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CRITERIA FOR DETERMINING USAID LOAN TERMS AND FOR REQUESTING ACCELERATION OF LOAN REPAYMENTS

Policy on Loan Terms

There are pronounced differences among developing countries in their level of development, their long-term growth prospects, their access to private capital markets and their ability to service external debt. The existence of these wide differences in economic capacity has called for the development of a number of assistance instruments ranging from grants to soft loans to reimbursable technical assistance which more accurately reflect the differing needs and requirements of individual countries. In recognition of the wide difference in economic circumstances among the developing countries and in order to assist them to move their borrowings from highly concessional to less concessional external capital as their level of development rises, USAID has recently established a two tier loan term structure for both Supporting Assistance and Development Assistance Loans. Intermediate loan terms will henceforth be applicable to countries which have made substantial economic progress and enjoy good prospects for continued advancement but are not yet able to rely completely on commercial capital flows for their external capital requirements.

It is now USAID's policy to assess annually the situation of each country on the basis of uniform, quantitative data to identify those which can service loans on harder than the minimum authorized by statute. If, after a review of all relevant economic and political circumstances of the individual recipient, it is determined that a country can service its USAID loans on harder than standard development loan terms [1/], that country shall be extended USAID loans on intermediate loan terms. These are 25 years maturity inclusive of a 5-year grace period and 5 per cent interest for both the grace and repayment period. These intermediate terms satisfy the DAC recommendation for Official Development Assistance (ODA), which requires that such assistance have at least a 25% grant element. This policy on loan terms applies to both Supporting Assistance and Development Loans.

[1/] Forty years saturity including 10 years grace, with interest at 2% during the grace period and 3% thereafter.

Criteria for identifying countries which might be subject to intermediate loan terms

Four measures have been selected as preliminary indicators of countries that might be able to service USAID loans on intermediate terms. These are described in the following paragraphs.

Per capita GNP is used as a measure of the relative level of development of the country. It is undoubtedly the most reliable single indicator of a country's ability to absorb and utilize capital flows on less concessional terms. This fact has been recognized by the World Bank in its per capita income requirements for eligibility for soft IDA loans. Similarly, other international institutions have weighted heavily the per capita income variable in distinguishing loan term eligibility. Per capita GNP also appears to be highly correlated with other indicators of a country's capacity to service debt on commercial terms, such as its degree of access to private capital markets.

The ratio of reserves to imports of goods and services is used to identify those countries which fall within the intermediate per capita income level but have maintained a relatively strong foreign exchange position, indicating an ability to finance borrowings on somewhat harder terms.

The growth rate in per capita GNP is also used in the case of intermediate-income countries to identify those countries whose growth rate has been sufficiently high over an extended period of time that one would conclude that their economy can service capital flows on harder terms.

The ratio of current account surplus to imports of goods and services is also retained as a criterion because it indicates whether a particular country is a capital exporter. If it is, such a country should be charged higher rates regardless of per capita income. Few countries are likely to meet this criterion.

The following values for the above criteria have been selected solely for the purpose of identifying possible candidate countries for application of intermediate loan terms.

1. Per capita income is greater than $500 in 1973 prices, regardless of its balance of payments position;

or

2. Per capita income falls between $375 and $500 in 1973 prices;

and

a. The ratio of reserves to imports of goods and services has been greater than 0.33 over at least a three-year period;

or

b. The average growth rate in real GNP per capita for the last five years has been more than 5 percent;

or

3. The average ratio of current account surplus to imports of goods and services has been at least 0.2 for the last three years, regardless of per capita income.

These criteria are to be considered as preliminary indicators of the countries that may be eligible for intermediate terms. Final determination will be based on a comprehensive analysis of all economic and other relevant facts, including overall political and other U.S. interests in the individual country.

Procedures for analyzing the capacity of recipients to service loans on intermediate terms

Every year during the period January 15 to March 15 PPC will review the performance of each country for which loans are planned on the basis of internationally comparable data and then inform the Regional Bureaus which countries meet the criteria described in the preceding paragraphs. The responsible Regional Bureaus, in collaboration with PPC, will then conduct an intensive study of each country on the PPC list which takes into account the totality of U.S. interests in that country, political as well as economic. The Regions have responsibility for incorporating the views of the State Department in this study. These studies will serve as the basis of recommendations to the Administrator as to whether he should approve or disapprove the application of intermediate loans to the individual candidate country for the next fiscal year.

Criteria for identifying possible candidates for requesting accelerated repayment of loans

It is also USAID's policy to review annually the economic situation of all countries with significant outstanding USAID loan balances to determine whether any of these countries is experiencing such a marked and sustained improvement in its economic circumstances and prospects that it is capable of accelerating repayment of its USAID loans. Every year during the period January 15 to March 15 USAID will conduct an intensive study of countries which appear to have reached a relatively high stage of development and have the financial resources to cover the accelerated repayments without essentially affecting its own internal capital requirements. The criteria to be applied for the purpose of determining which borrowers should be examined for this purpose are:

1. A per capita GNP equal to or greater than $750 in 1973 prices; and

2. An average ratio of current account surplus to imports of goods and services of at least 0.2 over at least a three-year period; and

3. A ratio of reserves to imports of goods and services greater than 0.5 over at least a three-year period.

These are not intended to be exclusive criteria. USAID will consider the advisability of seeking acceleration of loan repayment to other countries if their economic situation seems to warrant such action, even though they fail to meet the specific criteria described above.

The intensive review of the situation of each country so selected will take into account all relevant economic factors, including the candidate's debt situation. All of U.S. interests in that individual nation -- political and commercial as well as economic -- will be considered before a determination is made as to whether a request for accelerated loan repayment should actually be made. (This supplements Policy Determination 61 dated September 16, 1974 REQUESTING ACCELERATED REPAYMENT ON USAID LOANS)

Approved

Disapproved

Date