International

Fund for

Agricultural

Development

18 December 1997

Governing Council

Twenty-First Session

Rome, 11-12 February 1998

#### Agenda Item 11

# Preamble

This document is a revised version of EB 97/61/R.9 (which revised document EB 96/59/R.73) and addresses comments made by the Executive Board at its Sixty-First Session in September 1997. The paper proposes a comprehensive policy framework for managing IFAD’s operational relationships with poor countries that frequently fall into arrears with the Fund. The Executive Board requested IFAD’s management: to forward the proposal to the Governing Council; to obtain Governing Council guidance on the proposed policy framework; for the Governing Council to take note of the decisions taken by IFAD management (paragraph 44); to seek the approval of the decisions taken by the Executive Board (paragraph 45) in its September 1997 session; and to seek the approval of the Governing Council of the

draft resolution attached as an annex.

## Introduction

* + 1. On several occasions the Executive Board, the Audit Committee and the External Auditors have commented on the need for IFAD to review and strengthen its processes and procedures related to loan repayments (principal and interest/service charges). This has been and remains a subject of increasing importance, as arrears on such payments remain significant.
    2. Virtually all financial institutions face arrears. They partly reflect unforeseeable and unforeseen debt service difficulties encountered by borrowers, often originating from external factors (e.g civil strife and natural disasters, see Appendix II). In these cases, they are difficult to deal with by any means other than remedial action. However, to forestall those arrears resulting from inadequate risk assessment, monitoring and follow-up, a framework for positive and pre-emptive action is required. The arrears issue is not simply a loan accounting problem. Debt service constraints are more often caused by a country’s economic problems: structural, cyclical or related to economic management inefficiencies.
    3. Dealing proactively with such risk factors is an integral part of a financial institution’s risk management system, which must include remedial action and eventual provisions against such arrears in order to protect the institution’s financial integrity and its capacity to service the credit needs of all of its Member States equitably.
    4. While IFAD management has made a number of presentations to the Audit Committee and the Executive Board at previous sessions, these have tended to concentrate on the procedural and internal accounting aspects of loan repayment and recovery of arrears. The objective of this paper is to:
       1. propose a comprehensive and essentially proactive policy framework for managing IFAD’s partnerships with countries that tend to fall into arrears; and;
       2. seek the guidance and approval of IFAD’s Governing Bodies.

## Arrears on IFAD Loans

* + 1. As at 30 November 1997, IFAD’s total arrears stood at USD 45.5 million (against USD 41.7 million in November 1995, and USD 27.1 million in November 1993). As a percentage of cumulative flows of loan repayments, the November 1997 stock of arrears amounts to 3.5%. While the amount of arrears due to IFAD is small compared to that of other international financial institutions (IFIs) and to the total debt of the countries in question, the relatively significant build-up over the last four years highlights the implied risks for the future.
    2. Appendix I provides details on regional variations, variations by lending terms and conditions, and on IFAD’s exposure to heavily-indebted poor countries.
    3. The 1997 structure of arrears, compared to the 1996 report, has not changed significantly.

## Causes of Arrears

* + 1. Appendix II illustrates in detail that arrears must be approached as national economic problems, most often structural in nature. IFAD needs to base its programming decisions and loan repayment policy framework on analysis of the reasons that countries fall into arrears; what kinds of structural, policy and management problems these countries face; and how we can remedy these problems while assisting the rural poor in eradicating their poverty. IFAD’s policy framework needs to define how IFAD is to work with countries in arrears in a differentiated way, determined by the specific causes of their debt-service problems and arrears.
    2. IFAD’s Procedures, the Consequences of Arrears and Arrears Settlement Efforts
    3. IFAD’s Procedures  
       The Agreement Establishing IFAD stipulates that IFAD shall provide loans on terms the Fund deems appropriate, taking into account the economic situation and prospects of the Member State and the nature and requirements of the activity concerned.
    4. IFAD’s Lending Policies and Criteria sets out IFAD’s lending terms and conditions (including the terms of repayment) as summarized in Appendix III. They also stipulate that the Fund shall determine the terms and conditions to which a borrowing country is eligible, taking into account the "economic situation and prospects" of the country (especially mentioning the Communauté financière africaine (CFA) countries) and its "financial capacity" – which should include the country's level of indebtedness, its debt-servicing capacity, and the causes of its debt service constraints - and "the requirements of the activity concerned" (the project criteria). The Executive Board approves the proposed lending terms and conditions that will apply to each project.
    5. IFAD developed a comprehensive policy and set of procedures for loan repayment and follow-up on arrears; they are broadly aligned with those of other IFIs except for the provisions against default or bad debts. The General conditions Applicable to Loan and Guarantee Agreements (Article IX) and the Loan and Grant Administration Operational Manual (chapter 8) describe in detail the repayment and overdues follow-up processes, the sanctions for arrears and the exceptions (see Appendix III).
    6. IFAD policies are strict with regard to loan amortization schedules. The loan is repaid in accordance with the amortization schedule set out in the Loan Agreement, which calls for semi-annual payments within the terms of the loan as approved by the Executive Board, and which, in particular, sets the last repayment date for the loan. Operational procedures provide for only three cases in which the Fund may amend a loan amortization schedule (see Appendix III). The only qualification, introduced by the Governing Council in February 1997 (document GC 20/L.6), relates to net present value (NPV) of debt relief under the Heavily-Indebted Poor Countries Debt Initiative (HIPC DI); it will amount to a de facto and ex post modification of agreed loan amortization schedules and thus of lending terms and conditions.

## Consequences of Arrears

* + 1. The current follow-up for loan repayments essentially consists of the dispatch of "Statements of Account" (i.e., invitations to pay), and a fax/telex-based process of follow-up and reminders of nonreceipt.
    2. Suspension of Projects and Country Portfolio. The most important consequence of arrears is the suspension of loan disbursements. An analysis of suspensions on IFAD loans (see Appendix III) indicates the at times irreparable impact of loan suspensions on project momentum, on the commitment of the stakeholders in the field, and in particular on beneficiary participation.
    3. No Extension of Closing Date. Projects are not eligible for extension of their loan closing dates while they are suspended.
    4. Cofinancing. There is a risk that the cofinancier may also interrupt his disbursement processes, thereby further depriving the project and the country of the committed external resources.
    5. New Project Development. While disbursements for ongoing projects are suspended, new lending is also affected in the following ways:
       - 1. new loans will not be processed or presented to the Executive Board when a country is in serious arrears;
         2. loans approved by the Executive Board will not be signed if more than marginal arrears exist at the scheduled date of loan signature; and
         3. signed loans will not be declared effective if more than marginal arrears exist when the conditions of effectiveness are met.
    6. As a consequence of this policy, and because of the current high concentration of arrears and suspensions in one region (Africa I Division), IFAD is facing difficulties in adhering strictly to the regional percentage structure of its lending programme, as approved by its Governing Bodies during 1994/1995. IFAD will continue to address this issue by managing the structure of the lending programme on the basis of a three-year rolling average, as approved by its Governing Bodies; and will continue to seek the guidance of the Executive Board on this matter of flexibility, through the annual Preview of the Programme of Work and Budget of IFAD during the September sessions of the Executive Board.
    7. Impact on IFAD’s Financial Resource Base. Loan arrears constitute a temporary decrease in IFAD’s resources available for commitment and affect its capacity to service the credit needs of all its developing Member States equitably. In addition, arrears directly affect IFAD’s income, in terms of investment income foregone. If arrears continue to increase, it may also become necessary for IFAD, at some point in the future, to make provisions for doubtful debts. This matter would need to be considered in the context of a broader review that would also take into account the issue of preferred creditor status; Executive Board and Audit Committee guidance will be sought, as and when required.

## Scenarios Applied for Arrears Settlement and Lessons Learned

* + 1. When arrears occur and suspensions are applied, IFAD pursues an active dialogue with the concerned authorities to reach early settlement. When the arrears situation cannot be settled, IFAD pursues a variety of country-specific solutions (described in more detail in Appendix III). The lessons learned from these initiatives indicate that:
       1. offsetting arrears against new reimbursement applications may handicap implementation of ongoing projects;
       2. IFAD needs to participate in processes leading to debt settlement arrangements funded through the International Monetary Fund (IMF) or the World Bank bridging loans or structural adjustment facilities;
       3. direct negotiations with governments are not always adhered to, and IFAD has no instruments to enforce the agreements other than repeated suspensions;
       4. as a matter of policy IFAD does not reschedule loan repayments. At most it has rescheduled the settlement of arrears, while leaving the future repayment flows intact. The Audit Committee and the Executive Board, while endorsing the settlements agreed upon, have expressed their concern that efforts for early settlement of arrears should not provide countries with an incentive to default. This amounts to an implicit expectation that the NPV of arrears settlement packages should equal the NPV of the original lending terms and conditions. This provides guidance for future policy development. Some of the approaches followed by IFAD in the past do not comply with this expectation. IFAD has sometimes sacrificed part of the NPV of expected loan repayments when the packages should have included either acceleration of maturity and/or higher "service charges" to comply with the policy expectation of constant NPV; and
       5. most importantly, because the arrears settlement packages do not address the structural causes of debt unsustainability or arrears, the relapse risk is high.

## Recapitulation

* + 1. The conclusion of the analysis so far is that:
       1. arrears is a developing issue that all financial institutions have to deal with, preferably in the context of global and coordinated initiatives;
       2. IFAD has procedures to deal with arrears, but they are essentially reactive, not always systematically implemented, and not always effective;
       3. in addition, IFAD’s procedures are "standard", blind to country-specific situations and causes of arrears. There are strong regional differences, and heavily-indebted poor countries must be the core focus of any proactive strategy. This would call for a case-bycase approach (within a coherent framework) as advocated by the IMF/World Bank Development Committee and the G7, followed by the Paris Club;
       4. the impact of suspensions on project implementation, local ownership and commitment to the project, beneficiary participation, and new project development is significant, particularly in poor countries. It should be noted that the suspension of loans frequently occurs in precisely those countries most in need and which are facing the most serious balance-of-payment and debt problems; and
       5. arrears settlement packages can be designed with better protection for IFAD’s financial integrity and equity among all its borrowers.
    2. It is a critical fact that the Fund must deal with an ambiguity: on the one hand, IFAD has to protect its resources by avoiding the accumulation of arrears and by limiting disbursements going to countries that are seriously in arrears and have no debt-service management plan; at the same time, IFAD must be concerned about the adverse impact of suspensions on its programme activities in the field, and in particular their impact on poverty.
    3. Other financial institutions have programmatic means to help deserving borrowers deal with arrears problems (programme loans, adjustment facilities and the like), which help avoid programme interruptions. The nature of IFAD’s lending and its instruments do not provide the same flexibility, and yet the need to avoid programme disruption wherever possible is particularly important if the continuity of poverty eradication efforts is not to be broken.

## A Debt-Service Incentive Policy Framework

* + 1. The proposed incentive policy framework and the principles guiding its design are described in detail in Appendix IV, and will consist of a renewed dual-track policy framework based on:
       1. proactive measures to avoid debt-service problems, arrears and suspensions;
       2. corrective measures to deal with debt-service problems that arise.
       3. Proactive Measures to Avoid Debt-Service Problems, Arrears and Suspensions
    2. Proactive measures include: maintaining positive net financial flows for the borrower; debt management capacity-building; country assessments; project design and financing choices; collaboration with the IMF and the World Bank; and participation in the HIPC Debt Initiative of the World Bank/IMF.
    3. Automatic Transfers from Government Treasuries for Repayments at the de minimis Level. In its dialogue with borrowing Member Countries, IFAD needs to stress the significant cash-flow implications of small arrears, and should explore the possibility of establishing a mechanism for automatic transfers from government treasuries to service debt in general, or at least for payments of amounts below the de minimis level of USD 10 000.
    4. Maintaining a Positive Net Financial Flow. The Mexico crisis and the IMF/World Bank HIPC Debt Initiative have clearly made the case for continued flows of substantial, stable levels of new external investment resources on appropriately concessional terms for productive purposes, in order to secure continued high-quality growth with poverty eradication. The resulting enhanced positive net financial flows between debtors and creditors would simultaneously contribute to sustaining rural poverty eradication efforts and enhanced debt-servicing capacity. With improvements in its current policy and procedures, IFAD will be better able to contribute to these requirements.
    5. Improvements in Implementation will maintain positive net financial flows. Prompt project implementation and effective disbursement will generate the flow of fresh external resources required to support the development objectives of the country and, at the same time, to service debt due. This enhances the importance of Country Portfolio Monitoring and Management. The operational elements of portfolio management consist of implementation support and supervision. IFAD’s effective presence in the field, its visibility and its usefulness will help prevent debt-service problems and arrears. It is in this context that IFAD will also work closely with its cooperating institutions (Cis) to address the debtservice issues faced by the borrowing Member States. Country Portfolio Monitoring and Management also relies on a continuous dialogue with the borrower. When it appears that a borrower may become seriously in arrears, the Fund will systematically undertake a debt review with appropriate officials of the borrowing Member State to seek practical steps to secure the management of the borrower’s debts to IFAD.
    6. The problem of maintaining positive net flows is particularly acute with loans on intermediate and ordinary terms, which have a five or three years’ grace period, respectively, and for which repayments of the principal (defined in the Loan Agreement) become due during the early years of project implementation. The following measures, not mutually exclusive, would improve the current policy:
       1. change the present method of calculating the grace period and timing of the first principal repayment: link the grace period to the effectiveness of the loan to reflect the actual implementation period; extend the grace period in line with the implementation period of the project, but in no case longer than six years, while maintaining a constant SDR NPV; and
       2. (ii) shift the basic principal repayment schedule to a "progressive instalments" method, while maintaining a constant SDR NPV.
    7. It is not the objective of this proposal to enhance IFAD’s engagement in its intermediate or ordinary-terms borrowing Member Countries. Its objective is solely to make its strictly limited lending to these countries more effective. IFAD will continue to focus on the poorest countries, and in particular on Sub-Saharan Africa. The Executive Board will be invited to consider the proposed specific lending terms and conditions, established on the above basis, when it considers the President’s Report and Recommendation for the concerned project, in line with its established general authority for approving country eligibility to specific lending terms and conditions.
    8. IFAD needs to secure prompt reprogramming of the country portfolio upon the settlement of major crises that have led to the disruption of project implementation and suspension of loan disbursements. There are countries that, in the past, have maintained a satisfactory repayment record, but which have been faced with calamities - disasters, civil disturbances - that have diminished their debt-servicing capacity. Even after these events were resolved their large overhanging arrears have been difficult to eliminate. The reactivation/launching of ongoing and new projects allows the government to pay arrears to IFAD from its own resources, and allows IFAD to replenish the projects’ Special Accounts, which provides the government with foreign exchange resources.
    9. Continuation of new project development during a suspension period, until the country has been placed in non-accrual status (300 days), is proposed as a matter of policy in order to reassure borrowers that new programmes can be promptly initiated once arrears are settled (although such loans would be brought to the stage of negotiation, approval and signature only in accordance with IFAD procedures). Even for countries that reach non-accrual status, a continuous dialogue will be maintained indicating the genuine interest of the Fund in undertaking additional programme activities once arrears are settled. These actions will allow the Fund to pursue settlement in concert with the borrower, which has proved to be useful in some circumstances.
    10. Debt Management Capacity-Building. Support and technical assistance to build up local debt-management capacity has proven to be necessary in many countries. It is proposed that IFAD provide some strictly limited and project-linked support to this objective: possibly linking its capacitybuilding for early project implementation to the required capacity-building for poverty-responsive resource planning and management at central and local government levels; possibly from IFAD’s technical assistance grant resources, under the category of the Special Operations Facility. IFAD would support IMF and World Bank-backed programmes with similar objectives, as also called for by the World Bank and the IMF in the context of the HIPC Debt Initiative.
    11. Country Strategy Assessments: Linkage to Causes of Arrears. IFAD defines its medium-term country strategies in Country Strategic Opportunities Papers (COSOPs) that analyse country experience and lessons learned, define the country lending programme framework and terms (which necessarily takes into account the country’s level of indebtedness, its debt-servicing capacity, and the causes of its debt service constraints), and identify strategic alliances. It is proposed that COSOPs for heavily indebted poor countries will systematically include: an assessment of debt servicing capacity, an analysis of the causes of debt-service problems, an analysis of IFAD’s own debt- service problems and the consequences of arrears, and an assessment of what this analysis implies for IFAD strategy. The definition of an IFAD country strategy pertinent to debt sustainability may help secure better debt service to the Fund. IFAD will seek close collaboration with the IMF (the Policy Framework Papers) and the World Bank (the Debt Reporting System and the Country Assistance Strategies).
    12. Project Design and Financing Choices. IFAD needs to reflect on its operational strategy forheavily-indebted poor countries, define a lending programme framework that focuses on these countries’needs for substantial and steady flows of new external financing, and determine what type of projectswe need to finance to assist in addressing the causes of the debt service constraints. In addition toIFAD’s mandatory focus on poverty eradication, the operational strategy for heavily-indebted poorcountries should include the following considerations: the need for foreign exchange saving, foreignexchange earning, domestic resource mobilization, blended cofinancing, and diversification of theinstruments to assist heavily-indebted poor countries, beyond IFAD’s regular project lending.Programmes formulated under such a strategy will be supported with a detailed sustainability analysis.
    13. Working Closely with the IMF and the World Bank, Particularly as Cooperating Institutions. Inthe light of their specialized macro-economic and sectoral mandates, and in particular for countries witha high risk of slipping into arrears, it is proposed to strengthen our collaboration with the IMF -especially - and the World Bank, who link their support to the settlement of arrears and who haveinstruments to facilitate compliance with this condition. The President of IFAD wrote to the IMF inMarch of 1996 proposing this collaboration, and more active follow-up is required.
    14. Participation in the HIPC Debt Initiative.   
        The objective of the recent HIPC DI is to reduce the NPV-of-debt of about 22 countries with unsustainable or stressed levels of debt (and with a track record of policy reform and structural adjustment) to a sustainable level that will not compromise their economic reform and poverty eradication efforts.
        1. The Governing Council (document GC 20/L.6) approved IFAD’s participation in the HIPC DI; document EB 97/61/R.8, submitted for the considerationof the Sixty-First Session of the Executive Board, provided the details of the proposed policy framework and mechanisms for IFAD’s participation, as requested by the Governing Council.
        2. Corrective Measures to Deal with Debt-Service Problems that Arise35. Corrective measures include: better arrears follow-up, while allowing for partial suspension to honour "social contracts"; a framework for settling arrears at constant NPV terms; and mobilization of IFAD donor Member States’ support.
    15. Applying the Existing Procedures, with Improvements. Until 1991, and with the intention of minimizing programme disruption, IFAD’s policy was to suspend only the loan actually in arrears, although the Fund had the right to suspend all project activities in the country concerned and it has done so in some cases on an ad hoc basis. However, serious arrears kept occurring, including for loans that were closed and for which suspension could not be applied. The alternative measure of acceleration of maturity is not a practical solution and has not been applied. The Fund has therefore established a revised policy under which the continuation of suspension of a loan 75 days after the due date will be followed by the suspension of the full loan portfolio for the country whenever the debt service in arrears remains outstanding for more than 120 days (i.e., 45 days after the suspension of the first overdue loan or when the first loan was subject to early maturity). All delinquent borrowers are regularly informed of the potential impact on the total portfolio if arrears remain unpaid. The Fund now also needs to apply the 150 and 300-day measures foreseen in its procedures (see Appendix III).
    16. An increasing number of IFAD-funded projects are planned on the basis of cost sharing with thebeneficiaries. This cost sharing is mobilized through agreements - “participation contracts” - between awide variety of formal and informal beneficiary organizations and the project management authorities.These agreements generally commit a defined match of IFAD loan resources with the beneficiaries’ ownresource contributions. It is proposed that the Fund give due consideration to such “participationcontracts” concluded in the context of its participatory projects, before deciding on the suspension of aloan; and it is suggested that partial suspension may be considered to permit the continued execution ofthe effective “participation contracts”. The Loan Agreements, and Schedule 2 in particular, would needto reflect such kinds of arrangements explicitly, to permit a transparent implementation of this policy.38. The semi-annual country portfolio reviews, chaired by the President of IFAD, would be the forum through which to manage the implementation of these elements of the policy.
    17. A Framework for Settling Arrears Using the Original NPV as the Reference NPV. It is proposed to provide operational staff with a policy framework that will allow them, under policy guidance from IFAD management, to negotiate an arrears settlement package that will aim at securing, in the best way possible, the original NPV of the loan repayments, taking into account the realities of the borrower.While the settlement NPV of repayments must maintain the original reference NPV of the loan, the staffwill be allowed to negotiate the different elements that compound into that NPV, and which include: thelength of the repayment period, the grace period and initial arrears settlements, the interest rate, the levelof instalments (and the legal instruments to secure these payments) and the currency-specific discountfactor; and a linking of the package to causes of arrears and proactive initiatives. Detailed- 9 -technical guidelines and procedures will be prepared to facilitate the administration of this policy and toensure consistency. To support the implementation of this element of the policy, IFAD would alsosecure the necessary staff and counterpart training, and provide the necessary budgetary resources.
    18. It will be necessary to stipulate this arrangement in IFAD’s General Conditions and Loan Agreements, and to keep the Audit Committee informed of arrears settlement packages of this kind. It will also be made clear to IFAD’s borrowers that IFAD’s participation in the HIPC Debt Initiative fortheir specific country will depend on full compliance with such settlement packages.
    19. Mobilization of bilateral donor Member States’ support in the form of loan participations ofvarious types. Appendix IV provides more details on the range of options, but the essence of theproposal consists of the need to mobilize supplementary resources to finance a variety of newinstruments through which to help poor Member States address poverty eradication while maintainingtheir debt at sustainable levels.(c) The Effectiveness of the Policy
    20. There is also a need to define the effectiveness of the policy, once it is approved. There are three options:
        1. The policy would apply immediately to all arrears, current and future. The sole exceptions would be the arrears settlement packages that have been agreed upon before the date of approval of the policy, and only insofar as they are currently being strictly complied with. This is the strictest option, which is also the more equitable vis-à-vis countries that have adhered to the agreed loan amortization schedules.
        2. The policy would apply to arrears accruing from the date of approval of the policy onwards. This would maintain, for a considerable period of time, two types of arrears, which is not desirable.
        3. The policy would apply to arrears on loans that would be signed from the date of approval of the policy onwards. This would make the policy ineffective vis-à-vis current loans, and would defeat a large part of the proposed policy's objectives.
    21. In its September 1997 Session, the Executive Board approved the proposed policy framework and endorsed the first option for the effectiveness of the policy: immediate applicability to all arrears. The Executive Board requested IFAD’s management to forward the recommendation as such to the Governing Council for its approval.

# Decisions Taken

by the President and the Executive Board of IFAD and Guidanceand Decisions Sought from IFAD's Governing Council

## Decisions Taken by the President of IFAD

In accordance with the President's approval of the following elements of the proposed policy framework falling within his authority, IFAD will:

* + - 1. incorporate an assessment of debt-servicing capacity into each country strategy assessment for heavily-indebted poor countries (paragraph 31);
      2. seek to adopt, in each project, design and financing choices that address the causes of the unsustainability of debt of heavily-indebted poor countries (paragraph 32);
      3. explore with the borrowers, at the time of loan negotiations, the feasibility of establishing a mechanism for automatic financial transfers from their treasuries for loan repayments and interest/service charge payments to IFAD (paragraph 23); (d) in close collaboration with the CIs, improve project implementation and disbursement so as to secure enhanced positive net financial flows and maintain a dialogue with the borrowers to secure repayments as per the schedule stipulated in the Loan Agreements (paragraph 25);
      4. secure the prompt reprogramming of a country’s IFAD loan portfolio upon the settlement of major crises that have led to the disruption of project implementation and the suspension of loan disbursements (paragraph 28);
      5. secure prompt arrears follow-up through the stricter implementation of existing procedures (paragraph 36);
      6. continue the dialogue with a borrower on the development of the pipeline of new projects for that country when it faces debt-service problems (paragraph 29);
      7. collaborate closely with the IMF and the World Bank (paragraph 33) on the implementation of IFAD’s policy and strategy within the broader framework of debt management; and
      8. on the basis of the decisions of IFAD’s Governing Bodies (see below), develop the necessary operational guidelines and periodically inform the Audit Committee and the Executive Board on the progress made in implementing the approved policy framework.

## Decisions Taken by the Executive Board

At its Sixty-First Session the Executive Board took the following decisions:

* + - 1. to amend the General Conditions Applicable to Loan and Grant Agreements to permit IFAD to settle arrears that will occur, using the original SDR net present value of the loan as a reference NPV (paragraph 39). In light of the Executive Board’s decision in principle on this matter, a draft text amending the General Conditions will be presented to the Executive Board during 1998 in the context of the revision of the General Conditions;
      2. to present, for Executive Board consideration, a limited number of programmes to support borrowers’ debt management capacity-building (paragraph 30), in collaboration with other IFIs and bilateral programmes and on the basis of IFAD’s current procedures for the use of technical assistance grant (TAG) resources;
      3. to permit the President of IFAD to take into account the need to continue the execution of effective "participation contracts” with beneficiaries (paragraph 37), when considering full or partial suspension of the disbursement of a loan in response to the borrower being in arrears;
      4. to mobilize bilateral donor Member States’ support in the form of loan participations of various types; and
      5. to submit the comments of the Executive Board together with its recommendations (listed in the section below) for consideration by the Governing Council.

## Decisions for the Consideration of the Governing Council

The President of IFAD, on the basis of the Executive Board’s comments and recommendations, requests the Governing Council to provide guidance on the proposed policy framework and invites the Governing Council to adopt a draft resolution authorizing:

* + - 1. amendment of the Lending Policies and Criteria (paragraph 31 thereof) to permit IFAD to take into account the indebtedness status of its borrowing Member States in defining eligibility criteria (paragraph 31);
      2. amendment of IFAD’s Lending Policies and Criteria (paragraph 32 thereof) to allow the President of IFAD to define the lending terms and conditions of ordinary and intermediate-term loans to heavily-indebted countries, taking into account the borrowers’ debt sustainability status, and providing the following, not mutually exclusive, options (paragraph 26):
      3. changing the present method of calculating the grace period and timing of the first principal repayment: linking the grace period to the effectiveness of the loan to reflect the actual implementation period; and extending the grace period in line with the implementation period of the project, but in no case longer than six years, while maintaining SDR NPV of the standard intermediate and ordinary lending terms and conditions; and
      4. shifting the basic principal repayment schedule to a "progressive instalments" method, while maintaining SDR NPV of the standard intermediate and ordinary lending terms and conditions.
    1. The Governing Council also needs to consider for approval the Executive Board endorsement of the immediate and full effectiveness of the policy to all arrears (option (i) in paragraph 42).