
Progress report on the implementation of the IFAD Graduation Policy

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Useful references: The Executive Board approved the IFAD Graduation Policy ([EB 2021/133/R.5](#)) in September 2021, building on the approach to graduation developed during the Consultation on the Twelfth Replenishment of IFAD's Resources ([GC 44/L.6/Rev.1](#)). The Chair's summary of the second session of the IFAD13 Consultation noted that Management would provide an update on the implementation of the Graduation Policy at the third session ([IFAD13/2/INF.3/Rev.1](#)).

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I. Introduction

1. The Executive Board approved the IFAD Graduation Policy¹ in September 2021, building on the approach to graduation developed during the Consultation on the Twelfth Replenishment of IFAD's Resources (IFAD12). The policy is guided by the principle of universality and IFAD's mandate to serve its developing Member States, while focusing on poor, food-insecure and vulnerable rural people. Graduation is firmly based on a process of consensus-building and consultation with Member States, and is guided by criteria and agreed targets established in the policy to ensure full transparency. The policy comprises four pillars. It provides more clarity on the distribution of IFAD's financial resources (pillar 1) and the financing conditions and pricing of borrowed IFAD resources (pillar 2). Pillars 3 and 4 articulate in detail the criteria and process for graduation, and also address situations of possible reversal of the socioeconomic development of an IFAD Member State. In accordance with the Graduation Policy, this progress report is being presented to the Consultation on the Thirteenth Replenishment of IFAD's Resources (IFAD13) to update Members on the implementation status of the policy.

A. Implementation status by pillar

Pillar 1. Distribution of IFAD's financial resources

2. As per the policy, IFAD's core resources are fully allocated to low-income countries and lower-middle-income countries. Lending to upper-middle-income countries (UMICs) is funded from borrowed resources managed under the Borrowed Resource Access Mechanism (BRAM). UMICs will receive between 11 and 20 per cent of the overall programme of loans and grants (PoLG). At present, it is projected that they will receive 14 per cent in IFAD12. IFAD Management is implementing the funding plan to ensure that it meets expectations regarding the availability of lending to UMICs. Management also reports annually to the Executive Board on the status of the allocations, the distribution of resources among country groups, and lending terms and changes to the lending terms of Member States, including information on changes in Member States' gross national income per capita (GNIPC) relative to the Graduation Discussion Income (GDI).² Updates on the implementation of IFAD's funding plan are provided regularly to the Executive Board.³

Pillar 2. Financing conditions and pricing of borrowed resources

3. Pillar 2 presents IFAD's financing conditions and pricing for borrowed resources, which are set to ensure that IFAD recovers the cost of borrowing and differentiates among countries in different income groups, while remaining competitive and attractive vis-à-vis countries' other sources of development financing. This differentiation in the financing terms is reflected in different elements of pricing, with tailored maturity periods, grace periods and maturity premiums. Recent updates on ordinary loan pricing⁴ and the revised Integrated Borrowing Framework⁵ are aligned with the requirements of the policy.

¹ EB 2021/133/R.5.

² See EB 2022/137/R.3 and EB 2022/137/R.3/Add.1/Rev.2.

³ EB 2022/137/R.12.

⁴ EB/2023/138/R.7.

⁵ EB/2023/138/R.8.

Pillar 3. Trajectory for UMICs reaching GDI threshold

4. **Updated guidelines for country strategic opportunities programmes (COSOPs).** Following the approval of the policy, IFAD updated its COSOP guidelines and procedures to provide country teams with guidance on the preparation of new COSOPs for countries that have remained above the GDI threshold for three consecutive years.
5. **Prioritization of country strategy and programme evaluations (CSPEs).** As also set out in the policy, Management liaises with the Independent Office of Evaluation of IFAD (IOE) to prioritize the undertaking of CSPEs for countries with per capita incomes above the GDI threshold for three consecutive years. This is to ensure that, to the extent possible, and resources permitting, new COSOPs are informed by the recommendations emanating from CSPEs. In the IOE workplan for 2023 and 2024, IOE has made provisions for CSPEs for Argentina, China, Dominican Republic and Türkiye.
6. **Preparation of CSPEs and COSOPs for countries above GDI.** As outlined in the policy's annex, in 2021, before the beginning of the current replenishment cycle, a total of eight Member States were above the GDI threshold for three years consecutively. These countries were Argentina, Brazil, China, Cuba, Dominican Republic, Mexico, Montenegro and Türkiye.
7. The CSPE process has been completed in China and is well advanced in Türkiye. For Argentina and Dominican Republic, the process will start shortly and reach completion in 2024.
8. The new COSOPs will be prepared in 2023 and 2024 and approved by Management before being presented for review to the Executive Board, as per current procedure, in either 2024 or 2025.
9. The status of the CSPEs and COSOPs is summarized below by country:
 - (a) **Argentina.** IOE has indicated that the CSPE will start in September 2023 and is expected to be finalized September 2024. The agreement at completion point is expected to be signed by October 2024. A new COSOP will be prepared for Management's approval and Board review in December 2024.
 - (b) **Brazil.** A discussion was held with IOE on the possibility of a CSPE; however, given that a new COSOP design process had already been scheduled for early 2023 with the incoming Government, the timing was not conducive. The new COSOP for Brazil is being planned for Management approval and Board review in 2024.
 - (c) **China.** IOE started the CSPE in March 2022 and finalized the report in March 2023. The agreement at completion point was signed in September 2023. The new COSOP will be prepared for Management approval and Board review in 2024.
 - (d) **Cuba.** As envisaged in the policy, given that significant changes have occurred in the country's situation due to economic shocks, an assessment is currently taking place to ascertain the GNIpc to determine the applicability of the policy. The Board will be informed of the outcome of this assessment in a future update on graduation policy implementation.
 - (e) **Dominican Republic.** A CSPE is due to start in December 2023 and is expected to be finalized by October 2024. Signature of the agreement at completion point is scheduled for December 2024. With the conclusion of the CSPE, a new COSOP will be designed for Management approval and Board review in 2025.

- (f) **Mexico.** Given that the most recent CSPE was published in 2019 and that a COSOP for 2020–2025 is already in place, a new COSOP is not scheduled until 2025.
- (g) **Montenegro.** A “light” COSOP will be prepared for Management approval and Board review in 2024.
- (h) **Türkiye.** IOE initiated a CSPE in April 2023 and expects to finalize it by April 2024. Signature of the agreement at completion point is currently planned for June 2024. With the conclusion of the CSPE, the new COSOP design process will start and is expected to be completed in 2025.
10. As shown above, by the end of IFAD12, IOE expects to have completed a CSPE for four out of the eight countries above the GDI threshold (Argentina, China, Dominican Republic and Türkiye), providing recommendations to feed into new COSOPs. In addition to CSPEs, several countries on the list have either undergone a recent project performance evaluation (PPE) or are due for one before the end of IFAD12. In Dominican Republic, a PPE was undertaken for the Rural Economic Development Project in the Central and Eastern Provinces in 2020; in Cuba, a PPE for the Cooperative Rural Development Project in the Oriental Region was completed in 2022; and in Montenegro, a PPE of the Rural Clustering and Transformation Project is planned for 2024.
11. As already communicated to Executive Board representatives at the December session in 2022, while it was originally hoped that Management would approve all new COSOPs in 2024, a number will be pushed to 2025, to allow time for IOE to complete its assessments and for the CSPEs to inform the new COSOPs. By the end of 2024, COSOPs will have been finalized for Argentina, Brazil, China and Montenegro. The decision on Cuba will be dependent upon the outcome of the assessment on Cuba’s GNIPC. The remaining COSOPs will be finalized in 2025.
12. The COSOPs for countries confirmed as having surpassed the GDI for three consecutive years will be prepared in line with the COSOP guidelines updated in 2022, which reflect the criteria and process set out in the policy. IFAD country teams and technical specialists will prepare the COSOPs in close consultation with the Member State. IFAD is committed to supporting partner countries throughout the whole COSOP process. At the completion of the COSOP period, both IFAD and the Member State will assess the country’s progress and readiness to graduate from IFAD’s financial support. The principle of universality governs IFAD’s relationships with its Member States; therefore all countries will continue to have access to diverse support and services related to the sharing of knowledge, technical expertise and policy engagement, including through instruments such as South-South and Triangular Cooperation and reimbursable technical assistance.

Pillar 4. Addressing reversals due to economic shocks

13. This aspect of the policy is not relevant at this time as there have been no reversals. With respect to seven of the eight countries listed, it can be confirmed that they have a GNIPC above the latest GDI of US\$7,805 issued by the World Bank on 1 July 2023. Regarding Cuba, the datasets are under review, and a decision will be made following the assessment currently under way to ascertain if the country has dropped below the GDI threshold.

B. Post-graduation

14. IFAD continues to engage with a wide range of Member States across all Lists, including those who do not borrow from IFAD. This engagement can take the form of partnership and cooperation arrangements, including knowledge-sharing and policy engagement on Sustainable Development Goal 2, climate and other IFAD-relevant themes, as well as South-South and Triangular Cooperation and reimbursable technical assistance.

C. Reporting on implementation progress

15. As envisaged, Management has begun annual reporting on implementation progress. A first annual update was presented to the Executive Board in December 2022 as part of the results-based programme of work⁶ and subsequently to the Governing Council in February 2023. This update is presented to the IFAD13 Consultation in line with the policy (para. 23). The second annual update will be presented to the Executive Board in December 2023.

D. IFAD Member States above GDI threshold

16. As per the policy, the starting point for the graduation process is when a country remains above the GDI threshold, as defined and annually updated by the International Bank for Reconstruction and Development, for at least three consecutive years prior to an IFAD financing cycle. This minimizes the risk of a country starting the process and shortly afterwards facing a reversal.
17. For IFAD12, the 2021 GDI threshold of US\$7,155 was applied. For IFAD13, the 2024 GDI threshold will be applied. In 2024, an updated list of countries that have surpassed the GDI threshold for three years consecutively will be compiled and presented to the Executive Board in December 2024. Management will then engage with any new countries that have entered the list to initiate a structured dialogue to develop a new COSOP during the IFAD13 period. For those countries without a CSPE within the last five years, Management will propose that one be prioritized during the annual work programme discussions with IOE.

⁶ EB 2022/137/R.3/Add.1/Rev.2.