

Document: EB 2013/110/R.45
Agenda: 14(f)
Date: 5 December 2013
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

Proposed negotiation framework for a debt funding agreement with KfW Development Bank

Note to Executive Board representatives

Focal points:

Technical questions:

Mohamed Beavogui
Director
Partnership and Resource Mobilization Office
Tel.: +39 06 5459 2240
e-mail: m.beavogui@ifad.org

Annely Koudstaal
Partnership Officer
Tel.: +39 06 5459 2565
e-mail: a.koudstaal@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

Executive Board — 110th Session
Rome, 10-12 December 2013

For: Approval

Recommendation for approval

The Executive Board is invited to authorize IFAD Management to initiate negotiations within the parameters provided in this document, and to approve that IFAD enter into a borrowing agreement with KfW Development Bank.

Proposed negotiation framework for a debt funding agreement with KfW Development Bank

I. Background

1. Under the Ninth Replenishment of IFAD's Resources (2013-2015), IFAD has been requested by its Member States to explore new and innovative financing mechanisms and opportunities for broadening its partnerships, in order to scale up investment in agriculture and reach the target of helping 80 million rural poor people to exit from poverty, bring about a transformation in smallholder agriculture and promote equitable and resilient growth. Resolution 166/XXXV on the Ninth Replenishment of IFAD Resources (IFAD9), adopted by the Governing Council in February 2012, acknowledged "the announcements of Members' intentions to make additional contributions to the resources of the Fund and the President's undertaking to make every effort to explore the scope for increasing financing from alternative sources and to submit any resulting proposals to the Executive Board for approval". In line with the resolution, exploring new modalities of resource mobilization became one of the commitments to be delivered during the IFAD9 period.
2. The exploration of resources from alternative sources under the auspices of this initiative initially focused on sovereign debt funding, building upon the experience with the Spanish Food Security Cofinancing Facility Trust Fund, launched in 2011. KfW Development Bank of Germany expressed its intention to negotiate a debt funding agreement with IFAD to support agricultural development in developing countries and empower poor rural people to exit from poverty. Its confidence in the Fund was reinforced by a highly satisfactory internal rating of IFAD's financial standing. KfW Development Bank considers IFAD to be a reliable partner to manage its investment in agricultural and rural development.
3. In accordance with resolution 166/XXXV, the Board is invited to approve the negotiation framework presented in this document in order for IFAD to negotiate and sign an agreement with KfW Development Bank that will ensure that IFAD can remain engaged with and scale up its operations in its partner countries as part of the programme of work under IFAD9.
4. Once the negotiations with KfW Development Bank have been concluded and the umbrella agreement and first loan agreement finalized, the agreed financial terms and cash flow projections will be submitted to the Board for information. An update on the facility will be provided regularly at subsequent Executive Board sessions.

II. Allocation

5. The resources to be provided through the KfW loan will form part of lending for 2014 and 2015 and will be channelled almost exclusively to middle-income countries (MICs) in all geographical regions. Allocations will be based on existing processes, including results-based country strategic opportunities programmes, which identify investment opportunities in agriculture and food and nutrition security, particularly in MICs. Allocations will be based on country-specific requirements and absorptive capacity. Allocation levels will not be predetermined

and will be informed by country-level poverty analysis, covering both income and regional inequality. Initial indications are that demand from these countries for resources to invest in rural and agricultural development in favour of rural poverty reduction may outstrip the level of resources available from IFAD.

III. Financial framework

6. The resources to be made available through KfW debt funding will be provided in the form of a loan to IFAD denominated in euros, equivalent to approximately US\$500 million. The funds will be disbursed to IFAD over a multiple-year time horizon (in the range of three to four years). The interest rate for the loan will be based on a variable reference Euribor rate corresponding to the agreed frequency of repayments (i.e. if principal and interest repayments to KfW are biannual, the reference rate will be the six-month Euribor). The loan will be repaid to KfW over a time horizon of twenty years, with a five-year grace period. The administrative costs linked to the loan will be absorbed by IFAD and are not expected to impact IFAD's financial soundness.
7. The amounts received and pending disbursement will be invested in line with IFAD's Investment Policy. The funds will be allocated to IFAD-supported projects and in accordance with the Policies and Criteria for IFAD Financing.

IV. Legal set-up

8. It is proposed that the arrangement envisaged will be reflected in an umbrella agreement stipulating that the lender will undertake to make a loan available to IFAD during an agreed period of time. This undertaking will take the form of separate loan agreements that will provide, inter alia, the financial terms for each portion of the loan.