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Investing in rural people

Concessional partner loan agreement with Agence Française de Développement to Support the IFAD11 Programme of Loans and Grants

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For: Approval

Recommendation for approval

The Executive Board is invited to approve that IFAD Management enter into a concessional partner loan agreement with Agence Française de Développement as proposed in part III of this document. The loan is financially sustainable and adheres to the parameters set out in the Concessional Partner Loan Framework.

Concessional Partner Loan Agreement with Agence Française de Développement 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[1] sets out the parameters and the criteria within which IFAD may borrow from sovereign states and state-supported institutions through the CPL modality. 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 in order to serve "as a key instrument" to expand 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. IFAD11 update

3. The most recent financial model update points to a financing gap for IFAD11 of approximately US$430 million. This is the amount of financial resources that IFAD should obtain through borrowing if it is to deliver a programme of loans and grants (PoLG) of US$3.5 billion, assuming that a level of core replenishment contributions in the amount of US$1.2 billion will be reached in IFAD11.

4. This gap could be closed by further Member State contributions, for example through unrestricted complementary contributions. Alternatively, IFAD could activate the borrowing window, first through a CPL or eventually through the Sovereign Borrowing Framework (SBF).

5. As part of its pledge during the IFAD11 Consultation, France stated its intention to provide a CPL to IFAD11 through the Agence Française de Développement (AFD) in the amount of EUR 50 million.

III. Proposal to borrow from AFD and adherence to CPL Framework governance

6. IFAD is seeking the approval of the Executive Board to enter into a CPL agreement with AFD in accordance with the provisions of the CPL Framework in the amount of EUR 50 million to finance part of the IFAD11 PoLG.

7. In line with the requirement of the CPL Framework, AFD is eligible to lend to IFAD because France's 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).

[1] See EB 2017/S10/R.2/Rev.1.

A. Analysis of the proposal

8. The main features of the loan structure will be as follows:

- Amount: 50 million
- Currency of denomination: euro
- Maturity: 40 years
- Grace period: 10 years
- Interest rate: 0.0 per cent per annum on the outstanding loan balance
- Commitment fee: zero
- Drawdown: single-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, the CPL from France for IFAD11 includes a grant component of EUR 20.91 million. This means that France's overall contribution to IFAD11 is 48 per cent higher than its contribution to IFAD10.

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, therefore covering the whole set of lending products offered by IFAD. Priority would 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 (e.g. up to US$600 million). CPLs would be the lowest-cost option to obtain these funds.

D. Evaluation of risks

12. Section VI.A of the CPL Framework 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 Sovereign Borrowing Framework" (approved in April 2015 – see EB 2015/114/R.17/Rev.1). To this effect, the approach outlined in section VIII of the SBF – risk management – will be followed, where applicable, for CPLs.

13. Currency risk is the main risk that IFAD could be exposed to if the funds were onlent in a currency different from the euro. As per paragraph 30 of the SBF, IFAD will eliminate this risk by ensuring that the funds are onlent in the same currency of the loan, i.e. euro. If possible, after appropriate currency hedging, United States dollar denominated loans may also be considered.

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 their use 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 shall provide the lender with the yearly audited Consolidated Financial Statements of IFAD prepared in accordance with International Financial Reporting Standards and the related external auditor's report.