Document:	EB 2019/127/R.37/Corr.1	
Agenda:	9(b)	
Date:	3 September 2019	E
Distribution:	Public	
Original:	English	

Investing in rural people

Debt Sustainability Framework Reform

Corrigendum

Note to Executive Board representatives

Focal points:

Technical questions:

Alvaro Lario
Associate Vice-President
Chief Financial Officer and Chief Controller
Financial Operations Department
Tel.: +39 06 5459 2403
e-mail: a.lario@ifad.org

Ruth Farrant
Director
Financial Management Services Division
Tel.: +39 06 5459 2281
e-mail: r.farrant@ifad.org

Advit Nath
Director and Controller
Accounting and Controller's Division
Tel.: +39 06 5459 2829
e-mail: a.nath@ifad.org

Jose Morte Molina
Chief Risk Officer
Tel.: +39 06 5459 2561
e-mail: j.mortemolina@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Executive Board — 127th Session
Rome, 10-12 September 2019

For: Review

Debt Sustainability Framework Reform

Corrigendum

The attention of the Executive Board is drawn to the following corrigendum to the Debt Sustainability Framework Reform (EB 2019/127/R.37).

For ease of reference, the changes to the document are shown in boldface, while strikethrough indicates deleted text.

Page iii, paragraph 4(a) should read:

(a) ~~Members continue to reimburse IFAD additionally, over and above core contributions for any given replenishment cycle, for all approved DSF projects up to the end of Eleventh Replenishment of IFAD's Resources (IFAD11).~~ **Recognition of a required minimum replenishment target, covering at least the agreed level of grant financing (past and future DSF, regular grant programme, general operating costs and eventually contributions to medium- and long-term capital sustainability) which would avoid erosion of IFAD's capital over time.**

Page iii, paragraph 4(b) should be deleted. All subsequent subparagraphs in paragraph 4 are renumbered accordingly.

Page iii, paragraph 5 should read:

At the forefront of the proposed reform presented in this paper, Members are still expected to continue ~~reimbursing~~ **supporting** IFAD ~~for past approvals in line with their~~ **for commitments made in 2007 up to 2011 and in every** ~~subsequent~~ **new** replenishment ~~resolution, over and above core contributions,~~ for all ~~approved~~ **future** DSF projects ~~up to IFAD11~~. This would allow IFAD to preserve ~~the resources for its operational programmes and pursue~~ its **overall** mandate. ~~to help poor rural people overcome poverty and achieve food security by establishing remunerative, sustainable and resilient livelihoods~~. Without ~~these additional pledges from members to honour past commitments,~~ **strong replenishment support up to a minimum target level**, the volume of future general and DSF grants would need to decrease compared to prior levels in order to ensure IFAD's financial sustainability.

Page 2, subparagraph (ii) should read:

(ii) PoLG reduction due to lack of reimbursement of past DSF approvals

- Unlike in other international financial institutions (IFIs), IFAD's DSF mechanism, which covers only principal due and not interest, is not legally binding upon its Member States. Any reflows not compensated must be provided through IFAD's own equity, creating a gradual erosion of IFAD's capital base and in turn constraining IFAD's financial capacity to approve new loans and grants. Experience from IFAD10 shows that Members have generally not made **full** DSF contributions in addition to their core contributions.

Page 3, paragraph 7, subparagraph (i) should read:

(i) ~~Members are expected to continue reimbursing IFAD additionally, over and above core contributions,~~ Adopting the principle of Minimum Replenishment Target would ensure IFAD is fully reimbursed for all approved DSF projects up to the end of IFAD11. This will allow for quantifying IFAD's medium term capacity to sustain grants through a transparent Capacity for Grant Financing (CGF) measure, reflecting a set level of maximum grant compensation and/or funding to ensure no erosion of IFAD's capital over time.

Page 3, paragraph 7(ii) should be deleted. All subsequent subparagraphs in paragraph 7 are renumbered accordingly.

Page 3, paragraph 8 should read:

Additionality of DSF. One of the key elements of the DSF reform is that ~~the continued support from~~ Member States continue to honour DSF obligations arising from DSF approvals from 2007 until the end of IFAD11~~.~~[4] and continue supporting the DSF in the future. To avoid erosion of capital and liquidity, such compensation should continue to be additional to the level of past core contributions. If the required additionality of funds is not assured, other grant resources will need to be utilized, such as: those allocated to the grants programme; resources from unused grant allocations; cancelled grants; or other sources.[5]

Page 3, paragraph 9 should read:

The Minimum Replenishment Target and capacity for grant financing measure, described in the next section, will ~~be~~ include~~d~~ a proposed level of total grants (DSF and other grants) according to the level of Members' contributions and other flows.

Page 4, paragraph 18 should read:

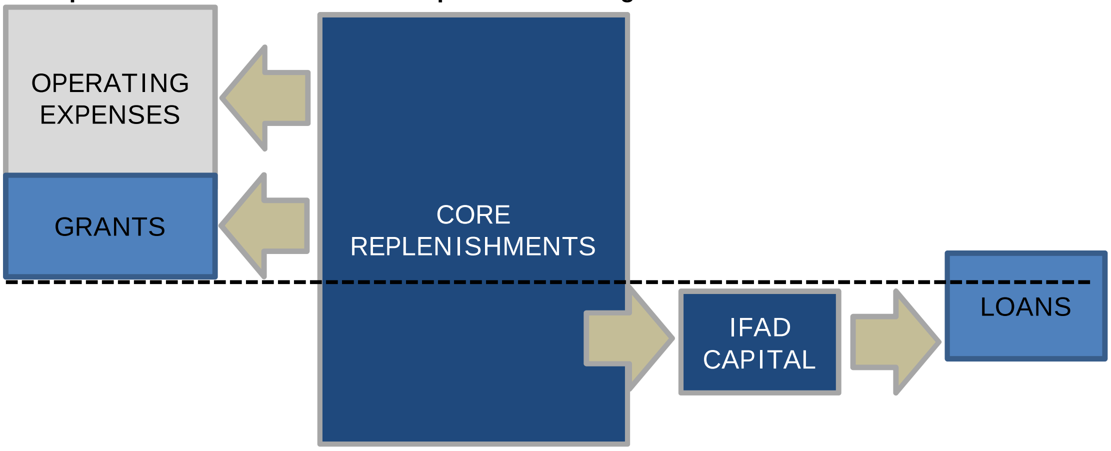
IFAD's financial sustainability must be preserved by implementing a prudent and financially disciplined approach to allocating the Fund's core resources. It is therefore essential to identify the components of the Minimum Replenishment Target that will include ~~determine~~ the level of funding IFAD can afford to provide as grants~~,~~ and the required resources that must be allocated to loans to preserve capital, both linked to how much funding is received by IFAD from Member States.

Page 4, paragraph 19 should read:

To provide an estimate of this ~~capacity~~ allocation, IFAD's CGF measure would establish the maximum level of total grants in the Fund's PoLG according to the size of Members' contributions. IFAD's replenishment contributions need to cover at a minimum: its operational costs; regular grants; new DSF grants; and any portion of past approved DSF not reimbursed additionally by members.

Page 5, paragraph 20 and figure 3 (IFAD sources of funding and PoLG) have been deleted and replaced with:

Figure 3
Simplified allocation of Minimum Replenishment Target



Page 5, paragraph 21 should read:

> As indicated in figure 3 above, a sustainable portfolio of DSF and regular grants would result whenever the CGF is greater than the sum of DSF and other grants, so that a portion of the new replenishment would also fund new loans. An unsustainable DSF and regular grant size would result whenever the CGF could not fund the total of grants allocated and it would need to be funded by reflows. In the medium and long term, this would result in a smaller core PoLG and an erosion of IFAD's capital base since these funds would not flow back to IFAD~~.~~ (in contrast to loans, which remain in IFAD's balance sheet).