POLICY DETERMINATION

Agency for International Development

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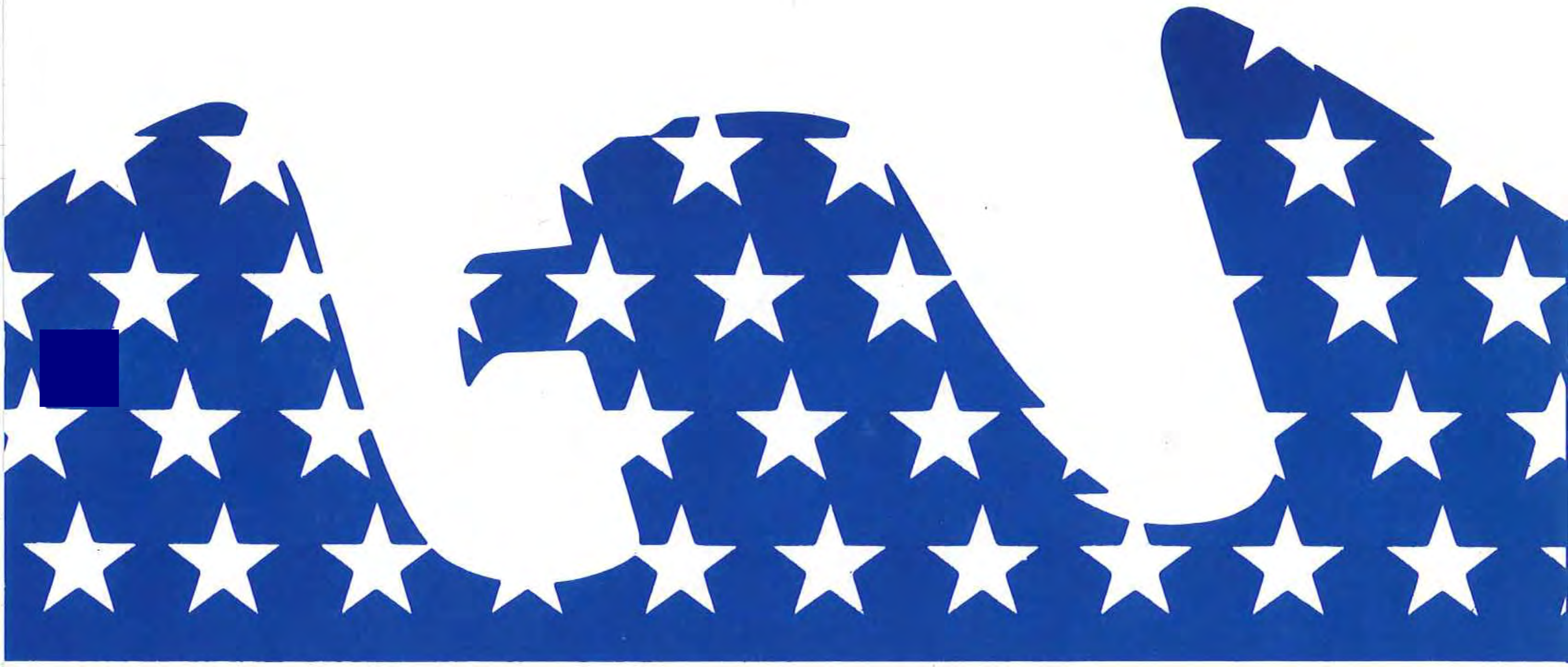
LOAN TERMS UNDER PL 480 TITLE I



A.I.D.

POLICY DETERMINATION

LOAN TERMS UNDER PL 480 TITLE I

I. Introduction

Public Law 480 (Section 101) authorizes the President to "negotiate and carry out agreements with friendly countries to provide for the sale of agricultural commodities for dollars on credit terms or, to the extent that the terms applicable to such sales are not possible, for foreign currencies on credit terms and on terms which permit conversion to dollars at the exchange rate applicable to the sales agreement." Thus the law establishes two sets of terms for Title I loans: (a) dollar credit (DC) and (b) convertible local currency credit (CLCC). The only legislative criterion for applying either set of terms is that CLCC terms should be used when the use of the terms applicable to dollar credit sales is not possible.

The specific details of each set of terms are set forth in Section 106(a) as follows:

> (a) Dollar Credit - Payment in dollars for a period not to exceed 20 years with a 2-year grace period for repayment of principal and with interest rates no less than the minimum required by Section 122 of the Foreign Assistance Act of 1961, as amended, and
>
> (b) Convertible Local Currency Credit - Payment under conditions which permit conversion of foreign currency to dollars and with terms no less favorable to the U.S. than those for development loans made under Section 122 of the Foreign Assistance Act of 1961, as amended..

The actual terms applied to each loan are currently derived by consensus of the Development Coordination Committee Food Aid Subcommittee which administers the PL 480 Title I program. All loans currently require repayment in dollars, and dollar credit terms are applied generally to higher income countries while convertible local currency credit terms are applied to lower income countries. There is no established interagency policy that clearly sets forth additional criteria to be used in determining actual repayment periods, grace periods, or interest rates for Title I loans.

During preparation of the "Report to Congress on the Developmental Impact of Public Law 480, submitted March 1982, attention was focused on the fact that A.I.D. did not have an established policy for determining terms applicable to PL 480 Title I loans. This policy establishes, to the extent feasible, standard terms for Title I loans on which the AID position in the interagency negotiation process will be based.

II. A.I.D. Policy

1. Title I terms should generally permit shipments of food to qualify as assistance under the Food Aid Convention and count against the U.S. pledge.

2. Title I terms should permit the assistance to qualify as official development assistance as defined by and reported to the Organization for Economic Cooperation and Development (OECD); to qualify, a loan agreement must contain a grant element of at least 25%.

3. Title I terms should be established based upon the country's level of economic development and its capacity to service external debt requirements. The per capita income of the country represents an important proxy for this capacity.

4. A differentiation should be made between the Title I terms for low and middle income countries. Low income countries should continue to receive Title I assistance on highly concessional terms, with a somewhat harder set of terms applied to the middle income countries. The demarcation between low and middle income countries should be based on the World Bank poverty criterion of eligibility for loans from the International Development Association (IDA).

5. Title I terms should be standardized for each of the categories of countries identified below.1/ There are a number of variables which affect the terms of Title I loans and

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1/ The per capita income criterion set forth for these three country groupings is similar to that specified for development assistance loans in the FY 1982 Foreign Assistance Act, but adjusted to reflect 1981 GNP per capita data, i.e., increased by 9% over the per capita income criteria applicable for 1980.

ultimately the terms are established through an interagency process. Therefore, in addition to the proposed standard PL 480 terms applicable to each category, a minimum grant element is also proposed.2/ The following are the standard terms guidelines for Title I loans:

(a) Low income countries: countries meeting the World Bank poverty criterion for IDA eligibility, i.e., per capita income of $795 or less in 1981

The repayment period should be 40 years with a 10 year grace period. Interest rates should be 2% during the grace period and 3% thereafter. In view of the level of economic development of the countries in this category, it is not practicable in most cases to require an initial payment. Should conditions warrant requiring an initial payment, however, such payment should not exceed 5%. The currency use payment (CUP) should be established at zero, when possible, or at the minimum necessary to provide for U. S. local currency needs (usually not to exceed 5% of the total agreement amount).3/ If necessary, some deviation from these standard terms can be made provided the overall grant element of the loan does not go below 60%.

(b) Lower-middle income countries: countries whose per capita income exceeds the IDA eligibility criterion, greater than $795 (in 1981), but less than $1290 (in 1981)

The repayment period should be 25 years with a grace period of 5 years. Interest rates should be 3% during the grace period and 4% thereafter. The initial payment should be no more than 5%.

2/ Based on the standard method of calculating grant elements used by the Development Assistance Committee of the OECD.

3/ Since CUP payments may be made from proceeds generated from the sale of the imported commodities, the amount of the CUP payment impacts on the proceeds available for development purposes under Title I self-help measures. AID policy, therefore, is to minimize CUP's in those countries where the use of sales proceeds is closely integrated with our overall development programs. However, special initiatives, such as development of private enterprise may warrant an exception to this policy.

The currency use payment should be set at the minimum necessary to provide for U. S. local currency needs (usually not to exceed 5% of the total agreement amount).3/ If necessary, some deviations from these standard terms can be made provided that the overall grant element of the loan does not go below 40%. For countries in this category where, consistent with PL 480 legislation, it is determined that dollar credit terms (as defined in Section 106 of PL 480) are appropriate, the terms set forth in paragraph 5(c) below shall apply.

(c) Higher-middle income countries: countries whose per capita income was greater than $1290 in 1981

Consistent with the terms specified in legislation for PL 480 dollar credits, the repayment period should be 20 years with a grace period of 2 years. Interest rates should be 3% during the grace period and 5% thereafter. The initial payment should be 10%. The currency use payment should be set at the minimum necessary to provide for U. S. local currency needs (usually not to exceed 5% of the total agreement amount).3/ If necessary, some deviation from these standard terms can be made but only in the interest rates, the initial payment and the currency use payment and provided that the overall grant element of the loan does not go below 30%.

6. The objective of this policy is to achieve a standard set of terms for PL 480 loans, consistent with existing legislation. It is recognized, however, that historical trends of terms for specific countries or other country specific factors may need to be taken into consideration and may, in appropriate cases, justify an exception to the general policy.

M. Peter McPherson
Administrator

SEP 27 1983
Date