IMPLEMENTATION OF THE HLM AGREEMENT ON CONCESSIONALITY: TREATMENT OF LOANS TO MULTILATERAL INSTITUTIONS IN DAC STATISTICS

DAC Meeting, 24 March 2016

This document is presented to the DAC for APPROVAL under Item 7 of the draft annotated agenda [DCD/DAC/A(2016)4].

A proposal for the treatment of loans to multilateral organisations was initially discussed at the WP-STAT meeting in November 2015 [DCD/DAC/STAT(2015)28]. Members made a number of comments, and requested that the Secretariat undertakes a consultation with multilateral organisations on the proposed treatment.

The Secretariat adjusted its proposal to include members' comments, and undertook the requested consultation in December 2015 - January 2016.

This note reports on the consultation with the multilateral organisations and submits the proposed treatment of loans to multilateral organisations for members' approval.

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IMPLEMENTATION OF THE HLM AGREEMENT ON CONCESSIONALITY:
PROPOSAL FOR THE TREATMENT OF LOANS TO MULTILATERAL INSTITUTIONS IN DAC STATISTICS

1. At the December 2014 HLM, members agreed to modernise the reporting of concessional loans by assessing concessionality based on discount rates differentiated by income group and introducing a grant equivalent system for the purpose of calculating ODA figures. The revised Reporting Directives implementing the HLM agreement on concessionality were approved by the DAC on 17 February 2016 [DCD/DAC(2016)3/REV1, ADD1 and ADD2].

2. As the HLM agreement on concessionality pertains to bilateral public loans to the official sector only, the WP-STAT was also tasked to address the treatment of loans to multilateral institutions1. The topic was first discussed at the WP-STAT informal meeting in March 2015 where members generally agreed that the reporting on loans to multilateral organisations should be on a grant equivalent basis2. A concrete proposal on this basis was prepared for the WP-STAT meeting in November 2015 [see DCD/DAC/STAT(2015)28] and subsequently adjusted to take into account members’ comments. The WP-STAT also requested that the Secretariat undertakes a consultation with multilateral organisations on the proposed treatment3.

3. The consultation with multilateral organisations was held in December 2015 - January 2016, and an overview of the results was presented to the Committee at its meeting on 26 January 2016 [see DCD/DAC/RD(2016)1/RD1]. This note reports on the consultation in greater detail (section A and Annex) and presents the proposed treatment of loans to multilateral organisations (section B) for members’ approval at the meeting of the DAC on 24 March 2016. The Committee is invited to approve the proposal in paragraphs 16-17 for subsequent inclusion in the Statistical Reporting Directives and for application in the reporting on ODA grant equivalents, starting this year on 2015 data.4

A. Report on the consultation with multilateral organisations

4. The consultation note contained a description of the proposed treatment (see paragraphs 16-17 in section B) and a number of consultation questions (see Box below). It was sent to four global institutions (International Monetary Fund – IMF, World Bank – WB, International Fund for Agriculture and Development – IFAD, Green Climate Fund), four multilateral development banks (African Development Bank – AfDB, Asian Development Bank – AsDB, European Bank for Reconstruction and Development – EBRD, Inter-American Development Bank – IADB) and three sub-regional banks and institutions (Andean Development Corporation – CAF, Eastern and Southern African Trade and Development Bank – PTA Bank, Private Infrastructure Development Group – PIDG).

2. See Action points in DCD/DAC/STAT(2015)10/FINAL.
4. It is too late to implement any decision for the purpose of reporting preliminary 2015 data which are due on 15 March 2016 but still feasible in the reporting of final data by 15 July 2016, in line with the transition period agreed at the 2014 HLM for collecting grant equivalents starting in 2016 on 2015 data.
Box. Consultation questions for multilateral institutions

While any decision on ODA measurement has no bearing on a multilateral institution’s decisions on the adequate composition of its resources (e.g. the respective parts of grant and loan contributions), the ODA criteria could be an important determinant of some donors resource allocations. Before finalising the proposal, feedback is therefore sought from multilateral organisations, in particular on the following questions:

i) Would the measurement in ODA of grant equivalents of loans to your institution with related discount rates and thresholds (the proposed system) adversely or positively affect your opportunities to raise additional funds from donors and/or from the capital market on favourable terms? If the system positively affects your opportunities to raise additional funds from donors, would increased donor lending eventually merely crowd out private lending on similar terms?

ii) Would the proposed system affect the balance between grant and loan contributions from donors, to the core budget of your institution?

iii) Would the proposed system affect your resource allocation among your client countries in different income groups, and if so, would that entail less assistance to LICs and/or affect the terms of concessional loans extended by your institution?

iv) Could you also share with us some insights on the current and envisaged role of concessional loans in your institution’s fund raising policy:
   - What are the financial conditions (decided in the past and/or currently discussed) for a loan to be counted as a contribution in the context of your institution? For which purpose, if any, do you use loan contributions (e.g. core versus earmarked, if the latter for what type of activities)?
   - How does your institution decide on the adequate composition and overall level of concessionality of the financial resources needed to implement your portfolio strategy?

5. Seven institutions have replied: IMF, WB, IFAD, AfDB, AsDB, IADB and CAF. Their feedback is summarised below.

Responses to the consultation questions

6. Multilateral institutions are familiar with the grant equivalent methodology, and several of them use it for their own purposes, including in the context of burden-sharing and voting rights allocations (WB and AfDB) to account for contributions received from donors in the form of concessional loans. For IADB and IFAD, the impact of the proposal on their access to donor funds is expected to be positive (IFAD also noted the potential incentive for higher concessionality loans), and for CAF and IMF, not marked. The WB has mixed views – depending on the choices and priorities made by the individual development partner the impact could be positive or negative. [See Annex, comments on question (i).]
7. Under the parameters proposed – discount rates of 5% or 6% and eligibility threshold of 10% – donor loans extended to the MDBs under present terms and conditions would qualify as ODA. The AsDB finds the figures proposed generally reasonable and stresses the importance of equal treatment of AsDB and other similar multilateral organisations (e.g. WB, EBRD) through the application of the same discount rate and threshold, as with the proposed treatment. The IMF understands the logic of the differentiated discount rates across the two classes of multilateral institutions but would be concerned about the possible impact on donor allocations of loans across institutions if the differential between the two discount rates was significantly higher than the proposed one percent. The WB sees a risk that using a lower discount rate for multilateral institutions than for bilateral recipient countries could incentivise lending to the latter. The AfDB notes that the discount rate proposed could be perceived as too high in comparison with the values used by multilateral institutions for the purpose of their internal burden-sharing calculations (2.65% in SDR terms for IDA-17, 1% proposed for AfDF-14).

8. Multilateral institutions do not foresee that the proposed system would affect the balance between grant and loan contributions from donors, to the core budget of the institutions. For CAF, the impact from the proposed changes, if any, will be minimal; the AsDB responded that no significant impact is expected. The AfDB, IFAD and WB drew attention to the safeguards that they have put in place to ensure that grant funding remains the core of their funding. The WB however notes that the impact is difficult to assess; moreover it is concerned over IDA’s ability to re-implement the same or similar safeguards in the next replenishment. [See Annex, comments on question (ii).]

9. AsDB, CAF, IADB, IFAD and IMF responded that the resource allocation among client countries in different income groups would not be affected by the proposal. It is determined based on member countries’ financing needs, performance-based allocation formula, risk of debt distress rating and income differences. The latter is also the case for the WB which highlights however that, as also indicated in paragraph 6 and 8, the impact is difficult to assess; IDA-17 framework did not affect IDA resource allocation and donor loans even enabled IDA to increase the overall IDA envelope and thereby helped leveraging more resources to LICs.

General remarks

10. In their responses a number of institutions also made more general remarks (see Annex). The AsDB and IADB described the advantages of a grant equivalent measurement, highlighting issues such as statistical consistency and equal treatment but also positive incentives for better targeting concessional finance. The WB, while recognising the benefits of using a consistent grant equivalent approach, expressed caution and noted a possible risk of the proposed treatment introducing disincentives for lending to IDA.

11. In its reply the WB also made reference to the principles that should guide members’ decision on the treatment of loans to multilateral organisations, namely: i) the principles of the modernisation of reporting on concessional loans in DAC statistics underpinning the 2014 HLM agreement; ii) other guiding principles already established by the DAC with regard to targeting of aid to countries most in need, improving the predictability and reducing the fragmentation of ODA. In addition, the WB recommended that members take into account the following issues. First, the decision should not affect or influence

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5. The AfDB, IFAD and the WB described the financial conditions for donor loans [See Annex, comments on question (iv)].

6. Provide a fairer picture of donor effort, ensuring comparability of resulting statistics across members; encourage lending practices that are aligned with developing countries’ needs, capacities and constraints in terms of volumes, concessionality levels and debt sustainability; strengthen the credibility and integrity of DAC statistics and the transparency of development co-operation.
multilateral fund-raising discussions nor affect planned replenishment frameworks by the multilateral banks. Second, it should be fully acceptable also to non-DAC donors (Brazil, China, Mexico, Russia and Turkey were among the donors to the last IDA-replenishment.) Third, it should have the potential to increase the overall flows for development.

Secretariat’s conclusion from the consultation

12. In the Secretariat’s view, the consultation confirmed the relevance of the proposed treatment of loans to multilateral organisations. Several multilateral organisations use the grant equivalent methodology for their own purposes (burden-sharing and voting rights allocation) and generally expressed support for this approach, including for the sake of consistent treatment with bilateral loans.

13. The WB expressed concerns about a possible impact of the proposed treatment on IDA: it could either create a disincentive for donors to lend to IDA possibly reducing the resources available for lending on to LICs, or it could create an incentive for donors to provide a greater share of their financing in the form of loans, potentially affecting the overall functioning of IDA. The Secretariat recalls that the proposed treatment of donor loans in the context of DAC statistics will only be one aspect of the negotiations of the replenishments and that donors will have to consider many other elements when deciding on their contribution.

14. The Secretariat’s view is also that the proposed treatment, in the spirit of the HLM 2014 decision on concessionality, is meant to avoid disincentives for lending to multilateral institutions:

- The decision to switch from a cash flow to a grant equivalent system for the recording of ODA loans in DAC statistics is meant to produce a positive incentive for providing more resources (positive ODA is recorded over the loan’s lifetime).

- Applying a lower discount rate for multilateral institutions as compared with LDCs and other LICs is meant to reflect the higher donor effort involved in lending to poorer countries. A donor would record more ODA when lending to a poorer country, but this would be in recognition to higher costs involved in lending to a riskier borrower, hence establishing a level playing field between potential loan beneficiaries. Also, the much higher eligibility threshold for LDCs and other LICs (45%) imposes softer conditions to donors when lending to poorer countries as compared with the proposed 10% threshold for multilateral institutions.

15. Given the sensitivities within multilateral institutions around the determination of the appropriate discount rate, and to avoid confusion in this area, the Secretariat suggests adding a reference in the proposed treatment to clarify that multilateral institutions have their own governance mechanisms and that the DAC discount rate does not affect or set precedents for discussions on fund-raising and burden-sharing calculations in multilateral institutions (see footnote 8 in the proposed treatment in section B).

B. Proposal for recording, in ODA, loans to multilateral organisations

16. The proposed treatment presented hereafter is identical to the one circulated for the consultation with multilateral organisations, and to members in DCD/DAC/RD(2016)1/RD1, except for footnote 8 which was added. Note however that since the 26 January 2016 meeting of the DAC, three members have provided the Secretariat additional comments on the proposed treatment related to the discount rate and the threshold:
Two members stated that the discount rate of 5% was too high and should be set closer to the prevailing market rate and regularly revised. However, the Secretariat recalls that the 5% discount rate was agreed by the 2014 HLM as the base factor entering the composition of the DAC discount rate, consistent with the IMF discount rate. The Directives also state that “the DAC will regularly assess the need for adjusting discount rates, in particular following any change to the IMF rate”. [See DCD/DAC(2016)3/REV1, footnote 24.] The Secretariat therefore suggests, for consistency with the 2014 decision, to also use 5% as the base factor in the case of loans to multilateral organisations. Also, lowering the discount rate further would further increase the gap with the discount rate used for low income countries, which would not be welcome by some organisations. However, to avoid confusion with the discount rates used by multilateral organisations, it is proposed to add a footnote for clarification (see footnote 8).

One member questioned the relevance of applying a 10% threshold, and whether the IMF threshold of 35% would not be more appropriate. Setting a 35% threshold would be a stringent condition on donor loans, and not all current ODA loans to multilateral institutions would qualify as ODA (e.g. in the case of loans to the IMF Poverty Reduction and Growth Trust). It is proposed to maintain the proposed 10% threshold to still clearly define concessionality in the DAC context, but recognise that debt sustainability concerns are not relevant for multilateral organisations.

Based on the results of the consultation and taking into account the specific issues signalled by the multilateral organisations (see in particular paragraph 11), members are invited to approve the proposed treatment for loans to multilateral organisations, for subsequent inclusion in the final version of the Reporting Directives.

To ensure consistency in the statistical system and facilitate comparisons of donor effort involved in providing loans, the measurement, in ODA, of concessional loans to multilateral institutions would be based on grant equivalents.

In accordance with the 2014 DAC HLM decision to reflect the cost of risk in the measurement of donor effort, the discount rate to apply in calculating the grant element would consist of a base factor (the funding cost of the loan) and an adjustment factor (cost of risk). The discount rate would be differentiated by type of institution as follows (see also table below):

- **Global institutions and multilateral development banks**: the discount rate consists of a base factor of 5%, which is consistent with the discount rate that IMF used in 2014 for calculating IMF grant element; this reflects the funding cost but with no cost of risk added (lending to multilateral institutions is generally less risky than lending to countries).

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7. This includes both loans in the form of core contributions to multilateral institutions (classified as multilateral ODA) and loans channelled through multilateral institutions (classified as bilateral ODA), covering also loans to trust funds administered by these institutions.

8. Multilateral institutions have their own governance mechanism. The DAC discount rate does not affect or set precedents for discussions on fund-raising and burden-sharing calculations in multilateral institutions.

9. The list of organisations in the table may be expanded as and when the need arises.

10. The DAC will regularly assess the need for adjusting discount rates, in particular following any change to the IMF rate.
For other organisations, including sub-regional organisations: the discount rate consists of the same base factor of 5% and an adjustment factor of 1%, i.e. 6% in total, to recognise their higher risk profiles.

The grant element threshold for counting loans as ODA would be set at 10%, to clearly define concessionality in the DAC context and serve the purpose of calculating ODA, but recognise that debt sustainability considerations are not relevant for multilateral organisations.

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<tr>
<th>Multilateral institutions for which the 5% discount rate would apply</th>
<th>Multilateral institutions for which the [6%] discount rate would apply</th>
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<tr>
<td><strong>Global institutions and funds</strong></td>
<td><strong>Regional and sub-regional institutions, other than MDBs</strong></td>
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<tr>
<td>International Monetary Fund (IMF)</td>
<td>African Export-Import Bank (Afreximbank)</td>
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<tr>
<td>World Bank Group</td>
<td>Andean Development Corporation (CAF)</td>
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<td>• IDA</td>
<td>Black Sea Trade and Development Bank (BSTDB)</td>
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<td>• IBRD</td>
<td>Caribbean Development Bank (CDB)</td>
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<td>• IFC</td>
<td>Central African States Development Bank (BDEAC)</td>
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<td>Green Climate Fund</td>
<td>Central American Bank for Economic Integration (CABEI)</td>
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<td>International Fund for Agricultural Development (IFAD)</td>
<td>Eastern and Southern African Trade and Development Bank (PTA Bank)</td>
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<td><strong>Multilateral development banks (MDBs)</strong></td>
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<td><strong>Other institutions</strong></td>
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<td>Private Infrastructure Development Group (PIDG)</td>
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1. Not included on the DAC List of ODA-eligible international organisations.
ANNEX. SPECIFIC PRELIMINARY COMMENTS RECEIVED FROM MULTILATERAL ORGANISATIONS IN REPLY TO THE CONSULTATION

General remarks

AsDB

Strongly supports the initiative to modernise the reporting of concessional loans by introducing a grant equivalent system based on differentiated discount rates and grant element thresholds for bilateral loans, and to apply the same methodology to reporting of lending to multilateral institutions.

It is important to ensure identical approach for bilateral loans and loans to multilateral institutions in order to: (i) maintain statistical consistency regardless of beneficiaries; (ii) keep donors’ incentives neutral for ODA modality and beneficiaries; and (iii) avoid possible distortion in ODA market regarding financing modality and money flows.”

IADB

More transparency and a better measurement system, which better reflect the ODA realities of each transaction, could incentivise partners to better align and target concessional finance interventions and seek collaboration and leveraging of efforts to adequately meet ODA targets.

WB

Our main conclusion is that it is very difficult to fully assess ramifications of the proposal; we see the benefits of using a consistent grant equivalent approach to measure loans to developing countries (IDA partners agreed to the same approach in the IDA-17 replenishment) and extending a consistent approach to multilateral lending institutions (MLIs) to ensure appropriate incentives, but we also see challenging implications for MLIs and specifically for IDA.

Improving the targeting of ODA to countries most in need: multilateral channels such as IDA are a very good tool to reach countries most in need.

Funding mechanisms such as IDA provides a high degree of predictability, given the multi-year contributions.

Reducing fragmentation of ODA: The concessionality guidelines for MLs primarily apply to core funding mechanisms. Support to IDA and similar ML mechanisms is support to core funding.

Multilateral principles which might inform DAC members’ decision

a) IDA – as other ML funds - has its own governance mechanism, and decisions around the terms for loans to IDA, and their use, are subject to negotiations among IDA development partners. It is therefore important that a DAC decision does not end up dictating the terms of the internal IDA discussion on this issue, or give IDA less influence over its CPL terms.

b) While most of IDA’s development partners are full DAC-members, this is not the case for all IDA-donors. For instance, Brazil, China, Mexico, Russia and Turkey were among the donors to the last IDA-replenishment. The EC, in turn, is not a donor to IDA. Consequently, for the sake of the WBG, it is important that a DAC decision on concessionality on loans to MLIs is fully acceptable also to our non-DAC donors. This applies to both the process and the outcome, and we wonder whether the DAC-secretariat has considered consulting non-DAC (or DAC observer) IDA-development partners?

c) 2016 is a year of several MLI replenishment processes, with MLIs tasked with implementing the 2030 agenda. DAC members should be comfortable that a change in the incentives for support to MLIs has the potential to increase the overall flows for development; or doesn’t make it harder for them to contribute to maximizing these flows.
Question (i): Impact on opportunities to raise additional funds from donors and/or from the market

CAF Not marked: CAF does not foresee a measurable impact in its access to funds, either from donors or from the market.

IMF Not marked: The IMF does not borrow from the capital markets. We do not know exactly what determines a country’s willingness to provide loans to the PRGT and hence cannot easily predict how it would affect the willingness of donors to provide such loans. (ODA eligibility has certainly influenced the willingness of some countries to provide such loans). The IMF, to date, has not had significant difficulties in raising the amounts of loan funding needed to finance its loans to PRGT-eligible countries: we therefore anticipate that the approach proposed in the note would not have a marked impact on the IMF’s ability to mobilize loan resources in the future.

IADB Positive: This measure could potentially affect our ability to raise additional funds from donors, in respect to reimbursable co-financing opportunities, in a positive way.

IFAD Positive, also highlights the potential incentive for higher concessionality of loans: Based upon the information shared, and our experiences with sovereign loans to IFAD thus far, we believe that the proposed system may be an incentive for sovereign loans with a higher level of concessionality to IFAD, as greater concessionality is rewarded by the proposed system.

WB Could be negative: The new approach could reduce the incentives for some partners to provide concessional loans to IDA. The new approach might also reduce the incentive for partners to reinvest loan repayments on existing outstanding loans into new concessional loans.

Could be positive: There is also the possibility that a simpler and consistent approach for measuring ODA on concessional loans could increase the overall level of concessional lending to MLIs as concessional lending becomes a more standard form of development assistance.

Opportunities to raise additional funds from the capital market on favourable terms: For the time being, IDA (the main WBG instrument potentially affected by a DAC decision) is not borrowing from the capital markets. If IDA will do so in the future, while the new approach does not have a direct impact, in the event that it incentivized donors to favor contributions by way of loans rather than grants, IDA’s ability to raise funds from capital markets at favorable terms could be affected. This is because while contributions provided as grants would add to IDA’s equity capital, contributions provided as loans, even if concessional and equivalent in grant terms, would be viewed as debt, and not equity, by the rating agencies and bond markets. However as noted previously, we don’t know whether the new mechanism would increase or decrease incentives for loan contributions versus grants.

Question (i): Proposed parameters – discount rates of 5% or 6% and eligibility threshold of 10%

AfDB The proposed discount rate is higher than the one used by multilateral institutions in their burden sharing calculations of grant equivalents (e.g. 1% in AfDB). If it is too high, this would mean that a large percentage of concessional donor loan would be recognised for burden sharing and voting rights allocation, which would result in an unfair preferential treatment to donors that provide loans compared to those that provide only grants. This would result in a division between donors and the system that will be retained might be a less attractive framework for one or the other category of donor countries, depending on their ability to provide concessional lending or not. This is why it would be impossible for the ADF to retain a discount as high as the one proposed by the OECD-DAC.

N.B. The AfDB misinterpreted the question as a proposal to apply the DAC discount rate for AfDB’s own purposes. This was subsequently clarified through a phone call.
Generally reasonable, reflecting funding cost and some risk factors, although those figures could still be marginally adjusted based on more in-depth analysis. Agrees that debt sustainability considerations are not relevant for multilateral organisations.

Stresses the importance of equal treatment of AsDB and other similar multilateral organisations (e.g. WB, EBRD) through the application of the same discount rate and threshold.

We understand the logic for differentiated discount rates across the two classes of multilateral institution and how it fits with the logic of the approach adopted by DAC members at the December 2014 HLM. We would be concerned about the possible impact on donor allocations of loans across institutions if the differential between the two discount rates was significantly higher than the proposed one percent.

Sees a risk that the partners have a higher incentive for co-financing rather than directly funding to multilateral lending institutions (MLIs) as a lower discount rate for IDA would result in lower grant equivalent for a loan to IDA compared to a bilateral loan (due to a higher discount rate for bilateral loans). The argument for applying a lower discount rate (5%) to multilateral institutions versus bilateral countries (lower risk of lending to multilateral institutions) makes sense from a purely financial perspective. However, this ignores the benefits of lending to MLIs for the donor community, such as the reduced fragmentation that is generated by providing funding to MLIs.

The grant element threshold proposed for MLIs (10% versus 10% for UMICs, 15% for LMICs and 45% for LDCs) does provide more flexibility to MLIs. However, the use of a lower grant element threshold for MLIs, based on the premise that debt sustainability considerations are not relevant for MLIs, does not take into account the income and debt sustainability profile of IDA’s client countries who are the ultimate recipients of the resources mobilised by IDA.

Question (ii): Impact on the balance between grant and loan contributions from donors, to the core budget of the institution; information on existing and proposed safeguards

The highly concessional nature of ADF’s overall funding imply its reliance on grant funding. If donors substitute their core grant contributions in favour of debt contributions, this would have serious negative consequences for ADF’s long-term financial sustainability. Indeed, given that the majority of ADF eligible countries still need highly concessional support, ADF could not operate without contributions in the form of grants.

Proposed safeguards to mitigate the substitution risk: for AfDF-14, to mitigate the substitution risk (i) the total contribution of a donor country subscribing through concessional donor loans should be at least equivalent to its AfDF-13 contribution on a grant equivalent basis; and (ii) donor countries would commit to provide at least 90% of their AfDF-13 basic burden share in the form of grant.

Since donor loans to IFAD do not carry voting rights, replenishment contributions are expected to be the most attractive option for our Member States for them to maintain/increase their representation in the fund, etc. Also – for each replenishment cycle – eligible Member States for a loan to IFAD are those that will have maintained at least their level of replenishment contribution to the previous replenishment.

This question does not translate easily into the IMF’s business model. Donors provide grants paid to Multi-Donor Trust Funds (MDTFs), which are typically used to finance technical assistance. Our sense is that donors typically do not engage in a trade-off between providing funding to the MDTFs and providing loans to the PRGT (i.e., they are viewed as very different forms of support)—but have not investigated this question thoroughly.

We cannot tell for certain, as this is dependent on the choices and priorities made by the individual development partner. In IDA-17 the concessional framework agreed among partners included mechanisms to ensure that grant funding, which remains the core funding for IDA, was not eroded and that the loans were additional to IDA. Given the consensus achieved under IDA-17 we want to ensure that a new approach by the DAC does not change IDA’s ability to re-implement the same or a similar framework in IDA-18, if this is what partners wish to achieve in the upcoming replenishment discussions.
Question (iii): Impact on resource allocation among client countries in different income groups

WB

We cannot tell for certain, as this is dependent on the choices and priorities made by the individual development partner. As indicated above, for IDA17 partners were able to achieve consensus on a framework that didn’t affect IDA resource allocation, in fact it increased IDA’s overall envelope, and thereby the allocations to all IDA countries.

IDA’s resources are finite, and the IDA-envelope is the result of an agreement among development partners every 3 years. In IDA17, the Concessional Partner Loans enabled IDA to increase the overall IDA envelope beyond the overall size of the loans, in other words they leveraged additional grant resources, and thereby more resources to LICs. IDA resources are allocated on the basis of a negotiated set of criteria.

The terms of potential loans to IDA will define the outer borders for loans from IDA. It is therefore important that partner loans to MLIs meet the lending terms that the institution provides and that appropriate incentives are provided to ensure that MLIs receive highly concessional loans. One factor that also plays a role is that partners are typically very concerned about “cross-subsidization”. They do not want their grant contributions used to repay principal and interest of the loan provided by other donors.

Question (iv): Information on financial conditions for a loan to be counted as a contribution in the context of the institution

AfDB

The grant element represents the present value of the financial benefit to the ADF of contracting a concessional donor loan (CDL). It depends on the terms and conditions of the CDLs, the terms and conditions of the loans to gap, blend and graduating countries and on the discount rate used to determine the present value of the financial benefits estimated annually. Considering that, for the sake of risk management, CDLs must be self-contained, it shall be assumed that the following key features would be retained to consider for a CDL to ADF-14:

- Maturity and grace period: considering the ADF cash flow profile, maturity interest and principal repayment schedule will be at least the same as those of ADF loans to gap, blend and graduating countries, i.e. 5 years and 30 years respectively, which means that softer borrowing terms (i.e. longer grace and maturity periods) would also be accepted.
- Repayment schedule: a straight-line amortising repayment calendar would be applied aiming at matching to ADF blend lending terms.
- Interest/coupon rate: CDLs would require an UA equivalent coupon rate ranging between 0% and 1%, the latest corresponding to the interest rate of ADF blend term credit. This would ensure that ADF can pass on the borrowing cost to recipients without using any donor grant funding.
- Discount Rate: it will be proposed that a discount rate of 1.0% be considered, based on the ADF’s lending conditions to blend and transitional borrowing countries (i.e. 1.75%, given that a 0.75% service charge is used to defray the Fund’s real administrative and operational expenses related to the projects and programs funded).
Only replenishment contributions in the form of grants, made in the context of each replenishment cycle, are counted as contributions that carry voting rights. Donor loans have so far been used to finance or top-up IFAD’s Programme of Loans and Grants. The replenishment target, set at each cycle by consultation members defines the adequate level of concessionality of the needed financial resources to finance the target Programme of Loans and Grants. The Programme of Loans and Grants is financed by replenishment contributions (core and complementary), loan reflows, investment income, and potentially loans. The target set, together with the other financing elements that would ensure the Fund’s sustainability and the compliance with IFAD’s relevant policies, determine the level of borrowing needed. The borrowing limit at all times takes into account the long-term financial sustainability of the Fund.

Under policies approved by the Board in 2010, in general the rate paid to lenders to the PRGT will be the SDR rate for agreements in which amounts are disbursed (by lenders to the PRGT) in SDRs, or a six-month derived SDR rate for agreements in which amounts are disbursed in freely usable currencies. Currently, the SDR rate is 0.05 percent, whereas the six-month derived SDR rate is 0.15 percent. Since 2010, the SDR rate has averaged 0.18 percent, and the six-month derived SDR rate has averaged 0.43 percent.

For IDA17, partner loans were accepted under the following conditions, which ensured the adequate concessionality. IDA also applied a debt limit to ensure that the composition did not exceed its funding requirements:

- a maturity of 25-year (with 5-year grace period) or 40-year (with 10-year grace period);
- a maximum interest rate of 1% in SDR terms (the weighted average lending rate achieved for IDA17 was 0.6%);
- a discount rate of 2.65% in SDR terms, which will be applied to calculate the grant element of the loan for voting rights and burden share recognition purposes;
- the grant contribution from a donor providing a loan has to equal at least 80% of its basic grant contribution in the previous replenishment;
- the total grant equivalent amount (grant plus grant element of the loan) from the donors providing both a grant and a loan has to be at least 100% of their basic grant contribution in the previous replenishment.