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Enabling poor rural people to overcome poverty

Estimated principal and net service charge payments forgone as a result of the implementation of the Debt Sustainability Framework

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For: **Information**

Estimated principal and net service charge payments forgone as a result of the implementation of the Debt Sustainability Framework

I. Background

1. By resolution 141/XXIX/Rev.1 adopted on 16 February 2006, the Governing Council amended the Agreement Establishing IFAD in order to introduce the "debt sustainability mechanism" as the third form of IFAD financing alongside the traditional loans and grants. This amendment entered into force on 22 December 2006. For that purpose, the amended Agreement Establishing IFAD henceforth provides that the grant ceiling of one eighth of the resources committed in any financial year shall not apply to Debt Sustainability Framework financing. However, the Agreement retains the requirement that the Executive Board give due consideration to the long-term viability of the Fund.

2. At its ninetieth session in April 2007, the Executive Board approved the recommendation contained in document EB 2007/90/R.2 that IFAD implement a Debt Sustainability Framework (DSF) to govern the form of its financial assistance to countries eligible for highly concessional lending, to enable Member States to reduce the risk of high future debt levels and better manage, overall, the level of debt in line with country development planning.

3. The implementation of the DSF has modified IFAD's terms of financial support to projects and programmes, as provided by the performance-based allocation system, for countries eligible for highly concessional loans. The Fund now extends financial support in the following manner: (i) for countries with low debt sustainability, 100 per cent grant; (ii) for countries with medium debt sustainability, 50 per cent grant and 50 per cent loan; and (iii) for countries with high debt sustainability, 100 per cent loan.

4. DSF implementation has raised the proportion of grants in IFAD projects and programmes. As a result, the major cost to IFAD will be the principal repayment forgone on resources provided as DSF grants rather than as loans. In this respect, the ninetieth session of the Executive Board endorsed the concept of a pay-as-you-go compensation mechanism for forgone principal and approved the recommendation that, commencing in 2008, Management report annually to the Board at its April session on the estimated principal and on net service and interest payment charges forgone as a result of DSF implementation.

5. The Board is provided annually with a report setting out the amount of principal and net service charge payments forgone in relation to DSF grants approved, including the effect of changes in disbursement profiles and any partial (or total) reduction or cancellation, when applicable.

6. In accordance with the decisions of the ninetieth session of the Executive Board, IFAD will prepare and present a paper in the context of the Consultation on the Eleventh Replenishment of IFAD's Resources on its experience and those of other multilateral financial institutions[1] since their adoption of the DSF with regard to actual and estimated net losses in service charge payments. The paper will also include proposals for future approaches to compensation as required.

[1] The International Development Association (IDA) considered this issue in the context of its sixteenth replenishment discussions which were concluded in December 2010. Given the 10-year grace period on regular IDA credits, IDA16 will be the first replenishment for the financing of principal reflows forgone as a result of the grants provided. IDA members reaffirmed the basic principle that grants provided should not reduce IDA's future capacity to support poverty reduction and development. They noted that the Association will need additional financing during the IDA16 period to finance credit reflows forgone due to grants and agreed that such financing should be included as part of IDA's overall financing commitments during IDA16 based on fair burden shares.

7. To keep the Board fully informed, starting with this session, Management will provide additional information on both the actual and the projected effect of DSF implementation to assist the Board in appreciating the potential impact on the financial resources of the Fund.

II. Projects and programmes approved under the DSF in 2010

8. Table 1 lists the 22 projects, programmes and country-specific grants approved in 2010 under the DSF. The total value in special drawing rights is approximately SDR 99.9 million (equivalent to about US$154 million)[2], or some 18 per cent of the overall 2010 programme of work.

III. Principal and net service and interest payment charges forgone

9. Table 2 provides information on the estimated forgone principal and interest repayments for DSF grants approved in the period 2007 to 2010. Document EB 2007/90/R.2 predicted that implementation of the DSF could entail the loss of principal repayments totalling US$38.8 million over the Eleventh Replenishment period (2019-2021) as a result of the cumulative level of DSF grants approved from 2007 onwards (i.e. assuming a sustained DSF over the Eleventh Replenishment). This forecast has been slightly revised upwards to total of US$43.2 million, in line with the upward revision of underlying assumptions on the increase in future programmes of work.

IV. Impact of DSF on IFAD's financial resources

10. As shown in table 2, total forgone principal stemming from DSF grants approved from 2007 to 2010 inclusive amounts to SDR 365.1 million or US$566 million equivalent. IFAD expects that this amount will be compensated for by Member States on a pay-as-you-go basis in the period 2018-2050. While the impact of the DSF on cash flows does not arise until 2018, the projected impact on resources available for commitment, based on assumptions about likely commitment rates, may well be felt at an earlier stage. Under resolution 154/XXXII on the Eighth Replenishment of IFAD's resources, the principal and interest repayments for outstanding loans expected to be received within seven years are considered to be part of IFAD resources available for commitment (the advance commitment authority [ACA]). The forgone DSF reflows consequently lead to a slightly reduced ACA limit (and consequently less resources available for commitment) in the preceding seven years. The effect of this has been fully factored into resource projections presented during the Eighth Replenishment Consultation.

11. The effect of the DSF on the ACA is further examined in table 3 by expanding the scope of the analysis to include the projected DSF grant approvals in the period 2011-2015, i.e. up to and including the Ninth Replenishment period. For the purposes of the analysis, it was assumed that the DSF and the programme of work levels remain in line with current levels in the period 2013-1015, and the ACA limit is maintained at seven years.[3] Management estimates that as at December 2012, the impact of the DSF will be US$50.4 million (SDR 32.7 million) of which US$10.5 million from forgone principal and the remainder stemming from forgone service charges. As a result, the ACA limit will be lower by this amount which could, depending on the other sources contributing to the resources available for

[2] International Monetary Fund (IMF) exchange rate as at 31 December 2010.
[3]IFAD expects to receive full compensation for DSF principal forgone from Members on a pay-as-you-go basis. If the modalities of such compensation are defined in such a way as to allow these inflows to be considered in the calculation of ACA and the compensation is defined in the resources available for commitment process through cash flow, then there will be no impact on resources available for commitment stemming from DSF forgone principal.

commitment, affect the overall level of resources available. Management also estimates that the impact of the DSF on the ACA will be US$129.3 million (SDR 84 million) by December 2015, of which US$68.1 million is the result of foregone principal and remainder stems from foregone service charges.

V. Impact of DSF on the long-term viability of the Fund

12. The impact of DSF implementation on IFAD's long-term financial viability comprises the dimensions of cash flow and of resource availability for commitment and is illustrated in the previous sections, with indicative scenarios as to its extent and timing. The principle endorsed by the Board of full compensation for DSF principal forgone by the Members on a pay-as-you-go basis is fundamental to ensuring that the DSF does not reduce IFAD's capacity to pursue its objectives in years to come. The impact on the ACA is secondary as regards the long-term viability of the Fund as it primarily affects the timing of the availability of resources for projects but not the total of such resources in the long term.

13. As in previous replenishments, Management will continue to reflect the full DSF effect on cash flows and on the ACA in resource projections presented during the replenishment consultations.

Table 1
DSF grants approved in 2010
(Thousands of special drawing rights)

Region	*Country*	*Title*	*Amount*
West and Central Africa (WCA)			
	Niger*	Programme d'Urgence pour l'atténuation de la Crise Alimentaire dans la région de Maradi	325
	Niger	Projet D'urgence pour L'appui à la Sécurité Alimentaire	4 150
	Guinea	National Programme to Support Agricultural Value Chain Actors	5 800
	Sao Tome and Principe	Programme D'appui Participatif a L'agriculture et à la pèche	1 990
	Togo	Support to Agricultural Development Project	8 650
	Sierra Leone	Rehabilitation and Community-Based Poverty Reduction Project	7 050
	Chad	Rural Development Support Programme in Guéra (PADER-G)	5 400
	Chad/Centre International de Developpement et de recherché*	Consolidation des CECA du Nord Guera, Tchad	321
	Democratic Republic of the Congo/Bio-Economy Africa*	Integrated and Sustainable Bio-economy Development for Rural Poor Small Farmers in WCA (Pilot Country Democratic Republic of the Congo)	325
East and Southern Africa			
	Burundi	Value Chain Development Programme	25 900
	Eritrea	Fisheries Development Project	8 250
Asia and the Pacific			
	Lao People's Democratic Republic*	Capacity Building on Agricultural Data and Statistics	325
	Solomon Islands	Solomon Islands Rural Development Programme	2 550
	Nepal/Asian Development Bank (AsDB)*	Agricultural Development Strategy	325
Latin America and the Caribbean			
	Haiti/Inter-American Institute for Cooperation on Agriculture (IICA)*	Haiti Post-Earthquake Support Programme for Food security and Employment Generation in Affected Rural Areas	325
	Nicaragua*	Support National Agriculture Census IV	325
	Nicaragua	Development Programme for the Agricultural, Fishing and Forestry Productive Systems in the Indigenous Territories of RAAN and RAAS (NICARIBE)	2 550
Near East, North Africa and Europe			
	Yemen*	Enhancing the Loans and Grants Management Information System (LGMIS) at Country Level	117
	Yemen	Fisheries Investment Project	5 800
	Yemen	Economic Opportunities Programme	8 500
	Djibouti	Programme for the Mobilization of Surface Water and Sustainable Land Management	2 000
	Sudan	Supporting Small-scale Traditional Rainfed Producers in Sinnar State Project	8 875
Total (2010)			**99 853**
Previous balance			265 261
Overall total			**365 112**

* Grants originally approved in United States dollars.

Table 2
Forgone principal , interest and service charges – DSF grants approved in period 2007 to 2010
(Special drawing rights; data from 2011 inclusive is based on estimates)

Implementation of the DSF	*Year*	*Disbursed*	*Principal*	*Net interest and service charge at 0.75 per cent*	*Total*	*Total by replenishment*
VII	2007	1 263 966		1 068	1 068	36 387
	2008	4 149 679		11 805	11 805	
	2009	8 858 954		23 514	23 514	
VIII	2010	27 823 322		84 488	84 488	1 572 750
	2011	35 975 394		585 535	585 535	
	2012	42 292 389		902 728	902 728	
IX	2013	45 424 316		1 243 410	1 243 410	4 705 184
	2014	44 768 713		1 579 175	1 579 175	
	2015	40 456 342		1 882 598	1 882 598	
X	2016	34 753 866		2 143 252	2 143 252	9 220 023
	2017	28 382 527		2 356 121	2 356 121	
	2018	21 381 360	2 204 169	2 516 481	4 720 650	
XI	2019	18 473 247	4 633 682	2 638 499	7 272 181	33 572 149
	2020	8 403 879	8 842 049	2 666 776	11 508 825	
	2021	2 704 096	12 170 402	2 620 741	14 791 143	
XII	2022		12 170 402	2 529 463	14 699 865	43 825 760
	2023		12 170 402	2 438 185	14 608 587	
	2024		12 170 402	2 346 907	14 517 309	
XIII	2025		12 170 402	2 255 629	14 426 031	43 004 258
	2026		12 170 402	2 164 351	14 334 753	
	2027		12 170 402	2 073 073	14 243 475	
XIV	2028		12 170 402	1 981 795	14 152 197	42 182 756
	2029		12 170 402	1 890 517	14 060 919	
	2030		12 170 402	1 799 239	13 969 641	
XV	2031		12 170 402	1 707 961	13 878 363	41 361 254
	2032		12 170 402	1 616 683	13 787 085	
	2033		12 170 402	1 525 405	13 695 807	
XVI	2034		12 170 402	1 434 127	13 604 529	40 539 752
	2035		12 170 402	1 342 849	13 513 251	
	2036		12 170 402	1 251 571	13 421 973	
XVII	2037		12 170 402	1 160 293	13 330 695	39 718 250
	2038		12 170 402	1 069 015	13 239 417	
	2039		12 170 402	977 737	13 148 139	
XVIII	2040		12 170 402	886 459	13 056 861	38 896 748
	2041		12 170 402	795 181	12 965 583	
	2042		12 170 402	703 903	12 874 305	
XIX	2043		12 170 402	612 625	12 783 027	38 075 245
	2044		12 170 402	521 347	12 691 748	
	2045		12 170 402	430 069	12 600 470	
XX	2046		12 170 402	338 791	12 509 192	35 049 574
	2047		12 170 402	247 513	12 417 914	
	2048		9 966 233	156 235	10 122 467	
XXI	2049		7 536 720	81 488	7 618 208	10 971 523
	2050		3 328 353	24 963	3 353 315	
Total		**365 112 050**	**365 112 050**	**57 619 564**	**422 731 613**	**422 731 613**

Table 3
Forgone principal and service charges (DSF grants projected to be approved in period 2007 to 2015) and expected impact on the resources available for commitment through the ACA

(Special drawing rights; data from 2011 inclusive is based on estimates)
Assumption : 7-year ACA limit is maintained in future years and is reached for the first time in 2012
ACA requirements still below permissible 7-year limit, hence no impact.

Implementation of the DSF	*Year*	*Disbursed*	*Forgone principal*	*Forgone service charge at 0.75 per cent*	*Impact on ACA assuming 7-year limit*
VII	2007	1 263 966		1 068	5 317 388
	2008	4 149 679		11 805	8 174 782
	2009	8 858 954		23 514	11 841 048
VIII	2010	27 823 322		84 488	16 252 644
	2011	37 884 931		585 535	23 130 250
	2012	52 812 390		978 764	32 738 257
IX	2013	69 289 410		1 500 668	46 552 557
	2014	84 299 280		2 132 614	63 425 942
	2015	98 163 266		2 869 200	83 991 708
X	2016	107 425 461		3 689 780	108 868 410
	2017	107 507 179		4 496 084	137 289 379
	2018	101 718 390	2 204 169	5 258 972	167 093 853
XI	2019	94 753 084	4 633 682	5 953 089	197 940 674
	2020	73 944 509	8 842 049	6 472 920	223 800 039
	2021	57 199 032	12 170 402	6 835 597	245 709 117
XII	2022	44 355 147	16 357 982	7 076 983	262 929 973
	2023	30 558 910	21 382 993	7 183 490	274 760 054
	2024	18 555 473	25 754 769	7 162 283	281 980 308
XIII	2025	11 266 966	30 213 990	7 053 625	284 590 743
	2026	5 198 192	34 567 585	6 866 006	282 775 945
	2027		34 567 585	6 606 749	280 961 146
XIV	2028		34 567 585	6 347 493	279 146 348
	2029		34 567 585	6 088 236	277 331 550
	2030		34 567 585	5 828 979	275 516 752
XV	2031		34 567 585	5 569 722	273 701 954
	2032		34 567 585	5 310 465	271 887 155
	2033		34 567 585	5 051 208	270 072 357
XVI	2034		34 567 585	4 791 951	268 257 559
	2035		34 567 585	4 532 694	266 442 761
	2036		34 567 585	4 273 437	264 627 963
XVII	2037		34 567 585	4 014 181	262 813 164
	2038		34 567 585	3 754 924	260 998 366
	2039		34 567 585	3 495 667	259 183 568
XVIII	2040		34 567 585	3 236 410	257 368 770
	2041		34 567 585	2 977 153	253 349 803
	2042		34 567 585	2 717 896	246 917 854
XIX	2043		34 567 585	2 458 639	236 312 290
	2044		34 567 585	2 199 382	222 444 690
	2045		34 567 585	1 940 125	204 480 786
XX	2046		34 567 585	1 680 869	181 614 557
	2047		34 567 585	1 421 612	154 536 924
	2048		32 363 416	1 162 355	125 397 401
XXI	2049		29 933 903	919 629	
	2050		25 725 536	695 125	
	2051		22 397 183	502 183	
XXII	2052		18 209 602	334 205	
	2053		13 184 592	197 633	
	2054		8 812 815	98 748	
XXIII	2055		4 353 595	32 652	
SDR	**Total**	**1 037 027 542**	**1 037 027 542**	**164 476 804**	
US$ equivalent		**1 597 053 526**	**1 597 053 526**	**253 299 213**	