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Investing in rural people

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 provided that the grant ceiling of one eighth of the resources committed in any financial year would not apply to Debt Sustainability Framework financing. However, the Agreement retained 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. The Executive Board 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 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. In this

[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 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 would need additional financing during the IDA16 period to finance credit reflows forgone due to grants and agreed that such financing be included as part of IDA's overall financing commitments during IDA16 based on fair burden shares.

regard, IFAD presented a review of the status of the DSF to the Executive Board in December 2013 for review.[2]

7. To keep the Board fully informed, Management is providing in this document details of the actual effect of DSF implementation to assist representatives in appreciating the impact on the financial resources of the Fund.

II. Projects and programmes approved under the DSF in 2013

8. Table 1 lists the 11 projects and programmes approved in 2013 under the DSF. The total value in special drawing rights is approximately SDR 89.57 million (equivalent to about US$137.9 million),[3] or some 16.5 per cent of the overall 2013 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 2013. 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 sustained use of the DSF over the Eleventh Replenishment period). This forecast has been slightly revised upwards to a total of US$42.1 million, in line with the upward revision of underlying assumptions on the increase in programmes of work since 2007.

10. As shown in table 2, total forgone principal stemming from DSF grants approved from 2007 to 2013 inclusive, amounts to SDR 791.1 million or US$1,414.5 million equivalent. IFAD expects that this amount will be compensated for by Member States on a pay-as-you-go basis in the period 2018-2052.

[2] EB/2013/110/R.31/Rev.1
[3] Figures in the document reflect the International Monetary Fund exchange rate as at 31 December 2013.

Table 1
DSF grants approved in 2013
(Thousands of special drawing rights)

Region	*Country*	*Title*	*Amount*
West and Central Africa			
	Burkina Faso	Participatory Natural Resource Management and Rural Development Project in the North, Centre-North and East Regions (*Neer-tamba* Project)	9 675
	Guinea	National Programme to Support Agricultural Value Chain Actors – Lower Guinea and Faranah expansion	15 175
	Mali	Rural Youth Vocational Training, Employment and Entrepreneurship Support Project	10 800
	Sierra Leone	Rural Finance and Community Improvement Programme – Phase II	7 375
East and Southern Africa			
	Rwanda	Post-Harvest and Agribusiness Support Project	8 770
	Rwanda	Kirehe Community-based Watershed Management Project	5 100
Asia and the Pacific			
	Afghanistan	Rural Microfinance and Livestock Support Programme	3 910
	Lao People's Democratic Republic	Southern Laos Food and Nutrition Security and Market Linkages Programme	6 470
Latin America and the Caribbean			
	Nicaragua	Adapting to Markets and Climate Change Project	5 350
Near East, North Africa and Europe			
	Kyrgyzstan	Livestock and Market Development Programme II	7 200
	Yemen	Rural Growth Programme	9 740
Total 2013			**89 565**
Carried forward balance			**701 526**
Overall total			**791 091**

Table 2
Forgone principal, interest and service charges – DSF grants approved in period 2007 to 2013
(Special drawing rights)
Note: disbursement data from 2013 inclusive is based on estimates and interest calculation assume disbursement for entire year

Implementation of the DSF	*Year*	*Disbursed*	*Principal*	*Net interest and service charge at 0.75 per cent*	*Total*	*Total by replenishment*
VII	2007	1 219 669		9 148	9 148	145 649
	2008	3 730 310		37 125	37 125	
	2009	8 300 214		99 376	99 376	
VIII	2010	24 475 150		282 940	282 940	2 126 402
	2011	46 531 035		631 923	631 923	
	2012	77 282 107		1 211 539	1 211 539	
IX	2013	98 411 578		1 949 625	1 949 625	7 703 139
	2014	80 934 775		2 556 636	2 556 636	
	2015	85 365 465		3 196 877	3 196 877	
X	2016	84 299 955		3 829 127	3 829 127	15 227 637
	2017	73 735 725		4 382 145	4 382 145	
	2018	63 051 573	2 161 333	4 855 032	7 016 365	
XI	2019	50 905 159	4 587 600	5 220 610	9 808 210	41 479 685
	2020	37 124 347	8 687 533	5 464 636	14 152 169	
	2021	24 461 259	11 936 367	5 582 939	17 519 306	
XII	2022	18 479 409	16 478 033	5 632 012	22 110 045	85 860 408
	2023	12 792 172	26 369 700	5 604 368	31 974 068	
	2024		26 369 700	5 406 595	31 776 295	
XIII	2025		26 369 700	5 208 822	31 578 522	94 142 249
	2026		26 369 700	5 011 050	31 380 750	
	2027		26 369 700	4 813 277	31 182 977	
XIV	2028		26 369 700	4 615 504	30 985 204	92 362 294
	2029		26 369 700	4 417 731	30 787 431	
	2030		26 369 700	4 219 959	30 589 659	
XV	2031		26 369 700	4 022 186	30 391 886	90 582 339
	2032		26 369 700	3 824 413	30 194 113	
	2033		26 369 700	3 626 640	29 996 340	
XVI	2034		26 369 700	3 428 868	29 798 568	88 802 384
	2035		26 369 700	3 231 095	29 600 795	
	2036		26 369 700	3 033 322	29 403 022	
XVII	2037		26 369 700	2 835 549	29 205 249	87 022 430
	2038		26 369 700	2 637 777	29 007 477	
	2039		26 369 700	2 440 004	28 809 704	
XVIII	2040		26 369 700	2 242 231	28 611 931	85 242 475
	2041		26 369 700	2 044 458	28 414 158	
	2042		26 369 700	1 846 686	28 216 386	
XIX	2043		26 369 700	1 648 913	28 018 613	83 462 520
	2044		26 369 700	1 451 140	27 820 840	
	2045		26 369 700	1 253 367	27 623 067	
XX	2046		26 369 700	1 055 595	27 425 295	79 521 210
	2047		26 369 700	857 822	27 227 522	
	2048		24 208 367	660 027	24 868 394	
XXI	2049		21 782 100	478 482	22 260 582	54 873 663
	2050		17 682 167	315 094	17 997 261	
	2051		14 433 333	182 487	14 615 820	
XXII	2052		9 891 667	74 231	9 965 897	9 965 897
	2053					
	2054					
Total		**791 091 000**	**791 091 000**	**127 429 381**	**918 520 381**	**918 520 381**