

Document: EB 2009/98/R.54
Agenda: 20(b)
Date: 26 November 2009
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

Status of the negotiations of arrears of the Republic of Cuba

Executive Board — Ninety-eighth Session
Rome, 15-17 December 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 point with any technical questions about this document before the session:

Josefina Stubbs

Director, Latin America and the Caribbean Division

telephone: +39 06 5459 2318

e-mail: j.stubbs@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

Status of the negotiations of arrears of the Republic of Cuba

1. In December 1980, the Executive Board approved a loan of SDR 11,050,000 to the Republic of Cuba for the Camalote Rural Development Project. The project was declared effective in March 1981 and closed regularly in March 1989 after eight years' implementation. In March 1989, the Cuban authorities interrupted the payment of instalments stipulated by the loan repayment schedule and the country entered into arrears. As at 30 September 2009, the arrears that the Republic of Cuba has with IFAD corresponded to US\$20,612,000. No further financing to the country has been approved since 1980.
2. Recently, the Government of Cuba contacted the Fund about the possibility of renegotiating its debt and meeting its obligations, the final goal being to reactivate its portfolio. At the ninety-fifth session of the Executive Board, the Representative of Mexico requested that the Board be kept informed on which steps IFAD would take with the Cuban authorities to explore solutions to the arrears situation and to consolidate the role of the Fund in supporting Cuba's objectives regarding food security.
3. From 6-8 May 2009, a delegation consisting of the Assistant President, Programme Management Department; the General Counsel; the Director, Latin America and the Caribbean Division (PL); and the Loan Officer visited Cuba in the context of Cuba's wish to re-engage with IFAD. The mission concentrated on two questions: (i) how IFAD can play a role in Cuba's national strategy for food security, and (ii) options for clearing Cuba's arrears with IFAD.
4. The IFAD delegation described the role that the Fund can play in Cuba's food security objectives, including by using a preliminary simulation of the quantitative and sustainable benefits of future IFAD-financed agriculture projects. It was also explained that investing in relations with IFAD, which entails coming to terms with the issue of arrears, would support Cuba's objectives. Based on this hypothesis, it was agreed that a number of scenarios would be explored with a view to arrears clearance.
5. Following the Fund's mission to Havana in May 2009, discussions have continued with the Cuban authorities on the above-mentioned scenarios. In addition, follow-up is being provided to the interest expressed by several Member States in assisting Cuba with the settlement of its arrears. The Director, PL is working with all parties involved.

IFAD's Policy Framework for Managing Partnerships with Countries in Arrears

6. The 1998 Governing Council approved both IFAD's participation in the Debt Initiative for Heavily Indebted Poor Countries (HIPC) to reduce the value of the debt of poor countries that carry unsustainable levels of debt and IFAD's Policy Framework for Managing Partnerships with Countries in Arrears. This initiated changes to the Lending Policies and Criteria with regard to repayment of loan proceeds for countries in arrears. These developments subsequently facilitated the presentation to the Executive Board for approval of settlement plans for arrears clearance that were implemented either separately or in conjunction with HIPC debt relief. Such settlement plans have also included the mobilization of support from bilateral donor Member States, as envisaged in the policy framework.

7. Currently, certain developing Member States meet the eligibility criteria stated in the Agreement Establishing IFAD¹ and spelled out in the Lending Policies and Criteria adopted by the Governing Council,² but nevertheless have no access to the Fund's resources due to arrears. In reviewing the arrears situation of Cuba, it is noted that the country has not had financing from either the International Monetary Fund or the World Bank and has, therefore, no outstanding debt with those institutions that could be relieved by access to initiatives such as the HIPC. Furthermore, Cuba is not a member of the Paris Club. As a consequence, while food security and rural poverty in the country are deteriorating, the compounding effects of long-standing arrears continue to raise the hurdle that Cuba must overcome in order to re-engage with IFAD. Based on the approaches under the HIPC Initiative and IFAD's experience in establishing arrears settlement plans, the development of a partnership approach is considered an appropriate way to manage the arrears of Cuba.
8. Following the analysis of Cuba's arrears, the next step would be to develop as a basis for further dialogue with the country, the parameters of a settlement plan that includes currency of repayment, time frame and potential support from bilateral donor Member States. The plan could include the establishment of a trust fund in accordance with paragraph 6 of resolution 154/XXXII/Rev.1 on the Eighth Replenishment of IFAD's resources. According to said paragraph "the Executive Board and the President are encouraged to examine opportunities to supplement the resources of the Fund by using the Fund's power to perform financial and technical services, including the administration of resources and acting as trustee, that are consistent with the objective and functions of the Fund." By virtue of Governing Council resolution 134/XXVII (Delegation of Authority to Establish Multi-Donor Trust Funds), the Executive Board is authorized to decide on the establishment of all multi-donor trust funds. A settlement plan will therefore be submitted for the approval of the Executive Board in 2010, which may include the establishment of a multi-donor trust fund (managed in line with IFAD's existing HIPC Trust Fund account) for the receipt of Member States' support.
9. Clearly, the foregoing is without prejudice to the possibility of mobilizing the necessary resources through supplementary funds. Such resources are not considered as IFAD resources under article 4 of the Agreement Establishing IFAD and are kept distinct from all others funds held by IFAD. Their mobilization, their use and their management are regulated by a President's Bulletin PB/2006/01 entitled "Procedures for Mobilizing and Managing Supplementary Funds", which was issued internally in January 2006.

¹ See article 7.1(d) of the Agreement Establishing IFAD.

² See paragraphs 21-24 of the Lending Policies and Criteria.

