Introduction to IFAD’s financial resource mechanisms
Today’s presentation

- IFAD12 PoLG
- Core resources & PBAS
- Borrowed resources & BRAM
- Next steps: implementing the IFAD12 PoLG
IFAD12 PoLG

- Borrowing: US$ 1,090 million
- Regular Grants (core): US$ 75 million
- Reserve (core): US$ 50 million
- DSF Grants (core): US$ 425 million
- Core: US$ 1,860 million
Core Resources

PBAS rationale and formula

PBAS application in IFAD12

IFAD12 commitments on core resources

Frequency of allocations update
PBAS IS A MANAGERIAL TOOL TO...

1. Allocate resources transparently

2. Provide a performance incentive for member countries

3. Allocate resources according to need when countries perform equally well
## Variables description

<table>
<thead>
<tr>
<th>Variable</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNIpc</td>
<td>World Bank data</td>
</tr>
<tr>
<td>Rural population</td>
<td>World Bank data</td>
</tr>
<tr>
<td>IFAD vulnerability index (IVI)</td>
<td>Produced by IFAD from multiple sources</td>
</tr>
<tr>
<td>Rural sector performance assessment (RSPA)</td>
<td>Produced by IFAD from multiple sources</td>
</tr>
<tr>
<td>Portfolio and Disbursement measure (PAD)</td>
<td>Produced by IFAD from portfolio performance data</td>
</tr>
</tbody>
</table>
The bigger the rural population, and the more vulnerable the country, the higher the allocation.

How many people live in the rural areas, and how vulnerable are they?

The higher the income, the lower the allocation.

What are their per capita income levels?

The better the enabling environment, the higher the allocation.

How good is the enabling environment for rural poverty reduction?

How is IFAD’s portfolio performing?

The stronger the performance, the higher the allocation.
PBAS Formula

$$\left( \text{Rural Pop}^{0.405} \times \text{GNIpc}^{-0.265} \times (IVI)^{0.95} \right) \times \left[ (0.35 \times \text{RSPA}) + (0.65 \times \text{PAD}) \right]$$
## IFAD12 PBAS Formula in Practice

### Example

<table>
<thead>
<tr>
<th>Variable</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNIpc</td>
<td>US$2,290</td>
</tr>
<tr>
<td>Rural Population</td>
<td>11,540,550</td>
</tr>
<tr>
<td>IVI</td>
<td>1.4</td>
</tr>
<tr>
<td>RSPA Score</td>
<td>3.9</td>
</tr>
<tr>
<td>PAD</td>
<td>2.8</td>
</tr>
</tbody>
</table>

### Country Needs

\[
\text{Country Needs} = \left( \frac{0.405 \times 2,290 - 0.265 \times 11,540,550}{0.95} \right) \times 1.4
\]

### Country Performance

\[
\text{Country Performance} = 0.35 \times 3.9 \times 0.65 \times 2.8 = 439.7
\]

### Country A Score

\[
\text{Country A Score} = \left( \frac{0.405 \times 2,290 - 0.265 \times 11,540,550}{0.95} \right) \times 1.4
\]

### Country A Allocation

\[
\text{Country A Allocation} = \text{Country A Score} \times \frac{\text{Total financing envelope}}{\text{Sum of all Country Scores}} = \Rightarrow \frac{\text{Allocated amount}}{\text{% total financing envelope}}
\]
Capping applied to all PBAS eligible countries.

Minimum allocations:

- US$4.5m per cycle

Taking into account other factors:

Maximum allocations:

- 5% of PoLG per cycle
Country selectivity criteria

LICs & LMICs

- Strategic focus → CSN or COSOP
- Absorptive capacity → Disbursements
- Ownership → No pending signature
IFAD12 commitments on core resources

Africa 55%
Sub-Saharan Africa 50%
Fragile 25% minimum
Country selectivity LICs + LMICs 100%
Proposal to maintain allocations stable throughout the cycle (as in IFAD11)

Increased predictability

Better planning

FOR DECISION: FREQUENCY OF ALLOCATIONS UPDATE
Reminder: The BRAM approval process

IFAD12 Consultation

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

July 2020
- Reconvening of the PBAS WG

September 2020
- Introduction of BRAM for IFAD12

October 2020
- Introduction of BRAM principles
- Review of PBAS performance
- Agreement on need for BRAM mechanism
- Discussion on practicalities
- Discussion on simulated elements of differentiation in IFAD’s Financing conditions

December 2020
- More detailed discussions on principles and mechanisms to seek consensus

28 Jan 2021
- Review of DRAFT BRAM policy paper by WG + informal seminar on differentiation in IFAD’s financing conditions

16 March 2021
- Informal Seminar on BRAM policy paper and differentiation in IFAD’s financing conditions

April 2021
- BRAM policy paper and differentiation in financing conditions presented to Audit Committee and approved by Executive Board

Present a proposal for establishment of an access mechanism for borrowed resources to the Executive Board (Q2 2021)
Five key principles of BRAM

- Country Selectivity and Eligibility
- Supply of Borrowed Resources
- Risk Based Country Limits
- Differentiated Financing Conditions
- Demand Based Access
## Country selectivity and eligibility

### Criteria for IFAD12 resources

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Focus (PBAS &amp; BRAM)</td>
<td>Valid country strategy (COSOP or country strategy note) is available early in the cycle</td>
</tr>
<tr>
<td>Ownership (PBAS &amp; BRAM)</td>
<td>All projects in a country that have been effective for more than one year must have disbursed funds at least once in last 18 months</td>
</tr>
<tr>
<td>Absorptive Capacity (PBAS &amp; BRAM)</td>
<td>No approved projects are pending signature for more than 12 months</td>
</tr>
<tr>
<td>Creditworthiness (BRAM ONLY)</td>
<td>Level of indebtedness to ensure ability to borrow on BRAM terms</td>
</tr>
</tbody>
</table>

**Eligibility letters sent to countries**
Supply of borrowed resources

Key issues and implementation to date

- **Targets:** IFAD12 borrowing target $1.09 billion, guided by target replenishment / PoLG
- **Link to RAC:** Sustainable PoLG ceiling for 2022 of $1.167 billion
- **Smoothing of Borrowing:** A certain degree of frontloading for first half of IFAD12 and ongoing discussions with operational divisions to ensure planning
Risk based country limits

Key elements for assessing risk-based country limits

**Similar to other IFIs**, where access to **scale-up facilities** making semi-concessional resources available for lower income-eligible countries are governed by a set of risk-based **principles**

**Embedded in the Capital Adequacy Policy** through the computation of capital consumption for each country

**Risk-based ceilings:**
Management will ensure the capital consumption is within sustainable levels. Capital consumption derived from credit ratings.

For some countries, the lending headroom may be reduced or limited depending on portfolio or country credit considerations

5% of PoLG limit for each country remains
Risk based country limits

Implementation to date

- **Minimum Average Rating for the BRAM Portfolio**: BB flat, in line with current average rating of IFAD’s loan portfolio
- **Individual Risk Based Country Limits**: Defined by RMO and used to guide response to demand
- **Indicative Portfolio Envelopes**: A complementary management tool to assess the BRAM portfolio, using shortfall of resource provision from IFAD11, and credit outlook. **Considers also commitment on UMICs access 11-20% of PoLG**
Update on financing conditions: Context

IFAD Financial transformation
BRAM - Access to borrowed resources for Countries initially eligible for Concessional loans (no eligibility for countries in debt or at high risk of debt distress)

Graduation Discussion
Access to IFAD financial resources
Differentiation in financing conditions based on countries economic trajectory
IFAD’s financing conditions-attractiveness vis-a-vis countries’ market financing options

Financial discipline
Mutual financial sustainability
Non-subsidization from core resources of cost of borrowing
ALM risk mitigation
Scope of Elements of Differentiation

Ordinary terms financing conditions do not differ by mechanism of IFAD’s financial resources (PBAS or/and BRAM)

Current pricing methodology
No Change

Principles for income differentiation approved by EB April. Maturity differentiation pricing reviewed in EB September and to be approved in EB December

IFAD12 onwards
No retroactivity

Continue current approach to reflect IBRD pricing components as long as financially sustainable for IFAD’s own cost of borrowing and reflects graduation pillars
Structure approved by EB, countries assigned to groups

**Differentiation by income category for IFAD11**
- **Category A**: Countries eligible to semi-concessional loans in transition and FCS irrespective of GNIpc

**Differentiation by income category for IFAD12**
- **Category 1**: 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

**Rationales of proposed updates**
- Need to differentiate between LMICs and UMICs below GDI

**Differentiation by income Category for IFAD12**
- **Category 2**: UMICs with a GNIpc above GDI threshold
  - UMICs with a GNIpc above GDI threshold

- **Category 3**: UMICs with a GNIpc below GDI threshold
  - LMICs and LICs eligible to IFAD Concessional Loans at low and moderate risk of debt distress

- **Category 4**: LICs and LMICs eligible to IFAD Concessional Loans at low and moderate risk of debt distress
  - LICs
  - Countries eligible to semi-concessional loans in transition and FCS irrespective of GNIpc
**Changes for Semi-concessional Loans**

**Concessional**

- *Category 1*: LICs and LMICs eligible to IFAD Concessional Loans at low and moderate risk of debt distress

- *Category 2*: LMICs non-eligible to Category 1, borrowers in transition, creditworthy FCS and SSE

- *Category 3*: UMICs with a GNIpc below GDI threshold

- *Category 4*: UMICs with GNIpc above the GDI threshold

**Semi-Concessional**

**Differentiation by income Category for IFAD12 (not retroactive)**

- **Maturity (M) and Grace (G) period differentiation**
  - Cat1: M: up to 35 years, G: up to 10 years
  - Cat2: M: up to 30 years, G: up to 8 years
  - Cat3: M: up to 20 years, G: up to 5 years
  - Cat4: M: up to 18 years, G: up to 3 years

- **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
Demand based access

Core Principles and Updates

- **Alignment** with IFAD mandate and development effectiveness framework
- **Alignment** with government priorities and demand from governments. Letters to assess demand have been sent
- **Internal quality assurance**: Internal system updates needed to track BRAM uptake, and report back to EB have been put in place
- **Proactive Portfolio Management**: To facilitate meeting demand as it arises
Next steps: implementing the IFAD12 PoLG

1. PBAS allocations and maturity premium differentiation pricing shared for approval with the EB in December 2021

2. Revisions to the Policies and Criteria for IFAD Financing presented to EB in December and Governing Council in February 2022 for approval

3. Pipeline discussions between regions, OPR and PMD FO, FMD and RMO ongoing throughout Q3 and Q4 for 2022 and beyond
Thank you!