Framework on IFAD Financing Conditions

IFAD

Investing in rural people

- The Framework on IFAD Financing Condition was adopted by the Governing Council at its Forty-Fifth Session on 16 February 2022.

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Article I

INTRODUCTION

1. **Objective**: Article 7.1(e) of the Agreement Establishing IFAD provides, "Subject to the provisions of this Agreement, financing by the Fund shall be governed by broad policies, criteria and regulations laid down, from time to time, by the Governing Council by a two-thirds majority of the total number of votes." Eligibility for assistance is determined on the basis of objective economic and social criteria, with special emphasis on the needs of low-income countries (LICs) and their potential for increasing food production, and due regard for the fair geographic distribution of these resources. The Framework on Financing Conditions sets out the applicable criteria and conditions for this financing.

2. Since the adoption of the Lending Policies and Criteria in December 1978 by IFAD's Governing Council, IFAD has grown significantly and has seen various amendments to the Policies and Criteria for IFAD Financing. Given this evolution, it is now appropriate to have a separate Framework on Financing Conditions. The Executive Board, which is mandated to set out detailed policies governing financing by IFAD, delegates its authority to determine financing conditions under this Framework on Financing Conditions to IFAD Management.

3. The application of this Framework is limited to sovereign public sector operations and does not apply to loans funded through IFAD's non-sovereign private sector operations.[1]

[1] EB 2020/129/R.11

Article II

FINANCING CRITERIA – LOANS TO THE PUBLIC SECTOR

4. The criteria for determining the terms to apply to a specific country shall be as specified in this paragraph, in accordance with the following:

4.1. Developing Member States that, at the end of the year preceding the start of a replenishment period:

a. are eligible for the debt sustainability mechanism[2] shall be eligible for loans on super highly concessional terms;

b. have a gross national income (GNI) per capita lower than or equal to the operational cut-off as determined annually by the International Development Association (IDA) shall normally be eligible to receive loans from IFAD on highly concessional terms;

c. are classified by IDA as a "small state economy" shall normally be eligible for highly concessional terms;

d. have a GNI per capita higher than the operational cut-off referred to in subparagraph (b) 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;

e. are classified as "gap countries" or "blend countries" by IDA shall be eligible for blend lending terms;

f. are not eligible for super highly concessional, 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;

g. are normally eligible for super highly concessional or 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;

h. Countries eligible for super highly concessional, highly concessional and blend terms may access ordinary term resources through the Borrowed Resource Access Mechanism (BRAM) following a BRAM eligibility assessment.

4.2. The conditions for super highly concessional, highly concessional, and blend lending terms are as follows:

a. Loans 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 Board.

b. 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.

c. Loans granted on blend terms shall: (i) be subject to 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

[2] Eligibility criteria for the debt sustainability mechanism as defined in the Debt Sustainability Framework Reform (EB 2019/128/R.44).

for other currencies on a financial equivalence basis; (ii) bear interest on the principal amount outstanding at a fixed rate of one and one fourth per cent (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 (iii) 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 starting from the date of approval by the Executive Board.

4.3. Loans on ordinary terms shall bear interest on the principal amount outstanding based on the IFAD reference interest rate, as determined by the Executive Board in accordance with article 3 above, and have a final maturity limit (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 on which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled. The Fund's ordinary loans to Member States will be categorized as follows:

a. **Category 1** will include LICs and lower-middle-income countries (LMICs) eligible for super highly concessional, highly concessional and blend terms. These countries will be subject to the standard maturity premium differentiation, which together with the other elements of the pricing structure, will ensure a minimum cost recovery of IFAD's cost of funding the borrowed resources.

   Borrowers eligible for this category will have access to resources subject to a maximum of thirty-five (35) years maturity and ten (10) years grace period, with a maximum average repayment maturity of twenty (20) years.

b. **Category 2** will include LMICs non-eligible for category 1(already accessing semi-concessional loans), borrowers transitioning from blend terms to semi-concessional loans, creditworthy fragile and conflict-affected states, and small state economies that are eligible for borrowing from the International Bank for Reconstruction and Development. These countries will be subject to a maturity premium higher than category 1.

   Borrowers eligible for this category will have access to resources subject to a maximum of thirty (30) years maturity and eight (8) years grace period, with a maximum average repayment maturity of eighteen (18) years.

c. **Category 3** will include upper-middle-income country (UMIC) borrowers with a GNI per capita below the Graduation Discussion Income (GDI) threshold that do not qualify for an exemption listed within category 2. These countries will be subject to a maturity premium higher than category 2.

   Borrowers eligible for this category will have access to resources subject to a maximum of twenty (20) years maturity and five (5) years grace period.

d. **Category 4** will include UMICs with GNI per capita above the GDI threshold and less than the threshold for high-income countries (HICs), or those considered eligible for official development assistance (ODA). These countries will be subject to a maturity premium higher than category 3.

   Borrowers eligible for this category will have access to resources subject to a maximum of eighteen (18) years maturity and three (3) years grace period.

5. The applicable maturity premium adjustment between income categories is reflected in the table below:

New category / average maturity	*Up to 8 years*	*Greater than 8 to 10 years*	*Greater than 10 to 12 years*	*Greater than 12 to 15 years*	*Greater than 15 to 18 years*	*Greater than 18 to 20 years*
Category 1: LICs and LMICs eligible for super highly concessional, highly concessional and blend terms. No high risk of debt distress	0.00%	0.05%	0.15%	0.25%	0.35%	0.50%
Category 2: LMICs and UMICs eligible for ordinary terms and	0.10%	0.20%	0.30%	0.40%	0.50%	N/A

classified as fragile and conflict-affected states, small state economies or in transition						
Category 3: UMICs with a GNI per capita below the GDI threshold	0.15%	0.25%	0.40%	0.50%	N/A	N/A
Category 4: UMICs with GNI per capita above the GDI threshold and less than the HIC threshold, or those considered eligible for ODA	0.25%	0.40%	0.60%	N/A	N/A	N/A

6. Spread: A variable[3] spread will be applied to ordinary term loans.
7. Ordinary term loans will be offered in euros and United States dollars.
8. All loans to the public sector do not bear commitment fees.

[3] The fixed spread offer is suspended from 1 January 2022 (i.e. for the Twelfth Replenishment of IFAD's Resources [IFAD12]) along with the determination of the fixed spread for ordinary term loans. In order to maintain flexibility to adapt to changes over time, the suspension of the fixed spread will be re-evaluated by the end of IFAD12 (financial year 2024). The option to reintroduce the fixed spread for ordinary term loans after re-evaluation is dependent upon the developments in: (i) the secured overnight financing rate market; and (ii) IFAD's own pricing methodology.

Article III

GOVERNANCE

9. The Executive Board, while retaining its authority to establish, from time to time, other policies and frameworks for financing that may be required or may be appropriate in order to fulfil the Fund's objectives, delegates to IFAD Management the authority to:

   9.1. determine the: (i) service charge and related interest applicable to loans on super highly, highly concessional and blend terms expressed as a unit of denomination other than SDR; and (ii) applicable fees related to loans, considering the recommendation of Management, including an analysis of the cost of preparing and administering IFAD's loans;

   9.2. determine the quarterly spread for ordinary loans to be applied over the applicable market-based rate (that together form the IFAD reference interest rate); and

   9.3. every three months, review and revise the IFAD applicable spreads for the following period based on market rates.

10. The Executive Board shall have authority to approve updates to the Framework on Financing Conditions, except in instances where the update may impact the PCIF, in which case those updates will be approved by the Governing Council.

March 2022

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