



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



IFAD as a Development Finance Institution

January 2021

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



Recalling what has brought us here:

IFAD's financial reform in practice

Growth as a Development Finance Institution

- Financial Architecture Transformation
- Transition to capital management (RMO)
- New Liquidity policy
- Asset Liability Management

Financial Governance & Control

- Internal Control Framework/Controllershship
- Compliance & Anti-Money Laundering
- Process Mapping and Control Self Assessments



IFAD's Financial Strategy

Integrated Borrowing Framework

- Counterparties and Instruments
- Funding Strategy Alternatives
- Credit Rating Exercise

Sustainable Development Finance

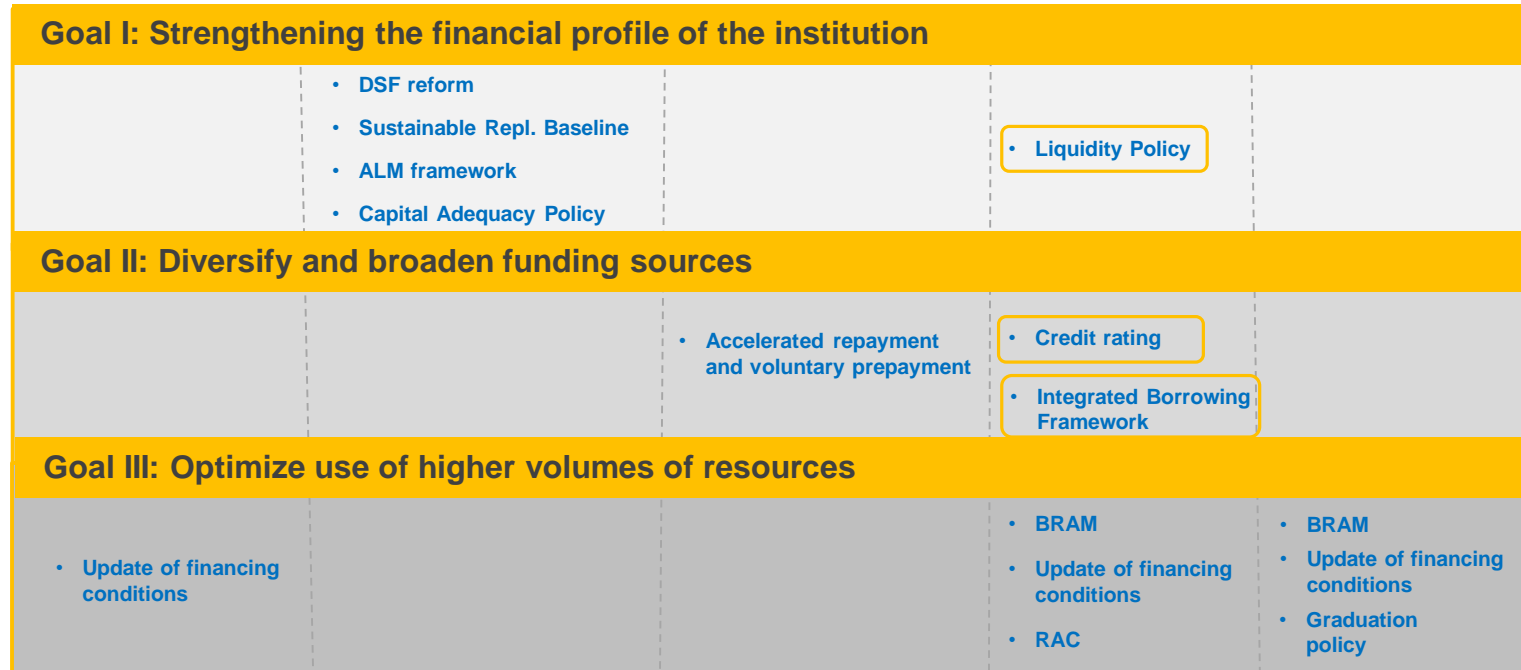
- Debt Sustainability Framework Reform
- Borrowed Resources Access Mechanism (*TO-BE*)

What does this mean for IFAD as a Development Finance Institution

Building the financial capacity required to meet the development goals of the organization, while continuing to meet the needs of our borrowing countries, in a sustainable way.



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%

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*

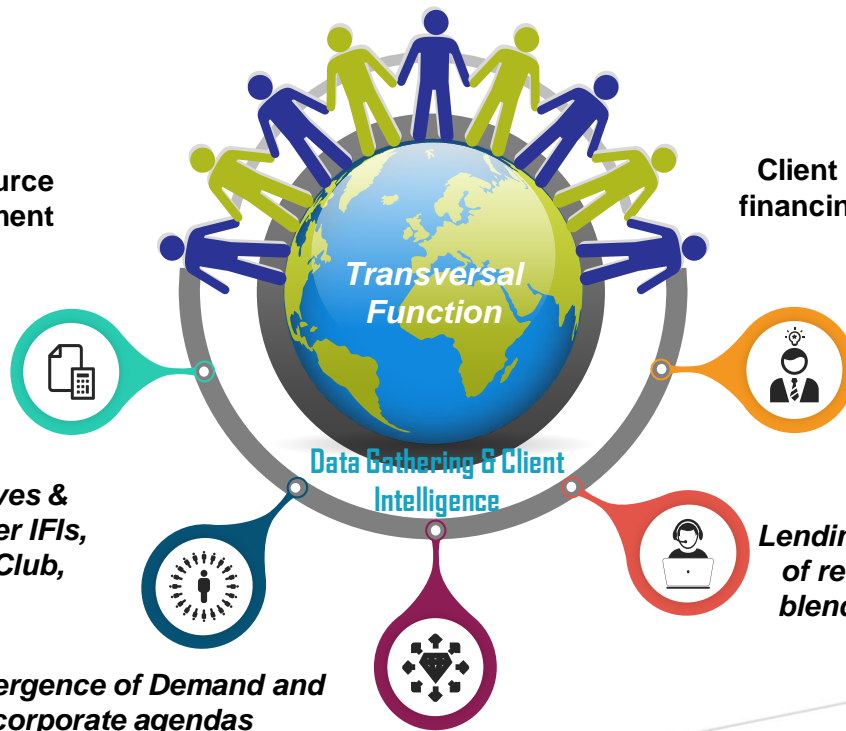
*Replenishment insights
and trends*

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

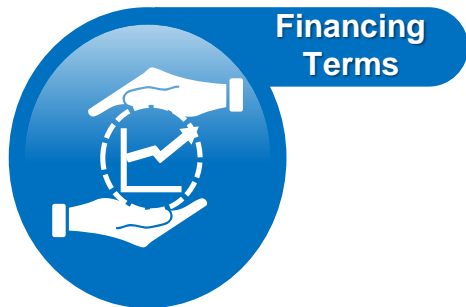
*Lending terms, tailored allocation
of resources, concessionality,
blended finance, due diligence*

*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-Dec 2020, with launch Q1 2021)
- **Controller's Scorecard** (Piloting Sept-Dec 2020 with Vietnam ICO then roll out globally in 2021)
- **Technical Training** (trained 80 staff in 19 Divisions in 2020)
- **Awareness and outreach** (90 second video and blog)



Next Steps for rest of 2020

- **IFAD-wide roll-out of Controller's Scorecard** (including process mapping, Control Assessments, Testing, Incidents & Training/outreach) in 2021
- **Software rollout** (TeamMate+ Controls) in Q1-2 2021
- **Update** to Governing Bodies on activities annually, and quarterly on Corporate Risk Dashboard

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)



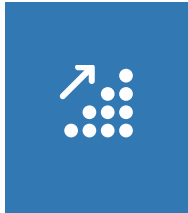
IFAD Integrated approach on Risk & Control

- Ensure **Anti-Money Laundering (AML-CFT)** Policy Implemented
- Aims to **prevent funds from being misused** and reputational damage, financial loss, or legal liability
- **Regular screening** against prohibited lists and assessment for AML-CFT



Accomplishments in 2020

- **Sanctions Screening** (16,500 parties screened)
- **AML-CFT Assessments** (2,200 parties assessed)
- **KYC Questionnaire** (Piloting Sept-Dec 2020 with Vietnam ICO then roll out globally)
- **AML-CFT Clauses** in Agreements, Procedures (16 Agreements, NSO framework, Procurement documentation)
- **Technical Training** (trained 80 staff in 19 Divisions in 2020)
- **Awareness and outreach** (Blog and Divisional staff meeting)



Next Steps for 2021

- **IFAD-wide roll-out of Financial Crime** (including fincrime screening & assessments, KYC questionnaires, legal clauses, training/outreach) in 2021
- **Software rollout** (Accuity) in Q1-2 2021
- **Update** to Governing Bodies on activities annually, and quarterly on Corporate Risk Dashboard

Highlights of Financial Crime Function

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



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IFAD receives AA+ rating from S&P and Fitch



02 Oct 2020 – Fitch Rates International Fund for Agricultural Development 'AA+'; Outlook Stable

"IFAD's 'AA+' LT IDR is based on the institution's intrinsic features. IFAD's intrinsic assessment is driven by its solvency ('aa+') and liquidity ('aa+') profiles.

The medium-risk business environment does not translate into any notch adjustment to the rating.

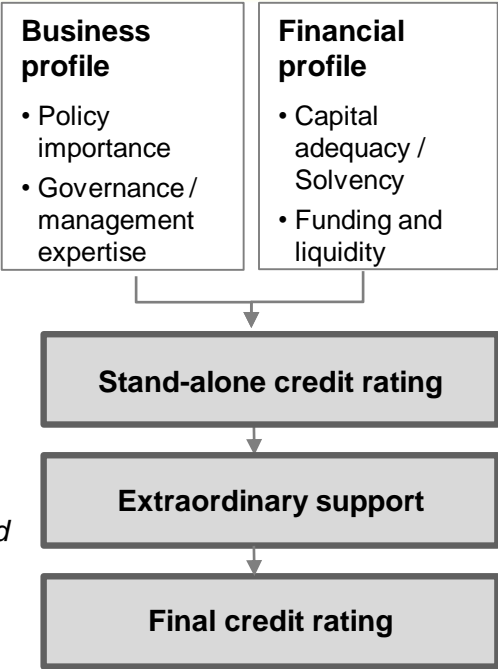
Our assessment of IFAD's shareholders' capacity and propensity to support does not provide any uplift above the fund's intrinsic assessment."



19 Nov 2020 – International Fund For Agricultural Development Assigned 'AA+/A-1+' Ratings; Outlook Stable

*"We consider IFAD's **enterprise risk profile strong**, underpinned by its unique mandate, robust record of membership support through recurrent capital replenishments, and strengthened by a **strong preferred creditor treatment**"*

*"Our view of IFAD's **financial risk profile as extremely strong** takes into consideration our risk-adjusted capital (RAC) ratio for IFAD of 90.1% and robust liquidity. However, IFAD lacks a record of accessing market funding."*



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So what does this all mean for IFAD



IFAD is now a more resilient development institution, which is now better equipped than ever before to meet the needs of its Member States.



IFAD must maintain: strong member state support, robust governance and adherence to policies, close monitoring of the credit quality of our loan portfolio and PCT, and ensure adequate funding sources to meet growing obligations in a sustainable way.



IFAD's policy importance as part of the larger development community in its efforts to achieve the 2030 SDGs is now more consolidated than ever before.



The AA+ assigned to IFAD by both agencies is an enviable result across all sectors, and across institutions of all sizes and mandates.