

Summary

In line with the commercial sustainability programme, there is a need to provide working capital loans and even slightly longer-term loans to MAs. In this context, the management has developed a new MA loan policy. The committee will discuss, review and recommend the new policy to the Board of Trustees for approval in their next meeting. This policy will replace the existing Policy #3.5 Member Association Building Loan policy

Decision item

The Finance, Audit and Risk Committee to review, amend and recommend the **Affiliate Loan Policy** to replace the existing Member Association Building loan policy, to the Board of Trustees for approval.

Policy # 3.5 AFFILIATE LOAN POLICY

1) Introduction

As donor funding continues to decline, ensuring the long-term viability of our affiliates (Member Associations and Collaborative partners, in line to become Member Associates) and their capacity to deliver essential programmes/services has become increasingly important.

In response, IPPF established the **MA Commercial Sustainability Department** in June 2024. This department is tasked with supporting income-generating activities within the affiliates to be run with a commercially sound approach. The goal is to generate sustainable revenue streams that can over a period cover operational costs and reduce reliance on donor funding.

To advance this objective, the **affiliate loan policy will enable the secretariat to provide loans for commercially viable initiatives** developed under the guidance of the Commercial Sustainability Department. These loans are intended to catalyse

opportunities that enhance the financial sustainability and service delivery capacity of MAs across the federation.

2) Purpose and Scope

The purpose of this policy is to outline the principles governing the provision of loans to Affiliates.

This policy applies to the entire IPPF Secretariat and governs all loan arrangements made by the Secretariat with the Member Associations or Collaborative Partners (who are in the process of becoming Member Associations).

This policy does not apply to any advances, grants and non-repayable financial assistance provided by IPPF.

3) Definitions

- a) **Loan:** A sum of money provided on the condition that it is repaid, typically with interest, to support income-generating or financial sustainability activities initiatives to the eligible MAs/ CPs. This is to be paid in line with the Charity Commission guidelines as stated below:
 - i) a loan made to another charity for [charitable purposes](#) only.
 - ii) a loan to a beneficiary of the charity, and made in the course of carrying out the purposes of the charity.
 - iii) money placed in a current account at a bank.
 - iv) any other loan made for the benefit of the charity, and not for the avoidance of tax (whether by the charity or another person)
- b) **Member Association (MA):**
 - i) **Full Member:** A full member association is an organisation that freely joined IPPF and subscribes to IPPF vision, Mission and values and uphold the membership standards through on-going compliance.
 - ii) **Associate Member:** An associate member is an organisation that freely joined IPPF and subscribes to IPPF vision, mission and values and uphold an on-going compliance with the five criteria of admission as outlined in IPPF responsibilities and standards of membership.
- c) **Collaborative Partner:** A collaborative partner is recognized within the broader IPPF affiliation model. It has clear commitments to the federation that are long term and strategic. But it holds no voting rights and has reduced access to shared resources and opportunities. It does not meet the full set of criteria for membership. Importantly, being a Collaborative Partner can be considered a significant step on the pathway to membership

- d) **Advances:** are short-term bridges or stopgap funds, often repaid quickly or adjusted from future earnings within the year in which the amount is advanced. These do not carry any additional payment requirement, like interest on the principal.
- e) **Grant:** is a non-repayable financial award (subject to meeting all the requirements of the agreement) to support a specific cause or undertake a set of specific activities, given by a government, foundation, corporation, or other entity to support a specific charitable purpose like providing family planning services, advocacy, research, business development, or community projects, etc. Also grants usually do not even carry any interest repayment requirements.

4) Policy

IPPF may provide loans to Member Associations and/ or to Collaborative Partners (on the way to becoming a Member Association).

These loans are intended to support income-generating activities that align with IPPF's mission and contribute to the financial sustainability of the applicant.

Loans will be approved only for specific, time-bound initiatives that demonstrate clear potential for profit and repayment.

5) Guiding Principles

Loans shall be considered only for sustainability and fund-raising initiatives, including individual giving programmes.

The guiding principles that IPPF will use whilst issuing a loan to one of its affiliates will include:

- a) Loans will be provided for initiatives that support financial sustainability and reduced dependency on grants.
- b) Loans must be tied to clearly defined financial sustainability initiatives such as revenue-generating activities, cost-reduction measures, social enterprise ventures, or infrastructure that support operational self-reliance.
- c) Loan will be provided only if the initiative is in alignment with IPPF's mission and strategic goals.
- d) Loan will be provided only if there is a written agreement that includes:

- i) clear terms for monitoring, including agreed-upon performance indicator,
 - ii) commitment to share data in a transparent and timely manner
 - iii) terms to ensure accountability for use of financial resources for the purpose provided and
 - iv) commitment to repay the principal and interest thereon as per clearly stated terms.
- e) IPPF has undertaken adequate risk assessment and financial due diligence process. This includes financial analysis, risk evaluation, operational capacity, governance structures, and a review of the project's feasibility and sustainability plan.

6) Implementation

- a) All loans requested shall be approved only if they are
 - i) for sustainability/ fund raising initiatives.
 - ii) supported by a clear business case, including projected income, repayment plan, and risk assessment.
 - iii) within the overall limit of loans recommended and approved as part of the 'sustainability programme budget' by the Board of Trustees.
 - iv) approved by the Director-General and one trustee (ideally the Chair of the Finance, Audit and Risk Committee).
 - v) With the engagement of the Regional Offices in supporting the MA sustainability programme and oversight of the loan repayment.
- b) All loans shall be backed by terms and conditions that are documented and agreed in writing by IPPF and the recipient organisation and at the minimum must:
 - i) signed off by the Director- General and one trustee (ideally the Chair of the Finance, Audit and Risk Committee).
 - ii) contain clear repayment terms
 - iii) carry a commercial rate of interest
 - iv) repayment of which, must be adequately secured, with a proper lien or other acceptable form of security. This at the minimum would be a lien on core grants payable to the affiliate by IPPF and income generated from services/ programmes delivered. This will ensure these loans are fully secured.
 - v) repayment of loan, may not only be recovered from unrestricted core grant, but any other reimbursements payable to the affiliates.
 - vi) such loan issues, shall not be recovered out of restricted project grants.
 - vii) Regional Offices shall have clear role in supporting affiliate's sustainability programme and oversight of the loan recovery.

- c) The MA commercial sustainability department shall monitor and report progress on a regular basis (once every quarter), against each loan to the Directors Leadership Team (DLT) and the Resource Allocation and Sustainability Technical Committee (RASTC).
- d) IPPF reserves the right to review performance and if required adjust terms and conditions including calling back the loan earlier than originally agreed.
- e) Change in terms will only be applicable, if agreed to by both the parties in writing.
- f)** Any recovery action will be undertaken with due regard to the affiliate's continued operational viability. This could include:
 - i) pursuing legal remedies in accordance with applicable laws and contractual provisions.
 - ii) executing security arrangements or liens that in place;
 - iii) offsetting the outstanding loan against any future disbursements to the affiliate;
 - iv) Undertaking any other proceedings available for recovery from the defaulting affiliate.

Annex 1 - Interpretation of 'for the benefit of the charity'

1. There are limited ways in which charities may apply their funds; broadly they may either apply them in carrying out their charitable objects or they may invest their funds to generate income to fund their charitable activities. So, s and loans made by charities may be made for the:
 - financial benefit of the charity, to generate income or gains to enable the charity to carry out its objects.
 - charitable benefit of the charity — carrying out its charitable objects.

HM Revenues and Customs (HMRC) has long held the view that an investment or loan must be either for financial benefit or for charitable benefit. However, HMRC increasingly recognise that charity trustees need greater flexibility in making decisions and a rigid distinction is no longer necessarily appropriate.

2. HMRC accepts that in considering whether an investment or loan has been made for the benefit of the charity a broad view should be taken of how the charity benefits. This does not mean that 'anything goes'. Trustees must be able to justify their investment and loan making decisions and demonstrate how the loan benefits the charity. HMRC may ask to see evidence of the trustees' decision-making process and the information considered as part of that process.
3. A loan will normally be made to generate a flow of income or capital appreciation to enable the charity to deliver its charitable objectives. Where this is the case 'for the benefit of the charity' is most likely to mean for the financial benefit of the charity. In this sort of case HMRC would expect to see evidence of trustees having made a properly considered decision. This would include taking properly qualified, and preferably independent, advice as necessary, the seeking of a commercial rate of return in relation to risk, taking reasonable steps to limit the charity's overall exposure to risk including securing loans where possible, and consideration of available alternatives.
4. There's no one test of commercial soundness and each case must be viewed on its own facts. Where the loan is an investment loan, HMRC will normally accept it's for the financial benefit of the charity where it:
 - carries a commercial rate of interest which is paid and actively pursued
 - Be adequately secured, preferably through a proper lien or other acceptable form of security, at the minimum through a lien on core grants payable to the affiliate by IPPF

Not be repaid from core grants, restricted funds, or designated project grants.

- is made under a formal written agreement which includes reasonable repayment terms
 - In considering the individual elements above HMRC will look at the arrangement in the round. For example, does the rate of return reasonably reflect the security and repayment terms? Have the trustees made proper enquiries into the credit worthiness of the borrower and do the terms reflect that? Have the agreed terms of the loan been applied in practice?
5. As noted above, HMRC will take a broad view of how an investment benefits a charity. For example, a commercial investment might yield a highly advantageous return for the charity, but be so contrary to the charity's objects that it cannot be properly considered to be for the benefit of the charity. Conversely, an investment may yield a relatively modest rate of return, but may help directly carry out the charity's objects. In such a case the trustees may be able to demonstrate that overall, there is an acceptable level of benefit to the charity for the amount invested.
 6. A loan not made as an investment does not need to provide a financial benefit and would normally only be 'for the benefit of the charity' if it's made for the charitable benefit of the charity. HMRC would expect to see evidence that the trustees had given proper consideration to how the loan would carry out the charity's objects. This would include taking account of the balance between public benefit and any private benefit to the recipient of the loan. However, a broad assessment has to be made of the benefit provided by such a loan and if it provides some financial return this should be taken into account. Section 514(3)(d) CTA 2010 and section 561(3)(d) ITA 2007 apply only to loans not made as s.
 7. Guidance published by The Charity Commission for England and Wales identifies a distinction between 'Financial s' and 'Social s'.
 8. Investments recognised by the Charity Commission as Financial investments should be in the strict sense — funds invested to generate a flow of income or gains to enable the charity to carry out its objects. Where an investment is a financial investment HMRC would expect trustees to be able to demonstrate that the was made for the financial benefit of the charity.
 9. The Charity Commission guidance recognises that a charity can take an ethical approach to its financial investments.