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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. For that purpose, the amended Agreement Establishing IFAD henceforth provides that the grant ceiling of one eighth of the resources available for commitment in any financial year shall remain unaffected by Debt Sustainability Framework (DSF) financing. However, the Agreement retains the requirement that the Executive Board, in the context of DSF financing, 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 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 and, as a result, the major cost to IFAD is represented by 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 financed by IFAD Member States for the forgone principal payments. The Executive Board approved the recommendation that, commencing in 2008, Management report annually to the Board at its April session on the estimated principal payments and net service charges forgone as a result of DSF implementation.¹
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 institutions² since their adoption of the DSF with regard to

¹ Proposed arrangements for implementation of a debt sustainability framework at IFAD (EB 2007/90/R.2)

² 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 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 IDA 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.

actual and estimated net losses in service charge payments. The paper will also include proposals for future approaches to compensation as required. In this regard, IFAD presented the Review of the status of the Debt Sustainability Framework to the Executive Board in December 2013.³

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 2015

8. Table 1 lists the 12 projects and programmes approved in 2015 under the DSF. The total value in special drawing rights (SDR) is approximately SDR 160.5 million (equivalent to about US\$222.5 million),⁴ or some 16.1 per cent of the overall 2015 programme of work.

III. Principal payments and net service charges forgone

9. Table 2 provides information on the estimated principal payments and net service charges forgone for DSF grants approved from 2007 to 2015. Document EB 2007/90/R.2 predicted that implementation of the DSF could entail the forgoing of principal repayments totalling US\$42.67 million, primarily to be 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\$42.74 million⁴ in line with the increasing programme of work, which has fully compensated for the negative impact of appreciation of the US\$/SDR exchange rate since 2007.
10. As shown in table 2, total forgone principal payments, stemming from DSF grants approved from 2007 to 2015 inclusive, amount to SDR 1 010.9 million or US\$1 400.8 million⁴ equivalent. Compensation for this amount by Member States to IFAD has been initiated as part of IFAD10 and will continue in subsequent replenishments.
11. Section II of resolution 186/XXXVIII on the Tenth Replenishment of IFAD's Resources was adopted by the Governing Council on 17 February 2015 and established that during the IFAD10 period, DSF compensation contributions to compensate the Fund for forgone principal reflows shall be accepted. A detailed listing of funds received to date from Member States for DSF principal compensation as at 31 December 2015 is contained in annex 3 of EB 2015/116/R.27.

³ EB/2013/110/R.31/Rev.2.

⁴ International Monetary Fund (IMF) exchange rate as at 31 December 2015.

Table 1
Debt Sustainability Framework grants approved in 2015
(In thousands of special drawing rights)

<i>Region and country</i>	<i>Title</i>	<i>Amount</i>
West and Central Africa		
Democratic Republic of the Congo	North Kivu Agriculture Sector Support Project (PASA-NK)	12 100
Gambia (The)	National Agricultural Land and Water Management Development Project	5 025
Guinea-Bissau	Economic Development Project for the Southern Regions (PADES)	3 370
Niger	Family Farming Development Programme (ProDAF) in Maradi, Tahoua and Zinder Regions	17 250
East and Southern Africa		
Burundi	Agriculture Intensification and Value-Enhancing Support Project	14 250
Burundi	Value Chain Development Programme - Phase II (PRODEFI-II)	26 100
Malawi	Programme for Rural Irrigation Development	19 350
Mozambique	Rural Markets Promotion Programme (PROMER)	8 940
Asia and the Pacific		
Afghanistan	Support to National Priority Programme 2	34 450
Nepal	Samriddhi - Rural Enterprise and Remittances Project	11 950
Solomon Islands	Rural Development Programme - Phase II	1 570
Near East, North Africa and Europe		
Tajikistan	Livestock and Pasture Development Project II	6 200
Total 2015		160 535
Carried forward balance		851 959
Adjustment for prior year cancellations		(1 565)
Overall total		1 010 929

Table 2
Principal payments and net service charges forgone:
Debt Sustainability Framework grants approved from 2007 to 2015
(In special drawing rights)

<i>Implementation of the DSF</i>	<i>Year</i>	<i>Approved</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	63,709,216	1,219,669		9,148	9,148	145,649
	2008	70,698,351	3,730,310		37,125	37,125	
	2009	122,556,935	8,300,214		99,376	99,376	
VIII	2010	97,305,451	24,475,150		282,940	282,940	2,119,482
	2011	136,095,727	46,531,035		631,923	631,923	
	2012	203,935,000	76,359,451		1,204,619	1,204,619	
IX	2013	92,835,000	93,467,726		1,905,627	1,905,627	7,943,538
	2014	63,258,000	103,599,031		2,682,619	2,682,619	
	2015	160,535,000	89,689,672		3,355,292	3,355,292	
X	2016		87,918,278		4,013,656	4,013,656	17,335,627
	2017		91,640,208	1,224,444	4,699,935	5,924,379	
	2018		83,326,859	2,082,826	5,314,766	7,397,591	
XI	2019		76,832,464	5,724,157	5,874,451	11,598,608	46,564,953
	2020		71,346,302	9,764,820	6,365,850	16,130,669	
	2021		66,116,143	12,047,959	6,787,717	18,835,676	
XII	2022		36,154,138	16,610,074	6,967,747	23,577,821	87,577,492
	2023		25,175,966	23,721,918	7,030,713	30,752,631	
	2024		25,046,063	26,206,397	7,040,644	33,247,040	
XIII	2025			29,330,391	6,844,338	36,174,729	115,927,298
	2026			33,376,725	6,624,602	40,001,326	
	2027			33,376,725	6,374,518	39,751,243	
XIV	2028			33,376,725	6,124,435	39,501,159	117,753,227
	2029			33,376,725	5,874,351	39,251,076	
	2030			33,376,725	5,624,268	39,000,992	
XV	2031			33,376,725	5,374,184	38,750,909	115,502,476
	2032			33,376,725	5,124,101	38,500,825	
	2033			33,376,725	4,874,017	38,250,742	
XVI	2034			33,376,725	4,623,934	38,000,658	113,251,724
	2035			33,376,725	4,373,850	37,750,575	
	2036			33,376,725	4,123,767	37,500,491	
XVII	2037			33,376,725	3,873,683	37,250,408	111,000,973
	2038			33,376,725	3,623,600	37,000,324	
	2039			33,376,725	3,373,516	36,750,241	
XVIII	2040			33,376,725	3,123,433	36,500,157	108,750,221
	2041			33,376,725	2,873,349	36,250,074	
	2042			33,376,725	2,623,266	35,999,990	
XIX	2043			33,376,725	2,373,182	35,749,907	106,499,470
	2044			33,376,725	2,123,099	35,499,823	
	2045			33,376,725	1,873,015	35,249,740	
XX	2046			33,376,725	1,622,932	34,999,656	102,165,893
	2047			33,376,725	1,372,848	34,749,573	
	2048			31,293,899	1,122,765	32,416,664	
XXI	2049			30,210,966	888,302	31,099,268	80,513,716
	2050			26,498,967	661,962	27,160,929	
	2051			21,790,056	463,462	22,253,518	
XXII	2052			17,268,909	300,278	17,569,187	35,984,459
	2053			10,724,484	171,003	10,895,487	
	2054			7,428,973	90,812	7,519,785	
XXIII	2055			4,711,495	35,336	4,746,831	4,746,831
	2056						
	2057						
Total		1,010,928,680	1,010,928,680	1,010,928,680	162,854,349	1,173,783,030	1,173,783,030

Note: Disbursement data from 2016 (inclusive) are based on estimates, and interest calculations assume disbursement at the beginning of the year.