THE BROOKINGS INSTITUTION

FUNDING GLOBAL HEALTH NEEDS:

WILL THE GLOBAL FUND DEBT CONVERSION

MAKE A DIFFERENCE?

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P R O C E E D I N G S

MR. DE FERRANTI: Good afternoon. I think we will get underway even as people continue to work through the registration and come in so that we get the full time possible from all of our speakers and questions, answers, and discussion.

First, my name is David de Ferranti and I welcome you to the first Brookings innovative finance event from our Project on Innovative Finance in Global Health. Our topic today as you know is debt conversion to benefit the Global Fund for AIDS, Tuberculosis and Malaria. Just to say a few words about that topic at the outset because many others would say more, there are a couple of terms that will be coming up often. One, by debt conversion the idea is the exchange of debt typically at a substantial discount for domestic currency to be used to finance projects on HIV/AIDS, tuberculosis or malaria, projects that have been approved by the global fund, and that this debt conversion would free up other global fund money for other projects in other countries.

There are different types of debt that could be discussed, and we will hear about that. One type is export credit agency debt which is provided to make the lending country's exports more attractive to a borrowing country and this debt is usually held by an export financing agency in the U.S., there are three of them, the Export-Import Bank, the Commodity Credit Corporation, OPIC, the Overseas Private Investment Corporation. There are many other analogs to that

elsewhere, but there are other types of debt that now I think are more the focus of the discussion today.

A few words about our speakers. You have or can get on the table more extended biographies of them so I will be fairly brief. Ngozi Okonjo-Iweala, immediately on my right, is a Brookings Distinguished Visiting Fellow and is internationally recognized for many accomplishments one of which is a stellar record of negotiating successful debt conversions and debt forgiveness when she was Minister of Finance for Nigeria, and we look forward to her reflections and maybe even, Ngozi, a few war stories about the practical challenges of debt relief.

On her right, my colleague Charles Griffin will walk us through some ideas framing what we have done and are doing here at Brookings to understand the general problem of it better. He is an economist who has worked in various capacities in health, education, and other social programs with experience at the World Bank and elsewhere.

On his right we have the two pioneers trying to seed interest in this particular debt conversion proposal, Paul Zeitz, the Co-Founder and Executive Director of the Global AIDS Alliance, and Kingsley Chiedu Moghalu, Head of Global Partnerships at the Global Fund, and they will explain the concept and its potential. The speakers are in the order in which you see them sitting. And on their right, Brookings scholar Homi Kharas who has recently joined Brookings after being Chief Economist for East Asia at the World Bank will comment on

what he has heard so far up to that point and bring in the viewpoint of someone familiar with the public finance landscape and low- and middle-income countries that are the target of this discussion and will help us think about some of the general economic issues related to debt and public spending.

Finally, a few numbers to frame the discussion a little bit. We and the world start with a funding gap for health that has been variously estimated, but there is one thing that is agreement on, and that is that it is big. Bill Gates has said that if the shortfall in world funding is about $50 billion per year to reach the Millennium Development Goals for health as is commonly suggested, that even with his resources plus Warren Buffett's, all of that money would only fill the gap for 18 months and then everyone would be right back to the same problem again. So even substantial resources are not substantial enough.

The Global Fund raised and committed $7 billion from 2002 to 2007 and has received total pledges of $9.8 billion through 2008. And while these are not small amounts of money, that amount in the global fund is nowhere the estimated need of $15 billion per just for the three diseases that concern it, and I know that the Global Fund is very aware of these issues.

Bottom line, it will take financial cleverness and a long-term commitment of substantial new funds to close these gaps, and therefore we have not only a financial gap, but we have an ingenuity gap. We need to be ingenious. And there are ideas that are recently launched that are showing us some possibilities. The International Finance Facility for Immunizations, IFFI, and the

Advanced Market Commitment, the AMC for New Drugs, recently launched, and the French Airline, these are all new undertakings, relatively new, trying to stretch the available dollars so that they can have a more beneficial impact for health. And now today we discuss another idea, the Global Fund Debt Conversion, and I hope that it will not only find ideas that are important for the financing gap and the ingenuity gap, but also improve or solve our knowledge gap.

So there we go, and we are going to start with Ngozi and try to get through the prepared remarks fairly briskly so that we can then have a full and rich discussion with your questions from the audience. Ngozi?

MS. OKONJO-IWEALA: Thank you, David, for that. I think this is a very important topic and if I trail over my words halfway through, forgive me. I am half asleep because I just came back from traveling last night. But I will say a few intelligent things based on my experience and pose some questions.

There is no doubt that the diseases that have been mentioned, HIV/AIDS, malaria, and tuberculosis, have an important funding gap and it is from that basis that we depart, and there is no doubt that to solve this we need to think in all ways we can and look at all mechanisms we can to trying to bring in additional resources. So to that extent I welcome the idea of looking at debt conversion and debt for health swaps or however you might want to term it.

The idea of debt conversion is not really new. It has existed for quite some time and all types of conversions have been tried, but I think that the

debt for nature, debt for development and all those swaps began to garner more popularity in the 1980s and up until now. But what has struck me really is during the heydays of the 1980s debt crisis when there were a lot of all sorts of conversions and swaps for the countries in crisis then, Argentina and some of the others, where you had $400 billion and upwards in various kinds of swaps including about $38 billion for debt for equity swaps, you only had $153 million for debt for nature, debt for development and those kinds of swaps. That type of debt conversion has remained quite small in the context of things, in the context of debt deals, and I have always wondered why, why wasn't there a rush for this kind of conversion because it seemed too worthy. It was only when I began as Finance Minister for Nigeria to work with this that I understood some of the pros and cons and why there has not been the kind of impact of this kind of debt conversion that one would have expected to see.

Recently with the whole HIPC initiative, that is a big boost for debt. I hope people realize that it is a kind of debt for development swap, the HIPC initiative, because the countries pledge to use the resources to finance education, health, and all the other things. So that is one of the biggest kinds of swaps that we have had recently, although they have not called it that, but I would classify it very much as that.

So I think one of the things we need to look at are what are the plusses and minuses, why is this not taken off, and is therefore the Global Fund experience going to be significantly different, are they reaching for too much?

Mark you, I am not saying they should not try it, I believe we should try any and everything that could add incremental resources to find the gap, but I think we also need to look at all the issues involved so as not to be maybe essentially too optimistic where we should not be or too pessimistic.

First of all, I think that this initiative is targeted for middle-income countries, not the HIPC countries because much of the debt there has now been forgiven, although I do not think we should dismiss another look at the HIPC because even after the post-multilateral debt relief for both completion countries and the interim countries between the decision point and completion point, there are still about $10 billion of debt. I was trying to look at the nature of that debt. Why do we still have that amount? So I would urge the Global Fund because there may be a mismatch of disease burden and a liability of possibilities of swap in the countries you are looking at. That is one of the issues that I wanted to raise. You may have countries with a lot of debt, but the disease burden is relatively low. Countries with a high disease burden of HIV/AIDS but the possibility for a swap is limited because their debt has already been forgiven, but look at this $10 billion. So do not write off the HIPC countries quite yet. You should take another look. That is a significant sum of money.

And you have got countries that are yet to enter, who have not reached decision points, the Liberias of this world, maybe something could be done to facilitate this kind of debt for health swap in those countries. There are

11 countries yet to reach decision point and I think this would be a good thing to look at there.

Now the attractive thing about some of the middle-income countries you have identified is that they do not have any debt relief possibilities as of now. Nigeria was one of these countries classified as "middle income." It wasn't really, it was really an IDA only and was being treated as a low-income country within the lending of the bank and yet it was classified in a different category and we were able to successfully argue for it to be treated and for its debt to be forgiven. But some of these other countries, Pakistan, has a debt of about $38 billion, public and private, Indonesia about $71 billion private, $69 billion public debt, about $140 billion, something around there. These are heavy figures. Kenya, I do not have all the numbers, but some of these countries are not being treated by either the Paris Club or other mechanisms for debt. So trying to see what you can do in the context of a debt for development or debt for health swap in these countries could give them an avenue to experience some degree of conversion of using their resources for development in their countries, and for that reason I think it is attractive. The only thing to look at is how heavy these diseases are and will this really make that much of a difference in those countries.

There are various things to look at in terms of why this debt conversion may not be as popular as one would have liked. I think our experience in Nigeria where we developed a debt conversion unit, and again I do not have up to date numbers, but we did not convert more than say $30 million or so, $23

million was in one debt for equity, for debt for investment kind of swap, and there was not that much in terms of debt for nature, debt for health, and other kinds of swaps.

Part of this is on the plus side you look at these swaps and in a sense if somebody buys your debt at a discount from one of the donors or whoever, one of the people you owe, in our case it was bilateral debt because the export credit agencies were not really interested as such in that kind of swap. Those are hard customers to deal with and I do not know the extent to which they are going to look at this.

But on the bilateral debt, some of the countries like Switzerland, and were willing, and we did do some of that. But the biggest ones that we did, and I said the advantage is that the foreign exchange needed to service that debt, you do not have to worry about it, somebody buys it, you pay local currency, so it is an advantage in that sense. There is also for the country that is doing the swap a transfer of risk from their portfolio to the portfolio of the those who are purchasing the debt and so is attractive to them and if it is successfully swapped they also have the satisfaction of knowing it is going for some direct project or investment in health, education, or any other area they may be interested in.

On the other side, why I think it was not so popular is the way that it was being done. There was really no net reduction in liabilities for us in the way some of the swaps were being done. In the largest one we did, in fact I thought we ended up with -- well, you know there was no reduction. The one that

was debt for investment, the people tendered the debt from Russia at a discount of 20 cents to 30 cents on the dollar. It came back to us for us to repurchase it at full face value with no discount whatsoever. So I did not see what particular advantage there was for us in terms of reduction in liabilities. Of course, we were purchasing this and then they were turning around and saying they were going to invest this in an investment project except that we kept waiting for this project investment to take place and it did not and I thought that if we are financing this through this mechanism, why do we have to go through this convolution of this swap? We might as well say we are doing a public set of projects which we were trying to get away from and go ahead.

And then you had to go to the National Assembly and argue for resources separately to do this, you needed a budget to do these swaps, and they did not really quite understand the nature of the swaps and what you were doing. It seemed like a smoke and mirror game to them particularly when you were not experiencing any net reduction in the liabilities. If they had tendered the debt and we had been able to arbitrate, they bought it at 30 cents and we repurchased it at 60, we would have saved, but they were tendering it at face value and insisting. I remember the Italians also calling me up and saying they wanted to engage in this debt for investment but they wanted us to repurchase from their private sector through face value.

So under the circumstances, what incentive really is there to engage in this? You have to look at what is the real transfer or real conversion

that is taking place there. That is a big question mark where people are not so keen because why do you have to through all this.

If you are telling me that you are doing a conversion that will result in a net reduction in the liabilities we owe on this debt then it is more attractive, but that is not what many of these people are trying to do and I do not know how the Global Fund mechanism is exactly going to work. So that is one of the stories.

The other thing is if the country was not servicing this debt in the first place, suppose you had this liability, you have a stock of debt out there like we had and we were supposed to be paying $2.3 billion a year in debt service, but we actually were paying only a billion for our Paris Club. This is our Paris Club debt that I am talking about. Or you have bilateral debt and some countries are not servicing at all or they are servicing part and then you bring this mechanism in which means they have to shell out in local currency almost immediately to repurchase the debt and they have not have been servicing meaning there was no real impact on their budget. Now you are bringing an impact. I hope I am making myself clear. So you know you are bringing an added liability.

Is the Finance Minister going -- how attractive is this to them and to the Parliament or whoever is going to approve this? They will say we were not doing anything with this debt, let it stay there. Many of our legislators had that attitude and we had to explain to them that it is going to stay there forever accumulating interest. But in some countries they could decide this is

unserviceable, we are not working on it, do not swap anything, we do not want to put out even local currency to back this. So I think these are some of the ways you actually come to implementing something on the ground. These are some of the actual facts you have to look into to see if it will work.

And then there is the question why debt for health? Yes, we want to fight HIV/AIDS, malaria, and tuberculosis, but we also want to educate 70 more children, we want 120 million children in school, we want 1 million more in Nigeria to get into school. Why is this necessarily what we should swap? If we start doing this, let's do a general one that is debt for development and we decide how to allocate the resources to either health, education, or whatever field we want. Why must we do this for this particular thing? What about debt for infrastructure? So there are those kinds of questions that people also did not understand why you wanted to be quite sectoral and target this particular issue.

In summary I am saying this is a good, innovative way to think at the margin you can get some more resources released out of this that would help the Global Fund, but I would like to caution that the impact, the numbers I am seeing of $500 million and so on that is being talked about I am quite skeptical that if this thing has not taken off, if the evidence, we are doing evidence-based work, is that in the heydays we have only been able to do $153 million of this in comparison for over $400 billion of other types of swaps, why is that the case? Let's look at this and see what the stumbling blocks are in the way, in which

countries could this work and in which ones could it not work, and then try to take it from there. Thank you very much.

(Applause.)

MR. GRIFFIN: Apart from the difficulty of following such a great speaker, I had the great sinking feeling of watching this computer while Ngozi was talking download and update and reboot itself and I thought since Bill Gates is paying for all this, if he wants to update our computer during the seminar, I guess he can do it.

(Laughter.)

MR. GRIFFIN: So we will just have to wait a second to get this to work. I can get us started anyway. I am going to talk a bit about just the framing exercise here today and just very simple ideas about what the architecture for health assistance looks in the world just to give a little further context for what we are talking about, quite a different topic from what Ngozi just spoke about.

I am liberally plagiarizing from my colleagues; there is nothing from me in this presentation at all, so I would like to mention them. Dave contributed to this, Amanda Glassman contributed, Kristin Blanchard, Graham Ramshaw, and Maria Louisa Escobar who are all here in the audience, and I just want to be sure to give them a little acknowledgement before I steal all of their work.

The roadmap of the presentation today is simply to do the following: first of all, what is the health financing problem we are looking at.

Dave has already alluded to it. I just want to put a little different twist on it. Secondly, just to put out there some stylized facts about what the international aid architecture looks like, as well as what the domestic systems and financing for health look like typically in the countries that are the recipients of this aid with the question there, if you put everything together, what does it look like, and what is the impact of what we are talking about here.

Then we are going to see if we can actually come to some conclusions from that, pretty simple things, but I will not give them away on the first slide, you will at least have to wait until we get to the end.

The first thing, I think Pablo Gottret and George Schieber did a very nice service in the book they recently published to kind of illustrate the fundamental issue here. On the left side we see global health spending which is almost 90 percent dominated by the rich countries, while on the right side you see the disease burden which is almost completely dominated by the poor countries of the world. So there is this fundamental disjointedness between where the resources are and where the problems are. What we are trying to do is at least bridge this gap a little bit, and that is where all the discussions of gaps come from. I would just like to emphasize that a very large share of the disease burden on the right side are those kinds of communicable and infectious diseases that we actually know how to manage. The fact that they are managed in the high-income countries is the main reason why all the disease burden is where these are. So this is a fundamental issue.

Dave went through this, and the conclusion here is that there is a gap of about $50 billion a year, but you can read this as easily as I can. This lists all of the different estimates that are out there for all the different types of infectious diseases or particular disease problems that are embedded in that large burden of disease in developing countries. You can see that the gaps either annually or for a period are actually quite large.

One observation I would like to make here is that if you go to the very bottom, these gaps are all big, but the smallest of the gaps is actually on malaria at $3.4 billion a year, but in percentage terms, it is actually the one where the biggest percentage of the gap is not filled for one of the cheapest things to manage.

If we add these things up, you get a range of estimates that to from about $25 billion a year up to $337 billion a year. All of these points here show the percentage of global GDP that is accounted for by these estimates. But if you roughly take an arrow and throw it at the screen, you will come up with the rule of thumb of $50 billion that Dave mentioned.

The next part of this is just to talk a bit about the aid architecture. This is a problem we are trying to solve and here is what we are doing to try to solve it. Here I have the initiative aid architecture in approximately 2001. This is the old guard of bilateral agencies, the IFIs like the World Bank, the U.N. agencies, private capital is in there as part of the bond market servicing the IFIs. Here is the aid architecture in 2007. There has been a fundamental shift of what it

looks like and that is because of the new organizations, what are called the global partnerships, the Global Fund, UNITAID, GAVI among them, that are dedicated to solving specific disease problems or services such as vaccinations that have not adequately been met before by the old guard.

One question here of course is why do we need all these new institutions, and I am not part of the decision making there, but obviously decided that the old guard was not actually doing the job and new institutions and ways of financing them were needed. That is where we are today, trying to find new ways to finance the new types of organizations that are there. I have Maria Louise's diagram here of what are called the innovative financing institutions, methods, like the debt by-back airline tax, et cetera, that have been tried for this purpose, and we are talking about one today which is the debt conversions for the Global Fund.

If we add to this, it is not enough to just look at the international architecture, but we must also talk about the financing and service delivery in the countries that are supposed to be the recipients of this. Here I just have a stylized idea of what the health systems look like. Everybody here knows quite well that there are two types of health services that we need. We need to handle the diseases with externalities; the public health problems such as waterborne and airborne diseases that if there is not adequate control of people get sick from, things like having adequate information so you have an intelligent basis for what to do. These are considered the public health activities in a system. Then on the

lower part of this we have what is called acute and chronic health care which is what we go to the doctor for to buy. So this is a stylized representation of that and every country has some variation on this type of thing.

If I add to that in the public sector, in almost every country there is a publicly financed public health part and a publicly financed chronic or acute health part. Typically a major problem here is that the individual health services grab the lion's share of the resources, impoverishing what we think about as the community and public health activities which in fact are the focus of all the international efforts on the top part there. Then there is one more thing to add here which are the private flows of out-of-pocket payments or insurance payments which also finance a very large part of this.

The next slide actually gives you one more piece of this puzzle. This shows the out-of-pocket payments relative to government payments for health services, and it also a common fact that the poorer you are, the more liable you are for paying for things out of your pocket. So if we go back to the previous ones, luckily we have the same green line for payments from households, and in the next one it is also the green part of this graph. So the poorer the country is the more dependent it is on simple private out-of-pocket expenditures for personal health services, and the richer you are, if you go to the bottom bar, even including the United States, out-of-pocket payments tend to be less than 20 percent of what goes on.

Here is the whole thing put together, and in one sense it is a beautiful work of art as a diagram of how the world works. Any economist or health person will look at this and realize that there are all kinds of incentive effects going on here to get all kinds of strange results, and in fact we observe in the world exactly that. But that is not the point of this, so I will not dwell on it very much.

So all I have done here is put the international part on top, the domestic part on the bottom, and the some of the strongest interactions in between, while realizing that the largest flow of funds by far is actually the green part at the bottom.

Now I am in the concluding part of this presentation. What I would like to focus on here is there is a blue part there which are the new institutions and financing mechanisms. That is one area where we can talk about innovative financing, and we are going to today, it is the focus for today. There is a second part which is the old guys and girls over there on the top left side. Then there are parts in the domestic architecture that also need some attention. It is the yellow part in the ministry of health which is government financing of course applied by the ministry of finance. And then this whole area where the major action is, the green part, on private out-of-pocket expenditures.

If our goal here is to try to close these financing gaps, we really have to look at the whole picture. When you look at the whole picture you also start to understand the economic interactions that are going on there that could

also help you move toward a solution more effectively than if you just focus on one or the other. This is not to say that what we are going to talk about today is not important, I just want to point out that it is in one part of the overall diagram and if we want to get to the point of improving the health of the poor, not only do we have to do that, but we actually also have to be worrying about the rest of it.

I put financing here in quotes because it is not just financing, but it gets you into another of other issues that are very important to think about. I will not go through this because I think it is important to get to the end.

Here is the original roadmap. We did number one, number two, and now I am at the conclusions which are that there are wider opportunities to solve the financing problems. The options are quite multifaceted, however, and they really complicate the issues. What has to happen to really take into account the whole situation is to involve recipient countries much more in the discussions. The focus today is going to be funding in the blue part, but it just to give the context that we are talking about one part of the whole puzzle here today, a very important part, but to actually solve the problem, what we are beginning to really understand here is we have to take a much wider system view and see the areas where we need to be working in addition to what we will be talking about today. Thanks very much.

(Applause.)

MR. DE FERRANTI: Paul?

MR. ZEITZ: Thank you everyone. Thanks for being here, and thanks for the Brookings Institution for hosting this important event. Thank you, Charlie, for confusing me with complexity, but that was really helpful to see the evolving architecture that we are all trying to effect.

You talked about a larger financing gap, and I am focusing on AIDS, TB, and malaria. Just to bring it down to the reality, I think we are all part of this global co-creation of trying to achieve the health MBGs and to improve an optimize the systems and the efforts underway to stop unnecessary death in the world.

We are still failing. We had the old guard and we have a new architecture that is evolving, but it is not a static process, it is a highly dynamic process, and I think we are all part of that creation of the new architecture. So we would like to see an architecture in 2015 that actually said we achieved the health-related MBGs and this is what we did to get there. There are huge financing gaps in these major areas. Six million people are dying every year unnecessarily from AIDS, TB, and malaria and we all have to shake our heads and shake the old guard, shake the new guard, create a new architecture that actually stops that. We are blessed actually to live in the time in human history where we actually can practically do that. So it is an opportunity and a challenge.

As we all know, as these greatly increased resources have been rolling out into the field, one of the major gaps is health systems and the health care worker crisis. So we are also dealing with system issues in a new and

profound way so that we add on health care workers as a major focus and a major opportunity for our next phase of work.

To fill the gaps there are many strategies underway to close the financing gaps. As we know, in Nigeria, African leaders committed to committing 15 percent of their GDP for the health budgets. There is a 15 Percent Now campaign that is being launched to hold them accountable for that commitment. Only a couple are actually there, although there is actually some positive momentum in a number of countries.

To close the internal gap there is the need for increasing ODA, and we all part of the efforts to change the policies of the wealthy nations to hold them accountable to their 0.7 commitments, and greatly increased resources are coming and we are optimistic that the expanded advocacy architecture that is underway in the global north is going to yield the levels of ODA that we need.

Of course there is a hydraulic imbalance because of the system that the old guard, as Charlie labeled it, created where there was a huge amount of debt that was imposed on these countries, and there is still an ongoing advocacy effort to push for unconditional debt cancellation and I think that is the ultimate goal. There is a Jubilee Act that is being introduced before this Congress that will go way beyond where the HIPC approach went, and we are fully on board with that.

We are going to talk today about the global fund debt conversion. We see it as a transitional measure for countries that are not eligible for current

mechanisms that are not yet benefiting from future debt cancellation efforts but have an urgent, pressing health crisis where Global Fund debt conversion or debt to health can play a really critical role as a transitional intervention.

There are taxation strategies underway, the UNITAID which is the airline tax, but there is also work going on in Europe particularly about financial transaction taxes and we think those have a lot of potential as well. Then of course there are market-driven frontloading mechanisms like the IFM, and we are doing aggressive advocacy calling for that kind of mechanism to be applied across the board across the MBG agenda.

In terms of debt conversion, there is still a huge amount of outstanding debt, at least $2.6 trillion of it. There has been some slight reduction in debt from HIPC and from the current multilateral debt-relief initiatives, but overall debt is still increasing in some countries and there is still a lot of outstanding debt that is existing within some multilateral financing institutions like the OPIC fund or the European Development Fund that is also still burdening poor countries.

There are different kinds of debt as we have already heard about. There is bilateral debt that still exists, there is a large amount of multilateral debt, and there is a huge amount of private commercial or export credit agency debt, ECA debt. While we know those are tough partners, we think that the time has come to bring them to the table and to bring them into this global effort to combat these urgent crises.

In terms of the Global Fund debt conversion idea, the idea was first introduced informally at the International AIDS Conference in Barcelona in 2002. There was an effort underway in Nigeria to develop a proposal prior to the larger debt deal that we heard about earlier. President Obasanjo stated his support for this concept in general in a public forum at the U.N. at the 2-year review of the UNGASS in 2003, Kofi Annan did an endorsement letter, UNAIDS has done a policy brief, and then UNAIDS, the Ford Foundation, and the Global Fund actually funded a feasibility study that was published in April 2005. Then this idea moved from the feasibility study into proof of concept, and we will hear more about the debt to health approach that the Global Fund is implementing now in 2006 and beyond to go to scale with this approach.

The major findings of the feasibility study from 2005 were that there were at least 24 countries that are heavily indebted above the HIPC threshold but are not included in HIPC. Fifteen countries are spending more than 20 percent of export earnings on debt servicing, so the hydraulics, a huge outflow of money, is still happening in heavily affected countries. We do think that some HIPCs can benefit from a debt to health approach through the inclusion of debt through some small multilateral financial institutions that have not been part of the MDRI initiatives. We think that there are opportunities for policy benefits from an alliance between debt campaigners and health advocates.

The major idea that was put forward in that feasibility study was that the Global Fund which is an international partnership, a 21st Century New

Generation Institution that has public-private partnership governance plays a role as an arbiter or as a guarantor or as a facilitator of these debt swap agreements. I think in our review of the history of debt conversions especially in the health sector, many of them failed because there was not an international partnership behind them, and I think that is why we think the Global Fund debt conversion/debt to health concept could be really different than what has been tried in the past.

The goal, the vision really is to mobilize a set of creditors to agree to cancel a portion or all of ODA or export credit agency debt at a discount rate. Clearly we are talking about currently serviced debt and we are strongly advocating for at least a 50-percent discount so that the win-win benefits or the challenges that were mentioned earlier are addressed. The advocacy construct for debt to health is focused on currently serviced debt and advocating for a significant discount so that there is a true benefit, and that the beneficiary country invests an agreed-upon amount in a counterpart account and that goes through a Global Fund approved program. So the Global Fund is a country-driven process. Country stakeholders meet at the CCM level, country coordination mechanism, civil society, the government, the private sector, sit around the table and come up with a national strategy, and it is that partnership that would decide on how these funds are being spent.

This is a snapshot of the model that is being proposed where creditors agree to cancel currently serviced debt at a discount rate, the beneficiary

country would pay an agreed amount into a counterpart fund, and the money would be spent by principal recipients or the implementers of Global Fund approved programs. We think the entry points for this process are through the Global Fund system. We are not trying to create a new system. We are trying to just use the existing Global Fund grant-making system to implement this approach.

There are opportunities through the Global Fund approved grants for a 5-year cycle, the first -- funds come in for a 2-year grant, and then there is something called a phase two renewal that is an opportunity for a debt to health deal to be implemented. The targets of a grant can be renegotiated and the additional resources that would be mobilized through a debt to health arrangement could be managed through that. The board has recently approved what is called an RCC, the rolling continuation channel, so highly successful grants, they are A rated grants that have completed a 5-year cycle then become eligible for a 6-year continuation through what is called an RCC.

We also think that an ongoing new round, like Round 7, Round 8 which is still an ongoing part of the Global Fund process, is another opportunity for countries to benefit from a debt to health arrangement.

The proposal would be approved by an existing technical review panel that ensures high standards and that best practices are being used. Also it requires board approval by the Global Fund board which has representatives from donor countries, creditor countries, beneficiary countries, civil society, and the

private sector. In case there is anyone here who does not know how the Global Fund operates, it is wholly based on a performance-based highly effective grant-making system.

We see this as a win-win scenario for the creditors. They have an opportunity to resolve old loans, they can claim a debt conversion deal toward ODA if they are using ODA, or if they use ODA to relieve an ECA debt according to the OECD rules, they will be able to claim it in some way toward a Global Fund contribution and they have a high chance of programmatic success using the Global Fund's performance-based funding approach.

We believe that it is a win-win scenario for beneficiaries in that if currently serviced debts are being relieved at a discount rate, then this is money that was going to paid out to a creditor that actually then gets to be moved into a counterpart fund and use for the country's own development and they can use that to document their own commitment to increased health spending and the funds become part of their 15 percent or whatever they commit to the health sector.

There are 131 countries I believe that have Global Fund grants. Many are changing the way they do business and taking some of the lessons and the benefits of the Global Fund programs and mainstreaming them into the operation of their own systems both in the government and in civil society so performance-based grant making is something that is seen as a positive. Also some of the countries themselves want to be seen as contributors to the Global Fund like Nigeria, Russia now, and other Global Fund beneficiary countries are

contributing to the Global Fund so this is a way for contributing countries or debtor countries to have a win as well.

Some of the challenges. I do not want to underestimate them. They are significant. Debt conversion or debt to health is a slow and cumbersome negotiation and we are also looking for your ideas about how can we really accelerate this, how can we streamline, how can we mobilize creditors, how can we light a fire under the creditors to move faster, simplify the rules? How do we get the political will to accelerate the very cumbersome negotiations that are underway?

The export credit agency debt is the big nut to crack, they are the most reluctant, and the conditions for making that right I think are still something that needs more evaluation. It is a great opportunity to accelerate the initiatives that we have been talking about.

There are creditors like Japan and others that are major creditors that are always reluctant partners in debt cancellation and so targeted advocacy at major creditors like Japan will be needed. As we know, some countries have had problems with specifically Global Fund grants in terms of accountability and governance and the rapid use of new resources.

In conclusion, we believe that Global Fund debt conversion or debt to health can play an essential role in very needy countries to deal with urgent matters like the health care worker crisis and it can partially relieve the debt burden that these face. We believe because of the partnership with the Global

Fund and the unique role of the Global Fund as the guarantor and facilitator of this process, previous problems with debt swaps can be alleviated.

We are not satisfied with one-one deals, one creditor, one debtor. We are looking for multicreditor deals with multiple countries for the largest impact. This is going to take a lot of aggressive advocacy and partnership. As these deals go forward I think there is going to be a lot of need for independent monitoring so that we can ensure that there are really additional resources that are being mobilized and that the money actually is used for the kinds of programs that we all think are so important. Thank you.

(Applause.)

MR. DE FERRANTI: Kingsley?

MR. MOGHALU: Good evening. My name is Kingsley Moghalu. I am the head of Global Partnerships at the Global Fund. I would like to thank the Brookings Institution for giving us the opportunity this evening to discuss innovative financing, and specifically Global Fund debt conversion. It is one of the new ideas that we are working on to expand the avenues through which the Global Fund can reach a lot of people who are suffering from these diseases.

As a backdrop I think I should say that why is it necessary for us to support innovative financing, who is it for, and what is the impact? So far I think I should like to put on the table that we have calculated conservatively that 1 million people are alive today who would have been dead but for the Global Fund. The money that we are channeling has put over 800,000 people on

antiretroviral medicines, procured 18 million insecticide treated bed nets to people to prevent malaria on various continents, and provided 2 million people with treatment for tuberculosis. So these are some of the numbers that should form a backdrop to our discussions this evening about innovative financing. So to us it is not a theoretical exercise, it is a very practical way of expanding the avenues that the Global Fund can make an impact.

Before I continue I would just like to say that I have with me today some members of the Global Fund team, members of the Global Partnerships team, who work in innovative financing on a daily basis, and I would just like to draw attention to who they are, Robert Philipp (ph), our Senior Manager for Innovative Financing, Lisa Minera, Tulite Ziacom (ph), Suzanne Ieodu (ph). I just wanted to mention them because Global Partnerships consists of a lot of things. Our work is to mobilize strategic partnerships or to build strategic partnerships and mobilize political support for the Global Fund, financial resources, and help to make sure that the programs we finance are effective. In that whole universe we work on civil society liaison, relationships with governments, innovative financing is one of the things that we work on, and these are the members of my team who work on this on a day-to-day basis.

Let me just go straight to the point, the win-win for the Global Fund in debt conversion. The Global Fund debt conversion, we talked about the benefits for recipient countries and for the creditors. For the Global Fund it presents a number of wins, the first of which is that the health targets are scaled

up and we reach the targets faster by expanding the ways in which we can use funds. Debt conversions help harmonization and they facilitate the integration of interventions with overall assistance provided by the fund in the disease areas. And of course, the most important perhaps win-win is that it proves that the performance-based funding model of the Global Fund actually works and can be a model for domestic resources.

What we all know as one of the major problems of international development is that a lot of money has flowed out, but the results have not always been what we expect, and the model of the Global Fund is that we make sure that the money is used in a performance-based manner, and there are sanctions where performance does not meet up to the required standards.

Implementation of Global Fund debt conversion. We have four pilot countries that have been selected for the implementation of the GFDC, and the major creditor we have right now is Germany. Germany has committed 200 million euros to Global Fund debt conversion over the next 4 years. This money or these resources will be used for the following pilot countries, Indonesia, Pakistan, Peru, and Kenya. There are a number of criteria that have helped to determine which countries we started with. Of course, there are several other countries that are non-HIPC countries which is one of the criteria for selection, but a country should be non-HIPC, non-MDRI, the disease burden should be high, the countries should be solvent, and group global fund grant performance by this country has to be at least of a certain standard. There were a number of countries

where we could have also started or used as pilots, but implementation problems of global fund grants prevented us from using these countries as models.

So, that's the background. And of course, we're planning or thinking of the possibility of expanding to additional countries through participation by smaller and regional multilateral financial institutions. As Dr. Ngozi Okonjo-Iweala told us we are also not ruling out HIPC countries as well in certain circumstances, so that may be work that may come in the future.

We are starting with Indonesia. That's really the first pilot, and that's what we're working on right now. And the governmental negotiations between Germany and Indonesia are beginning this month in March, and we expect them to take place over the next several months.

As we know, of course, Germany is chairing the G8. And they will also – that's also where the global fund replenishment mechanism conference will take place later on this year in September.

Now, we, the global fund board, has appointed a resource mobilization task team to help the fund look at various ways through which it can mobilize resources to reach possibly a number of targets. One possible target is four to six million – billion dollars a year as income for the global fund. Another possible target is six to eight billion. Right now the global fund's income is at about two billion dollars a year, and we've raised ten billion dollars so far.

So, the resource mobilization task team, we have the draft report, and they've made it very clear that they support debt to health, the global fund

debt conversion program. And they are recommending that it should be expanded to all 11 non-HIPC, high disease budding countries remaining – well, with the exception of Myanmar, which I might mention if an opportunity provides itself. But we pulled our grant in Myanmar for various reasons, political interference, performance problems and so on. So we cancelled our grant in Myanmar.

Who's supporting debt to health? The Bill and Melinda Gates Foundation is providing strong support for the global fund debt conversion. They gave us a grant with which we have begun to establish the concept, to prove it, and indeed, to work on its operationalization. That's very welcome support. UNAIDS is very supportive. BMZ, that's something in German here. Perhaps Jorgen might help me. I know it's BMZ, but I don't read German. I'm sorry.

There's the Global AIDS Alliance. Paul and his team are very, very supportive, strong advocacy for global fund debt conversion. We couldn't leave home without them like the American Express card. Venra, Elasija, Jorgen(?) and his team make poverty history. So there's a very strong coalition backing the global fund debt conversion and especially civil society organizations. And that support is really, really improving. And there's a lot of potential for that support to be stronger as we go forward and to mobilize or scale off actually global fund debt conversion in the future.

So, we have Indonesia as a pilot. And I've talked about the 200 million euros that Germany has committed, 50 million of which we hope to use

for Indonesia. Right now, Indonesia's debt conversion is at a discount of 50 percent, and so that's really ideal. So that's really a very, very good situation.

We have here some calculations of public debt of Indonesia, and I see a total of 34 billion dollars. And Indonesia's debt service costs in 2005 were 7 billion dollars, so obviously, this is a very highly debt distressed country. Forty percent of Indonesia's budget is spent on debt servicing. Twenty-six percent of export earnings are spent on debt servicing. And 8.7 percent of GDP used for debt servicing and 1.2 percent went to health and education.

In the pilot, who are we talking with in Indonesia? Who is implementing the program? Who is negotiating with Germany? The global fund is acting as some sort of guarantor in these discussions. We have the coordinating Ministry of Economic Affairs, the Ministry of Finance, the National Development Agency, and the Bank of Indonesia. And so this is the galaxy of players in the Indonesian domestic scene that is working on the global fund debt conversion.

Now, one of the important wins or one of the reasons why this has also been official for Indonesia to use this additional way to finance their fight against HIV, TB, and Malaria is that we know that in many developing countries health ministries tend to be weak. Finance Ministries tend to be strongest, as I'm sure Ngozi will attest to.

Health ministries are not really very strong. And what this has done is to bring the health ministry and the finance ministries – the powerful

finance ministries together indeed for the first time. And so it's made – it's strengthened the hand of the health ministry in helping to determine how priorities of health become part of overall economic development in Indonesia.

I'll skip some of these presentations because this deals with KFW, the German development bank that is the trustee for German development funds. The negotiations are beginning in March, as I said. We expect an agreement in October or September possibly with Germany, between Indonesia and Germany.

Now, we are also working on a number of additional creditors. It's not only Germany. We have just had discussions with Italy, and there are indications that they will be joining the global fund debt conversion scheme. So that's very good news indeed. There are other possibilities such as Spain, such as Australia. And then there are some other outer possibilities that we will have to look at, possibility of the United States, Canada, and so on.

So, we expect the launch of the global fund debt conversion between Germany and Indonesia, we expect that event to happen in September. And that's when the agreement will be signed, just before then.

Now, in October 2007, that's the projection, by that time, once this money – as Paul explained, once it's spread into the counterpart fund this is established by Indonesia but controlled by the global fund, the debt cancellation will take place.

Now, in Indonesia, we made a projection. If 100 million Euro of debt cancellation went through debt to health, what would be the impact in real terms in Indonesia? And the projection is that it would get 400,000 bed nets to fight Malaria, 100,000 treatments for Malaria – I'm talking about vaccination and combination therapy, AZT. It would provide 240,000 HIV tests and put 7,000 patients on ARV treatment and 5,000 patients on TB treatment.

So, that's really where we are. And let me just say one or two things about the model. There are questions about what the entry point will be. Will it be a totally new – will it be a totally new proposal that will be submitted by Indonesia through the global fund process or will it enter – will debt conversion be applied through the rolling continuation channel or a festoon review?

These questions have not yet been resolved in a formal manner, but we will make sure as we support the process that the model of the global fund is respected. We don't want to create any new procedures. We're not creating any institutions.

So, that's what we are doing with Indonesia. And we hope that this will provide a model for escalating and scaling up this innovative financing mechanism to contribute to the fight against AIDS, TB, and Malaria.

Thank you.

(Applause)

MR. DE FERRANTI: Thank you. And our last speaker, Homi Kharas.

MR. KHARAS: Well, thank you. And thank you, Dave, for asking me to speak on this. I'm going to say a couple of words from a -- mostly from a public finance perspective.

And I want to start by saying that I think we've heard extremely powerful and persuasive cases about the need for funds. I think we've heard about the urgency of providing some of the money for these treatments. And I think we've also heard quite a lot about the very successful programs that the global fund has undertaken.

So, I don't want to address any of those points. I think that they really go without saying, and I think one of the new phenomena today is that there is an instrument like the global fund, which has demonstrated its success. So, all of these arguments about the effectiveness of the money, et cetera, should be paid to rest if indeed it is being channeled through the global fund as we have heard.

The real issue that we have today is how does one increase resources for the global fund? And that's what I want to spend a couple of minutes in talking about. And I want to say something about the way in which debt swaps were used in the past and the issues that they had and what's changed today.

And I think that there are two things that have changed since debt swaps were used before, and there are two things that are exactly the same. And the two things that have changed is first, the issue of leverage. When debt swaps were introduced in the past, they were introduced at a time of extreme debt distress. Today by and large, debt distress is not there.

I did listen to the words from Kingsley just now about Indonesia being a debt distressed country. I do not think that that is the case, and I suspect that the Minister of Finance for Indonesia would be extremely distressed if she were to hear that Indonesia is a debt distressed country.

They've been working hard to improve their credit rating, and they currently enjoy spreads of about a one hundred basis points over US Treasuries for a very long term debt. And access to credit markets is a very important part of their strategy. So, I'm sure they don't want to do anything that says we're doing this because of debt distress. But that's a small issue.

The second thing that's changed is the foreign exchange environment for many of these countries. In the past, when there were debt swaps, one of the big attractions was that debt was denominated in foreign exchange, and when it was swapped, it was swapped into an instrument where countries could basically pay it off using their own local currencies.

Today, all of the countries that are being mentioned as being important pilot countries, including Indonesia, have very large amounts of foreign exchange reserves, so in the tens of billions of dollars.

So, these are two things which are different. They don't imply that there is no room for debt swaps. But they do mean that what is on the table today is actually quite different from was on the table in the early 1990s. And it's important to understand those differences.

Then there are the two issues that I think remain with any kind of these swaps. And I'll say a few words about each of them. The first is the perennial tension I think between earmarking the funds for specific purposes and the ownership and what it does to the account abilities of governments and budgets. And the second is – Charlie put up in his terrific slide – the links with the rest of the system.

So let me now start and talk a little bit about the notion of leverage and what kind of leverage one can expect from these kinds of debt swaps. It is slightly different. As I said, Indonesia is paying its debt. Indonesia will almost certainly continue to pay its debt. It will make every best effort to do so.

If it turns out to be the case that for countries like Germany this is a convenient way of giving additional resources to Indonesia, I say that's wonderful. But let's recognize that what this is about is Germany giving resources to Indonesia. The point about the 50 percent leverage is purely a

negotiated point, government to government. And it's a negotiation which is about how much money is Germany prepared to give to Indonesia.

So, again, if the vocabulary helps in the mobilization of the finance, all well and good. But let's not confuse the vocabulary with anything about the debt, the ability to service, as it was in the past when there was an explicit secondary market price of the debt, which reflected countries' capacity and willingness to pay.

In the past also, remember that debt swaps were always provided as part of a menu of debt forgiveness. And the reason why they were provided as part of the menu for debt forgiveness is that one of the things that debt reductions do is they do help free up resources to pay other creditors.

And so there's always been a principle in debt reduction deals that somehow there should be some kind of coordination where all creditors together should agree on a certain amount of debt relief. And that's the basic underlying philosophy of the Paris club, for example, and indeed, of the multilateral debt reduction initiative and all of these other things.

The difficulty that this particular proposal will face is that that type of coordination is difficult because there is – there are at least a couple of very important creditors for whom a debt swap, per se, is not one of the feasible options, and perhaps the most important of these is Japan. In the past, that was circumvented by having other items on the menu that Japan could contribute to in

order to make its portion of the debt reduction burden to be the same as those of other creditors.

And I think one thing that needs to be thought through here is how does one achieve that same degree of burden sharing and enlarge the menu of options so that those creditors for whom this is not a convenient way of giving additional resources like Japan, and it's not for very particular reasons about Japanese law and the way in which their aid agencies are set up, can contribute in other ways.

The other observation that I would make about the debt for health swap is that it does mix two very important objectives. It talks about the importance of need and using debt relief as a way of funding that need. Now just imagine – and this gets into the notion of precedence. Just imagine the nightmare scenario that any proponents of micro finance – what is their nightmare scenario?

It is that the people that they lend to, who are the poorest of the poor, that somebody will suddenly say these people actually need funds. And the best way of giving them funds is to have debt relief on their micro loans. That is the nightmare scenario for any kind of micro finance operation, and it's this linkage between need and debt relief.

And the problem that you have is debt is actually something which is founded in contract law, is a very important part and parcel of the market economies of these countries, and that anything that undercuts that kind of

absolute commitment to contract law has to be dealt with very carefully. It can be done, but it's something that has to be recognized and active measure, I think, would need to be taken to mitigate that.

I mentioned before that foreign exchange was not a problem. I just simply wanted make that point. I have nothing more to elaborate on it.

Now, let me say something about what's still the same about these kinds of operations as was the case in the past. And the first is the notion of earmarking. Here, in this particular proposal, you have a double earmarking. You have an earmarking by country, and you have an earmarking that is to say let's do a debt reduction for Indonesia, just to use that as one of the country examples. And you have an earmarking by type of activity of sector. These monies would then go for very specific sectoral activities.

The value of earmarking is that it may be the case that a country, let's say again Germany, might find it quite attractive to say I want to give more money to Indonesia because Indonesia is – let's, for the sake of argument say, a priority country from the point of view of Germany. There's some kind of a bilateral rationale for giving money there.

The difficulty though with doing this and channeling it through the global fund, as I understand it, is that in then providing resources by which Indonesia's submissions to the global fund would be financed, this kind of

proposal basically then frees up the rest of the global funds resources for activities in other countries. This is the standard fungibility argument.

It's not necessarily a bad thing, but I think it's something that would be recognized, and it would put Germany, at the end of the day, in the embarrassing position of saying well, we mobilized and undertook additional amounts of resource transfers to Indonesia and then having to face the fact, expost, that actually many of those resources would have ended up going to other countries through global fund submissions.

Similarly, one has the issue of the activities to which these monies would go. I don't deny that Indonesia has enormous needs in these core areas that have been talked about. But I think equally one shouldn't forget that Indonesia has enormous needs in many other areas. One just in the area of public health that's being talked about a lot recently is the resources that they're putting into Avian Flu and building up public health systems to monitor and to compensate farmers and to get a better handle on Avian Flu.

I'm not suggesting that one is more important than the other, but what I am saying is that in Indonesia, there is a budget priority setting process through which priorities are determined between these various programs. And whenever one has an earmarked program such as this, which comes on top of that process, it does serve to alter the dynamics of the budget process.

Now, some would say this is actually what we want. We want to shift the budget priorities from here to there. But then I think one also has to recognize that in so doing one is changing the budget process from a dynamic that is purely country owned to one which is partly country owned and which is partly also responding to the views of international donors. And in some circumstances, that may not be a good thing and that indeed, over the longer term, can weaken incentives for systemic budget reform and for accountability of governments to parliaments.

So, I think with those couple of points, let me say that I think that it's -- any kind of a system which operates to increase funding for these kinds of activities is to be welcomed. There are many of these kinds of systems.

I think that anything that offers a menu and increases the choices and opportunities for people to give more monies is going to be part of that answer. But one does need to put it into a slightly broader context to make sure that some of the unintended consequences don't come to dominate the final impact of these activities.

Thank you.

(Applause)

MR. DE FERRANTI: Thank you, Homi.

Now, for this part, for the question and answer, here's how we're going to proceed. I want myself to put out a few questions for the panelists to

think about. But before they answer those questions, I want them to go to the audience for audience questions. (Off microphone comments)

My questions are first, for (off mike), based on what you've heard, if you were once again (off mike) Nigeria and a creditor's approach with this proposal in mind, what would your thoughts be?

And my next question is for Paul and Kingsley on a different topic, which is that – the following: that we – in the autumn, we had a session here with Peter Piotz(?), who's head of the UNAIDS group and the UN agency responsible for AIDS. And we also had Alice Albright, who is very prominent in the work around immunizations, connected with Kavi(?).

And so I pose to each of them the opposite question, namely, each is representing a particular disease group, what's the reason why the other group shouldn't have priority over yours? So if you're committed to AIDS, what's the rationale for giving more resources to AIDS instead of immunization and vice versa? So, in this case, I'm inviting you any reflections you might have on those subjects.

And then my final question is for all of the panelists. You've now heard each other and you may want to respond or elaborate on anything you've heard.

So, that's for them to reflect upon. Let's open it up and see if anyone would like to ask any other questions.

Yes?

QUESTIONER: My name is Eric.

MR. DE FERRANTI: Can you please say a bit more about who you are and where you're from?

QUESTIONER: I represent the civil society. I run a group that's called Kingdom Group International. I am based here and in Nigeria as well.

So, part of my question will be regarding Nigeria. I heard the remarks that Ngozi Iweala made and as I said myself, with her remarks, especially regarding why the non-highly indebted poor countries should be included in this, in this alliance.

The reason simply and I could pose it as a question to the panelists. I would have thought that it was a problem. Part of the reason we're here and part of the reason we allocate money is to solve that problem. And one of the reasons, although Ngozi has performed very creditably with international buddies like this, you know, to bring home, you know, the debt reduction, the problem the persons that I represent have – that is the civic society – is that the influence has not gone deep down to them. The filter effect has not gone to the people who ought to have this concession.

Now, regarding this issue, I would have thought that if there's Malaria and we know there's lots of it in Africa and Sub-Saharan Africa and especially Nigeria, and Nigeria is also the third most infected country in the world

regarding AIDS. And so, I would have thought global debt for health would, regardless of whether Nigeria is a non-HIPC country, would consider also the incidence of infection.

And poverty too is relative, you know, to maybe the western countries. Nigeria might not be. And ten dollars might not be to any of us in this room much. But if you give ten dollars to anybody in Africa, you would have made his day, maybe for the whole week or the whole month.

So, I would have thought too that considering these other factors that Sub-Saharan countries, for instance, do not look at issues of poverty and wealth in the same premises or in the same way in which the international community might look at it. You know, I would have thought maybe, considering the effect, how much effect you're going to make in the world, if most of Malaria is in Africa, Sub-Saharan Africa, I would have thought anything at all to bring money home to Sub-Saharan Africa would be welcome.

Any of the panelists, I wish you can speak to that fact. Thank you.

MR. DE FERRANTI: Other questions? Yes? We have several. We'll get five or six out there and let the panel chew on them.

MR. WATKINS: Thank you. I would stand, but my notes are on my computer, so it would be very challenging to stand.

MR. DE FERRANTI: You are?

MR. WATKINS: I'm Neil Watkins with Jubilee USA Network. And this has been a very helpful sort of explanation of this initiative. I think it's very promising. We'd like to figure out, you know, how to engage more.

I just have a couple of questions. One is for Kingsley. You mentioned there were other countries that might become eligible for global fund debt conversion. You said 11 countries, but you didn't mention what countries.

So, if you can, share just to get a sense of sort of what the distribution would be.

And then, a question which came out of Paul's presentation, which I think is for somebody to think about. In talking about the types of debt that are covered public debt. One challenge we find, even in the current debt relief process is that how you ensure that the debts that are cancelled were actually already being serviced, right. So, in the case of bilateral debts, ECA debts, because this is so much about freeing up resources for health, you know, it seems like in considering this, we have to make sure that the money – those funds that are actually freed up by the debt conversion would then go to health services.

So, has there been thinking about that issue, especially considering that some of these – these are not – in the case of non-multilateral debt, these are not preferred creditors, so in some in cases, these debts may not actually be paid on now?

And then finally, I wonder if the panel would think a bit about this question of how to – if we can relate somehow the question of creditor co-responsibility for bad loans?

And one of the – I think obviously the main goal of this initiative is to free up resources for fighting HIV, AIDS, Tuberculosis, Malaria, but that campaigners across the globe are also very focused on some of the dubious origins of debts, so called odious debts. In the case of Indonesia, you have a lot of questionable debts made, you know, loans from the World Bank, et cetera, to President Suharto.

So, is there a way to bring in the question of creditor co-responsibility as we deal with this, you know, what I think is a very interesting mechanism for freeing up resources to fight AIDS.

QUESTIONER: Eric Leaf (?) with CSIS. Sorry. Is all of the debt – is all of the ECA debt we're talking about here fully performing?

And how much of it is -- do we know how much of it is concessional versus non-concessional?

MR. DE FERRANTI: Let's just take two more and let the panel and then we'll come back.

QUESTIONER: I'm Rena Iker with Broadbranch Associates. Two questions about the incentives of the governments. Given that it's a performance based grant that will then be under the control of the global fund,

isn't there a risk that they're losing control over those resources if they don't perform? That's one question.

The other is given that a lot of the funding will go to the non-state sector; might that be also a negative for governments to engage in this?

QUESTIONER: Alex Pitney (?) of the World Bank. Assuming that the macro issues have been taken care of that we're quite comfortable that debt relief is – can be done – can be used usefully in both spending programs and as well in promoting growth.

Let's assume that argument has been settled, because I think it's a big issue in some countries, whether or not you would actually get more social benefits by promoting growth than pure social spending. So I think that's one issue that one has to come back and convince everyone.

But assuming that that's been settled and the debt relief is okay, I think the large programs like global funding have been very successful in mobilizing global funds. And so, I think, you know, you're probably able to make this thing happen more than if the debt relief was say promoted through health systems development and et cetera, et cetera, just because it has more appeal somehow to the donors.

But we're increasingly finding that the earmarking of those funds is caused some major distortions, particularly in countries that are very dependent on external funding.

And so the question really is if this was possible, would there be a tailor mechanism one could put in place so that the debt relief that went to a particular program was also taxed so that part of that money would then go back into general health service and that you begin not completely distorting the picture, where you have only money coming into one or two programs at the demise of the sort of more general health systems development like human resources, et cetera, et cetera.

MR. DE FERRANTI: It would be interesting to see how donors would react to that, but we'll – I think we've got enough for the panel to chew on. There are quite a few other hands, including Lex, who needs to be first up because he was an early hand, on the next round.

Let's go down the panel starting with Ngozi and ask them to pick up the pieces that seem most relevant to them.

MS. OKONJO-IWEALA: Well, thank you. You posed an interesting question of whether after listening to the presentation what would I think if I were finance minister. It's – I mean, it's a difficult issue, but let me just say that during my time as finance minister, I was known to be very partial to the social sector. I shipped in resources to health and education.

We actually doubled the percentage of the budget, the amount going to health or four to eight percent of the federal budget, quite low still.

Education was increased substantially. It became the largest item on the budget because the president himself was very supportive.

But the question that I was – so, in principle, after listening to the presentation, a little more persuaded about the potential but, with some of the reservations that have been put on the table, that I've put on the table.

First of all, let me tell you what happened. When we got the debt relief of 18 billion dollars cancellation of our debt that we successfully negotiated, the billion dollars which we were using as debt services, we agreed that that should be put into MGD related activities, and it should be incremental.

And one of the biggest struggles was to actually get incrementality out of the ministry's concern. In other words, and it wasn't even the ministry of finance, but when additional resources were earmarked, because of the fungibility issues, you know, they just moved resources that would have gone to those areas into other areas of health where they felt they didn't have additional money.

You know, so if you give more for HIV AIDS, they say oh, well, you know, we are going to use this and we move the resources that would have gone in the budget to HIV AIDS to something else.

So contrary to your feeling that the health minister is sitting there all fat and ready to do what you want, the actual thing you might find on the ground is that your ally is the minister of finance, who is trying to make sure that the resources released are really incremental within the health budget.

So, you have to watch this. And I'm very serious about what I'm saying, because this is the actual fact on the ground. We can all sit here and pontificate, but when you start doing things, you find that it's not quite the way you envisioned it, and you may not get that incrementality. So, I would – favor, I would watch like a hawk.

I also worry about incentives. Like I said, in the beginning of my speech, I said why not debt for education, why not debt for infrastructure. The earmarking issue becomes an issue also with parliament.

You know, they want to know okay, global fund is great, but right now we are worrying about immunizations within the health budget, not about HIV/AIDS or something else. We are worried about more children in school, because this might actually be beneficial to HIV AIDS more than the direct attack on HIV AIDS itself.

We are worrying about rural roads, because this may be, you know, if these people you are giving this additional money can't eat, any AIDS treatment you give them isn't' going to work because they can't move – get the agricultural goods out. They don't have any income. So, we have to think about these and then sort of say how we are going to work.

So, it's the earmarking part is a worry. It's not an insurmountable problem. You just need to, you know, to be careful how you handle it.

And, let me just take one other issue here about Sub-Saharan Africa that my compatriot raised and how do you – I think your question was why shouldn't more of this be going to Sub-Saharan Africa? It's going to non-HIPC related countries. Well, because the debt conversion, there is not that much debt. I mean with the HIPC treatment, most of the debts have been forgiven.

But you saw what I said, that even with those countries that have HIPC, there's 10 billion out there somehow that is still not dealt to it. So, I think that there should be another look at those countries to see how they could possibly benefit.

But to conclude, earmarking is an issue, like Homi said, like I said in the beginning. It will have to be watched. It does bring these incentives to the finance ministry when you're trying to argue – do your budget process. And it does beg the question about what are the other areas of development which also need these resources.

MR. DE FERRANTI: Charlie? No? Paul?

MALE SPEAKER: Pass.

MR. ZEITZ: Well, can I do that too?

MR. DE FERRANTI: No.

MR. ZEITZ: Thank you for the questions. I think there's been a theme about like AIDS, TB, and Malaria versus other priorities that I feel like can share some views on. I mean, we're part of, you know, this next generation of

thinking, where it's not – we're not going to have to trade off between different urgent priorities.

We're about creating a global community that's based on the principle of global justice, where we're doing education and all of health and et cetera, et cetera, food and so forth. And we're – we believe that there's a political opportunity, a political momentum that's been achieved through AIDS, TB, and Malaria advocacy that is not limited – the benefits of that advocacy are not limited just to those specific disease priorities and that we're seeing the transformation from AIDS advocacy rippling into TB and Malaria, first of all, now rippling into the broader health system strengthening efforts.

I mean these chronic health system crises that have been going on for decades are now in the political arena. We have bills before congress on human resources for health. We have countries developing transformational interventions on human resources that never could have been contemplated even five years ago.

So, we're seeing all kinds of ripple within the health sector but also the education sector now with Gordon Brown's big announcement for funding 10 year plans. I think we see all boats rising here. And the more that we can achieve actual results for real people, as you pointed out as our challenge and our ultimate goal, then that will enable us to succeed.

So, we don't want – we're not pitting AIDS, TB, and Malaria against any of those things. We say and and and and. And I think that's a really important principle. But, there's something that has been learned from the global fund, which is performance based grant making. And it's working, and I think there's an aid effectiveness argument here too to be made.

In terms of how the global fund is evolving, we're part of a set of stakeholders that would like to see the global fund move more into systems oriented investments, rather than just disease-focused priorities. And, as some of you may know, there was a window in round five where countries could apply for a health system strengthening investment approach.

Some of those grants are very innovative and are working. And now, with round six and round seven, countries have to sort of put systems issues within an AIDS, TB, or Malaria frame, which is possible but it's a little bit awkward. And so, I think that's not necessarily optimal.

In terms of the – there was some question about the nature of the ECA debt, and I think – we're – this is a country by country analysis, and you know, the data is available. I can share with you some of the reports. I don't have it off the top of my head about the character of each country's debt, but it's obviously a mix. And it changes over time too, so, depending on other deals that are underway.

I think there was a question about the issue about losing resources if they don't perform. I think because the global fund is a performance based grant making system and they do shut down grants, that is a possibility. And there is a negotiation underway now between Germany and Indonesia to define the terms of how, if that scenario occurred, what would happen to the money. I think that's an open question. But, the other thing about money, there's non-state actors. I thought I'd like to share that there's some emerging evidence from global fund programs that dual track financing, countries that have grants, large scale grants going to both governmental, principal recipients, and non-state actor or civil society principal recipients are the highest performing grants.

Now, that is probably a reflection of a good governance environment, where governments open to non-state actors playing an important role. But that's actually part of the mission of the global fund, to change the nature of how health objectives are achieved. It's not just state actors; it's a partnership between the public and private sectors. So, as these proposals are country driven, country generated, then if a government is sitting on a CCM, then they sometimes choose a non-state actor. So we don't' see that as a disincentive for this program.

I think I covered a few things.

MR. MOGHALU: Thanks. Thanks, Paul. I'd like to start off where Paul left off and just say a few things, especially the question about money going to services like non-governmental organizations. Now, we are experienced in the global fund. It's that the global fund architecture provided the first opportunity and the first incentive in many countries for government and civil society to sit across the table to discuss development objectives.

I often say it, that the global fund model is like a blind date, and you know, it could work; it may not work. And in many countries, I'm happy to say it has worked. But, the pity, I think or maybe it's not a pity but the fact that it took an external agency to create this dynamic, I think, is noteworthy. And I think it's important that governments build on this type of multi sectoral partnerships in all aspects of their development planning outside of the global fund or outside of global health.

So, that's my comment on that. A lot of civil society organizations have been very high performance and also faith based organizations. The global fund financing is really looking very actively at how to use faith based organizations to reach populations that are not that easy to reach. So, that's what I'd like to say about that.

Concerning the risk of losing the funds, in the agreement that is being negotiated between Indonesia and Germany, there is some provision that if the money is not used by 2013, it has to go somewhere else, let us say maybe

because of nonperformance or bad performance of the global fund program. But you know, our system, especially the phase two mechanism, whereby after the first two years, the global fund reviews the program, you know, and decides whether to give it a go ahead or conditional go ahead or no go, I think it provides – that performance based system provides a certain incentive for the country, I think, to try to perform well in executing the program.

I wanted to address the question of the rationale for more resources for HIV AIDS, TB, and Malaria. As Paul said, it's not either or, but the fact of the matter is that there are many worthy causes in the world today, and they're all competing for money. We have the global warming issue. We have so many other issues.

So, we want or we feel that all these things should be addressed as appropriate. So, we're not saying that because the global fund is looking for more resources for AIDS, TB, and Malaria, other aspects of development should not be addressed now. But, there is a certain point that we should note. AIDS, TB, and Malaria kill six million people every year, so in fact, there is a crisis. And that crisis needs to be addressed without prejudice to the importance of other issues.

So, if you're talking about weapons of mass destruction, we feel that AIDS, TB, and Malaria are indeed such weapons. So, there is a very high degree of urgency. When you go to certain countries in southern African and you

see the state in danger of actually withering away, not from the point of your town maps, but from the point of view of being destroyed by HIV/AIDS pandemic.

So, this is a very real threat. It really affects security; it affects economies. We know that Africa loses 12 billion dollars a year from the impact of Malaria. So there's actually a very strong argument for large scale resources for these three diseases. But we know that in a world in which a trillion dollars is spent on arms and so on, that there is indeed resources to be used to address all these other needs if the political will exists.

And then I'd like to just –

MS. OKONJO-IWEALA: Well, when you finish, I have a two handed intervention to what you just said.

MR. MOGHALU: I'd like to just give the list of countries, the other countries that are severely indebted non-HIPCs. I have the list here, which includes Bhutan. It includes Brazil. It includes Columbia, Ecuador, Indonesia, which we talked about, Kazakhstan, Laos, right, that's Laos, yeah. And I talked about Myanmar, why we will not go with them. Pakistan, Peru, Samoa, Serbia Montenegro, Syria, and Zimbabwe, so these are the other countries in the universe of highly indebted non-HIPC countries.

MR. DE FERRANTI: Ngozi's two- hander and then home.

MS. OKONJO-IWEALA: Yes. The two-hander has to do with your passionate statement about weapon of mass destruction. You know, I'm not

disagreeing about importance, but again, when you sit in the ministry of finance and you're trying to look and you know that that child is safe from AIDS can then die from a waterborne disease and that probably investment in water could be one of the biggest health investments you make. You know, to administer your medications so HIV AIDS and so on, you need clean water.

So, this is a real life situation. Do we put that incremental set of resources into the marginal dollar? You know, is it going to yield more in clean water which would cut across all your health interventions? If you give the child a Malaria drug using dirty water, they're going to get sick and die from some other disease.

So, I just want to make it clear that it's not as easy as you think. And it's not a question of we want to aid all. In life, there are real tradeoffs when you're sitting at that table to be made.

MR. DE FERRANTI: Thanks. Homi?

MR. KHARAS: There was a question about the performance of the export credit agency debt. Clearly for countries like Indonesia, they are paying debt service on export credit agencies that although for a couple of years, a portion of that debt service was deferred as one of the contributions to tsunami relief, but that period of deferment is now over and Indonesia was back paying its money.

The point I think to be made is not that these are bad debts or in some sense, debts that would be otherwise and nonperforming. And I think that by and large in most of the cases that will now be considered, given what has happened to debt relief globally and what is – may still happen with additional amounts of debt relief globally, I don't think that one should really view this as being a major contribution to "the debt problem." Because I think that there have been other mechanisms to deal with the debt problem which have taken place on a larger scale and that in some sense, the time may have passed for that particular linkage.

It may still be the case that these kinds of debt conversions are a convenient way of mobilizing additional resources from donor countries. And from that point of view, I think the question about the co-responsibility of creditors is interesting. Because essentially what these mechanisms are designed to do is to provide an opportunity for creditors to actually give more money.

Now, whether they choose to do that because they say we're giving this money because the resources will go in the future to a worthy cause that we will support or if they choose to do that because they say we're doing this because we made some bad mistakes in the past for which we wish to take some responsibility, at the end of the day, they're giving more money.

So, again, I'm not quite sure about whether entering into that particular debate helps or hinders the willingness of creditors and donors to get

more. Because at the end of the day, what one was really after is how do we get more money out of the global system and those who are able to get.

I think there was a real concern which is a broad concern about whether the countries that are being considered for this program, the extent to which many of these countries are not in Sub-Saharan Africa and contrasting that with the recognition that it is in Sub-Saharan Africa where a very large portion of the needs really lie.

And I believe, if I understand the proposal correctly, that there is enough leakage in the system that regardless of which country is actually getting the debt relief, what it will do is raise resources for the whole system. And by raising resources for the whole system, countries from Sub-Saharan Africa will be equally able to present new grants to the global fund, which they will be able to get financed.

So, in some sense it's a bit of a sham. It's a bit of an act, and the only question I would pose is this is this an act which is worth playing and where everybody understands exactly what is going on. Or is this an act that if people suddenly started to point their fingers and say oh, this is just an act and actually the money is going elsewhere, we'll come back to actually undermine the cause of additional resource mobilization? And I think that's something that needs to be thought through quite seriously.

But, I wouldn't worry. I would think that as the proposal stands now, there'll be plenty of room for Sub-Saharan African countries to get their fair share of these incremental resources.

MR. DE FERRANTI: Now, we have run into a time problem. I do want to take a few more questions, but they'll have to be questions to which the panel will not have time to answer, at least in plenary session like this. But some do have to go at 4:00 and some might be able to stay around.

So, Lex, go ahead.

MR. RIEFFEL: Actually, I'm Lex Rieffel from the Brookings Institution, and I just have a comment, a short comment that you don't have to answer.

I've done quite a bit of work on foreign aid, and I think global fund is great. I think it's important to look for new mechanisms of financing for things like the global fund, for example, the tax on airlines, I think, is an excellent move. A tax on international financial transactions, I think is not a smart idea.

And I think it really undermines your credibility and your effort to include that among the things. And I think it's very important to select, you know, when you endorse things, you should think carefully about what you endorse.

I want to reinforce the point about additionality, because I've seen so many things like this that sort of are attractive because they appear to be additional, but they really are not additional.

I've done a fair amount of work on debt, and the point I would make here is to look very carefully the cost then benefits. And I look at the HIPC program and the MVRI program. I see huge costs in terms of time and effort. The amount of time and effort of officials in the giving countries and the multilateral institutions and in the receiving countries is unbelievable in terms of the amount of actual benefit, I think. And so, I just had a cautionary word.

And finally, I've done a lot of work on Indonesia and I think the numbers that you showed on the slides for Indonesia are just not the right numbers and should be looked at very carefully and to make consistent with what Ngozi was saying.

MR. DE FERRANTI: And we have time for just the one more. Yes?

MR. PHILLIP: My name is Robert Phillip from the global fund. I just want to expand really on the point made by Mr. Kharas. And you know, the question is is this about debt relief or is this about health financing, some way of health financing. And you are entirely right. It is not about debt relief. I mean we are not going to address or solve the debt issues with this initiative. I think,

you know, it's a question of honesty and clear expectations as to what we are trying to achieve with that.

So, what we are trying to really do is find – expand the envelope from the point of view of the global fund with some, you know, incremental benefits. And then the question is, you know, are we going the right way about it or not.

The countries that are included in the initiate are not selected based on their – I mean there are selected actually based on their sovereignty, so there's no – it's not a question of arguing that Indonesia has high debt or is suggesting in anyway some kind of financial problem on the Indonesian side.

In fact, it's quite the contrary is the case. We're seeing that, you know, Indonesia – there are some creditors who continue to give ODA as concessional loans, Germany being one of them. So basically what we are doing is we are rounding up all these customers that are doing business in this manner and trying to see how we can get them around the table to see, you know, is there any opening to negotiating that conversion or debt swap. And that's really what we are doing. So, this is the baseline to kind of the basic scenario.

The second, you know, expanded scenario from there is really to tackle other creditors who are giving concessional lending and have very strict policies. You mentioned Japan or somebody mentioned Japan and I mean, Australia possibly. So, there it's a question of political engagement, political will.

Also in the context of the global fund and the three diseases. I mean this is a political initiative clearly and you know, health financing is also a political business. So, that would be kind of the second ring, shall we say, around this very simple start.

And the third ring would be, you know, to then expand it to ECA debt and see if we can tackle that. And that's another – I mean we have discussed some of the difficulties and some of the challenges and we are quite aware of that. And so that's why it's kind of the third last objective.

And this applies to the non-HIPCs. Now, what can we do for the HIPCs? I mean, there our idea is really – and that I think would be (off mike). If we can involve some of the regional creditors in this initiative and round up some of the debt that we spend that's lying around in HIPCs and see either with the bigger creditors or with the smaller regional creditors we cannot do something positive there. That would be the real innovation if we get to that stage, just in terms of expansion and clarification on some of these things.

MR. DE FERRANTI: Thank you for those comments. We have run out of time and some panelists can stay.

Please join me in thanking the panel and thank the audience as well.

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