

Document: GC 32/INF.4  
Date: 16 January 2009  
Distribution: Public  
Original: English

**E**



Enabling poor rural people  
to overcome poverty

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

### **Progress Report**

Governing Council – Thirty-second Session  
Rome, 18-19 February 2009

---

For: **Information**

## **Note to Governors**

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

To make the best use of time available at Governing Council sessions, Governors are invited to contact the following focal point with any technical questions about this document before the session:

**Brian Baldwin**

Senior Operations Management Adviser

telephone: +39 06 5459 2377

e-mail: [b.baldwin@ifad.org](mailto:b.baldwin@ifad.org)

Queries regarding the dispatch of documentation for this session should be addressed to:

**Deirdre McGrenra**

Governing Bodies Officer

telephone: +39 06 5459 2374

e-mail: [d.mcgrenra@ifad.org](mailto:d.mcgrenra@ifad.org)

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

## I. Introduction

1. The objective of this progress report for 2008 is to inform the Governing Council of the status of implementation of the Heavily Indebted Poor Countries (HIPC) Debt Initiative and of IFAD's participation in the Initiative.

## II. Progress in implementation

2. Since the inception of the HIPC Debt Initiative 12 years ago, there has been substantial progress with respect to the implementation of HIPC debt relief. More than three quarters of eligible countries (33 out of 41) have passed their decision point, qualifying for HIPC assistance. Twenty-three countries have now reached the completion point and nine are in the interim period between the decision and completion points (see table below). 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, The Gambia, 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. In 2008, the Executive Board approved IFAD's contributions to debt relief for the Central African Republic in the amount of SDR 10.4 million (US\$15.7 million) in 2006 net present value terms and for Liberia in the amount of SDR 13.8 million (US\$21.0 million) in 2007 net present value terms.
3. A decision point document has been recently presented to the executive boards of the International Monetary Fund (IMF) and World Bank for Togo and a new country case will be presented to IFAD's Executive Board at the April 2009 session. It is anticipated that Burundi, Haiti and Guinea could reach their completion points in early/mid 2009.
4. Maintaining debt sustainability beyond the completion point remains a concern, particularly during the current financial crisis. Debt sustainability analyses (DSAs) confirm that post-completion point countries are in a better debt situation than other HIPCs and also than non-HIPCs. But their debt sustainability outlook remains vulnerable to shocks and is highly sensitive to the terms of new financing. Only about 40 per cent of post-completion point HIPCs have currently a low risk of debt distress according to the most recent DSAs; and the number with a high risk rating is increasing. This highlights the need for post-completion-point HIPCs to implement sound borrowing policies and strengthen their capacity in public debt management. IFAD is supporting this through its participation in the Debt Sustainability Framework (DSF), reporting of all debt information and liaison with the World Bank and regional development banks.

### A. Total cost of the HIPC Debt Initiative to IFAD

5. The total net present value (NPV) cost of the Fund's participation in the overall HIPC Debt Initiative<sup>1</sup> is currently estimated at SDR 313.6 million (equivalent to approximately US\$483.6 million), which corresponds to an approximate nominal cost of SDR 460.0 million (about US\$709.4 million).<sup>2</sup> 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\$38.4 million for 2008.

<sup>1</sup> This includes all eligible HIPC countries, including pre-decision point countries.

<sup>2</sup> 30 June 2008 base estimates at exchange rates prevailing at 30 September 2008.

## B. IFAD commitments to date

6. To date, IFAD has committed the required debt relief to all 32 HIPC countries that have reached their decision point. IFAD's total commitments so far amount to SDR 238.5 million (approximately US\$367.8 million) in NPV terms, which amounts to SDR 349.5 million (approximately US\$539.0 million) of debt service relief in nominal terms.

## C. Debt relief provided

7. As of 30 September 2008, IFAD had provided US\$210.0 million in debt relief to the 23 completion point countries.

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

<i>Completion point countries (23)</i>	<i>Decision point countries (9)</i>	<i>Pre-decision point countries (8)</i>
Benin	Burundi	Comoros
Bolivia	Central African Republic	Côte d'Ivoire
Burkina Faso	Chad	Eritrea
Cameroon	Republic of the Congo	Kyrgyzstan
Ethiopia	Democratic Republic of the Congo	Nepal
Gambia (The)	Guinea	Somalia
Ghana	Guinea-Bissau	Sudan
Guyana	Haiti	Togo
Honduras	Liberia	
Madagascar		
Malawi		
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

8. IFAD is funding its participation in the HIPC Debt Initiative through external contributions paid directly to IFAD or transferred to IFAD through the World Bank-administered HIPC Trust Fund and its own resources. External contributions (paid or pledged) amount to about US\$80.3 million (28.1 per cent). IFAD's own-resource contributions amount to about US\$94.7 million (33.1 per cent) under Executive Board-approved transfers in 1998, 1999, 2002 and 2007. Funds transferred from the World Bank-administered Trust Fund total US\$104.1 million to date (38.5 per cent). The balance has been covered by investment income from the IFAD HIPC Trust Fund.
9. To mitigate the impact of debt relief on IFAD's 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. The first transfer from the World Bank-administered HIPC Trust Fund (US\$104.1 million) was received by IFAD in October 2007. Separate grant agreements for supporting debt relief for The Gambia, Sao Tome and Principe, and Sierra Leone, amounting to approximately US\$18.1 million, are expected to be signed in January 2009 with the HIPC Trust Fund administrators.

10. Apart from IFAD's access to the World Bank-administered HIPC Trust Fund as already agreed, 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.