



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Seventy-Eighth Session**

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**SETTLEMENT OF ARREARS BY THE DEMOCRATIC REPUBLIC OF THE CONGO**

**I. INTRODUCTION**

1. The present document contains a recommendation by the President of IFAD to implement a settlement plan for arrears incurred by the Democratic Republic of The Congo. The recommendation is based on a legal agreement signed between the Ministry of Economy and Finance and IFAD in December 2002.

**II. BACKGROUND**

2. Despite the country's abundance of natural resources (diamonds and other minerals, as well as significant land and forest resources), a legacy of economic mismanagement and political turbulence have combined to make the Democratic Republic of The Congo one of the world's poorest and least developed countries. It is estimated that the civil war that began in 1997 is responsible – directly or indirectly – for the loss of 1.5-3 million lives.

3. Since the change of government in January 2001, however, significant progress has been made on the political and economic fronts. A power-sharing agreement has been agreed between the current government and rebel forces. Most foreign armed forces have either left the country or significantly reduced their numbers, and the United Nations Observer Mission in the Democratic Republic of The Congo has considerably expanded the areas of the country that may now be considered reasonably secure. President Joseph Kabila has assembled a strong government that enjoys great respect among the international community. Macroeconomic progress over the last year has been remarkable. Under an International Monetary Fund (IMF) Staff Monitored Program from June 2001 to March 2002, hyperinflation was curtailed (inflation fell from an annualized rate of 630% in the first five months of 2001 to 8.8% in June-December 2001); the exchange rate was stabilized with the spread between official and parallel rates all but disappearing; government revenues exceeded IMF-agreed targets (more than doubling as a percentage of gross domestic product (GDP), from 3.6% in 2000 to 7.3% by end-2001); and a number of important structural reforms have been introduced with regard to liberalizing prices, transparency and governance, public expenditure reform, and sectoral reform.

4. In recognition of the country's achievements and in an effort to support continued macroeconomic progress, in June 2002 the Executive Boards of IMF and the World Bank approved an Enhanced Poverty Reduction Facility and an Economic Recovery Credit, respectively. These programmes are intended to consolidate and deepen the reforms so far undertaken and to lay the



groundwork for assistance under the Debt Initiative for Heavily-Indebted Poor Countries (HIPC), for which the decision point is currently set at 2003.

5. Prior to suspension of disbursements on 15 February 1993, IFAD had financed three projects in the Democratic Republic of The Congo (then Zaire): the Smallholder Maize Project (Loan 047-ZR), which closed on 30 June 1990; the Lulua Agricultural Development Project (Loan 160-ZR), which closed on 30 June 1992; and the South Shaba Agricultural Development Project (Loan 200-ZR), which closed on 28 November 1994 following the suspension. In all, IFAD committed some SDR 24 750 000 to the three projects, of which SDR 18 743 000 was disbursed. As of 30 June 2002, total arrears amounted to USD 7 932 065.

6. Subject to Executive Board approval, an agreement has been concluded with authorities of the Democratic Republic of The Congo on an arrears settlement plan that takes account of IFAD's policy on safeguarding the net present value (NPV) of outstanding debts. The proposal was developed in close consultation with the Government and with staff of the IMF and World Bank responsible for macroeconomic issues and HIPC, and fits into an overall multi-donor framework for debt management that emphasizes the following:

- the need for international financial institutions (IFIs) to arrive at agreements characterized by equitable burden-sharing reflecting an integrated approach to arrears settlement, regular debt servicing and eventual debt relief under HIPC;<sup>1</sup>
- in light of the high level of debt servicing that will be required over the next several years, a strong emphasis on front loading of debt relief by IFIs in order to ease debt servicing requirements to the extent possible; and
- maintenance of a situation of net positive transfers with individual IFIs over the next year.

### III. RECOMMENDATION

7. The Executive Board is requested to approve the following agreement:

- (a) use of USD 1 500 000 from a grant of USD 2 713 086 provided by Belgium for reducing current arrears, effective immediately;
- (b) use of the remaining USD 1 213 086 of the Belgian grant to reimburse current billings on the three existing loans to the country (see paragraph 5 above) as they come due, beginning with payments due during the first semester of 2003 and until such time as these funds are exhausted;
- (c) consolidation of remaining arrears with the rescheduling of repayments over a three-year period, with an initial grace period of two years starting from 1 January 2003; and
- (d) payment of the arrears on a semi-annual basis, with the first payment falling due on 1 June 2005. These payments will also include the interest accrued during the consolidation period, and will amount to six equal semi-annual instalments of USD 1 472 978 on the following dates: 1 June 2005; 1 December 2005; 1 June 2006; 1 December 2006; 1 June 2007; and 1 December 2007. The annual interest rate to be applied to these payments is 4.2%.

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<sup>1</sup> As was the case with Guinea-Bissau and Sierra Leone, once the Democratic Republic of The Congo reaches the HIPC decision point a proposal for incorporating arrears into IFAD's HIPC assistance to the country will be submitted to the Executive Board for approval.