Transition Framework and Financial Architecture Transformation
A collection of institutional initiatives to reinvigorate IFAD’s operational services and financial capacity to better support countries in their development transitions, especially in rural sectors.
Principles of IFAD’s Transition Framework

01 PREDICTABILITY

02 SUSTAINABILITY

03 TRANSPARENCY
Transition Process

<table>
<thead>
<tr>
<th>Definition</th>
<th>Implementation</th>
<th>Evaluation</th>
<th>Adjustment</th>
</tr>
</thead>
</table>

- GNIpc alone not adequate to capture level of development and borrowing.
- Develop medium term strategy by country (COSOP).
- COSOP review will reassess the underlying situations, priorities, solutions and strategy.
- Adjust instruments and tools for flexible use of resources as appropriate to maximize development impact.
Expected Outcomes

**Tailored Approach**
Better tailored logic and expected impact of IFAD's intervention through country strategy.

**Flexibility to Adjust**
Enhance the flexibility to adjust IFAD’s offer when conditions or government priorities significantly change.

**Enhanced Knowledge**
Enhance IFAD's capacity to understand the drivers and needs of countries in transition

**Increased set instruments**
Increase the financial and operational menu and flexibility that IFAD can offer for a sustainable transition.
Expanded IFAD Menu Set

01. New lending and non-lending instruments
02. Co-Financing Strategy
03. Financial Architecture Transformation
04. Phasing In / Out Financing Terms
05. Adjustment of Resource Allocation mix Financing & Services as countries transition
Financial Architecture Transformation
IFAD Financial Engine

ARCHITECTURE A

BORROWING B

CAPITAL C
01 Expand flexibility lending instruments

02 Meet borrower demand size

03 Capital efficiency usage to maximize resources

04 Improve financial sustainability

05 Strengthen Risk management

06 Increase instruments mobilize resources
Non Concessional Borrowing Policy

New operational instruments

Phasing In-Out Mechanism

Update Financing Terms

Faster Implementation Tools

Additional Non-Core Resource Allocation *

Accelerated Repayments Policy *

Special Funding Windows – e.g. Fragility *

* Subject to approval in Phase III TF Working Group
Cost of Capital - Loan Pricing *

DSF: Debt Sustainability Framework

Capital Adequacy Model

Special Reserve Creation

* Subject to approval in Phase III TF Working Group
Expected Roadmap
Expected Roadmap 2018

Q2/2018
- Loan Credit Risk: IFRS9
- Independent Financial Risk Assessment
- Phasing in/ out

Q3/2018
- Update Financing Terms
- NCBP
- New operational instruments
- Faster Implementation

Q4/2018
- DSF
- Liquidity Investment Policy

Note: This is the expected timing for review, initial discussion and guidance.
Expected Roadmap 2019

Q1 / 2019
- ✓ Minimum Liquidity Requirement

Q2 / 2019
- ✓ Internal Control Framework + Scorecard
- ✓ Asset Liability Management
- ✓ Special Funding Windows – e.g. Fragility *
- ✓ Additional Non-Core Resource Allocation *
- ✓ Cost of Capital: Loan Pricing *

Q3 / 2019
- ✓ Capital Adequacy Model
- ✓ Accelerated Repayments Policy *

Q4 / 2019
- ✓ Credit Rating Assessment
- ✓ Special Reserve

* Subject to approval in Phase III TF Working Group
Measures on Corporate Level Evaluation

- Debt Sustainability Framework
- NCBP
- Special Reserve
- Update financing terms
- New operational instruments
- Faster implementation tools
- Accelerated repayments policy
- Special funding windows
- Phasing in/out mechanism
- Additional non-core resources allocation
- Debt Sustainability Framework

01 Address Financial Losses

02 Flexibility Products

03 Allocation System

04 Preparation Access Markets

05 Hedging Instruments

06 Financial Governance

07 Strengthen Efficiency Replenishment

TBD

- Risk Unit
- Loan credit risk: IFRS9
- Internal Control Framework
- Swap agreements
- IT systems
- Asset Liability

Credit Rating Assessment
IFI Peer technical review
Summary: When, how and why...
<table>
<thead>
<tr>
<th></th>
<th>TIMING</th>
<th>GOVERNING BODY</th>
<th>CLE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan Credit Risk: IFRS9</strong></td>
<td>Q2 / 18</td>
<td>AC + EB</td>
<td>6</td>
</tr>
<tr>
<td><strong>Phasing in / out mechanism</strong></td>
<td>Q2 / 18</td>
<td>TF + EB</td>
<td>2</td>
</tr>
<tr>
<td><strong>Update Financing Terms</strong></td>
<td>Q3 / 18</td>
<td>AC + EB + GC</td>
<td>2</td>
</tr>
<tr>
<td><strong>Non Concessional Borrowing Policy</strong></td>
<td>Q3 / 18</td>
<td>AC + EB + GC</td>
<td>1</td>
</tr>
<tr>
<td><strong>New operational instruments</strong></td>
<td>Q3 / 18</td>
<td>TF + EB</td>
<td>2</td>
</tr>
<tr>
<td><strong>Faster implementation tools</strong></td>
<td>Q3 / 18</td>
<td>AC + EB + GC</td>
<td>2</td>
</tr>
<tr>
<td><strong>DSF: Debt Sustainability Framework</strong></td>
<td>Q4 / 18</td>
<td>AC + EB</td>
<td>1,3</td>
</tr>
<tr>
<td><strong>Liquidity Investment Policy</strong></td>
<td>Q4 / 18</td>
<td>AC + EB + GC</td>
<td>1,3</td>
</tr>
<tr>
<td><strong>Minimum Liquidity Requirement</strong></td>
<td>Q1 / 19</td>
<td>AC + EB + GC</td>
<td>1,3</td>
</tr>
</tbody>
</table>
## SUMMARY (ii)

<table>
<thead>
<tr>
<th></th>
<th>TIMING</th>
<th>GOVERNING BODY</th>
<th>CLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Liability Management</td>
<td>Q2 / 19</td>
<td>AC</td>
<td>1,5,6</td>
</tr>
<tr>
<td>Cost of Capital-Loan Pricing *</td>
<td>Q2 / 19</td>
<td>TF + AC + EB + GC</td>
<td>3,7</td>
</tr>
<tr>
<td>Additional Non-Core Resource Allocation *</td>
<td>Q2 / 19</td>
<td>TF + EB</td>
<td>3</td>
</tr>
<tr>
<td>Special Funding Window Fragility *</td>
<td>Q2 / 19</td>
<td>TF + EB</td>
<td>2</td>
</tr>
<tr>
<td>Capital Adequacy Model</td>
<td>Q3 / 19</td>
<td>AC + EB</td>
<td>3,4</td>
</tr>
<tr>
<td>Credit Rating Assessment</td>
<td>Q4 / 19</td>
<td>AC + EB</td>
<td>4</td>
</tr>
<tr>
<td>Accelerated Repayments Policy *</td>
<td>Q3 / 19</td>
<td>TF + AC + EB</td>
<td>2</td>
</tr>
<tr>
<td>Special Reserve</td>
<td>Q4 / 19</td>
<td>AC + EB</td>
<td>1</td>
</tr>
<tr>
<td>Int. Control Framework + Scorecard</td>
<td>Q2 / 19</td>
<td>AC</td>
<td>6</td>
</tr>
</tbody>
</table>

* Subject to approval in Phase III TF Working Group
APPENDIX
 EB 2018-2019

- Faster implementation tools
- Minimum Liquidity Requirement
- Asset Liability Management
- Special Funding Window e.g. Fragility *
- Update credit rating assessment
- Capital Adequacy Model
- Accelerated repayments *
- Additional Non-Core Resource Allocation *
- Internal Control Framework + Scorecard

- DSF
- Phasing in-out
- Update of FT
- Non Concessional Borrowing Policy
- New Operational Instruments
- Loan Credit Risk: IFRS9
- Liquidity Investment Policy

- Approaches to IFAD Cost of Capital *

* Subject to approval in Phase III TF Working Group
TF WG 2018-2019 *

- New operational instruments
- Phasing in-out
- Special Funding Window e.g. Fragility *
- Accelerated Repayments *
- TBD
- Cost of capital approach *
- Additional Non-Core Resource Allocation *

* 2019 Work plan subject to approval in Phase III TF Working Group
**Liquidity Investment Policy**

- Adjust IFAD’s liquidity portfolio risk by decreasing risk appetite and type of investable asset classes.
- Aligns IFAD’s risk profile to that of rated peer IFIs that access borrowing regularly.
- Reduce volatility of investment portfolio profit and loss.
- Enhance IFAD’s management of resources.

**Loan Credit Risk: IFRS9**

- Calculates credit risk by Borrower.
- Allows IFAD to have greater visibility of its capital needs based on the creditworthiness of its loan portfolio.
- Supports credit risk mitigation and analysis.
- Compliance with financial reporting standards to ensure a clean audit opinion.
03 Minimum Liquidity Requirement

- Enable more effective resource usage and tailor it better to current liquidity profile.
- A capital adequacy framework will need to complement the new liquidity policy.
- The new MLR will incorporate debt into the financial model calculation, which was not envisioned in the current liquidity policy dated 2006.
- Calculation method of sustainable POLG may change.

04 Internal Control Framework + Controller Scorecard

- Mitigates risk of financial loss due to fraud and error particularly in an enhanced decentralized environment.
- Enhancement current Financial Framework by requiring set of minimum controls by IFAD Office.
- Development Scorecard and monitoring of financial performance by IFAD Office.
05 Credit Rating Assessment
- Initial step before Board’s approval to access public markets.
- Assessment of IFAD’s creditworthiness as a borrower.

06 Asset Liability Management
- Adequate match of currency and interest rate risks on both sides of the balance sheet.
- Implementation of derivatives to allow tailored loans and investments.

- Key step to enable access to capital markets.
- Additional resource mobilization will enable IFAD to increase size POLG.

- Fundamental tool to mitigate risk of financial losses
- Derivatives allow IFAD to increase flexibility and range of lending instruments to member countries.
07 Update Financing Terms

- Increases flexibility for borrowers.
- Provides options to manage debt & currency risk.
- Tailors IFAD’s financing terms to address strategic topics such as Small States Economies, within current pricing methodology.

- Facilitates IFAD delivery.
- Contributes to resolving ALM mismatch for IFAD loan portfolio.
- Enables comparability to IFIs.
- Financially sustainable overall for IFAD and results in faster reflows.

08 Non Concessional Borrowing Policy

- Disincentive to accumulate sizable non-concessional debt.
- Tool for both IFAD and borrowers on debt and risk management

- Promotes creditor coordination.
- Preventive tool for debt arrears for borrowers and IFAD.
- No significant financial impact.
**Borrowing**

**New Operational Instruments**
- Includes results based lending, regional operations, and Reimbursable Technical Assistance.
- Expands operational and financial instruments and toolkit for borrowers.
- Facilitates IFAD11 delivery.
- Provides increased flexibility for borrowers
- Facilitates tailoring of lending and non lending products to country demand and needs.

**Phasing In / Out Mechanism**
- Implements smooth and predictable phasing-in of hardened lending terms over the replenishment cycle.
- Provides transitional support to borrowers.
- Encourages earlier use of IFAD resources in cycle
- No significant financial impact/ risks for IFAD.

*IFAD* stands for International Fund for Agricultural Development, which is known for investing in rural people.
<table>
<thead>
<tr>
<th><strong>11 Faster Implementation Tools</strong></th>
<th><strong>12 Additional Non-Core Resource Allocation</strong> *</th>
</tr>
</thead>
</table>
| ✓ Tools to accelerate start-up and hence implementation.  
✓ Examples: Project pre-financing facility, Project Start-up Technical Assistance, Programmatic Line of Credit. | ✓ Additional conditional resources to borrowers to satisfy demand over and above the PBAS.  
✓ Pricing will reflect IFAD’s cost of borrowing. |
| ✓ Tailoring of lending products to meet country demand and needs.  
✓ Increases flexibility and liquidity for borrowers.  
✓ Improves disbursement ratios.  
✓ Facilitates IFAD delivery. | ✓ Creates mechanism to fulfil increased country demand by certain member countries.  
✓ Provides additional liquidity and reflows to IFAD.  
✓ No significant financial risks for IFAD if NCBP in place. |

* Subject to approval in Phase III TF Working Group
## Borrowing

<table>
<thead>
<tr>
<th>13</th>
<th>Accelerated Repayments Policy*</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>Establish possibility for borrowers to repay partially or fully their loans in advance, thus avoiding service charge / interest costs.</td>
</tr>
<tr>
<td>✓</td>
<td>Provides increased flexibility for borrowers to manage debt, currency and maturity risk.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>14</th>
<th>Special Funding Windows (e.g. fragility)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>Establish a mechanisms that provides focused support and additional concessional resources to IFAD’s target borrowers, in particular fragile and / or crisis and / or conflict situations.</td>
</tr>
<tr>
<td>✓</td>
<td>Targets IFAD’s niche stakeholders by providing specific support tailored to country demand and needs.</td>
</tr>
</tbody>
</table>

* Subject to approval in Phase III TF Working Group
Capital

15 Capital Adequacy Model

- Design of stress testing and projection models of IFAD's capital structure
- Provides a view into long term capital needs and financial sustainability of IFAD.

- Ensures proper levels of capital and long term sustainability.
- Supports other risk measures in safeguarding IFAD capital and member state contributions.

16 Special Reserve

- Creation of a special reserve within IFAD’s balance sheet
- The Special Reserve is not for distribution but maintained as a precautionary balance.

- Provides a capital cushion
- Enhances lender confidence in IFAD.
<table>
<thead>
<tr>
<th>17</th>
<th>Cost of Capital – Loan Pricing *</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>Determination of IFAD’s cost of capital to raise borrowed funds</td>
</tr>
<tr>
<td>✓</td>
<td>Calculation of sustainable interest rates on which to on-lend borrowed funds</td>
</tr>
<tr>
<td>✓</td>
<td>Would allow de-peg from IBRD pricing methodology</td>
</tr>
<tr>
<td>✓</td>
<td>Tailored pricing that reflects IFAD’s financial position and costs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>18</th>
<th>Debt Sustainability Framework (DSF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>Options to adjust DSF mechanism to tailor it to IFAD’s financial position to ensure IFAD’s long-term financial sustainability of IFAD</td>
</tr>
<tr>
<td>✓</td>
<td>Continue mechanism in a sustainable way in order to support the poorest countries</td>
</tr>
<tr>
<td>✓</td>
<td>Support the long-term financial sustainability of IFAD</td>
</tr>
</tbody>
</table>

* Subject to approval in Phase III TF Working Group