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Enabling poor rural people
to overcome poverty

IFAD's lending terms and conditions: Interest rates for the year 2010 for loans on ordinary and intermediate terms

Executive Board — Ninety-seventh Session
Rome, 14-15 September 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document:

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Recommendation for approval

The Executive Board is invited to approve the following:

- (a) That the periodicity of the update of the IFAD reference interest rate be amended from 12 months to 6 months on the basis that IFAD is moving into line with practices currently applied by other international financial institutions;
- (b) That the applicable rate will be based on the SDR LIBOR six-month composite rate, with due regard for IFAD's unique mandate;
- (c) That the Board will henceforth be informed of the applicable interest rate through publication on the IFAD website; and
- (d) That the amendment will take effect as of January 2010.

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Amendment of the periodicity of the update of IFAD's reference interest rate

A. Background

1. Paragraph 33(b) of the Lending Policies and Criteria stipulates that the Executive Board shall:

"decide, annually, the rate of interest to be applied, respectively, to loans on intermediate and ordinary terms. For that purpose, it shall review annually the rates of interest applicable to loans on intermediate and ordinary terms and revise such rates, if necessary, on the basis of the reference rate of interest in effect on 1 July of each year."
2. In September 1995, the fifty-fifth session of the Executive Board approved document EB 95/55/R.45 authorizing the President to establish the IFAD rates of interest for the following year without prior Board approval, but on the understanding that the Board would be notified of the rates so established. Rates were established routinely on the basis of the July-December variable interest rates of the International Bank for Reconstruction and Development (IBRD).
3. In 2007, the IBRD executive board approved a significant simplification and reduction in IBRD loan and guarantee pricing by setting the IBRD variable interest rate based on the London Interbank Offered Rate (LIBOR).
4. In September 2008, the Executive Board was informed that the President approved the use of the SDR LIBOR 12-month composite rate as the reference interest rate in 2009 for IFAD loans on intermediate and ordinary terms rather than the IBRD published currency pool rate, the rate that had been applied until that time.

B. Further alignment to the practices of other international financial institutions (IFIs)

5. IFAD updates its interest rates annually, using as a reference the rate in force six months prior to the start of the applicable period (calendar year). Other IFIs, including the IBRD, update their interest rates much more frequently and use the interest rate in force at the start of the applicable period; consequently their rates are very much aligned with market rates. Therefore IFAD interest rates lag behind the market, and in 2008 and in the first part of 2009 market rates were significantly higher than those offered by other IFIs, accentuated by the volatility in interest rates at the time.
6. To bring IFAD rates closer to those offered by the market and by the other IFIs, it is proposed that the periodicity of the update of the IFAD reference interest rate be revised from 12 to 6 months. It is further proposed that the applicable interest rate for each six-monthly period will be based on the SDR LIBOR six-month composite rate in force on day one of the six-monthly period. If necessary, Management will adjust the calculated rate to ensure that the rate to be applied is comparable with the prevailing IBRD reference rates, with due regard for IFAD's unique mandate. This will ensure that the interest rates offered by IFAD are more in line with rates offered by other IFIs. The revised periodicity will have only a timing impact on the management of IFAD resources. This change does not require an amendment of the IFAD Lending Policies and Criteria since it does not represent a departure from the substance of paragraph 33(b) of the Lending Policies and Criteria. It does, however, require the approval of the Executive Board since it represents a

modification of the authorization accorded to the President by the Executive Board in 1995 for establishing the IFAD rates of interest without prior Board approval.

7. Given the proposed adoption of the biannual interest rate change, IFAD will apply the same methodology of an internally calculated SDR LIBOR based on LIBOR rates published on the first business day of each semester, starting January 2010. The Board will be notified of the applicable interest rate soon after the beginning of each semester through publication on the IFAD website; in addition, the rates used in each financial year will continue to be reported to the Board for information during the year.

C. Recommendations

8. It is recommended that the Executive Board approve the following:
 - (a) That the periodicity of the update of the IFAD reference interest rate be amended from 12 months to 6 months on the basis that IFAD is moving in line with practices currently applied by other IFIs;
 - (b) That the applicable rate will be based on the SDR LIBOR six-month composite rate, with due regard for IFAD's unique mandate;
 - (c) That the Board will henceforth be informed of the applicable interest rate through publication on the IFAD website; and
 - (d) That the amendment will take effect as of January 2010.

