

Document: GC 34/INF.3  
Date: 21 January 2011  
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**

#### **Note to Governors**

##### Focal points:

##### Technical questions:

**Brian Baldwin**  
Senior Operations Management Adviser  
Tel.: +39 06 5459 2377  
e-mail: [b.baldwin@ifad.org](mailto:b.baldwin@ifad.org)

##### Dispatch of documentation:

**Liam F. Chicca**  
Governing Bodies Officer  
Tel.: +39 06 5459 2462  
e-mail: [l.chicca@ifad.org](mailto:l.chicca@ifad.org)

Governing Council – Thirty-fourth Session  
Rome, 19-20 February 2011

---

**For: Information**

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

## I. Introduction

1. The objective of this progress report for 2010 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 (35 out of 38<sup>1</sup>) have passed their decision points, qualifying for HIPC assistance. Thirty-one countries have now reached the completion point and four 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 December 2008, Burundi, the Central African Republic and Haiti have reached their completion points and IFAD has commenced the agreed levels of debt relief.
3. At its December 2010 session, the IFAD Executive Board approved a decision point document for debt relief for Comoros. In addition, five countries – the Republic of the Congo (January 2010), Liberia (June 2010), the Democratic Republic of the Congo (July 2010), Togo (December 2010) and Guinea-Bissau (December 2010) – reached their respective completion points and qualified for irrevocable 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. Those multilateral creditors that have committed to participate in the HIPC Initiative together monitor the levels of debt relief through the annual monitoring survey carried out by the World Bank. IFAD participates in the survey, reporting all debt information as part of its responsibilities in the Debt Sustainability Framework and in liaison with the World Bank and regional development banks.

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

5. The total NPV cost of the Fund's participation in the overall HIPC Debt Initiative<sup>2</sup> is currently estimated at SDR 306.7 million (equivalent to approximately US\$476.7 million), which corresponds to an approximate nominal cost of SDR 460.0 million (about US\$715.3 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\$70.7 million for 2010.

<sup>1</sup> Kyrgyzstan, 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> Base estimates at exchange rates prevailing on 30 September 2010.

## B. IFAD commitments to date

6. To date, IFAD has committed the required debt relief to all 35 HIPC countries that have reached their decision points. IFAD's total commitments so far (including the Comoros) amount to SDR 244.4 million (approximately US\$379.9 million) in NPV terms, which amounts to SDR 365.8 million (approximately US\$568.8 million) of debt service relief in nominal terms.

## C. Debt relief provided

7. As at 30 September 2010, IFAD has provided US\$286.1 million in debt relief in nominal terms to completion point countries.

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

<i>Completion point countries</i>	<i>Decision point countries</i>	<i>Pre-decision point countries</i>
Benin	Chad	Eritrea
Bolivia (Plurinational State of)	Côte d'Ivoire	Somalia
Burkina Faso	Comoros	Sudan
Burundi	Guinea	
Cameroon		
Central African Republic		
Congo		
Democratic Republic of the Congo		
Ethiopia		
Gambia (The)		
Ghana		
Guyana		
Guinea-Bissau		
Haiti		
Honduras		
Liberia		
Madagascar		
Malawi		
Mali		
Mauritania		
Mozambique		
Nicaragua		
Niger		
Rwanda		
Sao Tome and Principe		
Senegal		
Sierra Leone		
Togo		
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 Debt Relief Trust Fund administered by the World Bank) and its own resources. External contributions (paid or pledged) amount to about US\$193.7 million (59.4 per cent). IFAD's contributions from its own resources amount cumulatively to about US\$124.7 million (38.2 per cent). The Executive Board approved several transfers between 1998 and 2006, and in 2010 a further transfer of US\$30 million was made. The rest has been covered by investment income from the IFAD HIPC Trust Fund balance as at end-September 2010.
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 Debt Relief Trust Fund (formerly known as 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 IFAD's access would add to the overall financing requirements of the Debt Relief Trust Fund. The first transfer from the World Bank-administered Debt Relief 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 Debt Relief Trust Fund administrators. Grant agreements for a third tranche from the Debt Relief Trust Fund of US\$46.2 million were received and signed in December 2010.

10. While giving priority to ensuring that the IFAD 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.