WFP World Food Programme

WFP/Alex Masciarelli

Debt-for-food Swaps

September 2021

Debt Swap Task Force

Overview: Innovative Finance at WFP

WFP Areas of Priority

DEBT SWAPS

A **debt swap** is the cancellation of external sovereign debt by a creditor in exchange for the debtor country channeling domestic resources towards a development programme/project agreed between the two.

BLENDED FINANCE

Blended finance is the strategic use of development finance and philanthropic funds to mobilize additional finance from the private sector, International Financial Institutions (IFIs) and Development Finance Institutions (DFIs) towards sustainable development.

CO-FINANCING

Co-financing refers to a variety of ways to secure non-core funds, such as cost-sharing, parallel financing, trust funds, and government cash counterpart contributions through initial cash 'investment' or contribution from WFP.

For more information on blended finance and co-financing, the IF team may be reached via email: hq.innovativefinance@wfp.org

Funding Gap for SDG 2 and Impact of Covid-19

- In 2019, the funding gap for SDG 2 was estimated at USD 400 billion annually, out of the USD 2.6 trillion overall SDG financing gap (UNCTAD, 2019).
- This made SDG 2 one of the most underfunded SDGs from all major sources – domestic fiscal resources, overseas development assistance (ODA) and private sector investment.
- The impact of chronic underinvestment towards SDG 2 became more evident as Covid-19 pandemic unfolded starting in March 2020.
- By the end of the year, over 100 million more people globally had become food insecure as result of the pandemic.

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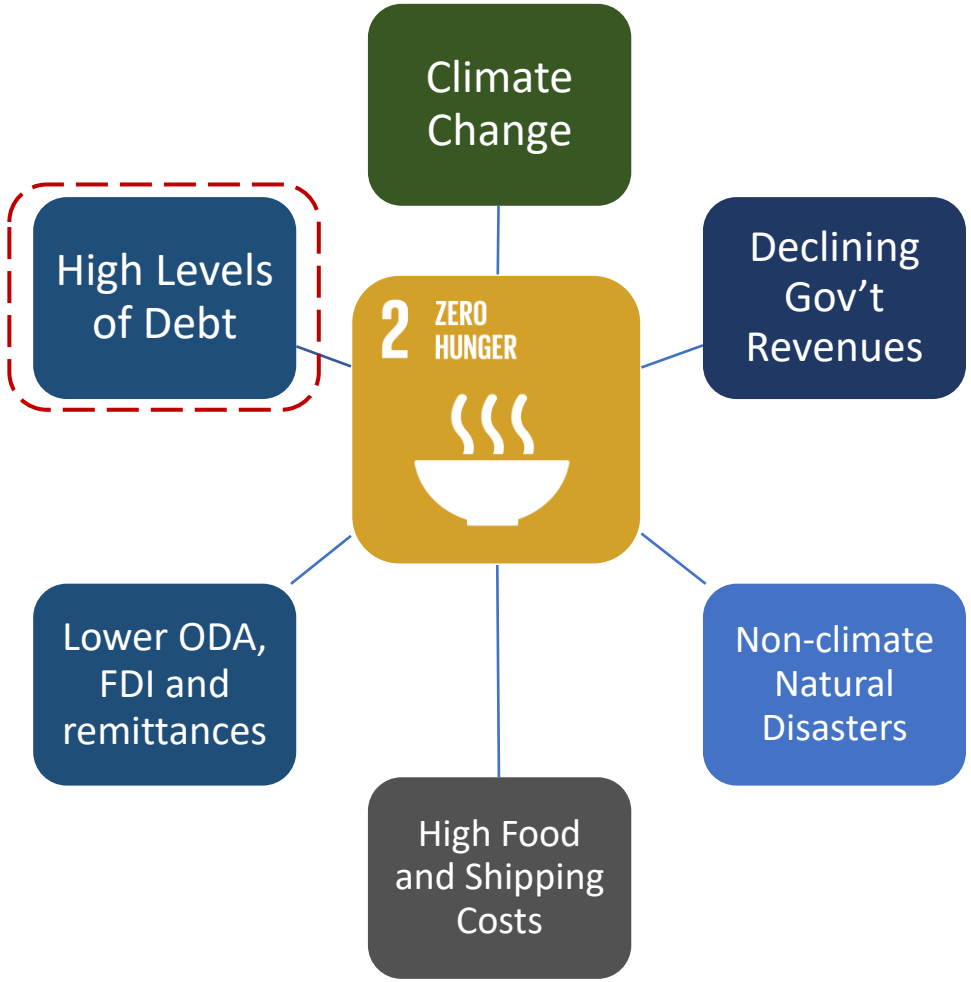
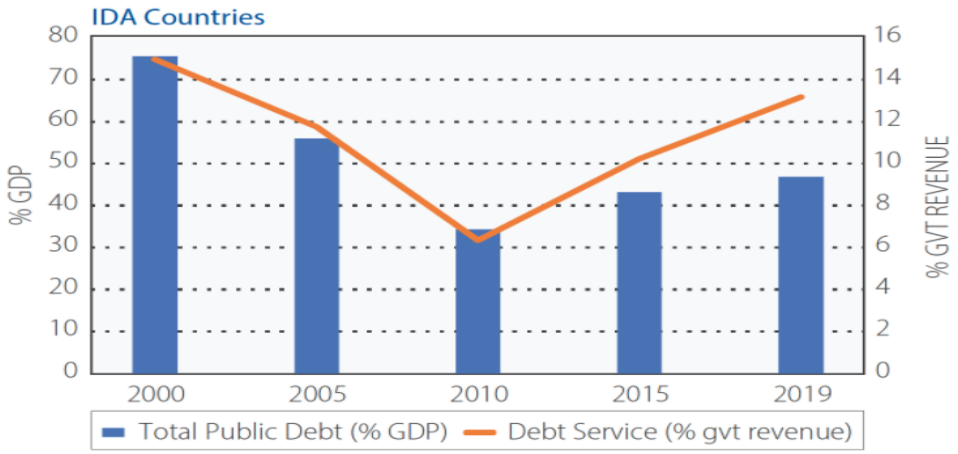
Key Factors Affecting SDG 2 Financing

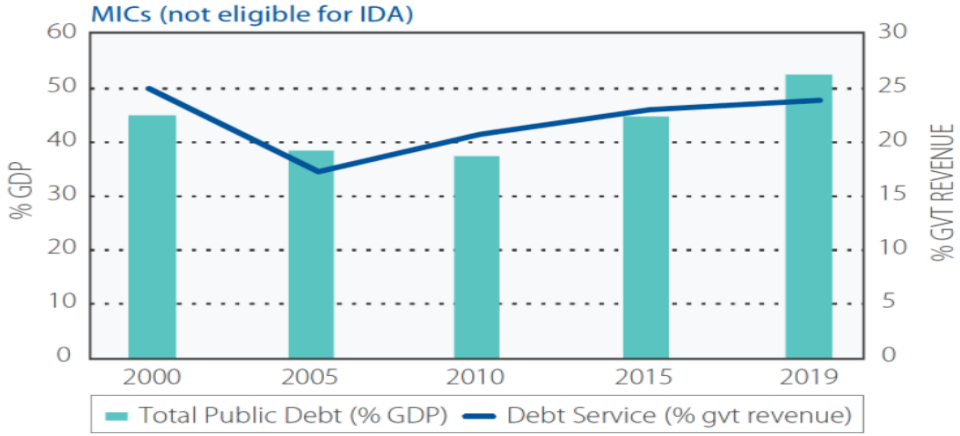


Debt Challenge for Low and Middle-Income Countries

- Debt sustainability remains one of the key challenges facing developing countries and rising debt service costs have a direct impact on funding for SDG 2.
- As of February 2021, 51% of LDCs and LICs were classified at high risk of - or already in - debt distress.
- Since March 2020, 8 countries have moved from “high risk” to “in distress” according to latest World Bank data.
- Debt service has more than doubled in many low-income countries over the last decade and now consumes more than 10% of revenues.
- Debt sustainability challenges are on the rise due to COVID-19 pandemic, unless more is done to offer debt relief to developing countries.
- Resolving debt sustainability challenges is a prevailing priority of the multilateral system led by World Bank, IMF and the G20.
- Debt swaps can contribute towards addressing chronic shortfalls in SDG 2 funding and towards resolving debt sustainability challenges.

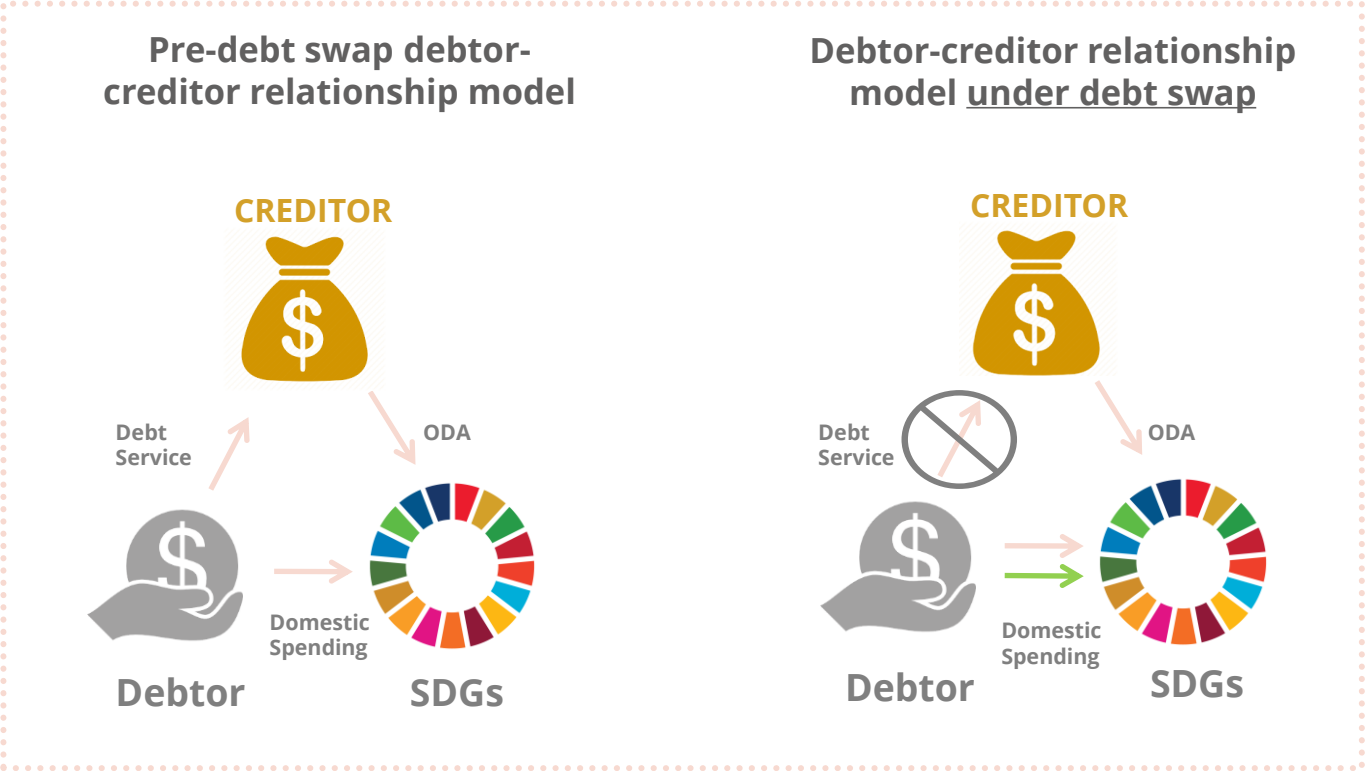


Source: UN DESA, 2020



An introduction to debt swaps

- Debt-for-development swaps are financial tools designed to reduce debt burdens and channel more funding towards development programmes.
- A debt swap is the cancellation of external sovereign debt by a creditor in exchange for the debtor country committing to allocate domestic resources towards mutually agreed development programmes/projects
- Debt-swaps aim to reduce external debt and support developing countries to repurpose freed-up resources towards national development priorities



Advantages of Debt Swaps

Debt swaps offer distinct advantages to all parties involved

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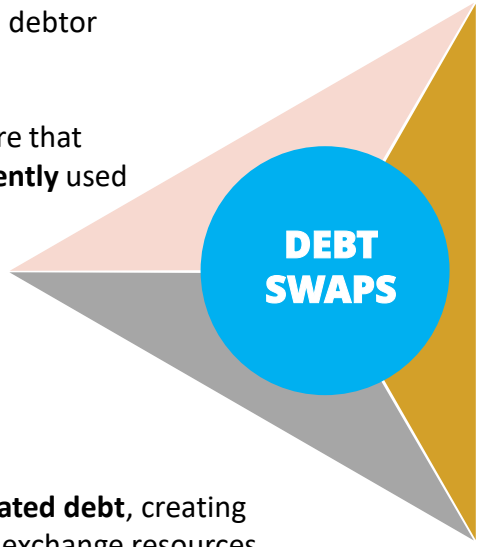
CREDITORS

- Opportunity to **increase ODA** without making new resource outlays
- Unlocks new ways of **development cooperation** with debtor country and development agencies
- Provides means for creditor/donor countries to ensure that resources freed-up through debt swaps are **transparently** used in support of key **development priorities**



DEBTORS

- Immediate **reduction in foreign currency denominated debt**, creating fiscal space to reprioritize the use of scarce foreign exchange resources
- Opportunity to **increase or sustain domestic spending on critical development priorities** such as food security and social protection within a managed environment
- Provide **platform and incentive to strengthen debt and fiscal management** practices in cooperation with creditors and development agencies

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- Increase in **predictable resources** towards priority areas jointly identified with the creditors and debtor governments
- Unlock opportunities for **increased and/or new ways of cooperation** with creditors/donors and national governments
- Chance to contribute to dialogues on debt and fiscal management, often gaining access to influential government departments such as ministries of finance and central banks

WFP Programme Entry Points

Resources mobilized through debt swaps tend to go towards development programmes, rather than humanitarian.

Below are some programmatic entry points for WFP when engaging with creditors and debtor governments:

Resilience and root causes programmes:

- At the group level, LDCs have adopted a commitment to work towards low-carbon, climate-resilient development pathways by 2030, reflecting the vital importance of adaptation and resilience building. WFP's portfolio of resilience programmes offer governments effective means to meet their goals on adaptation and resilience building.

Nature conservation and climate change mitigation:

- Debt reimbursement in low-income countries to advance climate change adaptation is a significant opportunity to raise financing which avoids or reduces climate-induced losses and damages to the most vulnerable economies. Governments and creditors/donors are likely to prioritize this area in debt swaps resolutions. WFP's climate change mitigation and adaptation programmes offer governments effective means to governments of meeting their climate goals.

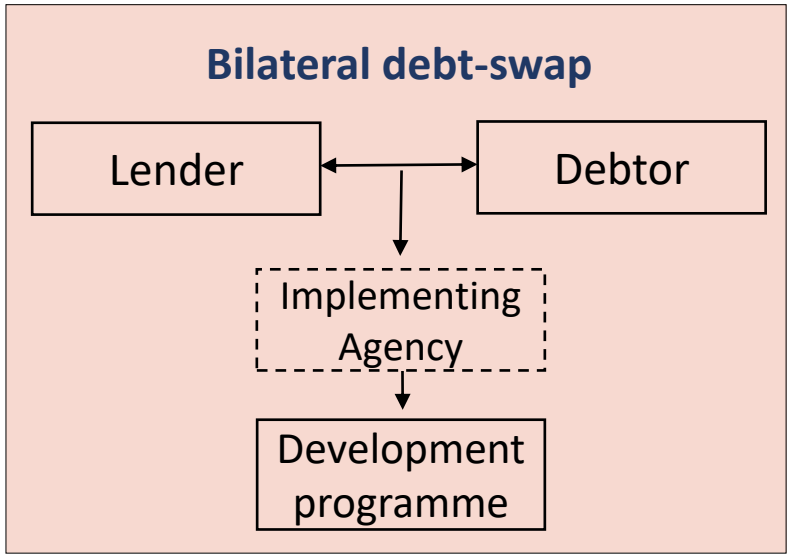
Social protection and school feeding:

- Many of the debt swaps where WFP has successfully engaged in the past have involved support to national school feeding programmes.
- Sharing evidence on the impact of school feeding on human capital formation and local economies is critical to help make the case for school feeding among other development priorities, particularly in the context of tighter fiscal space because of COVID 19.

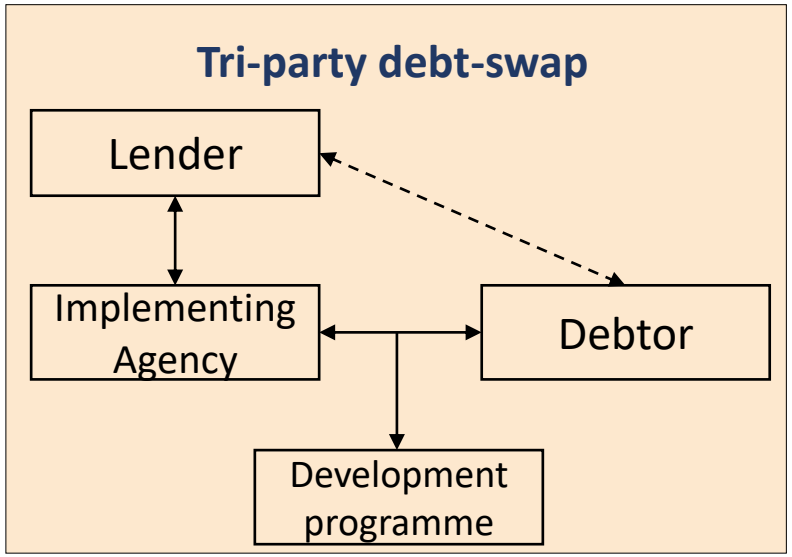
Nutrition in the context of human capital development:

- Supporting the wellbeing and health of mothers and children through nutrition programmes supports both human capital development and economic development in developing countries. WFP programmes such the 1000 Days Programme offer effective means for countries to address national needs related to nutrition and human capital development.

Types of debt swaps

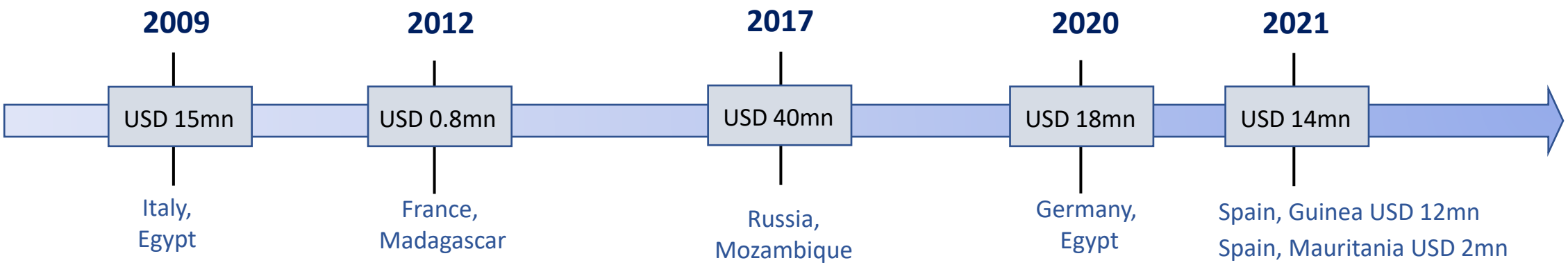


- Bilateral debt swap involves direct swap agreement between a creditor and debtor.
- The creditor agrees to forego all or part of the principal and/or interest due, in exchange for the debtor funding mutually agreed development project.
- Implementation is normally assigned to an independent 3rd party such as WFP.



- Triangular or tri-party debt swap involves purchase of debt by an implementing agency from a creditor at a discount.
- The implementing agency then agrees to be paid back full or discounted value by the debtor, usually in equivalent local currency.
- The implementing agency then utilizes the local currency proceeds to implement development projects (usually agreed among all parties).

WFP Debt Swaps Historical Timeline



Total funds raised from debt swaps for development programmes: **USD 87.8mn**

Case study 1: Russia-Mozambique-WFP Debt Swap 2017 – USD 40 million

- Mozambique is classified as “in debt distress” by the IMF
- Debt swap proceeds are being used to provide school meals for 150,000 children in Mozambique over 5 years (USD 8 million per year)
- WFP’s ongoing programmes and capacity in the country were key in being selected as the implementing agency
- WFP receives funds from the national government in local currency

Case study 2: Italy-Egypt debt for development swap 2009 – USD 15 million

- 5-year project provided children with daily nutritious snacks at school that helped increase concentration levels and provided 25% of daily nutritional needs
- The project also encouraged parents to enroll their children by providing take-home rations to the families of children regularly attending school
- Resources were deposited by the Egyptian Government in local currency in a dedicated trust fund based in the Central Bank of Egypt

Q&A

For further support and information on debt swaps from WFP's Innovative Finance Team, kindly reach out to:

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