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Investing in rural people

Proposal for a Concessional Partner Loan Framework

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Abbreviations and acronyms

AfDF	African Development Fund
CDL	Concessional Donor Loan
CPL	Concessional Partner Loan
IDA	International Development Association
IFI	international financial institution
PBAS	performance-based allocation system
PoLG	programme of loans and grants
SBF	Sovereign Borrowing Framework
SDR	special drawing right

Proposal for a Concessional Partner Loan Framework

I. Introduction

1. Concessional partner loans (CPLs) have recently been introduced in the development finance domain as one of a number of innovative financing initiatives being used by international financial institutions (IFIs) such as the International Development Association (IDA) and the African Development Fund (AfDF).¹ The purpose of CPLs is to supplement traditional grant contributions and capital resources provided by Member States or by agencies owned or controlled by the Member States. Members providing CPLs receive voting rights on the basis of the "grant element" embedded in such loans due to their concessional terms.
2. Borrowed funds are now part of IFAD's financial strategy. For The Eleventh Replenishment of IFAD's Resources (IFAD11), it is envisaged that the programme of loans and grants (PoLG) will continue to be financed in part through borrowing. CPLs – alongside sovereign loans – are one possible modality to obtain these borrowed funds. This paper provides an overview of the key features of a CPL, as implemented by the IDA and the AfDF, and proposes a CPL Framework for discussion with Members.

II. Key features of a CPL and experiences of IFIs

3. Concessional debt has traditionally been used for bilateral assistance, with donor contributions to IFIs being limited to grants and capital subscriptions. However, as a result of a combination of factors, including some donors' financial constraints and the willingness of other donors to increase their development assistance, CPLs are gradually being considered as a key instrument in the financial framework of IFIs as a means of expanding the funding base beyond standard core contributions.
4. CPL terms include an interest rate significantly lower than market rates, long maturities and long grace periods. CPLs are not earmarked and are used as part of the overall pool of funding that includes grant contributions and internal resources (mainly loan reflows and investment income). In addition, when presenting a CPL, countries endorse the principle of additionality (i.e. no substitution of core contributions), therefore committing to the institution's long-term financial sustainability.

III. Principles of existing CPL programmes

5. The use of CPLs by the IDA and AfDF has been guided by a number of core principles.² These are listed below:
 - (a) **Additionality.** CPLs should be made in addition to core contributions, and should not substitute them. Mechanisms to avoid substitution risk are typically embedded in a CPL framework. In the case of both IDA and AfDF, Members wishing to provide a CPL were required to establish a **minimum standard contribution benchmark**. This is usually based on their standard core contributions to the preceding replenishment. In the case of IDA and AfDF, this has been set at 80 per cent of the previous replenishment. The total grant equivalent contribution to the replenishment is composed of this standard core contribution and the grant element of the CPL.

¹ Referred to as Concessional Donor Loans at the AfDF.

² See the "Concessional Donor Loans – Discussion paper" submitted to the fourth AfDF Working Group Meeting, 29-30 May 2015, Abidjan, Côte d'Ivoire.

- (b) **Preservation of long-term financial viability.** The amount of debt contracted should be limited to ensure that the risk associated with introducing debt into the IFI's financing framework remains manageable.
- (c) **Donor recognition.** CPLs may be provided only by members or by agencies owned or controlled by members. Members providing CPLs directly or indirectly should be recognized and compensated for such loan provision. Recognition and compensation have thus far taken the form of **the allocation of voting rights** to the member in respect of the grant element embedded in the CPL. The grant element is calculated according to a discount rate adopted in consultation with the members. The discount rate should be high enough to provide an incentive to members willing to provide concessional loans to the IFI, but low enough to generate a grant element that is considered equitable by members making all their contributions in the form of grants.
- (d) **No earmarking.** The proceeds of the CPLs should go into the general pool of replenishment resources and should not be earmarked for financing any specific activities, or allocated to any specific members or category of members of the IFI.
- (e) **Management of proceeds.** Pending disbursement, the proceeds of the CPLs should be invested according to the IFI's policies and guidelines governing the replenishment resources.
- (f) **Equal treatment and transparency.** The terms and conditions of the CPLs, as established under a framework adopted and published by the IFI, should be applied equally to all CPL providers, with no exceptions.
- (g) **Sustainability.** A CPL framework is designed to be self-contained and will not impact resources from the IFI's conventional funding sources.

IV. Implementation of CPLs in IDA and AfDF

A. IDA17 and IDA18

6. Concessional partner loans were introduced for the first time as an innovative financing mechanism for IDA's seventeenth replenishment (IDA17). The CPLs were granted to IDA from five member countries for a total amount of 2.3 billion special drawing rights (SDR) (US\$3.4 billion), representing 6 per cent of the total IDA17 financing framework. The CPLs were repeated in IDA18, where five countries committed to lend a total of SDR 3.7 billion (US\$5.2 billion), representing 5 per cent of the total IDA18 financing framework. For IDA17 and IDA18, the following countries provided a CPL: France, Japan, Saudi Arabia, United Kingdom, China (only IDA17) and Belgium (only IDA18).
7. IDA agreed that members receive voting rights proportional to the grant element of the CPL. It undertook several discussions to establish an equitable discount rate for calculating the loans' grant element as this affected the incentive for members to provide CPLs. In deciding to treat the grant element of the CPLs as "additional subscriptions" for which members would receive voting rights and burden share recognition, IDA's board of governors relied on provisions in its charter which provided IDA latitude in determining the amounts, terms and conditions of such subscriptions and the voting rights attached thereto.
8. The discount rate was set at 2.65 per cent during IDA17. For IDA18, two different discount rates, depending on the loan term, were agreed: 2.35 per cent for loans with a maturity of 25 years, and 2.70 per cent for loans with a 40-year maturity.
9. A prudential debt limit was introduced in IDA17. This was based on: (i) the overall concessional nature of IDA lending; and (ii) the terms on which IDA would borrow. Furthermore, for the introduction of CPLs in IDA17, IDA's management was asked

to confirm that the existing framework that IDA used to hedge currency risk of contributions and its single currency credits could be used to manage the currency risk of the CPLs.

10. The IDA concessional partner loans have an all-in SDR equivalent coupon of up to 1 per cent. Members have the option to provide additional grant resources to bridge the difference between the coupon rate on the CPL and their targeted coupon rate, if higher.

B. AfDF experience (AfDF-14)

11. Concessional donor loans (CDLs) were introduced by the African Development Fund in the context of its fourteenth replenishment (AfDF-14), following the same strategy, principles and financial computation described for IDA. CDLs were used to fund AfDF loans to gap, blend and graduating countries within their performance-based allocation system.
12. The discount rate to calculate the grant element, burden share and voting rights was computed based on the same "net income earned approach" used in IDA, and set at a level of 2.65 per cent. As was the case in IDA17 and IDA18, under AfDF-14 a specific authorization for the grant element of CDLs to be counted as a contribution for the purposes of computing burden shares and voting rights was made on the basis of provisions in the AfDF charter allowing the fund broad flexibility in the determination of the terms and conditions relating to "additional subscriptions".
13. Upon the introduction of CDLs, the AfDF reviewed its asset liability management guidelines to accommodate the use of the CDLs in the financial framework. Specifically, the review addressed: (i) the need to increase the debt limit to accommodate CDLs; and (ii) the need to increase the prudential minimum level of liquidity to take into account the debt service requirements to CDLs. To date, only France has agreed to provide a CDL to AfDF-14.

V. The proposed IFAD approach

14. In the paper "Financial strategy for IFAD11 and beyond", it is proposed that IFAD borrow up to 50 per cent of the amount of the replenishment core contributions. CPLs would be the lowest-cost option of obtaining these borrowed funds. This section presents guiding rules for implementing a CPL Framework based on the experiences to date of IDA, AfDF and IFAD's borrowing under the Sovereign Borrowing Framework (SBF). It provides a proposal for the CPL Framework based on IFAD's requirements.
15. Given the accelerated timeline for the implementation of a CPL programme at IFAD, it was decided that the IFAD CPL Framework would, to the extent possible, be modelled on the IDA18 CPL framework, with appropriate modifications being made to accommodate IFAD's specific circumstances.
16. **It was deemed appropriate to create a CPL Framework distinct from the Sovereign Borrowing Framework.** IFAD's SBF was approved in April 2015 as a framework setting out the parameters within which IFAD may borrow from Member States and/or their state-supported institutions. While CPLs, to the extent that they are obtained from Member States (or their state-supported institutions), constitute sovereign borrowing, a specific and independent framework for CPLs is required due to their inherently unique nature (in particular the fact that the grant element of CPLs will entitle the Member State to voting rights). CPLs are therefore not intended to be subject to the SBF, although some of their features will be inspired by it.
17. **Guiding rules for adopting a CPL Framework.** Based on exchanges with IDA and AfDF about the key aspects of their CPL/CDL frameworks and the approach

taken in the negotiation and implementation, IFAD developed the following elements as guiding rules for its approach to negotiating its CPL Framework:

- (i) **Ensuring early consultation with potential providers of CPLs.** The experience of IDA and AfDF has shown the importance of early consultation with potential providers of CPLs and an early indication of amounts, financial conditions and currency of the CPLs that might be provided. This allows for the right computation of the appropriate discount rate. It is also important to note that not all Member States have the instruments that would allow them to provide CPLs. This needs to be taken into consideration when setting the CPL incentive structure in order to avoid a situation in which countries that do have these instruments obtain any "unfair advantage" over those that do not.
- (ii) **Agreeing to and strictly following a rule for additionality.** It has proved critical to establish a clear rule for ensuring additionality so as to provide an appropriate balance between preserving the special status of standard core contributions, and allowing flexibility for donors. For IDA17, IDA18 and AfDF-14, the 80:20 rule was applied, whereby at least 80 per cent of the minimum grant contribution is to be provided as a standard core contribution (as distinct from a CPL contribution). As this has proved the most workable model to date, IFAD proposes the 80:20 rule with respect to CPLs.
- (iii) **Allowing CPLs to be provided by agencies owned or controlled by Member States.** It is also important to note that, as is the case for IDA and AfDF, some Member States may wish to provide CPLs through agencies they own and control. This is also provided for in the SBF, which allows such agencies – referred to as "state-supported institutions" – to provide sovereign loans to IFAD. The additional feature in the case of CPLs is that a CPL from a state-supported institution will entitle the Member State that owns or controls such agency to receive voting rights for the grant element of the CPL.
- (iv) **Calculation of the grant element.** Management will calculate the grant embedded in a CPL and voting rights will be attributed to the Member State based on the saving achieved due to the concessionality of the loan.
- (v) **Managing term structure and interest rate risk.** For the purposes of the CPL Framework, IFAD proposes to apply the same principles and financial conditions implemented by IDA and AfDF for their respective CPL/CDL frameworks. This applies in particular to the proposed maturity and interest rate charged for the loans, as shown in tables 2(a) and 2(b) included in this document.
- (vi) **Avoiding fragmentation of borrowing arrangements by establishing minimum loan sizes.** Negotiation of sovereign loans has proved to be time-consuming. While the CPL Framework will dramatically reduce transaction costs, excessive fragmentation of borrowing arrangements is still to be discouraged. This could be achieved by agreeing on a minimum loan size for an individual CPL.

- (vii) **Ensuring measures are in place to manage substitution risk.** It is important to set out clear requirements that provide adequate incentives to Member States to use this specific financing option, but at the same time guard against substitution risk. This has been done already by IFAD for the SBF,³ and as has been done by IDA and the AfDF with regard to CPLs/CDLs.
- (viii) **Ensuring sustainability of the CPL Framework.** The CPL Framework must be self-sustaining, with the CPLs being serviced via reflows from the IFAD highly concessional and blend loans for which the CPL proceeds have been used.

VI. Proposed IFAD Concessional Partner Loan Framework

A. Terms and conditions

18. The following terms and conditions are proposed:

- (i) **Maturity.** 25 or 40 years to match IFAD's blend and highly concessional terms.
- (ii) **Grace period.** 5 years for a 25-year loan or 10 years for a 40-year loan.
- (iii) **Principal repayment.** Principal repayment will begin after the grace period, applying a straight-line amortizing repayment schedule to minimize debt servicing costs to IFAD and closely match the repayment terms of IFAD blend and highly concessional loans: 25-year loan principal will amortize at a rate of 5 per cent per annum; 40-year loan principal will amortize at a rate of 3.3 per cent per annum.
- (iv) **Coupon/interest.** IFAD's CPLs will be modelled along similar lines to those of IDA. The IFAD CPLs would have an all-in SDR equivalent coupon of up to 1 per cent. The difference between the coupon rate on the CPL and the country's target coupon rate (if higher) may be covered by an additional grant payment, as Member States would have the option of providing such an additional grant payment to bridge the difference between the target coupon provided by the framework and the desired coupon on the loan. CPLs with variable interest rates will not be accepted at this time, as most of IFAD's loans are in fixed rate terms.
- (v) **Interest rate floor.** If required, an interest rate floor will be applied for cases where the currency in which the CPL is provided determines a negative rate.
- (vi) **Prepayments.** In order to ensure IFAD's financial sustainability, IFAD may prepay the outstanding balance of the CPL, in whole or in part, without penalty.
- (vii) **Currencies.** IFAD will accept CPLs in SDR or any SDR basket currency (United States dollar, euro, Japanese yen, British pound sterling and Chinese renminbi). Subject to the foregoing, IFAD will accept CPLs in a currency other than the currency in which the core contribution of the Member State has been made.

³ As discussed in EB 2016/118/R.30, para. 22. This was also addressed in para. 8 of the SBF (EB 2015/114/R.17/Rev.1) by the introduction of a specific clause: "IFAD will only enter into borrowing discussions with a Member State, or a state-supported institution supported by that Member State, if the Member State's core contribution to the latest replenishment (Core Replenishment Contribution R0) is at least 100 per cent of the amount contributed in the previous replenishment cycle (Core Replenishment Contribution R-1). An exception to this will be where a Member State's core replenishment contribution R-1 was higher, by 10 per cent or more, than its core contribution to the immediately preceding replenishment (core replenishment contribution R-2). In such a case, the Member State's Core Replenishment Contribution R0 should be at least 100 per cent of its Core Replenishment Contribution R-2, in order for IFAD to determine whether to enter into a borrowing arrangement with the Member State concerned."

- (viii) **Prioritization criteria.** To effectively manage the number and size of the potential CPL offers should they exceed IFAD's funding needs, offers will be evaluated according to the following criteria (in order of importance):
- (a) **Currency:** preference will first be given to CPLs denominated in currencies about which IFAD has reasonable assurance that it can either hedge the loan or onlend the funds in the same currency.
 - (b) **Financial conditions:** preference will be given to CPLs that carry the most attractive financial terms for IFAD to assure maximum sustainability.
 - (c) **Size:** as IFAD seeks to minimize costs, preference will be given to the largest-sized CPLs.
- (ix) **Drawdown.** CPLs will be drawn down in three equal instalments over a maximum period of three years to allow IFAD to manage liquidity. At its discretion and with the agreement of the loan provider, Management may agree on single-tranche drawdowns if the lending partner so requests.
- (x) **Minimum amount.** Only CPLs of US\$20 million or greater will be considered.
- (xi) **Additionality.** Member States providing CPLs (directly or through a state-supported institution) will be expected to provide core contributions equal to at least 80 per cent of a minimum grant contribution benchmark and target a total grant equivalent contribution (which includes core contribution and the grant element of the CPL) to at least their minimum grant contribution benchmark. The minimum grant contribution benchmark will be equal to 100 per cent of the average core contribution in local currency of the preceding two replenishment periods (for IFAD11, it would be the average of IFAD9 and IFAD10 contributions).⁴
- (xii) **Effectiveness.** A CPL agreement between IFAD and the CPL provider (i.e. a Member State or one of its state-supported institutions) will be entered into preferably no later than the last day of the six-month period following the adoption of the IFAD11 Resolution, but at any rate not until the relevant Member State has deposited an instrument of contribution (IOC) for the amount of its core contribution required under the provisions of paragraph 18(xi) above. In cases where a Member State plans to provide an additional grant to lower the coupon rate on the CPL, IFAD will require the payment of the additional grant as a prerequisite to accepting the loan disbursements from the CPL provider. This is to protect IFAD from paying a high borrowing cost on the CPL without receiving the related grant payment that ensures the required concessionality.
- (xiii) **Earmarking or restrictions on use of funds.** Since the primary purpose of CPLs is to finance IFAD's PoLG, earmarking or restrictions on use of funds cannot be accepted by IFAD. CPL resources will be allocated through the performance-based allocation system to Member States borrowing on terms comparable to or higher than those applicable to the CPL, as appropriate, therefore covering the whole set of lending products offered by IFAD. Notwithstanding the foregoing, it is expected that priority would be given to loans provided on highly concessional and blend terms.
- (xiv) **Grant element.** The grant element represents the present value of the financial benefit to IFAD of obtaining a CPL as opposed to a loan contracted on market terms. It is consequently the portion of the loan that is considered a grant for voting rights purposes to incentivize Members to provide such

⁴ This can be reconciled with the additionality rule of the SBF which required the most recent replenishment contribution to be 100 per cent of the preceding replenishment contribution as it still requires the core grant plus the grant element of the CPL to be 100 per cent of the minimum grant contribution benchmark.

loans to IFAD. In the event of an additional grant payment, such payment will be incorporated into the loan amount and the grant element of the CPL will be calculated on the overall loan amount.

- (xv) **Voting rights.** The grant element of the CPL will entitle the Member State to voting rights under the same formula as applicable to replenishment contributions as stipulated in article 6, section 3(a)(ii) of the Agreement Establishing IFAD.
- (xvi) **Governance.** Before completion of negotiations, the detailed proposal of each CPL will be submitted to the Audit Committee for review and to the Executive Board for approval. CPLs would be subject to the same authorization process as followed for other borrowing arrangements under the SBF at IFAD.
- (xvii) **Risk management.** In terms of risk management, the proceeds of CPLs provided to IFAD will be subject to similar risks and mitigation measures to those identified in the SBF. To this effect, the approach outlined in section VIII – risk management – of the SBF will be followed, where applicable, for CPLs.

B. Determination of the grant element

19. While the full nominal amount of the CPL represents the financial resource for IFAD's PoLG, IFAD would attribute voting rights to Member States providing CPLs in an amount proportionate to the grant element embedded in the loans. The grant element of the CPL is the ratio of the present value of the debt service to the present value of the loan disbursements. The calculation formula is the same as that applied for the IDA18 CPL framework, which is defined in the IDA18 Deputies' Report, as follows:

$$1 - \frac{\sum_{i=1}^n (DF_i \times CFS_i)}{\sum_{j=1}^n (DF_j \times CFD_j)}$$

Where:

DF_i = Discount factor at period i , calculated using the discount rate of the CPL framework;

CFS_i = Cash flow from debt service at period i ;

DF_j = Discount factor at period j , calculated using the discount rate of the CPL framework; and

CFD_j = Cash flow from loan disbursement at period j .

VII. Additional considerations

20. **Discount rate to calculate the grant element.** The discount rate calculation is important in that it determines the grant element, and therefore the allocation of votes for members providing CPLs. The two methods of calculating the discount rate used in determining the grant element are described below.

- **Option 1: Net income earned.** This option was used in both IDA17 and AfDF-14. The interest earned from IFAD's lending programme would be used to determine the discount rate. The advantage of this approach is that if the borrowing rate is lower than the interest earned from the lending programme, a positive spread is achieved and income is generated for IFAD. However, this approach does not represent the actual borrowing costs IFAD would have otherwise incurred and could lead to a grant element either overstating or understating the savings achieved.

- **Option 2: Net Cost Savings.** This method was used in IDA18. As IDA prepared to access the capital markets, it was felt that a more equitable method of calculating the grant element would be to base the discount rate on the savings achieved through the CPL versus the cost of borrowing in the market. This provides a better reflection of the actual market borrowing costs, and a fairer way to determine the grant element. It is proposed that IFAD adopt this method.
21. Management considered the two options in calculating the grant element. For IFAD, it proposes the adoption of a methodology that takes into account the possible savings over those borrowing transactions that have so far been concluded by IFAD, adjusted by a correcting factor to take into account the fact that IFAD may have borrowed so far at softer terms through the SBF than those possible on the capital markets.
 22. To determine the appropriate discount rate to use, the assumed borrowing cost for IFAD was based on the KfW Development Bank and Agence Française de Développement financing facilities negotiated by IFAD, with the appropriate adjustments to take into account the longer maturity of the CPL. Because both facilities were negotiated in the euro currency, IFAD's approach will move from the determination of a discount rate in euro as the starting point.
 23. To convert the borrowing cost to a fixed interest rate, the net present value (NPV) of the cash flows for both periods were calculated based on the market's forecast for future six-month EURIBOR rates. A two-pronged adjustment was then made:
 - A spread was added to reflect the extra length of the CPLs relative to the borrowings entered into by IFAD (a so-called "curve adjustment");
 - Then, a further spread was added to reflect the fact the SBF funds may have been lent to IFAD on softer terms than IFAD would have otherwise obtained in the market.
 24. The fixed interest rates that produce the same NPVs were then calculated. As this was done in euros, a similar calculation was performed for the other four currencies against their appropriate short-term interest rate benchmarks. The weighted averages of the five currencies were then calculated to determine the discount rates in SDR terms.
 25. The resulting discount rates produced by the described methodology are contained in the table shown below. The rates are calculated with values as of the 30 June 2017.

Table 1
IFAD11 discount rates
 (Percentage)

Currency	Project funding cost/discount rate	
	25-year CPL	40-year CPL
Special drawing right (SDR)	2.46	2.77
United States dollar (US\$)	2.89	3.23
Japanese yen (JPY)	1.09	1.58
British pound sterling (GBP)	1.98	2.23
Euro (EUR)	1.87	2.24
Chinese renminbi (RMB)	3.82	3.77

26. The currency-specific discount rates will allow the grant element to be calculated in each individual currency. These are shown in the table below.

Table 2a

Corresponding coupon rates between SDR and the currencies of the SDR basket
(Percentage)

25-year CPL with three-year disbursement schedule					
Currency	Coupon rates				
SDR	0.00	0.50	1.00	1.50	2.00
US\$	0.35	0.86	1.38	1.90	2.41
JPY	(1.10)	(0.66)	(0.21)	0.24	0.69
GBP	(0.38)	0.10	0.58	1.06	1.55
EUR	(0.47)	0.01	0.48	0.96	1.44
RMB	1.08	1.64	2.19	2.74	3.30
Grant element	28.56	22.72	16.87	11.02	5.18

Table 2b

Corresponding coupon rates between SDR and the currencies of the SDR basket
(Percentage)

40-year CPL with three-year disbursement schedule					
Currency	Coupon rates				
SDR	0.00	0.50	1.00	1.50	2.00
US\$	0.31	0.83	1.36	1.89	2.41
JPY	(0.81)	(0.38)	0.06	0.49	0.93
GBP	(0.37)	0.10	0.57	1.04	1.51
EUR	(0.36)	0.11	0.59	1.06	1.53
RMB	0.66	1.22	1.78	2.33	2.90
Grant element	46.99	38.45	29.91	21.36	12.82

Table 3a

Illustrative grant elements from CPLs at different coupon rates
(Percentage)

25-year CPL with three-year disbursement schedule			
Currency	Coupon rates		
SDR	0.00	0.50	1.00
US\$	0.35	0.86	1.38
JPY	(1.10)	(0.66)	(0.21)
GBP	(0.38)	0.10	0.58
EUR	(0.47)	0.01	0.48
RMB	1.08	1.64	2.19
Grant element	28.56	22.72	16.87

Table 3b

Illustrative grant elements from CPLs at different coupon rates
(Percentage)

40-year CPL with three-year disbursement schedule			
Currency	Coupon Rates		
SDR	0.00	0.50	1.00
US\$	0.31	0.83	1.36
JPY	(0.81)	(0.38)	0.06
GBP	(0.37)	0.10	0.57
EUR	(0.36)	0.11	0.59
RMB	0.66	1.22	1.78
Grant element	46.99	38.45	29.91

27. **Option of an interest rate floor.** An interest rate floor could be proposed for Member States who contribute in currencies for which the equivalent of 1 per cent of SDR (maximum interest rate of the CPL Framework) is a negative rate. With this option, Member States can provide a loan at 0 per cent in a CPL currency (this 0 per cent coupon ratio could also be achieved through a combination of a higher coupon rate loan with a supplemental grant). The 0 per cent floor means that the loan coupon rate will be higher than the maximum 1 per cent SDR rate. Fair treatment across Member States will be ensured by using the 0 per cent coupon rate of the CPL to calculate the loan's grant element to determine voting rights and compliance with the minimum grant contribution. Using the 0 per cent CPL currency rate will result in a lower grant element which implies that the Member State provider needs a larger loan to meet the minimum grant contribution requirement.
28. **Possibility of additional grant payments.** If a Member State elects to make an additional grant payment (as described in paragraph 18(iv)) upfront, the required payment amount will be calculated based on the present value of the difference in future cash flows between the original coupon payments and the targeted coupon payments. The same discount rate in the CPL Framework will be used in the present value calculation. The Member State can make the additional grant payment over several instalments only if the CPL has the same disbursement schedule and if the present value of the additional grant payment is maintained. Table 4 illustrates the additional grant payments required at different original and targeted coupon rates:

Table 4

Illustration of additional grant payments required to bridge the original and target coupon rates
(Percentage)

1 billion 25-year CPL in denomination currency, with three-year disbursement schedule

<i>Currency</i>	<i>Desired coupon</i>	<i>Targeted coupon</i>	<i>Difference (original vs. target coupon)</i>	<i>Discount rate</i>	<i>Additional grant (up front) in currency</i>
SDR	2.00	1.00	1.00	2.46	114 million
US\$	2.38	1.38	1.00	2.89	110 million
JPY	0.79	(0.21)	1.00	1.09	129 million
GBP	1.58	0.58	1.00	1.98	119 million
EUR	1.48	0.48	1.00	1.87	120 million
RMB	3.19	2.19	1.00	3.82	102 million

29. **Demand considerations.** From the borrowing Member States' perspective, CPLs would contribute to the financing of the overall PoLG, which has been determined taking into consideration the estimated demand for IFAD resources and IFAD's ability to deliver. Indeed as has been recognized, "the main constraint in stepping up IFAD's development capacity lies more on the supply than on the demand side."⁵
30. **Legal considerations with respect to introducing a CPL Framework.** With the exception of the condition set forth in article 4, section 5(c) of the Agreement Establishing IFAD (the Agreement) which requires an amendment (see below), the conditions governing contributions under the Agreement do not appear to present any particular legal challenges to the establishment of a CPL programme of the nature described.
31. Under article 4 section 5(c) of the Agreement, contributions to the Fund are required to be made in the form of cash, promissory notes or obligations payable upon demand. The draft resolution on the Eleventh Replenishment of IFAD's Resources (IFAD11 Resolution) will propose to amend this provision in order to

⁵ See IFAD10/3/R.5, para.4, "Financing options for IFAD beyond 2015".

recognize the grant element of CPLs as additional contributions for all intents and purposes, including voting rights. The CPL Framework for IFAD11 will become effective once the amendments to the Agreement Establishing IFAD, relative to CPLs, have entered into force. The majority required for the Governing Council to make such a decision would be four-fifths of the total number of votes.

32. The grant element of the CPL will entitle lending Member States to vote under the same formula as applicable to replenishment contributions as stipulated in article 6, section 3(a)(ii) of the Agreement, which provides as follows: "the votes for each replenishment shall be established in the ratio of one hundred (100) votes for the equivalent of each one hundred and fifty eight million United States dollars (USD 158 000 000) contributed to the total amount of that replenishment, or a fraction thereof".
33. Management assures Members that all of the grant contributions received from partners will go directly to IFAD recipients. The concessional loans will be self-contained and will in effect be serviced via reflows from IFAD highly concessional and blend terms loans approved in IFAD11. IFAD CPL grant providers will not bear costs or risk associated with concessional loans.
34. **Road map and timeline.** The table below provides the road map and timeline for the review and approval by IFAD's governing bodies of the proposed CPL Framework for IFAD11.

Table 5

Timeline for the review and approval of the CPL Framework for IFAD11

<i>Meeting/session</i>	<i>Action</i>
Audit Committee 145th meeting 6 September 2017	Review of the CPL Framework
Executive Board 121st session 13-14 September	Review of the CPL Framework
Informal Seminar 6 October	Presentation of final amendments to the CPL framework
IFAD11 Consultation (third session) 19-20 October	Recommendations on the CPL Framework and the IFAD11 Resolution
Special session* of the Executive Board 30 October	Approval of the CPL Framework (to be effective only when Governing Council adopts the IFAD11 Resolution with appropriate amendments to the Agreement Establishing IFAD)
Audit Committee 146th meeting 23 November	Review of the proposed amendments to the Agreement Establishing IFAD
Executive Board 122nd session 12-13 December	Review of the proposed amendments to the Agreement Establishing IFAD (including those amendments relating to CPLs) and approval of recommendation from the Executive Board to the Governing Council regarding such amendments
IFAD11 Consultation (fourth session) 14-15 December	Adoption of the Report of the Consultation on the Eleventh Replenishment of IFAD's Resources, including draft resolution
Governing Council forty-first session February 2018	Adoption of the IFAD11 Resolution, including amendments to the Agreement Establishing IFAD vis-à-vis the CPL Framework

* As per rule 2 of the Rules of Procedure of the Executive Board, sessions of the Board shall be called by the President as often as the business of the Fund may require. Accordingly, a special session of the Board may be called by the President to consider and approve the CPL Framework in October.

Countries providing loans to IDA17 and IDA18 and AfDF-14

Table 1
Countries providing loans to IDA17 and IDA18

Contributing member	Loan amount				Loan terms		
	SDR (millions)	Currency	Foreign exchange rate	National currency (millions)	Maturity	All-in-cost coupon rate in SDR terms (percentage)	Coupon rate in national currency terms (percentage)
IDA17							
China	663	US\$	1.507	1 000	5-25	1.00	TBD
France	373	EUR	1.151	430	5-25	0.00	0.00
Japan	1 288	JPY	147.833	190 386	10-40	1.00	0.55
Saudi Arabia	78	US\$	1.507	118	5-25	0.00	0.61
United Kingdom	494	GBP	0.985	486	5-25	0.00	0.14
Total IDA17	2 896						
IDA18							
Belgium	193	EUR	1.251	241	10-40		0.00
France	640	EUR	1.251	800	10-40		0.00
Japan	1 949	JPY	150.039	292 388	10-40		0.35
Saudi Arabia	88	US\$	1.402	124	5-25		0.47
United Kingdom	813	GBP	1.009	820	10-40		0.00
Total IDA18	3 682						

Table 2
Countries providing loans to AfDF-14

Country	Instrument	Unit of account (millions)
France	CDL	180
Japan	Bridge loan	500
India	Bridge loan	11
Total		691

Glossary of terms

- **Coupon rate.** A coupon is the fixed interest payment paid to bond holders or lenders. A coupon rate can be calculated by dividing the sum of the annual coupon payments and dividing them by the bond or loan par value.
- **Discount rate.** A percentage rate used in discounting calculations to mathematically reduce a known future value to its present value – it represents the time value of money, interest rate, or some measure of opportunity cost. Discounting is the opposite of compounding whereby a percentage rate is applied to a known present value to calculate a future value.
- **Grant element:** A measure of the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest.*
- **Grace period.** An interval between the commitment date and the date of the first payment of principal.*
- **Maturity.** The date at which the final repayment of a loan is due; by extension, a measure of the scheduled life of the loan.*
- **Present value:** The current worth of a future sum of money or stream of cash flows. Calculated using a discount rate – the higher the discount rate the lower the present value of the future cash flows
- **Spread.** The difference between two interest rates.
- **State-supported institutions:** This expression refers to state-owned or state-controlled enterprises and development finance institutions of IFAD Member States.

* As defined by the Development Co-operation Directorate of the Organisation for Economic Co-operation and Development.