

# IFAD as a Development Finance Institution

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# To better understand IFAD as a Development Finance Institution, we will look at...









### 1. IFAD's Funding Structure

#### **IFAD's Mission**

To help poor rural people overcome poverty and achieve food security through remunerative, sustainable and resilient livelihoods

IFAD's funding structure

Replenishment Contributions

**Loan Reflows** 

Sovereign Loan (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





### 2. IFAD's Balance Sheet

### **2018 IFAD Financial Position**

(USD Billion in Nominal Terms)

**Liquidity** \$1.0

**Borrowing** \$0.6

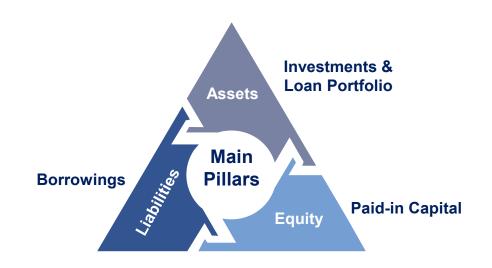
Other Liabilities \$0.5

Other Assets \$1.1

> Net Equity \$8.2

Net Loans
Outstanding
\$7.2

**Total USD 9.3 billion** 



*All ratios within thresholds	Dec 18	Dec 17	Threshold (%)
Debt/equity	6.3	5.8	< 35
Liquidity/assets	11.2	15.1	> 5
Debt service coverage	0.2	0.2	< 50





# 3. IFAD's Updated Financing Terms



Financial Products



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





# 4. Debt Sustainability Framework





### 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





### 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





### Introduction of granularity

Tailored to concessionality levels for the countries eligible for the DSF





### 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





#### Introduction of SHC loans

New lending term – the super highly concessional (SHC) loan – with greater concessionality, including a long-term maturity and grace period

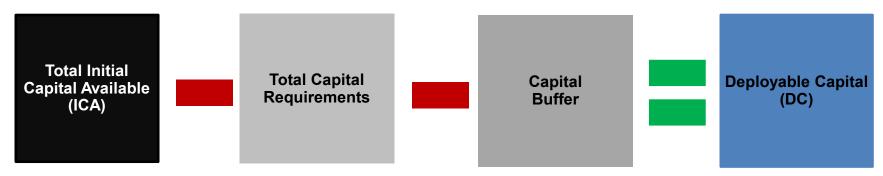




# 5. Transition to Capital Management

#### IFAD now has a Capital Adequacy Policy

- Capital Adequacy is the process of identification, monitoring and quantification of risks
- Ensures desired solvency level by holding sufficient capital to absorb the possible materialization of estimated losses
- Serves to quantify the financial capacity of an institution to limit losses, plan its operations and create value
- Used by regulators, rating agencies, creditors and stakeholders
- Deployable Capital is the main measure to assess IFAD's capital utilization and the availability of resources to support future commitments



Capital adequacy is the foundation that supports the risks embedded within IFAD's assets, allowing the institution to efficiently manage its capital, and prudently leverage its balance sheet, within the confines of an established risk appetite and risk management framework.



### 6. Enhanced Risk Management & Control

**End-to-End Financial Risk Management & Governance** 

Decision making activities ensuring the review and approval of all matters related to borrowing, investments and lending

Annual Risk Appetite Statement Reviews (including periodic review of emerging risks)

Enforcement and Annual Review of Related Frameworks, Policies, and Guidelines

Effective and timely implementation of corrective actions to address deficiencies

Safeguarding against Reputational Risk and Promoting Risk **Awareness and Culture** 

MARKET RISK	CAPITAL MGT
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Interest Rate & Currency Risk

Long Term Capital Planning

Liquidity Risk

Stress Testing Results

Capital Markets Funding Risk

Financial Model Validation

Counterparty Market Risk

Hedging Strategy and Effectiveness

**CREDIT RISK** 

**NEW PRODUCTS** 

Country Risk Ratings

Review

Counterparty Credit Risk

New Product / Business

Establish Related Risk Management Framework



**Governing Bodies** 

Senior Management

1<sup>st</sup> Line of Defense

Internal Control Measures

Management Controls

Controllership

**Risk Management** 

2<sup>nd</sup> Line of Defense

Compliance

**Information Security** 

Quality

**Health & Safety** 

The ICF covers financial, operational, compliance and reputational risks, all of which may have a significant impact on IFAD's Consolidated Financial Statements

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# 7. The Road to Obtaining a Credit Rating

### Key Benefits of a rating for IFAD:

- Incentive to raise financial standards and adopt best practices
- Greater funding and Risk Management tools
- Increase resources & products for borrowing countries

#### **Financial Position**

Capital Adequacy
Liquidity

#### **Business Position**

Mission and Relevance
Governance

**Initial Credit Rating / Stand Alone / Intrinsic** 

**Membership Support** 

**Final Credit Rating** 

# Need of positioning IFAD as a specialized DFI with:

- Strong support from Members
- Robust Business Profile
- Sound Financial Sustainability Framework

#### **Positive drivers**

- Strong capitalization
- Low leverage
- Unique mandate
- Track record of operations
- UN entity with financing role

### Challenges

- Liquidity and funding profile
- Creditworthiness of countries' of operations
- Lack of extraordinary support
- No full alignment of credit profile with methodologies



