



Lending Policies and Criteria



IFAD

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III. Lending Criteria

20. In formulating the Fund's lending criteria, consideration will be given to the following three factors:

- ▶ the principle of flexibility as laid down by the Agreement, so that, as the Fund learns from experience, new meaning or interpretation can be attached to the broad criteria;
- ▶ country requirements, particularly for lending to countries that face a serious aggregate food shortage or have large segments of population that consume food in quantities considered well below the established minimum standards; and
- ▶ project appraisal standards designed to select projects that reduce rural poverty cost-effectively, and that otherwise conform to the broad policy parameters outlined above.

COUNTRY CRITERIA

21. The poorest countries, whose food problems require priority attention, will be the main focus of the Fund's operations, both with respect to volume of lending and terms of concessional lending. The Fund will not seek to develop a pattern of country allocations; it will, instead, designate a number of priority countries for programming purposes. Explicit criteria would be developed for identifying such countries¹. The rationale would not be fixed but would change as the Fund gathers more experience.
22. The largest portion of the Fund's resources will be made available to the poorest developing countries² categorized by the Fund as food priority countries. The Fund will also pay due attention to the need of other developing countries with a potential for food production, with emphasis on projects that are designed to benefit the poorest segments of their populations³.

¹ In determining the list of food priority countries, the Fund will take into account the work of other international agencies. For instance, the World Food Council had considered the criteria by which to identify countries whose food situation warranted priority. The criteria, on the basis of which an initial list of 43 countries was formulated, propose the following guidelines: (a) low per capita income of under USD 500 a year (in 1975 prices) with special emphasis on even lower income countries; (b) a projected cereal deficit by 1985 of 500 000 tons or more and/or a cereal deficit of 20% or more as a proportion of estimated cereal consumption; (c) the degree of protein-calorie malnutrition in terms of the proportion of population which is malnourished or in terms of the average availability of calories in relation to minimum requirements; (d) an insufficient average increase in food production, total and per capita, during the last decade; (e) the potential for rapid, efficient and socio-economically well-distributed increase in food production, including the availability of underutilized resources to produce food; (f) serious balance-of-payments constraints.

² For this purpose, countries with a per capita income of USD 500 or less (in 1975 prices) should be covered by this term, and that the absolute poorest among them should furthermore receive special attention.

³ Country allocations will take account of the distribution of population between countries and particularly of the distribution of the rural poor.

23. No single country, regardless of its income level, nor any single project shall be entitled to a disproportionate share of the Fund's resources. The Executive Board shall review periodically its operations with due regard to a fair geographic distribution of the Fund's total resources within the general framework outlined in this document. The relending terms and conditions of any loans supplied by the recipient country to intermediate and final borrowers would normally be agreed upon by the Fund and the borrowing Member, at the time of loan negotiations.
24. Within the countries considered eligible for financing, the Fund will pay attention to general economy, agricultural and administrative policies and practices. The lending operations of IFAD can be successful only if the recipient country has a strong commitment to a development strategy which is directed towards the rural poor. This commitment should be reflected in appropriate price and fiscal policies, land reforms, credit policies and budgetary allocations to agriculture and rural development. Of equal importance are actions in the institutional area which enable the government to reach the rural poor effectively through coordinated action of its own agencies. Performance criteria will also entail an assessment of the efficiency of utilizing past and present resource flows to agriculture, to identify serious constraints to agricultural progress.
- 24A. The recommended allocation of IFAD's future lending by region shall be established periodically by the Executive Board, on the understanding that such allocations are indicative figures and shall be applied flexibly, keeping in mind the fluctuations which will be evened out on a cumulative average basis. The allocation to any single recipient country shall not exceed ten per cent (10%) of IFAD's total annual lending, or such other per cent as may be determined by the Executive Board, to be applied flexibly depending on resource availability.

PROJECT CRITERIA

25. The impact of IFAD's activities upon rural poverty depends not only on those activities themselves, but also on the economy and social structures. It is, therefore, necessary to understand the dynamics of each society, so that each project or programme can be viewed in a broader perspective, with attention to its negative or positive inter-actions with other parts of the system. Within this broad context, the Fund will pay particular attention to the dissemination of improved and appropriate technologies to small farmers; capital investment programmes that increase output, especially of low-cost calories, per unit of land and labour; and the promotion of labour-intensive rural activities that improve the quality or efficiency of the inputs into the production, storage or processing of farm outputs⁴.
26. The Fund, taking due account of its country criteria and of the principle of economic viability of projects, will give special consideration to the following types of activities:
- (a) those that result in marked increases in output of cereals and other basic foodstuffs, including livestock and fishery products for direct human consumption within the producing country;
 - (b) those that deliver a major portion of benefits to the small farmers and the landless;
 - (c) those that induce larger flows of national resources to agriculture and improve the country's ability to organize the rural sector and mobilize the rural population;
 - (d) those that promote domestic and external trade in food products or other forms of economy cooperation among developing countries in respect of food production.
27. The Fund will not normally finance projects and programmes whose overall impact on income distribution is negative, i.e. those which fail to provide proportionately larger benefits to the poorest segments of the population when compared with other groups.

4 The Fund may finance industrial activities related to agriculture and fishery only to the extent that it is thereby likely to achieve substantially greater incomes for small farmers or landless labourers and small fishermen. While concentrating on small-scale processing facilities in rural areas and small towns, the Fund may, in appropriate cases, provide technical assistance and financing (normally in cooperation with other agencies) so that chemical fertilizer plants and related infrastructure, already functioning or proposed, produce or deliver fertilizers suitable for the small farmers. IFAD will also help other agencies in planning and promotional activities, to ensure the adequate availability of fertilizers to developing countries at reasonable prices.

28. When selecting projects in food exporting developing countries or those with a potential for food exports, the Fund will take into account the capacity and the comparative advantage of the country to produce food. Preference will be given to projects enabling such countries to offer increased supplies of food for food-deficit developing countries⁵. In this context, it shall actively encourage cooperation between potentially food-surplus developing countries and food-deficit developing countries which results in making food available on reasonable terms to the populations of the latter.
29. The Fund will accord high priority to activities that strengthen the technical and institutional capacity essential for agricultural and rural development. In this context, the Fund will, mainly as a part of its lending operations, and after taking into account the technical assistance operations of other agencies, finance technical assistance for the following main purposes:
- (a) to assist the country to undertake feasibility studies in agricultural projects related to IFAD's activities and priorities, although the Fund will encourage the development of local capabilities and skills in respect of project and programme design and planning for agricultural development, so as to progressively reduce dependence on foreign assistance and expertise;
 - (b) to assist countries in expanding the supply of trained personnel and their integration into sound institutional structures that permit effective response to local conditions and problems;
 - (c) to assist local institutions in the design and implementation of monitoring systems appropriate to the special objectives of Fund-financed projects;
 - (d) to undertake special studies or pre-investment projects in problem areas, e.g. in rainfed agriculture areas or drought-prone areas that hold prospects for future investment;
 - (e) to assist countries more intensively at the project implementation stage, through special training for project management staff;
 - (f) to provide support to countries for research and extension activities. In particular, the development of technology appropriate to small farms would be supported. Small-scale but innovative projects with a strong exploratory element, leading to future larger scale investment decisions, would receive special attention.

⁵ A country will be treated as a food-deficit country if, in a climatically typical year, its food output *minus* the value of food exports required to purchase imported inputs for food production, could not meet the minimum Food and Agriculture Organization of the United Nations (FAO)/World Health Organization (WHO) calorie requirements of its population without net food imports.

30. 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 cannot 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 like income distribution and employment, fall short of measuring the Fund's broad development objectives - to satisfy the basic needs of the people in developing countries in a self-reliant and positive social environment. The Fund would attempt to evolve, over a period of time and in the light of its own experience and that of other agencies concerned, new indicators and analytical techniques that take account of the objectives of the Fund.

IV. Lending Terms and Conditions

31. The Fund will provide loans to developing Member Countries of IFAD upon highly concessional, intermediate and ordinary terms for approved projects and programmes. The criteria for determining the terms to apply to a specific country shall be as specified in this paragraph.

(a) Those developing Member Countries:

- (i) having a Gross National Product (GNP) per capita of USD 805 or less in 1992 prices or classified as 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 annually by IFAD;
- (ii) having a GNP per capita of between USD 806 and USD 1 305 inclusive in 1992 prices shall normally be eligible to receive loans from IFAD on intermediate terms; and
- (iii) having a GNP per capita of USD 1 306 or above in 1992 prices shall normally be eligible to receive loans on ordinary terms.

- (b) For those developing Member Countries in which there is a significant difference between GNP per capita and Gross Domestic Product (GDP) per capita, the GDP per capita shall be used as the criterion for determining the applicable lending terms within the same monetary limits.

- (c) 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.
 - (d) 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.
 - (e) 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.
32. The conditions for highly concessional, intermediate and ordinary lending terms shall be as follows:
- (a) *special loans on highly concessional terms shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum and have a maturity period of forty (40) years, including a grace period of ten (10) years;*
 - (b) *loans on intermediate terms shall have a rate of interest per annum equivalent to fifty per cent (50%) of the variable reference interest rate, as determined annually by the Executive Board, and a maturity period of twenty (20) years, including a grace period of five (5) years;*
 - (c) *loans on ordinary terms shall have a rate of interest per annum equivalent to one hundred per cent (100%) of the variable reference interest rate, as determined annually by the Executive Board, and a maturity period of fifteen (15) to eighteen (18) years, including a grace period of three (3) years;*
 - (d) *no commitment charge shall be levied on any loan;*
 - (e) *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;*

- (f) the Executive Board may vary the grace period and the amount of each instalment for the repayments of loans received on intermediate 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. 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; and (ii) the net present value in SDR of the intermediate terms and ordinary terms specified in (b) and (c) above is maintained; and
- (g) for the purposes of resolving arrears that may arise from time to time in the payment of interest/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. .

33. The Executive Board shall:

- (a) determine, on the basis of the variable ordinary interest rate of international financial institutions (IFIs) concerned with development, the reference rate of interest for application in IFAD, which shall provide the basis for the review and revision prescribed in sub-paragraph (b) below; and
- (b) decide, annually, the rates 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.

34. 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 paragraph 33 above on the basis of the principles laid down in this document.

35. 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 would lend. 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.

36. Loans to countries which are not eligible for loans on highly concessional terms will be on intermediate 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.
37. The Fund's grant assistance, apart from technical assistance, shall be exclusively used for the financing of projects in the absolute poorest food-deficit countries with the most severe development problems. Taking account of the very limited amounts of resources 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.
38. Technical assistance, particularly for activities listed in paragraph 29, 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 might include the costs of such technical assistance into the loan. In addition, the Fund may provide, in cooperation with other agencies, grants for suitable activities of international, regional and national research institutions.⁶

6 The Executive Board, at its Seventh Session in September 1979, approved an operational policy framework for conducting the Fund's technical assistance activities. This framework was amended by the Executive Board at its Thirty-Seventh Session in September 1989. The Executive Board decided:

- (a) To extend the President's authority to expend funds on preparatory activities directly related to the Fund's lending operations up to USD 400 000 for each proposal and up to a total annual limit of USD 5 000 000. A description of each such proposal will be submitted for the information of the Executive Board at the meeting immediately following the approval of the proposal.
- (b) To confirm that all proposals for technical assistance for project preparation requiring expenditures in excess of USD 400 000 shall be submitted to the Executive Board for consideration and approval;
- (c) To establish the following policy regarding the terms under which technical assistance for project preparation would be provided by IFAD:
 - (i) borrowers normally entitled to highly concessional terms shall have funds for project preparation provided to them as grants.
 - (ii) borrowers which would normally receive loans on intermediate or ordinary terms shall have funds for project preparation advanced to them on a grant basis with any amounts so advanced to be recovered through the loan if the project materializes and the loan is eventually approved.
- (d) To consider proposals for grants to support agricultural or socio-economic research related to IFAD's objectives being carried out by other international, regional or national institutions on a case-by-case basis, the activities of the latter to be funded primarily as a part of IFAD's normal project-related operations.
- (e) To continue to consider proposals for all other non-project-related technical assistance also on a case-by-case basis.

The Executive Board, at its Thirty-Seventh Session, requested the President to: (a) inform it if any project, for which a grant for its preparation has been given to a Borrower entitled to receive ordinary terms, does not materialize; and (b) ensure that the adoption of the amendment to paragraph (c)(ii) above does not lead to a substantial redistribution of resources from low-income to middle-income countries.

**LOCAL COST
FINANCING**

39. Since the Fund's target group is primarily the poorer small farmers, the Fund will generally receive projects for financing which have a relatively large local cost component.
40. As one of the objectives of the Fund is to increase the flow of external resources to agriculture, the Fund will be prepared to provide foreign exchange for the financing of a part of the local cost component. The Fund will, however, in no case finance the entire cost of a project. Decisions as to the share of local project costs it would finance must reflect not only the country's economic situation but also the country's own efforts in support of agriculture. In financing local project costs, the Fund will seek to encourage governments to increase their allocations of budgetary and human resources for agricultural and rural development.

**RECURRENT COST
FINANCING**

41. The Fund will normally consider for inclusion as project costs only the incremental operating costs arising during the project's implementation period. Where, however, such recurrent costs could prove burdensome to the country's budget at the end of the implementation period, the Fund will consider financial assistance for a limited period, in exceptional circumstances and on a case-by-case basis.