

Executive Board – 119th Session
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Briefing to the Executive Board on the Feasibility of IFAD Borrowing From the Capital Markets

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Introduction

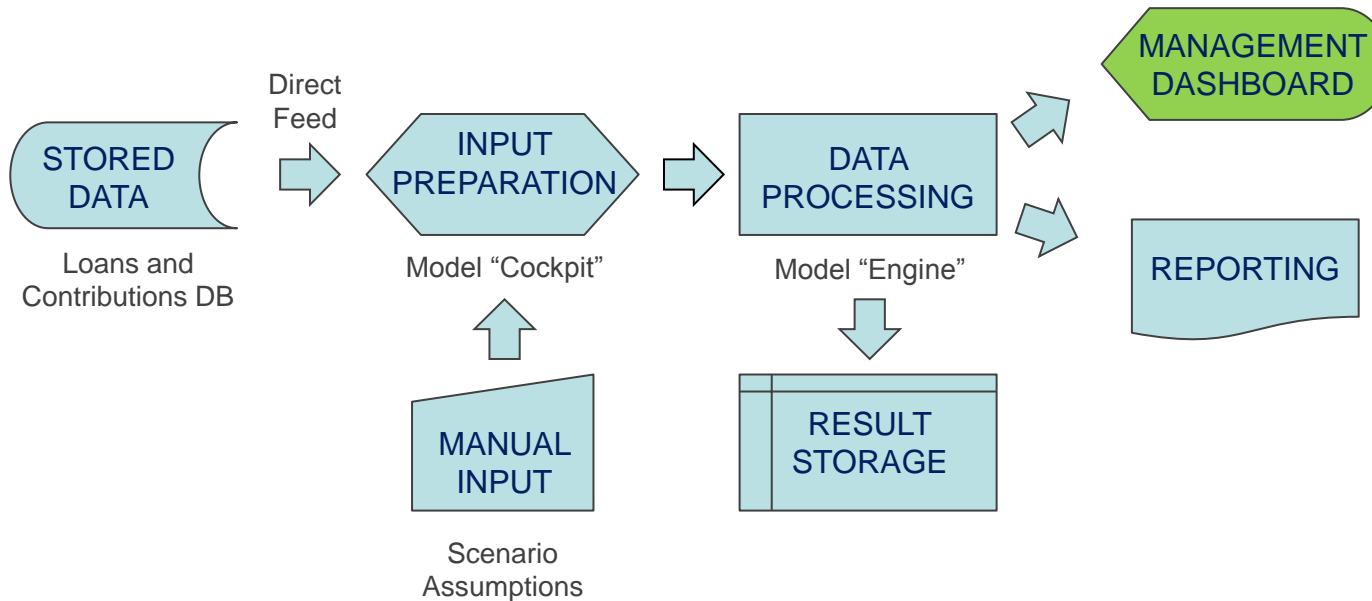
- Finalized initial steps necessary to manage currency risk more effectively – Important steps if IFAD were to start the implementation of a market borrowing platform
- Need to initiate the exploratory work to determine internal and external feasibility of IFAD to issue bonds on the capital market:
 - Compatibility with IFAD's internal operational setup and governance framework
 - Credit assessment of IFAD from external rating agency(ies).
- This preliminary work is also important to support growing borrowing needs in the near future under the Sovereign Borrowing Framework.

SECTION I

Completed Tasks

Re-engineering of IFAD financial model

- Necessary step to better integrate all dimensions related to IFAD evolving and future funding needs
- Introduction of a Management dashboard
- Fully integrated with corporate IT systems to guarantee better data management integrity



Establishment of the HLTF-B

- The High-Level Task Force for Borrowing and Innovative Finance was established to steer/coordinate all efforts related to sovereign borrowing, feasibility of market borrowing and any other type of innovative finance (e.g. direct equity investments, micro-financing, credit guarantees).
- The HLTF has the necessary authority to carefully consider and engage potential lenders, following clearance by the EMC. Any discussions undertaken with Member States on the subject matter require the involvement of the High Level Task Force on Borrowing and Innovative Finance.
- The HLTF's Permanent Members are:
 - Associate Vice-President, FOD
 - Associate Vice-President, PMD
 - General Counsel, LEG
 - Director and Treasurer, TRE
 - Director, PRM (Serving as Secretary of the Task Force)
 - Accounting and Controller, ACD
 - Other resource persons could be invited depending on the nature of the meeting.
- The HLTF holds his regular meetings once a month.

Finalization of ISDA Master Agreement

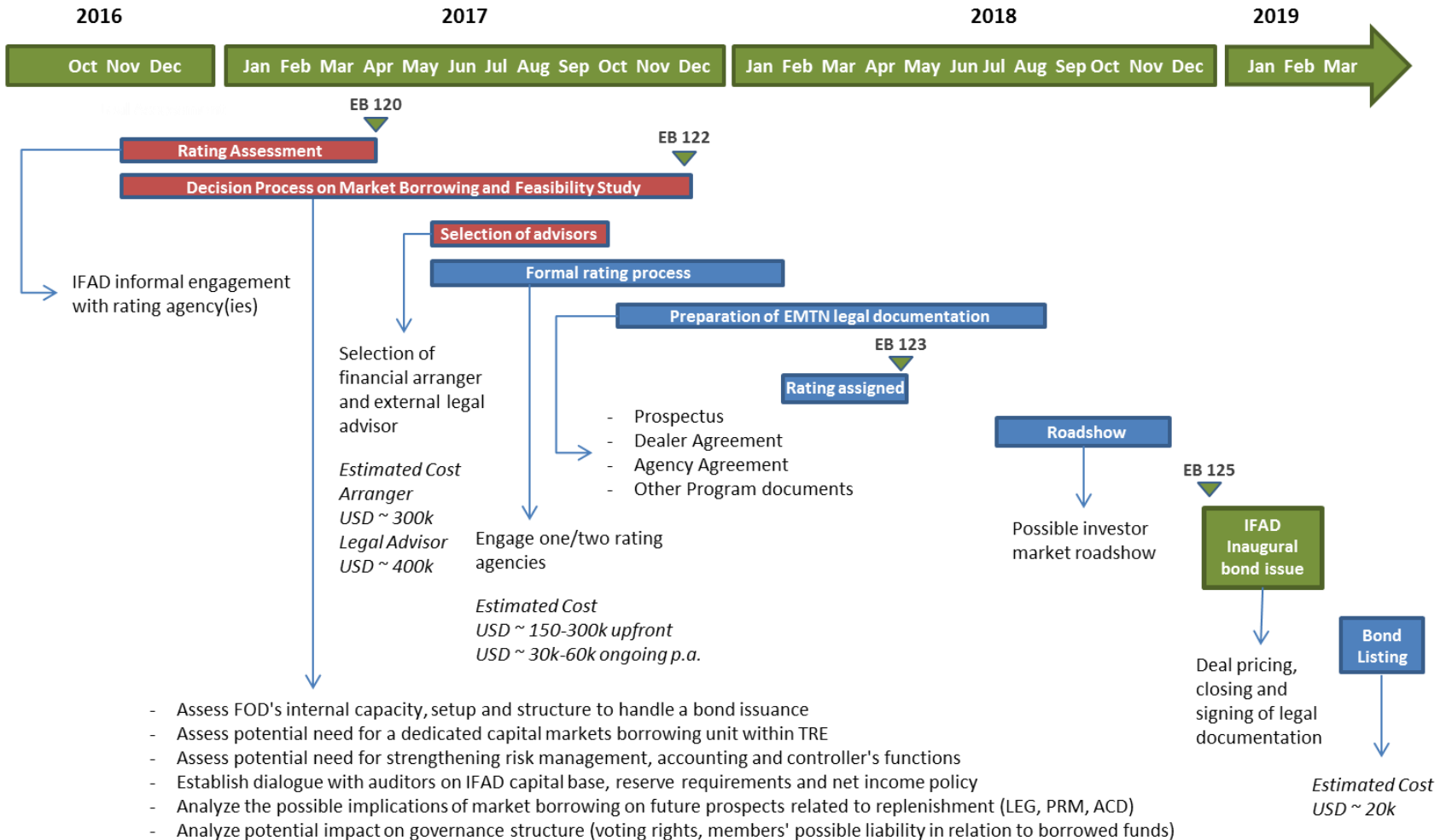
- With significant support from LEG, TRE negotiated an ISDA master agreement with a bank counterparty for over-the-counter derivatives transactions.
- The International Swaps and Derivatives Association (ISDA) is a trade organization of participants in the market for over-the-counter derivatives.
- This is the first of such agreements negotiated by IFAD.
- Cross-currency derivative transactions ensure that any currency risk involved with borrowing, including market borrowing, can be appropriately hedged.



SECTION II

Tentative Roadmap to implement a Platform for Borrowing from the Capital Markets

Tentative Roadmap to IFAD Inaugural Bond Issue



Preliminary Internal Tasks

Obtain a Credit Rating	Address Internal Capacity Needs	Liaise with all Involved Internal Functions	Determine Program Set-Up and Budget
<p>Hold further talks with a credit rating agency regarding ratings methodology</p> <p>With their assistance, estimate a potential credit rating for IFAD</p>	<p>Assess FOD's internal capacity with regard to new necessities and workloads</p> <p>Implement proper setup and structure to handle the whole bond issuance process</p> <p>Assess the potential need for a dedicated debt capital market unit within TRE</p> <p>Potential to strengthen legal, risk management, accounting and controller's functions (e.g. reporting tools to address additional disclosure requirements)</p>	<p>Establish dialogue with our internal (and external) auditors</p> <p>Carefully analyze the possible implications on future prospects related to replenishment (LEG, PRM, ACD) and governance structure policy</p>	<p>Determine the optimal characteristics of the debt issuance program</p> <p>Budget for initial costs as well as ongoing costs and additional reporting capabilities</p> <p>Pre-assessment of the impact of the full suite of debt issuance documentation in conjunction with LEG</p> <p>Given IFAD's likely size of funding program, initial rating may be sought with only one rating agency</p>

SECTION III

FAQ About Rating and Market Borrowing for IFAD

What are the Main Critical Issues in the Rating Process?

Lessons Learnt from IDA

- The recent rating process undertaken by IDA provides very important inside for IFAD.
- Based on the rating reports released by Moody's and Standard & Poor's on IDA, we can derive three main critical issues to be addressed ahead of starting a rating process for IFAD:
 - a) Applicability of Preferred Creditor Status (PCS)
 - b) Compensation for IFAD Debt-Sustainability Framework by member countries
 - c) The treatment of a theoretical IFAD bond as "0% risk-weighted" by investors.
- The case of PCS for IDA (from the S&P's ratings report)

Within a broader context of international debt relief initiatives, IDA engages in two debt write-off programs: the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI). MDRI is funded by earmarked dollar-for-dollar equity replenishments outside the three-year cycle, while HIPC is funded within the cycles. The write-offs were conditional on program criteria. Nonetheless,

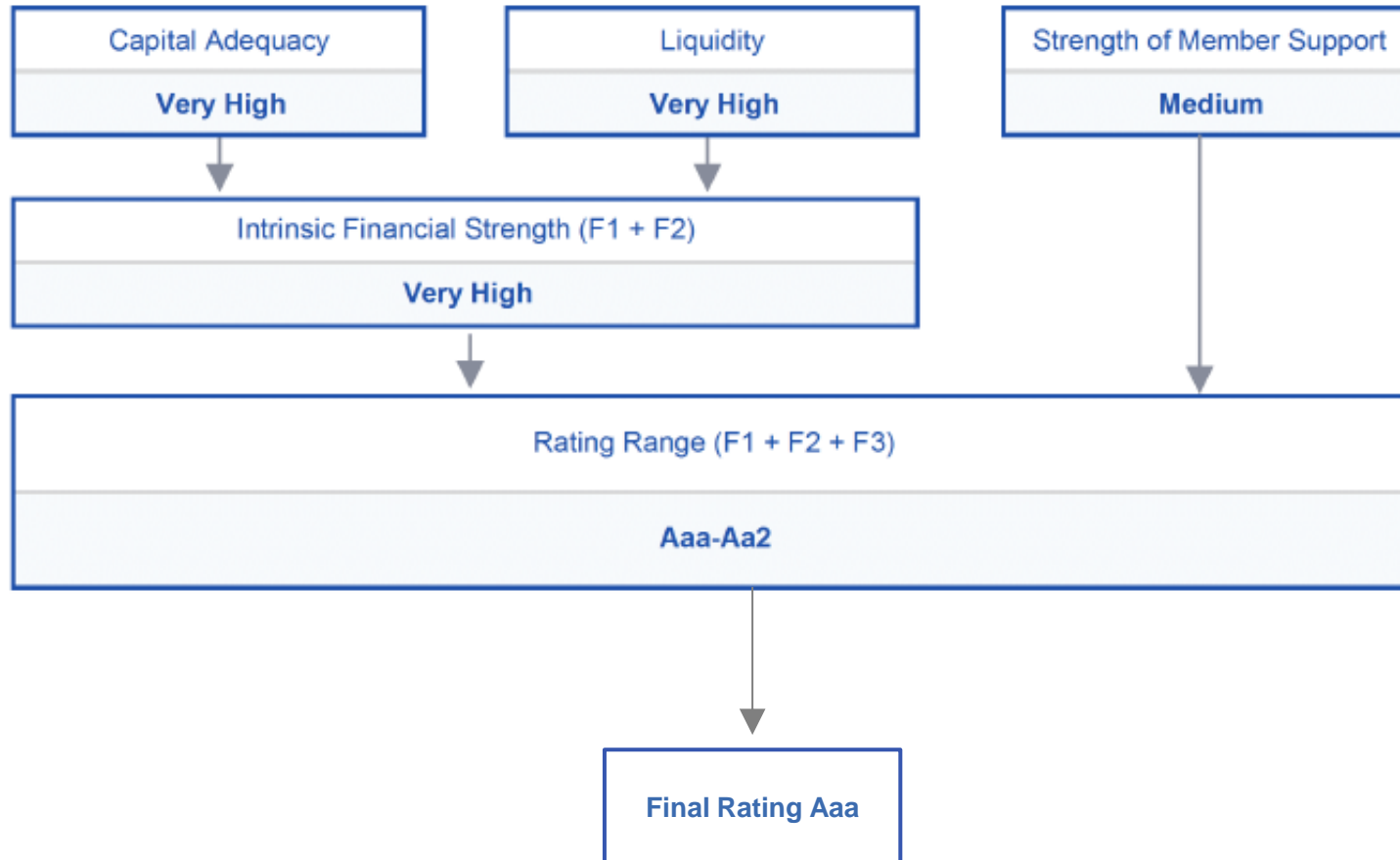
- On a positive note, the fact that IDA does not have callable capital did not detract from a triple A rating being assigned

What Key Factors Tested in the Rating Process?

IDA vs. IFAD

Factors' (+) Strength and (-) Weakness	IDA			IFAD		
	Strong	Medium	Weak	Strong	Medium	Weak
+ Equity Capital Base	✓			✓		
+ Leverage	✓			✓		
+ Liquidity	✓			✓		
+ Member support		✓				TBD
+ Preferred creditor status	✓					TBD
- Weighted average borrower rating			✗			✗
- Accounting losses / asymmetry of treatment of grants and DSF			✗			✗
- Access to long-term concessional borrowing		✗				✗
- Callable capital			✗			✗
- Member rating	✗					✗
- Member concentration			✗	✗		

What Methodology for Credit Rating of MDBs?¹



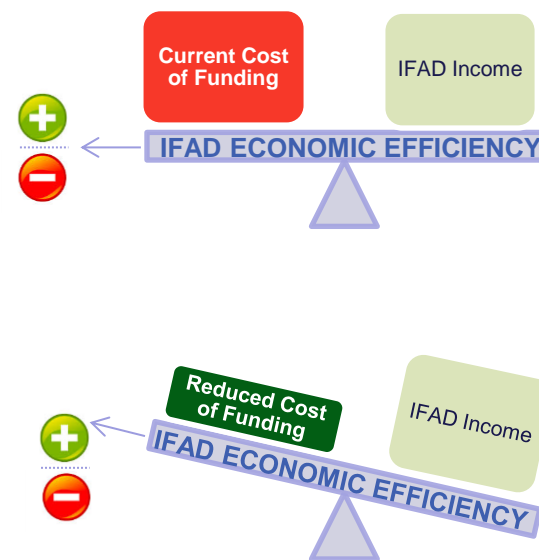
(1) Moody's rating criteria.

What are the Economics of Market Borrowing?

- With the financial crisis, a migration toward high-quality fixed income assets has benefited bond issuers in the global Supranational market.
- IFAD has an opportunity to move from sovereign borrowing to market borrowing achieving a reduction in its cost of funding.

Cost of Sovereign Borrowing for IFAD			Market Borrowing Cost of Other MDBs ¹		
Lender	Size (USD Million)	Spread (Bps)	MDB /IFI	Rating	Spread (Bps)
KFW ILA I	200	25	KFW	AAA	-10
KFW ILA II	200	20	AFD	AA	+5
<i>Potential Loan</i>	200	35	IBRD	AAA	-9
<i>Potential Loan</i>	150	50	AfDB	AAA	-5
Average Spread		+31.3			-4.8

Potential Reduction of 36 bps in Funding Cost for IFAD



(1) Observed spreads of a sample of bonds from AAA-rated MDBs with average maturity similar to IFAD loan facilities. Prices as of October, 2016.

Questions?