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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

Note to Governors

Focal points:

Technical questions:

Brian Baldwin
Senior Operations Management Adviser
Tel.: +39 06 5459 2377
e-mail: b.baldwin@ifad.org

Dispatch of documentation:

Kelly Feenan
Head, Governing Bodies Office
Tel.: +39 06 5459 2058
e-mail: gb_office@ifad.org

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For: **Information**

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I. Introduction

1. The objective of this progress report for 2011 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 93 per cent of eligible countries (35 out of 39) have passed their decision points, qualifying for HIPC assistance. Thirty-two 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 2010, the Democratic Republic of the Congo, the Togolese Republic and the Republic of Guinea-Bissau have all reached their completion points and IFAD has commenced the levels of debt relief agreed at decision point.
3. At its December 2010 session the IFAD Executive Board approved a decision point document for debt relief for the Comoros, which is expected to reach completion point in late 2012. Of the other decision point countries, Guinea and Côte d'Ivoire are also expected to reach completion point in 2012. The issues concerning the implementation of macroeconomic policies in Chad remain a challenge. The Boards of the IMF and the IDA have asked to reconsider the rules of the HIPC Initiative and define an exit strategy for countries that have expressed the intent not to avail themselves of HIPC Initiative debt relief. Further analysis and dialogue are ongoing with Bhutan, Lao People's Democratic Republic, Nepal and Sri Lanka, all of which were originally eligible but have not confirmed interest. The eligibility of Zimbabwe is still not confirmed.
4. Maintaining debt sustainability beyond 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. Efforts are ongoing to monitor debt relief provided by all multilateral creditors that have committed to participating in the HIPC Initiative. According to the latest annual survey carried out by the World Bank, IFAD continues to support such efforts 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 NPV cost of the Fund's participation in the overall HIPC Debt Initiative¹ is currently estimated at SDR 302.5 million (equivalent to approximately

¹ IFAD participation comprises all eligible HIPC Debt Initiative countries, including pre-decision point countries that have confirmed their participation in the Initiative.

US\$471.0 million), which corresponds to an approximate nominal cost of SDR 456.0 million (about US\$710.9 million).² The current cost estimates may increase if there are any further delays in the remaining countries reaching decision and completion points, changes in economic conditions or continuing low discount rates. Total debt relief payments are estimated at US\$53.8 million for 2011.

B. IFAD commitments to date

6. To date, IFAD has committed the required debt relief to all 35 HIPCs that have reached their decision point. IFAD's total commitments so far amount to SDR 239.1 million (approximately US\$372.2 million) in NPV terms, which amounts to SDR 360.0 million (approximately US\$560.6 million) of debt service relief in nominal terms.

C. Debt relief provided

7. As at 30 September 2011, IFAD has provided US\$362.9 million in debt relief to the 31 completion point countries.

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

<i>Completion point countries (31)</i>	<i>Decision point countries (4)</i>	<i>Pre-decision point countries (3)</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		
Guinea-Bissau		
Guyana		
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 (either paid 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\$240.0 million (64.4 per cent). IFAD's contributions from its own resources amount to about US\$124.7 million (32.8 per cent) under transfers in 1998, 1999, 2002 approved by the Executive Board and further transfers in 2007 and 2010. The rest has been covered by investment income from the IFAD HIPC Trust Fund balance; as at end-September 2011 the balance in IFAD's HIPC Trust Fund was US\$7.9 million.

² Base estimates at exchange rates prevailing on 30 September 2011.

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. A third series of separate grant agreements was received in January 2011 for supporting debt relief for Burundi, Central African Republic, Haiti and Liberia, totalling approximately US\$46.2 million. Grant agreements for a fourth tranche from the HIPC Trust Fund for US\$26.2 million are under final preparation for transfer to IFAD in 2011, bringing the total of funds received to date to US\$194.6 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.