

Document: EB 2012/106/R.36/Rev.1
Agenda: 15(g)
Date: 20 September 2012
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

Republic of Cuba

Debt settlement proposal

Note to Executive Board representatives

Focal points:

Technical questions:

Josefina Stubbs

Director
Latin America and the Caribbean Division
Tel.: +39 06 5459 2318
e-mail: j.stubbs@ifad.org

Ruth Farrant

Director and Controller
Controller's and Financial Services Division
Tel.: +39 06 5459 2281
e-mail: r.farrant@ifad.org

Rajiv Sondhi

Manager, Loans and Grants
Controller's and Financial Services Division
Tel.: +39 06 5459 2233
e-mail: r.sondhi@ifad.org

Tomas Rosada

Regional Economist
Latin America and the Caribbean Division
Tel.: +39 06 5459 2332
e-mail: t.rosada@ifad.org

Dispatch of documentation:

Deirdre McGrenra

Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

Executive Board — 106th Session
Rome, 20-21 September 2012

For: Approval

Recommendation for approval

It is recommended that the Executive Board approve the terms and conditions of the debt settlement agreement negotiated with the Republic of Cuba outlined in paragraph 45, and that the President be authorized to sign the attached debt settlement agreement.

Debt settlement proposal

I. Introduction

1. The objectives of this document are to:
 - (a) Seek the Executive Board's approval for the terms and conditions of the debt settlement agreement reached between the Government of Cuba and IFAD; and
 - (b) Update the Executive Board on Cuba's macroeconomic performance, its recent reform processes, and the different economic and environmental shocks that the country has faced that have directly and indirectly affected its ability to repay its debt to the Fund.

II. History of Cuba's relationship with IFAD

2. Cuba is a founding Member of IFAD. Since joining the Fund in 1977 as a Category III, or "developing", country, it has participated in the Fund's governance as a member of the Governing Council and it has served on the Executive Board.
3. In December 1980, the Executive Board approved a loan to Cuba of SDR 11.05 million for the Camalote Rural Development Project. The loan, to be repaid in 20 years, with a grace period of five years, was extended on intermediate terms with a fixed interest rate of 4 per cent. The project was declared effective in March 1981, and it closed, as planned, after eight years of implementation. The loan repayment began as scheduled, but in 1989 the country faced a severe economic crisis, which resulted in the interruption of agreed loan repayments and the accumulation of arrears. Since 1980, the Executive Board has not approved other financing for the country.
4. Given the strategic importance of Cuba's agribusiness sector,¹ the Government of Cuba has expressed the desire to renegotiate the outstanding debt and fulfil its obligations towards the Fund in order to become eligible, once again, to benefit from the Fund's support and restart a work programme. Within this context, in 2009 both parties began a negotiation process in order to reach an agreement on the financial parameters of the debt repayment. The results of these negotiations are outlined in the debt settlement agreement.
5. In June 2012, the Government submitted a report to the Fund outlining Cuba's economic conditions during the moratorium period. The Government's report and the debt settlement agreement together form the basis on which the present report was prepared.

¹ See section III (d) of the debt settlement agreement for a description of the principal policy measures being adopted by Cuba with respect to the agricultural sector.

III. Context of the country

A. Recent performance of principal socio-economic indicators

6. Cuba has a high level of human development, ranking 51st out of 187 countries in the 2011 Human Development Index. This outcome, and particularly its achievements in healthcare, is better than expected given the country's economic growth level and rate.
7. Cuba is an upper-middle-income country and one of the largest economies in Central America and the Caribbean. It has a population of 11.2 million, 25 per cent of which is rural. Its nominal GDP is US\$64.33 billion and its real national income per capita² is US\$4,222 (2010).
8. The analysis of GDP and of GDP per capital in foreign currency must be cautiously undertaken due to the dual exchange rate system that has been in operation in Cuba since 1994. Two currencies coexist within this system: the Cuban peso and the Cuban convertible peso. The official exchange rate, used in national accounts and among businesses, is 1 Cuban peso to 1 Cuban convertible peso to 1 United States dollar. However, there is also a market for personal transactions with an exchange rate set at 24 Cuban pesos to 1 Cuban convertible peso, which creates an implicit exchange rate of Cuban pesos to United States dollars of 24:1. Furthermore, there is a segmentation of markets and distinct price formation mechanisms that are not accurately reflected in statistics relating to national accounts; in addition, services are overrepresented in the measurement of GDP. For these reasons, using only one type of exchange rate to estimate national income and, consequently, income per person, would result in an inaccurate estimation of these variables.
9. After the fall of the Soviet Union, real GDP decreased drastically – by more than 30 per cent between 1989 and 1993. With the implementation of a series of economic reforms, GDP reached an average growth of 5.3 per cent in the first decade of this century. More recently, as a result of the international financial crisis, economic growth decreased to 1.4 per cent in 2009 and 2.4 per cent in 2010.
10. As a result of this crisis, fiscal deficit accounted for an average of 19.4 per cent of GDP during the first five years of the 1990s. This imbalance was corrected in the following years, and between 1995 and 2007 the fiscal deficit remained within the target margin of economic policy (near 3 per cent of GDP) due to fiscal efforts aimed at closing the budget gap. However, with the recent international financial crisis, the fiscal space weakened and fiscal deficit stood at 6.7 per cent of GDP in 2008. In subsequent years, an increase in tax revenue and a reduction in total public expenditure lowered the deficit to 3.6 per cent of GDP in 2010.
11. Foreign debt in 2008 accounted for 19.1 per cent of GDP, 26.8 per cent of total revenue, and 92.7 per cent of exports. These figures show that the country's debt burden is below internationally accepted prudent limits, thus requiring the application of moderate measures that will ensure the medium- and long-term sustainability of foreign debt and public finances.
12. Between 1995 and 1999, there was an average negative growth in inflation of 2.5 per cent as a result of the process of consolidation of macroeconomic equilibrium. During the first decade of the new millennium, with declines in the tourism sector and extreme weather events, the shortage of foreign currency intensified. This created an increase in the population's monetary liquidity, which caused an average increase of 2.3 per cent in inflation. As part of the economic reforms that began in 2011, the inflation recorded that year was greater than that of the previous year. This is attributed to the exclusion of some products from the

² Constant prices of 1997.

monthly ration booklets, as well as increases in the prices of some agricultural products brought on by declining demand.

13. Currently 18 per cent of Cubans are 60 years old or more. By 2025, this figure is expected to reach about 26 per cent. The "greying" of Cuba, along with its stagnant population growth, will present challenges for social security and changes in the structure and functioning of the labour market.

B. External shocks

14. The Cuban economy has faced serious obstacles and constraints that have not only limited its economic growth, but have also forced the country to undertake radical reforms in order to maintain internal macroeconomic equilibrium. At the same time, Cuba has consistently given priority to maintaining its social achievements. It is noteworthy, in this connection, that the budget allocation to the education, health and social security sectors increased from 41.6 per cent in 2007 to 43.1 per cent in 2010, despite those being years profoundly affected by the global financial crisis.
15. Following the fall of the Soviet Union, the Cuban economy was precipitated into one of the worst economic crises in its history, known as the "Special Period". Until this time, Cuba had carried out more than 80 per cent of its foreign economic transactions with this block of countries and, at the same time, had benefited from preferential rates in the mutual trade of technical and technological assistance. The effects of this external shock were clearly reflected in the country's principal macroeconomic indicators. For instance, from 1989 to 1993, the cumulative decrease in GDP, at 1981 constant prices, was 34.8 per cent. Similarly during this period, imports decreased by 78 per cent, fiscal deficit reached 33.5 per cent of GDP in 1993, and fuel consumption fell by more than one half of the consumption level of 1989.
16. As a result of its geographical location, Cuba is highly vulnerable to extreme weather events. During the last two decades, the island has been impacted by hurricanes, droughts, floods, seismic activity and forest fires. These events have caused extensive damage to productive infrastructure, especially in the agriculture sector. Economic and material losses caused by the 16 hurricanes that swept through the country between 1998 and 2008 are estimated to be about US\$20.56 million.
17. Furthermore, recent economic crises have had negative effects on the country's economic activity. The 2008 global financial crisis decreased foreign demand for industrial products made from nickel, causing a drop in the price of nickel – the country's main export. It is estimated that lost income stemming from these events reached US\$250 million in 2008. Declining trends were observed in the prices of other exports such as tobacco, rum and fish, and in the number of tourists visiting the country. It was not until 2010 that the country began to show signs of recovery.
18. Moreover, increases in international fuel and food prices during recent years have put pressure on the country's balance of payments. These products have represented the main categories of the country's import bill during the last decade, averaging 26.2 per cent and 16.2 per cent respectively of total imports. In 2008 alone, the price of oil increased by 57 per cent and this forced the country to disburse US\$1.34 million more than in the previous year. Food prices increased by 53 per cent, which resulted in yet another increased disbursement of US\$907 million.
19. In addition, in an assessment of the country's overall economic performance, the adverse effects of the country's impaired external economic, commercial and financial relations need to be taken into consideration.

20. In summary, problems deriving from the adverse international environment, the recurrence of extreme weather events and the impossibility of obtaining external financing under favourable conditions from international financing organizations all constitute serious limitations to the country's ability to achieve higher levels of economic development.

C. Rural sector

21. One fourth of Cuba's total population is concentrated in its rural sector. The agricultural surface covers 6.6 million hectares with an organizational-productive structure comprised of the State (35 per cent), "basic units of cooperative production" (38 per cent), agricultural production cooperatives (8 per cent), and the credit, services and privately owned cooperatives (18 per cent). Only 50 per cent of the land available for agricultural use is being cultivated, mainly with sugar cane, citrus fruits, coffee, rice and plantains.
22. Cuba imports approximately 80 per cent of the food it consumes, and in the last five years the average cost of these imports was greater than US\$1.5 billion per year. On the other hand, food exports have lost ground within total exports, falling from 39.2 per cent in 2000 to 7.7 per cent in 2010 and, as a result, revenue from this export category fell by 46 per cent during the same period.
23. In recent years, the country has experienced shortages of primary agricultural products. This is explained mainly by the increase in international food prices; the fall in the prices of nickel exports, which has had adverse effects on import capacity; a productive structure in the rural sector that is operating below its potential; and the hardening of external financing conditions, which has restricted access to credit and other sources of financing.
24. With the overall goals of increasing the agriculture sector's yields, attaining higher levels of food production, building greater resilience to environmental shocks, preserving ecological equilibrium, and creating stronger links between agriculture and other sectors of the economy, the Government designed a series of agribusiness policies that are contained in its Guidelines for Economic and Social Policy (GESP) for 2011-2015.
25. Given the above, clearly rural development and the transformation of Cuba's agriculture sector are essential to growth and, as such, represent a public policy priority for the Government. Consequently, the Government has approached IFAD in the hopes of reengaging in partnership and obtaining support to achieve its national development objectives.

D. New guidelines for economic and social policy

26. To update the current economic model, reduce government expenditures, and increase the population's productivity and salaries, the Sixth Congress of the Cuban Communist Party approved the GESP for 2011-2015 in April 2011. The guidelines include 313 measures that span all sectors of the economy and that will allow, among other things, an increase in privatized economic activity.
27. Reforms proposed in the GESP that are of particular interest to and relevance for IFAD concern the agribusiness sector, the restructuring of the public sector, support for non-governmental forms of management, decentralization, the streamlining of subsidies, and the management of foreign debt.
28. In terms of agribusiness policy, the GESP propose a series of measures that focus on the following objectives: adopting a model with a greater presence of non-governmental forms of management; increasing the contributions of the agriculture sector to the country's balance of payments; increasing domestic food production; increasing agricultural yields through crop diversification and polyculture; gradually repopulating rural areas; incorporating and retaining young people in the agricultural sector; training workers in the rural sector; and leasing idle land.

29. Some of these measures are already being implemented. In fact, the process of leasing land began in 2008 (decree-law 259), and by mid-2012 more than 1.4 million hectares had been leased to farmers, of which 79 per cent have been put into production.
30. As for restructuring the public sector, a process involving the reorganization of the labour market sector is being developed that will redirect 500,000 public workers to non-governmental economic activities. This economic model recognizes, in addition to socialist enterprise, other types of non-governmental economic management such as mixed-capital companies, cooperatives, small-scale agriculture and independent workers.
31. Similarly, to increase work productivity and stimulate efficiency in the use of resources, the GESP proposes continuing to gradually eliminate excessively high subsidies for products and services.
32. Within this framework of support for non-governmental forms of economic management, and in order to expand production and the provision of services, and carry out joint purchases and sales with greater efficiency, the GESP places particular emphasis on creating cooperatives and their apex organizations with their own legal personality and assets.
33. Finally, in terms of foreign debt management, the Government has begun implementing settlement plans with bilateral and multilateral creditors in order to regularize its debt repayments and gain access to new financing.
34. It is within this context that IFAD has an opportunity to become one of the country's strategic partners, providing technical and financial support for the structural transformations that the Government has decided to implement in its rural sector. Many of these transformations are consistent with IFAD's corporate mission and objectives.

IV. Current debt status

35. Cuba's debt to IFAD is in arrears of more than 20 years, of which more than 10 years are after the loan's maturity date. The outstanding unpaid principal balance of the loan in question, was, as at 2001 (the date of maturity), SDR 8.3 million. The unpaid interest accrued as at 2001 amounted to SDR 3.8 million. Together these total SDR 12.1 million, an amount that Cuba does not dispute.

Table 1
Financial history of debt
(In special drawing rights)

| | <i>SDR</i> |
|---|----------------|
| Amount disbursed (loan closing on 30 September 1989) | 10,581,121 |
| Payment instalments billed (final maturity 1 March 2001) | 10,581,121 |
| Repaid principal (up to 1 September 1989) | (2,272,855) |
| Balance principal outstanding and in arrears (as of 1 March 2001) | 8,308,266 |
| Interest accrued and unpaid ^a (up to 1 March 2001) | 3,794,396 |
| Total arrears (as of 1 March 2001) | 12,102,662 |
| Total arrears (US\$ equivalent) ^b | US\$16,794,278 |

^a Interest accrued at contracted interest rate of the loan (4 per cent per annum).

^b United States dollar equivalents are indicative and based on historical conversion rates.

V. Debt settlement approach

36. In 2009, an IFAD delegation visited Cuba and agreed to work with the Government to explore options to resolve the country's arrears with the Fund.
37. Talks intensified towards the end of 2011 following a letter sent by Cuba's Minister for Foreign Trade, Rodrigo Malmierca, who is also the IFAD Governor for Cuba. This letter contained a repayment proposal in which Cuba asked to restructure the debt, originally assumed on intermediate terms, on highly concessional terms, i.e. with a service charge of 0.75 per cent.
38. This option was not legally or financially acceptable to the Fund. Legally, it would mean that a loan is rescheduled retroactively at a higher level of concessionality, disregarding the principle of equality of other members in similar positions, and it would also mean that the Fund would not receive any compensation for the fact that it has not been able to benefit from these resources since 2001. In effect, the Fund would be providing a discount to Cuba that is not consistent with its approved lending policies and criteria. From a financial perspective, it would mean that the Fund would receive SDR 9.8 million, which is less than the SDR 12.1 million it would have received had Cuba not defaulted on the loan. The proposal was therefore rejected, and Cuba was advised that the Fund was prepared to negotiate on the basis that the financing of the original loan, including the interest rate, should be fully complied with up to the final maturity date, implying that it should pay the amount of SDR 12.1 million and further compensate the Fund for opportunity costs incurred from 2001 until such time as a debt settlement agreement is signed.
39. From January until May of 2012, the Latin America and the Caribbean Division carried out four technical dialogue missions with the objective of identifying openings within which negotiations might take place with regards to the debt repayment. The Economic Commission for Latin America and the Caribbean (ECLAC) was invited to participate, in its capacity of technical entity and as a member of the United Nations System with extensive experience in monitoring the evolution of the Cuban economy.
40. IFAD's Management has evaluated the financial and legal implications of the Government's repayment proposal together with other alternative scenarios. Staff from the Financial Operations Department, the Office of the General Counsel, and the Latin American and the Caribbean Division all participated in this evaluation. As a result of this evaluation, a counter-proposal was made to the Government in a letter sent by President Nwanze following a negotiation mission that took place on 25-27 April 2012.
41. A number of legal and financial issues requiring careful evaluation have arisen as a result of the Cuban debt being in arrears for more than 20 years, including more than 10 years past the final maturity period, during which period there have been several relevant developments. These include, for instance, changes in the Fund's lending terms, notably the introduction of variable interest rates applicable to intermediate loans, which currently are lower than rates applicable on highly concessional terms; the development of the Heavily Indebted Poor Countries Debt (HIPC) Initiative by the international community from which Cuba has been effectively excluded; and the adoption by the Governing Council in 2006 of the Debt Sustainability Framework (DSF). Although Cuba's eligibility for some of these schemes, including HIPC and DSF, is questionable given the apparent state of its economy, these developments have a bearing on what might be included in the negotiated terms for settling the debt arrears from Cuba. Based on legal advice received, the following key principles were adopted to develop a suitable and reasonable counter-proposal for negotiation with Cuba:

- (a) Once a loan has matured, no Member State should be permitted to continue enjoying concessional terms for outstanding loans;³
 - (b) Since there has been a material breach of the loan agreement since 1992, the legal relationship with the Fund would migrate away from the contractual terms, and into the default regime of general international law. In this situation, the Fund would be entitled to some compensation in addition to the amount of the loan;
 - (c) In the absence of an agreement or IFAD policy on default interest, an alternative method or an opportunity cost approach could be applied, i.e. the opportunity cost incurred by the Fund as a result of not having received the capital and interest according to the original schedule, for the entire period after final maturity to settlement; and
 - (d) The net present value of the debts as at the time of final maturity due should be secured.⁴ For this purpose, the principal and accumulated interest to final maturity date would be capitalized and constitute the "original" net present value on which compensation would be sought.
42. The issue of how the Fund should be compensated for the forgone return on capital for the 2001-2012 period (i.e. after the maturity of the loan) has been taken up for further analysis. For a correct estimate of this amount, the opportunity cost incurred as a result of the Fund not having received the capital and interest according to the original schedule needs to be quantified.
43. In order to calculate this opportunity cost, two options were analysed. The first was to take the outstanding principal amount (SDR 8.3 million) and apply a weighted average of the rates applied under the Fund's three loan products from 2001 until the payment date of the first instalment of the settlement plan. If such a payment were made before September 2012, that would yield an amount of principal and interest of SDR 13.3 million. If it were made after this date, the amount would increase by SDR 38,000. In other words, the Fund's compensation would be at least SDR 1.2 million. The second option was to do the same as in the first, but apply the same weighted average of the rates to both the sum of the principal and interest outstanding at the maturity date (SDR 12.1 million). This would yield an amount of SDR 13.9 million, which is equal to compensation in the amount of SDR 1.8 million.
44. From both a legal and a financial point of view, both of these options are acceptable. It is to be noted that the difference between the two options is SDR 0.6 million. However, given IFAD's nature as a development institution, and by virtue of the fact that the Fund did not take any action during this period to correct the situation, either by adequately following up on the case or by establishing a contractual clause outlining the course of action to be taken in this type of situation, the second option was discarded. In choosing the first option for the proposed debt settlement agreement, the Fund in effect ensures the full recovery of the outstanding principal and interest until 2001 in accordance with the terms of the loan agreement. In addition, the Fund has indirectly corrected the nominal value lost in the second option, since the use of average lending rates for compensation foreseen is calculated on a "base amount" – that is, without reducing its operational costs – and thus the Fund will receive an amount nominally higher than what it would have been able to lend out.
45. As a result of the negotiations held between representatives of the Cuban Government and IFAD during the April 2012 mission, both delegations agreed to

³ This premise is consistent with article 32 of the Fund's Lending Policies and Criteria.

⁴ Refer to article 32 (g) of the Fund's Lending Policies and Criteria.

recommend a debt settlement agreement⁵ to their respective authorities, the principal elements of which are described below:

- (a) Full recovery of the outstanding principal and interest until 2001 in accordance with the terms of the original loan agreement, i.e. 4 per cent annual rate for the 1981-2001 period (equivalent to SDR 12.1 million);
- (b) Compensation for the opportunity cost incurred by the Fund from 2001 until the date of debt settlement, applying, for every year, a weighted average of the rates applied under the Fund's three loan products from 2001 until the payment date of the first instalment of the settlement plan; the average interest rate over the period 2001-2012 resulting from the above calculation is at 1.34 per cent per annum (yielding an aggregate incremental value of SDR 1.2 million).
- (c) Repayment schedule over a 7-year period, including a grace period of 2 years, and an initial down payment of 10 per cent of the total debt, which is expected to be made no later than 31 August 2012 (equivalent to SDR 1.3 million). Since the down payment is expected to be received before the approval of this proposal by the Executive Board, it will be booked under a suspense account in IFAD's financial records and recorded as a loan repayment only after approval by the Executive Board.
- (d) Preservation of the present value of the settlement amount, i.e. the sum of (a) and (b) above (equivalent SDR 13.3 million); the present value is to be calculated at a discount rate equal to the average spot rates of the yield curves of the SDR currencies (the United States dollar, the euro, the Japanese yen and the pound sterling) in line with the currency of denomination of the loan (special drawing rights) for the maturities of one to seven years, in line with the length of the repayment schedule (seven years). The original agreement with the Government of Cuba was to set the discount rate at the time of signing the debt settlement agreement. This was considered adequate considering that the down payment was expected to be made only after Board approval, in October 2012. However, the Government has indicated now that it would prefer to make the down payment by August 2012. It is therefore proposed that the discount rate to be applied for purposes of this settlement be determined at the time of completion of the proposed down payment (as stated in (c) above).
- (e) Payment currency is to be elected by Cuba. Any exchange rate risk between the payment currency and the special drawing rights is to be absorbed by the Government of Cuba;
- (f) A default interest rate of 4 per cent applied in case the Government of Cuba fails to comply with the settlement agreement.

VI. Recommendations

- 46. It is recommended that the Executive Board approve the terms and conditions of the debt settlement agreement negotiated with the Republic of Cuba outlined in paragraph 45, and that the President be authorized to sign the attached debt settlement agreement.

⁵ A draft of the debt settlement agreement is attached.

DEBT SETTLEMENT AGREEMENT

This debt settlement agreement is hereby concluded on _____ between _____ (the Lender) and the Republic of Cuba (the Debtor);

WHEREAS the Lender and the Debtor are parties to a loan agreement dated 16 December 1980 for the Camalote Rural Development Project, attached hereto as annex ____, which entered into effect on 16 March 1981; and

WHEREAS under the aforesaid loan agreement the Debtor obtained a loan in an amount equivalent to SDR 11,050,000 ("the loan"), subject to the payment of interest at the rate of 4 per cent per annum on the amount of the loan disbursed and outstanding; and

WHEREAS the Debtor has been in default on its payment obligations under the loan agreement since 30 January 1992, and has expressed interest in renegotiating the outstanding debt to IFAD; and

WHEREAS on this date the Debtor owes to the Lender an amount equivalent to SDR 8,308,266 (the "Principal Amount Owing") plus cumulative interest accrued and unpaid up to the loan maturity date (1 March 2001), equivalent to SDR 3,794,396, (in total, "the Principal Balance Owing"); and

WHEREAS default by the Debtor on timely payment obligations under the loan agreement has resulted in a series of losses in respect of returns and opportunities for the International Fund for Agricultural Development (IFAD) in respect of which a payment shall be agreed in an amount to be calculated from the loan maturity date to the current date; and

WHEREAS the Executive Board of IFAD, at its meeting on _____, authorized _____; and

WHEREAS the parties wish to reconcile and settle all debts outstanding, as well as any other obligation or liability subject to the terms of this agreement;

NOW THEREFORE, the parties have hereby agreed as follows:

1. Recognition of the Debt

1.1 For the purposes of repayment, and compensation for the loss of returns and opportunities caused by the default on repayment of the Debt, the Debt is comprised of:

(i) SDR 12,102,662, corresponding to the amount owing for the period 1981 to 2001 under the original terms of the loan (the principal balance owing).

(ii) SDR 1,224,148, corresponding to compensation for the period 2001 to 2012.

1.2 The Debtor undertakes to pay, pursuant to this Agreement, the Debt described in article 1.1 in the total amount of SDR 13,326,810 and, if applicable, penalty interest in accordance with article 5.3.

2. Debt payment terms. The Debtor shall repay to the Lender the total amount of the Debt specified in article 1.2, in accordance with the repayment periods and provisions set forth below:

2.1 A down payment in cash, to be made prior to 1 September 2012, in the amount of SDR 1,332,681, equivalent to 10 per cent of the Debt, in respect of default on payment obligations by the Debtor.⁶

2.2 The remaining balance of the Debt, in the amount of SDR 11,994,129, in respect of principal, shall be payable semi-annually over the period 2012 to 2019, with a repayment term of 7 years, including a grace period of 2 years, calculated from the date on which the down payment specified in article 2.1 is made. In order to preserve the net present value of the Debt (SDR 13,326,810), the repayment schedule shall be calculated at a discount rate as of the date of the down payment specified in article 2.1, which shall remain fixed throughout the debt repayment period. The repayment dates and terms (repayment schedule) are attached hereto as an annex, which forms an integral part of this Agreement.

3. Currency

3.1 The debt payment amounts shall be equivalent to the SDR value in the repayment currency agreed upon signing of this Agreement. The repayment currency may be any currency included in the basket of currencies used to determine the value of the SDR, at the exchange rate in effect on the payment date. For the purposes of this agreement, the exchange rate shall be calculated in accordance with the method stipulated in article 5, section 2, paragraph (b), of the Agreement Establishing the International Fund for Agricultural Development.

3.2 Payments shall be made to the following account:

Account number: **IT66 F056 9611 000E DCEU 0504 200**

Beneficiary: **IFAD**

Bank: **BANCA POPOLARE DI SONDRIO**

Address: **PIAZZA GARIBALDI 16**

Swift BIC: **POS0IT22**

⁶ As of 22 August 2012, the amount actually received by IFAD and deposited in an account opened by IFAD for this purpose (the "suspense account") is SDR 1,332,739.88. Accordingly, the exact balance of the Debt referred to in article 2.2 is SDR 11,994,070.12.

4. Settlement

The parties acknowledge that compliance with the payment obligations of the Debtor in accordance with this agreement shall release and discharge the Debtor from all obligations, claims or liabilities of any kind that the Lender may have held, holds or may hold against the Debtor in respect of the amount in dispute, but does not exempt the Debtor from any claims that may arise from noncompliance of this agreement.

5. Cancellation clause and penalty interest

5.1 This agreement shall enter into effect on the date of signing by both parties and shall remain in effect until the obligations imposed under it have been met in full, unless it is cancelled for noncompliance with such obligations in accordance with this agreement.

5.2 The following event shall constitute noncompliance with the contractual obligations deriving from this agreement on the part of the Debtor: (i) if the Debtor fails to pay any amount payable on the due date, pursuant to article 2 of this agreement.

5.3 The Debtor shall be charged penalty interest of 4 per cent per annum on any amount due and unpaid. The Lender may demand immediate payment of such amount due and unpaid as well as penalty interest accrued thereon. IFAD may, in the event of payment arrears, apply IFAD's Policy Framework for Managing Partnerships with Countries in Arrears and suspend disbursement of the entire portfolio of loans in effect with the Debtor.

5.4 The parties acknowledge that a failure to make the down payment on the date specified in paragraph 2.1 shall prevent any project or programme relating to the Debtor from being placed before the Executive Board for consideration by IFAD.

Resolution of disputes

The parties shall endeavour to resolve any dispute between them by amicable means. If a dispute is not resolved amicably, it shall be submitted to arbitration for resolution in accordance with the procedure set forth in section 11.04 of the General Conditions attached to Loan Agreement No. 52-CU between IFAD and Cuba dated 16 December 1980.

7. Applicable law

This agreement shall be governed by the norms and principles of international law, in particular those applicable to treaties and other agreements between States and international organizations which may be relevant.

8. Registration

The International Fund for Agricultural Development (IFAD) shall be responsible for registering this agreement with the Secretariat of the United Nations in accordance with article 102 of the Charter of the United Nations.

9. For the purposes of the exchange of communications between the Parties, each of these shall provide formal notification of their official coordinates following the signing of this Agreement.

10. The following persons are designated as authorized representatives:

For IFAD:

For the Debtor:

In witness whereof, the parties, acting through their duly authorized representatives, have signed this agreement on the dates specified below:

For IFAD

For the Debtor

Date: _____

Date:_____

ANNEX

Repayment schedule

| Repayment schedule (SDR) | | | | |
|---|-------------|--------------------------|-------------------|------------------------|
| Repayment period 7 years, grace period 2 years | | | | |
| | | Dates | Amounts | |
| | | 24/07/2012 | 389 999 | |
| | | 02/08/2012 | 495 131 | |
| | | 22/08/2012 | 447 610 | 1 332 740 Down payment |
| Discount rate | | | | |
| 22 August 2012 | | | | |
| (%)¹ | | | | |
| 0.8461 | Annual | 01/09/2012 | - | |
| 0.4230 | Semi-annual | 01/03/2013 | - | |
| | | 01/09/2013 | - | |
| | | 01/03/2014 | - | Grace period |
| | | 01/09/2014 | 1 265 508 | |
| | | 01/03/2015 | 1 265 508 | |
| | | 01/09/2015 | 1 265 508 | |
| | | 01/03/2016 | 1 265 508 | |
| | | 01/09/2016 | 1 265 508 | |
| | | 01/03/2017 | 1 265 508 | |
| | | 01/09/2017 | 1 265 508 | |
| | | 01/03/2018 | 1 265 508 | |
| | | 01/09/2018 | 1 265 508 | |
| | | 01/03/2019 | 1 265 508 | |
| | | Total | 13 987 824 | |
| | | Net present value | 13 326 809 | |

¹ The discount rate is the average of the end rates of the yield curves for SDR currencies (United States dollar, euro, pound sterling and Japanese yen) weighted using the weights assigned to the SDR currencies by the International Monetary Fund on 22 August 2012.