

**IOE**



Investing in rural people

Independent Office of Evaluation



**Presentation to  
the 123<sup>rd</sup>  
Session of the  
Evaluation  
Committee**

# **Review of the Implementation of Management Response to 2018 Corporate Level Evaluation of IFAD's Financial Architecture**

Rome 6 October 2023



- The 2018 CLE focused on (a) assessing the policies and systems to mobilize, manage, allocate and disburse financial resources and (b) required steps for IFAD to cover 'operational losses'
- As part of this CLE, IOE provided 7 recommendations

# Status of Implementation of Management Response

1

**Address the problem of systematic financial losses which leads to substantial capital erosion**

**PRISMA 2022: Implemented**  
**IOE: Partially Implemented**

2

**More flexible conditions for existing financial products and prepare for the introduction of new products**

**PRISMA 2022: Implemented**  
**IOE: Implemented**

3

**Revise the financial allocation system**

**PRISMA 2022: Implemented**  
**IOE: Implemented**

4

**Conduct preparatory work for potential access to capital markets**

**PRISMA 2022: Implemented**  
**IOE: Implemented**

5

**Use hedging instruments to better manage foreign exchange risks**

**PRISMA 2022: Ongoing**  
**IOE: Partially Implemented**

6

**Strengthen IFAD's financial governance**

**PRISMA 2022: Not applicable to Management**  
**IOE: Partially Implemented**

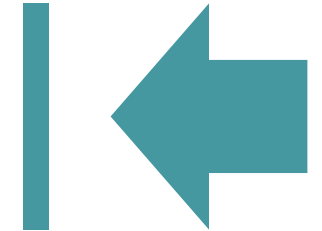
7

**Strengthen the efficiency of the replenishment process**

**PRISMA 2022: Implemented**  
**IOE: Implemented**

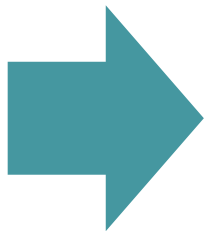
Rec #	Status	Rationale
1	Partially Implemented	Two sub recommendations (increase the fees and loan margins; introducing cost-efficiency measures) were partially implemented
5	Partially Implemented	Managing currency risks was not fully implemented
6	Partially Implemented	One sub-recommendation (ensuring capacity for financial oversight of governing bodies) was not implemented,

Contribute to covering the ‘operational losses’ and thereby, Increasing the share of replenishment resources going to benefit the smallholders, remains a challenge



Significant steps were taken by IFAD to address the above issue highlighted in the evaluation. These include:

- Updating key financial policies such as the DSF reform
- Introducing BRAM to expand ordinary loans
- Establishing the enterprise Risk Management Office
- Obtaining two AA+ ratings, and
- Executing first capital market borrowings



## **1. Contribute to covering the 'operational losses' and thereby, increase the share of regular resources going to benefit the smallholders to increase the outreach and impact.**

- Determine an optimal debt equity ratio while maintaining its AA+ rating.
- Consider steps to optimally increase the BRAM loans without mission drift. E.g. Revisit the UMIC borrowing cap of 20% of PoLG; and BRAM portfolio's target average credit rating of BB.
- Price BRAM loans to cover risks and contribute to the operating costs of IFAD.

## 2. Align practices to access international capital markets with those of other IFIs.

- Borrow in the international capital markets via “normal” bond issues to establish IFAD as a “premium” issuer.
- Establish benchmarks to raise private placements at favorable terms.
- Delegate the bond-issuance authority to the Treasurer.
- Set up a Commercial Paper programme to provide more flexible cash management.

3. Provide borrowers with a wider choice of loan options (e.g. fixed rate loans and local currency loans, flexible grace periods)
4. Manage available funds to service concessional loan disbursement requests to prevent disbursement caps in the future.
5. Gradually increase private sector activities without competing with existing impact investors.
6. Weigh in hedging the SDR denominated loans as well as the US\$300 million non-SDR-currency future replenishment payments.
7. Expand the corporate finance dashboard to ensure comprehensive reporting to the Audit Committee.