

Document: EB 2019/126/R.29  
Agenda: 7(f)(ii)  
Date: 25 March 2019  
Distribution: Public  
Original: English

E



Investing in rural people

## Concessional Partner Loan Agreement with the Republic of India to Support the IFAD11 Programme of Loans and Grants

### Note to Executive Board representatives

#### Focal points:

#### Technical questions:

Charlotte Salford  
Associate Vice-President  
External Relations and Governance Department  
Tel.: +39 06 5459 2142  
e-mail: c.salford@ifad.org

Alvaro Lario  
Associate Vice-President  
Chief Financial Officer and Chief Controller  
Financial Operations Department  
Tel.: +39 06 5459 2403  
e-mail: a.lario@ifad.org

Luis Jiménez-McInnis  
Director  
Partnership and Resource Mobilization Office  
Tel.: +39 06 5459 2705  
e-mail: l.jimenez-mcinnis@ifad.org

Katherine Meighan  
General Counsel  
Tel.: +39 06 5459 2496  
e-mail: k.meighan@ifad.org

Domenico Nardelli  
Director and Treasurer  
Treasury Services Division  
Tel.: +39 06 5459 2251  
e-mail: d.nardelli@ifad.org

Advit Nath  
Director and Controller  
Accounting and Controller's Division  
Tel.: +39 06 5459 2829  
e-mail: a.nath@ifad.org

#### Dispatch of documentation:

Deirdre McGrenra  
Chief  
Governing Bodies  
Tel.: +39 06 5459 2374  
e-mail: gb@ifad.org

Executive Board — 126<sup>th</sup> Session  
Rome, 2-3 May 2019

---

For: Approval

## Recommendation for approval

The Executive Board is invited to approve the detailed proposal, contained in section III of this document, related to the concessional partner loan (CPL) to be provided by the Republic of India.

The CPL agreement was signed by the Republic of India and IFAD on 15 February 2019 and is fully compliant with the provisions of the CPL Framework approved by the Executive Board. The CPL agreement shall become effective upon approval by the Executive Board, following review by the Audit Committee.

## Concessional Partner Loan Agreement with the Republic of India to Support the IFAD11 Programme of Loans and Grants

### I. Executive summary

1. The Concessional Partner Loan (CPL) Framework, approved by the Executive Board at its special session in October 2017, sets out the parameters and the criteria within which IFAD may borrow through the CPL modality from sovereign states and state-supported institutions. It was established in response to the need for IFAD to mobilize additional resources during the period of the Eleventh Replenishment of IFAD's Resources (IFAD11) and possibly beyond, and "as a key instrument in the financial framework of international financial institutions (IFIs) as a means of expanding the funding base beyond standard core contributions".
2. A CPL is a loan provided by a Member State or a state-supported institution, under terms and conditions that include an interest rate significantly lower than market rates, long maturities and long grace periods. Members providing CPLs receive voting rights on the basis of the "grant element" embedded in such loans due to their concessional terms.

### II. Update on IFAD11

3. The most recent financial model update points to a financing gap for IFAD11 on the order of US\$430 million. This is the amount of financial resources that IFAD needs to access through borrowing if it is to deliver a US\$3.5 billion programme of loans and grants (PoLG), assuming that a level of core replenishment contributions in the amount of US\$1.2 billion will be reached in IFAD11.
4. The above gap could be closed by further Member contributions, for example through unrestricted complementary contributions. Alternatively, IFAD could activate the borrowing window, firstly through CPLs and subsequently through the Sovereign Borrowing Framework (SBF).
5. Over the past months, Management held conversations with several sovereign states and agencies that would be eligible to lend to IFAD under the CPL Framework. In addition to its pledge of US\$40 million for IFAD11, inclusive of regular resources and Debt Sustainability Framework, India pledged the first CPL to IFAD in the amount of US\$20 million, including a grant element in the amount of US\$4.1 million. On 15 February 2019, on the margins of the forty-second session of the Governing Council in Rome, Vishal Pratap Singh, Deputy Secretary of the Department of Economic Affairs, Government of India, and the President of IFAD, Gilbert F. Houngbo, signed the CPL agreement, which is to become effective upon approval by the Executive Board of IFAD, following review by the Audit Committee.

### III. Proposal to borrow from the Republic of India and adherence to CPL governance in regard to borrowing

6. Management is seeking Executive Board approval to borrow US\$20 million from the Republic of India to finance part of the IFAD11 PoLG.
7. In line with CPL requirements, India is eligible to lend to IFAD because its core contribution to IFAD11 is 80 per cent of the average core contribution in local currency of the preceding two replenishment periods (IFAD9 and IFAD10).

#### A. Analysis of the proposal

8. In its main features the loan structure will be as follows:
  - Currency of denomination: United States dollar;
  - Maturity: 25 years;
  - Grace period: 5 years;
  - Interest rate: one per cent per annum during each interest period on the outstanding loan balance;
  - Commitment fee: zero; and
  - Drawdown: three-tranche drawdown.
9. Based on the terms above, and in line with the calculation criteria set forth in sections VI.B and VII of the CPL Framework, India's CPL to IFAD11 includes a grant component of US\$4.1 million.

#### B. Use of borrowed funds

10. In line with the provisions of the CPL Framework, 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, covering the whole set of lending products offered by IFAD. Priority will be given to loans provided on highly concessional and blend terms.

#### C. Financial ratios under the CPL Framework

11. The paper "Financial strategy for IFAD11 and beyond" provides that IFAD may borrow up to 50 per cent of the amount of the replenishment core contributions (i.e. up to US\$600 million). CPLs would be the lowest-cost option for obtaining these borrowed funds.

#### D. Evaluation of risks

12. The risk management section of the CPL Framework (section VI.A) foresees that "in terms of risk management, CPLs provided to IFAD will be subject to similar risks and mitigation measures to those identified in the SBF" approved in April 2015. To this effect, the approach outlined in section VIII of the SBF on risk management will be followed where applicable for CPLs.
13. Currency risk is the main risk that IFAD might be exposed to if the funds were lent in a currency different than the United States dollar. As per section VIII, paragraph 30 of the SBF, IFAD will eliminate this risk by ensuring that the funds are lent in the same currency as the loan, i.e. United States dollar.

#### E. Management of borrowed funds

14. The proceeds from the CPL will be pooled with IFAD's core resources and will be managed according to the Fund's policies and procedures.

## F. Reporting

15. IFAD will report on the resources mobilized under the CPL agreement, and on use of the funds, in the IFAD Annual Report. The loan is an integral part of IFAD's financial statements. Therefore, in line with auditing and reporting procedures, IFAD will provide the lender with the yearly audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards, and the related auditor's report.