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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 provides that the grant ceiling of one eighth of the resources committed in any financial year shall not apply to Debt Sustainability Framework financing. However, the Agreement retains 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.[1]

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 will be 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.

regard, IFAD presented the Review of the status of the Debt Sustainability Framework to the Executive Board in December 2013.[2]

7. To keep the Board fully informed, Management will report on the actual effect of DSF implementation to assist the Board in appreciating the impact on the financial resources of the Fund.

II. Projects and programmes approved under the DSF in 2014

8. Table 1 lists the 10 projects and programmes approved in 2014 under the DSF. The total value in special drawing rights (SDR) is approximately SDR 62.95 million (equivalent to about US$91.2 million),[3] or some 9.1 per cent of the overall planned 2014 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 from 2007 to 2014. Document EB 2007/90/R.2 predicted that implementation of the DSF could entail the forgoing of principal repayments totalling US$38.8 million, primarily incurred in the period of the Eleventh Replenishment of IFAD's Resources (IFAD11) (2019-2021) as a result of the cumulative level of DSF grants approved from 2007 onwards (i.e. assuming a sustained DSF over IFAD11). This forecast has been revised slightly upward to a total of US$39.4 million[3] in line with the upward revision of underlying assumptions on the increase in programmes of work since 2007, while also taking into consideration the downward exchange rate impact of the appreciating US$/SDR exchange rate during 2014.

10. As shown in table 2, total forgone principal, stemming from DSF grants approved from 2007 to 2014 inclusive, amounts to SDR 852.0 million or US$1,234.3 million[3] equivalent. Compensation for this amount by Member States to IFAD has been initiated as part of IFAD10 and will continue in subsequent replenishments.

[2] EB/2013/110/R.31/Rev.2.

[3] International Monetary Fund (IMF) exchange rate as at 31 December 2014.

Table 1

DSF grants approved in 2014
(Thousands of special drawing rights)

Region	*Country*	*Title*	*Amount*
West and Central Africa			
	Chad	Project to Improve the Resilience of Agricultural Systems in Chad (PARSAT)	11 150
	Côte d'Ivoire	Support to Agricultural Production and Marketing Project - Western expansion	11 280
	Sao Tome and Principe	Smallholder Commercial Agriculture Project	1 950
	Togo	National Rural Entrepreneurship Project (PNPER)	7 018
East and Southern Africa			
	Burundi	National Programme for Food Security and Rural Development in Imbo and Moso	690*
	Lesotho	Wool and Mohair Promotion Project	3 830
Asia and the Pacific			
	Kiribati	Outer Islands Food and Water Project (OIFWP)	1 940
	Nepal	Adaptation for Smallholders in Hilly Areas Project (ASHA)	6 470
Near East, North Africa and Europe			
	Sudan	Western Sudan Resources Management Programme	2 070
	Sudan	Livestock Marketing and Resilience Programme	16 550
Total 2014			**62 948**
Carried forward balance			**789 011**
Overall total			**851 959**

* IMF exchange rate as at 31 December 2014.

Table 2
Forgone principal, interest and service charges – DSF grants approved from 2007 to 2014
(Special drawing rights)

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	2 119 482
	2011	46 531 035		631 923	631 923	
	2012	76 359 451		1 204 619	1 204 619	
IX	2013	93 244 563		1 903 953	1 903 953	7 868 939
	2014	103 822 194		2 682 619	2 682 619	
	2015	79 966 280		3 282 366	3 282 366	
X	2016	80 749 200		3 887 986	3 887 986	15 456 991
	2017	75 604 842		4 455 022	4 455 022	
	2018	66 350 502	2 161 333	4 952 651	7 113 984	
XI	2019	59 003 679	4 517 945	5 378 968	9 896 913	42 178 382
	2020	53 805 605	8 617 539	5 748 626	14 366 164	
	2021	48 658 511	11 866 372	6 048 933	17 915 305	
XII	2022	20 315 460	16 408 039	6 112 301	22 520 340	91 230 464
	2023	9 822 711	28 398 646	6 062 911	34 461 557	
	2024		28 398 646	5 849 921	34 248 567	
XIII	2025		28 398 646	5 636 931	34 035 577	101 467 762
	2026		28 398 646	5 423 942	33 822 587	
	2027		28 398 646	5 210 952	33 609 598	
XIV	2028		28 398 646	4 997 962	33 396 608	99 550 854
	2029		28 398 646	4 784 972	33 183 618	
	2030		28 398 646	4 571 982	32 970 628	
XV	2031		28 398 646	4 358 992	32 757 638	97 633 945
	2032		28 398 646	4 146 003	32 544 648	
	2033		28 398 646	3 933 013	32 331 659	
XVI	2034		28 398 646	3 720 023	32 118 669	95 717 037
	2035		28 398 646	3 507 033	31 905 679	
	2036		28 398 646	3 294 043	31 692 689	
XVII	2037		28 398 646	3 081 053	31 479 699	93 800 128
	2038		28 398 646	2 868 063	31 266 709	
	2039		28 398 646	2 655 074	31 053 720	
XVIII	2040		28 398 646	2 442 084	30 840 730	91 883 219
	2041		28 398 646	2 229 094	30 627 740	
	2042		28 398 646	2 016 104	30 414 750	
XIX	2043		28 398 646	1 803 114	30 201 760	89 966 311
	2044		28 398 646	1 590 124	29 988 770	
	2045		28 398 646	1 377 135	29 775 780	
XX	2046		28 398 646	1 164 145	29 562 791	85 888 069
	2047		28 398 646	951 155	29 349 801	
	2048		26 237 313	738 165	26 975 478	
XXI	2049		23 880 701	541 385	24 422 086	61 311 669
	2050		19 781 107	362 280	20 143 387	
	2051		16 532 274	213 922	16 746 196	
XXII	2052		11 990 607	89 930	12 080 537	12 080 537
	2053					
	2054					
Total		**851 959 377**	**851 959 377**	**136 340 061**	**988 299 438**	**988 299 438**

Note: Disbursement data from 2015 (inclusive) are based on estimates and interest calculations. Assume disbursement for entire year.