DEBT REORGANIZATION INVOLVING GOVERNMENT

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I. Introduction

Debt reorganization can be an important feature of economic transactions that occur in a country and it is important that they be recorded correctly in the system of national accounts and government finance statistics. Although debt reorganization may involve any unit in any sector of the economy, this paper focuses on those debt reorganizations that involve a government unit in some way. Although not included in the definition of debt reorganization (see below), unilateral debt write-offs and defeasance arrangements are also included in this paper. Appendix I discusses classification issues related to transactions involved in the Highly Indebted Poor Countries (HIPC) debt relief initiative. Appendix II covers special purpose entities (SPEs) that may be used in debt reorganization arrangements.

The transactions involved in a debt reorganization can be complex. However, the *System of National Accounts 1993 (SNA 1993)* has only five paragraphs on the topic.[1] This paper discusses in more detail the various types of debt reorganizations and the transactions that they may give rise to. It draws on the *Government Finance Statistics Manual 2001 (GFSM 2001)*, the *External Debt Statistics – Guide for Compilers and Users 2003*, and *ESA95 Manual on Government Deficit and Debt, First Edition, 2000*.

II. Definition of Debt Reorganization

Debt reorganization involves an agreed or contractual arrangement between the parties involved for altering the terms for servicing an existing debt, usually on more favorable terms for the debtor. Government may be the debtor, whose debt is being reorganized, or the creditor who is agreeing to the terms and conditions of debt owed to it to be changed. The government may also be a third party, by agreement or by contract, in a debt reorganization between two other units. Debt reorganizations can involve foreign governments or the 'rest of the world' units. Debt reorganization can take many forms but includes debt assumption, debt payments on behalf of others, debt forgiveness, debt restructuring and rescheduling, debt conversions, and debt prepayments and buybacks.

Debt reorganization usually involves relief for the debtor from the original terms and conditions of debt obligations it has entered into. This may be in response to liquidity issues, whereby the debtor does not have the cash to meet looming debt service payments; sustainability issues, where the debtor is unlikely to be able to meet its debt obligations in the medium term; or a restructuring of the industry in which the debtor operates, which would be facilitated by changing the terms and conditions of the debtor's debt. A government whose

[1] Paragraphs 10.139, 10.140, 11.23, 11.24, and 12.52.

debt is being favorably reorganized is a beneficiary. In the other cases where government is the creditor or a third party, there is usually some cost to government reflected in a reduction in net worth. However, this is not always the case.

III. Debt Assumption

Debt assumption is a trilateral agreement between a creditor, a former debtor, and a new debtor under which the new debtor assumes the former debtor's outstanding liability to the creditor and is liable for repayment of debt. Calling a guarantee is an example of debt assumption. Government units frequently guarantee debt incurred by their public corporations, other government units (for example, debt of lower levels of government), or private sector units. If the original debtor defaults on their debt obligations the creditor may invoke the contract conditions permitting the guarantee from the government to be called. The government unit then must either repay the debt or assume responsibility for the debt as the primary debtor.

A. Government which assumes debt

The government guarantor, who is now the new debtor, records a new liability and the liability of the original debtor is extinguished. This does not constitute the transfer of the original debt instrument from one debtor to another. The original debt instrument is extinguished and the new debtor records a new debt instrument. This new instrument may not necessarily have the same terms and conditions as the debt instrument that has been extinguished because the calling of the guarantee may give rise to different terms and conditions when the guarantor assumes the debt. The amount of the debt to be recorded is the full amount of the outstanding debt unless there is an agreement with the creditor to reduce the amount of debt owed. The timing of the recording is at the time the debt is removed from the original debtor's balance sheet.

The counterpart transaction is, however, more complex and depends on whether the government acquires an effective financial claim against the original debtor. When a government assumes the debt of another unit, the terms of the debt assumption may include a legal obligation for the defaulting unit to pay back to the guaranteeing government the amount of debt that was taken over by it. However, the existence of a legal financial claim is not sufficient to determine the type of counterpart transaction to be recorded. It also depends on whether there is a realistic probability that the claim will be paid—i.e., it is an effective financial claim. If the claim is effective, the counterpart transaction to the new liability recorded by the government is the acquisition of a financial asset. If the value of this financial asset is equal to the new debt liability then there is no change in net worth.

It is quite possible, however, that a legal financial claim arising from the debt assumption may never be paid. The original debtor unit may be bankrupt or its financial circumstances are in such bad shape that it is highly unlikely that it will ever be able to repay the guaranteeing government. Where the defaulting unit is a public corporation controlled by the general government guarantor, and which continues to be a going concern, the counterpart transaction is an increase in the government's equity in that public corporation. If the defaulting unit is any other type of unit the counterpart transaction is a transfer. If the unit is another government unit, it is a capital grant payable. For other units, it is a miscellaneous expense - capital. In both cases, the net worth of the debt-assuming government has decreased.

A debt assumption may not give rise to any financial claim on the debtor if, for example, the debt assumption was by agreement between the government and the original debtor, rather than through the calling of a guarantee. In this case, the counterpart transaction is a capital grant from the government to the original debtor unit.

B. Government whose debt is assumed

A government unit may have its debt assumed by other government units, either foreign governments or other domestic governments (e.g., a regional government having its debt assumed by central government). The debt liability of the government whose debt is assumed is extinguished. However, the counterparty transaction depends on whether a liability to the assuming government has replaced it. Again this depends on whether there is an effective claim.

If the terms of the debt assumption (e.g., calling a guarantee) mean that the government who assumed the debt has a financial claim on the government whose debt was assumed, then the latter records a new liability. If it is of the same value as the liability extinguished, there is no change in net worth.

However, if there is no such effective claim (e.g., if the debt of a government was taken over by another government by agreement with no provision for a claim on the latter by the former), then a capital grant received is recorded by the government whose debt was assumed. Net worth of the original debtor government is increased by the value of the debt assumed.

IV. Debt Payments on Behalf of Others

Guarantors may just make one or more debt service payments on behalf of other units without assuming the entire debt. This may happen when a guarantee is called but the guarantor may only be obliged to make the debt servicing payments in respect of the guaranteed debt until the debtor is in a position to resume making the debt service payments. This situation may occur where the guaranteed debtor is experiencing temporary financial difficulties rather than permanent financial problems. Governments can be the debtor that is defaulting or the guarantor.

As with debt assumption, the treatment of the transactions associated with debt payments on behalf of others depends on, whether the guarantor receives an effective financial claim on the defaulting unit in respect of the debt service payments it has made on behalf of the debtor.

Where an effective financial claim is established, then the guarantor records a decrease in cash and an increase in financial assets. The payment of the debt service payment is not recorded as a payment of interest and a principal repayment by the guarantor because these payments are not related to a liability in its balance sheet. The defaulting debtor records an increase in its liabilities.

If an effective financial claim has not been established, the guarantor records an expense which is classified as a current grant when the debtor is another government unit or a foreign government , and as a subsidy when the debtor is a corporation. A government debtor records a grant received from the guarantor that is either another general government unit or a foreign government.

V. Debt Forgiveness

The extinction of a debt obligation of a debtor by a creditor, through a contractual agreement, is debt forgiveness. This also includes the creditor agreeing to a reduction in the amount owed by the debtor rather than forgiving the full amount. The debt forgiven may include all or part of the principal outstanding and any accrued interest arrears.

The calculation of the amount of debt that has been forgiven should be based on the net present value of any future debt service payments that remain after the debt forgiveness (in the case of partial debt forgiveness), compared with the net present value of future debt service payments that would have been payable if the debt forgiveness had not occurred. A key issue is which interest rate to use in the net present value calculations. In government debt reorganizations an interest rate equal to a market-based so-called risk-neutral rate—such as the Organization for Economic Cooperation and Development (OECD)'s Commercial Interest Reference Rates (CIRR's)—would be appropriate. In other cases, debt reduction in present value terms may be based on a rate that includes a risk premium, reflecting the creditor's assessment of the value of the claim.

Where the creditor is a government unit, its financial assets, and hence net worth, are reduced by the amount of the debt forgiveness, and the counterpart transaction is an other capital transfers payable. For a general government debtor, its financial liabilities are reduced, and its net worth increased, by the amount of the debt forgiveness with a counterpart transaction of other capital transfers received. The transactions are recorded at the time specified in the agreement that the debt forgiveness takes effect.

VI. Debt Restructuring

Debt restructuring is where there is an agreement between the debtor and the creditor to alter the terms and conditions for servicing an existing debt, usually on more favorable terms for the debtor. This may include extending repayment periods, reductions in the contracted interest rate, adding or extending grace periods for the repayment of principal, fixing the exchange rate at favorable levels for foreign currency debt, and rescheduling the payment of arrears.

The principle underlying the treatment of debt restructuring transactions involving government is that the debt instrument that is being restructured is considered to be extinguished and replaced by a new debt instrument with the new terms and conditions. The difference in value between the extinguished debt instrument and the new debt instrument is reflected as a capital grant or transfer from the creditor to the debtor. There are a number of issues, however, in how the debt instruments should be valued and these are discussed below.

A. Government as the debtor

This refers to the case where a government's debt owed to other units is restructured. This may occur on a bilateral basis with an agreement between the government and the creditor, or it may be part of a multilateral debt rescheduling arrangement such as through the Paris Club, the Heavily Indebted Poor Countries (HIPC) Initiative or other multilateral arrangements.

In all cases, the debt instruments of the government that have been subject to restructuring are extinguished and new debt instruments are created reflecting the restructured terms and conditions. The value of the new debt instrument is determined not by the new nominal value of the debt but by discounting the new flow of future debt service payments by a specified rate of interest. However, there are a number of issues in choosing the rate of interest to use for the discounting. The interest rate could be the contractual rate, a market rate or some other rate.

The original debt instrument may have been classified as "Loans" because there was no effective market for the particular government's debt and it was valued as nominal value. If there is still no effective market after the debt restructuring then the contractual interest rate in the new debt instrument should be used to calculate the value of the loan. The new debt instrument is also classified as "Loans."

If there had been an effective market for the government's debt then the original debt instrument should have been classified as "Securities other then shares" and been valued at market prices on an on-going basis. The new debt instrument's value will be calculated by discounting the future debt service payments by the market rate of interest and also classified as "Securities other then shares."

Sometimes the debt restructuring exercise leads to the creation of a secondary market for the government's restructured debt. If the market rate from this market is considered relevant to the new instrument that has been created, then this should be used to value the new debt instrument. In this case, although the extinguished debt instrument was classified under "Loans", the new debt instrument should be classified under "Securities other than shares."

However, the existence of a secondary market for a government's debt may not always mean that the market rate from that market should be used to value the new debt instrument. The secondary market may cover only a subset of the government's debt, which may have characteristics that are different to the debt that has been restructured. It may also be illiquid and may not be a true indication of the market rate that would occur if all the government's debt, including the restructured debt, were to be included in a genuine effective market.

Where there is a difference between the value of the debt extinguished and the new debt instrument created under the restructuring arrangements, the counterpart transaction is a capital grant received, if the creditor was a government unit, or a capital transfer received if it was another unit.

B. Government as the creditor

A government may agree to debt owed to it to be restructured. This may be debt owed by other governments (either foreign or domestic), public enterprises or other units. The transactions it should record are as follows. In its financial assets, the original debt instrument should be extinguished. In its place a new financial asset instrument should be created, namely the new debt instrument owed to it reflecting the new terms and conditions. The issues discussed above on the valuation of the new debt instrument apply equally to the creditor government as to how it values its new financial asset and under which financial asset classification it should be recorded.

The difference in the valuation of the extinguished debt owed and the new debt instrument owed to the government (assuming the difference is negative) is a capital grant paid, if the counterparty transaction is a general government unit, or a "miscellaneous other expense – capital" if it is another unit.

VII. Debt-for-Equity Swaps

A creditor government may agree to a debt owed to it to be replaced by an equity allocation. For example, the government may agree with a public enterprise owned by it to accept an increase in the government's equity stake in the public enterprises in place of a loan. The recording of this event depends on the value of the shares and other equity received by the general government unit and whether included in the agreement is an element of debt forgiveness.

The government unit will record a change in the composition of its financial assets. The original debt instrument will be extinguished and in its place an increase in "Shares and other equity." The shares should be recorded at market value but this will be difficult to determine where there is not a market for the public enterprise's shares. In the latter case the shares should be valued at the total value of the public enterprise's assets less the total value of its non-equity liabilities.

Any difference in the value of the debt instrument being extinguished and the replacement equity is either represented by a capital transfer or other economic flows. Where the agreement had an explicit debt forgiveness element then the creditor government should record a capital transfer paid. If there was no debt forgiveness element in the agreement, then the difference will be recorded as other economic flows.

VIII. Debt Prepayments and Buybacks

Creditors and debtors may agree to the early repayment of debt—that is the debtor may repay in cash the debt before the maturity date on the debt instrument. Governments may be either a creditor or a debtor in this type of a transaction. If there is a discount involved in the repurchase arrangement, it is referred to as a buyback. If there is a secondary market for the debtor’s debt, debtor’s may repurchase their own debt because market conditions are favorable.

A. Government as the debtor

A government that repays a debt instrument owed by it prior to maturity will extinguish the debt instrument on the liabilities side of its balance sheet and will record a reduction in cash on the assets side. However, there is an issue on how to value the debt instrument that is being extinguished.

If the early repayment is part a debt relief arrangement agreed between the debtor government and the creditor, and the debt repayment amount reflected a discount to the value of the debt at the time of the repayment, then this is treated similarly to debt forgiveness. That is, the difference between the buyback price and the value of the debt is shown as a capital grant received by the debtor, if the creditor is a general government unit, or a capital transfer received, if it was another unit.

On the other hand, if the early repayment was not part of a debt alleviation arrangement then any difference between the value of the debt and the repayment amount should be recorded as a holding gain or loss. Although it may have been difficult to establish a market value for the debt before the transaction, once the agreement has been reached on the terms and conditions for the early repayment, they effectively set the market price at that time. The instrument should be revalued to the new market price before it is extinguished.

B. Government as the creditor

Similar principles will apply to the treatment of the transactions involved in the early repayment of debt where a government agrees to allow debt owed to it to be repaid early. It is important to determine whether the agreement is part of a debt relief arrangement by the creditor government, or whether the early repayment is a commercial arrangement.

Where there is an element of debt relief, the creditor government will record the extinguishment of the debt owed to it as a reduction in its financial assets and the cash received as an increase in its financial assets. As this is part of a debt relief arrangement, the value of the financial asset extinguished will be greater than the cash received. The difference will be reflected in a capital grant payable, if the debtor is a general government unit, and a capital transfer payable if it is another unit.

If the arrangement was made on commercial terms then any difference between the value of the asset that is being extinguished and the cash received will be shown as a holding gain or loss. Again if it had been difficult to value the debt owed at market prices before the transaction, the early debt repayment agreement effectively sets the relevant market price. The asset should be revalued to this market price before it is extinguished.

IX. Debt Write-Offs and Valuation Changes

A creditor can unilaterally decide to write off debt owed to it. This is different to a creditor and debtor agreeing bilaterally to extinguish debt owed to the creditor by the debtor—this is called debt forgiveness. A unilateral repudiation, by a debtor government is not recognized.

A debt write-off may occur when a creditor concludes that a debt obligation owed to it has no value or has less value than the book value. This results from a recognition by the creditor that debt owed to it is not going to be paid in full due, for instance, to the bankruptcy of the debtor unit.

A general government creditor that writes off debt should record the reduction in its financial assets, but the counterpart transaction is an other economic flow (other changes in the volume of assets).

Governments may recognize the reduction in value of their financial assets because of developments in capital markets. Loans should be recorded at nominal value in governments' balance sheets but secondary markets may develop for government loans. In this case, the loans should be reclassified as securities other than shares and valued at market prices. If the secondary market value is lower than the nominal value on the government's opening balance sheet, then a reduction in the value of the government's financial assets is recorded as an other economic flow.

X. Debt Servicing in Arrears

If a debtor misses an interest or principal repayment then the amount that should have been paid is considered in arrears. Debt arrears are added to the amount outstanding of the debt instrument for which payments have been missed.

In any subsequent debt reorganization, if the debt arrears are not also forgiven or reorganized on the same terms as the original instrument, then the debt arrears will be treated as a separate instrument.

XI. DEFEASANCE

Defeasance is where a debtor exactly matches the debt service outflows from a set of its liabilities with financial assets with the same debt service inflows. This may occur where a debtor has the wherewithal to pay down some of its liabilities (for example, from a privatization) but it may have insufficient debt maturing at present, and the secondary market is too expensive at the time to buy back its debt. In this case the debtor may acquire financial assets which exactly mirror the debt servicing payments of the debt it wishes to retire. In order to quarantine the debt and financial assets that form part of the defeasance arrangement from the rest of the debtor's financial assets and liabilities, they may be transferred to a separate entity.

Although the debtor may wish to regard the defeased debt as being effectively extinguished, the gross position should still be recorded. That is, the debt should continue to be shown on the liabilities side of the balance sheet and the off-setting financial assets recorded on the asset side. If a separate unit is created to hold the assets and liabilities, that new unit should be treated as an ancillary unit and consolidated with the defeasing unit.

XII. CONCLUSION

Debt reorganizations can be complex processes causing difficulties in identifying the underlying transactions and classifying then correctly. Moreover, the forms of debt reorganizations are evolving and it is not possible to describe all the types of debt reorganizations and their statistical treatments definitively.

The basic principle in the statistical treatment of debt reorganizations is that any debt instrument, whose terms and conditions have been changed by agreement between the creditor and debtor, should be considered extinguished and a new debt instrument created reflecting the new terms and conditions. A counterpart transaction is required to reflect any difference between the market value, or the present value of the debt service payments, of the new instrument compared with the old instrument. This counterpart transaction is a capital grant/transfer if agreed debt relief or forgiveness involved. If it is debt assumption without explicit debt forgiveness, the counterpart transaction is a new financial claim on the original debtor by the new debtor.

Highly Indebted Poor Countries (HIPC) Initiative—Issues on Classification of Transactions

The HIPC initiative was launched by the IMF and the World Bank in 1996 to help reduce the external debt burden of eligible countries to sustainable levels. It was enhanced in 1999 to provide deeper, faster and broader debt relief. The aim of the initiative is to restructure eligible countries' debt outstanding such that the present value (PV) of the stock of external debt is significantly reduced. The process gives rise to a complex set of transactions that need to be classified in the affected governments' accounts. Although the principles set out in this paper for recording transactions arising from debt reorganizations apply, the complexity of the HIPC Initiative arrangements raises some issues of the correct classification of some transactions.

The HIPC Initiative has three phases with different types of debt relief available at each stage. In the first stage, a country is eligible for accessing the traditional concessional assistance from Paris Club creditors using various debt relief mechanisms. This includes debt restructurings with new concessional terms such as lower interest rates, longer maturities and longer grace periods for debt servicing payments. New concessional financing may also be forthcoming from the multilateral institutions and the World Bank may finance through its International Development Association (IDA) debt buybacks.

In the second phase, bilateral and commercial creditors reschedule debt obligations up to a 90 percent reduction in PV terms. The IMF and IDA provide interim relief between the decision in principle to provide debt relief and the finalization of the terms and conditions has been achieved (known as the completion point).

The third phase occurs once the completion point has been reached. At this stage, the HIPC Trust Funds become available for assisting eligible debtor countries to meet their debt service obligations to the IMF and other multilateral agencies. The IMF uses resources in the Poverty Reduction and Growth Facility (PRGF)-HIPC Trust Fund to assist countries to meet their debt service obligations to it. The IDA-HIPC Trust Fund is used to fund assistance in respect of debts owed to the World Bank and other multilateral institutions. The HIPC Trust Funds, resources come from donor pledges.

In some cases, debtors cease making debt service payments when they enter into debt reorganization negotiations either in bilateral discussions with creditors, in the Paris Club, or in other multilateral discussions. This is done because it is understood that by entering into these negotiations some debt relief will be forthcoming and all that the negotiations will do is agree on the extent of debt relief and how it will be achieved. There is a view that the missed debt service payments should be regarded as technical arrears. However, in the national accounts there is no concept as technical arrears and these arrears should be recorded in the same way as other arrears. That is, the amount of arrears (interest accrued but not paid) is added to the debt instrument that is in arrears.

Debt service payments which are not made as part of an agreed moratorium period extended by creditors before the completion date should be treated as rescheduled debt. If by not paying these debt service payments changes the terms and conditions of the of the original debt instrument, then it is considered extinguished. A new debt instrument is created that includes the arrears. If the original debt instrument terms and conditions remain unchanged, then only the arrears portion is treated as a new debt instrument.

If a creditor opts out of the HIPC debt relief initiative, that does not modify its claim on the debtor. Any debt servicing payments missed are considered as debt in arrears unless there is an agreement to reschedule or forgive debt.

Where interest rate relief is provided as part of a debt reorganization, a capital grant/transfer is recorded from the creditor to the debtor reflecting the difference between the present value of the steam of debt servicing payments from the reorganized debt instrument and the present value of the debt servicing payment from the original debt instrument. The principle is that the original debt instrument has been extinguished and a new debt instrument created. The capital transfer/grant is recorded at the time the agreement on the reorganization of a debtor's debt takes effect. A capital grant is recorded if the debt relief is between general government units, including foreign governments, or international organizations. Otherwise it is a capital transfer.

In the third phase when completion point has been reached and countries become entitled to assistance form the HIPC Trust Fund for debt relief, the debt owed by the country to the PRGF or World Bank is not formally cancelled. Instead the debt liability remains, but when debt service payments are due on this debt they are met from an umbrella account set up under the HIPC arrangements. At completion, the funds required for the future debt service payments are transferred from the HIPC Trust Fund to the umbrella account. For the HIPC government, the funds in the umbrella account are a financial asset which match the debt liability which remains on its balance sheet. The HIPC government records a capital transfer received when the funds are transferred from the HIPC Trust Fund to the umbrella account creating the financial asset. Subsequent debt service payments are shown as a reduction in the value of the debt liability and a matching reduction in the value of the financial asset.

SPECIAL PURPOSE ENTITIES

To facilitate some debt reorganizations governments sometimes create special purpose entities (SPE). This occurs not so much in government-to-government debt relief arrangements, but more in the context of government sponsored initiatives to recapitalize the banking system, or to deal with the problem of technically bankrupt state-owned enterprises.

Non-performing loans, or other impaired financial assets, of financial enterprises may be taken over by an SPE created by government to strengthen the financial enterprises' balance sheets. Similarly, in order to strengthen the balance sheets of some state-owned enterprises, an SPE may take over some of their debts. The effect on government's financial accounts is complex and depends on the relationship between the government and the SPE, the terms and conditions under which the SPE assumed the debts or assets, and the form of government financial support for the operation.

A separate paper discusses the issue of SPEs and their institutional classification. Should the SPE be classified as part of general government, then all its transactions with the units from which the debts or impaired assets were assumed, the counterparties to these debts and assets, and any other entities will be captured in the general government statistics. Where the SPE is not classified to the general government sector only transactions between the SPE and general government will be included in general government statistics.

In a debt reorganization involving an SPE there is usually some form of government support. This may be in the form of a government guarantee on borrowings by the SPE to finance the purchase of the impaired assets, or to provide resources to service debts assumed. It could also include government grants to the SPE, or a government equity contribution to the SPE. The SPE may negotiate a debt reorganization with debtors of the debt that it took over or agree to a reorganization of the financial assets it acquired .

The classification of these transactions follows the principles set out above but the exact effect on the government's financial accounts will depend on the intuitional sector to which the SPE is classified.

SPE acquires non-performing loans or other impaired financial assets

The SPE is likely to purchase these assets above their market price (if there is one) or above any realistic assessment of the value of these assets in terms of the likely level of recovery, because the purpose of the exercise is to relieve the financial enterprise of the burden of these assets on their balance sheets. The SPE should record in its balance sheet the acquired assets at market price, or at a value reflecting the likely level of collection, and the balance between this value and the amount paid for then recorded as a capital transfer (or grant if the SPE is classified as general government).

Government may provide a grant immediately to the SPE to cover this amount but may initially only guarantee borrowing by the SPE to cover the cost of the purchase and hope that the value of the assets improves over time before the guarantee has to be called.

SPE assumes debts of state-owned enterprises

The state-owned enterprise may or may not pay something to the SPE to take over these debts. Where it does pay something it is likely to be less than the value of the debt in terms of the present value of the debt servicing payments remaining on these debts, because the purpose of the transaction was to relive the enterprise of the financial burden of these loans. The SPE should record the incurrence of debt liabilities at market value, or the present value of their remaining debt service payments, and the acquisition of cash reflecting any payment from the enterprise for the assumption of its debt by the SPE. Any difference should be recorded as a capital transfer (or capital grant if the SPE is classified as a general government unit).

General government may initially just guarantee borrowings by the SPE in the expectation that the SPE will be able to negotiate debt relief from the creditors before the guarantee needs to be called. Alternatively the government may provide a grant to the SPE to cover all or part of the difference between the assets and liabilities of the SPE.