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Investing in rural people

Review of IFAD's Debt Sustainability Framework and Proposal on Future Approach

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For: Review

Executive summary

1. The Debt Sustainability Framework (DSF) was adopted as part of the architecture of support by multilateral financial institutions for debt relief and management in the poorest countries, in order to assist these countries in managing future debt accumulation. Member States agreed to compensate international financial institutions (IFIs) participating in this framework for the reflows that would have occurred if financing had been issued through loans instead of grants.

2. IFAD's Governing Council adopted the DSF in 2006 (see GC 29/L.4), allowing the Fund to provide much-needed debt relief to the poorest countries. As of 31 December 2018, IFAD had provided the equivalent of US$2 billion.

3. The proposed arrangements for DSF implementation at IFAD approved by the Executive Board (EB 2007/90/R.2) had foreseen a review after 10 years. Two recent independent reviews of the Fund's financial architecture by the Independent Office of Evaluation of IFAD and consulting firm Alvarez & Marsal identified the DSF as one of the highest sources of risk for IFAD due to its significant negative impact on the Fund's financial sustainability.

4. Since the introduction of the DSF, the degree of concessionality has been linked to debt sustainability under the World Bank/International Monetary Fund Debt Sustainability Framework for Low-Income Countries. This means that deteriorating debt sustainability in IFAD Member States requires an additional burden in DSF compensation, decreasing IFAD's financial sustainability and impacting the compensation due from donors for DSF commitments.

5. The current methodology and replenishment levels would keep IFAD's programme of loans and grants (PoLG) during future replenishments at lower levels than in the Eleventh Replenishment of IFAD's Resources (IFAD11), and are not financially sustainable for IFAD. The rationale is that reimbursement received from Member States to date has not been over and above core replenishment contributions. In addition, the financial compensation for DSF financing does not match the period in which disbursements are made: there is a significant timing difference between the actual disbursement period (on average 0-10 years) and reflows from Member States (11-40 years).

6. At its 125th session, the Executive Board called on Management to pursue the analysis of an option (so-called "option 2") for the creation of an ex ante mechanism to finance new DSF projects from IFAD12 onwards. Through this mechanism, resources would be allocated to DSF financing based on the level of related commitments made. Concurrently, the Executive Board decided to undertake consultations with the Member State lists and Member State capitals to secure a consensus on this preferred option while Management explores implementation arrangements.

7. Management is proposing that this new DSF mechanism be implemented from IFAD12 onwards by means of ex ante reimbursement from Member States. Under the new mechanism, Member States would need to make significantly higher contributions, taking into account both reimbursement for DSF projects already approved through IFAD11 and ex ante funding for new DSF projects from IFAD12 onwards.

8. The details of the mechanism would be agreed upon with Member States at the time of the replenishment, but the underlying principles are as follows:

   - The level of DSF financing from IFAD12 would be directly linked to the level of reimbursement committed to by Member States based on the assumed disbursement period;

- The forecasted level of DSF financing would include forward-looking analyses, with the actual financial commitment requested from Member States only for the forthcoming replenishment period;
- If related contributions are not contributed as committed, an adjustment would be made in the following period in addition to changes in the actual DSF approved; and
- The prioritization of allocation for Member State contributions (as per Governing Council resolutions 186/XXXVIII and 203/XLI) would support IFAD's sustainability, first by deducting amounts due for DSF financing already approved, and second by allocating resources on an agreed ratio for the DSF-approved percentage in the current replenishment and for IFAD's core resources.

9. These principles would decrease the risk of substitution, strengthening IFAD's sustainability. Reforming the DSF mechanism would permit IFAD to continue honouring its commitment to participate in the IFI global debt relief and management framework with assurance of its own financial sustainability.

10. Compensation of new DSF financing would occur over approximately nine years, corresponding to expected disbursements. In this way, future DSF compensation would be staggered, although the DSF compensation period would be shortened in comparison to current repayment modalities (which enable repayment over a 40-year period), thereby accelerating reimbursement due from Members.

11. The proposed mechanism will allow countries to contribute with a single pledge towards:
    - Core (non-DSF) contributions;
    - Compensation for approved DSF financing from 2007 through IFAD11; and
    - Ex ante financing for future DSF projects from IFAD12 onwards.

12. The goal of the proposed single pledge mechanism is to create a more predictable link between Member States' support for poor indebted countries and IFAD's ability to provide financing to these countries in a sustainable manner. It also sets up clear expectations for Member States in terms of the replenishment funding needed to reach an agreed DSF level and volume of IFAD's PoLG.

13. To roll out the new contribution mechanism, options for allocating DSF resources to eligible countries in line with the thresholds for DSF financing approved in the replenishment, based on Member States' financial commitments, need to be explored. These and related matters should be considered by the Executive Board Working Group on the Performance-Based Allocation System (or by a different governing body as decided by the Executive Board). These discussions should take into account other ongoing reforms in IFAD's financial architecture.

14. The World Bank and IMF are also undertaking reforms of the sustainable lending framework, which the International Development Association has utilized to assist its client countries in managing and mitigating debt risk. Policy options are being considered to enhance the impact of this framework going forward. Since IFAD is one of five IFIs subscribing to the DSF, these reforms may require IFAD to adjust its framework. IFAD will monitor these developments and propose revisions accordingly.

Review of IFAD's Debt Sustainability Framework and Proposal on Future Approach

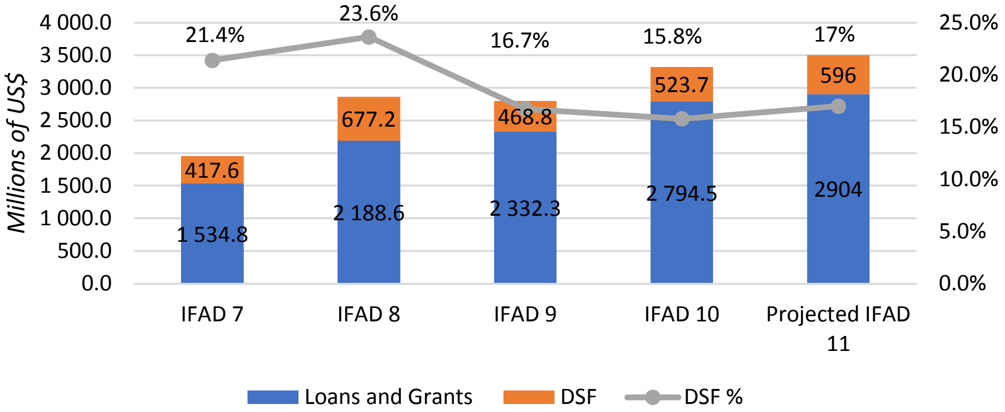
I. Background

1. Rising debt levels and a shift in the composition of debt have increased debt vulnerabilities in countries eligible for financing from the International Development Association (IDA). Debt vulnerability in emerging and low-income economies has become a major risk for financial institutions and donors. More than 40 per cent of low-income developing countries are currently assessed at high risk of external debt distress or in debt distress – double the number of countries in these categories in 2013.[1]

2. In 2006, IFAD's Governing Council adopted the Debt Sustainability Framework (DSF) (GC 29/L.4), which allows the Fund to provide much-needed debt relief to the poorest countries.

3. As of 31 December 2018, IFAD had committed approximately US$2 billion in DSF financing, with US$1.1 billion disbursed. In May 2019, the Executive Board will take a decision on DSF financing for the Eleventh Replenishment of IFAD's Resources (IFAD11). Depending on this decision, the total amount of DSF financing approved through IFAD11 is expected to grow to either US$2.5 billion or US$2.8 billion (see EB 2019/126/R.26).

Graph 1
Evolution of DSF volume for IFAD7 through IFAD11



4. Through the DSF, eligible Member States that are assessed to be at moderate risk of debt distress have historically received 50 per cent of their allocations on grant terms and 50 per cent on highly concessional loan terms. Those assessed to be at high risk of or in debt distress have received 100 per cent of their allocations on grant terms.[2] The total DSF grant amount is expected to be reimbursed to IFAD by non-beneficiary countries on terms that allow for a 10-year grace period and a subsequent 30-year reimbursement.

5. The DSF approved by the Executive Board in 2007 (see EB 2007/90/R.2) had foreseen a review after 10 years of implementation. Two recent independent reviews of the Fund's financial architecture by the Independent Office of Evaluation of IFAD and consulting firm Alvarez & Marsal identified the DSF as one of the highest sources of risk for IFAD due to its significant negative impact on the Fund's financial sustainability.

[1] See 4 October 2018 IDA technical paper, "Debt Vulnerabilities in IDA Countries".
[2] See EB 2007/90/R.2.

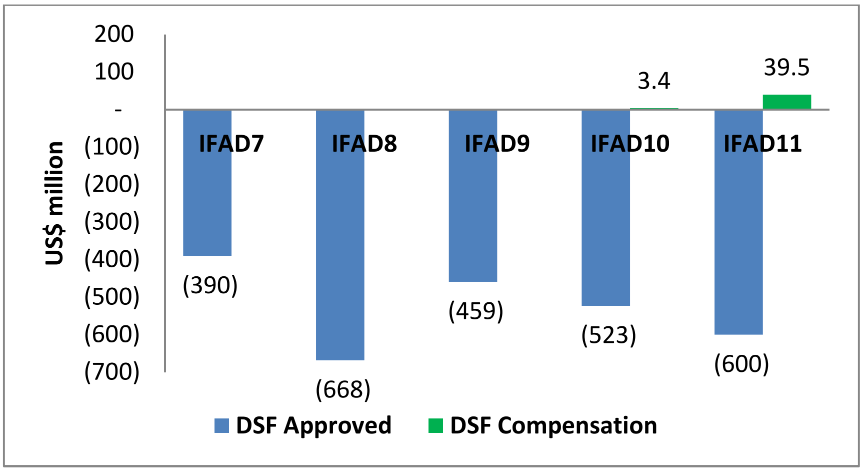
6. The current DSF methodology and replenishment levels would keep IFAD's programme of loans and grants (PoLG) at levels lower than IFAD11 for future replenishments and are not financially sustainable for IFAD. The rationale is that the reimbursement received from Member States to date has not been over and above core replenishment contributions. In addition, the financial compensation does not match the period in which disbursements are made: there is a significant timing difference between the actual disbursement period (on average 0-10 years) and reflows from Member States (11-40 years).

7. For each replenishment, IFAD notifies all non-beneficiary countries of the total amount to be reimbursed over the following three years. If these additional financial resources are not made available, IFAD is required to deduct[3] them from the core resources pledged at the replenishment. This carving out of new replenishment contributions diminishes the core resources available for new projects, reducing the PoLG.

8. As the amount of DSF compensation due from Member States for past DSF approvals increases, the current DSF compensation mechanism and expected shortfall will have an increasing impact during future replenishment periods, when the volume of expected compensation will be significantly higher. Annex I provides an estimate of DSF reimbursements needed for IFAD12 and IFAD13, totalling US$92.8 million and US$136.8 million respectively. It also provides a summary of current expected contributions by Member States to reimburse approved DSF projects since 2007.

9. Graph 2 below illustrates the timing differences between DSF financing approved (blue bars)[4] and DSF compensation due (green bars).

Graph 2
Size of DSF financing and size of compensation due by replenishment period

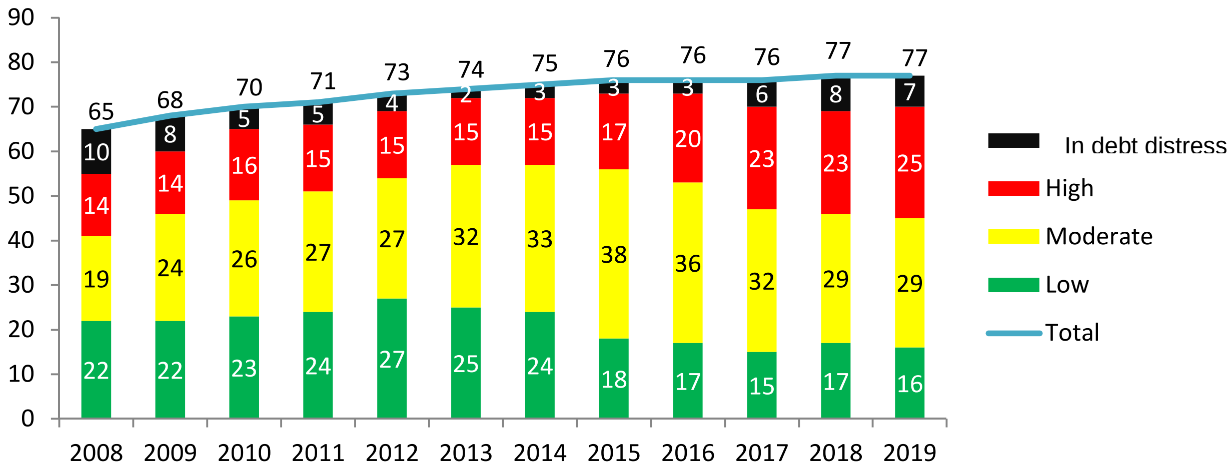


10. IFAD currently follows the DSF "traffic light" system according to the World Bank/International Monetary Fund (IMF) DSF eligibility framework, and does not tailor the DSF to the Fund's operating context. Full adherence to the World Bank/IMF Debt Sustainability Framework for Low-Income Countries adds uncertainty to projected IFAD grant financing, especially if countries' debt distress variables increase more steeply than anticipated (as happened during the years prior to IFAD11).

[3] DSF compensation was first received in IFAD10. During IFAD10 and IFAD11, the amount received from Member States that separately and additionally included the DSF in their instruments of contribution was lower than the amounts due: for IFAD10, it totalled US$400,000 while for IFAD11 it amounts to US$11 million. This amounts to a shortfall of US$23.5 million.
[4] In graph 2 above, DSF financing is based on approvals made up to December 2018 and forecast for IFAD11.

11. The level of debt distress of IFAD's borrowers has shown a steady increase since IFAD adopted the DSF initiative in 2007: the number of borrowers in debt distress or at high risk of debt distress rose from 23 in 2016 to 32 in 2019. This is a major factor driving the volume of DSF resource allocations.

Graph 3
Evolution of IFAD's borrowers eligible for DSF financing by level of debt distress from 2008 to 2019



12. In terms of allocation to DSF countries, IFAD's performance-based allocation system (PBAS) is not explicitly linked to DSF financing terms or debt sustainability. This, along with the increasing risk of debt distress and other factors, has led to the current Executive Board discussions of DSF eligibility percentages for IFAD11 since PBAS implementation resulted in a mismatch between the lending terms (percentages allocated) and volumes approved in the IFAD11 financial framework.[5]

13. The World Bank and IMF are also implementing reforms in the IDA sustainable lending framework in order to assist client countries in managing and mitigating debt risk. Policy options are being considered to enhance the impact of this framework going forward. IFAD will closely monitor these developments and propose revisions accordingly in line with other ongoing reforms in IFAD's financial architecture.

II. New mechanism for DSF reform

14. The Executive Board initiated consultations with the Member State lists and Member State capitals to secure a consensus on the preferred option. Option 2, as proposed at its 125th session (see EB 2018/125/R.44), consists of the creation of an ex ante mechanism for new DSF financing from IFAD12 onwards.

15. In order to limit IFAD's contribution to indebted countries' debt burden and in line with the Fund's mission of eradicating rural poverty (by allocating more resources to poor countries), the present document proposes the establishment of a new mechanism to regulate the level of DSF, which will be approved based on Member State commitments[6] to each replenishment.

[5] The PBAS was revised in 2017 and, along with the introduction of country selectivity, enhanced IFAD's focus on the poorest countries, improving alignment with its mandate. In approving the new methodology, the Executive Board noted that it would only be implemented for IFAD11 and that a review would be performed prior to IFAD12 in order to assess the evolution in IFAD's financial architecture.
[6] The legal basis on which DSF allocations are made will be defined in the replenishment consultation.

16. The proposed implementation of option 2 would comprise a single pledge mechanism based on the agreed level of DSF and replenishment contributions. The three pillars of IFAD's financing framework – donor contributions, PoLG volumes, and size and depth of DSF concessionality – are intimately entwined, and a change in one of them has an impact on the others. This mechanism links Member States' desire to fund DSF countries on grant terms and the exact amounts of funding Members need to contribute in order to maintain IFAD's sustainability.

17. In recent discussions, Member States noted the need to continue supporting poor countries as well as the difficulties encountered in pledging to several windows. To facilitate and simplify future replenishments, Management is proposing a mechanism that will allow countries to contribute with a single pledge towards:

- Core (non-DSF) contributions;
- Compensation for approved DSF financing from 2007 through IFAD11; and
- Ex ante financing for future DSF projects from IFAD12 onwards.

18. For IFAD12, this would result in a significantly increased burden on Member States. To allow for a more gradual increase in funding for future DSF approvals, Management is proposing to fund the DSF over approximately nine years (i.e. three replenishments), which mirrors the pace of disbursements for DSF projects. Compensation for future DSF projects would be staggered: although the DSF compensation period would be shorter than the current repayment period (40 years), it would impose less financial burden than the three-year (one replenishment) compensation initially discussed. Annex II provides an illustration of this methodology.

19. The details of the mechanism will be agreed with Member States at the time of the replenishment, but the underlying principles are as follows:

- The level of DSF financing from IFAD12 would be linked to the level of reimbursement committed by Member States based on the assumed disbursement period of nine years;
- The forecasted level of DSF financing would include forward-looking analyses, with the actual financial commitment requested from Member States only for the forthcoming replenishment period;
- If related contributions are not contributed as committed, an adjustment would be made in the following period, in addition to changes in the actual DSF approved; and
- The prioritization of allocation for Member State contributions (as per Governing Council resolutions 186/XXXVIII and 203/XLI) would support IFAD's sustainability, first by deducting amounts due for DSF financing already approved, and second by allocating resources based on an agreed ratio for the DSF-approved percentage in the current replenishment and for IFAD's core resources.

20. These principles will decrease the risk of substitution and strengthen IFAD's sustainability.

21. To roll out the up-front contribution mechanism, options need to be explored for allocating DSF resources to eligible countries in line with the thresholds for DSF financing approved in the replenishment, based on Member States' financial commitments. This could be undertaken by the Executive Board PBAS Working Group or another governing body as decided by the Executive Board.

22. One area for further analysis is the accrual of individual debt in low-income countries and lower-middle-income-countries so that IFAD can tailor its lending to this trend. For example, the IDA analysis "Debt Vulnerabilities in IDA Countries"

shows that countries classified simultaneously as commodity dependent and as fragile and conflict-affected had the highest increases in public debt levels between 2013 and 2017. These and other relevant data may be taken into account when adjusting lending terms and determining the most effective use of DSF financing in IFAD-funded projects.

23. In order to compare the concessionality of IFAD's financing to other sources of financing in the countries currently eligible for DSF, annex V analyses the external debt and financial flows of debt and equity instruments for the world's economies according to the international debt statistics published annually by the World Bank.

III. Link between PoLG, DSF and replenishment pledges

24. Member States have expressed the need for transparent overview of how the replenishment size through the new DSF mechanism is linked to IFAD's future PoLG. Annex III presents the financial model's main assumptions. Annex IV contains an overview of how the projections and variables are intertwined. It includes scenarios for projecting the financial impact of the proposed DSF mechanisms, and the impacts of different shares of DSF financing on the Fund's sustainable PoLG.

25. These scenarios highlight the following:

- The current DSF reimbursement mechanism and trends would decrease the sustainability of the PoLG since Members' contributions would have to be directed to existing forgone reflows, thereby decreasing funds for new operations. IFAD's sustainable PoLG would be at levels lower than IFAD11 for the next four replenishments;
- Through the proposed single pledge mechanism, Members would make higher contributions, taking into account both reimbursement for DSF financing already approved and the up-front funding of new DSF projects based on expected disbursements by replenishment. In this case, the sustainable PoLG would be higher due to the greater availability of funds to finance new operations;
- Overall, the higher the share of DSF within the PoLG, the lower the sustainability of the PoLG. For example, lowering the future DSF share from the current 17 per cent to 12 per cent would increase the PoLG from US$3.42 billion to US$3.66 billion in IFAD12, for nearly the same replenishment target; and
- If a portion of the PoLG is financed by increased debt, thereby increasing the current allowable debt from 36 per cent to 50 per cent of any replenishment, the same level of PoLG could be sustained with a lower increase in contributions. However, since debt cannot be used to finance DSF or the other grant portion of the PoLG, basic risk management principles dictate that the PoLG would grow moderately in future replenishments. It should be noted that debt cannot be a substitution for core replenishment.

26. The new up-front DSF financing mechanism allows for more predictable links between Member States' desire to support poor indebted countries and IFAD's ability to provide these countries with financing in a sustainable manner. It also establishes clear expectations for Members in terms of the funding needed to reach a set DSF level for the corresponding PoLG.

IV. Additional considerations

A. What can the Executive Board propose if some Member States have not reimbursed IFAD for approved DSF projects?

27. The IFAD7 Report, adopted by the Governing Council at its twenty-ninth session in February 2006, recommended that: "IFAD Member States, and particularly those who are major contributors of official development assistance, agree to compensate IFAD fully for principal repayments forgone as a result of application of the debt sustainability framework within a pay-as-you-go mechanism as adopted in [IDA's fourteenth replenishment] IDA 14."[7]

28. Relying on this commitment, IFAD extended approximately US$2 billion in DSF financing as of IFAD10, which has negatively impacted its financial viability. This increases the obligation of Member States, in their fiduciary capacity as IFAD's funders, to compensate for the DSF loss. Member States that do not make pledges in IFAD replenishments are still expected to continue contributing their share of DSF financing for approved DSF projects since 2007 (annex I lists each Member State commitment).

29. IFAD provides DSF financing to eligible countries because Member States required IFAD to adopt the DSF, and agreed to compensate IFAD fully through the contribution of additional resources – over and above core replenishment support. These additional resources are applied to future replenishments in amounts equivalent to the loss of principal repayments caused by DSF application in the previous replenishment periods.

30. In response to the requests of some Member States, Management has provided options for Member States that do not currently contribute to IFAD replenishments so that DSF contributions for previously approved projects cannot be carved out of their new pledges. Management requests guidance from Executive Board members on which measures IFAD should consider implementing.

31. In addition to sending reminder letters to Member States, some options for complying with DSF commitments that the Executive Board may wish to explore include: (i) publication of a payment delay list by IFAD;[8] (ii) reconvening consultations;[9] (iii) amending Rules of Procedure of the Executive Board;[10] and (iv) the Board's agreement on other measures under the IFAD11 resolution[11] (paragraphs 11 and 32).

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[7] See GC 29/L.4, para. 43(d).

[8] This list could include the status of pledges and commitments made by each Member State, including DSF, along with a payment delay list presenting the DSF burden share by country.

[9] Under para. 33 of the IFAD11 resolution (203/XLI), the Governing Council may convene a meeting of the Consultation to review when delays in the payment of any contributions put IFAD's operations at risk.

[10] Rule 26 could be amended to link Members pledges and the format of contributions at meetings. A similar amendment could allow Members that have not contributed to compensate for DSF loss in past cycles.

[11] The Executive Board may adopt additional measures for settling unpaid contributions and agree on any appropriate actions for implementing the resolution. See the following abstracts of IFAD11 resolution:

- Para. 11: "Unpaid contributions. Those Members who have not yet completed payment of their previous contributions to the resources of the Fund and who have not yet deposited an instrument of contribution or paid their contribution for the Tenth Replenishment are urged to make the necessary arrangements. Upon proposals by the President, the Executive Board shall adopt measures aimed at achieving the settlement of unpaid contributions."
- Para. 32: "The Executive Board shall periodically review the status of contributions under the Replenishment and shall take such actions, as may be appropriate, for the implementation of the provisions of this Resolution."

V. Conclusion

32. Reforming the DSF mechanism would permit IFAD to continue honouring its commitment to participate in the international financial institution global debt relief and management framework with key assurances of its own financial sustainability. This would enable IFAD to continue delivering on its mandate and supporting achievement of the Sustainable Development Goals. The new DSF mechanism provides IFAD with a sustainable funding instrument that links Member States' appetite to fund DSF countries with IFAD's commitments to assist the poorest countries.

33. Management is seeking the Audit Committee's endorsement in April 2019, and Executive Board approval in May 2019 for the establishment of this mechanism during IFAD12.

34. It is proposed that options be explored for allocating DSF resources to eligible countries in line with the thresholds for DSF financing approved in IFAD replenishments, based on Member States' financial commitments. These options should be discussed by the Executive Board PBAS Working Group ahead of each replenishment consultation.

35. This document provides IFAD's governing bodies with an overview of how a specific level of pledges by Member States is linked to the estimated overall size of IFAD's PoLG. Future PoLG levels will depend on Member States' appetite to fund DSF projects. Using a similar set of assumptions to those used in IFAD11, this document presents a series of simulations designed to provide Member States with a sensitivity analysis of potential outcomes for IFAD12 using the new up-front financing mechanism.

36. Management is also seeking guidance on measures that the Executive Board wishes to explore in order to minimize financial risk to IFAD when a Member State does not reimburse IFAD for commitments made on approved DSF financing.

DSF compensation due by replenishment period by Member States for DSF approvals from IFAD7 (2007) until the end of the IFAD11 period (2021) and forecast from IFAD12 onwards

1. The details below depend on several factors:

   - DSF approvals during IFAD11 and future cancellations/reductions of undrawn DSF commitments.

   - Commitments are denominated in euros, special drawing rights and United States dollars. Therefore the United States dollar values due in future replenishments will be set upon approval of respective replenishment rates.

2. Future replenishment discussions may include revising the formula for pro-rating DSF among Member States. This formula currently depends on the level of pledges received in the year in which DSF grants were approved. However, it may be more equitable and aligned with other international financial institutions' practices to consider an average of previous core replenishment contributions.

DSF compensation due for DSF approvals from IFAD7 to IFAD11 and forecast from IFAD12
(United States dollars)

				Forecast			
List	*Country*	*IFAD10*	*IFAD11*	*IFAD12*	*IFAD13*	*IFAD14-IFAD25*	*Total*
List A							
	Australia		-	-	-	-	-
	Austria	60 706	661 450	1 991 348	2 845 574	43 115 479	48 674 556
	Belgium	90 266	1 258 849	2 987 022	-	39 355 993	43 692 130
	Canada	172 001	2 871 353	6 688 648	9 149 596	146 747 362	165 628 960
	Cyprus					129 010	129 010
	Denmark	55 556	602 633	1 419 610	-	19 832 945	21 910 743
	Estonia	-	-	-	-		-
	Finland	44 968	719 342	1 493 511	2 312 029	32 346 406	36 916 255
	France	165 626	2 098 081	4 356 074	6 224 693	118 953 342	131 797 817
	Germany	224 838	2 756 040	6 520 296	9 317 298	156 484 482	175 302 953
	Greece	-	-	-	-	625 201	625 201
	Hungary	-	-	-	-	47 781	47 781
	Iceland	-	-	-	-	176 791	176 791
	Ireland	47 557	359 671	746 756	1 073 419	20 475 782	22 703 185
	Israel	-		14 003	-	91 241	105 244
	Italy	286 699	3 149 760	7 220 752	11 350 289	174 812 468	196 819 969
	Japan	185 491	2 362 320	6 524 776	7 585 784	134 886 672	151 545 043
	Luxembourg	-	94 493	208 793	320 127	5 140 311	5 763 724
	Netherlands	220 835	2 952 900	6 524 776	10 010 684	167 455 205	187 164 400
	New Zealand	-	-	321 999	502 920	5 121 702	5 946 622
	Norway	182 175	1 791 426	4 317 549	6 794 178	106 359 830	119 445 158
	Portugal	-	70 870	-	-	1 372 007	1 442 876
	Russian Federation	-	-	521 982	798 504	10 034 078	11 354 563
	Spain	165 626	2 277 917	-	-	41 723 703	44 167 246
	Sweden	186 445	2 282 729	6 315 983	5 249 552	125 621 582	139 656 292
	Switzerland	94 997	792 126	2 936 652	6 604 582	77 714 767	88 143 123
	United Kingdom	281 047	2 559 180	7 212 053	12 687 542	181 173 581	203 913 403
	United States	303 531	3 543 480	7 829 731	11 977 554	154 811 483	178 465 779
	Total List A	**2 768 365**	**33 204 617**	**76 152 314**	**104 804 325**	**1 764 609 203**	**1 981 538 824**
List B							
	Algeria	-	393 720	869 970	1 330 839	14 859 991	17 454 521
	Gabon	-	13 708	28 461	52 870	798 363	893 401
	Indonesia	28 105	196 860	869 970	1 330 839	19 112 529	21 538 303
	Iran (Islamic Republic of)	-	-				-
	Iraq	11 242	59 058		-	1 672 346	1 742 646

				Forecast			
List	*Country*	*IFAD10*	*IFAD11*	*IFAD12*	*IFAD13*	*IFAD14-IFAD25*	*Total*
	Kuwait	44 968	472 464	1 304 955	1 996 259	30 102 233	33 920 878
	Libya	-	-	-			-
	Nigeria	28 105	590 580	1 304 955	1 996 259	26 279 727	30 199 626
	Qatar	56 209	-		-	4 778 132	4 834 342
	Saudi Arabia	56 209	787 440	2 000 931	3 060 930	48 402 479	54 307 990
	United Arab Emirates	-	39 372	86 997	399 252	4 300 319	4 825 940
	Venezuela (Bolivarian Republic of)	84 314	258 630	-	-	10 305 901	10 648 846
	Total List B	**309 152**	**2 811 832**	**6 466 240**	**10 167 249**	**160 612 020**	**180 366 493**
List C							
	Afghanistan	-	-		-	-	-
	Albania	-	-	-	-	14 334	14 334
	Angola	-	74 807	165 294	266 168	3 822 506	4 328 775
	Antigua and Barbuda	-	-				-
	Argentina	11 242	98 430	652 478	998 129	10 511 891	12 272 170
	Armenia	-	-	-	-	23 380	23 380
	Azerbaijan	-	-	-		95 563	95 563
	Bangladesh	-	23 623	56 548	133 084	2 078 488	2 291 743
	Barbados	-	-				-
	Belize	-	-				-
	Benin	-	-	-	-	-	-
	Bhutan	-	-	-	-	71 672	71 672
	Bolivia (Plurinational State of)	-	-		-	143 344	143 344
	Bosnia and Herzegovina	-	-	-	-	134 656	134 656
	Botswana	-	-	15 659	17 966	322 524	356 150
	Brazil	44 497	526 010	1 452 850	2 222 502	28 991 921	33 237 779
	Burkina Faso	-	-	-	-	-	-
	Burundi	-	-	-	-	-	-
	Cambodia	-	-	18 269	41 921	666 549	726 740
	Cameroon	-	39 372	104 396	159 701	2 577 188	2 880 657
	Cabo Verde	-	-	-	-	20 612	20 612
	Central African Republic	-	-	-	-	-	-
	Chad	-	-	-	-	-	-
	Chile	-	-		-	76 450	76 450
	China	89 935	866 184	2 348 919	7 985 036	98 429 523	109 719 597
	Colombia	-	-	17 399	-	272 536	289 935
	Comoros	-	-				-
	Congo	-	11 812		-	286 688	298 500
	Democratic Republic of the Congo	-		25 222	-	-	25 222
	Cook Islands	-					-
	Costa Rica	-					-
	Côte D'Ivoire	-		-	-	84 218	84 218
	Croatia	-					-
	Cuba	-			-	56 624	56 624
	Djibouti	-			-	-	-
	Dominica	-	-				-
	Dominican Republic	-	-		133 084	573 376	706 460
	Ecuador	-	-	34 799	-	286 688	321 487
	Egypt	16 863	118 116	260 991	399 252	7 167 198	7 962 420
	El Salvador	-	-		-	47 781	47 781
	Equatorial Guinea	-	-				-
	Eritrea	-	-	-	-	-	-
	Eswatini					35 740	35 740
	Ethiopia	-	-	-	-	-	-
	Fiji	-		-	13 308	110 056	123 365
	Gambia (The)	-		-	-	-	-

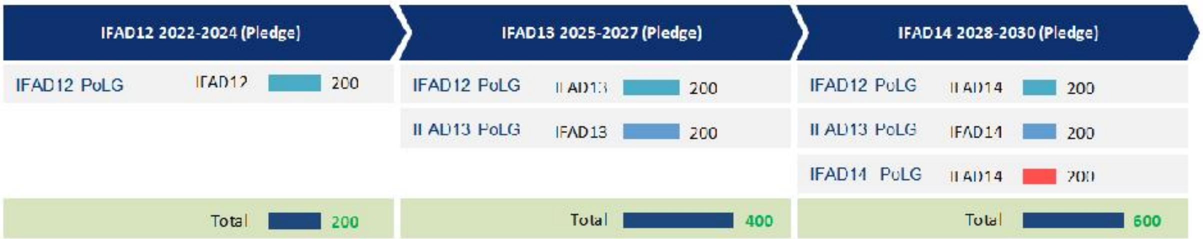
				Forecast			
List	*Country*	*IFAD10*	*IFAD11*	*IFAD12*	*IFAD13*	*IFAD14-IFAD25*	*Total*
	Georgia	-			-	14 334	14 334
	Ghana	-	15 749	34 799	66 542	1 098 970	1 216 060
	Grenada	-					-
	Guatemala	-			66 542	358 360	424 902
	Guinea	-		-	-	-	-
	Guinea-Bissau	-					-
	Guyana	-	19 002	62 446	95 773	1 030 955	1 208 177
	Haiti	-		-	-	-	-
	Honduras	-	-		26 617	95 563	122 179
	India	95 556	984 300	2 609 910	4 924 105	73 160 479	81 774 351
	Jamaica	-					-
	Jordan	-		-	13 308	238 907	252 215
	Kazakhstan	-		-	-	28 669	28 669
	Kenya	-		43 499	66 542	1 051 189	1 161 230
	Kiribati	-		-	-	-	-
	Democratic People's Republic of Korea	-			-	-	-
	Republic of Korea	16 863	236 232	600 279	1 064 671	17 153 495	19 071 540
	Kyrgyzstan	-					-
	Lao People's Democratic Republic	-		-	-	131 399	131 399
	Lebanon	-	11 812		-	181 569	193 381
	Lesotho	-		-	13 308	191 125	204 434
	Liberia	-		-	-	-	-
	North Macedonia	-					-
	Madagascar	-		-	-	-	-
	Malawi	-			-	-	-
	Malaysia	-			-	83 617	83 617
	Maldives	-			-	-	-
	Mali	-	-	-	-	-	-
	Malta	-	-				-
	Marshall Islands	-	-				-
	Mauritania	-	-		-	-	-
	Mauritius	-	-	-	-	-	-
	Mexico	16 863	-	434 985	665 420	8 600 638	9 717 906
	Micronesia (Federated States of)	-	-				-
	Republic of Moldova	-	-	-	-	47 304	47 304
	Mongolia	-	-	-	13 308	101 774	115 083
	Morocco	-	27 560	60 898	106 467	1 576 784	1 771 709
	Mozambique	-	-	-	-	-	-
	Myanmar	-	-	-	-	-	-
	Namibia	-	-		-	-	-
	Nauru	-	-				-
	Nepal	-	-	-	-	124 248	124 248
	Nicaragua	-	-	17 399	19 963	248 463	285 825
	Niger	-	-		-	-	-
	Niue	-	-				-
	Oman	-	-	-	-	71 672	71 672
	Pakistan	22 484	314 976	695 976	1 064 671	17 679 089	19 777 196
	Panama	-	-	-	-	135 221	135 221
	Papua New Guinea	-	-				-
	Paraguay	-	19 721	13 050	26 617	406 566	465 954
	Peru	-	11 812	32 624	47 910	769 279	861 625
	Philippines	-	-	17 399	26 617	286 688	330 704
	South Sudan	-	-	-	-	-	-
	Romania	-	-		-	95 563	95 563
	Rwanda	-	-		-	122 941	122 941
	Saint Kitts and Nevis	-	-				-
	Saint Lucia	-	-				-

				Forecast		
List	*Country*	*IFAD10*	*IFAD11*	*IFAD12*	*IFAD13*	*IFAD14-IFAD25*	*Total*
	Samoa	-	-				-
	Sao Tome and Principe	-	-				-
	Senegal	-	-	17 399	-	266 837	284 237
	Seychelles	-	-	-	-	54 949	54 949
	Sierra Leone	-	-	-	-	-	-
	Solomon Islands	-	-				-
	Somalia	-	-				-
	South Africa	-	35 931	43 499	-	674 960	754 390
	Sri Lanka	-	39 411	87 084	133 217	2 391 455	2 651 168
	Saint Vincent and the Grenadines	-	-				-
	Sudan	-	-	-	-	-	-
	Suriname	-	-				-
	Syrian Arab Republic	-	-		-	406 141	406 141
	Tajikistan	-	-	-	-	-	-
	United Republic of Tanzania	-	-	10 442	16 155	201 359	227 956
	Thailand	-	11 812	26 099	39 925	645 048	722 884
	The Bahamas	-	-				-
	Timor-Leste	-	-		13 308	47 781	61 090
	Togo	-	-	-	-	-	-
	Tonga	-	-				-
	Trinidad and Tobago	-	-				-
	Tunisia	-	23 623	65 248	133 084	1 887 362	2 109 317
	Turkey	-	47 246	104 396	665 420	6 354 916	7 171 978
	Tuvalu	-	-				-
	Uganda	-	-	-	13 308	207 849	221 157
	Uruguay	-	-	17 399	26 617	286 688	330 704
	Uzbekistan	-	-	-	1 331	16 723	18 054
	Vanuatu	-	-		-	-	-
	Viet Nam	-	19 686	52 198	79 850	1 051 189	1 202 924
	Yemen	-	-	-	-	-	-
	Zambia	-	-	-	39 925	471 501	511 426
	Zimbabwe	-	-	-	39 925	334 469	374 394
	Total List C	**314 302**	**3 577 226**	**10 199 857**	**21 880 599**	**297 285 596**	**333 257 580**
	Grand total	**3 391 819**	**39 593 675**	**92 818 410**	**136 852 173**	**2 222 506 820**	**2 495 162 897**

Matching ex ante DSF funding to disbursements

1. Figure 1 below provides an example of this methodology.

Figure 1
IFAD DSF pledges and disbursements from IFAD12 to IFAD14
(Millions of United States dollars)



2. In the case of an approved DSF allocation for IFAD12 of US$600 million, the related compensation would occur only partially during IFAD12 and would last to the end of the IFAD14 period. In this example, IFAD14 DSF financing would be mostly used to fund the last disbursement tranche of DSF projects approved in IFAD12, the second disbursement tranche in IFAD13 and the first disbursement tranche in IFAD14.[12]

3. This mechanism would create a direct link between members' appetite to fund DSF-eligible countries and the funding needed to maintain IFAD's sustainability. One drawback of this methodology is that it cannot ensure full certainty of future funding since the level of pledges is only agreed at each future replenishment consultation.

4. This proposed average of three replenishments, which reflects the current DSF disbursement, allows for the proposed mechanism's gradual introduction. After this gradual increase in the pledging level over the next replenishments, Management proposes to evaluate the mechanism's effectiveness in achieving its goals during the IFAD14 Consultation.

[12] The new up-front DSF funding mechanism represents a greater funding commitment for Member States than the reimbursement of already approved DSF projects until IFAD11 for the next 40 years. Given that the DSF was approved in 2007, the reimbursement of already approved DSF projects is expected to increase during the following replenishments to an expected maximum of approximately US$260 million per replenishment, and subsequently decrease. As seen in figure 1 above, the new up-front funding mechanism at 17 per cent of US$3.5 billion results in the need for additional up-front funding of approximately US$600 million.

Financial model and main scenario assumptions

1. IFAD's financial model is a critical tool for testing financial scenarios over the long term using different sets of assumptions based on historical data and trends. It is a fundamental instrument for supporting IFAD Management's decision-making.

2. IFAD currently uses a liquidity projection financial model over 50 years to ensure that the Fund will have a buffer of liquidity over every single replenishment in order to maintain a sustainable PoLG.

3. The main objectives of this model are to: project cash flows for IFAD operations (e.g. loan and grant approvals, disbursements, reflows, investment income, borrowing facility withdrawals and repayments); calculate the Fund's year-end liquidity; and assess compliance with the minimum liquidity requirement (MLR)[13] for 50 years to ensure the long-term financial sustainability of the PoLG. Whenever IFAD's liquidity is below or substantially above the MLR threshold, the model optimizes the PoLG at a level that ensures compliance with this required threshold.

4. The model's assumptions are updated on a yearly basis, normally in the second quarter (as soon as IFAD's financial statements are finalized and approved). The main assumptions guiding the model's sensitivity are related to loan disbursement profiles, growth rate, investment return and resource allocation according to approved PBAS percentages.

5. Disbursement trends and cancellation inputs are based on the same assumptions as those employed in IFAD11 scenarios. The model is particularly sensitive to inflation rate volatility because the PoLG, contributions, borrowing and operating expenses are all assumed to grow with inflation (i.e. remain flat in nominal terms) for 50 years.

6. For consistency of outputs against the approved scenario for IFAD11, all analyses were conducted using the model assumptions employed for the IFAD11 Consultation for a replenishment of US$1.2 billion, including US$430 million in borrowing and a US$3.5 billion PoLG.

[13] The MLR is defined as 60 per cent of IFAD's annual gross disbursements as per the Fund's Liquidity Policy, approved at the eighty-ninth session of the Executive Board in December 2006 (EB 2006/89/R.40).

Sensitivity analyses of replenishment and PoLG levels

1. IFAD's Member States have expressed the need for a transparent and clear overview of how the replenishment size with the new DSF up-front contribution mechanism is linked to IFAD's future PoLG.

2. As highlighted in the main document, there is an inherent relationship between a sustainable PoLG and the: (i) level of replenishment contributions; (ii) amount of debt financing; (iii) share of loans and grants (including DSF) in the PoLG; and (iv) DSF compensation mechanism. A larger PoLG can be achieved through: greater contributions; greater DSF compensation; a lower share of DSF grants in the PoLG; and a higher level of indebtedness.

3. This annex presents several scenarios estimating the impact of the proposed new DSF mechanism on the required level of replenishment contributions for a given PoLG, and on the level of sustainable PoLG obtainable with a given replenishment level. The scenarios are meant to support Member States in funding decisions and risk appetite toward DSF financing by linking these variables to the sustainable level of IFAD's PoLG. Additional scenarios can be produced upon request.

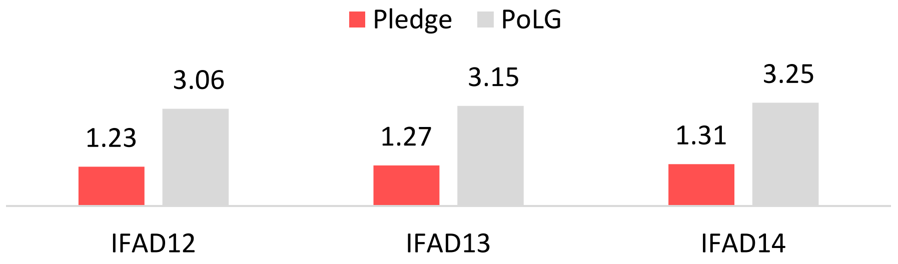
4. The calculations of the sustainable level of PoLG utilize IFAD's financial model and assumptions as described in annex III. The PoLG is sustainable if, projecting all IFAD cash flows over the next 50 years, the model forecasts that IFAD's liquidity will consistently remain above the minimum liquidity requirement (MLR).[14] This model ensures that IFAD's future cash flows are projected in a sensible and conservative manner that ensures the sustainability of its resources. The assumptions underlying this model are conservative in order to mitigate risk of overestimating available resources.

5. The simulations were run using an initial replenishment target of US$1.2 billion in line with IFAD's current disclosure.[15] The contribution growth is assumed at 3 per cent for each replenishment in line with a minimum yearly inflation of approximately 1 per cent. This assumption is more conservative than the previous estimation of 2 per cent contribution growth per year (slightly above 6 per cent for each replenishment). The assumption has been revised to address feedback from Member States on the need for conservative assumptions and in line with the observed current low level of inflation. It is therefore assumed that Members' contributions will remain flat in real terms within a low inflation environment of 1 per cent per year.[16]

6. Before presenting the outcomes of the new up-front DSF contribution mechanism, figure 2 below shows the level of sustainable PoLG in the event that Members opt to continue with the current mechanism, which does not enforce the reimbursement of approved DSF or future new DSF projects. This scenario assumes that: Members do not contribute over and above their core replenishment targets; and Member States do not fund the DSF ex ante. With 3 per cent growth in contributions per replenishment and a 17 per cent share of DSF financing within the PoLG, a commitment of US$1.23 billion would ensure a sustainable PoLG of US$3.06 billion in IFAD12.

[14] The MLR is defined in IFAD's liquidity policy and is set at 60 per cent of IFAD's gross disbursements.
[15] If this target were to be revised, the analysis presented in the paper would not vary meaningfully given that it would represent a very small change for the initial target of 50 years.
[16] During the last decade, an expected 2 per cent inflation appeared (in line with major central bank targets) to anchor inflation expectations. During the past few years however, realized inflation has been below 2 per cent.

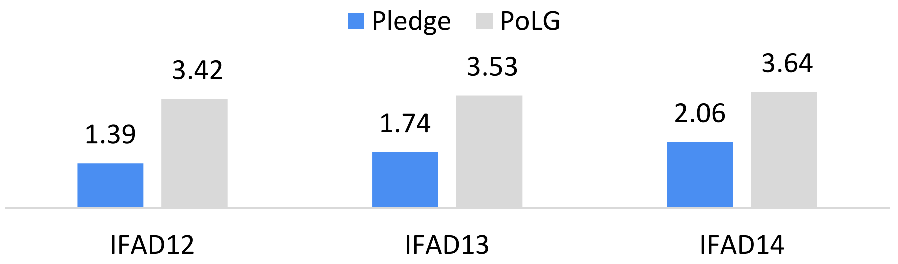
Figure 2
IFAD's PoLG with no change to the current contribution mechanism



7. The main impact of maintaining the current contribution mechanism would be slower expansion of the PoLG since a portion of Members' contributions would be directed to existing DSF forgone reflows, and would not be utilized to fund new operations. Only in IFAD16 would IFAD be able to achieve the current IFAD11 target of US$3.5 billion.

8. The following simulations apply the proposed DSF compensation mechanism to a single pledge (by a given Member State) that encompasses all DSF financing, including approved DSF funding, financing of new DSF projects pending approval, and the assumed regular financing of non-DSF projects. Figure 3 below indicates an achievable PoLG with DSF at 17 per cent of the PoLG and DSF compensation aligned to disbursement trends.

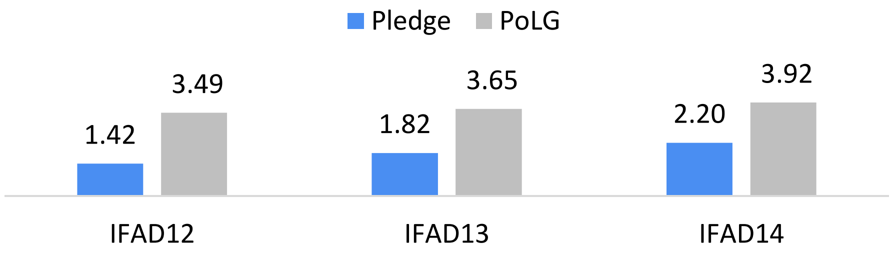
Figure 3
IFAD's PoLG with 17 per cent DSF and contribution growth of 3 per cent for each replenishment
(Billions of United States dollars)



9. As shown in figure 3, for the compensation mechanism described above, the funding available to sustain IFAD12 through single pledges would total US$1.39 billion. In this case, the IFAD12 PoLG would increase from US$3.06 billion to US$3.42 billion since more resources would be available to fund new operations. Therefore, the Fund's financial sustainability would be ensured going forward.

10. During previous replenishments, Management assumed a higher replenishment growth at 6.1 per cent per replenishment. As discussed above, this assumption was based on the expectation that Members would increase their contributions by a yearly inflation rate of 2 per cent, keeping replenishments flat in real terms. Figure 4 shows the same simulation using this higher expected level of contribution growth.

Figure 4
IFAD PoLG with 17 per cent DSF and contribution growth of 6.1 per cent for each replenishment
(Billions of United States dollars)



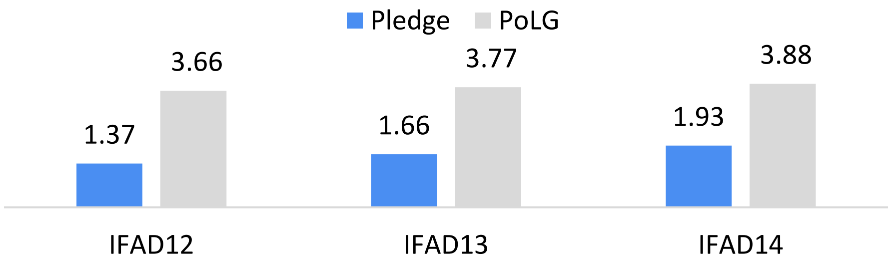
11. The main consequence of assuming higher replenishment growth is that subsequent sustainable PoLG levels can be safely determined at the higher level. In the current example, the sustainable PoLG would increase from US$3.64 billion to US$3.92 billion by IFAD14.

What happens to PoLG if the agreed share of DSF is 12 per cent of the total PoLG?

12. DSF grants play an important role in supporting IFAD's efforts to achieve the Sustainable Development Goals by 2030 and channelling scarce grant resources to where they can have the greatest development impact, while not adding to highly indebted countries' debt burden.

13. The next simulation includes a lower cap of 12 per cent for future DSF allocations in each replenishment in order to analyse the impact on the level of contributions and the resulting PoLG. Figure 5 shows the replenishment needs for 12 per cent DSF financing of IFAD's PoLG and an assumption of 3 per cent growth per replenishment.[17]

Figure 5
IFAD PoLG with 12 per cent DSF and contribution growth of 3 per cent for each replenishment
(Billions of United States dollars)



14. The DSF comprises a grant-funding mechanism in which there are no future reflows for IFAD to on-lend to additional countries. Therefore, the lower the grant portion in the PoLG, the greater the sustainable PoLG. Figure 5 above highlights that a lower percentage share of DSF in the PoLG results in a higher level of sustainable PoLG.

15. Even if new DSF approvals and disbursements are linked to DSF reimbursement through the new contribution mechanism, it would still need to be determined how DSF financing links with allocations and eligibility through the performance-based allocation system (PBAS).

[17] The model makes the conservative assumption that the loan volume difference between 17 per cent and 12 per cent would ensure DSF loans to countries with highly concessional lending terms.

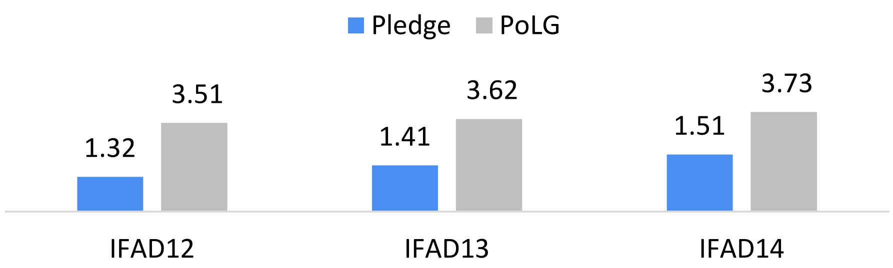
What happens to PoLG if IFAD uses a 50 per cent debt-to-contributions ratio for the replenishment instead of the current 36 per cent?

16. In the next scenario, already approved under the Sovereign Borrowing Framework (SBF), IFAD slightly increases its leverage and uses the maximum ratio of debt-to-contribution per replenishment: 50 per cent instead of the current 36 per cent envisioned for IFAD11.

17. It is important to note that debt is not a substitute for core replenishments. Given IFAD's focus on poor countries and its concessional lending terms, pledges need to remain at the forefront of IFAD's capital structure. As a general principle (even through it does not apply in this scenario), in order to ensure capital preservation and solvency, the DSF allocation cannot be financed by increasing debt levels since debt entails repayment obligations.

18. This model assumes a gradual increase from the current 36 per cent to a maximum of 50 per cent for future replenishments. From IFAD15 onwards, debt-to-contribution per replenishment is maintained at 50 per cent.[18]

Figure 6
IFAD PoLG with 17 per cent DSF, contribution growth of 3 per cent for each replenishment and a cap of 50 per cent debt-to-contribution per replenishment
(Billions of United States dollars)



19. This scenario introduces an additional moderate volume of debt, as envisioned by the SBF, with a DSF allocation corresponding to 17 per cent of the PoLG. A commitment level of $1.32 billion would be required to deliver a PoLG of US$3.5 billion in IFAD12.

20. In this case, the size of contributions does not increase as rapidly as in the previous scenarios. This is due to the increase in the debt-to-equity ratio over 50 years instead of maintaining constant leverage as in the previous scenarios. The level of PoLG grows moderately, taking into account the fact that additional financing is not comprised of core replenishments but debt financing, so it cannot be used to finance DSF lending.

21. The new up-front contribution mechanism allows for a more predictable link between Member States desire to support poor indebted countries and IFAD's ability to provide financing to these countries in a sustainable manner. It also establishes clear expectations of the needed replenishment funding from Member States to reach a specific DSF level and a sustainable PoLG.

[18] The table below shows the gradual debt trajectory under this maximum cap of 50 per cent for IFAD's next replenishments and the associated leverage. The total debt-to-equity ratio is presented in order to provide a thorough understanding of IFAD's balance sheet risks. A measure of IFAD's leverage, this ratio increases gradually over several replenishments. The total debt-to-equity rises to 25 per cent by IFAD14.

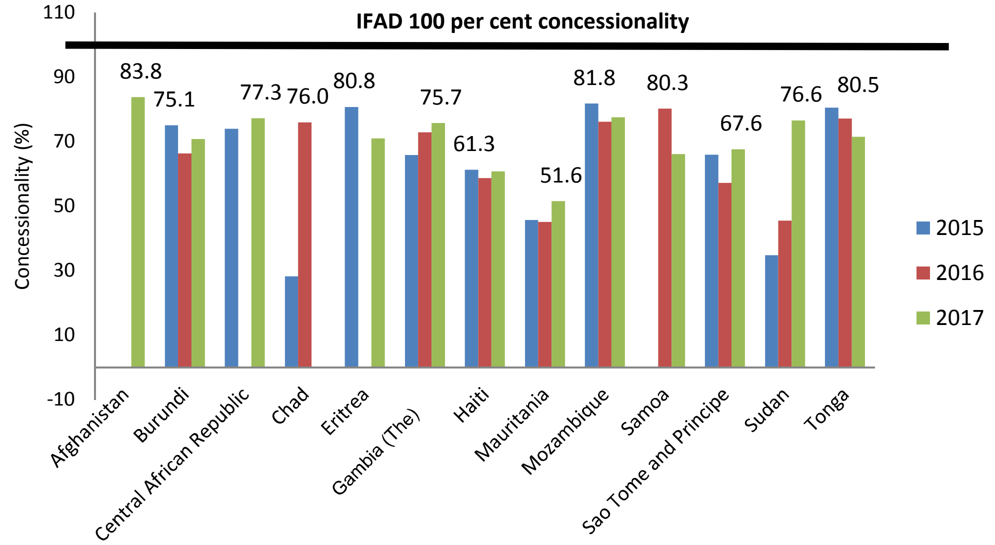
Timing	*Size*	*Debt/replenishment*	*Debt to equity*
IFAD12	US$495 million	40%	17%
IFAD13	US$570 million	45%	21%
IFAD14	US$657 million	50%	25%

Concessionality of IFAD's financing

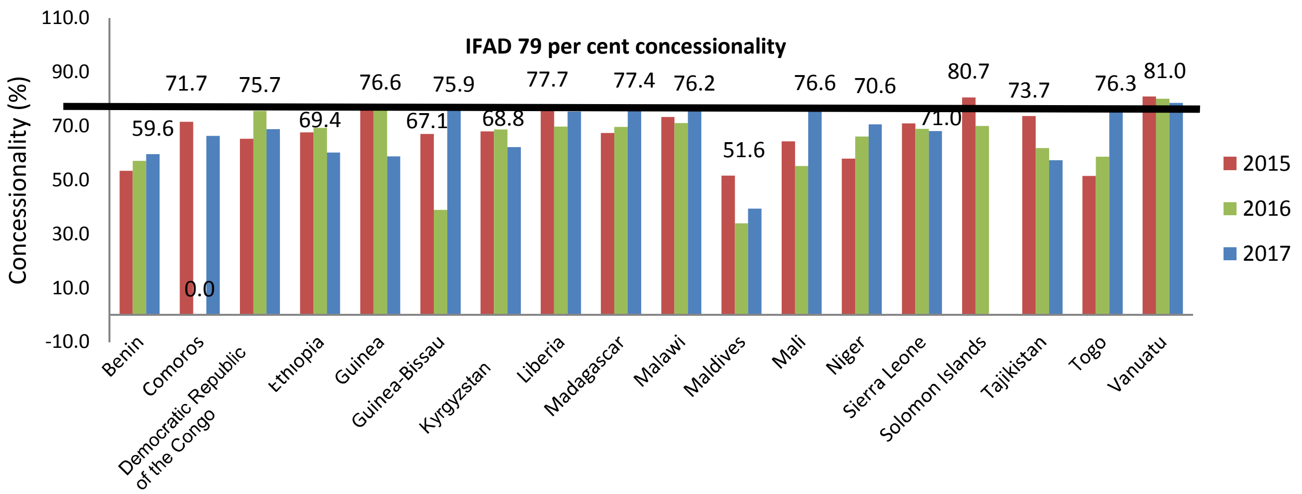
1. Graph 1 below shows the average grant element (in percentage terms) of new public and publicly guaranteed commitments to official multilateral and bilateral creditors for all types of financial instruments from 2015 to 2017, for countries classified as in or at high risk of debt distress.

2. For all countries in debt distress or at high risk of debt distress, graph 1 shows that IFAD's proposed level of concessionality is higher than the average concessionality over 2015 to 2017, and appreciably so in many cases. For borrowers at moderate risk of debt distress, the current approach of 79 per cent concessionality (higher for small state economies) still provides a very high level of concessionality. The main conclusion is that IFAD's lending currently does not add debt burden to most concerned countries given that its average grant element is much higher than for other sources of financing.[19]

Graph 1
IFAD11 countries in or at high risk of debt distress: Average grant element



Graph 2
IFAD11 countries at moderate risk of debt distress: Average grant element



[19] The minimum concessionality required by the International Monetary Fund for those countries with fiscal and economic constraints in place ranges from 35 per cent to 60 per cent for higher-risk countries.