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Enabling poor rural people
to overcome poverty

Revision of the Lending Policies and Criteria

Note to Executive Board representatives

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For: **Approval**

Recommendation for approval

The Executive Board is invited to submit to the thirty-fourth session of the Governing Council the resolution contained in paragraph 20 of Annex I.

Policies and Criteria for IFAD Financing

I. Introduction

1. Article 7, section 2(d) of the Agreement Establishing IFAD (the Agreement) provides that “[d]ecisions with regard to the selection and approval of projects and programmes shall be made by the Executive Board” and that such decisions shall be made “on the basis of the broad policies, criteria and regulations established by the Governing Council.”
2. In implementation of this provision, IFAD’s Governing Council adopted the Lending Policies and Criteria at its Second Session in December 1978. Paragraph 3 of the Lending Policies and Criteria stated that the policies and criteria outlined in the document reflected only the initial attempt to translate the objectives and priorities set out in articles 2 and 7 of the Agreement into concrete criteria and guidelines, and that they would be reviewed periodically in the light of actual experience.
3. The Lending Policies and Criteria were amended by the Governing Council several times between 1994 and 1998, but the document was not updated or reviewed thereafter. In 2010 the Governing Council instructed the Executive Board to “submit to the thirty-fourth session of the Governing Council in 2011 revised Lending Policies and Criteria that shall take into account all developments since the last revision of the Lending Policies and Criteria in 1998 and express concisely and clearly the broad policies and criteria applicable to financing by the Fund.”¹
4. IFAD has now evolved to the point where it is not possible to set out all of the policies and criteria that guide its work in a single document. The detailed policies adopted by the Governing Council and the Executive Board, mentioned in paragraph 12 below, provide guidance to the staff of the Fund, and to its governing bodies, as they work to achieve its objective. The Governing Council, while retaining its authority to establish the broad policies, criteria and regulations that govern financing by the Fund, acknowledges that the Executive Board has the primary responsibility to set out the detailed policies governing such financing, and adopts these Policies and Criteria for IFAD Financing accordingly.
5. The Governing Council, exercising the authority conferred on it by the Agreement, shall monitor the work of the Executive Board in setting out policies governing financing by the Fund, and shall review these Policies and Criteria for IFAD Financing periodically to ensure that they provide a sound framework for the work of the Executive Board.

II. Objectives and priorities

6. **Objective:** Article 2 of the Agreement states that “[t]he objective of the Fund shall be to mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States.”
7. **Priorities:** Article 7, section 1(d) of the Agreement states that “[i]n allocating its resources the Fund shall be guided by the following priorities: (i) the need to increase food production and to improve the nutritional level of the poorest populations in the poorest food deficit countries; and (ii) the potential for

¹ Resolution 158/XXXIII

increasing food production in other developing countries. Likewise, emphasis shall be placed on improving the nutritional level of the poorest populations in these countries and the conditions of their lives.”

III. Policies and criteria

8. The following are the policies and criteria for financing which shall guide the Executive Board and the President in fulfilling the objective of the Fund:
9. **Allocation of resources:** The resources of the Fund available for financing for developing Member States shall be allocated in accordance with a performance-based allocation system (PBAS) established by the Executive Board. The Executive Board shall report annually to the Governing Council on the implementation of the PBAS.
10. **Programme of work:** Projects and programmes submitted to the Executive Board for consideration and approval shall be based on a programme of work proposed by the President and approved each year by the Executive Board in accordance with article 7, section 2 of the Agreement. In developing the proposed programme of work the President is guided by the strategic framework established from time to time by the Executive Board.
11. **Country criteria:** Projects and programmes submitted for financing by the Fund shall be based as much as possible on results-based country strategic opportunity programmes that provide a framework for making strategic choices about the Fund’s operations in a Member State, identifying opportunities for Fund financing and facilitating management for results.
12. **Selection of projects and programmes:** The projects and programmes financed by the Fund are guided by the criteria set out in the policies and strategies on the following matters as adopted or to be adopted by the Executive Board:
 - Targeting
 - Knowledge management
 - Innovation
 - Rural enterprise
 - Rural finance
 - Climate change
 - Engagement with indigenous peoples
 - Improving access to land and tenure security
 - Sector-wide approaches for agriculture and rural development
 - Crisis prevention and recovery
 - Private-sector development and partnership strategy
 - Gender
 - Such other policies as may be adopted in accordance with the broad policies, criteria and regulations established by the Governing Council.
13. **Implementation of projects and programmes:** The implementation of projects and programmes financed by the Fund must be consistent with the regulations on the procurement of goods and services to be financed from resources of the Fund adopted by the Executive Board, and in conformity with the policies on corruption, audit and supervision adopted from time to time by the Executive Board. Financing agreements with Member States shall be subject to the General Conditions for Agricultural Development Financing established by the Executive Board. Projects and programmes are supervised by the Fund in accordance with the Policy on Supervision and Implementation Support established by the Executive Board.
14. **Evaluation:** Independent evaluations of projects and programmes financed by the Fund shall be conducted in accordance with the evaluation policy adopted by the Executive Board.

IV. Financing terms

15. With due regard to the long-term viability of the Fund and the need for continuity in its operations, the Fund provides financing through loans, grants and a debt sustainability mechanism.²

- (a) **Loans:** Loans are provided to developing Member States on highly concessional and concessional terms. Loans provided on highly concessional terms are interest-free but may be subject to a service charge on the outstanding balance. Loans provided on concessional terms are provided on terms (interest rate, maturity period, fees, etc.) which are more favourable than the terms the borrowing Member State could obtain for loans from the private sector for agricultural development projects or programmes.³ There may be several types of loans (loan products) offered in each of the two categories.
- (i) The Executive Board has the authority to determine: (a) the loan products offered in each category; and (b) the interest rate, fees, charges and maturity and grace periods applicable to each loan product.
 - (ii) The level of concessionality applicable to each Member State shall generally follow the approach used by the World Bank, taking into account the Fund's special mandate. Member States eligible to receive loans from the International Development Association (IDA) shall generally be eligible for loans provided on highly concessional terms from the Fund. Member States eligible to receive loans from the International Bank for Reconstruction and Development (IBRD) shall generally be eligible for loans provided on concessional terms from the Fund. Developing Member States which are not eligible for loans from the IBRD may be eligible to receive loans provided on concessional terms for projects and programmes which are in conformity with the objectives and priorities set out in the Agreement, subject to the availability of funds.
 - (iii) Within each category, the Executive Board shall determine the eligibility criteria applicable to a particular loan product based on criteria generally accepted among international financial institutions in respect of per capita GNI and creditworthiness.
 - (iv) Loans may also be provided to intergovernmental organizations in which developing Member States participate. In such cases, the Fund may require suitable governmental or other guarantees.⁴
 - (v) The eligibility criteria and lending terms applicable as of the date of approval of these Policies and Criteria for IFAD Financing, in particular those set out in section IV of the Lending Policies and Criteria, shall remain in force until amended by the Executive Board in accordance with the provisions hereof.
- (b) **Grants:** Grants may be provided to: (i) developing Member States; (ii) intergovernmental organizations in which such Member States participate; and (iii) other entities which the Executive Board determines to be eligible pursuant to article 8 of the Agreement. Grants are provided in accordance with a policy for grant financing established by the Executive Board.

² Agreement, article 7, section 2(a)

³ Agreement, article 7, section 2(a)

⁴ Agreement, article 7, section 1(b)

- (c) **Debt sustainability mechanism:** Financing under the debt sustainability mechanism is provided to eligible Member States in the form of grants or a combination of a grant and a loan on highly concessional terms, in accordance with arrangements for implementation of a debt sustainability framework at the Fund established by the Executive Board.

16. **Arrears:** For the purposes of resolving arrears that may arise from time to time in the payment of interest or service charges and the repayment of the proceeds of loans, the Executive Board may amend the terms upon which an approved loan is provided to a Member State, including the grace period, the maturity date and the amount of each instalment for the repayment of loans, provided, however, that no amount of principal may be forgiven and that all similarly-situated Member States receive equal treatment. Other policies applicable in the case of arrears are set out in a policy framework for managing partnerships with countries in arrears established by the Executive Board.

V. Leveraging the Fund's resources

17. The Fund shall attempt to multiply the impact of its own resources by undertaking projects jointly with other multilateral and bilateral agencies, and by mobilizing resources for investment in agricultural and rural development in the developing Member States for the public and private sector, while ensuring the realization of the Fund's own objectives and preserving its own independent identity in the process.

VI. Implementation

18. **Policies:** The Executive Board shall establish from time to time other policies for financing that may be required or may be appropriate in order to fulfil the objective of the Fund.
19. **Operational guidelines:** The Fund shall formulate, in the light of experience, more detailed operational guidelines on various policies and criteria outlined above.
20. **Implementation and review:** The Executive Board shall interpret and implement these policies and criteria with the necessary flexibility provided for herein and will review them at a future date in the light of actual experience.

VII. Reporting

21. The Executive Board shall:
- (a) Report periodically to the Governing Council on the exercise of the authority vested in it above; and
 - (b) Review periodically these Policies and Criteria for IFAD Financing in the light of changing circumstances and, if it so deems necessary, recommend to the Governing Council such modifications thereto as may be appropriate.

Revision of the Lending Policies and Criteria

I. Introduction

1. IFAD's Lending Policies and Criteria is the organization's second most important legal document, after the Agreement Establishing IFAD (the "Agreement"). It was originally adopted in 1978 and has been amended several times, most recently in 1998.
2. The authority for the Lending Policies and Criteria comes from article 7, section 1(e) of the Agreement, which provides as follows:

"Subject to the provisions of this Agreement, financing by the Fund shall be governed by broad policies, criteria and regulations laid down, from time to time, by the Governing Council by a two-thirds majority of the total number of votes."
3. Paragraph 3 of the Lending Policies and Criteria states that "[t]he policies and criteria outlined in this document reflect only the initial attempt to translate these objectives and policies into concrete criteria and guidelines. These will be reviewed periodically in the light of actual experience."
4. As this document was produced at a time when the Fund had yet to commence operations, it was necessary for the Governing Council to spell out the policies and criteria in great detail. In view of the policies and practices developed by the Executive Board over 34 years of experience, that level of detail is no longer necessary and the document has been superseded.
5. A review of the Lending Policies and Criteria demonstrates that it no longer fully reflects the Fund's objectives and priorities. Paragraph 21, for example, states that the Fund "will not seek to develop a pattern of country allocations; it will, instead, designate a number of priority countries for programming purposes" – an approach that was abandoned with the adoption of the performance-based allocation system (PBAS) in 2003. Paragraph 37 states that the "Fund's grant assistance, apart from technical assistance, shall be exclusively used for the financing of projects in the absolute poorest food-deficit countries with the most severe development problems" – a principle that has been likewise been superseded. Similarly, paragraph 50 states that "IFAD will, from time to time, ask independent agencies to evaluate its completed projects. Such evaluation will normally be the responsibility of an institution in the recipient country." This approach has since been replaced with evaluations carried out by the independent IFAD Office of Evaluation. Annex II hereto explains how the existing document has been superseded by various policies adopted by the Executive Board over the years.
6. Against this background, in 2010 the Governing Council instructed the Executive Board to "submit to the thirty-fourth session of the Governing Council in 2011 revised Lending Policies and Criteria that shall take into account all developments since the last revision of the Lending Policies and Criteria in 1998 and express concisely and clearly the broad policies and criteria applicable to financing by the Fund." (Resolution 158/XXXIII.) A working group has developed a draft that seeks to satisfy the Governing Council's requirements.

7. As mentioned, paragraph 3 of the Lending Policies and Criteria states that the document is an “initial attempt” to translate the Fund’s objectives and criteria into concrete criteria and guidelines. Since 1978, IFAD has adopted policies addressing, among other issues:
- Targeting
 - Performance-based allocation system
 - Evaluation
 - Knowledge management
 - Innovation
 - Rural enterprise
 - Rural finance
 - Climate change
 - Engagement with indigenous peoples
 - Improving access to land and tenure security
 - Sector-wide approaches for agriculture and rural development
 - Crisis prevention and recovery
 - Private-sector development and partnership strategy
 - Gender

These policies set out the “concrete criteria and guidelines” that govern financing by the Fund, and it is these policies, not the Lending Policies and Criteria, that actually guide the President, the staff and the Executive Board in the selection and approval of projects and programmes.

8. These policies, taken as a whole, provide much more detailed guidance than the Lending Policies and Criteria possibly could. They represent the accumulated wisdom and experience developed by the Fund over its more than 30 years of existence. This process of policy development was envisaged in the original document, but unfortunately the Lending Policies and Criteria were never subjected to the periodic review in the light of actual experience prescribed in paragraph 3. The result is that many provisions of the Lending Policies and Criteria are no longer relevant for the Executive Board in conducting the general operations of the Fund.
9. The proposed new draft recognizes this. It is premised on the need to respect the exclusive power reserved for the Governing Council to establish broad policies and criteria while at the same time enabling the Executive Board to conduct the general operations of the Fund. Rather than prescribing detailed policies and criteria, it makes reference to the existing policies cited above, and explicitly delegates to the Executive Board the authority to adopt new policies consistent with the broad guidance set out by the Governing Council and the Agreement Establishing IFAD. The proposed draft therefore acknowledges the fact that a comprehensive set of policies and criteria already exist, and that primary responsibility for setting out the detailed policies governing financing by the Fund rests with the Executive Board.

II. Financing terms

10. The part of the Lending Policies and Criteria concerning lending terms and conditions (section IV) also requires revision. This section establishes three types of lending terms – highly concessional, intermediate and ordinary – and sets out eligibility criteria for each category, based on per capita gross national product figures from 1992.
11. Management believes that the Fund should have the flexibility to offer a broader range of financing products, and that the eligibility criteria for each product should be more flexible. The creation of a fourth category of loans on hardened terms is an example of such flexibility in response to demand from IFAD’s Member States, but required a special delegation of authority from the Governing Council to the Executive Board.

12. The Governing Council did not create the category of hardened terms loans, but rather delegated the authority to do so to the Executive Board. In doing so, the Governing Council, while reserving the ultimate power to set policies, recognized that the Executive Board is better able to review the arguments for and against the creation of new financing products, and to design such products in a way that balances the needs of borrowers with the Fund's obligation to safeguard its long-term viability.
13. The proposed draft establishes two categories of loans – highly concessional and concessional – and provides for several types of loans within each category. The document delegates to the Executive Board the authority to determine: (i) the types of loans offered in each category; and (ii) the interest rate, fees, charges and maturity and grace periods applicable to each type of loan offered. The proposed draft provides for the Executive Board to determine, within each category, the eligibility criteria applicable to a particular type of loan, based on criteria generally accepted among international financial institutions in respect of per capita GNI and creditworthiness.
14. The adoption of the new draft will not change IFAD's eligibility criteria and lending terms: the lending terms set out in section IV of the current Lending Policies and Criteria will remain in effect until the Executive Board decides to change them. The new draft will not allow the Fund to negotiate the terms of each loan with the borrowing Member State, or allow the Executive Board to favour one country over another.
15. The eligibility criteria established by the Executive Board must also respect the broad policy on concessionality set out in the revised draft, which generally follows the approach of the World Bank, taking into account the Fund's special mandate. The Executive Board will not have the authority to deviate substantially from the Fund's existing practice, or from the practice of other international financial institutions.
16. The draft states that concessional loans must be provided on more favourable terms (interest rate, maturity period, fees, etc.) than the borrower could obtain from the market. In other words, in designing its lending products for concessional borrowers, the Fund can look to the market and offer loans that respond to both a borrower's needs and the changing financial environment – such loans being concessional because they are offered on terms that would not be available to that borrower in the market.
17. The policy on concessionality states that developing Member States having graduated from the International Bank for Reconstruction and Development (IBRD) may receive concessional loans from IFAD subject to the availability of funds, including funds that IFAD obtains from sources other than replenishment. This approach will allow IFAD to coordinate its lending to concessional borrowers with the different sources of funding (e.g. the Spanish Food Security Cofinancing Facility Trust Fund).
18. Naturally, the Executive Board will not create new loan products unless it is convinced that they both respond to a real need and ensure that the Fund remains financially sustainable. It is unlikely that IFAD will create a large number of such products in the foreseeable future; it will, as always, tend to follow the lead of the World Bank and other international financial institutions, taking into consideration its comparative capacity. The goal of the proposed draft is not to create new categories or change the existing eligibility criteria. Rather, it is intended to give the Executive Board the authority to make all of the decisions the Fund may need to make for many years to come, without the need for any additional action on the part of the Governing Council.

III. Conclusion

19. The comparative analysis of the existing Lending Policies and Criteria and the proposed Policies and Criteria for IFAD Financing presented in this document demonstrates that all of the relevant sections of the existing document are addressed either in other policies adopted by the Executive Board, or in the new document itself. Therefore, the initial detailed translation of the objectives and policies stipulated in the Agreement into concrete criteria and guidelines is no longer necessary. The new document addresses the two tasks set out by the Governing Council in resolution 158/XXXIII: (i) to take into account all developments since the last revision of the Lending Policies and Criteria in 1998; and (ii) to express concisely and clearly the broad policies and criteria applicable to financing by the Fund.
20. Therefore, the Executive Board proposes the following resolution for adoption by the Governing Council:

The Governing Council of IFAD,

Recalling Resolution 158/XXXIII, in which it decided that upon the proposal of the President, the Executive Board should submit to the thirty-fourth session of the Governing Council revised Lending Policies and Criteria that shall take into account all developments since the last revision of the Lending Policies and Criteria in 1998 and express concisely and clearly the broad policies and criteria applicable to financing by the Fund;

Having reviewed the proposed Policies and Criteria for IFAD Financing submitted by the Executive Board as contained in document GC 34/L.8.

Adopts the Policies and Criteria for IFAD Financing, which shall take effect immediately.

Comparative analysis of the existing Lending Policies and Criteria and the proposed Policies and Criteria for IFAD Financing

Current Lending Policies and Criteria paragraph reference	Comments
I. Introduction	
1	<p>The paragraph is retained in the revised draft.</p> <p><i>Over the three decades since its establishment, IFAD has refined the purpose and use of IFAD resources to reflect changing needs. The changes are broadly in line with article 2 of the Agreement.</i></p> <p><i>In recent years, IFAD's overall development objective and specific strategic objectives have been periodically reviewed and agreed to by the Executive Board in the medium-term strategic framework as well as in the triennial reports on consultations on the replenishment of IFAD's resources.</i></p>
2	<p>The paragraph is retained in the revised draft.</p> <p><i>The Executive Board has over time adopted new eligibility criteria and guidelines for development programmes and projects in the form of strategic frameworks, country strategic opportunities programmes (COSOPs) and project guidelines, which have superseded the initial guidelines set in the Lending Policies and Criteria.</i></p> <p><i>The actual allocation of IFAD resources to each eligible country is moreover determined by the performance-based allocation system (PBAS) approved by the Executive Board, which may be adjusted from time to time. There is therefore no need to cover these issues in detail in the revised document.</i></p>
3	<p>This paragraph gives broad authority to the Board and the Governing Council to adjust lending objectives and priorities in line with evolving needs.</p> <p><i>This has taken place in practice with the adoption of various policies over the years. The net impact of the policies adopted by IFAD over three decades is to make many of the provisions in the current Lending Policies and Criteria obsolete.</i></p> <p><i>This is the fundamental reason for revising the existing document and making it more succinct while referring, as appropriate, to the various policies adopted by the Board to cover eligibility, criteria, objectives of programmes and projects, etc.</i></p>
4	<p>This paragraph contains general guidelines on the objectives of IFAD projects, the need for cofinancing, approaches to project design, etc.</p> <p><i>These have been superseded by strategic frameworks and COSOPs, other policies such as the IFAD Policy on Targeting, and important quality processes such as quality enhancement and quality assurance.</i></p>
5	<p>The paragraph restates the general principle that development is chiefly the responsibility of developing countries. In addition, it states that the Fund's target groups are small and landless farmers.</p> <p><i>Relations with countries are dealt with in the strategic framework, and IFAD has developed a more comprehensive targeting policy that has superseded the policy on targeting set out in this paragraph.</i></p>
6	<p>This paragraph is a general statement regarding IFAD's limited financial capacity and the need for cofinancing.</p> <p><i>The general principle is reflected in the revised draft.</i></p>

<i>Current Lending Policies and Criteria paragraph reference</i>	<i>Comments</i>
II. Objectives	
7 -12	<p>These paragraphs contain general statements regarding the need to focus on the production of low-cost foods, create employment opportunities and higher incomes for low-income people, and raise productivity through new technology; as well as the need for support services, partnership, land tenure reform, financial services, institutional strengthening, and a country-driven approach.</p> <p><i>General development objectives are currently stated in much greater detail in the context of the strategic framework, the various IFAD policies and COSOPs. These paragraphs are therefore superseded.</i></p>
13-19 Poverty and Nutrition	<p>These paragraphs are general statements on the importance for IFAD to focus on nutrition and small farmer development, assist the landless, promote agrarian reform and capacity development, and take into account country priorities.</p> <p><i>These issues are now broadly dealt with in the strategic framework and various policies at the organizational level, and in COSOPs at the country level. There is therefore no need to include them in the Policies and Criteria for IFAD Financing.</i></p>
III. Lending Criteria	
20	<p>This paragraph contains general criteria relating to: (i) the principle of flexibility; (ii) country requirements; and (iii) project appraisal standards.</p> <p><i>While the principle of flexibility will necessarily be retained – and indeed the revision of the Lending Policies and Criteria is intended largely to enable IFAD to quickly respond to changing needs and circumstances – country requirements are now provided for in much greater detail in the PBAS. With respect to appraisal standards, the many lessons learned from IFAD’s experience over three decades are now reflected in the Programme Management Department operational guidelines.</i></p>
21-24A Country Criteria	<p>These paragraphs provide general guidance on country targeting, allocation principles, the need to consider the general economy, agricultural and administrative policies and practices in eligible countries; and the need for the Executive Board to periodically review the allocation of IFAD’s resources.</p> <p><i>In line with these provisions, IFAD has now developed a highly refined system – the PBAS – which is periodically reviewed by the Executive Board. The criteria indicated are therefore obsolete, and the reference in the revised draft to the PBAS is adequate.</i></p>
25-30 Project Criteria	<p>These paragraphs provide general guidelines on the types of projects that IFAD should finance.</p> <p><i>Over the last three decades, IFAD has adopted a number of policies and guidelines to provide guidance on project design. The general guidelines provided have therefore been superseded and are replaced by a general reference to the new policies in the revised draft.</i></p>
IV. Lending Terms and Conditions	
31-41	<p><i>These paragraphs contain the operational content of the lending terms and conditions. The revised draft addresses all the issues raised here in the paragraph dealing with loans. The recommended changes and rationale are explained in the introductory note.</i></p>
V. Project Preparation, Appraisal and Monitoring	
42-44	<p>These paragraphs provide general guidelines on project preparation and appraisal.</p> <p><i>These provisions have been superseded by much more detailed operational guidelines and policies regarding project preparation and appraisal. There is therefore no need to include them in the revised draft.</i></p>
45-51 Monitoring Arrangements	<p>These paragraphs provide guidelines on project monitoring arrangements and evaluation arrangements.</p> <p><i>Monitoring arrangements are now guided both by the operational guidelines and by the requirements of IFAD’s results measurement framework (RMS).</i></p> <p><i>The evaluation of IFAD projects is covered by the Evaluation Policy, which led to the establishment of the IFAD Office of Evaluation. These guidelines have therefore been superseded and are referenced in the revised draft.</i></p>

<i>Current Lending Policies and Criteria paragraph reference</i>	<i>Comments</i>
Annex: A Framework for Sector/Sub-Sector Allocation: Principles Revisited (added in 1995)	<p>The annex provides additional guidelines on sector and subsector resource allocation including, inter alia, a shift from large-scale to small-scale irrigation; the need to focus on well-identified poverty groups, including poor rural women; the importance of knowledge-sharing among international financial institutions, cofinancing, collaboration among the Rome-based agencies, income diversification, policy dialogue, partnerships, rural financial services and cost-effective research and extension.</p> <p><i>In all the areas dealt with in the annex, IFAD has developed policies and operational guidelines in addition to the strategic framework and COSOPs. There is therefore no need to deal with these issues in the lending policies and criteria. Reference to the policies and guidelines in the revised document is considered adequate.</i></p>
