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Enabling poor rural people
to overcome poverty

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

Progress report

Governing Council — Thirty-first 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 2007 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.

II. Progress in implementation

2. Twenty-two countries have now reached the completion point and eight are in the interim period between the decision and completion points (see table). The pace at which countries in the interim period have reached their completion points has accelerated over the past two years as countries have made progress in implementing their macroeconomic programmes and poverty reduction strategies. Since September 2005, Cameroon, Malawi, Rwanda, Sao Tome and Principe, and Sierra Leone have all reached their completion points, with the IFAD Executive Board approving top-ups for Malawi and Rwanda. A decision point document has been approved by the Executive Boards of the International Monetary Fund (IMF) and World Bank for the Central African Republic and, upon formal ratification, a new country case will be presented to IFAD's Executive Board at the April 2008 session. It is anticipated that The Gambia could reach its completion point in early 2008.

A. Total cost of the HIPC Debt Initiative to IFAD

3. The total net present value (NPV) cost of the Fund's participation in the overall HIPC Debt Initiative¹ is currently estimated at SDR 312.3 million (equivalent to approximately US\$486.9 million), which corresponds to an approximate nominal cost of **SDR 457.3 million (about US\$713.2 million)**.² The current cost estimates are likely to increase as a result of 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 at US\$40.0 million for 2007.

B. IFAD commitments to date

4. To date, IFAD has committed the required debt relief to all 30 HIPCs that have reached their decision point. IFAD's total commitments so far amount to SDR 214.3 million (approximately US\$334.0 million) in NPV terms, which amounts to **SDR 323.3 million (approximately US\$504.4 million)** of debt service relief in nominal terms.

C. Debt relief provided

5. As of 30 September 2007, IFAD has provided US\$163.4 million in debt relief to the 22 completion point countries.

¹ This includes all eligible Debt Initiative for HIPC countries including pre-decision point countries.

² 30 June 2007 base estimates at exchange rates prevailing at 30 September 2007.

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

<i>Completion point countries (22)</i>	<i>Decision point countries (8)</i>	<i>Pre-decision point countries (10)</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 (The)	Kyrgyzstan
Ghana	Guinea	Liberia
Guyana	Guinea-Bissau	Nepal
Honduras	Haiti	Somalia
Madagascar		Sudan
Malawi		Togo
Mali		
Mauritania		
Mozambique		
Nicaragua		
Niger		
Rwanda		
Senegal		
Sierra Leone		
Sao Tome and Principe		
Uganda		
United Republic of Tanzania		
Zambia		

D. Financing of IFAD's debt relief

6. IFAD is funding its participation in the HIPC Debt Initiative through 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\$79.1 million (48 per cent of the total). IFAD's own-resource contributions amount to about US\$80.0 million (49 per cent) under two separate Executive Board-approved transfers in 1998 and 1999, a transfer in 2002 in the amount of US\$41.0 million, and further transfers totalling US\$20 million in 2007 of which the Executive Board took note. The balance has been covered by investment income from the IFAD HIPC Trust Fund balance.

III. Update on IFAD's efforts to mobilize resources

7. In order to mitigate the impact of debt relief on IFAD resources available for commitment to new loans and grants, IFAD's Member States have supported the Fund's formal access to the World Bank-administered HIPC Trust Fund. This was agreed at the HIPC information and funding meeting held on 19 November 2006 in Washington, D.C. It was recognized that this would add to the overall financing requirements of the HIPC Trust Fund, which will mean approximately US\$282.0 million in additional donor funding for IFAD. As at end-September 2007, the balance in IFAD's HIPC Trust Fund was US\$3.9 million. The first transfer from the World Bank-administered HIPC Trust Fund (US\$104.1 million), following the receipt and signature of the grant agreement, was received by IFAD at end-October 2007. The

total financing gap (in terms of needed commitment authority) for the HIPC Trust Fund, taking into account IFAD's and the African Development Bank's funding needs, is estimated to be U\$308 million. Further pledges were made at the June 2007 Trust Fund meeting held in Maputo, Mozambique, and the World Bank Trust Fund managers are now assessing the current level of additional funding required.

8. While giving priority to ensuring that the HIPC Trust Fund is adequately financed, Management will also continue to encourage IFAD's Member States to provide the Fund with additional resources directly to help finance its participation in the HIPC Initiative.