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Investing in rural people

Financial Impact of Principal Due and Service Charges Forgone as a Result of the Implementation of the Debt Sustainability Framework

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For: Information

Financial Impact of Principal Due and Service Charges Forgone as a Result of the Implementation of the Debt Sustainability Framework

I. Background

1. By resolution 141/XXIX 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. 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 due 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 principal due. At that session, the Executive Board approved the recommendation that, commencing in 2008, Management report annually to the Board at its April session on the principal due and net service charges forgone as a result of DSF implementation.
4. The Board is thus provided annually with a report setting out the amount of principal due and net service charges forgone in relation to DSF grants approved so as to inform the Board of the DSF’s impact on the financial resources of the Fund.
5. In 2019, at its 128th session, the Executive Board approved the DSF reform (EB 2019/128/R.44) with the aim of creating a more predictable link between Member States’ specific support for poor indebted countries and IFAD’s ability to provide financing to these countries in a sustainable manner, as follows:
 - (i) Recognition of a replenishment baseline covering: the agreed level of grant financing (past and future DSF, and regular grant programme); general operating costs; and a contribution to longer-term capital sustainability, which would avoid erosion of IFAD’s capital over time;
 - (ii) Establishing a dynamic pre-funded mechanism, which would ensure that new DSF approvals are linked with Member States’ up-front commitments on a replenishment-by-replenishment basis;
 - (iii) Introducing granularity for the countries eligible for DSF, tailored to concessionality levels;
 - (iv) Allocation of IFAD’s scarce DSF grant resources to specifically support countries in the highest debt distress, including the poorest and most vulnerable countries; and
 - (v) Introducing a new lending term with a higher concessionality level known as the super highly concessional loan.

6. From the Twelfth Replenishment of IFAD's Resources (IFAD12) onwards, Management will revise the format and information contained in this paper, taking into consideration the current revision to the DSF mechanism.

II. Projects and programmes approved under the DSF in 2019

7. Table 1 lists the 13 projects and programmes approved in 2019 under the DSF. Their total value is US\$339.6 million¹ or 20.3 per cent of IFAD's overall 2019 total programme of loans and grants.

III. Financial impact of principal due and net service charges forgone

8. Table 2 shows that the DSF principal due from Member States and service charges forgone from DSF grants approved from 2007 to 2019 amounted to US\$2.4 billion and US\$363.4 million respectively.
9. Table 3 provides a detailed list of funds due from Member States for DSF principal compensation in IFAD10 and IFAD11.
10. Detailed lists of funds received from Member States for DSF principal compensation as of 31 January 2020 are provided in annex III of the report on the status of contributions to IFAD11 (see EB 2020/129/R.34).

¹ Amounts converted from loan denomination currency to United States dollars using International Monetary Fund (IMF) exchange rates at the date of approval.

Table 1

DSF grants approved in 2019(Thousands of United States dollars) ^a

<i>Region and country</i>	<i>Title</i>	<i>Amount</i>
Asia and the Pacific		
Afghanistan	Arghandab Integrated Water Resources Development Project	40 000
Kiribati	Outer Islands Food and Water Project	3 600
Samoa	Samoa Agriculture & Fisheries Productivity and Marketing Project	3 600
Tonga	Tonga Rural Innovation Project – Phase II	3 600
East and Southern Africa		
Ethiopia	Rural Financial Intermediation Programme III	35 231
Malawi	Transforming Agriculture through Diversification and Entrepreneurship Programme	18 887
Mozambique	Small-scale Aquaculture Promotion Project	34 400
Mozambique	Inclusive Agrifood Value Chain Development Programme	33 600
Near North East Africa and Europe		
Sudan	Sustainable Natural Resources and Livelihoods Programme	49 858
West and Central Africa		
Central African Republic	Project to Revitalize Crop and Livestock Production in the Savanna	10 080
Chad	Strengthening the Productivity and Resilience of Agropastoral Family Farms Project	23 604
Democratic Republic of the Congo	Inclusive and Resilient Rural Development Programme	9 860
Gambia	Resilient Organizations for Transformative Smallholder Agriculture Project	17 020
Guinea-Bissau	Agricultural Diversification, Integrated Markets, Nutrition and Climate Resilience Project	4 370
Guinea-Bissau	Economic Development Project for the Southern Regions	810
Liberia	Tree Crops Extension Project	2 400
Liberia	Smallholder Agriculture Transformation and Agribusiness Revitalization Project	6 210
Mali	Multi-energy for Resilience and Integrated Territorial Management Project	7 846
Niger	Project to Strengthen Resilience of Rural Communities to Food and Nutrition Insecurity	23 164
Sierra Leone	Agriculture Value Chain Development Project	7 700
Togo	Shared-risk Agricultural Financing Incentive Mechanism Support Project	3 761
Total 2019		339 601
Carried forward balance		2 040 980
Adjustment for prior year reductions and exchange adjustments ^b		(3 408)
Grand total		2 377 173

^a Amounts converted from a loan denomination currency to United States dollars use IMF exchange rates at the date of approval.

^b Reductions are recorded at the spot rate at the date of the reduction while exchange rate adjustments reflect the different exchange rates between the approval date and date of the reduction.

Table 2
Principal due and net service charges forgone: DSF grants approved 2007-2019
(Millions of United States dollars)

<i>Replenishment</i>	<i>Year</i>	<i>Approved</i>	<i>Disbursed/ to be disbursed</i>	<i>Principal reflows</i>	<i>Service charge (0.75%)</i>	<i>Total principal + service charge</i>	<i>Total principal + service charge by replenishment</i>	<i>Cumulative principal + service charge by replenishment</i>
IFAD7	2007	97.6	1.9	-	0.0	0.0		
	2008	107.0	5.8	-	0.0	0.0		
	2009	185.8	13.0	-	0.1	0.1	0.2	0.2
IFAD8	2010	146.4	37.5	-	0.3	0.3		
	2011	211.2	73.3	-	0.7	0.7		
	2012	307.4	117.0	-	1.4	1.4	2.4	2.6
IFAD9	2013	141.3	142.0	-	2.4	2.4		
	2014	93.7	157.0	-	3.5	3.5		
	2015	223.9	125.4	-	4.6	4.6	10.5	13.1
IFAD10	2016	105.1	124.1	-	5.5	5.5		
	2017	183.3	127.4	1.0	6.4	7.5		
	2018	234.9	138.4	2.4	7.4	9.8	22.8	35.9
IFAD11	2019	339.6	174.6	7.9	8.6	16.4		
	2020	-	236.8	14.1	10.0	24.1		
	2021	-	204.8	17.6	11.6	29.2	69.7	105.6
IFAD12	2022	-	151.0	25.3	12.7	38.1		
	2023	-	130.0	36.0	13.6	49.6		
	2024	-	121.7	39.8	14.2	54.1	141.7	247.3
IFAD13	2025	-	88.8	44.3	14.7	59.0		
	2026	-	84.6	50.5	15.0	65.5		
	2027	-	69.0	53.6	15.2	68.8	193.3	440.6
IFAD14	2028	-	53.0	64.5	15.2	79.7		
	2029	-	-	71.8	14.9	86.7		
	2030	-	-	78.5	14.3	92.8	259.3	699.9
IFAD15	2031	-	-	78.5	13.7	92.2		
	2032	-	-	78.5	13.1	91.7		
	2033	-	-	78.5	12.6	91.1	275.0	974.8
IFAD16	2034	-	-	78.5	12.0	90.5		
	2035	-	-	78.5	11.4	89.9		
	2036	-	-	78.5	10.8	89.3	269.7	1 244.5
IFAD17	2037	-	-	78.5	10.2	88.7		
	2038	-	-	78.5	9.6	88.1		
	2039	-	-	78.5	9.0	87.5	264.4	1 508.9
IFAD18	2040	-	-	78.5	8.4	86.9		
	2041	-	-	78.5	7.8	86.4		
	2042	-	-	78.5	7.3	85.8	259.1	1 767.9
IFAD19	2043	-	-	78.5	6.7	85.2		
	2044	-	-	78.5	6.1	84.6		
	2045	-	-	78.5	5.5	84.0	253.8	2 021.7
IFAD20	2046	-	-	78.5	4.9	83.4		
	2047	-	-	78.5	4.3	82.8		
	2048	-	-	75.3	3.7	79.1	245.3	2 267.0
IFAD21	2049	-	-	73.7	3.2	76.9		
	2050	-	-	68.1	2.6	70.7		

<i>Replenishment</i>	<i>Year</i>	<i>Approved</i>	<i>Disbursed/ to be disbursed</i>	<i>Principal reflows</i>	<i>Service charge (0.75%)</i>	<i>Total principal + service charge</i>	<i>Total principal + service charge by replenishment</i>	<i>Cumulative principal + service charge by replenishment</i>
	2051		-	61.0	2.2	63.1	210.8	2 477.7
	2052		-	53.9	1.7	55.7		
IFAD22	2053		-	44.1	1.4	45.4		
	2054		-	39.1	1.0	40.1	141.2	2 618.9
	2055		-	35.1	0.8	35.9		
IFAD23	2056		-	28.5	0.5	29.1		
	2057		-	25.0	0.3	25.4	90.3	2 709.2
	2058			16.2	0.2	16.4		
IFAD24	2059			14.9	0.1	15.0		
	2060			-	-	-	31.3	2 740.6
Total		2 377.2	2 377.2	2 377.2	363.4	2 740.6	2 740.6	

Notes:

1. A cut-off date of 31 December 2019 is applied for all DSF commitments approved.
2. Historical approvals and disbursements for DSF are converted to United States dollars using the exchange rate at the date of the transaction in order to reconcile them with IFAD's financial statements. Projected approvals are converted into United States dollars using the exchange rate at 31 December 2019.
3. Compensation (principal reflows) for IFAD10 and IFAD11 have been calculated using IFAD10 and IFAD11 replenishment rates respectively.
4. Service charge calculations from 2020 (inclusive) are estimated on disbursements and repayments occurring mid-year. The purpose of this change was to address comments made by the Audit Committee aimed at providing a reasonable basis for calculating service charges forgone.
5. Numbers in this report have been rounded up or down. There may therefore be discrepancies between the actual totals of the individual amounts in the tables and the totals shown, as well as between the numbers in the tables and the numbers in the text of the annual report. All rounding, totals, percentage changes and figures were calculated using the complete (unrounded) figures.

Table 3
DSF compensation due by replenishment period by Member States for DSF approvals from IFAD7 (2007) until the end of the IFAD11 period (2021) and forecast from IFAD12 onwards.
(United States dollars)

List	Country	IFAD10	IFAD11	Forecast			Total	
				IFAD12	IFAD13	IFAD14-onwards		
List A	Australia	-	-	-	-	-	-	
	Austria	60 706	661 450	2 171 643	3 086 899	39 866 971	45 847 668	
	Belgium	90 266	1 258 849	3 257 465	-	36 390 741	40 997 321	
	Canada	172 001	2 871 353	7 294 234	9 925 547	135 690 775	155 953 910	
	Cyprus	-	-	-	-	119 289	119 289	
	Denmark	55 556	602 633	1 548 140	-	18 338 644	20 544 973	
	Estonia	-	-	-	-	-	-	
	Finland	44 968	719 342	1 628 733	2 508 105	42 382 185	47 283 332	
	France	165 626	2 098 081	4 750 470	6 752 591	110 543 113	124 309 882	
	Germany	224 838	2 756 040	7 110 639	10 107 471	144 694 258	164 893 246	
	Greece	-	-	-	-	578 096	578 096	
	Hungary	-	-	-	-	44 181	44 181	
	Iceland	-	-	-	-	163 471	163 471	
	Ireland	47 557	359 671	814 366	1 164 453	18 933 047	21 319 094	
	Israel	-	-	15 270	-	84 367	99 637	
	Italy	286 699	3 149 760	7 874 515	12 312 875	161 641 334	185 265 182	
	Japan	185 491	2 362 320	7 115 525	8 229 113	124 723 721	142 616 170	
	Luxembourg	-	94 493	227 697	347 276	4 753 018	5 422 483	
	Netherlands	220 835	2 952 900	7 115 525	10 859 662	154 838 399	175 987 321	
	New Zealand	-	-	351 153	545 572	4 735 811	5 632 535	
	Norway	182 175	1 791 426	4 708 457	7 370 373	98 346 216	112 398 647	
	Portugal	-	70 870	-	-	1 268 634	1 339 503	
	Russian Federation	-	-	569 242	866 222	9 278 066	10 713 531	
	Spain	165 626	2 277 917	-	-	38 894 631	41 338 174	
	Sweden	186 445	2 282 729	6 887 828	5 694 752	116 156 704	131 208 458	
	Switzerland	94 997	792 126	3 202 534	7 164 698	71 859 397	83 113 751	
	United Kingdom	281 047	2 559 180	7 865 027	13 763 536	167 522 914	191 991 704	
United States	303 531	3 543 480	8 538 630	12 993 336	156 401 691	181 780 667		
	Total List A	2 768 365	33 204 617	83 047 095	113 692 480	1 658 249 673	1 890 962 229	
List B	Algeria	-	393 720	948 737	1 443 704	13 740 375	16 526 535	
	Gabon	-	13 708	31 037	57 354	738 211	840 310	
	Indonesia	28 105	196 860	948 737	1 443 704	17 672 507	20 289 913	
	Iran (Islamic Republic of)	-	-	-	-	-	-	
	Iraq	11 242	59 058	-	-	1 546 344	1 616 644	
	Kuwait	44 968	472 464	1 423 105	2 165 556	28 926 565	33 032 658	
	Libya	-	-	-	-	-	-	
	Nigeria	28 105	590 580	1 423 105	2 165 556	24 299 698	28 507 043	
	Qatar	56 209	-	-	-	4 418 127	4 474 336	
	Saudi Arabia	56 209	787 440	2 182 094	3 320 519	44 755 625	51 101 888	
	United Arab Emirates	-	39 372	94 874	433 111	3 976 314	4 543 671	
	Venezuela (Bolivarian Republic of)	84 314	258 630	-	-	9 529 410	9 872 354	
		Total List B	309 152	2 811 832	7 051 689	11 029 504	149 603 176	170 805 352

List	Country	IFAD10	IFAD11	Forecast			Total
				IFAD12	IFAD13	IFAD14-onwards	
List C							
	Afghanistan	-	-	-	-	-	-
	Albania	-	-	-	-	13 254	13 254
	Angola	-	74 807	180 260	288 741	4 418 127	4 961 934
	Antigua and Barbuda	-	-	-	-	-	-
	Argentina	11 242	98 430	711 553	1 082 778	9 719 879	11 623 881
	Armenia	-	-	-	-	26 037	26 037
	Azerbaijan	-	-	-	-	88 363	88 363
	Bahamas (The)	-	-	61 668	144 370	1 921 885	2 151 547
	Bangladesh	-	23 623	-	-	-	-
	Barbados	-	-	-	-	-	-
	Belize	-	-	-	-	168 986	168 986
	Benin	-	-	-	-	66 272	66 272
	Bhutan	-	-	-	-	132 544	132 544
	Bolivia (Plurinational State of)	-	-	-	-	124 511	124 511
	Bosnia and Herzegovina	-	-	17 077	19 490	298 224	334 791
	Botswana	-	-	1 584 390	2 410 986	26 807 543	31 373 425
	Brazil	44 497	526 010	-	-	-	-
	Burkina Faso	-	-	-	-	-	-
	Burundi	-	-	19 923	45 477	616 329	681 729
	Cambodia	-	-	113 848	173 244	2 383 011	2 709 476
	Cameroon	-	39 372	-	-	19 059	19 059
	Cabo Verde	-	-	-	-	-	-
	Central African Republic	-	-	-	-	-	-
	Chad	-	-	-	-	70 690	70 690
	Chile	-	-	2 561 589	8 662 224	91 013 413	103 193 345
	China	89 935	866 184	18 975	-	252 002	270 976
	Colombia	-	-	-	-	-	-
	Comoros	-	-	-	-	265 088	276 899
	Congo	-	11 812	27 506	-	-	27 506
	Democratic Republic of the Congo	-	-	-	-	-	-
	Cook Islands	-	-	-	-	-	-
	Costa Rica	-	-	-	-	77 873	77 873
	Côte D'Ivoire	-	-	-	-	-	-
	Croatia	-	-	-	-	52 358	52 358
	Cuba	-	-	-	-	-	-
	Djibouti	-	-	-	-	-	-
	Dominica	-	-	-	144 370	530 175	674 546
	Dominican Republic	-	-	37 949	-	265 088	303 037
	Ecuador	-	-	284 621	433 111	6 627 190	7 479 901
	Egypt	16 863	118 116	-	-	44 181	44 181
	El Salvador	-	-	-	-	-	-
	Equatorial Guinea	-	-	-	-	-	-
	Eritrea	-	-	-	-	44 093	44 093
	Eswatini	-	-	-	-	-	-
	Ethiopia	-	-	-	14 437	145 945	160 382
	Fiji	-	-	-	-	-	-
	Gambia (The)	-	-	-	-	13 254	13 254
	Georgia	-	-	37 949	72 185	1 016 169	1 142 053

List	Country	IFAD10	IFAD11	Forecast			Total
				IFAD12	IFAD13	IFAD14-onwards	
	Ghana	-	15 749				-
	Grenada	-	-		72 185	331 360	403 545
	Guatemala	-	-	-	-	-	-
	Guinea	-	-				-
	Guinea-Bissau	-	-	68 100	103 896	1 058 245	1 249 243
	Guyana	-	19 002	-	-	-	-
	Haiti	-	-		28 874	88 363	117 237
	Honduras	-	-	2 846 210	5 341 705	67 648 250	76 916 020
	India	95 556	984 300				-
	Jamaica	-	-	-	14 437	220 906	235 343
	Jordan	-	-	-	-	30 927	30 927
	Kazakhstan	-	-	47 437	72 185	971 988	1 091 610
	Kenya	-	-	-	-	-	-
	Kiribati	-	-	-	-	-	-
	Democratic People's Republic of Korea	-	-	654 628	1 154 963	15 861 075	17 923 762
	Republic of Korea	16 863	236 232				-
	Kyrgyzstan	-	-	-	-	121 498	121 498
	Lao People's Democratic Republic	-	-			167 889	179 700
	Lebanon	-	11 812	-	14 437	227 534	241 971
	Lesotho	-	-	-	-	-	-
	Liberia	-	-				-
	North Macedonia	-	-	-	-	-	-
	Madagascar	-	-				-
	Malawi	-	-			77 317	77 317
	Malaysia	-	-				-
	Maldives	-	-	-	-	-	-
	Mali	-	-				-
	Malta	-	-				-
	Marshall Islands	-	-				-
	Mauritania	-	-	-	-	-	-
	Mauritius	-	-	474 368	721 852	7 952 628	9 165 712
	Mexico	16 863	-				-
	Micronesia (Federated States of)	-	-	-	-	43 739	43 739
	Republic of Moldova	-	-	-	14 437	94 106	108 543
	Mongolia	-	-	66 412	115 496	1 457 982	1 667 450
	Morocco	-	27 560	-	-	-	-
	Mozambique	-	-	-	-	-	-
	Myanmar	-	-				-
	Namibia	-	-				-
	Nauru	-	-	-	-	114 887	114 887
	Nepal	-	-	18 975	21 656	229 743	270 373
	Nicaragua	-	-				-
	Niger	-	-				-
	Niue	-	-	-	-	66 272	66 272
	Oman	-	-	758 989	1 154 963	16 347 069	18 598 482
	Pakistan	22 484	314 976	-	-	125 033	125 033
	Panama	-	-				-
	Papua New Guinea	-	-	14 231	28 874	464 296	527 122

List	Country	IFAD10	IFAD11	Forecast			Total
				IFAD12	IFAD13	IFAD14-onwards	
	Paraguay	-	19 721	35 578	51 973	711 318	810 681
	Peru	-	11 812	18 975	28 874	265 088	312 936
	Philippines	-	-	-	-	-	-
	South Sudan	-	-	-	-	88 363	88 363
	Romania	-	-	-	-	113 678	113 678
	Rwanda	-	-	-	-	-	-
	Saint Kitts and Nevis	-	-	-	-	-	-
	Saint Lucia	-	-	-	-	-	-
	Samoa	-	-	-	-	-	-
	Sao Tome and Principe	-	-	18 975	-	246 733	265 707
	Senegal	-	-	-	-	79 526	79 526
	Seychelles	-	-	-	-	-	-
	Sierra Leone	-	-	-	-	-	-
	Solomon Islands	-	-	-	-	-	-
	Somalia	-	-	47 437	-	624 106	707 474
	South Africa	-	35 931	94 969	144 515	2 211 272	2 490 167
	Sri Lanka	-	39 411	-	-	-	-
	Saint Vincent and the Grenadines	-	-	-	-	-	-
	Sudan	-	-	-	-	-	-
	Suriname	-	-	-	-	375 541	375 541
	Syrian Arab Republic	-	-	-	-	1 513	1 513
	Tajikistan	-	-	11 388	17 525	186 188	215 101
	United Republic of Tanzania	-	-	28 462	43 311	596 447	680 032
	Thailand	-	11 812	-	-	-	-
	Timor-Leste	-	-	-	14 437	44 181	58 618
	Togo	-	-	-	-	-	-
	Tonga	-	-	-	-	-	-
	Trinidad and Tobago	-	-	-	-	-	-
	Tunisia	-	23 623	71 155	144 370	1 745 160	1 984 309
	Turkey	-	47 246	113 848	721 852	5 876 109	6 759 055
	Tuvalu	-	-	-	-	-	-
	Uganda	-	-	-	14 437	214 279	228 716
	Uruguay	-	-	18 975	28 874	353 450	401 299
	Uzbekistan	-	-	-	1 444	17 673	19 116
	Vanuatu	-	-	-	-	-	-
	Viet Nam	-	19 686	56 924	86 622	1 237 076	1 400 308
	Yemen	-	-	-	-	-	-
	Zambia	-	-	-	43 311	435 976	479 287
	Zimbabwe	-	-	-	43 311	309 269	352 580
	Total List C	314 302	3 577 226	11 123 345	23 736 230	276 655 595	315 406 698
	Grand Total	3 391 819	39 593 675	101 222 129	148 458 214	2 084 508 443	2 377 174 280

Notes:

1. Compensation (principal reflows) for IFAD10 and IFAD11/IFAD12 have been calculated using IFAD10 and IFAD11 replenishment rates respectively.