

## **Measuring debt relief – TOSSD example <sup>1</sup>** *(note as of 1 June 2021)*

### **A. Example**

1. A loan of 100 million units is extended in 2020, with a 10-year grace period on principal repayments, at 5% annual interest, with no late interest charges, compound interest or penalties.
2. The borrower makes no interest payments. In 2030, 10 years of interest arrears have built up at 5 million a year, but with no late charges or compounding, so the borrower owes 150 million. This 150 million is non-concessionally (officially – see scenario 1 and 2 below or privately – see scenario 3 below) rescheduled at 5% interest, with a second 10-year grace period.
3. The borrower still makes no interest payments. In 2040, 10 more years of 5% interest arrears have built up, this time on 150 million, so the borrower owes 225 million. This 225 million is concessionally rescheduled at 2% interest, with a third ten-year grace period.
4. The borrower still makes no interest payments. In 2050, 10 more years of interest have built up, this time at 2% a year on 225 million, so the borrower owes 270 million. This full amount is now forgiven.

Thus there has only been one financial flow in either direction: the original loan of 100 million from the lender to the borrower, with no return payments of principal or interest.

### **B. TOSSD reporting**

This differs depending on the sector of the lender and the debt treatment, as follows:

#### ***Scenario 1: Official loan, official debt treatment***

- 2020: Record loan of 100
- 2030: Record rescheduled interest of 50
- 2040: Record rescheduled interest of 75
- 2050: Record forgiven interest of 45

*Total TOSSD recorded: 270*

#### ***Scenario 2: Private loan, official debt treatment***

- 2020: Zero
- 2030: Record rescheduled loan of 150
- 2040: Record rescheduled interest of 75
- 2050: Record forgiven interest of 45

*Total TOSSD recorded: 270*

#### ***Scenario 3: Private loan, private debt treatment***

- Not recorded

The figures shown above represent both gross and net TOSSD. At each debt treatment stage, the total amount of debt treated is published as a memo item, but previously reported loan principal is automatically subtracted. For details, see [TOSSD Reporting Instructions](#), May 2021, page 24, and [TOSSD data collection in 2021 on 2020 resources, Explanatory Notes](#), pp. 13-4.

### **C. Summary conclusion**

At each stage of recording, accumulated past and present gross TOSSD reporting represents the borrower's accumulated debt, not the amount it has actually received. The amount of debt eventually relieved will often greatly exceed the amount received by the borrower.

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<sup>1</sup> Based on available information. The TOSSD TF Secretariat is requested to provide any needed clarifications, amendments or corrections.

## Annex:

### Reasons for excluding debt relief from the proposal

*(this is an updated version of a background note originally shared on 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 contribution to sustainable development.
4. Debt forgiveness effectively ‘reclassifies’ a loan as a grant but the full amount of the original loan has been counted already as a gross flow.
5. 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.
6. 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.
7. 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 private loans 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.
8. It is true that the balance of payments (BoP), followed to some extent by ODA and TOSSD, records debt relief. However, BoP recording is necessary to establish debt positions and obligations, which are not the subject of Target 17.3.
9. Debt obligations are dealt with under Target 17.4<sup>2</sup>, and any debt action should rather be recorded there than in a measure of “additional financial resources for developing countries”.
10. Some may argue that debt relief releases funds that would have gone on repayments. But relief is only needed when the borrower cannot repay. 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.
11. 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.
12. There are doubts whether there is any acceptable method exists for counting debt relief as a gross flow. TOSSD counts relieved interest on previously reported loans, thus showing a new flow at every rescheduling, though the borrowing country receives no new flow, and its debt burden increases. Accumulated gross TOSSD will thus show what the country owes, not what it received.

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<sup>2</sup> 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”.