Consultation on IFAD11 Replenishment
Financial Strategy for IFAD11 and Beyond

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Director and Treasurer, TRE

Consultation on the Eleventh Replenishment of IFAD’s resources: second session
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Summary

This presentation will focus on the key messages contained in the Financial Strategy proposed by management for IFAD11 and beyond:

1) Introducing borrowing as a stable source of additional financing for IFAD
2) Implications of borrowing on resource allocation by IFAD to the different types of borrowers so that everyone gains
3) Need to strengthen IFAD’s capacity ahead of implementing the strategy
4) Scenario simulations
5) Timeline for borrowing from capital markets
IFAD’s Business Model

<table>
<thead>
<tr>
<th>Key dimensions</th>
<th>IFAD11 focus</th>
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</thead>
<tbody>
<tr>
<td>Resource mobilization</td>
<td>Assembling development finance to maximize impact</td>
</tr>
<tr>
<td>Resource allocation</td>
<td>Focusing on the poorest people in the poorest countries</td>
</tr>
<tr>
<td>Resource utilization</td>
<td>Doing development differently</td>
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<tr>
<td>Transforming Resources</td>
<td>Embracing a culture of results and innovation</td>
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IFAD
Investing in rural people
Leveraging available resources

Current funding scheme

Are internal resources sufficient to fund Target POLG?

YES

No

GAP TO TARGET POLG

Future funding scheme

Borrowing as a programme

• Member contributions and loan reflows will remain the primary funding source for IFAD
• From IFAD11 onward, any required borrowing will be sized as a percentage of contributions
• The borrowing/contributions ratio could be capped at 50%

CONTRIB = Member States’ Contributions
IN INC = Income from Investment Portfolio
BORR = Borrowing
REFLOWS = Loan repayments from IFAD Borrowers
### IFAD current and prospective financial indicators vs. selected IFIs

<table>
<thead>
<tr>
<th></th>
<th>IFAD(1) (Current)</th>
<th>IFAD20 (Future)</th>
<th>AfDB</th>
<th>IBRD</th>
<th>ADB</th>
<th>IADB</th>
<th>EBRD</th>
<th>IsDB</th>
<th>Aaa Median</th>
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</thead>
<tbody>
<tr>
<td><strong>Rating</strong></td>
<td>n.a.</td>
<td>n.a.</td>
<td>Aaa</td>
<td>Aaa</td>
<td>Aaa</td>
<td>Aaa</td>
<td>Aaa</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>8.4</td>
<td>20</td>
<td>48.7</td>
<td>371.3</td>
<td>117.7</td>
<td>111.1</td>
<td>59.8</td>
<td>22.7</td>
<td>73.6</td>
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<tr>
<td><strong>Equity/Loans</strong></td>
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<td>50%</td>
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<tr>
<td><strong>Debt/Equity</strong></td>
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<td>100%</td>
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</tbody>
</table>

(1) Source: IFAD 2016 financial statements; IBRD data as of EoY 2016; all other data as of EoY 2015.
(2) Total shareholder’s equity excluding callable capital over gross loan outstanding.

- The above suggested ratios for IFAD are a demonstration of the prudential nature of the proposed leveraging strategy of the Fund compared to other IFIs.
- These ratios are not applicable to other UN agencies that do not operate like an IFI.
Implications of borrowing on possible resource allocation in IFAD11

- The leveraging strategy proposed by management will determine a gradual increase of resources for all recipient countries, specifically increasing concentration of core resources towards highly concessional use (lower income countries)
Resource allocation: medium- to long-term outlook

- The same dynamic of resource allocation seen for IFAD11 in the previous slide would be repeated in future replenishment periods.

Resource allocation over IFAD 11-20 horizon

- Bar chart showing resource allocation over the IFAD 11-20 horizon, comparing ordinary loans and highly concessional loans with and without borrowing.

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1) Assess the potential need for a dedicated *debt capital market* team within Treasury. For the foreseeable future, however, additional front-office staff requirements are not likely to exceed two units.

2) Review of IT systems capabilities in the Financial Operations Department:
   a) Further developing the Treasury internal database, risk management and trade execution and compliance systems
   b) Further re-engineering of IFAD’s financial model
   c) Fully exploiting the capabilities of the market-standard Bloomberg system

3) Potential peer review by one of the other IFIs to assess independently the Fund’s degree of readiness for borrowing on the capital markets

4) Improve the ability of the Fund to enter into derivative transactions
Three IFAD11 scenarios

• The table below summarizes the three scenarios proposed by management for the IFAD11 replenishment
• Each scenario shows a different PoLG target and the associated combination of contributions and borrowing required to sustain it

<table>
<thead>
<tr>
<th>(All figures in US$ million)</th>
<th>Low Scenario</th>
<th>Central Scenario</th>
<th>High Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>1 300</td>
<td>1 390</td>
<td>1 620</td>
</tr>
<tr>
<td>Borrowing</td>
<td>160</td>
<td>695</td>
<td>810</td>
</tr>
<tr>
<td><strong>Borrowing / Contributions</strong></td>
<td>Up to 50%</td>
<td>Up to 50%</td>
<td>Up to 50%</td>
</tr>
<tr>
<td>PoLG</td>
<td><strong>3 300</strong></td>
<td><strong>4 000</strong></td>
<td><strong>4 500</strong></td>
</tr>
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</table>
Borrowing from capital markets: from feasibility to execution

- **Feasibility Study on Market Borrowing**
  - Independent external review and informal engagement with rating agency(ies)

- **Internal Rating Assessment**
  - Selection of financial arranger and external legal advisor

- **Selection of Advisors**
  - Formal rating process
  - Definition of IFAD loan pricing approach

- **Preparation of EMTN legal documentation**
  - Roadshow
  - Possible investor market roadshow

- **Engage one/two rating agencies**

- **Prospectus**
  - Dealer Agreement
  - Agency Agreement
  - Other documents

- **IFAD Inaugural bond issue**
  - Deal pricing, closing and signing of legal documentation

- **Bond Listing**

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