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IFAD
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IFAD'S PARTICIPATION IN THE DEBT INITIATIVE FOR HEAVILY INDEBTED POOR COUNTRIES

PROGRESS REPORT FOR 2004

I. INTRODUCTION

1. The objective of this progress report for 2004, based on document EB 2004/83/R.9, is to:

- Inform the Governing Council of the implementation status of the Debt Initiative for Heavily Indebted Poor Countries (HIPCs) and of IFAD's participation in the Initiative; and
- Update the Governing Council on the Fund's efforts to mobilize additional external resources to help finance IFAD's participation in the Initiative.

II. IMPLEMENTATION OF THE INITIATIVE

2. **Total HIPC Debt Initiative cost to IFAD**. The total net-present-value (NPV) cost of the Fund's participation in the full HIPC Debt Initiative (before the top-ups referred to below) is currently estimated at SDR 234.3 million (USD 344 million), which corresponds to an approximate nominal cost of **SDR 352.5 million (USD 517.5 million).**[1] The current cost estimates are likely to increase due to countries' delays in reaching decision and completion points, worsening economic conditions leading to the need for completion point top-ups, and currently low discount rates. These costs, on an annual basis, will amount to about USD 28 million for 2004, and are projected to reach a peak in 2005 at a level of USD 43.7 million in nominal terms. This will reduce the debt of 38 HIPCs to IFAD by 52%, from USD 656 million to 312 million in NPV terms, essentially over a 20-year period.

[1] July 2002 base estimates, updated with the 24 September 2004 USD/SDR exchange rate.

3. **IFAD commitments to date**. To date, IFAD has committed the required debt relief to all 27 HIPCs that have reached their decision point. IFAD's total commitments so far amount to SDR 178 million (USD 262 million) in NPV terms, which amounts to **SDR 258 million (USD 379 million)** of debt service relief in nominal terms.

TABLE 1: HEAVILY INDEBTED POOR COUNTRIES

Completion Point Countries	Decision Point Countries	Pre-Decision Point Countries
Benin	Cameroon	Burundi
Bolivia	Chad	Central African Republic
Burkina Faso	Democratic Republic of the Congo	Comoros
Ethiopia	Gambia	Congo
Ghana	Guinea	Côte d'Ivoire
Guyana	Guinea-Bissau	Lao People's Democratic Republic
Mali	Honduras	Liberia
Mauritania	Madagascar	Myanmar [a]
Mozambique	Malawi	Somalia
Nicaragua	Rwanda	Sudan
Niger	Sao Tome and Principe	Togo
Senegal	Sierra Leone	
Uganda	Zambia	
United Republic of Tanzania		
14	**13**	**11**

[a] No IFAD exposure.

4. **Debt relief provided**. IFAD has so far provided USD 64.8 million in debt relief to all completion point countries, in addition to post-conflict countries with arrears that have yet to reach their completion point (the Democratic Republic of the Congo, Guinea-Bissau and Sierra Leone). Table 2 below shows the cumulative total of debt relief provided so far, including fourth quarter forecasts for 2004.

TABLE 2: CUMULATIVE DEBT RELIEF PROVIDED (END 2004)

Country	Total (USD million)
Benin	2.4
Burkina Faso	3.6
Bolivia	10.6
Democratic Republic of the Congo	2.4
Ethiopia	0.5
Ghana	1.0
Guyana	1.5
Mali	5.3
Mozambique	7.1
Mauritania	3.0
Nicaragua	9.8
Niger	0.3
Senegal	0.8
Uganda	11.8
United Republic of Tanzania	4.9
Total	**64.8**

IFAD's Participation in the HIPC Initiative. Approval by the Executive Board in 2004 of Debt-Relief Top-Up at Completion Point

5. **Ethiopia** reached its decision point under the enhanced HIPC Debt Initiative in 2001 and IFAD's Executive Board, at its Seventy-Fifth Session (document EB 2002/75/R.14), approved debt relief for the country for an amount of SDR 12.4 million in June 2001 NPV terms. This was equivalent to a 47.2% reduction of Ethiopia's debt (in NPV terms) outstanding with IFAD in July 2001. The approved NPV debt relief amounted to SDR 17.2 million in nominal debt service relief on a pay-as-you-go basis.

6. In April 2004, Ethiopia reached its completion point. The debt situation had deteriorated between the decision and completion points for the following exogenous reasons: (a) changes in the discount and exchange rates; (b) severe drought; and (c) lower coffee prices.

7. In approving the completion point and recognizing the deterioration in Ethiopia's debt situation in the interim, the executive boards of the World Bank and the International Monetary Fund approved a top-up of the debt relief approved at the decision point for amounts equivalent to 31.3% of the debt outstanding in June 2003, after delivery of the debt relief approved at the decision point. This would bring Ethiopia's NPV of debt-to-export ratio to the 150% threshold established under the enhanced HIPC Debt Initiative framework.

8. In December 2004 (document EB 2004/83/R.9), IFAD's Executive Board approved a top-up of the debt relief approved for Ethiopia in an amount equivalent to SDR 6.23 million (USD 8.9 million) in June 2003 NPV terms. The total amount of debt relief to be provided by IFAD would thus amount to SDR 18.63 million in NPV terms (SDR 12.4 million in June 2001 NPV terms, and SDR 6.23 million in June 2003 NPV terms).

9. **The Niger** reached its decision point under the enhanced HIPC Debt Initiative in 2000, and IFAD's Executive Board – at its Seventy-Second Session (document EB 2001/72/R.15) – approved debt relief for the country in an amount of SDR 6.3 million in end-1999 NPV terms. This was equivalent to a 53.5% reduction of the Niger's debt (in NPV terms) outstanding with IFAD at end-1999. The approved NPV debt relief amounted to SDR 9.28 million in nominal debt service relief on a pay-as-you-go basis.

10. In April 2004, the Niger reached its completion point. The debt situation had deteriorated between the decision and completion points for the following exogenous reasons: (a) a decline in uranium exports; (b) lower SDR and USD discount rates; and (c) the Niger's inability to obtain external financing with the mix and terms envisaged at the decision point.

11. In approving the completion point and recognizing the deterioration in the Niger's debt situation in the interim, the executive boards of the World Bank and the International Monetary Fund approved a top-up of the debt relief approved at the decision point for amounts equivalent to 24.7% of the debt outstanding at end-2002, after delivery of the debt relief approved at the decision point. This would bring the Niger's NPV of debt-to-export ratio to the 150% threshold established under the enhanced HIPC Debt Initiative framework.

12. In December 2004 (document EB 2004/83/R.9), IFAD's Executive Board approved a top-up of the debt relief approved for the Niger in an amount equivalent to SDR 2.03 million (USD 2.9 million) in end-2002 NPV terms. The total amount of debt relief to be provided by IFAD to the Niger would thus amount to SDR 8.33 million in NPV terms (SDR 6.3 million in end-1999 NPV terms, and SDR 2.03 million in end-2002 NPV terms).

Financing of IFAD's Debt Relief

13. IFAD is funding its participation in the HIPC Debt Initiative through its internal HIPC Debt Initiative account, from external contributions (either directly to IFAD or through the World Bank-administered HIPC Trust Fund) as well as from its own resources. Table 3, below, indicates the resources allocated for the debt relief provided so far as well as for 2005. External contributions (paid or pledged) amount to about USD 67 million (52% of the total), IFAD's own-resource contributions amount to about USD 60 million (46%), and investment income in the IFAD HIPC Debt Initiative account amount to USD 2.2 million (2%).

TABLE 3: RESOURCE ALLOCATION FOR IFAD'S DEBT RELIEF

External Contributions	Total (USD million)
Belgium	**2.71**
European Commission	**10.51**
Finland	**2.54**
Germany	**6.99**
Iceland	**0.25**
Italy	**4.60**
Luxembourg	**0.78**
Netherlands	**12.43**
Norway	**5.91**
Sweden	**17.00**
Switzerland	**3.28**
IFAD's own resources	**59.67**
Investment income	**2.2**
Total	**128.87**

14. To mitigate the impact of the debt relief on IFAD's resources available for commitment to new loans and grants, IFAD's Management pursues two avenues for mobilizing more such additional external resources, encouraging IFAD's Member States to:

(a) directly provide IFAD with additional resources to help finance its participation in the Initiative, and/or

(b) provide IFAD with access to the World Bank-administered HIPC Trust Fund, an approach taken by several Member States.