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

PROGRESS REPORT

A. INTRODUCTION

1. The objective of this progress report for 2005 is to:
 - (a) inform the Executive Board of the status of implementation of the Debt Initiative for Heavily Indebted Poor Countries (HIPC) and of IFAD's participation in the Initiative; and
 - (b) seek the Executive Board's approval for submitting the substance of this progress report to the forthcoming Governing Council for its information.

2. **Progress in implementation.** Eighteen countries have now reached completion point and nine are in the interim period between decision and completion point (see table). The pace at which countries in the interim period reached their completion points accelerated over the past two years as countries made progress in implementing their macroeconomic programmes and poverty reduction strategies. Since September 2004, Honduras, Madagascar, Rwanda and Zambia have reached their completion points, with the Executive Board approving a top-up of SDR 4.71 million for Rwanda. Burundi reached its decision point in August 2005, and the Board will be presented with a proposal to approve IFAD's contribution to reducing Burundi's debt at its April 2006 session. In addition, Chad and Malawi could reach their completion points during the first half of 2006.

3. **Total cost of the HIPC Debt Initiative to IFAD.** The total net-present-value (NPV) cost of the Fund's participation in the overall HIPC Debt Initiative is currently estimated at SDR 267.6 million (USD 388.0 million), which corresponds to an approximate nominal cost of **SDR 420.7 million (USD 610.4 million)**.¹ The current cost estimates are likely to increase in response to countries' delays in reaching decision and completion points and worsening economic conditions leading to the need for completion point top-ups. The nominal requirement of HIPC costs for IFAD is likely to amount to approximately USD 27 million in 2005, increasing in 2006 to a potential nominal requirement of approximately USD 50 million.

4. **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 194.4 million (USD 282.0 million) in NPV terms; which amounts to **SDR 300.7 million (USD 436.3 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 ^a
Madagascar	Sierra Leone	Somalia
Mauritania		Sudan
Mozambique		Togo
Nicaragua		
Niger		
Rwanda		
Senegal		
Uganda		
United Republic of Tanzania		
Zambia		
18	9	11

^a No IFAD exposure.

5. **Debt relief provided.** IFAD has so far provided USD 85.3 million in debt relief to all completion point countries.

6. **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 83.7 million (57% of the total). IFAD's own resource contributions amount to about USD 60 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 3.7 million (2%).

¹ September 2005 base estimates at exchange rates prevailing at 30 September 2005.

7. To mitigate the impact of debt relief on IFAD's resources available for commitment to new loans and grants, IFAD's 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; and
- (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 present 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.

8. **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. The sunset clause stems from the 1996 Program of Action, which established a time limit in order to prevent the HIPC Initiative from becoming a permanent facility and to encourage HIPCs to adopt adjustment programmes that could be supported by the International Monetary Fund and IDA. It was also agreed to allow **additional** countries, over and above the existing 38 countries, to join the Initiative, subject to indebtedness criteria.

9. The World Bank is currently assessing the potential extent of debt relief to be provided. Based on tentative initial assumptions IFAD's exposure is calculated to be in the region of SDR 51.0 million (USD 74.0 million), with payments due from December 2007.

B. RECOMMENDATION

10. The Executive Board is requested to take note of the implementation status of the HIPC Debt Initiative and IFAD's participation therein; and approve the submission to the Governing Council of the substance of this paper in the form of an information paper presenting the 2005 progress report on this matter.