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Investing in rural people

Sovereign Borrowing Framework: Borrowing from Sovereign States and State-Supported Institutions

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For: Approval

Sovereign Borrowing Framework: Borrowing from Sovereign States and State-Supported Institutions[1]

Contents

[1] See annex I.

Recommendation for approval

The Executive Board is invited to approve the Sovereign Borrowing Framework: Borrowing from Sovereign States and State-Supported Institutions as described in the present document.

I. Background

1. This document provides a framework setting out the parameters within which IFAD may borrow from sovereign states and state-supported institutions. The subject responds to the need for IFAD to mobilize additional resources and the recognition "that sovereign borrowing by the Fund during the Replenishment period could provide an important way to further its objective to mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States' as specified in article 2 of the Agreement [Establishing IFAD]''.[1] Such borrowing may be needed during the period of the Tenth Replenishment of IFAD's Resources (IFAD10) and possibly beyond.

2. This Sovereign Borrowing Framework (the Framework) does not address the subject of IFAD borrowing from the financial markets through the issuance of bonds. Nonetheless, during IFAD10, Management is encouraged by the Executive Board to undertake feasibility studies and preparatory work to explore the scope for borrowing from the financial markets, including addressing the technical and legal issues that such borrowing presents. Feasibility studies and preparatory work, including exploration of the technical and legal issues in relation to IFAD borrowing from the financial markets, will be undertaken by IFAD Management in consultation with the Audit Committee and with the review of an external adviser/expert. A document outlining these preliminary studies and issues will be submitted to the Executive Board as a separate proposal.

II. Introduction

3. IFAD is dedicated to investing in the world's largest group of poor people – poor rural people. IFAD's goal is to enable poor rural people to improve their food and nutrition security, increase their incomes and strengthen their resilience by investing in agricultural development projects that bring about rural transformation. IFAD is the only development agency with this as its sole mandate and repeated independent evaluations of its operations have confirmed its efficiency and effectiveness.[2] In order to continue implementing this important mandate, reach more poor rural people and increase its impact on rural development, IFAD needs to expand its funding base beyond core replenishment contributions.[3] The purpose of the Additional Resource Mobilization (ARM) initiative,[4] of which this document forms part, is to achieve that objective.

4. In light of efforts to negotiate and secure resources for IFAD9 through a loan from a development bank, the Executive Board encouraged IFAD to establish a framework to set the parameters within which IFAD would be allowed to borrow from sovereign states and state-supported institutions, so as to have a coherent strategy to structure such borrowing.

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[1] GC38/L.4, annex VII, section VIII (a)(i).

[2] IFAD received positive reviews in the Multilateral Organisation Performance Assessment Network (MOPAN) assessment (2013), the Multilateral Aid Review by the United Kingdom (2013) and the corporate-level evaluations undertaken by the Independent Office of Evaluation of IFAD (IOE) of IFAD's institutional efficiency and the efficiency of IFAD-funded operations (2013) and IFAD Replenishments (2014).

[3] See glossary of terms.

[4] See glossary of terms.

5. The Executive Board instructed the Audit Committee to lead the development of a borrowing framework. Accordingly, the Audit Committee met in informal sessions to undertake this work, in collaboration with the IFAD Additional Resource Mobilization Working Group.

6. The Audit Committee agreed that a framework for borrowing from sovereign states and state-supported institutions should be an evolving document to be revised, as appropriate, to reflect changes in the global financial context as well as IFAD-specific financial conditions.

7. This Sovereign Borrowing Framework will be reviewed initially in 2016, and the findings will be presented in a report to the Executive Board in September 2016. Subsequent reviews will be undertaken, at least once per Replenishment period or more often, in line with paragraph 4 above and if deemed necessary by Management. Each review will cover all aspects of the Framework's implementation, including experience gained in exploring and negotiating various borrowing opportunities.

8. IFAD will only enter into borrowing discussions with a Member State, or a state-supported institution[5] supported by that Member State, if the Member State's core contribution to the latest replenishment (Core Replenishment Contribution R0) is at least 100 per cent of the amount[6] contributed in the previous replenishment cycle (Core Replenishment Contribution R-1). An exception to this will be where a Member State's core replenishment contribution R-1 was higher, by 10 per cent or more, than its core contribution to the immediately preceding replenishment (core replenishment contribution R-2). In such a case, the Member State's Core Replenishment Contribution R0 should be at least 100 per cent of its Core Replenishment Contribution R-2, in order for IFAD to determine whether to enter into a borrowing arrangement with the Member State concerned.

9. In line with the Agreement Establishing IFAD, article 3, section 3 – Limitation of Liability "No Member shall be liable, by reason of its membership, for acts or obligations of the Fund".

III. Rationale for sovereign borrowing

10. It is acknowledged that there is an increased need for financing of IFAD's eligible agricultural development projects. Specifically, ''As noted in the financial Framework and Programme of Work (PoW), presented at the second session of IFAD10, the estimated demand for IFAD's resources significantly exceeds its current projected resource availability on the basis of core contributions and internal resources.[7] Preliminary assessments by IFAD staff based on existing lending terms and loan products would tentatively indicate an overall demand for IFAD resources[8] in the order of $5.5 billion."[9] Since IFAD8, IFAD's resources[10] have allowed delivery of a programme of loans and grants (PoLG) of a maximum of US$3 billion. Thus, ''the main constraint on stepping up IFAD's development capacity lies more on the supply than on the demand side.''[11] Therefore, sovereign borrowing will be demand-driven and consideration will be given to the terms, including interest rate, currency denomination, and grace and maturity periods.

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[5] With the exception of multilateral institutions.
[6] The amount may be in the currency of the Replenishment contribution.
[7] See glossary of terms.
[8] Demand for IFAD's resources for projects funded by IFAD's Programme of Loans and Grants.
[9] See IFAD10/3/R.5, para. 4. Footnote 4 of this document also states "As stated in the IFAD10 PoW, demand for IFAD loans and grants, excluding funds needed for climate adaptation, is estimated at US$4.85 billion for the IFAD10 period; if costs to achieve climate adaptation are included, demand is on the order of US$5.5 billion."
[10] IFAD's resources consist of external resources (Replenishment contributions from Member States) and internal resources.
[11] IFAD10/3/R.5, para. 4.

11. Against this background, and given the experience of recent replenishment processes of the concessional arms of other international financial institutions (IFIs),[12] it seems unlikely that IFAD can continue to meet this demand by relying exclusively on increased core contributions and its internal resources. Although internal resources are forecast to grow, it is not anticipated that they will grow fast enough or be sufficient to meet additional funding needs. The sovereign borrowing proposed under this Framework will contribute to addressing these additional funding needs.

12. One aspect of sovereign borrowing is the provision of bilateral loans by Member States. Member States may have an interest in supporting IFAD's operations through loans to IFAD because they have institutions that lend to support their governments' development goals. Therefore, for those countries interested in the development of smallholder agriculture, IFAD may be regarded as a natural partner to receive loans for subsequent on-lending because:

(i) It is the only financial institution solely focused on smallholder agriculture;

(ii) It has a track record of efficiency and effectiveness, as judged by numerous external assessments (see footnote 1);

(iii) It has a strong balance sheet, with over 95 per cent of its assets funded by IFAD equity;[13]

(iv) It has substantial and growing loan reflows to guarantee debt service;

(v) Lending money to IFAD may be counted as ODA;[14] and

(vi) It would increase the lender's knowledge of agriculture and rural development for its own programmes.

IV. Borrowing limit

13. IFAD Management has considered a number of borrowing scenarios over a 10-year time horizon to gauge the long-term effects of financing a portion of the PoLG through borrowing. Four considerations are paramount:

(i) The capacity of Management to negotiate and subsequently administer borrowed funds;

(ii) The impact[15] of those borrowed funds on IFAD's PoLG;

(iii) The long-term effect on IFAD's balance sheet, such as debt/equity[16] and liquidity ratios;[17] and

(iv) The debt service coverage ratio.[18]

14. Management estimates that it has the capacity to negotiate up to three major borrowing transactions[19] per replenishment period. Reviews by the Programme Management Department have indicated that IFAD currently has the institutional capacity to administer a PoLG of approximately US$3.5 billion without fundamental changes to its organizational and cost structure.

15. For the purpose of this Framework, the borrowing limit will be calculated using a maximum debt/equity ratio of 35 per cent. A borrowing ceiling may be established at each replenishment cycle.

[12] For example, the African Development Fund and the International Development Association.
[13] For a definition of IFAD equity, see glossary.
[14] If the borrowed amount falls within the OECD definition of ODA.
[15] The anticipated impact is that borrowed funds would increase IFAD's PoLG by approximately 1:1.
[16] The thresholdshall not be higher than 35 per cent as per annex II.
[17] The threshold shall not be lower than 5 per cent as per annex II.
[18] The threshold shall not be higher than 50 per cent as per annex II.
[19] Each borrowing transaction could be up to the order of US$500 million.

V. Use of borrowed funds

16. The borrowed funds can be used to support all onlending by IFAD, at the prevailing terms, provided that the terms of the loan and the cash flow projections for the onlending (based on the demand for and the terms of the loan) satisfy the principles of financial sustainability in isolation (or are "self-funding"). Financial sustainability in isolation requires that cash flow projections for the borrowed funds and their onlending – including related administrative costs,[20] provision charges and cash flows from the onlending (disbursements and repayments), together with any grant support other than IFAD's resources[21] are such that the net cash balance[22] is never negative in the period of borrowing or onlending, whichever comes later. The overall cumulative effect would be that IFAD's cash flow never drops below its minimum liquidity requirement (MLR).[23]

17. In line with paragraph 14, borrowed funds can be used to finance IFAD's onlending as part of its PoLG [24] and in accordance with the Policies and Criteria for IFAD Financing.

18. Should the borrowed funds be used to finance part of the already decided and planned level of PoLG in a replenishment cycle, Management will ensure that the allocation of the IFAD internal resources freed up by the borrowing is made in accordance with the Policies and Criteria for IFAD Financing.

19. If IFAD is unable to match the borrowing terms with the onlending terms,[25] in line with the Policies and Criteria for IFAD Financing, such borrowing will not be pursued. No internal resources would be freed up in such case.

20. Should the borrowed funds augment the already decided and planned level of PoLG, Management will make a recommendation(s) to the Executive Board for the allocation of those funds, including a review of the country composition of the portfolio funded by borrowing.

21. If borrowed funds are used to fulfil a level of PoLG decided as an outcome of a replenishment process, then the cash flow projections do not have to include incremental administrative costs since these may already have been included in IFAD's regular administrative budget.

22. If borrowed funds are used to increase the PoLG above the level decided as an outcome of a replenishment process, then the associated incremental costs of administering the funds will need to be included in any analysis used to determine that the borrowing is financially sustainable in isolation.

VI. Governance over borrowing proposals

23. In line with paragraphs 8 and 11, if a borrowing opportunity emerges, Management will inform the Executive Board of all formal negotiations[26] undertaken with potential lenders, including the relevant due diligence undertaken and financial information obtained.

[20] See breakdown of administrative costs in annex III.
[21] A grant from an external party could allow for a blend of the borrowing conditions, either to ensure self-sustainability of the borrowing without support through IFAD's resources, or to allow the borrowing to be onlent with a broader spectrum of lending terms. See section VII, para. 28, (ii).
[22] The net cash balance results from projecting yearly flows deriving from the borrowing and the onlending.
[23] In this document, IFAD liquidity is defined as IFAD cash and investments.
[24] In accordance with the respective individual country allocations calculated under the Performance-based Allocation System (PBAS).
[25] Or is unable to attract a grant element to enable the borrowing terms to be matched.
[26] In this context, formal negotiation refers to the point at which the terms of a written draft agreement are discussed with the potential lender.

24. Before completion of negotiations, the detailed proposal will be submitted to the Audit Committee for review and to the Executive Board for approval. Each proposal will include the following:

    (i) A detailed analysis of the terms of the proposal, including cash flow projections for the borrowing and onlending;

    (ii) Information on the use that IFAD envisages for the borrowed funds and an analysis of the impact of the borrowing on IFAD's reflows and financial sustainability based on the most accurate assumptions at the time of the proposal;

    (iii) The impact on IFAD's debt/equity ratio in order to ensure that the borrowing limit is respected;

    (iv) The pricing structure of the onlending under IFAD's prevailing lending terms;

    (v) An evaluation of the risks involved and a description of how those risks will be addressed in line with the risk management strategy presented in section VII; and

    (vi) Information on all other operational implications, including the regional and country distribution of the PoLG funded by the borrowing.

25. Where a borrowing proposal is negotiated based on a framework agreement,[27] Management will report to the Audit Committee and the Executive Board on each framework agreement signed, and each individual loan agreement (ILA)[28] signed subsequently under that framework agreement. The reporting on an ILA will cover updated cash flow projections for the borrowing and onlending and an updated analysis of the impact of the borrowing on IFAD's reflows and financial sustainability.

VII. Governance over use of funds

26. In principle, the lender of the borrowed funds may not restrict the use of the funds that are being borrowed by IFAD (e.g. in terms of beneficiaries, purpose, theme or geographic area). In the event of any proposed thematic restriction, however, provided that the loan would enhance the achievement of IFAD's mission and development objectives, as set forth in article 2 of the Agreement Establishing IFAD, the Executive Board will evaluate the proposed restrictions as part of the approval process.

27. IFAD will apply its normal fiduciary policies for all borrowed funds to ensure that they are used for the purpose intended. No material additional burden in terms of verification, compliance or due diligence may be imposed on IFAD by the lender.

28. The borrowing will not have a negative impact on IFAD's core resources nor will it affect any Member State's eligibility to borrow from IFAD's core resources.

VIII. Risk management

29. The introduction of borrowing activities, which create a financial liability to be repaid to the lender, exposes an institution to a set of new risks, specifically:[29]

    (i) *Term risk*: the risk of being unable to make the required payments of principal and interest on the borrowed funds to a lender because the timing of payments of principal and interest to IFAD under its loans to its borrowers, funded by the borrowed funds, are not aligned.

[27] See glossary of terms.
[28] See glossary of terms.
[29] Although the definition of all the mentioned risks is standard in the industry, an attempt has been made to link these risks explicitly to the borrowing by IFAD, at this point in its evolution, and to IFAD's existing structure.

(ii) Interest rate risk: the risk of being unable to repay interest on the borrowed funds due to a mismatch between the interest rate applicable to the borrowed funds and the interest rate applicable to IFAD's loans to its borrowers, funded by the borrowed funds.

(iii) Currency risk: the risk that arises when the borrowed funds and IFAD's loans to its borrowers, funded by the borrowed funds, are denominated in different currencies. A weakening of the currency of denomination of IFAD's loans to its borrowers versus the currency of denomination of the borrowed funds could expose IFAD to the risk of being unable to repay the borrowed funds in full.

(iv) Default risk: the risk of IFAD being unable to make required payments on the borrowed funds due to an inability by one or more of IFAD's borrowers to fulfill their payment obligations to IFAD for loans funded by the borrowing.

(v) Liquidity risk: the risk of not having enough readily available liquidity to cover either debt service payments (both principal and interest) or disbursements under the loans funded by the borrowing.

(vi) Operational risk: the risk of inadequate or failed internal procedures and systems, inadequate capacity or external events (including legal risks) in the facilitation and administration of a new kind of financial resource.

(vii) Conflict of interest risk: Conflicts of interest are inherent in most financial transactions. A potential conflict of interest can arise when the interests of IFAD are different from those of the potential lender.

(viii) Other risks: The above risks relate specifically to the financial risks that may be created by borrowing. There are also more general risks that IFAD faces in its normal operations (reputational, environmental and social, for example).

30. For each of the above, the specific mitigation measures that are traditionally implemented by financial institutions, and which will be implemented by IFAD, are:

(i) Term risk: IFAD will negotiate repayment terms and timing with the lender that are aligned with the projected repayment profiles of IFAD's loans funded by the borrowing. This will require a detailed assessment of the potential demand by IFAD borrowers and an analysis of the type and size of IFAD loans (on ordinary, blend and/or highly concessional terms) that could be funded by the borrowing.

Negotiating a longer maturity for the borrowing by IFAD when compared to the maturity of the IFAD loans funded by the borrowing would reduce the amount of each principal repayment by IFAD and therefore mitigate the risk of not being able to service the debt. If negotiating a longer maturity for the borrowing is not possible, IFAD will consider a borrowing opportunity of a shorter maturity, based on the demand profile for IFAD loans.

Negotiating a longer grace period for the borrowing by IFAD than the grace period of the IFAD loans funded by the borrowing could allow for the accumulation of a liquidity buffer stemming from loan reflows and interest payments which will be used in case future outflows are not matched by inflows.

(ii) Interest rate risk: Similar to term risk, the best mitigation measure is to negotiate an interest rate on the borrowing that is lower than the rate IFAD charges on the loans that would be funded by the borrowing. If this is not possible, IFAD would seek to align the interest rate to be paid by IFAD on the borrowed funds as closely as possible with the interest rate that it charges on the loans funded by the borrowing.

In the absence of such alignment of terms, IFAD could request a grant from the lender or its government or from any other entity in an amount equal to the cost created by term differences (including the interest rate difference).

(iii) Currency risk: The primary mitigation strategy for currency risk is to borrow in the same currency denomination required by IFAD's recipient countries. If this is not possible, IFAD will ensure that the risk relating to the currency mismatch is managed and covered.[30]

(iv) Default risk: The default by IFAD borrowers has historically been very low (the allowance for loans in arrears is below 1 per cent of the balance of the loans outstanding). IFAD currently undertakes additional measures to reduce the risk of accumulating amounts in arrears on its loans to developing Member States, for example:

- For all loans that are 75 days in arrears, further disbursements are discontinued; and
- After a loan has been in arrears for 150 days, the entire portfolio is suspended.

While it is not possible to eliminate default risk completely, the potential impacts can be minimized by assuming, in the cash flow projections used to assess the viability of a proposed borrowing, a certain percentage of non-performing loans. Under this Framework, IFAD will double the current provision of 0.2 per cent of annual reflows (loan principal and interest), which is currently used as the base assumption for IFAD-wide financial projections. IFAD will assume, for safety, this higher percentage (0.4 per cent) by stressing the cash flows to assess the viability of the borrowing.

In addition, if borrowing terms allow, IFAD will set aside a yearly liquidity buffer, as mentioned above under term risk, for a special reserve account to cover potential default risk.

(v) Liquidity risk: The liquidity risk, as defined above, can arise from multiple sources, including the term, interest rate, currency and default risks herein described. Some mitigation measures for these are outlined in points (i)-(iv) above. However, liquidity risks can also stem from unexpected spikes in disbursements, as well as from lower than forecast investment returns on undisbursed funds. There is no absolute way to eliminate this risk completely in any situation where variables are uncertain and are based on long-term projections. IFAD updates liquidity projections continuously in order to assess liquidity needs and potential changes in trends in the most accurate way. As an overall mitigation strategy, IFAD will also introduce a debt service coverage ratio that would be closely monitored, whereby IFAD would not enter into any borrowing agreement, under this Framework, if the cumulative projected debt servicing of all borrowing is more than 50 per cent[31] of the annual expected loan reflows to IFAD from its borrowers.

(vi) Operational risk: Facilitating and administering additional resources created by borrowing may create an operational risk. In order to mitigate this, IFAD will conduct regular assessments of its internal capacity as well as the procedures and systems in place. IFAD will calculate the incremental costs associated with addressing any identified capacity (human, administrative and financial) or system deficiencies in order to ensure full cost recovery. As

[30] IFAD will implement currency hedging strategies – where appropriate and if feasible and permissible under the prevailing financial policies and procedures – by doing cross-currency swaps following negotiation and agreement of the appropriate documentation that covers these types of contracts.
[31] A 50 per cent debt coverage ratio assumes borrowing of US$500 million a year for the next 10 years and is considered a very prudential ratio.

requested by the Executive Board in April 2013, a cost-benefit analysis for the different Additional Resource Mobilization options was undertaken in order to ensure that IFAD's operational and administrative capacity keeps pace with the rate of mobilization of additional resources and that full cost recovery is ensured.

The analysis showed that when considering a borrowing arrangement, under this Framework, it is prudent to assume a percentage of the total facility amount to cover costs. Therefore, an appropriate amount will be included in the financial projections when assessing the viability of the borrowing under this Framework in line with paragraph 14.

(vii) Conflict of interest risk: If a possible conflict of interest is identified between IFAD and a potential lender then this will be assessed in line with generally accepted principles.[32]

(viii) Other risks: The general risks that IFAD faces in its normal operations (reputational, environmental and social, for example) are mitigated through existing measures.[33]

[32] For example, the Generally Accepted Principles and Practices (GAPP) for sovereign wealth funds, also known as the Santiago Principles.

[33] For example IFAD's Social, Environmental and Climate Assessment Procedures (SECAP).

Glossary of terms

Additional Resource Mobilization (ARM)	Launched by the President of IFAD in May 2012 to implement Governing Council resolution 166/XXXV (2012), the ARM initiative explores possibilities for mobilizing new resources beyond the Replenishment to finance agricultural and rural development that are in line with IFAD's operational, financial and legal structures.
Agreement Establishing IFAD	Adopted by the United Nations Conference on the Establishment of an International Fund for Agricultural Development on 13 June 1976, Rome.
Annual Report	The published Annual Report of IFAD, as approved by Management, including the annual financial statements as well as a Management report.
Audit Committee	A subcommittee of the Executive Board.
Auditor	The auditor of IFAD, appointed in accordance with IFAD's procedures.
Auditor's Report	The report of the auditor on IFAD's consolidated financial statements from which the underlying figures of the financial ratios are derived.
Concessional arms of IFIs	For example, the African Development Fund and the International Development Association.
Core replenishment contributions	Contributions that are additional resources to the resources of the Fund. These contributions are made without restriction as to their use and carry voting rights.
Demand for IFAD resources	Demand for IFAD's resources for projects funded by IFAD's programme of loans and grants
Executive Board	The Executive Board is responsible for overseeing the general operations of IFAD and for approving its programme of work.
Existing lending terms	See document GC 36/L.9 – Review of the Lending Policies and Criteria
Fiduciary policies	As contained within the following documents: Agreement Establishing IFAD; IFAD's General Conditions for Agricultural Financing; Policies and Criteria for IFAD Financing; Guidelines on Dealing with De Facto Governments; Internal Controls on Financial Reporting (on which Management provides an assertion each year as to their effectiveness and upon which the external auditors attest as to the reliability of Management's assertion); Loan Disbursement Handbook; Financing Administration Manual; IFAD Guidelines on Project Audits; Operational Procedures for Project and Programme Audits; and the Project Procurement Guidelines.
Financial ratios	The financial ratios as defined in annex II.
Financial statements	The consolidated and unconsolidated financial statements (including a balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the accounts of IFAD, prepared in accordance with International Financial Reporting Standards on a yearly basis and in nominal terms semi-annually.
Formal negotiation	Formal negotiation refers to the point at which the terms of a written draft agreement are discussed with the potential lender.
Framework agreement	An umbrella agreement covering the terms and conditions of the total amount borrowed.
General Reserve	IFAD's General Reserve as established by Governing Council resolution 16/IV.
Governance structures	As defined in the Agreement Establishing IFAD.

IFAD Member State	Membership of IFAD is open to any state that is a member of the United Nations, any of its specialized agencies or the International Atomic Energy Agency.
IFAD's minimum liquidity requirement (MLR)	As defined in the Liquidity Policy (http://www.ifad.org/gbdocs/eb/89/e/EB-2006-89-R-40.pdf)
IFAD resources	IFAD's resources consist of external resources (Replenishment contributions from Member States) and internal resources.
IFAD total equity	Total contributions plus General Reserve.
IFRS	International Financial Reporting Standards, as amended from time to time.
Individual loan agreement	An agreement that flows from the framework agreement, where funds are requested and disbursed in tranches, as specified in the framework agreement.
Internal resources	Internal resources consist mainly of loan reflows, investment income and future net flows in the amount determined under the Sustainable Cash Flow approach.
Investments	The investments at amortized costs as well as investments at fair value as stated in IFAD's balance sheet in accordance with IFRS.
Loan products	See document GC 36/L.9.
Performance-based allocation system (PBAS)	In line with all other major international development finance institutions, IFAD's PBAS is rules-based and uses a formula that incorporates measures of country needs and country performance. The PBAS allocates IFAD's loan and country grant resources to country programmes on the basis of country performance (the broad policy framework, rural development policy and portfolio performance), and needs (population and per capita GNI). Under the PBAS, annual resource allocations are made in three-year cycles.
Periodic reports	The Financial Statements, IFAD Annual Report and financial ratios reports.
Programme of loans and grants (PoLG)	The annual total of IFAD loans, Debt Sustainability Framework (DSF) grants, and grants for approval in a specific year. This also includes grants financed under the Adaptation for Smallholder Agriculture Programme (ASAP) (as of 2012) and loans provided under the KfW Development Bank loan (as of 2014).
Programme of work (PoW)	This includes the PoLG plus other funds managed by IFAD from the Spanish Food Security Cofinancing Facility Trust Fund, Global Environment Facility/Least Developed Countries Fund, Global Agriculture and Food Security Program (GAFSP), European Commission and European Union, in addition to bilateral supplementary/complementary grants. In addition, the PoW includes cofinancing (net of cofinancing managed by IFAD and domestic cofinancing).[34]
Recipient countries	IFAD Member States that are entitled to borrow from IFAD.
Total assets	The aggregate of IFAD's balance sheet assets in accordance with IFRS or in nominal terms, and off-balance sheet engagements in accordance with IFRS or in nominal terms.
Total debt service (principal and interest)	The interest received from loans plus the loan principal repayments, as defined in the consolidated cash flow statement of IFAD.
Total loan reflows	The cash flows from financing activities as defined in the Financial Statements of IFAD.

[34] GC.38/L.6, page 7, table 3.

Definition of a sovereign state and a state-supported institution

Sovereign States refer to IFAD Member States and Sovereign States that are not members of IFAD.

State-Supported Institutions include all state-owned or state-controlled enterprises and development finance institutions of IFAD Member States.

Financial ratios under the Sovereign Borrowing Framework

IFAD shall at all times comply with, and abstain from any action that may result in the breach of, the following financial ratios and thresholds.

The financial ratios shall be calculated regularly on the basis of IFAD's unconsolidated and consolidated financial statements.

All financial ratios shall be based on figures calculated in accordance with the International Financial Reporting Standards (IFRS) and all applicable laws.

1. Debt/equity ratio:

   (a) The ratio of (i) principal portion of total outstanding debt to (ii) total contributions plus General Reserve (expressed in percentage terms);

   (b) Calculated as (total outstanding debt principal/contributions + General Reserve);

   (c) The threshold to be complied with by IFAD shall not be higher than 35 per cent.

2. Debt service coverage ratio:

   (a) The ratio of (i) principal and interest to all IFAD lenders in a given year to (ii) total yearly loan reflows from IFAD borrowers as per latest audited financial statements;

   (b) Calculated as total debt service(principal and interest) / (average of the previous year's actual total loan reflows and the current year's projected total loan reflows);

   (c) The threshold to be complied with by IFAD shall not be higher than 50 per cent.

3. Liquidity ratio:

   (a) The ratio of (i) cash-in-hand and in banks plus investments to (ii) total assets, expressed in percentage terms;

   (b) Calculated as (cash-in-hand and in banks + investments)/total assets;

   (c) The threshold to be complied with by IFAD shall not be lower than 5 per cent.

Administrative costs

Indicative list of administrative costs associated with borrowing activities

(a) Accounting

(b) Auditing

(c) Reporting

(d) Cash management services (disbursements and repayments)

(e) Liquidity management

(f) Investments management

(g) Foreign exchange hedging

(h) Design of projects

(i) Supervision and implementation of projects

(j) Legal services

(k) Financial planning

(l) Resource mobilization activities

(m) Other financial fees