
Partial Credit Guarantee Pilot Framework

Document: EB 2026/147/R.8

Agenda: 8(a)

Date: 18 March 2026

Distribution: Public

Original: English

FOR: APPROVAL

Action: The Executive Board is invited to approve the Partial Credit Guarantee Pilot Framework as presented in this document.

Technical questions:

Diane Menville

Associate Vice President and Chief Financial Officer
Financial Operations Department
e-mail: d.menville@ifad.org

Malek Sahli

Lead Development Finance Officer
Financial Operations Department
e-mail: m.sahli@ifad.org

Contents

Executive summary	II
I. Context	1
II. Value added proposition and rationale	2
III. Strategic considerations	2
IV. Operational considerations	3
V. Financial and other considerations	4
VI. Terms and conditions of PCG Pilot transactions	5
VII. Legal considerations	8
VIII. Risk management considerations	8
IX. Way forward	9

Annexes

I. Selected multilateral development banks benchmark analysis	
II. Q&A	

Executive summary

1. Partnering with and mobilizing the private sector are a fundamental part of scaling up financing for sustainable development in Member States, alongside official development assistance inflows. IFAD, within the international financial institution community, can play a catalytic role in crowding-in private investments in rural development, building on its: (i) long-standing sectoral technical expertise in designing transformative projects for more resilient and inclusive rural development; (ii) institutional expertise in fiduciary oversight, safeguards and results measurement; and (iii) financial capacities reflected in its AA+ credit rating.
2. Within this context and to meet borrowing Member States' demand for innovative financial instruments that go beyond traditional loans and grants, IFAD Management is proposing to pilot unfunded partial credit guarantees (PCGs) as a credit-enhancing, risk-sharing instrument for its sovereign and sub-sovereign operations. PCGs will complement IFAD's existing financial products and mobilize larger volumes of private and public capital for greater impact in rural development. By improving borrower credit profiles and encouraging co-guarantor arrangements with multilateral development banks and development finance institutions, PCGs maximize capital efficiency, amplify risk sharing, and significantly increase the scale of financing mobilized to transform agriculture and rural economies.
3. The Partial Credit Guarantee Pilot Framework can deepen IFAD's partnership with financial intermediaries such as national development banks and strengthen their capacity to finance food systems transformation. By enabling Member States to access larger volumes of financing on more favourable terms, PCGs empower them to achieve measurable impact and build more resilient rural economies. Through this innovative approach, IFAD cements its leadership in sustainable rural finance, paving the way for inclusive, long-term growth among the world's most vulnerable populations.
4. To ensure consistency and smooth integration with established operations, the PCG Pilot Framework is fully aligned with IFAD's governing policies, operational framework and governance standards. PCGs will strictly follow IFAD's mandate, country priorities, objectives and strategies, and operate in accordance with the principles and practices applied to loan- and grant-funded projects. Implemented within the commitment capacity of the respective replenishment cycle, PCGs will be available to all qualifying borrowing Member States, with a strategic focus on low-income and lower-middle-income countries. All transactions will be demand-driven and subject to Executive Board approval.
5. The PCG Pilot Framework will adhere to IFAD's current practices and standards on resource use and monitoring and evaluation of development impact and outcomes. This will ensure efficient and transparent use of mobilized resources, promoting accountability, transparency and replicability. Risks will be managed through a limited size and volume of pilot transactions, a gradual and phased approach to project onboarding, and transparent governance.
6. This document, which has been updated based on feedback from Member States, proposes interim principles and operational modalities that will guide the implementation of PCGs during the pilot phase. The pilot is envisioned to end at the midterm of the Fourteenth Replenishment of IFAD's Resources (IFAD14), after which IFAD and Member States will assess the experience and decide whether to mainstream PCGs into IFAD's product offer for IFAD14 onwards.

Partial Credit Guarantee Pilot Framework

I. Context

1. **Private capital investment is urgently needed to help reduce the financing gap in food systems and rural livelihoods.** Food systems face mounting pressure from rising food insecurity, deepening poverty and accelerating environmental challenges. These pressures are compounded by a chronic shortage of financing, with an estimated US\$170 billion gap per year in smallholder agriculture alone.¹
2. To bridge this shortfall, mobilizing private capital for rural development is essential to complement public financing, which alone cannot meet the scale and urgency of the required investments. Recognizing the critical role of the private sector in development finance, the G20 has consistently urged international financial institutions (IFIs), such as IFAD, and multilateral development banks (MDBs) to adopt catalytic approaches in leveraging their sectoral technical expertise, specific country knowledge, balance sheets and strong credit ratings to support developing countries in their efforts to mobilize international private capital.²
3. **Several MDBs, such as the World Bank Group, Inter-American Development Bank, African Development Bank and Asian Development Bank, have been deploying partial credit guarantees (PCGs) for decades as an effective instrument for expanding development impact by mobilizing private capital.** Over time, their guarantee offerings have evolved to include a broader range of instruments to support policy reforms, mitigate political and regulatory risks, and enhance the scalability, efficiency and bankability of investment projects (see annex I). IFAD, however, will remain focused on providing only credit guarantees.
4. **In response to these evolving trends and existing demand, IFAD is considering the introduction of a PCG pilot programme (PCG Pilot).** In alignment with IFAD's unique mandate to drive inclusive and sustainable rural transformation, and the IFAD13 Directions paper,³ Management seeks to explore this innovative financing tool both to amplify development outcomes in the rural sector and to ensure efficient use of IFAD's financial capacities.
5. **What is a partial credit guarantee?** A PCG is a credit enhancement mechanism through which guarantors provide partial protection to lenders or investors against the risk of default by borrowers on a debt instrument. In the event of non-payment, the guarantor compensates the lender or investor for the guaranteed portion of the defaulted amount. This shifts the credit exposure of the guaranteed portion from the borrower to the guarantor, improving the borrower's risk profile and encouraging private sector investment, thus enabling borrowers to access larger volumes of financing on more favourable terms such as lower borrowing costs, longer maturities or extended grace periods.
6. This framework document comprises nine sections: section I presents the context for introducing the PCG Pilot; section II outlines its value proposition; section III addresses the PCG Pilot's strategic alignment with IFAD's mandate and existing framework; section IV examines how the PCG Pilot will be incorporated into IFAD's operational practices; section V discusses the financial features of PCG transactions; section VI details the terms and conditions; sections VII and VIII identify the legal

¹ IFAD. 2022. Papers of the 2021 Rural Development Report. [Do not transform food systems on the backs of the rural poor.](#)

² [G20 Roadmap for the Implementation of the Recommendations of the G20 Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks.](#)

³ [IFAD13/1/R.6/Rev.1.](#)

and risk management considerations for implementation; and section IX sets forth the next steps.

II. Value added proposition and rationale

7. **By piloting PCGs, IFAD aims to amplify the impact of its interventions by strengthening its role as an assembler of sustainable finance, scaling investment in rural transformation and supporting small-scale producers.** As the only IFI exclusively focused on rural development and inclusive food systems, IFAD brings deep experience and proven expertise in delivering results for the most vulnerable rural populations. PCGs will enable IFAD to share the credit risk with lenders or investors of the underlying debt instrument, thereby catalysing and assembling a broader mix of public, private and blended financing beyond its own envelope. This will allow IFAD to implement more scalable, efficient and high-impact operations and advance more sustainable, inclusive and resilient rural development.
8. **IFAD will leverage the multiplier effect of PCGs to expand private capital mobilization and deepen strategic partnerships with MDBs.** PCGs reduce the risk exposure in underlying debt instruments for lenders or investors. For the guaranteed portion, lenders benefit from IFAD's strong AA+ credit rating, reinforced by the preferred co-guarantor structure, rather than relying on the borrowers' credit profile. This risk sharing expands the pool of financiers and crowds in sustainable private capital that would otherwise remain untapped. The private capital mobilized through PCGs directly contributes to IFAD's programme of work, generating greater leverage than traditional cofinancing.⁴ PCGs can also enhance IFAD's collaboration with other MDBs through recommended co-guarantee structures, which combine creditworthiness, technical expertise and financial envelopes to scale-up guarantee capacity. This maximizes leverage and enhances risk sharing, ensuring highly efficient use of public capital while increasing private capital mobilization.
9. **IFAD will strengthen partnerships with financial intermediaries in rural finance through PCGs, reinforcing their role as key actors in rural investment.** PCGs enable IFAD to collaborate further with financial intermediaries, including national development banks (NDBs), by unlocking additional financial resources and supporting capacity-building through technical assistance, knowledge-sharing and project pipeline development through, for example, the Agricultural Public Development Bank Coalition (Agri-PDB Platform).⁵ This support enhances the ability of these institutions to finance food systems transformation and better reach smallholders and rural populations.
10. **PCGs provide borrowing Member States with an expanded financing toolkit and strengthened development effectiveness.** By introducing PCGs, IFAD offers broader financing solutions tailored to national development priorities and fosters greater synergy and complementarity across its operations. IFAD also brings decades of institutional expertise in fiduciary oversight, safeguards and results measurement to help countries deliver measurable impact and build more resilient systems for inclusive rural development.

III. Strategic considerations

11. The PCG Pilot will fully align with IFAD's mandate to support project investments for rural transformation, with country strategies as set out in the approved country

⁴ Further explained in question 1, annex II.

⁵ IFAD has been leading the "Agri-PDB Platform", a growing coalition of public development banks (PDBs), since 2021. It brings together global finance and sustainable development expertise to enhance the capacities of national, regional and international PDBs.

strategic opportunities programmes (COSOPs) and with the governance standards applied to regular IFAD-funded projects.

12. **Linkages with the Agreement Establishing IFAD, IFAD’s mandate, COSOPs and IFAD’s business model.** IFAD will partially guarantee financial instruments that will in turn fund projects⁶ tied to IFAD’s mandate and development agenda. The use of proceeds from these guaranteed instruments will be strictly linked to the Agreement Establishing IFAD, and IFAD’s mandate, core indicators, targeting policy, COSOPs and other relevant governing policies, as with any standard loan- or grant-funded project. Such initiatives will be consistent with IFAD’s sectoral focus and designed to benefit IFAD’s core target group.
13. **All country income categories will be eligible** for PCGs. The PCG Pilot will be limited to countries identified to access IFAD resources under the performance-based allocation system (PBAS) and the Borrowed Resource Access Mechanism (BRAM) in the respective replenishment cycle during the pilot, in line with the country selectivity criteria. Eligible countries will include: (i) **countries at low or moderate risk of debt distress**⁷ (green- and yellow-light countries, respectively); and (ii) **countries eligible for loans on ordinary terms at IFAD.**
14. The PCG Pilot will only cover debt for **Member States and their subnational entities – including NDBs and other entities backed by sovereign guarantee**⁸ – **that have defined development objectives, activities and results and for public sector initiatives that are in accordance with IFAD’s mandate and operational framework.**⁹ The PCG Pilot **will exclude** policy-based operations¹⁰ and non-sovereign operations.
15. The PCG Pilot will be **limited to credit risk guarantees**, covering a portion of the **debt service defaults** on guaranteed debt instruments issued by the relevant Member States or their subnational entities. The PCG Pilot will not cover political, maturity, off-take, performance, policy-based or commodity price risks.
16. **Co-guarantor recommendation.** Given the inherent “partial” nature of PCGs, it is recommended that PCG Pilot transactions be structured through risk-sharing partnership arrangements with MDBs, IFIs or insurance providers to mobilize greater credit coverage. Such partnerships would enable IFAD to leverage external expertise, enhance coverage capacity, and promote more efficient use of public capital. This approach aligns with IFAD’s rationale for mobilizing cofinancing, reinforces IFAD’s role as an assembler of finance and enhances the international financial architecture.
17. **Counterindemnity requirement.** All PCG Pilot transactions will require a sovereign guarantee, in the form of a counterindemnity from the Member State, without exception. Where the borrower is a subnational entity (e.g. a subnational government or NDB), the Member State must provide the counterindemnity on the borrower’s behalf.

IV. Operational considerations

18. For the proposed pilot, PCGs will typically be used to support regular IFAD operations to enhance efficiency, ensure oversight and reduce operational risks. However, PCGs may also be used as a stand-alone instrument to support projects led by other financing partners.¹¹

⁶ Including projects, programmes and multiphase programmes.

⁷ As per the International Monetary Fund (IMF) LIC Debt Sustainability Assessment

⁸ [Lending to Subnational Entities in the Context of IFAD’s New Business Model](#).

⁹ In the form of projects, programmes or multiphase programmes, including results-based lending initiatives.

¹⁰ Typically covered by policy-based guarantees at other MDBs.

¹¹ Similar to type-C projects in a cofinancing partnership, where the other partner initiates the project and takes the lead in both design and implementation, and IFAD acts as the supporting partner.

19. **Life cycle of PCG-funded projects.** From identification to closure, PCG-funded projects will be designed and implemented in accordance with IFAD's regular project procedures. These projects would follow current principles and practices applied to other IFAD-financed operations with regard to **results reporting, mainstreaming requirements, Social, Environmental and Climate Assessment Procedures (SECAP) and operational fiduciary requirements.** IFAD's operational guidelines will be updated as necessary to address specific requirements such as budgeting, project implementation, monitoring and reporting.
20. The appropriateness of the PCG instrument will be assessed in line with the country strategy and the potential benefits will be further evaluated in the project design documents (i.e. the project concept note and project design report), including:
 - (a) **Macroeconomic and debt context.** IFAD will evaluate government or NDB funding plans, ongoing IMF programmes, commercial debt access, debt sustainability and debt absorptive capacity. This evaluation will consider alignment with IFAD's Sustainable Lending Policy.¹² IFAD will ensure that PCGs support sustainable development financing without generating unsustainable debt burdens.
 - (b) **Strategic fit and value addition.** PCGs must demonstrate additionality and complementarity to existing IFAD operations in the country. They should not crowd out private sector investors who can independently provide the required capital and expertise. This rationale¹³ will guide the coverage ratio of IFAD PCGs.
21. **Executive Board oversight.** PCG transactions will require Executive Board approval. PCG-funded projects must be supported by the same level of documentation as loan-funded projects.
22. **Assessment of private sector capital mobilization.** The PCG's nominal value counts towards IFAD's programme of loans and grants (PoLG), while the value of private sector capital mobilization and other cofinancing is included in the programme of work. IFAD will follow the methodology agreed upon and adopted by MDBs on the recognition and measurement of private sector capital mobilization.¹⁴

V. Financial and other considerations

23. As an overarching principle, the PCGs will be treated on a loan equivalent basis for financial considerations, including capital adequacy, provisioning and exposure limits.
24. **Time horizon.** The PCG Pilot Framework will span the remaining years of the IFAD13 cycle and the first 18 months of IFAD14 (ending June 2029). Given IFAD's limited and early-stage experience with PCGs, the PCG Pilot will cover a **small number of transactions (maximum three).**
25. **Size of the IFAD PCG Pilot.** The PCG Pilot will be implemented within the respective commitment capacity of each replenishment cycle,¹⁵ as allocated through the PBAS and BRAM mechanisms. The **proposed ceiling** for the total PCG Pilot envelope is up to **US\$130 million. The envelope is not intended to be fully utilized but reflects IFAD's current risk appetite for PCGs within its overall**

¹² In December 2024, the Executive Board approved the update of the Non-Concessional Borrowing Policy, including its renaming as the [Sustainable Lending Policy](#).

¹³ The value addition and therefore the level of coverage may be influenced by the borrower's income category.

¹⁴ MDB Methodology for Private Investment Mobilization Reference Guide, co-issued in 2018 by several development partners (Asian Development Bank, African Development Bank, Asian Infrastructure Investment Bank, Association of European Development Finance Institutions, European Bank for Reconstruction and Development, European Investment Bank, Islamic Development Bank, Islamic Corporation for the Development of the Private Sector, Inter-American Development Bank (IDB), IDB Invest, New Development Bank, World Bank).

¹⁵ Reflected in the size of the PoLG.

- commitment capacity.** The exposure limit for each country identified for the PCG Pilot will also be considered.
26. **Credit exposure measurement** for PCGs will be treated as loan equivalent on a one-to-one basis, applying the same risk principles used for loan portfolio exposures. PCG exposures, along with exposures to other development-related financial instruments, will be aggregated with loan exposures for the purposes of capital adequacy and country exposure limits.
 27. **Provisioning** for PCGs would follow the same procedure as reserved for loan impairment allowance, namely expected credit loss. The provision will be determined on the basis of the loan equivalence together with other relevant components as described in paragraph 31.
 28. **Liquidity management.** The loan equivalent values of PCGs will be incorporated into IFAD's liquidity management practices, including the minimum liquidity requirement, relevant prudential limits and cash flow projections. Deploying funds to cover defaults on the guaranteed debt instruments will fall under IFAD's liquidity management practices, as governed by its Liquidity Policy. Such deployments will be financed from IFAD's financial resources.
 29. **Financial reporting.** Under International Financial Reporting Standards (IFRS),¹⁶ PCGs will have an immediate impact on IFAD's financial statements, and expected credit loss will be calculated in accordance with IFRS9 on the underlying PCG exposure. They will be calculated based on the probability of default and loss given default of the recipient and final loan borrower. In addition, IFAD will also disclose the full exposure in the memorandum accounts (contingent assets and liabilities). Any amounts paid by IFAD, if the guarantee is called,¹⁷ will be accounted as a loan, as discussed in further detail in paragraph 43.
 30. **Information disclosure** for PCGs will follow the practice of similar transactions by IFIs/MDBs. Lenders or investors of the guaranteed debt instrument typically review relevant agreements to understand the guarantee and how to enforce it. Information disclosure will depend on market requirements and will be assessed at the time of the transaction to ensure compliance. Sensitive elements, such as guarantee fees, may be placed in a side letter to maintain confidentiality. The borrower's national regulations can also shape the overall extent of public disclosure.
 31. **IT systems.** During the PCG Pilot, only essential modifications with limited budget implications will be made to existing operating systems to ensure smooth implementation.

VI. Terms and conditions of PCG Pilot transactions

32. The terms and conditions for each PCG Pilot transaction and the related project financing will be negotiated and documented within agreements among all relevant parties, including IFAD, the borrower, counterindemnity provider (if different from the borrower) and lender(s). These agreements will set out the respective roles and responsibilities of the parties. The considerations outlined in the following section will be negotiated on a transaction-by-transaction basis and will require the approval of the Executive Board.
33. **The guaranteed debt instruments covered**, subject to Management and Board approval, should align with borrower demand and be selected based on their ability to generate a multiplier effect in mobilizing public and private capital, thereby enhancing the impact on rural transformation and development. Initial demand for the PCG Pilot has centred on loans and private placements.

¹⁶ Financial reporting requirements under IFRS may evolve according to issuance of new standards or interpretations.

¹⁷ Historically, MDBs have encountered only one case where the guarantee has been called.

34. **Coverage.** IFAD's PCG will cover **up to 50 per cent** of the underlying debt instrument and may be tailored to **cover the non-payment of principal, interest, or both**. The coverage can be fine-tuned to address specific portions of payments, such as a portion of principal payments and two years of interest payments. Flexible coverage allows for a tailored approach to meet the specific needs of each transaction.
35. **Potential PCG structures.** PCGs are flexible instruments that can be structured in various ways, including with a potential co-guarantor. In such cases, the structure may take one of the following forms: **(i) pari passu** arrangements, where IFAD and the co-guarantor share the risk of default and losses equally and proportionately throughout the guaranteed period (i.e. any default is covered equally by the co-guarantors); or **(ii) first/second loss** arrangements, where IFAD and the co-guarantor assume the risk of default and losses based on an agreed sequence.¹⁸
36. **Characteristics of partial capital guarantees.** The PCGs will be **rolling, non-reinstatable and non-accelerable credit risk guarantees**. Upon default, the PCG will be **irrevocable and payable on demand**.
- (a) **Rolling.** If the PCG is not called, amounts payable under it are "rolled over" (i.e. carried forward) to the next guaranteed payment until the guarantee expires or the guaranteed amount is exhausted.
- (b) **Non-reinstatable.** Once a portion of the PCG is paid to the lender by IFAD, following a default by the borrower, that amount cannot be restored (even where IFAD has been repaid under the counterindemnity).
- (c) **Non-accelerable.** The PCG applies only to amounts unpaid by the borrower according to the original debt service schedule of the guaranteed debt instrument.
- (d) **Irrevocable.** Subject to its terms, the PCG cannot be cancelled or modified without the agreement of all parties.
- (e) **Payable on demand.** Following a default, the lender benefiting from the guarantee typically has a specified number of business days to send a written notification of default to IFAD and the co-guarantor (if any), following which valid claims on the guarantee will be paid by IFAD (in accordance with the terms of the PCG).
37. **Currency.** The PCG Pilot will be denominated in United States dollars or euros.
38. **Maturity limits.** IFAD PCGs are **capped at 15 years, with a maximum average maturity of 10 years**. This aligns with market practice, where maturities have generally not exceeded 15 years. The maturity of each PCG transaction will be tailored to meet the borrower's specific needs and the transaction structure, while also considering the characteristics of the guaranteed debt instrument.
39. **Use of proceeds.** To ensure that the borrower uses the funds raised through the guaranteed debt instrument in alignment with IFAD's interventions, the project and guaranteed debt instrument documents will include provisions that specify the use of proceeds and outline the borrower's obligations to comply with these requirements. The contractual provisions will also outline the consequences of any misuse, including possible remedial actions, reporting obligations and enforcement mechanisms to ensure adherence to the intended purpose of the funds. The development of these clauses will be guided by industry best practices.

¹⁸ The first loss co-guarantor covers the initial portion of losses, up to an agreed limit (i.e. first 40 per cent). The second loss co-guarantor covers additional losses up to their agreed limit (i.e. second 40 per cent).

40. **PCG fees.** A standardized fee structure comparable with those of other MDBs will be adopted. Fees payable to IFAD will vary by transaction, reflecting the risk features of the guarantee structure, depending on the borrower's risk profile, country categorization and maturity term. The fee structure will comprise the following:
- (a) **Front-end fee.** Represents a one-time payment that supports the costs associated with design, initiation, underwriting, due diligence and processing of guarantees, as well as legal, administrative and other up-front costs. The fee will be set at up to 1 per cent of the full IFAD guarantee amount, determined on a case-by-case basis, and billed as a one-time fee. In exceptional cases, projects may be charged over 1 per cent of the guarantee amount.¹⁹
 - (b) **Standby fee.** Represents the equivalent of commitment fees for loans and is charged on the uncommitted (unused) portion of the PCG without IFAD financial exposure, compensating the ongoing guarantee commitment. It will be set at up to 0.5 per cent per annum and billed semi-annually, accruing from the guarantee's effectiveness date.
 - (c) **Guarantee fee.** Covers ongoing administrative costs and compensates for risk and potential loss in default. It is charged to the committed (used) portion of the PCG with IFAD financial exposure. The guarantee fee is set (i) at the same level as the contractual lending spread and may include a maturity premium,²⁰ or (ii) at the same level as service charges.²¹ Billing and payment will follow the same procedure used for the collection of the standby fee, as outlined above.
 - (d) **No cancellation or prepayment fee.** The borrower and/or lender may, without penalty, (i) cancel unused portions of the guarantee or (ii) reduce the outstanding guaranteed amount by mutual agreement.
41. **Characteristics of a counterindemnity loan.** Any amount disbursed by IFAD under the guarantee agreement may be treated as a loan or as an amount immediately due and payable by the counterindemnity provider (the Member State) at IFAD's discretion and on a case-by-case basis under the counterindemnity agreement. Any loan to indemnify IFAD will be governed by IFAD's applicable policies, rules and regulations. The repayment terms for such loans will be within the tenor of the remaining weighted average life (WAL) of the guaranteed debt instrument, calculated by deducting the guarantee period from the original WAL. This approach ensures financial neutrality between PCGs and IFAD loans triggered upon default.
42. In some instances, the maturity of the counterindemnity loan may overly constrain the country's debt absorptive capacity. In such cases, IFAD and the Member State may agree on an alternative repayment profile, provided it remains within the limits established by the Framework on IFAD Financing Conditions, including any future amendments.
43. Failure to reimburse IFAD for the new loan generated by the activation of the counterindemnity would, as per usual practices, trigger the General Conditions for Agricultural Development Financing on loan arrears recovery (section 12.01(a)(i))

¹⁹ Legal and other expenses incurred during the initiation, appraisal and underwriting process of a guarantee, other than IFAD's traditional operating expenses, will be charged to the beneficiary and/or the counter-guarantor. These transaction-specific fees shall be payable upon IFAD's request and, as applicable, settled prior to financial closing. If such fees exceed 1 per cent of the guarantee amount, IFAD will engage with the beneficiary/counter-guarantor at the earliest opportunity to ensure applicability of full-recovery principle, whereby all related expenses are fully reimbursed to IFAD.

²⁰ Applies to PCGs drawn from non-concessional envelopes.

²¹ Applies to PCGs drawn from concessional envelopes.

and (ii)) and IFAD's Policy Framework for Managing Partnerships with Countries in Arrears.²²

VII. Legal considerations

44. A comprehensive review of relevant legal documentation, policies and frameworks has been conducted. As the proposal involves implementing a PCG Pilot before permanently introducing these instruments into IFAD's regular product offering, for the purposes of IFAD's documentation, policies and frameworks, partial credit guarantees will, for the duration of the PCG Pilot, be treated as a form of IFAD financing.
45. Accordingly, references to terms such as loans, operations, projects or PoLG will, where the context requires,²³ be interpreted to include PCGs. IFAD's documentation, policies and frameworks will be applied in conjunction with this PCG Pilot Framework; in the event of any inconsistency between this framework and the relevant documentation, policies and frameworks, the provisions of the PCG Pilot Framework will take precedence in respect of PCGs.
46. Additionally, further review and clarification of IFAD policies may be required as PCG transactions advance. Any further clarifications will be addressed during the approval process for the respective PCG transaction, or on completion of the PCG Pilot, in preparation for the potential permanent integration of the PCG instrument into IFAD's range of financing options beyond the PCG Pilot.

VIII. Risk management considerations

<i>Risks</i>	<i>Mitigation measures</i>
<p>Credit risk</p> <p><i>Potential loss if a borrower or counterparty fails to honour an obligation to IFAD.</i></p>	<p>Programme size. Limited to up to US\$130 million, included within the respective commitment capacity of each replenishment cycle covered by the pilot.</p> <p>Counterindemnity. All PCG Pilot transactions require a counterindemnity from a Member State, without exception.</p> <p>Credit exposures. PCGs will be treated as loan equivalent on a 1:1 basis, applying the same risk principles used for loan portfolio exposures. PCG exposures will match loan criteria, depending on the funding source; for example, BRAM-financed PCGs will be subject to BRAM eligibility criteria.</p> <p>Concentration limits. PCG exposures will be aggregated with loan exposures for capital adequacy and country exposure limits and included in the single country limit per the Capital Adequacy Policy and the maximum country allocation per replenishment cycle.</p> <p>Capital and provisions. PCGs will be treated on a loan equivalent basis for financial considerations including capital adequacy and provisioning.</p>
<p>Liquidity risk</p> <p><i>Potential loss due to a temporary shortfall in liquidity as a default on PCGs would create an immediate liquidity requirement.</i></p>	<p>Liquidity requirement scenarios will embed liquidity needs emerging from PCGs.</p>
<p>Operational risk including internal capacities</p>	<p>Initiate the PCG Pilot through a limited-scale programme (1-3 transactions) to assess feasibility and impact.</p>

²² [GC 21/L.7](#).

²³ In specific instances determined at Management's reasonable discretion (for example based on the Framework on IFAD Financing Conditions), financing will not be interpreted as including PCGs.

<p>Potential loss or damage to IFAD's reputation due to human, system or procedural errors and failures.</p>	<p>Human, system and procedural capacities for PCG opportunity identification, design, implementation, reporting and delivery will need to be strengthened across IFAD.</p> <p>Targeted trainings in all relevant aspects required for promoting and processing PCGs internally will need to be organized.</p> <p>Dedicated processes and procedures accompanied by system adjustments will be required.</p> <p>Operational procedures that clearly define responsibilities for recovery in the event of a default will need to be established.</p>
<p>Market risk Potential loss from adverse changes in interest rates, exchange rates or other market prices.</p>	<p>IFAD will maintain robust credit risk assessment processes that incorporate market risk sensitivities that may increase the likelihood of borrower default, and will conduct regular stress testing on interest rate and exchange rate volatility, ensuring that liquidity buffers account for potential guarantee calls under adverse scenarios.</p>
<p>Legal risk Potential to increase IFAD's legal risks.</p>	<p>Providing PCGs may increase IFAD's legal risks due to the complexity and number of documents, parties, and jurisdictions involved, requiring careful management and mitigation. Close analysis of every PCG transaction will be conducted by IFAD's Office of the General Counsel, with the assistance of external/local legal experts where appropriate.</p>

IX. Way forward

47. This PCG Pilot Framework will be implemented over the remaining years of the IFAD13 cycle and the first 18 months of IFAD14 (ending June 2029), advancing with one to three transactions with a total envelope of US\$130 million. At the end of the PCG Pilot time horizon, Senior Management will seek the Executive Board's guidance on next steps for the PCG Pilot, possibly extending its timeframe or formally integrating it into IFAD14 and beyond.
48. If full strategic integration is pursued, a comprehensive proposal will be submitted for Executive Board consideration. This will refine and enhance the product and will be informed by the experience gained from the PCG Pilot transaction(s), a thorough demand assessment, peer reviews, and benchmarking against practices of other MDBs. IFAD's commitment capacity and risk appetite will be considered. Additionally, current corporate systems and necessary amendments to legal documentation and IT developments will be evaluated to ensure efficient operational scalability of the instrument. With Management's support, this would effectively integrate PCGs into IFAD's operations.

Selected multilateral development banks benchmark analysis

The terms and conditions below, disclosed publicly on official websites, are indicative and subject to assessment on a case-by-case basis.

Features	African Development Bank (AfDB) Group		World Bank		Inter-American Development Bank (IDB)	Asian Development Bank (ADB)
	AfDB	African Development Fund (AfDF)	International Bank for Reconstruction and Development (IBRD)	International Development Association (IDA)		
I. General terms						
Eligible borrowers	Eligible for ADB, private sector and enclave project loans	Eligible for AfDF regional member countries	Eligible for IBRD and enclave project loans	Eligible for IDA only countries	Eligible for projects located in member countries and territories eligible for bank lending	All borrowers eligible for blending, including Asian Development Fund (ADF)-only countries
Currency	All lending currencies	All lending currencies	All lending currencies	All lending currencies	United States dollar, major currency or borrowing member countries local currency	All lending currencies and local currencies
Maturity	Up to 25 years	Up to 50 years depending on their classification and equivalent loans they can access	Up to 35 years; same maturity limits as IBRD loans	Up to 40 years; same maturity limits as IDA credits	Up to 25 years for investment operations and 20 years for policy-based interventions; same as maturity of regular ordinary capital portion of blended loans	Up to 15 years with possible extension subject to justification
Covered instrument	Loans and bonds	Loans and bonds	Loans, bonds and non-loan government obligations	Loans, bonds and non-loan government obligations	Loans, bonds, governmental payment commitments and other debt instruments	Most forms of debt: commercial bank loans, bonds, financial leases, letters of credit, promissory notes and bills of exchange

Features	African Development Bank (AfDB) Group		World Bank		Inter-American Development Bank (IDB)	Asian Development Bank (ADB)
	AfDB	African Development Fund (AfDF)	International Bank for Reconstruction and Development (IBRD)	International Development Association (IDA)		
PCG coverage	Partial	Partial	Partial	Partial	Partial (exceptionally full)	Partial (exceptionally full)
II. Guarantee charges						
Front-end fee	0.25%	Up to 1%	0.25%	IDA concessional: N/A IDA non-concessional: 0.25% (as per IBRD terms)		0.25%
Standby fee	0.25%	0.75%	0.25%	IDA concessional: 0%; IDA non-concessional: 0.25% (as per IBRD terms)	0.50%	0.15%
Guarantee fee	0.80% + spread adjustment rate + 0.10–0.20% if average loan maturity >12.75 years. Spread adjustment rate represents an adjustment to the lending margin	1%; equivalent to ADF service charge denominated in units of account and shall reflect a differentiated currency-specific rate applicable to the ADF disbursement	0.50–1.65%; equivalent to contractual lending spread for IBRD loans, and may include, as applicable, a maturity premium	IDA concessional: 0.75%; equivalent to service charge on IDA concessional credits IDA non-concessional: 0.50–1.65% (as per IBRD terms)	0.80%; equivalent to ordinary capital sovereign lending spread portion of blended loans 0.25%; equivalent to concessional spread portion of blended loans	0.50–1.25%; equivalent to contractual lending spread for ADB loans, and may include a maturity premium based on the country categorization
Late payment fee	At least 2% per annum above the applicable fee	At least 2% per annum above the applicable fee			Triggers same treatment as non-performing loans	

Features	African Development Bank (AfDB) Group		World Bank		Inter-American Development Bank (IDB)	Asian Development Bank (ADB)
	AfDB	African Development Fund (AfDF)	International Bank for Reconstruction and Development (IBRD)	International Development Association (IDA)		
Legal fee	As agreed with external legal counsel if applicable	As agreed with external legal counsel if applicable			Borrowers reimburse the Bank if applicable	
Other costs	Appraisal and/or supervision fees; arranger or mobilization fees	Appraisal and/or supervision fees; arranger or mobilization fees	Initiation fee; processing fee	Initiation fee; processing fee	Inspection and supervision fee	
III. Key clauses						
Acceleration	At the discretion of the Bank	At the discretion of the Bank	At the discretion of the Bank	At the discretion of the Bank	At the discretion of the Bank	
Counter guarantee from the country government	Required for public sector projects	Required for public sector projects	Required for IBRD guarantee	Required for IDA guarantee	Not required but considered a strong signal of the government's commitment	Required for public sector entities
Eligibility to subnational governments	Yes	Yes	Yes	Yes	Yes	Yes

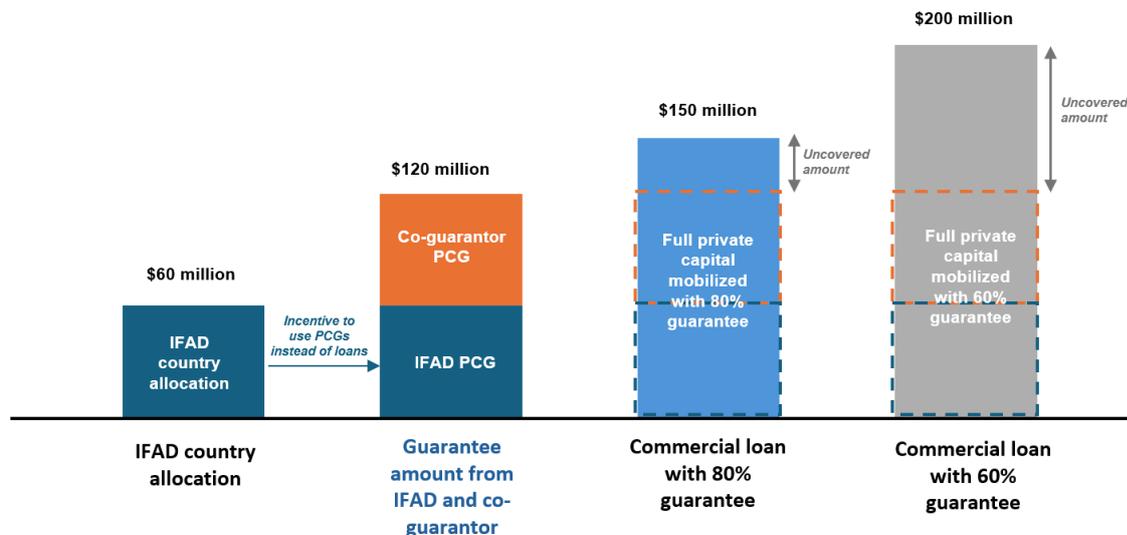
Features	African Development Bank (AfDB) Group		World Bank		Inter-American Development Bank (IDB)	Asian Development Bank (ADB)
	AfDB	African Development Fund (AfDF)	International Bank for Reconstruction and Development (IBRD)	International Development Association (IDA)		
Treatment of claim	If the guarantee is called, the Bank pays and activates the counter guarantee or indemnity agreement whereby the counter guarantor/borrower owes the Bank the money paid out according to the guarantee agreement	If the guarantee is called, the Fund pays and activates the counter guarantee or indemnity agreement whereby the counter guarantor/borrower owes the Bank the money paid out according to the guarantee agreement	If the guarantee is called, IBRD pays and activates the counter guarantee agreement whereby the government owes the Bank the money paid out according to the guarantee agreement	If the guarantee is called, IDA pays and activates the counter guarantee agreement whereby the government owes IDA the money paid out according to the guarantee agreement	If the guarantee were called, the funds would be disbursed promptly, becoming at that point a loan to be repaid by the counter guarantor or the borrower within a period to be defined by the Bank but no longer than the remaining life of the guarantee, following the first call on the guarantee	If the guarantee is called, the Bank pays and would seek reimbursement from the borrower/counter guarantor

Q&A

1. How do partial credit guarantees (PCGs) create a multiplier effect?

Graph 1

Illustration of PCG multiplier effect with a co-guarantor

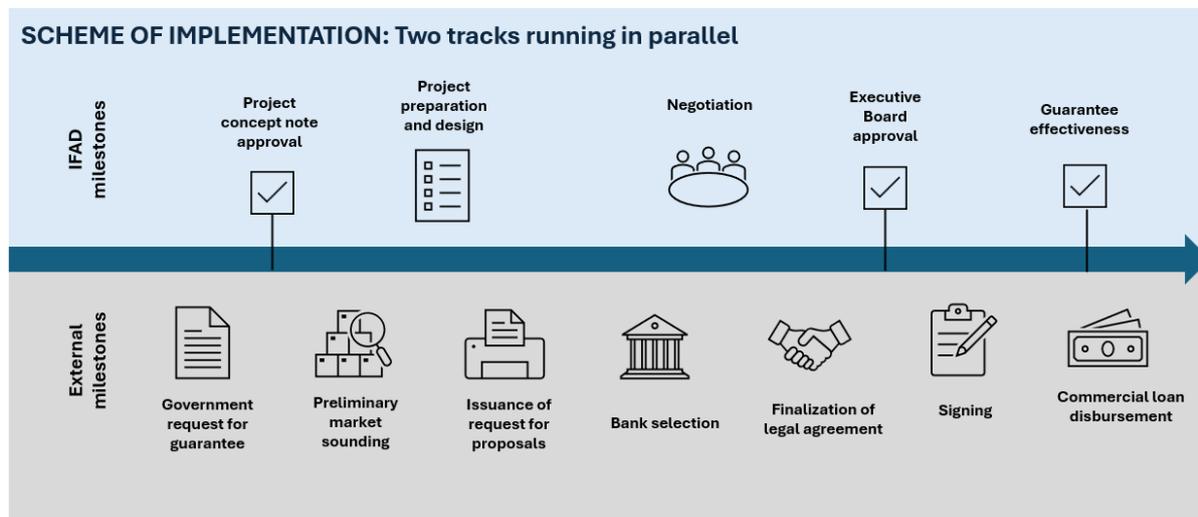


PCGs multiply the impact of IFAD's country allocations by reducing lenders' risk and unlocking additional private capital, expanding credit availability and supporting inclusive rural development. This is achieved through the following mechanisms:

- (i) **Risk mitigation.** PCGs reduce the risk exposure for lenders or investors in underlying debt instruments. For the guaranteed portion, lenders benefit from IFAD's strong AA+ credit rating rather than relying solely on the borrower's creditworthiness. This risk sharing enables lenders to extend more credit than they would otherwise have done. Additionally, the possibility of involving multiple guarantors allows for broader risk distribution and expanded guarantee coverage, thereby boosting lenders' confidence to increase their lending portfolios through the combined effect of a higher financing envelope and better financing conditions.
- (ii) **Private capital mobilization.** With partial protection from potential losses, private investors are encouraged to provide greater financing volumes. As shown in graph 1, a US\$60 million IFAD guarantee, matched by an equal co-guarantor contribution, can generate US\$150 million or US\$200 million of private capital under different scenarios of coverage ratio, achieving at least a 2.5x multiplier effect on IFAD resources. A higher coverage ratio typically translates into a lower multiplier effect, and excessively low coverage may deter lender participation. Therefore, striking an optimal balance between the coverage ratio and the multiplier effect is essential to both incentivize lending and maximize the impact of IFAD resources.
- (iii) **Higher development impact and sustainable market growth.** Expanded lending drives greater development impact and improves livelihoods in rural communities. As lenders gain experience, the rural finance market strengthens, fostering a more inclusive and resilient financial ecosystem over time.

2. How will the implementation scheme and governance workstream of the PCG Pilot be structured?

Graph 2
PCG scheme of implementation



As shown in the graph above, the implementation scheme follows two parallel tracks: one internal to IFAD and the other with external stakeholders:

For IFAD, all the steps undertaken during the life cycle of a project funded by loan, including potential arrangements in the context of cofinancing, will be mirrored for the operations linked to guarantees. The approval process will continue to be under the authority of Executive Board.

With external stakeholders, important milestones include the confirmation of PCG interest via government request; identification of commercial lenders and co-guarantors (if any); structuring of the guarantee and underlying debt instrument; and the finalization and signing of the project agreement, guarantee and counterindemnity agreement before the funds can be disbursed.

3. Why is a co-guarantor structure recommended for IFAD's PCGs?

Given the inherent "partial" nature of PCGs, the preferred scheme for IFAD's PCG Pilot is a co-guarantor structure based on a risk-sharing partnership with private or public institutions with appropriate credit ratings. This structure is recommended for several key reasons:

- (i) **Efficient use of public capital and higher development impact.** The syndication of PCGs optimizes credit enhancement and mobilizes larger volumes of funding by leveraging contributions from different partners. This ensures a highly efficient use of limited public capital, maximizing the financial resources available for rural development and driving higher development.
- (ii) **Enhanced access and better financing conditions.** By pooling creditworthiness, the co-guarantor structure expands guarantee capacity and strengthens risk sharing, thereby broadening the pool of financiers. With improved credit profiles of the transaction backed by PCGs, borrowers may gain access to larger volumes of financing on more favourable terms, including lower costs, longer maturities and extended grace periods.
- (iii) **Internal capacity-building and smooth delivery of PCGs.** Through co-guarantor arrangements, IFAD seeks to partner with multilateral development banks (MDBs) that have extensive PCG experience to leverage their technical

expertise and best practices, and thereby strengthen IFAD's internal capacities across both front- and back-office functions. This collaboration will ensure the effective design of PCG Pilot transactions, enable IFAD to better identify demand and opportunities, and prepare for future guarantee operations.

- (iv) **Improvement of the international financial ecosystem.** Close cooperation with other MDBs and institutions with strong credit ratings enhances the global financial architecture, creating synergies and promoting more resilient and scalable financing solutions.

4. How are PCGs priced?

A standardized fee structure that is comparable with peer MDBs will be adopted, but the level of fees may vary for each transaction.

The underlying rationale for the pricing methodology is that the risks of default for a given borrower would be the same for a loan and a guarantee. Since IFAD will have recourse to any defaulted amounts through the sovereign counterindemnity when the guarantee is called, the probability of default associated with the IFAD PCG mirrors that of the sovereign, making the PCG's probability of default identical to that of an IFAD sovereign loan.

Therefore, from a financial point of view, IFAD should be indifferent as to which instrument a borrower chooses. The objective of pricing is to be net income neutral whether it issues a guarantee or provides the underlying loan.

To that end, and in alignment with market practices, the guarantee fees are set on loan equivalent-based charges (service charges or lending spread). A risk premium or maturity premium might be added to reflect the borrower's risk profile.