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**Exchanging Debt for Health in Africa:
Lessons from Ten Years
of Debt-for-Development Swaps**

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Abstract

Of the dozen or so issues on the agenda when the Group of Seven held its annual meeting in Cologne in June, 1999, few captured the attention of the world as much as debt relief for the poorest and most indebted nations. In the past half-decade, wide-ranging and active support has developed for reducing the debt owed by poor countries to banks, governments, and multilateral institutions in the developed world. Most proposals for debt relief have also called for more resources to be invested in improving the welfare of the poorest people, often through direct investment in social programs of the savings generated by debt relief. The purpose of this paper is to describe and assess one feasible approach to debt relief in sub-Saharan Africa: the debt-for-health exchange. Following up on proposals recently put forward by several international organizations and governments, it presents and assesses the past decade of experience with transactions that involve the exchange of poor country debt for a commitment to invest local resources in a social good, such as environmental protection, child health, or education. From this experience, it draws a set of lessons for designing debt-for-health exchanges for sub-Saharan Africa. The lessons provide guidance on how exchanges should be structured and emphasize the importance of transparency and accountability in managing the debt savings funds.

Keywords: debt relief, sub-Saharan Africa, HIV/AIDS

JEL codes: I18, F34, F35

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1. Introduction

A new era of debt relief

Of the dozen or so issues on the agenda when the Group of Seven held its annual meeting in Cologne in June, 1999, few captured the attention of the world as much as debt relief for the poorest and most indebted nations. The Köln Debt Initiative launched at the Cologne summit calls for “deeper, broader, faster” debt relief than is already provided by the IMF/World Bank Highly Indebted Poor Country Initiative (HIPC). It also requires that any savings generated by debt relief be invested in poverty alleviation and basic social services (G7 1999).

The G7’s actions at Cologne are one consequence of the rise of debt relief to the top of the international development finance agenda during the second half of the 1990s. From grass-roots movements like Jubilee 2000 to the U.S. Department of Treasury, there is wide-ranging and active support for reducing the debt owed by poor countries to banks, governments, and multilateral institutions in the developed world. Most of the organizations that have taken a stance on debt relief have also called for more resources to be invested in improving the welfare of the poorest people. Some encourage direct investment of debt relief savings in social welfare programs. Others recommend an indirect approach, by requiring that specific development goals be achieved as a condition of debt relief.

Because the IMF and the World Bank hold the majority of developing country debt, most attention of those interested in debt alleviation is now focused on multilateral action under the HIPC. There remains, however, a substantial amount of bilateral debt held by the member governments of the OECD, particularly in sub-Saharan Africa.[1] Finding practical and feasible ways to alleviate Africa’s bilateral debt, which constitutes a significant drain on the poorest countries’ resources, is thus also an important step in turning debt relief rhetoric into reality.

The purpose of this paper is to describe and assess one feasible approach to debt relief in Africa: the debt-for-health exchange. Following up on proposals recently put forward by several international organizations and governments, it presents and assesses the past decade of experience with transactions that involve the exchange of poor country debt for a commitment to invest local resources in a social good, such as environmental protection, child health, or education. From this experience, it draws a set of lessons for designing debt-for-health exchanges for sub-Saharan Africa—and thereby puts into practice some of the rhetoric of Cologne.

[1] Sachs et al. (1999) estimates that bilateral debt cancellation would generate, for example, annual savings of $146 million for Cameroon, $91 million for Zambia, $47 million for Mozambique, and $80 million for Angola.

Why focus on health?

Public health in sub-Saharan Africa at the close of the twentieth century is a disaster (Simon et al. 1999). Nowhere is this manifested more clearly than in the spread of the HIV/AIDS epidemic, which has in fact been partially responsible for the world's rising concern about Africa's debt burden. HIV/AIDS is perhaps the greatest crisis ever faced by the region, and particularly by the countries of southern and eastern Africa. With infection rates approaching a quarter of the adult population in several countries, and topping ten percent in many others, AIDS threatens to wipe out a quarter-century of development gains. It is devastating Africa's skilled workforce, destroying the continent's institutions, and overwhelming its health system (World Bank 1999).

Recognizing the magnitude and reach of the crisis, the World Bank, the U.S. government, and many other governments and international organizations have recently declared HIV/AIDS to be one of the most important development issues in Africa today. Developing, financing, and implementing programs to slow the spread of the epidemic and reduce its impact are now among the highest priorities of most development organizations and of many African governments. Among the many challenges that are likely to hinder this effort is a shortage of funds.

Because the HIV/AIDS crisis in Africa has the potential to obstruct progress on all other development goals, including income growth and economic and political stability, a case can be made for targeting all new resources at fighting the epidemic. It clearly does not make sense to neglect outright the many other threats to health in Africa or to divert funds from other crucial social sectors. Among the many legitimate claimants to new funds potentially freed up by debt relief, however, it is easy to justify placing HIV/AIDs prevention at the front of the queue. At the same time, because many creditor and debtor governments and institutions have already made a commitment to fighting HIV/AIDS in Africa, using debt relief savings for this purpose is likely to be popular among key constituencies in both kinds of countries.

Many of those who have led the international effort for debt relief have selected other priorities for the freed-up funds. These include, for example, basic education (Oxfam International) and environmental protection (several international conservation organizations). No one would argue that these are not critically important goals, nor that health, education, and nature conservation are mutually exclusive goals. This paper simply takes, as a starting point for discussion, the observation that no problem is more urgent in Africa today than HIV/AIDS control, and that gains in other sectors, like education and environmental protection, will have little value if we do not first slow the spread of AIDS. It also accepts that for significant levels of debt relief to be politically palatable to creditor countries over the long term, allowing creditors, as well as debtors, some role in deciding how the freed-up resources should be used is both necessary and desirable.

Structure of the paper

The paper is organized as follows. The next section provides some background on debt-for-development swaps in general and summarizes the record of transactions over the last decade. Section 3 examines the structure of private debt-for-nature and debt-for-development swaps, while section 4 describes several public debt-relief-with-development programs and looks at recent U.S. legislation on debt swaps. The paper concludes with a discussion of lessons learned from past debt swaps and the implications of these lessons for debt-for-health exchanges in sub-Saharan Africa.[2]

2. The basics of debt swap transactions

How debt swaps work

"Debt swap" is the widely-used shorthand for a transaction in which a government or organization in a creditor country retires a fraction of a developing country's external debt, in exchange for a commitment by the debtor country to invest local currency in designated programs. While some of these transactions might more accurately be thought of as a form of debt relief and/or foreign assistance, we will call them debt swaps for the sake of simplicity.[3]

Although there are several different kinds of debt swaps, most proceed along roughly similar lines. In the standard debt swap, the creditor, which can be a commercial bank or export company, a government, or a multilateral institution, agrees to donate or sell some or all of the hard currency-denominated debt it holds. The donation or sale can be directly to the debtor government (a buyback), or it can be to a non-governmental third party, which then retires it. If the debt is sold, the purchase price is usually, though not always, a fraction of the face value of the debt, reflecting the debt's discounted price on secondary markets or the creditor's estimate of its net present value.

In return for the reduction of its external debt, the debtor country agrees to provide a specified amount of domestic currency for activities that are identified in the debt swap agreement, such as nature conservation or child survival programs. The amount of domestic currency involved varies widely: in some cases, it is a small fraction of the face value of the debt retired; in others, it is equivalent to the face value of the debt. The domestic currency is usually deposited in a special account held by either the NGO that is party to the agreement or by a "counterpart fund" created by the agreement.[4] It is then used to support projects in the debtor country, either directly from the principal or indirectly from the interest earned by the counterpart fund.

Kinds of debt swaps

The debt swaps, and swap-like transactions, that have been carried out to date fall fairly comfortably into two categories: private swaps (those including one or more NGOs as parties and the retirement of commercial debt); and public swaps (those to which the parties are

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[2] A practical and detailed discussion of many of the topics covered in this paper can be found in Kaiser and Lambert (1996).
[3] Note that the transactions discussed in this paper are *not* debt-for-equity swaps. Debt-for-equity swaps have been used by many banks in creditor countries to reduce the commercial debt owed to them by developing and transitional countries, without any cost to the creditor. In a debt-for-equity swap, the creditor typically exchanges debt for ownership of some asset in the debtor country, with the expectation of a financial return on the asset.
[4] Different debt-swap programs have different names for the domestic currency funds created by debt swaps. To avoid confusion, we will use the term "counterpart fund" whenever we refer to these funds, unless they have a specific name (like the Polish EcoFund).

governments only and bilateral or multilateral debt is retired).[5] There have been more private debt swaps over the years than public; on the other hand, public swaps tend to involve much greater amounts of money. Table 1 compares a typical private debt-for-nature swap with a typical public swap. [6,7]

Table 1: Characteristics of private and public debt swaps

Characteristic	**Typical private swap**	**Typical public swap**
Parties to the transaction	A creditor country NGO, a debtor country NGO, and usually the debtor country government (central bank and a line agency).	The debtor and creditor country governments.
Eligibility of debtor country	Creditor country NGOs choose countries in which they have an interest (e.g. high biodiversity value) and are financially feasible.	The creditor country sets criteria for participation, typically including satisfactory implementation of a structural reform program.
Amount of debt retired	Generally small.	Much larger.
Recipient of domestic currency funds	The NGO that is party to the transaction or a counterpart fund.	A counterpart fund.
Oversight of use of funds	The two NGOs jointly oversee disbursal of funds.	A board comprised of debtor and creditor country representatives oversees the disbursal of funds.
Debt relief process	All debt is cancelled immediately as part of the initial transaction.	Debt is cancelled incrementally based on debtor country's fulfillment of the terms of the contract ("pay-as-you-go").
Source of hard currency financing	Funds raised by the creditor country NGO or donation by the commercial entity holding the debt.	Budget of creditor country (e.g. congressional appropriation in U.S.)

[5] We borrowed these terms from Deacon and Murphy (1997). They are not perfectly accurate, as "private" swaps can involve public debt and "public swaps" can result in grants for NGOs, but they provide a generally useful distinction between swaps that are largely initiated and carried out by NGOs and those that are mainly governmental.
[6] Debt-for-nature swaps and debt-for-environment swaps are sometimes treated as a subset of debt-for-development swaps. For clarity, we will use "debt-for-development" to refer to swaps that generate resources for all activities *except* environmental protection and conservation.
[7] While private debt-for-nature and debt-for-development swaps have tended to be similar in structure, public swaps have differed widely from one another. The public swap we include in Table 1 is a composite of various public swap models, which will be described in more detail below.

The pros and cons of debt swaps for debtors and creditors

For the debtor country, debt swaps have several potential advantages:

- The country's total debt obligation is reduced (unless the amount of domestic currency that must be deposited in the counterpart fund is equivalent to the full face value of the debt)

- The country's foreign exchange commitments are reduced (payment into the counterpart fund is usually in domestic currency)

- Resources are generated for the activities specified in the agreement, which is likely to garner support from the relevant line Ministry (e.g. Environment or Health)

- If the amount of debt reduction is large enough, the transaction might improve the debtor country's standing in international financial markets.[8]

On the other hand, debtor countries have resisted debt swaps for at least two reasons:

- From the perspective of the debtor country, a public debt swap is essentially "debt relief with conditionalities".[9] In return for debt relief, the country has to pledge to invest in activities specified by the creditor. Most governments dislike conditionalities. In the late 1980s and early 1990s, debt-for-nature swaps were labeled by some developing countries (notably Brazil) as a form of imperialism that threatens the sovereignty of the debtor country over its own natural resources.

- A debtor country is not likely to volunteer for debt swaps if it believes that it can negotiate unconditional (or less conditional) debt relief. Similarly, if the country is not making any debt service payments, then maintaining the status quo—a *de facto* cancellation of debt—might make more sense than engaging in a transaction that does require some payment.

Debt swaps also offer advantages to creditors.

- If the creditor is a commercial firm, selling the debt to an NGO at a discount from face value, or allowing it to be bought back directly by the debtor country, is a way of recovering at least some of the value of a bad loan.

- If the creditor is a government or multilateral bank, debt swaps can help ensure that the savings to the debtor country from debt relief are used for activities that are important to the creditor, like poverty alleviation, HIV prevention, or environmental protection. A swap is

[8] Ironically, one result of this can be that the value on secondary markets of the country's remaining debt increases (because with less debt left the odds of repayment are higher), causing the total amount of money that creditors expect to receive from the country to rise.
[9] A debt swap can also be thought of, of course, as a form of foreign assistance that happens to be combined with debt relief.

thus one way to make debt relief politically palatable to creditor country constituencies while at the same time achieving international development or conservation objectives.[10]

- In at least one case (the Polish EcoFund), the terms of the debt swap agreement specified that creditor country firms be given preference when selecting contractors to implement projects.

For creditors, the drawbacks include:

- Debt swaps involve at least some debt relief. Government creditors are not likely to support debt swaps if they do not wish to provide debt relief, and commercial creditors will refuse to sell if they believe that the market value of the debt they hold is higher than what they are being offered for it.

- To the extent that public debt swaps are simply another vehicle for providing foreign assistance, creditors might also feel that they do not have sufficient control over the domestic currency fund created by the swap, and thus prefer more traditional forms of foreign assistance.

- Ensuring proper use of the domestic currency fund created by a public debt swap generally requires ongoing involvement by the creditor country. If there are problems in administering the fund, the creditor country government might also be criticized for its role. There is thus some risk for the creditor that might not exist were the debt to be cancelled without conditions or sold on the secondary market.

Summary of debt swaps since 1987

Since the first debt-for-nature swap was carried out in 1987, there has been a range of swap transactions involving a large number of debtor countries and a handful of creditor countries. Table 2 summarizes these transactions. In the following sections, several of them are discussed in more detail.

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[10] According to Randy Curtis of The Nature Conservancy, many creditor country NGOs believe that current momentum toward debt relief offers a rare opportunity to leverage resources for poverty alleviation, conservation, etc. and should not be wasted (Randy Curtis, personal communication, May 1999).

Table 2: Debt-for-nature and debt-for-development transactions, 1987-1997

Instrument	Debtors	Creditors	Face value of debt retired	Purchase price of debt (% of face value)	Domestic currency generated (% of face value)	Use of domestic currency
Private Transactions						
Private debt-for-nature swaps (45 commercial debt transactions as of end of 1997)[(a)]	Madagascar, Zambia, Ghana, Nigeria, and 11 others in Latin America, Asia, and Eastern Europe	U.S. NGOs	$174 million as of end of 1997	$42 million (24%)	$127 million (73%)	Nature conservation (usually parks)
Private debt-for-development exchanges negotiated by Finance for Development (FFD)[(b)]	Nigeria, South Africa, Tanzania, Kenya, Ghana, and several countries in Latin America and Asia	U.S. and local NGOs and FFD	$500 million			Various development projects
UNICEF debt-for-child-development swaps[(c)]	Zambia, Madagascar, Senegal, Sudan, and several countries in Latin America and Asia	UNICEF national committees in OECD countries	$199 million	$29 million (14.5%)	$53 million (27%)	UNICEF programs
Bilateral transactions						
U.S. Enterprise for the Americas Initiative	7 Latin American and Caribbean countries	U.S.	$875 million between 1991 and 1993	$90 million (10%)	$154 million (18%)	Environmental protection and child health and survival
USAID-funded debt-for-nature swaps in 1989-90[(d)]	Costa Rica, Honduras, Panama, Mexico, Jamaica, the Philippines, Indonesia, and Madagascar	U.S.	unknown	$95 million	$146 million	Natural resource conservation
Swiss Debt Reduction Facility	12 countries in Africa, Latin America, and Asia	Switzerland	$760 million	$152 million (20%)	$172 million 23%)	Projects in all development sectors
Belgian commercial debt-for-aid conversion	Least developing countries excluding Congo (Zaire)	Belgium				
Canadian International Development Agency Debt Conversion Program	Honduras, El Salvador, Costa Rica, Nicaragua, Columbia, and Peru	Canada	$86 million between 1992 and 1997	unknown; up to $145 million ceiling	$45 million	Environmental protection and natural resource conservation

Instrument	Debtors	Creditors	Face value of debt retired	Purchase price of debt (% of face value)	Domestic currency generated (% of face value)	Use of domestic currency
French Libreville Fund	Cameroon, Congo, Gabon, Cote d'Ivoire	France		$177 million as of the end of 1993 ($706 million ceiling)		Priority development projects
German Rio Fund	14 eligible countries	Germany			(20% of face value)	Ecology and poverty alleviation projects
Netherlands debt swaps[e]	Tunisia, Costa Rica, Chile, Pakistan, Jamaica, and Madagascar	Netherlands	$45.5 million between 1990 and 1997			Nature conservation in Costa Rica; other uses unknown
Poland/Finland debt-for-environment swap	Poland	Finland	$14 million in 1990			
Multilateral transactions						
Poland/Paris Club debt-for-environment swap	Poland	Paris Club countries	$510.7 million as of 1998 ($3.3 billion ceiling)	n.a.	$510.7 million (100%)	Polish environmental projects of international significance
Inter-American Development Bank debt-for-nature swap	Mexico	IADB	$121 million in 1992	$100 million (83%)	$121 million? (100%)	Tree-planting in Mexico City
Highly Indebted Poor Countries Initiative	Uganda (and other qualifying poor countries)	IMF and World Bank			$40 million/ year	In Uganda, rural roads, primary health care, and education

Sources: World Bank (1998); Swiss Coalition (1997); OECD (1998); U.S. Senate Committee on Foreign Relations (1998); Kaiser and Lambert (1996); Williams (1999).

Notes:

(a) Including three transactions in which the purchaser of the debt was a government (Netherlands, Sweden, and Japan); it is not clear what the role of NGOs was or whether the debt retired was commercial or bilateral.

(b) Finance for Development was an U.S. NGO dedicated to promoting debt-for-development exchanges. It was originally called the Debt for Development Coalition and has now evolved into a private firm called New York Bay.

(c) UNICEF's debt swap in Zambia was arranged by Finance for Development (FFD). It is possible that other UNICEF swaps were also arranged by FFD and thus appear in both this row and the preceding row of this table.

(d) Some of the USAID funds listed here were used to finance some of the private debt-for-nature swaps listed in the first row of this table.

(e) The debt swap with Costa Rica is probably also included in the private debt-for-nature swaps in the first row of the table, though it might be in addition to that one.

3. Private Debt Swaps

The debt-exchange transaction later dubbed a "debt-for-nature swap" was pioneered by an U.S. biodiversity conservation organization, Conservation International (CI), in 1987 based on an idea first proposed by the vice president of the World Wildlife Fund, Thomas Lovejoy, in 1984. In 1987, CI purchased $650,000 of Bolivian debt from Citibank for $100,000 (15 percent of face value), using a grant from an U.S. foundation. In return for CI's retiring this debt, the Bolivian government agreed to establish a local endowment account with the equivalent of $250,000 in Bolivian currency (38 percent of face value) to be used for managing the Beni Biosphere Reserve. The swap agreement also included a policy reform provision aimed at strengthening the legal basis for park protection in Bolivia (Rubin, et al. 1994).

Since that initial transaction, there have been roughly forty-five "private" debt-for-nature swaps involving (mainly) U.S. NGOs, along with a series of private debt-for-development transactions. Most of them have been roughly similar to one another, varying mainly in the specific activities to be carried out and the source of the financing for the swap. In this section, we will describe the structure of private debt swaps, on which the public models described in the next section are based.

Structure of private debt swaps

Private debt swaps involve at least two non-governmental parties.[11] In a typical swap, a creditor country NGO, in partnership with a debtor country NGO, negotiates the swap with the government of a debtor country. Conservation International, which participated in a number of swaps, reported that negotiations with debtor governments took an average of three to five months (Rubin et al. 1994). The swap agreement, which can be a private contract between the two NGOs or a contract with the debtor government as a party, usually specifies:

- face value of the debt to be retired in the deal
- amount of domestic currency to be contributed by the debtor government
- form in which the domestic currency will be provided (cash, bonds, etc.)
- the sequence and timing of the debt retirement and domestic currency contributions (up front or "pay as you go")
- purposes for which the domestic currency generated will be used
- organization that will receive and administer the domestic currency (counterpart fund or NGO)
- eligible recipients of grants from counterpart fund (NGOs, universities, local government agencies, etc.)
- structure of counterpart fund (endowed or sinking)
- governance, oversight, and evaluation of counterpart fund.

Once an agreement is reached, the creditor country NGO purchases discounted debt from private creditors or receives it as a donation from the creditor. The NGO then retires the debt, whilst the debtor government deposits the domestic currency in the specified account belonging to a local

[11] This section is drawn mainly from Deacon and Murphy (1997) and Rubin et al. (1994).

NGO or the counterpart fund. The amount of domestic currency can be either the full face value of the debt (but paid in local currency rather than foreign exchange) or somewhere between the face value of the debt and the discounted value that the NGO paid to purchase the debt.

A sample debt-for-development swap

NGOs began to exchange debt for projects other than nature protection around 1992. Most debt-for-development swaps since then have been undertaken by one of two organizations, UNICEF and a U.S. nonprofit called Finance for Development (FFD) (and in some cases, FFD has arranged debt swaps for UNICEF). UNICEF swaps, which were financed by its national committees in various OECD countries, all generated domestic currency for UNICEF's programs. The swaps arranged by FFD were usually on behalf of other NGOs, which used the domestic currency for their own activities (World Bank 1998).[12]

One debt-for-development-transaction about which we have more detailed information involved both UNICEF and FFD.[13] In 1994, the government of Zambia negotiated an agreement with IDA and its commercial creditors to buy back $200 million of its commercial debt at a rate of 11 cents on the dollar. Financing for the buyback came from IDA, several bilateral donors, and, under a debt-for-development program, a set of NGOs.

FFD was contracted by the Zambian government to design and administer a program under which approved NGOs could purchase Zambia's commercial debt for the same price (11 percent of face value) but then receive from the government 1.5 times the purchase price, in local currency, for development projects in Zambia. To obtain approval to participate in the program, NGOs submitted applications with projects within one of the government's priority areas (including water supply and sanitation, health, primary education, etc.). Fifty NGOs were approved, and fourteen (including UNICEF) raised enough money to participate in a swap.

Each NGO was matched with a commercial creditor by FFD, and the NGOs deposited $10.2 million in an escrow account, which was then used to purchase $92.3 million in debt from the commercial creditors. To complete the transaction, the Zambian central bank placed $10.2 million in Zambian kwacha in an escrow account for the NGOs and allocated an additional $5.1 million in kwacha from the national budget for the NGOs. Payment to the NGOs was made quarterly from an interest-bearing account indexed to the dollar. The Zambian debt-for-development program is regarded as a well-designed debt swap, which also cancelled a significant share (45 percent) of Zambia's commercial debt (Kaiser and Lambert 1996).

Although it is not clear from the literature, it appears that all, or almost all, of the private debt-for-development exchanges that have taken place to date have generated project funds for individual NGOs, rather than endowing a long-term sinking or endowment counterpart fund. This is probably partly due to the modest size of most private transactions and partly to the immediate funding needs of the participating NGOs. The choice of counterpart fund structure will be discussed in some detail in the final section of this paper.

[12] UNICEF ceased its debt swap activities in 1995, reportedly due to the concern of UNICEF's headquarters that country committees were allocating resources to debt swaps without the approval of the headquarters.
[13] The description that follows is taken from Kaiser and Lambert (1996).

Limitations of private debt swaps

For NGOs, debt-for-nature and debt-for-development swaps have been a creative vehicle for leveraging resources for their work and, in some cases, for noticeably increasing the level of funding devoted to their area of work in the debtor country. We have not found any effort to evaluate in a systematic way the performance of the counterpart funds and projects supported by the swaps. Results presumably vary with the individual projects, organizations, and governments involved, just as they would were a foundation to make a direct grant of the domestic currency without any debt swap transaction at all. Five potential problems with the private debt swap model have been identified in the literature, however. Some also apply to public debt swaps, though generally to a lesser degree.

- First, conspicuously absent from the list of items specified in swap contracts above is any reference to performance indicators or outcomes needed to make the swap a success. Private debt swap agreements generally do *not* specify required outcomes, for two reasons. First, environmental and development outcomes are difficult to measure, and specifying outcomes is likely to lead to disputes. Second, as is discussed below, the NGOs that arrange and are party to the agreements have no authority to enforce their conditions. Instead, the contracts specify inputs, such as persons to be trained, vehicles to be purchased, etc. There is thus no easy way to evaluate the success of the swaps as instruments of environmental protection or development finance. (This drawback also applies to grants for development projects in general, of course.)

- As implied above, private debt swap agreements typically lack enforcement provisions. An exception was a swap that The Nature Conservancy carried out with Panama in 1992, which contained financial penalties for Panama if it failed to service the conservation bonds it had created. Deacon and Murphy (1997) argue that this was possible because USAID provided funding for this swap, making the U.S. government a *de facto* party to it. Public debt swaps, in contrast, typically do contain enforcement provisions, backed up by the powers of the creditor government. In addition, multi-year public debt swaps have tended to be designed on a "pay as you go" schedule. Instead of canceling the entire amount of debt up front—and then counting on self interest, public opinion, and good will to persuade the debtor government to honor the agreement—as private swaps typically do, multi-year public swaps usually cancel the debt incrementally, and only after performance targets have been met.

- For similar reasons, private debt swaps generally must focus on discrete projects, rather than on policy reforms. The one effort by the parties to a private debt swap to influence policy in the debtor country is considered a failure. The original debt-for-nature swap, between Bolivia and Conservation International, stated that certain legislative changes would be required as part of the deal. The Bolivian government delayed enactment of these changes due to pressure from local stakeholders, and its contribution to the domestic currency fund created by the swap came nearly two years late. As a result of this experience, later debt-for-nature swaps shifted to specifying inputs, such as training and equipping park rangers, rather than policy changes, such as changing the legal status of the park (Deacon and Murphy 1997).

- Many observers raised concerns about debt swap transactions in general, and private swaps in particular, because the counterpart fund created by a swap is subject to expropriation by the debtor government once the transaction is completed. A related fear is that the debtor government will fail to honor domestic bonds or budgetary commitments issued as part of the swap. Deacon and Murphy (1997) believe that this risk creates a constraint on what NGOs can do with the domestic currency generated by the swap—if they support activities to which the government objects, the risk of expropriation or failure to pay increases. It does not appear that any debt-for-nature swaps have actually suffered this fate to date, however. Jamie Resor of World Wildlife Fund reports that WWF has never encountered this problem, as most countries are willing to cover their domestic currency obligations even when they are in arrears on hard currency loans (Jamie Resor, personal communication, May 1999). The record for private debt-for-development swaps is unclear.

- Finally, if the debtor country generates its contribution to the domestic currency swap fund by printing money, debt swaps could be inflationary. Given that most debt swaps, public as well as private, have been relatively small in size and in many cases have involved payment on a domestic currency bond rather than an up-front infusion of money, concerns about inflation have not been borne out (Rubin et al. 1994).

NGO enthusiasm for traditional private debt swaps has waned to some extent in recent years because of the difficulty of raising money to purchase the commercial debt involved and because many debtor countries have already converted their commercial debt to bilateral or multilateral debt. Attention within the U.S. NGO community has instead turned to efforts to leverage public funds and build a swap component into government debt relief initiatives.

4. Public Debt Swaps

In contrast to private debt swaps, public debt swaps are transactions between debtor governments and creditor governments or groups of governments, like the Paris Club and/or inter-governmental organizations, like the World Bank. NGOs are typically not party to the agreements, although the domestic currency funds generated by the swap can be granted to NGOs to spend.[14] Public debt-for-development exchanges generally have two components: a "debt" component, which involves debt relief, and a "swap" component, under which domestic currency is allocated to development projects. The models described below include both components—debt relief and development project financing. They are the U.S. Enterprise for the Americas Initiative, the Swiss Debt Reduction Facility, and the Poland-Paris Club debt-for-environment swap.

[14] An exception is the U.S. Tropical Forest Conservation Act, under which NGOs can purchase bilateral debt owed to the U.S. government.

United States

Program	**Enterprise for the Americas Initiative (EAI)**
Purpose	To promote market reform and economic growth in Latin America through debt reduction, investment reforms, and community-based conservation and environmental protection.
Eligibility	Latin American and Caribbean countries were eligible to participate in the EAI if they met four conditions: i. Have in effect an IMF structural adjustment program ii. Be implementing World Bank or IDA structural or sectoral adjustment loans iii. Have underway major investment reforms or be making progress toward an open investment regime iv. Have negotiated a satisfactory financing program with commercial creditors. In addition, if a country wanted to participate in the debt swap component of the EAI, it had to sign an Environmental Framework Agreement with the U.S. to establish an Environmental Fund.
Implementing agencies and organizations	In the U.S., the Treasury and USAID (the State Department negotiated the Environmental Framework Agreements). In the debtor countries, an endowed Environmental Fund was created to administer the program.
Process	The U.S. reduced the amount of concessional debt (PL 480 and USAID) owed to it by participating countries up to the amount of the annual appropriation by Congress (the original ceiling was $1.7 billion of PL 480 loans). The debt reduction was carried out by exchanging old obligations for new. Following the reduction, interest on the remaining debt, which was at concessional rates, could be paid in domestic currency into an Environmental Fund provided that the debtor country had negotiated an Environmental Framework Agreement (EFA) with the U.S. The EFA established the Environmental Fund and specified its purposes. If there was no EFA, interest had to be paid to the U.S. in dollars. Repayment of principal on the remaining debt also had to be paid in dollars whether or not an EFA was negotiated. Environmental Funds were apparently intended to be trust funds that made grants out of the interest on their endowments.
Use of domestic currency generated	Environmental Fund resources were to be used for "local community initiatives that promote conservation and sustainable use of the environment", sustainable agriculture activities, and other environmental projects. Child health and child survival activities were added to the program in 1991. [The same law that implemented the Enterprise for the

Americas Initiative (S.2830/PL 101-624) contained a section entitled "Debt-for-health-and-protection swap". This law authorized grants to U.S. and foreign non-governmental organizations to purchase discounted commercial debt and generate domestic currency for the purpose of managing animal and plant pests and diseases in the debtor country. It appears that no grants were made under this section, however.]

Grant-making procedures

A local body on which local NGO representatives were required to hold a majority administered the EAI Environment Fund. In Bolivia, for example, the administrative council included two representatives appointed by the Bolivian government, one appointee of the U.S. government, and four Bolivian NGO representatives, while Jamaica's administrative board included one representative of each government, one university representative, and four local NGO leaders. These bodies were responsible for selecting projects, making grants, and overseeing grant implementation. Grants from the fund could be made to NGOs, to other local or regional organizations, and in exceptional circumstances to government agencies. Grants of more than $100,000 were subject to U. S. and local government approval.

Structure and oversight of the fund

An "Environment for the Americas Board" was established with five U.S. government officials and four representatives of organizations with experience and expertise in Latin America and the Caribbean, all appointed by the U.S. The Board was responsible for approving the body to administer the Environmental Fund in each participating country and reviewing its performance.

Financial results

Seven countries participated in the program in 1991-93. Debt reductions under the EAI as of 1993 totaled $875 million (of which 89 percent went to El Salvador and Jamaica). This constituted 54 percent of the participating countries' eligible debt to the U.S. The domestic currency equivalent of $154 million (interest on the remaining debt) was deposited in Environmental Funds. Funding for the debt relief component of the EAI ended in 1993, though new U.S. legislation in the past two years has permitted debt-for-nature and debt-for-development exchanges in Latin America to resume (WWF 1996).

Performance

In hearings on the Tropical Forest Protection Act of 1998, which was closely modeled on the EAI, the EAI is praised by Rep. Gilman as being highly successful, with only one of the Environmental Funds it created, in Bolivia, having a poor track record.

Sources

S. 2830; Hansen-Kuhn (1993); U.S. Dept. of State (1992)

Switzerland

Program	**Swiss Debt Reduction Facility (1991)**
Purpose	The primary purpose is to alleviate the debt burden of highly indebted countries. A secondary purpose is to create “Counterpart Funds” to support development projects in participating countries.
Eligibility	Highly indebted countries that have rescheduled their debt with the Paris Club; countries that have rescheduled their Paris Club debt and are recipients of Swiss development aid; and all other “least developed countries” are eligible. Participating countries must also be implementing economic reform programs (structural adjustment) and have acceptable political conditions.
Implementing agencies and organizations	The Swiss Federal Office for Foreign Economic Affairs (for debt relief); the Swiss Agency for Development and Cooperation (for implementation of Counterpart Funds); the Debt-for-Development Unit of the Swiss Coalition of Development Organizations (for technical assistance in designing funds and project selection criteria).[15] Swiss and local NGOs play a small role in administration and receive most of the grants.
Process	The Debt Reduction Facility supports four types of debt reduction operations: (i) buyback of non-guaranteed portions of official bilateral export credit debts owed to Swiss exporters and banks; (ii) buyback of commercial bank debt under the IDA Debt Reduction Facility; (iii) financing of multilateral debt arrears, including participation in the HIPC Initiative; and (iv) capacity building and public education. In exchange for debt relief, the debtor country must agree to put a small part of its savings into a local currency fund called a Counterpart Fund, to be used for a range of development projects specified in the agreement with the Swiss Government. The domestic currency for the counterpart fund must be paid in advance and in cash.
Use of domestic currency generated	Counterpart Funds make grants to NGOs and government agencies to carry out development projects in social services, infrastructure, small enterprise promotion, environmental and natural resource management, agriculture, and other sectors.
Grant-making procedures	Grants are made from the counterpart funds’ principal, and the funds have anticipated life spans of 3 to 10 years. Counterpart Funds fall into two broad categories: “project funds”, which provide short and medium term grants; and “loan funds”, which serve as credit-making and institution-building entities.

[15] The Swiss Coalition of Development Organizations is an association of five non-governmental organizations: Swissaid, Catholic Lenten Fund, Bread for All, Helvetas, and Caritas.

Structure and oversight of fund	A Counterpart Fund must be an interest-bearing account with a private commercial bank. An independent body composed of representatives of the Swiss government and the participating government manages the fund. A technical committee including local NGO representatives advises on project selection.
Financial results	The Debt Reduction Facility had an initial endowment of $320 million. As of the end of 1997, Switzerland had granted debt relief totaling to 18 countries, and 12 of these had established counterpart funds. For these 12 countries, approximately $760 million of debt was retired, and $192 million (domestic currency equivalent) was generated for the counterpart funds (about 25 percent of the face value of the debt). $103 million of this had been committed to 570 projects by the end of 1997 (average project size = $180,000).
Performance	Unknown.
Sources	Swiss Coalition (1997)

Poland

Program	**Poland-Paris Club Debt-for-Environment Swap (1991)**
Purpose	To reduce Poland's bilateral debt to Paris Club creditors and generate resources for internationally important environmental issues.
Eligibility	The agreement was negotiated directly between Poland and its bilateral creditors.
Implementing agencies and organizations	Poland's Minister of Environment made the proposal for the swap, and the Minister of Finance established the EcoFund to receive the domestic currency generated by the swap. EcoFund procurement is accomplished through international competitive bidding, with rough quotas for Paris Club country firms.
Process	The Paris Club agreed in 1991 to cancel 50 percent of Poland's bilateral debt. Poland then proposed that individual creditor countries be allowed to invest up to 10 percent of the original debt (20 percent of the remaining debt) in an environmental protection counterpart fund called EcoFund. Each creditor country would sign a voluntary bilateral agreement with Poland to participate in EcoFund. EcoFund proposes projects to the Paris Club countries' representatives. When a project is approved, the funds for it are released to EcoFund from a hard currency escrow account with the Bank of International Settlements where Poland services its external debt (instead of being passed on to the creditor that agreed to fund the project). Unlike most debt swaps, this model does not reduce Poland's foreign

exchange obligations, though the funds are presumably returned to EcoFund in foreign exchange as well.

Use of domestic currency generated	Poland identified four environmental issues of international importance for EcoFund to support: transboundary air pollution, Baltic Sea contamination, greenhouse gas emissions, and biodiversity loss.[16] Each creditor can specify which issue it wishes to support. EcoFund support must be "additional" to what the Polish government would otherwise have spent. Additionality was defined relative to a 1991 baseline of total expenditures on environmental protection.
Grant-making procedures	EcoFund contracts are awarded competitively, but only countries that contributed to EcoFund are allowed to bid, and an effort is made to achieve a "fair" distribution of contracts to countries in proportion to their contributions to EcoFund. In 1996, two thirds of EcoFund's support went to government agencies, and most of the rest went to publicly owned enterprises. NGOs received only 2 percent of EcoFund resources. As of 1996, EcoFund had approved 171 projects, with an average size of $639,000. EcoFund is expected to disburse all its resources over a period of 18 years, ending in 2010.
Structure and oversight of fund	EcoFund is a foundation governed by a Council of 7-15 members on which creditor country representatives are a minority. The Minister of Environment appoints the chairperson and the Minister of Finance appoints the members of the Council. Polish members represent national and local government agencies, scientific organizations, and other organizations. The creditor governments that will fund them, as noted above, must approve all projects. A Management Board runs the fund, conducts reviews, recommends projects, and monitors project implementation. EcoFund has a staff of 21.
Financial results	EcoFund had a hypothetical ceiling of $3.3 billion (equal to 10 percent of Poland's original bilateral debt). As of 1998, $510.7 million had been contributed to the fund by the six Paris Club countries that chose to participate (out of seventeen Paris Club members). Only two countries, the U.S. and Switzerland, contributed the full 10 percent allowed, and the U.S. contribution accounted for 72 percent of the total in EcoFund. Other countries' contributions were in the range of 1-2 percent. Three of the six participating countries signed agreements with Poland only in the past three years (1997-98). Germany, Poland's largest creditor, with 18 percent of its bilateral debt, has not participated in the swap program.
Performance	An OECD evaluation of EcoFund in 1998 found that the projects it funded have generated significant environmental benefits. It estimated that about two thirds of the projects would not otherwise have been funded. Through

[16] A fifth was added in 1996, waste management and contaminated soil reclamation.

very rigorous project identification and appraisal procedures, EcoFund has been able to select good projects and leverage additional funding for them. Creditor interest in EcoFund has been limited, however, as indicated by both the small number of Paris Club countries that have participated and the fact that none of the participating creditors has ever bothered to specify which of the issue areas it wishes to support.

Sources	Zylicz (1998); OECD (1998)

Unlike most of the private debt-for-nature and debt-for-development swaps, a common element of all three of these public programs was the creation of a counterpart fund in the debtor country. The counterpart fund functioned very much like a charitable foundation, making grants for projects according to the guidelines laid out in the transaction agreement. In the case of the Swiss Debt Reduction Facility, Counterpart Funds make grants out of their principal, giving them finite (3-10 year) lifetimes. Poland's EcoFund is also a sinking fund, expected to spend down all its resources over an eighteen-year period. The EAI Environment Funds, in contrast, were designed to be endowed trust funds, with grants made out of the interest earned on principal. International organizations have amassed a good deal of experience in recent years in designing and managing earmarked funds and foundations in developing countries.[17] Once the debt-relief component of a debt swap is completed, the parties involved can draw on this experience to improve the performance of the counterpart fund. We will summarize some of the most important lessons from experience with counterpart funds in the final section of this paper.

A note about HIPC

Among the criteria for debt relief of the Highly Indebted Poor Countries (HIPC) Initiative are performance targets in such areas as basic health care, education, and poverty alleviation. Based on the experience of Uganda, it appears that a set of outcome indicators (e.g. school enrollment, immunization rates, health sector spending, etc.) will be used both to evaluate past performance and set targets for the future. There appears to be no requirement that funds saved through debt relief will be directly channeled to social projects (IMF 1998). Uganda, the first country to be approved for debt relief under HIPC, however, apparently volunteered to place all its "savings" into a Poverty Action Fund, to be used for projects identified by its national Poverty Eradication Action Plan (Williams 1999). In this sense, HIPC is similar to other debt swap programs, but its large scale and complexity set it apart from most of the transactions discussed here.[18]

Recent U.S. Debt Swap Legislation

In the past decade, the U.S. government has passed three laws promoting the use of debt-for-development and debt-for-nature swaps, and a third bill is now under consideration. The U.S. Agency for International Development (USAID) was given legislative authority to support debt-

[17] See, for example, the Global Environment Facility's recent evaluation of conservation trust funds (GEF 1998) or the publications of the Synergos Institute. The Synergos Institute already has underway a program for building the capacity of charitable foundations in southern Africa.
[18] In mid-May, 1999, several U.S. conservation organizations sent a letter to Treasury Secretary Larry Summers urging him to ensure, among other things, that the HIPC Initiative does generate funds for social projects (including conservation) (Jamie Resor, personal communication, May 1999).

for-nature swaps ten years ago, and in the early 1990s provided $95 million to NGOs for debt-for-nature swaps that led to $146 million in domestic currency being made available for environmental protection in eight countries (H.R. 2494).

Beginning in 1998, USAID was allowed to engage in debt cancellations, buybacks, and debt-for-development/debt-for-nature swaps (H.R. 2159). Under a buyback, a country can purchase its own debt to the U.S. at the market price, but it has to use an amount of domestic currency equal to either 40 percent of the price paid for the debt or the difference between the price paid and the face value of the debt to support i) projects that link conservation and sustainable use of natural resources with local community development; or ii) child survival and child development projects. Under the program, Peru, for example, bought back USAID debt at one third of its face value and generated $23 million for environment and child survival projects.

In the same year, the Tropical Forest Conservation Act of 1998 (S. 1758) provided three mechanisms for conserving tropical forests: i) buybacks, as described above (with the same 40 percent rule); ii) debt swaps involving non-governmental third parties which can purchase U.S. bilateral debt; and iii) bilateral concessional debt reduction followed by deposit of interest payments into a domestic currency tropical forest fund, as was done under the EAI. The debt that is sold or cancelled by the U.S. government is to be valued by the Treasury at its net present value, which is considered to be comparable to its market value (and might thus be heavily discounted from its face value). The structure of the program is modeled closely on that of the EAI.

Finally, and of most importance to debt-for-health advocates, is the bill introduced into the House in March 1999, the *Debt Relief for Poverty Reduction Act of 1999* (H.R. 1095). It proposes that the U.S. cancel all concessional debts to heavily indebted poor countries and reduce non-concessional debts by 90 percent. A condition of participation is that all savings generated by debt reduction under the HIPC Initiative and other programs are deposited into a "Human Development Fund" which will be used for poverty alleviation. If adopted, this bill might provide a U.S. legislative framework under which debt-for-health swaps in Africa can be undertaken, though it does not specify that savings generated by the swaps be used for health.

5. Lessons learned and implications for debt-for-health exchanges in sub-Saharan Africa

A number of conclusions can be drawn from the experience with debt swaps described above. These conclusions offer some guidance on how a debt-for-health exchange between the U.S. and an African country might be structured. Two important provisos apply, however:

- There does not appear to have been any systematic attempt to evaluate debt swaps as tools for achieving specific social ends or as mechanisms for reducing developing country debt. Most of what we know about the success or failure of various swaps is anecdotal, and should be taken as such.

- Most of the swaps that have been described and analyzed in the literature have been debt-for-nature swaps, and most of the counterpart funds that have been created in developing countries have been for environmental protection (the main exception is the Swiss

Counterpart Funds). While debt-for-health exchanges will likely resemble debt-for-nature swaps in many ways, there are probably also important differences involving such things as service delivery approaches, timing of expenditures, and the role of local government agencies that will need to be taken into account in designing a debt-for-health exchange.

With that in mind, we can offer the following comments and recommendations.

The debt-exchange transaction

1. Public debt swaps should be part of the debtor country's overall debt management strategy and should be undertaken at the initiative of the debtor country. Having in place a realistic strategy for managing debt could be made a condition of the swap, though this is probably not critical for small or single-creditor transactions. Zylicz (1998) argued that one reason the Polish EcoFund has been so successful is that it was proposed by the Polish government, rather than pressed upon Poland by the Paris Club. Jamie Resor of the World Wildlife Fund also observed that active NGO support and participation is needed to push debt swaps forward (Jamie Resor, personal communication, May 1999).

2. Similarly, debt exchange activities should be part of the creditor country's overall foreign assistance and debt relief strategy. The creditor country should also take steps to ensure that financing for swaps is not counted against the existing foreign aid budget (i.e. it's in addition to foreign aid, not a substitute for it).

3. Two decisions need to be made on issues of timing.

    i. First, the swap could be a single up-front transaction or a series of incremental transactions ("pay as you go"). The choice will depend on the nature of the activities to be funded, the ability of the debtor country to generate enough domestic currency to meet its obligations under the swap all at once, and the level of control that the creditor government wishes to maintain. For a public swap involving a debtor government that has a record of financial management problems, a pay-as-you-go approach, in which each incremental swap is contingent on good performance with the last increment, would probably make the most sense. The pay-as-you-go approach has higher transaction costs for both the debtor and the creditor countries, however.

    ii. Second, the domestic currency contributed by the debtor government could be paid in cash or in domestic bonds. From the creditor's perspective, the decision depends on the creditor's confidence that the bonds will be honored over time and the financing needs of the kinds of projects to be supported. (For example, conservation projects often require a steady but modest income over time, while for health projects it might make more sense to spend larger amounts of money in a shorter time-period.) Debtor countries are likely to prefer issuing bonds rather than making lump sum cash payments, of course. Domestic bonds should be indexed to the dollar to safeguard their value in case of local currency devaluation.[19]

[19] If possible, bonds issued for this purpose should also be high-quality or "senior" bonds, rather than subordinated bonds, so that the counterpart fund has a priority claim on government resources.

4. A number of steps can be taken to reduce the risks inherent in a debt swap for the creditor country, the debtor country, and any NGOs participating in the transaction. These include using escrow accounts to hold funds until certain actions are taken; indexing volatile currencies against the dollar; establishing accounts that are independent of either government and have strict access rules; holding funds in offshore accounts; and so on. Given the potential fallout to both sides if the debt exchange fails, it is worth investigating all of these mechanisms and incorporating them into the formal agreement whenever possible (John Ross and Jamie Resor, personal communications, May 1999; Deacon and Murphy 1997).

Creation of the counterpart fund

5. As explained above, most public debt for development transactions result in the creation of a counterpart fund in the debtor country that makes grants for the activities specified in the agreement. The counterpart fund can be an endowed trust fund, making grants out of the returns on its principal, or a short- or long-term project or sinking fund that draws down its principal until it is either replenished or disappears. The timing of payments into the counterpart fund will influence what kind of fund it is, along with the total amount of domestic currency to be contributed and the financing needs of the kinds of projects proposed. Endowed funds have been popular for conservation activities, such as protecting national parks, as these typically require stable funding over long periods. For public health activities, particularly in areas hard hit by AIDS, malaria, etc., it might make more sense to opt for a short-term project fund, with an intended life span of perhaps 3-5 years. If the amount of domestic currency generated by the swap is not great enough, it will not provide a sufficient endowment for an endowed trust, and a sinking fund should be established instead. The Global Environment Facility recently reviewed thirteen conservation trust funds and came up with a set of criteria for making this choice (GEF 1998).

6. Governance of the counterpart fund is an issue of critical importance to its credibility, survival, and performance. Most counterpart funds are overseen by a committee or board, with representation divided between the creditor and debtor countries and between government representatives and NGO representatives. The optimal composition of the board will of course depend in part on the size, life span, and purpose of the fund. NGOs that have taken the lead in promoting debt swaps prefer that NGO representatives comprise a majority on counterpart fund boards. This has been the case for EAI Environmental Funds. Swiss Counterpart Funds, in contrast, have rarely included NGO representatives. Poland's EcoFund is unusual in having a majority of its board appointed by the Polish government.

   In general, most experience with debt swaps in the past suggests that the EAI model, in which both governments have representatives on the counterpart fund board but local NGOs hold the majority, has the greatest chances for success, for several reasons. First, since one of the reasons for establishing a counterpart fund is to dedicate the debt relief "savings" to a specific set of activities, making the fund independent of the debtor country government is usually considered important. For such a structure to succeed, however, the government must actively support the creation of an independent fund (GEF 1998). Second, giving the lead in fund oversight to NGOs can also be reassuring to creditor country decision-makers who are wary of possible diversion of resources to other uses by debtor country governments. Third, if the counterpart fund is a grant-making institution, most of its grantees are likely to be NGOs. Finally, an NGO majority on the board can be the best way to foster a sense of ownership of the counterpart fund among those whose support is vital to the success of the swap.[20]

7. Assuming the counterpart fund is a grant-making institution, a decision must be made about eligibility for grants. While local NGOs are usually eligible, government agencies often are not. In the case of debt-for-health exchanges, allowing service delivery units of the Ministry of Health (like community clinics) to apply for grants might make sense, provided that these units can be held accountable for the use of the grant funds. One option in this regard is to allow government agencies to apply only in partnership with NGOs, which can receive the grants and take responsibility for accounting for their use. The performance records of counterpart funds that have made grants to government agencies should be investigated further before a decision on this issue is made.

8. One of the criticisms of debt swaps and counterpart funds is that they replace debtor country government social spending, rather than adding to it. Ensuring "additionality" is thus an important consideration. Since it is nearly impossible to prove than any one project would or would not have been financed in the absence of the counterpart fund, additionality is often measured against a historical spending baseline. For example, average annual government expenditures on health over the preceding three years might be taken as a baseline; if government spending on health falls below this baseline, disbursals from the counterpart fund would not be regarded as "additional" spending (OECD 1998; Zylicz 1998).

Implementation of activities

9. One of the trickiest tasks in designing a debt-for-health exchange is likely to be the identification of the specific activities to be supported by the counterpart fund. It is important that the activities specified for support in a debt-swap agreement be part of the debtor country's overall strategy for addressing its needs in the relevant sector. For health, this means that the kinds of projects that the counterpart fund supports should be consistent with the national health plan or other long-term strategy. Likewise, if the aim of the transaction is to generate new resources for the fight against AIDS, guidelines for projects should be consistent with national HIV/AIDS policies. If they are not, there is a risk both to the long-term survival of the counterpart fund, which might be seen as obstructing national policy objectives, and to the fund's overall effectiveness in promoting AIDS prevention.

   At the same time, the counterpart fund is likely to generate greater benefits for the debtor country if its activities are focused on a narrow set of issues, rather than on the health sector as a whole. Focusing on a small set of issues, such as HIV/AIDS prevention, will allow the staff of the fund to develop expertise and experience in selecting good projects and to provide technical assistance to grantees and reduce the number of grant applications that might otherwise overwhelm the staff. Perhaps more important, limiting the counterpart

[20] A review of the pros and cons of different governance structures, prepared by the World Wildlife Fund in 1996, is included in Kaiser and Lambert (1996).

fund's agenda to just a few issues might make it possible to define indicators against which progress on the issues can be evaluated. To our knowledge, this has not yet been done for any of the counterpart funds created by debt swaps or for the conservation trust funds established by the Global Environment Facility (GEF 1998).

10. As indicated above, for counterpart funds to achieve their social goals, they must have the ability to select good projects. Strengthening the capacity of counterpart fund staff and/or technical advisors to identify and evaluate projects and grant proposals is thus an important task. In countries where NGOs generally do not have experience in applying for grants and managing grant funds, providing training for NGO staff is also a prerequisite for generating good proposals and making successful grants (Randy Curtis, personal communication, May 1999; GEF 1998).[21]

11. One of the reasons that assessing the record of debt-for-nature and debt-for-development swaps in the past decade is the scarcity of rigorous evaluations of their results. Monitoring and evaluation of the counterpart fund should be built into any debt exchange agreement, to allow adjustments to be made mid-course if necessary and, equally important, to inform future debt exchanges.

12. Finally, it is worth calling attention to two publications that are likely to be particularly useful to anyone involved in designing a debt-for-health exchange. One is the evaluation of conservation trust funds carried out by the Global Environment Facility in 1998 (GEF 1998); the other is a manual for NGOs interested in debt swaps prepared by the International Union for the Conservation of Nature in 1996 (Kaiser and Lambert 1996).

Conclusions

The momentum for debt relief described in the introduction to this paper seems likely to produce at least some level of debt cancellation for the highly-indebted countries of sub-Saharan Africa in the foreseeable future. The level of true "debt savings" to be generated by debt relief is uncertain, not least because some of the poorest countries are not paying any debt service from their own resources at all, but are simply using new foreign assistance and concessional loans to avoid defaulting on the old.

Though the amount is hard to predict, debt relief will undoubtedly free up some additional resources that can be invested in solving social problems. This paper argues first, that these "new" funds should be directed at HIV/AIDS prevention; and second, that a decade of experience with debt-for-development swaps demonstrates that using debt saving to achieve development goals is both reasonable and feasible. The knowledge we have gained from debt-for-development swaps about how to structure the transactions, establish counterpart funds, and select projects for support should heighten the odds that a successful debt-for-health (or debt-for-HIV prevention) program can be launched now in sub-Saharan Africa.

Even if the absolute amount of money released for social programs by debt relief is modest, it is likely to have a significant effect on HIV prevention efforts. It is interesting to compare current

[21] OECD (1998) provides a good discussion of the project cycle for Poland's EcoFund.

per capita spending on HIV/AIDS, for both prevention and care, with the potential per capita savings that could be generated through bilateral debt relief. Table 3 provides these figures for four African countries.

Table 3: Potential increases in HIV/AIDS funding from bilateral debt relief

Country	Per capita funding for HIV/AIDS as of 1996[a]	Potential per capita savings from bilateral debt relief as of 1997
Zambia	$0.73	$10.73
Kenya	$0.76	$5.24
Nigeria	$0.03	$1.69
Uganda	$1.81	$3.66

Sources: UNAIDS (1999); Sachs et al. (1999)
Notes:
(a) Funding from international and national sources as reported by the country. UNAIDS (1999) estimates that these amounts capture about two thirds of actual spending on HIV/AIDS.

The figures in Table 3 make it possible to conclude this paper on an optimistic note. Uganda, whose national campaign against AIDS has succeeded in reducing the HIV prevalence rate among its teenagers from nearly 28 percent in 1992 to just 10 percent in 1996, has not invested more in controlling the epidemic than could be released to most other sub-Saharan countries through bilateral debt relief.

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