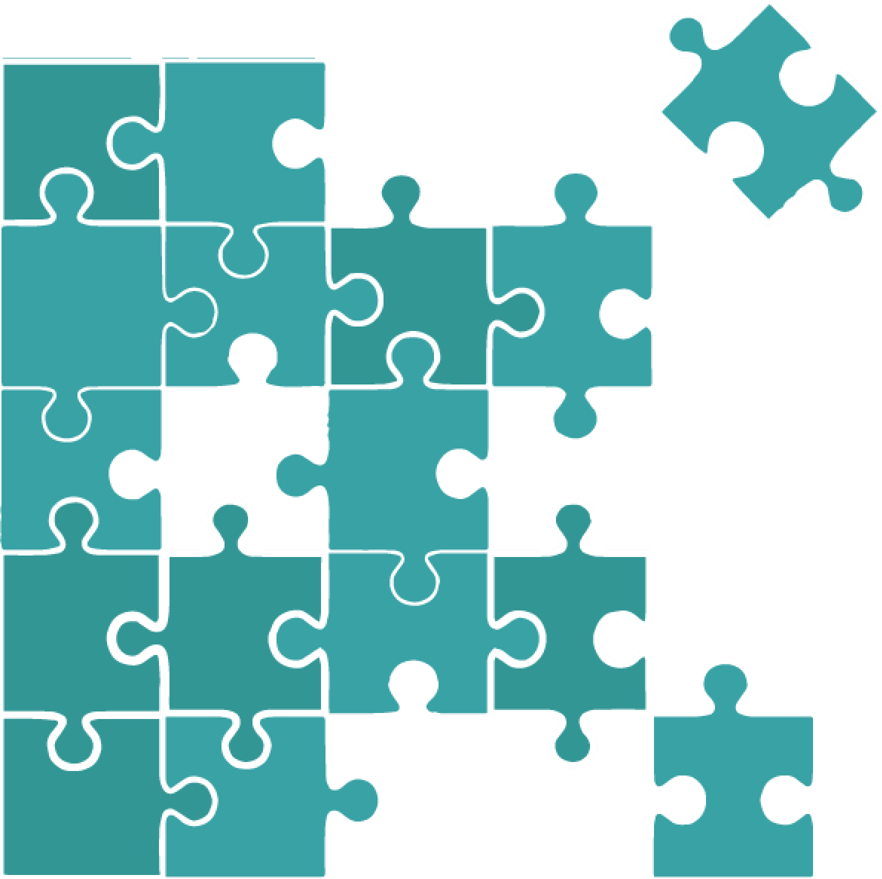
2021

3 November

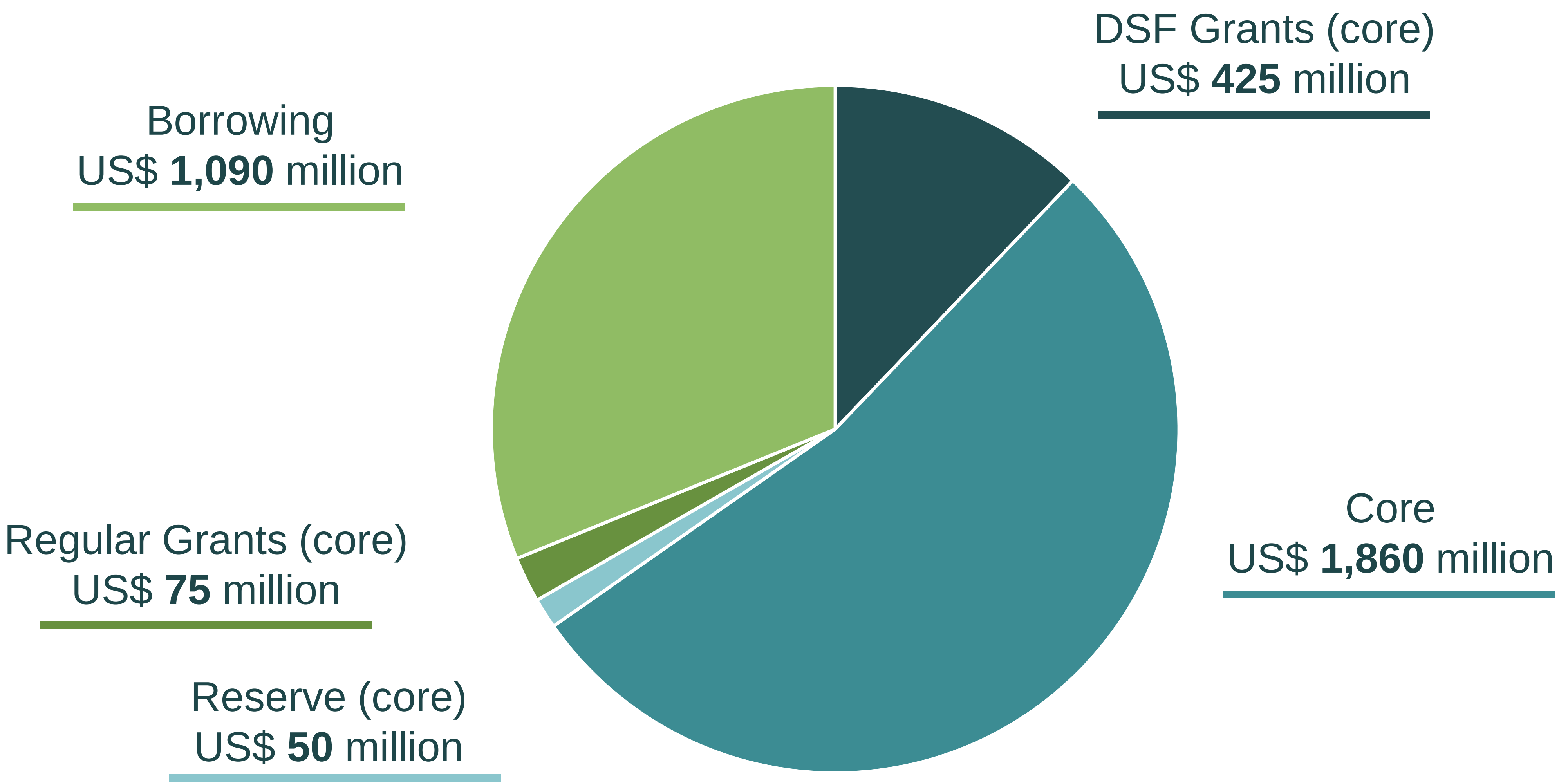
Introduction to IFAD's financial resource mechanisms

Today's presentation



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

IFAD12 PoLG


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

GNIpc	World Bank data
Rural population	World Bank data
IFAD vulnerability index (IVI)	Produced by IFAD from multiple sources
Rural sector performance assessment (RSPA)	Produced by IFAD from multiple sources
Portfolio and Disbursement measure(PAD)	Produced by IFAD from portfolio performance data

Formula logic

NEEDS

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

  The bigger the rural population, and the more vulnerable the country, the higher the allocation

- What are their per capita income levels?

  The higher the income, the lower the allocation

PERFORMANCE

- How good is the enabling environment for rural poverty reduction?

  The better the enabling environment, the higher the allocation

- How is IFAD’s portfolio performing?

  The stronger the performance, the higher the allocation

PBAS Formula

$$[(\text{Rural Pop}^{0.405} \times \text{GNIpc}^{-0.265}) \times (\text{IVI})^{0.95}] \times$$

NEEDS

$$[(0.35 \times \text{RSPA}) + (0.65 \times \text{PAD})]$$

PERFORMANCE

IFAD12 PBAS Formula in Practice

Example
Country A

Variable	Value
GNIpc	US$2,290
Rural Population	11,540,550
IVI	1.4
RSPA Score	3.9
PAD	2.8

Country Needs **Country Performance**

Country A
Score

$$= \left(2{,}290^{0.405} \times 11\,540\,550^{-0.265}\right) \times 1.4^{0.95} \times \left(0.35 \times 3.9 \times 0.65 \times 2.8\right) = 439.7$$

Country A
Allocation

$$= \text{Country A Score} \times \frac{\text{Total financing envelope}}{\text{Sum of all Country Scores}} \Rightarrow \textbf{Allocated amount} \text{ (\% total financing envelope)}$$

APPLIED TO ALL PBAS ELIGIBLE COUNTRIES

Taking into account other factors

Minimum allocations

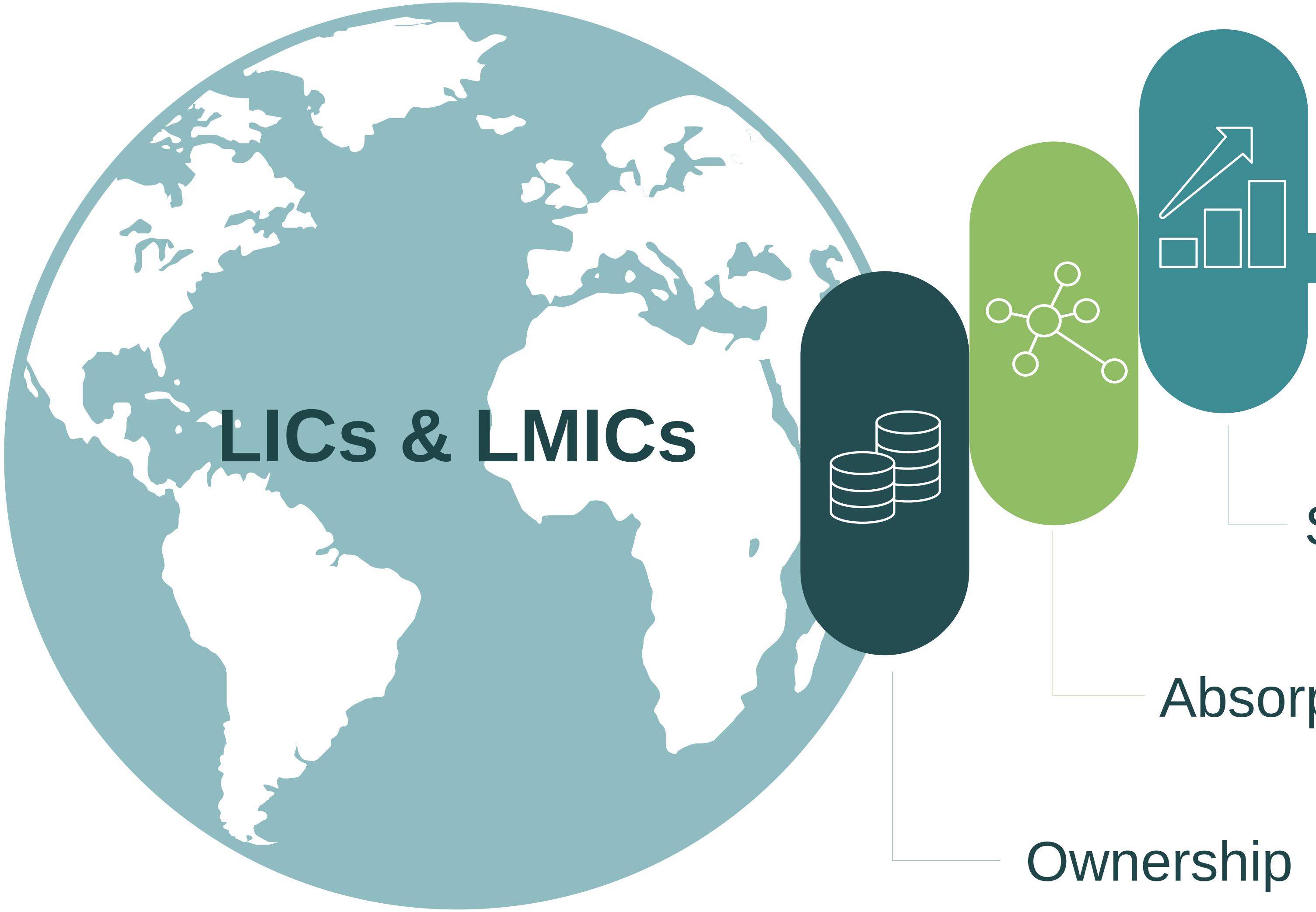
US$4.5m per cycle

Maximum allocations

5% of PoLG per cycle

Capping

Country selectivity criteria



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%

FOR DECISION: FREQUENCY OF ALLOCATIONS UPDATE

Proposal to maintain **allocations stable** throughout the cycle

(as in IFAD11)

Increased **predictability**

Better **planning**

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 Introduction of the BRAM for IFAD12
September 2020	Introduction of BRAM principles Review of PBAS performance
October 2020	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

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

Strategic Focus (PBAS & BRAM)

Valid country strategy (COSOP or country strategy note) is available early in the cycle

Ownership (PBAS & BRAM)

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

Absorptive Capacity (PBAS & BRAM)

No approved projects are pending signature for more than 12 months

Creditworthiness (BRAM ONLY)

Level of indebtedness to ensure ability to borrow on BRAM terms

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

Concessional

Semi- Concessional

Non- Concessional

Differentiation by income category for IFAD11		Rationales of proposed updates	Differentiation by income Category for IFAD12	
Category A	Countries eligible to semi-concessional loans in **transition** and **FCS irrespective of** GNIpc	New category	**LICs** and **LMICs** eligible to IFAD Concessional Loans at low and moderate risk of debt distress	Category 1
Category B	Comprise **LMICs** and **UMICs** below **GDI threshold**	Need to differentiate between LMICs and UMICs below GDI	• **LMICs** • Countries eligible to semi-concessional loans in **transition** and **FCS irrespective of** GNIpc	Category 2
Category C	**UMICs** with a GNIpc **above GDI threshold**		**UMICs** with a GNIpc **below GDI threshold**	Category 3
Category D	**HICs**	No access to IFAD's financing resources for HICs	**UMICs** with a GNIpc **above GDI threshold**	Category 4

Changes for Semi-concessional Loans

Concessional

Semi- Concessional

	Differentiation by income Category for IFAD12 (not retroactive)	Maturity (M) and Grace (G) period differentiation	Pricing differentiation
Category 1	**LICs** and **LMICs** eligible to IFAD Concessional Loans at low and moderate risk of debt distress	**M**: up to 35 years **G:** up to 10 years	**Minimum recovery of IFAD cost of borrowing**
Category 2	**LMICs** non-eligible to Category 1, borrowers **in transition**, creditworthy **FCS** and **SSE**	**M:** up to 30 years **G:** up to 8 years	**Pricing of Category 1 plus premium**
Category 3	**UMICs** with a GNIpc below **GDI threshold**	**M:** up to 20 years **G:** up to 5 years	**Pricing of Category 2 plus premium**
Category 4	**UMICs** with GNIpc **above the GDI threshold**	**M:** up to 18 years **G:** up to 3 years	**Pricing of Category 3 plus premium**

Non- Concessional

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!