

Document: EB 2021/132/R.2
Agenda: 3
Date: 22 March 2021
Distribution: Public
Original: English

E



Scaling up IFAD's Impact through Leveraging: Strategic Considerations on Potential Market Borrowing

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

Meike Van Ginneken
Associate Vice-President
Strategy and Knowledge Department
Tel.: +39 06 5459 2189
e-mail: m.vanginneken@ifad.org

Benjamin Powell
Director and Treasurer
Treasury Services Division
Tel.: +39 06 5459 2251
e-mail: b.powell@ifad.org

Thouraya Triki
Director
Sustainable Production, Markets and Institutions Division
Tel.: +39 06 5459 2178
e-mail: t.triki@ifad.org

Dispatch of documentation:

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

Executive Board — 132nd Session
Rome, 19-21 April 2021

For: Review

Contents

I.	Background	1
II.	Setting the stage	1
	A. From billions to trillions: leveraging resources for SDG 1 and SDG 2	1
	B. Scaling up IFAD resources to leave no one behind	2
III.	Expanding IFAD's impact and resources	4
	A. Leveraging IFAD's resources	4
	B. Market borrowing versus private placements	4
	C. Is IFAD ready for market borrowing?	7
IV.	Conclusions and way forward	8

Annex: Selected initiatives by development actors to increase financing for development

I. Background

1. The Consultation on the Twelfth Replenishment of IFAD's Resources (IFAD12) concluded that several Member States appreciate the importance of continuing the discussion regarding market borrowing and agreed to hold a discussion on the matter at the Executive Board session in April 2021.¹
2. This note responds to this request and is meant to serve as background material for a strategic discussion on the appropriateness of, and readiness for, market borrowing in IFAD. The remainder of this note is structured as follows: section II sets the stage by discussing the concept of, and need for, leveraging as well as IFAD's unique positioning; section III provides a summary of the ambition and experience of IFAD in leveraging resources for greater impact, and discusses strategic considerations around IFAD borrowing from the market, including requirements, benefits and risks. Section IV concludes by summarizing the main considerations and proposes guiding questions for Members to discuss.

II. Setting the stage

A. From billions to trillions: leveraging resources for Sustainable Development Goal (SDG) 1 and SDG 2

3. The challenges in meeting SDG 1 and SDG 2 are by now undisputable and have been heightened by the COVID-19 pandemic. Several calls to action have been made in the last decade. One of the most critical was the Addis Ababa Action Agenda in 2015, which recognized that public investments alone will not be sufficient and emphasized the need to leverage more private investments.
4. This call for private investment in public activities recognized that while the private sector may have the financial resources, the know-how to invest them for maximum impact lies with the public sector and institutions like IFAD. It therefore put the accent on blended finance and risk-sharing mechanisms to crowd in private resources for the development agenda.² Creating a private sector trust fund or window, or a thematic trust fund to crowd in finance from private investors, or using de-risking mechanisms to catalyze private investment at project level is typically referred to as "leveraging the private sector".
5. Before continuing, it is useful to clarify the connotation and meaning of "leveraging". Colloquially, the term "leveraging" can mean generally "enhancing", "expanding", "building on something", "using something to maximum advantage", "using something already available in order to achieve something new or better". In a financial sense, "leveraging a balance sheet" simply means using borrowed resources as a funding source when investing to expand the asset/resources base. "Leverage" therefore refers to the amount of debt a firm or entity uses to finance its assets in relation to the capital or equity of the institution.³
6. In this stricter sense, at the 2015 November meeting in Antalya, Turkey, the G20 endorsed the Multilateral Development Banks (MDBs) Action Plan to optimize balance sheets. The plan recognized the unique added value of MDBs as well as the G20 commitment to using these institutions to their full potential. The Action Plan asked the MDBs to work with their respective shareholders to consider measures that could increase their lending capacity through balance sheet optimization; and to make more effective and efficient use of their

¹ Summary of the chairperson, para. 9.

² <https://sustainabledevelopment.un.org/frameworks/addisababaactionagenda>.

³ The most common synthetic indication of the amount of "leverage" employed is the debt to equity ratio, expressed as a percentage.

existing risk-bearing capital to maximize the impact of their activities. Under that plan, and in the following years, several MDB's implemented a series of actions all aimed at leveraging and enhancing their commitment capacity (see details in the annex).

7. As a specialized global development finance institution exclusively devoted to transforming agriculture, rural economies and food systems, IFAD is uniquely positioned to change the current status quo in this sector through greater assembling of resources. Notably, IFAD's precision in targeting is central to the "leave no one behind" agenda, and IFAD's inclusive and last-mile approach enables it to reach those most at risk of being overlooked. Other MDB investments in agriculture have been more limited and have not primarily focused on smallholders and other poor rural people. This is particularly important as smallholders and the rural poor receive a very limited share of financing, as evidenced by the findings of a recent Climate Policy Initiative joint report with IFAD on "examining the climate finance gap for small-scale agriculture".⁴ The report shows that less than 2 per cent of total climate finance goes to small-scale farmers despite their vulnerability to extreme weather and their crucial role in feeding billions.
8. Against this background, IFAD has stepped up its ambition to be an assembler of development finance by increasing its efforts to crowd in international and domestic cofinancing. For 2019, the international and domestic cofinancing ratios stood at 1.16 and 0.93 respectively, while the overall cofinancing ratio stood at about 2.1. These efforts have gone hand in hand with the transformation of IFAD's financial architecture, aimed at increasing resources through borrowing with the support of three key elements: first, the completion of IFAD's credit rating process; second, the approval of an Integrated Borrowing Framework; and last, the strengthening of IFAD's financial sustainability through several pillars (most notably the Capital Adequacy Policy, the Liquidity Policy, the Debt Sustainability Framework Reform and the new procedures for determining the resources available for commitment). IFAD has also created a robust and coherent risk apparatus and culture, as acknowledged by the excellent credit rating outcome. IFAD is ready and has implemented the reforms required to execute a larger volume of projects, which should result in a bigger impact on the 2030 agenda.

B. Scaling up IFAD resources to leave no one behind

9. Poverty and hunger have no boundaries but remain concentrated in rural areas, where 70 per cent of the world's poor dwell. Extreme poverty is also increasingly concentrated in a small number of low-income countries (LICs) and in pockets of poverty in middle-income countries (MICs), although the bulk of the rural poor still live in lower-middle-income countries (LMICs) in sub-Saharan Africa and South Asia. Similarly, at global level, nearly 30 per cent of the population is moderately poor, with moderate poverty rates in rural areas and across all LICs and MICs being higher.
10. In all countries, food insecurity and extreme poverty are most prevalent among highly vulnerable rural people, including women, youth, indigenous peoples and persons with disabilities. Rural people account for approximately three quarters of the world's poorest and most food-insecure.
11. The principle of universality of access to IFAD's resources goes hand in hand with the central promise of Agenda 2030 – leaving no one behind. IFAD's resources must serve those who need them most, regardless of geographic boundaries. As noted in the IFAD12 Report,⁵ for IFAD to fulfil its mandate and significantly increase its contribution to the SDGs, it will need to draw on

⁴ <https://www.ifad.org/en/web/knowledge/publication/asset/42157635>.

⁵ GC 44/L.6/Rev.1.

various financing sources. These include higher core replenishment contributions, leveraging (i.e. borrowing), additional financing from thematic initiatives such as climate finance and gaining the support of non-state actors, including the private sector and foundations. This will allow all of IFAD's borrowing Member States full access to IFAD's resources to combat poverty and hunger.

12. IFAD's universal client base allows it to use borrowing to fund upper-middle-income countries (UMICs) according to different levels of concessionality and also to finance LMICs and selected LICs. From both a financial and a developmental perspective, it is, however, of paramount importance that borrowing and replenishment grow together: financially, IFAD's leverage is ultimately constrained by the capacity of its capital to support the increase of development-related loan assets. This is a precondition for IFAD to maintain its financial security and deployable capital in line with the prudential buffer established in its Capital Adequacy Policy. From a development perspective, only if replenishment and borrowing grow hand in hand will IFAD be able to serve all its clients on financial conditions that are acceptable and affordable.
13. To ensure that IFAD's core mission remains intact, the focus should therefore be on the relative proportion of borrowing being channelled to UMICs as compared to LICs and LMICs, and in the resulting overall distribution of resources. Applying a cap to overall financing to UMICs, as was done for the IFAD12 cycle,⁶ is the ultimate measure against "mission drift".
14. For IFAD's level of ambition, which is to double its impact and possibly do even more to maximize its contribution to the 2030 Agenda, it is unlikely that the Fund can meet all its borrowing needs by relying only on sovereign lenders and private placement transactions. But it would be entirely feasible with market borrowing.⁷ Of course, the pricing of borrowed resources for Member States and their capacity to absorb them from a debt burden perspective play a role in the final picture, should IFAD proceed with market borrowing.
15. There are also alternative routes that IFAD could entertain to expand its impact. However, given IFAD's special nature, the main routes suggested by MDBs, as described in the annex, are either not fully applicable to the Fund or are not appropriate at this stage. First, IFAD already operates with one single balance sheet.⁸ Therefore, there is no leeway to merge any assets and capital from other sources as is the practice at other institutions. Secondly, IFAD's loan portfolio is globally diversified, in line with its universal mission, so there are no concentration challenges. IFAD would therefore not greatly benefit from exposure exchanges. In terms of engagement with new actors, IFAD has actively pursued this road in establishing the Private Sector Financing Programme to catalyze further financing from private sources. With regard to loan syndication, it would be premature for IFAD to engage in such an exercise before having fully developed its private sector portfolio, as did other MDBs. Finally, it is noted that the majority of MDBs rely on callable capital, which IFAD does not have today. "Callable" is that part of capital subscribed by shareholders but not paid in. It means that, in predefined instances (e.g. to satisfy debtholders' claims), the institution can ask shareholders to contribute.

⁶ UMICs will receive a maximum of 20 per cent of total resources.

⁷ For the purpose of this note, "market borrowing" is intended to mean "borrowing from financial markets through the issuance of public bonds", as opposed to issuing bilateral private bond placements, which are eligible borrowing instruments under the Integrated Borrowing Framework. In both cases, financing is obtained through the issuance of debt securities (i.e. bonds) that represent a financial liability on the balance sheet of the borrowing entity (i.e. IFAD), to be repaid to lenders according to agreed terms.

⁸ The merger of the ordinary capital of the Asian Development Bank with the Asian Development Fund de facto created an IFAD-like client base by unifying assistance to LICs, LMICs and UMICs from one institution. It is an example of higher leverage increasing resources for all member states, since it boosted both lending for UMICs and LMICs and the amount of grant approvals for LICs.

Callable capital is therefore a sign of shareholder support, often underpinning MDBs' AAA rating. Its accumulation provides credit protection to shareholders and allows for higher leverage, although some rating agencies tend to assess the strength of the capital position only against paid-in capital.

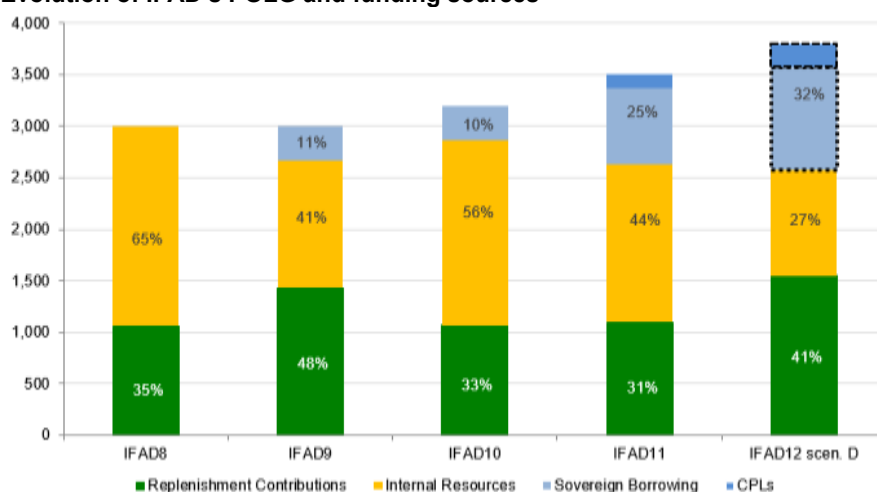
III. Expanding IFAD's impact and resources

A. Leveraging IFAD's resources

16. IFAD has followed the path of other development finance institutions in starting to prudently leverage the resources provided by its Member States (i.e. its equity) to maximize resources for investments used to fight rural poverty and hunger. Specifically, in 2015, the Executive Board approved the Sovereign Borrowing Framework (SBF), which governed IFAD's borrowing from sovereign states and state-supported institutions. In 2017, the Executive Board also approved the Concessional Partner Loan (CPL) Framework. Under these two frameworks, IFAD leveraged its balance sheet by borrowing a total of US\$1.2 billion as of 31 December 2020 to increase its delivery, while at the same time keeping its focus on the poorest.

Figure 1

Evolution of IFAD's POLG and funding sources



17. The Integrated Borrowing Framework (IBF),⁹ approved in December 2020, represents a crucial development, enabling the Fund to deliver on its ambitious IFAD12 programme of loans and grants (PoLG). The framework foresees a larger role for borrowing in the overall funding envelope while keeping core resources focused exclusively on LICs and LMICs. Issuing private placement bonds will allow IFAD to tap into a broader spectrum of financing sources. Nevertheless, the IBF does not change the maximum permissible level of leverage from the previous 35 per cent, which in any case is not expected to happen during IFAD12.

B. Market borrowing versus private placements

18. The fundamental difference between these instruments is that private placements are offered to a single or, occasionally, to a limited number of investors; typically, they are bought by investors who hold them until maturity. Conversely, public bond issuance is, as the term implies, made available to the public investor community. The major difference lies in the breadth and depth of the outreach, which is much larger in the case of market borrowing. The following section expands on the kinds of risk that the two instruments involve for the issuer.

⁹ EB 2020/131(R)/R.21/Rev.1.

Financial risks

19. It is worth differentiating between the financial risks faced by IFAD irrespective of the borrowing format and the risks that arise from borrowing as a form of financing. As with every financial institution, IFAD is, to a certain extent, always exposed to liquidity and funding risks:
- (i) **Liquidity risk.** Liquidity risk occurs in the case of inability to meet short-term payment obligations, due to insufficient cash or inability to convert an asset into cash without losses. This risk can be increased by borrowing, to the extent that repayment of debt is part of the commitments that an institution faces, but it is not inherent to borrowing.
 - (ii) **Funding risk.** Funding risk is the risk associated with higher funding costs, or lack of availability of funds. Borrowing is, therefore, not in itself a source of funding risk, but rather a mitigation against this hazard. The strength of mitigation depends on the type of borrowing: the better the timeliness and availability, the higher the mitigation.
20. Within the category of financial risks that do in fact come with borrowing, the most important are interest rate risk, currency risk and refinancing risk, which, to a certain extent, overlap with funding risk.¹⁰ All risks are, to some degree, interconnected and are commonly mitigated by a cautious increase in new commitments and prudent balance sheet management. This involves aligning the financial profile of assets and liabilities (i.e. debt) to create a “natural hedge” of exposure. Table 1 below compares such risks and other relevant aspects as between private placements and market borrowing.

¹⁰ Interest rate risk derives from mismatches that occur when the interest rate on liabilities is different from the interest rate on assets. Currency risk derives from mismatches in the currency composition of assets compared to liabilities. Refinancing risk refers to the possibility of not being able to replace a debt obligation with new debt on appropriate terms at a critical time for the borrower.

Table 1
Comparison of private placements and market borrowing

<i>Risk</i>	<i>Private placements (PPs)</i>	<i>Market borrowing (MB)</i>	<i>MB vs PPs</i>
Interest rate and currency risks	As PPs are negotiated individually, there might be leeway in tailoring the type of interest rate (fixed vs variable) and currency to IFAD's needs, but only to the extent that needs coincide with those of the limited investor pool willing to lend to IFAD.	MB can be offered on a wide range of terms and with different interest rates (fixed, floating, variable) and currencies, but it is largely the market appetite that dictates the financial terms.	Same risk
Refinancing risk	PPs are traded in lower volumes as compared with public markets, hence availability is lower and refinancing risk is higher.	MB provides a stable and reliable source of financing, significantly reducing the refinancing risk.	Much lower risk for MB
Other relevant financial aspects			
Pricing (funding cost), price volatility and transparency	Investors in PPs will most likely require a liquidity premium. As PPs are not generally traded, the price from one PPs to the next can differ significantly, thereby increasing price volatility. As PPs are negotiated privately, the price-setting is more uncertain.	MB is, other things being equal, expected to be a slightly cheaper source of funding due to the higher liquidity of the instrument. The high volume and tradability of supranational bond issuances increases the efficiency of this market, reducing price volatility. Price-setting is primarily driven by the financial profile of the issuer so dynamics are easier to predict.	Better conditions (MB)
Timeliness of funding	PPs require longer preparation as they are individually negotiated with a single investor.	Under an established Medium-Term Note Programme, ¹¹ MB offers a very flexible way of accessing funding in a matter of weeks.	More reliable timeliness (MB)

21. To conclude, from a pure financial perspective, while private placements are already an important addition to IFAD's borrowing means, market borrowing presents clear advantages over private placements, in particular when considering that the market gives access a broad range of public investors, as opposed to a bilateral negotiation with one or more investors. Market borrowing can further improve the reliability and timeliness of access to funds. This can be expected to benefit IFAD's funding costs, allowing either onlending at more competitive rates when IFAD implements its own pricing structure, or increasing its interest margin.
22. In addition to financial aspects, it is also worth noting similarities and differences between the two types of borrowing:
- (i) **Legal and regulatory risk.** Similar to private placements, it is standard in international financial markets for contractual documentation relating to market borrowing transactions to be subject to national laws. Similarly, disputes may be submitted to an appropriate dispute resolution mechanism. Subject to the provisions relating to the settlement of disputes, the privileges and immunities of IFAD are expected to be preserved. In addition, issuers with publicly issued bonds that are listed and admitted to trading on a regulated market are subject to greater obligations in terms of disclosure and transparency (as noted in the paragraph below), with the consequent regulatory risk of breaching such obligations.

¹¹ Medium-term note programmes enable companies to offer debt securities in standardized form on a regular and/or continuous basis.

- (ii) **Reputational risk.** By definition, public market issuance implies greater transparency with respect to price and secondary trading, and while this does ultimately result in lower cost of funds, it can also mean that an issuer has less control over the ultimate bondholders. However, given that bonds do not give investors a right of ownership or controlling influence, this is less of a concern when compared, for example, with raising equity.
- (iii) **Disclosure.** The broader pool of investors who become lenders to an institution through market borrowing requires the issuing institution to exhibit a high degree of disclosure and transparency. Public bond issuances are listed on a regulated exchange, where the issuer is bound to disclose relevant documentation and must be ready and equipped to answer queries from investors. The scale of this exercise is of course correlated with the frequency of issuance.
- (iv) **Actors.** The actors involved in the issuance of private placements and public bonds largely overlap. In both cases the borrowing institution will appoint a programme arranger to coordinate the medium-term note (MTN) programme, one or more dealers as underwriters of the bond, a legal counsel to work on the documentation, and a paying agent as intermediary with the clearing houses. Rating agencies will typically play a role in rating the public issuance, which is not necessarily required for a private placement. A trustee is also not necessary for a private placement, while one is typically appointed in a public bond issuance.
- (v) **Costs.** Since the process and the actors involved in a private placement and a public bond issuance are broadly similar, the costs are much the same too. Setting up an MTN programme costs around US\$150,000 to US\$200,000¹² in the case of a private placement and an additional US\$50,000 to US\$60,000 for public issuance.¹³ Dealer fees are typically in both cases calculated according to the size and maturity of the bond issuance.¹⁴

C. Is IFAD ready for market borrowing?

- 23. Over the past three years, IFAD has made substantial progress in laying the groundwork for sustainable leveraging. IFAD's success in transforming its financial architecture, together with its enhanced risk management, staff expertise and, ultimately, financial soundness, is reflected in the two strong credit ratings obtained in 2020. These are external confirmation and a signal of IFAD's creditworthiness, and a fundamental pillar in IFAD's funding prospects.
- 24. Furthermore, the preparation of the IBF approved by the Executive Board, in particular as concerns the ability to issue bonds in the form of private placements, was preceded by several steps by Management to ensure successful implementation of the framework itself. These included the establishment of a dedicated Funding Unit in the Treasury Services Division to exclusively focus on leveraging; the upgrading of IFAD's financial model and building of an ad-hoc asset liability management system; the broadening of IFAD's derivative counterparts and the strengthening of IFAD's screening against money-laundering and financing of terrorism. Other steps needed for the inaugural private placement are currently under way and many of these, as detailed above, also apply to market borrowing.¹⁵
- 25. Most importantly though, the issuance of private placements through the IBF will allow Management and Members to learn precious lessons about the timeliness and cost effectiveness of IFAD's borrowing, since IFAD will start to develop its own

¹² This includes estimated fees for issuer legal counsel, paying agent, rating agencies and comfort letters from auditors.

¹³ Includes trustee fees and a listing agent.

¹⁴ Typically, over a maturity spectrum of 2 to 30 years, the basis points range from 5 to 20 over the size of the issuance.

¹⁵ The appointment of a programme arranger, the legal counsel, and the paying agent. The development of IFAD's own sustainable development finance framework and results report for investors who focus on environmental and social governance and align with IFAD's mission.

funding curve, like other rated institutions. In addition, valuable insights will be gained with regard to the investor base and their demands. These developments will most certainly be relevant to any further aspects to be considered in the case of significantly larger issuance volumes through market borrowing.

26. Broadening IFAD's funding through market borrowing would obviously require upscaling interactions with investors, hence the strengthening of the area of investor relations. Depending on the size and frequency of issuance, IFAD might also need to re-evaluate the appropriateness of its systems.
27. In terms of the appropriateness of the pace at which IFAD is moving, it is interesting to note that the Fund's steps, milestones and processes are very similar to the ones followed by the International Development Association (IDA). IFAD started leveraging in 2014, with preparations for the first loan from KfW Development Bank starting in early 2013. In 2015, the SBF was fully implemented and the CPL Framework followed in 2017. IDA introduced the CPL framework during IDA17 (2014–2017), with preparations taking place in 2013. Immediately after the introduction of the CPLs, IDA started actively discussing with members the possibility of tapping into market borrowing¹⁶ which was agreed in 2017 during the IDA18 replenishment consultations.

IV. Conclusions and way forward

28. IFAD's ability to deliver impact at scale and make a decisive contribution to SDG 1 and SDG 2 is determined by its resource base. In order for the Fund to significantly expand its impact beyond current interventions while delivering on its universal mandate, IFAD would need to leverage the resources provided by its Members. The strategic discussion around the appropriateness of, and readiness for, market borrowing started in 2013 and remains central to the future of IFAD and the impact that its Members expect the institution to have.
29. There is no doubt that IFAD's focus should remain on the poorest and most vulnerable groups, regardless of where they are. An increase in borrowed resources would need to be accompanied by increased replenishment which would allow IFAD to continue to channel its resources to those who need them most with differentiated concessionality to all of IFAD's borrowing Member States – leaving no one behind.
30. From a technical perspective, considering in particular the financial and non-financial risks that IFAD would face, as well as the profile of its balance sheet, market borrowing does not significantly differ from other forms of borrowing. The largest undeniable advantage of market borrowing lies in its greater efficiency and reliability as a funding source, and in the larger volumes that can be achieved.
31. IFAD has undertaken and will continue to undertake key steps to become a stronger financial institution with the appropriate vehicles to operate in the highly complex financial settings and situations that its mission requires. This is a beneficial path, irrespective of the introduction of market borrowing, but is definitely a prerequisite for it. IDA has been a forerunner among replenishment funds in accessing market borrowing and IFAD can learn many lessons by continuing to engage with its network. The full implementation of the IBF will also provide precious insights into the challenges and opportunities that market borrowing opens up for IFAD.
32. The following questions are proposed for Members to facilitate this important strategic discussion:

¹⁶ Additions to IDA Resources: Eighteenth Replenishment - Towards 2030: Investing in Growth, Resilience and Opportunity. "Deputies supported the introduction of the new integrated IDA18 financing framework – a hybrid model where traditional sources of financing are blended with debt in the form of capital market borrowing and Concessional Partner Loans (CPLs)."

- (i) Are Members ready to support IFAD's ambition to significantly step up its impact and therefore the size of its lending programme in the lead-up to 2030, and taking into considerations the new challenges created by the pandemic?
- (ii) How can IFAD ensure that this growth in impact and in size goes hand in hand with an increased allocation to LICs and LMICs, ensuring that the lending rates are sustainable and competitive for these countries?
- (iii) Noting the alternatives outlined in the annex, what are the mechanisms that Members would like IFAD to explore to increase funding for its PoLG in order to meet impact ambitions?

Selected initiatives by development actors to increase financing for development

1. Following the approval of the MDB Action Plan in 2015, the main development actors implemented a series of reforms aimed at increasing their commitment capacity to support their core mission. Following are the most noteworthy initiatives:
2. **Merging balance sheets of the concessional window with the ordinary capital window.** This is the route followed successfully by the Asian Development Bank Group (AsDB) and by the Inter-American Development Bank Group (IDB). On 1 January 2017, AsDB combined certain assets of the Asian Development Fund (AsDF) with its ordinary capital resources and in so doing tripled its capital base to US\$48 billion. Under that initiative, the AsDB equity tripled to about US\$53 billion from about US\$18 billion as of January 2017. Poor countries currently eligible for AsDF loans continued to receive concessional loans from expanded AsDB ordinary capital resources on the same terms and conditions as before. The AsDF was retained as a grant-only donor fund to provide assistance to eligible countries.
3. Effective 1 January 2017, the IDB Group implemented the Governors' decision to transfer all assets and liabilities from its Fund for Special Operations to the Ordinary Capital. The transfer ensured continued access by the bank's LICs to concessional resources, which would have otherwise declined after 2017. It strengthened the ordinary capital base by US\$5 billion, enabling the IDB to meet the targets set by the Governors for capital buffers.
4. This allowed both institutions to effectively increase their equity without requesting additional capital from shareholders and, as a result, to safely increase their leverage (i.e. borrowing) and onlend more to their member countries.
5. **Borrowing from financial markets.** This strategy has been adopted by several peer international financial institutions. In relation to replenishment funds specifically, the International Development Association (IDA) shareholders, in 2016, agreed to transform IDA's financing model, leveraging its capital base to combine donor funding with funding raised in the capital markets. In April 2018, IDA placed its first bond issue for US\$1.5 billion. Until that moment, IDA had been virtually unleveraged, building up a large equity base of US\$158 billion. Since then, IDA has raised a total of US\$13 billion from capital markets to finance its poverty-reduction programmes.
6. **Requesting capital increases.** As with the replenishment exercises, multilateral development banks (MDBs) periodically ask their shareholders to inject new capital in the form of paid-in and callable capital.
7. In April 2018, shareholders of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) endorsed a package consisting of a US\$13 billion paid-in capital increase and a series of internal reforms and policy measures to scale up resources. The package agreed consisted of US\$7.5 billion paid-in capital for IBRD and US\$5.5 billion paid-in capital for IFC, through both general and selective capital increases, as well as a US\$52.6 billion callable capital increase for IBRD. Following the increase, the combined financing arms of the World Bank Group are expected to reach an average annual capacity of nearly US\$100 billion as between FY 2019 and FY 2030, benefiting all World Bank Group members across the income spectrum.
8. In October 2019, Governors of the African Development Bank (AfDB) representing shareholders from 80 countries, approved a landmark US\$115 billion increase in capital for the institution. The capital increase is the largest in the history of AfDB since its establishment in 1964. With the approved increase, the capital of the bank will more than double from US\$93 billion to US\$208 billion. The boost in capital

ensures that the bank will continue to maintain a sterling AAA rating, all stable, from the top rating agencies.

9. **Exposure exchanges.** An exposure exchange agreement entails an exchange between two or more entities to reduce the concentration of their respective loan asset portfolio by taking on exposures to countries where exposure is lower or non-existent. This allows the MDBs to remain compliant with their country and sector exposure prudential limits, thereby optimizing capital consumption and improving the creditworthiness of regional development banks, whose portfolio diversification options can otherwise be limited. The first exchange of sovereign exposures between MDBs was implemented in 2015 between the AfDB, IDB and IBRD, for a total of US\$6.5 billion; AsDB followed by approving a similar framework in 2020. The pilot transaction is scheduled for 2021 and will involve an exposure exchange between AsDB and IDB with four country exposures each.
10. **Engaging with new actors and risk-sharing instruments.** All MDBs constantly look for new funders and donors, including sovereign wealth and pension funds. To this end, public-private partnerships, cofinancing arrangements and risk-mitigation instruments have been increased. The Private Sector Facility established by the AfDB in 2015 is a concrete example of a risk transfer instrument designed to improve capital efficiency for the bank and thereby increase lending capacity.
11. **Securitization** is a procedure where an issuer designs a marketable financial instrument by merging or pooling various financial assets into one group. The issuer then sells this group of repackaged assets to investors. Securitization offers opportunities for investors and frees up capital for the issuer, both of which promote liquidity in the marketplace. In 2018, AfDB, the European Commission, Mariner Investment Group, Mariner LLC, Africa50, and Mizuho International plc implemented Room2Run, a US\$1 billion synthetic securitization corresponding to a portfolio of seasoned pan-African credit risk. Room2Run was the first-ever portfolio synthetic securitization between an MDB and private sector investors, pioneering the use of securitization and credit risk transfer techniques to a new and previously unexplored segment of the financial markets. Structured as a synthetic securitization by Mizuho International, Room2Run transferred a portfolio of approximately 50 loans from AfDB's non-sovereign lending book to private investors.
12. **Loan syndication.** A syndicated loan is one that is provided by a group of lenders and is structured, arranged, and administered by one or more banks. The IFC, for example, manages a syndications platform. The Managed Co-Lending Portfolio Program (MCP) platform leverages IFC's origination capacity and market knowledge to source opportunities for third-party investors to co-lend alongside IFC on commercial terms, thereby increasing the pool of financing available for development. As of 2018, the MCP had raised US\$7 billion from eight global investors.
13. **Guarantees.** A financial guarantee is a contract by a third party (guarantor) to back the debt of a second party (the creditor) for its payments to the ultimate debtholder (investor).
14. Multilateral institutions can play a relevant role in mitigating risks for investors and mobilizing financing for borrowers through guarantee instruments. Guarantees provided by highly rated MDBs are powerful catalysts for attracting private sector investments and commercial financing for strong development outcomes in developing countries. All major MDBs, including World Bank, AsDB, AfDB and IDB have developed a guarantee programme for their borrowers.