

Document: EB 2020/131(R)/R.21/Rev.1
Agenda: 7(d)
Date: 8 December 2020
Distribution: Public
Original: English

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IFAD's Integrated Borrowing Framework

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Executive Board — 131st Session
Rome, 7-9 December 2020

For: Approval

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Abbreviations and acronyms

AFD	Agence Française de Développement
ALM	asset and liability management
AML	anti-money laundering
CFT	countering the financing of terrorism
CPL	concessional partner loan
DFI	development finance institution
ESG	environmental, social and governance
IBF	Integrated Borrowing Framework
IDA	International Development Association
IFAD12	Twelfth Replenishment of IFAD's Resources
KfW	KfW Development Bank
MDB	multilateral development bank
PoLG	programme of loans and grants
SBF	Sovereign Borrowing Framework

Recommendation for approval

The Executive Board is invited to approve the Integrated Borrowing Framework as presented in this document.

Executive summary

1. **Borrowing will continue to play an important role for IFAD in realizing its ambitions.** In line with the Addis Ababa Action Agenda, and as highlighted in the strategic directions for the Twelfth Replenishment of IFAD's Resources (IFAD12),¹ IFAD's ambition is to increase financing to all eligible borrowers while preserving its own financial sustainability. This step-up is needed to maximize its support of the 2030 Agenda for Sustainable Development and is now becoming even more vital, in light of the global challenges that are affecting IFAD's Member States as a result of the COVID-19 emergency. While replenishment will remain the bedrock of IFAD's financing, IFAD is conscious that the macro outlook for both contributing and receiving Member States is such that financing needs may rise in direct correlation with a scarcity of easily accessible funding. To reach the levels of delivery required to make a significant impact for IFAD's beneficiaries, borrowing is a necessary component of funding for IFAD. IFAD's universal client base represents a key operational and financial strength, since borrowed resources could be used not only to finance projects in upper-middle-income countries, but also to finance-selected lower-middle-income countries and low-income countries borrowing on semi-concessional and concessional terms.²
2. **The Integrated Borrowing Framework (IBF) is a crucial tool to increase IFAD's access to funding in an efficient and cost-effective manner.** The existing Sovereign Borrowing Framework (SBF) and Concessional Partner Loan (CPL) Framework have been key to increasing IFAD's ability to deliver from IFAD10 onwards. Their scope is, however, limited to sovereign counterparts and to bilateral loans. The bilateral nature of a sovereign loan could limit existing lenders from further financing IFAD due to concentration risk, and it also gives the lender more control to dictate terms. The IBF proposes some innovations and two updates from the previous SBF to strengthen IFAD's borrowing capacity by diversifying its funding sources and improving the timeliness and pricing of borrowing. Supported by its credit rating, IFAD will be best positioned through the IBF to prudently diversify its funding sources.
3. **The IBF is also an important tool to strengthen IFAD's liquidity management.** The primary goal of IFAD's liquidity is to honour disbursement obligations for approved loans and grants to Member States. In line with IFAD's Liquidity Policy (and recent updates thereto),³ IFAD will enhance its focus on planning its short-term liquidity. Through the IBF, IFAD will be in a better position to strengthen its liquidity as and when needed to disburse its growing programme of loans and grants in a timely manner.
4. **Nevertheless, IFAD's leverage will grow gradually, and will remain below the 35 per cent debt/equity ceiling during IFAD12.** Management is conscious of the need to follow a prudent path in increasing leverage. The IBF therefore does not propose an increase in any of the existing financial ratios,⁴ as established in 2015 by the SBF and applied also to exposure through CPLs. This level of leverage remains appropriate for the ambitions of IFAD12.

¹ See IFAD12: Strategic Directions (IFAD12/1/R.6).

² The latter through concessional loans such as CPLs.

³ See document EB 2020/131(R)/R.20.

⁴ See section III.E.

5. **The IBF supersedes and replaces the SBF and the CPL Framework and integrates certain provisions of these previous frameworks into a holistic framework.** The IBF establishes and regulates five pillars governing all of IFAD's borrowing activities. These pillars are: eligible lenders, types of borrowing instruments, use of borrowed funds, borrowing governance, and borrowing limits and risk management. The IBF is a self-contained comprehensive document that integrates relevant provisions from the SBF and the CPL Framework; IFAD may continue to enter into sovereign and CPL borrowing arrangements, subject to the criteria of this IBF. Relevant provisions of the CPL Framework are imported into this IBF and set out in section IV and annex I hereto. For the avoidance of doubt, loans signed prior to the approval of this IBF will be governed by the CPL Framework and/or the SBF in effect at the time of their approval, as applicable.
6. Within its five pillars, the IBF proposes two innovations, in pillars A and B, and two updates from the original SBF in pillars A and E. No changes from the original SBF are proposed in pillar C, which relates to the use of borrowed funds, nor in pillar D, which regulates the governance over borrowing.

Innovations:

- A. **Eligible lenders.** In addition to sovereign states and state-supported institutions,⁵ the IBF proposes to include supranational and multilateral institutions as well as private institutional impact investors (e.g. sustainable, social and green finance) in the pool of eligible lenders. IFAD will notify Executive Board Members through the Member State Platform of any potential borrowing or private placement debt issuance transactions with supranational and multilateral institutions before the relevant Audit Committee review process to allow such Members to express any concerns in relation to the proposed transaction. Such concerns will be addressed, as appropriate, before any proposals are submitted to the relevant Audit Committee for review, and for subsequent approval to the Executive Board.
- B. **Types of borrowing instruments.** The IBF proposes to introduce the possibility of borrowing through private – bilaterally negotiated – bonds, in addition to bilaterally negotiated loans.

No changes:

- C. **Use of borrowed funds.** The IBF does not propose changes in the use of borrowed funds. Borrowing will be used to finance IFAD's loan assets at IFAD's prevailing pricing conditions, ensuring no earmarking and no subsidization from IFAD's own resources.
- D. **Borrowing governance.** The IBF does not propose changes in the authority required to enter into borrowing agreements: all lenders and borrowing agreements (including with existing lenders) will be submitted to the Executive Board for approval. To ensure timely and cost-efficient access to borrowing, Management may, if appropriate, request the Executive Board's approval of lenders and borrowing proposals by correspondence on a no-objection basis (or any other means as may be agreed from time to time). A yearly funding plan will also be approved by the Executive Board, and will be presented to the Executive Board at the same time as the approval of the resources available for commitment document.

Updates to the original SBF:

- A. **Eligible lenders.** The IBF proposes to disapply the additionality provision in the existing SBF which foresaw that IFAD could only enter into a borrowing transaction with a Member State or state-supported institution if the Member State's core replenishment was at least 100 per cent of the amount

⁵ Sovereign states refer to IFAD Member States and sovereign states that are not Members of IFAD. State-supported institutions include all state-owned or state-controlled enterprises and development finance institutions of IFAD Member States.

contributed in the previous replenishment cycle. Considering IFAD's increasing reliance on borrowing, this provision limits borrowing opportunities from state-supported institutions and does not add value to IFAD's borrowing. The additionality rule will remain valid for CPLs, as further detailed in section IV.

- E. **Borrowing limits and risk management.** The IBF proposes to use a more prudent and conservative computation of the debt/equity ratio, aligning IFAD with industry best practice and methodologies followed by credit rating agencies.
7. **The new Asset and Liability Management (ALM) Framework⁶ will be fully operationalized** with enhanced measurement, monitoring and reporting to manage borrowing within IFAD's risk appetite. As IFAD accesses funding from a broader pool of lenders with a diversified range of financial instruments and terms, the ALM Framework will be key in driving IFAD's borrowing strategy. The ALM Framework will be supported by a dedicated ALM system to be developed in 2021. This will allow for enhanced monitoring of IFAD's debt maturity and repricing profiles and more accurate calculation of the duration of assets and liabilities to ensure that mismatches are managed across the entire balance sheet to protect IFAD's capital.
8. **The pillars of the IBF will apply irrespective of a decision on an allocation mechanism for borrowed funds.** Strategic decisions about a separate allocation mechanism to channel borrowing are not considered to be earmarking. Financial sustainability and avoidance of cross-subsidization of borrowed funds with Members' contributions will remain key conditions for IFAD to borrow.
9. **The IBF does not introduce the possibility of market borrowing.⁷** IFAD does not have the power to issue bonds in public financial markets. The authority will rest with IFAD's competent governing bodies to approve any future recommendation by Management introducing the possibility of market borrowing.

⁶ See document EB 2019/128/R.46.

⁷ See resolution 204/XLI on the Eleventh Replenishment of IFAD's Resources. Public offers of bonds can give access to a wide range of retail or institutional investors. These bonds are sold through a negotiated or competitive sale and are actively traded in the secondary market.

I. Background and rationale for the Integrated Borrowing Framework

1. **With global demand for sovereign aid budgets expected to increase in coming years, all development finance institution (DFIs) have started to broaden their funding sources** to meet growing financing needs by optimizing the use of their balance sheets. IFAD has followed the path of other DFIs by starting to prudently leverage its equity. To increase funding for IFAD's programme of loans and grants (PoLG), in 2015, the Executive Board approved the Sovereign Borrowing Framework, which governs IFAD's borrowing from sovereign states and state-supported institutions. In 2017, the Executive Board also approved the Concessional Partner Loan Framework. Closely aligned with the frameworks introduced by the International Development Association (IDA) and the African Development Fund, the CPL Framework covers loans provided to IFAD by Member States and state-supported institutions on highly concessional terms. These terms allow onlending to IFAD Members most in need.
2. **The current global challenges call for an even more rapid response from DFIs.** The long-term consequences of the crisis triggered by COVID-19 are still unknown. Undoubtedly, the world will continue to face an economic downturn, while at the same time financing needs in many countries will be heightened. The combined effects of these forces will require DFIs to step up their efforts to remain relevant and continue making a difference with their countercyclical financing.
3. **IFAD is planning to continue borrowing, gradually and prudently and in line with its level of capital.** IFAD's ambition is to maximize financing for its target beneficiaries and to do so in a sustainable manner. IFAD's leverage will ultimately be constrained by the capacity of its capital to support the increase of development-related loan assets, and the path of increased borrowing will be aligned with Members' strategic guidance. During the period covered by IFAD12, the debt/equity ratio is forecast to remain below the maximum ceiling of 35 per cent established in the SBF and included, unchanged, in the IBF.
4. **To meet its goals, IFAD must broaden its lender base and remove, to the extent possible, barriers for potential counterparts.** The IFAD12: Strategic Directions paper⁸ and the IFAD12: Business Model and Financial Framework 2022-2024⁹ foresee various replenishment scenarios in which borrowing will be an important part of resource mobilization. While replenishment contributions will remain the bedrock of IFAD's financing, debt will play a larger role in IFAD's funding structure. Unlocking new financing opportunities is of critical importance to increase IFAD's development impact. In addition, access to liquidity in a timely manner to meet disbursement obligations should be facilitated. Through the IBF, and supported by its credit rating, IFAD will be in a better position to strengthen its liquidity as and when needed.
5. **IFAD's borrowing liabilities will be managed holistically.** Irrespective of the lender, borrowing represents a financial liability on IFAD's balance sheet and finances IFAD's loan assets. As in any financial institution, the level of overall leverage should be driven by Members' risk appetite. The composition of borrowing among maturity profiles, currencies and interest rates will be linked to balance sheet exposures and monitored through the Asset and Liability Management Framework.¹⁰ A dedicated ALM system will be implemented in 2021 to support reporting to Management and the Executive Board.

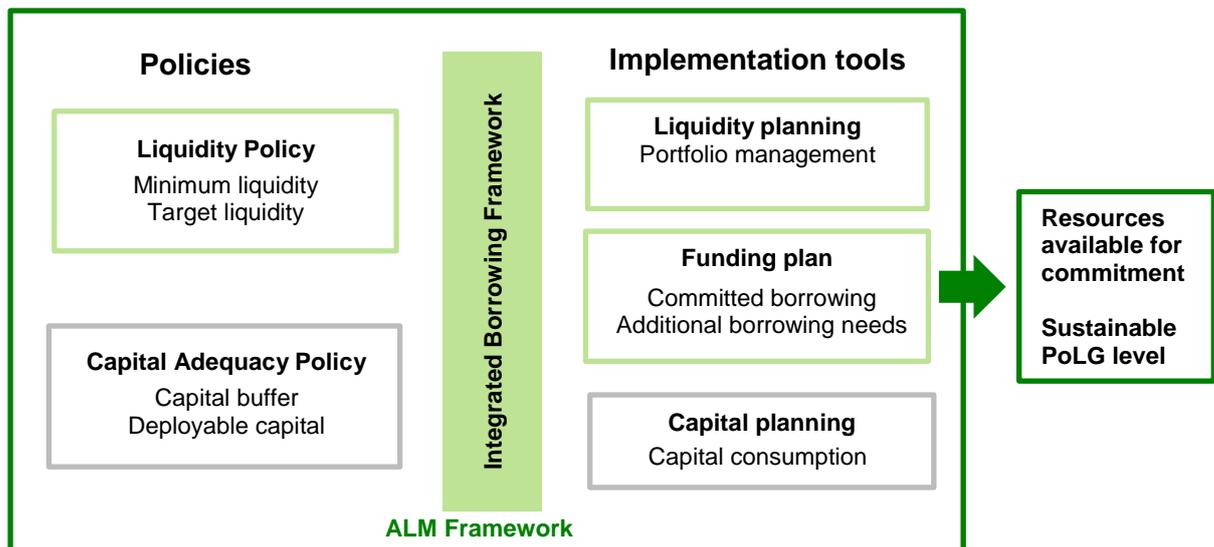
⁸ See document IFAD12/1/R.6.

⁹ See document IFAD12/2(R)/R.2.

¹⁰ See document EB 2019/128/R.46.

6. **The IBF is a financial tool and it will be applied in compliance with IFAD's financial policies.** IFAD's Liquidity Policy and Capital Adequacy Policy together define the main boundaries for determining IFAD's commitment (or financing) capacity. This capacity determines the sustainable level of the PoLG in accordance with the resources available for commitment (RAC), which are approved by the Executive Board. All financial policies operate within the ALM Framework, which sets the guiding principles for managing IFAD's balance sheet exposure in order to mitigate financial risks. The funding plan, which will be approved by the Executive Board as part of the RAC, will operationalize IFAD's borrowing and be developed in accordance with the parameters set out in the relevant financial policies.

Figure 1
IBF relationship with existing policies and tools



7. **Limitation of liability.**¹¹ In line with the Agreement Establishing IFAD, article 3, section 3, on Limitation of Liability, Management will reinforce the protection of Members from liability for IFAD's borrowing by ensuring that the funding documentation includes provisions to the effect that no Member shall, by reason of their membership, be liable for IFAD's acts or obligations.
8. The remainder of the IBF is structured as follows: section II describes the objectives and scope of the IBF; section III describes the five pillars regulated by the IBF and elaborates on the proposed innovations; section IV outlines specific provisions that will apply to CPLs from Member States and state-supported institutions; annex I presents the terms and conditions for CPLs; and annex II summarizes the IBF's proposed changes.

II. Objectives and scope

9. The IBF aims to fulfil two objectives:
- **Objective 1: Timely and cost-effective funding.** Ensuring timely access to best-priced borrowed resources in order to fund IFAD's needs in the most efficient manner.
 - **Objective 2: Maintaining adequate liquidity levels to meet growing disbursement needs.** IFAD's undisbursed balance of loans has grown considerably over the last decade. Adequate liquidity should be maintained at all times to ensure IFAD's ability to disburse and play a countercyclical role.

¹¹ See document EB 2015/114/R.17/Rev.1, para. 9.

The IBF expands the range of tools enabling IFAD to access liquidity needed to disburse development loans funded through borrowing.¹²

10. **The IBF establishes and regulates the five main pillars of IFAD’s borrowing activities, integrating specific provisions of the SBF and the CPL Framework.** The IBF will define the main funding principles, and integrate specific provisions applicable only to Member States and state-supported institutions. The IBF establishes the following five pillars:
- A. Eligible lenders;
 - B. Types of borrowing instruments;
 - C. Use of borrowed funds;
 - D. Borrowing governance; and
 - E. Borrowing limits and risk management.
11. Table 1 shows the proposed innovations with respect to IFAD’s borrowing activities – specifically, additional new types of lenders and funding instruments – along with two proposed updates from the original SBF. The rationale for each of these proposals is discussed in the next section.

Table 1
Innovations and updates introduced by the IBF

<i>Pillar</i>	<i>Change</i>	<i>Type of Change</i>
A. Eligible lenders	Introduction of supranational and multilateral institutions, as well as private institutional impact investors	Innovation
	Disapplication of additionality rule for borrowing from IFAD Member States and state-supported institutions not through CPLs	Update from the original SBF provision
B. Types of borrowing instruments	Introduction of private bilaterally negotiated bonds, i.e. private placements	Innovation
C. Use of borrowed funds	No change	No change
D. Borrowing governance	No change	No change
E. Borrowing limits and risk management	Computation of debt/equity ratio	Update from the original SBF provision

12. As shown above, within pillars A and B, the IBF proposes two innovations to expand the range of eligible lenders and borrowing instruments and one update from the original SBF. Regarding the use of borrowed funds and the governance of borrowing, i.e. pillars C and D, the IBF does not propose any changes. Within pillar E, the IBF proposes one update from the previous relevant sections of the SBF.
13. **The IBF regulates IFAD’s private borrowing transactions in the form of bilateral loans or bilateral bond transactions.** The IBF does not introduce market borrowing through the issuance of bonds in public financial markets. IFAD’s credit rating provides independent confirmation to prospective lenders and investors of IFAD’s financial health and increases its standing as a creditworthy counterpart, thereby unlocking additional bilateral financing.

¹² IFAD’s current undisbursed portfolio is estimated to reach approximately US\$6 billion by the end of IFAD11, compared to US\$2.7 billion at the end of IFAD7.

III. The five pillars of IFAD's borrowing activities

A. Eligible lenders

14. Sovereign states (i.e. IFAD Member States and sovereign states that are not members of IFAD) and state-supported institutions (i.e. all state-owned or state-controlled enterprises and DFIs of IFAD Member States) remain eligible lenders for IFAD. From these lenders, IFAD is allowed to borrow either through sovereign loans or through CPLs depending on the type of loan agreement negotiated.
15. With regard to borrowing from Member States and state-supported institutions, the IBF will disapply the additionality rule originally included in the SBF whereby IFAD would only enter into borrowing discussions with a Member State, or a state-supported institution of 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).
16. Disapplying the additionality rule recognizes that the need for borrowing is increasing, and loans that would fall under the SBF are not necessarily granted by the same counterpart as IFAD's core contributions. The substitution risk against core resources is therefore limited if not absent, and IFAD should not impose unnecessary restrictions. While CPLs grant voting rights for the embedded grant element, there is no grant element nor voting rights for Members that provide IFAD with a loan regulated by the existing SBF. Sections IV and annex I provide adequate safeguards against substitution risk by retaining the additionality clause in respect of CPLs from IFAD Member States and state-supported institutions.
17. There is a broad pool of other potential lenders whose interests closely align with IFAD's mandate, and IFAD should seize this opportunity to raise financing through such counterparts. The IBF therefore introduces the possibility to borrow from the following additional types of lenders:
 - (i) **Supranational and multilateral institutions.** These institutions are natural counterparts for IFAD. The Fund is already collaborating with many multilateral institutions, which provide the largest share of international co-financing for IFAD's projects and programmes, and complement one another's and IFAD's goals. The political push for increased collaboration among a specific class of multilateral institutions (MDBs), and between MDBs and United Nations agencies, is increasing. National development entities such as KfW Development Bank (KfW) and Agence Française de Développement (AFD) and highly rated MDBs borrow funds regularly through their Treasury operations through the issuance of bonds in financial markets. Similarly to KfW and AFD, these institutions might therefore be in a position to onlend borrowed funds to IFAD at attractive conditions¹³ through bilateral loan agreements as well as by potentially buying IFAD's future private placement bonds. These types of funding activities are standard practice across MDBs and development institutions, and do not involve onlending of the relevant entities' members' contributions (or paid-in capital in the case of banks). Along these same lines, and with capital preservation being IFAD's first concern, IFAD invests its liquidity pending disbursements in highly rated bonds of other supranational and multilateral institutions, government agencies and regional development institutions in its own investment portfolio.¹⁴ From a political perspective, some of these institutions might have an interest in indirectly supporting IFAD's mission and priorities. IFAD will notify Executive Board Members through the Member State Platform of any potential borrowing or private placement debt issuance transactions with

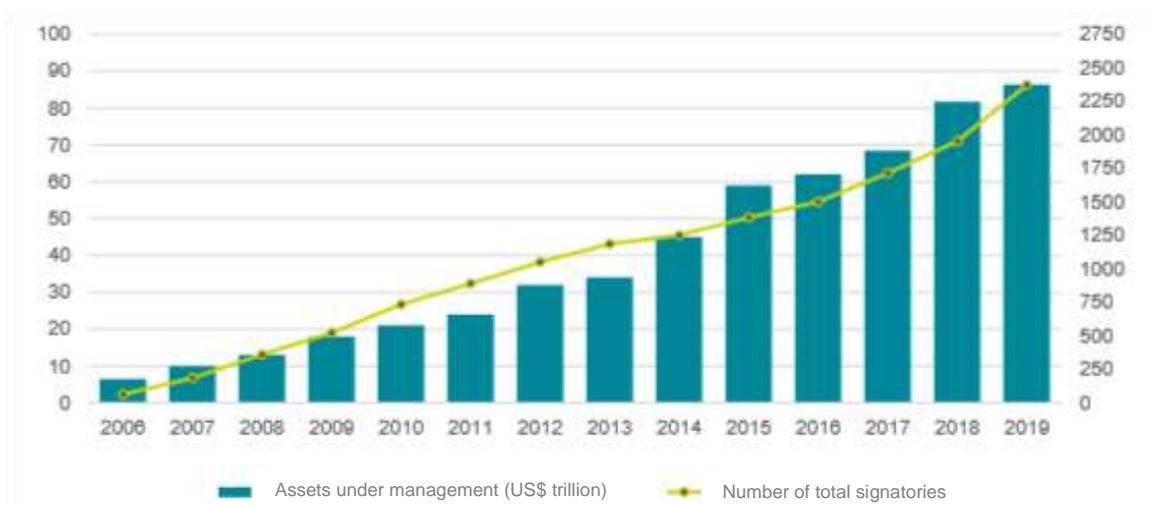
¹³ The onlending conditions and the viability for IFAD depend on the own funding cost of the institution.

¹⁴ As at 28 June 2020, IFAD was holding about US\$468 million invested in 20 international financial institutions and development banks.

supranational and multilateral institutions before the relevant Audit Committee review process to allow such Members to express any concerns in relation to the proposed transaction. Such concerns will be addressed, as appropriate, before any proposals are submitted to the relevant Audit Committee for review, and for subsequent approval to the Executive Board.

- (ii) **Private institutional impact investors, including environmental, social and governance (ESG) investors.** Entities that are not state-owned or state-supported and are focused on investing in assets that address ESG issues, including agricultural development and food systems, fall into this category, with large untapped potential for IFAD. The ESG market has experienced strong growth, as demonstrated by the growth in the number of signatories to the United Nations-supported Principles for Responsible Investment¹⁵ and the volume of their assets under management, shown in figure 2. Aligned with the growth in investor interest, the volume of green, social and sustainability bonds has experienced unprecedented growth.

Figure 2
Growth of Principles for Responsible Investment signatories and assets under management from 2006 to 2019



Source: *Crédit Agricole*

18. **The priorities of such private institutional impact investors are aligned with IFAD's mission.** Strategic objective 3 of the IFAD Strategic Framework 2016-2025 highlights the need to strengthen the environmental sustainability and climate resilience of poor rural people's economic activities. In addition, IFAD's proven and measurable contribution to the 2030 Agenda for Sustainable Development and the link to several of the Sustainable Development Goals make it a natural partner for investors with a focus on environmental and social returns. Potential private institutional impact investors will be screened by IFAD in order to identify and address any potential reputational risks, conflicts of interest and/or other risks before being presented to the Executive Board for approval. Box 1 lists some elements of such due diligence.¹⁶

¹⁵ As further detailed in box 1.

¹⁶ IFAD will also be applying relevant elements of this process to intermediaries, if involved in the issuance process.

Box 1

Due diligence process for private institutional impact investors

Private institutional impact investors will undergo internal due diligence verification informed by the existing process for IFAD's corporate private sector partnerships.

Private institutional impact investors will be screened against the principal following criteria, as most recently reviewed and updated by Management; a final assessment will be included as part of the confidential information submitted to the Executive Board when seeking approval for a transaction:

- (i) **Minimum engagement criteria.** To set a basis for engagement, IFAD shall utilize the minimum engagement criteria defined in the Guidelines on Cooperation between the United Nations and the Business Sector (November 2009), namely: IFAD "will not engage with Business Sector entities that are complicit in human rights abuses, tolerate forced or compulsory labour or the use of child labour, are involved in the sale or manufacture of anti-personnel landmines or cluster bombs, or that otherwise do not meet relevant obligations or responsibilities required by the United Nations"; and IFAD "will not engage with Business Sector entities violating sanctions established by the United Nations Security Council".
- (ii) **ESG profile and reputational risk assessment.** The ESG performance of a potential private institutional impact investor will be examined using indicators from several specialized sources, including ESG risk ratings, as provided by specialized platforms such as Sustainalytics (www.sustainalytics.com) and RepRisk (www.reprisk.com). In addition, through IFAD's External Relations and Governance Department, each private institutional impact investor will be screened to identify any current or pre-existing (direct or indirect) relationship with IFAD to ensure that any potential conflict of interest is addressed.
- (iii) **Alignment of mandate.** Assessments about a potential private institutional impact investor's mission and priorities will be carried out, including as regards adherence to relevant industry standards or recommendations such as the United Nations Principles for Responsible Investment (www.unpri.org)¹⁷ and the United Nations Global Compact (www.unglobalcompact.org).²¹⁸
- (iv) **Anti-money laundering (AML) and countering the financing of terrorism (CFT).** IFAD has developed a "know your customer" questionnaire aligned with global standards and practices in peer institutions. This questionnaire assesses a counterpart's AML, CFT and sanctions policies and procedures as well as relevant training of staff and processes for monitoring and reporting suspicious activities. The questionnaire, in its most recently amended form, will form part of the integrity due diligence checks that IFAD undertakes on potential private institutional impact investors. IFAD further assesses potential new investors against industry standard AML-CFT databases to support compliance with its AML-CFT Policy.
- (v) **Relationship with other DFIs.** Existing relationships with other DFIs, including exposure of investors to peer institutions will be assessed and reported.

19. **State-supported institutions, supranational and multilateral institutions and private institutional impact investors would not be entitled to voting rights.** As they do not contribute to IFAD's replenishment, such lenders would not be entitled to any voting rights, and the rule relating to additionality to counter substitution risk would not be applicable (except in relation to CPLs from IFAD Member States and state-supported institutions).

B. Types of borrowing instruments

20. **Borrowing through bilateral loans will continue.** IFAD has so far borrowed from Member States and state-supported institutions through bilateral loan agreements negotiated with each lender. IFAD may continue to enter into these types of agreements as they also strengthen partnerships with Members and their development agencies.
21. **The IBF introduces the use of bilaterally negotiated bonds by way of private placements to unlock financing from a significantly larger lender base.** Offering a different borrowing instrument will also increase funding opportunities. Many financial market participants, including DFIs, prefer to invest in bonds that they can add to their securities portfolios rather than entering into loan agreements. In light of IFAD's credit rating, sovereign agencies and supranational

¹⁷ The six Principles for Responsible Investment are a voluntary set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The principles were developed by investors under the leadership of the United Nations and have attracted a global signatory base representing a majority of the world's professionally managed investments.

¹⁸ The United Nations Global Compact supports companies to do business responsibly by aligning their strategies and operations with 10 principles on human rights, labour, environment and anticorruption; and promotes strategic action to advance broader societal goals such as the Sustainable Development Goals, with an emphasis on collaboration and innovation.

institutions have expressed a desire to engage in private bond placement transactions negotiable on a bilateral basis.

22. **The essence of a private bond placement is very similar to that of a loan agreement, with additional flexibility.** Table 2 compares the main characteristics of a private placement with a bilateral loan. A significant advantage of a private placement is the higher flexibility in negotiating different maturity profiles and interest rates, which would enable IFAD to obtain more advantageous terms and also have more control over its ALM exposure. A private placement will require different documentation (which would likely be governed by a local law, either of the lender or of a recognized reputable legal system, such as that of England or New York, with a provision for dispute resolution). The standard financing terms can be tailored similarly to those in the loan agreements already signed by IFAD with development banks under the SBF.

Table 2

Comparison between private placement of bonds and bilateral loan

	<i>Private placement</i>	<i>Bilateral loan</i>
Definition	Securities sold directly to selected counterparts	Funds provided to IFAD by one lender
Negotiation process	Negotiated directly with investor counterpart with potential involvement of outside counsel and settlement agents	Negotiated directly with lending counterpart
Maturity	Tailor-made according to funding needs, more flexibility	Typically longer maturities than bonds, reduced flexibility
Interest Rate	Typically at fixed rates, more flexible to access lower rates for shorter maturities	Fixed or variable rate + reference rate (LIBOR/EURIBOR)
Trading	Trading can be contractually restricted	No trading
Settlement	Can be cleared or not through clearing houses, depending on nature of contractual restrictions	No settlement through third party

C. Use of borrowed funds

23. **IFAD will manage borrowing through a balance sheet approach in line with the ALM Framework.** The purpose of ALM is to ensure that liabilities are adequately managed (i.e. that debt is repaid on time). The need for active ALM arises from mismatches between the financial profile of assets and liabilities in terms of denomination currencies, maturities and interest rates. If such mismatches are not managed, these exposures can create liquidity constraints and shortages for an institution and, eventually, affect its capitalization.
24. IFAD's ALM Framework¹⁹ was introduced to take a holistic approach to managing balance sheet risks. Within active ALM, the following two conditions set by the SBF and CPL Framework will continue to apply to all borrowed funds:
- **No earmarking.** In principle, a lender may not restrict the use of the funds being lent to IFAD (e.g. in terms of beneficiaries, purpose, theme or geographic area). Borrowing will continue to finance only IFAD's loan assets at the prevailing terms as set in the Policies and Criteria for IFAD Financing. However, in exceptional circumstances, a lender's proposal expressing a preference for a non-binding focus in a specific thematic area may be considered by the Executive Board as part of the approval process, provided it is consistent with IFAD's strategic priorities.²⁰
 - **Financial sustainability – borrowing will not be subsidized through core resources.** IFAD's ALM Framework and other financial policies will determine the acceptable borrowing terms, with the aim of mirroring the concessionality of the loan assets to be financed. This approach takes into

¹⁹ See document EB 2019/128/R.46.

²⁰ This will be allowed only for non-CPL sovereign loans.

account any potential hedging costs to ensure that IFAD is immunized against any currency and interest rate risks. IFAD will target a positive margin over the lifetime of the borrowing, thereby avoiding subsidization through its core resources.

25. **These conditions will apply irrespective of the allocation mechanism for borrowed funds.** Strategic decisions about a separate allocation mechanism to channel borrowing (e.g. to a specific income category) are not considered to be earmarking imposed by the lender. Financial sustainability will always be the first driver for any allocation mechanism or policy applied to borrowed funds.
26. **Enhanced measurement, monitoring and reporting will be implemented to support strengthened ALM.** As IFAD accesses a broader pool of lenders and a more diversified range of financial instruments and terms, more sophisticated ALM measurement, monitoring and reporting will be implemented (refer to box 2).
27. IFAD will apply its standard fiduciary policies for all borrowed funds to ensure that they are used for the intended purpose. No material additional burden in terms of verification, compliance or due diligence with respect to the use of borrowed funds may be imposed on IFAD by the lender.

D. Borrowing governance

28. **The authority to approve all borrowing proposals will remain with the Executive Board.** Recognizing that the IBF proposes to, inter alia, broaden the pool of eligible lenders and instruments, the Executive Board will retain the authority to approve all borrowing proposals. This will allow the Executive Board to maintain oversight over IFAD's borrowing activities and it will ensure that the Executive Board remains the appropriate authority to decide on IFAD's risk appetite, including reputational risk.
29. **Timeliness and flexibility are essential to seize the most favourable borrowing opportunities.** Since its first sovereign loan in 2014, IFAD has gained significant experience in the negotiation of loans under the SBF and the CPL Framework. This experience has made it clear that the ability to enter into agreements in a timely manner when the opportunity arises is crucial for an efficient funding strategy. Therefore, if the schedule of Executive Board sessions poses timing challenges with respect to mobilizing borrowed resources at favourable terms, Management may present confidential information on potential lenders and borrowing proposals for the Executive Board's approval on a no-objection basis by correspondence (or by any other means agreed).
30. **IFAD's borrowing strategy will be operationalized through an annual funding plan approved by the Executive Board.** The total indicative borrowing envelope levels for a three-year replenishment cycle will be determined based on the target PoLG in the context of each replenishment consultation. Within those total borrowing levels, annual borrowing requirements will be represented in a funding plan that will be included in the RAC document. Both the funding plan and the RAC will be approved by the Executive Board every year. Annual borrowing amounts will be within the established maximum thresholds as reported in section III.E below. The funding plan will include details of the actual, committed, planned and new borrowing amounts as well as disclosable details about any lending counterparts and terms of the borrowing transactions.

E. Borrowing limits and risk management

31. **The IBF proposes to maintain the current borrowing limits and ratios.** IFAD's debt exposure is currently regulated by financial ratios included in the SBF. These ratios will continue to apply to all borrowing on IFAD's own balance sheet and will apply to current and prospective borrowing, unless amended by the Executive Board. The ratios and the thresholds are shown in table 3. The ratios and levels are deemed to be still adequate and in line with IFAD's ambition for IFAD12.

Table 3
Financial ratios governing IFAD's borrowing

<i>Ratio</i>	<i>Formula</i>	<i>Threshold</i>
Debt coverage ratio	Total debt service (principal and interest)/Total loan reflows	< 50%
Liquidity ratio	(Cash in hand and in banks + investments)/Total assets	> 5%
Debt/equity ratio	Total outstanding debt principal/Initial capital available	< 35%

32. One change introduced by the IBF will be to recalibrate the computation of the debt/equity ratio to a more conservative and prudent level. It is proposed to align the calculation with the definition applied under IFAD's Capital Adequacy Policy,²¹ which aligns with industry best practice and is recognized in credit rating agencies' methodologies.²² This computation is somewhat more conservative; as an example, recalculating the debt/equity ratio as at 31 December 2019 results in a ratio of 9.8 per cent, whereas the current computation is 8.1 per cent.
33. **Since the introduction of borrowing in 2014, IFAD started actively managing its limited ALM exposure.** The SBF and CPL Framework describe how the risk introduced by borrowing, most notably the risk of mismatches between profiles of assets and liabilities, is measured and managed. All those provisions will continue to apply. IFAD's current ALM exposure is limited, as mentioned by Fitch in its credit rating of IFAD.²³ So far, all borrowed funds have been onlent through loans denominated in the same currency, at higher interest rates and with remaining maturities at least as long as the loans being financed. This strategy de facto neutralized any mismatches between loan assets and liabilities and it will continue to be pursued to the extent possible during IFAD12.
34. **Financial risks will be managed at balance sheet level.** A more diversified financial profile of borrowing will be managed in line with the newly established ALM Framework. Building on the risk management guidelines described in the SBF and CPL Framework, the new ALM Framework introduced in 2019 builds on the strengthened financial architecture and risk management and prescribes risk indicators for monitoring and mitigating the major risks introduced by borrowing, i.e. liquidity, interest and currency risks. Box 2 presents the key elements of the exposures that IFAD will be monitoring and reporting on.

²¹ See document EB 2019/128/R.43.

²² This definition divides the outstanding principal amount by the initial capital available. The initial capital available is derived by subtracting from IFAD's total equity the contribution receivables and promissory notes (net of provisions and qualified instruments of contribution) and adding the allowance for loan impairment losses.

²³ "The introduction of borrowing activities has generated some modest interest rate risk, albeit very limited. This is mitigated by ensuring that the borrowing terms of IFAD's financial liabilities are matched against the terms of onlent funds.

Box 2

ALM exposure monitoring and management

ALM is a practice used by financial institutions to mitigate financial risks resulting from a mismatch of assets and liabilities. A mismatch in the financial profile of assets when compared to the liabilities, intended as a currency, interest rate or duration/maturity mismatch, could expose the institution to the risk of being unable to honour its debt obligations, thereby eroding its capital.

With regard to borrowing, IFAD's overarching strategy remains to strive to ensure a close match with the financial profile of the assets to be financed, so as to provide a natural hedge against any currency, interest rate and term risk. IFAD's ALM Framework provides the basis for the monitoring and reporting of ALM exposures, and is structured around the following principles:

- I. Maintaining sufficient **liquidity** to meet IFAD's obligations, namely disbursement requests from clients and the servicing of its debt;
- II. Adequately managing the **currency composition** of its assets and liabilities to limit losses deriving from fluctuations or a reduction in IFAD's financing capacity;
- III. Protecting IFAD from fluctuations in **market interest rates** in order to reduce volatility in earnings and avoid reduction in capital.

The above risks are currently measured against established thresholds as detailed in various policies. Some measures are reported internally to finance committees and form the basis of financial planning, while others are periodically reported to governing bodies.

Liquidity risk management. The Liquidity Policy establishes the target liquidity level and the minimum liquidity requirement that IFAD must hold to meet its obligations even in times of stress. It inherently embeds all the cash flows related to borrowing. Liquidity planning will be integrated with a more detailed approach to financing and commitment capacity to ensure strengthened short- and long-term planning of liquidity and funding. It is an active risk management and monitoring tool. The following are the key metrics reported:

- Level of liquid assets versus minimum and target liquidity;
- Liquidity ratio and debt service coverage ratio;
- Actual disbursements versus target (internal reporting);
- Liquidity gap and refinancing profile (internal reporting).

Refinancing risk can arise from maturity mismatches between assets and liabilities. The average residual maturity of assets is compared to average residual maturity of borrowing liabilities to ensure close matching.

Currency risk management. Currency risk is managed by matching the currency of borrowing liabilities and assets financed, and by employing currency hedging instruments if needed. Capital is allocated for the residual unhedged currency risk. The following key metrics are monitored, reported and managed:

- Alignment of currency denomination of assets (cash or investment) with currency of net outflows for the next 24 months on rolling basis;
- Capital consumption currency risk (Capital Adequacy Policy).

Interest rate risk management. The Fund's interest rate risk management objective is to reduce the risk of loss resulting from a mismatch of duration between its assets (investment portfolio and loan portfolio) and liabilities (borrowed funds). IFAD mitigates interest rate risk by ensuring that fixed-rate liabilities (e.g. CPLs) finance fixed-rate loan assets (e.g. IFAD's blend loans) and floating rate assets (IFAD's ordinary loans) are financed by liabilities indexed to the same floating base rate (typically Libor or Euribor). The following key metrics are monitored, reported and managed:

- Duration (years) of the investment portfolio
- Value at risk and conditional value at risk of the investment portfolio at 95 per cent confidence level;
- Capital consumption for interest rate risk (Capital Adequacy Policy).

Furthermore, borrowing proceeds are invested in securities in a dedicated asset and liability portfolio, with the investment strategy aimed at mirroring the funding.

Tools and systems. IFAD's financial model is used to perform projections on the liquidity profile and on the liquidity ratios. IFAD's capital adequacy model is used to perform measurements related to capital consumption. During 2021, the current reporting metrics in various documents will be consolidated in a dedicated ALM report. Moreover, the process will be enhanced with a focus on a more regular and granular monitoring and reporting.

35. **Capital planning.** Capital adequacy is an indicator of IFAD's solvency that measures its capacity to absorb potential losses derived from its development operations. It compares the level of capital available with the capital required to offset those potential losses. The projected level of deployable capital is essential to determine IFAD's risk-bearing capacity and leverage levels. Capital adequacy and liquidity are complementary and will be interlinked through the ALM Framework, which aims to minimize the residual exposure to non-core risks. The

result of this dynamic relationship will determine the relevant limits of the yearly funding plan.

36. **Conflict of interest risk and reputational risk.** The Executive Board retains the right to approve whether a proposed lending counterpart is appropriate for IFAD. In addition, prior to submitting any proposal to the Executive Board, potential new lenders will undergo an internal due diligence screening aimed at assessing any potential conflict of interest or reputational risk. Private institutional impact investors will undergo a more detailed screening, as detailed in box 1 above.
37. **Operational risk.** Operational risk related to the processing of increased borrowing transactions will be managed by upgrading internal accounting and payment systems, a process that has already begun. IFAD's financial model was upgraded in order to fully reflect borrowing transactions and related key metrics, and is undergoing further enhancement that will allow for more sophisticated reporting on current and forecasted ALM positions. IFAD's borrowing strategy is to increase leverage in a gradual and prudent manner, and the expectation is of a limited number of plain vanilla transactions per year.
38. **Legal risk.** As is standard in international financial markets, bilateral loan and bilateral bond agreements (and any hedging, services or similar agreements) with counterparts will be subject to national laws. Disputes may be submitted to an appropriate dispute resolution mechanism, as agreed between IFAD and the prospective lender. Management will conduct negotiations with the assistance of outside counsel, if appropriate, in the relevant jurisdictions. Subject to the provisions relating to the resolution of disputes, nothing in the aforementioned agreements shall be deemed a waiver of IFAD's privileges and immunities.
39. **Road map and timeline.** Table 4 provides the road map and timeline for the review and approval by IFAD's governing bodies of the proposed IBF and the other actions envisaged by Management to enact the IBF in order to achieve the stated objectives.

Table 4

Timeline for the review and approval of the IBF and expected next steps

<i>Meeting/session</i>	<i>Action</i>
Audit Committee 157th meeting 18 June 2020	Submission of IBF for review
Audit Committee 158th meeting 1 September 2020	Submission of IBF for review
Executive Board 130th session 8–11 September 2020	Submission of IBF for review
Executive Board 131st session 7–9 December 2020	Submission of IBF for approval Presentation of the RAC including funding plan
From Executive Board 132nd session onwards	Presentation of potential lenders and borrowing proposals eligible under the IBF
From Executive Board 134th session onwards 14-16 December 2021	Presentation of the RAC based on new methodology including funding plan for approval

* 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 IFAD may require.

IV. Specific provisions for borrowing from IFAD Member States and state-supported institutions through CPLs

40. The terms and conditions for CPLs, introduced by the CPL Framework and set out in annex I, will remain applicable for borrowing from IFAD Member States and state-supported institutions through CPLs. The IFAD12 discount rates for calculating the grant element of CPLs provided in support of IFAD12 will be communicated during the replenishment process.

Terms and conditions of the CPL Framework

- (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 special drawing right (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. IFAD will not accept CPLs with coupon rates higher than the discount rate in the corresponding currency and for the corresponding maturity.
- (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 can accept CPLs in a currency other than the currency in which the core contribution of the Member State has been made.
- (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 IFAD12, it would be the average of IFAD10 and IFAD11 contributions).

- (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 IFAD12 Resolution, but at any rate not until the relevant Member State has deposited an instrument of contribution for the amount of its core contribution required under the provisions of paragraph (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 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 Integrated Borrowing Framework.

A. Determination of the grant element

1. 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 .

B. Additional considerations

2. **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. For the IFAD12 CPLs, the method of calculating the discount rate used in determining the grant element will remain the same as the method approved for IFAD11, as described below.
3. **Net cost saving.** The methodology takes into account the possible savings over those borrowing transactions that have so far been concluded by IFAD.
4. To determine the appropriate discount rate to use, the assumed borrowing cost for IFAD was based on the most recent proxy of IFAD's funding cost, with the appropriate adjustments to take into account the longer maturity of the CPL. Because the latest 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.
5. To convert the borrowing cost to a fixed interest rate, an interest rate swap in the euro currency with the relevant spread with the two proposed maturities was simulated.
6. 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.
7. **Option of an interest rate floor.** An interest rate floor will be required 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. In this case, Member States would 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.
8. **Possibility of additional grant payments.** If a Member State elects to make an additional grant payment (as described in paragraph 40 (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.

Comparison between the IBF, SBF and CPL Framework

1. Table 1 compares the main features of IFAD's current borrowing frameworks in terms of the five pillars that will be regulated through the IBF and highlights the changes that the IBF aims to introduce. Table 2 highlights the sections of the CPL Framework that will not be amended by the IBF and will therefore remain valid and deemed to be integrated in the IBF.

Table 1
Five pillars of the IBF: proposed innovations/updates

	<i>SBF</i>	<i>CPL</i>	<i>IBF</i>
Innovations:			
A. Eligible lenders	<ul style="list-style-type: none"> • Sovereign states • State-supported institutions 	<ul style="list-style-type: none"> • Sovereign states • State-supported institutions 	<ul style="list-style-type: none"> • Sovereign states • State-supported institutions • Multilateral institutions • Supranational institutions • Private institutional impact investors
B. Types of borrowing instruments	<ul style="list-style-type: none"> • Bilateral loans 	<ul style="list-style-type: none"> • Bilateral loans 	<ul style="list-style-type: none"> • Bilateral loans • Bilaterally negotiated bonds
No change:			
C. Use of borrowed funds	<ul style="list-style-type: none"> • No earmarking by lender • No subsidizing from core resources 	<ul style="list-style-type: none"> • No earmarking by lender 	<ul style="list-style-type: none"> • No earmarking by lender • No subsidizing from core resources
D. Borrowing governance	Every proposal: <ul style="list-style-type: none"> • Audit Committee for review • Executive Board for approval. 	Every proposal: <ul style="list-style-type: none"> • Audit Committee for review • Executive Board for approval 	Every proposal: <ul style="list-style-type: none"> • Audit Committee for review • Executive Board for approval
Updates from original SBF:			
A. Eligible lenders	<ul style="list-style-type: none"> • For Member States and state-supported institutions, at least 100% of core replenishment contribution R-1 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Disapplication of additionality rule
E. Borrowing limits and risk management	<ul style="list-style-type: none"> • Debt/equity ratio 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Change in computation of debt/equity ratio

Table 2
Provisions of the CPL Framework integrated into the IBF

<i>Provision</i>	<i>CPL Framework</i>	<i>IBF</i>
Discount rates and grant element	Based on IFAD's funding cost	Included with no change
Terms and conditions	Maturity: 25 or 40 years Grace: 5 or 10 years	Included with no change
Minimum amount	US\$20 million	Included with no change
Additionality	At least 80% of minimum grant contribution as core. Minimum grant contribution = 100% of average core contribution in local currency of R-1 and R-2	Included with no change
Effectiveness	After the Member State has deposited an instrument of contribution for the required amount of core contributions	Included with no change