

# DEBT SWAPS FOR SCHOOL MEALS: Opportunities and constraints

Report for the  
Sustainable Financing Initiative (SFI)  
for School Health and Nutrition

by Gail Hurley and Matthew Martin  
Development Finance International  
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## Executive Summary

### **School meals programmes: a powerful, proven and practical development intervention**

School meals programmes are proven to have a wide range of benefits across health, nutrition, learning, and other areas, helping to catalyse the life chances of children. They are especially important for low-income vulnerable families, and help children from the poorest households (particularly girls) make significant gains. Home-grown school meals can also have important multiplier effects on the local economy.

In 2022, 82% of low-income countries and 87% of middle-income countries had national school feeding policies or strategies. Despite this widespread political commitment however, the fiscal space for delivering them is shrinking. Governments have emerged from the COVID-19 pandemic facing acute budgetary pressures. Slower growth, reduced revenue collection, and increased debt pressure has left governments confronting increased social need with diminished resources. Food price inflation has increased the cost of school meals provision. In low-income countries, just 18% of primary school children currently benefit from a daily nutritious meal at school.

There is a need to urgently find new and additional sources of finance for school meals. This study explores the potential of debt-for-food swaps to help deliver this much-needed financing.

### **Current financing needs and sources for school meals programmes**

Currently, school meals programmes are overwhelmingly funded by countries' themselves. In 2021, investment in school meals was an estimated US\$48 billion across all countries. Almost all of this finance originated in domestic budgets. However, global aggregates obscure marked differences across countries. In low-income countries, official development assistance (ODA) accounted for just over half of school meal financing. In aggregate, lower-middle-income-countries (LMICs) finance their programmes overwhelmingly from domestic revenues. However, aid accounts for around one quarter of average financing in LMICs. The gap between aggregate and average figures reflects the high levels of self-reliance in countries with large programs (notably India).

What would it take to finance a significant scale-up of school feeding programs? Well known data constraints make it difficult to answer that question. Analysis by the Sustainable Finance Initiative suggests that around \$3.6bn would be required annually over five years to achieve coverage rates of 60 per cent in LICs and LMICs. In a scenario where LICs and LMICs respectively finance around one-half and three quarters of the required increase, there would be a financing gap of around \$1.2bn. That gap would have to be covered by aid and other forms of development finance.

Whatever the precise parameters of the new and additional financing required to expand access to school feeding, two broad conclusions can be drawn. First, national governments will have to increase domestic resource mobilisation, either by expanding their revenue base or by reallocating spending – or some combination of both. Second, strengthened international cooperation has a critical role to play. Grant aid will remain the most important source of support, especially for LICs. However, other forms of development finance could play an expanded role. This report looks at one potential source

of non-aid finance – namely, the conversion of debt service liabilities into investments in school feeding.

### **Debt dynamics in the Global South: an increasingly urgent challenge**

High debt levels represent a key constraint on the financing options available to governments. The number of developing countries with high debt levels is on the rise. At the end of 2023, the IMF had classified 24 low and lower-middle-income countries at ‘high’ risk of debt distress with a further nine already ‘in debt distress’. Out of a total of 68 IDA-eligible countries, just seven were classified at ‘low’ risk of debt distress with the remainder at moderate risk.

These classifications are largely based on the levels of debt stock, but the crucial problem for most countries is that debt service is increasingly squeezing spending on the social sectors and other key development priorities. In 2023, in low-income countries, debt service represented 56.7% of budget revenues (with external debt service at 17.3% and domestic service at 39.4%); in middle-income countries total public debt service stood at 34.9%, with external debt service at 9.6% and domestic debt service at 25.3%. Looking forward, debt service pressures are projected to rise further still between 2024 and 2028. In low-income countries total public debt service (domestic and external) will represent over 60% of budget revenues on average between 2024 and 2028; in middle-income countries, it will amount to about 44% of budget revenues between 2024 and 2028 – also a high level.

Debt pressures have a bearing on the financing environment for school meals. Several countries seeking to expand access to school meals – Ethiopia, Ghana, and Kenya among them – have struggled to maintain spending commitments in the face of debt-related budget constraints.

### **Debt swaps as a potential solution to unsustainable debt?**

Against this background, debt swaps have been identified as a potential source of new and additional funding for school meals programmes. A debt swap is an arrangement in which a creditor (or creditors) agree(s) to forego all, or part, of their claims on a sovereign debtor on condition that it spends the resources it would have allocated to debt service on pre-agreed development or environmental interventions. Debt swaps have been implemented in various forms since the 1980s, where there was an initial focus on debt-for-equity swaps and debt-for-nature swaps, involving debt owed to private commercial creditors. In the 1990s and 2000s, bilateral debt swaps involving Official Development Assistance debt gained in prominence. More recently, there has been a move towards more complex private debt swap arrangements focused on marine conservation involving multiple parties, including private bondholders, commercial banks, and multilateral and bilateral development finance organisations.

Despite their long history, and although they have been fairly widely used, in reality debt swaps have not led to substantial resources being made available for development interventions. NGO research identified 128 bilateral debt swaps across 38 countries, which treated about US\$6.1 billion in debt and led to about US\$3.3 billion becoming available for social and environmental projects. This corresponds to about US\$165 million per year. These amounts, while not insignificant, are very small next to the HIPC and MDRI debt relief initiatives which combined led to about US\$119.5 billion in bilateral and multilateral debt relief. They are also small when compared to school meals financing needs.

## The potential to scale debt-for-food swaps: a detailed analysis

Most *current* political interest in the mechanism has centred on debt swaps as a tool to mobilise more financing for climate and nature-related interventions. However, the Italian Presidency of the G7 will launch a new food systems initiative in mid-June 2024, of which one key aim will be to secure support from other G7 countries for debt-for-food swaps. This could provide an opportunity to advocate scaling-up debt-for-food swaps: the key question is whether such advocacy is worthwhile.

There have already been 12 *bilateral* debt-for-food swaps which have involved the World Food Programme between 2007 and 2023, which allow us to learn lessons. The swaps have involved six developing countries, and five bilateral creditors. There have been no private debt-for-food swaps to-date. WFP has not published how much these swaps have mobilised in total for its programmes or how much debt overall was treated. Some focused directly on financing school meals and nutritional programmes, while others focused on broader food security initiatives, such as strengthening climate resilient agriculture in climate vulnerable and food insecure communities.

Four important lessons can be drawn from these experiences: i) debt-for-food swaps have not yet been successfully scaled despite the first swap having been transacted over 15 years ago; ii) interest in debt for food swaps seems to be limited to-date limited to creditor governments and have not involved the private sector; iii) broader food security and climate resilience initiatives rather than school meals alone seem to show more promise when it comes to creditor interest; iv) debt swaps may represent a useful – but time-bound – cash injection where resources are scarce, but school meals are a *recurrent* budget item so countries need to identify how these programmes will be financed over the longer-term.

The reasons for a lack of scale in debt swaps (of all kinds) are multiple. In practice, debt swaps are feasible only in relatively narrow set of circumstances. The most critical factor is a country's creditor mix because relatively few creditors have been open to swaps. Substantial amounts of developing country debt are now owed to domestic and multilateral lenders, which do not participate in debt-for-development swaps. Amongst bilateral creditors, only a handful have active debt swap programmes, including Germany, Italy, Spain and the United States which are now only very minor lenders to most developing countries. Most bilateral debt is now owed to China and other non-OECD countries which have never used debt swaps though a recent agreement between China and Egypt to "explore" debt swaps may signal a shift. China however has traditionally focused its development cooperation activities on infrastructure initiatives rather than social programmes. Swaps involving private external debt (loans or bonds) have freed-up fiscal space for debt countries only when the debt is being traded in financial markets at a discount, which has meant that they have been beneficial mainly for debt-distressed countries.

In addition, debt swap operations often involve major policy conditionalities debtor countries must fulfil, and due to their complexity come with major costs in terms of time, advisory/legal fees, and extensive monitoring and reporting frameworks. These high costs and conditionalities relative to traditional debt refinancing deals have reduced the attractiveness of swaps for many debtors and creditors.

## Debt swaps within the wider debt relief landscape

Debt swap transactions should work best for debtors (freeing-up maximum fiscal space and resources for development) in debt-distressed countries, where creditors are prepared to provide major debt reduction because they have less prospect of being repaid. However, in contrast to the debt relief deals of the 1980s (which included swap “options” in their debt relief “menus”), creditors now mostly prefer to provide debt reduction or debt relief through restructuring for countries which are in default or do not borrow on international capital markets, or refinancing at lower costs for those that do. Both of these methods are much simpler and involve lower transaction costs than debt swaps.

Comprehensive debt relief for debt-distressed countries, preferably involving all creditors, could enhance debtor countries’ fiscal space much more dramatically than debt-for-food swaps. Relief which reduces debt service to no more than 15% of revenues for countries which do not borrow on international capital markets (the target set under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative - MDRI), and reduces borrowing costs by 50% for those that do, could free-up US\$189 billion between 2024 and 2030 (US\$27 billion a year) for Eastern and Southern Africa, and US\$172 billion (an average of US\$24.6 billion a year) for West and Central Africa. Such sums would provide sufficient financing for the SDGs well beyond the needs of school meals programmes.

### What are the opportunities in five country case studies?

To shed further light on the debt swap options that may be available to governments, five illustrative case studies were explored in further detail. The countries are Ghana, Honduras, Kenya, Senegal, Sierra Leone, all with strong government commitment to school meals programmes and major financing gaps. They have been chosen to reflect a range of circumstances in terms of creditor composition and debt sustainability, so as to illustrate the potential for swaps across an illustrative set of low-income and lower-middle-income developing countries.

The case studies find that:

- The five country case studies pay on average over 63% of their debt service annually to *domestic* creditors in 2023, who have not historically participated in debt swaps.
- Four of the five country case studies owe at least 50% of their external debt to multilateral financial institutions, which are not eligible for debt swaps.
- Four of the five countries have substantial private external bondholder debt which could *in principle* be swapped, but this potential is *highly context specific*.
- Both Honduras and Senegal are considered sustainable, so there are limited incentives for bondholders to participate in a debt swap since they currently expect to be repaid in full.
- Kenya has recently concluded a debt refinancing deal with its private external bondholders, which means that this debt is also unlikely to be a strong candidate for a debt swap.
- Ghana is currently in default to its private bondholders and in active negotiations to restructure this debt. However, with an unsustainable debt burden and in a situation of

severe debt distress, Ghana requires comprehensive debt relief in order to restore debt sustainability.

- Bilateral debt swaps are the most likely option for most case study countries at the current time. However, the debts owed to each of the main countries which have previously engaged in debt swaps (specifically Germany, Italy and Spain) represent only a *tiny* fraction (under 0.6%) of each countries' external debt service due in 2024, leading to question marks over the benefits versus the transaction costs. Much greater benefit would come from swaps with China, which is all debtor countries' largest bilateral creditor, but it has not previously engaged in debt swap programmes.

### **Overall Conclusions and Recommendations**

Overall, the analysis reveals fairly limited prospects for debt swaps in the short to medium-term. They are unlikely to free-up substantial fiscal space in debtor countries and cannot therefore meet the scale of financing needs for school meals programmes. For many countries, freeing-up resources *at-scale* will require the restructuring of sovereign bond and commercial bank debt, along with some restructuring of debt owed to China and the multilateral financial institutions.

Politically, most interest has centred on the *climate* and *nature* thematic areas. Recent years have seen some major commercial debt swap initiatives focused on marine conservation, with Ecuador, Belize, Barbados, the Seychelles and Gabon all having participated in initiatives combining some debt reduction with a share of the savings earmarked for investment in specified marine conservation programmes. This suggests that synergies with the climate and/or nature agendas may be more likely to resonate with potential partners to a debt swap transaction. Linkages include areas such as climate-resilient agriculture, regenerative agriculture, clean energy installation within schools or clean cook stoves. However, the degree to which climate-themed swaps would mobilise significant additional resources for school meals programmes is questionable.

### **What would it take to move forward on debt for food swaps?**

**In terms of the potential to deliver resources more quickly for school meals programmes, a focus on a few "quick wins" to build momentum is recommended.** Strengthening relationships with bilateral creditors that have an *existing* debt swap programme may deliver quicker wins and help build the evidence base for other creditors in the future.

**Advocate for more bilateral creditors to offer debt swaps, including debt-for-food swaps.** The new G7 food systems initiative led by the Italian Presidency could provide an opportunity to advance advocacy on scaling-up debt-for-food swaps, including a call for *multi-creditor* debt swaps to maximise their development impact. Advocating for larger G7 lenders like France and Japan to join a debt-for-food swap initiative could help to deliver a bigger impact. However, overall, since most G7 creditors remain fairly small, expectations need to be carefully managed as regards how much such an initiative could deliver in practical terms. China and the Gulf states would also need to offer the instrument.

**Advocate for broader debt relief measures.** Debt swaps cannot mobilise the step change in resources required for school meals programmes, unless major bilateral creditors, such as China, France, Japan



and the Gulf states can be brought on board. There is increased consensus that current debt relief measures are inadequate and that new solutions to the current debt crisis need to be found. Broader debt relief measures are required, which would be far simpler and more efficient. The school meals community must add its voice to international advocacy efforts calling for more ambitious solutions to the debt crisis. Analysis by Development Finance International suggests that a more comprehensive debt relief package could mobilise an additional US\$316 billion between 2024 and 2030 for Eastern and Southern Africa and Central and Western Africa combined, dwarfing the amount that could potentially be mobilised through debt swaps, and providing a swifter solution to mobilising more resources for the Sustainable Development Goals as a whole.

**Build the business case for debt-for-food swaps.** Further research into why this mechanism is well-suited to meet school meals financing needs could be useful, with a particular focus on whether there are specific elements within broader school meals programmes that might be better suited to the shorter-term cash injections offered by the model. This could include investments in the capital infrastructure required to deliver school meals programmes, such as improvements to school kitchens, transportation and agricultural equipment for locally produced school meals. Evaluations of prior debt-for-food swaps could also help to build a strong evidence base.

**“Tap” the climate angle.** There is a higher level of political interest in debt-for-climate and debt-for-nature swaps. Rather than compete, it could be constructive to build links with partners engaged in these types of swaps and explore opportunities for partnerships.

**Build relationships with key financial partners experienced in debt swaps, such as DFIs and MDBs.** These development actors have recently become more engaged in *private* debt-for-nature swaps, particularly in the marine conservation space, and see scope to scale-up the approach. Building relationships with these partners to understand how they could support debt-for-food swaps will be useful.

**Advocate for a more flexible approach to debt swaps.** Ultimately, debt swaps should be about whether resources are well spent. Bilateral creditors could adopt a more flexible approach to some of the conditionalities that prevent them being used in some circumstances.

## Introduction. School meals programmes: a powerful, proven and practical development intervention

There is an extensive body of evidence which confirms the wide-ranging benefits of school feeding programmes. According to the Sustainable Financing Initiative (SFI) for School Health and Nutrition, “[w]ell-designed and properly funded school meals programmes have the potential to unlock a virtuous and self-reinforcing cycle of progress in health, nutrition, and learning, catalysing transformative change in the development trajectory of nations and the life chances of children.”<sup>1</sup> School meals are one of the world’s largest social safety nets, and are especially important for low-income vulnerable families, enabling children – particularly girls – from the poorest households to make significant gains. Home-grown school meals programmes also create markets for farmers, with potential benefits for employment, income, and the development of sustainable food systems. As such, school meals programmes support progress towards multiple Sustainable Development Goals (SDGs), including SDG 1 (no poverty), SDG 2 (zero hunger), SDG 3 (improved health), SDG 4 (quality education), SDG 5 (gender equality), SDG 8 (decent work and economic growth) and SDG 10 (reduced inequalities).<sup>2</sup> The SFI states that “[o]n any assessment of benefit-to-cost returns, school feeding represents one of the best-buy investments available to policymakers, especially in countries marked by low levels of learning achievement, high levels of child learning, malnutrition, and endemic poverty.”<sup>3</sup>

School feeding programmes have however come under significant pressure recently, not least due to the COVID-19 pandemic followed by surges in food price inflation. Before the COVID-19 pandemic, governments across the world’s poorest countries were extending the reach of school meals programmes. Most had adopted ambitious plans for scaling-up provision. In 2022, 87% of countries had national school feeding policies or strategies, up from approximately 80% in 2020 and 42% in 2013.<sup>4</sup> When it comes to low-income and middle-income countries, 82% and 87% had national school feeding policies or strategies in 2022 respectively. School closures during the COVID-19 pandemic however, triggered unprecedented setbacks in learning and significant nutritional losses, especially amongst the poorest children, many of whom received little or no support during the closures. In 2020, UNICEF estimates that globally, children missed out on over 39 billion school meals due to school closures. However, well-designed school feeding programmes have been shown to enable catch-up and provide an incentive for parents to send and keep their children, especially girls, in school.<sup>5</sup>

Despite the widespread political commitment in favour of school meals programmes, the fiscal space for governments seeking to restore and expand them is however shrinking. Governments have emerged from the COVID-19 pandemic facing acute budgetary pressures. Slower growth, reduced revenue collection, and increased debt pressure has left governments confronting increased social need with diminished resources. Food price inflation meanwhile has increased the cost of school

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<sup>1</sup> See: Sustainable Financing Initiative for School Health and Nutrition (SFI), School Meals Programmes and the Education Crisis, A Financial Landscape Analysis, 2022: <https://educationcommission.org/wp-content/uploads/2022/10/School-Meals-Programmes-and-the-Education-Crisis-A-Financial-Landscape-Analysis.pdf>

<sup>2</sup> For a full list of the SDGs and their associated targets, see: <https://www.globalgoals.org/goals/>

<sup>3</sup> Sustainable Financing Initiative for School Health and Nutrition (SFI), School meal programmes: A missing link in food systems reform, July 24, 2023: <https://www.edc.org/sites/default/files/School-meals-Food-Systems.pdf>

<sup>4</sup> World Food Programme, 2022 State of School Feeding Worldwide: <https://publications.wfp.org/2022/state-of-school-feeding/>

<sup>5</sup> UNICEF, COVID-19. Missing More Than a Classroom. The impact of school closures on children’s nutrition, 2021: <https://www.unicef-irc.org/publications/1176-covid-19-missing-more-than-a-classroom-the-impact-of-school-closures-on-childrens-nutrition.html>

meals provision. Against this backdrop, there is a need to urgently find new and additional sources of *ideally long-term* finance for school meals. The SFI has identified debt relief, delivered via debt swaps, as one potential source of ‘innovative’ finance which could help to close high financing gaps for school feeding programmes.<sup>6</sup> In principle, the case for debt swaps appears self-evidently beneficial. In practice, however, debt swap arrangements involved complex economic and political dynamics which have been insufficiently interrogated.

This paper provides a critical assessment of the potential to scale debt-for-food swaps. It is organised as follows:

- Part One explores estimated financing needs for school meals programmes and looks at how these programmes are currently being financed in the developing world, including countries at different income levels;
- Part Two looks at recent trends in public debt in the Global South and explores the extent to which debt is a problem and what is currently being done to address it;
- Section Three introduces and explains the different types of debt swap that exist, including those that involve both bilateral and commercial creditors, and provides examples of how they have recently been used, including a small number of debt-for-food swaps;
- Section Four provides a critical appraisal of the potential to use debt swaps as an instrument to mobilise fresh funds for school meals programmes;
- Section Five situates debt swaps within broader discussions on the need for debt relief and explores what comprehensive debt relief could deliver relative to debt swaps;
- Section Six summarises the potential for debt swaps in five countries, as explored in more depth in five complementary case studies;
- Finally, the paper ends with a series of suggested next steps.

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## 1. Current financing needs and sources for school meals programmes

In 2022, global budget allocations for in school meals were estimated US\$48 billion across all countries, up from US\$43 billion in 2020, according to the 2022 *State of School Feeding Worldwide* report.<sup>7</sup> The increase is likely to have reflected a post-Covid-19 rebound from the disruption caused by school closures. Globally, 98% of school meal financing investment was funded through domestic resources. In low-income countries (LICs) however, development partner resources are an important source of funds for school meals programmes, accounting for 55% of budget financing 2022. In lower-middle-income countries (LMICs), 97% of school meals were funded domestically in 2022. However, this aggregate figure reflects the high levels of self-reliance in financing in countries with large programs. On average, donors financed around one-quarter of school meal budgets in LMICs.<sup>8</sup>

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<sup>6</sup> See: Sustainable Financing Initiative for School Health and Nutrition (SFI), School Meals Programmes and the Education Crisis, A Financial Landscape Analysis, 2022: <https://educationcommission.org/wp-content/uploads/2022/10/School-Meals-Programmes-and-the-Education-Crisis-A-Financial-Landscape-Analysis.pdf>

<sup>7</sup> See: World Food Programme, 2022 State of School Feeding Worldwide: <https://publications.wfp.org/2022/state-of-school-feeding/>

<sup>8</sup> Source: World Food Programme, 2022 State of School Feeding Worldwide: <https://publications.wfp.org/2022/state-of-school-feeding/>

The increase in resources spent on school meals between 2020 and 2022 reflects an increase in *domestic* resources, rather than donor finance. Based on the OECD reporting system, aid donors currently provide around US\$287 million in aid for school feeding – less than 0.1 per cent of total ad. Apart from the United States, which accounts for over two-thirds of reported aid funding, no major donor has prioritised investment in school meals.<sup>9</sup> Other sources of international support, such as philanthropic aid are also small, reported at just US\$1.7 million in 2022.<sup>10</sup>

**Table: Financial investment in school meals by source, 2022**

Income level	Government	International	Other	Total 2022
Low	176 million	214 million	1.7 million	392 million
Lower-middle	2.4 billion	62 million	-	2.5 billion
Upper middle / high	31 billion	66 million	171 million	31 billion
<b>Total</b>	33 billion	342 million	172 million	34 billion

Source: State of School Feeding Worldwide, 2022

Overall, current financing for school meals programme falls far short of what is needed, particularly in the poorest countries. Across all countries, 41% of primary school children currently benefit from a daily nutritious meal at school. However, coverage rates drop to just 18% in low-income countries. In LMICs, the figure is 39% and in UMICs, it is 48%.<sup>11</sup> ‘Coverage’ in this context should be interpreted with caution. In many LICs and LMICs, the limited financing available for school meals leads to poor quality food baskets and intermittent provision.

Estimating the costs of expanded school meal provision is not straightforward. The only large-scale cross-country comparison of standardised costs remains a 2013 study (using 2008 data). Data provided by the WFP capture budget allocations, rather than costs. Forthcoming analysis by the Sustainable Financing Initiative suggests that a plausible (though still uncertain) reference point for average costs in LICs and LMICs could be in the range of \$55-72 per child/annually. This compares to the \$41-42 in average budget allocations for 2022.

While emphasising the tentative nature of the financing and the potentially large margins of error, the SFI has used updated cost estimates to develop scenarios for school feeding. In a ‘high ambition’ scenario leading to 60 per cent coverage rates by 2030, an additional \$3.6bn annually would be required. Within this envelope, the SFI estimates around \$1.2bn annually in international development finance would be needed to supplement an enhanced domestic resource mobilisation effort. Much of that finance would need to come from aid.

<sup>9</sup> Sustainable Financing Initiative, School Meals International Donor Analysis: Analysis of school feeding financing data systems: challenges and opportunities, January 2024

<sup>10</sup> Source: World Food Programme, 2022 State of School Feeding Worldwide: <https://publications.wfp.org/2022/state-of-school-feeding/>

<sup>11</sup> Source: World Food Programme, 2022 State of School Feeding Worldwide: <https://publications.wfp.org/2022/state-of-school-feeding/>

As indicated by the SFI analysis, most of the finance needed for expanded provision of school meals programmes would have to be mobilised through enhanced domestic revenue mobilisation efforts. The scope for an enhanced effort is reflected in the relatively low-levels of domestic resource mobilisation in many LICs and LMICs.

The IMF estimates that the average LIC and LMIC has the capacity to sustain a 23% tax-to-GDP ratio. While many developing countries are implementing programmes that will increase revenues in various ways, most are some distance from this tax “frontier”. For example, across 21 LICs in Sub-Saharan Africa, the tax to GDP ratio stood at just under 11.5% on average in 2023; in LMICs across all world regions, the ratio was just under 17% on average in 2023.<sup>12</sup> At the same time, the IMF also estimates that the most countries can realistically expect to achieve in annual increases in tax revenues is about 0.5%.<sup>13</sup> It is also the case that many countries (particularly those with IMF programmes) are already planning to increase revenues by at least 1% of GDP over the next few years, with those extra revenues already being allocated to existing spending plans.<sup>14</sup> This means that, even with extra revenue effort, it will take considerable time to mobilise the quantum of domestic resources needed to scale-up school meals programmes to the levels needed. Gains from increases in tax revenues are also likely to be larger in the wealthier LMICs and MICs rather than the LICs which are the neediest and have the highest financing gaps. Continued increases in food and fuel prices plus population growth will also place limits on this strategy. It also doesn’t take into account any potential new shocks or disasters, which might put pressure on domestic budgets and divert funds to other priority areas.

Some new funds will also need to come from donor resources, with the current aid effort far from what is needed to recover the ground lost during the COVID-19 pandemic and expand coverage in line with countries’ ambitions. Some donors have indeed pledged more. In October 2022, in celebration of the School Meals Coalition’s first anniversary, coalition members endorsed ‘The Helsinki Declaration’ which includes a series of calls to action, such as a commitment to explore innovative financing options and increase aid spending on school meal programmes by US\$1 billion. International financial institutions and multilateral development banks also set a collective lending target of US\$750 million in concessional financing, and an equivalent amount in non-concessional financing channelled towards school meal programmes. Combined, if honoured, this could mobilise around US\$3 billion annually in grant aid and multilateral finance for school meals programmes in the Global South. Unfortunately however, most of this has yet to materialise and the volume of concessional finance mobilised for school meals stood at about US\$280 million in 2022, far from the Helsinki Declaration targets.

Current approaches to aid pose a number of difficulties with respect to school meals financing. Notwithstanding their multiple socio-economic benefits, school meals programmes represent a *long-term recurrent* expenditure, which is not necessarily well-suited to non-concessional debt financing. This may limit the role for non-grant financing since any countries prefer to use debt-related finance

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<sup>12</sup> Source: DFI DSW database

<sup>13</sup> IMF, Countries Can Tap Tax Potential to Finance Development Goals, 2023:

<https://www.imf.org/en/Blogs/Articles/2023/09/19/countries-can-tap-tax-potential-to-finance-development-goals>

<sup>14</sup> Recent DFI analysis for UNAIDS finds that this is the case for most countries in Sub-Saharan Africa, with average planned revenue increases during 2024-30 exceeding 1% of GDP. Among the case study countries examined for this report, Ethiopia is planning to increase revenue by 1.1% of GDP, Ghana by 1.5%, Honduras by 0.9%, Kenya by 0.8%, and Sierra Leone by 2.4%.

(including concession multilateral finance) for infrastructure projects that are expected to yield a high financial and economic return which can be used to repay the loan.

It is also important to note that some developing countries, particularly LICs, are also limited in how much non-concessional debt they are permitted to take-on in the context of their IMF programmes, without prior approval from the institution. Should they breach these limits, they can be sanctioned in the form of reductions in access to concessional finance (for example reduced IDA allocations in the case of the World Bank), or a hardening of borrowing terms.<sup>15</sup> Indeed as at the end of 2022, 18 countries were subject to a *zero* non-concessional borrowing ceiling if they wish to retain full access to IDA resources from the World Bank, while a further 13 had extremely tight limits.<sup>16</sup> Non-concessional financing from the multilateral institutions as a source of finance for school meals programmes can therefore only reasonably be expected to play a small role in a sub-set of developing countries which are *not* the poorest.

Debt-finance is likely to remain an inappropriate source of finance for school meals programmes for most developing countries, particularly LICs and LMICs, it is also a key reason why many countries of the Global South are currently unable to scale-up expenditures on school meals and other key social sectors, as much as they would like to. The next section highlights how sovereign debt risks have increased substantially over the last decade, with debt vulnerabilities further exacerbated by the COVID-19 pandemic. High levels of public debt – and debt service – across many developing countries means that both increased aid *and* measures to reduce debt are likely to be required in order to significantly increase the availability of funds for school meals programmes.

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## 2. Debt dynamics in the Global South: an increasingly urgent challenge

Even prior to the recent COVID-19 pandemic which significantly worsened public finances, public debt levels in the Global South had been accelerating sharply and had reached record levels in 2020, according to the IMF.<sup>17</sup> Exacerbated by the COVID-19 pandemic, climate change, and the cost-of-living crisis (and by limited alternative concessional sources of finance), the number of developing countries with high debt levels has continued to climb. Developing countries with a debt-to-GDP ratio higher than 60% has increased sharply from 22 in 2011 to 59 in 2022.<sup>18</sup> At the end of 2023, the IMF had classified 24 low and lower-middle-income countries at ‘high’ risk of debt distress with a further nine

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<sup>15</sup> For more details on these policies, see for example, World Bank: Sustainable Development Finance Policy (SDFP):

<https://thedocs.worldbank.org/en/doc/a0908d01b8edaed8b042114bf89b2dc2-0410012020/original/sdfp-at-a-glance-2020-8-14.pdf>

<sup>16</sup> For the full list, see: World Bank, List of IDA-eligible and PRGT-eligible Countries Subject to IMF/IDA Debt Limits Conditionality:

<https://thedocs.worldbank.org/en/doc/94173bceaf5467da62afcb98a4a84c80-0410012022/original/OECD-DLP-and-SDFP-table-April-30-2022-v3-clean.pdf>

<sup>17</sup> IMF, Global Debt Reaches a Record \$226 Trillion, December 15, 2021: <https://www.imf.org/en/Blogs/Articles/2021/12/15/blog-global-debt-reaches-a-record-226-trillion>

<sup>18</sup> Source: UNCTAD, A World of Debt: <https://unctad.org/publication/world-of-debt> The 60% benchmark is used by the IMF as one of its indicators to assess debt burdens in emerging markets. However, the actual burden posed by debt differs across countries due to factors such as their level of development, growth and revenue potential, as well as institutional considerations.

already ‘in debt distress’. Out of a total of 68 IDA-eligible countries, just seven were classified at ‘low’ risk of debt distress with the remainder at moderate risk.<sup>19</sup>

Increases in public debt have been particularly marked in Asia-Pacific and in Africa. In Asia-Pacific, debt to GDP ratios have been pushed back to the relatively high levels seen just after the 1997 financial crisis in the region, with rapid debt accumulation driven by a combination of countercyclical spending, a low interest rate environment, a decline in revenues and large stimulus packages due to the COVID-19 pandemic. In 2023, the UN highlighted that 19 countries within the region faced a high risk of debt distress.<sup>20</sup> In Africa, debt has increased by 183% since 2010, a rate roughly four times higher than its economic growth rate over this period.<sup>21</sup> Key drivers include the COVID-19 pandemic, higher food prices due to the conflict in Europe, climate change and insufficient aid. Some small island developing states (SIDS) also hold exceptionally high debt burdens, including some with debt levels in excess of 100% of GDP.<sup>22</sup>

High debt levels typically imply increased debt *service* levels, with every dollar spent on debt service leading to one less dollar available for spending on sustainable development. In 2023, the new Development Finance International (DFI) *Debt Service Watch* database showed that total public debt service (domestic and external) as a percent of budget revenues amounted to 38% on average across 139 countries of the Global South; in low-income countries the figure was 57.5%; in IDA-eligible countries it was 47.7%.<sup>23</sup> Of these amounts, *external* debt service represented on average 17.3% of budget revenues in low-income countries in 2023, while *domestic* debt service consumed a further 39.4% of revenues. In middle-income countries, *external* debt service was on average 9.6% of budget revenues in 2023 and *domestic* debt service a further 25.3%. Across all IDA-only countries for which data was available, *external* debt service consumed 15.78% of budget revenues in 2023 with *domestic* debt service consuming a further 32.6%.<sup>24</sup>

DFI showed that debt service was massively crowding-out spending on the Sustainable Development Goals, including education, health and social protection. Across all countries of the Global South, total public debt service spending (domestic and external) was 2.5 times spending on education, rising to 3 times in Sub-Saharan Africa and in IDA-eligible countries. Debt service was also 3.7 times higher than health spending across all countries of the Global South and 11 times spending on social protection in 2023. In IDA-eligible countries, the figures are even more extraordinary. Debt service spending (domestic and external) was almost *five* times higher than spending on health and a massive 18.3 times higher than spending on social protection in 2023.<sup>25</sup> Interest payments on debt have also risen sharply reflecting the developing world’s higher cost of borrowing compared to advanced economies. In 2022, 21 African countries spent more than 10% of revenues on debt interest payments alone, further diverting resources from essential spending on the SDGs.<sup>26</sup>

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<sup>19</sup> Data is not available for a few countries to enable a debt risk rank or the relevant country authorities have not permitted public disclosure of this information. For the full list of 74 countries and their debt risk ranks, see: IMF: <https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf> List correct as at 30 November 2023.

<sup>20</sup> UN ESCAP, Economic and Social Survey of Asia and the Pacific, 2023: <https://www.unescap.org/blog/escap-public-debt-dashboard-one-stop-shop-learn-about-public-debt-asia-and-pacific>

<sup>21</sup> Data from UNCTAD, A World of Debt. See regional stories: <https://unctad.org/publication/world-of-debt/regional-stories>

<sup>22</sup> In 2023, this includes Barbados, Cabo Verde, the Maldives and Dominica.

<sup>23</sup> Development Finance International (DFI), Debt Service Watch, October 2023: <https://www.development-finance.org/en/news/831-11-october-the-worst-debt-crisis-ever-shocking-new-debt-service-numbers> Budget revenues excludes grants.

<sup>24</sup> All data from DFI’s Debt Service Watch (2023) database.

<sup>25</sup> Development Finance International, Debt Service Watch database, 2024

<sup>26</sup> Source: UNCTAD, A World of Debt: <https://unctad.org/publication/world-of-debt>



School feeding programs have not been immune to these debt pressures. In Kenya, which has set a strategic course to achieve universal school feeding by 2030, debt pressures have contributed to an increasingly uncertain budget environment, with key social sector budgets under acute pressure. Ghana and Ethiopia, two countries in debt distress, have struggled to increase financing for school meals. More broadly, debt servicing is crowding out investments in school feeding – and the prospective spike in repayments facing many countries has led to uncertainty over future financing.

Current debt relief efforts fall far short of what is required to expand the fiscal space available to governments. Just two decades have passed since any low-income countries benefited from comprehensive debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). As DFI showed in its recent Debt Service Watch briefing, debt service levels are now more than twice those faced by low-income countries before HIPC and MDRI debt relief; and slightly higher than those paid by Latin American countries before the Brady Plan in the 1980s. While some efforts have recently been taken to alleviate debt stress, most notably through the Debt Service Suspension Initiative (DSSI) and the Common Framework, these are widely considered inadequate by many civil society actors and debt experts. For example, the DSSI only *deferred* debt service for a relatively short period of time while debt interest continued to accrue.<sup>27</sup> The Common Framework meanwhile has been extremely slow and amongst the five countries which have so far sought a debt treatment under this initiative, DFI reports that they will still be paying an average of 48% of budget revenues on debt service between 2023 and 2025.<sup>28</sup> In contrast, the HIPC Initiative sought to bring total public debt service to below 15% of government revenues to enable beneficiary countries to scale-up pro-poor spending (which they did).

Debt relief initiatives are also complicated by the increased complexity of many developing countries' debt profiles. For example, whereas historically a large share of African debt was held by 'traditional' bilateral creditors, such as the Paris Club, today large shares are owed to private creditors (domestic and external) and to non-OECD bilateral creditors, including China and countries of the Middle East. For example, over 45% of Africa's debt is now held by private creditors.<sup>29</sup> In 2024, debt service to *domestic* creditors amounted to, on average, 43.3% of total debt service paid by countries of the Global South.<sup>30</sup> Multilateral creditors have also increased in prominence, especially for low-income countries.

This shift complicates the orderly restructuring of unsustainable debt since different creditors will often have different interests and concerns. Coordination is also more challenging amongst a large, diverse and fragmented group. It can be achieved, however. As was shown with commercial banks and trade suppliers in the 1980s and 1990s, strong political efforts at coordination can ensure that all creditors participate in debt relief. Progress has also been made with non-OECD bilateral creditors and efforts are underway in Germany, the UK and US to introduce laws to compel commercial creditors to provide comparable relief.

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<sup>27</sup> For more information on the DSSI, see World Bank: <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative> The DSSI was launched in response to the COVID-19 pandemic and was intended to help (mostly) low-income countries to free-up resources in the short-term to enable them to respond to the pandemic.

<sup>28</sup> Development Finance International (DFI), Debt Service Watch, October 2023: <https://www.development-finance.org/en/news/831-11-october-the-worst-debt-crisis-ever-shocking-new-debt-service-numbers> The 5 countries which have sought a debt treatment under the Common Framework are: Chad, Ghana, Sri Lanka, Suriname and Zimbabwe.

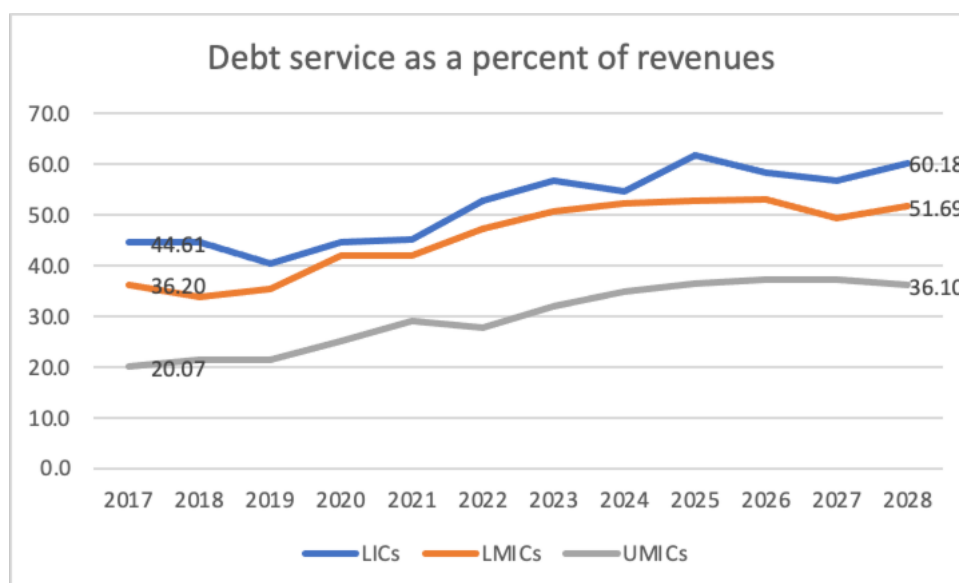
<sup>29</sup> Source: UNCTAD, A World of Debt: <https://unctad.org/publication/world-of-debt>

<sup>30</sup> DFI DSW database. Data for 199 countries of the Global South.



More challenging however are the *domestic* and *multilateral* portions of countries' debt which are much harder to restructure. Debtor countries are often reluctant to restructure domestic debt due to fears it could precipitate a domestic financial crisis, while multilateral debt cannot be restructured *at all* due to these lenders' preferred creditor status.<sup>31</sup>

Looking forward, debt pressures are unlikely to ease, particularly for low-income countries where school meal financing needs are the highest. Indeed, between 2024 and 2028, total public debt service in LICs is projected to rise further still from 54.5% of revenues in 2024 to over 60% by 2028. Debt service as a percent of GDP will rise from 8% in 2024 in LICs to over 10% by 2028. In MICs, debt service will remain consistent at around 44% of revenues between 2024 and 2028 – also a high level.<sup>32</sup>



Source: Development Finance International (2024)

### 3. Debt swaps as a potential solution to unsustainable debt?

For these reasons debt is high on the international policy agenda. Since the COVID-19 pandemic struck, debt vulnerabilities have been on the agenda of every G20 annual leaders' summit. The UN Secretary-General has urged 'decisive action' to stave off widespread debt crises in the developing world. The IMF, usually more cautious on debt, has also acknowledged the debt challenges that many countries face and has called for debt resolution mechanisms to be made speedier and more effective.<sup>33</sup> Recently, the World Bank has described current debt relief mechanisms as "not working"

<sup>31</sup> The Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives (MDRI) were an exception to this, but these initiatives followed sustained advocacy by civil society and other actors, with participating multilateral institutions reimbursed by bilateral donors for the debt forgiven.

<sup>32</sup> Source: Development Finance International Debt Service Watch (DSW) database

<sup>33</sup> See: UNDESA: Guterres urges 'decisive action' to stave off debt crisis in developing world, <https://www.un.org/en/desa/guterres-urges-%E2%80%98decisive-action%E2%80%99-stave-debt-crisis-developing-world>. See also: IMF, IMF Managing Director Kristalina Georgieva Urges G20 Leadership to Strengthen the International Financial Architecture, February 2023: <https://www.imf.org/en/News/Articles/2023/02/25/pr2353-md-georgieva-urges-g20-leadership-to-strengthen-the-international-financial-architecture#:~:text=in%20light%20of%20rising%20debt,and%20effectiveness%20of%20debt%20resolution>.

and called for a major rethink to ensure that all creditors participate and much more substantial relief is provided.<sup>34</sup>

In this context there has been renewed enthusiasm in the potential of ‘innovative’ finance solutions, like debt swaps, to play a role in helping to resolve sovereign debt problems. For example, at the COP28 Climate Change Summit, major multilateral development banks and the IMF made flashy announcements about their desire to expand debt-for-nature swaps.<sup>35</sup> Multilateral and bilateral financial institutions like the Global Environment Facility (GEF), the World Bank, the Inter-American Development Bank and the US Development Finance Corporation have started to engage in debt swaps in new ways.<sup>36</sup> While most of this political interest has centred around their potential to leverage finance for *climate* and *nature*-related interventions, the Sustainable Financing Initiative (SFI) for School Health and Nutrition, has also cited debt swaps as one of their action areas in its 2023 report, suggesting that “[d]ebt rescheduling operations and “debt-for-school meal” swaps could unlock new resources for school feeding.”<sup>37</sup> Under the Italian Presidency of the G7, a new food system initiative will be launched from mid-June 2024, which may provide an additional political opportunity to advance debt-for-food swaps. What really is the potential however? How and where might such operations work for school meals? And could this mechanism represent a viable source of finance at-scale for school meals?

### **What are debt swaps and how have they been used?**

A debt swap is an arrangement in which a creditor (or creditors) agree(s) to forego all, or part, of their claims on a sovereign debtor on condition that it spends the resources it would have allocated to debt service on pre-agreed development or environmental interventions. Typically, qualifying interventions include education, health, school meals and nature-related programmes. Debt swaps have been implemented in various forms since the 1980s, where there was an initial focus on debt-for-equity swaps and debt-for-nature swaps, involving debt owed to private commercial creditors. In the 1990s and 2000s, bilateral debt swaps involving Official Development Assistance (ODA) debt gained in prominence, particularly for those developing countries ineligible for the major HIPC and MDRI debt relief initiatives of the time. More recently, there has been a move towards more complex debt swap arrangements focused on marine conservation, involving multiple parties including private bondholders, multilateral and bilateral development finance organisations.

### **Types of debt swap**

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<sup>34</sup> World Bank official calls for shake-up of G20 debt relief scheme, The Guardian, 21 April 2024, <https://www.theguardian.com/business/2024/apr/21/world-bank-chief-economist-indermit-gill-g20-debt-relief-mechanism-common-framework>.

<sup>35</sup> See: CGDev, The IMF and the IDB Are Talking Up Debt-for-Nature Swaps at COP28. Here’s Why We’re Sceptical, December 2023: <https://www.cgdev.org/blog/imf-and-idb-are-talking-debt-nature-swaps-cop28-heres-why-were-skeptical>

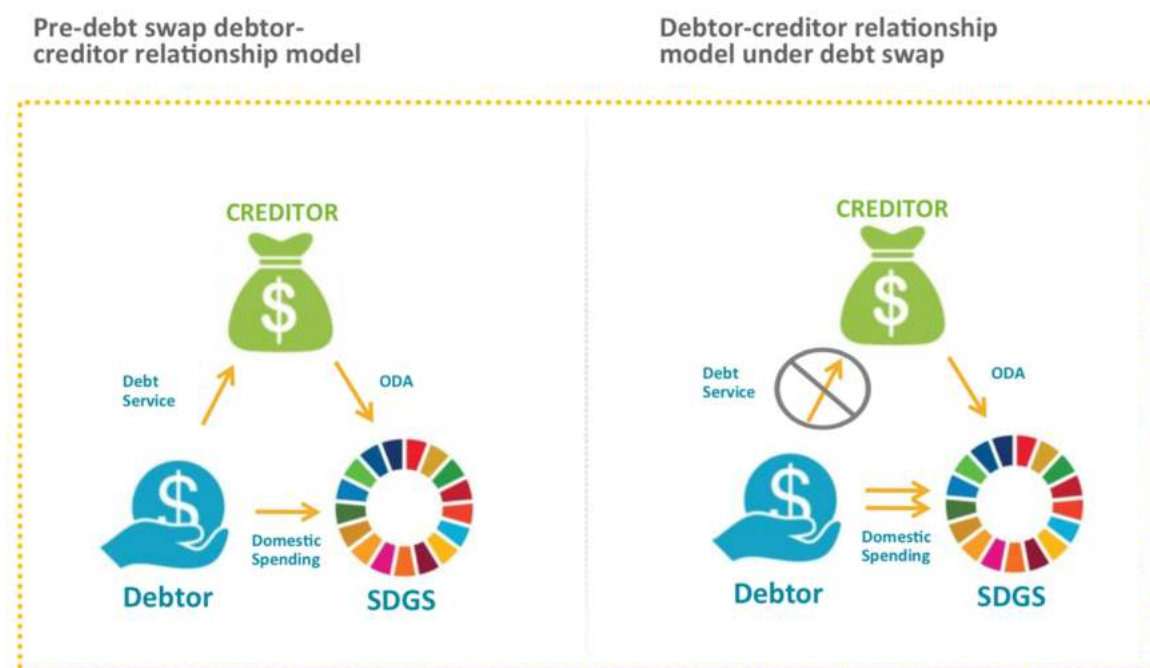
<sup>36</sup> The Global Environment Facility and the World Bank were involved in the Seychelles debt-for-nature swap of 2018. See: The Commonwealth, Case Study: Innovative Financing – Debt for Conservation Swap, Seychelles’ Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles, 2020: <https://thecommonwealth.org/case-study/case-study-innovative-financing-debt-conservation-swap-seychelles-conservation-and> The US Development Finance Corporation was involved in Ecuador’s debt-for-nature swap of 2023. See: USDFC, Financial Close Reached in Largest Debt Conversion for Marine Conservation to Protect the Galápagos, 2023: <https://www.dfc.gov/media/press-releases/financial-close-reached-largest-debt-conversion-marine-conservation-protect>

<sup>37</sup> Sustainable Financing Initiative (SFI) for School Health and Nutrition, School meal programmes: A missing link in food systems reform, July 24, 2023: <https://www.edc.org/sites/default/files/School-meals-Food-Systems.pdf>

There are three main types of debt swaps: bilateral debt swaps, tri-party debt swaps and private debt swaps. To-date, there have been no multilateral debt swaps since these creditors enjoy so-called ‘preferred creditor’ status within the current international financial architecture. This makes their debts *de facto* ineligible for debt swaps, and their engagement in debt swaps to-date has been to provide fresh concessional finance or institutional guarantees to debt swap arrangements, rather than cancel their own claims.

### Bilateral debt swaps

In a bilateral debt swap, there is an agreement between two sovereign governments to ‘swap’ official bilateral debt for investments in pre-agreed development or environmental interventions. It can be triggered via petition from the debtor state, but can sometimes be offered by the creditor. The debt swap agreement can sometimes include a ‘discount’ on the debt, for example an agreement that for US\$100 million in outstanding debt, US\$50 million will be cancelled, while the debtor will invest the remaining US\$50 million in pre-agreed activities. The agreement will also include disbursement modalities, i.e. the schedule of repayments and the bank account or special purpose vehicle it should be paid into. Sometime the debtor is able to make these repayments in local currency. From the debtor point of view, the higher the discount rate, the more attractive the debt swap could potentially be. On the other hand, it would also lead to fewer resources actually being made available for development interventions via the agreement.



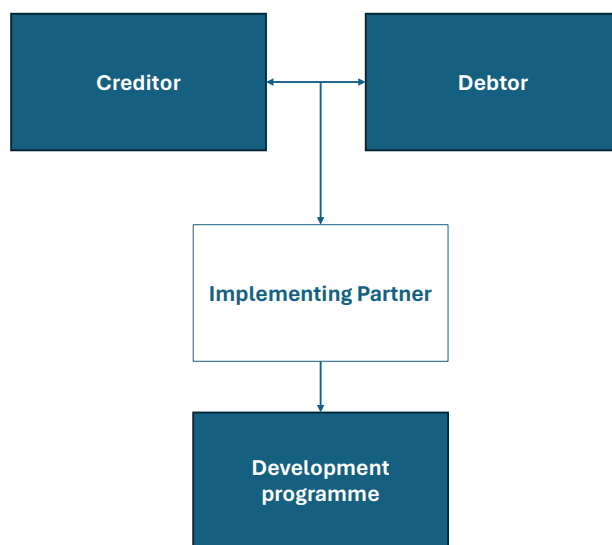
Source: WFP, 2021

### Triparty debt swap (with bilateral debt)

Under a tri-party debt swap, there is an agreement between two sovereign governments to ‘swap’ official bilateral debt for investments in pre-agreed development or environmental interventions,

however a third party is also added to the operation. This is typically a United Nations agency, a multilateral vertical fund or a Non-Governmental Organisation (NGO). In this scenario, the third party receives part or all of the funds released via the debt swap agreement and acts as the implementation partner for the pre-agreed development programme. For example, the Global Fund started a Debt2Health initiative in 2007 and has been involved in 12 debt-for-health swaps in 10 countries.<sup>38</sup> The Global Fund used the resources freed-up via debt swaps to invest in existing programmes and to start new ones. This scenario might be attractive to a debtor which lacks the capacity to implement development activities in a priority area and/or the capacity to monitor and report on progress. The involvement of a third party might also appeal to the creditor which would theoretically have assurances that resources would be spent effectively, where the third party has a solid track record in programme implementation and trusted accountability framework. On the other hand, it can also entail high costs since the third party (typically an international organisation) will have high overhead costs. There may also be political hurdles related to the debtor’s willingness to entrust an independent third party with providing a particular service or overseeing implementation of the debt swap. Typically there would need to be a close relationship between the debtor government and the third party to ensure that execution of the debt swap is not compromised.

### **Triparty debt swap**



Source: Authors

### **Private debt swaps (or debt buy-backs)**

Debt swaps which involve debt owed to private sectors creditors, such as bondholders, also typically involve third parties, including NGOs, multilateral development partners and financial institutions.

<sup>38</sup> For a full list of Global Fund Debt2Health swaps, see EURODAD, 2023: <https://assets.nationbuilder.com/eurodad/pages/3225/attachments/original/1701693052/debt-swaps-report-final-dec04.pdf?1701693052>

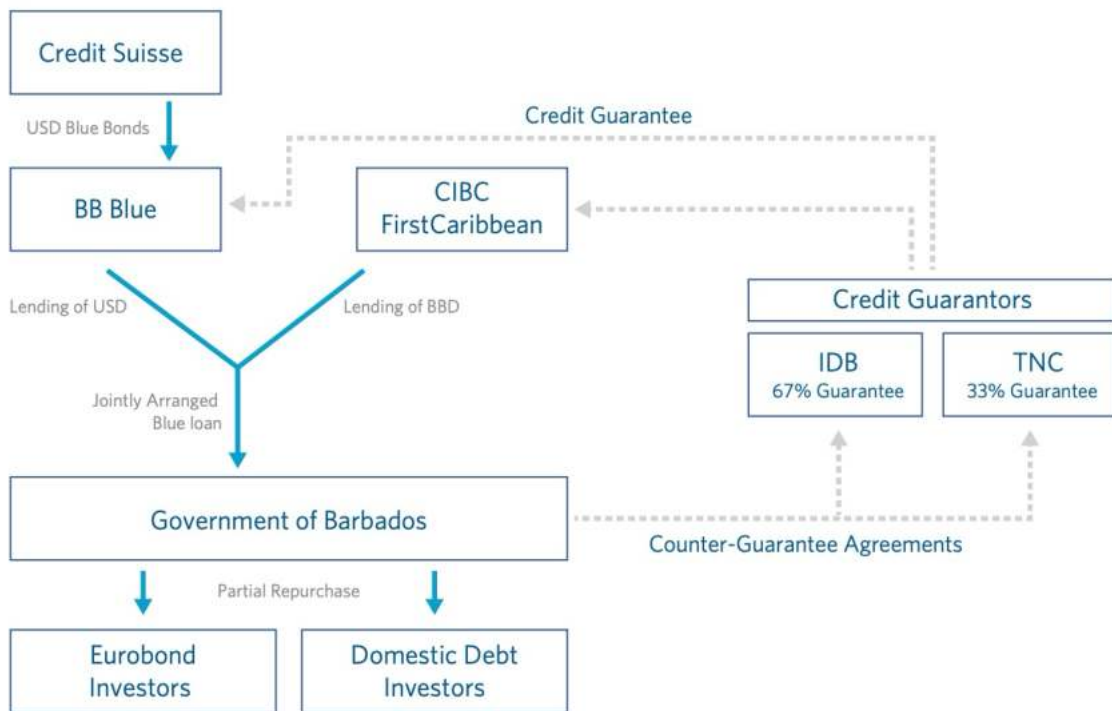
Under this model, there is a debt buy-back from external bondholders at a discount. In their simplest form, these operations would typically involve an NGO obtaining a donation from a philanthropic or public sector donor to purchase the debt at a discount from the private creditor(s). When it involves bondholders, the debt buy-back is made through debt secondary markets. These debt claims were then transferred to a trust fund to which the debtor then owed a lesser amount of debt. The debtor would then commit to repay the debt to the trust fund, which would use the funds for pre-agreed purposes (typically nature-related interventions).

Since the earliest operations of the 1980s and 1990s, more complex debt buy-back operations have emerged, also predominantly focused on nature-related activities. Recent debt-for-nature swaps in Barbados, Belize and Ecuador for example have been highly sophisticated complex operations, all of which have focused on marine protection. Though there are some differences in the structure of these swaps, they all share some similar features. Under these agreements, debtors are supported to buy-back their commercial debt at a discount on secondary debt markets through loans provided by subsidiary entities established by the Nature Conservancy, the world's largest conservation organisation and a specialist in these types of transactions. These subsidiary entities finance these loans to debtors through blue bonds issued and sold by established financial institutions and insured by development finance institutions so as to secure a lower interest rate. This lower interest rate is then passed on to the debtor, which enables both immediate and longer-term fiscal savings for the debtor. The debtor transfers its payments on this new debt to an independent conservation fund which disburses funds to local marine conservation and related blue economy projects.<sup>39</sup> These operations have been well received by many stakeholders and there seems to be significant momentum behind this type of approach currently.

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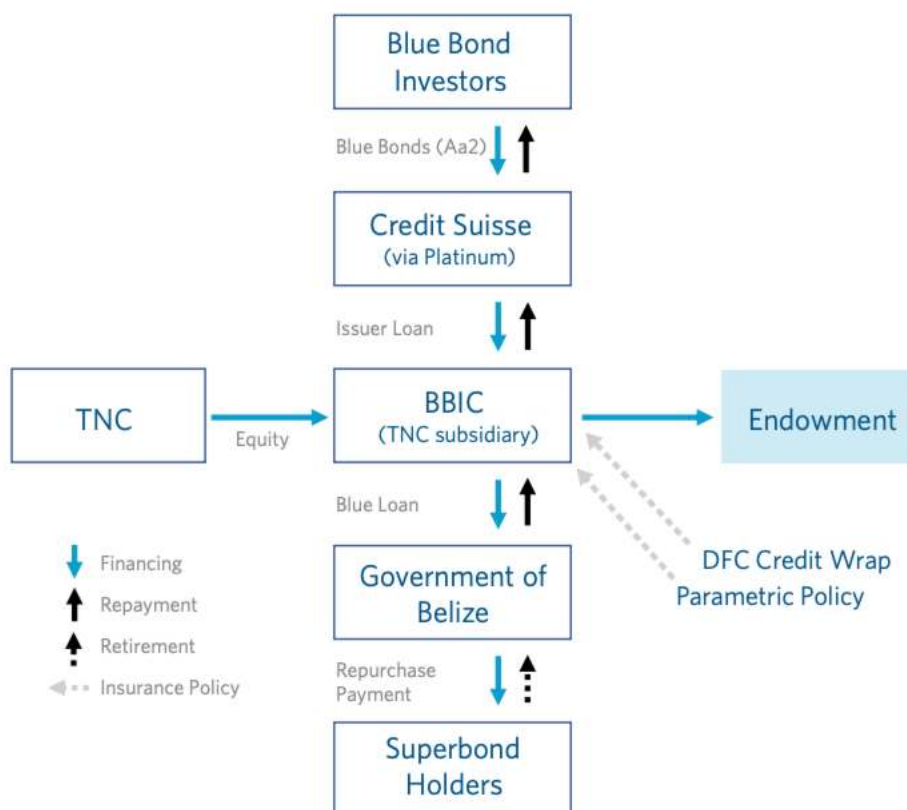
<sup>39</sup> For more detailed information on the Belize and Barbados debt-for-nature swap transactions, see: The Nature Conservancy, Barbados Blue Bonds for Marine Conservation: <https://www.nature.org/content/dam/tnc/nature/en/documents/TNC-Barbados-Debt-Conversion-Case-Study.pdf> and The Nature Conservancy, Belize Blue Bonds for Marine Conservation: <https://www.nature.org/content/dam/tnc/nature/en/documents/TNC-Belize-Debt-Conversion-Case-Study.pdf>

### Barbados debt-for-nature swap: private debt



Source: The Nature Conservancy

### Belize debt-for-nature swap: private debt



Source: The Nature Conservancy

#### 4. The potential to scale debt-for-food swaps: a detailed analysis

What is the potential to use debt swaps for school meals? Have they been used before for such purposes? Could the approach be scaled?

At first sight, debt swaps appear to be a widely-used mechanism. However there has been little research which has systematically counted, monitored or evaluated the use of debt swaps. Recently, researchers Diego Filmus and Esteban Serrani produced one of the most exhaustive compilations of *bilateral* debt swaps carried out between 1988 and 2008.<sup>40</sup> They identified 128 debt swaps across 38 countries. The total amount of debt treated under these 128 debt swaps was about US\$6.1 billion, which led to about US\$3.3 billion becoming available for social and environmental projects. This amounts to about US\$ 165 million per year. Since then, there have however been multiple other *bilateral* debt swaps, including most recently between Cabo Verde and Portugal in 2023, and between the US and Peru also in 2023.<sup>41</sup> The African Development Bank has also carried out some high level research in this area and has reported that between 1989 and 2015, the total face value of debt involved in debt-for-climate swaps only was about US\$318 million, which had led to about US\$135.7

<sup>40</sup> EURODAD, Miracle or Mirage? Are debt swaps really a silver bullet? 2023: <https://assets.nationbuilder.com/eurodad/pages/3225/attachments/original/1701693052/debt-swaps-report-final-dec04.pdf?1701693052>

<sup>41</sup> See: International Institute for Environment and Development (IIED), Cabo Verde and Portugal agree groundbreaking debt restructure, 24 January 2023: <https://www.iied.org/cabo-verde-portugal-agree-groundbreaking-debt-restructure>

million becoming available for environmental related projects.<sup>42</sup> One observation is that, while not insignificant, the overall scale of debt swaps has been relatively small to-date when compared to the HIPC and MDRI debt relief initiatives which combined led to about US\$119.5 billion in bilateral and multilateral debt relief.<sup>43</sup>

#### Bilateral creditors with recent engagements in debt swaps<sup>44</sup>

Bilateral creditors with formal debt swap programmes	Bilateral creditors that have engaged in debt swaps on an ad hoc basis
Germany	Australia (health only)
Italy	Portugal
Spain	Russia
USA (nature only)	South Africa

Debt swaps have focused on a wide range of social and environmental interventions – from education to health, environmental protection and more recently marine protection.<sup>45</sup> Most *current* political interest in the mechanism however centres around debt-for-*climate* and debt-for-*nature* swaps. There have however been several *bilateral* debt swaps which have focused on school meals (i.e. debt-for-food swaps). These have involved the World Food Programme (WFP) as the major beneficiary of the funds made available through the debt swap agreement. Outside WFP, there are no known examples of other debt-for-food swaps.

To-date, WFP has been involved in 12 debt swaps in six developing countries with five bilateral creditors between 2007 and 2023. The details are summarised in the figure below.<sup>46</sup> It is not known how much debt these operations cancelled in total or how much they mobilised for WFP country programmes since this information has not been published. However, WFP *has* reported that the amount mobilised via ten agreements exceeds US\$145 million. In Mozambique, the value of the 2017 debt swap with Russia has been reported as US\$40 million, its largest debt swap overall.<sup>47</sup> The discount rates applied to these debt swaps however is not known. Some WFP swaps have focused directly on financing school meals and nutritional programmes, while others have focused on broader food security initiatives, such as strengthening climate resilient agriculture in climate vulnerable food insecure communities. There are no examples to-date of debt-for-food swaps that have involved *private* debt. One question which emerges from this analysis however, is why there have been so few debt-for-food swaps and why the approach has not (yet) been successfully scaled, since it would appear that WFP has a relatively successful track record with the instrument.

#### WFP debt-for-food swaps

<sup>42</sup> African Development Bank, Debt-for-Nature-Swaps: Feasibility and Policy Significance in Africa’s Natural Resources Sector, October 2022: <https://www.afdb.org/en/documents/debt-nature-swaps-feasibility-and-policy-significance-africas-natural-resources-sector>

<sup>43</sup> For further discussion, see: IMF, Debt-for-Climate Swaps: Analysis, Design, and Implementation, August 2022: <https://www.imf.org/en/Publications/WP/Issues/2022/08/11/Debt-for-Climate-Swaps-Analysis-Design-and-Implementation-522184>

<sup>44</sup> Note that several other bilateral creditors have also engaged in debt swaps in the past but have not been involved in any recent transactions. Most were engaged in the 1990s. These include: Canada, Finland, the Netherlands, Sweden, Switzerland, UK. France’s formal debt swap programme essentially acted as a top up to the HIPC Initiative and has now closed.

<sup>45</sup> There are no known estimates as to the total amounts mobilised for different thematic areas via debt swaps.

<sup>46</sup> Source: World Food Programme. To the authors’ knowledge, there has been no systematic evaluation carried out by WFP as to the successes and lessons learned from these operations.

<sup>47</sup> See World Food Programme, Debt swaps for climate smart school meals, 2024: <https://www.linkedin.com/pulse/debt-swaps-climate-smart-school-meals-eunice-khaguli-pgjnf/>





Source: WFP, 2024

### Debt swaps: when are they feasible?

In practice, debt swaps are *not* as widely used as one might think, and are feasible only in a fairly limited range of situations. This is not because they *couldn't* be used more widely; rather that current frameworks in operation often limit their use.

Most of the literature on debt swaps tends to focus on issues such as the extent to which they free-up fiscal space in beneficiary countries, have high transaction costs, are transparent, have conditionalities attached to them or whether they measure-up as a genuine debt reduction tool. These are all important. But they are also just one part of the picture. Less explored however is the 'architecture' which *de facto* governs bilateral debt swaps, and the extent to which this enables – or limits – debt swaps at the pace and scale which international declarations suggest is desirable.

First, with reference to *bilateral* debt swaps, most to-date have been transacted with Paris Club creditors. However very few of them actually have an official debt swap programme, though some have implemented debt swaps on an ad hoc basis. Bilateral creditors with formal debt swap programmes (and which have tended to use the instrument more frequently) include Germany, Italy, Spain and the United States. Creditors which have used the instrument on an ad hoc basis include Australia, Portugal, Russia and South Africa. Several more have used the instrument in the past, but there have been no recent transactions. This includes Canada, the Netherlands, Sweden and a few

others.<sup>48</sup> France formerly had a debt swap ‘top-up’ programme attached to the HIPC Initiative, but this has since wound down. Japan, which is a major concessional lender, does not use debt swaps.

This means that a debtor country’s bilateral creditor mix is fundamental in determining whether a *bilateral* debt swap is likely to be an option. And as outlined in section two, developing countries have a far more complex and diverse set of bilateral creditors today than they did 20 years ago, extending far beyond the traditional set of Paris Club creditors. For example, in the case of Sierra Leone, which has set a pathway for universal school feeding provision, its bilateral creditors today are China, India, Kuwait, Saudi Arabia and the United Arab Emirates. None of these creditors have a history of debt swaps. This makes a bilateral debt swap unlikely – at least in the short-term (one point to note however is that China recently signed a Memorandum of Understanding (MOU) with Egypt in 2023 for a debt swap.<sup>49</sup> The details are not public but according to media reports will focus on the energy transition and will involve Chinese corporations).<sup>50</sup>

Paris Club creditors have, in turn, developed a set of *informal*, but widely adhered-to, rules which determine how much debt can be cancelled and the circumstances in which debt swaps should be negotiated with debtors. For example, *all* outstanding ODA (concessional) credits may be swapped on a voluntary and bilateral basis *without* limits, but a maximum of 20% of the amounts outstanding related to *non*-ODA (more expensive) credits may be swapped.<sup>51</sup> This means that countries with a large stock of *non-concessional* bilateral debt would derive less benefit from debt swaps than countries where the majority of external debt is ODA-related. In most IDA-eligible countries, the majority of bilateral debt is ODA-related, but those with higher amounts of non-concessional bilateral debt versus ODA-related debt include Ghana.

The Paris Club also *recommends* that the debtor should have an IMF-supported programme in place, and this is a formal requirement within the German debt swap programme. If debtors are in arrears to the multilateral lenders, debt swaps will also not be considered. Other debt swap conditionalities may also be imposed by individual creditors. For example, the US stipulates the country should have a strong record on human rights observance and exhibit a demonstrated commitment to poverty reduction. The US also requires governments are democratically elected. US debt swaps are governed by the Tropical Forest and Coral Reef Conservation Act (TFCCA) of 1998 which provides for *debt-for-nature* swaps, rather than swaps in other development areas. The Act also has a particular focus on strengthening local civil society by creating local foundations through which small grants to NGOs and local communities can be channelled to complement government sponsored activities.<sup>52</sup>

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<sup>48</sup> The fall in its use can be partly attributed to the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) which resulted in comprehensive debt write-downs for 42 of the world’s poorest countries from 1995 onwards, including debt owed to Paris Club creditors. Since then, many of those creditors have *not* resumed lending at-scale to the poorest countries. As such, there would be little bilateral debt to swap (at least among the poorest countries where help for financing for school meals would be most needed).

<sup>49</sup> These creditors might consider debt swaps at a future date, however negotiating a debt swap with a creditor that is unfamiliar with the instrument is likely to take some time. Sierra Leone owes the rest of its external debt to a range of multilateral lenders, which are ineligible for debt swaps.

<sup>50</sup> EUODAD, *Miracle or Mirage? Are debt swaps really a silver bullet? 2023*: <https://assets.nationbuilder.com/eurodad/pages/3225/attachments/original/1701693052/debt-swaps-report-final-dec04.pdf?1701693052>

<sup>51</sup> Paris Club, *debt swaps*: <https://clubdeparis.org/en/communications/page/debt-swap>

<sup>52</sup> US bilateral debt swaps are carried out under the framework of the Tropical Forest and Coral Reef Conservation Act (TFCCA) of 1998. See: <https://www.usaid.gov/tropical-forest-conservation-act>

While many potential beneficiary countries will fulfil these requirements, some do not, and Paris Club creditors often show little flexibility. For example, Antigua and Barbuda is in significant repayment arrears to several Paris Club creditors (mostly comprised of interest and penalties) and has expressed an interest in a potential debt-for-climate swap. Paris Club creditors have however responded that an IMF programme should be put in place before a potential debt swap can be discussed – a route that the government is reluctant to pursue.<sup>53</sup>

Even where bilateral debt swaps are likely to be feasible due to the creditor mix and the presence of an IMF programme that is considered largely on-track, the extent to which a debt swap will actually free-up substantial fiscal space for crucial investments in sustainable development or nature is not always clear. ODA-related credits are by definition concessional and long-term in nature, so the debt service associated with them is not necessarily that onerous relative to other non-concessional and shorter-term debt, including domestic debt. As such, swapping just one creditor's concessional credits is likely to have a minimal impact on fiscal space overall. This can discourage debtors from pursuing this path, due to the perceived time and complexity of the operation versus the overall benefit.<sup>54</sup> New grants or concessional loans are often likely to be perceived as more efficient.

Depending on the debtor country's debt profile, debt service may be more onerous in relation to *non-ODA* bilateral credits, but recall there is a 20% cap imposed by the Paris Club on the amount of this type of debt that can be swapped. This is the case for example in Ghana where debt service on all ODA-related debt will amount to about US\$360 mn in total in 2024, but will be over US\$562 mn in relation to non-ODA bilateral debt. Most bilateral debt service is also being paid to creditors that *do not* currently participate in debt swaps, particularly China, Japan, Korea, and the Gulf States. Debt swaps with these creditors would, in many cases, be more beneficial in terms of freeing-up fiscal space. However their appetite for such instruments is currently unknown, and would likely require sustained engagement and advocacy to build their interest. As such, debt swaps with these creditors would be unlikely to be "quick fixes" to school meals financing challenges.

In spite of these limitations, they can have attractive features. For example, a debt swap can become potentially quite attractive for a debtor if there is a significant 'discount' on the debt available as part of the agreement. Often in bilateral debt swaps, some of the debt is cancelled outright, while the remainder is 'swapped' and paid into a fund for pre-agreed purposes. The higher the amount cancelled (the discount), the better it usually is for the debtor (the flip side to this however is that the higher the discount, the fewer funds the swap makes available for sustainable development). The discount involved in debt swaps explains the discrepancy between the high headline figures often advertised around debt swaps (the amount of debt 'treated') versus the amount actually made available for development interventions. For example, a debt swap could involve the 'treatment' of US\$20 million in outstanding debt. Of this amount however, US\$10 million might be cancelled meaning that only US\$10 million becomes available for spending on development interventions in-country. EURODAD has calculated that out of a total of US\$1.9 billion in debt that was 'treated' via five debt-for-nature swaps carried out in five countries between 2015 and 2023, US\$811 mn became available for climate

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<sup>53</sup> Based on author conversations with the Government of Antigua and Barbuda.

<sup>54</sup> Bear in mind also that many low-income countries' have weak administrative capacities. In 2015, UNDP suggested that, to be more impactful, there would need to be 'multi-creditor' swaps.

and nature-related programmes.<sup>55</sup> From a debt-for-food swap point of view, this means that if the debts outstanding to a bilateral creditor are fairly small, then the amounts freed-up for school meals would be even smaller once the discount is applied. An additional consideration is that debt swaps typically free-up for funds for a relatively short period of time (e.g. less than five years on average for the WFP debt-for-food swaps). School meals are however a *recurrent* budget cost for governments, so provisions would need to be put in place to ensure that programmes are sustainable and can be funded in other ways once the debt swap funds are exhausted.

The benefits of a debt swap are also often higher for the debtor if they are able to pay the amounts owed in local currency rather than hard currency. This means, by extension, that the majority of debt swap project costs, should also be payable in the national currency. In some cases, this may pose a challenge where, for example, an international agency is a third party implementation partner delivering all, or most, of the project activities and pays the salaries of international personnel or other key costs in hard currency.

A final key consideration is that, somewhat counter-intuitively, debt swaps are likely to be inappropriate in situations where the country is in severe debt distress and the debt is considered unsustainable (there is a solvency crisis). In these circumstances, a debt swap with one or two creditors will be wholly insufficient to resolve the situation and indeed, by definition, if the country is in profound debt distress, it is unlikely to be able to fulfil the schedule of debt repayments specified in a debt swap agreement, even with a substantial discount. Some of this risk could potentially be mitigated if some (major) debts are comprehensively restructured. In such a scenario, a debt swap could play a complementary role. However, a debt swap would not be suitable on its own. This introduces substantial risks for any third-party implementation agency which may be relying on these funds to carry-out its development work. In these circumstances, comprehensive debt restructuring will be required and debt swaps should not be recommended.

### **Feasibility checklist: when is a bilateral debt swap more likely?**

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<sup>55</sup> EURODAD, Miracle or Mirage? Are debt swaps really a silver bullet? 2023: <https://assets.nationbuilder.com/eurodad/pages/3225/attachments/original/1701693052/debt-swaps-report-final-dec04.pdf?1701693052>

Suitable when:	Less suitable when:
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Bilateral debt with creditors that use instrument regularly	<input type="checkbox"/> Bilateral debt is owed to creditors that have never used debt swaps before
<input type="checkbox"/> IMF programme and track record of performance	<input type="checkbox"/> Most external debt is owed to multilateral lenders
<input type="checkbox"/> Active Paris Club agreement	<input type="checkbox"/> High levels of domestic debt (which isn't usually swapped)
<input type="checkbox"/> Good governance / human rights record	<input type="checkbox"/> No IMF programme
<input type="checkbox"/> Good relations with creditors and IFIs	<input type="checkbox"/> Country is in debt distress and debt is unsustainable
<input type="checkbox"/> Funds are only needed for a short period of time	<input type="checkbox"/> Funds are needed over the long-term
	<input type="checkbox"/> Funds are needed for emergency response

### Private debt swaps

When it comes to *private* debt swaps, these are also only feasible in some circumstances. Domestic debt for example is not usually swapped. When it comes to private *external* debt, the 'buy-back' nature of these swaps means that they will usually be most relevant to countries whose sovereign bonds are being traded in financial markets at a discount, i.e. the participation of bondholders in these types of transactions depends on whether they expect to be paid at all or whether they think they may be able to secure a better price on their debt than the one being offered through the debt swap operation.

As such, the perceived level of debt distress determines how much debt reduction (discount) can be secured relative to the face value of the debt with the higher the discount, the more resources can be freed-up for conservation. This means that the discounts achieved with recent private debt-for-nature swaps across Barbados, Belize and Ecuador all look very different when it comes to the repurchase prices on the debt. Barbados' debt was repurchased at 92.2 cents on the dollar, Belize was at 55 cents and Ecuador was at 41 cents. This is because Belize had missed several bond repayments before the swap and both Belize and Ecuador's bonds were classified as "distressed debt" with bond yields above 20%, while Barbados' debt was not.

The high number of actors involved in these swaps also implies high transaction costs, particularly related to legal counsel. For example, EURODAD reports that for the Barbados transaction, at least eight separate legal advisors were appointed to advise and represent the different parties to the transaction. This highly specialised advice is extremely expensive.<sup>56</sup> This is important to bear in mind when it comes to potential debt-for-food swaps, since many of them would presumably take place in

<sup>56</sup> EURODAD, Miracle or Mirage? Are debt swaps really a silver bullet? 2023: <https://assets.nationbuilder.com/eurodad/pages/3225/attachments/original/1701693052/debt-swaps-report-final-dec04.pdf?1701693052>

low-income and lower-middle-income countries where administrative capacities are generally weaker and independent external technical expertise would be vital. Some of this could potentially be funded via aid resources or funds supplied by the MDBs - but some civil society organisations might question whether this would necessarily constitute the best use of scarce grant resources. While there is no publicly available data on the price paid for the expertise of private firms involved in these transactions, it can be assumed that such fees must represent a sizeable portion of the operation's debt savings, meaning that less funds are available for conservation.

Debtor countries also commit to achieving specific sustainability-related 'key performance indicators' (KPIs) with such debt swap operations. In practice, this means that countries are required to monitor and report on environmental impact over substantial periods of time (e.g. 15 years in the case of Barbados), a requirement which can be quite onerous for countries with more limited capacities. A failure to meet the KPIs can in turn lead to penalties (e.g. a higher interest rate on the new loan), depending on the terms and conditions of the debt swap agreement. While tying these operations to ambitious and objective KPIs is a way to ensure results, and reassure both investors and the Development Finance Institutions guaranteeing such operations that savings are being used to further conservation and sustainable development, it can be a significant limitation for countries with low capacity. This is particularly important to bear in mind for extremely poor low-income countries, where the risks that this might materialise are likely to be higher. These are also the countries with the highest school meals financing needs.

When it comes to the application of this type of instrument to school meals, another important observation is that some low-income countries with the highest school meal financing challenges do not have any external bondholder debt at all. This is the case with Sierra Leone and Nepal for example. In Honduras, a lower-middle-income country where the school meals programme is one of the most important social protection provisions of the government but was severely disrupted by the pandemic, the debt outlook is classified as sustainable and therefore its debt with bondholders is not trading at a discount on secondary debt markets.

This doesn't mean that a debt swap with external bondholders is impossible, however like Barbados, the discount that bondholders are likely to accept relative to the face value of the debt may well be fairly small. For countries with significant bondholder debt, and which are experiencing debt repayment difficulties, some might fear a downgrading of their sovereign credit rating with a debt swap operation, or opt to refinance the debt in more traditional and familiar ways, such as issuing new debt to retire old debt, or seeking loans from development partners or the IFIs to help pay bondholders. This has been the case most recently in Kenya for example, which has recently issued a new US\$1.5bn Eurobond to buy-back the US\$2bn Eurobond due in June 2024.<sup>57</sup> In Kenya's case, the new debt is more expensive than the old debt, whereas in a private debt swap, the reverse is true. However a debtor might be concerned about the time and complexity of the operation.

Despite these challenges, there is currently a lot of enthusiasm for this type of debt swap transaction, and a sense that the many actors involved in recent transactions – from the MDBs to the DFIs and the

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<sup>57</sup> For more details on the Kenya operation, see African Sovereign Debt Justice Network: <https://www.afronomicslaw.org/category/african-sovereign-debt-justice-network-afsdjn/one-hundred-and-ninth-sovereign-debt-news#:~:text=Most%20recently%2C%20the%20East%20African,Eurobond%20due%20in%20June%202024.>

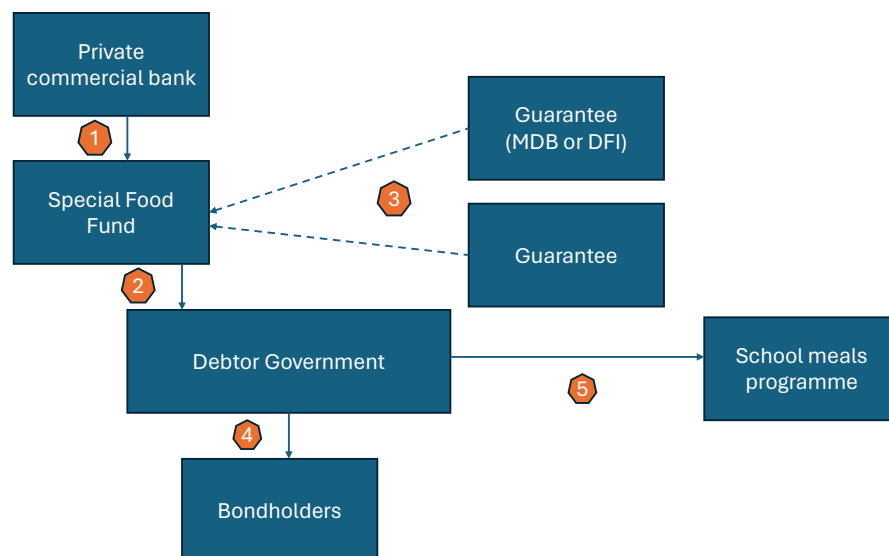
various private banks would like to see more of these types of debt swaps. For the private sector entities in particular, they represent an opportunity to boost their environmental credentials in a context in which there is increased interest in, and push for, ‘sustainable investing.’ As such, these operations are more likely to occur in places where there is confidence that stringent monitoring and reporting on impact can take place.

As experience grows with these types of models, transaction costs could also decline over time. However, MDBs’ and DFIs’ capacities (and willingness) to engage in a large number of debt swaps simultaneously would also to be explored. They would also need to be consulted on the circumstances under which they can engage (or not) in a commercial debt swap.

It is also important to note that most of the current interest in these models centres around their potential in the *environmental* space. And because debt swaps typically deliver funds over time-limited periods, it would require advocacy and potentially further technical work to show why this would be an ideal instrument to fund a long-term *recurrent* budget item like school meals. Perhaps debt swaps could be presented as a temporary “bridge” solution, i.e. a mechanism that provides debtor countries with much-needed resources on a temporary basis while they steadily scale-up financing from domestic sources to replace debt swap funds. There would have to be confidence however that the debtor country could achieve this.

A private debt swap along the lines of those that have recently been transacted in the marine conservation space is however entirely possible. Below is a hypothetical and purely illustrative example of how this could work and the roles of potential different parties to the transaction (*for illustrative purposes only*).

**Hypothetical debt-for-food swaps: private external bondholder debt**



1. Private commercial bank provides a loan to Special Purpose Vehicle (named here: Special Food Fund - SFF) to repurchase debt from bondholders at a discount
2. SFF issues new 'school meals bonds'
3. School meals bonds issued at a lower interest rate than original debt thanks to guarantees provided by an MDB/DFI, a UN Agency or non-profit
4. Debtor uses funds from SFF to repay bondholders and retire old debt
5. Savings obtained through lower debt service on the new loan are used to fund school meals programme

### Feasibility checklist: when is a private debt swap more likely?

Suitable when:	Less suitable when:
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Country considered at risk of default on private external debt (or has already missed payments)	<input type="checkbox"/> Little or no private external debt
<input type="checkbox"/> Private bondholder debt trading at a discount on secondary debt market	<input type="checkbox"/> External debt considered sustainable
<input type="checkbox"/> Good relations with international development partners who can bring additional finance and TA to table	<input type="checkbox"/> Private bondholder debt not trading at a discount on secondary debt market
<input type="checkbox"/> Confidence in a country's verification capacities over extended period	<input type="checkbox"/> Weak governance and impact verification capacities

## 6. Debt swaps within the wider debt relief landscape

The previous sections have shown that prospects for both bilateral and private debt-for-food swaps are fairly limited, and have limited potential for scale, given the creditor composition of debt across many individual debtor countries (i.e. they owe debt mostly to creditors which do not undertake debt swaps), and the need for a large discount on the face value of the debt in order to free-up any significant fiscal space (which generally exists only when a country is in default on its debt). In addition, the fiscal space freed-up by debt swaps is likely to be a small amount spread over a time-limited multi-year period. As a result of these factors, the sum total of funds freed-up by debt swaps conducted across all sectors between 1998 and 2008 was of the order of only an average of US\$150 million per year, and amounts have not increased substantially in recent years.

How much more fiscal space could comprehensive debt relief provide? As indicated in Section 2 of the report, current debt relief mechanisms are providing debt relief only very slowly and in limited



amounts, with many commercial, domestic and non-OECD creditors so far failing to provide comprehensive relief, with the terms agreed generally being 50% or less debt reduction in present value terms, and with insufficient emphasis being placed on reducing debt service over the next five years (the SDG period). As a result, they are falling well short of the scale of relief provided to allow major spending increases on the SDGs. They are also generally accompanied by IMF programmes which oblige countries to implement cuts in public spending in order to eliminate large pre-relief budget deficits. As a result of these shortcomings, many countries with high burdens of debt are avoiding applying for debt relief.

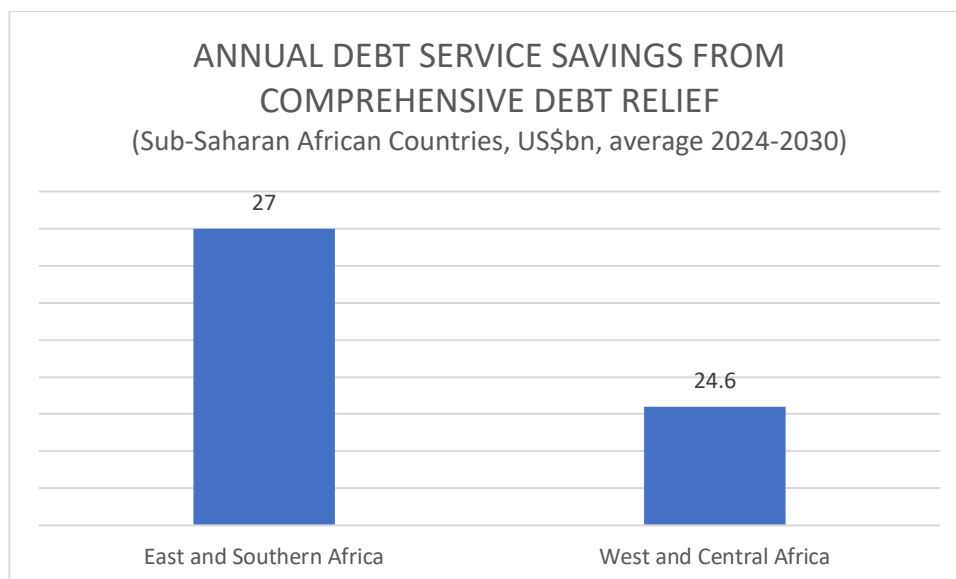
Despite these challenges, the IMF programmes for countries receiving debt relief do contain “social spending floors” which cover the education and health (but generally not nutrition) sectors, and which encourage countries to increase somewhat their spending on these sectors during the period of the agreement. Those countries which are very keen on school meal programmes and are also receiving comprehensive debt relief (Ghana, Ethiopia, Suriname, Zambia) should therefore be encouraged to ensure that school meals programmes are included in this definition of “protected” spending, thereby providing scope for increases in spending even in the context of limited debt relief.

Though this might help to mobilise a small amount of additional financing for school meals, the real additionality of resources will come from a much more comprehensive implementation of debt relief, providing much more debt reduction, for a much wider range of debtor countries with high debt burdens, as was implemented under the Brady Bond debt reduction deals for Latin America in the 1980s and the HIPC/MDRI debt relief initiatives for IDA-eligible countries from 1996.

According to DFI’s estimates, based on data from its *Debt Service Watch* database, debt relief which reduces debt service to no more than 15% of revenues for non-market-access countries (i.e. countries which do not raise financing on international capital markets) and reduces borrowing costs by 50% for those that do, could free-up US\$189 billion between 2024-2030 (i.e. US\$27 billion a year) for Eastern and Southern Africa and US\$172 billion (i.e. an average of US\$24.6 billion a year) for West and Central Africa.<sup>58</sup> Such sums would of course be sufficient to fund the SDGs well beyond financing needs for school meals programmes – indeed they would more than cover spending needs for universal education, health, social protection and many other development areas.

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<sup>58</sup> According to DFI research carried out for UNAIDS. See UNAIDS (2024, forthcoming), *Tax, Debt Relief and Concessional Assistance: Filling the Financing Gap to End AIDS by 2030*, reports on Eastern/Southern and West/Central Africa. The calculations are based on dividing countries into two categories: 1) Countries which do not depend on accessing financial markets regularly to fund their budgets, and could therefore apply for comprehensive debt relief without compromising the day-to-day funding of their budgets. For these countries, we assumed that comprehensive debt relief by bilateral, commercial and domestic creditors, if delivered in a same way as previous HIPC debt relief, would bring debt service down from its current levels to 15% of national budget revenue over the projection period. We have not assumed that multilateral creditors would provide relief, given that this is not currently on the table except for debt service suspensions/rescheduling when countries are hit by natural disasters; 2) Countries which need to access financial markets in order to fund their budgets, and which could therefore not apply for debt relief without compromising such access. For these countries, relief on debt service needs to take the form of reductions in the interest rates charged for international borrowing. As has been proposed by the African Union/UNECA and UNDP among others, this could be achieved by multilateral organisations or G7 governments guaranteeing developing country bonds, reducing interest costs by 50%.



Source: DFI

There are also other advantages to comprehensive debt relief. One of these could actually be to *advance* debt swaps, should debtor countries wish to pursue this avenue. It could do this in the following ways:

- It would automatically establish the legal and financial framework for debt swaps as part of the broader debt relief package.
- It would in general mean that all bilateral and commercial creditors, as well as most or all domestic creditors, would be expected to participate in debt relief, opening up potentially more opportunities for creditors to undertake debt swaps as part of the broader relief.
- Debt swaps could be explicitly introduced as part of the menu of options creditors could choose from in extending debt relief, providing a common negotiating framework and therefore potentially reducing transaction costs.

Overall however, it is much simpler and more efficient for debt relief to be provided via mechanisms *other than* debt swaps. These include outright cancellation or interest rate reductions, depending on the circumstances of the country. These options also have the advantages of:

- Being applicable to all types of creditors (even those which have not generally participated in debt swaps, such as domestic creditors).
- Being faster and having much lower transaction costs than the complex structures involved in debt swaps.
- Providing debt relief in predictable amounts over a much longer period than a typical debt swap agreement. This would ensure longer-term sustainable financing for school meals programmes, and enable a more gradual transition to financing such programmes from domestic resources.

- Specifying the sectors and sub-sectors on which debt relief proceeds should be spent. School meals programmes and related areas could be explicitly included in any debt relief agreement and related IMF programme.

For all these reasons, in most cases, it would be far preferable for countries with heavy debt burdens to receive comprehensive debt relief which could help to fund school meals programmes for many years to come (as well as complementary development areas like education), rather than spending a lot of time in extensive negotiations for much smaller, shorter-term amounts of funding than can be delivered via debt swaps.

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## 7. What are the opportunities in five country case studies?

To complement this report, five country case studies were developed to assess in more detail the potential to leverage debt-for-food swaps as an innovative tool to help close high financing gaps for school meals programmes. These countries are: Ghana, Honduras, Kenya, Senegal and Sierra Leone, with the case studies annexed to this main report.<sup>59</sup> To analyse the prospects for debt swaps, the case studies looked at whether some of the key “favourability factors” outlined in this report were present in a particular country, and whether there were other conditions which might favour – or not – a debt-for-food swap.

Overall, the analysis found prospects for debt-for-food swaps fairly mixed across the five countries, with by far the most critical determinant being a country’s *creditor profile*. Note that domestic debt was excluded from the analysis since these creditors have not historically participated in debt-for-development swaps of the type analysed in this report. The debt service burden associated with this debt is however very high in many countries. The five country case studies paid on average over 63% of their debt service to *domestic* creditors in 2023, who have not historically participated in debt swaps.

The data shows that *four* of the five country case studies owe at least 50% of their *external* debt to multilateral financial institutions (Ghana is the exception at about one-third). This is problematic since multilateral debt is *de facto* excluded from debt swap operations due to these lenders’ preferred creditor status. In terms of debt service, by far the heaviest fiscal burden for several is also multilateral debt. For example, in Sierra Leone, in 2024, debt service to the multilateral institutions will account for 85.6% of total external debt service; in Honduras, it is 58.4% of total external debt service in the same year. The high fiscal burden associated with multilateral debt means that in many cases, even where debt swaps are concluded, because they exclude multilateral debt, they are unlikely to have a major impact on debtor countries’ fiscal space.

Four of the five countries do have substantial private external bondholder debt which is eligible *in principle* for debt swaps. The only country which does not is Sierra Leone. In Ghana, Kenya and Senegal, debt service to private bondholders represents at least 40% of total external debt service in 2024; in Honduras it is just under one-third. However, the potential to transact a debt swap with private bondholders is *highly context specific*. Both Honduras and Senegal have a moderate to low risk

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<sup>59</sup> These countries were selected in consultation with the Sustainable Financing Initiative (SFI).

of debt distress, with their sovereign bonds rated as “stable” by the major credit ratings agencies, i.e. at fairly low risk of default. This means there are likely limited incentives for bondholders to participate in a debt swap initiative since they currently expect to be repaid in full. Meanwhile, Kenya has recently concluded a debt refinancing deal (“buyback”) with its private external bondholders. This leaves Ghana, which is currently in default to its private bondholders and in active negotiations to restructure this debt. However, a debt swap with private external bondholders is unlikely to be suitable. With an unsustainable debt burden and in a situation of severe debt distress, Ghana requires comprehensive debt relief in order to restore debt sustainability. By definition, countries in severe debt distress cannot usually meet the central requirement of a debt swap, namely to transfer funds on an ongoing and *reliable* basis to a separate account or fund for pre-agreed development purposes.

This leaves bilateral debt swaps as the most likely option for most case study countries at the current time. The analysis shows very clearly that *by far* the largest benefit would be derived via debt swaps with China. This is the case for *all five* case study countries where China is now the single largest bilateral creditor, often by a significant margin. For example, Kenya owes over US\$6.6 billion of its US\$10 billion in external bilateral debt to China alone; Ghana and Senegal each owe about one-third of their external bilateral debt to China. This is challenging since China has not previously engaged in debt swap programmes. This does not mean it would not do so in the future – and indeed the recent Memorandum of Understanding (MoU) signed between China and Egypt to engage in discussions over potential debt swap arrangements could signal a potential interest on the part of the Chinese Government. However, it is currently unknown how quickly these conversations may move forward, and what they might mean for other debtor countries. Additionally, it is important to note that China has traditionally focused its development cooperation activities on infrastructure initiatives rather than on social programmes and its interest in school meals programmes is unknown.

Beyond China, debt swaps are certainly possible with other bilateral creditors. Four of the five case study countries owe debts to bilateral lenders with active debt swap programmes (only Sierra Leone does not). Of these four countries, bilateral debt swaps are likely to be feasible in three: Honduras, Kenya and Senegal, which all owe debts to Germany, Italy and Spain (all of which have active debt swap programmes). Though Ghana also has debts to these lenders, debt swaps are unlikely since it recently concluded a debt renegotiation with its bilateral lenders which will see it make *no* debt service payments to its official lenders before 2039. In each of the three remaining countries, the amounts owed to Germany, Italy and Spain varies significantly – from just a few million in outstanding debt to over US\$300 million. In *all* cases however, debt service to these three creditors represents a *tiny* fraction of total external debt service – no more than 0.67% in 2024. This means that, even if a debt swap could help to mobilise some additional much-needed funds for school meals programmes, there may be limited incentive on the part of the debtor to enter in what may be perceived as lengthy and complex negotiations in order to secure such a small overall benefit. Of course, if debt swap agreements could be concluded with *all three* official bilateral creditors simultaneously, this would increase the potential benefit to the debtor.

### Honduras: debt owed to bilateral creditors with a debt swap programme

Creditor country	Total amount payable (US\$ thousand)	Debt service in 2024 (US\$ thousand)	Share of total external debt service in 2024
Germany	51,212	2,408	0.20
Italy	64,453	1,379	0.11
Spain	54,544	7,215	0.60

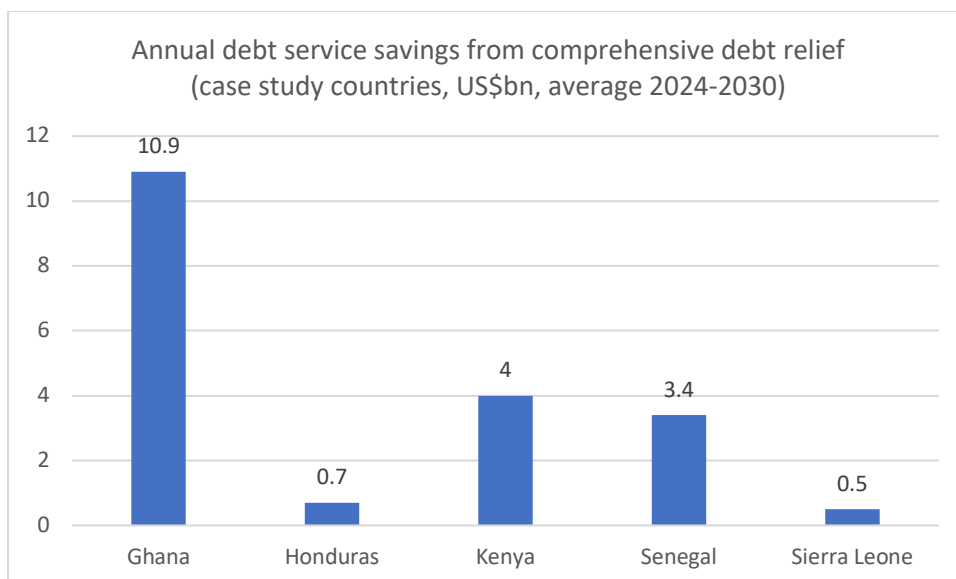
### Kenya: debt owed to bilateral creditors with a debt swap programme

Creditor country	Total amount payable (US\$ thousand)	Debt service in 2024 (US\$ thousand)	Share of total external debt service in 2024 (%)
Germany	349,327	35,086	0.67
Italy	9,033	174	0.00
Spain	100,677	8,390	0.16

### Senegal: debt owed to bilateral creditors with a debt swap programme

Creditor country	Total amount payable (US\$ thousand)	Debt service in 2024 (US\$ thousand)	Share of total external debt service in 2024 (%)
Germany	13,415	1,060	0.08
Italy	45,805	0	0
Spain	44,615	5,127	0.38

Overall, the analysis reveals that while there are certainly some prospects for debt swaps in these countries in the short to medium-term, they are unlikely to free-up substantial fiscal space and cannot meet the scale of financing needs for school meals programmes. Only comprehensive debt relief could deliver at this scale. According to DFI calculations, debt relief which reduces debt service to no more than 15% of revenues between 2024 and 2030, could save Ghana about US\$76 billion over the entire period, equivalent to about US\$10.8 billion a year because its debt service ratios (even after the recent debt relief provided) are around 60% of budget revenue over the next few years. For Honduras, the amount is about US\$ 4.5 billion (US\$642 million per year) because its pre-relief debt service ratios are only around 20% of budget revenue. It is nevertheless still a substantial amount. More ambitious debt relief measures at the international level would therefore have a much more meaningful impact on developing countries' and their ambitions to achieve the SDGs.



Source: DFI, 2024

## 8. What would it take to move forward on debt for food swaps?

As debt risks have risen over recent years, interest in debt swaps as a tool to both reduce debt and increase expenditure on development and climate-related interventions has resurfaced. Buoyed by recent successes in the marine conservation space (and the outsize publicity these transactions have garnered), there seems to be a particularly strong appetite for debt swap transactions which reprofile *private sector* debt in order to reduce its cost, with bilateral and multilateral development finance institutions playing an important technical assistance role as well as acting as credit guarantors.

Overall however, this purported enthusiasm has not yet translated into a “step change” in either the *number* of debt swap operations carried out or the *volume* of debt treated, with many bilateral creditors still unsure about the merits of such mechanisms versus their costs. In many cases, it will be seen as much faster and more efficient to simply reprofile a debt obligation in some way (whether through extending maturities, reducing interest rates or even cancelling a portion of the debt).

With large shares of bilateral debt now owed to non-Paris Club creditors, particularly China, significant benefit would be clearly be derived from these creditors’ participation in debt swaps. In this regard, the recent MoU signed between China and Egypt to explore the mechanism is notable, and signals that potentially more creditors could become interested in the future. Caution is however required in reference to the requirement that Chinese corporations should be participants in such operations. Past experience has discredited the “conditional” debt swap model, whereby debtors are tied to the purchase of goods or services from the creditor country. If debt swaps by new entrants are not implemented transparently and in line with best practices, they may offer debtors poor value for money and development results may disappoint. It is also likely to lead to civil society agitation and

potential reputational risk for partners involved in such transactions. It is also worth bearing in mind that while a lot of attention focuses on the limited capacities of *debtor* country administrations to engage in debt swap transactions, the same can also be said of *creditor* country administrations. Very few have the requisite knowledge and experience in-house, which means that: a) important opportunities may be missed where this instrument could play a useful role, or; b) transactions may not be carried out in the best way possible.

However, even in a scenario in which an expanded set of bilateral creditors participate in debt swap initiatives, the debt profile of LICs - where school meals financing needs are the highest - is highly variable and heterogeneous. Only some are therefore likely to be suitable for debt swaps. For many countries, freeing-up resources *at-scale* will require the restructuring of sovereign bond and commercial bank debt, along with some restructuring of debt owed to China and the multilateral financial institutions. For the most part, debt swaps are likely to have a fairly minimal impact on countries' fiscal space. They may represent a useful – but time-bound – cash injection where resources are scarce, but school meals are also a *recurrent* budget item so thought needs to be put into how these programmes will be financed over the longer-term, particularly in LICs.

Politically, most interest has also centred on the *climate* and *nature* thematic areas. As such, school meals programmes are essentially in competition with an established set of actors and a popular issue. This means that synergies with the climate and/or nature agendas may be more likely to resonate with potential partners to a debt swap transaction. Linkages include areas such as climate-resilient agriculture, regenerative agriculture or clean cook stoves. However, the degree to which climate-themed swaps would mobilise significant additional resources for school meals programmes specifically is questionable.

Based on the above, several suggested next steps can be identified:

- **In terms of the potential to deliver resources more quickly for school meals programmes, a focus on a few “quick wins” to build momentum is recommended.** As this paper has shown, debt swaps cannot provide a “systemic” solution to the school meals funding crisis, but in a few countries, they may be able to mobilise much-needed resources over a shorter-term time period, potentially for investments in some of the capital infrastructure required to deliver school meals programmes effectively. While larger gains are likely to materialise via debt conversions with creditors such as China, France, Japan, and the Gulf states, these efforts will take time and their outcome is unknown. Strengthening relationships with bilateral creditors that have an *existing* debt swap programme may deliver quicker wins and help build the evidence base for other creditors in the future. They could be encouraged to participate in a multi-creditor debt-for-food swap to maximise development impacts.
- **Advocate for more bilateral creditors to offer debt swaps, including debt-for-food swaps.** A key advocacy opportunity is presented by the Italian Presidency of the G7 which will launch its food systems initiative from mid-June 2024. Several G7 countries are already active in debt swaps (Germany, Italy, Spain, the United States). A commitment from G7 creditors to scale debt swaps, particularly debt-for-food swaps, could prove influential in efforts to scale-up use of the instrument, including amongst other G7 member countries that do not yet offer the

instrument. Advocacy towards the G7 could include a call for *multi-creditor* debt swaps. Advocating for larger G7 lenders like France and Japan to join a G7 debt-for-food swap initiative could also help to deliver a bigger impact. However, overall, since most G7 creditors remain fairly small, expectations need to be carefully managed as regards how much such an initiative could deliver in practical terms. To maximise the potential of this advocacy opportunity, it would be useful to identify a few debtor countries which fit the “feasibility profile” outlined in this report, and where there is a strong debtor interest in the approach. This will help to build the case there is an active ‘project pipeline’ ready to go.

- **Advocate for broader debt relief measures.** Debt swaps cannot mobilise the step change in resources required for school meals programmes unless major bilateral creditors, such as China, France, Japan and the Gulf states can be brought on board. They also cannot deliver resources over a *sustained* period of time. Comprehensive debt relief will be required for many countries, particularly low-income countries, to enable them to scale-up spending on *all* the SDGs over the next five years. There is increased consensus that current debt relief measures are inadequate and that new solutions to the current debt crisis need to be found. Broader debt relief measures are required, which would be far simpler and more efficient. It will be extremely important for the school meals community to add its voice to international advocacy efforts calling for more ambitious solutions to the debt crisis.
- **Build the business case for debt-for-food swaps.** The business case for debt-for-food swaps could be strengthened. It’s probably not enough to restate that school meals programmes need more funding. Further research into why this mechanism is well-suited to meet school meals financing needs could be useful, with a particular focus on whether there are specific elements within broader school meals programmes that might be better suited than others to the shorter-term cash injections offered by the model. This could include for example, mobilising funding for investments in various types of capital infrastructure needed to deliver school meals programmes effectively and at-scale with ongoing recurrent costs funded via domestic resources and strengthened by aid flows. Capital infrastructure could include school kitchens, transportation (e.g. delivery vehicles), and agricultural equipment (for locally-grown school meals). The business case for debt-for-food swaps could also be strengthened via an **evaluation** of the transactions carried out so far to explore successes and lessons learned, and build the broader evidence base around the call to scale-up debt-for-food swaps.
- **“Tap” the climate angle.** There is currently a higher level of political interest in debt-for-climate and debt-for-nature swaps than any other development area. Rather than compete, it could be constructive to build links with partners that have engaged in these types of swaps in the past to explore how food security interventions could be introduced into potential future climate-related swaps – for example through a focus on climate resilient agriculture, locally-produced school meals in ways that are climate-friendly, the installation of clean renewable energy in schools, and clean cook stoves. At the same time, the degree to which such climate-themed swaps would mobilise significant additional resources for school meals programmes specifically is however questionable.



- **Build relationships with key financial partners experienced in debt swaps, such as DFIs and MDBs.** Several DFIs and MDBs have recently become more engaged in *private* debt-for-nature swaps, notably in the marine conservation space, and see scope to scale-up the approach. It would be useful to build relationships with these actors to understand in more detail the role they have played in debt swaps, their overall level of interest in, and appetite for, the approach, and the potential to apply the model to other development areas. Understanding the conditions under which they can – and can't – engage in debt swaps is also important. Dialogue could come in the form of workshops or knowledge-building sessions so that the various partners can learn more about each other's work. These conversations could start with the US Development Finance Corporation and the Inter-American Development Bank which have both shown recent leadership in commercial debt-for-nature swaps and undoubtedly have insights and lessons learned to share. WFP could also be invited to showcase its prior experiences with debt-for-food swaps. Strengthening partnerships with UNCDF could also be explored, including building on the current WFP-UNCDF partnership on blended finance.
- **Advocate for a more flexible approach to debt swaps.** In many cases, it's less about the structure or complexity of debt swaps than about the politics. The reason they are not used as much as they could be is about policy choices which limit the scope of their application – for example the requirement for an IMF programme, the 20% cap on non-ODA credits which can be swapped, or legislation which restricts their use to particular development areas (e.g. the USA to nature interventions). If, as some creditors claim, their use is desirable, scaling them up is as much about advocating for a more flexible approach. Ultimately, debt swaps should be about whether resources are well spent.

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### Ghana: Potential options to realise debt swaps

#### 1. POLITICAL COMMITMENT TO SCHOOL MEALS PROGRAMMES

Ghana's School Feeding Program (SFP) currently covers around 2.6 million children and over four-in-five public schools. The government of Ghana has demonstrated a strong commitment to school feeding, reflected in efforts to maintain real spending in the face of acute debt pressures.

#### 2. DEBT SITUATION

Ghana is a low-income country. It is currently classified as "in debt distress" by the IMF with an unsustainable debt situation and a debt-to-GDP ratio of over 93% in 2022.<sup>60</sup> It defaulted on most of its external debt in December 2022. It is one of just a few countries which has sought debt relief from official creditors under the "G20 Common Framework" for Debt Relief. According to an agreement reached in January 2024 with its official creditors, about US\$5 billion in loans owed has been restructured. This deal expanded on the short-term relief recently provided under the G20's Debt Service Suspension Initiative (DSSI) (which offered only a temporary deferral of debt service payments).<sup>61</sup> Ghana now needs to reach a deal with its international bondholders to restructure about US\$13 billion in private debt (with negotiations still underway in May 2024). Prior to its current debt crisis, Ghana had previously benefited from comprehensive debt relief under the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative (MDRI).

Ghana has a large and diversified creditor base, as can be seen in the table. Its total outstanding *external* debt as at end-2022, amounted to US\$30.7 billion.<sup>62</sup> This *excludes* its domestic debt load which is also considerable but is excluded from the analysis since Ghana recently restructured substantial portions of this debt and this type of debt is not swapped for development/environmental interventions in the ways analysed in the main report.<sup>63</sup>

With regard to its *external* debt stock, the largest creditor group are private bondholders at over US\$13 billion. This is followed by assorted multilateral lenders with US\$10 billion in outstanding debt, the largest of these being the World Bank and IMF with over US\$ 4 billion and US\$3 billion in outstanding loans respectively. Third comes bilateral *non-concessional* debt, i.e. debt which does not fulfil the ODA criteria (either because it was not contracted for developmental purposes or is non-concessional in its terms). This comes in at almost US\$ 4 billion. Finally, are ODA-related bilateral loans at about US\$3.4 billion, of which China is by far the largest lender.

#### Ghana external debt profile: end-2022

*Data in US\$ thousand*

<sup>60</sup> IMF: <https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>

<sup>61</sup> World Bank: <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>

<sup>62</sup> World Bank: <https://datatopics.worldbank.org/dssitables/annual/GHA>

<sup>63</sup> See Ministry of Finance: Ghana: <https://mofep.gov.gh/news-and-events/debt-operations>

<i>Bilateral creditor</i>	Bilateral creditors (ODA loans)	Debt service in 2024
<i>Belgium</i>	27,214	1,750
<i>Brazil</i>	855	0
<i>China</i>	1,641,773	163,818
<i>Czech Republic</i>	30,054	2,343
<i>Egypt</i>	211,950	6,366
<i>France</i>	267,648	24,754
<i>Germany</i>	281,033	9,399
<i>India</i>	474,539	90,677
<i>Italy</i>	21,287	503
<i>Korea</i>	160,388	6,546
<i>Kuwait</i>	50,796	3,556
<i>Nigeria</i>	871	159
<i>Saudi Arabia</i>	19,270	1,062
<i>Spain</i>	11,163	2,239
<i>Turkey</i>	71,105	18,152
<i>USA</i>	148,426	28,705
<b>Total</b>	<b>3,391,158</b>	<b>360,029</b>
	Bilateral creditors (non-ODA loans)	
<i>Austria</i>	214,283	23,306
<i>Belgium</i>	435,887	44,984
<i>Brazil</i>	120,421	13,115
<i>China</i>	263,448	32,875
<i>Czech Republic</i>	47,939	0
<i>Denmark</i>	53,063	0
<i>France</i>	182,353	21,303
<i>Germany</i>	649,844	94,581
<i>Israel</i>	183,114	18,654
<i>Italy</i>	233,175	25,341
<i>Korea</i>	5,970	0
<i>Mauritius</i>	51,754	21,011
<i>Netherlands</i>	440,187	93,098
<i>South Africa</i>	255,989	62,385
<i>Spain</i>	47,800	13,378
<i>Sweden</i>	11,748	856
<i>UK</i>	549,868	55,493
<i>USA</i>	206,721	41,880

<b>Total</b>	<b>3,953,564</b>	<b>562,260</b>
	Multilateral creditors	
<i>African Development Bank</i>	1,221,557	60,138
<i>African Export- Import Bank</i>	759,900	62,661
<i>BADEA</i>	39,765	3,464
<i>ECOWAS</i>	84,488	15,711
<i>European Investment Bank</i>	29,312	5,590
<i>IFAD</i>	188,662	7,883
<i>IMF</i>	3,123,721	159,110
<i>Nordic Development Fund</i>	41,937	2,295
<i>OPEC</i>	29,793	1,951
<i>World Bank - IDA</i>	4,746,742	242,350
<b>Total</b>	<b>10,265,847</b>	<b>561,154</b>
	Private debt	
<i>Bondholders</i>	13,103,860	969,358

Source: World Bank

In terms of debt service, by far the heaviest fiscal burden is private bondholder debt, which alone accounts for almost US\$1 billion of the US\$2.4 billion in debt service owed in 2024. This is followed by multilateral debt at just over US\$560 million in debt service in 2024.

Bilateral debt repayments (both ODA and non-ODA debt) *would have* amounted to over US\$922 million in debt service in 2024, however, according to the terms of the recent agreement on bilateral debt, there is now a moratorium on official bilateral debt repayments through to May 2026, with payments originally scheduled for 2023 now rescheduled to 2039 and payments for 2024 now rescheduled to 2024 and 2041.<sup>64</sup>

As of April 2024, negotiations with bondholders to restructure private debt were still underway, and this debt service remained payable (though Ghana is in default). Ghana is one of 10 sovereign nations with its sovereign debt trading in distress with a spread of more than 2,400 basis points (correct as at April 2024 – sovereign spreads of at least 1,000 basis points highlight risks).

### 3. DEBT SWAP OPTIONS

<sup>64</sup> Ministry of Finance, Ghana: <https://mofep.gov.gh/news-and-events/2024-01-12/%20%20ghana-reaches-agreement-with-official-creditors-on%20debt-treatment-under-the-g20-common-framework>

Ghana is unlikely to be a strong candidate for a debt swap. With an unsustainable debt burden and in a situation of severe debt distress, it requires comprehensive debt cancellation in order to recover the economy. As indicated in the main report, a central requirement of a debt swap is that the debtor nation is able to transfer funds on an ongoing and *reliable* basis for pre-agreed purposes to a separate account or fund. Since it has recently concluded an agreement with its bilateral creditors to defer payments to future dates, there is probably little incentive to re-open torturous negotiations with creditors, particularly at an individual level. A bilateral debt swap could also imply *bringing forward* debt repayments which it has already successfully deferred, which is unlikely to be an attractive option.

With Ghana in default to its *private* creditors, and its debt trading at about 47c on the dollar, a debt swap deal could in principle be an option, though probably not the most efficient one. To transact a debt swap on Ghana’s private bondholder debt, a majority of the country’s bondholders would need to agree to sell the debt at a discount to a third party (or sell it back to Ghana at a discount with Ghana obtaining a new loan to do this from a third party). The third party would then become the new creditor. Ghana would then need to comply with the debt repayment schedule of the new loan, with presumably a commitment to channel excess funds (the savings generated through the restructuring of the debt) into a special fund for environmental or development interventions.

While possible *in theory* (with the model successfully operationalised in a few countries recently for marine conservation purposes), it would not be a *swift* solution to Ghana’s current predicament nor raise funds *quickly* or *at-scale* for school meals programmes, since debt swaps of this kind can take a couple of years to conclude, and the savings generated through the debt swap unlikely to be particularly high (taking into account all the legal expertise which would need to be accounted for). Additionally, as reported in the press, its discussions with private bondholders have been ongoing for some time and re reported as being at a relatively advanced stage. There may be concern that a proposal of this nature may further slow already lengthy and difficult conversations with private creditors.

Finally, its substantial multilateral debt cannot be swapped under current de facto rules which provide for these institutions’ seniority and preferred creditor status.

**Feasibility checklist: what do the favourability factors look like for Ghana?**

**Overall assessment**

	<b>High levels of multilateral debt:</b> Ghana owes 1/3 of its external debt to multilateral lenders. These debts are excluded from debt swaps due to these creditors’ seniority
	<b>High levels of domestic debt:</b> Ghana has recently concluded a domestic debt exchange with some domestic bondholders. Domestic debts are not included in debt-for-development swaps as analysed in this report
	<b>Bilateral debt with creditors that regularly use debt swaps:</b> Ghana has debt with bilateral creditors that use the instrument regularly but it has recently agreed to restructure this debt



	with those same creditors with repayments deferred to future dates weakening debt swap incentives
	<b>Private bondholder debt trading at a discount:</b> Ghana is already advanced in its negotiations with private bondholders and may not wish to potentially “delay” these discussions further by proposing a perceived complex debt-for-development swap. A third-party would need to be found to help purchase bondholder debt
	<b>Debt is unsustainable:</b> Ghana requires comprehensive debt relief in order to restore debt sustainability. Small debt swaps will not provide sufficient relief, and Ghana would be unlikely to be able to make regular repayments on the debt, as per the debt swap agreement, without substantial write-downs of the debt
	IMF programme on-track
	Friendly relations with official creditors and IFIs. Reasonable governance record.
	<b>Funds are only needed over a short-term basis.</b> Further work is needed to analyse the interventions Ghana would wish to utilise funds for and how long these funds would be needed for
	<b>Impact verification capacities:</b> Ghana may need external support to assure lenders that the impacts of a debt swap can be independently verified over the lifetime of the swap. This is especially important for a private debt swap

**Key:**

**Green = conditions favourable to a debt swap**

**Yellow = unknown / requires further investigation**

**Red = conditions unfavourable to a debt swap**

## Honduras: Potential options to realise debt swaps

### 1. POLITICAL COMMITMENT TO SCHOOL MEALS PROGRAMMES

Honduras is one of more than 95 countries that has joined the School Meals Coalition.<sup>65</sup> Under the umbrella of this initiative, Honduras' commitments are to:

- Restore the level of children who received food in schools before the pandemic, 1.3 million children, by 2022.
- Update the legal, political and institutional framework to achieve the national objectives for food and nutrition security, including the school feeding programme. Continue to use public schools as central hubs for nutrition access, increasing school feeding coverage through local procurement and improving school infrastructure, prioritising clean water, renewable energy and connectivity.<sup>66</sup>

Currently, negotiations are underway with Germany on a potential debt swap with Honduras. WFP is designated as the implementation partner. The debt swap, which has been approved in principle, will be earmarked for environmental protection and reforestation. No further details are currently available, including on the value of the debt swap.<sup>67</sup>

### 2. DEBT SITUATION

Honduras is classified as a lower middle-income country. It is currently classified at *low* risk of debt distress by the IMF with a debt-to-GDP ratio of about 52% in 2022.<sup>68</sup> This ratio is projected to remain broadly the same over the next few years, declining slightly to a projected 45.8% by 2028. Although the recent COVID-19 pandemic impacted Honduras deeply (revenues fell by over 27% in the first eight months of 2020 compared to the same period in 2019), it chose *not* to apply for temporary debt service relief under the G20's Debt Service Suspension Initiative (DSSI).<sup>69</sup> Previously, Honduras had benefited from comprehensive debt relief under the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative (MDRI).

Honduras has a fairly wide range of creditors, as summarised in the table below. In terms of *domestic* debt, this amounts to about 22% of GDP, with *external* debt accounting for the remainder. While Honduras' domestic debt burden is not insignificant it is excluded from this analysis since it is not swapped for the types of debt-for-development swaps discussed in this study.

In terms of *external* debt, by far the largest creditor group is the multilateral financial institutions, which holds US\$7 billion out of a total external debt of just under US\$10 billion. Of these multilateral creditors, the Inter-American Development Bank and the Central American Bank for Economic

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<sup>65</sup> See: <https://schoolmealscoalition.org/commitments/>

<sup>66</sup> See: [https://schoolmealscoalition.org/wp-content/uploads/2023/05/SMC-National-Commitments\\_May-2023.pdf](https://schoolmealscoalition.org/wp-content/uploads/2023/05/SMC-National-Commitments_May-2023.pdf)

<sup>67</sup> Information provided by WFP

<sup>68</sup> IMF: <https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>

<sup>69</sup> UNECLAC : <https://repositorio.cepal.org/server/api/core/bitstreams/a8716d51-59c3-4753-b1df-ed413183e51e/content> and World Bank: <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>

Integration hold almost US\$5 billion between themselves. Bilateral creditors hold just under US\$1 billion, or about 10% of the total external debt stock, of which two-thirds are ODA-related debts. The largest bilateral creditors in nominal terms are China and Venezuela. Private bondholder debt amounts to US\$1.6 billion as at end-2022.

In terms of debt service, by far the heaviest fiscal burden is *multilateral* debt, which in 2024 will account for 58.4% of total external debt service. This is followed by debt service on private bondholder debt at almost 32% of external debt service in 2024. Finally, there is debt service on non-ODA related bilateral credits at 5.4% of external debt service in 2024 and debt service on bilateral ODA-related credits at just 4.1% of external debt service.

### Honduras debt profile: end-2022

<i>Data in US\$ thousand</i>	<i>Debt (end-2022)</i>	
<i>Bilateral creditors</i>	<i>Bilateral creditors (ODA loans)</i>	<i>Debt service in 2024</i>
<i>Brazil</i>	32,165	7,522
<i>China</i>	146,500	14,249
<i>Germany</i>	51,212	2,408
<i>India</i>	14,442	2,763
<i>Italy</i>	64,453	1,379
<i>Japan</i>	89,778	1,805
<i>Korea</i>	45,375	1,445
<i>Kuwait</i>	31,152	2,872
<i>Spain</i>	54,544	7,215
<i>Switzerland</i>	1,754	239
<i>USA</i>	1,204	184
<i>Venezuela</i>	131,412	7,449
<b>Total</b>	<b>663,991</b>	<b>49,530</b>
	<i>Bilateral creditors (non-ODA loans)</i>	
<i>Austria</i>	49,544	6,525
<i>Belgium</i>	1,728	0
<i>China</i>	222,940	53,490
<i>France</i>	233	0
<i>Italy</i>	14,824	0
<i>Netherlands</i>	18,544	4,061
<b>Total</b>	<b>307,813</b>	<b>64,076</b>
	<i>Multilateral creditors</i>	
<i>Central American Bank for Econ. Integration</i>	1,825,222	176,920
<i>European Investment Bank</i>	76,306	10,048
<i>Inter-American Development Bank</i>	3,100,785	236,835

<i>International Fund for Agricult. Development</i>	79,139	5,179
<i>IMF</i>	1,048,614	201,408
<i>Nordic Development Fund</i>	18,438	1,306
<i>OPEC Fund for International Development</i>	40,418	5,523
<i>WB-IDA</i>	935,739	57,599
<b>Total</b>	<b>7,124,661</b>	<b>694,818</b>
	Private debt	
<i>Bondholders</i>	1,633,333	380,018
<b>Total external debt service</b>		<b>1,188,442</b>

Source: World Bank

### 3. DEBT SWAP OPTIONS

At first sight, Honduras would seem to be a fairly strong candidate for a debt swap. First, it is *not* in debt distress – a situation which would require more comprehensive debt restructuring across all creditor categories. Second, it has bilateral debt with several Paris Club creditors which utilise debt swaps on a fairly regular basis, namely Germany, Italy, Spain and the USA. Third, it also has a strong political commitment to school meals, which would likely resonate strongly with the international donor community, including its recent proposals for a ‘match’ funding scheme for school meals programmes.

On the other hand, several potential limitations can also be observed. First, a major incentive for debtor nations to engage in a debt swap is its ability to free-up fiscal space for much needed sustainable development interventions. By far the largest fiscal gains for Honduras would come from swapping *multilateral* debt, since debt service on these debts represents by far the largest fiscal burden for Honduras. However, these debts are *ineligible* for debt swaps due to these creditors’ seniority. Debt service on *private bondholder* debt represents the next highest share of external debt service. However, to enact a debt swap with private bondholders, typically debt will be trading at a discount on secondary debt markets, i.e. bondholders will be concerned that the state may potentially miss future payments due to debt distress. In Honduras’ case however, its sovereign credit rating was recently revised *upwards* from negative to stable by major global credit ratings agencies and its bonds are *not* currently trading at a discount.<sup>70</sup>

This leaves *bilateral* debt as the most likely option for Honduras at the current time. Here, although the fiscal burden of debt service is overall higher for *non-ODA* related credits than for ODA-related credits, the debt service on non-ODA related credits is almost entirely owed to China, which to-date

<sup>70</sup> See: <https://disclosure.spglobal.com/ratings/en/regulatory/instrument-details/sectorCode/SOV/entityId/457740/issueId/1254934#:~:text=We%20revised%20our%20outlook%20on,%2D%2FB'%20sov...&text=On%20Sept.,credit%20ratings%20on%20the%20sovereign.>

has *not* participated in debt swaps. Therefore ODA-related debt swaps, potentially with Germany, Italy or Spain are the most likely. Although the United States regularly uses debt swaps, it may be less interested since its legislation in this area currently prioritises their use for *nature*-related interventions. The amount of debt owed is also tiny at just US\$1.2 mn at end 2022.

Of the three bilateral creditors where debt swaps are potentially feasible (Germany, Italy and Spain), the most beneficial would be Spain, where debt service in 2024 amounts to just over US\$7.2 million in 2024, or a 0.6% share of total external debt service. Debt service to Italy in 2024 is only US\$1.3 million, corresponding to 0.1% of total external debt service, while for Germany it is US\$2.4 million, or a 0.2% share of total external debt service.<sup>71</sup> Combined, the total amount of debt payable to these three creditors in 2024 is just over US\$ 11 million. This equates to 0.92% of total external debt service in 2024. Seen in this way, debt swaps are unlikely to have a meaningful impact on Honduras’ fiscal space *even if all three creditors agree to a debt swap*. This may affect Honduras’ incentives to embark on what might be perceived as lengthy debt swap negotiations.

Creditor country	Total amount payable (US\$ thousand)	Debt service in 2024 (US\$ thousand)	Share of total external debt service in 2024
Germany	51,212	2,408	0.20
Italy	64,453	1,379	0.11
Spain	54,544	7,215	0.60

Nevertheless, in all cases, the total amounts of debt outstanding are still relatively high. This means that debt swaps, even with a discount, could still potentially be beneficial in terms of their ability to make extra resources available for school meals programmes. Moreover, in the case of Spain, it has already participated in debt-for-food swaps with WFP in Africa. Assuming it has a positive experience of these transactions, it may be open to further transactions with a country like Honduras which has a demonstrated commitment to expanding school meals programmes.

### Feasibility checklist: what do the favourability factors look like for Honduras?

#### Overall assessment

	<b>High levels of multilateral debt:</b> Honduras owes over 70% of its external debt to multilateral lenders which are excluded from debt swaps
	<b>High levels of domestic debt:</b> Honduras owes just under 40% of its debt to domestic creditors, however this debt is not swapped for the types of debt-for-development swaps analysed in this study
	<b>Bilateral debt with creditors that regularly use debt swaps:</b> Honduras has debt with creditors that use debt swaps (Germany, Italy, Spain, USA). Negotiations could begin, however the swaps are likely to be fairly small in size and would not meet high school meals financing needs. China and Venezuela are the largest creditors but their interest in swaps is unknown

<sup>71</sup> Please note that disaggregated debt service on a creditor-by-creditor basis is not publicly available beyond 2024. This would need to be obtained via the Government of Honduras should it wish to pursue this path.

	<b>Private bondholder debt trading at a discount:</b> Honduras has a stable debt outlook, according to major credit ratings agencies
	<b>Debt is sustainable:</b> Honduras has a sustainable debt situation. In principle therefore it is in a position to make regular debt repayments, according to the terms of a debt swap agreement
	IMF programme on-track
	Friendly relations with official creditors and IFIs.
	<b>Funds are only needed over a short-term basis.</b> Further work is needed to analyse the interventions Honduras would wish to utilise funds for and how long these funds would be needed for.
	<b>Impact verification capacities:</b> Honduras may need external support to assure lenders that the impacts of a debt swap can be independently verified over the lifetime of the swap.

**Key:**

**Green = conditions favourable to a debt swap**

**Yellow = unknown / requires further investigation**

**Red = conditions unfavourable to a debt swap**

## Kenya: Potential options to realise debt swaps

### 1. POLITICAL COMMITMENT TO SCHOOL MEALS PROGRAMMES.

The Government of Kenya has committed to achieve universal school meal coverage by 2030, expanding a program traditionally focussed on arid- and sel-arid counties. Achieving the target would extend the reach of school meals to another 8 million children – around four time coverage in 2021.

### 2. DEBT SITUATION

Kenya is a low-income country. It is currently classified at “high” risk of debt distress by the IMF with a debt-to-GDP ratio of about 73% in 2023.<sup>72</sup> In the same year, it spent about 56% of revenues on debt service, up from 45% five years earlier.<sup>73</sup> These are clearly substantial amounts that are incompatible with achieving the Sustainable Development Goals.

Unlike many other low-income countries, Kenya was excluded from the the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative (MDRI). It was however eligible for the G20 Debt Service Suspension Initiative (DSSI) which allowed it to temporarily defer debt service to official creditors due to the COVID-19 pandemic.<sup>74</sup>

As can be seen in the table, Kenya is highly indebted for a lower middle-income country and has a diverse creditor base. In terms of domestic debt, as at the end of 2023, Kenya owed about US\$38 billion to domestic creditors, including bondholders. This debt is however excluded from this analysis since it is not swapped for the types of debt-for-development swaps discussed in this study.

Out of a total of over US\$38.4 billion owed to *external* creditors as at the end of 2022, over 50% of this (about US\$20 billion) is owed to multilateral lenders, of which the World Bank and the IMF are the largest. This is followed by bilateral lenders at US\$10 billion, of which China alone accounts for US\$6.6 billion. Kenya has also borrowed extensively from international capital markets and has just over US\$7 billion in private bondholder debt.

#### Kenya: external debt (end 2022)

**Data in US\$  
thousand**

<i>Bilateral creditor</i>	Bilateral creditors (ODA loans)	Debt service in 2024
<i>Austria</i>	2,729	240

<sup>72</sup> IMF: <https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>

<sup>73</sup> Data from Development Finance International, Debt Service Watch (DSW) database.

<sup>74</sup> See World Bank: <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>

<i>Belgium</i>	94,371	3,430
<i>China</i>	6,685,751	1,105,886
<i>Denmark</i>	3,497	924
<i>Finland</i>	6,337	2,162
<i>France</i>	792,324	97,972
<i>Germany</i>	349,327	35,086
<i>India</i>	61,488	13,998
<i>Italy</i>	9,033	174
<i>Japan</i>	1,448,662	74,310
<i>Korea</i>	49,723	2,849
<i>Kuwait</i>	11,050	985
<i>Saudi Arabia</i>	23,169	1,593
<i>Spain</i>	100,677	8,390
<i>UAE</i>	9,328	1,075
<i>USA</i>	472,166	42,618
<b>Total</b>	<b>10,119,632</b>	<b>1,391,692</b>
	Bilateral creditors (non-ODA loans)	
<i>Austria</i>	16,453	3,537
<i>Belgium</i>	89,362	10,550
<i>France</i>	16,208	4,029
<i>Germany</i>	70,334	16,808
<i>Israel</i>	20,535	1,526
<i>Italy</i>	738,194	64,108
<i>Spain</i>	21,270	1,909
<i>Switzerland</i>	71,969	1,086
<i>UK</i>	53,450	0
<b>Total</b>	<b>1,097,775</b>	<b>103,553</b>
	Multilateral creditors	
<i>African Development Bank</i>	3,435,417	153,839
<i>Arab African Development Bank</i>	6,613	522
<i>BADEA</i>	40,833	2,966
<i>Eastern &amp; Southern African</i>	1,735,468	509,338



<i>Trade &amp; Dev. Bank (TDB)</i>		
<i>European Economic Community (EEC)</i>	9,934	1,905
<i>European Investment Bank</i>	167,357	26,222
<i>International Fund for Agricultural Dev. (IFAD)</i>	221,645	9,205
<i>International Monetary Fund</i>	3,389,104	47,523
<i>Nordic Development Fund</i>	14,307	751
<i>Nordic Investment Bank</i>	8,959	470
<i>OPEC Fund for International Dev.</i>	26,589	4,780
<i>World Bank-IBRD</i>	579,576	34,316
<i>World Bank-IDA</i>	10,473,079	455,939
<b>Total</b>	<b>20,108,882</b>	<b>1,247,777</b>
	Private debt	
<i>Bondholders</i>	7,100,000	2,445,750

Source: World Bank

Although Kenya is more heavily indebted to the multilateral financial institutions, in terms of debt service, by far the heaviest fiscal burden is private bondholder debt. In 2024, Kenya was scheduled to repay bondholders over US\$2.4 billion, or 47% of its total external debt service. This is mostly due to a 10-year Eurobond maturing in June 2024, which Kenya bought back in February 2024 with the issuance of US\$1.5 billion in new Eurobonds at a higher interest rate than the old notes (9.75% versus 6.8%). While there had been some concerns about the potential for default (which have so far not materialised), there are nevertheless continued concerns that Kenya's high cost of capital is ultimately unsustainable and that the country still faces significant risks of debt distress. Prior to this deal, Kenya

is reported to have mulled a private debt-for-climate swap (for interventions in water related infrastructure) but ultimately decided to opt for a more traditional refinancing (in part because it is perceived as much quicker and more efficient).

Debt service on multilateral and bilateral debt are broadly similar in that they each correspond to about a quarter of the remaining debt service for 2024. Much of this is however concentrated amongst just a few creditors. On the bilateral side, over US\$1 billion of the US\$1.3 billion in debt service owed in 2024 corresponds to China alone. On the multilateral side, the Eastern & Southern African Trade & Development Bank (TDB) accounts for 40% of multilateral debt service payable for the same year.

### 3. DEBT SWAP OPTIONS

Kenya has a diverse external creditor mix and there are potentially a few different avenues to pursue should there be Kenyan interest in a debt swap. Indeed it seems there is already some movement in this direction. Kenya’s National Assembly has recently approved Treasury’s plans to offer debt-for-nature and food-security swaps from 1<sup>st</sup> July. It has also been reported that Kenyan officials have been in talks with the Global Fund and the World Food Programme over potential debt-for-health and debt-for-food swaps.<sup>75</sup> Furthermore, the German Ministry of Economic Cooperation and Development (BMZ) also reports that Kenya has been offered a debt swap and negotiations are underway for a debt-for-climate swap.<sup>76</sup> Further details of *all* of these discussions (e.g. what stage they’re at, amounts of debt being considered for these transactions etc.) is not available.

Multilateral debt is off the table due to these lenders’ preferred creditor status. On the private debt side, this is probably also unlikely at the current time due to the recent refinancing deal concluded. This may however change in the future.

On the bilateral debt side, Kenya has debt with Germany, Italy and Spain, all of which have active debt swap programmes. Of these, a debt-for-food swap with Germany would be the most beneficial, as can be seen in the table below. However, even here, the amount of fiscal space that would be freed-up via a debt swap is extremely minimal since debt service to Germany represent only 0.67% of total external debt service in 2024. It would be useful to understand what discussions are currently underway with Germany on a debt-for-climate swap and whether there might be potential for partnerships with those actors involved. It could also be useful to reach out to Spain at the same time, to see whether there is scope for a “multi-creditor” swap, thereby maximising the potential contribution a debt swap could make.

Creditor country	Total amount payable (US\$ thousand)	Debt service in 2024 (US\$ thousand)	Share of total external debt service in 2024 (%)
Germany	349,327	35,086	0.67
Italy	9,033	174	0.00
Spain	100,677	8,390	0.16

<sup>75</sup> See: SwissInfo. Ch, Debt Swaps Explored by Global Fund Targeting Health Investments, March 2024:

<https://www.swissinfo.ch/eng/debt-swaps-explored-by-global-fund-targeting-health-investments/73487756>

<sup>76</sup> See: German Federal Ministry for Economic Cooperation and Development (BMZ): <https://www.bmz.de/en/countries/kenya/economic-situation-52270> No further details are available.

By far the largest benefit would be derived from a debt swap with China. It has not however engaged in debt swaps before. As noted in the main report however, it has recently signed a Memorandum of Understanding (MoU) with Egypt to engage in discussions over potential debt swap arrangements. These could signal an interest on the part of the Chinese Government. However, it is currently unknown how quickly these conversations may move forward, and so this avenue should be seen as more of a “slow burn”; conversations could indeed be initiated with the Chinese government, but the outcomes are uncertain and results would be unlikely to materialise quickly. Caution over the potential for a “tied-aid” approach is needed in any conversations with China since the China-Egypt MoU specifies the “participation of Chinese companies”. Debt swaps tied to the purchase of goods and/or services from the lender are a widely criticised model and may not represent value for money for the debtor country. This could also lead to reputational risks for any implementing partner(s).

### Feasibility checklist: what do the favourability factors look like for Kenya?

#### Overall assessment

	<b>High levels of multilateral debt:</b> Kenya owes over half of its external debt to multilateral lenders. These debts are excluded from debt swaps due to these creditors’ seniority
	<b>High levels of domestic debt:</b> Kenya has high levels of domestic debt (at just under half of total debt liabilities). However domestic debts are not included in debt-for-development swaps as analysed in this report
	<b>Bilateral debt with creditors that regularly use debt swaps:</b> Kenya has debt with bilateral creditors that have a debt swap programme. It seems discussions are already underway with Germany for a debt-for-climate swap. Discussions pursued in parallel with Spain could help to maximise the impact of debt swaps, especially if synergies can be found across the programmes being funded by the debt swaps. The largest benefit would be derived from a debt swap with China but its interest is unknown.
	<b>Private bondholder debt trading at a discount:</b> Kenya recently refinanced its external bondholder debt
	<b>Debt is high risk but sustainable:</b> Kenya is at high risk of debt distress but its debt is currently considered sustainable. In principle therefore it is in a position to make regular debt repayments, according to the terms of a debt swap agreement.
	IMF programme on-track
	Friendly relations with official creditors and IFIs.
	<b>Funds are only needed over a short-term basis.</b> Further work is needed to analyse the interventions Kenya would wish to utilise funds for and how long these funds would be needed for. It would be useful to explore potential partnerships with the actors engaged in the debt-for-climate swap
	<b>Impact verification capacities:</b> Kenya may need external support to assure lenders that the impacts of a debt swap can be independently verified over the lifetime of the swap. This is especially important for a private debt swap

Key:

**Green = conditions favourable to a debt swap**

**Yellow = unknown / requires further investigation**

**Red = conditions unfavourable to a debt swap**

## Senegal: Potential options to realise debt swaps

### 1. POLITICAL COMMITMENT TO SCHOOL MEALS PROGRAMMES

Previous governments in Senegal have committed to expand school feeding programs, but there have been gaps between strategic goals and plans for implementation. This is reflected in uncertainties over the number of children reached – and gaps between budget provision and specified targets for coverage. The current government has indicated an intention to expand coverage.

### 2. DEBT SITUATION

Senegal is a low-income country. It is currently classified at “moderate” risk of debt distress by the IMF with a debt-to-GDP ratio of almost 80% in 2023, a record high for the country.<sup>77</sup> While its debt has climbed steadily over the last few years, and has increased by almost 10% of GDP in the post-pandemic period alone, it is projected to decline between 2024 and 2030, though it will still remain above 65% of GDP for the entire period. As such, though Senegal’s debt risks are classified as “moderate”, debt sustainability risks are tilted to the downside. Previously, Senegal had benefited from comprehensive debt relief under the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative (MDRI).

Senegal has a fairly diversified creditor base, as can be seen in the table. The share of public debt owed to *domestic* creditors stood at just over 26% at end-2022, with the remainder owed to external lenders. Domestic debt is however excluded from this analysis since it is not swapped for the types of debt-for-development swaps discussed in this study.

With regard to its *external* debt stock, the largest creditor group are the multilateral financial institutions at over US\$8.2 billion in outstanding debt (or 50% of Senegal’s total external debt burden). The most important multilateral lender by far is the World Bank with over US\$3 billion in outstanding concessional loans. Next are private bondholders at over US\$4 billion. This is followed by assorted bilateral lenders with just over US\$3 billion in total. Of this bilateral debt, over US\$ 2 billion is owed to just two lenders: China and France.

#### Senegal external debt profile: end-2022

*Data in US\$  
thousand*

<i>Bilateral creditor</i>	Bilateral creditors (ODA loans)	Debt service in 2024
<i>Austria</i>	2,111	253
<i>Belgium</i>	8,698	750

<sup>77</sup> IMF, List of LIC DSAs for PRGT-Eligible Countries: <https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>

<i>China</i>	1,249,370	107,517
<i>Czech Rep.</i>	24,272	2,856
<i>France</i>	1,011,828	94,208
<i>Germany</i>	13,415	1,060
<i>India</i>	178,580	26,662
<i>Italy</i>	45,805	0
<i>Japan</i>	60,890	401
<i>Korea</i>	98,227	820
<i>Kuwait</i>	129,615	13,259
<i>Saudi Arabia</i>	90,797	11,025
<i>Spain</i>	44,615	5,127
<i>Turkey</i>	67,210	11,989
<i>UAE</i>	5,855	830
<b>Total</b>	<b>3,031,287</b>	<b>276,756</b>
	Bilateral creditors (non-ODA loans)	
<i>Austria</i>	19,282	1,016
<i>China</i>	749	319
<i>France</i>	486,868	87,521
<i>Israel</i>	83,284	15,819
<i>Spain</i>	27,422	4,739
<i>UK</i>	140,586	26,287
<b>Total</b>	<b>758,191</b>	<b>135,700</b>
	Multilateral creditors	
<i>African Development Bank</i>	1,466,445	78,019
<i>African Export- Import Bank</i>	26,663	0
<i>BADEA</i>	136,457	9,487
<i>ECOWAS</i>	23,356	4,679
<i>European Investment Bank</i>	219,922	10,519
<i>IFAD</i>	91,676	4,747
<i>IMF</i>	1,609,224	173,309
<i>Islamic Development Bank</i>	596,046	71,131

<i>Nordic Development Fund</i>	33,416	2,306
<i>OPEC</i>	47,055	3,880
<i>West African Development Bank - BOAD</i>	314,011	45,690
<i>World Bank - IDA</i>	3,661,497	136,492
<b>Total</b>	<b>8,225,767</b>	<b>540,259</b>
	Private debt	
<i>Bondholders</i>	4,117,574	363,516

Source: World Bank

In terms of debt service, by far the heaviest fiscal burden is multilateral debt at over US\$540 million in 2024, corresponding to 41% of total debt service in 2024. This is followed by private bondholder debt, at 27% of total external debt service in 2024. Bilateral ODA-related debt service represents 21% of total external debt service in 2024. Most of this corresponds to payments to China and France.

### 3. DEBT SWAP OPTIONS

Senegal has a few potential avenues to pursue should it be interested in a debt swap, however it is important to understand that these options are unlikely to free-up significant fiscal space for Senegal in view of its creditor profile. The largest benefits debt-swap wise would clearly be derived from actions to tackle Senegal's multilateral and private debt burdens. However, multilateral debts cannot be swapped due to these lenders' preferred creditor status. On the *private* debt side, while this is theoretically possible, in practice it is unlikely in the near-term. Private debt swaps are more likely when bondholders' debt is trading at a discount on secondary debt markets. This occurs when bondholders are concerned about potential risks to debt sustainability and there is the possibility of debt default. This is not the case with Senegal. Indeed, although there has been recent political instability in Senegal in view of the elections, which had triggered investor uncertainty, this has now subsided and its bonds are rated B+/B with a 'stable' or 'positive' outlook by the major credit ratings agencies. Private creditors therefore do not have an incentive to sell their debt at a discount to a third party (since they currently expect to be repaid in full).

This leaves bilateral debt. Here, the largest creditors are China and France. Neither however currently have a debt swap programme. France formerly had a 'top-up' debt swap programme (entitled Debt Reduction-Development Contract or C2D) which provided additional debt relief over and above that provided as part of the Heavily Indebted Poor Countries (HIPC) Initiative.<sup>78</sup> However this has now concluded. Politically, it has not so far shown any appetite for renewed rounds of debt swaps.

<sup>78</sup> See Agence Francaise du Developpement (AfD), C2D: A mechanism to relieve indebted countries: <https://www.afd.fr/en/c2d-mechanism-relieve-indebted-countries>

China has not engaged in debt swaps before, however as noted in the main report, it has recently signed a Memorandum of Understanding (MoU) with Egypt to engage in discussions over potential debt swap arrangements. These could signal an interest on the part of the Chinese Government. However, it is currently unknown how quickly these conversations may move forward, and so this avenue should be seen as more of a “slow burn”; conversations could indeed be initiated with the Chinese government, but the outcomes are uncertain and results would be unlikely to materialise quickly. Caution over the potential for a “tied-aid” approach is needed in any conversations with China since the China-Egypt MoU specifies the “participation of Chinese companies”. Debt swaps tied to the purchase of goods and/or services from the lender are a widely criticised model and may not represent value for money for the debtor country. This could also lead to reputational risks for any implementing partner(s).

This leaves Germany, Italy and Spain – all of which engage regularly in debt swaps and are creditors to Senegal. According to WFP, negotiations are currently underway between Spain and Senegal on a potential debt swap. A non-WFP project has been selected.<sup>79</sup> Even if this proceeds, as can be seen in the table below, the amounts of debt service owed to these creditors in 2024 is relatively small, and so they would have a negligible impact on fiscal space. The highest is indeed Spain, but debt service to this creditor as a share of total external debt service is just under 0.4%. Debt swaps would therefore free-up very little in terms of additional resources for spending on school meals, especially if a discount was offered on the debt as part of the swap agreement. The incentive for Senegal (or its creditors) to engage in debt swap negotiations may not therefore be sufficiently strong. Because debt service data is not available for future years on a creditor-by-creditor basis, it may nevertheless be worth engaging with the authorities in Senegal to explore what the longer-term repayment profiles of the debts owed to Italy and Spain look like to see whether a case can indeed be made for a debt-for-food swap.

Creditor country	Total amount payable (US\$ thousand)	Debt service in 2024 (US\$ thousand)	Share of total external debt service in 2024 (%)
Germany	13,415	1,060	0.08
Italy	45,805	0	0
Spain	44,615	5,127	0.38

### Feasibility checklist: what do the favourability factors look like for Senegal?

#### Overall assessment

	<b>High levels of multilateral debt:</b> Senegal owes about half of its external debt to multilateral lenders. These debts are excluded from debt swaps due to these creditors’ seniority
	<b>High levels of domestic debt:</b> Senegal owes about a quarter of its debt to domestic creditors. However domestic debts are not included in debt-for-development swaps as analysed in this report

<sup>79</sup> Information provided by WFP. No further details are available.



	<b>Bilateral debt with creditors that regularly use debt swaps:</b> Senegal has debt with bilateral creditors that have a debt swap programme, including Germany, Italy and Spain. The largest benefit would be derived from a debt swap with China but its interest is unknown.
	<b>Private bondholder debt trading at a discount:</b> Senegal's debt outlook is currently rated as stable or positive by major credit ratings agencies
	<b>Debt is high risk but sustainable:</b> Senegal's debt is considered sustainable by the IMF. In principle therefore it is in a position to make regular debt repayments, according to the terms of a debt swap agreement.
	IMF programme on-track
	Friendly relations with official creditors and IFIs.
	<b>Funds are only needed over a short-term basis.</b> Further work is needed to analyse the interventions Senegal would wish to utilise funds for and how long these funds would be needed for.
	<b>Impact verification capacities:</b> Senegal may need external support to assure lenders that the impacts of a debt swap can be independently verified over the lifetime of the swap. This is especially important for a private debt swap

**Key:**

**Green = conditions favourable to a debt swap**

**Yellow = unknown / requires further investigation**

**Red = conditions unfavourable to a debt swap**

## Sierra Leone: Potential options to realise debt swaps

### 1. POLITICAL COMMITMENT TO SCHOOL MEALS PROGRAMMES

The National School Feeding Program, which is overwhelmingly financed through the national budget, currently reaches 700,000 children which is one of the highest coverage rates for school feeding for any low-income country. Its strategy includes a focus on the development of Home-Grown School Feeding (HGSF) programmes which shorten supply chains and link local farmers to schools. Sierra Leone has set a pathway for universal school meals provision by 2037, and has requested Investment and Financing Plan (IFP) be drawn up to model various scenarios whereby school meals are provided to all pre-school and primary school children within 10, 15 and 20 year time horizons respectively. According to these scenarios, annual costs amount to about US\$133 million in a scenario that delivers universal provision by 2032 (using 2022 as the baseline year); these costs decline to US\$95 million annually in a scenario that delivers universal provision by 2042.<sup>80</sup> Two-thirds of these costs would be expected to be met by the national budget with the remainder financed through international aid. This means that Sierra Leone would need to find annually in its domestic budget between US\$66.3 and US\$88.6 million, with donors supplying the rest. By way of reference, in 2022, Sierra Leone provided US\$27 million in budget resources for school feeding programmes.

### 2. DEBT SITUATION

Sierra Leone is a low-income country. It is currently classified at *high* risk of debt distress by the IMF with a debt-to-GDP ratio of about 80% in 2023.<sup>81</sup> This ratio is projected to decline somewhat over the next few years, but will remain above 60% of GDP between now and 2030. Sierra Leone recently benefited from a temporary deferral of its debt service payments under the G20's Debt Service Suspension Initiative (DSSI).<sup>82</sup> Previously, it had also benefited from comprehensive debt relief under the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative (MDRI).

About 67% of Sierra Leone's public debt is owed to *external* creditors with the remainder owed to domestic lenders, of which commercial banks are the largest creditor with about 60% of claims.<sup>83</sup> Domestic debt is however excluded from this analysis since it is not swapped for the types of debt-for-development swaps discussed in this study.

Sierra Leone has a fairly narrow set of *external* creditors, as summarised in the table. As can be seen, its biggest external creditors by far are the multilateral financial institutions, particularly the IMF and the World Bank. China is the largest bilateral creditor. There are no Paris Club creditors and Sierra Leone has no private external debt (i.e. it is a non-market-access country).

#### Sierra Leone debt profile: end-2022

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<sup>80</sup> Kevin's draft paper

<sup>81</sup> IMF, List of LIC DSAs for PRGT-Eligible Countries: <https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>

<sup>82</sup> World Bank, Debt Service Suspension Initiative (DSSI): <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>

<sup>83</sup> IMF DSA (2023): <https://www.elibrary.imf.org/view/journals/002/2023/214/article-A002-en.xml>

Data in US\$  
thousand

Debt (end-2022)

<i>Bilateral creditors</i>	Bilateral creditors (ODA loans)	Debt service in 2024
<i>China</i>	67,551	7,172
<i>India</i>	23,906	3,227
<i>Korea</i>	50,122	7
<i>Kuwait</i>	56,661	4,771
<i>Saudi Arabia</i>	27,468	1,686
<i>UAE</i>	1,204	184
<b>Total</b>	<b>235,231</b>	<b>17,826</b>
	Bilateral creditors (non-ODA loans)	
<i>Multiple lenders</i>	164,930	0
<b>Total</b>	<b>164,930</b>	<b>0</b>
	Multilateral creditors	
<i>African Development Bank</i>	161,132	5,564
<i>BADEA</i>	43,812	4,730
<i>ECOWAS</i>	29,058	4,455
<i>European Development Fund (EDF)</i>	2,711	502
<i>IFAD</i>	32,689	1,475
<i>IMF</i>	891,822	60,699
<i>Islamic Development Bank</i>	105,439	7,548
<i>OPEC Fund for International Development</i>	36,676	4,087
<i>WB-IDA</i>	466,066	17,592
<b>Total</b>	<b>1,769,406</b>	<b>106,562</b>
	Private debt	
<i>Bondholders</i>	0	0
<b>Total external debt service</b>		<b>124,388</b>

Source: World Bank

In terms of debt service, by far the heaviest fiscal burden is *multilateral* debt, which in 2024 will account for 85.6% of total external debt service. This is followed by debt service on bilateral ODA-related credits at just 14.3% of external debt service. By far the highest amount in debt service will be paid to China in 2024 followed by India and Kuwait.

### 3. DEBT SWAP OPTIONS

Sierra Leone is unfortunately unlikely to be a strong candidate for a debt swap in the immediate-term, despite its high financing needs for school meals programmes. In reality, it faces extremely limited debt swap options. First, it owes the overwhelming majority of its debt to *multilateral* lenders which are excluded from debt swaps due to their preferred creditor status. Second, it does not hold *bilateral* debt with lenders that have used debt swaps in the past, either regularly or on an ad-hoc basis.

By far the largest benefit in terms of debt swaps would be derived from a debt swap agreement with China, its largest bilateral lender. However, even here a swap would be unlikely to free-up substantial fiscal space and could not close Sierra Leone’s large financing gap for school meals. Debt service to China amounts to just over US\$7 million in 2024, or 5.7% of total debt service in 2024. Bear in mind also that many debt swaps typically include a “discount” on the debt being swapped, which would likely reduce this amount further.

In light of these limitations, Sierra Leone should rather be viewed as a candidate for a debt swap potentially in the *medium-term*, most notably with China. China has recently signed a Memorandum of Understanding (MoU) with Egypt to engage in discussions over potential debt swap arrangements. These could signal an interest on the part of the Chinese Government. However, it is currently unknown how quickly these conversations may move forward, and caution over the potential for a “tied-aid” approach is needed since the China-Egypt MoU specifies the “participation of Chinese companies”. Debt swaps tied to the purchase of goods and/or services from the lender are a widely criticised model and may not represent value for money for the debtor country. This could also lead to reputational risks for any implementing partner(s). Nevertheless, it may be worth “warming up” China which may be open to transactions with a country like Sierra Leone which has a demonstrated commitment to expanding school meals programmes. However, these exploratory conversations are unlikely to mobilise funds quickly or at-scale. More will be achieved via comprehensive debt relief, which includes all creditors.

**Feasibility checklist: what do the favourability factors look like for Sierra Leone?**

**Overall assessment**

	<b>High levels of multilateral debt:</b> Sierra Leone owes the vast majority of its external debt to the multilateral financial institutions which are excluded from debt swaps.
	<b>High levels of domestic debt:</b> Sierra Leone has some domestic debt predominantly to commercial banks. However domestic debts are not included in debt-for-development swaps as analysed in this report
	<b>Bilateral debt with creditors that regularly use debt swaps:</b> Sierra Leone does not have any debt with creditors with an active debt swap programme. The largest benefit would be derived from a debt swap with China but its interest is unknown.
	<b>Private bondholder debt trading at a discount:</b> Sierra Leone does not have private external debt.
	<b>Debt is high risk but sustainable:</b> Sierra Leone is at high risk of debt distress but its debt is considered sustainable by the IMF. In principle therefore it is in a position to make regular debt repayments, according to the terms of a debt swap agreement.

	IMF programme on-track
	Friendly relations with official creditors and IFIs.
	<b>Funds are only needed over a short-term basis.</b> Sierra Leone has high estimated financing needs for school meals programmes that debt swaps are unlikely to be able to meet
	<b>Impact verification capacities:</b> Sierra Leone may need external support to assure lenders that the impacts of a debt swap can be independently verified over the lifetime of the swap. This is especially important for a private debt swap

**Key:**

**Green = conditions favourable to a debt swap**

**Yellow = unknown / requires further investigation**

**Red = conditions unfavourable to a debt swap**