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Investing in rural people

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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. 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.

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

7. In accordance with the decision of the Executive Board at its ninetieth session, IFAD will prepare and present a paper in the context of the Consultation on the Eleventh Replenishment of IFAD's Resources (IFAD11) on its experience and that of other multilateral financial institutions² 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. A preliminary review was presented to the Executive Board in December 2013 and the issue will be further analysed in the context of the IFAD11 Consultation.

II. Projects and programmes approved under the DSF in 2016

8. Table 1 lists the eight projects and programmes approved in 2016 under the DSF. The total value in special drawing rights (SDR) is approximately SDR 75.9 million (equivalent to about US\$102.1 million),³ or some 12.4 per cent of the overall 2016 programme of loans and grants.

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 2016. 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 IFAD11 period (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 downwards to a total of US\$41.37 million³ reflecting an increasing programme of work, the appreciation of the United States dollar against the SDR since 2007 and the offsetting impact of the reduction in the number of countries that qualify for DSF grants.
10. As shown in table 2, total forgone principal payments stemming from DSF grants approved from 2007 to 2016 inclusive amount to SDR 1,085.9 million or US\$1,459.9 million³ 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 adopted by the Governing Council on 17 February 2015 established that during the IFAD10 period, DSF compensation contributions to compensate the Fund for forgone principal reflows shall be accepted. In particular, in order to ensure an effective compensation mechanism, Member States were invited to announce DSF contributions as additional to their core contribution (para. 99, GC 38/L.4/Rev.1). During the IFAD10 period, IFAD was meant to receive DSF compensation for US\$3.4 million; as at 31 December 2016, US\$2.9 million had been received. A detailed listing of funds received to date from Member States for DSF compensation as at 31 December 2016 is contained in annex III of EB 2017/120/R.25.

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 development and poverty reduction. 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.

³ International Monetary Fund (IMF) exchange rate as at 31 December 2016.

Table 1
Debt Sustainability Framework grants approved in 2016
 (Thousands of special drawing rights)

<i>Region and country</i>	<i>Title</i>	<i>Amount</i>
West and Central Africa		
Mauritania	Inclusive Value Chain Development Project	10 750
Niger	Family Farming Development Programme (ProDAF) in the regions of Maradi, Tahoua and Zinder	9 100
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Sao Tome and Principe	Smallholder Commercial Agriculture Project	2 172
East and Southern Africa		
Zimbabwe	Smallholder Irrigation Revitalization Programme	18 300
Near East, North Africa and Europe		
Eritrea	Fisheries Resources Management Programme	10 750
Kyrgyzstan	Access to Markets Project	9 390
Sudan	Butana Integrated Rural Development Project	7 370
Total 2016		75 982
Carried forward balance		1 010 929
Adjustment for prior year cancellations		(919)
Overall total		1 085 992

Table 2
Principal payments and net service charges forgone:
Debt Sustainability Framework grants approved from 2007 to 2016
 (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>
IFAD7	2007	63,456,126	1,219,669		9,148	9,148	145,649
	2008	70,403,101	3,730,310		37,125	37,125	
	2009	122,474,849	8,300,214		99,376	99,376	
IFAD8	2010	97,297,615	24,475,150		282,940	282,940	2,119,482
	2011	135,815,478	46,531,035		631,923	631,923	
	2012	203,935,000	76,359,451		1,204,619	1,204,619	
IFAD9	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	
IFAD10	2016	75,981,844	89,822,564		4,027,461	4,027,461	17,486,558
	2017		96,266,050	1,224,428	4,748,509	5,972,937	
	2018		89,774,987	2,074,390	5,411,770	7,486,160	
IFAD11	2019		85,160,616	5,705,917	6,034,048	11,739,966	47,173,126
	2020		78,730,084	9,744,133	6,581,019	16,325,152	
	2021		76,898,984	12,024,039	7,083,970	19,108,009	
IFAD12	2022		44,332,700	16,579,884	7,325,574	23,905,458	88,737,705
	2023		33,060,865	23,691,728	7,447,997	31,139,725	
	2024		32,800,889	26,176,206	7,516,316	33,692,522	
IFAD13	2025		11,772,017	29,300,201	7,408,527	36,708,727	120,411,461
	2026			33,710,142	7,189,017	40,899,159	
	2027			35,867,142	6,936,433	42,803,575	
IFAD14	2028			35,867,142	6,667,671	42,534,813	126,798,155
	2029			35,867,142	6,398,910	42,266,052	
	2030			35,867,142	6,130,148	41,997,290	
IFAD15	2031			35,867,142	5,861,386	41,728,528	124,379,300
	2032			35,867,142	5,592,625	41,459,767	
	2033			35,867,142	5,323,863	41,191,005	
IFAD16	2034			35,867,142	5,055,101	40,922,243	121,960,446
	2035			35,867,142	4,786,340	40,653,482	
	2036			35,867,142	4,517,578	40,384,720	
IFAD17	2037			35,867,142	4,248,817	40,115,959	119,541,591
	2038			35,867,142	3,980,055	39,847,197	
	2039			35,867,142	3,711,293	39,578,435	
IFAD18	2040			35,867,142	3,442,532	39,309,674	117,122,736
	2041			35,867,142	3,173,770	39,040,912	
	2042			35,867,142	2,905,008	38,772,150	
IFAD19	2043			35,867,142	2,636,247	38,503,389	114,703,882
	2044			35,867,142	2,367,485	38,234,627	
	2045			35,867,142	2,098,724	37,965,866	
IFAD20	2046			35,867,142	1,829,962	37,697,104	110,210,637
	2047			35,867,142	1,561,200	37,428,342	
	2048			33,792,752	1,292,439	35,085,191	
IFAD21	2049			32,709,819	1,039,235	33,749,054	88,431,520
	2050			29,010,071	794,153	29,804,225	
	2051			24,301,422	576,820	24,878,241	
IFAD22	2052			19,789,516	394,801	20,184,317	43,773,137
	2053			13,245,092	246,622	13,491,713	
	2054			9,949,581	147,525	10,097,106	
IFAD23	2055			7,232,102	73,145	7,305,248	9,844,760
	2056			2,520,608	18,905	2,539,512	
	2057						
Total		1,085,992,014	1,085,992,014	1,085,992,014	174,791,670	1,260,783,684	1,260,783,684

Note: Disbursement data from 2017 (inclusive) are based on estimates, and interest calculations assume disbursement at the beginning of the year.