Financial Framework and Scenarios for IFAD11

Addendum
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Addendum

Further to the comments received from Member States, the attention of the Consultation members is drawn to the following addenda and modifications to the Financial Framework and Scenarios for IFAD11 (IFAD11/3/R.3). For ease of reference, the changes to the text of the report are shown in boldface, while strike-through indicates deleted text.

Page 1, paragraph 2

The first sentence should read:

"Members also noted that market borrowing would likely not be implemented during IFAD11. However, Members **encouraged** Management was encouraged to continue with preparations **for market borrowing** and to submit an updated road map for implementation of the financial strategy."

Page 5, paragraph 18, letter (m)

The first sentence should read:

"At its 134th session in late 2021, the Executive Board may authorize IFAD’s first bond issue."

Page 5, paragraph 18, new letter (n)

"At its 134th session in late 2021, the Executive Board may authorize IFAD’s first bond issue."

Page 6, Figure 1

All text boxes showing the Governing Bodies meetings have been amended to include the relevant meeting dates.

Page 6, Figure 1

"Review Approval of CPL Framework at special EB - Oct 2017"

Page 6, Figure 1

New text box related to GC 44 in 2021

"GC decision on IFAD’s market borrowing activities - Feb 2021"
Page 6, Figure 1

New text box related to **EB 124**

"**IOE corporate-level evaluation of IFAD’s financial architecture - Sept 2018**"

Page 6, Figure 1

Deletion of text box related to EB 132

"**Euro Medium Term Notes Program legal documentation – Apr**"

Page 6, Figure 1

New text box

"**Independent peer review – Second half 2018 / first half 2019**"

Page 6, Figure 1

Additional text in box related to EB 132

"**Presentation to EB of simulated Balance Sheet – April 2021**"

Page 6, Figure 1

Additional text in box related to EB 121

"**Review of PBAS – Sept 2017**"

Page 6, Figure 1

Additional text in box

"**Approval of CPL Framework at special EB preceded by special AC – Oct 2017**"

Page 6, Figure 1

Additional text in box related to EB 122

"**Review of Feasibility Study on Market Borrowing – Dec 2017**"

Page 6, Figure 1

Additional text in box related to EB 122

"**Approval of approach paper towards Transition Framework for IFAD 12 – Dec 2017**"
Page 6, Figure 1

Additional text in box related to GC 41

"Approval of changes to the Agreement Establishing IFAD – Feb 2018"

Page 6, Figure 1

Additional text in box related to EB 126

"Approval of engagement with external rating agency – April 2019"

Page 6, Figure 1

Additional text in box related to EB 130

"Formal stocktaking on outcome of rating process – Sept 2020"

Page 6, Figure 1

Additional text in box related to GC 44

"GC decision on IFAD's market borrowing activities – Feb 2021"

Page 6, Figure 1

Additional text in box related to EB 134

"EB decision on inaugural bond issue – Dec 2021"

Page 6, Figure 1

Additional text in box related to EB 135

"Inaugural bond issue – April 2022"

Following above amendments and new inclusions, in the next page we show the updated chart in Figure 1 on page 6 of the Financial Framework and Scenarios for IFAD11.
Review of PBAS – Sept 2017

Approval of CPL Framework at special EB preceded by special AC – Oct 2017

Review of Feasibility Study on Market Borrowing – Dec 2017

Approval of approach paper towards Transition Framework for IFAD 12 – Dec 2017

Approval of changes to the Agreement Establishing IFAD – Feb 2018

Independent peer review – Second half 2018 / first half 2019

IOE corporate-level evaluation of IFAD’s financial architecture – Sept 2018

Approval of engagement with external rating agency – April 2019

Formal stocktaking on outcome of rating process – Sept 2020

GC decision on IFAD’s market borrowing activities – Feb 2021

Presentation to EB of simulated Balance Sheet – April 2021

EB decision on inaugural bond issue – Dec 2021

Inaugural bond issue – April 2022
In particular, concerning credit risk, the Fund will:

- Apply the current policy for loans in arrears to loans funded by CPLs. Under this policy, if there is evidence of a strong deterioration of credit worthiness of IFAD's borrowers, an allowance is set up so that an identified loan or receivable asset is impaired, and a specific provision for impairment is recognized;

- Continue to rely on its Preferred Creditor Treatment. Because of the nature of its borrowers, the Fund expects that each of its sovereign loans will ultimately be repaid;

- Apply to CPL-funded loans the policy on suspension of new disbursements for loans that fall into arrears by 75 days or more;

- Continue to operate under the leverage ratios prescribed by the Sovereign Borrowing Framework\(^1\), noting however that these will need to be revised following the approval by the membership of the Financial Strategy for IFAD11;

- From 2018, apply the impairment requirements prescribed by accounting standard IFRS (International Financial Reporting Standard) \(^9\). Under IFRS9, the impairment will be based on expected credit losses (ECL) of financial instruments throughout their life cycle. This requires an entity to assess the probability of default at origination/purchase and until the end of the maturity period of the underlying financial assets and to set aside an impairment allowance reflecting the underlying credit risk (ECL). The ECL valuation will be updated and monitored continuously to reflect changes in the evolution of the credit risk of the underlying financial instruments;

- In consideration of the adoption of the CPL framework, and continued use of the Sovereign Borrowing Framework, arrange for an external independent review to assess IFAD's existing practices in terms of risk management. This review will take place in 2018 and will be separate from the comprehensive peer review as provided for in the roadmap for borrowing in the capital markets.