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**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Eighty-Fifth Session**  
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**IFAD'S PARTICIPATION IN THE DEBT INITIATIVE FOR  
HEAVILY INDEBTED POOR COUNTRIES**

**PROPOSAL FOR RWANDA AND 2005 INTERIM PROGRESS REPORT**

**I. INTRODUCTION**

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

**II. COUNTRY CASE FOR APPROVAL**

2. In December 2000, **Rwanda** reached its decision point under the enhanced HIPC Debt Initiative. In April 2001, IFAD's Executive Board approved debt relief for the country in the amount of SDR 8.55 million in December 1999 net-present-value (NPV) terms (document EB 2001/72/R.15). This was equivalent to a 71.3% reduction in Rwanda's debt outstanding with IFAD in December 1999. The approved NPV debt relief amounted to SDR 15.8 million in nominal debt-service relief on a pay-as-you-go basis.

3. In April 2005, Rwanda reached its completion point. The country's debt situation had deteriorated between the decision and completion points, primarily because of fundamental changes in local economic circumstances triggered by exogenous factors. Lower export prices, changes in cross-currency exchange rates and a lower-than-expected concessionality of new borrowing are all unambiguously exogenous factors that lie beyond the control of the authorities.

4. In approving the completion point and recognizing the deterioration in Rwanda's debt situation during the interim period, the executive boards of the World Bank and the International Monetary Fund approved a top-up of the debt relief approved at decision point for amounts equivalent to 53.1% of the debt outstanding in December 2003, after delivery of the debt relief approved at decision point. This would bring Rwanda's NPV of debt-to-exports ratio to the 150% threshold established under the enhanced HIPC Debt Initiative framework.

5. In view of the foregoing, **IFAD's Executive Board is requested to approve a top-up of the debt relief approved for Rwanda in an amount equivalent to SDR 4.71 million (USD 7.0 million) in December 2003 NPV terms.** The total amount of debt relief to be provided by IFAD would thereby come to SDR 13.26 million in NPV terms (SDR 8.55 million in December 1999 NPV terms, and SDR 4.71 million in December 2003 NPV terms).

### III. INTERIM PROGRESS REPORT

6. **Total cost of the HIPC Debt Initiative to IFAD.** The total NPV cost of the Fund's participation in the overall HIPC Debt Initiative (before the top-up proposed above) is currently estimated at SDR 261.6 million (USD 386.4 million), which corresponds to an approximate nominal cost of **SDR 408.7 million (USD 603.7 million)**.<sup>1</sup> The current cost estimates are likely to increase in response to countries' delays in reaching decision and completion points, worsening economic conditions leading to the need for completion point top-ups, and continuing low discount rates. The nominal requirement of HIPC costs for IFAD is likely to amount to approximately USD 28 million in 2005, increasing in 2006 to a potential nominal requirement of approximately USD 53 million.

7. **IFAD commitments to date.** To date, IFAD has committed the required debt relief to all 27 heavily indebted poor countries that have reached their decision point. Its total commitments so far stand at SDR 190 million (USD 280.5 million) in NPV terms, which amounts to **SDR 291.8 million (USD 431.1 million)** of debt-service relief in nominal terms.

#### Heavily Indebted Poor Countries

Completion Point Countries	Decision Point Countries	Pre-Decision Point Countries
Benin	Cameroon	Burundi
Bolivia	Chad	Central African Republic
Burkina Faso	Democratic Republic of the Congo	Comoros
Ethiopia	Gambia	Congo
Ghana	Guinea	Côte d'Ivoire
Guyana	Guinea-Bissau	Lao People's Democratic Republic
Honduras	Malawi	Liberia
Mali	Sao Tome and Principe	Myanmar <sup>a</sup>
Madagascar	Sierra Leone	Somalia
Mauritania		Sudan
Mozambique		Togo
Nicaragua		
Niger		
Rwanda		
Senegal		
Uganda		
United Republic of Tanzania		
Zambia		
<b>18</b>	<b>9</b>	<b>11</b>

<sup>a</sup> No IFAD exposure

8. **Debt relief provided.** IFAD has so far provided USD 77.1 million in debt relief to all completion point countries.

9. **Financing of IFAD's debt relief.** IFAD is funding its participation in the HIPC Debt Initiative through its internal HIPC Debt Initiative account, from external contributions (paid either directly to IFAD or transferred through the World Bank-administered HIPC Trust Fund) and from its own resources. External contributions (paid or pledged) amount to about USD 82.7 million (57% of the

<sup>1</sup> May 2005 base estimates.

total). IFAD's own resource contributions total about USD 59.7 million (41%) through three separate Executive Board-approved transfers in 1998, 1999 and 2002, the last one for USD 41.0 million. Investment income from IFAD's HIPC account has yielded USD 3 million (2%).

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

- (a) directly provide IFAD with additional resources to help finance its participation in the Initiative;
- (b) provide IFAD with access to the World Bank-administered HIPC Trust Fund, which is the approach being taken by several Member States. As a next step, IFAD has been requested to prepare a technical paper detailing its exposure to the Debt Initiative for presentation to the HIPC Trust Fund's forthcoming technical meeting, with a view to securing access to the Trust Fund.

11. **Possible future increases in Debt Initiative costs for IFAD.** In September 2004, the International Development Association (IDA) extended the "sunset clause" until December 2006 to allow pre-decision point countries to secure their involvement in the HIPC Debt Initiative. It was also agreed to allow **additional** countries, over and above the current 38 countries, to join the Initiative subject to indebtedness criteria. The countries currently being assessed may include Afghanistan, **Bangladesh** (SDR 160 million), **Bhutan** (SDR 14 million), **Cape Verde** (SDR 8 million), **Eritrea** (SDR 10 million), **Georgia** (SDR 6 million), **Haiti** (SDR 22 million), Kiribati, **Kyrgyzstan** (SDR 6 million), **Nepal** (SDR 43 million), the **Republic of Moldova** (SDR 5 million), **Sri Lanka** (SDR 50 million), Tajikistan and **Tonga** (SDR 4 million). (IFAD borrowers are indicated in bold, outstanding debt is in nominal terms.) The World Bank is currently assessing the potential extent of debt relief to be provided, and IFAD is working closely with IDA to calculate the cost impact for the two institutions. A decision on the final list of additional countries eligible to join is expected by end-September 2005. Gross outstanding IFAD debt for these potential, new countries is approximately SDR 307 million (USD 465 million), although actual IFAD "exposure" will depend on the debt reduction factor applied, the NPV analysis and the discount rate. It nevertheless remains a potential major increment in IFAD's HIPC costs.

#### IV. RECOMMENDATION

12. The Executive Board is requested to:

- (a) Approve the proposed top-up of IFAD's contribution to reducing the debt of Rwanda to IFAD as of December 2003 (see paragraph 5 above), in the amount of up to SDR 4.71 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 Rwanda'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 payments), as these fall due, and up to the revised aggregate NPV amount of up to SDR 13.26 million (consisting of SDR 8.55 million in 1999 NPV terms and SDR 4.71 million in 2003 NPV terms).

- (b) Take note of the implementation status of the HIPC Debt Initiative and IFAD's participation therein.