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Enabling poor rural people  
to overcome poverty

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

### **Proposals for the Democratic Republic of the Congo, the Togolese Republic and the Republic of Guinea-Bissau, and the 2011 progress report**

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For: **Approval**

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## **Recommendation for approval**

The Executive Board is invited to approve proposals for debt relief top-up under the Heavily Indebted Poor Countries Debt Initiative (for the Democratic Republic of the Congo, the Togolese Republic and the Republic of Guinea-Bissau), and the submission of the substance of this paper to the thirty-fifth session of the Governing Council for information, in accordance with the recommendation contained in paragraph 20.

## **IFAD's participation in the Heavily Indebted Poor Countries Debt Initiative – Proposals for the Democratic Republic of the Congo, the Togolese Republic and the Republic of Guinea-Bissau, and the 2011 progress report**

### **I. Introduction**

1. The objective of this progress report for 2011 is to:
  - Seek the Executive Board's approval for debt relief top-ups at completion point for the Democratic Republic of the Congo, the Togolese Republic and the Republic of Guinea-Bissau under the Heavily Indebted Poor Countries (HIPC) Debt Initiative;
  - Inform the Executive Board of the status of implementation of the HIPC Debt Initiative and of IFAD's participation in the Initiative; and
  - Seek the Executive Board's approval for submitting the substance of this progress report to the forthcoming session of the Governing Council for its information.

### **II. Country case for top-up: the Democratic Republic of the Congo**

2. In December 2003, the Democratic Republic of the Congo reached its decision point under the enhanced HIPC Debt Initiative; and at its eightieth session (document EB 2003/80/R.18/Rev.1), IFAD's Executive Board approved debt relief for the country for an amount of SDR 9.126 million in 2002 net present value (NPV) terms. This was equivalent to an 80.2 per cent reduction of the Democratic Republic of the Congo's debt outstanding with IFAD in December 2002. The approved NPV debt relief amounted to SDR 13.80 million in nominal debt-service relief on a pay-as-you-go basis.
3. In January 2011, the Executive Boards of the International Monetary Fund (IMF) and the International Development Association (IDA) informed IFAD that the Democratic Republic of the Congo had reached its completion point. In approving the completion point the Boards noted that, as a result of the debt reconciliation exercise for the completion point, the NPV of eligible external debt at end-2002 after traditional debt relief has been revised and the common debt reduction factor has increased slightly from 80.2 per cent to 82.4 per cent as of end-December 2002.
4. IFAD's Executive Board is therefore requested to approve a top-up of the debt relief approved for the Democratic Republic of the Congo in an amount equivalent to SDR 1,472,937 (US\$2,294,116) in December 2002 NPV terms. The total amount of debt relief to be provided by IFAD would thereby amount to SDR 10.60 million in December 2002 NPV terms.

### **III. Country case for top-up: the Togolese Republic**

5. In April 2009, the Togolese Republic reached its decision point under the enhanced HIPC Debt Initiative; and at its ninety-sixth session (document EB 2009/96/R.6), IFAD's Executive Board approved debt relief for the country for an amount of SDR 2.3 million in end-2008 NPV terms. This was equivalent to a 19.2 per cent reduction of the Togolese Republic's debt outstanding with IFAD in December 2008.
6. In February 2011, the Executive Boards of the IMF and the IDA informed IFAD that the Togolese Republic had reached its completion point. In approving the completion point the Boards noted that, as a result of the debt reconciliation exercise for the completion point, the NPV of eligible external debt at end-2007 after traditional debt relief has been revised and the common debt reduction factor has increased slightly from 19.2 per cent to 19.8 per cent as of end-December 2007.
7. IFAD's Executive Board is therefore requested to approve a top-up of the debt relief approved for the Togolese Republic in an amount equivalent to SDR 65,418 (US\$101,889) in December 2008 NPV terms. The total amount of debt relief to be provided by IFAD would thereby amount to SDR 2.37 million in December 2008 NPV terms.

### **IV. Country case for top-up: the Republic of Guinea-Bissau**

8. In April 2001, the Republic of Guinea-Bissau reached its decision point under the enhanced HIPC Debt Initiative; and at its seventy-second session (document EB 2001/72/R.15), IFAD's Executive Board approved debt relief for the country for an amount of SDR 3,072,889 in December 1999 NPV terms. This was equivalent to an 85.4 per cent reduction of Republic of Guinea-Bissau's debt outstanding with IFAD in December 1999. The approved NPV debt relief amounted to SDR 4.5 million in nominal debt-service relief on a pay-as-you-go basis.
9. In February 2011, the Executive Boards of the IMF and the IDA informed IFAD that the Republic of Guinea-Bissau had reached its completion point. In approving the completion point the Boards noted that the required HIPC Initiative assistance has been revised slightly upwards from the amount estimated at the decision point because of changes in reconciled debt stock data. As a result, the common debt reduction factor has increased slightly from 85.4 per cent to 85.6 per cent as of end-December 1999. The total additional assistance has been calculated by the IMF and World Bank at US\$5.8 million in NPV terms.
10. IFAD's Executive Board is therefore requested to approve a top-up of the debt relief approved for the Republic of Guinea-Bissau in an amount equivalent to SDR 150,559 (US\$234,497) in December 1999 NPV terms. The total amount of debt relief to be provided by IFAD would thereby amount to SDR 3.22 million in December 1999 NPV terms.

### **V. Progress in HIPC Debt Initiative implementation**

11. 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 (with additional debt relief being requested in this document).

12. 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.
13. 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**

14. The total NPV cost of the Fund's participation in the overall HIPC Debt Initiative<sup>1</sup> is currently estimated at SDR 302.5 million (equivalent to approximately US\$471.0 million), which corresponds to an approximate nominal cost of SDR 456.0 million (about US\$710.9 million).<sup>2</sup> 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**

15. 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**

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

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

<sup>2</sup> Base estimates at exchange rates prevailing on 30 September 2011.

**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**

17. 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.
18. 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.

19. 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.

## **VI. Recommendations**

20. It is recommended that the Executive Board:
- (i) Approve the proposed top-up of IFAD's contribution to the reduction of the debt of the Democratic Republic of the Congo to IFAD as of December 2005 (see paragraph 4 above), in an amount equivalent to SDR 1,472,937. This relief will be provided in accordance with the terms of the following resolution:
 

"RESOLVED: that the Fund, upon the decision of the Executive Board, shall reduce the value of the Democratic Republic of the Congo's debt to IFAD through the reduction by up to 100 per cent of its respective semi-annual debt-service obligations to IFAD (principal and service charge/interest payments), as these fall due, up to the aggregate NPV amount of SDR 10,598,937 in end-2002 NPV terms;
  - (ii) Approve the proposed top-up of IFAD's contribution to the reduction of the debt of the Togolese Republic to IFAD as of December 2008 (see paragraph 7 above), in an amount equivalent to SDR 65,418. This relief will be provided in accordance with the terms of the following resolution:
 

"RESOLVED: that the Fund, upon the decision of the Executive Board, shall reduce the value of the Togolese Republic's debt to IFAD through the reduction by up to 100 per cent of its respective semi-annual debt-service obligations to IFAD (principal and service charge/interest payments), as these fall due, up to the aggregate NPV amount of SDR 2,365,418 in end-2008 NPV terms;
  - (iii) Approve the proposed top-up of IFAD's contribution to the reduction of the debt of the Republic of Guinea-Bissau to IFAD as of December 1999 (see paragraph 10 above), in an amount equivalent to SDR 150,559. This relief will be provided in accordance with the terms of the following resolution:
 

"RESOLVED: that the Fund, upon the decision of the Executive Board, shall reduce the value of the Republic of Guinea-Bissau's debt to IFAD through the reduction by up to 100 per cent of its respective semi-annual debt-service obligations to IFAD (principal and service charge/interest payments), as these fall due, up to the aggregate NPV amount of SDR 3,223,448 in end-2002 NPV terms; and
  - (iv) Take note of the status of implementation of the HIPC Debt Initiative and IFAD's participation therein, and approve the submission to the Governing Council – in the form of an information paper – of the relevant sections of this paper, appropriately revised to incorporate the above decisions of the Executive Board, as the 2011 progress report.