



# Financial Framework and Scenarios for IFAD11

**Consultation on the Eleventh Replenishment of IFAD' s resources: third session**  
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# IFAD replenishment consultations: progress achieved so far

IFAD11  
FIDA11

- At the June 2017 session of the Consultation on IFAD11, Members expressed:
  - support for **Management's proposed growth of PoLG and leverage strategy**, implemented in a prudent and gradual manner;
  - strong **consensus** on the **proposed Concessional Partner Loan framework**, and
  - support for continued commitment to compensate IFAD for its debt forgiveness commitments under the **Debt Sustainability Framework**
- Management was encouraged to continue with **preparations** for the implementation of a platform for **borrowing from the capital markets**. In preparation to that:
  - A **roadmap** should be prepared to encompass all necessary steps needed to prepare the institution
  - IFAD should consider requesting that a **review** on its degree of preparedness be carried out by a **peer IFI**
- Management also clarified no **further impact on resource allocation** would be generated in IFAD11 due to the proposed financial strategy

- As usual during the Replenishment Consultation, Management proposes three alternative scenarios for consideration:

**High**

- Contributions **US\$1.3 billion**
- PoLG **US\$ 3.8 billion**
- Borrowing **US\$ 470 million**

**Central**

- Contributions **US\$1.2 billion**
- PoLG **US\$ 3.5 billion**
- Borrowing **US\$ 430 million**

**Low**

- Contributions **US\$1.1 billion**
- PoLG **US\$ 3.3 billion**
- Borrowing **US\$ 400 million**

# Financial Scenarios for IFAD 11

IFAD11  
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<i>(All figures in US\$ millions)</i>	Low		Central		High	
<b>Contributions</b>	<b>1 100</b>		<b>1 200</b>		<b>1 300</b>	
<b>Borrowing</b>	<b>396</b>	<b>36%</b>	<b>430</b>	<b>36%</b>	<b>468</b>	<b>36%</b>
Sovereign	198	19.8%	215	16.5%	234	19.5%
CPLs 25yrs	99	9.9%	107.5	8.3%	117	9.8%
CPLs 40yrs	99	9.9%	107.5	8.3%	117	9.8%
<b>PoLG</b>	<b>3 260</b>	<b>100%</b>	<b>3 500</b>	<b>100%</b>	<b>3 768</b>	<b>100%</b>
Grant	212	7%	227	7%	245	7%
DSF	546	17%	586	17%	631	17%
Highly concessional	1 250	38%	1 342	38%	1 444	38%
<i>Total Concessional</i>	<i>2 007</i>	<i>62%</i>	<i>2 155</i>	<i>62%</i>	<i>2 320</i>	<i>62%</i>
Ordinary	747	23%	802	23%	863	23%
Blend	506	16%	543	16%	585	16%

*Consolidated Table from Section II A, B, and C of Paper **Financial Framework and Scenarios for IFAD11***

**A growth of approximately 10% over the IFAD10 PoLG for the central scenario**

- At the June session of the Consultation, Members requested that Management provide details on the long-term impact of proposed leverage on IFAD's balance sheet

## Selected leverage ratios for IFAD

	IFAD (current) <sup>a</sup>	IFAD20 (as of 06/17) <sup>b</sup>	Central scenario projections				
			IFAD12	IFAD14	IFAD16	IFAD18	IFAD20
Total assets (US\$ billion)	8.4	20	10.8	12.1	13.5	15.3	17.4
Equity/loans (percentage)	130	Min. ratio 50%	107	99	96	95	95
Debt/equity (percentage)	3.3	Max. ratio 100%	16.5	21.7	24.2	26.0	26.7

<sup>a</sup> Source: IFAD 2016 financial statements.

<sup>b</sup> As reported in the "Financial strategy for IFAD11 and beyond" paper presented at the second session of the Replenishment Consultation.

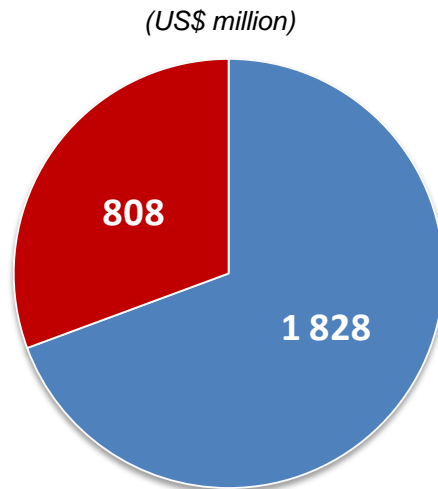
Table 4 from Section III of Paper *Financial Framework and Scenarios for IFAD11*

**IFAD's leverage ratios are projected to remain at significantly more contained levels than those of most other IFIs**

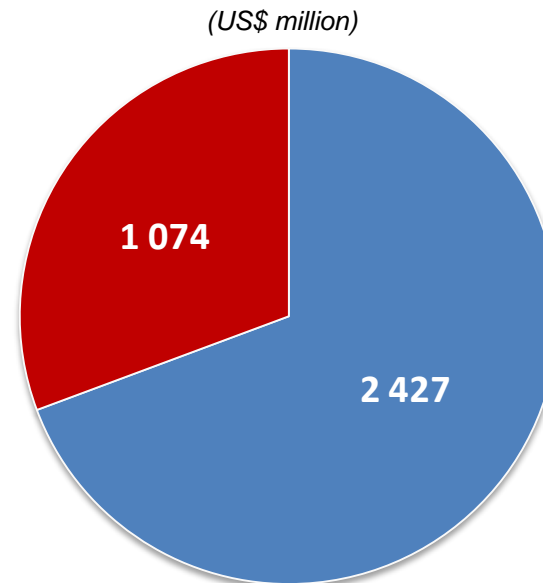
# Implications of borrowing on possible resource allocation in IFAD11

IFAD11  
FIDA11

Contributions US\$ 1.2 bln  
No Leverage  
Total PoLG US\$ 2.6 bln



Contributions US\$ 1.2 bln  
With Leverage  
Total PoLG US\$ 3.5 bln



■ Total Concessional ■ Ordinary

- The leveraging strategy proposed by management will enable determine a gradual increase of resources **for all recipient countries**, while specifically increasing concentration of core resources towards lower income countries.

<b>Maturity:</b>	25 or 40 years
<b>Grace period:</b>	5 years for a 25-year loan or 10 years for a 40-year loan
<b>Principal repayment:</b>	Amortizing in a straight line
<b>Coupon/Interest:</b>	All-in SDR equivalent up to 1%; excess factored in grant calculation
<b>Currencies:</b>	SDR or any currency in the SDR basket. Preference for currencies that can be hedged or that IFAD can on-lend
<b>Drawdown:</b>	3 equal instalments over maximum 3 years
<b>Minimum amount:</b>	US\$ 20 million equivalent

**Proposed discount Rates:**

<i>Currency</i>	<i>Project funding cost/discount rate</i>	
	<i>25-year CPL</i>	<i>40-year CPL</i>
<b>Special drawing right (SDR)</b>	<b>2.46</b>	<b>2.77</b>
United States dollar (US\$)	2.89	3.23
Japanese yen (JPY)	1.09	1.58
British pound sterling (GBP)	1.98	2.23
Euro (EUR)	1.87	2.24
Chinese renminbi (RMB)	3.82	3.77

# Comments by Members regarding the Financial Framework



	Comment	Clarification
Decision on market borrowing	<ul style="list-style-type: none"> <li>To be taken by the Governing Council rather than Executive Board only</li> <li>In the context of IFAD12 Consultation</li> </ul>	<ul style="list-style-type: none"> <li>Will be reflected in draft report</li> </ul>
CPL grant element	<ul style="list-style-type: none"> <li>Is it included in the contribution target?</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>
Assumptions behind Table 4 (on leverage ratios)	<ul style="list-style-type: none"> <li>Is borrowing projected to continue after IFAD11?</li> </ul>	<ul style="list-style-type: none"> <li>Yes. Future replenishments assume continuation of IFAD11 contribution and borrowing dynamics</li> </ul>
“What if” analysis	<ul style="list-style-type: none"> <li>If IFAD borrows up to 50% of contributions from IFAD12 to IFAD20</li> </ul>	<ul style="list-style-type: none"> <li>Management works under the assumption that borrowing remains as contained as possible and contributions are the main funding source</li> </ul>
Inclusion of RMB in SDR basket	<ul style="list-style-type: none"> <li>Which benchmark has been used to convert floating rate into fixed for RMB</li> <li>What happens if no demand for RMB-denominated loans</li> </ul>	<ul style="list-style-type: none"> <li>IFAD refers to the on-shore market rates – CNY</li> <li>IFAD will manage RMB in the context of ALM practices</li> </ul>





# Exchange rates for 11th Replenishment

- IFAD’s practice: average of **month-end** exchange rates against the US\$ published by the IMF for the six months prior to the third consultation meeting
- The prevalent method among peer IFIs is calculation of average exchange rates against the US\$ over the same six month period (see table below)
- IFAD’s current method of a 6-month average appears to be in line with most other IFIs

Institution	Replenishment	Reference Period	Starting Period	Ending Period
<b>GEF</b>	GEF-7	6 Month	After First Consultation Meeting	Prior to Consultations End
<b>AFDB</b>	ADF-14	6 Month	After First Consultation Meeting	Prior to Consultations End
<b>ADB</b>	ADB-11	2 Month	After First Consultation Meeting	Prior to Consultations End
<b>IDA</b>	IDA-18	6 Month	After First Consultation Meeting	Prior to Consultations End
<b>IFAD</b>	<i>IFAD-10</i>	<i>6 Month</i>	<i>After First Consultation Meeting</i>	<i>Prior to Consultations End</i>

# Exchange rates for 11th Replenishment

## Fixed reference exchange rates for IFAD11 April to September 2017

Currency	April	May	June	July	August	September	Six-month average
<b>AUD</b>	1.3378	1.3423	1.3001	1.2520	1.2661	1.2757	<b>1.2957</b>
<b>CAD</b>	1.3662	1.3500	1.2977	1.2485	1.2536	1.2480	<b>1.2940</b>
<b>CHF</b>	0.9902	0.9710	0.9588	0.9710	0.9655	0.9694	<b>0.9710</b>
<b>CNY</b>	6.8977	6.8289	6.7820	6.7265	6.5957	6.6481	<b>6.7465</b>
<b>DKK</b>	6.8054	6.6302	6.5165	6.3413	6.2904	6.3038	<b>6.4813</b>
<b>EUR</b>	0.9149	0.8912	0.8763	0.8527	0.8457	0.8470	<b>0.8713</b>
<b>GBP</b>	0.7727	0.7789	0.7705	0.7620	0.7766	0.7472	<b>0.7680</b>
<b>JPY</b>	111.2500	110.9500	111.9400	110.5500	110.5000	112.6600	<b>111.3083</b>
<b>NOK</b>	8.5309	8.4117	8.3870	7.9347	7.8469	7.9725	<b>8.1806</b>
<b>NZD</b>	1.4541	1.4083	1.3650	1.3298	1.3941	1.3848	<b>1.3894</b>
<b>SDR</b>	0.7294	0.7224	0.7187	0.7104	0.7075	0.7076	<b>0.7160</b>
<b>SEK</b>	8.8555	8.7160	8.4690	8.1331	7.9725	8.1085	<b>8.3758</b>

Note:

Exchange rate rounded to the fourth decimal point

CAD Canadian dollar, CHF Swiss franc, CNY Chinese, DKK Danish krone, EUR euro, GBP pound sterling, JPY Japanese yen, NOK Norwegian krone, NZD New Zealand dollar, SDR special drawing rights, SEK Swedish krona

Table from Annex III of Paper *Financial Framework and Scenarios for IFAD11*

# Exchange rates for 10th Replenishment

**Fixed reference exchange rates for IFAD10 (April to September 2014)**

<i>Currency</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>August</i>	<i>September</i>	<i>Six-month average</i>
<b>CAD</b>	1.0957	1.0867	1.0676	1.0890	1.0858	1.1208	<b>1.0909</b>
<b>CHF</b>	0.8821	0.8968	0.8903	0.9092	0.9145	0.9581	<b>0.9085</b>
<b>DKK</b>	5.3891	5.4843	5.4589	5.5732	5.6506	5.9152	<b>5.5786</b>
<b>EUR</b>	0.7220	0.7349	0.7322	0.7474	0.7583	0.7947	<b>0.7483</b>
<b>GBP</b>	0.5945	0.5977	0.5870	0.5923	0.6027	0.6180	<b>0.5987</b>
<b>JPY</b>	102.5800	101.6400	101.3000	102.7800	103.7100	109.3700	<b>103.5633</b>
<b>NOK</b>	5.9726	5.9841	6.1528	6.2822	6.1772	6.4524	<b>6.1702</b>
<b>NZD</b>	1.1688	1.1772	1.1395	1.1784	1.1937	1.2875	<b>1.1908</b>
<b>SDR</b>	0.6453	0.6492	0.6469	0.6530	0.6586	0.6745	<b>0.6546</b>
<b>SEK</b>	6.5690	6.6563	6.7406	6.8924	6.9727	7.2383	<b>6.8449</b>

*Table from Annex III of Paper **Financial Framework and Scenarios for IFAD11***

# Change from IFAD 10

<i>Currency</i>	<i>10th Replenishment</i>	<i>11th Replenishment</i>	<i>Percentage Change</i>	<i>Appreciation / Depreciation vs. US\$ from 10th Replenishment</i>
<b>AUD</b>	n.a	1.2957	n.a.	<b>n.a.</b>
<b>CAD</b>	1.0909	1.2940	-18.6%	<b>Depreciation</b>
<b>CHF</b>	0.9085	0.9710	-6.9%	<b>Depreciation</b>
<b>CNY</b>	n.a	6.7465	n.a	<b>n.a</b>
<b>DKK</b>	5.5786	6.4813	-16.2%	<b>Depreciation</b>
<b>EUR</b>	0.7483	0.8713	-16.4%	<b>Depreciation</b>
<b>GBP</b>	0.5987	0.7680	-28.3%	<b>Depreciation</b>
<b>JPY</b>	103.5633	111.3083	-7.5%	<b>Depreciation</b>
<b>NOK</b>	6.1702	8.1806	-32.6%	<b>Depreciation</b>
<b>NZD</b>	1.1908	1.3894	-16.7%	<b>Depreciation</b>
<b>SDR</b>	0.6546	0.7160	-9.4%	<b>Depreciation</b>
<b>SEK</b>	6.8449	8.3730	-22.3%	<b>Depreciation</b>

- In the context of IFAD11 Consultations, the Executive Board requested a Paper on the **experience of IFAD and that of other IFIs regarding Debt Sustainability Framework (DSF) compensation.**
- The Paper presented during the second session of the IFAD11 Consultation, reviewed the experiences of IDA and the African and Asian Development Funds, and contained two options. Members agreed with Management to **continue DSF and harmonise compensation practices where possible.** A second option, for ending DSF was not supported.
- For **interest compensation**, IFAD is proposing to **maintain the MVA at 5% with no changes to IFAD10 practice** because:
  - there is no harmonised approach among IFIs and IFAD's MVA would be in the middle of the three benchmarked IFIs;
  - the item is not material in value relative to principal compensation; and
  - Members indicated this was their preference.

# The DSF Revised Proposal

- For **principal compensation**, IFAD is proposing to leave principal compensation practice **unchanged**. Members would be requested to **re-affirm the critical importance of Members' commitment to compensate IFAD for DSF principal** amounts in order to support IFAD's long term sustainability (see draft Resolution on IFAD11).
- The Addendum before you provides the **listing of DSF principal compensation due by Member State**. For IFAD11, the total compensation due is US\$39.5 million.
- IFAD has allowed for DSF compensation to be a **separate pledge**, which is IFAD's preference, **or as part of the process of receiving regular core contributions**, however, a Governing Council Resolution requires that donor contributions must be earmarked towards DSF compensation first, with any residual balance being considered as regular core replenishment contributions.
- IFAD will **continue to monitor for any changes towards a harmonised approach among IFIs** for both principal and interest DSF components during IFAD11. IFAD is also closely monitoring the developments in criteria for debt sustainability to support the poorest and vulnerable countries.