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Amendments to the Policies and Criteria for IFAD Financing

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For: Approval

Amendments to the Policies and Criteria for IFAD Financing

Recommendation for approval

In accordance with the recommendation of the Executive Board at its 125th session in December 2018, the Governing Council is invited to adopt the resolution contained in section III of this report.

I. Introduction

1. At its 125th session in December 2018, the Executive Board approved relevant items contained in the document entitled Update of Financing Terms (EB 2018/125/R.45/Rev.1), which provides greater flexibility for borrowers and modernizes the Policies and Criteria for IFAD Financing within the current pricing methodology. The update of the financing terms will facilitate the delivery of the programme of loans and grants for the Eleventh Replenishment of IFAD's Resources (IFAD11) in the context of an increasingly complex development landscape and distinct change in the business model to enable IFAD to meet its ambitious global targets. Additionally, the Executive Board approved the proposal to implement a Non-Concessional Borrowing Policy (NCBP) (EB 2018/125/R.46/Rev.1), the purpose of which is to deter free riding and to tackle the moral hazard of countries using concessional financing as a reserve for non-concessional resources.
2. The changes proposed will provide borrowers with more flexible debt management and risk mitigation strategies, allow them to choose financing terms and currency denomination in line with projects' expected economic and financial impact, and reduce foreign exchange impact for IFAD. The introduction of the NCBP is timely given the global increase in debt levels across countries of all income levels. The policy will assist IFAD in managing creditor requirements through enhanced coordination and in redirecting the most concessional resources to where there is the greatest need. It also harmonizes IFAD's policies with those of other international financial institutions and provides IFAD with a fundamental risk management instrument for its developing financial architecture.

II. Revision of the Policies and Criteria for IFAD Financing

3. Both the Update of Financing Terms and the NCBP have been approved by the Executive Board and require an amendment to the Policies and Criteria for IFAD Financing (PCIF). The respective resolutions to this effect have been merged for submission to the Governing Council.
4. With regard to the Update of Financing Terms, an amendment is required for the following proposed changes:
 - (i) Introduction of differentiated maturity and grace periods for ordinary term financing;
 - (ii) Introduction of currency-specific loan pricing determined by the Executive Board for highly concessional terms and blend terms financing; and
 - (iii) Change in the frequency of review and revision of the IFAD service charge and the reference interest rate of rate setting from a semi-annual basis to a quarterly basis.

5. For the NCBP, an amendment is needed to allow for the application of disincentive measures that would result in a deviation from the standard financing terms for which a country would normally be eligible.

III. Resolution

The Governing Council of IFAD,

Recalling resolution 178/XXXVI, in which it decided upon the proposal of 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 42/L.7;

Adopts the Policies and Criteria for IFAD Financing, as revised below, which shall take effect from the adoption of this resolution; and

Hereby decides:

1. Section I, paragraph 3 of the Policies is hereby amended to read as follows (added text is underlined):
 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 and in 2019, the Policies and Criteria for IFAD Financing were amended to reflect changes required to give effect to the transition framework and to update the financing terms.

2. A new subparagraph – number 15(a)(ii)(1)(d) – is added and will read as follows:

(1) Those developing Member States that, at the end of the year preceding the start of a replenishment period:

...

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

3. Section IV, paragraphs 15(a)(iii)(1), (2) and (3) of the Policies are hereby amended to read as follows (added text is underlined and deleted text is shown in strikethrough):
 - (1) ~~Special Loans~~ Loans on highly concessional terms shall be free of interest but bear a service charge on the principal amount outstanding of three fourths of one per cent (0.75 per cent) per annum for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis, and have a maturity period of forty (40) years (unless a shorter maturity is requested by the borrower), including a grace period of ten (10) years starting from the date of approval by the Executive Board;

 - (2) Loans granted on blend terms shall be subject to ~~interest~~ a service charge on the principal amount outstanding ~~at a fixed rate of 1.25 per cent of three fourths of one per cent (0.75 per cent) per annum for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis~~, shall bear interest on the principal amount outstanding at a

fixed rate of 1.25 per cent for loans expressed in SDR and as determined by the Executive Board for other currencies on a financial equivalence basis, and shall have a maturity period of twenty-five (25) years (unless a shorter maturity is requested by the borrower) including a grace period of five (5) years, 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 interest per annum equivalent to one hundred per cent (100 per cent) of the variable reference interest rate bear interest on the principal amount outstanding at the IFAD reference interest rate, as determined annually by the Executive Board in accordance with subparagraph (iv), and have a final maturity period limit of fifteen (15) to eighteen (18) years, including a grace period of three (3) years (unless a shorter maturity is requested by the borrower) of up to thirty-five (35) years and a final average maturity limit of up to twenty (20) years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.~~

4. A new subparagraph – number 15(a)(iv)(1) – is added and will read as follows:

(iv) The Executive Board shall:

(1) Determine the service charge and related interest applicable to loans on highly concessional terms and blend terms expressed in a unit of denomination other than SDR.

The following subparagraphs are renumbered accordingly (see below).

5. Renumbered subparagraphs (2) and (3) of paragraph 15(a)(iv) are hereby amended to read as follows (additional text is underlined and deleted text is struck through):

(iv) The Executive Board shall:

(2) Determine, on the basis of the variable ordinary interest rate of international financial institutions concerned with development, the method of calculation of the reference rate of interest (the IFAD reference interest rate) for application in IFAD, which shall provide the basis for the review and revision prescribed in subparagraph (2 3) below; and

~~(3) Decide, annually, the rates of interest to be applied to loans on ordinary terms. For that purpose, it shall review annually 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.~~ Every three months, review and revise the IFAD service charge and the reference interest rate for the following period on the basis of market rates.

6. Paragraph 15(c) of the PCIF is amended to read as follows (added text is underlined):

Debt sustainability mechanism

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