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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-third Session  
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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:

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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 2009 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 Initiative there has been substantial progress with respect to the implementation of HIPC debt relief. Nearly 90 per cent of eligible countries (34 out of 39<sup>1</sup>) have passed their decision points, qualifying for HIPC assistance. Twenty-six countries have now reached the completion point and eight 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, Burundi, Cameroon, the Central African Republic, The Gambia, Haiti, 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.
3. The IFAD Executive Board approved, at its April 2009 session, a decision point document for debt relief for Togo and for Côte d'Ivoire at the December 2009 Executive Board. In addition Burundi, the Central African Republic and Haiti reached their completion points in early/mid-2009 and IFAD has commenced the agreed levels of debt relief.
4. Maintaining debt sustainability beyond the completion point remains a concern, particularly during the current financial crisis. Debt sustainability analyses 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 currently have a low risk of debt distress according to the most recent debt sustainability analyses; 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, 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 cost of the Fund's participation in the overall HIPC Debt Initiative<sup>2</sup> is currently estimated at SDR 304.0 million (equivalent to approximately US\$480.5 million), which corresponds to an approximate nominal cost of SDR 462.7 million (about US\$731.8 million).<sup>3</sup> The current cost estimates are likely to increase as a result of delays in countries 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\$50.1 million for 2009.

<sup>1</sup> Lao People's Democratic Republic and Nepal have withdrawn from the HIPC Debt Initiative.

<sup>2</sup> IFAD participation comprises all eligible HIPC Debt Initiative countries, including pre-decision point countries.

<sup>3</sup> 30 June 2009 base estimates at exchange rates prevailing on 30 September 2009.

## B. IFAD commitments to date

6. To date, IFAD has committed the required debt relief to all 34 HIPC countries that have reached their decision point. IFAD's total commitments so far amount to SDR 242.4 million (approximately US\$383.2 million) in net present value terms, which amounts to SDR 366.1 million (approximately US\$578.9 million) of debt service relief in nominal terms.

## C. Debt relief provided

7. As at 30 September 2009, IFAD has provided US\$247.4 million in debt relief to the 26 completion point countries.

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

<i>Completion point countries (26)</i>	<i>Decision point countries (8)</i>	<i>Pre-decision point countries (5)</i>
Benin	Chad	Comoros
Bolivia (Plurinational State of)	Congo	Eritrea
Burkina Faso	Côte d'Ivoire	Somalia
Burundi	Democratic Republic of the Congo	Sudan
Cameroon	Guinea	Kyrgyzstan
Central African Republic	Guinea-Bissau	
Ethiopia	Liberia	
Gambia (The)	Togo	
Ghana		
Guyana		
Haiti		
Honduras		
Madagascar		
Malawi		
Mali		
Mauritania		
Mozambique		
Nicaragua		
Niger		
Rwanda		
Sao Tome and Principe		
Senegal		
Sierra Leone		
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 either directly to IFAD or transferred through the HIPC Trust Fund administered by the World Bank) and its own resources. External contributions (paid or pledged) amount to about US\$193.7 million (65.4 per cent). IFAD's contributions from its own resources amount to about US\$94.7 million (31.9 per cent) under transfers in 1998, 1999 and 2002 approved by the Executive Board and a further transfer of US\$25 million in 2007. The rest has been covered by investment income from the IFAD HIPC Trust Fund balance.
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 HIPC Trust Fund administered by the World Bank. 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), following the receipt and signature of the grant agreement, was received by IFAD in October 2007. A second series of separate grant agreements was received in May 2009 for supporting debt relief for The Gambia, Sao Tome and Principe and Sierra Leone, totalling approximately US\$18.1 million from the HIPC Trust Fund administrators. The total financing gap (in terms of needed commitment authority) for the HIPC Trust Fund,

taking into account the funding needs of IFAD and the African Development Bank, is estimated to be US\$308 million.

10. 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.