Borrowed Resource Access Mechanism

PMD / OPR
FOD / TRE, FMD
RMU

PBAS Working Group
15 December 2020
Confirmed direction to date

Core Resources in IFAD12

**PBAS**

- Maintain well-performing PBAS formula for IFAD12
- Use PBAS to allocate 100% of core resources to LICs / LMICs
- Considers multi-dimensional poverty aspects

Borrowed Resources in IFAD12

**BRAM**

- Demand-based for eligible, creditworthy LICs, LMICs & UMICs; min 11% of PoLG for UMICs
- Risk-driven maximums by country and no more than 5% of total PoLG
- Predictable i.e. not first come, first served
- Access for some additional borrowers (e.g. those from IFAD10)

All projects in line with IFAD’s mandate and development effectiveness
The BRAM review process

IFAD12 Consultation: Commitment 40 - Present a proposal for establishment of an access mechanism for borrowed resources to the Executive Board (Q2 2021)

<table>
<thead>
<tr>
<th>July 2020</th>
<th>September 2020</th>
<th>October 2020</th>
<th>December 2020</th>
<th>Jan / March 2021</th>
<th>April 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconvening of the PBAS WG</td>
<td>Introduction of the BRAM for IFAD 12</td>
<td>Agreement on need for BRAM mechanism</td>
<td>More detailed discussions on principles and mechanisms to seek consensus</td>
<td>Potential for additional meetings to review draft paper and seek WG endorsement</td>
<td>Audit Committee and Executive Board</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Discussion on practicalities</td>
<td>Discussion on simulated elements of differentiation in IFAD’s Financing conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IFAD12 Consultation: Commitment 40 - Present a proposal for establishment of an access mechanism for borrowed resources to the Executive Board (Q2 2021)
Ensuring development effectiveness for BRAM projects

Management of the BRAM process and project prioritization

Differentiation of financing conditions and attractiveness of IFAD’s offer

Managing Risks

Discussion at last meeting
Points for agreement today

Managing BRAM

- Country selectivity criteria for IFAD12
- Process to access BRAM resources
- Financing conditions for BRAM resources
## Country selectivity criteria IFAD12

For all IFAD12 resources: core and borrowed

<table>
<thead>
<tr>
<th>Strategic Focus</th>
<th>Ownership</th>
<th>Absorptive Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid country strategy (COSOP or country strategy note) is available early in the cycle</td>
<td>All operations in a country that have been effective for more than one year must have disbursed funds at least once in the previous 18 months</td>
<td>No approved loans are pending signature for more than 12 months</td>
</tr>
</tbody>
</table>
Process to access BRAM resources

### Availability & Eligibility

1. Determination of country eligibility
2. Determination of risk based country limits to ensure portfolio quality
3. Determination of size of envelope

### Demand Management

4. Communication of eligibility to countries
5. Countries’ confirmation of interest

### Design & Delivery

6. Prioritisation based on country needs and performance
7. Project design in line with Development Effectiveness Framework
8. EB approval for all BRAM-financed projects

Iterative process
2. Risk based limits

- Limits for each country based on credit ratings
- Ensuring overall portfolio quality and adequate capital planning
- Verification by financial risk committee

6. Country prioritization

- Country needs component of PBAS + fragility
- Country portfolio performance
- Alignment with IFAD12 commitments on resource distribution
Financing conditions for BRAM resources: Principles

Graduation Discussion - Pillar 2

- Ensure Financial Sustainability for IFAD and Borrowers
- Non-subsidization with core resources
- Average cost of borrowing recovery
- Differentiation in financing conditions based on countries economic trajectory
Financing conditions for BRAM resources: Pricing

LICs (not highly indebted)

LMICs (not highly indebted)

UMICs

Concessional

Semi-Concessional

Non-Concessional-
market financing options

Simulated differentiation by income category for IFAD12

Pricing differentiation

Minimum recovery of IFAD cost of borrowing

Pricing of Category 1 plus premium

Pricing of Category 2 plus premium

Pricing of Category 3 plus premium

LICs and LMICs eligible to IFAD Concessional Loans at low and moderate risk of debt distress

• LMICs
  • Countries eligible to semi-concessional loans in transition and FCS irrespective of GNIpc

UMICs with a GNIpc below GDI threshold

UMICs with a GNIpc above GDI threshold

Pricing of Category 1 plus premium

Pricing of Category 2 plus premium

Pricing of Category 3 plus premium
Next steps in 2021

1. BRAM paper discussion at proposed PBAS Working Group January & March 2021

2. BRAM paper and Differentiation of financing conditions at AC and EB in April 2021

3. Graduation/Transition discussion and changes to PCIF at EB – September 2021
Thank you!
Some members asked for more clarification on why all borrowed resources could not be allocated through the PBAS.

**Financial considerations**

- PBAS formula is based on needs and performance, with no financial or risk consideration.
- The PBAS does not allocate enough money to countries which borrow on ordinary terms to match IFAD’s planned borrowing.

**Other considerations**

- Allocating all funds through the PBAS makes reporting on 100% of core resources allocated to LICs and LMICs less transparent and simple.
- Members have agreed for UMICs to receive between 11 and 20% of PoLG; the PBAS would allocate a specific percentage, rather than allowing flexibility based on demand.