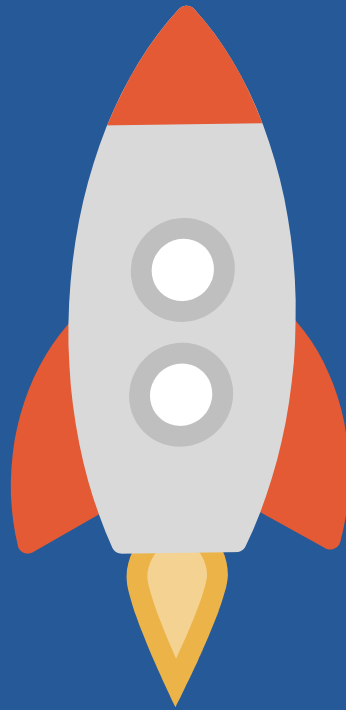


Transition Framework and Financial Architecture Transformation

FOD
23 JULY 2018

Transition Framework



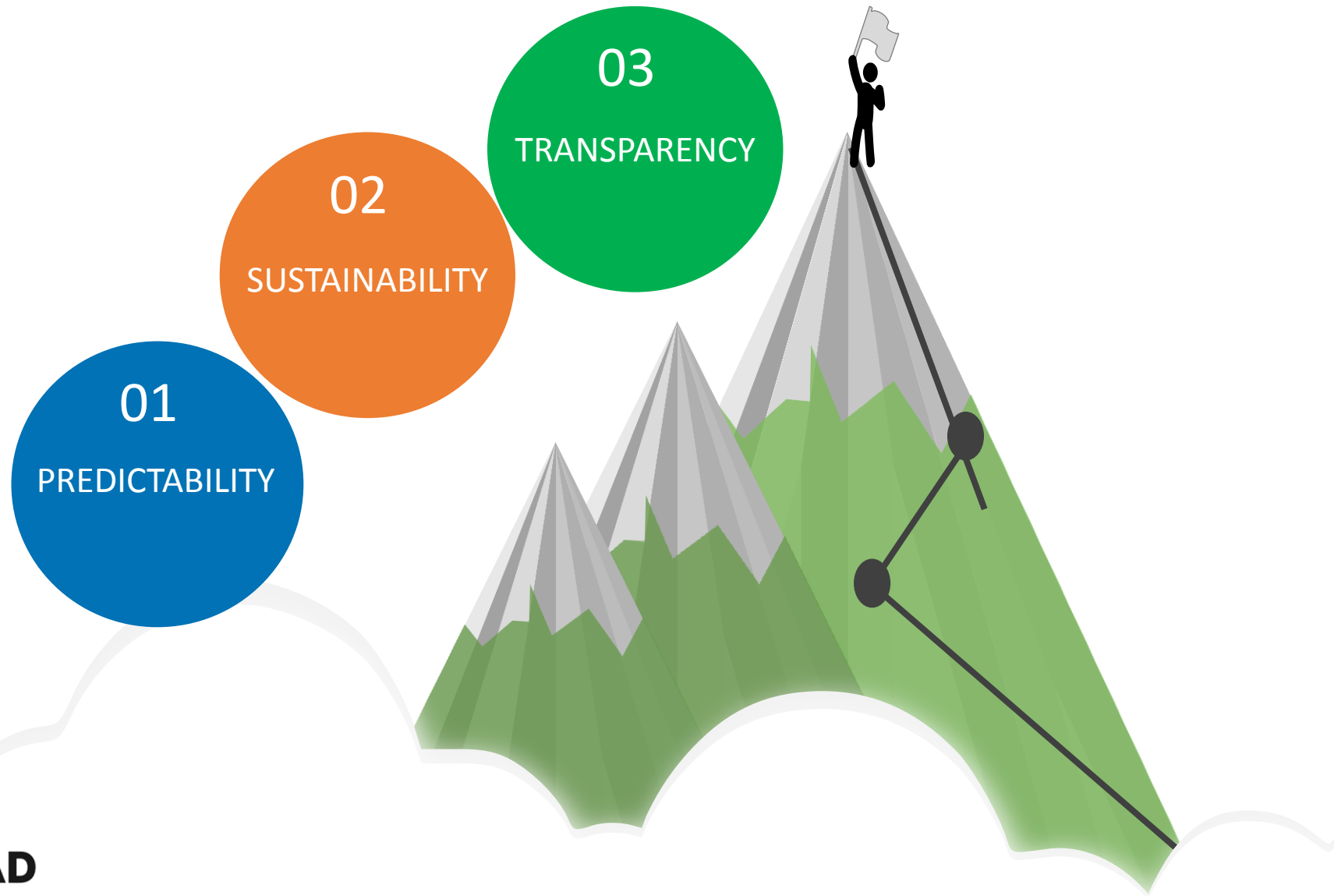
Vision

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.



Investing in rural people

Principles IFAD's Transition Framework



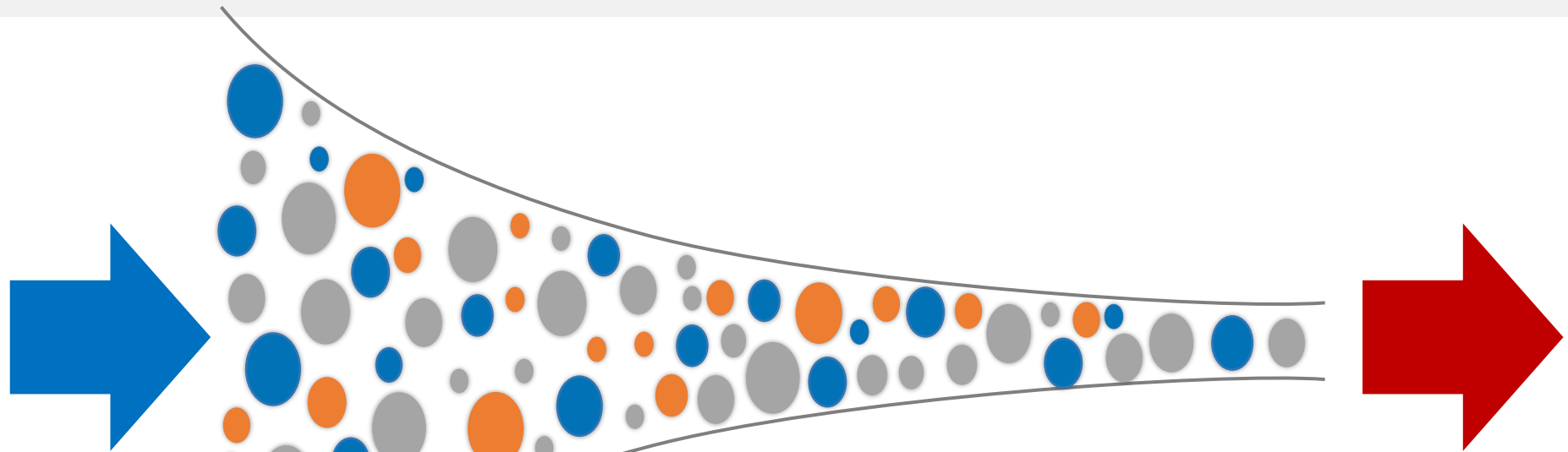
Transition Process

Definition

Implementation

Evaluation

Adjustment



- 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.

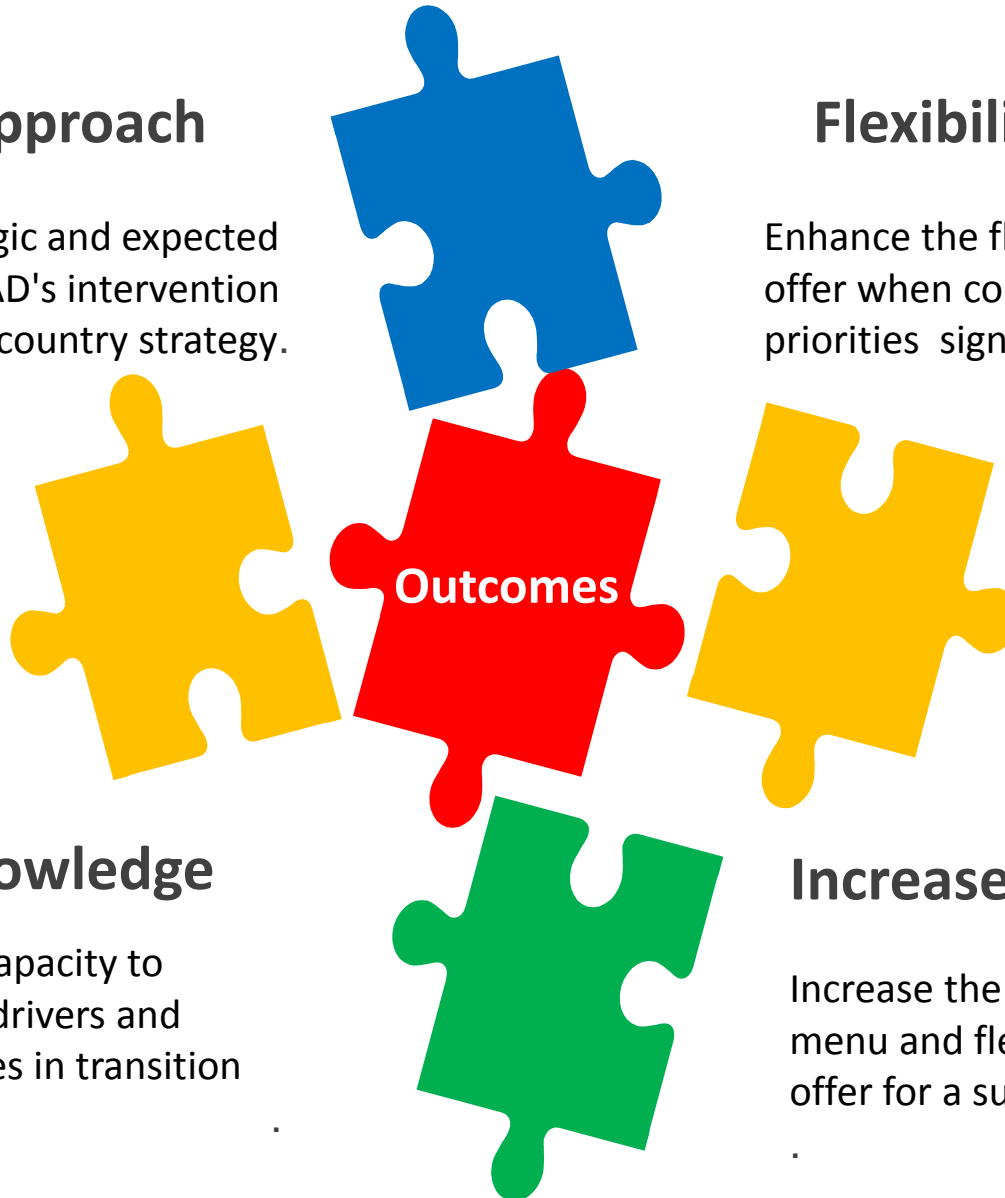
Expected Outcomes

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.



Outcomes

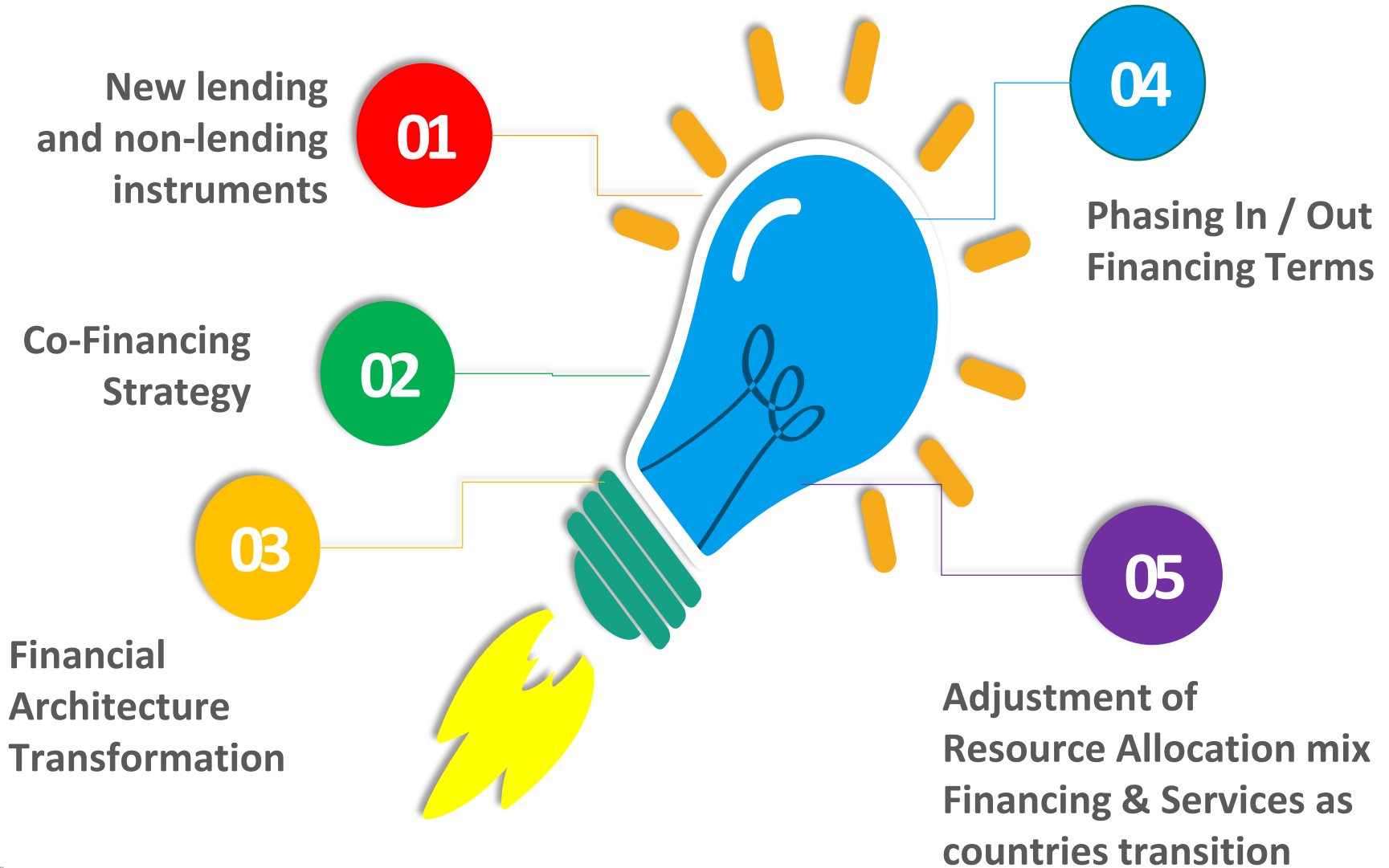
Enhanced Knowledge

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

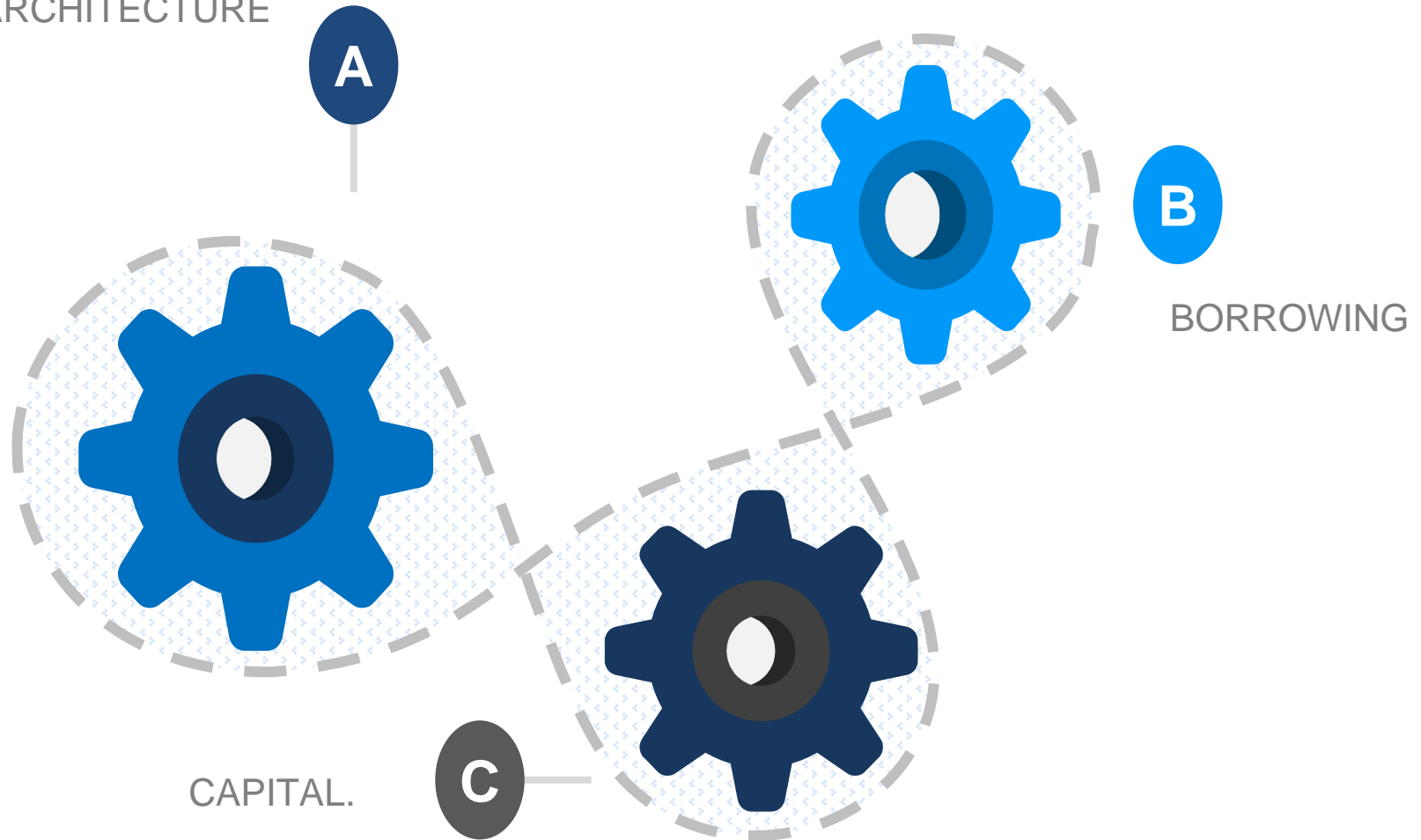




Financial Architecture Transformation

IFAD Financial Engine

ARCHITECTURE



CAPITAL.

Why?

01 Expand flexibility
lending instruments

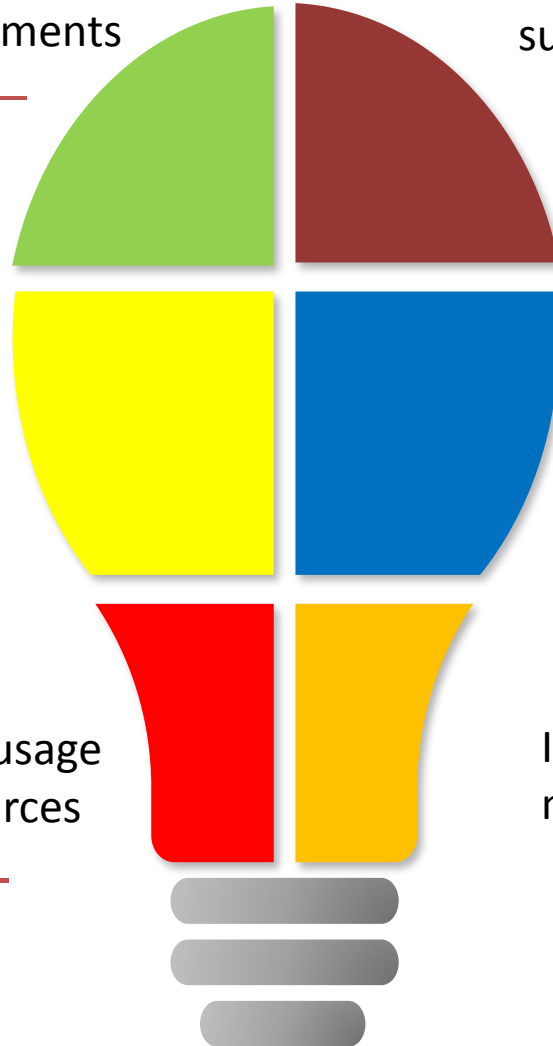
Improve financial
sustainability **04**

02 Meet borrower
demand size

Strengthen Risk
management **05**

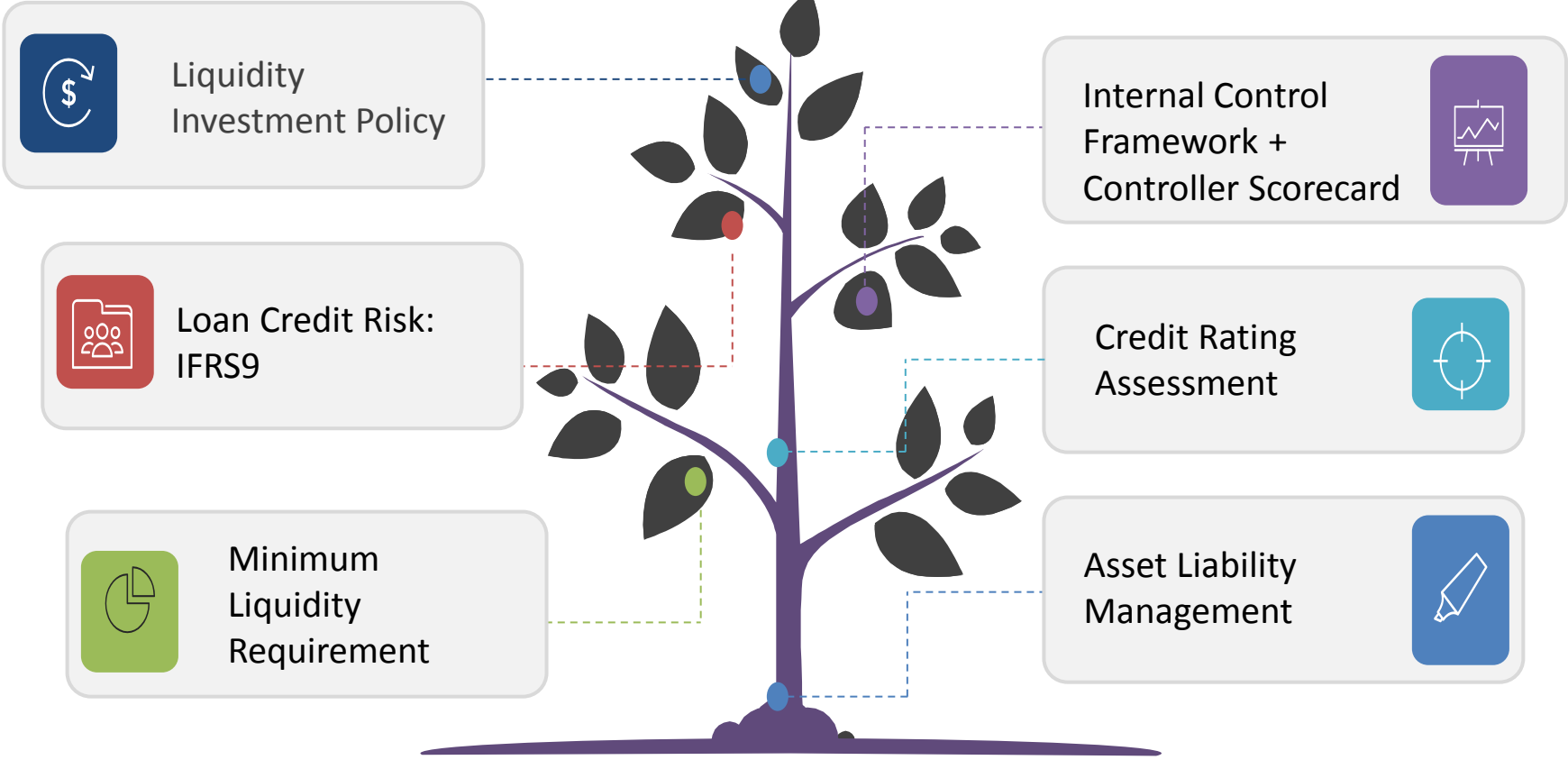
03 Capital efficiency usage
to maximize resources

Increase instruments
mobilize resources **06**

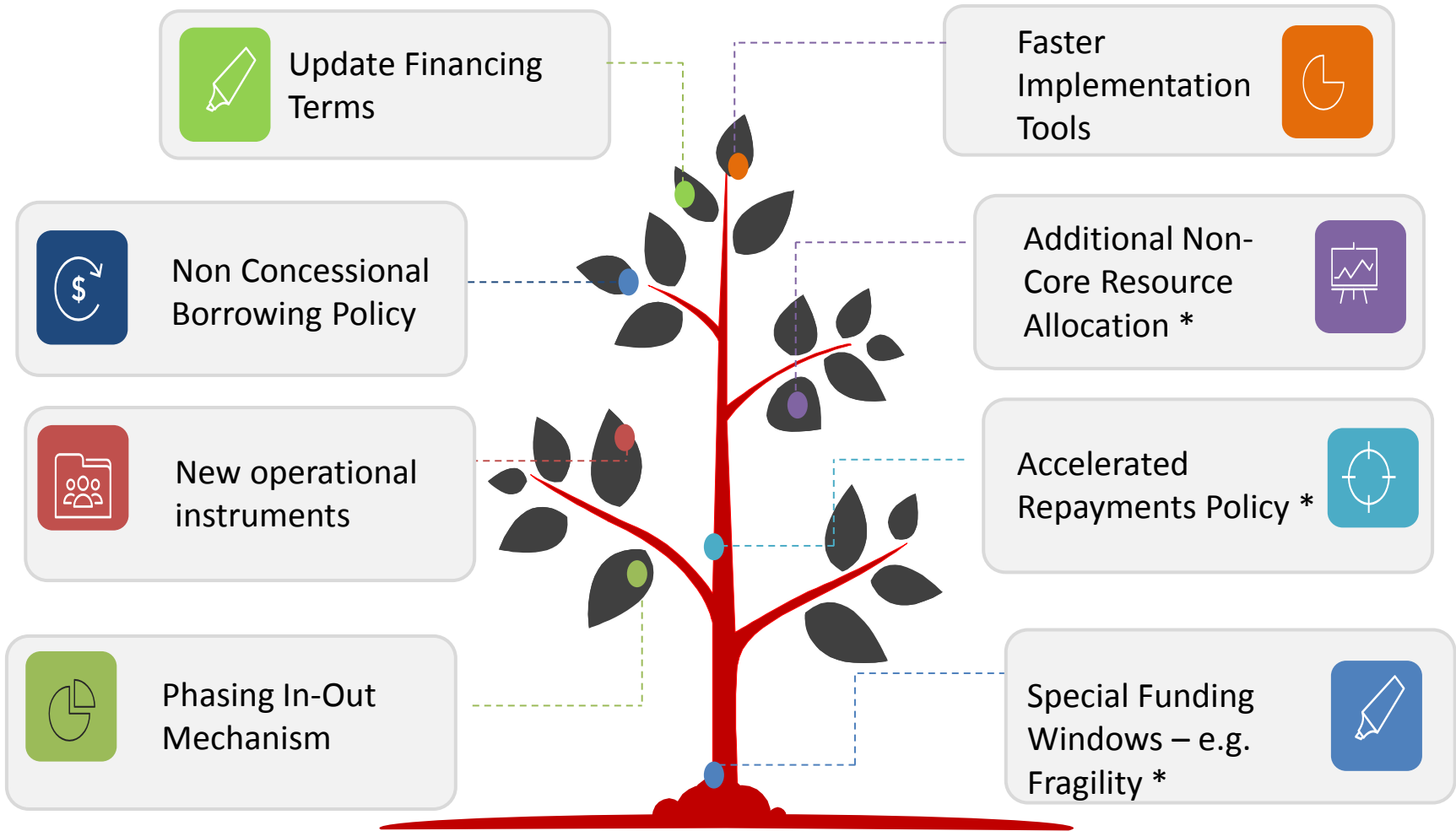


A

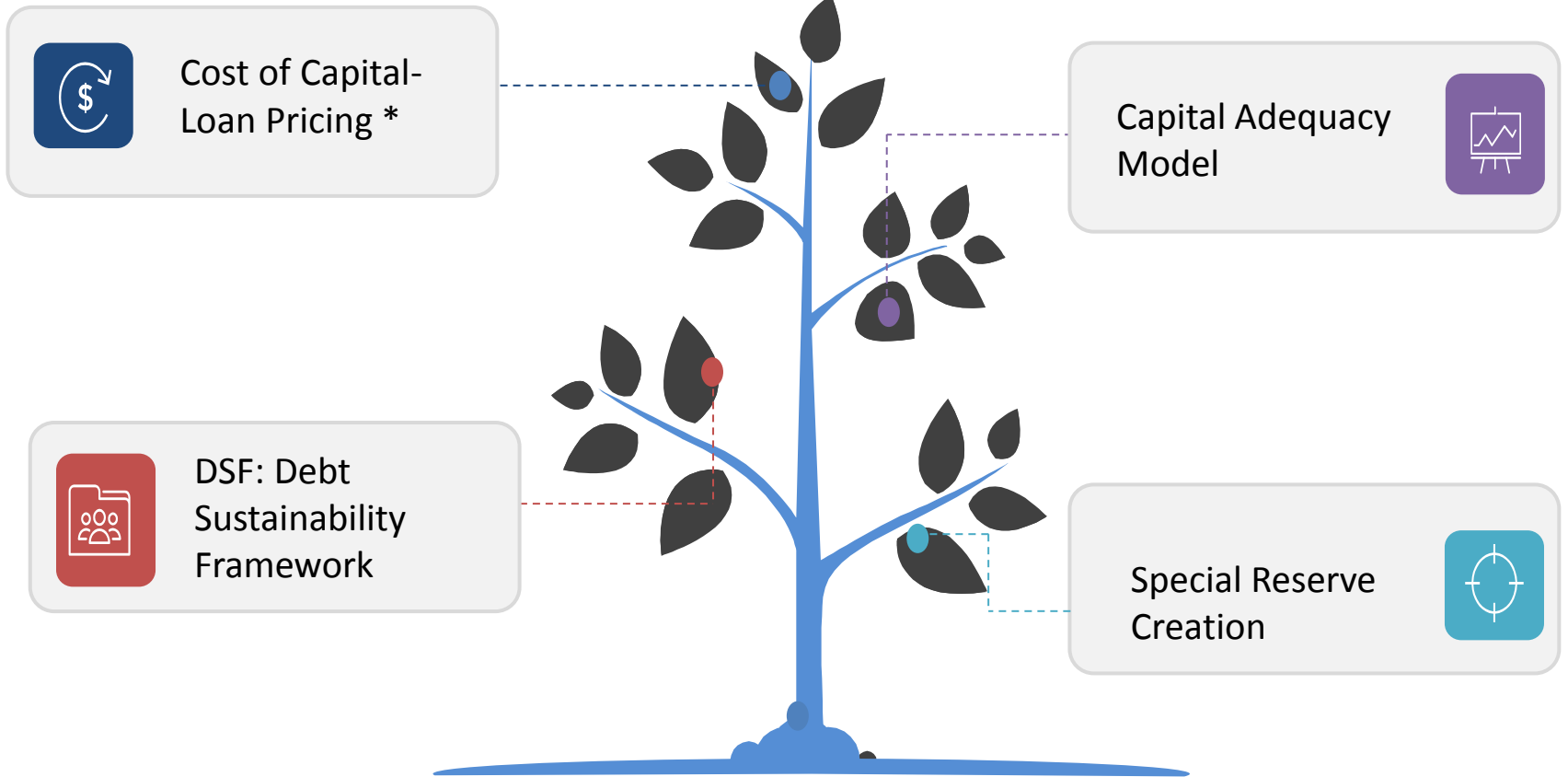
Architecture



B Borrowing



c Capital



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

Measures on Corporate Level Evaluation



Summary: When, how and why...



SUMMARY (i)



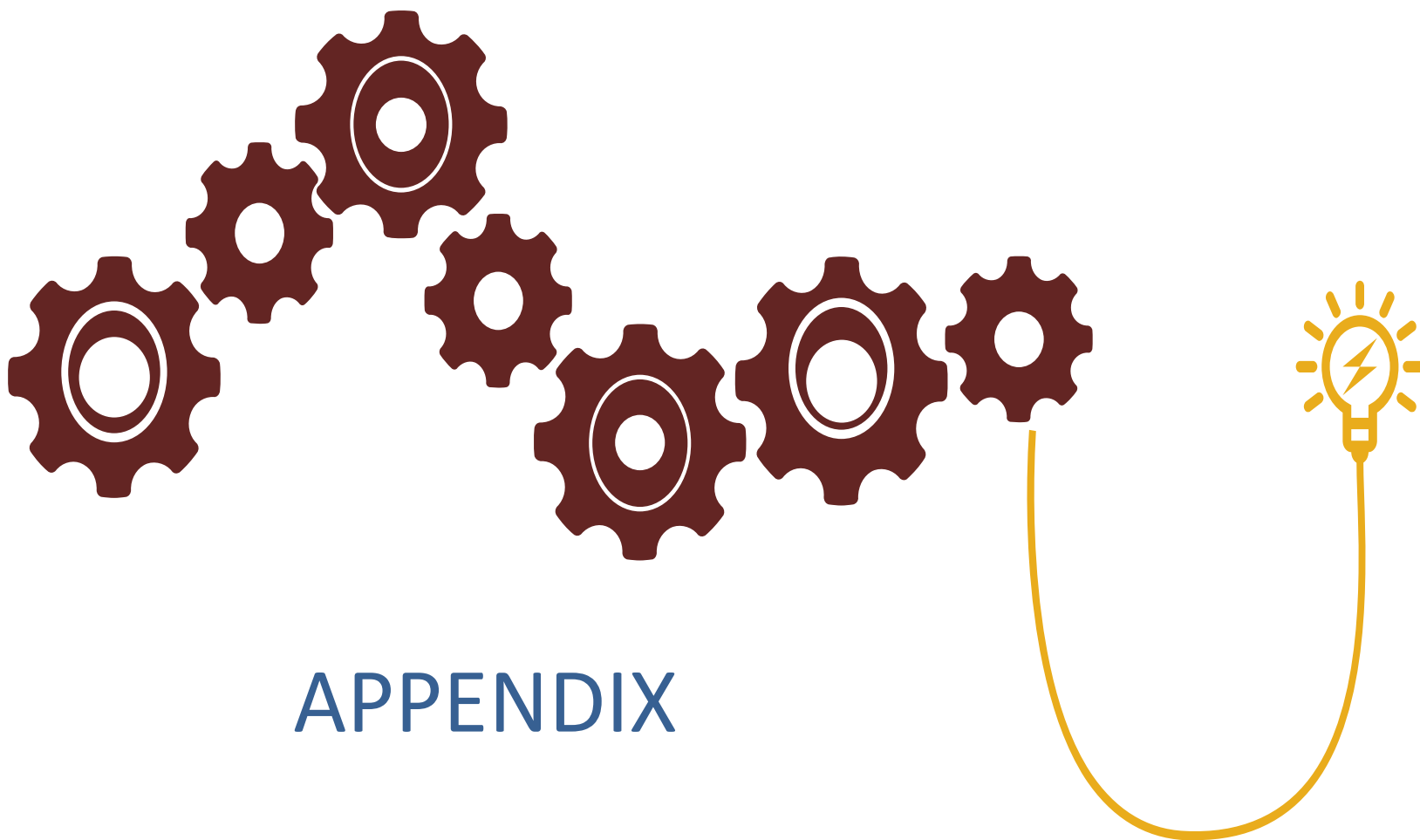
	Expected Initial Discussion	Process	Recommendation Number
Loan Credit Risk: IFRS9	Q2 / 18	AC + EB	6
Phasing in / out mechanism	Q2 / 18	TF + EB	2
Update Financing Terms	Q3 / 18	AC + EB + GC	2
Non Concessional Borrowing Policy	Q3 / 18	AC + EB + GC	1
New operational instruments	Q3 / 18	TF + EB	2
Faster implementation tools	Q3 / 18	AC + EB + GC	2
DSF: Debt Sustainability Framework	Q4 / 18	AC + EB	1,3
Liquidity Investment Policy	Q4 / 18	AC + EB + GC	1,3
Minimum Liquidity Requirement	Q1 / 19	AC + EB + GC	1,3

SUMMARY (ii)



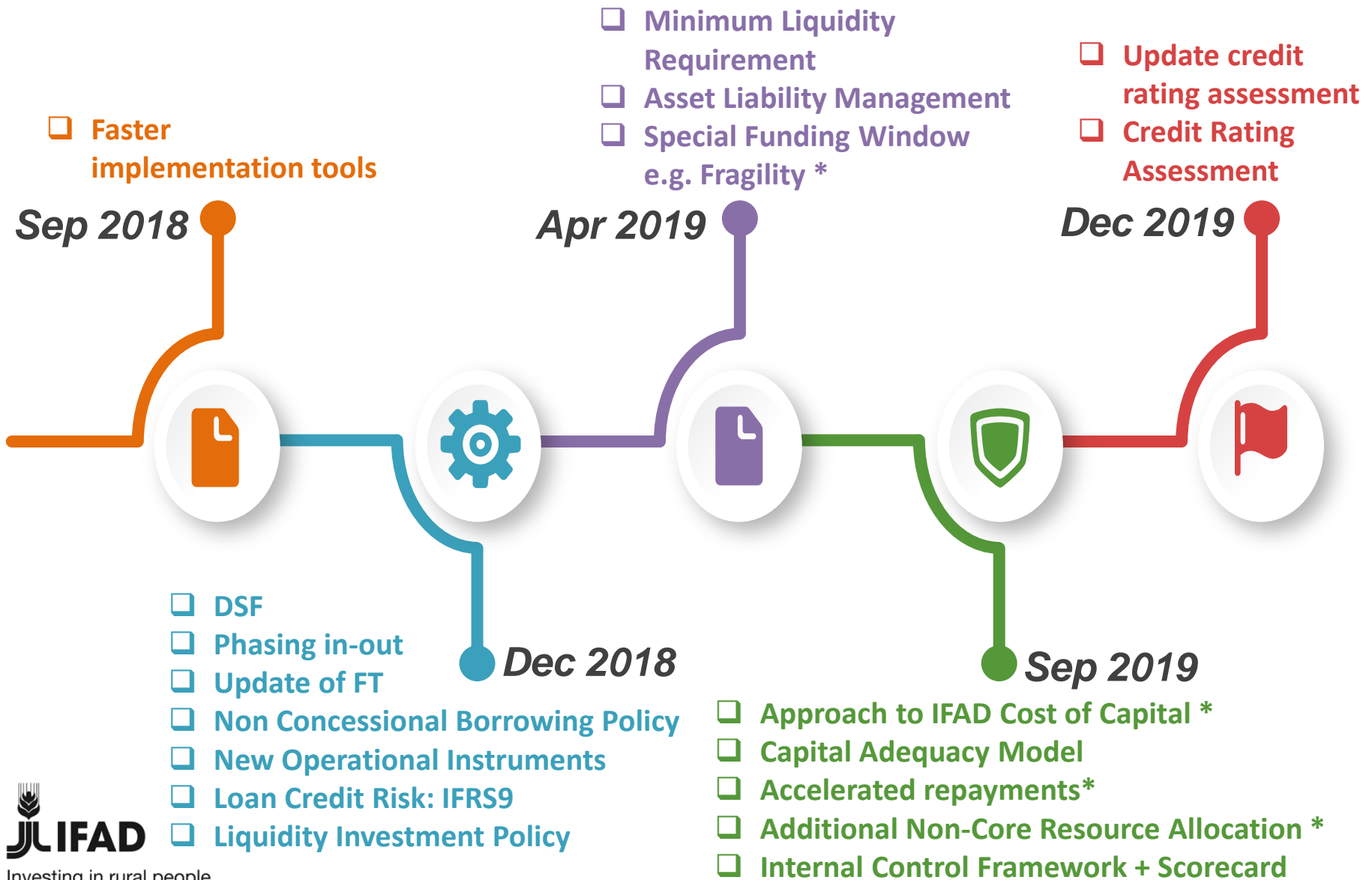
	Expected Initial Discussion	Process	Recommendation Number
Asset Liability Management	Q2 / 19	AC	1,5,6
Cost of Capital-Loan Pricing *	Q2 / 19	TF + AC + EB + GC	3,7
Additional Non-Core Resource Allocation *	Q2 / 19	TF + EB	3
Special Funding Window Fragility *	Q2 / 19	TF + EB	2
Capital Adequacy Model	Q3 / 19	AC + EB	3,4
Credit Rating Assessment	Q4 / 19	AC + EB	4
Accelerated Repayments Policy *	Q3 / 19	TF + AC + EB	2
Special Reserve	Q4 / 19	AC + EB	1
Int. Control Framework + Scorecard	Q2 / 19	AC	6

* Subject to approval in Phase III TF Working Group

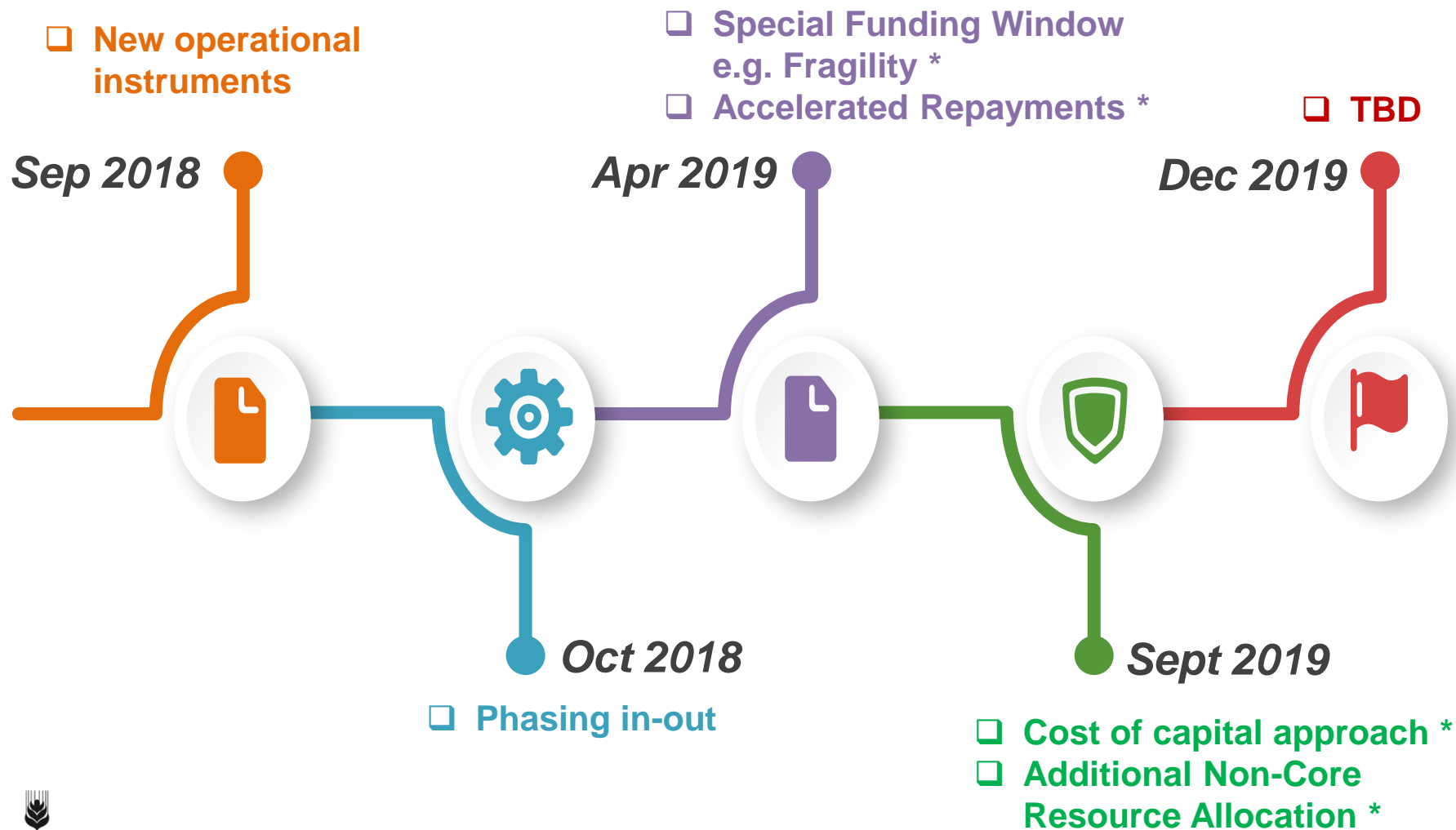


APPENDIX

EB 2018-2019



TF WG 2018-2019 *



01

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.

02

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



- ✓ 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.



- ✓ 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.

04 Internal Control Framework + Controller Scorecard



- ✓ Enhancement current Financial Framework by requiring set of minimum controls by IFAD Office.
- ✓ Development Scorecard and monitoring of financial performance by IFAD Office.



- ✓ Mitigates risk of financial loss due to fraud and error particularly in an enhanced decentralized environment.

05

Credit Rating Assessment



- ✓ Initial step before Board's approval to access public markets.
- ✓ Assessment of IFAD's creditworthiness as a borrower.



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

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.



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

B Borrowing

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 IFAD11 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.

B Borrowing

09 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.

10 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.

B Borrowing

11 Faster Implementation Tools



- ✓ Tools to accelerate start-up and hence implementation.
- ✓ Examples: Project pre-financing facility, Project Start-up Technical Assistance, Programmatic Line of Credit.



- ✓ Tailoring of lending products to meet country demand and needs.
- ✓ Increases flexibility and liquidity for borrowers.
- ✓ Improves disbursement ratios.
- ✓ Facilitates IFAD11 delivery.

12 Additional Non-Core Resource Allocation *



- ✓ Additional conditional resources to borrowers to satisfy demand over and above the PBAS.
- ✓ Pricing will reflect IFAD's cost of borrowing.



- ✓ 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.

B Borrowing

13 Accelerated Repayments Policy*



- ✓ Establish possibility for borrowers to repay partially or fully their loans in advance, thus avoiding service charge / interest costs.



- ✓ Provides increased flexibility for borrowers to manage debt, currency and maturity risk.

14 Special Funding Windows (e.g. fragility)*



- ✓ 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.



- ✓ Targets IFAD's niche stakeholders by providing specific support tailored to country demand and needs.

c 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.

c Capital

17 Cost of Capital – Loan Pricing *



- ✓ Determination of IFAD's cost of capital to raise borrowed funds
- ✓ Calculation of sustainable interest rates on which to on-lend borrowed funds.



- ✓ Would allow de-peg from IBRD pricing methodology
- ✓ Tailored pricing that reflects IFAD's financial position and costs.

18 Debt Sustainability Framework (DSF)



- ✓ Options to adjust DSF mechanism to tailor it to IFAD's financial position to ensure IFAD's long-term financial sustainability of IFAD.



- ✓ Continue mechanism in a sustainable way in order to support the poorest countries
- ✓ Support the long-term financial sustainability of IFAD.