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Enabling poor rural people
to overcome poverty

Proposal for rescheduling the debt of the Republic of Mali

Note to Executive Board representatives

Focal points:

Technical questions:

Ides de Willebois

Director, West and Central Africa Division
Tel.: +39 06 5459 2397
e-mail: i.dewillebois@ifad.org

Ruth Farrant

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

Dispatch of documentation:

Deirdre McGrenra

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

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For: Approval

Recommendation for approval

It is recommended that the Executive Board approve the debt settlement proposal concerning the arrears of the Republic of Mali in respect of outstanding loans from IFAD and authorize the President to negotiate and sign the debt settlement agreement in accordance with the terms and conditions contained in paragraph 15. The signed debt settlement agreement will be presented to the Executive Board for information at a subsequent session.

Proposal for rescheduling the debt of the Republic of Mali

I. Introduction

1. The Republic of Mali has requested that IFAD reschedule its debt with respect to its outstanding loans. The Government has informed the Fund that debt repayment to donors such as IFAD that have continued to support Mali since the beginning of the political crisis in March 2012 remains a priority. However, in the current situation, funds available at government level are mainly targeted towards regaining the lost territory, restoring security and holding elections as soon as possible.
2. In this context, since November 2012, the Government has failed to make payments to IFAD as they fell due. In accordance with IFAD's procedures, the Mali portfolio was placed under suspension on 17 January 2013. This means that IFAD-financed projects and programmes designed to alleviate poverty in Mali have not received any funds as of 17 January, which has led to a reduction in activities. These activities will be totally interrupted in the coming weeks if the financial suspension is not lifted.
3. 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 Mali and IFAD to reschedule Mali's debt. This will allow the Fund to resume disbursements on the portfolio.

II. Background

4. Mali's political and security situation has been unstable since the events of March-April 2012 which saw Tuareg and jihadi Islamist rebels take control of the northern half of the country following the deposition of the President by mutinous soldiers.
5. The April 2012 coup put an end to plans to hold the presidential and legislative elections in late April and July 2012 respectively. Following negotiations with the Economic Community of West African States (ECOWAS), the military junta agreed to stand aside to allow the appointment of an interim president. In accordance with the constitution, the president of the National Assembly became interim President, who in turn named a largely technocratic cabinet. In this situation, elections could not be held within 40 days as originally planned and ECOWAS subsequently agreed to extend the deadline for election to April 2013.
6. The security context deteriorated in early January 2013 when fighters from Al-Qaeda in the Islamic Maghreb (AQIM), the *Ansar Dine* ("defenders of the faith") and the Movement for Unity and Jihad in West Africa (MUJAO) seized two towns in the Government-controlled centre of the country, and threatened to push on to Bamako, the capital. This forced the Malian army, with the support of France, to intervene and provide widespread domestic support within Mali. Relatively swift military success has had a profound impact on the political and security situation, as Islamists have fled northern towns and the troops have pushed north. Currently, despite the success of the military campaign, the Islamist militants that disappeared during the offensive in the Niger River valley are now putting up stiff

resistance in the Sahara, in the rugged Adrar des Ifoghas area close to the Algerian border. However, most of the populated areas of the north are now back under government control and slowly returning to normality after 10 months of jihadi occupation. In this context, the Government of Mali requires support to restore peace in the north and ensure the resettlement of the displaced population.

7. Military operations in the northern and central parts of Mali have worsened the humanitarian situation which was already of serious concern before the beginning of the armed conflict. The number of refugees in the neighbouring countries, mainly Mauritania, Burkina Faso and Niger, is about 143,000. In addition it is estimated that approximately 228,920 people are internally displaced in Mali.

III. Mali portfolio

8. IFAD is one of the few donors that has historically supported the Government in the development of the northern part of the country. The portfolio comprises five ongoing projects with five IFAD loans and six component grants. In 2012, in order to face the crisis and adapt the portfolio to the new context, IFAD prepared a transitional strategy with the Government of Mali, in line with the country strategic opportunities programme, focusing its activities on the south of the country. Some activities were maintained in the north through partnerships with NGOs and United Nations agencies present in the field.
9. The projects in the north (the Kidal Integrated Rural Development Programme [PIDRK] and the Northern Regions Investment and Rural Development Programme [PIDRN]) were not suspended and, in close partnership with the Government, IFAD succeeded in supporting activities in favour of local communities in those regions through partnerships with NGOs and United Nations agencies, promoting the sustainability of the existing infrastructure. In parallel, the projects in the south (the Rural Microfinance Programme [PMR] and Sahelian Areas Development Fund Programme [FODESA]) performed relatively well in 2012 despite the circumstances.
10. Since the beginning of the conflict and the financial suspension in January 2013, the whole portfolio has had to dramatically reduce its activities due to the lack of funds. The IFAD projects are facing cash shortages and activities will have to be suspended in the coming weeks if the sanction is not lifted.
11. Funds will be essential to support the upcoming agricultural season, as farmers are suffering from the lack of assistance from the Ministry of Agriculture and other technical partners following the occupation of the northern region. In addition, with the gradual recovery of the north, refugees and displaced people will be returning to their homeland but will find their resources and assets depleted. There is an urgent need to restore access to basic healthcare in the occupied territories, which is a component of IFAD-supported projects through Belgian Fund for Food Security resources. The Government of Mali is unable to face this multidimensional crisis alone. IFAD's support through its ongoing programmes will be essential in the reconstruction phase.

IV. Debt status

12. The total portfolio of IFAD loans to the Government of Mali comprises 12 loans on highly concessional terms, accruing a service charge of 0.75 per cent and 1.0 per cent; none of these have reached final maturity.
13. Mali's arrears to IFAD as at the 28 February 2013, are approximately **SDR 1.1 million** (approximately **EUR 1.3 million**)¹ and are increasing.

V. Debt rescheduling approach

14. Following discussions held on the margins of the thirty-sixth session of the Fund's Governing Council between the President of IFAD and the Mali delegation, the

¹ International Monetary Fund exchange rate as at 28 February 2013.

Government of Mali requested that IFAD consider the rescheduling of its debt to allow disbursements to resume.

15. A proposal for debt rescheduling was made by IFAD on 21 March 2013 and the arrears settlement plan was endorsed by the Government of Mali on 25 March 2013. The debt rescheduling plan agreed between the Government of Mali and IFAD is as follows:
 - (a) The amount of debt to be rescheduled as part of the proposed debt settlement plan will be known as the net present value for compensation and will comprise, for all current repaying loans, full recovery of the outstanding principal and service charge up to the date of approval by the Executive Board of the plan.
 - (b) It is anticipated, on the basis of the above methodology, that the debt settlement agreement as at the date of Executive Board approval would be for approximately **SDR 1.3 million** (which, using the United States dollar/special drawing right exchange rate as at 28 February 2013, translates into **EUR 1.5 million**).
 - (c) Repayment of the arrears will be scheduled over a five-year period including a two-year grace period.
 - (d) The amount of debt to be rescheduled will include the amount currently due only, and will not include any future loan repayments that fall due during the debt settlement plan.
 - (e) Mali will make an initial down payment of EUR 50,000 on the date of signing of the debt settlement agreement.
 - (f) The net present value of the proposed rescheduled debt will be preserved by applying a fixed discount rate, which will be based on the composite weighted-average SDR spot rates of the appropriate yield curves of the four SDR currencies, in line with the currency of denomination of the loans, i.e. the euro. This discount rate will be set by IFAD either on the date on which the down payment is made or on the signing date of the agreement, depending on which occurs first.
 - (g) The current approximation of the discount rate is 0.56 per cent. It must be stressed that this rate of 0.56 per cent is indicative and is based on a five-year repayment plan. The actual rate will be determined closer to the date of submission of the plan to the Executive Board and will be linked to the date on which IFAD receives the agreed down payment. It is assumed that this weighted average discount rate will remain constant over the entire repayment period, including any additional grace period to which the rescheduling is applied.
 - (h) An indicative repayment schedule has been provided in the annex.
 - (i) Mali had elected to repay its respective financing agreements in euros. This elected payment currency will be maintained for convenience, with the explicit understanding that the Government's liability to IFAD is denominated in SDR and that any foreign exchange risk arising from variations in the exchange rate between special drawing rights and the euro would accrue to the borrower.
 - (j) The debt settlement agreement will include a clause stipulating that, in the event that the borrower does not honour its obligations under the debt settlement agreement, IFAD may declare that any outstanding amount is due effective immediately (early enforceability) and that the debt settlement agreement is null and void.

Indicative Arrears Settlement Repayment Plan

Repayment Years	5	
Grace Period Years	2	
Settlement Amount	1 320 399	
Downpayment (SDR)	43 245	(Equivalent of EUR 50,000)
Indicative Discount Rate	0.56%	
Year	Semester	Amount (SDR)
2013	1	43 245
2013	2	
2014	1	
2014	2	
2015	1	216 789
2015	2	216 789
2016	1	216 789
2016	2	216 789
2017	1	216 789
2017	2	216 789
2018	1	-
2018	2	-
2019	1	-
2019	2	-
Total Repayments		1343 976