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IFAD
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**

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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, Management provides information on the actual effect of DSF implementation to assist the Board in appreciating the impact on the financial resources of the Fund.

II. Projects and programmes approved under the DSF in 2011

8. Table 1 lists the 24 projects, programmes and country-specific grants approved in 2011 under the DSF. The total value in special drawing rights is approximately 137.6 million (equivalent to about US$211.3 million),[2] or some 21 per cent of the overall 2011 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 2011. 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 a total of US$42.8 million,[3] in line with the upward trend of the programme of work in the past years.

10. As shown in table 2, total forgone principal and net service charges stemming from DSF grants approved from 2007 to 2011 inclusive, amounts to SDR 580.4 million or US$891.1 million[4] equivalent. IFAD expects that the forgone principal amount of SDR 502.7 million (US$771.8 million)[5] will be compensated for by Member States on a pay-as-you-go basis in the period 2018-2051.

[2] International Monetary Fund (IMF) exchange rate as at 31 December 2011.
[3] International Monetary Fund (IMF) exchange rate as at 31 December 2011.
[4] International Monetary Fund (IMF) exchange rate as at 31 December 2011.
[5] International Monetary Fund (IMF) exchange rate as at 31 December 2011.

Table 1
DSF grants approved in 2011
(Thousands of special drawing rights)

Region	*Country*	*Title*	*Amount*
West and Central Africa			
	Central African Republic	Project for Reviving Food Crops and Small Livestock Production in the Savannah	3 450
	Mauritania	Poverty Reduction Project in Aftout South and Karakoro – Phase 2	5 600
	Cote d'Ivoire	Support to Agricultural Development and Marketing Project	14 500
	Guinea	National Programme to Support Agricultural Value Chain Actors	5 750
East and Southern Africa			
	Comoros	National Programme for Sustainable Human Development	1 680
	Rwanda	Support Project for the Strategic Plan for the Transformation of Agriculture	800
	Rwanda	Project for Rural Income through Exports	11 600
	Ethiopia	Rural Financial Intermediation Programme II	31 300
	Lesotho	Smallholder Agriculture Development Project	3 150
	Malawi	Sustainable Agricultural Production Programme	14 250
	*Malawi**	Sustainable Agricultural Production Programme	391
Asia and the Pacific			
	Cambodia	Rural Livelihoods Improvement Project in Kratie, Preah Vihear and Ratanakari	850
	Lao People's Democratic Republic	Rural Livelihoods Improvement Programme – Attapeu Province	1 550
	Lao People's Democratic Republic	Soum Son Seun Jai – Community-based Food Security and Economic Opportunities Programme	8 850
	Tajikistan	Livestock and Pasture Development Project	9 330
	Timor-Leste	Timor-Leste Maize Storage Project	3 200
Latin America and the Caribbean			
	Haiti	Productive Initiatives Support Programme in Rural Areas	4 850
	Nicaragua	Inclusion of Small-scale Producers in Value Chains and Market Access Project	3 500
Near East, North Africa and Europe			
	FAO*	Resilience and Livelihood Analysis and Study in The Sudan Framework of The Sudan Institutional Capacity Programme	30
	Sudan*	Restructuring Community Level Sanduqs into Professionally Managed and Sustainable Central Sanduq Named al Garrah	326
	Sudan*	Supporting Agricultural Extension in the South Dafur	306
	Sudan	Seed Development Project	6 350
	Sudan*	Preparation of Strategy for Rainfed Agriculture in The Sudan	308
	Yemen	YemenInvest – Rural Employment Programme	5 720
Total 2011			**137 641**
Previous balance			**365 112**
Overall total			**502 753**

* Grants originally approved in United States dollars.

Table 2
Forgone principal, interest and service charges – DSF grants approved in period 2007 to 2011
(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	26 772 484		82 489	82 489	1 303 673
	2011	48 562 117		171 137	171 137	
	2012	48 718 484		1 050 047	1 050 047	
IX	2013	51 152 352		1 421 085	1 421 085	5 308 167
	2014	47 524 237		1 777 517	1 777 517	
	2015	44 273 042		2 109 565	2 109 565	
X	2016	43 785 357		2 437 955	2 437 955	10 450 606
	2017	41 628 977		2 750 172	2 750 172	
	2018	41 084 947	2 204 169	3 058 309	5 262 478	
XI	2019	37 157 525	4 633 682	3 320 460	7 954 141	36 043 582
	2020	29 911 267	8 842 049	3 510 042	12 352 091	
	2021	16 429 663	12 170 402	3 566 949	15 737 350	
XII	2022	11 480 322	16 758 446	3 561 773	20 320 219	60 583 591
	2023		16 758 446	3 436 085	20 194 530	
	2024		16 758 446	3 310 396	20 068 842	
XIII	2025		16 758 446	3 184 708	19 943 154	59 452 396
	2026		16 758 446	3 059 020	19 817 465	
	2027		16 758 446	2 933 331	19 691 777	
XIV	2028		16 758 446	2 807 643	19 566 089	58 321 201
	2029		16 758 446	2 681 955	19 440 400	
	2030		16 758 446	2 556 266	19 314 712	
XV	2031		16 758 446	2 430 578	19 189 024	57 190 006
	2032		16 758 446	2 304 890	19 063 335	
	2033		16 758 446	2 179 201	18 937 647	
XVI	2034		16 758 446	2 053 513	18 811 959	56 058 811
	2035		16 758 446	1 927 825	18 686 270	
	2036		16 758 446	1 802 136	18 560 582	
XVII	2037		16 758 446	1 676 448	18 434 894	54 927 616
	2038		16 758 446	1 550 760	18 309 205	
	2039		16 758 446	1 425 071	18 183 517	
XVIII	2040		16 758 446	1 299 383	18 057 829	53 796 421
	2041		16 758 446	1 173 695	17 932 140	
	2042		16 758 446	1 048 006	17 806 452	
XIX	2043		16 758 446	922 318	17 680 764	52 665 226
	2044		16 758 446	796 629	17 555 075	
	2045		16 758 446	670 941	17 429 387	
XX	2046		16 758 446	545 253	17 303 699	49 329 862
	2047		16 758 446	419 564	17 178 010	
	2048		14 554 277	293 876	14 848 153	
XXI	2049		12 124 764	184 719	12 309 483	24 942 117
	2050		7 916 397	93 783	8 010 180	
	2051		4 588 044	34 410	4 622 454	
Total		**502 753 374**	**502 753 374**	**77 656 290**	**580 409 664**	**580 409 664**