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Proposed Amendments to the Policies and Criteria for IFAD Financing and Adoption of the Framework on Financing Conditions

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For: **Approval**

Recommendation for approval and transmittal to the Governing Council

This report introduces amendments to the Policies and Criteria for IFAD Financing, and the adoption of a Framework on Financing Conditions, in order to reflect: (i) the introduction of the Borrowed Resource Access Mechanism and Update to IFAD's Financing Conditions; (ii) efforts to streamline the Policies and Criteria for IFAD Financing, and ensure it remains a high-level, principles-based document; and (iii) the Executive Board's existing delegation of authority to IFAD Management.

The Executive Board is invited to:

☐ Approve the Proposed Framework on Financing Conditions as reflected in annex I; and

☐ Review and endorse the draft resolution contained in annex II, and submit this draft resolution, together with this report and its recommendation, to the forty-fifth session of the Governing Council in February 2022 for its consideration and adoption.

Proposed Amendments to the Policies and Criteria for IFAD Financing and Adoption of the Framework on Financing Conditions

1. The Amendments to the Policies and Criteria for IFAD Financing (PCIF), and the adoption of the Framework on Financing Conditions are necessitated by the: (i) introduction of a second mechanism to access IFAD borrowed resources, the Borrowed Resource Access Mechanism[1] and Update to IFAD's Financing Conditions;[2] (ii) efforts to streamline the PCIF and ensure it remains a high-level, principles-based document; and (iii) need to reflect the Executive Board's existing delegation of authority to IFAD Management.

2. Over the years, the financial environment within which IFAD operates has changed, necessitating annual amendments to IFAD's policies in order to ensure the Fund's ability to meet its objectives and achieve its mandate. As a result of these extensive amendments, PCIF has become less of the high-level principles-based document it was intended to be, and instead a highly detailed technical document.

3. In line with PCIF article VI, paragraph 18,[3] and in order to streamline the PCIF and ensure it remains a high-level, principles-based document, it is proposed that provisions deemed to be specific to financing conditions, and which are subject to constant change be removed from the PCIF, including types of loans and lending terms and conditions. These provisions have been consolidated into a stand-alone document, the Framework on Financing Conditions. The proposed Framework on Financing Conditions is attached in annex I for Executive Board approval. The Executive Board shall have authority to approve updates to the Framework on Financing Conditions, except in instances where the update may impact the PCIF, in which case those updates will be approved by the Governing Council.

4. Accordingly, the PCIF is amended to read as follows (added text is underlined while shifted text is double-underlined and deleted text is shown in strikethrough):

> *"3. The Lending Policies and Criteria were amended by the Governing Council several times between 1994 and 1998, (…). <u>In 2022, the Policies and Criteria for IFAD Financing (PCIF) were amended to reflect changes required</u>*

[1] EB 2021/132/R.9/Rev.1.
[2] EB 2021/132/R.10/Rev.1.
[3] Policies. The Executive Board shall establish from time to time other policies for financing that may be required or may be appropriate in order to fulfil the objective of the Fund.

to give effect to the second mechanism to access IFAD borrowed resources, the Borrowed Resource Access Mechanism (BRAM) and Updates to Financing Conditions, and to reflect efforts to streamline the PCIF and ensure it remains a high-level, principles-based document. (…)

9. ***~~Allocation of~~ Access to IFAD's resources.*** *The resources of the Fund available for financing for developing Member States shall be ~~allocated~~ provided in accordance with a performance-based allocation system (PBAS) and the BRAM as established by the Executive Board. The Executive Board shall report annually to the Governing Council on ~~the implementation of the PBAS~~ access to IFAD's resources.*

(…)

11. ***Project and programme criteria.*** *Projects and programmes submitted for financing by the Fund shall be based ~~as much as possible~~ on results-based country strategic opportunity programmes or on other strategies that provide a framework for making strategic choices about the Fund's operations in a Member State, identifying opportunities for the Fund's financing and facilitating management for results.*

(…)

15. (…)

A. Loans

(a) Loans to the public sector

(…)

(ii) The Fund shall provide loans to developing Member States on super highly or highly concessional, blend and ordinary terms for approved projects and programmes. A review of the lending terms of each country shall take place prior to the start of every replenishment period. If such review concludes that a country has become, by a process of transition, eligible for less concessional terms, such terms shall be applied gradually to new loans extended throughout the replenishment period. However, a review of the lending terms of each country shall also take place prior to the start of every year in any replenishment period. If such review concludes that a country has become, by a process of reversal, eligible for more concessional terms, such terms may be applied immediately to new loans extended during that year. ~~The criteria for determining the terms to apply to a specific country shall be as specified in this paragraph, in accordance with the following sequence:~~

~~(1) Those developing Member States that, at the end of the year preceding the start of a replenishment period: (a) have a gross national income (GNI) per capita lower than, or equal to, the operational cut-off as determined annually by the International Development Association (IDA), shall normally be eligible to receive loans from IFAD on highly concessional terms; (b) are classified by IDA as a "small state economy" shall normally be eligible for highly concessional terms; (c) have a GNI per capita higher than the operational cut-off referred to in subparagraph (a) above and are still eligible for IDA financing shall normally be eligible for highly concessional lending terms, unless they are classified as "gap countries" or "blend countries" by IDA; (d) are classified as "gap countries" or "blend countries" by IDA shall be eligible for blend lending terms; (e) are not eligible for highly concessional or blend lending terms in accordance with~~

~~*subparagraphs (a), (b), (c) or (d) shall normally be eligible to receive loans on ordinary terms; and (f) are normally eligible for highly concessional terms but may be subject to less concessional terms should a remedy under the Non-Concessional Borrowing Policy, adopted by the Executive Board, be applied.*~~

~~*(2)*~~

(iii) *In conducting the review referred to in paragraph 15 A(a)(ii) above, the following considerations shall be made:*

(1) *In the case of an allocation under the PBAS:*

a. *In allocating resources among countries eligible for loans on the same terms, priority shall be given to those countries characterized by low food security and severe poverty in rural areas, and to fragile situations and "small state economies".*

~~*(3)* *In determining the lending terms to apply to a country, the Executive Board shall also take into account an assessment by the President of IFAD of that country's creditworthiness.*~~

b. ~~*(4)*~~ *The total amount of the financing provided each year through the PBAS mechanism on DSF grant, super highly concessional, highly concessional and blend terms shall amount, at least, to approximately two thirds of the total amount provided during every replenishment period by IFAD.*

~~*(iii)* *The conditions for super highly concessional, highly concessional, blend and ordinary lending terms shall be as follows:*~~

~~*(1)* *Loans on highly concessional terms shall be free of interest but bear a service charge on the principal amount outstanding of three fourths of one per cent (0.75 per cent) per annum for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis, and have a maturity period of forty (40) years (unless a shorter maturity is requested by the borrower), including a grace period of ten (10) years, starting from the date of approval by the Executive Board;*~~

~~*(2)* *Loans granted on blend terms shall be subject to a service charge on the principal amount outstanding of three fourths of one per cent (0.75 per cent) per annum for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis, shall bear interest on the principal amount outstanding at a fixed rate of 1.25 per cent for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis and shall have a maturity period of twenty-five (25) years (unless a shorter maturity is requested by the borrower), including a grace period of five (5) years, starting from the date of approval by the Executive Board;*~~

~~*(3)* *Loans on ordinary terms shall bear interest on the principal amount outstanding at the IFAD reference interest rate, as determined by the Executive Board in accordance with subparagraph (iv), and have a final maturity limit (unless a shorter maturity is requested by the borrower), of up to thirty-five (35) years and a final average maturity limit of up to twenty (20) years, starting from the date as of which the Fund has determined*~~

~~*that all general conditions precedent to withdrawal have been fulfilled;*~~

~~*(4) No commitment charge shall be levied on any loan.*~~

(2) ~~*(5)*~~ *Access to borrowed resources under the BRAM[3] will be based on: (i) demand; and (ii) alignment with strategic focus, absorptive capacity, country ownership, level of indebtedness, and risk-based country limits. This access would comply with the core principles of IFAD-financed operations, namely: alignment with IFAD's mandate, alignment with government priorities and development effectiveness.*

(3) In all circumstances:

a. The Executive Board shall determine the financing conditions and elements of pricing of the different financial instruments while ensuring a significant level of concessionality for the resources provided through the PBAS.

b. ~~*(5)*~~ *For the purposes of implementing the Heavily-Indebted Poor Countries Debt Initiative, the Executive Board may amend the terms upon which an approved loan is provided to a country.*

c. In determining the grace period, the maturity date and the amount of each instalment for the repayment of loans, the Executive Board shall take into account an assessment of a country's debt sustainability produced under the Heavily-Indebted Poor Countries Debt Initiative.

d. ~~*(6)*~~ *The Executive Board may vary the grace period and the amount of each instalment for the repayments of loans* ~~*received on super highly concessional terms, highly concessional terms, blend terms and ordinary terms*~~*. In so doing, the Executive Board, on information provided by the President of IFAD, shall decide on the modalities of the repayment in accordance with the accelerated repayment and voluntary prepayment framework established by the Executive Board.*

e. ~~*(7)*~~ *For the purposes of resolving arrears that may arise from time to time in the payment of interest or service charges and the repayment of the proceeds of loans, the Executive Board may amend the terms upon which an approved loan is provided to a country, including the grace period, the maturity date and the amount of each instalment for the repayment of loans, while securing the original net present value.*

(iv) The composition of the Fund's lending operations on various terms of concessionality stated above, shall be related to the economic and financial capacity of the countries to which the Fund lends. The financial position of the poorest countries makes it imperative that the largest portion of the Fund's resources should be provided on DSF grant, super highly concessional or highly concessional terms and should be concentrated in ~~*on*~~ *the poorest food-deficit countries.*

(v) The Executive Board may include in the loan the cost of technical assistance for feasibility studies that lead to a loan provided by the

[3] *EB 2021/132/R.9/Rev 1 - Borrowed Resource Access Mechanism: Framework for Eligibility and Access to Resources*

Fund. In addition, the Fund may provide, in cooperation with other agencies, grants for suitable activities of international, regional and national research institutions.

(b) Loans to the private sector

The Fund shall provide loans to private sector entities in accordance with the Private Sector Strategy established by the Executive Board or pursuant to other approvals granted by the Executive Board.

(c) Loans to subnationals and other entities

The Fund may provide loans to political subdivisions of Member~~s~~ States, to intergovernmental organizations in which Member~~s~~ States participate or to national development banks or to other entities as assessed from time to time by the Executive Board. In the case of a loan provided to an entity other than a Member State, the Fund shall normally require a suitable governmental or other guarantees, unless the Executive Board decides otherwise on the basis of a thorough assessment concerning related risks and safeguards. The Executive Board shall decide on the financing conditions related to each loan taking into account an assessment, by the President of IFAD, of the creditworthiness of each subnational lending operation based on a comprehensive due diligence and credit assessment. The Executive Board shall report annually to the Governing Council on the approval of this category of loans.

~~(iv) The Executive Board shall:~~

~~(1) Determine~~

(d) The Executive Board shall determine:

(i) (A) The service charge and related interest applicable to loans on super highly, highly concessional ~~terms~~ and blend terms expressed in a unit of denomination other than SDR; and (B) the applicable fees related to loans, considering the recommendation of Management, including an analysis of the cost of preparing and administering IFAD's loans.

(ii) ~~(2) Determine, on the basis of the variable ordinary interest rate of international financial institutions concerned with development, the method of calculation of the reference rate of interest~~ The quarterly spread for ordinary loans to be applied over the applicable market-based rate (that together form the IFAD reference interest rate).~~, which shall provide the basis for the review and revision prescribed in sub-paragraph (3) below; and~~

~~(3) Every three months, review and revise the IFAD reference interest rate for the following period on the basis of market rates.~~

(iii) ~~(v)~~ Notwithstanding anything to the contrary in Resolution 77/2 of the Governing Council on the delegation of power to the Executive Board, the Executive Board is hereby vested with the authority to carry out the responsibilities specified in sub-paragraph ~~(iv)~~ (i) above on the basis of the principles laid down in this document.

B. Grants

(a) Grants may be provided to: (i) developing Member States; (ii) intergovernmental organizations in which such Member States participate; and (iii) other entities which the Executive Board determines to be eligible pursuant to article 8 of the Agreement. Grants are provided in accordance with a policy for grant financing established by the Executive Board.

~~(vi) The composition of the Fund's lending operations on various terms of concessionality stated above, shall be related to the economic and financial capacity of the countries to which the Fund lends. The financial position of the poorest countries makes it imperative that the largest portion of the Fund's resources should be on highly concessional terms and should be concentrated on the poorest food-deficit countries.~~

~~(vii) Loans to countries which are not eligible for loans on highly concessional terms will be on blend or ordinary terms. In respect of these countries, justification for the degree of concessionality proposed will be provided in every project submitted to the Executive Board. The dominating criterion shall be the country's economic and financial situation. However, the Board might, in appropriate cases, consider the nature of the project to be financed in determining the degree of concessionality.~~

(b) ~~(viii)~~ *The Fund's grant assistance, apart from technical assistance, shall be used as per the Regular Grants Policy[4] to finance: (i) improving the policy and investment environment; (ii) leveraging strategic and operational partners' expertise and resources to deepen the impact of IFAD's programme of work; and (iii) improving the availability and uptake of knowledge and innovation for enhanced impact and sustainability.* ~~exclusively for the financing of projects in the absolute poorest food-deficit countries with the most severe development problems. Taking account of the very limited resources available for this type of assistance, t~~ *The Executive Board will approve grant financing taking into account the sustainable allocation of resources to the programme.[5]* ~~only for high-priority projects in countries with very severe budgetary constraints; these considerations will apply in particular to those cases where the revenue-generating effects of projects are considered unimportant but where the project still constitutes an essential element of the Fund's programmes in the country.~~

(c) ~~(ix)~~ *Technical assistance,[6] particularly for activities to strengthen the technical and institutional capacity essential for agricultural development, will normally be provided on a grant basis.[7]* ~~However, when technical assistance for feasibility studies leads to a loan provided by the Fund, the Executive Board may include the cost of such technical assistance in the loan. In addition, the Fund may provide, in cooperation with other agencies, grants for suitable activities of international, regional and national research institutions.~~

~~B. Grants may be provided to: (i) developing Member States; (ii) intergovernmental organizations in which such Member States participate; and (iii) other entities which the Executive Board determines to be eligible pursuant to article 8 of the Agreement. Grants are provided in accordance with a policy for grant financing established by the Executive Board.~~

C. ***Debt sustainability mechanism.*** *Financing under the debt sustainability mechanism is provided to eligible Member States in* ~~the form of grants or a combination of a grant and a loan on highly concessional terms, in~~ *accordance with arrangements for implementation of a debt sustainability framework at the Fund established by the Executive Board. Eligible Member States are also subject to the Non-Concessional Borrowing Policy,* ~~and~~ *its consecutive updates to be decided by the Executive Board, and* ~~the~~ *associated remedies.*

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[4] EB 2021/132/R.3
[5] Paragraph 18 of the Regular Grants Policy: EB 2021/132/R.3
[6] Not including reimbursable technical assistance.
[7] Subject to the provisions of the Regular Grants Policy: EB 2021/132/R.3

(…)

~~***(c) Loans to subnationals and other entities***~~

~~*The Fund may provide loans to political subdivisions of Members, to intergovernmental organizations in which Members participate or to national development banks or to other entities as assessed from time to time by the Executive Board. In the case of a loan provided to an entity other than a Member State, the Fund shall normally require a suitable governmental or other guarantees, unless the Executive Board decides otherwise on the basis of a thorough assessment concerning related risks and safeguards. The Executive Board shall decide on the financing conditions related to each loan taking into account an assessment, by the President of IFAD, of the creditworthiness of each subnational lending operation based on a comprehensive due diligence and credit assessment. The Executive Board shall report annually to the Governing Council on the approval of this category of loans.*~~

~~*16.* ***Transition Framework.*** *In accordance with the delegation of authority established in paragraph 15(iv) above and paragraph 18 below, the Executive Board shall adopt prior to the end of 2018, and review prior to the end of 2019, a transition framework that shall establish the principles and procedures for the processes of transition and reversal referred to in paragraph 15(a)(ii) and their implementation in any replenishment period. In establishing the transition framework, the Executive Board shall be guided by the objectives of avoiding shocks and distortions for borrowers and for the Fund, and providing transparency through the furnishing to the Executive Board, on an annual basis, of information on developing Member States in relation to their income categories, relevant lending terms, and transition or reversal status under the transition framework.*~~

D. ***Post-graduation****. The Fund will provide support to graduated Member States in keeping with the provisions of the Graduation Policy[8] (as amended from time to time). IFAD support to graduated Member States excludes access to IFAD's own financing (core and borrowed resources), however such graduated Member States (or institutions located in graduated Member States) may have access to other forms of support such as non-IFAD financing and other forms of cooperation subject to cost-recovery such as reimbursable technical assistance. Graduated Member States may also participate in regional programmes (without accessing IFAD's own financing directly).”*

5. For reasons of practicality and to give effect to the delegation of authority, the criteria for financing have been consolidated in a separate document entitled Framework on Financing Conditions, which is included in annex I.

[8] *EB 2021/133/R.5*

Framework on IFAD Financing Conditions

I. Article I

INTRODUCTION

1. **Objective**: Article 7.1(e) of the Agreement Establishing IFAD provides, "Subject to the provisions of this Agreement, financing by the Fund shall be governed by broad policies, criteria and regulations laid down, from time to time, by the Governing Council by a two-thirds majority of the total number of votes." Eligibility for assistance is determined on the basis of objective economic and social criteria, with special emphasis on the needs of low-income countries (LICs) and their potential for increasing food production, and due regard for the fair geographic distribution of these resources. The Framework on Financing Conditions sets out the applicable criteria and conditions for this financing.

2. Since the adoption of the Lending Policies and Criteria in December 1978 by IFAD's Governing Council, IFAD has grown significantly and has seen various amendments to the Policies and Criteria for IFAD Financing. Given this evolution, it is now appropriate to have a separate Framework on Financing Conditions. The Executive Board, which is mandated to set out detailed policies governing financing by IFAD, delegates its authority to determine financing conditions under this Framework on Financing Conditions to IFAD Management.

3. The application of this Framework is limited to sovereign public sector operations and does not apply to loans funded through IFAD's non-sovereign private sector operations.[4]

[4] EB 2020/129/R.11.

II. Article II

FINANCING CRITERIA – LOANS TO THE PUBLIC SECTOR

4. The criteria for determining the terms to apply to a specific country shall be as specified in this paragraph, in accordance with the following:

4.1. Developing Member States that, at the end of the year preceding the start of a replenishment period:

a. are eligible for the debt sustainability mechanism[5] shall be eligible for loans on super highly concessional terms;

b. have a gross national income (GNI) per capita lower than or equal to the operational cut-off as determined annually by the International Development Association (IDA) shall normally be eligible to receive loans from IFAD on highly concessional terms;

c. are classified by IDA as a "small state economy" shall normally be eligible for highly concessional terms;

d. have a GNI per capita higher than the operational cut-off referred to in subparagraph (b) above and are still eligible for IDA financing, shall normally be eligible for highly concessional lending terms, unless they are classified as "gap countries" or "blend countries" by IDA;

e. are classified as "gap countries" or "blend countries" by IDA shall be eligible for blend lending terms;

f. are not eligible for super highly concessional, highly concessional or blend lending terms in accordance with subparagraphs (a), (b), (c) or (d) shall normally be eligible to receive loans on ordinary terms;

g. are normally eligible for super highly concessional or highly concessional terms, but may be subject to less concessional terms should a remedy under the Non-Concessional Borrowing Policy, adopted by the Executive Board, be applied;

h. Countries eligible for super highly concessional, highly concessional and blend terms may access ordinary term resources through the Borrowed Resource Access Mechanism (BRAM) following a BRAM eligibility assessment.

4.2. The conditions for super highly concessional, highly concessional, and blend lending terms are as follows:

a. Loans on super highly concessional terms shall be free of interest but bear a service charge on the principal amount outstanding of a tenth of one per cent (0.1 per cent) per annum for loans expressed in special drawing rights (SDR) and as determined by the Executive Board for other currencies on a financial equivalence basis, and have a maturity period of fifty (50) years (unless a shorter maturity is requested by the borrower), including a grace period of ten (10) years, starting from the date of approval by the Executive Board.

b. Loans on highly concessional terms shall be free of interest but bear a service charge on the principal amount outstanding of three fourths of one per cent (0.75 per cent) per annum for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis, and have a maturity period of forty (40) years (unless a shorter maturity is requested by the borrower), including a

[5] Eligibility criteria for the debt sustainability mechanism as defined in the Debt Sustainability Framework Reform (EB 2019/128/R.44).

grace period of ten (10) years, starting from the date of approval by the Executive Board.

c. Loans granted on blend terms shall: (i) be subject to a service charge on the principal amount outstanding of three fourths of one per cent (0.75 per cent) per annum for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis; (ii) bear interest on the principal amount outstanding at a fixed rate of one and one fourth per cent (1.25 per cent) for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis; and (iii) have a maturity period of twenty-five (25) years (unless a shorter maturity is requested by the borrower), including a grace period of five (5) years starting from the date of approval by the Executive Board.

4.3. Loans on ordinary terms shall bear interest on the principal amount outstanding based on the IFAD reference interest rate, as determined by the Executive Board in accordance with article 3 above, and have a final maturity limit (unless a shorter maturity is requested by the borrower) of up to thirty-five (35) years and a final average maturity limit of up to twenty (20) years, starting from the date on which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled. The Fund's ordinary loans to Member States will be categorized as follows:

a. **Category 1** will include LICs and lower-middle-income countries (LMICs) eligible for super highly concessional, highly concessional and blend terms. These countries will be subject to the standard maturity premium differentiation, which together with the other elements of the pricing structure, will ensure a minimum cost recovery of IFAD's cost of funding the borrowed resources.

Borrowers eligible for this category will have access to resources subject to a maximum of thirty-five (35) years maturity and ten (10) years grace period, with a maximum average repayment maturity of twenty (20) years.

b. **Category 2** will include LMICs non-eligible for category 1 (already accessing semi-concessional loans), borrowers transitioning from blend terms to semi-concessional loans, creditworthy fragile and conflict-affected states, and small state economies that are eligible for borrowing from the International Bank for Reconstruction and Development. These countries will be subject to a maturity premium higher than category 1.

Borrowers eligible for this category will have access to resources subject to a maximum of thirty (30) years maturity and eight (8) years grace period, with a maximum average repayment maturity of eighteen (18) years.

c. **Category 3** will include upper-middle-income country (UMIC) borrowers with a GNI per capita below the Graduation Discussion Income (GDI) threshold that do not qualify for an exemption listed within category 2. These countries will be subject to a maturity premium higher than category 2.

Borrowers eligible for this category will have access to resources subject to a maximum of twenty (20) years maturity and five (5) years grace period.

d. **Category 4** will include UMICs with GNI per capita above the GDI threshold and less than the threshold for high-income countries (HICs), or those considered eligible for official development assistance (ODA).

These countries will be subject to a maturity premium higher than category 3.

Borrowers eligible for this category will have access to resources subject to a maximum of eighteen (18) years maturity and three (3) years grace period.

5. The applicable maturity premium adjustment between income categories is reflected in the table below:

New category / average maturity	*Up to 8 years*	*Greater than 8 to 10 years*	*Greater than 10 to 12 years*	*Greater than 12 to 15 years*	*Greater than 15 to 18 years*	*Greater than 18 to 20 years*
Category 1: LICs and LMICs eligible for super highly concessional, highly concessional and blend terms. No high risk of debt distress	0.00%	0.05%	0.15%	0.25%	0.35%	0.50%
Category 2: LMICs and UMICs eligible for ordinary terms and classified as fragile and conflict-affected states, small state economies or in transition	0.10%	0.20%	0.30%	0.40%	0.50%	N/A
Category 3: UMICs with a GNI per capita below the GDI threshold	0.15%	0.25%	0.40%	0.50%	N/A	N/A
Category 4: UMICs with GNI per capita above the GDI threshold and less than the HIC threshold, or those considered eligible for ODA	0.25%	0.40%	0.60%	N/A	N/A	N/A

6. Spread: A variable [or fixed][6] spread will be applied to ordinary term loans.

7. Ordinary term loans will be offered in euros and United States dollars.

8. All loans to the public sector do not bear commitment fees.

[6] The fixed spread offer is suspended from 1 January 2022 (i.e. for the Twelfth Replenishment of IFAD's Resources [IFAD12]) along with the determination of the fixed spread for ordinary term loans. In order to maintain flexibility to adapt to changes over time, the suspension of the fixed spread will be re-evaluated by the end of IFAD12 (financial year 2024). The option to reintroduce the fixed spread for ordinary term loans after re-evaluation is dependent upon the developments in: (i) the secured overnight financing rate market; and (ii) IFAD's own pricing methodology.

III. Article III

GOVERNANCE

9. The Executive Board, while retaining its authority to establish, from time to time, other policies and frameworks for financing that may be required or may be appropriate in order to fulfil the Fund's objectives, delegates to IFAD Management the authority to:

   9.1. determine the: (i) service charge and related interest applicable to loans on super highly, highly concessional and blend terms expressed as a unit of denomination other than SDR; and (ii) applicable fees related to loans, considering the recommendation of Management, including an analysis of the cost of preparing and administering IFAD's loans;

   9.2. determine the quarterly spread for ordinary loans to be applied over the applicable market-based rate (that together form the IFAD reference interest rate); and

   9.3. every three months, review and revise the IFAD applicable spreads for the following period based on market rates.

10. The Executive Board shall have authority to approve updates to the Framework on Financing Conditions, except in instances where the update may impact the PCIF, in which case those updates will be approved by the Governing Council.

Draft resolution …/[…]

Amendments to the Policies and Criteria for IFAD Financing and adoption of the Framework on Financing Conditions

The Governing Council of IFAD,

Recalling resolution 178/XXXVI, in which it was decided upon the proposal of the Executive Board to approve the Polices and Criteria for IFAD Financing;

Having considered Executive Board documents EB 2021/132/R.9/Rev.1 and EB 2021/132/R.10/Rev.1 proposed amendments to the Policies and Criteria for IFAD Financing, the proposed Framework on IFAD Financing Conditions and the recommendation to the Governing Council; and

Acting under Article 7, Section 1(e) of the Agreement Establishing IFAD;

Hereby decides:

1. The following paragraphs of the Policies and Criteria for IFAD Financing are hereby amended to read as follows (added text is underlined, moved text is double-underlined and deleted text is shown in strikethrough):

"3. The Lending Policies and Criteria were amended by the Governing Council several times between 1994 and 1998, (…). In 2022, the Policies and Criteria for IFAD Financing (PCIF) were amended to reflect changes required to give effect to the second mechanism to access IFAD borrowed resources, the Borrowed Resource Access Mechanism (BRAM) and Updates to Financing Conditions, and to reflect efforts to streamline the PCIF and ensure it remains a high-level, principles-based document.

(…)

*9. **~~Allocation of~~ Access to IFAD's resources.** The resources of the Fund available for financing for developing Member States shall be ~~allocated~~ provided in accordance with a performance-based allocation system (PBAS) and the BRAM as established by the Executive Board. The Executive Board shall report annually to the Governing Council on ~~the implementation of the PBAS~~ access to IFAD's resources.*

(…)

*11. **Project and programme criteria.** Projects and programmes submitted for financing by the Fund shall be based ~~as much as possible~~ on results-based country strategic opportunity programmes or on other strategies that provide a framework for making strategic choices about the Fund's operations in a Member State, identifying opportunities for the Fund's financing and facilitating management for results.*

(…)

15. (…)

A. Loans

(a) Loans to the public sector

(…)

(ii) The Fund shall provide loans to developing Member States on super highly or highly concessional, blend and ordinary terms for approved projects and programmes. A review of the lending terms of each country shall take place prior to the start of every replenishment period. If such review concludes that a country has become, by a process of transition, eligible for less concessional terms, such terms shall be applied gradually to new loans extended throughout the replenishment

period. However, a review of the lending terms of each country shall also take place prior to the start of every year in any replenishment period. If such review concludes that a country has become, by a process of reversal, eligible for more concessional terms, such terms may be applied immediately to new loans extended during that year. ~~The criteria for determining the terms to apply to a specific country shall be as specified in this paragraph, in accordance with the following sequence:~~

~~(1) Those developing Member States that, at the end of the year preceding the start of a replenishment period: (a) have a gross national income (GNI) per capita lower than, or equal to, the operational cut-off as determined annually by the International Development Association (IDA), shall normally be eligible to receive loans from IFAD on highly concessional terms; (b) are classified by IDA as a "small state economy" shall normally be eligible for highly concessional terms; (c) have a GNI per capita higher than the operational cut-off referred to in subparagraph (a) above and are still eligible for IDA financing shall normally be eligible for highly concessional lending terms, unless they are classified as "gap countries" or "blend countries" by IDA; (d) are classified as "gap countries" or "blend countries" by IDA shall be eligible for blend lending terms; (e) are not eligible for highly concessional or blend lending terms in accordance with subparagraphs (a), (b), (c) or (d) shall normally be eligible to receive loans on ordinary terms; and (f) are normally eligible for highly concessional terms but may be subject to less concessional terms should a remedy under the Non-Concessional Borrowing Policy, adopted by the Executive Board, be applied.~~

~~(2)~~

(iii) In conducting the review referred to in paragraph 15 A(a)(ii) above, the following considerations shall be made:

(1) In the case of an allocation under the PBAS:

a. In allocating resources among countries eligible for loans on the same terms, priority shall be given to those countries characterized by low food security and severe poverty in rural areas, and to fragile situations and "small state economies".

~~(3) In determining the lending terms to apply to a country, the Executive Board shall also take into account an assessment by the President of IFAD of that country's creditworthiness.~~

b. ~~(4)~~ The total amount of the financing provided each year through the PBAS mechanism on DSF grant, super highly concessional, highly concessional and blend terms shall amount, at least, to approximately two thirds of the total amount provided during every replenishment period by IFAD.

~~(iii) The conditions for super highly concessional, highly concessional, blend and ordinary lending terms shall be as follows:~~

~~(1) Loans on highly concessional terms shall be free of interest but bear a service charge on the principal amount outstanding of three fourths of one per cent (0.75 per cent) per annum for loans expressed in SDR and as determined by the Executive Board for~~

~~*other currencies on a financial equivalence basis, and have a maturity period of forty (40) years (unless a shorter maturity is requested by the borrower), including a grace period of ten (10) years, starting from the date of approval by the Executive Board;*~~

~~*(2) Loans granted on blend terms shall be subject to a service charge on the principal amount outstanding of three fourths of one per cent (0.75 per cent) per annum for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis, shall bear interest on the principal amount outstanding at a fixed rate of 1.25 per cent for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis and shall have a maturity period of twenty-five (25) years (unless a shorter maturity is requested by the borrower), including a grace period of five (5) years, starting from the date of approval by the Executive Board;*~~

~~*(3) Loans on ordinary terms shall bear interest on the principal amount outstanding at the IFAD reference interest rate, as determined by the Executive Board in accordance with subparagraph (iv), and have a final maturity limit (unless a shorter maturity is requested by the borrower), of up to thirty-five (35) years and a final average maturity limit of up to twenty (20) years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled;*~~

~~*(4) No commitment charge shall be levied on any loan.*~~

(2) ~~*(5)*~~ *Access to borrowed resources under the BRAM[3] will be based on: (i) demand; and (ii) alignment with strategic focus, absorptive capacity, country ownership, level of indebtedness, and risk-based country limits. This access would comply with the core principles of IFAD-financed operations, namely: alignment with IFAD's mandate, alignment with government priorities and development effectiveness.*

(3) In all circumstances:

a. The Executive Board shall determine the financing conditions and elements of pricing of the different financial instruments while ensuring a significant level of concessionality for the resources provided through the PBAS.

b. ~~*(5)*~~ *For the purposes of implementing the Heavily-Indebted Poor Countries Debt Initiative, the Executive Board may amend the terms upon which an approved loan is provided to a country.*

c. In determining the grace period, the maturity date and the amount of each instalment for the repayment of loans, the Executive Board shall take into account an assessment of a country's debt sustainability produced under the Heavily-Indebted Poor Countries Debt Initiative.

d. ~~*(6)*~~ *The Executive Board may vary the grace period and the amount of each instalment for the repayments of loans* ~~*received on super highly concessional terms, highly concessional terms, blend terms and ordinary terms*~~*. In so*

[3] *EB 2021/132/R.9/Rev 1 - Borrowed Resource Access Mechanism: Framework for Eligibility and Access to Resources*

doing, the Executive Board, on information provided by the President of IFAD, shall decide on the modalities of the repayment in accordance with the accelerated repayment and voluntary prepayment framework established by the Executive Board.

e. *~~(7)~~ For the purposes of resolving arrears that may arise from time to time in the payment of interest or service charges and the repayment of the proceeds of loans, the Executive Board may amend the terms upon which an approved loan is provided to a country, including the grace period, the maturity date and the amount of each instalment for the repayment of loans, while securing the original net present value.*

(iv) The composition of the Fund's lending operations on various terms of concessionality stated above, shall be related to the economic and financial capacity of the countries to which the Fund lends. The financial position of the poorest countries makes it imperative that the largest portion of the Fund's resources should be provided on DSF grant, super highly concessional or highly concessional terms and should be concentrated in ~~on~~ the poorest food-deficit countries.

(v) The Executive Board may include in the loan the cost of technical assistance for feasibility studies that lead to a loan provided by the Fund. In addition, the Fund may provide, in cooperation with other agencies, grants for suitable activities of international, regional and national research institutions.

(b) Loans to the private sector

The Fund shall provide loans to private sector entities in accordance with the Private Sector Strategy established by the Executive Board or pursuant to other approvals granted by the Executive Board.

(c) Loans to subnationals and other entities

The Fund may provide loans to political subdivisions of Member~~s~~ States, to intergovernmental organizations in which Member~~s~~ States participate or to national development banks or to other entities as assessed from time to time by the Executive Board. In the case of a loan provided to an entity other than a Member State, the Fund shall normally require a suitable governmental or other guarantees, unless the Executive Board decides otherwise on the basis of a thorough assessment concerning related risks and safeguards. The Executive Board shall decide on the financing conditions related to each loan taking into account an assessment, by the President of IFAD, of the creditworthiness of each subnational lending operation based on a comprehensive due diligence and credit assessment. The Executive Board shall report annually to the Governing Council on the approval of this category of loans.

~~(iv) The Executive Board shall:~~

~~(1) Determine~~

(d) The Executive Board shall determine:

(i) (A) The service charge and related interest applicable to loans on super highly, highly concessional ~~terms~~ and blend terms expressed in a unit of denomination other than SDR; and (B) the applicable fees related to loans, considering the recommendation of Management, including an analysis of the cost of preparing and administering IFAD's loans.

(ii) *~~(2) Determine, on the basis of the variable ordinary interest rate of international financial institutions concerned with development, the method of calculation of the reference rate of interest~~ The quarterly spread for ordinary loans to be applied over the applicable market-based rate (that together form the IFAD reference interest rate).~~, which shall provide the basis for the review and revision prescribed in sub-paragraph (3) below; and~~*

~~(3) Every three months, review and revise the IFAD reference interest rate for the following period on the basis of market rates.~~

(iii) *~~(v)~~ Notwithstanding anything to the contrary in Resolution 77/2 of the Governing Council on the delegation of power to the Executive Board, the Executive Board is hereby vested with the authority to carry out the responsibilities specified in sub-paragraph ~~(iv)~~ (i) above on the basis of the principles laid down in this document.*

B. Grants.

(a) *Grants may be provided to: (i) developing Member States; (ii) intergovernmental organizations in which such Member States participate; and (iii) other entities which the Executive Board determines to be eligible pursuant to article 8 of the Agreement. Grants are provided in accordance with a policy for grant financing established by the Executive Board.*

~~(vi) The composition of the Fund's lending operations on various terms of concessionality stated above, shall be related to the economic and financial capacity of the countries to which the Fund lends. The financial position of the poorest countries makes it imperative that the largest portion of the Fund's resources should be on highly concessional terms and should be concentrated on the poorest food-deficit countries.~~

~~(vii) Loans to countries which are not eligible for loans on highly concessional terms will be on blend or ordinary terms. In respect of these countries, justification for the degree of concessionality proposed will be provided in every project submitted to the Executive Board. The dominating criterion shall be the country's economic and financial situation. However, the Board might, in appropriate cases, consider the nature of the project to be financed in determining the degree of concessionality.~~

(b) *~~(viii)~~ The Fund's grant assistance, apart from technical assistance, shall be used as per the Regular Grants Policy[4] to finance: (i) improving the policy and investment environment; (ii) leveraging strategic and operational partners' expertise and resources to deepen the impact of IFAD's programme of work; and (iii) improving the availability and uptake of knowledge and innovation for enhanced impact and sustainability. ~~exclusively for the financing of projects in the absolute poorest food-deficit countries with the most severe development problems. Taking account of the very limited resources available for this type of assistance, t~~ The Executive Board will approve grant financing taking into account the sustainable allocation of resources to the programme.[5] ~~only for high-priority projects in countries with very severe budgetary constraints; these considerations will apply in particular to those cases where the revenue-generating effects of projects are considered unimportant but where the project still constitutes an essential element of the Fund's programmes in the country~~.*

[4] *EB 2021/132/R.3.*
[5] *Paragraph 18 of the Regular Grants Policy: EB 2021/132/R.3.*

(c) ~~(ix)~~ Technical assistance,[6] particularly for activities to strengthen ~~the~~ technical and institutional capacity essential for agricultural development, will normally be provided on a grant basis.[7] ~~However, when technical assistance for feasibility studies leads to a loan provided by the Fund, the Executive Board may include the cost of such technical assistance in the loan. In addition, the Fund may provide, in cooperation with other agencies, grants for suitable activities of international, regional and national research institutions.~~

~~B. Grants may be provided to: (i) developing Member States; (ii) intergovernmental organizations in which such Member States participate; and (iii) other entities which the Executive Board determines to be eligible pursuant to article 8 of the Agreement.~~

C. Debt sustainability mechanism. *Financing under the debt sustainability mechanism is provided to eligible Member States in ~~the form of grants or a combination of a grant and a loan on highly concessional terms, in~~ accordance with arrangements for implementation of a debt sustainability framework at the Fund established by the Executive Board. Eligible Member States are also subject to the Non-Concessional Borrowing Policy, ~~and~~ its consecutive updates to be decided by the Executive Board, and ~~the~~ associated remedies.*

(…)

~~(c) Loans to subnationals and other entities~~

~~The Fund may provide loans to political subdivisions of Members, to intergovernmental organizations in which Members participate or to national development banks or to other entities as assessed from time to time by the Executive Board. In the case of a loan provided to an entity other than a Member State, the Fund shall normally require a suitable governmental or other guarantees, unless the Executive Board decides otherwise on the basis of a thorough assessment concerning related risks and safeguards. The Executive Board shall decide on the financing conditions related to each loan taking into account an assessment, by the President of IFAD, of the creditworthiness of each subnational lending operation based on a comprehensive due diligence and credit assessment. The Executive Board shall report annually to the Governing Council on the approval of this category of loans.~~

*~~16. **Transition Framework.** In accordance with the delegation of authority established in paragraph 15(iv) above and paragraph 18 below, the Executive Board shall adopt prior to the end of 2018, and review prior to the end of 2019, a transition framework that shall establish the principles and procedures for the processes of transition and reversal referred to in paragraph 15(a)(ii) and their implementation in any replenishment period. In establishing the transition framework, the Executive Board shall be guided by the objectives of avoiding shocks and distortions for borrowers and for the Fund, and providing transparency through the furnishing to the Executive Board, on an annual basis, of information on developing Member States in relation to their income categories, relevant lending terms, and transition or reversal status under the transition framework.~~*

*D. **Post-graduation.** The Fund will provide support to graduated Member States in keeping with the provisions of the Graduation Policy[8] (as amended from time to time). IFAD support to graduated Member States excludes*

[6] *Not including reimbursable technical assistance.*
[7] *Subject to the provisions of the Regular Grants Policy: EB 2021/132/R.3*
[8] *EB 2021/133/R.5*

access to IFAD's own financing (core and borrowed resources), however such graduated Member States (or institutions located in graduated Member States) may have access to other forms of support such as non-IFAD financing and other forms of cooperation subject to cost-recovery such as reimbursable technical assistance. Graduated Member States may also participate in regional programmes (without accessing IFAD's own financing directly)."

This resolution and the amendment contained therein shall enter into force and effect on the [date of its adoption by the Governing Council.]