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Enabling poor rural people
to overcome poverty

Proposal for rescheduling the debt of the Republic of the Sudan

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the proposal to reschedule the debt of the Sudan in respect of outstanding loans from IFAD, in accordance with the principles set out in paragraph 9 and 10.

Proposal for rescheduling the debt of the Republic of the Sudan

I. Introduction

1. The Republic of the Sudan has requested that IFAD reschedule the payments of its outstanding loans. It has based this request on its significant balance of payments deficit, due primarily to the falling oil revenues resulting from the independence of South Sudan. The Government has informed IFAD that it has put and is putting into place various measures to combat its serious economic affairs and is calling on the support of international institutions such as IFAD as it seeks to confront this crisis. The Government has failed to make payments to IFAD as they came due since November 2011. In accordance with IFAD's procedures, the Sudan portfolio was placed under suspension on 31 May 2012. This means that IFAD-financed projects and programmes designed to alleviate poverty in the Sudan have been halted.
2. The objective of this paper is to seek the Executive Board's approval for the terms and conditions of the agreement reached in principle between the Republic of the Sudan and IFAD to reschedule its related debt. This will allow the Fund to reassume disbursements on the portfolio.

II. Background

3. Since the independence of South Sudan in July 2011, the Sudanese economy has been struggling with the impact of the loss of oil from fields located in the south, which provided up to 75 per cent of its foreign exchange earnings. The loss of oil revenues over the next five years is estimated at US\$10.4 billion. This has led to a large gap between government revenues and spending, and an even larger gap in the country's balance of payments. According to the latest release of the International Monetary Fund's (IMF) World Economic Outlook, in 2012 the Sudanese economy will contract by -7.3 per cent, before improving in 2013 to -1.5 per cent and to 1.7 per cent in 2017. External debt amounted to US\$37 billion at the end of 2010, of which US\$31 billion is in arrears.
4. The Government has put in place a three-year emergency economic programme for 2012-2015, introducing austerity measures aimed at cutting spending. This programme has partially removed subsidies on sugar and petroleum products, a step welcomed by the IMF. The fiscal policy centres on restoring fiscal prudence at all levels of government by controlling expenditure in the medium term and using the non-oil deficit as a key fiscal indicator. It also focuses on strengthening accountability in the use of public funds and on building capacity to improve the effectiveness of resource allocation, including in the states, where primary responsibility for service delivery lies.

III. Current portfolio and debt status

5. The current IFAD portfolio of loans and grants to the Sudan has an aggregate value of SDR 138.2 million, comprising principal and projected service charges/interest on all open and closed loans through to their final maturity. Undisbursed amounts total SDR 37.7 million (approximately US\$58 million), of which SDR 14.4 million (approximately US\$22 million) relates to disbursing loans and SDR 23.2 million to

grants (approximately US\$35.7 million). This comprises a portfolio of four IFAD loans, one component grant and seven Debt Sustainability Framework (DSF) grants. These are currently under implementation in 10 states and 46 localities, covering areas with high concentrations of rural poor people. Currently, project coverage extends to some 700 communities and more than 350,000 direct beneficiaries. All IFAD operations in the Sudan work with local people to ensure food security, income and resilience to shocks to agriculture within a framework of sustainable natural resource management. Although some operations have been hindered by the prolonged conflict in the country, they have demonstrated that appropriate incentives can significantly improve agricultural production and consolidate peace initiatives. The aggregate nominal amount in arrears owed to IFAD will be SDR 3.8 million as of 30 September 2012. A summary of the debt now due and projected to the date of the scheduled meeting of the Executive Board in September 2012 and the following three years is presented in the table below.

Table

Amount of debt in default: Current and projected nominal values

(Amounts in SDR)

<i>Date (actual/projected)</i>	<i>Principal amount due for billed period</i>	<i>Interest amount due for billed period</i>	<i>P+I amount due for billed period</i>	<i>Amount due cumulative (P+I)</i>
31 December 2011	689 723	274 274	963 997	963 997
30 September 2012	1 389 662	468 199	1 857 861	3 802 459
31 December 2012	607 848	270 721	878 569	4 681 028
31 December 2013	2 779 324	939 361	3 718 685	8 399 713
31 December 2014	3 360 992	943 825	4 304 817	12 704 530
31 December 2015	3 929 326	931 258	4 860 584	17 565 114

6. As the above table indicates, the total amount of arrears, at their nominal value, was relatively modest as of 31 December 2011 (SDR 0.9 million). However, the arrears have increased and will continue to increase dramatically in subsequent months, given the amortization profile of the debt under existing loan agreements, assuming that the Sudan continues to default on the contracted amortization.
7. The Sudan has qualified for inclusion in the Heavily Indebted Poor Countries (HIPC) Debt Initiative, but is still at the pre-decision-point stage. In fact, an HIPC decision point document is not foreseen to be presented to the boards of the IMF and World Bank before 2013 at the earliest. In line with procedures agreed with the Executive Board, the arrears for those countries eligible for HIPC debt relief would be included in the relief subsequently approved by the Executive Board. In the case of those countries in arrears, disbursements were suspended before respective debt rescheduling proposals were submitted to the Board.

IV. Debt relief approach and options considered

8. The Sudan initially requested that the outstanding debt be cancelled, or that it be granted a new grace period of five years on all outstanding debt with no down payment. The Sudan also requested that disbursements continue uninterrupted for ongoing projects until the Executive Board could consider the rescheduling. IFAD management agreed to negotiate a rescheduling of debt, but decided that it could not provide a waiver to current arrears procedures.
9. There is no legal basis upon which IFAD can cancel debt. Debt relief can only be provided in accordance with paragraph 32 of the Lending Policies and Criteria, which provides that "[f]or the purposes of resolving arrears that may arise from time to time in the payment of interest/service charges and the repayment of the

proceeds of loans, the Executive Board may amend the terms upon which an approved loan is provided to a country, including the grace period, the maturity date and the amount of each instalment for the repayment of loans, while securing the original Net Present Value." As a result of negotiations held between representatives of the Sudan and IFAD during July 2012, a debt rescheduling plan was prepared for Executive Board approval. The minutes of the negotiations are attached as an annex. The agreed debt rescheduling plan is as follows:

- (a) The amount of debt to be rescheduled will include the amount currently due, together with the amount that will fall due during the agreed additional grace period of three years. The net present value of the rescheduled arrears will be preserved by applying a fixed discount rate, which will be based on the composite weighted-average SDR spot rates of the 10-year yield curves of the four SDR currencies, in line with the currency of denomination of the loans. This discount rate will be set by IFAD on the date of approval by the Executive Board, based on the applicable rates on that date.
 - (b) The Sudan will make an initial down payment equal to 5 per cent of the amount of the total arrears as of the date of approval by the Executive Board, to be paid no later than 30 June 2013. Repayment of the arrears will be scheduled over a seven-year period starting at the end of the additional grace period. The amortization schedules of existing loans will continue unaffected once the additional grace period ends.
 - (c) These principles will be set out in an agreement to be signed by the Sudan and IFAD, which will enter into force no later than 30 days after the date of approval by the Executive Board. In the event that no agreement has been signed by that date, IFAD will refer the matter to the next session of the Executive Board for further action.
 - (d) The suspension of disbursements for all IFAD projects and programmes in the Sudan will be lifted as of the date of signature of the agreement.
10. IFAD informed the delegation of The Sudan that once the Executive Board has approved the terms of this debt arrears settlement, no further grace period can be granted. If the Sudan fails to make any payment under this debt settlement plan as it becomes due, the Fund will be obliged to suspend all ongoing projects and cancel the remaining amounts in the loan and grant accounts, in accordance with the applicable provisions of the General Conditions for Agricultural Development Financing.

Annex –Minutes of the Negotiations

Headed by His Excellency the State Minister of Finance and National Economy (MoFNE) Mr Magdi Yassin, representatives of the Government of the Republic of the Sudan, and Ms Faiza Awad, Director General International Cooperation, MoFNE and Ms Najla Abdelaziz, Deputy Director of Debt Management, Central Bank of Sudan and of the International Fund for Agricultural Development, headed by Mr Mohamed Abdou Bouselham, Finance Officer and Head of Cluster for NEN Division, Controller and Financial Services Division, met by videoconference on 9 July 2012 to discuss the request of the Sudan for debt relief dated 16 January 2012. IFAD informed the representatives of the Sudan that the Fund cannot cancel or forgive any outstanding debt but that it is possible, with the approval of the Fund's Executive Board, to agree to a debt relief settlement plan to reschedule the payment of current amounts in arrears as well as future amounts yet to fall due. IFAD informed the representatives of the Sudan that the President of the Fund had decided to submit the Sudan's request for debt relief to the September session of the Executive Board, and that he would propose a plan of debt relief as follows:

- 1. In accordance with paragraph 32(g) of the Fund's Lending Policies and Criteria, which allows the Executive Board to "amend the terms upon which an approved loan is provided to a country, including the grace period, the maturity date and the amount of each instalment for the repayment of loans, while securing the original Net Present Value", the Sudan would be granted an Additional Grace Period of three (3) years commencing on the date of signature of the Agreement. Agreed*
- 2. During the Additional Grace Period, the Sudan will not be required to make any payments of principal or service charge as they fall due. Each amount of principal and service charge which became due before the start of the Additional Grace Period or becomes due during the Additional Grace Period will accrue interest from the due date at a fixed Discount Rate, which is the rate that IFAD has determined to be necessary to secure the original Net Present Value (NPV) of all of the Sudan's outstanding loans.*
- 3. At the end of the Additional Grace Period IFAD will calculate the total amount of principal and service charge which became due before or during the Additional Grace Period and which was not paid by the Sudan, as well as the total amount of interest which accrued on such unpaid amounts during the Additional Grace Period. The total amount (all payments which were not made plus the accrued interest) shall be defined as the Net Present Value Compensation.*
- 4. The Discount Rate will be calculated on the basis of the composite weighted average SDR interest rate derived from the yield curve taking into account the four currencies which make up the SDR and reflects the 10 years yield curve. The Discount Rate will be set by IFAD on the date of approval by the Executive Board of the Sudan's debt relief plan based on the applicable rates on that date.*
- 5. The Net Present Value Compensation shall be subject to interest at the Discount Rate and shall be repaid in fourteen equal semi-annual instalments beginning on a date two months after the end of the Additional Grace Period and ending seven (7) years thereafter. A projected amortization table for the repayment of the Net Present Value Compensation, which is provided for informational purposes only, is attached hereto as Annex A. IFAD will provide the Sudan with a final amortization schedule showing the amounts of the instalments within one month after the end of the Additional Grace Period.*
- 6. In addition to repaying the Net Present Value Compensation in accordance with paragraph 5 above, starting from the end of the Additional Grace Period, the Sudan will also recommence*

making all payments that become due on all of its existing Loans in accordance with the provisions of the applicable Financing Agreements. A projected amortization table showing the total amounts which will be payable on all existing Loans (including projections for Loans which are still being disbursed), which is provided for informational purposes only, is attached hereto as Annex B.

- 7. The principles set out herein, if approved by the Executive Board at its September 2012 session, will be set out in an Agreement to be signed by the Sudan and IFAD which will enter into force no later than thirty days after the date of approval by the Executive Board. In the event that no agreement has been signed by that date, IFAD will refer the matter to the December 2012 session of the Executive Board for further action. The suspension of disbursements for all IFAD projects/programmes in the Sudan will be lifted as of the date of signature of the Agreement.*
- 8. In accordance with IFAD's Policy Framework for Managing Partnerships with Countries in Arrears and previous practice with respect to countries in arrears, the IFAD Delegation proposed and the Sudan accepted that the Sudan make a down payment of SDR 190,000 equal to five per cent (5%) of the amount of the Sudan's total arrears as of the date of approval by the Executive Board, which would reduce the amount of the Net Present Value Compensation. The representatives of the Sudan have committed to make this payment no later than 30 June 2013.*
- 9. The Fund informed the delegation of the Sudan that once the Executive Board has approved the terms of this debt arrears settlement, no further grace period will be granted. If the Sudan fails to make any payment under this debt settlement plan as it becomes due, the Fund will be obliged to suspend all ongoing projects and cancel the remaining amounts in the loan and grant accounts, in accordance with the applicable provisions of the General Conditions for Agricultural Development Financing.*

On behalf of the Republic of the Sudan

H.E. Magdi Yassin, State Minister of Finance and National Economy

On behalf of the International Fund for Agricultural Development

Mohamed Abdou Bouselham

Finance Officer and Head of Cluster for NEN Division, Controller and Financial Services Division

Annex A: Simulation of amortization schedule for the settlement of outstanding arrears on the basis of the NPV

OPTION 2A				
		<u>Revised Total</u>	<u>Original Total</u>	<u>Cashflow Effect</u>
ARREARS 2011	2		963 997	(963 997)
ARREARS 2012	1	-	1 861 770	(1 861 770)
2012	2	-	1 855 260	(1 855 260)
2013	1	199 872	1 862 597	(1 662 725)
2013	2	-	1 856 088	(1 856 088)
2014	1	-	2 156 209	(2 156 209)
2014	2	-	2 148 608	(2 148 608)
2015	1	-	2 434 625	(2 434 625)
2015	2	-	2 425 958	(2 425 958)
2016	1	1 357 014	-	1 357 014
2016	2	1 357 014	-	1 357 014
2017	1	1 357 014	-	1 357 014
2017	2	1 357 014	-	1 357 014
2018	1	1 357 014	-	1 357 014
2018	2	1 357 014	-	1 357 014
2019	1	1 357 014	-	1 357 014
2019	2	1 357 014	-	1 357 014
2020	1	1 357 014	-	1 357 014
2020	2	1 357 014	-	1 357 014
2021	1	1 357 014	-	1 357 014
2021	2	1 357 014	-	1 357 014
2022	1	1 357 014	-	1 357 014
2022	2	1 357 014	-	1 357 014
2023	1	-	-	-
2023	2	-	-	-
2024	1	-	-	-
2024	2	-	-	-
2025	1	-	-	-
2025	2	-	-	-
2026	1	-	-	-
2026	2	-	-	-
2027	1	-	-	-
2027	2	-	-	-
2028	1	-	-	-
2028	2	-	-	-
2029	1	-	-	-
2029	2	-	-	-
2030	1	-	-	-
2030	2	-	-	-
2031	1	-	-	-
2031	2	-	-	-
2032	1	-	-	-
2032	2	-	-	-
2033	1	-	-	-
2033	2	-	-	-
2034	1	-	-	-
2034	2	-	-	-
2035	1	-	-	-
2035	2	-	-	-
2036	1	-	-	-
2036	2	-	-	-
2037	1	-	-	-
2037	2	-	-	-
2038	1	-	-	-
2038	2	-	-	-
2039	1	-	-	-
2039	2	-	-	-
2040	1	-	-	-
2040	2	-	-	-
2041	1	-	-	-
2041	2	-	-	-
2042	1	-	-	-
2042	2	-	-	-
2043	1	-	-	-
2043	2	-	-	-
2044	1	-	-	-
2044	2	-	-	-
2045	1	-	-	-
2045	2	-	-	-
2046	1	-	-	-
2046	2	-	-	-
2047	1	-	-	-
2047	2	-	-	-
2048	1	-	-	-
2048	2	-	-	-
2049	1	-	-	-
2049	2	-	-	-
2050	1	-	-	-
2050	2	-	-	-
Total		19 198 071	17 565 113	1 632 958

Annex B: Simulation of consolidated amortization schedule of existing loans.

ORIGINAL SCHEDULE			
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
	-	-	-
2012	-	-	-
2012	-	-	-
2013	-	-	-
2013	-	-	-
2014	-	-	-
2014	-	-	-
2015	-	-	-
2015	-	-	-
2016	460 820	1 964 663	2 425 483
2016	452 154	1 964 663	2 416 817
2017	444 748	2 244 663	2 689 411
2017	435 032	2 244 663	2 679 695
2018	425 316	2 244 663	2 669 979
2018	415 600	2 244 663	2 660 263
2019	405 884	2 244 663	2 650 547
2019	396 168	2 244 663	2 640 831
2020	386 451	2 244 663	2 631 114
2020	376 735	2 244 663	2 621 398
2021	367 019	2 244 663	2 611 682
2021	357 303	2 244 663	2 601 966
2022	347 587	2 244 663	2 592 250
2022	337 871	2 244 663	2 582 534
2023	328 155	2 244 663	2 572 818
2023	318 439	2 244 663	2 563 102
2024	308 723	2 244 663	2 553 386
2024	299 007	2 244 663	2 543 670
2025	289 291	2 244 663	2 533 954
2025	279 575	2 244 663	2 524 238
2026	269 859	2 244 663	2 514 522
2026	260 143	2 244 663	2 504 806
2027	250 427	2 244 663	2 495 090
2027	240 711	2 244 663	2 485 374
2028	230 995	2 244 663	2 475 658
2028	221 279	2 244 663	2 465 942
2029	211 563	2 244 605	2 456 168
2029	201 847	2 111 358	2 313 205
2030	192 797	2 111 399	2 304 197
2030	183 748	1 968 108	2 151 856
2031	175 414	1 968 108	2 143 522
2031	167 081	1 968 108	2 135 189
2032	158 748	1 968 108	2 126 856
2032	150 415	1 968 108	2 118 523
2033	142 081	1 968 108	2 110 189
2033	133 748	1 968 185	2 101 933
2034	125 414	1 862 744	1 988 158
2034	117 608	1 862 792	1 980 400
2035	109 801	1 791 100	1 900 901
2035	102 353	1 791 177	1 893 530
2036	94 904	1 677 316	1 772 220
2036	88 025	1 677 285	1 765 310
2037	81 146	1 583 396	1 664 542
2037	74 736	1 583 396	1 658 132
2038	68 326	1 583 396	1 651 722
2038	61 917	1 583 396	1 645 313
2039	55 507	1 501 495	1 557 002
2039	49 507	1 372 374	1 421 881
2040	43 991	1 372 354	1 416 345
2040	36 812	1 150 671	1 187 483
2041	32 128	1 057 300	1 089 428
2041	27 910	1 057 300	1 085 210
2042	23 692	1 057 330	1 081 022
2042	19 474	949 926	969 400
2043	15 793	949 926	965 719
2043	12 112	949 865	961 977
2044	8 431	564 167	572 598
2044	6 316	564 147	570 463
2045	4 200	280 000	284 200
2045	3 150	280 000	283 150
2046	2 100	280 000	282 100
2046	1 050	280 000	281 050
TOTAL	11 889 135	108 708 286	120 597 421