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IFAD's Participation in the Enhanced Heavily Indebted Poor Countries Initiative

Proposals for the Republic of the Sudan and the Federal Republic of Somalia

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Abbreviations and acronyms

CPM	country programme manager
AfDB	African Development Bank
GEF	Global Environment Facility
HIPC	Heavily Indebted Poor Countries
IDA	World Bank's International Development Association
IFIs	international financial institutions
IMF	the International Monetary Fund
LESP SLSP	Livestock Epidemio-Surveillance Project to Support Livelihoods of vulnerable rural smallholders and pastoralists
MDBs	multilateral development banks
NPL	non-performing loan
NPV	net present value
RPSF	IFAD Rural Poor Stimulus Facility

Recommendation for approval

The Executive Board is invited to approve the new country cases for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative for the Republic of the Sudan and the Federal Republic of Somalia as contained in paragraphs 29 and 57, respectively.

I. Proposal for the Republic of the Sudan

1. The purpose of this section is to: (i) inform the Executive Board of recent developments in the country case pertaining to Sudan in the context of the HIPC Initiative; (ii) propose that IFAD align itself with the decisions of the governing bodies' of other international financial institutions (IFIs), while fulfilling its international commitments; and (iii) request Executive Board approval for debt relief for Sudan to enable IFAD to continue participating in the HIPC Initiative – and ensure that it is protected from the consequences of not doing so – and to continue supporting poor countries in debt distress.
2. IFAD's impact on agricultural and rural development in Sudan over the last 40 years has been significant, benefiting about 3.7 million rural people, and IFAD continues to have a strong reputation as one of the country's most important financial and development partners.
3. See annex I for a summary of HIPC entitlements for Sudan. For all HIPC-approved beneficiary countries, the World Bank Debt Relief Trust Fund funds two thirds of the debt relief, with the remaining one third funded by IFIs and multilateral development banks (MDBs).¹

II. Country context

4. Sudan became a Member State of IFAD in 1977, and the first IFAD loan to the country was approved in 1979. Since then, IFAD has financed 22 projects, for a total project cost of US\$875.66 million and total IFAD financing of US\$381.13 million, benefiting 3.7 million people overall. In the early days, IFAD cofinanced development projects with the World Bank, the United Kingdom's Department for International Development, and KfW Development Bank. Cofinancing was suspended following the imposition of sanctions on a former administration. In 2018, IFAD mobilized funding from the European Union for the Livestock Epidemio-Surveillance Project to Support Livelihoods of vulnerable rural smallholders and pastoralists (LESP SLSP) and financing from the Global Environment Facility (GEF) and the Adaptation for Smallholder Agriculture Programme (ASAP) for the ongoing portfolio.
5. Agriculture employs 43 per cent of Sudan's workforce and the country's economy is strongly reliant on it. IFAD primarily funds agricultural and rural development initiatives in the rainfed sector, where natural resource degradation and elevated risk from climate change have exacerbated smallholder producers' poverty. IFAD interventions have strengthened the delivery of extension services for rainfed agriculture, established sustainable microfinance institutions and built the capacity of community organizations in natural resources management.
6. Over the years, IFAD has gained a reputation as one of the country's most important financial institutions and as a partner for agricultural and rural development. Because of its capacity to transfer expertise and long-time

¹ International Monetary Fund, *Sudan Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Decision Point Document*. IMF country report No.21/144 (July 2021). <https://www.imf.org/en/Publications/CR/Issues/2021/06/30/Sudan-Enhanced-Heavily-Indebted-Poor-Countries-HIPC-Initiative-Decision-Point-Documents-461368>.

experience in financing pro-poor agricultural value chains and building resilience, IFAD is the nation's biggest financier of rural and agricultural development, and the country sees it as a key actor in promoting inclusive and sustainable rural transformation. IFAD has remained engaged in Sudan, in spite of significant challenges to peace and the path to transition, and the country has fulfilled all its obligations in terms of timely loan service payments, release of counterpart funding and compliance with financing agreements.

7. In line with the country's new national poverty reduction plan, IFAD's engagement will target food insecurity, climate change vulnerability and youth unemployment over the period of 2021–2027. IFAD investments will support selected value chains that have a strong positive impact on the livelihoods of disadvantaged rural people and their vulnerable surroundings in order to achieve this goal (additional details are provided in annex II).
8. The events of October 2021 in Sudan stalled policy engagement and initially slowed project implementation. Nonetheless, Sudan made the loan repayments due in November 2021 in a timely manner.
9. The Government of Sudan budgeted counterpart funding for the four ongoing projects (listed in annex II) in its 2022 budget and is honouring its obligations as stipulated in the financing agreements. Project implementation has picked up after an initial slowdown in October and November 2021. All four projects are managed by autonomous and experienced project management units and engage with the ministries of production and economic resources in 11 states. The IFAD-financed projects are focusing their activities on improving food security and building resilience to mitigate the effects of increased food insecurity as a result of below-average rainfall in the last agricultural season, high prices of staple crops (100 per cent increase year on year), and this situation has been further aggravated by rising fuel and transport prices. The main activities being implemented under LESP SLSP, the Livestock Marketing and Resilience Programme, the Integrated Agricultural and Marketing Development Project and the Sustainable Natural Resources and Livelihoods Programme are: (i) strengthening the capacity of village organizations to manage water infrastructure and conserve rangelands; (ii) strengthening the capacity of village savings and credit groups and linking them to microfinance institutions; (iii) training farmers in storage and processing to reduce post-harvest losses and increase crop value; and (iv) supporting livestock production through improved epidemiological surveillance and veterinary care, and fodder baling and storage. The total outreach of these projects for 2021 was 168,000 households, equivalent to 1 million rural people. LESP SLSP supports epidemiological surveillance and reduces the incidence of livestock disease in eight states that account for 60 per cent of the livestock in Sudan. None of these projects are at risk of not achieving their objectives.

III. Recent developments

10. On 29 June 2021, Sudan reached its decision point under the Enhanced Heavily Indebted Poor Countries Initiative, and the boards of the International Monetary Fund (IMF) and the World Bank's International Development Association (IDA) agreed to support a comprehensive debt-reduction package for Sudan under the HIPC Initiative. According to the joint World Bank–IMF debt sustainability analysis, Sudan is in public and external debt distress and its debt outlook is unsustainable without full delivery of HIPC debt relief.
11. HIPC debt relief entitlements are calculated at the decision point date, while the provision of debt relief would begin only after the completion point date. Completion point is triggered by successful implementation of the poverty

reduction strategy as defined and monitored by the World Bank and the IMF.² The provision of interim debt relief,³ which is optional, may be approved by institutions to further support HIPC-eligible countries. IDA and the African Development Bank (AfDB) chose to provide this optional support in June 2021 but have since stated that they are reassessing this relief in the light of the significant challenges to peace and the path to transition experienced in Sudan since October 2021.

12. Sudan cleared its arrears to four MDBs, including IDA and AfDB, through a complex bridge financing mechanism. Sudan is also current on all its loan repayments to IFAD and has no arrears with the Fund. Its next loan repayment is due in May 2022.
13. The events of October 2021, caused significant instability in Sudan and created uncertainties and challenges to the normal course of action in the support to be provided through the HIPC Initiative. Other IFIs that had approved Sudan reaching decision point took certain mitigating measures in the implementation of their debt relief, such as reassessing the interim debt relief approved, pausing disbursements and stopping any new operations in the country and reconsidering the possibility of Sudan's reaching completion point until the peace and the integrity of the transition process had been restored. These IFIs have not, however, reversed their decision to include Sudan in the HIPC Initiative.
14. On 18 June 2021, the World Bank and the IMF sent IFAD a letter asking for confirmation of its intent to continue with the process of including Sudan in the HIPC Initiative. On 24 June 2021, IFAD replied in the affirmative, confirming its interest in continuing with the process. On 29 June 2021, the boards of the World Bank's IDA and the IMF approved decision point for Sudan. On 11 August 2021, IFAD received a letter from the World Bank and the IMF informing it of the calculations of the amount of debt relief to be provided to Sudan. IFAD Management prepared the documentation for IFAD's participation in the HIPC Initiative, which was due for approval at the 134th session of the Executive Board in December 2021. However, following the political developments in Sudan during the months of October and November, Management was asked by several member countries to postpone the approval in view of the evolving political situation, and Management agreed to reschedule the approval for the Board's April 2022 session.
15. This paper proposes a way forward to align IFAD with the steps taken by other IFIs, including the significant mitigation measures imposed, and enable it to continue to support the poorest people in rural areas, while minimizing the repercussions on IFAD from a financial and reputational risk point of view.

IV. Other international financial institutions

16. The largest multilateral creditors include the World Bank/IDA, the IMF and the AfDB. The support to Sudan through HIPC and the approach to arrears clearance adopted by the various IFIs is described below.⁴
17. World Bank/IDA assistance under the HIPC Initiative was estimated at about US\$1.1 billion at end-2020.⁵ The IDA provided arrears clearance covering the majority of the institution's HIPC debt relief. Immediately following decision point

² Further details may be found in *IMF Country Report No. 21/144, Enhanced Heavily Indebted Poor Countries (HIPC) Initiative – Decision Point Document* (July 2021).

³ Interim debt relief shifts the start date for benefiting from debt relief, so that relief begins earlier, at decision point rather than at completion point. The overall debt relief consequently ends earlier, and this measure therefore does not add any incremental financial burden to an institution.

⁴ IMF, *Country Report No. 21/144, Enhanced Heavily Indebted Poor Countries (HIPC) Initiative – Decision Point Document*, (July 2021).

⁵ Net present value (NPV) terms.

approval by the Boards of the IDA and the IMF in June 2021, the IDA began to provide interim debt relief, which was planned to last until 2023. IDA is currently reassessing the conditions for interim debt relief and its delivery. The remainder of the IDA HIPC debt relief is expected to be delivered after the completion point, should Sudan take actions to eventually reach it. Should completion point be reached, Sudan would also receive debt relief under the IDA's Multilateral Debt Relief Initiative (MDRI).

18. IMF assistance under the HIPC Initiative amounted to US\$1.05 billion at end-2020.⁶ Since decision point approval by the Boards of the IDA and the IMF, the IMF has been providing HIPC interim assistance on eligible debt service falling due prior to completion point, subject to Sudan maintaining satisfactory progress under the Fund arrangement approved by the IMF Board decision point. IMF is currently reassessing the conditions for interim debt relief and its delivery.
19. The AfDB Group's debt relief under HIPC amounted to US\$389.4 million at end-2020⁷ and has been entirely delivered through the arrears clearance operation on concessional terms that took place in May 2021. The provision of the full HIPC entitlements will not require a reassessment of HIPC conditions for the AfDB Group.

V. Way forward

20. For IFAD, as at 31 December 2021, Sudan's outstanding loan balance amounted to US\$119.1 million and its HIPC debt relief entitlements in nominal terms stood at approximately US\$101.5 million, as shown in table 1 below.

Table 1
Sudan HIPC⁸ entitlements as at 31 December 2021
(In millions)

	SDR	US\$*
Principal	66.1	92.6
Interest	6.3	8.8
Entitlements in nominal terms	72.4	101.5
Entitlements in NPV terms	65.3	91.6

*United States dollar equivalent based on 31 December 2021 exchange rate of SDR 1: US\$1.4023. These HIPC entitlements are already embedded in the financial scenarios in accordance with the resources available for commitment and the replenishment scenarios under the Twelfth Replenishment of IFAD's Resources (IFAD12).

21. At completion point, Sudan's HIPC entitlements (US\$101.5 million) will be funded by the World Bank Debt Relief Trust Fund for two thirds of the US\$101.5 amount. The financial impact on IFAD's capital amounts to US\$33.8 million, which remains unfunded and would need to be compensated by Member States. In the absence of that compensation, the amount will be carved out from core resources, with the resulting reduction of IFAD's capital and its financial and commitment capacity.
22. Based on the considerations outlined below, Management is recommending that the Executive Board approve HIPC decision point qualification for Sudan, without interim debt relief for now, but keeping such relief as a potential option for the

⁶ NPV terms.

⁷ NPV terms.

⁸ It is noted that the total HIPC burden on IFAD since inception in debt relief provided is US\$510 million. Of this debt relief, 40 per cent was covered by the World Bank Debt Relief Fund, 45 per cent by IFAD through reduction of IFAD's capital, and 13 per cent by Member States. The contribution from Members has been low in comparison with other IFIs because when IFAD joined the HIPC Initiative in 1996, there was no binding compensation plan by IFAD for funding the significant burden – it was covered on a pay-as-you-go basis not embedded in the replenishments.

future, depending on the position of other IFIs and on whether there is return to democratic government.

23. The HIPC Initiative is an international agreement that multilateral creditors (including the World Bank, the IMF, the AfDB, IFAD, the Inter-American Development Bank, all Paris Club creditors and some others) have committed to as an international community. It can be successful only if all creditors participate and apply it consistently. This also ensures alignment among IFIs and protects their preferred creditor status with the international community and credit rating agencies. Continuing to participate also avoids reputational risk with the international community beyond the case of Sudan. With the approval of HIPC assistance for the country, IFAD would be aligned with the actions already taken by other IFIs, avoid reputational risks and protect its preferred creditor status, thereby mitigating the potential impact on IFAD's credit rating.
24. Sudan has a large financial exposure with IFAD and is experiencing financial stress, and thus there is a high probability that loan repayments falling due during fiscal year 2022 will not be honoured. In these circumstances, Sudan may not meet its repayment obligation to IFAD in May 2022 and would enter arrears status in the most serious non-performing loan (NPL) category six months later, i.e. by December 2022.
25. If IFAD participates in the HIPC Initiative for Sudan, it would be participating in an internationally coordinated debt relief initiative, and its exposure with regard to Sudan would be shielded and its loans to Sudan would not be considered as entering into arrears status. IFAD's NPLs would therefore not rise significantly and the assessment of the creditworthiness of IFAD's total loan portfolio and its preferred creditor status would be considered to be equivalent to the status at other similarly rated international IFIs and MDBs.
26. If IFAD were not to participate in the HIPC Initiative for Sudan, by December 2022 IFAD's NPLs would increase significantly from 2.5 to 3.9 per cent of the total loan portfolio. Subsequently, this much higher level of NPLs could have a significant impact on the assessment by credit rating agencies of IFAD's preferred creditor status and therefore on the riskiness of IFAD's overall loan portfolio. Given that the latter is one of the major drivers of the credit rating, it could have a serious impact on the assessment of IFAD's credit rating. Higher percentages of NPLs and the loss of IFAD's preferred creditor status will trigger increased allowance for expected credit losses and higher levels of capital consumption, both factors critical for rating considerations.
27. Debt relief will be provided only once Sudan reaches completion point, many years into the future, and only when it has been declared to have reached completion point by the World Bank and the IMF.⁹ At completion point, IFAD will also be compensated for two thirds of Sudan's debt relief entitlements by the World Bank Debt Relief Trust Fund.
28. Given the current country situation, IFAD is not recommending interim debt relief at the present time. Management will continue monitoring the country situation and should the political situation improve significantly, Management would consider the possibility of requesting the Executive Board to approve interim debt relief at a later date and would align with other IFIs and MDBs.

⁹ The Executive Board could approve interim debt relief if there are positive developments in the country as assessed by the IMF and the World Bank.

VI. Conclusions and recommendations

29. Based on the above considerations, the Executive Board is requested to approve the Fund's support for HIPC debt relief for the Republic of the Sudan in the amount of SDR 72.4 million¹⁰ in nominal terms or SDR 65.3 million in net present value terms, to align with the decision point actions taken by other IFIs and MDBs and further confirm IFAD's commitment to HIPC and its support for poor countries in need.
30. Sudan will not benefit from full HIPC financial support and full debt relief until the country reaches completion point. Before the country reaches completion point, the international community will look very carefully at the latest developments regarding peace and the path to transition. Management will inform the Executive Board on future developments, to ensure consistency and alignment with the HIPC debt relief approach of other IFIs, which is paramount.

VII. Proposal for the Federal Republic of Somalia

31. The purpose of this section is to: (i) inform the Executive Board of recent developments in the country case pertaining to Somalia in the context of the HIPC Initiative; (ii) propose that IFAD align itself with the decisions of the governing bodies of other IFIs, while fulfilling its international commitments; (iii) request Executive Board approval for debt relief for Somalia to enable IFAD to continue participating in the HIPC Initiative – and ensure that it is protected from the consequences of not doing so – and to continue supporting poor countries in debt distress; and (iv) solicit any financial support needed for Somalia's portion of HIPC obligation debt arrears totalling US\$6 million.
32. IFAD's impact in Somalia over the last 40 years has been significant, reaching about 1.78 million direct beneficiaries, and IFAD continues to be seen by the Government as a credible institution for food security, rural development and climate change adaptation.
33. See annex I for a summary of HIPC entitlements for Somalia. For all HIPC-approved beneficiary countries, the World Bank Debt Relief Trust Fund funds two thirds of the debt relief, with the remaining one third funded by IFIs and MDBs.

VIII. Country context

34. Historically, IFAD's interventions in Somalia have contributed to enhanced resilience of communities in the face of increasing vulnerabilities. These have aimed to: (i) increase incomes and food security by supporting agriculture and related activities; (ii) identify and promote pro-poor investment mechanisms in rural areas; and (iii) contribute to country stabilization and peacebuilding.
35. Since the 1980s, IFAD has invested in nine projects for a total amount of US\$113 million, of which US\$19.4 million were from IFAD's own resources, reaching about 1.78 million direct beneficiaries. IFAD is an assembler of development finance; its funding attracts cofinancing from other sources, which IFAD channels to the most vulnerable populations. In Somalia, IFAD's funding to date has leveraged almost five times as much funding from other sources.
36. Agriculture accounts for 65 per cent of GDP and employs a similar percentage of the workforce. Livestock used to contribute about 60 per cent to GDP and over 50 per cent to export earnings, but it is declining due to the conflict situation and export restrictions. The major risks for the sector include (i) the impacts of climate change and (ii) unpredictable livestock and crop markets. Investments would be needed to ramp up crop productivity through better production methods and

¹⁰ This balance is composed of SDR 66.1 million principal and SDR 6.3 million interest.

climate-resilient techniques, enhanced animal health and nutrition, and strengthened livestock value chains.

37. IFAD is currently designing a project financed from the seventh replenishment of resources of the GEF Trust Fund (GEF-7) System for Transparent Allocation of Resources allocation to Somalia for US\$18.9 million that will address three GEF focal areas: adaptation to climate change, combating land degradation and conservation and sustainable use of biodiversity. The GEF-7 project identification form has already been developed and endorsed by the GEF chief executive officer. The final project document is to be submitted in June 2022. The Global Agriculture and Food Security Program approved the project proposal grant of US\$16 million in December 2021 for which IFAD is designated as the supervising entity. The project development objective is to contribute to the reduction of small-scale producers' vulnerability, enhance their resilience to COVID-19 and other shocks on their livelihoods and improve their nutrition security and incomes in the project areas.
38. Based on its past experience and impact in Somalia, IFAD is seen by the Government as one of the most credible institutions for food security, rural development and climate change adaptation. Somalia designated IFAD in 2021 as the implementing agency for its full GEF allocation of US\$18.9 million (land degradation, biodiversity and climate change), which is confirmation of the Government's appreciation of IFAD's interventions in the country.
39. In recent years, despite debt arrears to IFAD, which means IFAD's core resources cannot be used for operations, IFAD has continued to support Somalia by actively mobilizing supplementary funding from donors and regional grants, as well as third-party implementation arrangements, for a portfolio of US\$12.3 million for the ongoing projects: (i) Resilient Livelihood Action to COVID-19 financed under the IFAD Rural Poor Stimulus Facility (RPSF); and (ii) Food Security and Sustainability in Fragile Situations (see annex III).

IX. Recent developments

40. In March 2020, Somalia reached the decision point and qualified for HIPC assistance. As a precondition to allow the debt relief to be effected at completion point (currently forecast in 2023), arrears have to be cleared with all IFIs, including IFAD.¹¹ Somalia cleared its arrears with all IFIs for much larger amounts, except IFAD. The method of arrears clearance through bridge financing is explained below in section X. IFIs enjoy a preferred creditor status when lending to sovereign countries and they cannot use their own direct financing/grants to clear debt arrears, as it would amount to a write-off of an IFI's own debts and contradict this preferred creditor status. For this reason, IFIs use complex bridge financing, which means a financier provides loan financing to clear the debt arrears with the IFI, and the IFI provides a package of funding to the debtor country for operations and potential loan repayment.
41. Somalia has had outstanding loan arrears with IFAD since 1990 amounting to US\$25.3 million.¹² Of this amount, US\$12.9 million in debt relief will be provided by the World Bank Debt Relief Trust Fund; US\$6.4 million in debt relief by IFAD is yet to be funded, and US\$6 million is to be provided by Somalia to clear its arrears with IFAD. Somalia has indicated it does not have the means to pay its US\$6 million obligation, and to support Somalia, IFAD is soliciting Members' support for grant/supplementary financing of US\$6 million to clear Somalia's

¹¹ Nearly all the country's official external debt was in arrears at end-2018, including to the IDA, the IMF and the AfDB. Somalia has now cleared its arrears to the IDA and the AfDB, and has agreed on an approach to clear its arrears to the IMF, which has granted interim assistance.

¹² The balance is composed of principal instalments billed unpaid for SDR 12.9 million and interest billed unpaid for SDR 5.2 million.

arrears. It is noted that IFAD's portion of US\$6.4 million is also currently not funded, and IFAD would use its own core resources to fill this gap unless Member States contribute separately to this cause.

42. Full clearance of all arrears is a precondition for accessing HIPC debt relief at completion point.
43. Management is supporting Somalia to find a suitable solution consistent with the arrears clearance practices adopted by other IFIs. During 2021, with IFAD's support, assistance was provided by the Government of Belgium, which contributed to the clearance of an amount equivalent to EUR 2.5 million.
44. A joint letter signed by IFAD and Somalia was sent to targeted donor countries in December 2021 seeking support for clearing Somalia's portion of the outstanding arrears to IFAD amounting to US\$6 million; however, the full balance remains outstanding as of the date of this paper.
45. Any Member State able to support Somalia to resolve this remaining US\$6 million balance is encouraged to do so. Such support would prevent the risk of: (i) Somalia not being able to reach completion point as a precondition for reaching this milestone in resolving all debts, including those to IFAD totalling US\$6 million; and (ii) risk to IFAD's reputation if it is the only IFI not able to resolve the arrears. Members are also encouraged to further support, if possible, IFAD's contribution to HIPC debt relief for Somalia of US\$6.4 million.

X. Other international financial institutions

46. The largest IFI multilateral creditors include the World Bank/IDA, the IMF, and the AfDB. The support to Somalia through the HIPC Initiative and arrears clearance of these IFIs is described below.¹³
47. World Bank/IDA assistance under the HIPC Initiative and the World Bank MDRI debt initiative amounts to US\$425.8 million as at end-2018. Arrears to IDA were cleared in March 2020 through bridge financing provided by the Government of Norway, reimbursed with the proceeds from a development policy grant.
48. IMF assistance amounted to US\$189.1 million as at end-2018, NPV terms. Arrears to the IMF were cleared in March 2020 with the assistance of bridge financing from the Government of Italy, which the authorities have reimbursed using the front-loaded access under the new IMF financial arrangement.
49. AfDB assistance amounted to US\$75.6 million as at end-2018. Arrears to AfDB were cleared in March 2020 through bridge financing provided by the Government of the United Kingdom and a contribution from the European Union. The bridge loan from the United Kingdom was reimbursed by the proceeds from a policy-based operation grant.

¹³ IDA and IMF, *Federal Republic of Somalia - Enhanced Heavily-Indebted Poor Countries (HIPC) Initiative – Decision Point Document*, IMF Country Report No. 20/86 (March 2020). <https://www.imf.org/en/Publications/CR/Issues/2020/03/26/Somalia-Enhanced-Heavily-Indebted-Poor-Countries-HIPC-Initiative-Decision-Point-Documents-49290>.

XI. Way forward

50. Of Somalia's long outstanding arrears to IFAD, US\$6 million remains to be cleared, ideally with contribution support from Member States. Arrears for much larger amounts to the World Bank/IDA, the IMF and the AfDB were cleared with the generous support of various Member States. The current arrears for Somalia are as follows:

Table 2
Summary of Somalia's arrears as at 31 December 2021
(In millions)

	SDR	US\$
Loans in arrears	18.1	25.3
HIPC entitlements:		
World Bank/IMF HIPC coverage <i>a</i>	(9.2)	(12.9)
IFAD resources <i>b</i>	(4.6)	(6.4)
Sub-total HIPC entitlements (<i>a+b</i>)	(13.8)	(19.3)
Somalia arrears funding gap	4.3	6.0

51. To re-engage with Somalia and allow Somalia to reach completion point and access HIPC funding from all donors, the followings steps have to occur: clearance of arrears outside HIPC entitlements (including US\$6 million owed to IFAD) and approval of HIPC decision point by IFAD Executive Board. If the Board approves the decision point to support debt relief for Somalia it would allow IFAD to come under the HIPC Initiative and align itself with other IFIs. However, if donors do not support Somalia in clearing its US\$6 million arrears to IFAD, Somalia would not reach completion point and this would have a high reputational risk for IFAD and for the international community.
52. Although the clearance of Somalia's arrears to IFAD remains to be resolved, its arrears to other IFIs have been cleared, which will allow Somalia to normalize its relations with the international community. Enabling Somalia to clear its arrears to IFAD would enable it to gain access to HIPC debt relief at completion point, aligning IFAD with other IFIs. This is the first step for Somalia to normalize its relationship with its creditors and potentially enable the country to receive new financial resources from development partners.
53. Two thirds of Somalia's HIPC entitlements (US\$12.9 million) will be funded by the World Bank Debt Relief Trust Fund, while IFAD will contribute one third (US\$6.4 million). This amount also remains unfunded and will need to be funded additionally by IFAD member countries if IFAD is to keep its current financial and commitment capacity.
54. As part of the HIPC Initiative, Somalia is required to honour its current debts. If it does not, this balance, which accumulates at a rate of about US\$500,000 per year, must be settled prior to completion point, in addition to the US\$6 million already owed.

XII. Conclusions and recommendations

55. Somalia needs to find donors to help it pay arrears to IFAD of US\$6 million. Otherwise, HIPC debt relief for Somalia, including from other IFIs, will be put on hold. This support cannot be postponed, as completion point is forecasted for 2023. Somalia will not be able to access these benefits until all arrears (including the US\$6 million owed to IFAD) have been cleared.

56. Somalia has indicated its inability to fund the US\$6 million and clear its arrears to IFAD. IFAD cannot use its core resources to clear the \$6 million due to IFAD, as doing so would amount to a write-off and would impact IFAD's preferred creditor status and its credit rating. In order not to impact their preferred creditor status and credit rating, other creditor IFIs, such as the World Bank and the AfDB, have resolved their arrears through a complex bridge loan financing arrangement provided to Somalia by the United Kingdom and Norway and through the use of internal grant vehicles in an overall package.
57. Based on the above considerations the Executive Board is requested to approve IFAD's support for HIPC debt relief for the Federal Republic of Somalia in the amount of SDR 13.8 million¹⁴ in nominal terms or SDR 12.6 million in net present value terms, to align with the decision point actions taken by other IFIs and MDBs, and further confirm IFAD's commitment to HIPC and its support for poor countries in need.
58. The Kingdom of Belgium generously supported Somalia by paying down a part of its original US\$9 million in arrears. IFAD's Management encourages any Member State able to support Somalia to help clear this remaining US\$6 million balance. This would allow Somalia to reach completion point and thus access debt relief. In addition, it would help avoid the reputational risk to IFAD if it is the only IFI not able to resolve Somalia's arrears. The IDA, the IMF and the AfDB were able to clear larger arrears (totalling US\$690 million) with the support of Members States through bridge financing and grants.
59. Management will keep the Executive Board updated on any future developments and will ensure consistency and alignment with the HIPC debt relief approach of other IFIs.

¹⁴ This balance is composed of SDR 12.8 million principal and SDR 1.0 million interest.

Summary of HIPC entitlements

Table 1
Summary of HIPC entitlements
 (Millions of United States dollars)

	<i>World Bank Debt Relief Trust Fund two thirds (a)</i>	<i>IFAD one third (b)</i>	<i>Total HIPC debt relief (a) + (b)</i>	<i>Arrears outside HIPC</i>	<i>Total</i>
Sudan	67.7	33.8	101.5	0	101.5
Somalia	12.9	6.4	19.3	6.0	25.3
Total	80.6	40.3	120.9	6.0	126.9

Sudan

I. Ongoing IFAD Projects in Sudan

1. Sustainable Natural Resources and Livelihoods Programme:
 - (i) The goal is to increase the food security, incomes and resilience of pastoralists, agropastoralists and smallholders who work together on natural resource-related projects.
 - (ii) Total project cost: US\$86.7 million; IFAD financing is US\$62.94 million and GEF Least Developed Countries Fund (LDCF) financing is US\$2 million.
2. Livestock Marketing and Resilience Programme:
 - (i) Targets economically marginalized and poor households, focusing on poor rural women and young men responding to income-generating possibilities, with the goal of increasing food security, wages and climate resilience in pastoralist communities.
 - (ii) Total project cost: US\$119.23 million; IFAD financing is US\$24.47 million, ASAP financing is US\$7 million, GEF-LDCF financing is US\$8.53 million.
3. Integrated Agriculture and Marketing Development Project:
 - (i) Intended to increase household incomes and enhance the climate change resilience of smallholder producers, rural women and youth in rainfed areas of Sudan by improving access to quality agricultural inputs and services, enhancing business skills, facilitating access to rural finance and appropriate market support and improving the organization and entrepreneurship skills of producers' associations.
 - (ii) Total project cost: US\$49.69 million; IFAD financing is US\$26.02 million, grant financing from the Norwegian Agency for Development Cooperation is US\$0.51 million and RPSF funding is US\$1.66 million.
4. Livestock Epidemio-Surveillance Project to Support Livelihoods of vulnerable rural smallholders and pastoralists:
 - (i) Intended to support the trade and export of livestock, thereby increasing the incomes and resilience of vulnerable smallholders and pastoralists in the target areas by ensuring appropriate surveillance and control of transboundary animal diseases.
 - (ii) Total project cost: EUR 8.85 million.

Somalia

I. Summary of ongoing and planned IFAD projects in Somalia

A. Ongoing projects

1. Improvement of Dryland Livelihoods in Djibouti and Somalia through Productivity Enhancing Technologies:
 - (i) Total project cost: US\$2.95 million. IFAD: US\$2 million; and Organization of the Petroleum Exporting Countries Fund for International Development: US\$0.95 million.
2. Food Security Promotion Project for Pastoralists and Agro-Pastoralists in Puntland:
 - (i) Total project cost: EUR 5,550,638. IFAD: EUR 2,591,000 (IFAD grant); and EUR 2,959,636 (Italian cooperation).
3. Resilient Livelihood Action to COVID-19.
 - (i) Total project cost: US\$626,064 financed from the RPSF window, with an approved plan for additional financing of US\$1,106,511 for the second allocation.
4. Total Ongoing: US\$10.8 million.

B. Pipeline (secured grants from donors as supplementary funding)

5. Adaptive Agriculture and Rangeland Rehabilitation Project for US\$18.9 million.
6. Food Security and Sustainability in Fragile Situations:
 - (i) Supplementary funding from the Netherlands of US\$1.6 million.
7. Total in Pipeline: US\$20.8 million.

C. Under discussion with the Ministry of Agriculture and Irrigation

8. Project proposal for Global Agriculture and Food Security Program financing for an agriculture investment worth between US\$15 million and US\$20 million, with IFAD as the supervising entity.
9. Total under consideration: US\$15 million.