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
2. IFAD’s Balance Sheet
3. IFAD’s Financing Terms
4. Debt Sustainability Framework
5. Transition to Capital Management
6. Risk Management & Control
7. Obtaining a Credit Rating
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 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

<table>
<thead>
<tr>
<th>IFAD’s funding structure</th>
<th>IFAD11 PoLG (2019-2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replenishment Contributions</td>
<td>Grants and DSF $0.8 billion</td>
</tr>
<tr>
<td>Loan Reflows</td>
<td>Highly Concessional $1.2 billion</td>
</tr>
<tr>
<td>Sovereign Loan (SBF)</td>
<td>Blend Loans $0.7 billion</td>
</tr>
<tr>
<td>Donor Loans (CPLs)</td>
<td>Ordinary Loans $0.8 billion</td>
</tr>
<tr>
<td>Investment Income</td>
<td>Total ~ US$ 3.5 billion</td>
</tr>
</tbody>
</table>
2. IFAD’s Balance Sheet

2018 IFAD Financial Position
(USD Billion in Nominal Terms)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity</td>
<td>$1.0</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$1.1</td>
</tr>
<tr>
<td>Loans Outstanding</td>
<td>$7.2</td>
</tr>
<tr>
<td>Borrowing</td>
<td>$0.6</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$0.5</td>
</tr>
<tr>
<td>Net Equity</td>
<td>$8.2</td>
</tr>
<tr>
<td>Total USD</td>
<td>9.3 billion</td>
</tr>
</tbody>
</table>

*All ratios within thresholds

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Dec 18</th>
<th>Dec 17</th>
<th>Threshold (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt/equity</td>
<td>6.3</td>
<td>5.8</td>
<td>&lt; 35</td>
</tr>
<tr>
<td>Liquidity/assets</td>
<td>11.2</td>
<td>15.1</td>
<td>&gt; 5</td>
</tr>
<tr>
<td>Debt service coverage</td>
<td>0.2</td>
<td>0.2</td>
<td>&lt; 50</td>
</tr>
</tbody>
</table>

IFAD’s Balance Sheet

Assets

Equity

Main Pillars

Investments & Loan Portfolio

Borrowings

Liabilities

Paid-in Capital
3. IFAD’s 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
## 4. Debt Sustainability Framework

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>01</strong></td>
<td><strong>Principle of baseline replenishment level</strong>&lt;br&gt;Ensure that IFAD is fully reimbursed in a timely manner for all approved DSF projects No erosion of IFAD’s capital over time</td>
</tr>
<tr>
<td><strong>02</strong></td>
<td><strong>Dynamic pre-funded (ex ante) mechanism</strong>&lt;br&gt;Ensure that new DSF financing is based on Member States’ up-front commitments on a replenishment-by-replenishment basis</td>
</tr>
<tr>
<td><strong>03</strong></td>
<td><strong>Introduction of granularity</strong>&lt;br&gt;Tailored to concessionality levels for the countries eligible for the DSF</td>
</tr>
<tr>
<td><strong>04</strong></td>
<td><strong>DSF grant only to countries in the highest debt distress</strong>&lt;br&gt;Allocate IFAD’s scarce DSF grant resources to support countries in the highest debt distress, including the poorest and most vulnerable countries</td>
</tr>
<tr>
<td><strong>05</strong></td>
<td><strong>Introduction of SHC loans</strong>&lt;br&gt;New lending term – the super highly concessional (SHC) loan – with greater concessionality, including a long-term maturity and grace period</td>
</tr>
</tbody>
</table>
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

**Enhanced Internal Control Framework (ICF)**

- **1st Line of Defense**
  - Management Controls
  - Internal Control Measures

- **2nd Line of Defense**
  - Controlllership
  - Risk Management
  - Compliance
  - Information Security

- **3rd Line of Defense**
  - Quality
  - Health & Safety

**Financial and Statutory Reporting**
- Review of Financial Results & Compliance with Policies
- Financial and Statutory Reporting

**Capital Management**
- Long Term Capital Planning
- Stress Testing Results
- Financial Model Validation
- Hedging Strategy and Effectiveness

**Market Risk**
- Interest Rate & Currency Risk
- Liquidity Risk
- Capital Markets Funding Risk
- Counterparty Market Risk

**Credit Risk**
- Country Risk Ratings
- Counterparty Credit Risk

**New Products**
- New Product / Business Review
- Establish Related Risk Management Framework

**Country Risk Ratings**
- Counterparty Credit Risk

**Counterparty Market Risk**
- 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

**Effective and timely implementation of corrective actions to address deficiencies**

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

**Enhanced Internal Control Framework (ICF)**
- The ICF covers financial, operational, compliance and reputational risks, all of which may have a significant impact on IFAD’s Consolidated Financial Statements

**Governing Bodies**
- Senior Management

**1st Line of Defense**
- Management Controls
- Internal Control Measures

**2nd Line of Defense**
- Controlllership
- Risk Management
- Compliance
- Information Security

**3rd Line of Defense**
- Quality
- Health & Safety

**External Audit**
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

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

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