

Document:	<u>EB 2009/96/R.35</u>
Agenda:	<u>14(d)(ii)</u>
Date:	<u>25 March 2009</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

E



Enabling poor rural people
to overcome poverty

Estimated principal and net service charge payments forgone as a result of the implementation of the Debt Sustainability Framework

Executive Board — Ninety-sixth Session
Rome, 29-30 April 2009

For: **Information**

Note to Executive Board Directors

This document is submitted for the information of the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal points with any technical questions about this document before the session:

Brian Baldwin

Senior Operations Management Adviser
telephone: +39 06 5459 2377
e-mail: b.baldwin@ifad.org

Munehiko Joya

Treasurer
telephone: +39 06 5459 2251
e-mail: m.joya@ifad.org

Bambis Constantinides

Director, Financial Services Division
telephone: +39 06 5459 2054
e-mail: c.constantinides@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

Estimated principal and net service charge payments forgone as a result of the implementation of the Debt Sustainability Framework

I. Background

1. At its ninetieth session in April 2007, the Executive Board approved the recommendation contained in document EB 2007/90/R.2 that IFAD implement a Debt Sustainability Framework (DSF) to govern the form of its financial assistance to countries eligible for highly concessional lending.
2. The implementation of a DSF has substantially modified IFAD's financial support to projects and programmes, as governed by the performance-based allocation system, in countries eligible for highly concessional loans. The Fund now extends financial support in the following manner: (i) for countries with low debt sustainability, 100 per cent grant; (ii) for countries with medium debt sustainability, 50 per cent grant and 50 per cent loan; and (iii) for countries with high debt sustainability, 100 per cent loan.
3. DSF implementation has raised the proportion of grants in IFAD projects and programmes. As a result, the major cost to IFAD will be the principal repayment forgone on resources given as DSF grants rather than as loans. In this respect, the ninetieth session of the Executive Board approved the recommendation that, commencing in 2008, Management report annually to the Board at its April session on the estimated principal and net service and interest payment charges forgone in the previous financial year as a result of DSF implementation.

II. Projects and programmes approved under the DSF in 2008

4. Table 1 lists the 11 projects, programmes and country-specific grants approved in 2008 under the DSF. The total value in special drawing rights is approximately SDR 73.3 million (equivalent to about US\$112.5 million¹), or some 18 per cent of the overall 2008 programme of work. This level of DSF support is comparable to that of other international financial institutions implementing a DSF.

III. Principal and net service and interest payment charges forgone in 2008

5. Table 2 provides information on the estimated forgone principal and interest repayments for DSF grants approved in 2007 and 2008.² Document EB 2007/90/R.2 anticipated that DSF implementation could entail the loss of principal repayments for a total of US\$38.8 million over the Eleventh Replenishment period (2019-2021) as a result of the cumulative level of DSF grants approved from 2007 onwards. This forecast also took into consideration DSF grants to be approved after 2008, whereas table 2 estimates are based on actual data from grants approved in 2007 and 2008 only. Therefore, at present, there are no elements to conclude that the projections originally provided to the Executive Board at its ninetieth session should be changed or updated.
6. The Executive Board will be provided annually with the amount of principal and net service and interest charge payments forgone, including the effect of changes in disbursement profiles and any partial (or total) reduction or cancellation, when applicable.

¹ Exchange rate as at 31 December 2008.

² Calculations are based on the assumption that DSF grants would have been highly concessional loans, characterized by a 10-year grace period elapsing from the year after the year of approval.

Table 1
DSF grants approved in 2008
 (Thousands of special drawing rights)

<i>Region</i>	<i>Country</i>	<i>Title</i>	<i>Amount</i>
Western and Central Africa			
	Congo	Rural Development Project in the Likouala, Pool and Sangha Departments	5 250
	Niger ^a	Agricultural and Rural Rehabilitation and Development Initiative Project – Institutional Strengthening Component (ARRDI-ISC)	5 400
	Democratic Republic of the Congo	Integrated Agricultural Rehabilitation Programme in Maniema Province	15 700
Eastern and Southern Africa			
	Rwanda	Kirehe Community-based Watershed Management Project	13 050
Asia and the Pacific			
	Kyrgyzstan ^a	Agricultural Investments and Services Project	5 588
	Lao People's Democratic Republic	Sustainable Natural Resource Management and Productivity Enhancement Project	10 100
	Tajikistan	Khatlon Livelihoods Support Project	7 900
Latin America and the Caribbean			
	Nicaragua ^a	Inclusion of Small-scale Producers in Value Chains and Market Access Project ^b	390
Near East and North Africa			
	Sudan	Southern Sudan Livelihoods Development Project	8 600
	Yemen	Pilot Community-Based Rural Infrastructure Project for Highland Areas ^c	1 200
	Sudan	Enhancement of Food Security and Agriculture Production in a Post-Conflict Situation for the Residents and Returnees in Northern Bahr El Ghazal in Southern Sudan ^d	97
Total (2008)			73 275
Total (2007)			66 018
Overall total			139 293

^a Assistance on 50-50 grant/loan terms; all other projects receive assistance on 100 per cent grant terms.

^b Supplementary financing for grant no. DSF-8009-NI, approved at the ninety-first session of the Executive Board, September 2007.

^c Supplementary financing for grant no. DSF-8027-YE, approved at the eighty-fourth session of the Executive Board, April 2005.

^d Ex-grant no. I/R/1065-AMURT, which became effective on 25 November 2008; subsequently reclassified as DSF-8028-SD. Exchange rate as at 31 December 2008.

Table 2

Forgone principal, interest and service charges

(Special drawing rights; data from 2009 inclusive is based on estimates)

Implementation of the DSF	Year	Total DSF grants approved in 2007 and 2008		Forgone principal and net interest/service charge		
		Disbursed ^a	Principal	Net interest and service charge at 0.75 per cent	Total	Total by replenishment
VII	2007 ^b	1 263 861	-	1 031	1031	136 559
	2008	4 132 519	-	11 774	11 774	
	2009	11 104 261	-	123 755	123 755	
VIII	2010	14 622 884	-	233 426	233 426	1 098 016
	2011	17 408 753	-	363 992	363 992	
	2012	18 214 080	-	500 598	500 598	
IX	2013	16 821 146	-	626 756	626 756	2 212 005
	2014	15 428 211	-	742 468	742 468	
	2015	13 375 097	-	842 781	842 781	
X	2016	9 929 048	-	917 249	917 249	5 103 261
	2017	7 070 605	-	970 278	970 278	
	2018	5 980 486	2 200 601	1 015 132	3 215 733	
XI	2019	3 942 485	4 643 115	1 028 196	5 671 311	16 909 462
	2020	-	4 643 115	993 373	5 636 487	
	2021	-	4 643 115	958 550	5 601 664	
XII	2022	-	4 643 115	923 726	5 566 841	16 596 052
	2023	-	4 643 115	888 903	5 532 017	
	2024	-	4 643 115	854 079	5 497 194	
XIII	2025	-	4 643 115	819 256	5 462 371	16 282 642
	2026	-	4 643 115	784 433	5 427 547	
	2027	-	4 643 115	749 609	5 392 723	
XIV	2028	-	4 643 115	714 786	5 357 901	15 969 232
	2029	-	4 643 115	679 963	5 323 077	
	2030	-	4 643 115	645 139	5 288 254	
XV	2031	-	4 643 115	610 316	5 253 430	15 655 821
	2032	-	4 643 115	575 493	5 218 607	
	2033	-	4 643 115	540 669	5 183 784	
XVI	2034	-	4 643 115	505 846	5 148 960	15 342 411
	2035	-	4 643 115	471 023	5 114 137	
	2036	-	4 643 115	436 199	5 079 314	
XVII	2037	-	4 643 115	401 376	5 044 490	15 029 001
	2038	-	4 643 115	366 552	5 009 667	
	2039	-	4 643 115	331 729	4 974 844	
XVIII	2040	-	4 643 115	296 906	4 940 020	14 715 591
	2041	-	4 643 115	262 082	4 905 197	
	2042	-	4 643 115	227 259	4 870 374	
XIX	2043	-	4 643 115	192 436	4 835 550	14 402 180
	2044	-	4 643 115	157 612	4 800 727	
	2045	-	4 643 115	122 789	4 765 903	
XX	2046	-	4 643 115	87 966	4 731 080	11 888 169
	2047	-	4 643 115	53 142	4 696 257	
	2048	-	2 442 513	18 319	2 460 832	
Total		139 293 436	139 293 436	22 046 967	161 340 403	161 340 403

^a Disbursements are rounded and estimated based on the average disbursement profile of the annual amount approved for IFAD's highly concessional loans, without considering any cancellation or reduction.

^b Grant DSF-8018-NP omitted due to reclassification.