Financing options for IFAD beyond 2015

7 October 2014
• The need to expand investment in global agriculture
• IFAD at a crossroads in the context of a growing demand
• Responding to a growing demand
• Financing options
• Way forward
The need to expand investment in global agriculture for poverty reduction

By 2050:

The world population will require a 50-70% increase in agricultural production.

Developing countries will have to increase agricultural production by 100%.

An additional investment in agriculture of US$83 billion annually is needed.

Agriculture is more effective to reduce poverty than non-agricultural investments.
IFAD at a crossroads in the context of a growing demand

Replenishment of US$616 m

IFAD7 PoLG
US$1.86 bn

Replenishment of US$1 bn and Advanced Commitment Authority

IFAD8 PoLG
US$3 bn

Replenishment made up of core contributions of US$1.07 bn and complementary contributions of US$350 m

IFAD9 PoLG
US$3 bn

Programme of reforms enabled IFAD to deliver more

Changing context
Responding to a growing demand

Replenishment contributions and introduction of new financing options

- IFAD7 PoLG US$1.86 bn
- IFAD8 PoLG US$3 bn
- IFAD9 PoLG US$3 bn
- IFAD10 estimated demand US$5.5 bn
- Beyond
Assessing financing options

Guiding principles:
• Support IFAD’s strategic vision
• Be responsive to demand
• Additionality
• Predictability
• Cost-effectiveness
• Long-term financial sustainability
• Enhanced partnerships
Financing options

A. To expand the programme of loans and grants (PoLG)
   1. Sustained mobilization of core and complementary contributions through replenishment cycles
   2. Borrowing to leverage IFAD’s resources

B. To expand the programme of work (PoW)
   3. Increasing supplementary funding
   4. Expanding cofinancing
Option 1: Core and complementary contributions

Advantages

• Core contributions are essential to secure IFAD’s long-term financial basis and to respond to borrowers’ needs and priorities

• Complementary contributions will be treated in exactly the same way as core resources in their financial use and allocation to contribute to IFAD’s long-term financial sustainability

• Complementary contributions could be earmarked

Challenges and implications

• Unpredictability
Option 2: Borrowing

Advantages
- Straightforward
- Allows IFAD to access significantly larger amounts of resources
- All borrowers of IFAD benefit

Challenges and implications
- Requires a careful assessment of the terms of each loan and introduction of sound risk management safeguards, including a debt ceiling and liquidity coverage ratios
Borrowing Framework part I: Sovereign borrowing

Advantage
• Terms could be lowered because of development objectives

Challenges and implications
• Unpredictability
• Varying terms
Preconditions for borrowing from the market

1. Core resources and sovereign borrowing are not enough to respond to the actual demand
2. Lending terms offered by sovereign lenders are too restrictive
3. The market offers more cost-effective resources at that moment
4. The membership endorses that IFAD enters the market
Borrowing Framework part II: Borrowing from the market through bond issuance

**Advantage**
- Stable source of financing with predictable funding costs

**Challenges and implications**
- Requires introduction of capital adequacy safeguards
- Requires strengthening of banking operations
Option 3: Supplementary funding

Advantages
• Provides financing for specific projects
• Can be restricted in financial use and be allocated in the form of a grant outside the regular allocation system
• Outreach to new development partners

Challenges and implications
• Relatively limited
• Unpredictability
• Does not contribute to IFAD’s long-term financial sustainability
Option 4: Cofinancing

Advantages
• Harmonization
• Scaling up impact

Challenges and implications
• Performance and practices vary considerably
• Not always efficient
• Unpredictability
Way forward

To strengthen and expand the PoLG:

• Successful IFAD10 Replenishment
• Pursue sovereign borrowing, guided by the Board
• Once the preconditions are fulfilled, a road map to pursue market borrowing could be developed

To expand the PoW:

• Supplementary funding from traditional and new donors
• A more targeted approach to cofinancing