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Establishment of IFAD's Euro Medium-Term Note Programme

Note to Executive Board representatives

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Recommendation for approval

The Executive Board is invited to approve the establishment of IFAD's Euro Medium-Term Note Programme.

I. Background and funding strategy for the Twelfth Replenishment of IFAD's Resources (IFAD12)

1. Under IFAD12, IFAD will need to secure what is so far the highest level of financing in the form of borrowing in any one replenishment cycle. The overall amount is currently estimated at between US\$1.0 billion and US\$1.3 billion.¹ The final amount of borrowing needed will be established once the actual replenishment level, compared with the target, is known, and the amount will be reassessed on a yearly basis as part of the determination of resources available for commitment.
2. In December 2020, at its 131st session, the Executive Board approved the Integrated Borrowing Framework (IBF) with the overarching goal of accessing funding in a more timely and cost-effective manner. The IBF sets the strategic parameters under which IFAD plans to raise the funds necessary to deliver on the IFAD12 programme of loans and grants target.
3. Under the IBF, IFAD will continue borrowing through sovereign loans from sovereign states and state-supported institutions, including in the form of concessional partner loans (CPLs).² These are important sources of funding for IFAD that allow it to keep a long maturity profile for borrowing liabilities and, in CPL form, are essential for IFAD to support countries on highly concessional and blend terms.
4. In order to successfully fund IFAD12, however, a more diversified funding base is necessary. The IBF introduced an important new category of eligible lenders, private institutional impact investors, and a new borrowing instrument in the form of bilaterally negotiated private bond placements. As established by the IBF, every borrowing proposal (loans and private placements) will be submitted to the Executive Board for approval.
5. The IBF does not introduce funding in the form of public bond issuances (market borrowing). Any commencement of market borrowing by IFAD must be first reviewed and endorsed by the Executive Board and ultimately approved by the Governing Council.³
6. As IFAD has been borrowing for some years from members and their development agencies, standard documentation and processes have been developed for those products. In order to operationalize the private placements introduced under the IBF, IFAD now needs also to establish standard documents and mechanisms for their issuance. In parallel, IFAD has also developed the necessary communication and outreach tools that will support its engagement with private institutional investors.
7. Accordingly, IFAD has developed a euro medium-term note (EMTN) programme. The EMTN programme is a tool necessary for implementing the IBF and will allow the issuance of private placements in a timely and cost-efficient manner, but the EMTN programme is not by itself a means for the issuance of private placement

¹ See document GC 44/L.6.

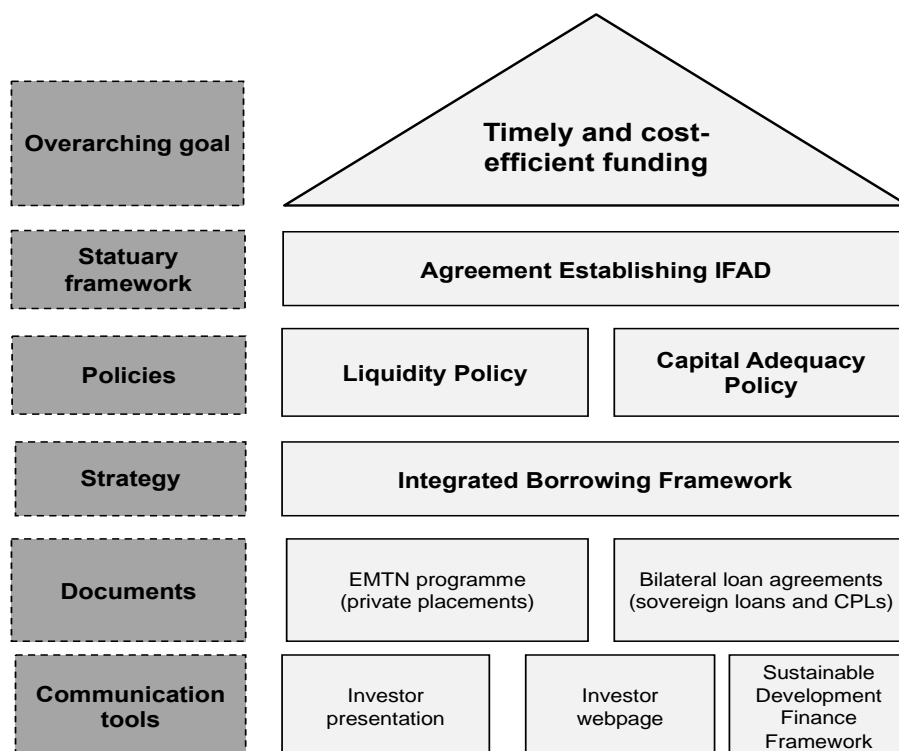
² The level of CPLs targeted for IFAD12 is US\$ 225 million for all scenarios.

³ Governing Council resolution 223/XLIV.

transactions.

8. IFAD’s leverage and funding pace will be determined in compliance with the Liquidity Policy and the Capital Adequacy Policy that form the pillars for the determination of IFAD’s available resources. Figure 1 illustrates the logical connection among the elements that together underpin the policy, statutory and operational architecture for IFAD’s funding plans.

Figure 1
Logical frame for IFAD’s funding



9. The remainder of this document is structured as follows: section II explains what an EMTN programme is and why IFAD needs one; section III presents the main parties that IFAD is working with to establish and/or maintain the EMTN programme; section IV provides highlights of the main standard documents that are required to set up an EMTN programme; section V outlines the risks inherent in the establishment of an EMTN programme; section VI describes the governance of the EMTN programme; and section VII provides an indicative timeline and next steps.

II. What is an EMTN programme and why does IFAD need one?

10. An EMTN is a note or bond which usually matures in 5–15 years– hence the reference to “medium-term”– and which can be issued in private placement format. The specification of “euro” in this context does not refer to the euro currency. In an EMTN context, the word essentially means “international” and refers to an issuer borrowing from foreign lenders in a foreign currency rather than from domestic lenders in its domestic currency (a domestic issue). For example, a Eurobond could be a bond denominated in United States dollars (USD) but issued outside the United States, which would be the case if IFAD were to issue a private placement denominated in USD. EMTNs are a major source of financing in international financial markets.
11. Private placements are commonly issued under an EMTN programme. The EMTN

programme is a standardized issuance platform comprising a set of standard master documents that are agreed upon with all the main parties⁴ at the time of establishment. Once established, the programme enables issuers to issue private placements swiftly when market conditions are favourable.

12. The commercial terms of each private placement issuance under the EMTN programme (including interest rate, maturity and currency) will be subject to bilateral negotiation with each investor. The establishment of the EMTN programme will, however, enable IFAD to avoid lengthy negotiations on the terms and conditions of private placements at the time of issuance. This means in practice that, upon identification of a suitable investor and agreement of the financial terms of the particular issuance, IFAD will be in a position to swiftly submit the relevant borrowing proposal to the Executive Board for approval. Subject to that approval, IFAD will subsequently be able to proceed with effective execution of the private placement.
13. Each borrowing proposal will be submitted to the Executive Board separately for approval, in accordance with the IBF. The pace and size of IFAD's issuances will be determined by IFAD's funding needs; every effort will be made to take advantage of the most favourable market conditions.
14. All of IFAD's peers have established an EMTN programme, or the equivalent thereof, in order to access diverse types of funding, including in the form of private placements. Please see annex I for more information about the debt issuance programmes of peers. Some supranational issuers update their respective programmes regularly; however, most take advantage of regulatory exemptions and only update if required in the event of material changes to the programme.⁵ IFAD is planning to limit as much as possible any updates to its EMTN programme.

III. Main parties to an EMTN programme

15. The main parties that have been assisting IFAD (as issuer) in setting up an EMTN programme are: (i) the programme arranger, who has acted as project manager to ensure smooth communication among all parties; (ii) the legal counsels of the issuer and arranger, who have drafted and negotiated the EMTN documentation and provided general legal guidance and advice on the entire process; (iii) the paying agent, which is a financial institution that acts as agent of the issuer and, on its behalf, facilitates payments of interest and principal on the notes to bondholders; (iv) the rating agencies that rate the EMTN programme; and (v) the auditors, who review and provide comfort on the financial information included in the offering document (please see annex II for a detailed description of all parties under the EMTN programme). All the parties work in close communication and interact with the relevant IFAD divisions to produce standardized, IFAD-specific documentation.
16. IFAD will be a new supranational issuer in the financial markets, although its funding sizes will be more conservative than those of peers, and issuances will only be in private placement form. Management has ensured that IFAD has been advised throughout the process by the most respected and experienced advisers. This provides appropriate comfort to Management regarding the new documents and processes required to establish the EMTN programme. It will also help position IFAD's name in the market with other players. Many financial institutions have already agreed to provide their services and have waived their fees, as having a new supranational issuer is an infrequent and important event.

⁴ More detail on the main parties to the EMTN programme are set out in section III and annex II.

⁵ For example, if an issuer's mandate changes to target a different development problem, the programme would need to be updated to reflect this change.

IV. Main documents underpinning an EMTN programme

17. Two key documents are (i) the offering document (also called offering circular, offering memorandum or information memorandum) and (ii) the programme agreement. The offering document ensures adequate disclosure of information about the issuer, its creditworthiness, its business and the risk factors that might affect its financial soundness. It is therefore the primary disclosure document that provides key material information about the issuer (IFAD) and the private placement bonds. The programme agreement governs the relationship between the issuer, the programme arranger and the dealers – including the rights, obligations and liabilities of each party – as regards the EMTN programme and the private placements to be issued under it. Other important documents include the legal opinions that confirm certain legal matters relating to the EMTN programme and notes, including IFAD’s capacity to issue private placements, the agency agreement and the comfort letter. The various EMTN documents set out certain representations and warranties and specify the rights and obligations of the respective parties. Please see annex III for a detailed description of required documents under an EMTN programme.
18. The documents are drafted by the respective legal counsels of the issuer and arranger and reviewed internally by the responsible IFAD staff.

V. Risks

19. The EMTN programme is an implementation tool to operationalize the IBF subsequent to the approval of the IBF by the Executive Board, and any change to that framework will be undertaken based on members’ guidance. Therefore, the EMTN programme itself will not introduce any inherent additional strategic risk. With regard to financial and legal risks, these are risks related to IFAD’s borrowing activity, which are already described in the IBF.⁶ IFAD’s overall leverage will continue to be regulated by the IBF and existing financial ratios would only be amended – if needed – with the approval of the Executive Board.
20. Following the recent amendments to the Agreement Establishing IFAD and in line with the approach of peer international financial institutions, and further to advice from IFAD’s external legal counsel, certain of the EMTN documents are governed by a domestic law, with submission to the jurisdiction of the local courts for the resolution of any potential disputes. After reviewing standard market practice, IFAD has selected English law and English courts. In addition, in listing the private placements on a recognized stock exchange (see annex II below), IFAD will need to observe certain obligations in terms of ongoing disclosure and transparency requirements, with the consequent risk of breaching such obligations.
21. Subject only to the provisions relating to the resolution of disputes, IFAD’s privileges and immunities will be preserved in the EMTN programme documents. Establishing the EMTN programme is not expected to bring IFAD within the purview of any domestic regulatory authority.

VI. Governance

22. Any updates to the EMTN programme will be submitted to the Executive Board for its approval.

VII. Timeline and next steps

23. IFAD aims to be in the best possible position to start funding the IFAD12 cycle smoothly. Preliminary bilateral discussions with private institutional impact investors have taken place; however, concrete negotiations on the financial terms

⁶ Section III. E.

of private placements can proceed only after the EMTN programme is established and investors are in a position to review IFAD's standard private placement documentation. Furthermore, investors will have to first establish their own internal credit line in order to buy IFAD's private placements, which might also require some time. The approval by the Executive Board of the EMTN programme at the September 2021 session is therefore important to put IFAD in a position to take concrete steps to explore private placement markets prior to the commencement of IFAD12.

24. Conscious of the multiple steps involved in the process, IFAD began work towards establishing the EMTN programme immediately after the approval of the IBF in December 2020. Please see annex IV for a detailed timeline of the steps undertaken so far.

Issuance programmes of peer development and international financial institutions (DFIs/IFIs)

1. Table 1 below shows the main issuance platforms of peer DFIs/IFIs. While the names of the debt issuance programmes of peer institutions vary based on issuer preference,⁷ they are all a form of medium-term note programme, and their documents are standardized. As can be seen in table 1, issuers tend not to update their programmes on a yearly basis and typically only undertake updates in the event of material changes.

Table 1
DFI/IFI debt issuance programmes

DFI/IFI	Name of programme	Year of establishment (E)/update (U)
European Investment Bank	Debt Issuance Programme	8 December 2014 (U)
International Development Association	Global Debt Issuance Facility	22 March 2018 (E)
International Bank for Reconstruction and Development	Global Debt Issuance Facility	22 May 2008 (U)
African Development Bank	Global Debt Issuance Facility	8 September 2009 (U)
Asian Development Bank	Global Medium Term Note Programme	9 December 2020 (U)
International Finance Facility for Immunisation	Global Debt Issuance Programme	28 August 2020 (U)
Council of Europe	Euro Medium Term Note Programme	10 December 2020 (U)
European Bank for Reconstruction and Development	Global Medium Term Note Programme	3 July 2012 (U)
International Finance Corporation	Global Medium Term Note Programme	3 June 2008 (U)
Asian Infrastructure Investment Bank	Global Medium Term Note Programme	18 December 2019 (E)

⁷ Global programmes allow for issuing both in domestic and international markets and in domestic and foreign currency.

Main parties to an EMTN programme

1. **Issuer:** The entity that will issue the notes under the EMTN programme (IFAD). The issuer works closely with its legal counsel and with the programme arranger throughout the process.
2. **Programme arranger:** A financial institution that has the role of a project manager. It coordinates communication among all parties and oversees the documentation process to ensure smooth EMTN programme establishment. In addition, as an experienced player in the financial markets, including in private placements, it can provide marketing advice, signal funding opportunities to the issuer and highlight relevant market trends.
3. **Issuer counsel:** A law firm that acts on behalf of the issuer in drafting and negotiating the EMTN programme documentation (see annex III below) and advising the issuer throughout the process.
4. **Arranger/dealer counsel:** A law firm that acts on behalf of the arranger and dealers – typically assisting the parties during the negotiation of the EMTN programme documentation – and produces legal opinions for the benefit of dealers.
5. **Dealers:** Financial institutions with well-established market presence that act as underwriters of the private placements issued by IFAD and place them with the investors agreed to by IFAD.
6. **Paying agent:** Also known as a “disbursing agent”. A financial institution that collects payments of interest and principal under the notes from the issuer and then distributes the funds to holders of the notes. In other words, the paying agent is in charge of transferring the interest and/or principal payments from the issuer to the investor.
7. **Listing agent:** An institution that acts as liaison between the issuer and the stock exchange. The listing agent will facilitate submissions to the stock exchange with the ultimate purpose of ensuring smooth approval of the EMTN programme.
8. **Auditors:** The issuer’s auditors, which will provide a comfort letter to confirm that certain financial information incorporated in the offering document is correct and that, at the time of signing of the EMTN programme, there has not been any material adverse change in the issuer’s financial condition since the last audited accounts.
9. **Rating agencies:** The agencies that have rated the issuer (Fitch and Standard & Poor in IFAD’s case) will be requested to rate the EMTN programme. Typically, the issuer rating is confirmed as the rating that also applies to the EMTN programme.
10. **Clearinghouse:** A financial institution formed to facilitate the exchange (i.e. clearance) of payments, securities or derivatives transactions. The clearinghouse is therefore an intermediary between two parties. Its purpose is to reduce the risk of a member firm failing to honour its trade settlement obligations. Euroclear and Clearstream are the most important clearinghouses.
11. **Stock exchange:** IFAD will be targeting “buy-to-hold” investors who, although they are unlikely to trade the private placements, will typically require that they are listed on a recognized stock exchange. A stock exchange is a marketplace, where notes can be bought and sold. Supranational issuers typically choose to list their notes on either the London, the Luxembourg or the Irish stock exchanges.

Main documents underpinning an EMTN programme

1. **Offering document (also called offering circular, offering memorandum or information memorandum):** This is the primary disclosure document that provides key material information about the issuer (IFAD) and the notes (mainly based on publicly available information). It is designed to enable investors to make an informed decision about whether to invest in the private placements. As IFAD is a supranational institution with more than one European Union member state, IFAD is exempt from the requirements of the so-called Prospectus Regulation. As a result, IFAD's offering document is a much lighter document with lower levels of disclosure that only needs to comply with the requirements of the listing venue. These are typically the risk factors, a description of the issuer and terms and conditions of the notes to be issued.
2. **Programme agreement:** This is the document that governs the relationship between the issuer, the programme arranger and the dealers – including the rights, obligations and liabilities of each party – as regards the EMTN programme and the private placements to be issued under it.
3. **Terms and conditions:** The terms and conditions set out the general contractual terms of the notes to be issued.
4. **Legal opinions:** Opinions from legal counsel confirm certain legal aspects relating to the EMTN programme and the notes to be issued under it, including IFAD's capacity to issue private placements (i.e. all internal authorizations in place), the legality and validity of all documents and of the notes, and the legal status of the issuer. The opinions are provided by the arranger/dealer counsel and, if needed, from the issuer's General Counsel.
5. **Comfort letters:** Comfort letters confirm that the financial information contained in the offering document has been accurately extracted from the issuer's audited accounts and that there has been no material change in certain financial line items since the last audited accounts.
6. **Agency agreement:** This is the agreement that governs the relationship between the issuer, the fiscal agent and other paying agents; sets out the mechanics for payment of principal and interest on the notes to the bondholders; and contains the forms of notes to be issued by IFAD.

Indicative timeline for the IFAD EMTN programme

1. Immediately after the approval of the IBF and the recent amendments to the Agreement Establishing IFAD, and in preparation for the commencement of IFAD12, IFAD started working on the establishment of the EMTN programme. The timeline below has been developed and reassessed on a weekly basis with the programme arranger and IFAD's external legal counsel to ensure smooth delivery by all parties.
2. Table 1 below shows the steps undertaken so far and the planned steps ahead.

Table 1

Indicative timeline for the establishment of IFAD's EMTN programme

<i>Number</i>	<i>Event</i>	<i>Date</i>
1	Selection of IFAD's programme arranger	February 2021
2	Selection of IFAD's issuer counsel	February–April 2021
3	Kick-off meeting with programme arranger	April 2021
4	Selection of programme arranger counsel	April 2021
5	Selection of paying agent	May 2021
6	Investor presentation finalization	May 2021
7	Organizational conference call among issuer, arranger and counsels	May 2021
8	Notification to rating agencies of upcoming programme	May 2021
9	First draft of offering document circulated	June 2021
10	First draft of contractual documents (e.g. programme agreement, agency agreement) circulated	June / July 2021
11	First draft of comfort letter and legal opinions circulated	June / July 2021
12	Submission of offering document to clearing systems	August 2021
13	Onboarding of dealers under the programme	September 2021
14	Filing of offering document with stock exchange	September 2021
15	Offering document and all contractual documents in final form	September 2021
16	Establishment of the EMTN programme approved by IFAD's Executive Board	September 2021
17	Business due diligence	September 2021
18	Signing of EMTN programme	September/October 2021
19	Beginning of issuance window	After signing