
Revised Integrated Borrowing Framework

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Useful references:

Revised Integrated Borrowing Framework ([EB 2023/138/R.8](#))

Capital Adequacy Policy ([EB 2019/128/R.43](#))

Liquidity Policy ([EB 2020/130/R.32](#))

Resources available for commitment ([EB 2022/137/R.12](#))

IFAD Asset and Liability Management Framework ([EB 2019/128/R.46](#))

Action: The Executive Board is invited to approve the Revised Integrated Borrowing Framework as presented herein. The Executive Board is further invited to endorse the submission of the draft resolution contained in annex I to the Governing Council for adoption. The revised framework shall come into force and effect following the adoption of the draft resolution by the Governing Council.

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I. Revised Integrated Borrowing Framework

A. Objectives and scope

1. The Revised Integrated Borrowing Framework (IBF) aims to fulfil two objectives:
 - (i) **Objective 1. Timely and cost-effective funding for disbursements of loans to IFAD's operations:** ensuring timely access to the best-priced borrowed resources to disburse loans to recipients support IFAD's operations.
 - (ii) **Objective 2. Efficient liquidity management:** sourcing funds to maintain IFAD's liquidity requirements and to efficiently manage liquidity in treasury operations.
2. **The scope of the IBF is to establish and regulate the following five pillars of IFAD's borrowing activities:**
 - (A) Eligible lenders;
 - (B) Borrowing instruments;
 - (C) Use of borrowed funds;
 - (D) Borrowing governance; and
 - (E) Risk management.

II. Five pillars of IFAD's borrowing activities

A. Eligible lenders

3. The following lenders are eligible under the IBF:
 - (i) **Sovereign states and state-supported institutions.** Sovereign states refer to both IFAD Member States and other sovereign states that are not members of IFAD. State-supported institutions include all state-owned or state-controlled enterprises and development finance institutions (DFIs) of IFAD Member States.
 - (ii) **Supranational and multilateral institutions.** These institutions are natural counterparts for IFAD. IFAD will continue to notify Executive Board members through the Member States Interactive 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 meeting of the Audit Committee for review, and to the Executive Board for subsequent approval.
 - (iii) **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 and have large untapped potential for IFAD. The ESG market has experienced strong growth, as demonstrated by the increase in the number of signatories to the United Nations-supported Principles for Responsible Investment¹ and the volume of their assets under management. Together with the growth in investor interest, the volume of green, social and sustainability bonds has experienced unprecedented growth.

¹ As further detailed in box 1.

(iii) **Short-term liquidity providers.** These include primarily money market mutual funds, banks, insurance companies, pension funds and other large corporations with surplus cash whose goal is to invest with a short time horizon to effectively manage their surplus cash.

4. **The additionality rule** applies to concessional partner loans (CPLs) but not to non-CPLs.²
5. **State-supported institutions, supranational and multilateral institutions, and private institutional impact investors are not entitled to voting rights.** As they do not contribute to IFAD's replenishment, such lenders are not entitled to any voting rights, and the rule relating to additionality to counter substitution risk does not apply (except in relation to CPLs from IFAD Member States and state-supported institutions).

B. Borrowing instruments

6. The following borrowing instruments are eligible under the IBF:
 - (i) **Concessional partner loans.** A CPL is a key instrument in the financial framework of an international financial institution. It is a concessional loan (e.g. with interest rates significantly lower than market rates, long maturities, and/or long grace periods) that, in the case of IFAD, complies with the terms and conditions governing CPLs as set forth in the relevant replenishment report³ and comprises a grant element that entitles the lender to certain voting rights. A CPL from a state-supported institution will entitle the Member State that owns or controls such agency to receive voting rights for the grant element of the CPL.
 - (ii) **Loans in non-CPL form.** As loans that are not subject to the pre-defined terms and conditions governing CPLs, loans in non-CPL form do not entitle the lender to voting rights.
 - (iii) **Private bond placements.** A security sold directly to an institutional private investor, rather than as part of a public offering.
 - (iv) **Liquidity management instruments.** These are short-term financial tools to efficiently manage cash flows and meet short-term obligations. Among the most widely used instruments in this category are commercial paper (unsecured, short-term debt instrument issued to raise funds for immediate operational needs with maturities typically under one year) and repurchase (repo) agreements (collateralized short-term borrowing arrangements in which one party sells securities with an agreement to repurchase them at a specified date and price).⁴

C. Use of borrowed funds

7. **IFAD will borrow to disburse loans to beneficiaries support its operations and to efficiently manage its liquidity within its Asset and Liability Management (ALM) Framework.** IFAD will continue borrowing to increase its development impact. Through borrowing, IFAD will also source funds for effective liquidity management. This entails maintaining its liquidity requirements in line with the Liquidity Policy and credit rating, including temporary use for collateral

² The additionality rule states that Member States providing CPLs (either 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 the 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 IFAD13, the average of IFAD12 and IFAD11 contributions).

⁴ Although legally a repo constitutes a sale and repurchase of securities rather than a borrowing instrument, it behaves economically like a collateralized loan or secured deposit (the principal use of a repo is in fact the borrowing and lending of cash).

management. Borrowing will continue to be managed on a balance sheet level and in line with IFAD's ALM Framework.⁵

8. Within active ALM, the following ~~two conditions~~condition 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). In limited cases, a thematic instrument with no specific earmarking to a subset of ~~loan assets~~projects or programmes will be considered, ~~but~~ only if the proposed theme is in line with IFAD's core mission and has strong linkages to IFAD's ~~loan portfolio~~in its entirety.⁶ ~~and~~
 - ~~Financial sustainability—borrowing will not be subsidized through core resources.~~ IFAD's ALM Framework and balance sheet position will determine the acceptable borrowing terms, with the aim of mirroring the concessionality of the loan assets to be financed where applicable. This approach takes into account any potential hedging costs to ensure that IFAD is immunized against any currency and interest rate risks. The proceeds from borrowed funds will be onlent to borrowers on terms that ensure the funding costs are fully covered by the interest rate charged on loans, thereby safeguarding financial sustainability.
9. ~~These conditions apply~~This condition applies 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.~~

D. Borrowing governance

10. **The Executive Board will approve the annual funding plan.** The total indicative borrowing envelope levels for a three-year replenishment cycle will be determined based on the target programme of loans and grants in the context of each replenishment consultation. Annual borrowing requirements for projects and programmes will be reflected in a funding plan to be included in the resources available for commitment (RAC) document. Both the funding plan and the RAC will be approved by the Executive Board every~~each~~ year. ~~Annual borrowing amounts will be within the established maximum thresholds as included in the CAP and the Liquidity Policy.~~ The funding plan will include details of the actual, committed, planned and new borrowing amounts.
11. **The President will approve single transactions, loan agreements and potential investors after the due diligence process is concluded.** IFAD's due diligence process for private institutional investors, as described in box 1, is solid and tested. The process will continue to apply and the authority to approve potential investors and associated transactions will be delegated to the President.⁷ Short-term liquidity providers and related transactions, due to the nature of the transactions and the limited tenors, are not subject to pre-approval.

⁵ EB 2019/128/R.46.

⁶ The use of proceeds will ultimately be reflected in the bilateral agreement.

⁷ For sovereign states and state-supported institutions and for supranational and multilateral institutions, the due diligence process will not be undertaken. However, IFAD will endeavour to perform due diligence also on state-owned pension funds and/or insurance companies.

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 following criteria, recently reviewed and updated by Management:

- (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 provided by specialized platforms such as Sustainalytics (www.sustainalytics.com) and RepRisk (www.reprisk.com). In addition, through IFAD's External Relations 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 of 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)⁸ and the United Nations Global Compact (www.unglobalcompact.org).⁹
- (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 be 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.

12. **The Executive Board will be informed of all loan and private placement transactions.** Management will inform the Executive Board of every loan agreement and private placement issuance. The note will include all the disclosable details¹⁰ regarding the transaction, as well as progress on the funding plan implementation.

E. Risk management

13. **Borrowing will continue to be managed at balance sheet level in line with IFAD's ALM Framework and supported by ALM reporting.** 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. IFAD's ALM Framework was introduced to take a holistic approach to managing balance sheet risks. Box 2 recalls the key elements of the exposures that IFAD will be monitoring and reporting on.

⁸ 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.

⁹ 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.

¹⁰ This will be done to the extent possible, respecting when needed the confidentiality requirements of the investors.

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 liabilities, in the form of a currency, interest rate or duration/maturity, could expose the institution to the risk of being unable to honour its debt obligations, thereby eroding its capital.

IFAD's overarching strategy is to strive to ensure a close match between its assets and liabilities, including through the use of derivatives to hedge financial risks. 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 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.

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

Currency risk management. IFAD may borrow in a different currency than the onlending currency. Currency risk is managed by matching the currency of borrowing liabilities with the currency of the assets financed, or by employing currency hedging instruments if needed. Capital is allocated for the residual unhedged currency risk.

Interest rate risk management. IFAD'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).

14. **Capital planning.** Capital adequacy is an indicator of solvency that is used to measure IFAD's 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 are 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.
15. **Conflict of interest risk and reputational risk.** For loans and private placements, all 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.
16. **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 has been 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.
17. **Legal risk.** As is standard in international financial markets, financial instruments (and any hedging, services or similar agreements) with counterparts may be subject to national laws. Disputes may be referred to an appropriate mechanism for resolution and enforcement of the parties' rights, as agreed between IFAD and the prospective lender or relevant party. 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.

Draft resolution .../XLVIII

Approval of the amendments to Governing Council Resolution 223/XLIV

The Governing Council of IFAD, taking into account Resolution 223/XLIV,

Decides that Resolution 223/XLIV shall be amended as follows, with underscore reflecting added text and strikethrough reflecting deleted text:

"Hereby decides that:

Any IFAD's initial public offer of debt securities ~~commencement of market borrowing by IFAD~~ to finance projects and programmes must be first reviewed and endorsed by the Executive Board and ~~ultimately~~ approved by the Governing Council.

IFAD may issue private placements and commercial paper."