Review of the Status of the Debt Sustainability Framework (DSF)

7 October 2014

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Background

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- DSF **implemented by IFAD in 2007**
- **Members committed to compensate** for DSF foregone principal repayments
- Management committed to present, during IFAD9, a **proposal** to the Executive Board on **compensation mechanisms**
- Proposal presented to Audit Committee in November 2013 and **endorsed by the EB in December 2013**

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Next steps

- **Endorsement of compensation mechanism by Member States** during IFAD10 Consultations – October 2014
- **Approval by Governing Council in February 2015** as part of the IFAD10 Resolution

Compensation mechanism

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- Contribution for foregone principal repayments on a **pay-as-you-go basis**
- First **impact in IFAD10** (2018)
- **Basis for calculating Member's share**: pro-rata to pledges for the replenishment period in which the respective DSF grants were committed
- Approach **in line with IFI practice** (AfDF specifically)
- **Threshold** of US$10,000 as minimum expected compensation*

*All amounts below this threshold are to be aggregated and distributed among countries with higher compensation shares on a proportional basis

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Compensation mechanism cont'd.

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- DSF beneficiaries **excluded** from compensation obligation
- In principle, DSF contributions is **in addition to core contributions**
- Option for contributors to make a combined **pledge** (core + DSF) or separate pledges
- The full assessed DSF compensation will always will be **deducted first**
- DSF compensation contributions to **carry voting rights**

Financial impact

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- Foregone principal repayments calculated on the assumption that resources to DSF countries would have been provided as **Highly Concessional Term Loans**
- **DSF approvals 2007-2013: US$1.2 billion**
- Financial impact over **IFAD10** (total foregone principal repayments): **US$3.4 million** to be apportioned based on the respective percentages of pledges of Member States in IFAD7
- Financial impact over **IFAD11: US$40.1 million**; over **IFAD12: US$104.1 million**