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Investing in rural people

Non-Concessional Borrowing Policy

Note to Executive Board representatives

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Abbreviations and acronyms

CIRR	commercial interest reference rate
DAC	Development Assistance Committee
DSF	Debt Sustainability Framework
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFI	international financial institution
IMF	International Monetary Fund
LIC	low-income country
MDRI	Multilateral Debt Relief Initiative
NCBP	Non-Concessional Borrowing Policy
OECD	Organisation for Economic Co-operation and Development
PBAS	performance-based allocation system
SDR	special drawing rights

Recommendation for approval

The Executive Board is invited:

(a) to consider the document Non-Concessional Borrowing Policy and to approve the proposal contained in section IV; and

(b) to approve the transmittal of the draft resolution provided in annex V to the Governing Council and the recommendation that the Governing Council adopt the draft resolution at its forty-second session.

Non-Concessional Borrowing Policy

I. Background

1. Many developing countries access non-concessional financing to partially meet their development needs. Low-income countries (LICs) that previously drew only on concessional aid assistance are now actively using less concessional types of financing, including resources mobilized from multilateral, bilateral and commercial creditors, as well as international bond markets.

2. While there is no widely accepted definition of non-concessional borrowing, the Organisation for Economic Co-operation and Development (OECD) defines concessional loans[1] as:

> "loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have long grace periods."

3. Grants and debt relief create significant benefits in the form of strengthened debt sustainability and increased fiscal space to achieve the country's development objectives. The end goal for developing countries, especially LICs and those at high risk of debt distress, is to achieve sustainable development. However, taking on unsustainable debt could cause significant delays in achieving this outcome.

4. The International Development Association (IDA) was the first international financial institution (IFI) to establish a Non-Concessional Borrowing Policy (NCBP) in 2006. This type of financing promotes creditor coordination around debt sustainability and aims to discourage countries from taking on significant non-concessional financing. Other IFIs have since developed similar policies on non-concessional borrowing or applied that of IDA.

5. Experience has shown the following advantages of NCBPs:

   (a) Pre-notification by borrowers regarding their non-concessional borrowing plans has improved governments' debt planning and management, and creditors' decision-making capacity.

   (b) Increased transparency and completeness of debt reporting have helped IDA (and the International Monetary Fund [IMF] in some countries) to determine whether an exception to the policy is feasible given country- and project-specific considerations. Exceptions have been granted primarily for non-concessional loans financing infrastructure projects with high financial and economic rates of return.

[1] OECD Glossary of Statistical Terms.

(c) Introducing a non-concessional borrowing ceiling has facilitated deeper dialogue on this type of financing and debt sustainability.

(d) Strong policies and institutions imply increased debt-management capacity, therefore breaches were not found to impact debt sustainability. In some cases however, this led to hardening of terms in recognition of a country's increased fiscal space. This also allowed for concessional resources to be redirected where it is most needed.

(e) NCBPs may lead to more favourable financing terms on non-external debt since concessionality requirements (such as the non-concessional borrowing ceiling above) provide a foundation for governments to negotiate with creditors in order to obtain more concessional terms.

6. Unlike the other IFIs, IFAD does not have a specific policy on NCB. It recently joined the multilateral development bank debt issues working group, which emphasizes the importance of creditor coordination. Since IFAD is now examining possible new instruments, allocation mechanisms and products through the development of its financial roadmap, it is fundamental that IFAD does not inadvertently add to any country's unsustainable level of debt. This document proposes a way of ensuring this.

7. The adoption of this NCBP will enable IFAD's borrowers and recipients to benefit from a well-tested, harmonized core methodology while providing space for tailored solutions to fit project, country- and sector-specific needs.

II. Overview of IDA mechanism

8. The IDA website includes the following overview of the NCBP planning mechanism:

> "The NCBP is a two-pronged policy involving creditor outreach as well as measures aimed at borrowers to reduce the risk of overborrowing on non-concessional terms [i.e. where the grant element of a loan is less than 35 per cent]. Through creditor outreach the NCBP aims to encourage other creditors to incorporate debt sustainability considerations and the information provided by the Debt Sustainability Framework (DSF) into their lending decisions. The second prong, aimed at borrowers, includes capacity-building efforts to help countries manage their debt and a renewed emphasis on improved adherence to reporting requirements. The second prong also involves IDA responses for cases in which the NCBP is breached, such as reductions in volumes, or adjustment of IDA lending terms."

9. A more detailed summary of IDA's NCBP is found in annex I while a summary of the countries for which IDA NCBP remedies have been applied is found in annex II.

III. Comparison to other IFIs

10. A table showing other IFIs' NCBP mechanisms is included in annex III while technical information on concessionality and types of non-concessional lending can be found in annex IV.

11. The IDA policy aims to: (i) deter "free riding"[2] by non-concessional creditors after the substantial debt relief provided by the World Bank and other multilateral creditors through the Highly Indebted Poor Country (HIPC) Initiative[3] and

[2] In the paper *IDA Countries and Non-Concessional Debt: Dealing with the "Free Rider" Problem in IDA14 Grant Recipient and Post-MDRI Countries*, this term refers to situations in which IDA's debt relief or grants could cross-subsidize lenders that offer non-concessional loans to borrowers.
[3] Introduced in 1996 by the World Bank, IMF and other creditors, the programme was designed to ensure that the poorest countries are not overwhelmed by unsustainable debt; debt relief was provided under strict criteria.

Multilateral Debt Relief Initiative (MDRI);[4] and (ii) address the "moral hazard" problem of borrowers incentivized to over-borrow on non-concessional terms because they receive concessional assistance, causing their debt to become unsustainable. This requires their concessional creditors to increase their grant allocation. Since the DSF was jointly developed with the IMF, one of its main objectives is to enhance creditor coordination in order to facilitate lending decisions. In addition, IDA has other strategies such as the Debtor Reporting System, publications designed to strengthen debtor reporting and public financial management capacity, and joint capacity-building programmes with the IMF. It should be noted that IDA devotes significant resources to the implementation of this policy across its global portfolios.

12. The African Development Fund first introduced an NCBP in 2008 with a similar approach to IDA but allowing for additional flexibility in its application. Its mechanisms are also the same as IDA's including: (i) deeper coordination and partnerships with other financial institutions and bilateral creditors; (ii) an inter-departmental committee to review non-concessional borrowing and application measures; (iii) a clause in financing agreements to ensure timely and complete debtor reporting; and (iv) capacity-building of national governments.

13. The Asian Development Bank's Concessional Assistance Policy, introduced in 2016, refers to the IDA policy and states that the bank will adopt a similar approach should Asian Development Fund grant recipients begin accumulating non-concessional debt; we understand that related procedures are now being put into place by the end of 2018. Since most Asian Development Bank recipients are not LICs, application of a disincentive measure is expected to be rare.

14. The Inter-American Development Bank does not have an equivalent of IDA's NCBP or a formal NCBP. Instead, it has selectively applied the frameworks of IDA and the IMF. For example, from 2007 to 2012, the IMF imposed a minimum concessionality requirement of 35 per cent in its programmes with Nicaragua. Subsequently, Nicaragua was covered by an IDA requirement of 35 per cent concessionality until it became an IDA "gap" country in 2016.

IV. Proposal for IFAD's response

15. Under the Eleventh Replenishment of IFAD's Resources (IFAD11), IFAD is making efforts to: develop its financial architecture; ensure greater comparability for borrowers; potentially offer additional resources to borrowers on demand based, on certain parameters; safeguard its financial sustainability; and enhance its risk management frameworks. It is important that a policy be put into place in this area, both for risk management and as part of IFAD's broader financial framework. Considering the need for a policy framework and greater harmonization among creditors, IFAD Management proposes that the Fund adopts the principles underlying IDA's policy as the basis for its own policy, but should retain the ability to differentiate its approach based on the unique project, country and financing contexts of each borrower, allowing for exceptions to be granted.

16. IFAD's actions will focus on deepening donor coordination around the DSF and applying disincentive measures to borrowers that breach the policy. IFAD will also utilize the borrowing capacity and debt vulnerability assessments conducted by the World Bank and IMF in building its assessment and conducting the dialogue with country's counterparts regarding the impact of additional debt from IFAD's resources. An inter-departmental committee will be established to review non-

[4] Launched in 2005 to support highly indebted poor countries in reaching the Millennium Development Goals, this programme required full debt cancellation by IDA, IMF and the African Development Fund to countries that participated in HIPC.

concessional borrowing and application measures, the Operational Transition Committee (OTC) (see paragraph 19 below).

17. Guidance on disincentive measures, including exceptions, will be developed following approval of the policy and will include areas in which a reduction in the nominal allocation is more appropriate than the hardening of IFAD's financing terms. Possible disincentive measures are provided below:

(a) In the case of a low-level breach (as described in paragraph 18 below), any volume cuts applied by IFAD to the amount of available financing would be not higher than 10 per cent of the original allocation;

Box 1
Example of disincentive measure by cutting volume

In 2020, the IMF and the World Bank declare that a country has accumulated external debt greater than that allowed under the NCBP. The breach was in relation to unreported increases in non-concessional debt, with minimal information provided on the projects the loan was expected to finance. This country is eligible for 100 per cent grant resources under the Debt Sustainability Framework for IFAD financing, with an allocation of US$100 million as per the performance-based allocation system (PBAS) for the replenishment cycle IFAD11. IFAD's OTC will examine, in consultation and dialogue with country counterparts, the level of this breach and its impact on the country's debt capacity. Since the country is found to be at very high risk of debt distress, and is using its allocation for a capacity-building project, the OTC opts to apply a volume cut and submits to the President of IFAD a proposal to reduce the allocation of the country up to a maximum of 10 per cent. This decision reflects the objective to encourage countries to not consider official development assistance resources as a subsidy to non-concessional resources.

(b) A disincentive measure resulting in hardening of financing terms to the level above (for example from 100 per cent grant resources under DSF to 50 per cent of resources provided as a DSF grant and 50 per cent as a loan on highly concessional terms).

Box 2
Example of disincentive measure by hardening lending terms

In 2020, the IMF and the World Bank declare that a country has accumulated external debt greater than that allowed for the borrower under non-concessional borrowing. The breach was brought about by large amounts of non-concessional borrowing to finance hydroelectric power plants, which would substantially increase the country's economic output. This country is eligible for grants resources under the DSF for IFAD financing, with an allocation of US$100 million as per the PBAS for the replenishment cycle IFAD11. The OTC will examine, in consultation and dialogue with country counterparts, the level of this breach and its impact on the country's debt capacity. Since the economic rates of return are high, and given that the country is using its allocation for a rural infrastructure project, the OTC submits to the President of IFAD a proposal to harden the lending terms to 50 per cent grant under DSF and 50 per cent highly concessional loan. This decision reflects the country's increased borrowing capacity and expected economic output increase, as well as frees up grant resources to be redirected to where it is most needed.

(c) A combined disincentive measure reflecting a volume cuts and hardening of lending terms.

(d) None of the above taking into account also the availability of other concessional financing for agricultural development.

18. The table below provides guidelines for implementing the NCBP at IFAD. These are not intended to be static rules. In IFAD's review, country- and project-specific factors will be taken into account to determine whether a remedy will be applied, and which would be most relevant. Disincentive measures may be combined, depending on the case.

Level of breach	*Disincentive measure*	
	*Volume cuts**	*Hardening terms*
Low *Concessionality of the loan (financing package) is near the threshold (35 per cent or as higher as determined by IMF) and total NCB slightly exceeds the level determined by the World Bank/IMF*	Up to 10 per cent reduction	Countries eligible for grants may have the lending terms hardened up to highly concessional terms. Countries eligible for highly concessional terms may have lending terms hardened to blend terms.
Medium *Concessionality of the loan (financing package) is much less than the threshold and total NCB moderately exceeds the level determined by the World Bank/IMF, or the country has repeated a breach after identification*	Up to 20 per cent reduction	
High *Concessionality of the loan (financing package) is much less than the threshold and total NCB excessively exceeds the level determined by the World Bank/IMF, or the country has repeatedly breached the NCBP after identification*	Up to 50 per cent reduction	

* For small state economies and fragile states, the recommended cut would take into accounts their smaller PBAS allocations

19. An inter-departmental OTC will be established and chaired by the Vice-President of IFAD. The committee will involve the following stakeholders based on their roles and responsibilities within IFAD (the committee composition may be modified as required by the Executive Management Committee):

(a) Vice-President (Chair);

(b) Associate Vice-President, Programme Management Department (Alternate Chair);

(c) Associate Vice-President, Financial Operations Department (Alternate Chair);

(d) Member of the Office of the President and Vice-President;

(e) Member of the Strategy and Knowledge Department;

(f) Financial Management Services Division: Director;

(g) Operational Policy and Results Division: Director;

(h) Treasury Services Division: Treasurer;

(i) Financial Operations Department: Chief Risk Officer;

(j) Regional divisions: two directors and regional economists from different regions on a rotational basis.

The Senior Finance Officer, Financial Management Services Division, will cover secretarial functions in a non-member capacity.

20. The OTC will consider operational and financial issues relating to the Transition Framework and will normally meet quarterly. For the NCBP-related issues, it will meet when necessary, and at least annually, specifically at the time of determining financing terms and after conducting outreach with other IFIs to gather data on their non-concessional borrowing disincentives. Based on these data, the committee will evaluate whether or not to apply a disincentive measure based on several factors, including:

(a) Size of the breach relative to the benchmark grant element of the entire financing package – this depends on the non-concessional loan's interest rate and repayment schedule;

(b) Size of the breach relative to a country's total concessional debt (comparing the size of the breach relative to IFAD's allocation is not appropriate because of IFAD's relatively small allocations);

(c) Frequency of breaches – repeated instances of non-concessional borrowing would require a stronger response. If disincentive measures do not influence borrower behaviour, IFAD should consider stronger action such as withdrawing from providing financing altogether; and

(d) Other additional information publicly available and/or provided by the borrower

21. The OTC will report its findings to the Executive Management Committee and will request endorsement from the President on allowing an exception or applying a disincentive measure. If the President believes that a case requires further discussion, it will be escalated to the Executive Board. The NCBP committee will integrate the decisions into the PBAS allocation for individual countries and communicate these decisions to the Executive Board for information at least on an annual basis.

22. The application of measures decided by the President will have immediate effect for projects to be submitted to the Executive Board for approval. Measures will stay in effect until the next annual review of lending terms, unless a substantive change in country circumstances requires that IFAD review its application.

V. Estimate of related financial implications

23. Based on experience, any disincentive measures that may be applied are expected to have minimal impacts on IFAD's financial sustainability, as seen in annex II. A country-specific cut in volume would be redistributed through the PBAS across all countries, potentially increasing the proportion allocated to loans rather than grants. Hardening of the financial terms would increase reflows to IFAD. However, the overall effect on liquidity would be extremely minimal since the application of a disincentive measure is expected to be infrequent.

VI. Amendment to IFAD basic documents

24. To give full effect to the NCBP, an amendment to the Policies and Criteria for IFAD Financing is necessary. The draft Governing Council resolution is provided in annex V.

VII. Accounting, loan administration and PBAS matters

25. No significant modification is required to IFAD's corporate systems to manage this new policy. Its disclosure will be made available on IFAD's website.

26. The adoption of this policy will mean that it is automatically integrated into the PBAS methodology and considered in the parameters to determine the PBAS allocation of countries concerned.

VIII. Risk management considerations

27. There is a reputational risk for IFAD in developing its financial architecture without a core policy and procedures to provide a framework for both IFAD and borrowers on non-concessional borrowing. This policy will mitigate this risk.

IX. Conclusion

28. The Executive Board is invited to approve the proposal in section IV above.

29. This policy will take effect on 1 January 2019 so as to enter into force from the start of IFAD11. The related changes to the Policies and Criteria for IFAD Financing, as contained in annex V, will become effective upon the adoption of the revised Policies and Criteria for IFAD Financing by the Governing Council in February 2019.

Summary of IDA NCBP

1. Many developing countries access non-concessional financing to meet their development needs. LICs that have previously drawn solely on concessional assistance are now actively using less concessional types of financing, including resources mobilized from multilateral, bilateral and commercial creditors, and international bond markets. However, many still have limited capacity to access international financial markets.

2. IDA's mandate is to provide concessional resources to countries that need it the most. The HIPC and MDRI required multilateral creditors, including IDA, to forgive a significant portion of debt incurred by LICs provided that they met specific conditions imposed by creditors. While HIPC and MDRI provided poor countries with increased borrowing space, they also increased the risk of mismanagement by countries and their creditors through the potential for rapid re-accumulation of debt – thereby increasing the need for IDA grant assistance.

3. To address the risk of "free riding" by non-concessional creditors and the "moral hazard" problem of LICs using concessional resources to leverage non-concessional financing, the NCBP was adopted by IDA's Executive Directors in July 2006. The policy introduces initiatives to increase creditor coordination on lending decisions through the use of the DSF and applies disincentive measures to deter low-income borrowers from accumulating large amounts of non-concessional debt. In addition to the disincentive measures, outreach and training are provided to internal and external stakeholders on debt sustainability and prudent debt management.

4. The IDA website contains the following overview of the NCBP:

> "A key building block of the NCBP is the establishment of debt limits for countries subject to the policy. The minimum grant element required under the NCBP of 35 percent or higher, should a higher minimum level be required under an existing IMF arrangement. However, the NCBP is not a blanket restriction on non-concessional borrowing. It includes a differentiated methodology for setting debt limits based on a country's macroeconomic and public financial management capacity and debt vulnerability. Countries with adequate capacity and at low or moderate risk of debt distress may request ceilings on external public and publicly guaranteed debt in present value terms, whereas those with inadequate capacity may request ceilings in nominal terms; the allowance for ceilings in PV terms for the former allows for an increased fiscal space. Eligibility to the different Non-Concessional Borrowing Options is updated each fiscal year."[5]

5. Disincentive measures. The NCBP requires a threshold of concessionality to be breached in order for disincentive measures to be applied. The World Bank-IMF concept of a concessionality threshold requires a minimum grant element[6] requirement of 35 per cent, unless a higher threshold is appropriate as determined for countries with an IMF programme. Concessionality thresholds are determined through debt sustainability analyses, which are usually undertaken by the IMF. IDA conducts assessments for countries in consultation with IMF when there is no IMF programme in the country.

[5] See: http://ida.worldbank.org/sites/default/files/pdfs/oecd_dlp_and_ncbp_table_03_21_2018_table.pdf (accessed 21 March 2018).
[6] The grant element is calculated as (nominal value – present value)/nominal value and is expressed as a percentage. The present value of a loan is the discounted cash flow of its future debt service payments, with a discount rate of 5 per cent.

6. The joint World Bank-IMF capacity assessment categorizes borrowers as follows:

Risk of debt vulnerability / macroeconomic and public financial management capacity	*Borrower options*
Low/medium risk of debt distress and adequate capacity	Present value ceilings on external public and publicly guaranteed debt
Low/medium risk of debt distress and inadequate capacity	Nominal ceilings on non-concessional debt
High risk of (or in) debt distress irrespective of capacity	Zero non-concessional debt limit (grants only basis)

7. IDA's response is determined based on the level of the breach (taking into account the non-concessional borrowing ceilings set through the capacity assessments), and applies disincentive mechanisms as follows:

	Disincentive measure	
Level of breach	*Volume cuts*	*Hardening terms*
Low *Concessionality of the loan (financing package) is near the threshold (35 per cent or as higher as determined by IMF) and the magnitude of breach is small relative to the country's IDA allocation.*	20 per cent reduction	IDA blend terms
Medium *Concessionality of the loan (financing package) is much less than the threshold and the magnitude of breach is large relative to the country's IDA allocation.*	More than 20 per cent reduction	IDA hardened terms
High *Concessionality of the loan (financing package) is much less than the threshold and the magnitude of breach is a multiple of the country's IDA allocation.*	Up to 100 per cent reduction	IDA hardened terms/International Bank for Reconstruction and Development rates

8. Repeated breaches would increase the level of the breach and thus IDA's response, which can also be extended depending on the length of the breach.

9. To determine whether an exception should be granted, IDA evaluates a set of country-specific factors (overall borrowing plans, impact of borrowing on macroeconomic framework and risk of debt distress, strength of policies and institutions) and loan-specific factors (project development content, expected rates of return, lender equity stake and additional costs associated with loan).

10. Additional information on the policy and its subsequent revisions, as well as countries subject to the policy, can be found at: http://ida.worldbank.org/financing/non-concessional-borrowing-0.

IDA's NCBP remedies

Recent history of remedies applied by IDA

Borrower	*IDA Decision*	*Year*
Ethiopia	Grant portion of performance-based allocation converted to regular IDA credits and 5 per cent volume reduction to FY15 allocation	2014
Lao PDR	62 per cent of allocated grants converted to credits (reflecting timing of decision halfway through financial year)	2010 to 2014
Mozambique	Grant allocation converted to regular IDA credits	2016
Mozambique	10 per cent volume cut to grant allocation	2017
Maldives	Grant allocation reduced from 100 per cent to 50 per cent	2017

Comparison with other international financial institutions

	International Development Association	***African Development Fund***	***Asian Development Fund***	***IFAD (proposed)***
Policy	Non-Concessional Borrowing Policy	Non-Concessional Debt Accumulation Policy	Concessional Assistance Policy	Non-Concessional Borrowing Policy
Year introduced	2006	2008	2016	-
Years revised	2008, 2010, 2015	2011	-	-
Applies to	IDA-only countries that are eligible for grant financing (gap and blend countries excluded) and countries that received assistance through MDRI	Grant-eligible post-HIPC/MDRI African Development Fund countries	no information available	IFAD grant-eligible countries and IDA recipients assisted through MDRI
Mechanisms	- Increase creditor coordination around the DSF - Apply disincentive measures for free riding by creditors and prevent moral hazard by borrowers through (recommended) volume cuts to grant allocation (for red/yellow light countries) and hardened terms	- Deepen partnership and donor coordination - Strengthen reporting and monitoring - Enhance collaboration in capacity- building - Apply disincentive measures through volume cuts and hardened terms	Section II.B.5 of the policy refers to IDA's NCBP. It also states that the bank, "will adopt a similar approach should an Asian Development Fund grant recipient begin accumulating non-concessional debt"	- Deepen partnerships and donor coordination through increased participation and involvement in working groups - Apply disincentive measures through volume cuts and hardening of terms
Related policies/ strategies	IMF Debt Limits Policy			Transition framework
Deviations from IDA policy	N/A	Disincentive measure of volume cuts for breaches assessed as "medium" or "high" include a shortening of the maturity period and hardening of terms to 200bps below African Development Bank rates.	no information available	IFAD will base its policy on the principles underlying that of IDA but may vary its approach. Additionally, hardening of terms will place greater emphasis on lack of other concessional financing available for agricultural development projects.

Key definitions

Concessionality

1. Concessional debt generally comprises debt provided by creditors at below-market rate terms to achieve a certain objective. There are multiple ways to calculate the concessionality of a specific loan. The OECD Development Assistance Committee (DAC) considers a concessional loan to contain a grant element of 25 per cent or higher, where the discount rate used to calculate the present value of the future debt service payments on the loan is 10 per cent. The World Bank and IMF consider that the minimum grant element as per the DAC definition is too low, and the definition used to calculate the present value too high. Instead, the IMF defines debt as concessional if it has a minimum grant element of 35 per cent,[7] with the present value calculated using a single unified discount rate of 5 per cent. The present value using this method is higher, resulting in a lower grant element. Previously, the discount rate used was currency specific and based on OECD commercial interest reference rates (CIRRs). A single unified discount rate was adopted due to the complexity of calculating OECD's CIRRs and the fact that CIRRs were found to be 5 per cent on average.

Types of non-concessional external lending

2. The following types of flows are usually treated as external debt:

   (a) Export credits. Officially supported export credits are provided by governments through export credit agencies. OECD countries officially supported export credits are regulated by the OECD Export Credit Arrangement, which states that the countries "shall not provide tied aid that has a concessionality level of less than 35 percent, or 50 percent if the beneficiary country is a least-developed country" except "tied aid where the official development aid component consists solely of technical cooperation that is less than either 3 per cent of the total value of the transaction or SDR 1 million, whichever is lower" and "capital projects of less than SDR 1 million that are funded entirely by development assistance grants". Anything that meets these requirements would not be considered non-concessional debt.

   (b) Commercial (including syndicated) bank loans. These are market based and their terms are negotiated in accordance with the borrower's credit-worthiness. An example that may lead to "free riding" is public borrowing collateralized with future receipts – usually the borrower's natural resources. Loans like these have seniority over non-collateralized debt and could significantly affect a country's fiscal situation should the country default on a loan.

   (c) Bonds. These are issued by governments of borrowing countries in domestic and external capital markets. Coupon rates on these bonds are based on market rates, thus making them non-concessional by nature.

[7] The minimum level of concessionality for a loan to be considered concessional is 35 per cent. The IMF may consider a higher grant element percentage based on a country's Debt Sustainability Analysis. According to IDA's NCBP, countries that do not have an IMF programme are required to meet the minimum 35 per cent concessionality.

Draft Resolution …/XLII

Revision of the Policies and Criteria for IFAD Financing

The Governing Council of IFAD,

Recalling resolution 178/XXXVI, in which it decided upon the proposal of the Executive Board to approve the Policies and Criteria for IFAD Financing;

Having reviewed the proposed revisions to the Policies and Criteria for IFAD Financing submitted by the Executive Board as contained in document GC 42/…;

Adopts the Policies and Criteria for IFAD Financing, as revised below, which shall take effect upon the adoption of this resolution;

Hereby decides:

1. Paragraph 15(a)(ii)(1) of the Policies and Criteria for IFAD Financing is amended to include the following addition:

   (d) <u>which are normally eligible for highly concessional terms but may be subject to less concessional terms should a remedy under the Non-Concessional Borrowing Policy, adopted by the Executive Board, be applied</u>.

2. Paragraph 15(c) of the Policies and Criteria for IFAD Financing is amended to read as follows (added text is underlined):

   Debt sustainability mechanism

   Financing under the debt sustainability mechanism is provided to eligible Member States in the form of grants or a combination of a grant and a loan on highly concessional terms, in accordance with arrangements for implementation of a debt sustainability framework at the Fund established by the Executive Board. <u>Eligible Member States are also subject to the Non-Concessional Borrowing Policy and the associated remedies.</u>