



IFAD
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**IFAD'S PARTICIPATION IN
THE DEBT INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES:
PROGRESS REPORT FOR 2001**

I. INTRODUCTION

1. The purpose of this paper is to provide the Governing Council with an annual overview of progress in the implementation of the Debt Initiative for Heavily Indebted Poor Countries (HIPC) in general, and the status of IFAD's participation in the Debt Initiative, up to November 2001, in particular.

II. PROGRESS IN THE IMPLEMENTATION OF THE DEBT INITIATIVE

2. **Country cases.** As of 31 October 2001, twenty-three countries¹ have become eligible for debt relief under the Initiative. Bolivia, Mozambique² and Uganda have reached their completion points under the enhanced Initiative; and Burkina Faso, Guyana and Mali have reached their completion points under the original Initiative. Six more countries (Benin, Burkina Faso, Guyana, Mali, Senegal and the United Republic of Tanzania) are expected to reach their enhanced Initiative

¹ In addition, Côte d'Ivoire has been declared eligible for debt relief under the original Debt Initiative framework, but the completion point has been delayed.

² It is possible, but not yet confirmed, that, because of debt-reconciliation problems at the decision-point stage, the completion point review of the debt-sustainability analysis for Mozambique would call for a modest revision of the common debt-reduction factor and thus of the required debt relief. If confirmed, this issue will be presented for Executive Board consideration at a future session.

completion points by the end of 2001 or shortly thereafter. The 23 countries that have reached their enhanced Debt Initiative decision points have received commitments for a total of USD 34 billion in debt-service relief (including more than USD 2.5 billion from multilateral institutions). Their existing debt stocks will have been reduced from USD 54 billion to USD 21 billion in net present value (NPV) after the full application of traditional and Debt Initiative debt relief, as well as additional bilateral debt relief beyond the Debt Initiative. On average, HIPC Debt Initiative debt relief will reduce debt-service payments from 26% of government revenue before this debt relief to less than 10% by 2005, and thus below the current average for developing countries. As projected debt-service payments fall, average commitments for poverty-reducing social expenditures are expected to increase by more than 50% from 1999 to 2002.

Table 1. The 42 Heavily Indebted Poor Countries

HIPCs with Enhanced Initiative Decision Points (23)	HIPCs Not Yet Arrived at the Decision Point (15)	Possibly Sustainable Country Cases
Benin, Burkina Faso, Cameroon, Chad, The Gambia, Guinea, Guinea-Bissau, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Nicaragua, Niger, Rwanda, Senegal, Sao Tome and Principe, United Republic of Tanzania, Zambia	Burundi, Central African Republic, Comoros, Congo, D.R. Congo, Côte d'Ivoire, Ethiopia, Ghana, Laos, Liberia, Myanmar, Sierra Leone, Somalia, Sudan, Togo	Angola, Kenya, Viet Nam, Yemen
With Decision Points and Completion Points: Bolivia, Mozambique, Uganda		

3. Major efforts are ongoing to bring the remaining 15 countries to their decision points as soon as conditions permit. It is expected that Ethiopia, Ghana and Sierra Leone will do so in the coming months.

4. However, about ten of the remaining countries are either emerging from armed conflict and/or facing significant arrears problems. In order to ensure that the decision points of the countries concerned are not delayed much longer after achievement of decision-point conditions, it is expected that the international financial institutions (IFIs) will be called upon to deal with the arrears issues in a proactive, creative way, possibly in line with the range of arrears-settlement arrangements that were applied in the Guinea-Bissau country case (document EB 2000/71/R.12, summarized in Annex II). The first such country cases that may come forward for Executive Board consideration, possibly as soon as April 2002, are the Democratic Republic of the Congo and Sierra Leone, both with significant levels of arrears. The discussions on debt reconciliation, debt-sustainability analysis and arrears clearance capacity are ongoing, with IFAD pursuing compliance with its zero-tolerance policy on arrears.

5. **Updated total Debt Initiative cost estimates.** As was foreseen at the start of the HIPC Debt Initiative, total costs keep evolving over time, mainly as a result of: the enhanced precision of debt-reconciliation exercises; the evolving economic environment; the evolution of interest rates and consequently discount rates; and developments in the Debt Initiative policy framework itself (see Annex I).

6. As shown in Table 2, the most recent estimates of total costs have increased over earlier estimates for the following specific reasons:

- (a) Comoros has been added to the list of HIPCs, now totalling 42 countries, and Ghana has now opted to avail itself of the debt relief offered under the Initiative;

- (b) a number of countries have seen their debt-relief requirements increase in the light of updated debt-sustainability analyses; and
- (c) the present need to express costs for new country cases in 2000 NPV terms rather than 1999 NPV terms.

Table 2. Updated Estimates of Total Costs of the Debt Initiative
(in USD billion)

	Previous Estimate in 1999 NPV terms 32 countries	Updated Estimate In 1999 NPV terms 34 countries ^a	Updated Estimate In 2000 NPV terms 34 countries ^a	Percentage of Total Costs
Total costs (without Liberia, Somalia and Sudan)	29.3	31.3	33.2	100
Bilateral and commercial creditors	15.1	16.1	17.1	51
Multilateral creditors	14.2	15.2	16.1	49
Total costs including Liberia, Somalia and Sudan	37.3	39.2	41.6	125

^a Including Comoros and Ghana

Source: IMF/World Bank staff estimates

7. The following points should be stressed:

- (a) The policy of reviewing debt-sustainability analyses at the completion point – with the possible consequent need to top up decision-point commitments of debt relief in order to reach the 150% NPV-of-debt-to-exports ratio – is likely to lead to further cost increases, especially in the light of the current global economic situation. Staff of the International Monetary Fund (IMF) and the World Bank are currently assessing the impact of the global economic slowdown on the economic and, especially, export performance of HIPC.
- (b) Delays for many countries in reaching their completion points will lead to further increases in the total nominal cost of the Debt Initiative for those institutions that do not provide interim relief.

8. **Policy developments.** As implementation of the Debt Initiative progresses, IMF and World Bank staff are developing operational guidelines. In this context, the attention of the Governing Council is drawn to two developments: the option of completion-point top-up; and the method for assessing the NPV of nominal debt relief provided.

- (a) **Completion-point top-up of debt relief.** The policy framework for the enhanced Initiative provides the international community with the option to consider, in exceptional circumstances, additional debt relief at the completion point beyond that committed at the decision point. In response to a request by their executive boards, IMF and the World Bank developed technical guidelines to operationalize this provision. For countries with actual debt burdens at the completion point markedly above the Initiative's sustainability targets, a comprehensive assessment of a country's economic circumstances would be made in order to determine whether there had been a fundamental change in the country's economic situation and whether the change was clearly due to exogenous developments. If, based on this assessment, a country is deemed to warrant additional relief, the amount would be determined using as criteria



the debt sustainability thresholds already established for the enhanced Initiative (the NPV-of-debt-to-exports ratio of 150% or 250% of fiscal revenues). Additional relief would be delivered unconditionally once satisfactory financing assurances from creditors were obtained. It is stressed that the use of this feature is expected to be very exceptional. Moreover, the operational guidelines emphasize the importance of continued adherence to sound economic policies, including prudent debt management, and appropriate policy responses by HIPC governments to any unforeseen exogenous developments affecting external debt sustainability.

With respect to these operational guidelines, IFAD and other IFIs have expressed opposition to the inclusion in such reassessments of additional borrowings during the interim period (i.e. after the cut-off date for eligible debt). It is felt that this could: introduce moral hazard (opportunistic borrowing); create a disincentive for IFIs to provide the additional concessional resources during the interim period, called for under the Initiative in order to assist HIPCs in implementing their poverty-reduction strategies; and lead other IFIs to shoulder additional debt-relief requirements because of significant additional lending by IMF and the World Bank during the interim period (the poverty reduction growth facilities (PRGFs), the poverty reduction support credits (PRSCs)). It would increase the costs of the Debt Initiative, and consequently the pressure on the scarce resources currently available for the Initiative, if no additional external financing became available.

- (b) **NPV of nominal debt relief provided.** As countries have started to actually avail themselves of the committed debt relief, the need has arisen for the formulation of common guidelines for assessing the NPV of the nominal amounts of relief being provided. In order to avoid IFIs having to bear the nominal cost increases resulting from delays in delivery of debt relief due to delayed performance by the HIPCs concerned, IMF and the World Bank have agreed that:
- (i) under the original Initiative, debt relief provided would be discounted to the original Initiative completion-point date for the country concerned, using the cut-off-date discount factor; and
 - (ii) under the enhanced Initiative, debt relief provided would be discounted to the enhanced Initiative decision-point date for the country concerned, using the cut-off-date discount factor.

This means that, for instance, for Bolivia:

- (i) the debt relief provided under the original Initiative (cut-off date end-1996) would be discounted to September 1998 (the completion point), using the end-1996 discount rate; and
- (ii) the debt relief provided under the enhanced Initiative (cut-off date end-1998) would be discounted to February 2000 (the decision point), using the end-1998 discount rate.

9. **Poverty-reduction strategies.** The poverty reduction strategy papers (PRSPs) are country-owned, medium-term strategies for the reduction of poverty, created for the purpose of allowing countries and their governments to define for themselves the conditions for their access to Debt Initiative treatment (document GC 24/INF.4). Some 60 countries (non-HIPCs as well as HIPCs) have either a full PRSP, an Interim PRSP (I-PRSP) or are in the process of preparing one. The adoption of



this good practice is clearly being mainstreamed in low-income countries, and the link to the PRGFs (formerly ESAF) of IMF and the PRSCs of the World Bank – in addition, of course, to the link to the Debt Initiative for HIPC – clearly constitutes an incentive.

10. The PRSP process is facing a number of challenges. First and foremost, in the context of the Debt Initiative, there is a need to balance speed with quality. Generally speaking, the strategic and operational quality of PRSPs could be improved if somewhat more time were taken to produce them, and there is ample scope to deepen the participatory process for the formulation of PRSPs.

11. Further, the following facts are becoming clear:

- (a) More attention needs to be paid to the critical role of civil society and to ensuring that institutional capacity is in place for these actors to sustain their role.
- (b) The key role of agricultural development in reducing poverty is inadequately reflected in many of the PRSPs, even though recent progress has been rather encouraging.
- (c) The policy, institutional and organizational transformation agenda – to ensure that the strategic priority investments actually translate into poverty reduction – is inadequately reflected in the PRSPs and in the completion-point conditions identified by IMF and the World Bank.
- (d) PRSPs largely focus on the short to medium term and not sufficiently on longer-term implementation.
- (e) PRSPs are not adequately articulating contingency plans for possible shortfalls in growth or revenue performance, which would lead to unforeseen problems and poorly planned adjustments in PRSP implementation.
- (f) There is a need to ensure that Debt Initiative tracking mechanisms do not undermine the ability to track all poverty-reducing spending and improvements in public-expenditure management generally.
- (g) More specific work is required to address the rather general lack of realistic, measurable poverty-reduction targets for which governments would choose to be accountable.

12. In the context of this need for further improvement, IFAD is actively organizing its support to about 15 PRSP processes, with a variable-geometry focus on: supporting participatory processes for the planning and updating of PRSPs; providing assistance to actual implementation of the PRSPs and their participatory monitoring; defining and pursuing the agricultural development agenda; helping the poor articulate and meet their policy and organizational requirements; and institutionalizing PRSP processes. Partnership with governments (central and local) and other actors in the sphere of rural development (especially the IFIs) is of foremost concern.

13. **Challenges ahead.** The challenges now consist in ensuring long-term debt sustainability and in implementing strong economic-reform and poverty-reduction programmes in decision-point countries, which is of critical importance. Prudent debt management and the provision of financial resources as grants or on highly concessional terms will also be crucial. IMF and the World Bank are looking into the debt-management issues facing HIPC, and this work will become part of Debt Initiative considerations. For IFAD, this challenge is calling specifically for reflection on the structuring of agricultural development programmes so as to reduce poverty while simultaneously contributing to debt sustainability for the country.



III. COUNTRY CASES APPROVED IN 2001

14. As of December 2000, IFAD had approved participation in 12 country cases under the original and the enhanced Debt Initiative. In the course of 2001, the Executive Board approved IFAD's participation in the Debt Initiative for 13 new country cases, including one case of top-up under the original Initiative (Guyana). The relevant technical data are presented in Annex III.

15. **Cameroon.** With a NPV of debt-to-exports ratio of 205% in 1998-99, Cameroon's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Cameroon eligible for debt relief under the enhanced framework of the HIPC Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms, with a determined focus on poverty reduction. This progress has been particularly marked in the areas of governance, education, health and HIV/AIDS.

16. The primary rural development objectives under the I-PRSP are (i) diversification and transformation of agricultural, livestock and forestry exports, (ii) reconstruction of financing mechanisms for rural activities, and (iii) extension to rural populations of coverage under the national social security system. Attaining these objectives will require (i) increased agricultural production and income to ensure food security, (ii) improvement in environmental factors and the incentive system through reform of taxation and management of land resources, (iii) modernization of the institutional framework, (iv) improved and concerted sustainable management of rural areas, and (v) development of rural and agricultural finance and microfinance and the introduction of appropriate prudential regulation.

17. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Cameroon's creditors would amount to USD 1.3 billion in NPV terms. Under the decision taken, all creditors would provide a reduction of 26.9% in the NPV of their outstanding claims as of the end of June 1999. The Executive Board approved IFAD's contribution to debt relief for Cameroon in the amount of SDR 2.2 million in 1999 NPV terms (tentatively SDR 2.7 million in nominal terms, spread over two years).

18. Cameroon will reach the completion point under the enhanced HIPC Debt Initiative framework once it has undertaken a number of actions to strengthen economic growth and reduce poverty. These include (i) maintenance of a satisfactory macroeconomic framework as supported by the ongoing IMF PRGF arrangement; (ii) continued satisfactory implementation of key structural and social reforms in the education and health sectors and HIV/AIDS, in the areas of governance and combating corruption and through the establishment of regulatory agencies in key sectors; (iii) completion of a full PRSP, which will be elaborated through a broad consultative process with civil society and the support of international partners (expected to be completed by the end of November 2001), and at least one year of effective implementation of the poverty-reduction strategy; and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

19. Cameroon **is remaining current on its arrears settlement agreement** with IFAD, and as of 31 January 2001 about SDR 1.8 million remained to be settled under that agreement. IFAD's debt relief under the HIPC Initiative would be conditional on the country's continued compliance with the effective arrears settlement agreement.

20. **Chad.** With an NPV-of-debt-to-exports ratio of 222% in 2000, Chad's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Chad eligible for debt relief under the enhanced framework of the Debt Initiative in recognition of the sustained macroeconomic, structural and social reforms pursued in recent years, and of the determined steps the Government has taken to address the policy



interruptions experienced in the second half of 2000. These policy interruptions, which resulted in the postponement of Chad's decision point, had been accentuated by a sharp decline in agricultural production. This decline followed erratic rainfall and resulted in famine and in a need for government spending to address famine-related food emergencies.

21. Past good performance has been particularly marked in fiscal and public-finance management reform (addressing also the need for tracking of poverty-related expenditures), civil-service reform, incentives and trade policies (with the elimination of most price controls), privatization of public enterprises and financial-sector reform. Consequently, real gross domestic product growth has been satisfactory; the external current account deficit was reduced; fiscal imbalances are being corrected through an increase in revenues and a curbing of expenditures (while expenditures in priority sectors such as health and education have increased); inflation has been limited; and Chad is maintaining most of the gains in competitiveness it made because of the 1994 CFA franc devaluation. Gross primary enrolment for girls and boys has increased, while infant mortality rates have decreased.

22. The principal elements of Chad's medium-term development strategy are presented in its I-PRSP. Pending the conclusion of a national household income and expenditure survey, the I-PRSP is based on an extensive participatory process (broad-based local consultations with focus groups to identify the core dimensions of rural poverty), in the course of which Chad's poor expressed particular concern with access to education, health, safe water, microfinance, agricultural equipment and transport infrastructure. They face problems with food security, livestock production and a degrading environment. They also express concern over corruption and bad management, considered to be important constraints on poverty reduction. As a consequence, the I-PRSP identifies four priority sectors for poverty alleviation and growth: health (with a strong HIV/AIDS programme), education, basic infrastructure and rural development.

23. With 80% of Chad's population residing in rural areas, poverty is mainly a rural phenomenon. Much of the rural population suffers from repeated famines, a deterioration of the natural environment due to soil erosion and land degradation, and violent conflicts between livestock holders and farmers. The major constraint on the elimination of rural poverty is low agricultural productivity, owing to ineffective farm practices, inefficient marketing of outputs and agricultural inputs (fertilizers, pesticides, improved seed, veterinary products and farm tools), and limited access to financial markets. Yet Chad has considerable natural potential for increased agricultural production. The Government will seek to develop the potential of its agriculture, livestock and services sectors. A market-based approach to rural development, including the reform of the cotton sector, will provide the basis for broad-based, high growth outside the petroleum sector.

24. The National Rural Development Strategy aims to increase production sustainably – while preserving the environment and reinforcing local capacities – through the strengthening of producer organizations and rural services (with the private sector) and through defining and implementing: a rural extension strategy, a national microfinance strategy, a national environmental strategy, a community-driven rural development programme and a gradual decentralization of central-government responsibilities to locally elected governments.

25. After several years of delays, tangible progress has also been made in the reform of the cotton sector, which touches 300 000 farm families. Complementary to the state's proposed divestiture of Cotontchad, an effort was made in early 2000 to ensure that cotton farmers can contribute to shaping and implementing the reform process – and become its main beneficiaries – through the strengthening of producer organizations, adoption of a cotton-sector reform strategy, introduction of a pricing scheme linked to world cotton prices, introduction of a price-setting committee consisting of farmers and Cotontchad, involvement of farmer committees in the procurement process for cotton fertilizers and pesticides (distributed by Cotontchad) and the planning of the primary marketing of seed cotton, and organization of a farmers' forum on the privatization of Cotontchad.



26. These priorities are well reflected in the sector allocations of the Virtual Poverty Fund (VPF) for 2001 and for the medium term. The VPF seeks to ensure both the full integration of poverty-reduction expenditures into the overall national budget and the tracking of poverty-related expenditures funded specifically from Debt Initiative resources. IFAD's country strategic opportunities paper (COSOP) and its country portfolio – consisting of three loan-financed projects in addition to activities supported by the Belgian Survival Fund (BSF) and the IFAD/NGO Extended Cooperation Programme (ECP) – fully support these priorities of the national rural development strategy.

27. In order to achieve the target NPV-of-debt-to-exports ratio of 150% provided for under the enhanced Debt Initiative, all creditors will be expected to provide a reduction of 30% in the NPV of their outstanding claims as of the end of 2000. Total relief from all of Chad's creditors would amount to USD 170 million in NPV terms. Bilateral and commercial creditors will provide USD 36 million in NPV terms in debt reduction, with multilateral creditors providing USD 134 million in NPV terms. IFAD's Executive Board approved IFAD's contribution to the debt relief for Chad in the amount of SDR 1 166 825 in 2000 NPV terms (tentatively SDR 1.58 million in nominal terms, spread over a period of 6 years³).

28. Chad will reach its completion point under the enhanced Debt Initiative framework when the conditions in the following areas have been met: (a) continued commitment to the financial and economic programme supported by the IMF PRGF; (b) completion of a PRSP through a participatory process (the I-PRSP defines the process for finalizing such a fully participatory PRSP), international endorsement of the strategy and a first annual report on its implementation; (c) implementation of an agreed set of measures in the context of the Government's poverty-reduction strategy, with a focus on governance and public administration (including the strengthening of public-expenditure management to facilitate the identification and tracking of poverty-related spending), and with specific triggers related to access to farm equipment and water points; and (d) confirmation of the participation of other creditors in the debt-relief operation.

29. **The Gambia.** With an NPV of debt-to-exports ratio of 245% in 1999, The Gambia's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared The Gambia eligible for debt relief under the enhanced framework of the HIPC Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction. This progress has been particularly marked in the areas of per capita GDP growth, inflation control, fiscal deficit reduction, privatization, financial-sector reform, governance, combating AIDS and primary education.

30. To help reduce the income gap between farmers and the rest of the population, durably raise production levels and provide a measure of protection against external shocks, the Government has established specific objectives: (i) an increase in overall agricultural output to generate gainful employment opportunities in the sector and increase export earnings, (ii) an increase in domestic cereal production to substitute for imported rice, (iii) diversification of the production base to reduce fluctuations in household incomes, and (iv) the sustainability of agriculture. Marketing arrangements for groundnuts are likely to improve following the settlement of the Gambia Groundnut Corporation

³ Normally IFAD's debt relief will be provided in the form of a 100% reduction of the semiannual debt-service payments for each eligible loan, from the completion point onwards (without interim relief) until the relief target is reached, according to approved basic policy and practice. However, if the resource position in IFAD's Trust Fund account would not permit a 100% reduction of debt-service relief, IFAD may (even temporarily) provide lower levels of debt-service payment relief. This will be determined by the Fund at its sole discretion and notified to the Borrower periodically. Of course, the NPV-of-debt-relief target itself will **not** be affected by this flexible management of the relief modalities.



property dispute. Two key groundnut-processing facilities will revert to the Government, creating an opportunity to prepare the facilities for sale to competing firms. In addition, the improved provision of extension and credit services should benefit rural development, especially for women.

31. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of The Gambia's creditors would amount to USD 67.0 million in NPV terms. Under the decision taken, all creditors would provide a reduction of 27.2% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD's contribution to debt relief for The Gambia in the amount of SDR 1.8 million in 1999 NPV terms (tentatively SDR 2.4 million in nominal terms spread over five years).

32. The Gambia will reach the completion point under the enhanced Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic programme supported by the ongoing IMF PRGF arrangement; (ii) continued satisfactory implementation of key structural and social reforms in public expenditure management, primary health and primary education, and private-sector development; (iii) completion of a PRSP through a participatory process (expected before the end of 2001) and a first annual implementation report of the strategy; and (iv) confirmation of the participation of the other creditors in the debt-relief operation. The debt relief would be tracked within a special poverty fund.

33. **Guinea.** With an NPV of debt-to-exports ratio of 219% in 1999, Guinea's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Guinea eligible for debt relief under the enhanced framework of the HIPC Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction. This progress has been particularly marked in the areas of price liberalization, privatization, financial-sector reform, public expenditure management, reform of trade and the foreign-exchange regime, primary school enrolment rates, the village communities support programme, and the capacity-building for service-delivery programme.

34. In addition to policy initiatives in the health and education sectors, the Government also aims to strengthen rural development and poverty-alleviation programmes by (i) promoting agricultural production and productivity through support for rural development, (ii) improving service delivery in rural areas through the devolution of responsibilities and resources to local institutions and the private sector, (iii) enhancing governance and institutional capacity, (iv) improving labour-intensive public works programmes, and (v) extending credit-based programmes, especially through microfinance services.

35. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Guinea's creditors would amount to USD 545.0 million in NPV terms. Under the decision taken, all creditors would provide a reduction of 31.6% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD's contribution to debt relief for Guinea in the amount of SDR 5.1 million in 1999 NPV terms (tentatively SDR 6.9 million in nominal terms, spread over six years).

36. Guinea will reach the completion point under the enhanced Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic programme supported by the ongoing IMF PRGF arrangement; (ii) continued satisfactory implementation of key structural and social reforms in the areas of the regulation of microcredit institutions, anti-corruption measures, government procurement, primary school enrolment, immunization rates and prenatal consultations; (iii) completion of a PRSP through a participatory process (with a comprehensive set of indicators for monitoring progress in poverty reduction, based



on a living standards measurement survey) and a first annual implementation report of the strategy; and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

37. **Guinea-Bissau.** With an NPV of debt-to-exports ratio of 1029% in 1999, Guinea-Bissau's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Guinea-Bissau eligible for debt relief under the enhanced framework of the Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction. Because of the improved economic policies and structural reform measures since 1994, the authorities have been able to achieve progress in key socio-economic indicators (real per capita GDP, primary school enrolment, immunization coverage and infant mortality). However, in spite of this initial progress, the country's situation has continued to be difficult, and most indicators still remain below the average for sub-Saharan Africa. The lack of more-recent poverty data prevents a detailed assessment of the effect on poverty of the important events of the past decade, including the reforms, integration into the West African Economic Monetary Unit (WAEMU) and the recent conflict. The improvement in the key macroeconomic and social indicators was reversed by the effects of the armed conflict in 1998-99.

38. The Government's strategy emphasizes rapid and sustained growth with equitably distributed benefits as a way to tackle poverty reduction. In particular, the authorities recognize that there are many areas with significant growth potential that remain undeveloped. At present, for example, only about one third of the arable – and typically quite fertile – land is cultivated, usually on small, manually cultivated family plots. Moreover, unexplored comparative advantages, for example in tropical fruits, also offer interesting business opportunities. The planned introduction of the land law and the revision of the 1977 Letter of Agricultural Development Policy are expected to create an appropriate policy framework for the promotion of rural development, which will require the mobilization of considerable donor support. In this context, the Government plans to take action to (i) address the human capital limitations imposed by the skill shortages and poor health status of farmers and (ii) improve access to productive assets related to land tenure, technology, rural infrastructure and the availability of farm credits. The authorities will also need to implement measures to prevent the environmental degradation associated with deforestation, fisheries depletion and soil and coastal degradation. In the medium and long term, agriculture, including fishing and forestry, and agribusiness offer attractive growth opportunities for the achievement of the much-needed diversification of the country's productive and export base, which is critical for the reduction of poverty and vulnerability.

39. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Guinea-Bissau's creditors would amount to USD 416.0 million in NPV terms. Under the decision taken, all creditors would provide a reduction of 85.4% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD's contribution to debt relief for Guinea-Bissau in the amount of SDR 3.1 million in 1999 NPV terms (tentatively SDR 4.5 million in nominal terms, spread over 16 years).

40. Guinea-Bissau will reach the completion point under the enhanced Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic programme supported by the ongoing IMF PRGF arrangement; (ii) continued satisfactory implementation of key structural and social reforms in the areas of governance, education and health, and HIV/AIDS; (iii) completion of the demobilization process; (iv) completion of a PRSP through a participatory process and a first annual implementation report of the strategy; and (v) confirmation of the participation of the other creditors in the debt-relief operation.

41. As of 31 January 2001, Guinea-Bissau had accumulated SDR 633 000 in arrears with IFAD. While the World Bank and IMF assess Guinea-Bissau's capacity to service its multilateral



development bank debt at about USD 1.5 million per annum, the country currently not only owes an average of about USD 15.0 million per annum to these banks over the next three years, but it has also accumulated about USD 22.5-35.0 million in arrears. In 1995, Guinea-Bissau started accumulating arrears with IFAD, and an arrears settlement plan was worked out in June 1996. Because of reported difficulties, an IFAD mission visited the country in August 2000. The mission was informed that Guinea-Bissau is indeed facing acute debt-servicing constraints. In spite of these difficulties, however, a substantial portion (USD 300 000) has been paid against the arrears settlement plan, and the Government has committed itself to settle the balance as soon as the financial situation permits. This history of arrears and the problems encountered by the country in remaining current with IFAD (and all other creditors, except the World Bank and IMF thanks to a bilateral grant) were described in document EB 2000/71/R.12, and Annex II provides the main policy principles approved by the IFAD Executive Board in December 2000 for dealing with such cases. Based on the specific World Bank/IMF recommendation, the Executive Board approved the integration of the arrears in the NPV of debt relief according to the policy approved by the Executive Board at its Seventy-First Session in December 2000 (see document EB 2000/71/R.12 and Annex II for details).

42. **Guyana.** With an NPV of debt-to-exports ratio of 151% and an NPV of debt-to-revenue ratio of 543% in 1998, Guyana's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The basic decision for IFAD's participation in the HIPC Initiative for Guyana, under the original framework, was made by the Executive Board in September 1998 on the basis of document EB 98/64/R.14. The international community has now declared Guyana eligible for debt relief also under the enhanced framework of the Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction.

43. To achieve the NPV-of-debt-to-exports target of 150%, as well as the target fiscal ratio of 250%, total relief from all of Guyana's creditors would amount to USD 585.0 million in NPV terms under both the original and the enhanced Initiatives (USD 256.0 million and USD 329.0 million, respectively). Under the decision taken, all creditors would provide a cumulative reduction of 63.3% in the NPV of their outstanding claims as of December 1998. The Executive Board approved IFAD's contribution to debt relief for Guyana in the amount of SDR 1.5 million in 1998 NPV terms, including the SDR 630 000 approved under the original Initiative. This tentatively amounts to SDR 1.2 million in nominal terms, spread over six years, in addition to the SDR 607 164 already provided under the original Initiative.

44. Guyana will reach the completion point under the enhanced Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic programme supported by an IMF PRGF arrangement, (ii) continued satisfactory implementation of key structural and social reforms, (iii) completion of a PRSP through a participatory process and a first annual implementation report of the strategy, and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

45. **Madagascar.** With an NPV of debt-to-exports ratio of 248% in 1999, Madagascar's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Madagascar eligible for debt relief under the enhanced framework of the HIPC Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction.

46. Agriculture provides about 35% of Madagascar's GDP and 40% of exports, and almost 75% of the population derive their livelihood from agriculture. Four of every five poor people live in rural areas. Madagascar commands favourable conditions for agriculture and relatively low labour costs. Domestic resource cost calculations indicate that both traditional and improved rice, as well as the



cash crops vanilla and coffee, could be highly competitive. However, agricultural productivity has remained almost stagnant over the last decades. Deeply rooted structural constraints, primarily the lack of rural infrastructure, resource degradation, poorly functioning rural institutions, including land tenure and rural finance systems, and the negligible use of new technology, need to be overcome if the desired supply response is to be fostered. A key ingredient in boosting rural incomes is the rehabilitation and improvement of Madagascar's infrastructure and access to credit. To confront these problems, in June 2000 the Government prepared the Action Plan for Rural Development (PADR), which underlies the I-PRSP. The PADR emphasizes (i) institutional and regulatory reforms, (ii) rural development partnerships, (iii) sustainable growth in agricultural production, (iv) regional food security and (v) access to rural social services. Regarding this last point, much of basic service delivery hinges crucially on the extension of the very rudimentary rural transport infrastructure (roads, culverts, foot bridges), often rendered unusable during the rainy season. The Government is currently elaborating a rural transport policy through a participatory process. This policy will define an institutional and financing framework for rural roads (provincial and communal roads), define promotional strategies for rural transport services and intermediate means of transport, and set out guidelines for the service levels of rural roads and the selection of appropriate interventions. The new strategy will emphasize the maintenance of rural roads through the Roads Maintenance Fund and the appropriate financing of this fund on a sustainable basis.

47. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Madagascar's creditors would amount to USD 814.0 million in NPV terms. Under the decision taken, all creditors would provide a reduction of 39.5% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD's contribution to debt relief for Madagascar in the amount of SDR 6.4 million in 1999 NPV terms (tentatively SDR 9.1 million in nominal terms, spread over eight years).

48. Madagascar will reach the completion point under the enhanced Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic programme supported by an IMF PRGF arrangement, (ii) continued satisfactory implementation of key structural and social reforms, (iii) completion of a PRSP through a participatory process and a first annual implementation report of the strategy, and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

49. **Malawi.** With an NPV of debt-to-exports ratio of 267% in 1999, Malawi's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Malawi eligible for debt relief under the enhanced framework of the Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction.

50. While there are many components in Malawi's pro-poor growth strategy, equitable access to land and credit is a crucial ingredient, as has been outlined in the I-PRSP. The Government is considering significant land-policy reforms to address demographic pressure on land resources, inequality in access to land, tenure insecurity and deficient land administration. For over three years, the Presidential Land Commission carried out extensive consultations on these issues, and on this basis the Government has prepared a draft new land policy. It has already prepared a Strategic Action Plan for implementing the land-policy reform process and the modernization of the land administration system. The proposed land policy addresses the main challenges of tenure security (for all tenure regimes), land administration, land-market transactions, community participation and natural resource management. In particular, the proposed land policy would formalize customary tenure by defining all land in Malawi as customary land to be managed by traditional authorities according to custom, except for freehold titles and government land. Furthermore, in response to the growing assertion of individual property rights, family allocations within customary tenure will be



converted into titles known as “customary estates”. This land policy is consistent with the ongoing decentralization process since it significantly shifts the balance in the resolution of land issues from the Central Government to the districts and traditional authorities. The Government intends to have Cabinet approval of the draft new land policy and Parliamentary approval of the corresponding legislation and regulations before the end of 2001.

51. Access to credit, particularly by poor rural households, is a critical ingredient of rural-sector growth. The microcredit system in Malawi is composed of a number of disparate initiatives ranging from the provision of credit to specific occupational groups (e.g. tobacco farmers) to lending initiatives in specific geographical areas. Interest and recovery rates vary widely as well. There are currently around 20 microfinance institutions in Malawi, with a combined total of about 550 000 clients. Three institutions cover over 90% of these clients. As discussed in the I-PRSP, the Ministry of Commerce has drawn up a microfinance policy, following widespread consultation and review. The policy aims to promote best practices among microfinance institutions in order to expand client outreach, promote sustainability, improve coordination and increase capacity. It also proposes a peer-regulatory structure for the industry and the establishment of a monitoring system that can track lending volumes, the number of clients and the areas covered with a view to improving coordination of microfinance activities. These elements are expected to spur an expansion in microcredit outreach, while ensuring the sustainability of the industry.

52. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Malawi’s creditors would amount to USD 643.0 million in NPV terms. Under the decision taken, all creditors would provide a reduction of 44% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD’s contribution to debt relief for Malawi in the amount of SDR 8.3 million in 1999 NPV terms (tentatively SDR 12.2 million in nominal terms, spread over nine years).

53. Malawi will reach the completion point under the enhanced HIPC Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic programme supported by the ongoing IMF PRGF arrangement, (ii) continued satisfactory implementation of key structural and social reforms, (iii) completion of a PRSP through a participatory process and a first annual implementation report of the strategy, and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

54. **Nicaragua.** With an NPV of debt-to-exports ratio of 540% in 1999, Nicaragua’s external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Nicaragua eligible for debt relief under the enhanced framework of the Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction.

55. The Government has recently issued a document that it has submitted as an I-PRSP (A Strengthened Poverty-Reduction Strategy) and that sets out a strategy to address the main challenges faced by the country. The document is based on a sound analysis of Nicaragua’s poverty and was prepared with the participation of civil society. It rests on four programmatic pillars: (i) sustaining broad-based growth and structural reform; (ii) raising the amounts and the quality of investment in human capital, particularly among the poor; (iii) improving the protection of vulnerable groups; and (iv) strengthening institutional capacity and good governance. There are also three cross-cutting themes relating to environmental sustainability, social equity and decentralization. The Government’s poverty-reduction targets aim to achieve the International Development Goals of the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) by the year 2015, as well as to improve the population coverage of safe water and sanitation substantially and to reduce child malnutrition and illiteracy in line with Nicaragua’s specific conditions and needs.



The authorities expect to complete the full PRSP soon, in consultation with donors and civil society, through the National Economic and Social Planning Council.

56. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Nicaragua's creditors would amount to USD 3.3 billion in NPV terms. Under the decision taken, all creditors would provide a reduction of 72.2% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD's contribution to debt relief for Nicaragua in the amount of SDR 6.5 million in 1999 NPV terms (tentatively SDR 14.4 million in nominal terms, spread over 30 years).

57. Nicaragua will reach the completion point under the enhanced Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic programme supported by an IMF PRGF arrangement, (ii) continued satisfactory implementation of key structural and social reforms, (iii) completion of a PRSP through a participatory process and a first annual implementation report of the strategy, and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

58. **Niger.** With an NPV of debt-to-exports ratio of 322% in 1999, Niger's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Niger eligible for debt relief under the enhanced framework of the Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction.

59. The Government plans to limit the scope of public intervention in the rural sector to the provision of essential infrastructure, such as rural roads and access to water resources. It also plans to decentralize and restructure extension services and applied research within a context of user participation. The Government has already initiated a consultation process with farmers and other rural inhabitants for the preparation of a comprehensive rural development strategy focusing on the following:

- (a) productivity improvement through the adoption of cost-efficient and user-friendly technology;
- (b) promotion of agricultural and livestock exports (including non-traditional crops);
- (c) improvement in water management, especially through the promotion of small-scale, inexpensive and environmentally sustainable irrigation systems;
- (d) improvements in irrigation support services through the restructuring of the state-owned irrigation company and the transfer of irrigation systems to the private sector;
- (e) reduction in state interventions in the market for agricultural inputs and the promotion of the private-sector marketing of such products as seeds, fertilizers and pesticides;
- (f) development and adoption of a strategy for rural microfinance;
- (g) further strengthening of the legal framework for rural-sector development, including the adoption of a pastoral code; and
- (h) rehabilitation and expansion of the rural road network.

60. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Niger's creditors would amount to USD 521.0 million in NPV terms. Under the decision taken, all creditors would provide a reduction of 53.5% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD's contribution to debt relief for Niger in the amount of SDR 6.3 million in 1999 NPV terms (tentatively SDR 9.1 million in nominal terms, spread over 11 years).

61. Niger will reach the completion point under the enhanced Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic



programme supported by an IMF PRGF arrangement, (ii) continued satisfactory implementation of key structural and social reforms, (iii) completion of a PRSP through a participatory process and a first annual implementation report of the strategy, and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

62. As of 31 January 2001, Niger had accumulated SDR 127 503 in arrears with IFAD. In view of the efforts made by the country to remain current with IFAD and the recurrent problem of accumulated arrears also vis-à-vis other creditors and based on the specific World Bank/IMF recommendation, the Executive Board approved the integration of the arrears in the NPV of debt relief according to the policy approved by the Seventy-First Session of the Executive Board in December 2000 (see document EB 2000/71/R.12 and Annex II for details).

63. **Rwanda.** With an NPV of debt-to-exports ratio of 634% in 1999, Rwanda's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Rwanda eligible for debt relief under the enhanced framework of the Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction.

64. With poverty concentrated in rural areas, the development of agriculture is crucial to poverty reduction in Rwanda in the medium term. Because of the scarce land resources, greater agricultural productivity is absolutely necessary to increase rural incomes and reduce poverty. The Government's strategy for agriculture seeks to raise productivity through more market orientation in the sector, underpinned by intensification in input use, diversification and specialization in agricultural production. Under the strategy, key actions are aimed at rehabilitation of productive infrastructure, including coffee and tea processing facilities; rebuilding of the agricultural extension and research system; liberalization of land, labour and the agricultural inputs and products markets; promotion of regional specialization in production; and support for associations of farmer groups as partners in the generation and dissemination of technologies and in improving input distribution and output marketing systems. A land law that ensures the security of land tenure and permits land markets to develop and a functioning small and rural credit system are important challenges for market-based agriculture in Rwanda.

65. The development of agricultural exports will contribute to a reduction in aid-dependency. The coffee and tea sectors can make an enormous contribution to poverty reduction and exports in the medium term. The privatization of tea and coffee processing and marketing facilities is ongoing, and legislation is being adopted to dismantle the state-controlled marketing and regulatory agencies and replace them with industry-based development organizations. The liberalization of the marketing and exportation of tea and coffee and the privatization of processing plants will help attract the private investments that are essential for these industries to reach full potential. The Government, through the Rwanda Investment Promotion Agency, will continue to promote alternative high-value smallholder crops.

66. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Rwanda's creditors would amount to USD 452.0 million in NPV terms. Under the decision taken, all creditors would provide a reduction of 71.3% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD's contribution to debt relief for Rwanda in the amount of SDR 8.5 million in 1999 NPV terms (tentatively SDR 15.8 million in nominal terms, spread over 20 years).

67. Rwanda will reach the completion point under the enhanced Initiative framework when the following conditions have been met: (i) continued satisfactory performance under the reform programmes supported by the International Development Association and IMF, (ii) continued



satisfactory implementation of key structural and social reforms, (iii) completion of a PRSP through a participatory process and a first annual implementation report of the strategy, and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

68. **Sao Tome and Principe.** With an NPV of debt-to-exports ratio of 861% in 1999, Sao Tome and Principe's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Sao Tome and Principe eligible for debt relief under the enhanced framework of the HIPC Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction.

69. The Government's rural development strategy has four main goals: (i) improving the living conditions of the rural population, (ii) increasing and diversifying agricultural production, (iii) developing food production for domestic consumption and (iv) promoting the preservation and rational management of natural resources. In the area of agricultural diversification, the Government will increase its efforts to assist farmers by promoting an environment for the development of new products, such as black pepper, coconut, oil palm, fragrances, food crops and edible fruits. With regard to the coffee industry, research is being conducted to define future development possibilities for the industry. Food-crop production will be encouraged through improved marketing and transport conditions and the development of product storage and packaging capacities, which should create the necessary conditions for a substantial export flow of crop products aimed particularly at markets in Luanda and Libreville. The lack of rural credit is being increasingly singled out as a major obstacle, and low payback rates have greatly reduced the significance of the rural savings and loan organizations (*caixas rurais*). However, improved income among farmers and the modernization of agriculture should raise the demand for credit, and the Government is addressing the issue.

70. The transformation from large, state-owned plantations to smallholder production and a few medium-sized agricultural enterprises has created a need for appropriate research and extension services. In this respect, the Government relies in large measure on major ongoing projects financed by donors to provide farm support in the form of inputs, materials, extension services and credit facilities to the 6 300 smallholders that have benefited from land distribution. The Government has proposed the creation of a single supply agency under private management.

71. Regarding livestock, the Government will encourage development based on small ruminants, poultry and pork farming and the development of cattle-raising oriented towards meat production. The Government will also seek to promote the development of private veterinary services. The management of fisheries resources will focus on two key areas: (i) improved control of the potential of fisheries and (ii) monitoring of industrial fisheries, particularly in light of the three-year fishing accord with the European Union, which became effective in June 1999. In addition, the Government intends to promote the development of artisanal fisheries by strengthening the production capacities of fishermen and of professional organizations, developing fishery products and promoting the creation of mutual savings and loan banks for fishermen and tradesmen. In the area of forestry preservation, the Government will carry out an inventory of the available wood resources, limit the areas to be opened for forestry exploitation, introduce a follow-up mechanism (the parcels to be monitored and measures to increase the number of trees and forests) and support private and public programmes for the development of nurseries and the replanting of cover for shade. Planting of secondary forests with appropriate species for the production of good-quality wood is also being encouraged.

72. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Sao Tome and Principe's creditors would amount to USD 97.0 million in NPV terms. Under the decision taken, all creditors would provide a reduction of 83% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD's contribution to debt relief for Sao Tome and Principe



in the amount of SDR 2.0 million in 1999 NPV terms (tentatively SDR 4.5 million in nominal terms, spread over 29 years).

73. Sao Tome and Principe will reach the completion point under the enhanced HIPC Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic programme supported by the ongoing IMF PRGF arrangement, (ii) continued satisfactory implementation of key structural and social reforms, (iii) completion of a PRSP through a participatory process and a first annual implementation report of the strategy, and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

74. **Zambia.** With an NPV of debt-to-exports ratio of 401% in 1999, Zambia's external debt situation is unsustainable, even after the full application of all traditional debt-relief mechanisms. The international community has declared Zambia eligible for debt relief under the enhanced framework of the Initiative in recognition of the substantial progress the country has made in implementing a comprehensive programme of macroeconomic, structural and social reforms and in achieving poverty reduction.

75. To achieve the NPV-of-debt-to-exports target of 150%, total relief from all of Zambia's creditors would amount to USD 2.5 billion in NPV terms. Under the decision taken, all creditors would provide a reduction of 62.6% in the NPV of their outstanding claims as of December 1999. The Executive Board approved IFAD's contribution to debt relief for Zambia in the amount of SDR 13.7 million in 1999 NPV terms (tentatively SDR 23.5 million in nominal terms, spread over 16 years).

76. Zambia will reach the completion point under the enhanced Initiative framework when the following conditions have been met: (i) continued commitment to the financial and economic programme supported by the ongoing IMF PRGF arrangement, (ii) continued satisfactory implementation of key structural and social reforms, (iii) completion of a PRSP through a participatory process and a first annual implementation report of the strategy, and (iv) confirmation of the participation of the other creditors in the debt-relief operation.

IV. COST ESTIMATES FOR IFAD AND FINANCING

77. With the 2001 debt relief approvals of the Executive Board, IFAD has committed itself to providing debt relief to 24 countries, for a total NPV amount of approximately SDR 137 million (USD 176 million) (see Annex III). Assuming prompt meeting of the completion-point conditions and a front-loaded modality for debt relief (100% of debt-service relief from the Completion Point onwards until the target is reached, without interim relief), this would amount to about SDR 207 million in nominal terms (USD 266 million), spread over varying periods of time, depending on the country, and ranging from 2 to 30 years.

78. The resources to finance IFAD's debt-relief obligations are coming from internal resources (that would otherwise be available for commitment) and from complementary contributions from the Government of The Netherlands (NLG 26.6 million or about USD 15 million at the historic exchange rate). The Government of Germany has earmarked DM 15 million (about USD 7 million) of its contributions to the World Bank-administered Debt Initiative trust fund for debt owed to IFAD, and this will be disbursed over a three-year period. Encouraging consultations are taking place with other donors to the World Bank-administered trust fund in order to explore and establish broader equitable access for IFAD to this fund.



PARAMETERS OF THE POLICY FRAMEWORK FOR THE ENHANCED HIPC DEBT INITIATIVE

1. Deeper Debt Relief:

- by lowering the NPV debt-to-exports target from 200-250% to 150%;
- by lowering the NPV debt-to-fiscal-revenues target from 280% to 250%;
- by lowering the qualifying thresholds from 40% to 30% of the exports-to-GDP ratio and from 20% to 15% of the revenues-to-GDP ratio; and
- by calculating debt relief based on actual data at the decision point rather than on projections for the completion point.

2. Faster Debt Relief:

- by providing interim relief between the decision and completion points;
- by introducing floating completion points, thereby permitting strong performers to reach the completion point earlier; and
- by front-loading the delivery of debt relief, subject to the debt-service profile due to creditors.

3. Stronger Link to Poverty Reduction:

- through the requirement of a poverty-reduction strategy paper; and
- by making decisions on the basis of interim PRSPs, in order to accelerate access to debt relief without compromising either the quality of the participatory process, or the results of the countries' poverty-reduction strategy efforts.

4. Results:

- greater margin of safety for the achievement of debt sustainability;
- more freeing-up of resources earlier for an enhanced focus on poverty reduction;
- stronger impact on poverty eradication;
- expansion of eligibility to 41 HIPC; and
- increase in overall costs.

INTEGRATING ARREARS IN THE NPV OF DEBT RELIEF

1. The Executive Board at its Seventy-First Session (document EB 2000/71/R.12) approved the general policy principle¹ of incorporating arrears **accrued before IFAD's decision point** into the front-loaded debt-relief modality for countries:

- that have been declared eligible for debt relief under the HIPC Debt Initiative;
- that have accrued arrears with IFAD;
- that have made **demonstrated, concrete** efforts to settle these arrears and/or to adhere to the agreed arrears settlement plan, if any; and
- whose debt-servicing capacity in the short term is assessed by the World Bank and IMF as objectively inadequate to service debt and settle the arrears.

2. IFAD's contribution to the debt relief in such country cases will therefore be structured as follows:

- at the **decision point**: immediate integration of the eligible arrears² into the NPV of debt relief to be provided to the country by IFAD under the Debt Initiative;
- during the **interim period**:
 - (a) the government will remain current on its loan-service obligations as the norm³, and
 - (b) IFAD will first (and upon government request) support the government in developing the PRSP and subsequently support the implementation of the poverty-reduction strategy with programme assistance, **including the immediate reactivation of the country portfolio**. IFAD's 'arrears integration' and scope for relief of debt-service requirements during the interim period will directly depend on the quality of the collaboration between the government and IFAD for the PRSP process; and
- at the **completion point**: on condition of a successful interim period, 100% of debt-service relief until the NPV relief target has been reached.

¹ Also applicable to other similarly deserving cases of HIPCs listed in IFAD's periodic report to the Executive Board on arrears.

² Calculated at 'present value', in accordance with IFAD's policy on arrears-settlement packages (see document GC 21/L.7). Arrears exceeding the level of debt relief to be provided under the Initiative will be subject to IFAD's normal policy of arrears settlement. It should be noted that arrears incurred before the cut-off point of eligible debt will not be included in the debt stock to be relieved, as this would unduly inflate the country's debt stock to be treated by the Initiative.

³ As the norm, IFAD will expect 100% debt service during the interim period. However, based on the World Bank/IMF assessment of an individual country's debt-servicing capacity during this period, IFAD may request the Executive Board to consider lower debt-servicing requirements, for example 50% or, for instance in the case of Guinea-Bissau, 0% of the debt-servicing requirement during the interim period.

SUMMARY OF IFAD'S DEBT INITIATIVE FOR HIPC COMMITMENTS

		Cut-Off Date for Eligible Debt	Total Outstanding Debt Service (SDR)	Discount Rate (%)	NPV of Total Outstanding Debt Service (SDR)	Target NPV-of-Debt-to-Exports Ratio (%)	Target Fiscal Ratio of Debt (%)	Common Debt-Reduction Factor (%)	NPV Debt Relief Approved by the Executive Board (SDR)1	Estimated Time Period for Debt Relief (years) assuming 100% of debt service relief 2	Estimated Total Nominal Cost (SDR) 1	Remarks2
1	Benin	Dec-98	33 005 137	5.25	15 081 277	150		31.3	4 720 440	7	6 243 875	Enhanced
2	Bolivia	Dec-98	32 610 471	5.25	18 754 998	150		35.0	6 564 249	6	7 827 077	Enhanced (approved under original Initiative : SDR 2 200 000)
3	Burkina Faso	Dec-99	25 533 651	5.59	11 193 315	150		46.3	5 182 505	10	7 313 365	Enhanced (approved under original Initiative : SDR 1 390 860 at DP, revised to 2 955 035 at CP)
4	Cameroon	Jun-99	12 846 476	4.87	8 359 948	150		26.9	2 248 826	2	2 713 892	Enhanced
5	Chad	Dec-00	9 904 885	6.09	3 889 415	150		30.0	1 166 825	6	1 582 526	Enhanced
6	<i>Côte d'Ivoire (original)</i>					141	280.0	6.0	164 300			<i>Original Initiative</i>
7	Gambia, The	Dec-99	15 557 570	5.59	6 710 439	150		27.2	1 825 239	5	2 398 477	Enhanced
8	Guinea	Dec-99	38 582 884	5.59	16 169 224	150		31.6	5 109 475	6	6 922 062	Enhanced
9	Guinea Bissau	Dec-99	7 772 895	5.59	3 598 230	150		85.4	3 072 889	16	4 429 182	Enhanced
10	Guyana	Dec-98	2 943 793	5.25	2 401 076	150	250	63.3	1 519 881	5	1 771 957	Enhanced (original Initiative: SDR 630 000)
11	Honduras	Dec-99	16 317 725	5.59	7 482 666	110	250	17.8	1 331 915	3	1 527 814	Enhanced
12	Madagascar	Dec-99	37 995 676	5.59	16 318 466	150		39.5	6 445 794	8	9 125 069	Enhanced
13	Malawi	Dec-99	43 650 366	5.59	18 947 091	150		44.0	8 336 720	9	12 188 790	Enhanced
14	Mali	Dec-98	40 757 521	5.25	18 430 543	150		37.0	6 819 301	8	9 303 306	Enhanced (approved under original Initiative : SDR 1.575 million)
15	Mauritania	Dec-98	34 912 948	5.25	15 158 293	137	250	50.0	7 579 147	12	11 400 150	Enhanced
16	Mozambique	Dec-98	32 271 650	5.25	14 801 914	150		72.1	10 672 180	19	17 782 940	Enhanced (approved under original Initiative : SDR 7 741 870)
17	Nicaragua	Dec-99	18 643 727	5.59	9 039 291	150		72.2	6 526 368	30	14 426 715	Enhanced
18	Niger	Dec-99	27 378 896	5.59	11 757 885	150		53.5	6 290 469	12	9 058 516	Enhanced
19	Rwanda	Dec-99	27 576 187	5.59	11 996 114	150		71.3	8 553 229	20	15 806 989	Enhanced
20	Sao Tome and Principe	Dec-99	5 834 891	5.59	2 458 402	150		83.0	2 040 474	29	4 490 135	Enhanced
21	Senegal	Jun-98	29 603 818	5.25	12 079 036	133	250	19.3	2 331 254	4	3 073 121	Enhanced
22	Tanzania, United Republic of	Jun-99	49 530 777	4.87	22 121 593	150		54.0	11 945 660	13	17 932 401	Enhanced
23	Uganda	Jun-99	50 181 004	4.87	23 655 279	150		54.0	12 773 851	12	16 345 332	Enhanced (approved under original Initiative : SDR 4 160 000)
24	Zambia	Dec-99	51 021 226	5.59	21 931 826	150		62.6	13 729 323	16	23 535 754	Enhanced
	Total		644 434 173		292 336 321				136 950 314		207 199 447	
	USD		828 742 346		375 944 509				176 118 104		266 458 489	
	Exchange rate	1 SDR =	1.286 USD, as		Of 1-Oct-01							
<p>1 These are highly tentative estimates. The final nominal amounts (and time frame) will depend on: the timing of the completion point, the approach to settling arrears at the decision point and during the interim period (if any), the amounts of debt relief already provided (if any), and the development of the countries' future debt-service obligations (additional disbursements under eligible loans and possibly new loans, if any and if necessary).</p> <p>2 Amounts approved under the original Debt Initiative (if any) are included in the amount approved to meet enhanced Initiative requirements.</p>												

