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

Progress report

Governing Council — Thirtieth Session
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For: **Information**

Note to Governors

This document is submitted for the information of the Governing Council.

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

I. Introduction

1. The objective of this progress report for 2006 is to:
 - inform the Governing Council of the status of implementation of the Debt Initiative for Heavily Indebted Poor Countries (HIPC) and of IFAD's participation in the initiative; and
 - bring the Governing Council up to date on efforts to mobilize additional external resources to help finance IFAD's participation in the initiative.

A. Progress in implementation

2. Twenty countries have now reached the completion point and nine are in the interim period between the decision and completion point (see table). Following the conclusion of the "sunset clause" analysis, the boards of the International Monetary Fund and World Bank endorsed the inclusion of four new countries (Eritrea, Haiti, Kyrgyzstan and Nepal), which are now included as pre-decision point countries. The pace at which countries in the interim period reached their completion points has accelerated over the past two years as countries made progress in implementing their macroeconomic programmes and poverty reduction strategies. Since September 2004, Cameroon, Honduras, Madagascar, Rwanda and Zambia have all reached their completion points, with the IFAD Executive Board approving top-ups for Ethiopia, the Niger and Rwanda. In addition, Sao Tome and Principe and Sierra Leone could reach their completion points by the first half of 2007, and a decision point document could be ready for Kyrgyzstan in early 2007.

B. Total cost of the HIPC Debt Initiative to IFAD

3. The total net present value (NPV) cost of the Fund's participation in the full HIPC Debt Initiative is currently estimated at SDR 282.9 million (equivalent to approximately US\$417.4 million), which corresponds to an approximate nominal cost of **SDR 438.5 million (approximately US\$647.6 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 continuing low discount rates. Total debt relief payments are estimated to be US\$34.5 million for 2006 and to peak in 2007, when IFAD may potentially have a nominal requirement of approximately US\$54.2 million.

C. IFAD commitments to date

4. To date, IFAD has committed the required debt relief to all 29 HIPCs that have reached their decision point. IFAD's total commitments so far amount to SDR 206.1 million (approximately US\$304.2 million) in NPV terms, which amounts to **SDR 314.6 million (approximately US\$464.8 million)** of debt service relief in nominal terms.

D. Debt relief provided

5. IFAD has thus far provided US\$118.3 million in debt relief to the 20 completion point countries.

¹ September 2006 base estimates at exchange rates prevailing at 30 September 2006, excluding the proposed Malawi top-up.

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

| <i>Completion point countries (20)</i> | <i>Decision point countries (9)</i> | <i>Pre-decision point countries (11)</i> |
|--|-------------------------------------|--|
| Benin | Burundi | Central African Republic |
| Bolivia | Chad | Comoros |
| Burkina Faso | Republic of the Congo | Côte d'Ivoire |
| Cameroon | Democratic Republic of the Congo | Eritrea |
| Ethiopia | Gambia | Haiti |
| Ghana | Guinea | Kyrgyzstan |
| Guyana | Guinea-Bissau | Liberia |
| Honduras | Sao Tome and Principe | Nepal |
| Madagascar | Sierra Leone | Somalia |
| Malawi | | Sudan |
| Mali | | Togo |
| Mauritania | | |
| Mozambique | | |
| Nicaragua | | |
| Niger | | |
| Rwanda | | |
| Senegal | | |
| Uganda | | |
| United Republic of Tanzania | | |
| Zambia | | |

E. Financing of IFAD's debt relief

6. IFAD is funding its participation in the HIPC Debt Initiative through its internal HIPC account, external contributions (paid either directly to IFAD or transferred through the World Bank-administered HIPC Trust Fund) and its own resources. External contributions (paid or pledged) amount to about US\$91.5 million (55 per cent of the total). IFAD's own resource contributions amount to about US\$70.0 million (42 per cent) under three separate Executive Board-approved transfers in 1998, 1999 and 2002, the last one in the amount of US\$41.0 million. The balance has been covered by investment income from the IFAD HIPC Trust Fund balance.
7. As at end-September 2006, the balance in IFAD's HIPC Trust Fund is US\$14.0 million. With the estimated payments to be made in 2006, the Executive Board was informed that the President of IFAD transferred from IFAD's internal resources to the Trust Fund account amounts equivalent to US\$10.0 million in October 2006. Should the balance of funds in the Trust Fund not be sufficient to meet future debt-relief payments as they fall due, the Board will be informed about further transfers from IFAD's internal resources.

II. Update on IFAD's efforts to mobilize resources

8. In order to mitigate the impact of debt relief on IFAD resources available for commitment to new loans and grants, Management has pursued 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 HIPC Debt Initiative; and
 - (b) provide IFAD with access to the World Bank-administered HIPC Trust Fund. This is the approach taken by several Member States. At the HIPC information and funding meeting held on 19 November 2006 in Washington D.C., participants expressed support for IFAD's access to the

Trust Fund and the Trust Fund's financing of the agreed funding gap in IFAD's debt relief. It was recognized that this would add to the overall financing requirements of the HIPC Trust Fund. It is estimated that this will mean approximately US\$282.0 million in additional donor funding for IFAD.