



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Seventy-Sixth Session**  
Rome, 4-5 September 2002

**IFAD'S PARTICIPATION IN THE  
DEBT INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES**

**I. INTRODUCTION**

1. It is the objective of this paper to:
  - (i) inform the Executive Board of the status of implementation of the Debt Initiative for Heavily Indebted Poor Countries (HIPC) and IFAD's participation in the Initiative;
  - (ii) draw the Executive Board's attention to the need to define a resource strategy for financing of IFAD's participation in the Debt Initiative; and
  - (iii) seek the Executive Board's approval of two new country cases, Ghana and Sierra Leone, for debt relief under the Initiative, and of a completion-point top-up of the debt relief approved at decision point for Burkina Faso.

**II. STATUS OF IMPLEMENTATION OF THE DEBT INITIATIVE**

2. **Updated cost estimates.** As shown in Table 1, the total cost of the aggregate Initiative in 2001 net-present-value (NPV) terms has increased and currently amounts to 36.4 billion United States dollars (USD) (or USD 45.3 billion, including Liberia, Somalia and The Sudan).

**Table 1: Updated Estimates of Total Debt Initiative Costs  
(for 34 countries, in USD billion)**

	September 2001 Costing Exercise 2000 NPV Terms	March 2002 Costing Exercise 2001 NPV Terms	March 2002 Percentage of Total Costs
<b>Total costs (without Liberia, Somalia and The Sudan)</b>	<b>33.2</b>	<b>36.4</b>	<b>100.0</b>
<i>Bilateral and commercial creditors</i>	<i>17.1</i>	<i>18.8</i>	<i>51.7</i>
<i>Multilateral creditors</i>	<i>16.1</i>	<i>17.6</i>	<i>48.3</i>
<b>Total costs (incl. Liberia, Somalia and The Sudan)</b>	<b>41.6</b>	<b>45.3</b>	<b>124.2</b>

Source: IMF/World Bank staff estimates (April 2002)

3. **Status of implementation.** As of April 2002, 26 countries had become eligible for debt relief under the enhanced Debt Initiative<sup>1</sup>. Bolivia, Burkina Faso, Mauritania, Mozambique, the United Republic of Tanzania, and Uganda had reached their completion points under the enhanced Initiative; and Guyana and Mali had reached their completion points under the original Initiative. Looking ahead, in the next months Benin and Mali could reach their completion points, and Côte d'Ivoire could reach its decision point under the enhanced Initiative. Preliminary documents could be issued for the Central African Republic, the Comoros and the Democratic Republic of the Congo.

**Table 2: The 42 Heavily Indebted Poor Countries**

<b>Countries with Enhanced Initiative Decision Point (26) as of March 2002</b>	<b>Countries Not Yet at Decision Point (12)</b>	<b>Possibly Sustainable Country Cases</b>
Benin, Cameroon, Chad, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau (with interim relief from IFAD), Guyana, Honduras, Madagascar, Malawi, Mali, Nicaragua, Niger, Rwanda, Senegal, Sao Tome and Principe, Sierra Leone, Zambia  <b>With Decision Point and Completion Point (6):</b> Bolivia, Burkina Faso, Mauritania, Mozambique, United Republic of Tanzania, Uganda	Burundi, Central African Republic, Comoros, Congo, D.R. Congo, Côte d'Ivoire, Laos, Liberia, Myanmar (no IFAD exposure), Somalia, Sudan, Togo	Angola, Kenya, Viet Nam, Yemen

4. For the 26 countries that have reached their decision points under the enhanced HIPC Initiative, debt relief worth USD 25 billion in NPV terms has been committed to date. This amounts to about USD 40 billion in nominal debt-service relief over time. Taken as a whole, the debt stocks for these countries will decline from a level of around USD 62 billion in NPV terms to USD 27 billion after the full application of traditional debt-relief treatment and assistance under the Debt Initiative, and to USD 22 billion after bilateral debt relief beyond the Initiative committed by several bilateral donors – an overall reduction of nearly two thirds. Overall annual debt service paid during 2001-2005 is expected to be cut by about 30% relative to annual debt-service payments made in 1998-1999. This translates into an annual average decline in debt-service payments of 1.3% of gross domestic product (GDP). Debt service as a percentage of exports is projected to fall from an annual average of 16.1% to 8.8% in 2001-2005 (notwithstanding the recent declines in export revenues due to exogenous factors), and debt service relative to government revenue is projected to fall from an average of 24.3% per annum in 1998-1999 to 13.1% in 2001-2005. Debt relief will enable governments to substantially increase resources devoted to poverty reduction. On average, the 26 decision-point countries will spend on social sectors in 2002-2005

<sup>1</sup> In addition, Côte d'Ivoire has been declared eligible for debt relief under the original Debt Initiative framework, but completion point has been delayed.



more than three times what they plan to spend on debt service over the same period, and social spending as a percentage of government revenue increased from 37 to 47% between 1999 and 2001. Social expenditures are expected to rise from 6% of GDP in 1999 to 9% of GDP in 2002. As a share of government revenue, social spending would increase from 37% before the debt relief to an average of 55% afterwards.

5. Implementation of the Initiative continues to face challenges. First, countries already past their decision points need to remain on track with their economic reform and poverty-reduction programmes to reach their floating completion points. Several countries in this group have encountered problems in the implementation of their macroeconomic programmes (Guinea, Guinea-Bissau, Guyana, Honduras, Malawi, Nicaragua, Niger, Rwanda, Senegal, and Sao Tome and Principe), although for some (Honduras, Niger, Rwanda) this problem has been temporary. Some other countries are finding that implementation of completion point triggers in social and structural areas takes longer than anticipated. Other countries (Benin, Cameroon, Mali) have experienced delays in preparing full Poverty-Reduction Strategy Papers (PRSPs).

6. The challenge of achieving and maintaining external debt sustainability has become more difficult with the deterioration of the global economic environment. Virtually all HIPC's are heavily dependent on primary commodities for their export earnings and government revenue, and as a result they remain vulnerable to declines in world commodity prices and other adverse exogenous developments. Developed countries' policies could be made more supportive of developing-country debt sustainability (thereby also supporting the latter's poverty-reduction efforts), and HIPC's could implement policy reforms to diversify their export base, supported in this by appropriate external financing on highly concessional terms and conditions. **For countries in the interim period between decision and completion points, the enhanced Debt Initiative provides for the possibility of additional debt relief at completion point in exceptional cases in which exogenous factors have caused fundamental negative changes in a country's economic circumstances.** This is the case for Burkina Faso, presented below.

7. The remaining 12 countries (eight of which are affected by conflict and/or have substantial arrears) need to be brought to their decision points as soon as conditions permit. The challenges are daunting as these countries strive to achieve peace and internal stability, pursue sound economic policies, and develop their economic management capacity. The PRSP process may be particularly difficult for some of these countries, as several have large displaced populations and are facing difficulty in undertaking broadbased participatory processes. The international community acknowledges the need for flexibility in this regard. With respect to arrears, the international financial institutions (IFIs) are called upon to deal with the issue in a proactive and creative manner to ensure that decision points are not delayed much longer after achievement of the basic decision-point conditions. **Against this background, as a matter of Debt Initiative policy for post-conflict countries, the World Bank and the International Monetary Fund (IMF) are including arrears in the debt-stock outstanding at the cut-off date of eligible debt.** Sierra Leone is the second such country case (after Guinea-Bissau), soon to be followed by the Democratic Republic of the Congo.

8. **IFAD's participation.** The total NPV cost of IFAD's participation in the full Debt Initiative is currently estimated at 230 million Special Drawing Rights (SDR) (USD 308 million), which corresponds to an approximate nominal cost of SDR 351 million (USD 469 million). These costs are projected to peak in 2005 at a level of USD 39.5 million in nominal terms.

9. Subject to approval of the following debt-relief proposals for Ghana, Sierra Leone and Burkina Faso (completion-point top-up), IFAD will have committed to providing debt relief to the 26 countries that had reached their enhanced Initiative decision point by April 2002, for a total NPV amount of approximately SDR 168 million (USD 224 million). Assuming prompt fulfilment of completion-point



conditions and a relatively front-loaded modality for debt relief <sup>2</sup>, this would amount to about SDR 245 million in nominal terms (USD 327 million) spread over varying periods of time, depending on the country, ranging from 2 years to 27 (for Sao Tome and Principe) or even 35 (for Nicaragua).

10. The debt relief provided by IFAD up to June 2002 amounts to approximately USD 19 million, of which about USD 8 million was covered by IFAD's own resources and the remainder by external resources (The Netherlands, Germany).

11. Document REPL.VI/3/INF.3 provided the Consultation on the Sixth Replenishment of IFAD's Resources with details of the Fund's past efforts and results in mobilizing additional external resources to help finance its participation in the Debt Initiative. It also flagged a need for the Fund's membership to define a broader strategy for this financing. To this effect, the document highlighted the following issues:

- (i) The 2000 Governing Council decided that IFAD would fully participate in the HIPC Debt Initiative, that it would do so through a combination of internal and external resources, but that it would need to minimize the impact of the debt relief on IFAD's capacity to provide new loans and grants.
- (ii) In the light of IFAD's constrained resource position, each amount of debt relief provided by the Fund implies *de facto* a reduction in resources available for commitment to new loans and grants.
- (iii) Thus in order to meet the GC requirement, the Fund needs to mobilize additional external resources. It has done so through direct contributions (The Netherlands) and through contributions from IFAD-earmarked resources in the World Bank-administered HIPC Trust Fund (Belgium, Germany). Further pledges have been made by Italy, Switzerland and the European Union.
- (iv) In line with levels of external support received by other IFIs that participate in the Initiative (taking into account that a number of IFAD's institutional characteristics are close to those of the African Development Bank), and considering the level of contributions to IFAD's Replenishment provided by developing countries themselves, it is recommended that IFAD seek additional external financing for 66% of its Initiative financing requirements.
- (v) This should be achieved through additional direct contributions and through securing comparable access to the World Bank-administered trust fund.

### III. COUNTRY CASES

#### Ghana

12. In February 2002, the executive boards of IMF and the International Development Association (IDA) agreed to support a comprehensive debt-reduction package for Ghana under the enhanced Debt Initiative. Ghana's eligibility for debt relief under the enhanced Initiative framework is evidence of the international community's recognition of the sustained macroeconomic, structural and social reforms pursued in recent years, and of the commitment demonstrated by the Ghanaian authorities to channel Debt Initiative resources to key social investments such as health and education.

13. As 80% of Ghana's poor live in rural areas, the acceleration of agricultural growth and creation of sources of off-farm employment are crucial in reducing poverty. The Agricultural Services Sector Investment Programme and IFAD's own country portfolio aim to provide improved service delivery to smallholders, mechanisms for sustainable use of land and off-farm employment. The country's strategy also envisages devoting resources to improving storage facilities and constructing feeder roads that are

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<sup>2</sup> One hundred per cent of debt-service relief from completion point onwards until the NPV target is reached, without interim relief, except for Guinea-Bissau.



critically important in increasing market access for poor farmers. Reforms will continue in the cocoa sector in order to increase producers' shares of export sales and liberalize external marketing. Investments in agro-processing will be promoted, and foreign participation sought, through infrastructure development and reforms to facilitate access to land and to clarify property rights.

14. In December 2000 (the base year), Ghana's NPV of debt (after application of the traditional debt-relief mechanisms) was equivalent to 157% of exports and its NPV-of-debt to revenue ratio was 570%. Under the enhanced Initiative, countries are eligible for assistance provided that the NPV of their external debt exceeds 150% of export revenues or 250% of government revenues. Ghana thus qualifies for debt relief mainly under the fiscal-revenue/openness criteria. To achieve this target, all multilateral creditors are expected to provide a reduction of 56.2% in the NPV of their outstanding claims as of December 2000. Total relief from all of Ghana's creditors would amount to USD 2.2 billion in NPV terms. Based on proportional burden-sharing, bilateral and commercial creditors will provide just under USD 1.1 billion. Multilateral creditors will provide USD 1.1 billion in debt relief in NPV terms. **IFAD's Executive Board is requested to approve IFAD's contribution to debt relief for Ghana in the amount of SDR 13.6 million (USD 17.7 million) in 2000 NPV terms.** Tentatively, this would amount to SDR 19.9 million in nominal terms, spread over approximately twelve years.

15. Ghana will reach its completion point under the enhanced Initiative when the following measures have been completed: (i) development of a full PRSP and its implementation for at least one year; and (ii) enhancement of reforms in macroeconomic management and governance, including public expenditure management, and strengthening of administration in priority social sectors, particularly health and education.

## Sierra Leone

16. In March 2002, the IMF and IDA executive boards agreed to support a comprehensive debt-reduction package for Sierra Leone under the enhanced Debt Initiative. Sierra Leone's eligibility for debt relief under the enhanced Initiative framework is evidence of the international community's recognition of the sustained macroeconomic, structural, and social reforms pursued in recent years, and of the commitment demonstrated by Sierra Leone to peace and stability, including disarmament, demobilization and reintegration programmes.

17. Agriculture and fishing contribute some 40% to GDP and provide employment for 80-90% of the rural population. Farming is carried out almost exclusively on smallholdings, averaging 1.6 hectares, of mainly rice (the staple food), cassava, sweet potatoes, and some coffee, oil palm and cocoa. Like all other sectors, this one has been devastated by the civil war. The Government attaches high priority to reviving agriculture and rural areas. Having largely eliminated policy-induced price distortions during the transitional phase, the focus is now on getting the rural population back on the land and restarting production – providing rural shelter and facilitating resettlement and small-scale rehabilitation. Over the medium term, the goal is to increase productivity and income by: (i) sharply augmenting investment in feeder roads and bridges, basic services, education and health in rural areas; (ii) re-establishing agricultural extension services and generating a seed stock suitable to the local ecology; (iii) rebuilding farmers' organizations; and (iv) undertaking a fundamental review of the agricultural land-tenure system to enhance private-sector involvement in the sector.

18. In December 2000 (the base year), Sierra Leone's NPV of debt (after application of the traditional debt-relief mechanisms) was equivalent to 757% of exports. Under the enhanced Initiative, countries are eligible for assistance provided that the NPV of their external debt exceeds 150% of export revenues. To achieve this target, all multilateral creditors are expected to provide a reduction of 80.2% in the NPV of their outstanding claims as of December 2000. Total relief from all of Sierra Leone's creditors would amount to USD 600 million in NPV terms. Based on proportional burden-sharing, bilateral and commercial creditors will provide USD 268 million. Multilateral creditors will provide



USD 332 million in debt relief in NPV terms. **IFAD's Executive Board is requested to approve IFAD's contribution to debt relief for Sierra Leone in the amount of SDR 7.85 million (USD 10.5 million) in 2000 NPV terms.** Tentatively, this would amount to SDR 13.1 million in nominal terms, spread over approximately 19 years.

19. Sierra Leone will reach its completion point under the enhanced Initiative when the following key measures have been completed: (i) continued commitment to the financial and economic programmes supported by IDA and the IMF's Poverty-Reduction and Growth Facility; (ii) development of a full PRSP and at least one year of implementation; and (iii) implementation of a set of measures in the context of the Government's poverty-reduction strategy in the areas of governance and decentralization of government functions, structural measures, education and health.

20. For some time, Sierra Leone has faced significant debt-service management problems, which culminated in arrears to IFAD and suspension of the country portfolio. In December 2001, the Executive Board approved a settlement plan for about USD 2.05 million of arrears (document EB 2001/74/R.6). Based on the comparable precedent of Guinea-Bissau (document EB 2001/72/R.15, drawing on the policy decision set forth in document EB 2000/71/R.12), **it is proposed that the Executive Board also approve the integration of the arrears settlement plan for Sierra Leone into the NPV-of-debt relief for the country and the provision of 100% of debt relief during the interim period** (see also paragraph 7).

## Burkina Faso

21. In April 2002, the IMF and IDA executive boards agreed that Burkina Faso had satisfactorily fulfilled the conditions necessary to reach completion point under the enhanced Initiative and thus qualifies for delivery of the full amount of debt relief committed at the enhanced Initiative decision point of July 2001<sup>3</sup>. However, in reviewing the country's debt sustainability in March 2002 on the basis of end-2001 data, the World Bank and IMF established that the total approved amount of debt relief leaves Burkina Faso's NPV-of-debt to exports ratio at end-2001 with a debt hump of almost 200% for a prolonged period of time. This is mainly the result of lower exports due to: falling world cotton prices, partly a consequence of heavy subsidies in industrialized-country markets, and crop damage from agricultural parasites. In the light of this significantly worsened outlook and as provided for under the HIPC Debt Initiative policy framework (see paragraph 6), the World Bank and IMF executive boards agreed that Burkina Faso: (i) had experienced a fundamental negative change in its economic circumstances; and (ii) qualifies for exceptional topping-up of debt relief in order to mitigate adverse developments in the country's debt ratios, resulting from exogenous shocks to its exports, and to achieve debt sustainability.

22. To reach the 150% target NPV-of-debt- to-exports ratio, all multilateral creditors are expected to increase their contribution to debt relief for Burkina Faso by revising the common debt-reduction factor from 19.7% (of end-1999 NPV of debt) at the enhanced Initiative decision point to 29.9% in end-2001 NPV terms. **IFAD's Executive Board is requested to approve IFAD's revised contribution to debt relief for Burkina Faso in the amount of SDR 5.8 million (USD 7.75 million) in 2001 NPV terms, inclusive of the relief approved by earlier IFAD Executive Board decisions.** Tentatively, this would amount to SDR 7.4 million in nominal terms, spread over approximately nine years. Because the

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<sup>3</sup> IFAD's decision to participate in debt relief for Burkina Faso under the original HIPC Debt Initiative was made by the Executive Board on the basis of document EB 97/62/R.10/Rev.1 and document EB 2000/70/R.12 for the original completion-point top-up. IFAD's commitment to participate in the enhanced Initiative was made on the basis of document EB 2000/71/R.12. IFAD's aggregate commitment to contribute to debt relief for Burkina Faso at decision point under the enhanced Initiative amounts to SDR 5.18 million in 1999 NPV terms, which includes the amount approved earlier under the original HIPC Debt Initiative framework.



country has reached its completion point under the enhanced Initiative, the Executive Board decision would become effective immediately.

#### IV. RECOMMENDATIONS

23. It is recommended that the Executive Board:

- (i) take note of the status of implementation of the HIPC Debt Initiative and IFAD's participation therein;
- (ii) approve the proposed contribution to the reduction of **Ghana's** debt to IFAD as of 31 December 2000, in the amount of SDR 13.6 million in 2000 NPV terms. This relief will be provided in accordance with the terms of the following resolution:

“RESOLVED: that the Fund, upon declaration at completion point by the International Monetary Fund and the World Bank that Ghana has satisfied the conditions for debt relief under the Debt Initiative for Heavily Indebted Poor Countries, shall reduce the value of Ghana's debt to IFAD through the reduction by up to 100% of its respective semi-annual debt-service obligations to IFAD (principal and service-charge/interest payments), as these fall due after the respective completion point, and up to the aggregate NPV amount of SDR 13.6 million in 2000 NPV terms”;

- (iii) approve the proposed contribution to the reduction of **Sierra Leone's** debt to IFAD as of 31 December 2000, in the amount of SDR 7.85 million in 2000 NPV terms. This relief will be provided in accordance with the terms of the following resolution:

“RESOLVED: that the Fund, upon the decision of its Executive Board and after finalization of the legal documentation, shall reduce the value of Sierra Leone's debt to IFAD through the integration of Sierra Leone's arrears to IFAD into the debt relief and through the reduction by up to 100% of its respective semi-annual debt-service obligations to IFAD (principal and service-charge/interest payments), as these fall due, up to the aggregate NPV amount of SDR 7.85 million in 2000 NPV terms”<sup>4</sup>; and

- (iv) approve the proposed revision of the contribution to the reduction of **Burkina Faso's** debt to IFAD as of 31 December 2001, in the amount of SDR 5.84 million in 2001 NPV terms (inclusive of the earlier approved debt relief). This relief will be provided in accordance with the terms of the following resolution:

“RESOLVED: that the Fund, upon the decision of its Executive Board and after finalization of the legal documentation, shall reduce the value of Burkina Faso's debt to IFAD through the reduction by up to 100% of its respective semi-annual debt-service obligations to IFAD (principal and service-charge/interest payments), as these fall due, and up to the revised aggregate NPV amount of SDR 5.84 million in 2001 NPV terms.”

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<sup>4</sup> This implies integration of the arrears settlement plan into the debt relief, in addition to debt relief during the interim period. While debt relief will be provided during the interim period, it will only become legally effective at completion point for the country.