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Enabling poor rural people
to overcome poverty

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

Proposal for Côte d'Ivoire and the 2009 progress report

Executive Board — Ninety-eighth Session
Rome, 15-17 December 2009

For: Approval

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point 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

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

Recommendation for approval

The Executive Board is invited to approve a new country case for debt relief under the Heavily Indebted Poor Countries Debt Initiative (Côte d'Ivoire), and the submission of the substance of this paper to the thirty-third session of the Governing Council for information, in accordance with the recommendation contained in paragraph 26.

IFAD's participation in the Heavily Indebted Poor Countries Debt Initiative – Proposal for Côte d'Ivoire and the 2009 progress report

I. Introduction

1. The objective of this progress report for 2009 is to:
 - Seek the Executive Board's approval of a new country case (Côte d'Ivoire) for debt relief under the Heavily Indebted Poor Countries (HIPC) Debt Initiative;
 - Inform the Executive Board of the status of implementation of the HIPC Debt Initiative and of IFAD's participation in the Initiative; and
 - Seek the Executive Board's approval for submitting the substance of this progress report to the forthcoming session of the Governing Council for its information.

II. New country case: Côte d'Ivoire

2. In March 2009 the executive boards of the International Monetary Fund (IMF) and the International Development Association (IDA) agreed to support a comprehensive debt reduction package for Côte d'Ivoire under the enhanced Debt Initiative.
3. Political instability following the death of Côte d'Ivoire's first president in 1993 led to civil strife in the second half of the 1990s, culminating in a brief civil war during September 2002-January 2003. The crisis set the country and the entire region back economically and socially.¹ Although the armed conflict was short and physical destruction relatively limited, the country went into a prolonged crisis: (i) agriculture was disrupted in many parts of the country; (ii) intraregional trade through Côte d'Ivoire came to a halt; (iii) illicit traffic in natural resources flourished; and (iv) domestic and foreign investment fell drastically and some enterprises relocated outside the country.
4. The years of crisis led to a substantial increase in poverty and deterioration in living standards. Real per capita GDP fell by a cumulative 15 per cent during 2000-2006. The recent household budget survey estimated that poverty incidence has increased from 38.2 per cent in 2002 to 48.9 per cent in 2008. Basic health and educational services have been severely affected in the north of the country, where the official public administration was absent for over five years.
5. Côte d'Ivoire's prolonged period of political instability and conflict resulted in a deterioration of governance and transparency. With political and security concerns dominating daily life, the standard budget cycle was disrupted and public financial management processes and procedures suffered. A large share of public expenditures (over 50 per cent in 2006) was implemented outside regular budget procedures using discretionary treasury advances; some oil revenue stayed off-budget: quasi-fiscal levies on cocoa were not used by the sector's agencies to the benefit of producers as intended; and public procurement methods have lacked transparency.
6. With improved political stability and ongoing reunification, the economic recovery that started in 2007 continued in 2008. Output growth in 2008 reached

¹ Côte d'Ivoire reached the decision point under the original HIPC Initiative in 1998. As the Poverty Reduction and Growth Facility (PRGF)-supported programme was interrupted in early 1999 and the completion point under the original HIPC was not reached, no HIPC relief was disbursed by multilateral creditors. In early 2002, Côte d'Ivoire's eligibility for debt relief under the enhanced HIPC Initiative was reassessed in the preliminary document, and on that basis the country was expected to reach the decision point in late 2002. However, the crisis interrupted the PRGF-supported programme and the decision point under the enhanced HIPC Initiative was never considered.

2.3 per cent, driven by favourable agricultural output. Producer incentives and governance in the cocoa/coffee sector have improved in the last two years, but substantial challenges remain to enhance the sector's contribution to growth and poverty reduction. This sector accounts for one quarter of Côte d'Ivoire's exports and public revenues, and 700,000 smallholder families (4 million people) depend on it for much of their income and employment.

7. The Government has made efforts to reverse the deterioration in basic service provision by redeploying public services throughout the country and progressively rehabilitating education, health, and village water supply infrastructures. Since 2007/08 the academic years have proceeded normally throughout the country. With most teachers and education administrators redeployed, enrolment rates are up nationwide at all educational levels.
8. The medium-term economic and social objectives of the Government are defined in its poverty reduction strategy paper, adopted in February 2009, which draws on the 2002 interim poverty reduction strategy paper and the 2008 household budget survey. They include efforts to: promote national reconciliation and full reunification of the country; restore basic infrastructure and social services; improve governance and transparency; and fully normalize financial relations with creditors.
9. The Government is preparing a new comprehensive strategy for the cocoa/coffee sector, with a view to improving the sector's contribution to growth and poverty reduction. A committee, formed in February 2009, is reviewing past reforms and audits of the sector and revisiting the role of the sector's four agencies, with a view to formulating a new institutional and regulatory framework for the sector. Actions will also be taken to increase competition in marketing in order to improve the farmers' share of the world price. In the cotton sector, the main short-term objectives are to clear arrears, finance inputs such as seeds and fertilizers, stabilize producer prices and reorganize the main companies.
10. During 2009-2013, growth is projected to continue its gradual pickup — despite the possible impact of the global financial crisis — and reach a rate of 5 per cent from 2013 onwards. The 5 per cent growth path is a prudent projection taking into account the possible impact of the financial crisis, and is also well below the averages of the 1994-1999 pre-crisis period (6.6 per cent per year). Growth prospects in the near term are subject to several external and internal downside risks. The global economic slowdown could further depress commodity prices and adversely affect foreign direct investment, aid and other capital inflows necessary to rebuild the economy. Specifically, a further drop in oil prices and a fall in cocoa prices (currently still at their pre-financial crisis levels) would also reduce Government revenue and the fiscal space for reconstruction spending.
11. Côte d'Ivoire's debt in net present value (NPV) terms, after full application of traditional debt relief mechanisms, is an estimated US\$12,759.3 million as of end-2007. This is equivalent to 327 per cent of Government revenue. Côte d'Ivoire would thus qualify for debt relief under the HIPC Initiative's "fiscal window", based on end-2007 data, having an NPV of debt-to-revenue ratio greater than the 250 per cent threshold. The country also meets the two subcriteria under the "fiscal window": its export-to-GDP ratio is 44.8 per cent (above the 30 per cent threshold) and the fiscal revenues-to-GDP ratio is 18.9 per cent (above the 15 per cent threshold).
12. The reduction of Côte d'Ivoire's NPV of debt-to-revenue ratio from 327 per cent to 250 per cent would require HIPC debt relief of US\$3,004.9 million in NPV terms. This implies a common reduction factor of 23.6 per cent. Based on proportional burden sharing, multilateral assistance would amount to US\$694.3 million (in NPV terms) and bilateral and commercial assistance to US\$2,310.5 million (in NPV terms).

13. The Executive Board is requested to approve: (i) the Fund's contribution to debt relief for Côte d'Ivoire in the amount of 1.6 million special drawing rights (SDR) (or about US\$2.6 million) in end-2007 NPV terms; and (ii) the provision of 100 per cent of debt relief during the interim period. The debt service relief is forecast to be approximately SDR 2.0 million in nominal terms to be provided over a 4-5 year period.
14. Assuming the unconditional delivery of HIPC Initiative assistance, Côte d'Ivoire's NPV of debt-to-revenue ratio is expected to decline from 250 per cent as of end-2007 (assuming unconditional HIPC assistance) to approximately 74.4 per cent. Assuming that Côte d'Ivoire reaches the completion point in December 2011, the country will also qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI) and preliminary estimates indicate that MDRI relief could amount to US\$2,013.5 million in nominal terms. Three creditors will provide debt relief under the MDRI: the African Development Bank, IDA and the IMF. These creditors will provide 100 per cent debt relief on all debt disbursed. After unconditional HIPC assistance and MDRI relief, Côte d'Ivoire's NPV of debt-to-revenue ratio would fall to 72.2 per cent.
15. Côte d'Ivoire will reach its completion point under the enhanced HIPC Initiative when certain sector-specific triggers have been reached (in addition to the standard triggers), including reforms and good governance in public resource management. Other triggers concern the key export sectors of oil and gas, and cocoa. Improved reporting on financial flows from oil and gas extraction should help increase revenues and transparency in their use and over time help increase the sector's efficiency. In the cocoa/coffee sector, reduction in the overall taxation of cocoa exports and reform of the institutional framework should contribute to improving the efficiency of the sector and the living standards of the many Ivorian households dependent on these crops. Côte d'Ivoire is expected to reach its completion point by end-2011.
16. The Government intends to use HIPC-related savings to fund activities focused largely on health, education, water supply and sanitation, and food production, especially rice and rural infrastructure, including construction of treatment and storage infrastructure for food production, particularly of cereals (including rice).

III. Progress in HIPC Debt Initiative implementation

17. Since the inception of the HIPC Initiative there has been substantial progress with respect to the implementation of HIPC debt relief. Nearly 90 per cent of eligible countries (33 out of 38²) have passed their decision points, qualifying for HIPC assistance. Twenty-six countries have now reached the completion point and eight are in the interim period between the decision and completion points (see table below). 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, Burundi, Cameroon, the Central African Republic, The Gambia, Haiti, Malawi, Rwanda, Sao Tome and Principe and Sierra Leone have all reached their completion points, with the IFAD Executive Board approving top-ups for Malawi and Rwanda.
18. The IFAD Executive Board approved, at its April 2009 session, a decision point document for debt relief for Togo. In addition Burundi, the Central African Republic and Haiti reached their completion points in early/mid-2009 and IFAD has commenced the agreed levels of debt relief.
19. Maintaining debt sustainability beyond the completion point remains a concern, particularly during the current financial crisis. Debt sustainability analyses confirm

² Kyrgyzstan, Lao People's Democratic Republic and Nepal have withdrawn from the HIPC Debt Initiative.

that post-completion point countries are in a better debt situation than other HIPC countries and also than non-HIPCs. But their debt sustainability outlook remains vulnerable to shocks and is highly sensitive to the terms of new financing. Only about 40 per cent of post-completion point HIPCs currently have a low risk of debt distress according to the most recent debt sustainability analyses; and the number with a high risk rating is increasing. This highlights the need for post-completion point HIPCs to implement sound borrowing policies and strengthen their capacity in public debt management. IFAD is supporting this through its participation in the Debt Sustainability Framework, reporting of all debt information, and liaison with the World Bank and regional development banks.

A. Total cost of the HIPC Debt Initiative to IFAD

20. The total NPV cost of the Fund's participation in the overall HIPC Debt Initiative³ is currently estimated at SDR 304.0 million (equivalent to approximately US\$480.5 million), which corresponds to an approximate nominal cost of SDR 462.7 million (about US\$731.8 million).⁴ The current cost estimates are likely to increase as a result of delays in countries 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 at US\$50.1 million for 2009.

B. IFAD commitments to date

21. To date, IFAD has committed the required debt relief to all 34 HIPCs that have reached their decision point. IFAD's total commitments so far amount to SDR 242.4 million (approximately US\$383.2 million) in NPV terms, which amounts to SDR 366.1 million (approximately US\$578.9 million) of debt service relief in nominal terms.

C. Debt relief provided

22. As at 30 September 2009, IFAD has provided US\$247.4 million in debt relief to the 26 completion point countries.

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

<i>Completion point countries (26)</i>	<i>Decision point countries (8)</i>	<i>Pre-decision point countries (4)</i>
Benin	Chad	Comoros
Bolivia (Plurinational State of)	Congo	Eritrea
Burkina Faso	Côte d'Ivoire ^a	Somalia
Burundi	Democratic Republic of the Congo	Sudan
Cameroon	Guinea	
Central African Republic	Guinea-Bissau	
Ethiopia	Liberia	
Gambia (The)	Togo	
Ghana		
Guyana		
Haiti		
Honduras		
Madagascar		
Malawi		
Mali		
Mauritania		
Mozambique		
Nicaragua		
Niger		
Rwanda		
Sao Tome and Principe		
Senegal		
Sierra Leone		
Uganda		
United Republic of Tanzania		
Zambia		

^a Subject to approval by the Executive Board at its December 2009 session.

³ IFAD participation comprises all eligible HIPC Debt Initiative countries, including pre-decision point countries.

⁴ 30 June 2009 base estimates at exchange rates prevailing on 30 September 2009.

D. Financing of IFAD's debt relief

23. IFAD is funding its participation in the HIPC Debt Initiative through external contributions (paid either directly to IFAD or transferred through the HIPC Trust Fund administered by the World Bank) and its own resources. External contributions (paid or pledged) amount to about US\$193.7 million (65.4 per cent). IFAD's contributions from its own resources amount to about US\$94.7 million (31.9 per cent) under transfers in 1998, 1999 and 2002 approved by the Executive Board and a further transfer of US\$25 million in 2007. The rest has been covered by investment income from the IFAD HIPC Trust Fund balance.
24. 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 HIPC Trust Fund administered by the World Bank. 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. The first transfer from the World Bank-administered HIPC Trust Fund (US\$104.1 million), following the receipt and signature of the grant agreement, was received by IFAD in October 2007. A second series of separate grant agreements was received in May 2009 for supporting debt relief for The Gambia, Sao Tome and Principe and Sierra Leone, totalling approximately US\$18.1 million from the HIPC Trust Fund administrators. The total financing gap (in terms of needed commitment authority) for the HIPC Trust Fund, taking into account the funding needs of IFAD and the African Development Bank, is estimated to be US\$308 million.
25. 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.

IV. Recommendations

26. It is recommended that the Executive Board:
 - (i) Approve the proposed contribution to the reduction of the Cote d'Ivoire's debt to IFAD as of 31 December 2007 (see paragraph 13), in the amount of SDR 1.6 million in end-2007 NPV terms. 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 reduce the value of the Cote d'Ivoire'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, up to the aggregate NPV amount of SDR 1.6 million in end-2007 NPV terms.
 - (ii) Take note of the status of implementation of the HIPC Debt Initiative and IFAD's participation therein, and approve the submission to the Governing Council – in the form of an information paper – of the relevant sections of this paper, appropriately revised to incorporate the above decisions of the Executive Board, as the 2009 progress report.