Treatment of debt relief operations in the TOSSD framework

TOSSD Task Force Issues Paper¹ - Agenda item 3
30 January – 1 February 2019

I. INTRODUCTION: DEBT RELIEF IN THE CONTEXT OF THE SDGs

1. Debt relief is an intrinsic dimension of the SDG framework, in particular through SDG target 17.4, which calls for more assistance to “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”.

2. Rising public debt is reducing some developing countries’ capacities to mobilise resources for the implementation of the SDGs. A recent article published by the IMF² noted that 40% of low-income countries face high risk of debt distress or are unable to service their debt fully (in comparison with 21% just five years ago).

3. This paper invites Task Force members’ views on whether, and if so to what extent, debt relief operations should be captured in the TOSSD measure. Depending on the outcome of the discussion on the present paper, a subsequent paper could be prepared for the next Task Force meeting to propose reporting instructions for debt relief.

II. MAIN FEATURES OF EXISTING STATISTICS ON DEBT RELIEF

4. In the Balance of Payments³ (BoP) and Official Development Assistance⁴ (ODA) statistical systems, debt relief operations are considered as capital transfers to developing countries. The four main categories of debt relief include:

- **Debt forgiveness/cancellation**, i.e. when there is an agreement between the debtor and the creditor that an outstanding debt no longer needs to be repaid.
- **Debt rescheduling or refinancing**, i.e. the postponement of all or part of one or more maturities of one or more loans, the creditor and the debtor remaining unchanged.
- **Debt conversion or swaps**, i.e. exchange of debt – typically at a substantial discount – for equity, or counterpart domestic currency funds to be used to finance a particular project or policy.
- **Debt buyback**, i.e. the repurchase, usually at a discount, by a debtor country (or on its behalf) of all or part of its external debt. It typically involves private sector debt, which may be purchased on the secondary market, or through negotiations with the creditors.

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5. In the OECD statistics, depending on the type of debt reorganisation by the official sector, these operations are recorded as ODA or Other Official Flows (OOF). For example, cancellations of debt qualify as ODA if they have a development motive, while cancellations of military debt are reportable as OOF grants. The methods can be generally described as capturing newly committed amounts (e.g. in the case of restructuring of ODA claims, only forgiven or capitalised interest constitute a new ODA entry). This has been criticised in the past as a too generous accounting method.

6. The methods for reporting on debt relief remain complex and cumbersome as they require distinguishing between different types of debt relief (e.g. forgiveness, rescheduling), origins of the claim (ODA, OOF, private) and components of the claim (principal and interest). A sophisticated mechanism of offsetting entries avoids double counting of the outstanding loans subject to debt reorganisation.

III. RATIONALE FOR INCLUDING DEBT RELIEF IN TOSSD

7. Based on the emerging Reporting Instructions whereby activities qualify as TOSSD if they can be shown to support a specific SDG target, the provision of debt relief could be considered as eligible, i.e. contributing to target 17.4, including policy advice and coordination to foster debt relief and debt restructuring.

8. Debt relief could be included in TOSSD Pillar I, the aim of which is to accurately reflect external resource flows to TOSSD-eligible countries. Discussion is needed on what is the most appropriate metric in this context (e.g. volume of newly committed amounts of debt forgiven/restructured) and what details should be provided on these operations. In the TOSSD framework, reporting on debt relief could be simplified in comparison to OECD CRS reporting as the concessionality or not of the resource flows is not an eligibility criterion.

Issues for discussion

- Do TOSSD Task Force members think that debt relief operations should be captured in the TOSSD measure?
  
  If so:
  - What reporting method should be used?
  - At what level of detail should this information be collected to ensure its relevance for recipient countries?
  - Should there be a differentiated treatment depending on the beneficiary country (e.g. HIPC, as these countries are specifically mentioned in target 17.4)?

5 See box 1 of the OECD CRS Reporting Directives.