IFAD Replenishment Discussion, October 7 2014

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Thank you for this opportunity to discuss how the development landscape is changing and the opportunities this presents for IFAD.

I have three simple points to make. First, IFAD should benefit from the political momentum likely to be created by the post-2015 agenda next year. Second, there is now a far broader array of options for funding the activities of development agencies than before. Third, IFAD is well-positioned to take advantage of these new opportunities.

Let's start with the post-2015 agenda. I think we are all aware that the centerpiece will be a determined global effort to end extreme poverty and eradicate hunger. This requires raising small-holder productivity, especially in Africa. For IFAD, there are a few key words that dramatize the opportunities created by the post-2015 agenda. The agenda should be bold and ambitious and the suggestive magnitude of investments that would be needed, as outlined in the report by the InterGovernmental Committee of Experts on Sustainable Development Finance is very large indeed, over $1 trillion per year above current spending levels. This corresponds to IFADs emphasis on scaling up impact. The agenda should be transformative, and go beyond business-as-usual. This relates to IFAD's emphasis on rural transformation and the integration of smallholders into value chains. The post-2015 agenda seeks to "leave no one behind", so there will be more emphasis on marginalized communities who live in rural areas both as clients but also as partners and important participants in their own development. And, of course, the post-2015 agenda will try and integrate development, resilience and climate change issues. All this is very familiar to you, so I will not spend more time on it. When you match the fact that IFAD has forty years of experience operating in these core areas with the fact that it is seen as a highly effective development agency, as evidenced by its favorable ratings in comparative assessments, such as that done by myself and Nancy Birdsall, as well as in multilateral assessment reviews, you can easily see that IFAD should be very well positioned in the post-2015 period.

The big challenge, of course, is how to get more funding to expand the scale of operations and hence impact. Don't misunderstand me, I am not arguing that funding is the sole or best metric of scaling up impact. But I do believe that there are serious funding shortfalls in many client countries, especially some middle income countries, and especially in agriculture and rural development, and that IFAD could achieve greater impact with more resources.

When I look at recent experiences with standard replenishments, a few trends do seem to emerge. In IDA17, the Global Environment Facility, the Global Fund, and the African Development Fund, the budget grant contributions from members showed declines or only slight increases. They certainly did not increase substantially. As the post-2015 agenda expands further, one can only imagine that the pressures on grants will increase still further, with the big elephant in the room being the amounts that will be committed to the Green Climate Fund. In theory, these funds should be additional, but in practice they will mostly come from the same source as other development funds, namely taxpayers in DAC countries. So prospects for any individual agency to generate significant increases in its grant resources over the medium term are not likely to be good.

But at the same time, several countries, including from emerging economies, have been prepared to provide significant contributions in the form of non-budget credits. Although these credits may not always be concessional in the sense that they have a 25% grant element when discounted at a 5% rate, from the perspective of recipient countries they represent a very substantial improvement in terms over the alternative of borrowing in private markets.

This is the key point. Most developing countries today are already borrowing from private capital markets. In fact, there are 61 developing countries that have bond ratings, including 12 low income countries. These clients are revealing their strong desire for more funds to invest in development now. Far better for them to get this from IFAD in the form of additional loans with appropriate degrees of concessionality than to have to turn on their own to private capital markets which are more costly and more volatile.

IFAD's current model is to provide credit to some of its clients based on grants from its donors. This model allows for its operations to be sustainable over time, but it ignores two possibilities for expansion today that could be attractive.

The first possibility is to expand borrowing from member countries or their financing agencies on soft terms. This is what IFAD has done with a loan from KfW, and there are very good prospects that others would be prepared to provide similar types of support, if their activities in other agencies is any guide. Soft loans certainly seem to be the preferred instrument of development cooperation for many emerging economies. The reason why these loans are now so attractive to partner countries is that the terms are favorable, given benign conditions in global capital markets that most analysts expect will last for the medium term. At the same time, developing countries have improved their creditworthiness and fiscal space. Around 50 countries are expected to have GDP per capita income growth of over 3.5% per year in this decade, while only 9 developing countries might have declines in GDP per capita growth. Contrast this with the 1980s when only 17 developing countries grew faster than 3.5% and 52 actually posted declines. Along with growth, which increases the tax base, developing countries across the board have been increasing their tax effort, and raising more domestic resources as a share of GDP. So many can afford to take on higher levels of debt to expand development investments now.

The second possibility is for IFAD to itself borrow money from private capital markets using its assets of some $9 billion in receivable credits as equity. IFAD could probably obtain a AAA credit rating for moderate borrowing levels, and it could then pass on these funds to its clients at far lower cost than if they were to go to market themselves. This would leverage the grants that IFAD receives from its donors several-fold. It is a model that the Asian Development Fund is moving towards and, with some legal differences, perhaps IDA as well. Regardless of the specifics, the idea in these cases is the same. Rather than using grants to fund activities directly in all countries, keep grant resources for those who truly cannot repay, like Least Developed Countries, and leverage the rest to be able to provide client countries with a far more substantial envelope of resources for programs.

Let me close by reiterating my key points. This is the right time for IFAD to think about expanding its activities in a bold and ambitious way. To do this will require raising more money, and the best opportunities for that seem to be by borrowing from official sources or even from market sources. Given benign conditions in global capital markets, the terms of these loans would be quite reasonable and affordable to many of IFAD's client countries who are keen to avail of more borrowing at today's low interest rates. In most instances, a greater volume of IFAD loans would not necessarily create more debt for client countries but could serve to substitute lower cost capital for borrowing they are already conducting in private capital markets, invested in a more productive way, when combined with the technical knowhow and knowledge service of IFAD. This would be a service to client countries and would serve to use donors grant funds in a more leveraged and effective way.

Thank you for your attention.