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IFAD
Investing in rural people

Amendments to the Policies and Criteria for IFAD Financing

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Rome, 11-12 February 2020

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 128th session in December 2019, the Governing Council is invited to adopt the resolution contained in section III.

I. Introduction

1. At its 128th session in December 2019, the Executive Board approved relevant items contained in the document entitled Debt Sustainability Framework (DSF) Reform (EB 2019/128/R.44), aimed at building a tailored IFAD response and maximizing the use of official development assistance for the poorest countries, while adhering to the international architecture of support for debt distress management. This implies: using the World Bank/International Monetary Fund DSF for Low-Income Countries as the basis for grant resource allocations; no unsustainable additional debt burden to highly indebted countries; and a reinforced high level of concessionality.

2. The changes proposed will support IFAD in continuing to provide assistance to countries with the highest developmental needs in the future, tailored to the trends and circumstances of each replenishment, while preserving its financial sustainability in terms of both capital and liquidity. The changes also provide Member States with the flexibility to pledge additional resources in a way that directly increases commitments to poorer countries on a replenishment-by-replenishment basis in a transparent and predictable manner.

II. Revision of the Policies and Criteria for IFAD Financing

3. The Debt Sustainability Framework Reform approved by the Executive Board requires an amendment to the Policies and Criteria for IFAD Financing. 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 change:

   (i) Introduction of a new lending term with a high concessionality level to be known as the super highly concessional loan.

III. Resolution

In view of the foregoing, the Executive Board proposes the following resolution for adoption by the Governing Council at its forty-third session in February 2020.

Resolution …/XLIII
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 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 43/L.9;

Adopts the proposed revisions to the Policies and Criteria for IFAD Financing, which shall take effect on 1 January 2022; and

Hereby decides:

Section I, paragraph 3 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, to reflect IFAD's engagement with the private sector <u>and to update the financing terms. In 2020, the Policies and Criteria for IFAD Financing were amended to reflect changes required to give effect to the new Debt Sustainability Framework measures.</u>

In section IV, paragraph 15.A(a)(iii) is hereby amended to read as follows (added text is underlined):

(iii) The conditions for <u>super highly concessional</u>, highly concessional, blend and ordinary lending terms shall be as follows:

In section IV, a new subparagraph (1) is added under paragraph 15.A(a)(iii) and reads as follows (added text is underlined):

(1) <u>Loans granted on super highly concessional terms shall be free of interest but bear a service charge on the principal amount outstanding of a tenth of one per cent (0.1 per cent) per annum for loans expressed in special drawing rights (SDR) and as determined by the Executive Board for other currencies on a financial equivalence basis, and have a maturity period of fifty (50) 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</u>

Board. Loans on super highly concessional terms shall be granted exclusively to countries eligible for the debt sustainability mechanism;

The subsequent subparagraphs are renumbered accordingly.

In section IV, paragraph 15.A(a)(iv) is hereby amended to read as follows (added text is underlined):

(iv) The Executive Board shall:

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

Section IV, paragraph 15.C is hereby amended to read as follows (added text is underlined and deleted text is shown in strikethrough):

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~~ loans on super highly concessional terms and 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.