

Document: EB 2011/102/R.11  
Agenda: 8  
Date: 12 April 2011  
Distribution: Public  
Original: English

**E**



Enabling poor rural people  
to overcome poverty

## **IFAD lending terms and conditions – Applicable euro interest rate**

### **Note to Executive Board representatives**

#### Focal points:

#### Technical questions:

**Bambis Constantinides**  
Director, Controller's and Financial Services  
Division  
Tel.: +39 06 5459 2054  
e-mail: c.constantinides@ifad.org

**Munehiko Joya**  
Treasurer  
Tel.: +39 06 5459 2251  
e-mail: m.joya@ifad.org

#### Dispatch of documentation:

**Deirdre McGrenra**  
Governing Bodies Officer  
Tel.: +39 06 5459 2374  
e-mail: gb\_office@ifad.org

Executive Board – 102<sup>nd</sup> Session  
Rome, 10-12 May 2011

---

**For: Approval**

## Recommendation for approval

The Executive Board is invited to approve the following decisions:

- (a) The euro component in the calculation of the IFAD special drawing rights composite rate, starting from the second semester of 2011, shall be the Euro Interbank Offered Rate (EURIBOR).
- (b) The IFAD reference interest rate applicable to loans from the Spanish Food Security Cofinancing Facility Trust Fund shall be the six-month EURIBOR plus the International Bank for Reconstruction and Development (IBRD) euro spread (variable interest rate/variable spread loans).

## IFAD lending terms and conditions – Applicable euro interest rate

### I. Background

1. IFAD's loans are denominated in special drawing rights (SDR) and the IFAD reference rate, i.e. the interest rate for loans on ordinary and intermediate terms, is a composite of the market interest rates for the SDR currencies, i.e. the United States dollar, the euro, the Japanese yen and the pound sterling.
2. In December 2010, the Executive Board approved the establishment of the Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund) with IFAD as the trustee. The Trust Fund borrows from Spain and provides loans to IFAD's developing Member States. Amounts borrowed from Spain by the Spanish Trust Fund, acting through IFAD in its capacity as trustee, are denominated in euro, and interest is charged on the amounts borrowed at an annual rate equal to the EURIBOR. In order to balance currency risk, it has been decided that loans provided by the Spanish Trust Fund will also be denominated in euro. It is therefore proposed that the interest rate to be applied be the euro interest rate used as a component in calculating the IFAD reference interest rate.

### II. IFAD reference interest rate

3. In September 2009 at its ninety-seventh session, the Executive Board approved document EB 2009/97/R.46/Rev.2 setting out the following modifications to the previous lending terms:
  - (a) That the periodicity of the update of the IFAD reference interest rate be amended from 12 months to 6 months on the basis that IFAD is moving into line with practices currently applied by other international financial institutions;
  - (b) That the applicable rate would be based on the SDR LIBOR [London Inter-bank Offered Rate] six-month composite rate, with due regard to IFAD's unique mandate;
  - (c) That the Board would henceforth be informed of the applicable interest rate through publication on the IFAD website; and
  - (d) That the amendment would take effect as of January 2010.

In December 2009 at its ninety-eighth session, the Board was informed by Management that IFAD would apply a composite spread directly derived from the IBRD variable spread for the four SDR currencies to the six-month composite SDR LIBOR rate.

4. The euro component of the IFAD reference interest rate is currently based on the six-month euro LIBOR issued by the British Bankers' Association. At the time that IFAD adopted this rate, it was being used by IBRD as the reference rate to price its floating rate euro-denominated loans. In recent years, most European banks have moved to using the EURIBOR, published by Thompson Reuters, and the market has gravitated towards using EURIBOR as the market standard for all euro transactions. Since the second semester of 2010, IBRD has also switched to using EURIBOR instead of euro LIBOR in pricing its floating rate euro-denominated loans. At the same time, LIBOR remains the preferred index for United States dollar-, Japanese yen- and pound sterling-denominated instruments.
5. The two rates are comparable: on the first business day of 2011, the EURIBOR and euro LIBOR six-month rates were 1.22 per cent and 1.18 per cent respectively. Had EURIBOR been used to calculate the IFAD SDR interest rates for the first semester of 2011, the difference would have been minimal, as indicated by table 1 below.

Table 1

**IFAD loans: SDR composite interest rate – 2011, first semester**

<i>Index</i>	<i>Ordinary terms (percentage)</i>	<i>Intermediate terms (percentage)</i>
LIBOR for all SDR currencies (current IFAD rates published earlier this year)	1.06	0.53
EURIBOR for euro component, LIBOR for United States dollars, Japanese yen, pound sterling components	1.07	0.54

6. In order to remain aligned with market practices and the IBRD methodology, it is proposed that IFAD start using the six-month EURIBOR (instead of the six-month euro LIBOR) as the euro component rate in calculating the IFAD reference interest rate, as of the second semester of 2011.

### **III. Loans provided under the Spanish Trust Fund**

7. As indicated above, it is proposed that the interest rate to be applied to loans provided by the Spanish Trust Fund be the euro interest rate used as a component in calculating the IFAD reference interest rate, i.e. the six-month EURIBOR plus the applicable IBRD spread for euro-denominated loans having the same maturity.
8. The borrowing agreement entered into by the Spanish Trust Fund with the Kingdom of Spain calls for the Trust Fund to pay interest to Spain based on EURIBOR. Consequently, the use of EURIBOR as the basis for charging interest on loans made by the Spanish Trust Fund is appropriate. Management therefore recommends that EURIBOR be adopted as the basis for determining the interest rates to be applied to loans provided under the Spanish Trust Fund.
9. The six-month EURIBOR on 3 January (the first business day of 2011) was 1.22 per cent. The IBRD euro spread (variable interest rate/variable spread loans) for the first semester of 2011 is 0.28 per cent. Consequently, if approved by the Executive Board, the following rates will apply to euro-denominated loans under the Spanish Trust Fund for the first semester of 2011:

Table 2

**Spanish Trust Fund loans: euro rates – 2011, first semester**

<i>Ordinary terms (percentage)</i>	<i>Intermediate terms (percentage)</i>
1.50	0.75