM relates to services which ensure buildings maintain a secure and pleasant environment. Soft FM services include waste management, cleaning services, grounds maintenance and landscaping, security services, catering, pest control and janitorial services.
- **Technological change.** Suppose health equipment is part of the scope for the PPP contract. In that case, the contract must include mechanisms to adapt to rapid technological and medical advancements, such as new equipment or treatment protocols.
- **Epidemic/pandemic response.** Specific clauses defining roles, responsibilities and financial implications in the event of a public health crisis (e.g. pandemic response) should be included, ensuring seamless integration into national emergency plans.
- **Interoperability.** When the provision of information technology (IT) systems is included in the scope of the PPP contract, consideration should be given to ensuring that the private partner's IT systems are compatible and interoperable with existing national or regional health information systems, thereby facilitating continuity of care and public health monitoring.
- **Data sharing and ownership.** Clearly, healthcare generates sensitive patient data. If the private partner will have access to patient data, there should be explicit clauses regarding data ownership, privacy, security and protocols for sharing data with public health authorities.
- **Output-oriented specifications.** If appropriate, the scope of the PPP contract should move beyond merely specifying infrastructure (e.g. number of beds) to defining the desired health outcomes (e.g. healthcare-associated infection rates, readmission rates, wait times).

- **Patient safety and risk management.** Clear protocols for identifying, managing and reporting clinical risks and incidents should be included in the PPP contract.
- **Clinical effectiveness and audit.** Mandating regular clinical audits against national and local standards to ensure best practices are followed should be included in the PPP contract.
- **Stakeholder engagement.** Provisions in the PPP contract should outline communication and engagement processes between the public partner, private partner, healthcare professionals and patient representatives to foster trust and proactively manage issues.

Management of the PPP Contract

The procuring entity is responsible for ensuring that a PPP contract is administered correctly and enforced in accordance with its terms and conditions. For this purpose, it is recommended that the procuring entity:

1. Establishes a contract management team which will oversee the administration of the PPP contract. Ideally, this team should include personnel who have been involved in the procurement of the health PPP project.
2. Provides the necessary resources, including human resources, to its contract management team to enable effective contract administration,
3. Appoints where required, technical, financial and legal experts as members of the procuring entity's contract management team to assist with any aspect of the administration or enforcement of the PPP contract, which may include:
    - In respect of the legal expert, interpretation of the terms and conditions of the PPP contract, variations of the PPP contract, termination of the PPP contract and disputes in connection with the PPP contract.
    - In respect of the financial expert, operation of the payment mechanism, audit and accounting regarding the PPP contract, variations of the PPP contract and the operation of performance guarantees.
    - In respect of the technical expert, design and construction, completion and commissioning, defects rectification, operation and maintenance, variations of the PPP contract and handback and transfer issues.

The procuring entity, supported by its contract management team, should establish procedures for the administration of each PPP contract, and these should include:

1. Managing governance of the PPP contract (which should include a process for the recording and communication of the appropriate decision-making authorities in respect of the PPP contract).
2. Communicating and liaising with the private partner (which should include the preparation of a comprehensive communications plan) and any independent engineer or third party who has been appointed pursuant to the PPP contract.
3. Monitoring, evaluating and regulating the performance by the private partner of the PPP contract and the implementation of the health PPP project by the private partner (which should include the preparation of a comprehensive contract management plan).
4. Measuring outputs related to the performance of the private partner in terms of the PPP contract, including the involvement in such measurement by any independent engineer or third party who has been appointed pursuant to the PPP contract.
5. Receiving, reviewing and addressing issues arising from reports submitted by the private partner to the procuring entity pursuant to the PPP contract.
6. The provision of reports by the private partner to the procuring entity in respect of the health PPP project and its progress, including but not limited to achievements, challenges, obstacles and outstanding issues.
7. Ensuring that all rectification measures are undertaken by the private partner on a timely basis and performance regimes are strictly and timeously enforced in accordance with the PPP contract.
8. Management responsibilities including managing stakeholder engagement, managing any variation, termination or dispute, managing transfer or handback of the health PPP project and managing accounting, audit and other compliance and regulatory matters.

Where relevant in the context of the type of health PPP project, it is recommended that the procuring entity, supported by its contract management team, establishes a procedure for the transfer or handback of the asset comprised in the PPP project on the occurrence of the date of expiry of the PPP contract. Such a procedure should ensure that the asset is handed back or transferred to the procuring entity in a

condition which is in accordance with the terms of the PPP contract, with the required documentation for the procuring entity or another private partner to manage and operate the asset. Such a procedure may also include:

- Joint inspection by the procuring entity and the private partner to assess the condition of the asset before transfer or handback.
- Pursuant to such joint inspection, identification of any remedial measures which need to be taken by the private partner (at the private partner's cost) before the asset is transferred or handed back to the procuring entity.

The procuring entity should also give consideration regarding its reporting obligations under law (or procedure) to other public entities (e.g. PPP unit, audit office). Reports could include details with respect to:

1. The relevant project and its progress.
2. Any achievements of the procuring entity in respect of the PPP project.
3. Any challenges or obstacles which the procuring entity has encountered in respect of the PPP project, and how the procuring entity dealt with those challenges or obstacles.
4. Any outstanding issues in respect of the PPP contract and how the procuring entity plans to deal with those outstanding issues.
5. The performance of the private partner as measured against the requirements of the PPP contract.
6. Any variations or disputes under the PPP contract.
7. Any preparations for transfer or handback of the PPP project.
8. Any local development opportunities and any community involvement (e.g. support to local businesses, technology or skills transfer, job creation).

Case Study: Failure of the Government to Deliver its Obligations Under the PPP Contract

A government procured specialised medical equipment under a PPP arrangement for public hospitals across the country. The installation of the equipment requires prerequisite works at the beneficiary facilities, including an adequate water supply, three-phase power and other necessary infrastructure upgrades to meet the specified technical standards.

However, several facilities were not adequately equipped to meet these requirements and lacked the necessary funding to undertake the preparatory works. Consequently, the contractors were unable to install the equipment as scheduled, resulting in significant portions of the equipment remaining in storage for extended periods while the facilities sought to upgrade their infrastructure.

During this period, the contractors continued to be entitled to availability payments, as the delay in equipment installation was attributable to the public entities. As a result, the public sector incurred financial obligations without the corresponding service benefits and the intended health outcomes and value-for-money objectives of the PPP.

A key lesson from this experience is that procuring entities must be fully prepared to fulfil their obligations under any PPP contract. In this case, a robust contract management team could also have helped anticipate potential performance issues, ensuring that the PPP delivered its full intended value.

Chapter 8: Credit Enhancement

Key Takeaways

Credit enhancement mechanisms are increasingly central to health financing, especially for sustainable finance instruments, debt-for-health conversions, and PPPs.

Tools such as partial credit guarantees (PCG), political risk insurance (PRI) and collateralisation improve creditworthiness, enabling governments to secure better financing terms and attract private capital.

Such solutions can be provided by highly rated institutions, such as multilateral and regional development banks, development finance institutions (DFIs), export credit agencies (ECAs), or private insurers.

There is an increasing practice of combining multiple layers of credit enhancement instruments from different providers within a single transaction to optimise risk coverage and reduce financing costs.

Private sector participation is also growing, with insurers and high-net-worth investors co-guaranteeing alongside MDBs and DFIs.

In PPPs, credit enhancement may involve sovereign guarantees, which entail contingent liability (I.e. a liability that may arise if a specified uncertain event materialises) risk for the public sector, or softer instruments, such as letters of support, which still improve project bankability despite being less binding.

Effective deployment of these instruments requires strong legal, financial, and institutional planning.

What is Credit Enhancement, and Why is it Important?

This chapter outlines the various credit enhancement mechanisms that may be used in the three instruments described in this User Guide: sustainable finance instruments, debt-for-health swaps, and health public-private partnerships (PPPs) and explains how these mechanisms strengthen the bankability and overall feasibility of health financing transactions.

Broadly, credit enhancement can be defined as a financial mechanism designed to improve the creditworthiness of a borrower or a specific transaction and includes, among others, guarantees and guarantee-like instruments, insurance, or a combination thereof. As their primary purpose is to share and/or mitigate risk, thereby improving financing terms (including new financing sources, larger volumes, longer tenors, grace periods, and more favourable pricing), these mechanisms play a key role in unlocking financing for governments.

Credit Enhancement for Sustainable Finance Instruments and Debt Conversions

In the sovereign finance context, credit enhancement may be provided by multilateral development banks (MDBs), DFIs, ECAs, or private insurers. Sustainable finance instruments can benefit from various forms of credit enhancement, including (i) partial credit guarantees, (ii) political risk insurance, and (iii) collateralisation.

In PPPs exposed to political risks, such as the risk of non-payment by a government or a government-owned entity, or breach of contracts, MDBs also offer partial risk guarantees (PRGs) on government obligations to encourage lenders and investors to participate. In each case, the financial structure and the choice of credit enhancement mechanism need to be tailored to the specific context. In the case of sustainability-linked loans (SLL) and debt swaps, the credit enhancement mechanism needs to reflect the country's financial situation, implementation capacity, and policy objectives. For health PPPs, credit enhancement mechanisms are informed by the project type and model. Note that there is a growing trend to combine multiple credit enhancement mechanisms to maximise coverage and further reduce the overall cost of financing operations.

The following details the most standard credit enhancement tools used in sovereign sustainable finance transactions:

1. PARTIAL CREDIT GUARANTEES

DESCRIPTION AND RATIONALE

PCGs provide an irrevocable and unconditional commitment from a guarantor to cover a specified portion of scheduled debt service in the event of default by the borrower or issuer. They can be structured to cover any category of risk that could trigger a payment default, including credit or project-related risks. This type of credit enhancement enables the instrument to benefit from the guarantor's higher credit rating, resulting in more favourable financing terms, such as lower interest rates, longer maturities, and larger financing volumes. In Africa, PCGs for sovereign or sovereign-guaranteed borrowers could be offered by multilateral and regional development banks such as the African Development Bank (AfDB), the World Bank Group through its new guarantees platform, the European Investment Bank (EIB), Asian Infrastructure Investment Bank (AIIB), the African Export-Import Bank, Africa Finance Corporation and others. Other development finance institutions, such as GuarantCo, focus their PCGs on supporting private sector borrowers, including project companies in PPPs and sub-national entities.

Within the broad category of PCGs, there are investment guarantees, which support a specific project, and policy-based guarantees, which are linked to the implementation of agreed policy reforms by a sovereign. PCGs can also take the form of portfolio guarantees when they cover a portfolio of transactions (for instance, a PCG can cover a portfolio of loans to health institutions to be constituted by a lender).

Another form of PCG is the transaction guarantee offered by the AfDB to support trade transactions specifically (such as the import of medical equipment).

RATIONALE

Under PCGs, and in the context of a loan or bond, the lenders or bondholders benefit from a guarantee agreement with one or more guarantors, who undertake to cover a defined portion of scheduled debt service payments in the event of default by the borrower. The borrower, in turn, typically enters into a counter-indemnity agreement with the guarantor, under which it commits to reimburse the guarantor for any amounts paid under the guarantee.

To increase the PCG amount they can provide, MDBs can utilise a guarantor-of-record structure, where risk participants, including co-guarantors and credit insurers, can participate in the exposure while the MDB fronts the guarantee.

Figure 8.1 represents the financial structure of a sustainable loan with a PCG. Refer to Chapter 4: *Health Finance and Key Performance Indicators* for a detailed discussion of sustainable finance instruments.

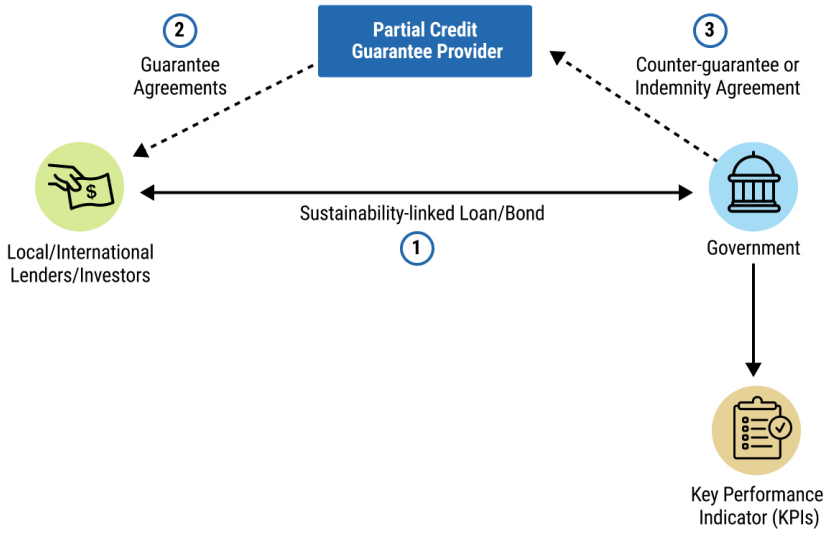


Fig. 8.1: Financial Structure of an SLL/SLB with PCG

In the context of a commercial debt-for-health swap (also known as debt conversion), credit enhancement is used to de-risk the new-money transaction and attract private investors by partially or fully guaranteeing payments under the new debt instrument. As such, the credit enhancement will cover only the debt being issued to finance the buyback. The government will utilise the proceeds from the newly issued, credit-enhanced debt to retire outstanding, and/or more expensive discounted debt, thereby generating fiscal savings that will be used to fund agreed-upon health sector investments or programmes. Refer to Chapter 5: *Sustainable Finance Instruments* for a detailed discussion of debt conversions.

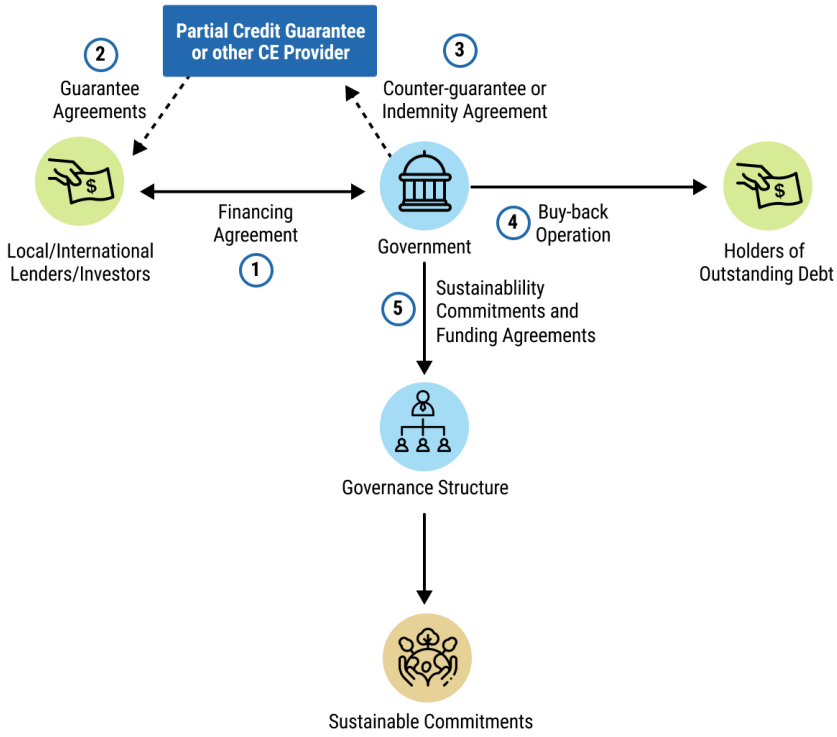


Fig. 8.2: Financial Structure of a Debt Conversion with PCG

Notably, in recent debt conversions, PCGs have often been combined with PRI, other public or private co-guarantees, or private credit insurance instruments to mobilise

additional private capital and enhance the scale and developmental impact of the transactions.

PCGs can support governments, government-owned entities and private sector entities in their debt mobilisation efforts to fund healthcare projects.

2. POLITICAL RISK INSURANCE

DESCRIPTION AND RATIONALE

PRI can protect investors against non-commercial risks such as expropriation, currency inconvertibility, political violence, breach of contract by a government or state-owned entity, or sudden regulatory changes. For example, the U.S. DFC provides PRI that explicitly covers losses resulting from the borrowing country's non-payment of a final and binding arbitral award and from denial of access to justice. In Africa, PRIs are provided by multilateral institutions such as the World Bank Group's MIGA, DFIs such as African Trade and Investment Development Insurance, and private insurers.

Unlike PCGs, which are generally unconditional, PRI payouts are contingent on pre-defined political events that must be verified. Because the payout may be linked to the conclusion of a lengthy process, such as international arbitration, PRI may be combined with guarantees or collateralisation to ensure continuity of payments. In contrast, the arbitration is being pursued to maintain investor confidence. Providers of PRI may not require counter-guarantees but will seek to have subrogation rights (I.e. the right of the insurer to step into the shoes of the insured party and to recover from any third party responsible for the loss) - I.e. the credit enhancement provider steps into the investor's shoes in respect of the right to recover amounts covered by the PRI.

RATIONALE

A common practice in debt conversions has been to establish an SPV to issue bonds to investors or enter into a loan agreement with lenders. The SPV will then on-lend the proceeds through a new loan agreement with the government. This new lending arrangement may be credit-enhanced by a PRI that covers the loan principal amount and will often be combined with a liquidity guarantee, ensuring that interest payments will still be made to investors prior to the policy paying out.

For example, when the policy covers failure to pay an arbitral award, the liquidity guarantee would cover any interest payments incurred during the arbitration proceedings. This liquidity guarantee could be established as a PCG or as a collateralisation mechanism, where specific assets or cash are set aside as security.

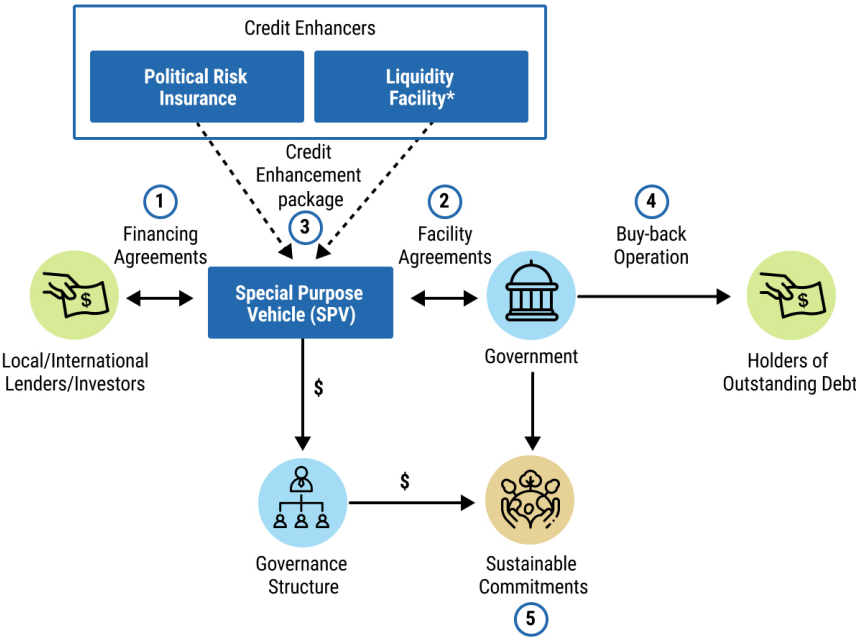


Fig. 8.3: Financial Structure of a Debt Conversion with a PRI

3. COLLATERALISATION

DEFINITION AND RATIONALE

A collateralisation mechanism is a way to set aside certain of the borrower's assets or revenue stream that can be used to repay lenders if the borrower is unable to meet its repayment obligations. Government assets that generate stable or predictable income (e.g. export proceeds, tax revenues, or project-related cash flows) or the income itself

can serve as collateral. This provides additional comfort to lenders and typically improves borrowing terms.

These mechanisms can be employed to back a guarantee for a portion of transactions or ensure debt service payments in the event of a default. Collateralisation of a guarantee gives creditors rights over a guarantor's or borrower's asset(s) or revenue stream that, in the case of default, could allow the creditor to secure repayment of the debt.

RATIONALE

Where collateralisation is used, the borrower and its creditors will enter into agreements that define the rights and obligations related to the pledged assets, including enforcement rights, such as a collateral or security agreement.

From a legal standpoint, the borrower must avoid breaching any negative pledges to which they may be bound under the underlying contractual agreement (such as those imposed by the World Bank or other relevant entities providing credit enhancement). From a fiscal standpoint, collateralised loans represent contingent liabilities that need to be disclosed and accounted for, with a potential impact on debt sustainability. Revenue collateralisation may limit budget flexibility if the collateral is called upon.

4. PARTIAL RISK GUARANTEES (PRGS)

DEFINITION AND RATIONALE

PRGs cover a private project in relation to relevant government or government-owned entity undertakings and/or politically-related risks vis-à-vis the project and not genuine commercial risks. Government undertakings towards a private project can be of a financial or non-financial nature, and these undertakings shall be clearly defined in contracts between the government and the private project or its sponsor. A PRG can attract investments (debt and/or equity financing) in project finance transactions where a project's success depends as much on government undertakings as on private commercial acumen. In public-private partnerships, PRGs can assure private partners and commercial financiers that the government will fulfil its obligations to the partnership.

RATIONALE

Risk coverage under the PRG can be requested for protection against political risks such as non-payment, breach of contract, currency inconvertibility or confiscation/expropriation. These are mainly the same as those covered under PRIs. However, unlike PRIs, PRGs do not require an arbitration process. Following non-payment by the government or a government-owned entity, the guarantee can be called immediately upon expiration of any agreed-upon waiting period.

Similar to PCGs, PRGs generally require a sovereign counter-indemnity, where the country commits to repay any amount paid by the guarantor under the guarantee. However, some MDBs, such as the AfDB, can provide both PCGs and PRGs without sovereign counter-indemnity, provided the guarantee is commercially priced.

The PRG can support a project mainly through two types of structures: (i) PRG with a deemed loan provided to the beneficiary for protection against termination risk and (ii) PRG with a standby letter of credit for protection against temporary liquidity shortfalls from the government or a government-owned entity.

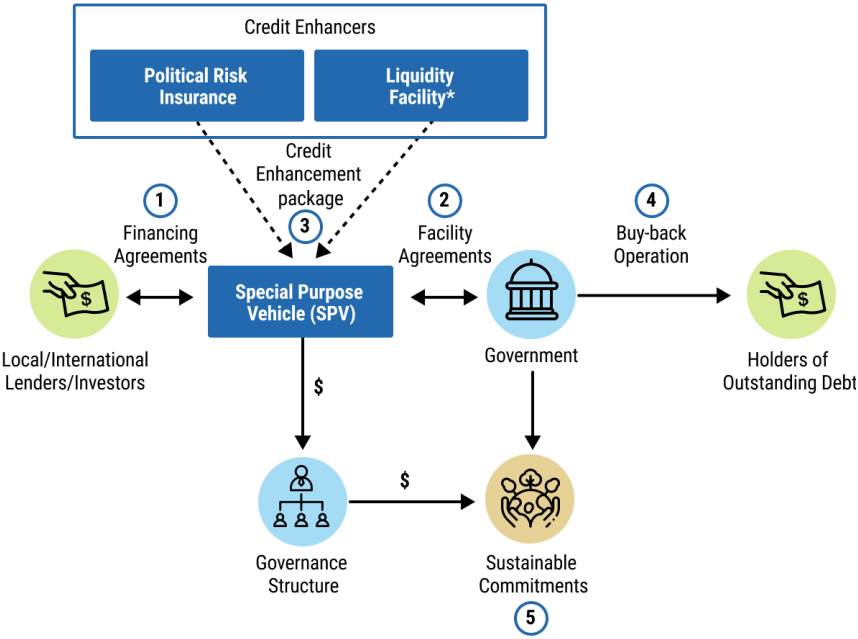


Fig. 8.4: Credit-Enhanced SPV Structure with Liquidity Facility and Political Risk Insurance

Combining Credit Enhancement Sources

Credit enhancement instruments provided by MDBs and DFIs may also be combined with private sector credit enhancement, thereby strengthening the credit profile of the underlying transaction and further improving finance terms.

A notable example of blended credit enhancement is Côte d'Ivoire's inaugural SLL issued in 2025, which combined two distinct MDB products: a policy-based guarantee from the World Bank Group's International Bank for Reconstruction and Development (IBRD) and a non-honouring of sovereign financial obligations guarantee from MIGA. This innovative structure provided AAA-rated coverage for 95% of the loan, significantly reducing the all-in cost of borrowing and enhancing investor confidence.

The following outlines how private sector instruments can complement MDB and DFI credit enhancement support.

PRIVATE SECTOR INSURANCE

Private insurers increasingly participate in sovereign transactions by covering a portion of the payment risk related to sovereign or sub-sovereign obligations through credit insurance policies, reinsurance arrangements, or co-insurance structures, especially when MDBs or DFIs provide anchoring guarantees and first-loss protection. This is beneficial to all parties involved as it allows lenders and development institutions to reduce risk exposure and free balance sheet capacity, enables insurers to diversify into underrepresented markets, and signals investor confidence, which ultimately improves pricing.

PRIVATE INVESTORS AS CO-GUARANTORS

High-net-worth investors are increasingly well-positioned to share sovereign risk alongside traditional guarantors. This approach was demonstrated in the 2024 Bahamas debt-for-nature swap, where Builders Vision provided a USD 70 million co-guarantee alongside the Inter-American Development Bank (IDB) and AXA XL, an insurance and reinsurance company. This is the first example of a private investor providing credit enhancement for a sovereign debt swap transaction. Recent initiatives include the Private Credit Enhancement Facility (PCEF) by Enosis Capital, a pooled credit enhancement facility for family offices and foundations, aiming to scale the successful example of impact investor participation in sustainability-linked financing (SLFs). The PCEF is designed as a USD 1 billion facility focused on emerging market and developing economies (EMDEs), offering guarantees to share risk alongside MDB-backed transactions. Funders, including family offices, foundations, and endowments, have the option to pledge a portion of their fixed-income portfolios as collateral, retaining ownership unless a default occurs. The structure enables funders to maintain the underlying asset yield and earn a deployment premium while amplifying the impact on nature and climate outcomes.

CREDIT RATING IMPLICATIONS

Credit ratings play a critical role in determining the effectiveness and market impact of credit enhancement mechanisms. Enhancements provided by highly rated entities, such as MDBs or DFIs, can materially improve the perceived credit quality of sovereign or sub-sovereign borrowers by blending their ratings with those of the credit enhancer. It is essential to acknowledge that particular challenges exist in this regard, including uncertainty regarding how credit rating agencies and regulatory frameworks evaluate credit-enhanced instruments, particularly with respect to partial coverage and the treatment of first-loss coverage from the perspective of the credit enhancement provider. Nonetheless, it remains that well-structured credit enhancement mechanisms can improve investor confidence and improve financing terms.

Credit Enhancement for Health PPPs

Credit enhancement plays a crucial role in mitigating risk in health PPP transactions. Similar to the above, credit enhancement mechanisms in the PPP context help improve creditworthiness, which in turn enhances financing terms, thereby allowing governments to attract private investment at lower costs. As will be discussed in more detail in this section, credit enhancement can either come from external sources, such as multilateral, regional or national institutions, or from the government itself, through contractual commitments or government support mechanisms. The appropriate form of credit enhancement will depend, among other factors, on the project's risk profile and the degree of comfort required by lenders and investors.

EXTERNAL CREDIT ENHANCEMENT

External credit enhancement in PPPs involves instruments provided by third-party institutions, such as MDBs, ECAs, DFIs and insurers. These entities use their stronger credit rating to share or absorb project risks that the government or investors would otherwise bear.

Standard external credit enhancement mechanisms include PRGs and PRI as described above.

Government-provided Credit Enhancement

Government-provided credit enhancement involves contractual commitments or financial arrangements made directly by the government to assure the private partner under the PPP contract and lenders. These instruments vary in the level of fiscal exposure they create, ranging from unconditional guarantees (the highest commitment level) to letters of support (lower commitment level). This subsection will review the two most prominent government-provided credit enhancement mechanisms found in the health PPP context.

1. SOVEREIGN GUARANTEES

DESCRIPTION AND RATIONALE

Sovereign guarantees may take various forms and can be provided in favour of multiple participants in a health PPP project (for example, to the private partner under the PPP contract or to lenders).

Sovereign guarantees typically cover the risk of non-payment and/or the risk of non-performance of other obligations. Of course, when considering the role of a government as a guarantor, it is more likely that the guarantee covers non-payment risks, as it may not have the means to fulfil (or procure the fulfilment of) other types of obligations.

It should be noted that, in some jurisdictions, providing a sovereign guarantee is not permitted under law. In such cases, alternative methods for giving comfort to the private partner under the PPP contract or lenders should be considered.

RATIONALE

Non-payment guarantees may relate directly to loans (to protect against debt service defaults, and which will be provided in favour of lenders) or to other payment obligations (which are not loan-related, and which will be provided in favour of the relevant private partner under the PPP contract). An example of the latter would be a guarantee regarding an off-taker's payment obligations, or a guarantee that the revenue for a project will at least meet a certain minimum level.

A government may offer a sovereign guarantee in respect of a PPP project to enhance the project's financial viability and bankability for lenders. The presence of a sovereign guarantee can also help to attract private sector investment, in particular foreign investment, as the private partner under the PPP contract is assured that the project has the backing of the government, which helps to mitigate the perceived risks the private sector would otherwise potentially not take on.

However, given that sovereign guarantees create potential liabilities for governments, the necessity of granting a sovereign guarantee must be reviewed on a case-by-case basis to assess whether issuing a sovereign guarantee is necessary and appropriate. Sovereign guarantees should not be provided as a matter of routine for all projects, and governments should carefully analyse the level of risk they are taking on, on a project-specific basis.

The terms of any sovereign guarantee need to be carefully considered, and the government's exposure to liability under the terms of the sovereign guarantee should be limited as far as possible. Additionally, when providing a sovereign guarantee, a government must consider the treatment of this guarantee for accounting purposes, as it may be recorded as a contingent liability on its balance sheet.

2. LETTERS OF COMFORT

DESCRIPTION

The host country provides a letter of comfort in which it promises to facilitate a project through, for example, facilitating certain approvals required for project implementation. Such a letter may be provided in place of a government guarantee where the guarantee would require parliamentary or constitutional approval or where granting a guarantee would negatively impact the sovereign's debt sustainability levels.

RATIONALE

A letter of comfort does not establish a legally binding obligation; rather, it reflects the sovereign's intent to support the project. As such, this type of credit enhancement provides a lower level of protection for the lender or investor.

Where applicable, the letter should address the lender's areas of concern regarding the PPP project.

In some cases, a government letter may be enhanced to include firm undertakings, transforming the letter into a legally binding obligation.

3. LETTERS OF SUPPORT

A letter of support is a government instrument issued to a private party, providing assurances that the government will cover certain political, legal, and regulatory risks. The scope of coverage typically varies from country to country. It is, however, not a sovereign guarantee.

4. OTHER TYPES OF SUPPORT

Governments can also offer other forms of support, such as providing grants or subsidies for a PPP project, tax breaks, or customs exemptions. Often, a combination of measures is taken.

In addition, contract terms (e.g. indemnities and compensation on termination) can also be used to provide relief in the event of specific risks, as opposed to covering those risks through a sovereign guarantee. Please note that contractual indemnities from governments attract the same contingent liability issues as sovereign guarantees. For detailed description of contingent liabilities, please see *Understanding Sovereign Debt: Options and Opportunities for Africa*

5. GENERAL CONSIDERATIONS

It is essential when considering credit enhancement to understand the expenses the credit enhancement provider expects the sovereign to cover, the premium payment to be paid, and the timing of such payments. Understanding the legal basis upon which such credit enhancement is to be provided will also be important, especially any recovery routes that the credit enhancement provider will require (e.g. counter-guarantees/indemnities, subrogation rights, transfers/assignments of commitments, etc.). Credit enhancement providers will also have specific participation conditions, and understanding these early on in the transaction structuring process will be helpful. They will also have their own internal approval processes for participation in any transaction, and these should be factored into the project timeline.

Chapter 9: Recommendations

Call to Action

At a time when drastic aid cuts and debt challenges are significantly impacting health spending in Africa, there is a need to consider sustainable financing alternatives to support public health initiatives and improve public health provisioning. Health is not only essential for individual well-being but also for economic growth and societal resilience. Investing in strong health systems remains a top priority for both citizens and governments in Africa. As some African countries pursue short-term responses to health aid cuts, there is a need to think of long-term financial solutions to support health investments and programmes.

Concurrently, there is an excellent opportunity to leverage innovative financial tools that have been broadly deployed outside of the health sector. These tools have evident financial benefits, including reduced costs of finance and the delivery of critical development outcomes. This is even more true when catalysing the participation of development finance institutions (DFIs) and donors, who are highly interested in supporting global health. To capitalise on these opportunities, both the Ministry of Finance (MoF) and Ministry of Health (MoH) must collaborate to achieve better financial and health outcomes for their country.

Recommendations for Ministries of Health

1. **Advocate for fair and realistic allocations to health.**

   MoHs will need to regularly make the case for debt-raising resources to be allocated to health financing and to ensure that allocated budgets and resources are sufficient to deliver the agreed outcomes or ambitions. This requires balancing ambition with realism - setting achievable targets while using the visibility of debt-linked commitments to advocate for greater budget allocations

over time. It also requires annual advocacy during the budget cycle to ensure relevant activities continue to be prioritised.

2. **Take a long-term, strategic view in financing health priorities.**

   To engage effectively with MoFs on budget allocation, debt instruments and public-private partnership (PPP) arrangements, MoHs must first define where additional resources are most needed and how these align with national development goals and national health plans. This means articulating clear long-term priorities and identifying specific, well-scoped projects or programmes that could be financed through mechanisms such as PPPs, debt swaps or sustainable finance instruments. A forward-looking investment plan gives MoFs confidence that health proposals are not short-term or *ad hoc*, but part of a coherent national strategy. In the case of PPPs for hospitals or health facilities, this includes developing a health master plan, as described in Chapter 6: *Debt-for-Health Swaps*, to anticipate and address gaps in health service availability.

3. **Build credible execution capacity and data-driven delivery.**

   The instruments and mechanisms described herein rely on measurable results. If health-related indicators are perceived as weak or unreliable, debt management offices (DMOs) and PPP units will be reluctant to include them in new financing agreements. MoHs can strengthen their credibility by improving data systems, consistently tracking performance and publishing transparent results. Collaboration with technical and financial partners such as the Global Fund or Gavi can help demonstrate accountability and provide assurance to finance counterparts during negotiations. Similarly, MoHs need to build PPP project preparation capacity to prepare, appraise and monitor projects.

4. **Collaborate closely with the MoF to design and execute health financing instruments.**

   Health leaders should advocate for establishing regular coordination with the appropriate MoF departments. In working with the DMOs, PPP units or other responsible departments at the MoF, they can help identify indicators and project/programme pipelines that could underpin health-related finance instruments. Developing a joint communication and investor outreach strategy can be a concrete joint action by both ministries. By taking a proactive and propositional role, MoHs can help shape new instruments so that health priorities are

integrated from the start and ensure that potential gaps can be addressed early on.

Recommendations for Ministries of Finance

1. **Put blended finance tools at the centre of national borrowing plans.**

   African governments have increasingly utilised blended finance to fund development projects, thereby lowering the cost of funding and ensuring market access. To maximise impact, the MoF could leverage health priorities established by the government to deepen and broaden credit enhancement opportunities beyond traditional guarantors and insurers, diversifying towards global health donors. Bespoke health-related structures that combine multiple credit-enhancement schemes could therefore be developed. Additionally, the MoH could identify PPP options that could benefit from specific debt instruments that increase fiscal space for long-term PPP commitments.

2. **Establish an interministerial sustainable finance committee.**

   Establishing a cross-government committee or task force will foster early collaboration among relevant line ministries directly involved in mobilising sustainable finance. This platform will help MoFs coordinate efforts across sectors, reduce bottlenecks and streamline the entire process of structuring and implementing sustainable finance initiatives. The committee will identify/oversee project identification (building on the budget tagging system), elaborate on government commitments if required in potential debt swaps, formulate any necessary key performance indicators (KPIs), collect data and prepare annual reports as required by financing agreements. In the case of PPPs, cross-governmental cooperation ensures alignment of policy objectives, accelerates approvals and harmonises technical standards. By creating structured mechanisms for information sharing, joint decision-making and coordinated oversight, governments can streamline project development, enhance risk allocation and provide more explicit guidance to private partners.

3. **Ensure visibility over budget execution for the health sector.**

   The MoF - or the ministry responsible for the budget, if relevant - should strengthen oversight of health sector expenditures at the national and subnational levels of government to ensure transparency and accountability. Regular

monitoring and reporting of budget execution will identify discrepancies early on. Implementing integrated data systems with support from technical partners (e.g. the United Nations Development Programme (UNDP) and global health institutions) can enhance visibility and facilitate funds allocation reporting, where this is relevant. Clear dissemination of expenditure data will also build trust with stakeholders and development partners. Ultimately, this approach will optimise health funding use and support improved health outcomes.

4. **Strengthen Accountability and Reporting Capacity.**

   Given the legally binding nature of reporting obligations in financing contracts, MoFs should ensure the MoH has adequate capacity - internally or through technical assistance - to monitor compliance with KPIs and/or commitments required to be given in the context of the proposed transactions and report on funding allocation on a timely basis. This safeguards compliance and builds investor confidence. In the case of a PPP, the MoH and MoF should build capacity to monitor the PPP's execution and ensure continued value for money, as well as substantial health impacts from the contract.

Recommendations for the International Finance Community

While national authorities (MoFs and MoHs in particular) have a primary role to play in identifying the health-financing gap and mobilising the relevant financing to fill it, international organisations (such as multilateral development banks (MDBs), DFIs, health-related institutions and private institutions) can play an enabling role.

The following recommendations aim to transform health-financing projects into realities and scale them up. African MoFs and MoHs should also seize the opportunity to advocate for the following recommendations to enhance sustainable financial flows and support improved health outcomes.

1. **Standardise and improve health finance data.**

   Addressed to: *International Capital Market Association (ICMA), Loan Market Association (LMA), the World Health Organisation (WHO), World Bank, other MDBs and regional development banks.*

   International standard setters (such as ICMA and LMA) and development partners should collaborate to standardise health-related debt instruments and enhance the quality of data underlying them. Strengthening the existing social sustainability-linked bond and loan principles with clearer, health-specific taxonomies of eligible expenditures and KPIs (aligned with both global health priorities and national health budget structures) would provide greater clarity and comparability across issuances. These efforts should be supported by the creation of an open-access platform that collects and updates health-related indicators for African countries, along with additional guidance on reporting and monitoring health impacts.

2. **Establish a task force to mobilise credit enhancement for health funding.**

   Addressed to: *MDBs, DFIs, global health institutions (WHO, Gavi, Global Fund), donors.*

   Major credit enhancers should establish an action-oriented taskforce to coordinate and bolster credit enhancement for health funding. A structured dialogue among credit enhancers (ideally leveraging existing initiatives, such as the Task Force for Credit Enhancement for Sustainability-Linked Sovereign Financing), global health institutions and donors could explore a joint offering to governments and investors. The goal is to define a straightforward menu of credit enhancement options, reduce deal-by-deal uncertainty and build investor and issuer/borrower confidence in the viability of health swaps and sustainability-linked financing. Based on concrete cases and requests, the task force could seek to identify potential synergies among credit enhancers to co-guarantee debt instruments for healthcare. Given the lack of credit enhancement mobilisation in health, the task force could initially focus on initiating pilot transactions and drawing lessons from those experiences.

3. **Build the capacity of the MoF and the MoH to engage in innovative financing instruments jointly.**

Addressed to: *Capacity building institutions (e.g. African Development Bank (AfDB), African Legal Support Facility (ALSF), Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), West African Institute for Financial and Economic Management (WAIFEM), International Monetary Fund (IMF), World Bank)*.

Development partners should build capacities to bridge the technical gap between MoFs and MoHs. Regional and national training programmes targeting mid-level officials in debt management offices, budget directorates, PPP units and MoHs would help participants identify the right instruments for the right policies and initiate collaborations. This User Guide can serve as a core training material. These initiatives should also include in-country missions aimed at stimulating coordination between MoFs and MoHs. Over time, such programmes would strengthen technical understanding, promote joint ownership of financing solutions and foster national champions capable of driving technical efforts and political buy-in. Beyond training, institutions could help establish the necessary frameworks to facilitate a more substantial uptake of debt or PPP instruments.

Glossary

Acceleration

a clause in a contract, typically a loan or a bond, allowing a creditor to request earlier repayment of the debt if a stated event occurs.

Agent

the financial institution acting as a representative of the lenders under a syndicated loan. The agent's role is to administer the loan, make specified decisions on behalf of the lenders, provide the lenders with the necessary information for their decisions, and enforce the contract in the event of default.

Arranger

the financial institution engaged by a borrower to facilitate the issuance of a debt in the capital market.

Availability Indicators (AIs)

technical and operational measures that determine whether a health facility, or part of it, is available for use, which can affect availability-based payments under a PPP.

Availability Payment

a payment made by a procuring entity to a private partner in a PPP project based on the facility or service being available for use at the agreed performance standards.

Bilateral Debt Swap

a swap between two (sets of) parties, I.e. the debtor and the creditor (or a group of creditors).

Blended Finance

the strategic use of international financial institutions and multilateral development banks for the mobilisation of commercial finance towards sustainable development in developing countries.

Blue Bond

a debt instrument issued by a borrower to finance marine- and ocean-based projects with positive environmental, economic and climate benefits. The green bond concept inspires the blue bond.

Bond

a tradeable financial instrument representing a debt, issued by sovereigns, state-owned enterprises or corporates in the capital markets.

Call Option

an option to buy assets at an agreed price on or before a particular date, which can be included in the terms of a bond.

Civil Society Organisation (CSO)

a non-governmental, non-profit group operating outside of government control, formed by citizens to advance shared interests, provide services, or advocate for social, economic or political causes.

Climate Resilient Debt Clause (CRDC)

a contractual provision enabling the borrower to temporarily defer debt service payments (principal and/or interest) for a pre-agreed period when a predefined event occurs; also called a natural disaster or debt pause clause.

Collateral

an asset that a borrower offers as a way for a lender to secure the loan.

Commercial Debt Swap

is a transaction whereby private sector debt is replaced with a new instrument under more favourable terms (also referred to as a debt conversion).

Contingent Liability

a potential liability which becomes an actual liability upon the occurrence of an uncertain future event.

Contract Monitoring Regime

a structured system, processes and tools used by a procuring entity to track, verify and evaluate the private partner's performance against the obligations set out in the PPP contract.

Country Coordinating Mechanisms (CCMs)

national multi-stakeholder bodies that coordinate, oversee and submit funding requests for global health programmes by bringing together government, civil society, affected communities, and development partners.

Coupon

the periodic payment as paid to the holder of a bond.

Credit Rating Agency (CRA)

an institution that provides investors with information and ratings about a borrower's ability to meet its obligations.

Debt Conversion

is a transaction whereby private sector debt is replaced with a new instrument under more favourable terms (also referred to as a commercial debt swap).

Debt Restructuring

a process where the debtor negotiates with creditors to reduce the loan's interest rate, extend its repayment term or reduce its balance to avoid default.

Debt Sustainability

the ability of a government to meet its debt obligations without requiring debt relief or accumulating arrears.

Debt Sustainability Analysis (DSA)

an assessment that evaluates a country's ability to meet its current and future debt obligations without incurring repayment difficulties or requiring significant policy adjustments.

Debt Sustainability Framework (DSF)

a framework for analysing a country's borrowing decisions and assessing debt sustainability under baseline and stress scenarios.

Debt Swap

a transaction in which a portion of a country's existing debt can be acquired at a discount and swapped for SDG/ESG-related goals or investments.

Debt-to-GDP Ratio

the ratio of a country's government debt to its GDP, used to assess its ability to repay debt.

Development Finance Institutions (DFI)

specialised institutions that raise funds to finance development projects or initiatives in developing countries.

Discounted

debt trading in the secondary market for less than its par value.

Eligible Projects

a list of projects to which the proceeds of use of proceeds bonds may be applied.

Emerging Markets and Developing Economies (EMDE)

term used in economics to describe a group of countries that are in a state of rapid growth but still have lower levels of economic development than advanced economies.

Environmental Social Governance (ESG)

the three central factors commonly used to evaluate the sustainability and ethical impact of an investment.

Eurobond

an international bond issuance denominated in a currency not native to the country where it is issued.

Event of Default

a condition defined in a loan or bond agreement that, if it occurs, gives the lender the right to demand immediate repayment.

Export Credit Agency (ECA)

an institution acting as an intermediary between governments and exporters to issue export financing in the form of credit, insurance or guarantees.

First-Loss Partial Guarantee

a credit enhancement mechanism under which a guarantor agrees to absorb initial losses on a financing up to a specified amount or percentage, reducing the risk exposure of other creditors.

Framework

a document drawn up by the issuer outlining the green and/or social characteristics of projects financed by bond proceeds.

Gross Domestic Product (GDP)

the estimated total value of all finished goods and services produced within a country's borders in a specific period.

Global Health Institution (GHI)

an organisation that works across countries to improve health outcomes by providing funding, expertise, research or coordination on major global health challenges.

Green Bond

a bond whose proceeds are used exclusively for environmentally sustainable projects (also referred to as a climate bond).

Health Masterplan

a comprehensive, long-term strategic plan that outlines a country's healthcare priorities, infrastructure needs, service delivery models and investment requirements.

International Capital Markets Association (ICMA)

a global trade association that promotes well-functioning and sustainable capital markets by developing standards, guidelines and best practices for market participants.

ICMA Principles

guidance published by ICMA on sustainable finance instruments, including GBP, SBP, SBG and SLBP.

Independent Verification Agent (IVA)

an external party appointed to objectively assess and verify whether a borrower or issuer has met the pre-defined environmental, social, or performance targets set under a sustainability-linked instrument or similar agreement.

Input-Based Spending (IBS)

funding that focuses on the resources used rather than the outputs or outcomes achieved.

Intermediary

the middle entity in a trilateral swap, often performed by an SPV.

Issuer

a legal entity such as a corporation, investment trust, government or agency that issues securities to finance operations.

Key Performance Indicator

a measure of financial or operational performance used for monitoring and review.

Liability Management

procedures and techniques used by bond issuers to buy back, exchange or alter the terms of bonds.

Loan Market Association (LMA)

a trade body for the European, Middle East and African syndicated loan market that enhances market efficiency by developing standard documentation and providing guidance on best practices.

Medium-Term Debt Strategy (MTDS)

a debt management strategy that guides a government's borrowing decisions over the next three to five years, outlining the preferred composition of public debt that balances cost and risk in line with the country's macroeconomic and financial objectives.

Monitoring Results and Verification (MRV)

a system that tracks the progress of key performance indicators throughout the life of a sustainable finance instrument.

Net Present Value (NPV)

the present value of a sum of money in contrast to its future value.

Official Development Assistance (ODA)

government aid promoting economic development and the welfare of developing countries.

Par Value

the face value of a bond repayable at maturity.

Paris Club

an informal group of creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries.

Performance Indicators (PIs)

metrics used to evaluate the effectiveness of a health facility's operations and clinical services (where provided), where failure to meet PIs may trigger contractual consequences for the private partner.

Premium

the excess value added to the price or cost of a financial asset.

Private Sector

the part of the economy run by individuals and companies for profit.

Private Sector Loans

loans granted by commercial banks or funds on specific terms.

Procuring Entity

a government ministry, state department, state-owned agency, municipal authority or other public authority responsible for planning, designing, tendering and managing a PPP project.

Public-Private Partnership (PPP)

a long-term arrangement where a private party delivers and finances public infrastructure or services.

Public Sector

the general government sector plus government-controlled entities engaged in commercial activities.

Public Sector Debt

the aggregate of central government and SOE debt.

Quality Indicators (QIs)

metrics used to assess the overall quality of services, infrastructure, equipment or operations delivered by a health facility.

Refinancing Risk

risk associated with an obligation that may not be refinanced or may be refinanced only at a higher cost.

Request for Proposal (RfP)

an invitation to submit a proposal for a project or mandate.

Return on Investment

a performance measure that evaluates an investment's profitability by comparing net profit to cost.

Risk Allocation

a process of identifying the risks in a PPP project and assigning each risk to the party - public or private - that is best able to manage, mitigate or absorb it.

Second Party Opinion (SPO)

an independent assessment confirming a sustainable finance framework or instrument's alignment with international standards such as ICMA and LMA Principles.

Secondary Market

a market for the resale of already issued debt securities.

Social Bond

a bond financing or refinancing of social projects that achieve positive social outcomes.

Social Bond Principles (SBPs)

ICMA's Social Bond Principles provide guidelines on structuring, disclosure and reporting.

Social Loan Principles

LMA's Social Loan Principles provide guidelines on structuring, disclosure and reporting.

Sovereign

a government guarantee of the obligations of a third party.

Special Purpose Vehicle (SPV)

a legal entity created for a specific purpose, often used as an intermediary in a trilateral swap.

State-owned Enterprise (SOE)

a legal entity wholly or partially owned by a government for commercial activities.

Sustainable Development Goals (SDGs)

a set of 17 interconnected global objectives adopted by the United Nations to guide countries toward ending poverty, protecting the planet and ensuring prosperity for all by 2030.

Sustainability-Linked Bond Principles (SLBP)

ICMA's Sustainability-Linked Bond Principles provide guidelines on structuring, disclosure and reporting.

Sustainability-Linked Bond (SLB)

a bond whose characteristics vary depending on whether the issuer meets ESG/SDG objectives.

Sustainability-Linked Loan Principles (SLLP)

LMA's Sustainability-Linked Loan Principles provide guidelines on structuring, disclosure and reporting.

Sustainability-Linked Financing

financial instruments, such as bonds or loans, where financial characteristics (e.g. interest rate or margin) vary depending on the issuer or borrower's achievement of pre-defined environmental, social or governance (ESG) performance targets.

Sustainability Margin Adjustment

is a flexible interest rate feature in SLLs where the borrower's loan interest rate (margin) goes up or down (a "ratchet") based on achieving predefined ESG targets, known as Sustainability Performance Targets, linked to KPIs. Meeting targets earns a discount (lower rate), while missing them can trigger a premium (higher rate), incentivising companies to improve their sustainability performance financially.

Sustainability Performance Targets (SPT)

measurable improvements in KPIs for sustainability-linked instruments.

Syndicated Loan

a loan issued by a group of lenders with standard terms represented by an agent.

Tender Offer

a public offer to buy securities from holders at a specific price at a particular time.

Thematic Bond

a financial instrument allowing investors to finance specific themes such as climate, health or education.

The Nature Conservancy

a global environmental organisation managing debt-for-nature swaps since the 1980s.

Total Health Expenditure

the sum of public and private spending on health, including preventive and curative services, family planning and nutrition, but excluding water and sanitation.

Trilateral Swap

a structure where an intermediary buys outstanding debt at a discount with new insured or guaranteed debt issued at par.

Universal Health Coverage

a health system which aims to ensure equitable access, financial protection, and quality care for everyone, regardless of income, location, or social status.

Use of Proceeds (UoP) Debt Instrument

a debt obligation where proceeds are earmarked for a specific eligible use.

Value-Based Healthcare

an approach prioritising improved patient outcomes relative to resources spent.

Value for Money

achieving the best balance between cost, quality and risk over a project's life cycle.

Viability Gap Funding

a public financial support mechanism providing a capital grant to make a socially beneficial but financially unviable project attractive to private investors.

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Acronyms

AfDB	African Development Bank
AI	Availability Indicators
AIDS	Acquired Immunodeficiency Syndrome
AIIB	Asian Infrastructure Investment Bank
ALSF	African Legal Support Facility
BFSF	Belize Fund for a Sustainable Future
BLT	Build, Lease, Transfer
BMZ	German Federal Ministry for Economic Cooperation and Development
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer
BOT	Build-Operate-Transfer
BPAF	Bahamas Protected Areas Fund
CCM	Country Coordinating Mechanism
CD4	Clusters of Differentiation 4
CDC	Centres for Disease Control
COVID-19	Coronavirus Disease 2019
CRA	Credit Rating Agency

CSO	Civil Society Organisation
D2H	Debt2Health
DBFO	Design-Build-Finance-Operate
DFC	Development Finance Corporation
DFI	Development Finance Institution
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
EHR	Electronic Health Record
EIB	European Investment Bank
EPC	Engineering, Procurement and Construction
ESG	Environmental, Social and Governance
FAB	Feasibility and Ambitiousness
FM	Facility Management
FP	Family Planning
GDP	Gross Domestic Product
GFF	Global Financing Facility
GHIs	Global Health Institutions
GLF	Galápagos Life Fund
GPRBA	Global Partnership for Results-Based Approaches
HCW	Healthcare Worker
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
HRIS	Human Resource Information System
IBRD	International Bank for Reconstruction and Development
ICMA	International Capital Market Association

IDB	Inter-American Development Bank
IMF	International Monetary Fund
IT	Information Technology
IVA	Independent Verification Agent
KMC	Kangaroo Mother Care
KPI	Key Performance Indicator
KYC	Know Your Customer
LSTA	Loan Syndications and Trading Association
MDAs	Ministries, Departments and Agencies
MDB	Multilateral Development Bank
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MES	Managed Equipment Service
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MoH	Ministry of Health
MoInfra	Ministry of Infrastructure
MRV	Monitoring Results and Verification
MTDS	Medium-Term Debt Strategy
NDP	National Development Plan
NGO	Non-Governmental Organisation
nVCC	New Velindre Cancer Centre
OCT	Optical Coherence Tomography
ODA	Official Development Assistance

OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturer
PCEF	Private Credit Enhancement Facility
PCG	Partial Credit Guarantee
PHIO	Pandemic From Time to Time
PIs	Performance Indicators
PPP	Public-Private Partnership
PRG	Partial Risk Guarantee
PRI	Political Risk Insurance
QIs	Quality Indicators
RfP	Request for Proposal
RfQ	Request For Qualification
RMNCAH-N	Reproductive, Maternal, Newborn, Child, and Adolescent Health and Nutrition
RSSH	Resilient and Sustainable Systems for Health
SBP	Social Bond Principle
SDG	Sustainable Development Goal
SLA	Service Level Agreement
SLB	Sustainability-Linked Bond
SLBPs	Sustainability-Linked Bond Principles
SLF	Sustainability-Linked Financing
SLLs	Sustainability-Linked Loans
SLLP	Sustainability-Linked Loan Principles
SPO	Second-Party Opinion

SPT	Sustainability Performance Target
SPV	Special Purpose Vehicle
TB	Tuberculosis
THE	Total Health Expenditure
UHC	Universal Health Coverage
U.K.	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UoP	Use Of Proceeds
UQD	Unfunded Quality Demand
U.S.	United States of America
USD	United States Dollar
WACC	Weighted Average Cost of Capital
WHO	World Health Organisation