DEBT2ED OPERATIONAL GUIDELINES

DRAFT

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GPE Transforming Education

Glossary

Counterpart payment	A payment to be made by the partner country to receive the debt relief in a debt swap agreement between the creditor and partner country (debtor).
Debt relief	Any form of debt treatment that relieves the overall burden of debt by altering the amount or repayment terms of outstanding debt.
Debt service	Payments to the creditor in respect of both principal and interest.
Debt swap	A creditor forgoing payment of part of a partner country's debt, on condition that the partner country invests an agreed amount in a specific area.
Discount factor	The interest rate used to convert a future income stream to its present value.
Interest payment	The amount that a debtor becomes liable to pay to a creditor without reducing the amount of principal outstanding, under the terms of the financial instrument agreed between them.
Loan buy-down	An arrangement that usually involves three parties—the creditor, the debtor and the donor who would pay all or part of the outstanding loan amount.
Multiplier	A GPE grant that provides funding to contribute, together with domestic financing and other external aid, to unlocking specific bottlenecks to system transformation. Countries secure Multiplier allocations by mobilizing new and additional cofinancing.
Net present value	The sum of all future debt service obligations (interest and principal) on existing debt, discounted using the discount factor.
Principal repayment	A payment toward the original amount of a loan that is owed.

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I. Introduction

The Global Partnership for Education (GPE) 2025 Strategic Plan 2021–2025 (GPE 2025) brings together GPE's unique assets and ways of working—its alliances, technical expertise and finance—to support systems transformation in the education sector.

To this end, GPE has adopted innovative finance approaches to increase efficiency and impact and further mobilize international financing for education aligned to country systems and sector policies and plans.

Debt2Ed is an innovative finance approach that transforms a GPE partner country's debt into additional resources for education to enable system transformation and mobilize further grant funding from the GPE Multiplier.

Where a Multiplier allocation is not available (for example, because the country has already secured its maximum potential allocation), Debt2Ed still benefits the partner country by lowering debt service payments while facilitating more and better education spending through quality-assured GPE programs. A creditor may also meet its targets for official development assistance by providing debt relief (see Appendix A).

Audience

These guidelines are primarily intended for creditors, partner countries and third-party contributors seeking to access or facilitate access to Debt2Ed.

Because resources mobilized through Debt2Ed can be implemented through or aligned with GPE-funded programs, these guidelines are also useful for grant agents and other local education group participants.

Scope

These guidelines provide the parameters, methodology and steps involved in a Debt2Ed transaction and using the cofinancing mobilized to secure a Multiplier grant.

These guidelines are illustrative. They do not cover every potential debt treatment scenario. The GPE Secretariat will consider the merits of each situation on a case-by-case basis and, if necessary, consult with the relevant GPE governance structure.

GPE Multiplier

The GPE Multiplier is an innovative finance grant from GPE that can work alongside Debt2Ed to unlock specific bottlenecks to system transformation. All GPE-eligible countries can access a Multiplier allocation under GPE 2025, up to the country's allocation ceiling. For further details, see *[Forthcoming: link to Multiplier Operating Guidelines].*

The key criterion for securing a Multiplier allocation is that the grant acts as an incentive for external partners to mobilize new and additional resources for a country's education sector. To access the Multiplier, a country submits an expression of interest (EOI) to GPE. If an EOI is approved, the country has a maximum country allocation from the Multiplier and can prepare a program in line with standard GPE quality assurance procedures.

In all cases, the Multiplier can be committed once the grant application is approved. This means that the partner country can access the approved Multiplier grant before the debt treatment is granted.

II. Debt2Ed summary

Debt2Ed uses debt treatments to reduce debt burdens and mobilize new resources for education. This can, in turn, secure further resources from the Multiplier.

Debt treatments are defined as operations involving both the creditor and the partner country (and sometimes third parties) that alter the amount or repayment terms of a loan to provide debt relief to the partner country (debtor). This relief increases resources for the education sector in the partner country.

Because individual countries hold debt, these transactions generate (targeted) resources for specific GPE partners.

There are two models under Debt2Ed: debt swap and loan buy-down.

Debt swap

Debt swaps apply to loans to any sector that are already disbursed and outstanding.

The creditor and partner country (debtor) agree to a debt treatment that alleviates the debt service burden of the outstanding loan/s in exchange for the partner country providing counterpart funding for the education sector.

The exact amount of the counterpart payment depends on the terms and conditions of the agreement between the creditor and partner country. (This generally accounts for the country's absorption capacity and fiscal constraints).

The counterpart payment can be channeled to education programs through the GPE Fund and combined with the Multiplier or other GPE funding. This means that the counterpart funding is used in the same program and meets the same quality assurance standards as GPE's own funds. In this case, the payment will be recorded as a contribution by the partner country on behalf of the creditor.

Alternately, the counterpart payment can be routed through the country's domestic spending on education or directly to an in-country financing modality, such as a sector pooled fund. In this case, activities supported by the payment should be aligned with GPE-funded programs.

Loan buy-down

The second modality involves "buying down" or blending loans with grants for the education sector to improve their terms for the partner country. This could apply to either new loans (that have not been committed or agreed before the buy-down) or outstanding loans.

In such an arrangement, the creditor or a third party pays for all, or part, of a loan's interest or the principal on the partner country's behalf. Specifically, the donor can

- Buy down the principal (reducing future total payments through both the interest and principal channels);
- Buy down the interest rate (reducing the burden of future interest payments, but leaving the schedule of principal repayments untouched); or
- Buy down a combination of the principal and the interest payments.

In addition, the debt treatment may be contingent on the partner country achieving agreed milestones or targets in the education sector (like improvements in education indicators or implementing policy reforms) or providing a counterpart payment.

To be eligible as cofinancing to secure a Multiplier allocation, buy-downs of new loans must be attached to loans for the education sector. Alternately, buy-downs of outstanding loans for any sector may be eligible as cofinancing if the transaction involves counterpart payments to the education sector or is based on performance-based targets in the education sector.

Table 1 summarizes the types of debt treatment that could facilitate access to the Multiplier, and the basis for determining the value of the Multiplier allocation that can be secured (if other criteria for securing a Multiplier allocation are met).

Table 1: Summary of Debt2Ed models to facilitate a Multiplier allocation

Model	Applies to a new or outstanding loan?	Additional requirements	Basis for determining Multiplier allocation
Debt swap	Outstanding loan	Counterpart payment to education sector	Nominal value of counterpart payment
Loan buy-down	New loan	Loan for the education sector	Nominal value of loan
Loan buy-down	Outstanding loan	Counterpart payment to education sector or based on education-specific indicators	Nominal value of debt treatment, or nominal value of counterpart payment, as relevant

III. Process: High-level summary

1. Discussions between creditor and partner country

For debt swaps, the creditor and partner country jointly determine the extent of debt to be canceled or restructured, the value of the counterpart payment required and whether this payment is to be routed through the GPE Fund or through government systems directly.

For loan buy-downs, the partner country, creditor and, if relevant, third party will typically jointly agree the terms of the proposed buy-down, such as the cost to the third party and any triggers/targets to be met by the partner country.[1]

In all cases, the GPE Secretariat will be available to support these discussions. The partnership will not be a counterparty to the resulting legal agreement but may enter a memorandum of understanding with the respective parties, if applicable.

2. Submit and review expression of interest

Based on the parameters set out above and eligibility for Multiplier resources, the partner country determines the size of Multiplier allocation that can be secured.

To secure the allocation, a partner country—under the leadership of the government and in consultation with the local education group—submits an expression of interest to GPE. Among other features, the EOI summarizes the source of additional funds. For further details, see Section V.

GPE will review and, if appropriate, approve the EOI. This secures an allocation of additional resources for the partner country. (See GPE Multiplier guidelines: [link forthcoming]).

3. Finalize Debt2Ed agreement

At the same time, GPE will collaborate with the partner country and creditor to determine the appropriate transaction procedure for any counterpart payments to be channeled to the GPE Fund. This will include the structuring of additional financing to an ongoing program or as part of a future GPE-funded program (and supplementing other grants for which the country is already eligible).

For counterpart payments that will not be channeled through the GPE Fund, the Secretariat will collaborate with the partner country and creditor to determine the appropriate approach to monitoring resource commitments and flows to the education sector. To the greatest extent practicable, this would be integrated with GPE's existing and continuous monitoring framework.

The creditor ultimately reduces the debt stock or extends the original repayment schedule of the loan covered by the swap in the agreement (see Appendix C). This

[1] During this early stage, the partner country's ministry of finance will generally be responsible for assessing the debt sustainability and budgetary implications of the proposed agreement; the ministry of education will generally offer inputs regarding aligning the increased financing for the education sector to national priorities.

usually involves a bilateral agreement or an amendment to existing bilateral agreements between the creditor and partner country concerning outstanding claims.

4. Program preparation

With an approved Multiplier allocation secured through a successful EOI, the partner country can prepare a grant application to implement these funds and funds from counterpart payments, if any, using GPE's standard quality assurance (QA) procedures. These procedures are harmonized for all grants, regardless of the source of funding (see Section V).

A Multiplier grant can, in principle, be committed "up front," that is, when the debt treatment or counterpart payment is agreed and potentially before it is committed/disbursed.

5. Monitoring and reporting

During implementation, GPE's results framework captures country-level program performance. This also facilitates regular updates to GPE's Board of Directors.

Since obtaining a Multiplier allocation under Debt2Ed depends on sources of cofinancing linked to the debt treatment, the mobilization of these funds will be monitored. This is important when cofinancing in the form of a counterpart payment, or a debt treatment, does not occur at the date of the Debt2Ed agreement.

IV. Debt2Ed models

This section outlines the general features of the models available for Debt2Ed, focusing on mobilizing supplemental grant finance through the Multiplier. Illustrative examples are provided for each model (see Appendix B for detailed calculations). These are intended as general guidelines; specific arrangements will likely vary based on the instruments and parties involved.

Example: Hypothetical sovereign loan

Examples in this section are based on bilateral creditor A providing partner country B with a hypothetical loan of US$300 million. The original financial terms of the loan include an interest rate of 2%, a grace period of 6 years, and a maturity of 18 years. However, the year in which the loan is committed and disbursed

varies across the examples. Separately, partner country B is eligible for up to $50 million in supplemental grant finance from the GPE Multiplier.

Model 1: Debt swap

Model 1 entails a debt swap arrangement whereby the creditor agrees to forgo payment of interest and/or principal payments if the partner country invests an agreed amount in the education sector, called the counterpart payment.

The source and timing of the counterpart payment are important. To ensure *additionality*, the counterpart payment should not come from planned education-related outlays or existing commitments by the partner country to GPE. The payment can be either as a one-time payment or in instalments (see Section V).

Box 1: Example of debt swap with counterpart payment to GPE

Original loan: Bilateral creditor A provides partner country B with a loan of US$300 million that is committed and fully disbursed in 2015.

Debt treatment: At the start of 2022, creditor A and partner country B agree to a debt treatment that will cancel all outstanding principal and interest payments provided that 40% of these debt service payments are redirected by country B to education through the GPE Fund in the form of a counterpart payment of $125 million in nominal terms (made up of five annual payments of $25 million each between 2022 and 2026). The value of the debt canceled (sum of principal and interest payments) is $312.9 million in nominal terms and $207.2 million in present value terms in 2022 (i.e., date of agreement). The value of the counterpart payment is $125 million in nominal terms and $106 million in present value terms.

GPE Multiplier: The counterpart payment in the debt swap is used to access the Multiplier using the cofinancing ratio of 3:1, or $41.6 million. Assuming that all other requirements to access the grant are met, the Multiplier can be committed in 2022.

Result: Overall, Debt2Ed increases total funding for the education sector by $166.6 million ($125 million in counterpart payments and $41.6 million from the Multiplier). Of this, $125 million is recorded as additional cofinancing and as a contribution by the partner country on behalf of the creditor government.

Model 2: Loan buy-down

A loan buy-down involves the creditor or a third party agreeing to pay ("buy down") all or a part of a loan on behalf of the partner country (debtor). In what follows, the term "donor" refers to the party buying down the loan. The buy-down from the donor may be contingent on the partner country achieving specific pre-agreed targets in the education sector.

The cost of the buy-down is agreed bilaterally between the creditor and the donor. (Because the present value of a dollar falls the further in the future it is paid, the nominal value of future debt repayments is generally greater than a payment today to compensate the creditor for that future stream of payments.)

All these approaches mobilize resources for education and therefore can be used to access the Multiplier.

For a new loan to the education sector, the Multiplier will be based on the value of the loan (nominal). For an outstanding loan, the basis for the Multiplier depends on the terms of the transaction. For buy-downs linked to future results, the nominal value of expected debt forgiveness can be used; for buy-downs that involve a counterpart payment, the nominal value of the payment can be used.

Box 2: Examples of a loan buy-down

The costs of the buy-downs in these examples are based on the present value of the relevant debt service payments at the effective date of the buy-down. In practice, the creditor may agree to a different costing methodology and/or provide a discount to the donor.

a) Buy-down of new loan in 2021

Original loan and buy-down: Bilateral creditor A provides partner country B with a $300 million loan for the education sector in 2021. A third party, foundation C, also agrees in 2021 to buy down all loan repayments from 2025 onward if partner country B achieves pre-agreed results in the education sector by the beginning of 2025. The loan is committed and fully disbursed in 2021.

Cost of buy-down: In 2025, the results are achieved, and the buy-down essentially transforms the loan into a grant. Foundation C provides $196 million to creditor A in 2025 to wholly offset the outstanding debt service payments between 2025 and 2039.

GPE Multiplier: In 2021, the creditor's commitment of the loan and the foundation's commitment to the buy down facilitate access to the Multiplier, which is linked to the nominal value of the loan based on the cofinancing ratio of 3:1 ($100 million). The country secures its maximum Multiplier allocation of $50 million.

Result: Overall, Debt2Ed increases total funding for the education sector by $350 million (loan of $300 million and GPE Multiplier of $50 million). Of this, $300 million is recorded as additional cofinancing.

b) Buy-down of outstanding loan in 2023

Original loan: Bilateral creditor A provides partner country B with a loan of $300 million that is committed and fully disbursed in 2020. The loan was contracted without reference to the Multiplier (so there is no "additionality" with respect to GPE's instrument).

Buy-down: In 2023, a third party, foundation C, agrees to buy down the interest rate from 2 percent to 0 percent interest from 2027 onward if pre-agreed results in the education sector are achieved by the beginning of 2027.

Cost of buy-down: Foundation C provides $27.1 million to creditor A in 2027 to buy down the interest rate on the loan to zero percent. This is based on the net present value (NPV) of the scheduled interest payments associated with the loan between 2027 and 2038. The scheduled interest payments have a nominal value of $36 million.

GPE Multiplier: The agreement to buy down the loan's interest payments in 2023 facilitates access to the Multiplier in 2023 based on the nominal value of the debt relief expected, in this case, the canceled interest payments. Given that the third party is a foundation, the 1:1 cofinancing ratio is used, leading to a Multiplier allocation of $36 million. This Multiplier allocation is available to the country in 2023, the date of the buy-down agreement.

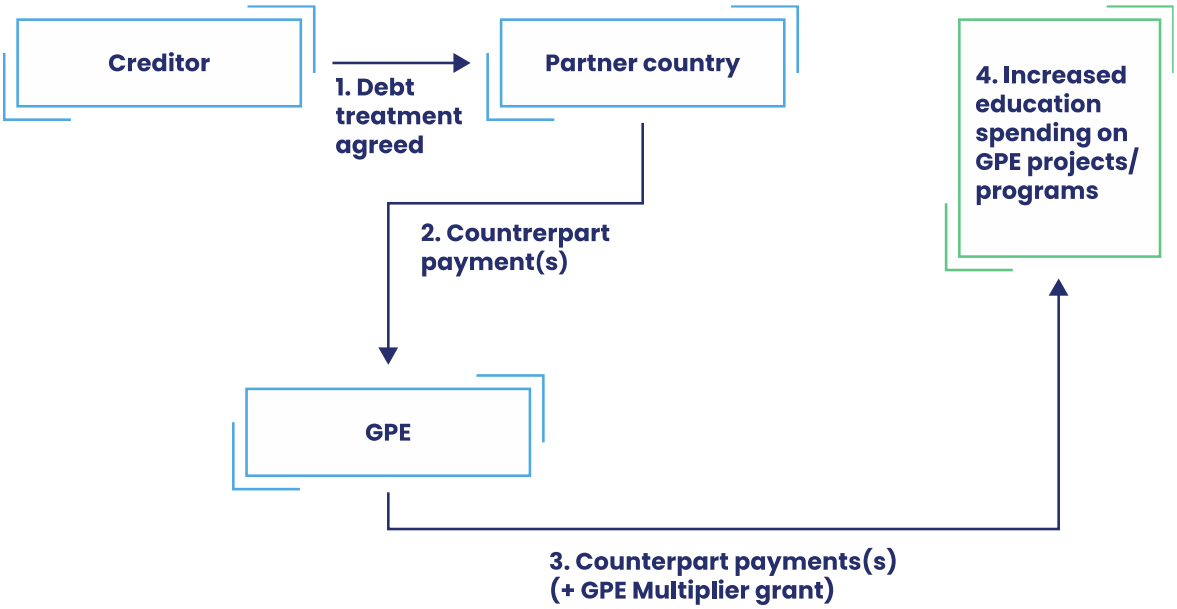
Result: Overall, Debt2Ed increases total funding for the education sector by $36 million, comprising the separate grant funds from the Multiplier. The canceled interest payments of $36 million produced by the buy-down is recorded as additional cofinancing and the basis for the Multiplier.

Routing of counterpart payments to the education sector

Counterpart payments may be a feature of either model set out above. There are two approaches that can be taken for routing the counterpart payment to the education sector. Together with the creditor and partner country, GPE will select the most appropriate way to channel the counterpart payment to the education sector, balancing risks with the need to optimize capacity development and country ownership.

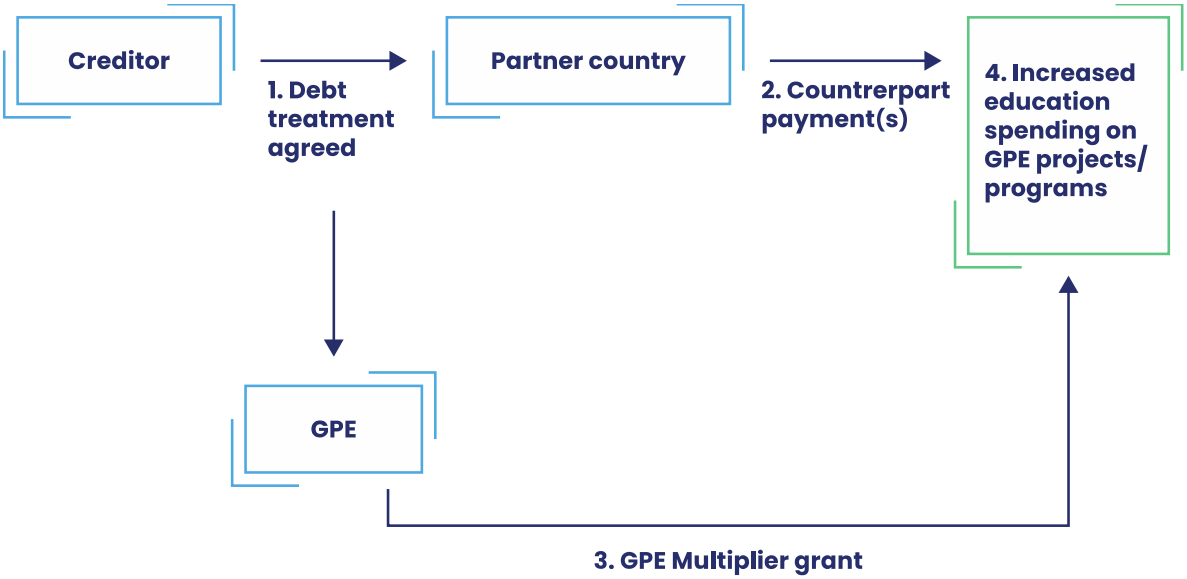
First, the counterpart payment can be channeled through the GPE Fund. In that case, the payment would be combined with a country's existing or future GPE grant, providing additional financing to an existing program or increasing the size of a planned allocation. This will be recorded as a contribution by the partner country on behalf of the creditor. This is illustrated in Figure 1.

Figure 1: Counterpart payment channeled through GPE



Second, the counterpart payment can be channeled through the country's own budgeting system to support the implementation of a GPE program as aligned cofinancing or transferred through the same grant agent/same program as other GPE grants, including the Multiplier. This is illustrated in Figure 2.

Figure 2: Figure 2: Counterpart payment channeled through the country's own systems



In both cases, the overall value of resources for the education sector increases by the value of the counterpart payment and the value of the Multiplier grant.

In general, financial flows should be aligned to GPE programs to the greatest extent practicable—for example, by increasing the size of a planned allocation—allowing additional financing to an existing program, or implementing a new program aligned to the compact and existing GPE-funded programs.

V. Integration with GPE's operating model

Partnership compact

A key element of GPE 2025 and GPE's operating model is the articulation of a partnership compact. A GPE-eligible country generally develops its compact as part of the process for securing and applying for GPE funds.

Among other features, a compact identifies focus areas for GPE spending and cofinancing that are expected to lead to system transformation (for example, by targeting key bottlenecks in an education system).

The process of articulating a compact is an opportunity for cofinancing partners to mobilize new and additional resources. This might include canceling debt service payments of an outstanding or new loan or mobilizing new lending for education. As such, resources mobilized for education (or indicators on which debt treatment is contingent) should be aligned with the priorities identified in the compact.

Securing a Multiplier allocation

Multiplier allocations are not guaranteed. They must be secured through an approved EOI. Table 2 summarizes the four areas on which countries are requested to submit information in an EOI, with added considerations in the case of Debt2Ed transactions.

Table 2: Criteria for the EOI and additional considerations for Debt2Ed

Criterion	Interpretation	Additional considerations for Debt2Ed transactions
Additionality	The cofinancing used to secure a Multiplier allocation should be mobilized by the availability of GPE's grant.	The Debt2Ed transaction should be mobilized by the availability of the Multiplier.
Cofinancing	• Each US$1 from the Multiplier is expected to unlock new, external funding at a minimum ratio. • Some private sector partners and foundations can unlock a Multiplier grant at a ratio of $1 per $1 from the Multiplier. • Other donors, including bilateral and multilateral donors, provide $3 per $1 from the Multiplier. • The cofinancing associated with the debt treatment should be to the same project or program as GPE funding or, where not feasible, complement the GPE-funded program.	For Debt2Ed transactions, cofinancing may be the counterpart payment, new loan for education subject to a buy-down, or a buy-down based on performance against education sector indicators.
Focus area(s)	The area of work to be financed by the Multiplier and the cofinancing should be specified and aligned to the country's partnership compact.	Where the debt treatment is based on performance against specific indicators or targets, these should support or be

		aligned with the focus areas of GPE's programs.
Debt sustainability	Loans should be consistent with the terms of both the IMF's Debt Limits Policy and the World Bank Group's Sustainable Development Finance Policy, as applicable.	For loan buy-downs related to new borrowing for education, the underlying loan should be consistent with these policies.

Determining the Multiplier allocation

As set out, the basis for determining the value of the Multiplier allocation associated with a Debt2Ed approach varies. The following guidelines are used to determine the allocation:

- **Nominal value of counterpart payments:** When the debt treatment applied to an outstanding loan from a creditor in Model 1 or Model 2 is contingent on the partner country increasing education spending in the form of a counterpart payment, then the nominal value of the counterpart payment is used as the basis for calculating the Multiplier amount.
- **Nominal value of new loan:** When the debt treatment in Model 2 involves the buy-down of a new loan from a bilateral or multilateral creditor, then the nominal value of the new loan is used as the basis for calculating the Multiplier amount.
- **Nominal value of expected debt relief:** When the debt treatment in Model 2 involves the buy-down of an outstanding loan based on achieving predefined performance targets in the education sector, then the nominal value of expected debt relief may be used as the basis for the Multiplier.

More broadly, the specific basis for determining an allocation depends on the type of debt treatment applied and the parties involved. Generally, considerations include whether a counterpart payment is involved, whether the debt treatment applies to an outstanding or new loan, the type of cofinancing partner involved (i.e., the provider of the debt relief), and the partner country's allocation ceiling.

Program/grant development

Grants mobilized by Debt2Ed and invested through GPE or as cofinancing must meet relevant quality assurance standards and will be subject to GPE's risk mitigation strategies (see below).

Following an approved grant application, GPE's funds will be implemented through a grant agent. National authorities in consultation with the local education group identify the grant agent.

Risk mitigation

The following risk mitigation principles will help maximize impact and minimize distortion and other downside risks associated with the Debt2Ed approach.

- **Substitution:** Official bilateral creditors/donors are encouraged to invest directly through the GPE Fund, which redistributes resources based on a transparent, needs-based formula. For a debt swap to be additional, funding liberated by a debt treatment deal must supplement any commitments from the donor to the core GPE Fund. To distinguish between these types of commitments, GPE will track both and account for them separately.
- **Displacement:** In parallel to a substitution risk at the donor/global level, there is a risk that countries could score liberated funding as domestic resource mobilization. GPE will clarify that funding transferred to GPE should be in addition to and separate from domestic resources. These will be recorded as a contribution by the partner country on behalf of the creditor government.
- **Odious debt:** Odious debt refers to liabilities contracted by illegitimate regimes or governments that do not benefit the people of the country concerned.[2] To mitigate the risk of providing additional grant resources for offsetting such loans, GPE will review requests to use the Debt2Ed modality on a case-by-case basis. If there is a risk that a transaction involves odious debt, GPE will clarify the appropriate scope of action with the relevant GPE governance structure.

Finally, several relevant policies apply to the use of GPE funds, including (but not only), the Policy and Communications Protocol on Misuse of GPE Trust Funds, the Contributions and Safeguards Policy, and the Private Sector Engagement Strategy 2019–2022.

[2] The concept of "odious debt" has taken on a growing legal significance. It is argued that such loans should be canceled unconditionally.

APPENDIXES

Appendix A: Recording debt relief as official development assistance

Debt2Ed can help donors meet their official development assistance (ODA) targets. This section provides a high-level summary of the rules in the OECD Development Assistance Committee (DAC) reporting system for recording debt relief as ODA. Donors are recommended to consult the relevant rules for further details and clarification.

Full reporting of debt relief as official development assistance requires DAC members to provide the following detailed information about the transactions undertaken:

- Type of reorganization (debt cancelation, debt conversion, debt rescheduling)
- The DAC flow category of the debt prior to reorganization (ODA or non-ODA)
- The breakdown of the amount into principal and interest

The type of debt reorganization affects how the debt relief is recorded (see Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire). Where official debt is exchanged for counterpart funds to be used for development purposes, this should be reported as an ODA grant for debt conversion, not as debt forgiveness. When official debt is exchanged at a discount, the value of the counterpart fund should be reported as debt conversion and the difference between that and the amount of debt canceled as debt forgiveness.

Debt relief in the form of debt cancelation or debt rescheduling are subject to the new rules approved by the DAC on July 24, 2020 (see Reporting on Debt Relief in the Grant Equivalent System). Under the new terms, the ODA calculation for an ODA loan is based on a comparison of the grant equivalent of the rescheduled loan (i.e., post-treatment, be it forgiveness or rescheduling) and the grant equivalent of the original loan pre-treatment). The additional concessionality conveyed by the debt relief operation is recorded as ODA.

The calculations are made using the date of treatment as time reference for the net present value computations and the discount rate associated to the income group (9 percent for least development or low-income countries, 7 percent for lower-middle-income countries and 6 percent for upper-middle-income countries). A ceiling

applies so that the method does not generate more ODA for a loan and subsequent debt relief than a standard grant would generate.

For non-ODA loans, as no ODA grant equivalents will have been recorded for the original claims, the donor effort involved in concessional debt relief (forgiveness and concessional rescheduling) of non-ODA claims should give rise to ODA grant equivalents.

Appendix B: Calculations used in Debt2Ed examples

This appendix shows the calculations underlying the illustrative examples of the Debt2Ed models in Section IV. In all examples, bilateral creditor A provides partner country B with a loan of US$300 million with an interest rate of 2 percent, a grace period of 6 years, and a maturity of 18 years. The tables show the following debt treatments:

1) Table B1: At the start of 2022, creditor A and partner country B agree to a debt treatment that will cancel all outstanding principal and interest payments between 2022 and 2033.
2) Table B2: In 2021, a third party agrees to buy down all the loan payments of a new loan between 2025 and 2039 if pre-agreed results are achieved at the beginning of 2025.
3) Table B3: In 2023, a third party agrees to buy down all the interest payments of an outstanding loan between 2027 and 2038 if pre-agreed results are achieved at the beginning of 2027.

Table B1: Example of Debt2Ed involving counterpart payment to GPE in Box

Date payment due	Period	Principal outstanding (US$, millions)	Principal (US$, millions)	Interest (US$, millions)	Total (US$, millions)	Annual factor at 9% $(1.09)^{p-7}$	Present value of total payments (US$, millions)	Nominal value of payments canceled at date of treatment (US$, millions)	Present value of payments canceled at date of treatment (US$, millions)
2015									
2016	1	300		6	6.0	0.6	10.1		
2017	2	300		6	6.0	0.6	9.2		
2018	3	300		6	6.0	0.7	8.5		
2019	4	300		6	6.0	0.8	7.8		
2020	5	300		6	6.0	0.8	7.1		
2021	6	300	23.1	6	29.1	0.9	31.7		*Debt treatment*
2022	7	276.9			0.0	1.0	0.0	28.6	28.6
2023	8	276.9			0.0	1.1	0.0	28.2	25.8

2024	9	276.9			0.0	1.2	0.0	27.7	23.3
2025	10	276.9			0.0	1.3	0.0	27.2	21.0
2026	11	276.9			0.0	1.4	0.0	26.8	19.0
2027	12	276.9			0.0	1.5	0.0	26.3	17.1
2028	13	276.9			0.0	1.7	0.0	25.8	15.4
2029	14	276.9			0.0	1.8	0.0	25.4	13.9
2030	15	276.9			0.0	2.0	0.0	24.9	12.5
2031	16	276.9			0.0	2.2	0.0	24.5	11.3
2032	17	276.9			0.0	2.4	0.0	24.0	10.1
2033	18	276.9			0.0	2.6	0.0	23.5	9.1
							Sum of debt canceled	312.9	207.2

Table B2: Example of Debt2Ed involving buy-down of new loan in Box 2

Date payment due	Period	Principal outstanding (US$, millions)	Principal (US$, millions)	Interest (US$, millions)	Total (US$, millions)	Annual factor at 9% $(1.09)^{p-4}$	Present value of total future payments covered by buy-down (US$, millions)
2021							
2022	1	300		6	6.0	0.8	
2023	2	300		6	6.0	0.8	
2024	3	300		6	6.0	0.9	*Effective date of buy-down of all debt service payments, 2025–2039*
2025	4	300		6	6.0	1.0	6.0
2026	5	300		6	6.0	1.1	5.5
2027	6	300	23.1	6	29.1	1.2	24.5
2028	7	276.9	23.1	5.5	28.6	1.3	22.1
2029	8	253.8	23.1	5.1	28.2	1.4	19.9
2030	9	230.8	23.1	4.6	27.7	1.5	18.0
2031	10	207.7	23.1	4.2	27.2	1.7	16.2
2032	11	184.6	23.1	3.7	26.8	1.8	14.6
2033	12	161.5	23.1	3.2	26.3	2.0	13.2
2034	13	138.5	23.1	2.8	25.8	2.2	11.9
2035	14	115.4	23.1	2.3	25.4	2.4	10.7
2036	15	92.3	23.1	1.8	24.9	2.6	9.7
2037	16	69.2	23.1	1.4	24.5	2.8	8.7
2038	17	46.2	23.1	0.9	24.0	3.1	7.8
2039	18	23.1	23.1	0.5	23.5	3.3	7.0
						Cost of buy-down	196

Table B3: Example of Debt2Ed involving buy-down of outstanding loan in Box 2

Date payment due	Period	Principal outstanding (US$, millions)	Principal (US$, millions)	Interest (US$, millions)	Total (US$, millions)	Annual factor at 9% $(1.09)^{p-7}$	Present value of future interest payments covered by buy-down (US$, millions)
2020							
2021	1	300		6	6.0	0.6	
2022	2	300		6	6.0	0.6	

2023	3	300		6	6.0	0.7	
2024	4	300		6	6.0	0.8	
2025	5	300		6	6.0	0.8	
2026	6	300	23.1	6	29.1	0.9	*Effective date of buy-down of all interest, 2027–2038*
2027	7	276.9	23.1	5.5	28.6	1.0	5.5
2028	8	253.8	23.1	5.1	28.2	1.1	4.7
2029	9	230.8	23.1	4.6	27.7	1.2	3.9
2030	10	207.7	23.1	4.2	27.2	1.3	3.2
2031	11	184.6	23.1	3.7	26.8	1.4	2.6
2032	12	161.5	23.1	3.2	26.3	1.5	2.1
2033	13	138.5	23.1	2.8	25.8	1.7	1.7
2034	14	115.4	23.1	2.3	25.4	1.8	1.3
2035	15	92.3	23.1	1.8	24.9	2.0	0.9
2036	16	69.2	23.1	1.4	24.5	2.2	0.6
2037	17	46.2	23.1	0.9	24.0	2.4	0.4
2038	18	23.1	23.1	0.5	23.5	2.6	0.2
						Cost of buy-down	27.1

Appendix C: Debt relief from debt rescheduling

Through debt relief operations in Model 1, donors can modify the schedule of their loans by either canceling or rescheduling the payments of principal and/or interest. Debt cancelation (also known as debt forgiveness) refers to a reduction in the amount of, or the extinguishing of, a debt obligation by the creditor via a contractual arrangement with the debtor. Debt rescheduling is the formal deferment of debt service payments and the application of new and extended maturities to the deferred amount.

In debt rescheduling, the method by which debt relief is provided is more complex than a simple reduction in nominal amount outstanding. For instance, a debt might be rescheduled with the same nominal value but with a lower interest rate or with extended maturities. By simply comparing the nominal amounts outstanding before and after the rescheduling, no debt reduction would be evident, but there may be debt reduction in present value terms, calculated by discounting future debt service payments, both on the old and new debts, at a common rate.

These calculations are inherently sensitive to the choice of discount rate. If the discount rate and the contractual interest rate of a loan are the same, then the present value is equal to (or close to) the face value. If, however, the contractual interest rate of the loan is less than the discount rate, then the present value of the debt is less than the face value, implying that the loan has some degree of concessionality.

Given that creditors may have different methodologies for net present value calculations of a debt treatment, they should provide GPE with the following information to verify:

1) The total nominal amounts involved in the debt treatment
2) The amount of debt reduction in present value terms they have achieved—the difference between the present values (using a common interest rate) of the rescheduled debt service payments before and after rescheduling (present value method)
3) Detailed information on how the amount of the present value reduction was calculated, including the interest rate(s) used

In the example below, a debt relief operation occurs at the beginning of 2027 in the form of a rescheduling. Present value calculations are based on a discount factor of 9 percent. The outstanding principal amount in 2027 is US$277 million (column 3). The rescheduling terms provide an extension of maturity of 6 years to 2044, with a grace period of 12 years. The interest rate remains unchanged at 2 percent. The debt rescheduling will lead to repayments in principal of $21 million each year from 2032 while the difference between the present value of initial and new loan repayments is $52.2 million (column 10).

Table C1: Rescheduling of original loan of US$300 million at start of 2027

(1) Date payment due	(2) Period	(3) Principal outstanding (US$, millions)	(4) Principal (US$, millions)	(5) Interest (US$, millions)	(6) Total (US$, millions)	(7) Annual factor at 9% $(1.09)^p$	(8) Present value of future payments after treatment (US$, millions)	(9) Present value of future payments initially due before treatment (US$, millions)	(10) Difference between initial and new loan repayments at date of treatment (US$, millions)
2020									
2021	1	300		6.0	6.0	0.6	10.1		
2022	2	300		6.0	6.0	0.6	9.2		
2023	3	300		6.0	6.0	0.7	8.5		
2024	4	300		6.0	6.0	0.8	7.8		
2025	5	300		6.0	6.0	0.8	7.1		
2026	6	300	23.1	6.0	29.1	0.9	31.7		*Debt treatment in form of debt rescheduling*
2027	7	276.9		5.5	5.5	1.0	5.5	28.6	23.1

2028	8	276.9		5.5	5.5	1.1	5.1	25.8	20.7
2029	9	276.9		5.5	5.5	1.2	4.7	23.3	18.6
2030	10	276.9		5.5	5.5	1.3	4.3	21.0	16.8
2031	11	276.9		5.5	5.5	1.4	3.9	19.0	15.0
2032	12	276.9	21.3	5.5	26.8	1.5	17.4	17.1	-0.3
2033	13	255.6	21.3	5.1	26.4	1.7	15.7	15.4	-0.3
2034	14	234.3	21.3	4.7	26.0	1.8	14.2	13.9	-0.3
2035	15	213.0	21.3	4.3	25.6	2.0	12.8	12.5	-0.3
2036	16	191.7	21.3	3.8	25.1	2.2	11.6	11.3	-0.3
2037	17	170.4	21.3	3.4	24.7	2.4	10.4	10.1	-0.3
2038	18	149.1	21.3	3.0	24.3	2.6	9.4	9.1	-0.3
2039	19	127.8	21.3	2.6	23.9	2.8	8.5		-8.5
2040	20	106.5	21.3	2.1	23.4	3.1	7.6		-7.6
2041	21	85.2	21.3	1.7	23.0	3.3	6.9		-6.9
2042	22	63.9	21.3	1.3	22.6	3.6	6.2		-6.2
2043	23	42.6	21.3	0.9	22.2	4.0	5.6		-5.6
2044	24	21.3	21.3	0.4	21.7	4.3	5.0		-5.0
									52.2

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