



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board - Sixty-Fourth Session**

Rome, 9-10 September 1998

**RESULTS OF THE EXECUTIVE BOARD VOTE BY CORRESPONDENCE  
REGARDING THE SETTLEMENT OF ARREARS BY THE ISLAMIC FEDERAL  
REPUBLIC OF THE COMOROS**

1. On 30 June 1998, the President of IFAD transmitted by facsimile to all members and alternate members of the Executive Board a proposal and recommendation regarding the settlement of arrears by the Islamic Federal Republic of The Comoros (see attachment). Replies were requested by Wednesday, 15 July 1998.
2. As at the close of business on 15 July 1998, the number of votes required to validate the vote had been received as well as those necessary to approve the motion. Under Rule 23 of the Rules of Procedure of the Executive Board, the vote shall be valid if replies are received from members having at least two-thirds (1 377.05) of the total number of votes in the Executive Board (2 065.57). Under Rule 19.1, all decisions of the Executive Board shall be taken by a majority of three-fifths of the votes cast, provided that such majority consists of more than one-half of the total number of votes.
3. Replies constituting a total of 1 856.69 votes from Executive Board members or their alternates, out of the grand total of 2 065.57 votes, were received as of 15 July 1998. Thus the requirement of Rule 23 was met. A total of 1 449.60 were 'yes' votes, thereby meeting the requirement under Rule 19.1. A total of 407.09 votes were recorded as abstentions. No negative votes were received.
4. The Executive Board has thus authorized the implementation of the plan for the settlement of arrears by The Comoros with the adoption of the following motion:

“The Executive Board, having considered the proposal of the President of IFAD in his communication of 30 June 1998, hereby approves the implementation of the settlement plan for arrears by the Islamic Federal Republic of The Comoros.”



5. In receiving the votes, the Secretariat was asked to note the three following concerns of Executive Board Directors:

6. First, some abstentions were based on a point of principle, i.e., some felt it incorrect to plan for a reduction in the net present value (NPV) of the loan, all the more so given the policy framework for managing arrears agreed at the Sixty-First Session of the Executive Board last September and approved by the Governing Council in February 1998. The fact that the loss would be small, and would fall within the margin of variation that might arise anyway from permissible delays in repayments, in the views of these Members does not affect the principle at stake.

7. The second concern was that some Executive Board Directors feared it would create a precedent.

8. The third concern expressed was that The Comoros had not yet made their first payment of 1 July 1998.

9. In view of these concerns, the Secretariat has requested the Government of The Comoros to include the NPV loss to IFAD at the end of the 12-month period.

10. A further report to be tabled at this Session will provide additional information relating to the implementation of the arrears settlement plan.

**ATTACHMENT**

On a number of occasions in the past it has become necessary to obtain a decision from the Executive Board with regard to a proposal which can not be postponed until the next session of the Board but does not warrant the calling of a special session of the Board. In such cases and under the provision of Rule 23 of the Rules of Procedure of the Executive Board, the latter's decision on such matters can be obtained by means of a vote by correspondence.

In this connection, I would like to bring to your attention the issue that has arisen with the loan servicing arrears of the Government of The Comoros and the course of action we are proposing to ensure that our projects continue disbursing and to avoid disruption of project implementation.

IFAD's portfolio in The Comoros comprises three active projects: (i) loan 291-KM, the Nioumakélé Small Producers' Support Project (APPN) which became effective in October 1992 and is scheduled to close in December 1998); (ii) loan SRS-042-KM, the Support to Economic Grassroots Initiatives Project (AIEB), effective since October 1995 and scheduled for closure in December 2002); and (iii) loan 420-KM, the Pilot Agricultural Services Project which, despite becoming effective in March 1998, has not yet started disbursing.

As I am sure you are aware, the political crisis which has prevailed in The Comoros since 1997 due to the separatist movement on the island of Anjouan has greatly contributed to aggravating the country's financial situation and has led to arrears in debt servicing, including IFAD loan repayments. As a consequence, IFAD loan disbursements to The Comoros have been suspended since 12 May 1998. The country's arrears presently amount to FRF 351,724.44 (approximately USD 55 000) but, with the next instalment of FRF 315,470.83 which is due on 1 July 1998, total arrears as of that date will amount to some USD 109 000.

An IFAD mission visited The Comoros in May 1998 with a view to finding a suitable solution to the delinquency problem and to avoiding further disruption in project implementation. The mission held discussions on the arrears question with the Prime Minister and the Ministers of Finance and Budget and Production, Fisheries, and Environment. Notwithstanding its keen interest in IFAD's projects, particularly the APPN project in Anjouan, unfortunately, the Government of The Comoros is not in a position to make immediate full payments of the debt servicing owed to the Fund because of the financial consequences of the country's political crisis.

Continued suspension of disbursements will seriously disrupt the implementation of the two ongoing projects and put at risk their overall impact. Both projects are expected to produce significant benefits for the target groups which include very poor farmers in Anjouan together with poor women and unemployed youths. Two key activities would be particularly affected, namely: the establishment of five new savings and credit associations in the island of Anjouan; and the provision of loans to micro-entrepreneurs. Furthermore, the contract with the Canadian organization responsible for executing the rural credit activities may have to be suspended or cancelled due to lack of operating funds, thus leaving the four existing savings and loans associations without the necessary support and nullifying any results produced to date.

With a view to minimizing the harmful effects of disbursement suspension, the IFAD mission drew up a realistic settlement plan for the arrears with the Prime Minister, subject to the approval of IFAD's Executive Board, as follows:

- (a) the Comoran Government would make an initial down payment of USD 15 000 by 1 July 1998;



- (b) the balance of USD 94 381 would be paid in 12 monthly instalments of USD 7 865, starting 1 August 1998; and
- (c) future billings for all loans would be honoured as and when due, as stipulated in the relevant loan agreements.

The proposed plan, which represents a maximum effort on the part of the Government of The Comoros, would involve a Net Present Value loss to IFAD of less than USD 3 800. It is proposed that this loss be accepted on a de minimus basis; in this connection, I would note that IFAD, on occasion incurs comparable minor losses of Net Present Value in the normal course of loan amortization, e.g., when borrowers incur delays not exceeding 75 days in effecting loan payments.

If the Executive Board approves this proposal, IFAD would be able to resume normal disbursement upon receipt of the USD 15 000 down payment. It should be noted, however, that if the Government of The Comoros fails to meet the agreed schedule of payments as described above, suspension of disbursements would be applied.

The next session of the Executive Board will be held on 9 and 10 September 1998. However, as explained above, apart from delaying the resumption of loan repayments and increasing the amounts to be recovered, a three-month delay in the implementation of the package would seriously disrupt the operations of the two ongoing projects. Under the circumstances, the Executive Board is invited to approve the proposed settlement plan through a vote by correspondence, thus making it possible to resolve the arrears situation as early as possible and to resume normal implementation and loan disbursements.

Given the urgency of the matter, the importance to minimize disruption to project activities, the decision of the Executive Board is required as soon as possible. Under these circumstances, Members are requested to send us their reply by 15 July 1998.

Regarding the vote by correspondence, Rule 23 of the Rules of Procedure of the Executive Board stipulates that:

“... the President shall transmit to each member and alternate, by any rapid means of communication, a motion embodying the proposed action with a request for each member to vote thereon. Votes shall be cast within such reasonable period as the President shall prescribe, at the expiration of which he shall record the results and notify all members and alternates. .... The vote shall be valid if replies are received from members having at least two-thirds of the total number of votes in the Executive Board.”

Executive Board Members are kindly reminded that:

- (a) Members and Alternate Members may cast a “yes”, “no” or “abstain” vote by submitting a written reply (fax, telex or letter);
- (b) the absence of a written reply by the stipulated deadline date will not indicate abstention but rather the absence of the person in the voting procedure; and
- (c) in the case of a non-reply ((b) above) by a Member, the vote of the Alternate Member shall prevail.

I therefore hereby request you to approve the following motion: “The Executive Board of IFAD, having considered the proposal of the President of IFAD in his communication of 30 June



1998, hereby approves the implementation of the settlement plan for arrears by the Islamic Federal Republic of The Comoros.”

Accept, Distinguished Director, the assurance of my highest consideration.