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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.
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. As a result, the financial implication to IFAD will be the principal repayment forgone on resources provided as DSF grants rather than as loans and, in addition, net service charges. 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 therefore 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 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<sup>1</sup> 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.
7. To keep the Board fully informed, Management will provide additional information on both the actual and the projected effect of DSF implementation, the latter to

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<sup>1</sup> The International Development Association (IDA) considered this issue in the context of its sixteenth replenishment (IDA16) discussions, which were concluded in December 2010. Given the 10-year grace period on regular IDA credits, IDA16 was 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. A similar approach was adopted in the negotiations of the twelfth replenishment of the African Development Fund.

assist the Board in appreciating the potential impact on the financial resources of the Fund.

## **II. Projects and programmes approved under the DSF in 2012**

8. Table 1 lists the 16 projects and programmes approved in 2012 under the DSF. The total value in special drawing rights is approximately SDR 206.6 million (equivalent to about US\$317.5 million),<sup>2</sup> or some 32 per cent of the overall 2012 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 2012. Document EB 2007/90/R.2 predicted that implementation of the DSF could entail the loss of principal repayments totalling US\$38.8 million, primarily incurred in 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 SDR 27.67 million (equivalent to about US\$42.53 million),<sup>3</sup> in line with the upward revision of underlying assumptions on the increase in future programmes of work.
10. As shown in table 2, total forgone principal stemming from DSF grants approved from 2007 to 2012 inclusive amounts is SDR 706.7 million (equivalent to about US\$1,086.1 million)<sup>4</sup> and total forgone net service charges stemming from DSF grants approved from 2007 to 2012 inclusive amounts is SDR 112.4 million (equivalent to about US\$172.8 million).<sup>5</sup>
11. IFAD expects that the amount of forgone principal will be compensated for by Member States on a pay-as-you-go basis in the period 2018-2052.

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<sup>2</sup> International Monetary Fund (IMF) exchange rate as at 31 December 2012.

<sup>3</sup> IMF exchange rate 31 December 2012.

<sup>4</sup> IMF exchange rate 31 December 2012.

<sup>5</sup> IMF exchange rate 31 December 2012.

Table 1  
**DSF grants approved in 2012**  
 (Thousands of special drawing rights)

<i>Region</i>	<i>Country</i>	<i>Title</i>	<i>Amount</i>
<b>West and Central Africa</b>			
	Benin	Adapted Rural Financing Services Development Project	8 750
	Burkina Faso	Participatory Natural Resource Management and Rural Development Project in the North, Centre-North and East Regions (Neer-tamba Project)	33 200
	Democratic Republic of Congo	Kinshasa Food Supply Centre Support Programme	45 350
	Gambia (The)	National Agricultural Land and Water Management Development Project	13 150
	Sierra Leone	Rehabilitation and Community-Based Poverty Reduction Project	4 215
	Sierra Leone	Rural Finance and Community Improvement Programme	695
<b>East and Southern Africa</b>			
	Burundi	Value Chain Development Programme	4 300
	Eritrea	National Agriculture Project	11 400
<b>Asia and the Pacific</b>			
	Afghanistan	Community Livestock and Agriculture Project	37 650
	Cambodia	Project for Agricultural Development and Economic Empowerment	11 300
	Maldives	Mariculture Enterprise Development Project	1 650
	Nepal	Improved Seeds for Farmers Programme	12 850
	Nepal	Leasehold Forestry and Livestock Programme	975
	Nepal	Poverty Alleviation Fund Project II	3 250
	Tonga	Tonga Rural Innovation Project	2 600
<b>Latin America and the Caribbean</b>			
	Haiti	Small Irrigation and Market Access Development Project in the Nippes and Goavienne Region (PPI-3)	8 750
<b>Near East, North Africa and Europe</b>			
	Kyrgyzstan	Livestock and Market Development Programme	6 500
<b>Total 2012</b>			<b>206 585</b>
<b>Previous balance</b>			<b>502 753</b>
<b>Adjustment<sup>a</sup></b>			<b>(2 634)</b>
<b>Closing balance 2012</b>			<b>706 704</b>

<sup>a</sup> Adjustment for impact of prior-year cancellation and exchange rate effect of DSF grants (8009, 8042, 8049).

Table 2

**Forgone principal , interest and service charges – DSF grants approved in period 2007 to 2012**

(Special drawing rights; data from 2013 onwards is based on estimates)

<i>Replenishment</i>	<i>Year</i>	<i>Disbursed</i>	<i>Principal</i>	<i>Service charge at 0.75 per cent</i>	<i>Total</i>	<i>Total by replenishment</i>
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	502 662
	2011	48 562 117		171 137	171 137	
	2012	77 932 311		249 037	249 037	
IX	2013	71 752 077		1 794 687	1 794 687	7 205 123
	2014	80 072 298		2 395 229	2 395 229	
	2015	82 663 743		3 015 207	3 015 207	
X	2016	79 743 803		3 613 286	3 613 286	14 470 709
	2017	69 982 149		4 138 152	4 138 152	
	2018	50 459 847	2 202 671	4 516 601	6 719 272	
XI	2019	45 714 681	4 632 176	4 842 941	9 475 117	40 309 482
	2020	23 218 383	8 755 223	4 982 337	13 737 561	
	2021	12 874 045	12 083 576	5 013 228	17 096 804	
XII	2022	13 240 009	16 670 620	5 021 902	21 692 522	78 564 868
	2023	9 443 054	23 556 787	4 967 724	28 524 511	
	2024		23 556 787	4 791 049	28 347 835	
XIII	2025		23 556 787	4 614 373	28 171 159	83 983 450
	2026		23 556 787	4 437 697	27 994 483	
	2027		23 556 787	4 261 021	27 817 807	
XIV	2028		23 556 787	4 084 345	27 641 132	82 393 367
	2029		23 556 787	3 907 669	27 464 456	
	2030		23 556 787	3 730 993	27 287 780	
XV	2031		23 556 787	3 554 317	27 111 104	80 803 284
	2032		23 556 787	3 377 641	26 934 428	
	2033		23 556 787	3 200 965	26 757 752	
XVI	2034		23 556 787	3 024 290	26 581 076	79 213 201
	2035		23 556 787	2 847 614	26 404 400	
	2036		23 556 787	2 670 938	26 227 724	
XVII	2037		23 556 787	2 494 262	26 051 048	77 623 118
	2038		23 556 787	2 317 586	25 874 373	
	2039		23 556 787	2 140 910	25 697 697	
XVIII	2040		23 556 787	1 964 234	25 521 021	76 033 035
	2041		23 556 787	1 787 558	25 344 345	
	2042		23 556 787	1 610 882	25 167 669	
XIX	2043		23 556 787	1 434 206	24 990 993	74 442 952
	2044		23 556 787	1 257 531	24 814 317	
	2045		23 556 787	1 080 855	24 637 641	
XX	2046		23 556 787	904 179	24 460 965	70 650 196
	2047		23 556 787	727 503	24 284 289	
	2048		21 354 116	550 825	21 904 941	
XXI	2049		18 924 610	390 680	19 315 291	45 976 505
	2050		14 801 563	248 711	15 050 274	
	2051		11 473 211	137 729	11 610 940	
XXII	2052		6 886 167	51 646	6 937 813	6 937 813
	2053					
	2054					
<b>Total</b>		<b>706 703 600</b>	<b>706 703 600</b>	<b>112 442 552</b>	<b>819 146 152</b>	<b>819 146 152</b>