



# Financing options for IFAD beyond 2015

7 October 2014

# Outline

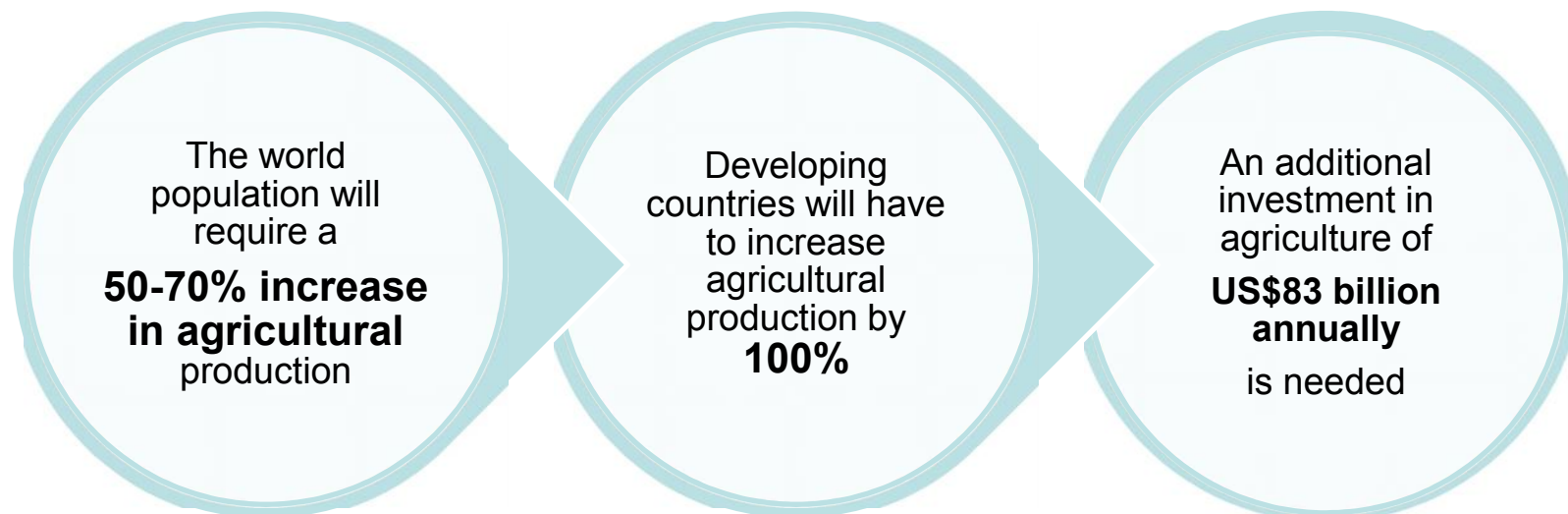


- The need to expand investment in global agriculture
- IFAD at a crossroads in the context of a growing demand
- Responding to a growing demand
- Financing options
- Way forward

# The need to expand investment in global agriculture for poverty reduction

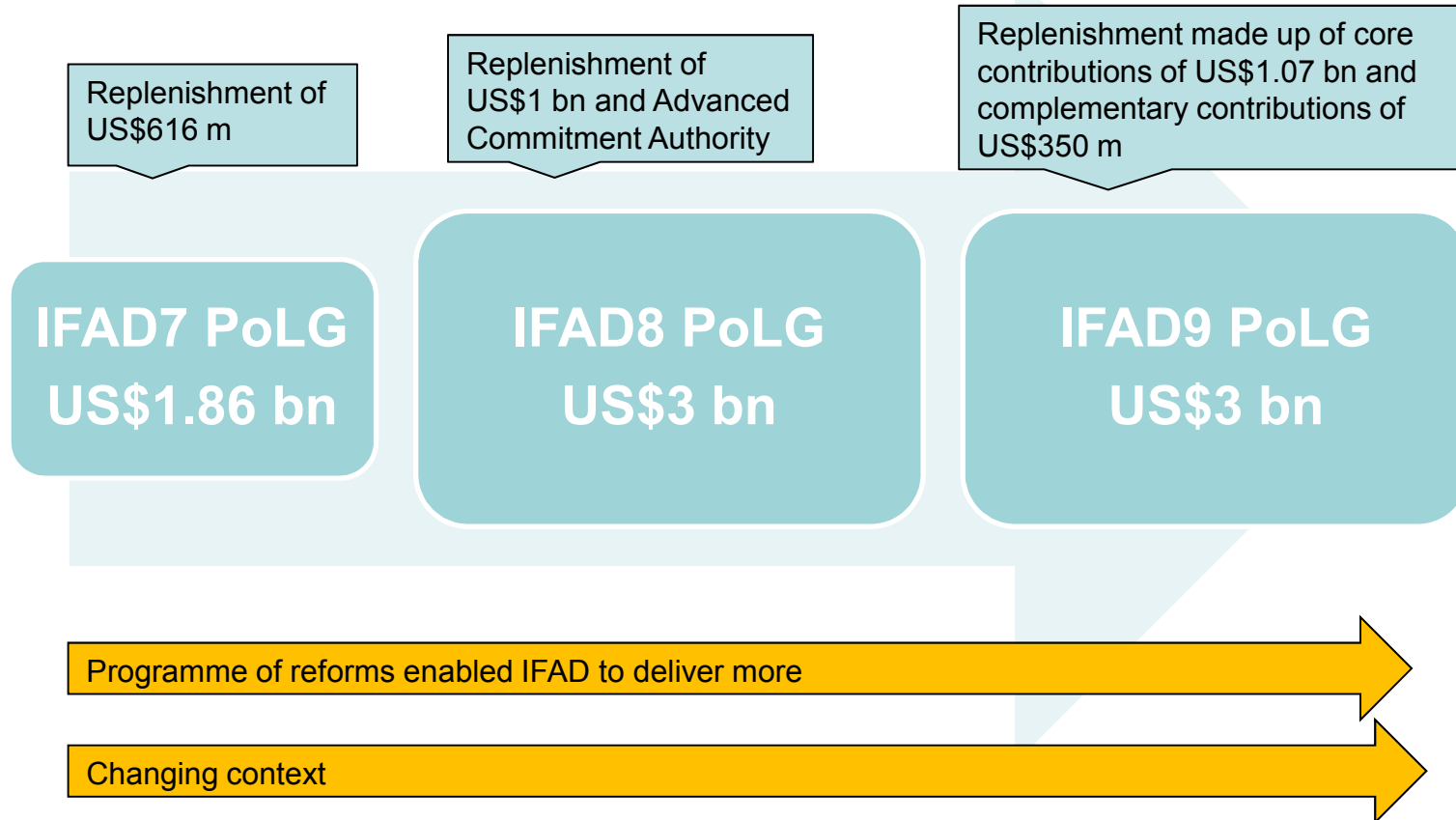


By 2050:

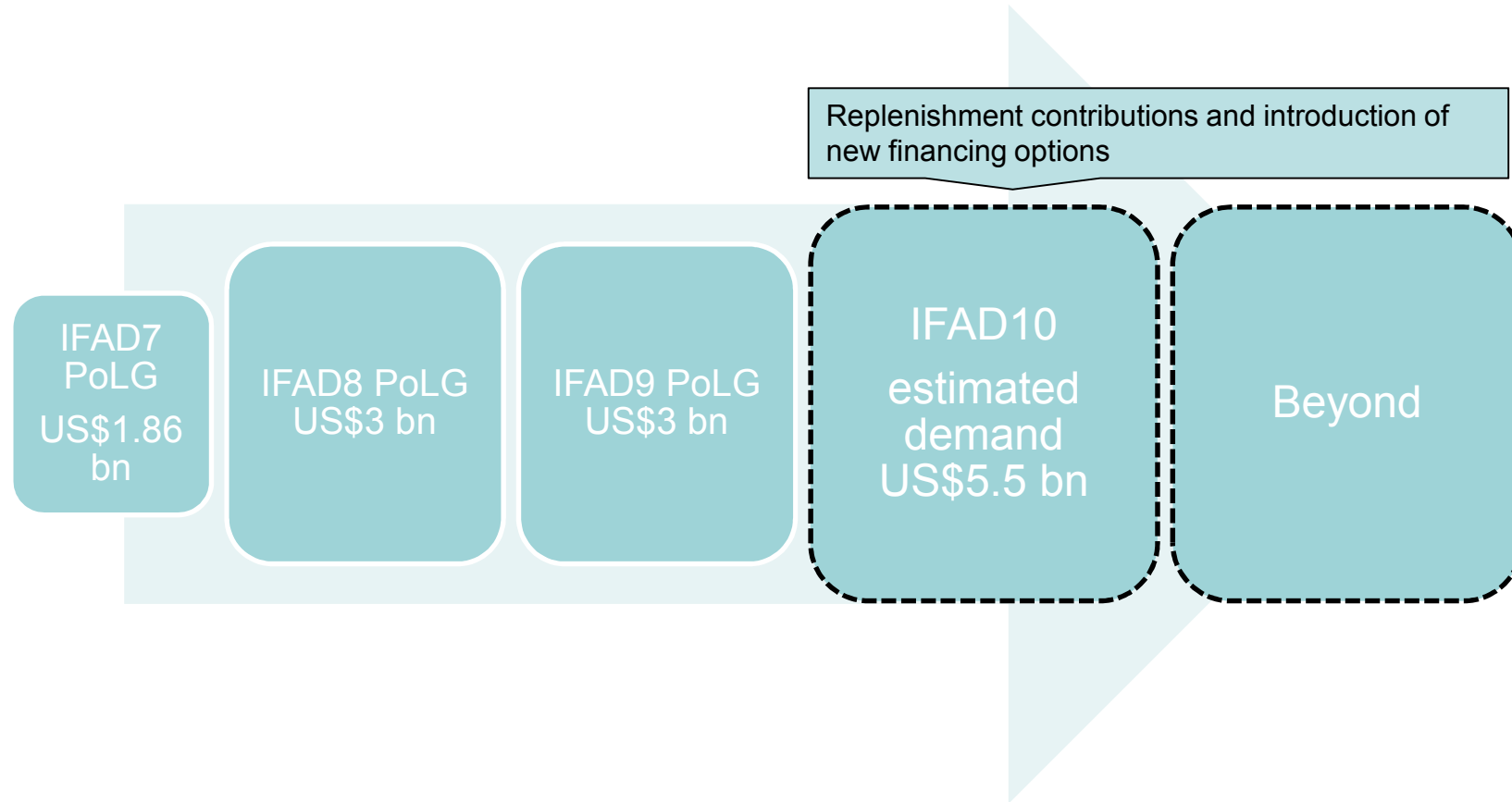


**Agriculture is more effective to reduce poverty than non-agricultural investments**

# IFAD at a crossroads in the context of a growing demand



# Responding to a growing demand



# 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

# Option 2: Borrowing (cont'd)



## Borrowing Framework part I: Sovereign borrowing

### Advantage

- Terms could be lowered because of development objectives

### Challenges and implications

- Unpredictability
- Varying terms

# Option 2: Borrowing (cont'd)



## 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

# Option 2: Borrowing (cont'd)



## **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

## **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