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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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

PROPOSALS FOR ETHIOPIA AND NIGER, AND 2004 PROGRESS REPORT

A. INTRODUCTION

1. The purpose of this paper is to seek the approval of the IFAD Executive Board for debt-relief top-up at completion point for Ethiopia and Niger, and to provide a progress report on IFAD's participation in the Debt Initiative for Heavily Indebted Poor Countries (HIPCs) in 2004.

B. COUNTRY CASES FOR APPROVAL

2. **Ethiopia.** In 2001 Ethiopia reached its decision point under the enhanced Debt Initiative, and IFAD's Executive Board, in its Seventy-Fifth Session (document EB 2002/75/R.14), approved debt relief for the country in the amount of SDR 12.4 million in June 2001 net-present-value (NPV) terms. This was equivalent to a 47.2% reduction of Ethiopia's debt outstanding with IFAD in July 2001. The approved NPV debt relief amounted to SDR 17.2 million in nominal debt-service relief on a pay-as-you-go basis.

3. In April 2004 Ethiopia reached its completion point. The debt situation had deteriorated between the decision and the completion point for the following exogenous reasons: (i) changes in the discount and exchange rates; (ii) severe drought; and (iii) lower coffee prices.

4. In approving the completion point, and recognizing the deterioration in the debt situation of Ethiopia during the interim period, the executive boards of the World Bank and the International Monetary Fund (IMF) approved a top-up of the debt relief approved at decision point for amounts equivalent to 31.3% of the debt outstanding in June 2003 – after delivery of the debt relief approved at decision point. This would bring Ethiopia's NPV of debt-to-export ratio to the (150%) threshold established under the enhanced Debt Initiative framework.

5. **IFAD's Executive Board is requested to approve a top-up of the debt relief approved for Ethiopia in an amount equivalent to SDR 6.23 million (USD 8.9 million) in June 2003 NPV terms.** The total amount of debt relief to be provided by IFAD would therefore amount to SDR 18.63 million in NPV terms (SDR 12.4 million in June 2001 NPV terms, and SDR 6.23 in June 2003 NPV terms).

6. **Niger.** In 2000 Niger reached its decision point under the enhanced Debt Initiative; and IFAD's Executive Board, in its Seventy-Second Session (document EB 2001/72/R.15), approved debt relief for the country in the amount of SDR 6.3 million in end-1999 NPV terms. This was equivalent to a 53.5% reduction of Niger's debt outstanding with IFAD at end-1999. The approved NPV debt relief amounted to SDR 9.28 million in nominal debt-service relief on a pay-as-you-go basis.

7. In April 2004 Niger reached its completion point. The debt situation had deteriorated between the decision and the completion point for the following exogenous reasons: (i) a decline in uranium exports; (ii) lower SDR and USD discount rates; and (iii) Niger's inability to obtain external financing with the mix and terms envisaged at decision point.

8. In approving the completion point, and recognizing the deterioration in the debt situation of Niger during the interim period, the executive boards of the World Bank and IMF approved a top-up of the debt relief approved at decision point for amounts equivalent to 24.7% of the debt outstanding at end-2002 – after delivery of the debt relief approved at decision point. This would bring Niger's NPV of debt-to-export ratio to the (150%) threshold established under the enhanced Debt Initiative framework.

9. **IFAD's Executive Board is requested to approve a top-up of the debt relief approved for Niger in an amount equivalent to SDR 2.03 million (USD 2.9 million) in end-2002 NPV terms.** The total amount of debt relief to be provided by IFAD to Niger would therefore amount to SDR 8.33 million in NPV terms (SDR 6.3 in end-1999 NPV terms, and SDR 2.03 in end-2002 NPV terms).

C. 2004 PROGRESS REPORT FOR INFORMATION

10. **Total Debt Initiative costs to IFAD**. Total NPV costs of the Fund's participation in the full Debt Initiative for HIPCs (before the above top-ups) are currently estimated at SDR 234.3 million (USD 344 million), which corresponds to an approximate nominal cost of **SDR 352.5 million (USD 517.5 million).**[1] The current cost estimates are likely to increase due to countries' delays in reaching decision and completion points; worsening economic conditions, leading to the need for completion-point top-ups; and currently low discount rates. These costs, on an annual basis, will amount to about USD 28 million for 2004, and are projected to reach a peak in 2005 at a level of USD 43.7 million in nominal terms. This will reduce the debt of 37 HIPCs to IFAD by 52%, from USD 656 million to 312 million in NPV terms, essentially over a 20-year period.

11. **IFAD commitments**. To date, IFAD has committed the required debt relief to all 27 HIPCs that have reached decision point. IFAD's total commitments so far amount to SDR 178 million (USD 262 million) in NPV terms, which amounts to **SDR 258 million (USD 379 million)** of debt-service relief in nominal terms.

[1] July 2002 base estimates, updated with the 24 September 2004 USD/SDR exchange rate.

Table 1. Debt Initiative for Heavily Indebted Poor Countries

Completion-Point Countries	**Decision-Point Countries**	**Pre-Decision-Point Countries**
Benin	Cameroon	Burundi
Bolivia	Chad	Central African Republic
Burkina Faso	D.R. Congo	Comoros
Ethiopia	The Gambia	Congo
Ghana	Guinea	Côte d'Ivoire
Guyana	Guinea-Bissau	Lao PDR
Mali	Honduras	Liberia
Mauritania	Madagascar	Myanmar [2]
Mozambique	Malawi	Somalia
Nicaragua	Rwanda	Sudan
Niger	Sao Tome and Principe	Togo
Senegal	Sierra Leone	
Tanzania	Zambia	
Uganda		
14	**13**	**11**

12. **Debt relief provided**. IFAD has so far provided USD 64.8 million in debt relief to all completion-point countries, in addition to post-conflict countries with arrears that have yet to reach their completion point (D.R. Congo, Guinea-Bissau and Sierra Leone). Table 2 below shows the cumulative total of debt relief provided so far, including fourth-quarter forecasts for 2004.

13. **Financing of IFAD's debt relief.** IFAD is funding its participation in the Debt Initiative through its internal Debt Initiative account and external contributions (either directly to IFAD or through the World Bank-administered Debt Initiative for HIPCs Trust Fund), as well as from its own resources. Table 3 below indicates the resources allocated for the debt relief provided so far, as well as for 2005. External contributions (paid or pledged) amount to about USD 67 million (52% of the total), IFAD's own resource contributions amount to about USD 60 million (46%) and investment income in the IFAD Debt Initiative account amounts to USD 2.2 million (2%).

Table 2. Debt Relief Provided (end 2004)

	Total USD million
Benin	2.4
Burkina Faso	3.6
Bolivia	10.6
D.R. Congo	2.4
Ethiopia	0.5
Ghana	1.0
Guyana	1.5
Mali	5.3
Mozambique	7.1
Mauritania	3.0
Nicaragua	9.8
Niger	0.3
Senegal	0.8
Tanzania	4.9
Uganda	11.8
Grand Total	**64.8**

[2] No IFAD exposure.

Table 3. Resource Allocation for IFAD's Debt Relief

External Contributions	**Total USD million**
Belgium	2.71
European Commission	10.51
Finland	2.54
Germany	6.99
Iceland	0.25
Italy	4.60
Luxembourg	0.78
Norway	5.91
Sweden	17.00
Switzerland	3.28
The Netherlands	12.43
IFAD's Own Resources	**59.67**
Investment Income	**2.2**
Grand Total	**128.87**

14. In order to mitigate the impact of debt relief on IFAD resources available for commitment to new loans and grants, management pursues two avenues for mobilizing greater additional external resources, encouraging IFAD's Member States to:

- directly provide IFAD with additional resources to help finance its participation in the Initiative; and/or

- provide IFAD with access to the World Bank-administered trust fund – an approach taken by several Member States.

D. RECOMMENDATIONS

15. The Executive Board is requested to:

(a) approve the proposed top-up of IFAD's contribution to the reduction of the debt of **Ethiopia** to IFAD as of June 2003 (see paragraph 5 above), in the amount of up to SDR 6.23 million. This relief will be provided in accordance with the terms of the following resolution:

"RESOLVED: that the Fund, upon the decision of the Executive Board, shall lower the value of Ethiopia'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 up to SDR 18.63 million (consisting of SDR 12.4 million in 2001 NPV terms and SDR 6.23 million in 2003 NPV terms)."

(b) approve the proposed top-up of IFAD's contribution to the reduction of the debt of **Niger** to IFAD as of end-2002 (see paragraph 9 above), in the amount of up to SDR 2.03 million. This relief will be provided in accordance with the terms of the following resolution:

"RESOLVED: that the Fund, upon the decision of the Executive Board, shall lower the value of Niger'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 up to SDR 8.33 million (consisting of SDR 6.3 million in 1999 NPV terms and SDR 2.03 million in 2002 NPV terms)."

(c) take note of the status of implementation of the Debt Initiative for HIPCs and IFAD participation therein; and approve the submission to the Governing Council of the relevant sections of this paper, appropriately revised to incorporate the above decisions of the Executive Board, as the 2004 progress report as an information paper.