

Document: EB 2021/133/R.5
Agenda: 4(c)(i)
Date: 27 August 2021
Distribution: Public
Original: English

E



Investing in rural people

IFAD Graduation Policy

Note to Executive Board representatives

Focal points:

Technical questions:

Donal Brown

Associate Vice-President
Programme Management Department
Officer-in-Charge
Operational Policy and Results Division
Tel.: +39 06 5459 2448
e-mail: d.brown@ifad.org

Ruth Farrant

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

Ronald Hartman

Director
Global Engagement, Partnership and
Resource Mobilization
Tel.: +39 06 5459 2610
e-mail: r.hartman@ifad.org

Thomas Rath

Lead Adviser, Operational Policy
Tel.: +39 06 5459 2099
e-mail: t.rath@ifad.org

Malek Sahli

Chief Financial Management Officer
Tel.: +39 06 5459 2545
e-mail: m.sahli@ifad.org

Leon Williams

Senior Partnership Officer, Replenishment
Tel.: +39 06 5459 2809
e-mail: l.williams@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 — 133rd Session
Rome, 13-16 September 2021

For: Approval

Contents

Abbreviations and acronyms	i
I. Introduction	1
II. IFAD’s Graduation Policy	1
III. Implementation of the policy	6

Annex

IFAD Member States above the GDI threshold for 2021 (US\$7,155) from 2018-2020 consecutively and with an active IFAD portfolio	8
--	---

Abbreviations and acronyms

BRAM	Borrowed Resource Access Mechanism
COSOP	country strategic opportunities programme
CSPE	country strategy and programme evaluation
FAO	Food and Agriculture Organization of the United Nations
GDI	Graduation Discussion Income
IBRD	International Bank for Reconstruction and Development
IFAD12	Twelfth Replenishment of IFAD’s Resources
PoLG	programme of loans and grants
SDG	Sustainable Development Goal
UMIC	upper-middle-income country

Recommendation for approval

The Executive Board is invited to approve the IFAD Graduation Policy as contained in the present document.

I. Introduction

1. The Consultation on the Twelfth Replenishment of IFAD's Resources (IFAD12) requested IFAD Management to present a policy on graduation of borrowing countries to the Executive Board prior to the start of IFAD12 (commitment 1.3).¹ The proposed IFAD Graduation Policy builds on the set of principles agreed by the IFAD12 Consultation² and endorsed by the Governing Council, notably in annex V of the IFAD12 Report (IFAD's Revised Approach to Graduation: The Way Forward),³ which reflect the consensus reached among the Member States. The proposed policy follows the principle of universality in ensuring that IFAD's support is available to all its developing Member States, while prioritizing the poorest countries and people. Graduation is firmly based on a process of consensus-building and consultation, and guided by criteria established by this policy and agreed targets to ensure full transparency. Furthermore, the policy builds on the existing IFAD policies and instruments such as the IFAD Transition Framework,⁴ further referenced in the following sections.
2. Graduation from IFAD financing reflects the successful development trajectory of a Member State. These Member States will remain important partners: they continue to be key members of IFAD's governance and key to its financial sustainability, and they will be strategic partners in sharing their development experience and in ensuring that all possible efforts are made to contribute to the 2030 Agenda for Sustainable Development. Graduated Member States will continue to be eligible for the diverse support and services offered by the Fund, including knowledge management, technical expertise and partnerships on policy engagement at the global and regional levels.⁵

II. IFAD Graduation Policy

3. **Principles of graduation.** The Graduation Policy is guided by the principle of universality and IFAD's mandate to serve its developing Member States, while focusing on poor, food-insecure and vulnerable rural people.⁶ Through discussions at the IFAD12 Consultation sessions, four pillars were defined as the basis of the IFAD Graduation Policy. The policy provides more clarity on the distribution of IFAD's financial resources (pillar 1) and the financing conditions and pricing of borrowed IFAD resources (pillar 2). Pillars 3 and 4 articulate in detail the criteria and process that would lead to a country's graduation and also address situations of possible reversal of the socio-economic development of an IFAD Member State.
4. **Pillar 1: Distribution of IFAD's financial resources.** The distribution of IFAD's financial resources by income category forecast for the following replenishment cycle is presented to Member States during each replenishment consultation. Accordingly, in IFAD12, IFAD core resources⁷ will be fully allocated (100 per cent)

¹ Annex I, Report of the Consultation on the Twelfth Replenishment of IFAD Resources, document GC 44/L.6/Rev.1.

² Ibid., annex V.

³ Ibid., annex V.

⁴ Document EB 2018/125/R.7, approved at the 125th session of the Executive Board.

⁵ IFAD support to graduated countries excludes access to IFAD's own financing (core and borrowed resources). However, graduated countries remain key partners to IFAD and may access other forms of support as outlined in the section on post-graduation.

⁶ Annex V, document GC 44/L.6/Rev.1.

⁷ Defined as replenishment contributions, reflows of loans financed through replenishments and concessional partner loans.

to low-income countries and lower-middle-income countries (LMICs). Lending to upper-middle-income countries (UMICs) will be funded solely from borrowed resources, managed under the Borrowed Resource Access Mechanism (BRAM) and will be demand-driven and consistent with IFAD's approved financial risk policies. As per the current Policies and Criteria for IFAD Financing, special provisions are in place for small states and countries with fragile situations that allow them to access IFAD's concessional resources.⁸

5. In addition to the above principle, the IFAD12 Consultation reached the consensus that UMICs are expected to receive at least 11 per cent and up to 20 per cent of the agreed IFAD programme of loans and grants (PoLG).⁹ The precise lending volume and share of IFAD's PoLG will only be known at the end of the IFAD12 cycle, but progress will be reported regularly to the Executive Board. IFAD will make all efforts to access diversified borrowed resources, in line with its Integrated Borrowing Framework and planned PoLG, and meet these expectations regarding the availability of lending to UMICs.
6. In line with agreements reached during replenishment consultations, country allocations will be guided by IFAD policies, inter alia, by the Integrated Borrowing Framework, the Policies and Criteria for IFAD Financing, the performance-based allocation system and the BRAM.
7. On an annual basis, IFAD Management will report to the Executive Board on the status of the allocations, the distribution of resources among country groups and lending terms. Changes to the lending terms of Member States are disclosed each year.¹⁰ This reporting will also include information on changes in Member States' gross national income per capita (GNIpc) relative to Graduation Discussion Income (GDI).
8. **Pillar 2: Financing conditions and pricing of borrowed resources.** The financing conditions and pricing to be applied for borrowed resources will ensure that IFAD is able to recover the cost of borrowing and differentiate among countries in different income groups, while remaining competitive and attractive vis-à-vis countries' other sources of development financing. A number of IFAD policies address the principles for financing conditions and pricing of IFAD financing, foremost the Update on IFAD's Financing Conditions¹¹ and the BRAM.¹²
9. As regards graduation, IFAD Membership has agreed that a country's income category classification will be an important component in determining IFAD's financial conditions. For example, UMICs above the GDI threshold will be subject to harder financial terms than UMICs below the GDI threshold. UMICs will be subject to harder financial terms than lower-middle-income countries.¹³ These elements of differentiation, while taking into consideration the special provisions for small states and/or countries with fragile situations, will be reflected in the different elements of pricing and access to a different: (i) maturity period; (ii) grace period; and (iii) premium maturity differentiation.¹⁴
10. As per current procedures, the Executive Board will decide, following Management's proposal, on the implementation of the elements of pricing of IFAD's ordinary term loans. As a continuum to the "predictability" principle adopted in the IFAD Transition Framework, borrowers will access the same category of pricing over a

⁸ Policies and Criteria for IFAD Financing, amended on 18 February 2021.

⁹ Annex V, document GC 44/L.6/Rev.1.

¹⁰ Ibid.

¹¹ Document EB 2021/132/R.10/Rev.1, approved by the Executive Board in April 2021.

¹² Borrowed Resource Access Mechanism: Framework for Eligibility and Access to Resources, document EB 2021/132/R.9/Rev.1.

¹³ Annex V, document GC 44/L.6/Rev.1.

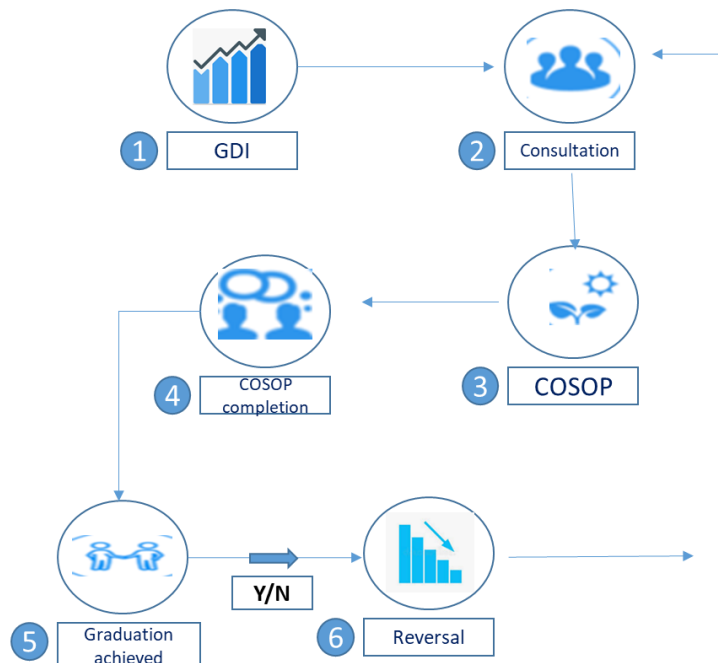
¹⁴ As per the Policies and Criteria for IFAD Financing, Small Island Developing States (SIDS) categorized as eligible by the International Development Association (IDA) access IFAD loans at highly concessional terms; and SIDS categorized as non-IDA eligible access IFAD loans at semi-concessional terms with a premium maturity equalling income category 2 (see also Update to IFAD's Financing Conditions, document EB 2021/132/R.10/Rev.1).

replenishment cycle unless they face an economic reversal that makes them eligible for more favourable financing conditions. In the latter case, the benefit of the new category of pricing will be applicable in the following fiscal year.

11. **Pillar 3: Trajectory for UMICs reaching GDI threshold.** The graduation process follows a stepwise approach as depicted in figure 1 and described below.

Figure 1

IFAD graduation process



- Step 1: Reaching GDI**

The graduation process initiates when a country remains above the GDI, as defined and annually updated by the International Bank for Reconstruction and Development (IBRD),¹⁵ for at least three consecutive years prior to an IFAD financing cycle. This will minimize the risk of a country going through a graduation and shortly afterwards through a reversal process. IFAD informs the concerned Member State and invites it to formal consultations. It is proposed that countries with fragile conditions, as defined by the related IFAD strategy,¹⁶ be exempted from the graduation process (currently there are no fragile states near or above GDI for which the exemption would be applicable).¹⁷
- Step 2: Consultations**

If the Member State wishes to continue borrowing, the Member State and IFAD engage in a structured dialogue and agree to develop a new country strategic opportunities programme (COSOP)¹⁸ or update the existing one. The Member State and IFAD jointly review and discuss the country's overall economic situation and capacity to sustain long-term development without further recourse to IFAD's financial assistance. Upon mutual agreement, IFAD Management, along with IFAD country teams and technical specialists, prepares the COSOP in close consultation with the Member State and as per

¹⁵ For 2021: US\$7,155. World Bank.

<https://ppfdocuments.azureedge.net/3816edcb-e974-48c8-aeb8-a718c5ebbed7.pdf>.

¹⁶ IFAD Strategy for Engagement in Countries with Fragile Situations, document EB 2016/119/R.4.

¹⁷ The country needs to be classified by the World Bank as an IBRD-only borrower.

¹⁸ Annex V, document GC 44/L.6/Rev.1.

COSOP procedures.¹⁹ The Executive Board will be duly informed as per current procedures.

- **Step 3: COSOP approval**

The new (or updated) COSOP will outline the country's trajectory towards achieving graduation from IFAD finance. Benchmarks in the COSOP will describe the country's ability to achieve graduation. The COSOP consultations will draw due attention to all relevant external factors and other economic or natural shocks and risks that may have impacted or could impact the country's ability to continue its development trajectory.²⁰ The COSOP will include the IFAD graduation criteria: (a) the access to capital at reasonable costs; (b) the advancement of institutions and policies fostering equitable, socio-economic rural development; and (c) equitable and gender-sensitive rural poverty reduction and food security in rural areas. IFAD Management approves the final COSOP and presents it for review to the Executive Board as per current procedure.

- **Step 4: COSOP completion**

It is expected that the COSOP duration will be within current timelines, i.e. six years. At the completion of the COSOP period, both IFAD and the Member State assess the country's readiness for graduation, alongside the IFAD graduation criteria using publicly available sources. The final assessment of the COSOP evaluates also IFAD's contributions to the country's success in rural poverty reduction and food and nutrition security.

12. **Graduation criteria.** The new or updated COSOP includes the following criteria to determine the graduation. Criteria (a) and (b) are aligned with IBRD policies, and this policy suggests an additional IFAD-specific criterion (c). During the COSOP development, both the country and IFAD agree on the specific targets and milestones for each criterion:

- (a) **The country's ability to access external capital for development** at reasonable terms.²¹ This criterion assesses the willingness of capital markets to lend at certain costs, using publicly available ratings from reputable institutions. The assessment will be executed at least once a year to monitor progress and trends.
- (b) **The country's progress in establishing and sustaining key institutions and policies for sustainable and equitable socio-economic rural development.** For this criterion, a number of variables will be considered, including: relevance and effectiveness of key national institutions for agricultural and rural development, and national policies, strategies and consequent investment programmes for agriculture, rural development and climate/environment adaptation. The IFAD Rural Sector Assessment²² and its indicators will be extended to countries entering the graduation process. This criterion will be monitored at least every two years to capture progress and trends.
- (c) In addition, **criteria will be applied that are specific to IFAD's mandate** and target the most relevant Sustainable Development Goals (SDGs), mainly

¹⁹ Guidelines and Procedures for Results-based Country Strategic Opportunities Programme, document EB 2018/125/ R.24.

²⁰ Such as the COVID-19 pandemic.

²¹ "Reasonable terms" is measured by institutional investor's creditworthiness ratings, based on a survey of economists' and risk analysts' perceptions of a country's creditworthiness. Adapted from: Heckelman et al. Crossing the Threshold. An Analysis of IBRD Graduation Policy. Page 7, Policy Research Working Paper 5531. January 2011.

²² IFAD 2019 Rural Development Report, annex A.

https://www.ifad.org/documents/38714170/41133079/Annex_A.pdf/9e33d7c7-306d-2445-aa44-86555eaaf5f5. The report examines, among others, the status of policies and legal framework for rural organizations and rural people and scores its progress, using publicly available sources.

1, 2 and 5, and others such as SDG 10, as applicable to the specific country context and as agreed between IFAD and the borrowing country. The variables should be in line with the World Bank approaches and the most up-to-date statistics on poverty, food security, inequality and gender equality.²³

13. **The role of the COSOP.** The COSOP guides the final phase in the country's borrowing from IFAD, recognizing that all countries remain important partners. The COSOP outlines the pathways that address the remaining development gaps in line with the criteria assessing the graduation progress, as described above. The COSOP will describe how the country will meet the graduation criteria. Building a COSOP towards graduation also means that the focus of projects shifts towards (i) generating effective and sustainable rural institutions; (ii) promoting global public goods;²⁴ and (iii) fostering innovations.²⁵ IFAD's investments need to demonstrate that they would be scaled up within the country and shared with other developing countries, for example through a South-South and Triangular Cooperation approach.
14. **COSOP timeline for the graduation process.** On approval of the Graduation Policy, a new or updated COSOP will be approved by Management and submitted to the Executive Board for review within three years of the initiation of a graduation process as outlined in step 1 above.²⁶ When available, the COSOP will be informed by the most recent country strategy and programme evaluation (CSPE) undertaken by the Independent Office of Evaluation of IFAD (IOE) and the recommendations will be included as an appendix to the COSOP. Where no CSPE has been performed within the last five years, IFAD Management will propose that one be prioritized during the annual work programme discussions with IOE. COSOPs for countries that wish to continue borrowing and have exceeded the GDI threshold for at least three years prior to the beginning of IFAD12 will be presented during IFAD12.²⁷ The Executive Board will review and comment on the COSOP, while the CSPE process is under way as applicable through the Evaluation Committee sessions.
15. It is expected that the duration of COSOPs for countries above GDI will conform to the standard timelines.²⁸ At COSOP completion, the country's progress towards the criteria to graduate from IFAD's financial support will be assessed. If the assessment of the COSOP indicates that a country has made insufficient progress on the agreed criteria, the COSOP can be extended or renewed. If the assessment indicates sufficient progress has been made to graduate from IFAD's financial support, Management will engage with the country to explore how the partnership could continue in line with pillars 1 and 4.²⁹

²³ Indicators could include: (i) inequalities in terms of income and access to assets (SDG 1, 10). This could be assessed in line with the United Nations and World Bank approaches and statistics such as the World Bank's measure of income inequalities (<https://datatopics.worldbank.org/world-development-indicators/themes/poverty-and-inequality.html>). The indicator tracks the income or consumption of the lowest 40 per cent of the population and compares it with the average; (ii) access to nutritious food (SDG 2). Statistics from the Food and Agriculture Organization of the United Nations (FAO) on nutrition could be used to assess the access of rural populations to nutritious food including statistics from the most recent edition of "The State of Food Security and Nutrition in the World". Due attention will be paid to SDGs 2.3 and 2.4, which are core elements of IFAD's work. IFAD will access the FAO database to disaggregate rural populations; (iii) gender equality (SDG 5). Relevant public statistics could be used to describe the progress and remaining gaps. Available statistics will be analysed with regard to the rural aspects of gender-related inequalities including statistics of United Nations, the Human Development Report of the United Nations Development Programme, and World Bank.

²⁴ Examples could include promotion of biodiversity, emission reductions or protection of cultural heritage. It is critical that a poverty reduction focus is clearly spelled out, as per IFAD's targeting policy.

²⁵ Examples could include access to financial services for the IFAD target group, creating models that are transferable to other countries, and projects that leverage domestic finance significantly and provide important scaling-up opportunities.

²⁶ The Executive Board may request that the updated COSOP be discussed, as per usual IFAD procedure.

²⁷ Annex V, document GC 44/L.6/Rev.1.

²⁸ As per Revised Guidelines and Procedures for Results-based Country Strategic Opportunities Programmes, document EB 2018/125/R.24.

²⁹ Annex V, document GC 44/L.6/Rev.1.

16. **Pillar 4: Addressing reversals due to economic shocks.** A graduated Member State may face unexpected economic shocks whereby the income level drops below the GDI threshold. In such situations, the country may request to initiate a consultative process with IFAD to regain access to its financial resources in the following replenishment cycle.³⁰
17. IFAD Management will assess the request, taking into consideration the criteria set out in the Graduation Policy and other information such as the country's last COSOP, and determine whether to initiate the consultative process. The Executive Board will be consulted on these requests prior to the initiation of any consultative process. Upon the agreement of the Executive Board, IFAD and the Member State would engage, as outlined under pillar 3, in a consultative process. Both parties would agree on the preparation of a new COSOP for approval by Management and for Executive Board review, prior to initiating any new lending to the country.
18. As this would entail country's re-engagement with IFAD, the terms and conditions for accessing IFAD financial support as per the Policies and Criteria for IFAD Financing and consequent policies and guidelines would apply.³¹

Post-graduation

19. In line with the United Nations Sustainable Development Group,³² the universality principle governs IFAD's relationships with its Member States. Graduated Member States remain important partners for IFAD's governance and financial sustainability, and in ensuring that all efforts possible are made to contribute to the 2030 Agenda.
20. IFAD support to graduated Member States excludes access to IFAD's own financing (core and borrowed resources). At the same time, graduated countries (or institutions located in graduated countries) may have access to other forms of support such as non-IFAD financing (e.g. supplementary funds³³ subject to the conditions of the relevant supplementary fund agreements, or trust fund instruments) and other forms of cooperation subject to cost recovery such as reimbursable technical assistance. They may also participate in regional programmes (without accessing IFAD's own financing directly) and partner with IFAD, inter alia, through South-South and Triangular Cooperation, policy engagement and knowledge-sharing on SDG 2, climate and other IFAD-relevant themes, while remaining important partners in IFAD's governance structures, regular replenishments and other forms of funding.

III. Implementation of the policy

21. Following the approval of the Graduation Policy, IFAD will update the guidelines and procedures for COSOPs to provide guidance on the above-mentioned criteria and related assessments, the formulation of the agreed milestones of the graduation process and approaches for monitoring progress. The targets demonstrating the country's achievements regarding graduation will be country- and context-specific and hence, will be mutually agreed as part of the COSOP consultations and at the onset of the graduation process.
22. Management will engage with Member States currently above the GDI threshold and initiate discussions on the new or updated COSOPs, should they wish to continue borrowing from IFAD.
23. Management will report to the Executive Board on the implementation of the Graduation Policy through its regular mechanisms such as PoLG, COSOPs and

³⁰ See also pillar 4, annex V, document GC 44/L.6/Rev.1.

³¹ Including: (i) IFAD Transition Framework; (ii) Update on IFAD's Financing Conditions.

³² Adapted from: Universality and the 2030 Agenda for Sustainable Development from a UNGD lens. Discussion note. <https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/qcpr/undg-discussion-note-on-universality-and-2030-agenda.pdf>.

³³ Supplementary funds are outside IFAD's core financial resources. Member States' access to supplementary funds will be on a full cost-recovery basis for IFAD.

lending volume by country list. The annual reporting on the performance-based allocation system will contain a dedicated annex on the implementation of the Graduation Policy. Management will also present a progress report to the IFAD13 Consultation.

IFAD Member States above the GDI threshold for 2021 (US\$7,155) from 2018-2020 consecutively and with an active IFAD portfolio

(United States dollars)

<i>Country</i>	<i>Region</i>	<i>GNIpc 2020</i>	<i>GNIpc 2019</i>	<i>GNIpc 2018</i>	<i>COSOP / country strategy note (CSN) with IFAD</i>	<i>Borrowing status with IFAD</i>
Argentina	LAC	8 930	11 200	12 370	2016-2021 (COSOP)	Borrowing
Brazil	LAC	7 850	9 130	9 170	2016-2021 (COSOP)	Borrowing
China	APR	10 610	10 410	9 600	2016-2024 (COSOP)	Borrowing
Cuba	LAC	9 169	9 169	8 968	2019-2024 (COSOP)	Borrowing
Dominican Republic	LAC	7 260	8 090	7 780	2017-2022 (COSOP)	Borrowing
Mexico	LAC	8 480	9 430	9 180	2020-2025 (COSOP)	Borrowing
Montenegro	NEN	7 900	9 010	8 450	2020-2021 (CSN)	Borrowing
Turkey	NEN	9 050	9 610	10 510	2016-2021 (COSOP)	Borrowing

Source: World Bank <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=CU>; except United Nations data for Cuba: <https://unstats.un.org/unsd/snaama/CountryProfile?ccode=192>.

Note: LAC = Latin America and the Caribbean; APR = Asia and the Pacific; NEN = Near East, North Africa and Europe.