

Document: GC 41/L.7
Agenda: 10
Date: 16 January 2018
Distribution: Public
Original: English

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Investing in rural people

Amendments to the Policies and Criteria for IFAD Financing

Note to Governors

Focal points:

Technical questions:

Ruth Farrant

Director
Financial Management Services Division
Tel.: +39 06 5459 2281
e-mail: r.farrant@ifad.org

Lisandro Martin

Chief
Operational Programming and Effectiveness Unit
Tel.: +39 06 5459 2361
e-mail: Lisandro.martin@ifad.org

Katherine Meighan

General Counsel
Tel.: +39 06 5459 2496
e-mail: k.meighan@ifad.org

Technical questions:

William Skinner

Chief
Governing Bodies
Tel: +39 06 5459 2974
e-mail: gb@ifad.org

Governing Council — Forty-first Session
Rome, 13-14 February 2018

For: Approval

Report of the Executive Board to the Governing Council: Amendments to the Policies and Criteria for IFAD Financing

Recommendation for approval

In accordance with the recommendation of the Executive Board, the Governing Council is invited to adopt, at its forty-first session in February 2018, the resolution contained in section IV of this report from the Executive Board.

I. Introduction

1. At its 122nd session in December 2017, the Executive Board approved a document entitled Approach to a Transition Framework, to provide further information on a proposed framework that will be a key complement to IFAD's evolving financial architecture and the enhanced IFAD11 business model. Drawing on research and the experiences and practices of other IFIs, IFAD has tailored this transition approach to its role as the international champion of smallholders – both women and men.
2. **Transition** refers to the process by which the per capita income level of a country eligible to borrow from IFAD on more concessional terms increases to a level equal to or above the specified threshold for such terms and/or the country's creditworthiness for such terms improves, meaning that less concessional terms are applicable. The purpose of the transition framework is to smoothen this process and avoid shocks and distortions both for borrowers and for IFAD. It will provide for a gradual phasing in of less concessional terms, on the basis of objective criteria, taking into account the borrower's demand for concessional funds and its development progress.
3. **Reversal** refers to the process by which the per capita income level of a country eligible to borrow from IFAD on less concessional terms drops to a level below the specified threshold for such terms and/or its creditworthiness for such terms deteriorates, thus making more concessional terms applicable. The transition framework will provide that such a borrower will promptly benefit from such "softened" terms.
4. The aim of the transition framework is to ensure a smooth, predictable and sustainable transition for borrowers, on an equitable basis, through lending and non-lending support. The default period for implementation of less concessional terms for countries in transition will be aligned with IFAD's replenishment period, but changes will still be made annually for countries in reversal and for exceptional cases.

II. Revision of the Policies and Criteria for IFAD Financing

5. The Approach to a Transition Framework describes the road map and essentials for the transition framework. It also proposes related clarification and upgrading of the Policies and Criteria for IFAD Financing (the Policies), which were adopted by the Governing Council in February 2013. The Policies define the broad eligibility criteria for IFAD financing to Member States and the financing terms associated with each financing product. The terms and conditions for financing currently take into consideration each borrower's national income (gross national product [GNP]) and an assessment of its creditworthiness. Financing products from replenishment resources have been defined with varying degrees of concessionality and include grants and loans; the latter may be on highly concessional, blend or ordinary

terms. Financing is also provided under the Debt Sustainability Framework (DSF) to eligible countries in the form of a grant or a combination of a grant and a highly concessional loan.

6. At its 122nd session, the Executive Board approved transmittal of this report and a proposed resolution to the forty-first session of the Governing Council for adoption.

III. Proposed amendments to the Policies and Criteria for IFAD Financing

7. **Time frame for transition.** Transition is a process that typically extends over several years. It is important that both the borrower and IFAD make this change in a methodical manner after carefully considering all factors. Annual changes, as provided for in the current Policies, cast doubt over the sustainability of such changes, and have yielded numerous reversals due to the instability of the underlying economic factors. A more gradual process of transition, involving the phasing in of less concessional terms and resources can help smooth the transition. It will also help ensure that the borrower has the appropriate capacity to absorb resources. This process will allow marginal changes in the base criteria (i.e. national income) to stabilize and endure before financing terms are revised. Only in exceptional circumstances such as natural disaster or a dramatic change in the economic circumstances of a borrower should an annual reclassification be made. However, in the case of a country undergoing a process of reversal, such reversal would continue to be addressed on an annual basis, unless it is expected to be temporary. Towards the end of a replenishment period, Management will pay close attention to countries that are on the margins of eligibility – and hence on the cusp of a transition – to ensure that discussions with borrowers and other stakeholders are completed in an effective and timely manner. It is proposed that a comprehensive implementation of changes in classification be undertaken only once before the start of each replenishment period, with the possibility of annual changes during the replenishment period, in case of reversal. This is reflected in subparagraphs 15(a)(ii) and 15(a)(ii)(1) of the Policies.
8. **Gross national income (GNI and reference to IDA/IBRD operational cut-off.** In the current Policies, IFAD’s method of determining country eligibility for highly concessional, blend or ordinary lending terms uses fixed thresholds based on GNP per capita in 1992 prices. Alternatively, IFAD may use IDA classifications. By contrast, the PBAS methodology used at IFAD considers GNI data as a key component. IDA and peer IFIs also rely on GNI per capita using the Atlas Methodology to determine the level of concessionality to be provided. The difference between the data used by IFAD and those used by peers has historically been marginal. However, with the lowering of the IDA GNI thresholds in recent years, this difference has increased because the GNI data used by IFAD is driven by a deflation factor (see table 3 below). This means in practice a change in lending terms for a very limited number of countries that have highly concessional terms for IFAD financing but would move to blend in line with IDA financing thresholds.

Table 3

GNI thresholds for highly concessional and blend terms for IFAD and IDA

	2014		2015		2016		2017		2018	
	IDA	IFAD	IDA	IFAD	IDA	IFAD	IDA	IFAD	IDA	IFAD
HHC	1 215	1 403	1 215	1 403	1 185	1 466	1 185	1 486	1 165	1 507
Blend	1 985	2 276	1 985	2 276	1 945	2 379	1 945	2 410	1 905	2 445

It is proposed that the Policies be amended to provide for the following:

- (a) GNI is substituted for GNP as the initial base criterion for determination of lending terms;
- (b) The top threshold for highly concessional lending terms is aligned with the income threshold in GNI per capita (or IDA operational cut-off) below which countries are IDA-only countries;
- (c) Countries with a GNI per capita lower than or equal to the IDA operational cut-off are eligible for highly concessional lending terms;
- (d) Countries classified as "small state economies"¹ by IDA are eligible for IFAD's highly concessional lending terms;
- (e) Countries with a GNI per capita higher than the IDA operational cut-off that are still eligible for IDA financing will be eligible for highly concessional lending terms unless they are classified as "gap countries" or "blend countries" by IDA;
- (f) Countries classified as gap countries or blend countries by IDA will be eligible for blend lending terms; and
- (g) All other developing Member States are eligible for ordinary lending terms.

These changes are reflected in subparagraph 15(a)(ii)(1) of the Policies and in the deletion of subparagraph 15(a)(ii)(2) which is no longer relevant.

9. **Devaluation of the CFA franc.** The reference to the "impact of the recent devaluation of the CFA franc", which the Executive Board was mandated to take into account in determining applicable lending terms, is outdated. It is proposed that subparagraph 15(a)(ii)(3) of the Policies be deleted.
10. **Fragile situations and small economies.** The current Policies mandate the Executive Board, when allocating resources, to give priority to countries characterized by food insecurity and severe poverty in rural areas. Fragile situations and small economies should also be considered as additional criteria for such prioritization. It is proposed that these criteria be included in subparagraph 15(a)(ii)(4), now renumbered (2), of the Policies.
11. **Debt sustainability/creditworthiness criteria.** The Policies specify that the Executive Board shall take into account an assessment by the President of IFAD of the Member State's debt sustainability and its debt-servicing capacity in order to determine the financing terms to be applied. Other IFIs have revised their policies in recent years to replace the term "debt-servicing capacity" with the term "creditworthiness". This concept underpins the transition frameworks of the other IFIs, in particular when a borrower transits to non-concessional funding from the development banks rather than from their concessional arm funds. It is proposed that, in subparagraph 15(a)(ii)(5), now renumbered (3), of the Policies, the expressions "debt sustainability" and "debt-servicing capacity" be replaced by the term "creditworthiness" to highlight that the transition is based on the twin criteria of per capita income and creditworthiness.
12. **Shorter maturity periods at borrower's request.** IFAD's current product range is limited to three products with fixed parameters in terms of maturity period, grace period and pricing in special drawing rights (SDR). Based on borrowers' requests and IFAD's gradually maturing capacity to manage financial instruments, it will be eventually proposed that an upgrade to the Policies be made to offer limited flexibility in maturity and grace ranges. For example, ordinary terms are currently offered with a 3-year grace period and 15-18-year maturity period.

¹ The World Bank Group defines small states economies as "countries that (a) have a population of 1.5 million or less; or (b) are members of the Small States Forum". See www.worldbank.org/en/country/smallstates/overview for more information.

Borrowers could be given the flexibility to choose a grace period up to a maximum of 10 years and a maturity period of 35 years, as in the World Bank Group. The limited ranges would mitigate IFAD's risks in managing the increased product range. This will both respond to borrowers' requests and bring IFAD a little nearer to the options offered by other IFIs, thereby permitting IFAD to build up capacity over time. A marked distance, however, would still remain between IFAD and other IFIs in terms of full flexibility and options. For the time being, it is only proposed that some flexibility be allowed to respond to requests for shorter maturities, as made by borrowers from time to time. It is proposed that the words "(unless a shorter maturity is requested by the borrower)" be included where maturity periods are defined in subparagraph 15(a)(iii).

13. **Update to conditions of lending terms.** As a result of the adoption of the Policies in 2013 and the updating of the General Conditions for Agricultural Development Financing the following year, specific conditions applicable to each of the lending terms should, for clarity and transparency, be established in the Policies, for example, the starting date of grace periods and for payment of the service charge and/or interest. It is proposed that subparagraph 15(a)(iii)(1), (2) and (3) of the Policies be updated to include such conditions.
14. **Update to reflect single currency lending framework.** In 2016, IFAD introduced the single currency lending facility, which allows ordinary, blend and highly concessional term borrowers to request financing denominated in euro or United States dollars as an alternative to SDR. In the light of the evident demand and to mainstream this facility, the Policies should also refer to relevant lending currencies. It is proposed that, in subparagraph 15(a)(iii)(6) of the Policies, the reference to "SDR" be supplemented by a reference to "the currency of the financing agreement".
15. **Update to reflect updated calculation of IFAD reference interest rate.** In December 2009, it was decided that the IFAD reference interest rate would be calculated every six months. It is proposed to update subparagraph 15(a)(iv) in this respect.
16. **Deletion of duplicative paragraph on resolution of arrears.** As a result of previous revisions, the provision that authorizes the Executive Board, for the purposes of resolving arrears arising from time to time, to amend the terms upon which an approved loan is provided to a country has been duplicated in the Policies in slightly different wording in subparagraph 15(a)(iii)(7) and paragraph 16 of the Policies. It is proposed that paragraph 16 be deleted.
17. **Power of the Executive Board to establish the transition framework.** Paragraph 4 of the Policies provides that the Governing Council "while retaining its authority to establish the broad policies, criteria and regulations that govern financing by the Fund, acknowledges that the Executive Board has the primary responsibility to set out the detailed policies governing such financing." Paragraph 18 further provides that "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." Based on these powers, and in view of the need to have a transition framework in place at the beginning of the IFAD11 period, the Executive Board should be tasked with adopting a transition framework before the end of 2018 upon a proposal to be submitted by the President. It is proposed that a specific reference to this process be added in a new paragraph 16 of the Policies.

IV. Resolution

In view of the foregoing, the Executive Board proposes the following resolution for adoption by the Governing Council at its forty-first session in February 2018. A version of the Policies, showing additions (in underlined text) and deletions (in strikethrough text) is attached as annex I.

Resolution .../XVI

Revision of the Policies and Criteria for IFAD Financing

The Governing Council of IFAD,

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

Having reviewed the proposed revisions to the Policies and Criteria for IFAD Financing submitted by the Executive Board as contained in document GC 41/L.7;

Adopts the Policies and Criteria for IFAD Financing, as revised, which shall take effect on 1 January 2019; except for the revisions to paragraph 16, which shall apply from the adoption of this resolution; and

Tasks the President with maintaining a consolidated text of the policies and guidelines adopted by the Executive Board pursuant to the Policies and Criteria for IFAD Financing hereby adopted.

Policies and Criteria for IFAD Financing

I. Introduction

1. Article 7, section 2(d) of the Agreement Establishing IFAD (the Agreement) provides that “[d]ecisions with regard to the selection and approval of projects and programmes shall be made by the Executive Board” and that such decisions shall be made “on the basis of the broad policies, criteria and regulations established by the Governing Council.”
2. In implementation of this provision, IFAD’s Governing Council adopted the Lending Policies and Criteria at its Second Session in December 1978. Paragraph 3 of the Lending Policies and Criteria stated that the policies and criteria outlined in the document reflected only the initial attempt to translate the objectives and priorities set in articles 2 and 7 of the Agreement into concrete criteria and guidelines, and that they would be reviewed periodically in the light of actual experience.
3. The Lending Policies and Criteria were amended by the Governing Council several times between 1994 and 1998, but the document was not updated or reviewed thereafter. In 2010, the Governing Council instructed the Executive Board to “submit to the thirty-fourth session of the Governing Council in 2011 revised Lending Policies and Criteria that shall take into account all developments since the last revision of the Lending Policies and Criteria in 1998 and express concisely and clearly the broad policies and criteria applicable to financing by the Fund.” As a result, the Policies and Criteria for IFAD Financing were adopted by the Governing Council in February 2013. In 2018, the Policies and Criteria for IFAD Financing were amended to reflect changes required to give effect to the transition framework.
4. IFAD has now evolved to the point where it is not possible to set out all of the policies and criteria that guide its work in a single document. The detailed policies adopted by the Governing Council and the Executive Board, mentioned in paragraph 12 below, provide guidance to the staff of the Fund, and to its governing bodies, as they work to achieve its objective. The Governing Council, while retaining its authority to establish the broad policies, criteria and regulations that govern financing by the Fund, acknowledges that the Executive Board has the primary responsibility to set out the detailed policies governing such financing, and adopts these Policies and Criteria for IFAD Financing accordingly.
5. The Governing Council, exercising the authority conferred on it by the Agreement, shall monitor the work of the Executive Board in setting out policies governing financing by the Fund, and shall review these Policies and Criteria for IFAD Financing periodically to ensure that they provide a sound framework for the work of the Executive Board.

II. Objectives and priorities

6. **Objective.** Article 2 of the Agreement states that “[t]he objective of the Fund shall be to mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States.”
7. **Priorities.** Article 7, section 1(d) of the Agreement states that “[i]n allocating its resources the Fund shall be guided by the following priorities: (i) the need to increase food production and to improve the nutritional level of the poorest populations in the poorest food-deficit countries; and (ii) the potential for increasing food production in other developing countries. Likewise, emphasis shall be placed on improving the nutritional level of the poorest populations in these countries and the conditions of their lives.”

III. Policies and Criteria

8. The following are the policies and criteria for financing which shall guide the Executive Board and the President in fulfilling the objective of the Fund:
9. **Allocation of resources.** The resources of the Fund available for financing for developing Member States shall be allocated in accordance with a performance-based allocation system (PBAS) established by the Executive Board. The Executive Board shall report annually to the Governing Council on the implementation of the PBAS.
10. **Programme of work.** Projects and programmes submitted to the Executive Board for consideration and approval shall be based on a programme of work proposed by the President and approved each year by the Executive Board in accordance with article 7, section 2 of the Agreement. In developing the proposed programme of work, the President is guided by the strategic framework established from time to time by the Executive Board.
11. **Country criteria.** Projects and programmes submitted for financing by the Fund shall be based as much as possible on results-based country strategic opportunity programmes that provide a framework for making strategic choices about the Fund's operations in a Member State, identifying opportunities for Fund financing and facilitating management for results.
12. **Selection of projects and programmes.** The projects and programmes financed by the Fund are guided by the criteria set out in the policies and strategies on the following matters as adopted or to be adopted by the Executive Board:
 - Targeting
 - Knowledge management
 - Innovation
 - Rural enterprise
 - Rural finance
 - Climate change
 - Engagement with indigenous peoples
 - Improving access to land and tenure security
 - Sector-wide approaches for agriculture and rural development
 - Crisis prevention and recovery
 - Private-sector development and partnership strategy
 - Gender
 - Such other policies as may be adopted in accordance with the broad policies, criteria and regulations established by the Governing Council
13. **Implementation of projects and programmes.** The implementation of projects and programmes financed by the Fund must be consistent with the regulations on the procurement of goods and services to be financed from resources of the Fund adopted by the Executive Board, and in conformity with the policies on corruption, audit and supervision adopted from time to time by the Executive Board. Financing agreements with Member States shall be subject to the General Conditions for Agricultural Development Financing established by the Executive Board. Projects and programmes are supervised by the Fund in accordance with the Policy on Supervision and Implementation Support established by the Executive Board.

14. **Evaluation.** Independent evaluations of projects and programmes financed by the Fund shall be conducted in accordance with the evaluation policy adopted by the Executive Board.

IV. Financing terms

15. With due regard to the long-term viability of the Fund and the need for continuity in its operations, the Fund provides financing through loans, grants and a debt sustainability mechanism.

(a) Loans

- (i) The main objectives of the Fund – to reduce rural poverty, improve nutrition and increase food production – cannot be judged or realized in terms of pure economic indicators, such as food production or agricultural growth rates. Certainly Fund projects must meet reasonable standards of economic viability, but such standards do not suffice either to select future IFAD activities or to evaluate their results. Even attempts to extend the traditional cost-benefit criteria from economic to social objectives, by assigning weights to certain social objectives such as income distribution and employment, fall short of measuring the Fund's broad development objectives – to satisfy the basic needs of people living in developing countries in a self-reliant and positive social environment. The Fund will attempt to develop, over a period of time and in the light of its own experience and that of other agencies, new indicators and analytical techniques that take account of its objectives.
- (ii) The Fund ~~will~~ shall provide loans to developing Member States on 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) ~~having have~~ have a gross national product (GNP) income (GNI) per capita of US\$805 or less in 1992 prices or classified as lower than, or equal to, the operational cut-off as determined annually by the International Development Association (IDA)-only countries, shall normally be eligible to receive loans from IFAD on highly concessional terms. ~~The total amount of the loans provided each year on highly concessional terms shall amount to approximately two thirds of the total amount lent by IFAD [text moved to (4)];~~
- (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) ~~which are eligible for~~ are classified as "gap countries" or "blend countries" by IDA ~~blend terms will shall~~ be eligible for IFAD ~~blend lending terms,~~ provided that they are above IFAD threshold for eligibility for highly concessional terms; and
- (e) ~~having a gross national product (GNP) per capita of US\$1,306 or above in 1992 prices 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.~~
- (2) ~~For those developing Member States in which there is a significant difference between GNP per capita and gross domestic product (GDP) per capita, GDP per capita shall be used as the criterion for determining the applicable lending terms within the same monetary limits.~~
- (3) ~~The Executive Board shall take account of the impact of the recent devaluation of the CFA franc in determining which lending terms are applicable to the countries concerned.~~
- (4) (2) ~~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".~~
- (5) (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 debt sustainability and its debt-servicing capacity~~ creditworthiness.
- (4) The total amount of the loans provided each year on highly concessional terms shall amount to approximately two thirds of the total amount lent by IFAD.
- (iii) The conditions for highly concessional, blend and ordinary lending terms shall be as follows:
- (1) Special 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, 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, shall bear interest on the principal amount outstanding at a fixed rate of 1.25 per cent 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, and in addition a service charge of 0.75 per cent, starting from the date of approval by the Executive Board.
- (3) Loans on ordinary terms shall ~~have a rate of~~ bear interest on the principal amount outstanding at the IFAD reference interest rate per annum equivalent to one hundred per cent (100 per cent) of

~~the variable reference interest rate, as determined annually by the Executive Board in accordance with subparagraph (iv), and have a maturity period of fifteen (15) to eighteen (18) years, including a grace period of three (3) years (unless a shorter maturity is requested by the borrower), 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;
- (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.

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.

- (6) The Executive Board may vary the grace period and the amount of each instalment for the repayments of loans received on blend terms and ordinary terms. In so doing, the Executive Board, on information provided by the President of IFAD, shall take into account a country's ~~debt sustainability and debt servicing capacity~~ creditworthiness. In submitting a proposal for the lending terms to apply to a country for a loan to the Executive Board, the President of IFAD shall ensure that: (i) the grace period for the loan, which shall be established in relation to the date on which a loan becomes effective and the date upon which disbursement of the loan is to cease, shall not exceed six years; (ii) the net present value in SDR or the denomination currency of the financing agreement (as applicable) of the blend terms and ordinary terms specified in (2) and (3) above is maintained.
- (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 Executive Board shall:

- (1) 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 IFAD reference interest rate) ~~for application in IFAD,~~ which shall provide the basis for the review and revision prescribed in subparagraph (2) below; and
- (2) every six months, review and revise the IFAD reference interest rate for the following period on the basis of market rates. ~~decide, annually the rates of interest to be applied to loans on ordinary terms. For that purpose, it shall review the rates of interest applicable to loans on 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.~~

- (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 subparagraph (iv) above on the basis of the principles laid down in this document.
- (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.
- (viii) The Fund's grant assistance, apart from technical assistance, shall be used 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, the Executive Board will approve grant financing 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.
- (ix) Technical assistance, particularly for activities to strengthen the technical and institutional capacity essential for agricultural development, will normally be provided on a grant basis. 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

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.

~~**16. Arrears.** 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 Member State, including the grace period, the~~

~~maturity date and the amount of each instalment for the repayment of loans, provided, however, that no amount of principal may be forgiven and that similarly situated Member States will also be able to receive equal treatment. Other policies applicable in the case of arrears are set out in a policy framework for managing partnerships with countries in arrears established by the Executive Board~~

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.

V. Leveraging the Fund's resources

17. The Fund shall attempt to multiply the impact of its own resources by undertaking projects jointly with other multilateral and bilateral agencies, and by mobilizing resources for investment in agricultural and rural development in the developing Member States for the public and private sector, while ensuring the realization of the Fund's own objectives and preserving its own independent identity in the process.

VI. Implementation

18. **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.
19. **Operational guidelines.** The Fund shall formulate, in the light of experience, more detailed operational guidelines on various policies and criteria outlined above.
20. **Implementation and review.** The Executive Board shall interpret and implement these policies and criteria with the necessary flexibility provided for herein and will review them at a future date in the light of actual experience.

VII. Reporting

21. The Executive Board shall:
- (a) Report periodically to the Governing Council on the exercise of the authority vested in it above; and
 - (b) Review periodically these Policies and Criteria for IFAD Financing in the light of changing circumstances and, if it so deems necessary, recommend to the Governing Council such modifications thereto as may be appropriate.