



**SUPPORT  
IFAD'S  
REPLENISHMENT.  
SUPPORT  
RURAL PEOPLE.**



# IFAD as a Development Finance Institution

9 October 2020

# IFAD's Funding Structure

## IFAD's Sources of Financing

Replenishment Contributions

Loan Reflows

Sovereign Loans (SBF)

Donor Loans (CPLs)

Investment Income

- **IFAD is a UN agency and International Financial Institution that provides loans and grants to beneficiary countries.** Loans are provided at various degrees of concessionality – from Highly Concessional to Ordinary
- Unlike other UN agencies, **IFAD's funding does not come from assessed (or obligatory) contributions**
- **All contributions are voluntary and negotiated during Member State Consultations** that happen once every 3 years
- **ODA budgets have remained flat and in some cases declined**, which has had repercussions on IFAD's replenishment process, as with other organizations that rely on voluntary contributions
- IFAD has implemented the **Sovereign Borrowing (SBF) and Concessional Partner Loan (CPL) Frameworks** in order to secure these additional funding needs
- Management – with the support of Member States – has **embarked on a road to continue diversifying IFAD's funding base**
- Options are currently being explored, including the pursuit of a credit rating to put IFAD in a better position to raise the level of funding it requires

IFAD11 PoLG (2019-2021)

Grants and DSF  
\$0.8 billion

Highly Concessional  
\$1.2 billion

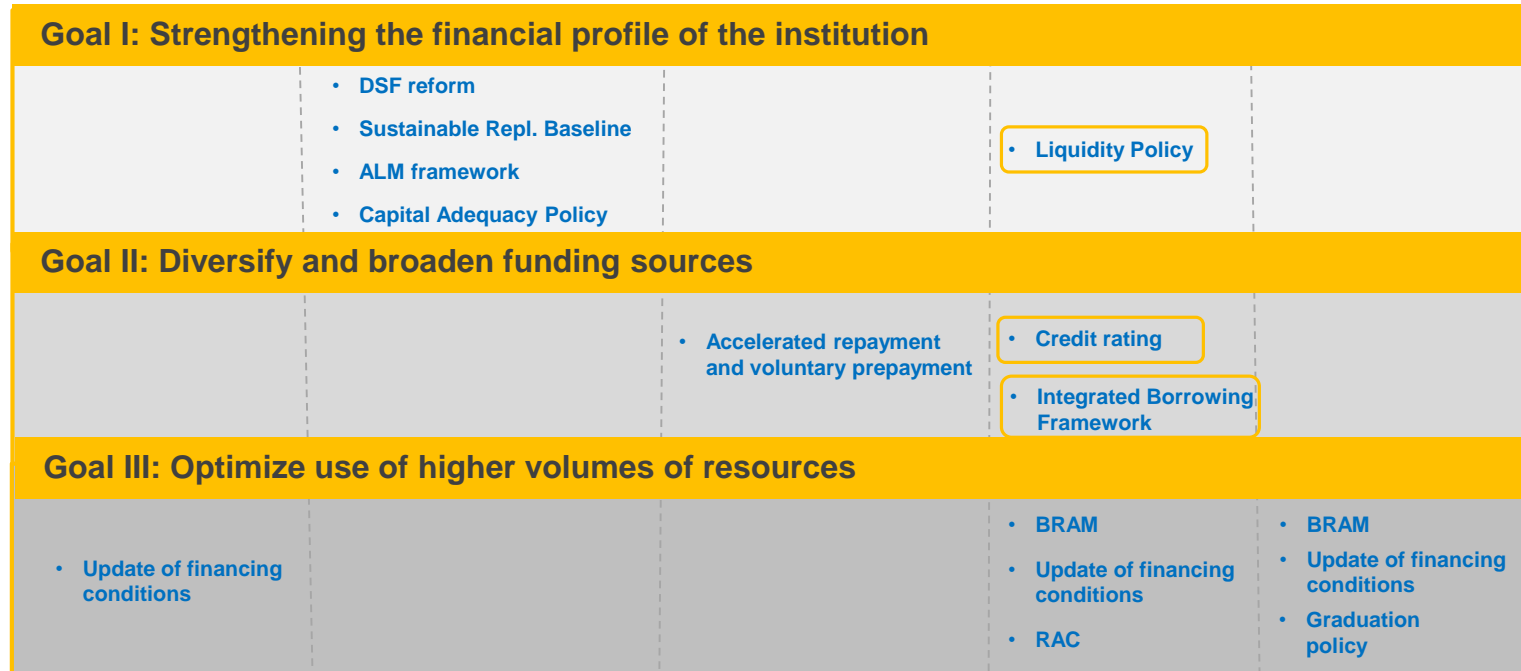
Blend Loans  
\$0.7 billion

Ordinary Loans  
\$0.8 billion

Total  
~ US\$ 3.5 billion



# The pathway to becoming a Development Finance Institution



EB December 18

EB December 19  
EB April 20

EB September 20

AC November 20  
EB December 20

IFAD12 Replenishment  
EB December 21



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# Liquidity Policy

## What is liquidity

Liquidity is intended as assets in the form of cash and investments in securities that can readily be sold without loss to meet disbursement obligations

## Why is a Liquidity policy important for IFAD

- To ensure that IFAD can at all times meet disbursement obligations
- To ensure that IFAD hold a safe liquidity buffer for unexpected rise in disbursements
- To ensure that there are contingency plans should liquidity constraints arise

## Immediate and long term implications for IFAD

- IFAD will gradually build up the buffer needed to comply by IFAD12
- IFAD will have a stronger and more conservative liquidity position

## Connections with other policies

- Deployable capital and liquidity evolution are the pillars for the RAC
- Capital consumption will be considered in the BRAM allocation

## Main metrics

- Minimum Liquidity Requirement (MLR)
- Target Liquidity Level (TTL)

# Integrated Borrowing Framework

## What is a borrowing framework

A borrowing framework is a policy document that establishes the pillars of borrowing activity, including eligible lenders, maximum thresholds and governance over borrowing proposals

## Why is an integrated borrowing framework important for IFAD

- To manage borrowing from all lenders holistically and based on the same principles
- To strengthen IFAD's funding profile by adding lenders and borrowing instruments

## Immediate and long term implications for IFAD

- No increase in maximum leverage as this is unchanged
- Broader pool of lenders, more flexibility of borrowing and more control over financial conditions

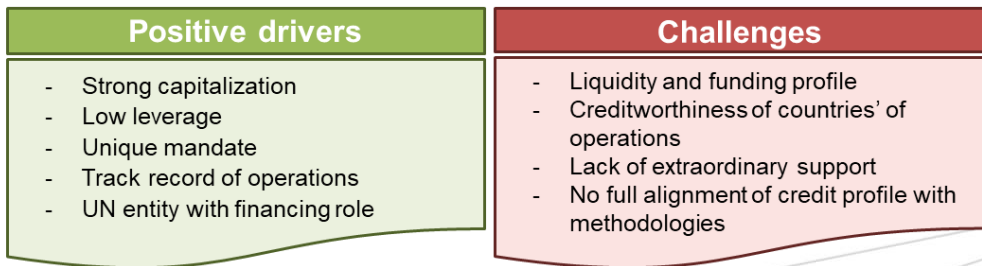
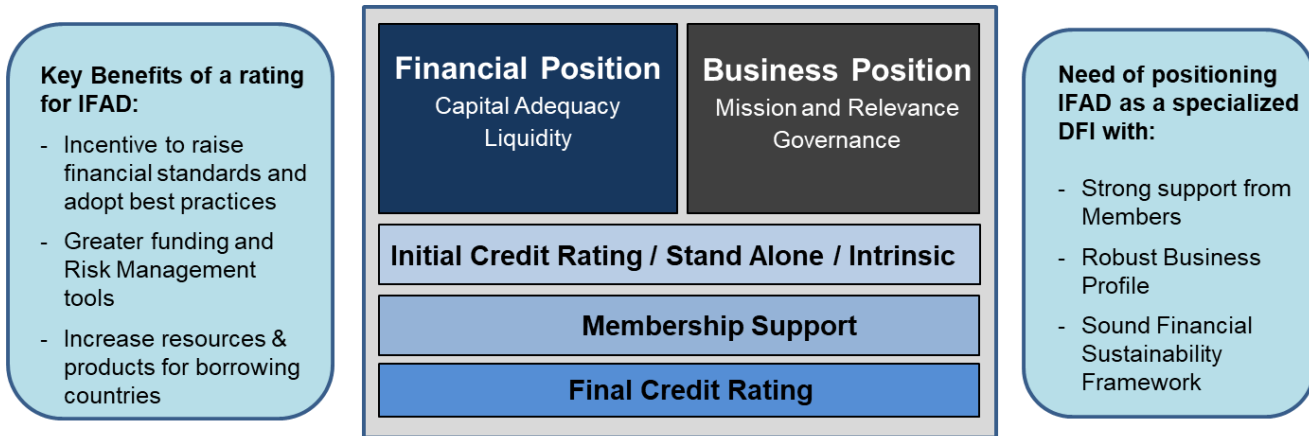
## Connections with other policies

- The IBF is a tool to support IFAD's liquidity which in turn is an input into the RAC
- Borrowing under the IBF will be managed within IFAD's risk appetite and ALM framework
- BRAM

## Main metrics

- Debt/Equity < 35%
- Debt coverage ratio < 50%
- Liquidity ratio: > 5%

# The Road to a Credit Rating



# Development finance intelligence

Clients

Scope

**ERG & SKD**  
Corporate Agenda: Resource Mobilisation & Replenishment

**PMD & FOD-**  
Client demand, absorption, tailored financing, allocations, financial model

*Debt Outlook and country/ regional analyses*

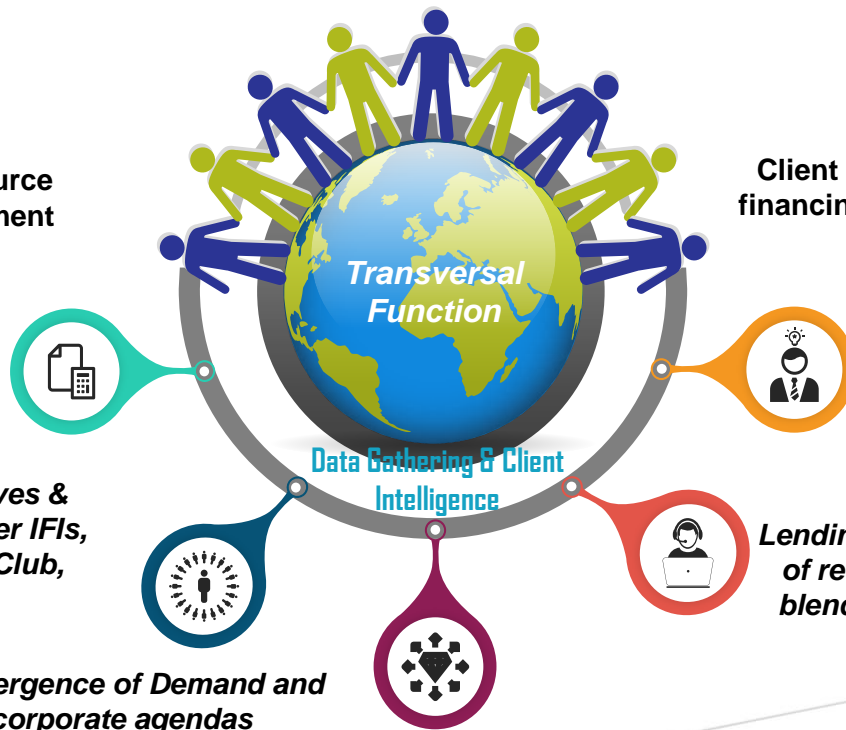
*Replenishment insights and trends*

*Sustainable Debt Initiatives & Debt Transparency at other IFIs, MDBs, Bilaterals, Paris-Club, G20-MoF*

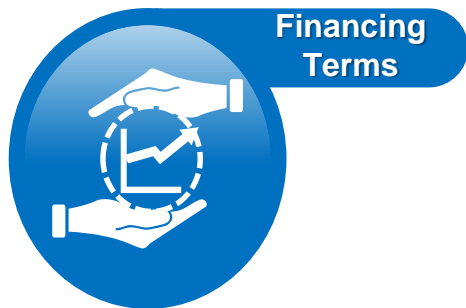
*Lending terms, tailored allocation of resources, concessionality, blended finance, due diligence*

*Convergence of Demand and corporate agendas*

*Financing Conditions, Financial and Operational Instruments*



# Updated Financing Terms



For Borrowers

Tailored to fragility and countries' economic journey

Enhance product base flexibility and options

Increase debt management capacity, mitigating debt and foreign exchange risks, and national balance sheet

For IFAD

Stimulate successful negotiations with Borrowers

Enhance capabilities as a Development Finance Institution

Modernization of financial product offering



# Debt Sustainability Framework Reform

01



## Principle of baseline replenishment level

Ensure that IFAD is fully reimbursed in a timely manner for all approved DSF projects No erosion of IFAD's capital over time

02



## Dynamic pre-funded (ex ante) mechanism

Ensure that new DSF financing is based on Member States' up-front commitments on a replenishment-by-replenishment basis

03



## Introduction of granularity

Tailored to concessionality levels for the countries eligible for the DSF

04



## DSF grant only to countries in the highest debt distress

Allocate IFAD's scarce DSF grant resources to support countries in the highest debt distress, including the poorest and most vulnerable countries

05



## Introduction of Super Highly Concessional (SHC) loans

New lending term – SHC loan – with greater concessionality, including a long-term maturity and grace period

# IFAD's Controllership Function



## Scope & IFAD Integrated approach on Risk & Control

- Ensure **Internal Control Framework (ICF)** Implemented
- Protect IFAD's **clean audit opinion**
- Process **mapping**, identify, **assess** and **test key controls**
- **Share results** with Risk Office, Internal Audit



## Accomplishments in 2020

- **Process Mapping** (40 processes mapped and assessed)
- **Control Assessments** (done for COVID flexibility, Green Climate Fund, Private Sector underway. Questionnaire pilot)
- **Control Testing** (680 access rights assessed, fraud software)
- **Process failure Incidents** (piloted Jan-Oct, with launch mid Oct)
- **Controller's Scorecard** (Piloting Sept-Nov 2020 with Vietnam ICO then roll out globally)
- **Technical Training** (trained 50 staff and another 50 planned)
- **Awareness and outreach** (90 second video and blog)



## Next Steps for rest of 2020

- **IFAD-wide roll-out** in Nov-Dec 2020 after Pilot completion
- **Annual Report** to Governing Bodies on activities

## Highlights of the Controllership Function



**Internal Control Framework (COSO)**



**Segregation of Duties/ Access Rights**



**Process Mapping & Key Controls**



**Control, Fraud Assessments & Testing**



**Process failure Incident Reporting**



**Corrective Action Plans & Monitoring**



**Controller's Scorecard & Tools**



**Clean Audit Opinion**



**Training & Culture**

# 3rd Party Integrity Due Diligence (Financial Crime)

(Anti-Money Laundering (AML), Countering Financing Terrorism (CFT) and Sanctions Screening)

	<h3>Scope &amp; IFAD Integrated approach on Risk &amp; Control</h3> <ul style="list-style-type: none"> <li>• Ensure <b>Anti-Money Laundering (AML-CFT)</b> Policy Implemented</li> <li>• Aims to <b>prevent funds from being misused</b> and reputational damage, financial loss, or legal liability</li> <li>• <b>Regular screening</b> against prohibited lists and assessment for AML-CFT</li> </ul>
	<h3>Accomplishments in 2020</h3> <ul style="list-style-type: none"> <li>• <b>Sanctions Screening</b> (16,500 parties screened)</li> <li>• <b>AML-CFT Assessments</b> (2,200 parties assessed)</li> <li>• <b>KYC Questionnaire</b> (Piloting Sept-Nov 2020 with Vietnam ICO then roll out globally)</li> <li>• AML-CFT <b>Clauses</b> in Agreements, Procedures (16 Agreements, NSO framework, Procurement documentation)</li> <li>• <b>System tool</b> to automate checks being implemented (expected launch Q1 2021)</li> <li>• <b>Technical Training</b> (trained 50 staff and another 50 planned)</li> </ul>
	<h3>Next Steps for rest of 2020</h3> <ul style="list-style-type: none"> <li>• <b>Continued daily checks / AML Policy implementation</b></li> <li>• <b>System implementation</b></li> <li>• <b>Annual Report</b> to Governing Bodies on activities</li> </ul>

### Highlights of Financial Crime Function

<p><b>Integrity Due Diligence Culture</b></p>	<p><b>AML-CFT Clauses in Agreements &amp; Procedures</b></p>	<p><b>Know-your-customer Questionnaire</b></p>
<p><b>Training and Culture</b></p>	<p><b>Reporting on Corporate Risk Dashboard</b></p>	<p><b>AML-CFT Assessments &amp; Sanctions Screening</b></p>
<p><b>Risk Ranking and escalation</b></p>	<p><b>Annual Report on Compliance Activities</b></p>	<p><b>Integration into business processes</b></p>

