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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 (AEI) 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 AEI 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 AEI retains the requirement that the Executive Board, in the context of DSF financing, give due consideration to the Fund’s long-term viability.
2. At its ninetieth session in April 2007, the Executive Board approved the recommendation contained in document EB 2007/90/R.2. As a result, IFAD committed to the implementation of 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 Executive Board, at its ninetieth session, endorsed the concept of a pay-as-you-go compensation mechanism financed by IFAD’s Member States for the principal due. Also at its ninetieth 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. Additionally, the Board is informed 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 2020

- 7. Table 1 lists the 12 projects and programmes approved in 2020 under the DSF. Their total value is US\$103.6 million¹ or 12.6 per cent of IFAD's overall 2020 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 2020 amounted to US\$2.5 billion and US\$373.5 million respectively.

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 2020
(Thousands of United States dollars) ^a

<i>Region and country</i>	<i>Title</i>	<i>Amount</i>
Asia and the Pacific		
Maldives	Maldives Agribusiness Programme	1 215
East and Southern Africa		
Eritrea	Integrated Agriculture Development Project	30 343
Malawi	Sustainable Agricultural Production Programme	3 819
West and Central Africa		
Benin	Regional Programme for the Integration of Agricultural Markets	8 518
Central African Republic	Project to Improve Productivity and Access to Markets for Agropastoral Products in the Savannah Zones	17 760
Chad	Joint Programme for the Sahel in Response to the Challenges of COVID-19, Conflict and Climate Change	4 235
Liberia	Tree Crops Extension Project II	540
Mali	Joint Programme for the Sahel in Response to the Challenges of COVID-19, Conflict and Climate Change	6 771
Mauritania	Sustainable Management of Natural Resources, Communal Equipment and the Organization of Rural Producers Project	18 960
Niger	Joint Programme for the Sahel in Response to the Challenges of COVID-19, Conflict and Climate Change	1 432
Sao Tome	Commercialization, Agricultural Productivity and Nutrition Project	4 286
Togo	Regional Programme for the Integration of Agricultural Markets	5 677
Total 2020		103 556
Carried forward balance		2 377 173
Adjustment for prior year reductions and exchange adjustments ^b		(22 580)
Grand total		2 458 149

^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 2007-2020
(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	210.5	73.3	-	0.7	0.7		
	2012	298.0	117.0	-	1.4	1.4	2.4	2.6
IFAD9	2013	139.6	142.0	-	2.4	2.4		
	2014	84.2	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	338.3	174.6	7.9	8.6	16.5		
	2020	103.6	172.4	14.1	9.8	23.8		
	2021	-	189.0	17.5	9.9	27.4	67.7	103.6
IFAD12	2022	-	195.9	25.3	12.3	37.6		
	2023	-	172.1	35.7	13.5	49.2		
	2024	-	131.0	39.4	14.3	53.8	140.5	244.1
IFAD13	2025	-	102.5	43.6	14.9	58.5		
	2026	-	94.5	49.8	15.3	65.1		
	2027	-	81.6	52.9	15.5	68.4	192.0	436.1
IFAD14	2028	-	65.5	63.8	15.7	79.5		
	2029	-	16.2	71.1	15.5	86.5		
	2030	-	-	78.6	15.0	93.6	259.6	695.7
IFAD15	2031	-	-	81.2	14.4	95.6		
	2032	-	-	81.2	13.7	94.9		
	2033	-	-	81.2	13.1	94.3	284.8	980.5
IFAD16	2034	-	-	81.2	12.5	93.7		
	2035	-	-	81.2	11.9	93.1		
	2036	-	-	81.2	11.3	92.5	279.3	1 259.9
IFAD17	2037	-	-	81.2	10.7	91.9		
	2038	-	-	81.2	10.1	91.3		
	2039	-	-	81.2	9.5	90.7	273.9	1 533.7
IFAD18	2040	-	-	81.2	8.9	90.1		
	2041	-	-	81.2	8.3	89.5		
	2042	-	-	81.2	7.7	88.9	268.4	1 802.1
IFAD19	2043	-	-	81.2	7.1	88.2		
	2044	-	-	81.2	6.4	87.6		
	2045	-	-	81.2	5.8	87.0	262.9	2 065.0
IFAD20	2046	-	-	81.2	5.2	86.4		
	2047	-	-	81.2	4.6	85.8		
	2048	-	-	78.0	4.0	82.0	254.2	2 319.3
IFAD21	2049	-	-	76.4	3.4	79.9		
	2050	-	-	70.8	2.9	73.7		
	2051	-	-	63.6	2.4	66.0	219.5	2 538.8

	2052	-	56.6	1.9	58.6		
IFAD22	2053	-	47.1	1.5	48.6		
	2054	-	42.1	1.2	43.3	150.5	2 689.3
	2055	-	38.5	0.9	39.4		
IFAD23	2056	-	31.9	0.6	32.5		
	2057	-	28.4	0.4	28.8	100.8	2 790.1
	2058		19.6	0.2	19.8		
IFAD24	2059		14.4	0.1	14.5		
	2060		7.2	0.0	7.2	41.6	2 831.7
Total		2 458.1	2 458.1	2 458.1	373.5	2 831.7	2 831.7

Notes:

1. A cut-off date of 31 December 2020 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 2020.
3. Compensation (principal reflows) for IFAD10 and IFAD11 have been calculated using IFAD10 and IFAD11 replenishment rates respectively.
4. Service charge calculations from 2021 (inclusive) are estimated on disbursements and repayments occurring midyear. 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.