



Refining the TOSSD Reporting Instructions on debt relief

*TOSSD Task Force Issues Paper¹ - Agenda item 8
6 – 9 October 2020*

I. Introduction

1. This note introduces proposed revised text for the Reporting Instructions on debt relief, developed based on earlier discussions in the Task Force (at the 9th and 10th meetings, see summary in Annex 1) and on a consultation with representatives of developing countries in the Task Force at the end of September (see Annex 2). Debt relief is high on the international agenda, notably in the context of the COVID-19 pandemic, which suggests a timely solution should be found for the treatment of these operations in TOSSD.
2. The note reports on the outcomes of the consultation (section II) and proposes revised Reporting Instructions on debt relief (section III).

II. Outcome of the consultation with developing countries

3. The consultation was sent late September to representatives of developing countries in the Task Force (see Annex 2). Four countries responded: Bangladesh, Brazil, Burkina Faso and Colombia, and the Secretariat reiterates its thanks to these countries for contributing their views on this topic.
4. Three respondents formally confirmed the relevance of including debt relief in TOSSD (question 1 of the consultation). One respondent, while not providing a formal answer for question 1, responded to question 2 on the options proposed for counting debt relief in TOSSD, suggesting that integrating it in TOSSD was indeed appropriate. Respondents favoured the following options:
 - Burkina Faso supported option 1 [report the interest cancelled / rescheduled as a new amount disbursed; also report the principal of debt as a new amount disbursed by the provider to the recipient and offset it by a negative entry of the same amount as a reflow]. This option is more in line with their external aid accounting system in their Aid Management Platform.
 - Brazil supported option 2 [only report the interest cancelled / rescheduled as a new amount disbursed, and do not report the principal at all]. In their view, this option 2 is simpler (option 3 would bring more transparency but is more complex to record and analyse).
 - Bangladesh and Colombia supported option 3 [similar to option 1, but the principal is offset by a negative amount disbursed]. For Bangladesh, this option better reflects all components of a debt relief operation under the same item of the TOSSD reporting form. Colombia favoured

¹ Jointly drafted by Valérie Gaveau (valerie.gaveau@oecd.org) and Cécile Sangaré (cecile.sangare@oecd.org).



option 3 as it allowed for more transparent traceability of the entire case, even though the country did ask for more clarification before providing a definite answer.²

5. While the consultation did not gather many responses, it re-confirmed the importance of reflecting debt relief in TOSSD. It also confirmed the validity of an accounting methodology that avoids double-counting the principal of debt cancelled/rescheduled in the TOSSD net measure (the three options proposed lead to the same net measure of TOSSD that excludes the principal cancelled/rescheduled). As regards the TOSSD gross measure, one country supported an option that includes the principal and thus reflects the total volume of the operation (option 1) while three countries supported an option that excludes the principal (options 2 and 3).

III. Revised Reporting Instructions on debt relief

6. At this stage, based on past discussions and the consultation, the Secretariat proposes to follow Option 3, which also appears as a reasonable alternative to the options already discussed in Washington and Pretoria, i.e.:

- Include the interest cancelled / rescheduled but exclude the principal from the TOSSD net measure, to avoid double-counting with the original loan (as proposed at the Washington and Pretoria meetings of the Task Force, and in options 1, 2 and 3 during the consultation).
- Also exclude the principal from the TOSSD gross measure, given the risk of inflating the figures and the prominence of the gross measure in the TOSSD framework. That way, only the interest component of the reorganisation would count (as proposed at the Pretoria meeting, and in options 2 and 3 during the consultation).
- Keep track of the total volume of debt operations in the TOSSD framework, and publish these amounts (principal plus interest cancelled / rescheduled) for reference and transparency purposes, as a memorandum item in TOSSD (as proposed in option 3 during the consultation).

7. On that basis, the Reporting Instructions could be revised as follows (see the Reporting Instructions, paragraph 95):

DEBT RELIEF – ~~All actions relating to debt restructuring (forgiveness, conversions, swaps, buy backs, rescheduling, refinancing).~~ Debt relief corresponds to any form of debt reorganisation which relieves the overall burden of debt by altering the amount or repayment terms of outstanding debt. It includes rescheduling, refinancing, debt forgiveness, conversion and buybacks – within or outside multilateral frameworks. Debt relief is reportable in Pillar I. Both the principal and interest components of the reorganisation are reportable. The amount of principal will be automatically offset from the TOSSD gross and net measures, to avoid double-counting with the original loan. The total volume of reorganisation (principal + interest) is published as a memorandum item.

8. Annex 3 provides an example of how a debt operation would be reported in TOSSD following the proposed rules above.

Issues for discussion

- **Do Task Force members agree with the proposed revised instructions on the treatment of debt relief?**

² Clarification is provided through the illustration of TOSSD reporting in Annex 3.



Annex 1. Summary of discussions by the Task Force on the treatment of debt relief in TOSSD

A first discussion on whether to reflect debt relief operations in the TOSSD framework took place at the 7th Task Force meeting³. Task Force members generally agreed that debt relief represents an important contribution to sustainable development and should therefore be included in the TOSSD framework. However, they also foresaw potential challenges in the implementation of an exact metric for debt relief in TOSSD. In particular, TOSSD is measured on a gross flow basis and, given that some debt restructuring operations do not involve any new flows (e.g. debt cancellation), recording the entire operation as TOSSD would result in inflating the measure, especially if the original loan had been reported as TOSSD.

The Secretariat put forward a proposal at the Washington TF meeting:

Debt relief corresponds to any form of debt reorganisation which relieves the overall burden of debt by altering the amount or repayment terms of outstanding debt. It includes rescheduling, refinancing, debt forgiveness, conversion and buybacks – within or outside multilateral frameworks. Any debt may be reorganised. The debt may be from a single loan or a set of loans, or represent only part of a loan or set of loans. For example, the arrears on a set of loans may be rescheduled in the form of a new loan, with the old loans to run in parallel. Reporting on debt relief in the TOSSD framework requires information on the type of reorganisation and the breakdown of the amount into principal and interest.

The amounts of debt forgiveness are reportable as gross disbursements, broken down into amounts of principal and interest forgiven. The amount of principal of the original loan(s) will be automatically offset from the TOSSD net measure.

The amounts of debt rescheduling, including capitalised interest, are also reportable as gross disbursements. The amount of principal of the original loan(s) will be automatically offset from the TOSSD net measure.

Action point⁴: One member suggested that the Secretariat develops a revised text, in particular to clarify that only the interest cancelled (or capitalised in case of debt rescheduling) would be recorded in TOSSD gross figures. Amounts of principal cancelled would be reportable only if a claim is cancelled or rescheduled by a third country.

On the basis of this comment, the Secretariat put forward a revised proposal at the Pretoria Task Force meeting:

~~DEBT RELIEF – All actions relating to debt restructuring (forgiveness, conversions, swaps, buy backs, rescheduling, refinancing).~~ Debt relief corresponds to any form of debt reorganisation which relieves the overall burden of debt by altering the amount or repayment terms of outstanding debt. It includes rescheduling, refinancing, debt forgiveness, conversion and buybacks – within or outside multilateral frameworks. Debt relief is reportable in Pillar I. Only the interest component of the reorganisation is reportable, to avoid double-counting with the original loan.

Action point⁵: There was no consensus on debt relief so the old text will be kept pending further discussion, specifically to collect views from developing countries on the matter.

³ See issues paper for Agenda item 3 of the Task Force meeting: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/Debt-relief-in-TOSSD-WEB.pdf>

⁴ See Action points of the Task Force meeting at: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/9th-TOSSD-TF-Meeting-Action-Points.pdf>

⁵ See Action points of the Task Force meeting at: <http://www.oecd.org/dac/tossd/2020-04-20-10th-TOSSD-TF-Meeting-Action-Point.pdf>



Annex 2. Consultation on the treatment of debt relief in TOSSD, September 2020

Question 1. Principle of including debt relief in TOSSD

Discussions in the Task Force so far have highlighted that debt relief represents an important contribution to sustainable development and should therefore be included in the TOSSD framework, under Pillar I. For example, with the COVID-19 pandemic, developing countries and civil society have called for expanded international debt relief efforts.

Do you have any comments on the principle of including debt relief in TOSSD, Pillar I?

Question 2. Treatment of debt relief operations in TOSSD

Take as an example a loan of USD 100 million extended in year 2020 by provider X for the construction of a hospital in recipient Y. The loan is repaid according to schedule during 5 years, but the recipient then faces financial difficulties and stops repaying its debt service (interest and principal). In year 2035, principal in arrears amount to USD 50 million and interests in arrears amount to USD 10 million. The provider restructures this debt, either in the form of a forgiveness (interest and principal due are cancelled) or a rescheduling (interest due is capitalised in a new loan, principal is rescheduled). How should this operation be reflected in TOSSD? Three options are presented below based on the discussions so far.

Please indicate your preferred option with an explanation, alternatively please describe a possible other option.

Introduction to the options

The loan of USD 100 million was originally recorded in TOSSD and any option for the treatment of debt relief should be mindful to avoid double-counting the principal of the loan forgiven / rescheduled. Indeed, the latter can be considered as granted/extended to the recipient country to repay its loan to the provider, which eventually results in a zero sum in terms of additional flows to the recipient. Only the interests forgiven/rescheduled constitute additional flows.

To avoid double-counting the principal, three possible options are presented below (see Table 1): report the principal as a new amount disbursed by the provider to the recipient and offset it by a negative entry of the same amount as a reflow (option 1); or not report the principal at all (option 2). Another option would be similar to Option 1, but offset it by a negative amount disbursed (option 3).

TOSSD primarily measures gross flows but the net measure is also calculated for transparency and analytical purposes, based on information reported on reflows (amounts received by the provider). The impact of the proposed options on the net and gross measures is as follows (see also Table 2 below):

- The net measure of TOSSD is the same in the three options: all exclude the principal, avoiding double-counting.
- The gross measure differs: with option 1, the gross measure includes the principal and thus reflects the total volume of the operation while options 2 and 3 both result in a gross measure which excludes the principal. However, with option 3, as the principal is reported with an offset, the TOSSD reporting system would still keep track of the total volume of the debt operation, and this information (principal *plus* interest cancelled/rescheduled) could then be published for reference and transparency purposes, as a memorandum item.



Table 1. Options for reporting debt relief operations in TOSSD

	TOSSD reporting form item 21. Amount disbursed	TOSSD reporting form item 22. Reflows to the provider
Option 1 (Washington meeting)		
One transaction reported for principal in arrears	50	50
One transaction reported for interest in arrears	10	
Option 2 (Pretoria meeting)		
One transaction reported for interest in arrears	10	
Option 3		
One transaction reported for principal in arrears (positive amount)	50	
One transaction reported for principal in arrears (negative amount)	- 50	
One transaction reported for interest in arrears	10	

Table 2. Implications of the options on the gross and net measures of TOSSD

	TOSSD gross measure	TOSSD net measure
Option 1 (Washington meeting)	$50 + 10 = 60$	$50 + 10 - 50 = 10$
Option 2 (Pretoria meeting)	10	10
Option 3	$50 - 50 + 10 = 10$	$50 - 50 + 10 = 10$
	<i>Memorandum item, total debt cancelled/rescheduled = 60</i>	

Annex 3. Illustration of TOSSD reporting with one example

Example (same example as in Annex 2): A loan of USD 100 million is extended in year 2020 by provider X for the construction of a hospital in recipient Y. The loan is repaid according to schedule during 5 years, but the recipient then faces financial difficulties and stops repaying its debt service (interest and principal). In year 2035, principal in arrears amount to USD 50 million and interests in arrears amount to USD 10 million. The provider restructures this debt, either in the form of a forgiveness (interest and principal due are cancelled) or a rescheduling (interest due is capitalised in a new loan, principal is rescheduled).

Table 3. TOSSD reporting on the original loan and subsequent debt operation

In the table below, disbursements are shown in blue, repayments in green, and principal or interest in arrears in yellow.

1. Reporting year	2. Provider	6. TOSSD recipient	7. Project title	10. SDG focus	11. Sector	14. Modality	15. Financial instrument	18. TOSSD Pillar	20. Amount committed	21. Amount disbursed	22. Reflows	25. Concessionality
Reporting on the original loan during the period 2020-2029 (commitment, disbursement and repayments of principal according to schedule)												
2020	X	Y	Construction of hospital	3.1	13020	C01 (project)	421 (loan)	1	100	100		0 or 1 (the original loan might be concessional or not)
2025	X	Y	Construction of hospital	3.1	13020	C01	421	1			4	0 or 1
2026	X	Y	Construction of hospital	3.1	13020	C01	421	1			7	0 or 1
2027	X	Y	Construction of hospital	3.1	13020	C01	421	1			11	0 or 1
2028	X	Y	Construction of hospital	3.1	13020	C01	421	1			13	0 or 1
2029	X	Y	Construction of hospital	3.1	13020	C01	421	1			15	0 or 1
<i>Last repayment before default.</i>												
Reporting on the debt relief operation in 2035												
2035	X	Y	Debt cancellation or rescheduling – Principal in arrears	17.4	60020 for debt forgiveness or 60040 for debt rescheduling	F01 (debt)	110 (grant) for debt forgiveness or 421 (loan) for debt rescheduling	1		50	[principal in arrears = 100 – (4+7+11+13+15)]	0 or 1 (in case of rescheduling, it can also be concessional or not)
2035	X	Y	Debt cancellation or rescheduling – Interest in arrears	17.4	60020 or 60040	F01	110 or 421	1		10	(interests in arrears)	0 or 1
Record automatically generated in TOSSD database, to offset the principal												
2035	X	Y	Debt cancellation or rescheduling – Principal in arrears, offsetting entry	17.4	60020 or 60040	F01	110 or 421	1		- 50		0 or 1

The TOSSD figures that result from TOSSD reporting on debt relief in 2035 are:

TOSSD gross = USD 10 million

TOSSD net = USD 10 million

Memorandum item, total debt cancelled/rescheduled = USD 60 million (of which principal = USD 50 million)