

Reasons for excluding debt relief from the proposal

(background note for information, as of 25 April 2021)

1. Debt relief is not a new or additional flow of resources.
2. Debt relief only alters loan repayment obligations. Since the current proposal is for a gross measure, it disregards all repayment obligations.
3. By recording gross flows, our proposal will already have recorded the full amount of the original loan, and therefore its full effect on sustainable development.
4. If debt relief were to be recorded as well as the loan's original gross flow, the total eventually counted on a loan would exceed that recorded on a grant of the same value.
5. The harder the terms of a loan, the greater the borrower's debt will be when relief is granted. Counting relief will therefore make hard loans appear to provide more resources than soft loans.
6. Most forgiven debt is on private loans at market terms. These loans are not included in the current proposal. But if relief is reported on them, some will effectively be counted anyway. In fact, one could argue that counting debt relief will mean counting the least sustainable of these loans: those that could not be repaid.
7. It is true that the balance of payments (BoP), followed to some extent by ODA and TOSSD, records debt forgiveness. However, BoP recording is necessary to establish debt positions and obligations, which are not the subject of Target 17.3.
8. Debt obligations are dealt with under Target 17.4¹, and any debt action should rather be recorded there than in a measure of "additional financial resources for developing countries".
9. Some may argue that debt relief releases funds that would have gone on repayments. But relief is only needed when the borrower cannot repay. So there is no way of knowing the real fiscal space created by debt relief, or what share of the relieved debt will translate into new spending on sustainable development.
10. Another benefit of debt relief is to restore borrowing capacity. But to the extent that it is restored, and new loans are entered into, they will be recorded under the proposal anyway.

¹ Target 17.4 is to "Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress".