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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. Financial impact of principal due and net service charges forgone

- 7. Table 1 lists the 18 projects and programmes approved in 2021 under the DSF. Their total value is US\$159.7 million¹ or 15.2 per cent of IFAD's overall 2021 total programme of loans and grants approved in 2021.
- 8. Table 2 shows that the DSF principal due from Member States and service charges forgone from DSF grants approved from 2007 to 2021 amounted to US\$2.6 billion and US\$397.3 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 2021
(Thousands of United States dollars)^a

<i>Region and country</i>	<i>Title</i>	<i>Amount</i>
Asia and the Pacific		
Bhutan	Commercial Agriculture and Resilient Livelihoods Enhancement Programme ^b	1 000
East and Southern Africa		
Burundi	Agricultural Production Intensification and Vulnerability Reduction Project	8 000
	Rural Entrepreneurship Development Programme	42 950
Comoros	Family Farming Productivity and Resilience Support Project	832
	Family Farming Productivity and Resilience Support Project	1 703
Madagascar	Inclusive Agricultural Value Chains Development Programme	22 500
	Recovery and Resilience Project in Three Southern Regions	2 633
South Sudan	South Sudan Livelihoods Resilience Project	7 900
Latin America and the Caribbean		
Haiti	Inclusive Blue Economy Project	14 000
	Project for Strengthening the Resilience of Small Farmers to the Consequences of the Covid-19 Pandemic	5 000
Near East, North Africa and Europe		
Kyrgyzstan	Regional Resilient Pastoral Communities Project	8 164
Tajikistan	Community-based Agricultural Support Project 'plus'	6 750
West and Central Africa		
Benin	Agricultural Development and Market Access Support Project	3 758
	Regional Programme for the Integration of Agricultural Markets	655
Chad	Project to Strengthen Innovation in Youth and Women Agropastoral Entrepreneurship in Chad (Renfort)	21 256
Guinea	Family Farming, Resilience and Markets Project in Upper and Middle Guinea (AgriFARM-HMG)	7 950
Niger	Joint Programme for the Sahel in Response to the Challenges of COVID-19, Conflict and Climate Change	1 340
Sierra Leone	Agricultural Value Chain Development Project	3 300
Total 2021		159 692
Carried forward balance		2 458 149
Adjustment for prior year reductions and exchange adjustments ^c		(9 991)
Grand total		2 607 850

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

^b The US\$1 million grant for Bhutan submitted for approval to IFAD's Executive Board was not a DSF grant (as Bhutan is not a DSF country). The financing agreement will be revised accordingly.

^c 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 2007-2021
(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>
	2007	97.6	1.9	-	0.0	0.0		
IFAD7	2008	107.0	5.8	-	0.0	0.0		
	2009	182.5	13.0	-	0.1	0.1	0.2	0.2
IFAD8	2010	146.4	37.5	-	0.3	0.3		
	2011	207.9	73.3	-	0.7	0.7		
	2012	295.8	117.0	-	1.4	1.4	2.4	2.6
IFAD9	2013	137.9	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	105.0	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	8.2	8.6	16.7		
	2020	103.6	172.4	14.3	9.8	24.1		
	2021	159.7	163.9	17.8	10.9	28.7	69.5	105.3
IFAD12	2022	-	263.0	25.1	12.3	37.5		
	2023	-	153.9	35.4	13.7	49.1		
	2024	-	148.2	39.1	14.5	53.7	140.2	245.6
IFAD13	2025	-	121.4	43.3	15.2	58.5		
	2026	-	111.6	49.5	15.8	65.2		
	2027	-	97.7	52.5	16.2	68.7	192.5	438.1
IFAD14	2028	-	82.1	63.5	16.4	79.9		
	2029	-	31.5	70.8	16.3	87.1		
	2030	-	24.8	78.3	16.0	94.3	261.4	699.5
IFAD15	2031	-	-	81.6	15.5	97.1		
	2032	-	-	86.2	14.9	101.0		
	2033	-	-	86.2	14.2	100.4	298.5	998.0
IFAD16	2034	-	-	86.2	13.6	99.7		
	2035	-	-	86.2	12.9	99.1		
	2036	-	-	86.2	12.3	98.4	297.3	1 295.3
IFAD17	2037	-	-	86.2	11.6	97.8		
	2038	-	-	86.2	11.0	97.2		
	2039	-	-	86.2	10.3	96.5	291.5	1 586.8
IFAD18	2040	-	-	86.2	9.7	95.9		
	2041	-	-	86.2	9.0	95.2		
	2042	-	-	86.2	8.4	94.6	285.6	1 872.4
IFAD19	2043	-	-	86.2	7.7	93.9		
	2044	-	-	86.2	7.1	93.3		
	2045	-	-	86.2	6.5	92.6	279.8	2 152.2
IFAD20	2046	-	-	86.2	5.8	92.0		
	2047	-	-	86.2	5.2	91.3		
	2048	-	-	83.0	4.5	87.5	270.8	2 423.0
IFAD21	2049	-	-	81.4	3.9	85.3		
	2050	-	-	75.9	3.3	79.2		
	2051	-	-	68.7	2.8	71.5	236.0	2 659.0
	2052	-	-	61.8	2.3	64.1		

<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>
IFAD22	2053		-	52.3	1.9	54.2		
	2054		-	47.4	1.5	48.9	167.2	2 826.2
IFAD23	2055		-	43.8	1.1	44.9		
	2056		-	37.2	.8	38.0		
	2057		-	33.7	.6	34.3	117.3	2 943.5
IFAD24	2058			24.9	.3	25.2		
	2059			19.7	.2	19.9		
	2060			8.6	.1	8.7	53.8	2 997.3
IFAD25	2061			7.8	-	7.8	7.8	3 005.1
Total		2 607.9	2 607.9	2 607.9	397.3	3 005.1	3 005.1	

Notes:

1. A cut-off date of 31 December 2021 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 2021.
3. Compensation (principal reflows) for IFAD10 and IFAD11 have been calculated using IFAD10 and IFAD11 replenishment rates respectively.
4. Service charge calculations from 2022 (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.