



Sustainable Financing for Health:

A User Guide for African Governments

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Chapter 2: Financing for Health

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

Why Health Matters

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

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

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

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

The Funding Crisis

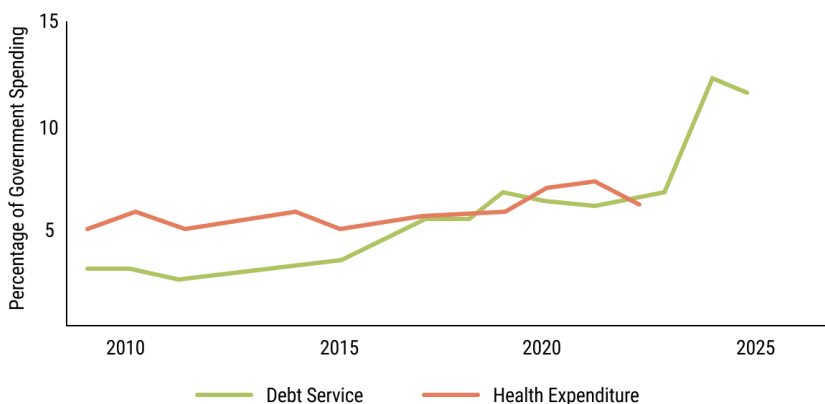
Over the past two decades, Africa has made remarkable gains in health: access to care has expanded, maternal and child mortality have fallen, and coverage of key services, such as immunisation, human immunodeficiency virus (HIV) treatment and other disease programmes, has increased significantly. These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

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

That financial landscape is now changing rapidly. In 2024, total Official Development Assistance (ODA) from the Organisation for Economic Co-operation and Development - Development Assistance Committee members declined by 7.1% in real terms. In 2025, countries in sub-Saharan Africa are expected to see a 16-28% reduction compared to 2021, the most significant reduction among all regions. Additionally, health-specific aid is declining at a faster rate than other sectors. The most prominent donors, accounting for 80% of bilateral health and population aid, are expected to reduce their ODA contributions, with the United States alone providing over half of the historical contributions. These contractions occur at a time when health systems are under increasing pressure, as evidenced by the 41% increase in public health emergencies between 2022 and 2024.¹

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

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



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

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

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

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

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

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

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

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

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

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

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

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

Proposed Solutions

Overview of Financing Structures

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

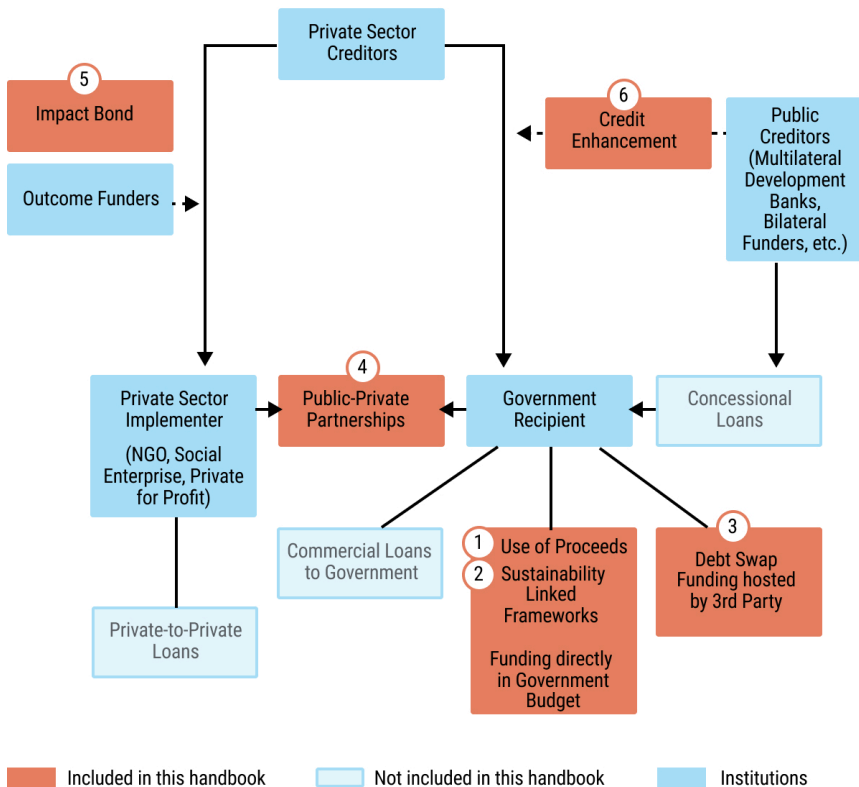


Fig. 2.2: Range of Potential Financing Structures

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

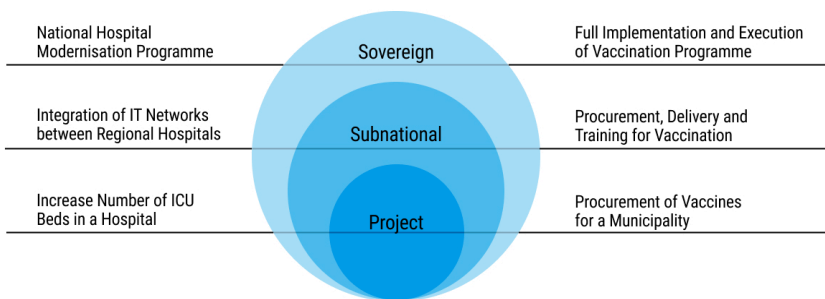


Fig. 2.3: Levels of Application of Financing Instruments

Financing Instruments

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

This User Guide outlines the following instruments:

USE OF PROCEEDS BONDS OR LOANS

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

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

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

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

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

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

IMPACT BONDS

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

DEBT SWAPS

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

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

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

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

PUBLIC-PRIVATE PARTNERSHIPS

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

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

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

Table 2.1: Overview of Key Features of Financing Instruments

Key Considerations in Selecting Instruments and Health Priorities

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

SCALE OF FUNDING

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

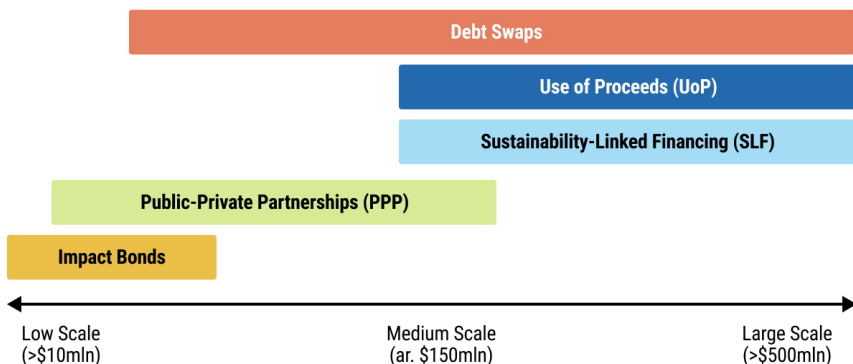


Fig. 2.4: Financing Instruments

INDEBTEDNESS

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

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

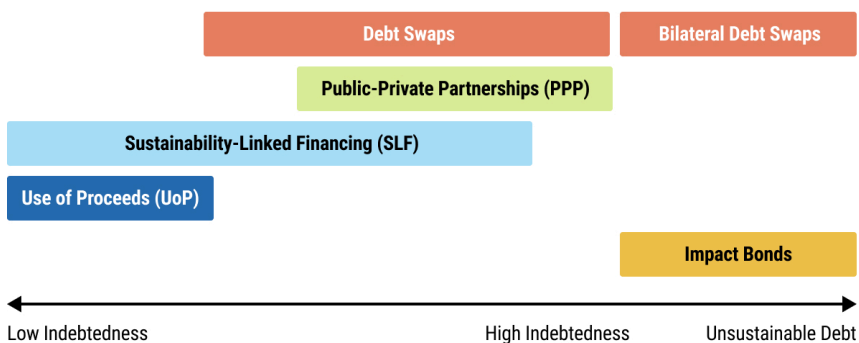


Fig. 2.5: Liquidity Support

SPECIFICITY

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

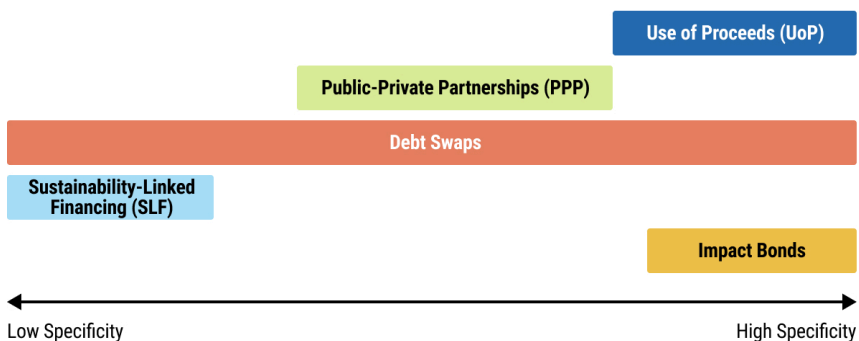


Fig. 2.6: Specificity of Funding Support