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Enabling poor rural people
to overcome poverty

Establishment of the Spanish Food Security Co-financing Facility Trust Fund

Note to Executive Board representatives

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Executive Board — 101st Session
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For: Information

101th Session of the Executive Board
Introductory Statement by IFAD's Vice-President on the
Establishment of the Spanish Food Security Co-financing Facility Trust Fund

Following the Executive Board's approval of the Resolution on the Instrument establishing the Spanish Food Security Co-financing Facility Trust Fund, the Government of Spain and IFAD have agreed to the terms and conditions of the Facility's financial mechanism. The agreements are being translated into English and are being reviewed as we speak, so that our President and the counterparties in Spain may sign before Christmas.

I would like to briefly present to the Executive Board several salient aspects of this arrangement. But first, allow me to thank the Government of Spain for its generous support and partnership in developing this initiative. I would also like to acknowledge and thank all of the staff members – both from IFAD and the Spanish Government – who have worked so hard on this effort over the last few months.

First, the terms of the loan have been finalized: the principal is €285.5 million, the tenor is 45 years, and the interest rate to be paid to Spain will be a variable 12 month Euribor rate. Over the next three years, the Government of Spain will transfer an additional €14.5 million to the Trust Fund with the aim of lowering the average interest rate paid to Spain.

IFAD will retain 20 basis points of the interest rate charged to borrowing countries to cover administrative costs; fees has been allocated in such a way as to ensure the recovery of project implementation and supervision costs which will be heavily concentrated in the first 10 years (amounting to approximately €7 million in total).

Second, the agreement also provides that - through the entire life of the Trust Fund - the Government of Spain will make available additional grant money in order to cover any negative annual balances that may arise.

In this regard, the financial model underlying the facility is designed to act as warning system, forecasting and monitoring the Trust Fund's liquidity position to ensure that resources are available for debt service and for coping with unforeseen events. The commitment by the Government of Spain to provide the resources needed to fill possible gaps is critical, as these gaps could very well materialise when interest rate dynamics do not allow for complete alignment between the Facility's cash inflows and debt repayment obligations.

Finally, following discussion with the Executive Board in September 2010, we have revised the Facility's country allocation system to ensure that demand is the driving criterion for distributing the Trust's resources. The indicative list of countries suggests that more than 45% of the resources will be allocated to Africa, 38% to Latin America, 8% to the Middle East and Eastern Europe, and 7% to Asia. Although, here I should mention that the list is indicative only, and that the final allocation percentages may not precisely match those I have just now quoted to you.