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Enabling the rural poor
to overcome poverty

IFAD's participation in the Debt Initiative for Heavily Indebted Poor Countries

Proposal for the Republic of Haiti and progress report on IFAD's participation in the Initiative

Executive Board — Ninetieth Session
Rome, 17-18 April 2007

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Recommendation for approval

The Executive Board is invited to approve a new country case for debt relief under the Debt Initiative for Heavily Indebted Poor Countries (Republic of Haiti) in accordance with the recommendation contained in paragraph 20.

IFAD's participation in the Debt Initiative for Heavily Indebted Poor Countries: Proposal for the Republic of Haiti and progress report on IFAD's participation in the Initiative

I. Introduction

1. The objective of this progress report for 2006 is to:
 - Seek the Executive Board's approval of a new country case (Republic of Haiti) for debt relief under the Debt Initiative for Heavily Indebted Poor Countries (HIPC);
 - Have the Executive Board take note that the President of IFAD has transferred from IFAD's internal resources to the Trust Fund account an amount equivalent to US\$10 million; and
 - Inform the Executive Board of the status of implementation of the HIPC Debt Initiative and of IFAD's participation in the Initiative.

II. New country case: Republic of Haiti

2. In November 2006, the executive boards of the International Monetary Fund (IMF) and the International Development Association (IDA) agreed to support a comprehensive debt-reduction package for the Republic of Haiti under the enhanced HIPC Debt Initiative. The successful 2006 presidential and parliamentary elections provide an opportunity to overcome the legacy of past decades. A coalition Government has been formed, including ministers from different political parties. The coalition Government received almost unanimous approval in Parliament, raising hopes for moving forward with an ambitious agenda to improve access to and the quality of basic social services, modernize the state, pursue and deepen governance reform, wage a war against corruption and promote private-sector investment.
3. Political and economic instability, recurrent deterioration in security, low growth and high inequality and poverty have been the main challenges confronting Haiti until recently. The impact of prolonged political conflicts and violence, periods of high external assistance followed by the withdrawal of economic support, and natural disasters has been severe. Real income per capita has declined on average by 2 per cent annually over the past 20 years. Haiti's pattern of socio-economic development has been characterized by marked inequalities in access to productive assets and public services, which, together with low growth, has resulted in widespread poverty. Haiti is the poorest country in the Latin America and the Caribbean region, with a GDP per capita of about US\$430 and 58 per cent of the rural population living in extreme poverty (60 per cent of the total population lives in rural areas). The 2005 United Nations Human Development Index ranked Haiti 153rd out of 177 countries. About 54 per cent of Haiti's population lives below the US\$1 a day poverty line and 78 per cent below US\$2 a day (2001 data).
4. Since mid-2004, Haiti's economic and social recovery and its structural reforms have been supported by donors under the Interim Cooperation Framework presented by the Transitional Government at the July 2004 International Donors Conference on Haiti in Washington, D.C. Over the following two years, and until an elected Government was in place, the authorities' macroeconomic programme was supported by the IMF's Emergency Post-Conflict Assistance. Following the clearance of arrears to IDA (and IFAD) in early 2005, the Government also received support from IDA to implement economic

governance reforms. The Inter-American Development Bank, the European Union and bilateral donors have also provided significant financial and technical assistance. With this support, Haiti has made significant progress towards strengthening macroeconomic stability. The economy has gradually recovered from the political turmoil and severe floods experienced in 2004. According to the latest data, annual GDP growth was expected to increase to 2.5 per cent in the 2006 financial year from 1.8 per cent in the 2005 financial year.

5. While significant progress has been made in implementing macroeconomic, structural and governance reforms, setting Haiti on a path of economic recovery will remain a major challenge. Economic recovery will critically require restored security, but a sustained improvement in security will in turn depend on the delivery of quick and visible improvements in the living conditions of the Haitian population. Given the significant gaps in development indicators, Haiti is unlikely to achieve all its Millennium Development Goals (MDGs) by 2015. With continued external financial assistance (including relief under the HIPC and the Multilateral Debt Relief Initiatives), Haiti could reach some MDGs, notably MDG 2 (achieve universal primary education) and MDG 6 (combat HIV/AIDS, malaria and other diseases), and make progress towards reaching the others.
6. The financial and technical support of the donor community will be critical to help the Government address these challenges. While current conditions in Haiti present significant risks to progress, the provision of HIPC debt relief will contribute to creating fiscal space for much-needed poverty-related expenditures and encourage reforms in public expenditure management. Since beginning operations in Haiti in 1978, IFAD has financed seven loans for a total of US\$82.9 million equivalent. In December 2006, the Executive Board approved the Small-scale Irrigation Development Project, which seeks to maximize the potential of small-scale irrigation in support of intensive irrigated agriculture, with due attention to innovative technologies, land security and natural resource management. The two ongoing operations – the Food Crops Intensification Project – Phase II and the Productive Initiatives Support Programme in Rural Areas – have been affected by a complex implementation environment and are now benefiting from an intensive supervision and administrative support programme.
7. Development and modernization of the agricultural sector was identified as one of the main pillars for pro-poor growth in the Interim Poverty Reduction Strategy Paper (I-PRSP) (September 2006), and will involve, among others, improving access to credit and agricultural inputs; rehabilitating agricultural infrastructure, including irrigation and storage facilities; and increasing land tenure security. The Government has begun to prepare a full PRSP, building on the I-PRSP through a participatory process. This will entail a detailed strategy for consultations, involving members of Parliament, civil-society organizations, affected stakeholders and the donor community, and will target the poor through meetings in communes and departments.
8. The full PRSP is expected to: (i) present a comprehensive medium- and long-term strategy and an agenda for its implementation; (ii) establish efficient mechanisms and easy-to-monitor indicators for progress, including for the MDGs; (iii) refine the structural reform agenda, providing more detailed and focused sector strategies; (iv) clearly define priority expenditures within the framework of a strengthened public-sector investment programme; and (v) identify interventions to enhance public-sector programme and project implementation capacity.
9. In September 2005 (the base year), Haiti's net present value (NPV) of debt (after application of the traditional debt-relief mechanisms) was equivalent to

US\$928.3 million, and its NPV of debt-to-exports ratio was 176.7 per cent. Under the enhanced Initiative, countries are eligible for assistance provided that the NPV of their external debt exceeds 150 per cent of export revenues. To achieve this target, all multilateral creditors are expected to provide a reduction of 15.1 per cent in the NPV of their outstanding claims as at September 2005. Total relief from all of Haiti's creditors would amount to approximately US\$140.3 million in NPV terms. Based on proportional burden-sharing, bilateral and commercial creditors will provide US\$20.4 million, and multilateral creditors will provide US\$120.0 million in debt relief in NPV terms. It is proposed that IFAD contribute to debt relief for Haiti in the amount of SDR 2.2 million (US\$3.1 million) in 2005 NPV terms.

10. The Government intends to use HIPC-related savings to fund activities identified in the I-PRSP, which will be included in the PRSP. The relatively limited resources from HIPC Initiative assistance will focus largely on health, education, water and environment while other areas, such as major infrastructure programmes, will be financed by other external resources.
11. Haiti will reach its completion point under the enhanced HIPC Initiative when the following conditions have been fulfilled: (a) standard general triggers pertaining to the preparation of a full PRSP agreed on through a participatory process, macroeconomic stability maintained, medium-term macroeconomic framework set out, poverty-related expenditures tracked and priority expenditures aligned with those identified in the I-PRSP and PRSP; and (b) specific and monitorable policy measures in place on public finance management and governance, tax policy and administration, social sectors and external debt management. Sensitivity analysis indicates that Haiti's export performance plays a pivotal role in servicing its external debt after HIPC assistance.

III. Progress in implementation of the HIPC Initiative

12. Twenty-one countries have now reached the completion point and nine are in the interim period between the decision and completion points (see table). The pace at which countries in the interim period have reached their completion points has accelerated over the past two years as countries have made progress in implementing their macroeconomic programmes and poverty reduction strategies. Since September 2005, Cameroon, Malawi, Rwanda and Sierra Leone have all reached their completion points, with the IFAD Executive Board approving top-ups for Malawi and Rwanda. In addition, the Gambia and Sao Tome and Principe could reach their completion points by the first half of 2007, and a decision point document could be ready for Kyrgyzstan in early 2007 followed by one for the Central African Republic.

A. Total cost of the HIPC Initiative to IFAD

13. The total NPV cost of the Fund's participation in the full HIPC Debt Initiative is currently estimated at SDR 306.9 million (equivalent to approximately US\$461.9 million), which corresponds to an approximate nominal cost of **SDR 453.5 million (about US\$682.2 million)**.¹ The current cost estimates are likely to increase as a result of 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. Total debt relief payments are estimated to be approximately US\$60.3 million in 2007.

B. IFAD commitments to date

14. To date, IFAD has committed the required debt relief to all 29 HIPCs (excluding Haiti not yet approved) that have reached their decision point. IFAD's total

¹ December 2006 base estimates at exchange rates prevailing at 31 December 2006.

commitments so far amount to SDR 212.0 million (approximately US\$319.1 million) in NPV terms, which amounts to **SDR 319.8 million (about US\$480.9 million)** of debt service relief in nominal terms.

C. Debt relief provided

15. IFAD has thus far provided US\$126.6 million in debt relief to the 21 countries at completion point (although Sierra Leone reached completion point in December and no physical payment has been made to date).

IFAD Member States participating in the HIPC Debt Initiative, by stage

<i>Completion point countries (21)</i>	<i>Decision point countries (9)</i>	<i>Pre-decision point countries (10)</i>
Benin	Burundi	Central African Republic
Bolivia	Chad	Comoros
Burkina Faso	Republic of the Congo	Côte d'Ivoire
Cameroon	Democratic Republic of the Congo	Eritrea
Ethiopia	Gambia	Kyrgyzstan
Ghana	Guinea	Liberia
Guyana	Guinea-Bissau	Nepal
Honduras	Haiti ^a	Somalia
Madagascar	Sao Tome and Principe	Sudan
Malawi		Togo
Mali		
Mauritania		
Mozambique		
Nicaragua		
Niger		
Rwanda		
Senegal		
Sierra Leone		
Uganda		
United Republic of Tanzania		
Zambia		

^a Subject to approval by the Executive Board at its April 2007 session.

D. Financing of IFAD's debt relief

16. IFAD is funding its participation in the HIPC Debt Initiative through, external contributions (paid either directly to IFAD or transferred through the World Bank-administered HIPC Trust Fund) and its own resources. External contributions (paid or pledged) amount to about 79.1 million (45 per cent). IFAD's own-resource contributions amount to about US\$70.0 million (42 per cent) under two separate Executive Board-approved transfers in 1998 and 1999 and including, in 2002, a transfer in the amount of US\$41.0 million of which the Executive Board took note. The balance has been covered by investment income from the IFAD HIPC Trust Fund balance.
17. As at end-December 2006, the balance in IFAD's HIPC Trust Fund was US\$19.4 million. With the estimated payments to be made in 2007, **the Executive Board is herewith informed that the President of IFAD has transferred from IFAD's internal resources to the Trust Fund account amounts equivalent to US\$10 million in March 2007.** The first transfer from the World Bank-administered HIPC Trust Fund is anticipated in June 2007.

IV. Update on HIPC Trust Fund and IFAD's resource mobilization

18. To mitigate the impact of debt relief on IFAD's resources available for commitment to new loans and grants, IFAD's Member States have supported the Fund's formal access to the World Bank-administered HIPC Trust Fund. This was agreed at the HIPC information and funding meeting held on 19 November 2006 in Washington, D.C. It was recognized that this would add to the overall financing requirements of the HIPC Trust Fund, which will mean approximately US\$282.0 million in additional donor funding for IFAD. The total financing gap (in terms of needed commitment authority) for the HIPC Trust Fund, taking into account IFAD's and the African Development Bank's funding needs, is estimated to be US\$493 million. A pledging meeting for the Trust Fund is anticipated in April or June 2007.
19. While giving priority to ensuring that the HIPC Trust Fund is adequately financed, Management will also continue to encourage IFAD's Member States to provide the Fund with additional resources directly to help finance its participation in the HIPC Initiative.

V. Recommendations

20. It is recommended that the Executive Board:
 - (i) Approve the proposed contribution to the reduction of the Republic of Haiti's debt to IFAD as of 31 December 2004 (see paragraph 9), in the amount of SDR 2.2 million in September 2005 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 the Republic of Haiti has satisfied the conditions for debt relief under the Debt Initiative for Heavily Indebted Poor Countries, shall reduce the value of the Republic of Haiti's debt to IFAD through the reduction by up to 100 per cent 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 net present value (NPV) amount of SDR 2.2 million in September 2005 NPV terms."
 - (ii) Take note that the President of IFAD has transferred from IFAD's internal resources to the Trust Fund account an amount equivalent to US\$10 million; and
 - (iii) Take note of the status of implementation of the HIPC Debt Initiative and IFAD participation therein.