

**GUIDELINES FOR APPLICATION
OF
THE LOANS POLICY**

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Introduction

1. The Governing Council at its Twelfth Annual Meeting considered the draft Guidelines on eligibility of borrowers and guarantors and other forms of security contained in doc. CFC/GC/12/7. The Governing Council agreed that the Guidelines, as amended by the Governing Council, can be applied provisionally and would be reviewed by the Governing Council at its Thirteenth Annual Meeting. In the application of the guidelines the creditworthiness of borrowers and guarantors would in each case need to be thoroughly assessed. Loans extended by the CFC shall be in conformity with the requirements established by the IMF for the respective countries.

2. The Governing Council recognized that the Agreement Establishing the Common Fund for Commodities states in Article 18.3 (c) that loans can be given to:

- an International Commodity Body (ICB)
- an agency of an ICB or
- a Member or Members

Guidelines

3. The Guidelines, as amended by the Governing Council, are as follows:

Group A: to be interpreted as “**Members**” and, thus, as eligible borrowers.

“Members” are generally defined in Article 5 of the Agreement as those States and intergovernmental organisations which have ratified, accepted, approved or acceded to the Agreement.

The term “Member” should, in the context of Article 18.3 (c), be interpreted in such a way as to also include the following:

	Guarantees Required
Category 1 : Ministries authorised by their Governments and, if necessary, approved by Parliament, to take loans	No
Category 2 : National Banks, for example Central Banks	No
Category 3 : Governments of large administrative regions within countries	Normally* Not
Category 4 : International Financial Institutions, for example Regional Development Banks (e.g. the African Development Bank, the Asian Development Bank, the PTA Bank), owned by States, where: <ul style="list-style-type: none"> - all members are Members of the Fund - some members are Members of the Fund 	No
Category 5 : State owned banks involved in development	Normally not
Category 6 : Parastatals	Normally Yes
Category 7 : Inter-governmental organisations, where: <ul style="list-style-type: none"> - all members are Members of the Fund - some members are Members of the Fund 	Normally Yes

Group B: to be interpreted as “**agencies of ICBs**” and, thus, as eligible borrowers.

With respect to the criterion “agency of an ICB”, as applied in the Agreement Establishing the Fund, the Working Group recommends that this be interpreted so as to include appointment by the relevant ICB of a borrower for the purpose of a particular project. The form of such appointment should be at the discretion of the ICB in each case. The Working Group recommends to consider the following to be eligible as agencies of ICBs:

Category 1: Private Banks and other credit institutions, active in commodity development financing, with a focus on social (e.g. gender) aspects and poverty alleviation and which have a track record of such activities and of repayment.	Yes
Category 2: Federations of co-operatives, recognised by national governments.	Yes

* The qualification “normally” is suggested with a view to provide a possibility for the Executive Board to make exceptions in individual cases based on the characteristics and condition of the borrower and other particular circumstances regarding the project in question.

Group C : to be eligible as **guarantors**

Article 18, paragraph 3 (c) of the Agreement addresses the issue of guarantors by stating that loans may be covered by governmental or other suitable guarantees from the ICB or the Member or Members designated by such ICB”.

The following are to be included among eligible guarantors:

1. Central Banks Ministries
2. Multilateral institutions
3. Parastatal institutions State owned development banks
4. Private guarantors
 - Private banks
 - Other financial institutions
 - Mutual Savings Associations
 - Non-financial institutions

The Borrower and the Guarantor cannot be the same institution with respect to any one loan.

Group D: Other forms of **security**.

As far as other forms of security are concerned, the following can be considered as collateral, provided that the objects or rights concerned belong to the borrower or the guarantor and have a market value:

- Pledged cash deposits
- Assignment of rights, e.g. under contracts or insurance policies
- Real Estate
- Commercial stocks
- Goods to be delivered / in transit
- Movable assets (vehicles, equipment, etc.)
- Equity
- Insurance policies

Pursuant to Article 32, Paragraph 2 of the Agreement Establishing the Common Fund for Commodities, the Fund may upon departure of a Member from the Fund settle all liabilities outstanding from that Member to the Fund, against the amount of Directly Contributed Capital then due to be returned to the Member. Thus the paid-in Directly Contributed Capital of a Member State will automatically constitute collateral for a loan, or loans, taken by that Member State through its Government (with Parliamentary approval, if required).