

Document: EB 2020/130/R.34
Agenda: 9(e)
Date: 28 July 2020
Distribution: Public
Original: English

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Investing in rural people

Accelerated Repayment and Voluntary Prepayment Framework

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Executive Board – 130th Session
Rome, 8–11 September 2020

For: **Approval**

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Abbreviations and acronyms

AfDB	African Development Bank
AfDF	African Development Fund
AsDB	Asian Development Bank
AsDF	Asian Development Fund
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDA16	Sixteenth Replenishment of IDA
IFAD12	Twelfth Replenishment of IFAD's Resources
IFI	international financial institution
GNIpc	gross national income per capita
NPV	net present value
PoLG	programme of loans and grants
SDR	special drawing rights

Definitions

The terms used in this paper are defined as follows:

- **Concessional loan** means a loan that meets the minimum concessionality requirement of the International Monetary Fund (IMF) and the World Bank, i.e. loans with a minimum grant element of 35 per cent. This definition includes loans on both highly concessional terms and blend terms.
- **Creditworthy borrower** means a borrower who has reached a gross national income per capita (GNIpc) above the threshold and is considered creditworthy as per the definition used by the International Bank for Reconstruction and Development (IBRD) in its lending criteria; such borrowers are eligible for loans on ordinary terms at IFAD.
- **Highly concessional loan** means a loan that meets the minimum concessionality requirement of the IMF and the World Bank, i.e. loans with a grant element above 50 per cent.
- **Non-concessional loan** means a loan that does not meet the minimum concessionality requirement of the IMF and the World Bank, i.e. loans with a grant element below 20 per cent.
- **Operational cut-off** means the level of GNIpc, as published annually in the World Bank Per Capita Income Guidelines for Operational Purposes, up to which a Member State is normally eligible for highly concessional loans offered by IFAD.
- **Semi-concessional loan** means a loan with a grant element between 20 per cent and 35 per cent as per the IMF and World Bank definition.¹

¹ Currently and considering the interest rates applicable for Q2 2020, IFAD's ordinary term loans have a wide spectrum of grant element varying from a minimum of 21 per cent (semi-concessional) to even highly concessional, depending on the currency, maturity period, grace period, nature of spread (fixed/variable) and premium maturity differentiation. Therefore, IFAD's ordinary term loan is not a non-concessional loan by the IMF definition.

Recommendation for approval

The Executive Board is invited to approve the Accelerated Repayment and Voluntary Prepayment Framework. The framework will come into effect from when the legal amendments are duly approved by the related governing bodies.

I. Context

1. The call for international financial institutions (IFIs) to find ways to increase their commitment capacity while minimizing the associated risks/costs has been increasing for the last few years, especially in the context of meeting the Sustainable Development Goals. This call has been echoed by the Executive Board of IFAD and recognized by Management, which has been exploring tried-and-tested methods to increase the availability of funds to finance IFAD's programme of loans and grants (PoLG).
2. Several borrowers currently eligible for ordinary terms have benefited, during their economic journeys, from loans provided by IFAD on highly concessional terms. IFAD is proposing to encourage these countries to agree to an upfront payment or to a shorter repayment schedule for their outstanding highly concessional term loans so as to redirect these resources to countries most in need.
3. An **accelerated repayment** clause in a financing agreement stipulates that a creditworthy² borrower could be required to accelerate the repayment of its outstanding fully disbursed super highly concessional, highly concessional and blend term loans if specific conditions are met. This clause represents a standard practice in peer IFIs, and its introduction in the Twelfth Replenishment of IFAD's Resources (IFAD12) would give the Fund another tool to increase its financial flexibility.
4. Additionally, a complementary framework is proposed to allow the Fund, prior to IFAD12 and onwards, to provide financial incentives to eligible and creditworthy member countries that are willing to **voluntarily prepay** their outstanding highly concessional loans in order to increase IFAD's available resources so that they can be lent to countries still in an earlier phase of their economic development.
5. The proposed accelerated repayment and voluntary prepayment measures aim to recognize the economic transition of certain Member States and their increased capacity to provide positive contributions to support other Member States in their economic journeys.

II. Accelerated repayment of IFAD loans

A. Background

6. An accelerated repayment clause allows an IFI to shorten the maturities of outstanding concessional loans of borrowers that have become eligible for loans on ordinary terms and to recycle the IFI's resources more quickly, which enhances its ability to redirect funds towards those countries with the greatest needs. Accelerated repayment clauses may or may not be invoked by the IFI at the beginning of each replenishment cycle for the loans concerned.
7. Accelerated repayment clauses were first introduced in loan agreements by the World Bank's International Development Association (IDA) in 1987. IDA was followed by the Asian Development Bank (AsDB) in 1988 and, most recently, by the African Development Fund (AfDF) in 2014. There is no public disclosure about the existence of such clauses in Inter-American Development Bank loan agreements. Annex I describes the accelerated repayment frameworks of other IFIs.

² As per the Policies and Criteria for IFAD Financing, a creditworthy country is eligible for loans on ordinary terms unless it is eligible for the "small state economy" exception.

8. The introduction of this framework at institutions similar to IDA was driven by the fact that a number of IDA graduates still had outstanding IDA credits, and it was questioned whether it was appropriate for countries with high per capita incomes and ready access to financial resources at market rates to continue to benefit from highly concessional IDA resources.
9. This rationale continues to be relevant today, when there is an urgent need to maximize development resources in order to meet the Sustainable Development Goals in a context of limited resources. Under IFAD11, the Fund is increasing its focus and country selectivity to allocate more to lower-income countries, particularly those in sub-Saharan Africa. An accelerated repayment clause in IFAD's loan agreements for loans on super highly concessional, highly concessional and blend terms will allow IFAD to trigger the clause should borrowers, having made significant progress in their development agenda, transition to ordinary terms. Loans on ordinary terms will be excluded from the accelerated repayment framework. This will allow the Fund to redirect those resources from countries that do not have such compelling need for concessional financing to countries that do show a need for additional development assistance.

B. Proposed mechanism for IFAD

10. In a spirit of harmonization, it is proposed to adopt a framework tailored to IFAD's context while also building on the experience gained with similar mechanisms of other IFIs.
11. **Eligibility criteria.** The eligibility criteria for determining whether the accelerated repayment clause would be invoked are:
 - (i) The borrower is considered creditworthy and **completed its transition to the new lending terms** (i.e. ordinary terms) **after the finalization of the phasing out-phasing in mechanism.**³
 - (ii) The borrower's GNIpc remains above the IFAD operational cut-off for the **entire period** of the phasing out-phasing in mechanism.
 - (iii) The loans on super highly concessional, highly concessional and blend terms to countries eligible for the accelerated repayment mechanism **should be fully disbursed and the entire grace period should have elapsed.**

³ For example, a "blend" country that is eligible for both IDA financing on blend terms and IBRD financing may have its acceleration clause invoked by the World Bank; however, the same country would not have the clause invoked by IFAD until it became eligible only for IBRD financing and hence ordinary terms at IFAD.

Box 1

Indicative timeline for accelerated repayments

In 2020, IFAD approves the introduction of the accelerated repayment framework.

During IFAD12, country X transitions from blend to ordinary terms and meets the GNIpc eligibility requirement. Country X will be fully transitioned in 2027 (end of IFAD13), after the phasing out–phasing in mechanism has ended. IFAD would not accelerate repayments during the replenishment cycle of the transition period and/or during the grace period of the loan.

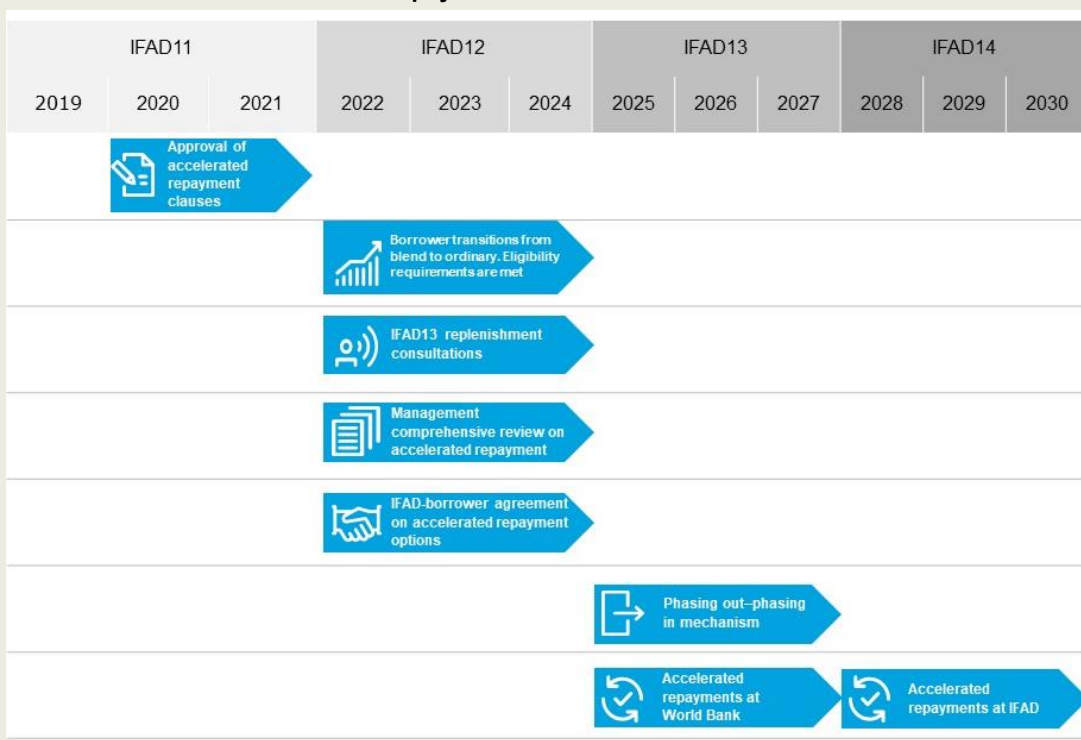
During replenishment consultations for IFAD13, in a joint exercise with the borrower, Management undertakes a comprehensive review of the borrower’s development trajectory and debt sustainability assessment and proposes that the acceleration clause be invoked for its outstanding concessional loans.

If the Fund decides to invoke the accelerated repayment clause, it would agree with country X on the accelerated repayment of the loan starting from IFAD14 (the grace period having elapsed).

The loans affected by this mechanism would be only those approved from 1/1/2022 that fully meet the eligibility criteria.

Figure 1

Indicative timeline of accelerated repayments



12. A periodic technical review of borrowers that are transitioning to ordinary terms in any given replenishment cycle would be conducted by the respective risk committee during the replenishment consultations for the next cycle.⁴ IFAD Management would submit recommendations to the replenishment consultations regarding the borrowers for which the acceleration clause could be invoked. In replenishment cycles where borrowers are not expected to transition from blend terms to ordinary terms, an initial review would be conducted to identify potential transitions in the next replenishment cycle to facilitate discussions with the borrowers concerned, from both a financial and a programmatic perspective.

⁴ Key guidance tools in the economic review will be the World Development Indicators published annually by the World Bank, which take into account institution-specific requirements, and debt sustainability analyses with a focus on the burden of accelerating repayments on the borrower’s debt-servicing capacity. However, it should be noted that in most cases IFAD loans constitute a tiny fraction of borrowers’ public and publicly guaranteed debt, including external debt.

Box 2

Determining when to invoke the clause

Management will set up a cross-departmental team that will conduct a detailed analysis in order to determine whether to invoke the acceleration clause. The Financial Operations Department will review the public financial management, the debt management strategy of the borrowers and the impact of accelerated repayment of IFAD loans on the borrower's debt sustainability (the repayment profile of each individual loan will be assessed), while the Programme Management Department will review the borrowers' socioeconomic development, focusing on the rural sector.

Guidelines will be developed to help staff in determining whether a borrower is eligible for acceleration.

The staff-level review will then proceed through Management, who will decide whether further analysis is required and consult, at least one year ahead of expected implementation, with each eligible country through the high-level officials in the relevant ministries to assess the options.

Management will be able to offer flexibility in finding appropriate implementation arrangements that address country-specific economic concerns.

Management will then recommend a decision to the replenishment consultation.

13. **Mechanism.** Drawing on the experience of other IFIs for which most (87 per cent) of the borrowers concerned have opted for the principal option,⁵ IFAD is recommending this sole option for its accelerated repayment mechanism. The principal option stipulates that when the accelerated repayment clause is triggered for eligible loans, the principal repayment will be doubled with no change to the service charge and/or interest rate.
14. In this context, IFAD will amend the existing amortization schedule to require the borrower to repay twice the amount of each principal instalment not yet billed, until the loan is fully repaid, subject to the loan's grace period having elapsed.
15. If a borrower for whom accelerated repayments have been invoked faces significant economic deterioration (especially if concentrated in rural areas), the borrower may request the Fund to reverse the repayment schedule to the one originally agreed upon. The Fund will review the case and, in discussion with the borrower, reverse the repayment terms if necessary and will submit the matter to the governing body that has been delegated the authority to decide. IFAD internal guidelines will be developed to help in determining whether a reversal is required.

C. Impact on eligible countries

16. In building its proposal, Management has considered the following prerequisites:
 - (i) The mechanism should be effective and fair in redirecting resources from creditworthy IFAD borrowers to lower-income borrowers;
 - (ii) The mechanism should be simple to implement and administer;
 - (iii) It should be implemented only after the borrower has been able to sustain its improved economic position after its transition period at IFAD;
 - (iv) The mechanism should not increase the debt burden of a borrower too sharply, as it could have an adverse economic impact;
 - (v) The mechanism should provide IFAD with adequate flexibility in its implementation so that country-specific and other factors can also be taken into account; and
 - (vi) The mechanism should take into consideration any reversal of the economic conditions of an eligible borrower.
17. The introduction of accelerated repayments would have no short-term impact or implications for eligible countries, as it would not be applied retroactively.
18. Accelerated repayment clauses would be included in the financing agreements of highly concessional and blend term loans approved during IFAD12 and onwards.

⁵ See various options in annex I.

19. Should a borrower meet the GNIpc criterion and become eligible for an ordinary term loan, the Fund would decide to invoke such clauses, as long as the detailed analysis of the borrower's socio-economic development and debt sustainability determine that it is eligible for repayment acceleration.

III. Voluntary prepayment framework

A. Background

20. A voluntary prepayment framework provides discounts to borrowers that voluntarily prepay all, or a significant portion,⁶ of their outstanding loans at IFIs. Discounts for voluntary prepayments are available to borrowers eligible for ordinary terms that elect to prepay their outstanding loans either by voluntarily accelerating their repayments beyond the contractual accelerated repayments for loans with an acceleration clause and/or by prepaying loans without the accelerated repayment clause. In each case, the discount is only offered to recipients that (i) elect to voluntarily prepay all outstanding loans in full, or (ii) provide a partial prepayment to apply to the oldest loans of its concessional portfolio. A discount is not available for prepayments of individual loans specified by borrowers.
21. The voluntary prepayment framework complements accelerated repayment clauses by encouraging the prepayment of loans that do not contain an acceleration clause in their loan agreements and/or allowing borrowers to repay loans early on beneficial terms. Through this mechanism, IFIs are in a position to immediately direct additional development resources to countries with greater needs for concessional financing, and such mechanisms have also been successfully used to boost replenishment resources.
22. Voluntary prepayments are a fairly recent tool introduced by IFIs. They were initially introduced by IDA in 2010. AsDB followed suit in 2011, and the African Development Bank (AfDB) in 2014.
23. One of the reasons for introducing the framework at IDA is that this mechanism allowed for an immediate increase in commitment capacity. Voluntary prepayment also allows borrowers to accelerate repayment beyond the contractual requirements stipulated in the general conditions. In addition, higher-income borrowers have the opportunity to demonstrate their support for lower-income borrowers in achieving their development goals.
24. Introducing a voluntary prepayment framework at IFAD would allow the Fund to provide a discount to borrowers that voluntarily prepay all or part of the fully disbursed outstanding amount of their highly concessional loans, mutually agreed with the Fund, as long as the difference between the nominal value of the loan eligible for prepayment and the present value of the loan's remaining payments is positive. The voluntary prepayment framework would also allow IFAD to anticipate inflows of loans due in the future and channel them to increase the Fund's PoLG.

B. Proposed framework for IFAD

25. Voluntary prepayments are already envisaged in IFAD financing agreements; however, the Fund (i) has not offered discounts to countries that prepaid the full nominal value of their outstanding loans in the past and (ii) does not apply penalties on early repayments.
26. IFAD Management proposes to adopt a framework similar to that of other IFIs, which would allow IFAD to provide discounts to borrowers that are eligible for ordinary terms to encourage them to voluntarily prepay the agreed amount of their outstanding concessional loans. Neither the phasing out-phasing in period nor the

⁶ To ensure that IFAD could effectively and efficiently reuse the prepaid amounts, the Fund will define the minimum amount that it would accept for prepayment. Countries with outstanding loans of less than the threshold could only volunteer to prepay the full outstanding amount.

grace period needs to have elapsed, as is the case with the accelerated repayment clause. However, the loans must be fully disbursed.

27. Management will engage with eligible borrowers to assess the feasibility and appetite to voluntarily prepay, fully or partially, outstanding concessional loans. Eligible borrowers can also, at any time, initiate discussions with Management to that effect. Once an agreement is reached, and the prepayment has been made in the form of a one-off, lump sum payment amount, the Executive Board and the replenishment consultation will be duly informed of the agreement.
28. A discount will be given when the borrower prepays all or an agreed partial amount of its fully disbursed outstanding highly concessional loans.
29. The discount offered to the Member State will be computed as the difference, if positive, between the nominal value of the loan eligible for prepayment and the present value of the loan's remaining payments. The discount will depend on the following factors:
 - The loan amount the borrower proposes to voluntarily prepay;
 - The financial terms of the loan to be prepaid (currency, maturity and repayment schedule);
 - The foregone loan service charges;
 - The applicable discount rate.
30. The discount rate will be set accordingly, to reflect a rate of return attributable to the investment opportunities on the prepaid proceeds available at the time of prepayment (e.g. treasury liquid assets or new loans) and ensure that reflows are financially sustainable for both the borrower and the Fund.
31. The borrower may also voluntarily choose to pay the full nominal amount of the outstanding loan. Any additional amount paid in cash above the discounted loan amount (the difference between the nominal and discounted amount of the loan) could be accounted for as an additional core contribution to the Fund, subject to fulfilment of the required conditions.⁷ In such cases, the borrower would determine, in consultation with Management, which replenishment the additional amount would be credited to, and the contribution would be treated in accordance with the related replenishment resolution, including with regard to voting rights.⁸ Members would be encouraged to provide such contributions in addition to their normal core replenishment contribution.
32. As of 31 May 2020, fully disbursed highly concessional loans eligible for voluntary prepayment amount to SDR 1,154.6 million for 18 borrowers. Annex III provides details of the highly concessional loans outstanding that may be subject to voluntary prepayment, depending on the borrower's decision.

C. Impact on eligible countries

33. The implications of the voluntary prepayment framework for eligible countries will depend solely on the borrower's decision about whether and when to prepay, fully or partially, its outstanding loan(s). In case of agreement with the Fund, the borrower would benefit from:

⁷ Conditions governing additional contributions are determined in the Agreement Establishing IFAD (article 4, section 5) and in the relevant replenishment resolutions approved by IFAD's Governing Council. Additional contributions are required to be made in cash or, under certain conditions, in the form of non-negotiable, irrevocable, non-interest-bearing promissory notes or obligations payable on demand, and without restriction as to their use. See for example the resolution on the Eleventh Replenishment of IFAD's Resources (GC 203/XLI).

⁸ Replenishment contributions can be made at any point during a replenishment cycle, including after effectiveness. For example, during 2020 IFAD has continued to mobilize new pledges and payments for IFAD11, while also receiving the first pledges for IFAD12. Additional amounts paid above the discounted loan amount can be accounted for as replenishment contributions at any point in the replenishment cycle, subject to the conditions established in the relevant replenishment resolution.

- (i) A decreased service charge: by prepaying the outstanding loan, the borrower would forgo payment of future service charges to IFAD.
 - (ii) A discount on the outstanding principal: the borrower would receive a discount on the outstanding principal to be repaid.
34. More importantly, a positive signal to the market of the borrower's capacity to voluntarily prepay its outstanding loan(s), demonstrating its ability to enhance its debt management capacities, may have a positive impact on its debt ratios and debt profile. In fact, the borrower's decision to voluntarily prepay would prove its economic development and debt management success. Management would ensure that these resources increase the Fund's financial capacity for its current recipients in need.

D. Impact on IFAD financial capacity

35. **Accelerated repayments** will enhance the Fund's commitment capacity over time rather than producing a one-off effect. In the proposed mechanism, reflows will be front-loaded through the doubling of principal repayments on eligible loans. A loss will be incurred on the foregone income from service charges and interest, but this loss can be partially offset through the investment income generated by funds pending recommitment and then through the recommitment of the funds to new loans.⁹ This approach will have a positive impact on the Fund's financial capacity.
36. **Voluntary prepayments** will enhance the Fund's financial capacity by increasing the amount that can be made available to finance loans in the PoLG during a given replenishment period. Prepaid funds would be considered part of core resources and provided to borrowers on concessional terms.
37. Management would proactively engage with creditworthy borrowers with the highest level of outstanding loans to determine whether there is any willingness to prepay their outstanding loans in current and future replenishments.

IV. Risk management considerations

38. Overall, the introduction of the two mechanisms is intended to enhance IFAD's financial capacity. The impact on a short-term horizon will not be material in the case of accelerated repayments. In the case of voluntary prepayments, it will depend on the appetite of borrowers to prepay their outstanding concessional loans.
39. **Impact on liquidity.** Accelerated repayments and voluntary prepayments will result in faster reflow of IFAD loans and will thus improve the Fund's liquidity position, as the funds from accelerated and voluntary payments will be further invested in new lending operations as long as the minimum liquidity requirement is met.
40. **Impact on net income.** If the investment return generated by the reflows resulting from these measures – whether in a new operation or in liquidity – is higher than the borrower's initial interest rate for the accelerated repayments or the discount rate for the voluntary prepayment, the impact on net income will be positive; otherwise, the result will be an economic loss for IFAD.
41. **Impact on capital adequacy.** These measures would decrease the loan portfolio exposures of borrowers and therefore would decrease the corresponding capital consumption. In the case of voluntary prepayment, as a result of the discount proposed to the nominal amount of the loans to be prepaid, IFAD's nominal equity would reflect a loss. If the discount rate is appropriately determined, the net effect of a decrease in capital consumption (positive) and loss of the discount (negative) would not normally affect the deployable capital ratio.

⁹ The extent to which the forgone income from service charges and interest can be recovered will depend on the financing terms of the recommitted funds.

42. **Average rating of the loan portfolio.** These measures could affect the average rating of the aggregate portfolio positively or negatively, depending on whether the borrower is rated above or below the average rating of the loan portfolio at the time of acceleration or prepayment.
43. IFAD must ensure that the voluntary prepayment framework does not undermine its long-term financial sustainability. The Fund will therefore set a discount rate that is accurate and that closely reflects its opportunity cost.

V. Amendment to IFAD legal documents

44. **The Policies and Criteria for IFAD Financing** state that the Executive Board may vary the grace period and the amount of each instalment for the repayment of loans received on blend terms and on ordinary terms. The Policies and Criteria will have to be revised to reflect the options to be introduced for accelerated repayments and voluntary prepayments.
45. **The General Conditions for Agricultural Development Financing** do not allow for accelerated repayments and would need to be revised accordingly.

Accelerated repayments at other IFIs

I. Framework

1. The mechanisms of other IFIs show similar characteristics and all adhere to the following principles: (i) efficient and fair redistribution of resources from higher-income borrowers to be made available to lower-income borrowers; (ii) simplicity, flexibility and effectiveness in terms of implementation; (iii) implementation only after sustained economic growth and development of the borrower in question; and (iv) limited expected effect on the borrowers' debt service burdens. Essentially, economic stability for the borrower is a prerequisite for any decision related to accelerated repayments.
2. During replenishment consultations, management at IFIs conducts analyses in line with the principles outlined above to understand the potential impact that accelerated repayments would have on the institution's commitment capacity for the specific replenishment period.
3. In terms of the mechanism, borrowing countries could be required to accelerate the repayment of each outstanding concessional loan for which at least five years of the grace period has elapsed, provided the following two criteria are met: (i) the borrowing country's GNIpc exceeds the institutional operational cut-off for a minimum number of years (two for AfDF, three for IDA and five for AsDB); and (ii) the borrowing country is considered creditworthy and qualified to borrow from the institution's non-concessional financing window. Table 1 details the features of various IFIs' mechanisms.
4. Should a borrower meet the above criteria, management conducts a comprehensive review of the borrower's socioeconomic development prospects as well as the expected impact of acceleration on the country's debt sustainability. It also performs a financial analysis of the impact of moving from the concessional window to the non-concessional window, which feeds into the review as the volume of borrowing usually falls substantially once a borrower is only eligible for the non-concessional window.
5. Management's findings as stated in the replenishment consultations are submitted to the respective boards of the IFIs, together with a recommendation on the action to be taken. Invoking the acceleration clause for eligible borrowers requires specific board approval.
6. The clauses, previously included in individual loan agreements but now part of the general conditions of the institutions, apply to borrowers eligible for both blend terms and highly concessional terms.
7. Borrowers are offered the following options for accelerated repayments:
 - (i) Doubling of principal repayments, thereby halving the repayment period, with no change to the service charge and/or interest rate (principal option);
 - (ii) At the request of the borrower, no change is made to the repayment period but there is an increase in the service charge and/or interest such that the grant element of the repayments is equivalent to that under the principal option (interest option); or
 - (iii) A combination of the two options mentioned above – this is usually done if the interest rate that is calculated from the interest option exceeds the institution's prevailing lending rate.
8. In cases of significant economic deterioration, IFIs may allow the reversal of the repayment terms to the original terms agreed with the borrower, taking into account all the repayments made under the acceleration option. Borrowers need to submit a request in such cases.

Table 1
Comparison of accelerated repayment frameworks

	<i>IDA</i>	<i>AfDF</i>	<i>AsDB</i>	<i>IFAD (proposed)</i>
Framework	Accelerated repayments	Accelerated repayments	Accelerated repayments	Accelerated repayment clause
Year introduced	1987	2014	1988	2022 (IFAD12)
Applies to	IBRD-creditworthy countries that have been above the IDA operational cut-off for three years	AfDB-creditworthy countries that have been above the IDA operational cut-off for two years	AsDB-creditworthy countries that have been above the Asian Development Fund (AsDF) operational cut-off for more than five years	Countries eligible for ordinary terms that have been above the IDA operational cut-off for more than five years
Mechanisms	Principal option: doubling of principal, shorter maturity Interest option: same maturity, increase interest rate to match net present value (NPV) of principal Combination of the two	Principal option: doubling of principal, shorter maturity Interest option: same maturity, increase interest rate to match NPV of principal Combination offered if interest rate is higher than AfDB fixed base rate.	Principal option: doubling of principal, shorter maturity Interest option: Same maturity, increase interest rate to match NPV of principal Combination of the two	Principal option: doubling of principal, shorter maturity

II. Summary of accelerated repayments at IFIs

9. The implementation of the accelerated repayment clause at other IFIs is noteworthy. IDA Deputies invoked the accelerated repayment clause for the first time in the Sixteenth Replenishment of IDA (IDA16). At the time, only a few countries met the eligibility criteria and the potential benefit was minimal. The IDA16 replenishment consultations occurred during the aftermath of the global financial crisis, which had constrained the fiscal space of many donor countries. To continue providing support for the fragile recovery of IDA clients, it was necessary to ensure that highly concessional funding was directed to the lowest-income borrowers. This led to an analysis of the impact of accelerating repayments for both IDA graduates and IDA's financial capacity. The analysis revealed that: (i) while the graduates still faced ongoing development issues, their economic development was well beyond that of the poorest IDA-eligible countries; and (ii) the impact of accelerated repayments on these countries' total public debt, including external debt, would be limited. A similar analysis led to the clause being invoked for new graduates in IDA17.
10. As of 30 June 2019, of 15 borrowers that IDA had called upon for accelerated repayments, 11 had selected the principal option, 4 had selected the interest option, and 1 had selected a combination of the two options, which together had generated SDR 2.7 billion in accelerated flows over the IDA16 and IDA17 periods, increasing IDA's commitment capacity by approximately 4 per cent for both replenishment cycles.
11. The IDA18 midterm review postponed the invoking of the clause for Bolivia, Sri Lanka and Viet Nam, all IDA18 graduates, to the end of the IDA18 period, in light of current global economic and financial conditions, their effect on the aforementioned countries and the small benefit the accelerated repayments would have brought IDA in the short term.
12. At AsDB, the clause was invoked for four borrowers initially in 2013, generating resources of SDR 477 million by 2016. The clause had been invoked for Armenia, Azerbaijan and Georgia as of 1 January 2017, with expected additional resources of SDR 391 million. AfDF introduced the clause in 2014, but has not yet reported its use.

Table 2
IDA accelerated repayments

<i>Country</i>	<i>Replenishment cycle in which clause was invoked</i>	<i>Option</i>	<i>Additional financing available in replenishment cycle (SDR millions)</i>
Albania	IDA16	Interest	85.90
Angola	IDA17		10.10
Armenia	IDA17		25.50
Azerbaijan	IDA17		88.50
Bosnia and Herzegovina	IDA17		21.70
China	IDA16	Principal	761.10
Egypt	IDA16	Principal	36.80
Egypt	IDA17	Principal	10.80
Equatorial Guinea	IDA16	Principal	1.30
Georgia	IDA17		27.60
India	IDA17		382.70
Indonesia	IDA16	Principal	252.00
Iraq	IDA17		5.30
Macedonia	IDA16	Interest	40.10
St. Kitts and Nevis	IDA16	Interest	0.20
Philippines	IDA17		1.20

Table 3
AsDB accelerated repayments

<i>Country</i>	<i>Replenishment cycle</i>	<i>Additional resources in replenishment cycle (units of accounts, millions)</i>
Indonesia	AsDF XI	309.73
Kazakhstan	AsDF XI	1.27
Philippines	AsDF XI	166.64

Voluntary prepayments at other IFIs

I. Framework

1. The eligibility criteria are consistent among other IFIs: borrowers must be eligible to obtain funding from their non-concessional financing windows. During replenishment consultations, the IFI management approaches member countries to initiate dialogue on whether they would like to voluntarily prepay their outstanding loans partially or fully. Member countries also have the option of approaching management teams at any time to initiate discussions on voluntary prepayment.
2. To promote uptake of the mechanism, IFIs offer incentives to their members. Usually, outstanding concessional loans must be repaid in full or the IFI selects the loans in the case of partial prepayments.¹⁰ In determining the level of the incentive, the IFIs seek to ensure that their financial sustainability is not negatively affected and that all members are treated equally.
3. The incentive usually takes the form of a discount, with the discount rate determined based on the repayment option chosen by the borrower (e.g. bullet repayment) and the expected investment return on prepaid funds. The factors that determine the level of the discount are: (i) an estimate of the investment income that the IFI could generate by holding the prepaid funds before disbursing them for new loans and grants; (ii) the amount that the borrower elects to prepay; and (iii) the borrower's decision with regard to pledging the discount. Additionally, the discount is only offered if the NPV of the returns on the investment exceeds the NPV of the foregone income from loan service charges and interest and is sufficient to cover the discount offered itself. While future loan service charges and/or interest rates are foregone, any accrued service charge and/or interest rate must be paid along with the prepaid funds.
4. Borrowers can opt to pay the full NPV of the outstanding loans and to consider the discount portion as a part of the borrowers' contributions to a regular replenishment or as a supplementary contribution.

Table 4
Comparison of voluntary prepayments

	<i>IDA</i>	<i>AfDB</i>	<i>AsDB</i>
Framework	Voluntary prepayments	Voluntary prepayments	Voluntary prepayments
Year introduced	2010	2014	2011
Applies to	IBRD-creditworthy countries that have been above the IDA operational cut-off for three years	AfDB-creditworthy countries that have been above the IDA operational cut-off for two years	AsDB-creditworthy countries that have been above the AsDF operational cut-off for more than five years
Mechanisms	Discount offered for borrowers that fully prepay loans or partially prepay loans subject to IDA selection	Discount offered for borrowers that fully prepay loans or partially prepay loans subject to an agreement between borrower and AfDB	Discount offered for borrowers that fully prepay loans or partially prepay loans. Loans selected by the borrower for prepayment must be prepaid in full

II. Summary of voluntary prepayments at IDA

5. At IDA, China and Thailand opted to voluntarily prepay outstanding loans in the IDA16 cycle, generating an additional commitment capacity of SDR 0.59 billion for the replenishment period. China opted to use the discount offered as a supplementary partner contribution. For IDA17, prepayments by Azerbaijan, India,

¹⁰ In the case of AsDB, the borrower may select the loans it wishes to prepay; however, the loans must be prepaid in full.

Indonesia over and above their accelerated repayment requirements led to an additional SDR 0.38 billion commitment capacity. The prepayments by the IDA graduates reflected their support in mobilizing financing for the development agendas of the poorest countries.

Table 5
IDA voluntary prepayments

<i>Country</i>	<i>Replenishment cycle</i>	<i>Additional resources in replenishment cycle (SDR millions)</i>
China	IDA16	
Thailand	IDA16	592
Azerbaijan	IDA17	
India	IDA17	378
Indonesia	IDA17	

Highly concessional loans outstanding that are eligible for voluntary prepayment

1. The table below provides the details of fully disbursed highly concessional loan outstanding balances, as of 31 May 2020, eligible for voluntary prepayment, in nominal terms.

<i>Borrowers</i>	<i>Nominal outstanding (million SDR)</i>
Albania	18.7
Angola	12.5
Armenia	32.7
Azerbaijan	25.2
Bolivia (Plurinational State of)	27.5
Bosnia and Herzegovina	22.1
China	342.9
Ecuador	7.4
Egypt	39.6
El Salvador	11.1
Equatorial Guinea	0.8
Georgia	10.7
India	228.5
Indonesia	79.3
North Macedonia	7.2
Philippines	44.4
Sri Lanka	99.3
Viet Nam	144.7
Total	1 154.6