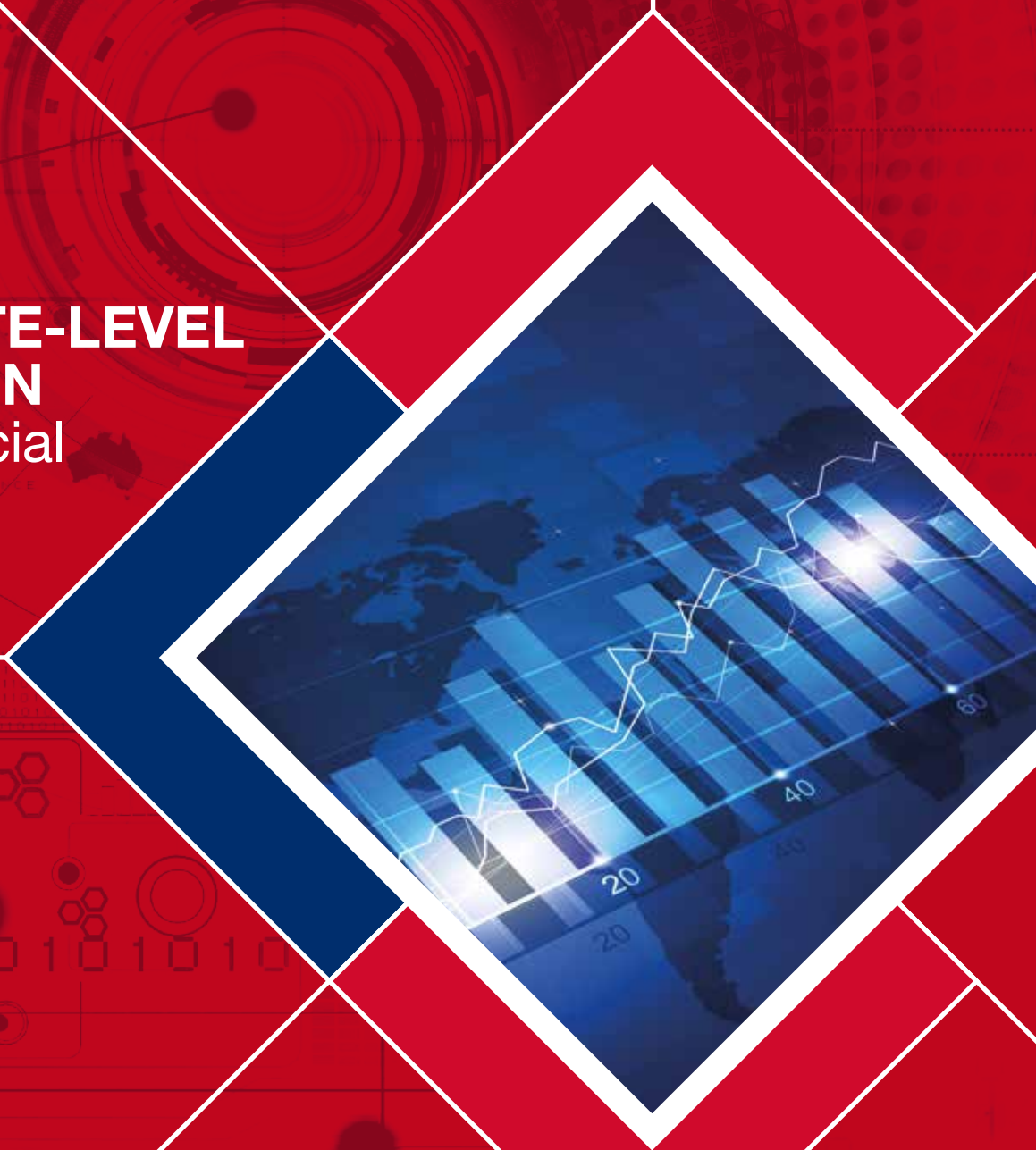


CORPORATE-LEVEL EVALUATION

IFAD's financial
architecture



Independent Office
of Evaluation



Investing in rural people

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September 2018

Independent Office
of Evaluation

 **IFAD**
Investing in rural people

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Abbreviations and acronyms

ACA	advanced commitment authority
ADF	Asian Development Fund
AFD	Agence Française de Développement
AfDB	African Development Bank
AfDF	African Development Fund
ALM	Asset and Liability Management
APR	Asia and the Pacific Division (IFAD)
ASAP	Adaptation for Smallholder Agriculture Programme
AsDB	Asian Development Bank
AUO	Office of Audit and Oversight (IFAD)
CLE	corporate-level evaluation
COSOP	country strategic opportunities programme
CPE	country programme evaluation
CPL	concessional partner loan
DFI	development finance institution
DSF	Debt Sustainability Framework
EBRD	European Bank for Reconstruction and Development
ESA	East and Southern Africa Division (IFAD)
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FMO	Netherlands Development Finance Company
FOD	Finance Operations Department
GAVI	Global Alliance for Vaccines and Immunisation
GAFFSP	Global Agriculture and Food Security Program
GEF	Global Environment Facility
G20	Group of Twenty
HIPC	Heavily Indebted Poor Countries Initiative
IBRD	International Bank for Reconstruction and Development
IDA	international development association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	international financial institution
IFFIm	International Finance Facility for Immunisation
IFC-Miga	International Finance Corporation-Multilateral Investment Guarantee Agency
IOE	Independent Office of Evaluation of IFAD
LAC	Latin America and the Caribbean Division (IFAD)
LIC	low-income country
LMIC	lower-middle-income country
MDB	multilateral development bank
M&E	monitoring and evaluation
MIC	middle-income countries
NEDA	National Economic and Development Authority
NEN	Near East and North Africa Division (IFAD)
NGO	Non-Governmental Organization
ODA	official development assistance
OECD-DAC	Organisation for Economic Co-operation and Development - Development Assistance Committee

PBAS	performance-based allocation system
PMD	Programme Management Department (IFAD)
PoLG	programme of loans and grants
P/L	profit and loss
PRM	Partnership and Resource Mobilization (IFAD)
PSR	project status report
RBL	result-based lending
RMF	Results Management Framework
RSP	rural sector performance
SBF	Sovereign Borrowing Framework
SDGs	Sustainable Development Goals
SDR	special drawing rights
SIDA	Sweedish International Development Cooperation Agency
SIF	Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund
SMADF	Small and Medium Agribusiness Development Fund in Uganda
TRE	Treasury Services Division (IFAD)
UMIC	upper-middle-income country
WCA	West and Central Africa Division (IFAD)
WFP	World Food Programme
WRMF	Weather Risk Management Facility



COLOMBIA

The Building Rural Entrepreneurial Capacities Project - Trust and Opportunities, aims to tackle inequality and poverty issues in rural financial services. Its target group is composed of approximately 50,000 rural households living in extreme poverty in Colombia. In the picture, Maria Felisa Sinisterra de Solis (60 years old) belongs to the 'Unidos por el Progreso de Santa Rosa and sells fish in a fish market in Cauca, Colombia.

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THE PHILIPPINES

The Rural Microenterprise Promotion Programme's objective is to achieve increasing numbers of new and existing rural microenterprises, and to ensure their expansion and profitable and sustainable operation.

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Foreword

The implementation of the Sustainable Development (SDGs) will require an ambitious, comprehensive and transformative approach. The 2015 Addis Ababa Action Agenda underlined that it is unacceptable that close to 800 million people do not have access to sufficient, safe and nutritious food. It recognized IFAD's efforts in mobilizing investment to enable rural people living in poverty to improve their food security and nutrition, raise their incomes and strengthen their resilience.

The Addis Ababa Action Agenda strongly encouraged development finance institutions (DFIs) to make optimal use of their resources, while maintaining their financial integrity, and develop their policies in support of the post-2015 development agenda.

Against this background, this evaluation – the first comprehensive, independent assessment of a DFI financial architecture – examined the policies and systems adopted to mobilize, manage, allocate and disburse financial resources to fulfil IFAD's mandate of helping to reduce rural poverty. This corporate-level evaluation provides evidence of IFAD's financial architecture performance and identifies areas and opportunities for improvement.

Periodic replenishments are at the heart of IFAD's financial architecture and its main source of financing. While, in the past, reliance on replenishment allowed for considerable growth of the annual programme of loans and grants (PoLG), this model has shown its limitations in recent years. An important use of international public finance, including official development assistance (ODA), is to catalyse resource mobilization from other sources, private and public. However, traditionally IFAD has made limited leveraging of its capital resources.

Sovereign borrowing has been a palliative measure that cannot be solely relied upon in the future. Other options, including accessing international capital markets, and their prerequisites, are discussed in this report.

Countries are in the driver's seat in responding to the development challenges. They need diverse and flexible financial products to support their development strategies.

The challenges for IFAD are to broaden the range of financial products that it offers to reduce rural poverty and promote rural development, as well as to increase flexibility of the terms of its existing financial products.

Addressing conditions for IFAD's financial sustainability is a priority. This evaluation identifies the need to increase the Fund's portfolio yields while controlling operating expenses, in relation to total assets and to the annual volume of loans and grants. Of paramount importance will be to revise the compensation mechanism for the Debt Sustainability Framework (DSF).

While low-income countries need to be released from the burden of increased debt, it is imperative to improve predictability of the compensation system for IFAD and avoid capital erosion.

Four decades after the beginning of the Fund's operations, IFAD's financial architecture needs reform in order to better address rural poverty reduction and development needs, more efficiently leverage its equity and strengthen its financial sustainability.

This evaluation report includes Management's Response, presenting IFAD Management's proposals on ways to implement the evaluation's recommendations. I sincerely hope that this important work will support the undertaking of reforms of IFAD's financial architecture in order to enhance its development effectiveness in the context of the 2030 Agenda for Sustainable Development.



Oscar A. Garcia
Director

Independent Office of Evaluation of IFAD

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IOE is grateful to Executive Board representatives and Evaluation Committee members for supporting this corporate-level evaluation. IOE also thanks IFAD Management and staff for their input and comments at various stages, and in particular those staff members who supported the conducting of country case studies.

Finally, IOE would like to convey appreciation to the governments and development partners in many countries for supporting the conduct of case studies.



UGANDA

The Laboke – Kololo road is a 3 km rural road that leads from farmers' fields to a market on the lake shore. The road and market make it easier for farmers to transport their produce and for fishermen to sell their daily catch. The road was converted from a footpath with a drainage structure, then expanded and gravel was put down, while the market was raised up on cement to keep it dry in the rainy season.

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PERU

Through IFAD's initiative in the Southern Highlands of Peru, women's groups are entrusted with the administration of small funds, which provide credit for the development of microbusinesses such as agricultural production and livestock breeding. The Market Strengthening and Livelihood Diversification in the Southern Highlands Project aims to promote rural empowerment and improve women's status in rural communities in the Southern Highlands.

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Overview

1. **Background.** The Executive Board approved the conduct of a corporate-level evaluation (CLE) on IFAD's financial architecture by the Independent Office of Evaluation of IFAD (IOE) in December 2016. This is the first comprehensive, independent evaluation of the financial architecture of a development finance institution (DFI). The CLE will inform decisions related to IFAD's financial architecture, long-term financial sustainability and financial contribution to the 2030 Agenda for Sustainable Development (2030 Agenda).
 2. For the purposes of this evaluation, "financial architecture" is defined as the policies and systems adopted to mobilize, manage, allocate and disburse financial resources to fulfil IFAD's mandate of helping to reduce rural poverty. Key elements of financial architecture are: (i) sources of funds; (ii) financial support instruments; (iii) allocation systems; and (iv) management, oversight and governance.
 3. IFAD was established in 1977 as a fund and specialized United Nations agency and is the only international financial institution (IFI) focusing exclusively on agriculture and rural development. The structure of IFAD's balance sheet differs from that of multilateral development banks (MDBs), which have credit ratings and issue debt on the financial markets to leverage lending activities. Encouraged by the Group of Twenty (G20), MDBs are exploring ways to increase their financial support for the 2030 Agenda by more efficiently leveraging the equity in their balance sheets, while maintaining their AAA credit ratings.
 4. **The evaluation's objectives** were to: (i) assess the relevance of the financial architecture in mobilizing resources; (ii) examine the value added of IFAD's financial instruments to Member States; (iii) analyse the efficiency of the financial architecture; (iv) assess the contribution of investment and financial strategies to IFAD's financial sustainability; and (v) make recommendations and identify alternatives and options that would strengthen the financial architecture and IFAD's capacity to fund rural poverty reduction programmes.
 5. This CLE focused on the years 2007 to 2017, used mixed methods and analysed data from a range of sources: (i) IFAD's treasury system; (ii) financial policies and official financial documentation; (iii) corporate information systems such as the Grants and Investment Projects System, FlexCube and PeopleSoft; (iv) semi-structured interviews with representatives of the governing bodies, senior management and staff; governments in borrowing countries; and other DFIs; (v) interactions with 17 countries; (vi) financial modelling; (vii) an electronic survey of stakeholders; and (viii) a review of comparator organizations.
- ## A. Funding sources
6. Traditionally, IFAD's financial architecture has been centred on replenishment contributions and other non-reimbursable sources of funding (e.g. reflows from loans, income from Treasury investments, and supplementary and complementary funding). Prima facie, this seems to be a relevant arrangement for an institution that mainly provides sovereign loans at concessional terms. The embedded assumption has been that, over the long term, IFAD Members would be able and willing to continue providing financial support in grant form and at a level allowing the Fund to maintain or increase its programme of loans and grants (PoLG).
 7. The above assumption hinges upon the broader development finance context. Trends in official development assistance (ODA) have been favourable in the past decade. At constant prices, total ODA from Organisation for Economic Co-operation and Development (OECD) donors increased from US\$133.6 billion in 2006 to US\$195.4 billion in 2016 and ODA for agriculture increased from US\$4.9 billion to

- US\$9.7 billion in the same period. Nevertheless, recent replenishments by the International Development Association (IDA) and African Development Fund (AfDF) have seen a decline in traditional donor contributions – although, in the case of IDA, market borrowing has been introduced.
8. **After a steep rise in total core contribution pledges between the Seventh Replenishment of IFAD's Resources (IFAD7) and IFAD8, pledges have largely stabilized.** In constant 2015 prices, pledges increased from US\$687 million in IFAD7 to US\$1.075 billion in IFAD8 and US\$1.118 billion in IFAD9 but declined slightly to US\$1.014 billion in IFAD10.
 9. **Complementary contributions and supplementary funds are important resources.** Their combined volume during the period 2007-2016 represented slightly more than half of the volume of replenishment contributions. In spite of their different legal status, in practice this CLE found little difference between the utilization of complementary contributions and supplementary funds, except that complementary contributions do not contribute to covering administrative costs. Supplementary funds provide coverage of administrative costs but at a lower rate than in comparator organizations, and generally require Board approval even for smaller amounts.
 10. **Cofinancing and national counterpart financing mobilize resources from national partner and international organizations and are essential for scaling up.** Between 2007 and 2016, domestic counterpart funding posted an average ratio of approximately 0.7:1 to IFAD financing, while the ratio of international cofinancing was of 0.52:1. This was in line with the target for the overall cofinancing ratio under IFAD9 and IFAD10 (1.2:1), although the target will be raised to 1.4:1 under IFAD11. Since 2007, there has been a slight decline in international cofinancing but an increase in national counterpart funding. There is scope for increasing international cofinancing from multilateral DFIs. In particular, opportunities may arise in connection with climate-related funding.
 11. **Since IFAD9, the traditional funding sources (replenishment contributions, loan reflows and treasury income) have not been sufficient to finance the desired PoLG.** Thus, IFAD has begun using debt to leverage its equity and narrow the gap. A precursor to sovereign loans was the Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund), approved by the Executive Board in 2010. Then, a sovereign loan of EUR 400 million was obtained from KfW Development Bank (KfW) in September 2014. In 2015, the Board approved a sovereign borrowing framework (SBF). The negotiation of a EUR 200 million loan with the Agence Française de Développement (AFD) was completed in 2017. The lending terms of KfW and AFD only allow for onlending at ordinary terms and in euros to avoid losses and currency exchange risks.
 12. The Executive Board agreed in October 2017 to the introduction of concessional partner loans for IFAD11. Such loans are to be provided at well-below-market interest rates, with long maturities and grace periods, and no earmarking for particular countries or themes. They are to be additional to, and not a substitute for, core contributions. Concessional partnership loans (CPLs) could fund onlending at highly concessional terms if very low interest rates can be negotiated.
 13. **IFAD's Debt Sustainability Framework (DSF)** was introduced in 2007, as an instrument to support debt relief and management in the poorest countries. There are differences between the application of the DSF in IFAD and that of similar instruments at other DFIs. For instance, the amount to be granted/lent to the country based on the performance-based allocation system (PBAS) is reduced by 20 per cent in IDA and AfDF compared with 5 per cent in IFAD. The compensation to IDA and AfDF is received earlier than that to IFAD (10 years in IDA and AfDF versus 40 years in IFAD). At IFAD, DSF approvals up to the end of 2016 will result in an estimated foregone reflow of principal of US\$1.695 billion up to the end of 2056. The compensation is to take place through the replenishment process. Unless there are major increases in pledges over the years, IFAD funding will be eroded.

B. Use of funds and financial instruments

14. Overall, the CLE interviews and E-survey suggest that for many (though not all) countries, the demand for IFAD funding exceeds the size of the PoLG. There was also appetite in some countries to borrow more on harder terms, beyond their PBAS allocation.
15. An IOE CLE on IFAD's PBAS in 2016 concluded that, although some issues needed to be addressed, on the whole the PBAS had resulted in a more systematic, transparent, flexible and predictable resource allocation system and

contributed to greater fairness in the allocation of IFAD's resources across borrowing Member States. IFAD revised the PBAS in 2017, with guidance provided by the Executive Board and drawing on the 2016 CLE recommendations.

16. IFAD is the only DFI in which all lending is allocated through the PBAS. Multilateral DFIs with concessional windows only allocate concessional funds through their PBAS. They allocate ordinary lending and support for the private sector based on project demand, risk management principles and their asset/liability management strategy.
17. **The majority of countries (68 per cent) use at least 90 per cent of their PBAS allocation.** At the aggregate level, low-income countries (LICs) absorbed PBAS allocations better than lower-middle-income countries (LMICs) or upper-middle-income countries (UMICs). In fact, between IFAD7 and IFAD9, LICs used 107 per cent of their original PBAS allocations, compared to 90 per cent for LMICs and 75 per cent for UMICs. Factors at both the country level (e.g. fragility, and peace and order conditions; changes in governments or government priorities) and within IFAD (e.g. staff turnover) have contributed to the less-than-full use of PBAS allocations.
18. Pursuant to the Agreement Establishing IFAD, the financial architecture has resulted in the large majority of funds during the evaluation period being provided on particularly concessional terms: 21 per cent as DSF grants and 50 per cent

as highly concessional loans. A further 11 per cent was provided on blended terms and 18 per cent as ordinary loans. However, the proportion of ordinary loans increased by volume between IFAD7 and IFAD9, from 11 to 18 per cent.

19. **Government priorities and evolving country contexts have been stronger determinants of the nature of projects than IFAD financing terms.** This is confirmed by an analysis of 20 projects in 10 countries that changed country classification, as well as by findings from the E-survey and country case studies. Changes in country classifications, and the resulting hardening of the pricing and terms of financing, were not consistently associated with changes in the type of project design. While ministries of finance are concerned about IFAD's terms, in most countries loan proceeds are passed on to implementing agencies in the form of a grant.
20. **IFAD's interest rates on ordinary loans are generally competitive compared with those on similar DFI loans** (see table 1 below). The International Bank for Reconstruction and Development (IBRD), IDA, African Development Bank (AfDB), Asian Development Bank (AsDB) and Inter-American Development Bank (IDB) levy other fees, such as commitment fees and front-end fees, while IFAD does not. The pricing of IFAD's ordinary loans makes them more attractive to most Member States than borrowing funds on the market. The average bond spreads paid by sovereign entities are significantly higher than IFAD's spread.

TABLE 1
Benchmarking IFAD's interest rates on ordinary loans (June 2017)

MDB	Product	LIBOR rate^{A,B} (%)	Spread (%)	Interest rate
IFAD ^{A,B,C}	Ordinary	1.32	0.94	2.26
IBRD ^B	Flexible w/variable	1.32	0.94	2.26
IDA	Hard term (floating)	1.32	0.31	1.63
AfDB	Fully flexible	1.32	0.97	2.29
AsDB	LIBOR-based loan	1.32	0.63	1.95

Notes: A: Based on maturities of between 18 and 20 years for United States dollar loans. LIBOR rates change. For comparability the LIBOR rate as of 30 December 2016 was used.

B: As of 30 June 2017 the LIBOR rate was 1.45 per cent and the World Bank and IFAD spreads were 0.95 per cent. From 1 April 2017, IBRD is calculating its variable spread on a quarterly basis because of asset liability management considerations. Because IFAD does not borrow from the markets it continues to change its spreads on a semi-annual basis.

C: as of 30 June 2017, IFAD's spread for ordinary loans denominated in SDRs, United States dollars and euro was 0.95 per cent. When added to the corresponding LIBOR rates, the resulting interest rate charged to borrowers was 2.41 per cent for United States dollar-denominated loans, 0.95 per cent for euro-denominated loans and 2.08 for SDR-denominated loans.

Source: CLE elaboration (2017).

21. **There is limited flexibility in IFAD's grace and maturity periods, for all classes of loans.** Other DFIs have a more differentiated approach than IFAD for loan maturities for concessional loans. Other DFIs also have differentiated grace periods for highly concessional loans, depending on country classification. For IDA loans, grace periods range from five years for blend countries and hard-term IDA loans, to six years for IDA-only countries and up to eight and nine years for some scale-up facilities. AsDB and AfDB also vary the grace period based on country classifications.
22. IDA credit agreements have included an accelerated repayment clause since 1987. The clause applies to the borrowers that have a gross national income per capita above the IDA operational cut-off for three consecutive years and that IBRD deems creditworthy. The clause stipulates a doubling of principal repayments on outstanding credits provided that a five-year grace period has elapsed. A similar accelerated repayment provision was introduced under the Thirteenth Replenishment of the African Development Fund (AfDF-13) (2014-2016) by AfDB.
23. For more than two decades, other DFIs have offered their clients the option of selecting the currency for market-based lending, although concessional lending continues to be denominated in special drawing rights (SDRs). During IFAD10, IFAD began to offer ordinary loans denominated in a single currency (either euro or United States dollar) as an alternative to SDR. The strong demand for United States dollars was reiterated during this CLE's country interactions. Some countries also expressed an interest in local currency loans.
24. **IFAD offers a more limited range of products than DFIs generally.** During country visits, at headquarters interviews and as reflected in the E-survey, the general view was that offering more products would allow borrowing countries to select those that best meet their needs.
25. **IFAD is the only DFI that has a formal scaling-up framework but does not have a specific product to facilitate scaling up.** In considering options to support a tailor-made scaling-up product, DFI experiences include: (i) results-based lending; (ii) multitranche financing facilities; and (iii) the IDA Scale-Up Facility. In results-based lending, disbursements are linked to meeting specific performance indicators rather than specific contracts or expenditures. The World Bank, AsDB and IDB have introduced this product. AsDB introduced the Multitranche Financing Facility in 2005 to facilitate the programming of a sequence of individual loans: the AsDB board approves the financing for the entire programme and the first subproject but not subsequent tranches. The IDA Scale-Up Facility was developed in 2016 to provide financing on non-concessional terms.
26. **IFAD does not have a product to rapidly provide financing to mitigate the impact of natural disasters and conflicts.** As a comparison, AsDB has an integrated policy for managing its disaster and emergency assistance that links the phases of the disaster management cycle from prevention and mitigation through preparedness and recovery.
27. **Financing of project pre-implementation support.** Many IOE evaluations have reported delays in project start-up. Such delays have often been attributed to gaps in project implementation readiness. One way to shorten the time required for actual implementation start-up and to reduce front-end delays is to invest more resources in the preparation phase and ensure strong country ownership, implementation capacity and preparedness. In this regard, AsDB recently reformed its technical assistance, introducing transaction technical assistance grants that can be used to finance project preparation and project implementation capacity support.
28. **Products to support the private sector.** IFAD is not permitted to lend directly to non-sovereign entities. This limits its engagement with private-sector operators. Through the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund (SIF), IFAD is beginning to experiment with indirect support to the private sector. The SIF proposal addresses a real gap in available financing but leaves open questions as to: (i) the level of overhead costs of the initiative, which is likely to be high, particularly for direct debt financing; and (ii) cost recovery potential: this CLE's interviews with a sample of impact investors engaging in similar activities have documented problems with NPLs.

C. Demand for additional financial products

24. **IFAD offers a more limited range of products than DFIs generally.** During country visits, at headquarters interviews and as reflected in the E-survey, the general view was that offering more products would allow borrowing countries to select those that best meet their needs.
 25. **IFAD is the only DFI that has a formal scaling-up framework but does not have a specific product to facilitate scaling up.** In considering options to support a tailor-made scaling-up product, DFI experiences include: (i) results-based lending; (ii) multitranche financing facilities; and (iii) the IDA Scale-Up Facility. In
- Non-reimbursable financial instruments**
29. Grant financing is designed to: (i) promote innovative, pro-poor approaches and technologies with the potential to be scaled up; (ii) strengthen institutional and policy capacities; (iii) enhance

advocacy and policy engagement; and (iv) generate and share knowledge. The funding for grants is set at 6.5 per cent of the PoLG.

30. The revision of the IFAD Policy for Grant Financing in 2015 drew on the related CLE undertaken in 2014. The latter found that grants had allowed IFAD to collaborate with a wider range of organizations, for example, NGOs, farmers' federations, indigenous peoples' organizations and international agricultural research institutions. However, IFAD missed opportunities to leverage the grant programme in a strategic manner, due to weak linkages with corporate and country-level priorities. The CLE recommended rebalancing the allocation in favour of country grants so that they could support, inter alia, policy dialogue, knowledge management and institutional capacity-building. This was not followed up in the 2015 revision of the Policy.
31. IFAD introduced reimbursable technical assistance in 2012 as an instrument to provide analytical support to MICs, including those no longer borrowing from IFAD. Clients are to reimburse IFAD's full costs, with a 15 per cent mark-up. Only two reimbursable technical assistance agreements have been approved so far and the question is whether there is enough demand for this product and capacity to deliver it. Other international organizations, including United Nations agencies and DFIs, have large numbers of staff devoted to analytical work and are recognized as leaders in the production of knowledge products, in some cases on non-reimbursable terms.

D. Financial governance, financial oversight and risk management

D.1 Role of replenishment consultations

32. Replenishment discussions are critical to defining IFAD's strategy and determining the overall level of core funding. The representation and focus of the replenishment process are thus of major significance. Although the 2014 CLE on IFAD Replenishments fed into the decisions of IFAD10, follow-up was only really evident in IFAD11, following the deliberations of the *ad hoc* Working Group on Governance. The working group concluded that there should be no change in the List system, but that definitions would be tightened. List A and List B offered two seats each for the IFAD11 Consultation, to be distributed one seat each to the three regional sub-Lists in List C, plus one floating seat.

This increased the number of seats available to List C to 22 (seven seats per List, plus one floating seat). However, List C is still facing the challenge of ensuring balanced representation of the poorest borrowing countries and the growing number of donor countries within the list.

D.2 Financial oversight and management

33. **The existing level of financial oversight performed by the governing bodies is adequate for the current level of operations and risks.** The Executive Board and the Audit Committee receive regular reports on financial ratios, performance and risk parameters. The documentation they receive contains sufficient information for oversight and decision-making under the present configuration and risk structure. However, financial information is fragmented over a number of separate documents.
34. During interviews with Board representatives and IFAD staff, it was repeatedly mentioned that many country representatives have limited financial expertise. Moving forward, as IFAD's financial architecture becomes increasingly complex and more reliant on debt with greater risk exposure, greater demands will be placed on both the Audit Committee and the Board.
35. **Internal systems.** Absent in the Financial Operations Department (FOD) is a separate unit with responsibility for risk management. Having an independent risk management function may not be considered necessary at the current low level of financial risk-taking. However, should IFAD grow its balance sheet through leverage and an expansion of its product and client base, this configuration would need to be revisited.

36. IFAD does not have an asset and liability committee (ALCO). Financial institutions, including DFIs, have ALCOs responsible for matters such as financial, liquidity and risk policies and their implementation, funding, asset and liability management and other treasury activities. IFAD's policies governing the investment of treasury assets are defined in less detail than in other DFIs. Particularly with regards to permitted market risk and credit risk, the documents leave a fair degree of leeway. In a comparison of investment returns for the years 2012-2016, IFAD's performance was higher than that of other peer institutions but also showed a higher degree of profit and loss volatility.
37. Asset and liability management (ALM) refers to managing risks generated by mismatches between assets and liabilities. ALM is an area

where IFAD policies, guidelines and instruments are at an incipient stage. Other DFIs actively use derivatives to manage financial exposures, inter alia to: (i) swap borrowings into the desired currency; (ii) manage interest rate risks on borrowings and on loans; (iii) allow for a wider choice of investment products; (iv) hedge future capital contributions; and (v) hedge certain aspects of the budget.

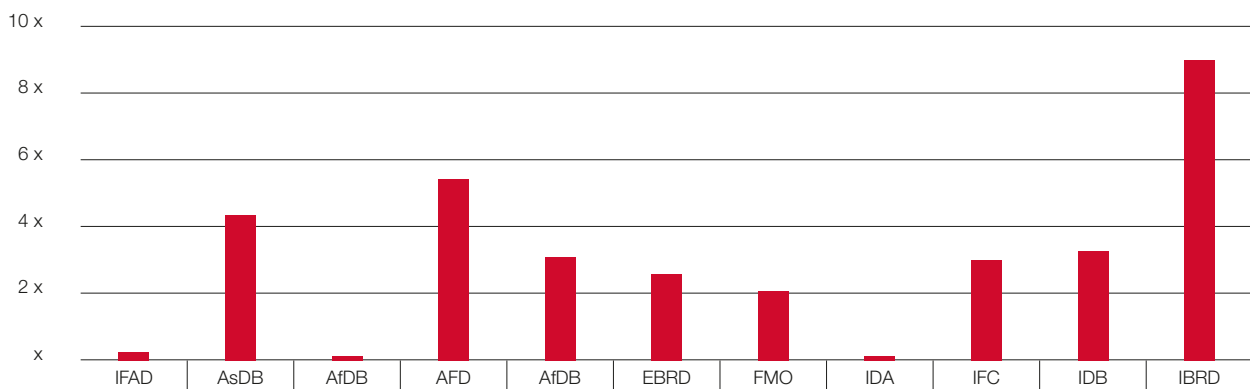
- 38. Since its establishment, IFAD has received capital payments in a number of currencies. Non-United States dollar contributions pose a foreign exchange risk as IFAD does not have a clear calculation basis for its equity base in the future. Other IFIs either request their shareholders to make future capital payments in the currency of the DFI or hedge those payments that are made in the donor's home currency.
- 39. **Leveraging.** IFAD has historically been funded by equity (replenishment) and loan reflows. IFAD operated without leverage until it contracted its first loan from KfW. Operating by deploying only its capital, however, limits PoLG size (see figure 1). Capital could be leveraged to the order of 1:1, 2:1 or even more. As a comparison, IDA has now obtained a credit rating and is set to borrow in the international capital markets to increase its operational capacity and contribution to the Sustainable Development Goals.
- 40. **Capital markets** provide volumes, liquidity, the range of currencies and interest rate bases that are necessary for DFIs to structure their balance sheets. Institutions such as the World Bank have borrowed billions since inception and continue to tap the markets regularly. A fundamental

prerequisite for successful bond issuance is to obtain a credit rating, ideally AAA/Aaa, but at least AA. Credit rating agencies undertake very thorough due diligence of institutions, including an analysis of shareholder support, use of funds, policies, risks, profit/losses and balance sheet development. Certainty and predictability are key drivers for ratings and any issues generating uncertainty could negatively impact IFAD's future rating. The most obvious issue in this respect is IFAD's financial sustainability and the unpredictability of the amounts of future replenishments and outflows in the form of grants and DSF.

E. Financial sustainability

- 41. For this evaluation, financial sustainability is defined as the extent to which an institution has financial resources to operate without regular recourse to donors or shareholders, protect its equity capital and generate enough revenue to cover its operational costs and build up loan provisions. This is more stringent than IFAD Management's definition, based on the notion of liquidity and ability to meet loan disbursement commitments by relying largely on future replenishments.
- 42. **Within the current modus operandi, conditions for financial sustainability are not met.** Since 2010, IFAD has incurred considerable financial losses – except in 2017, due to favourable currency exchange movements that cannot be relied upon in the future (see figure 2) – with cumulative negative retained earnings of

FIGURE 1
Leveraging: debt-to-equity ratio

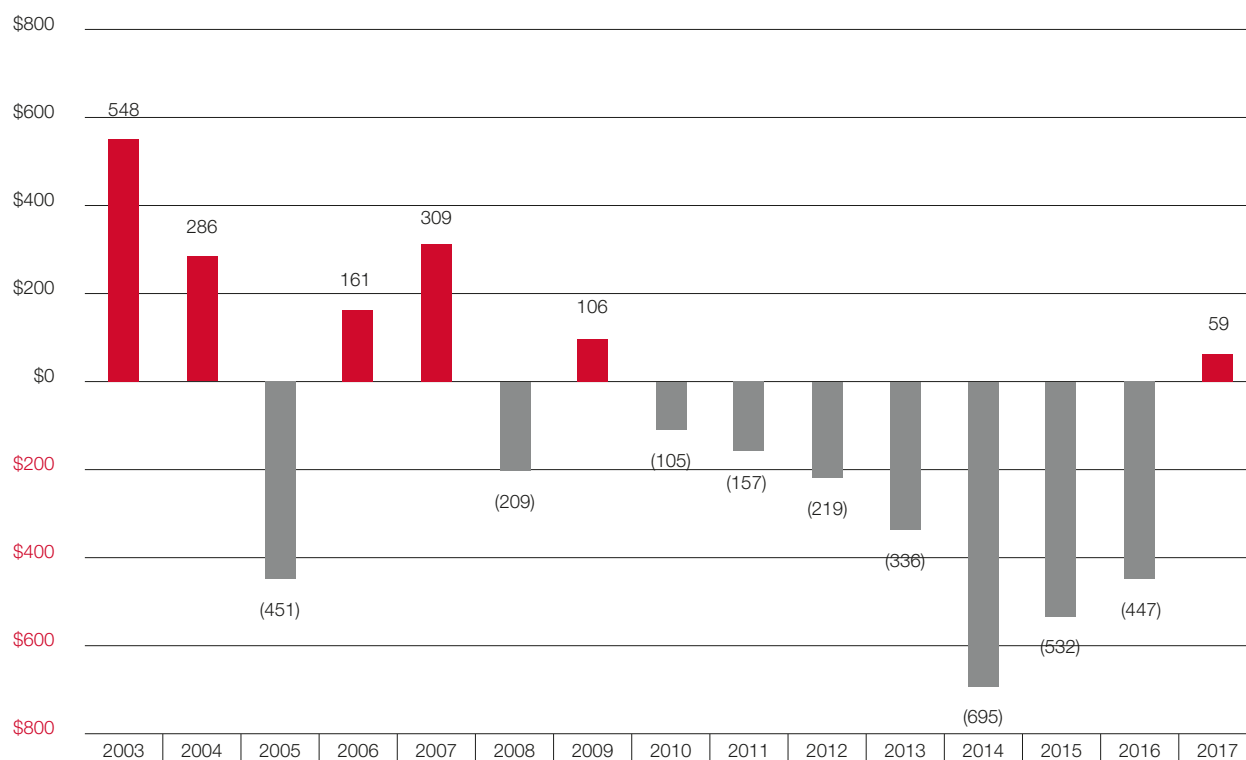


Notes: EBRD – European Bank for Reconstruction and Development; FMO – Netherlands Development Finance Company; IFC – International Finance Corporation.

Source: CLE elaboration from data available from DFI websites and documentation (2017).

FIGURE 2

IFAD's net income/loss 2003-2017 (millions of United States dollars)



Source: CLE elaboration, from IFAD's financial statements.

circa US\$1.36 billion. Revenues from interest on loans are too low to cover operating expenses: with the present conditions, IFAD would have to charge an average rate of circa 3 per cent, well above current levels (circa 1 per cent). Operating expenses in relation to total assets and annual PoLG are towards the upper end of comparator DFIs, since IFAD does not benefit from economies of scale and operates in remote and challenging areas that are costly to serve.

43. **Both DSF financing and grants are an important part of IFAD's array of operational instruments; however, they are also a source of uncertainty** for the institution's financial sustainability, posing threats to the assessment of IFAD's credit standing. Donors that have agreed to compensate IFAD for DSF operations will only do so in future years. Moreover, while these commitments can be considered morally binding, they are not legally binding, and governments can opt to change decisions.
44. One alternative could be to hold grants and DSF funds in separate accounts, similar to trust fund accounts, rather than being financed via IFAD's balance sheet and profit and loss account. In this way, only funds in those separate accounts could

be spent on the DSF or grants. A second option would be to make future compensation for the DSF principal legally binding.

45. Complementary to the above, an option would be to change the loan arrangements for future loans. Interest and principal repayments would be waived as long as the country classifies as a DSF recipient. In the event of a reclassification, principal and interest repayments could be reintroduced to match the lending terms normally applied to that country classification.
46. The financial scenarios run by this CLE show that in order to move closer to full cost recovery, IFAD would need two main measures. First, it could remove the DSF and grants from the balance sheet and create a separate account to finance them ex ante. Removing this situation of uncertainty could improve credit rating assessments. Furthermore, in order to break even, IFAD would need to increase its loan portfolio yields by raising lending margins on ordinary loans.

F. Conclusions

47. **IFAD's financial architecture has been under strain since IFAD9 and cannot support an expanding PoLG.** IFAD began introducing modest amounts of debt through sovereign borrowing from the Spanish Trust Fund, KfW and, most recently, AFD. However, even with sovereign borrowing, the supply of loans appears to be lower than the demand. For IFAD12, Management is considering the option of borrowing on international capital markets, which poses the challenge of obtaining a high credit rating.
48. **The current system to allocate financing resources based on performance – PBAS – has merits in terms of transparency; however, it raises challenges regarding future broad application.** In case of a large increase in borrowing, either from sovereign sources or from international capital markets (should IFAD so decide), only ordinary-term loans would carry an interest rate margin capable of covering borrowing costs. However, the PBAS constrains IFAD's ability to increase ordinary lending relative to other types of lending.
49. Borrowing countries generally express appreciation for IFAD's project financing modality. However, compared to other DFIs, IFAD offers a limited range of financial products and limited flexibility in lending terms, such as the choice of maturity, grace period, and currency and amortization schedule, including accelerated repayment loan clauses.
50. **While the replenishment consultation is a well-established process, there is space to improve the representation of selected members.** At present, List C has difficulty in ensuring a balance of representation between the poorest borrowing countries and the growing number of MIC donors, whereas List A can be over-represented if all eligible Members take their seats.
51. **The current internal and external systems of financial oversight are geared to a low-risk environment,** characterized by a relatively low level of borrowing. However, should IFAD shift to higher leveraging and more sophisticated treasury instruments, these systems may not be sufficient. The governing bodies have limited financial oversight capacity, mainly owing to a lack of financial expertise among many Executive Board representatives and Audit Committee members.
52. IFAD has made limited use of hedging instruments until recently and is exposed to foreign exchange fluctuations and risks. Other DFIs use derivatives for risk management purposes, manage interest rate risks on borrowings and loans, hedge future replenishment contributions and provide options to borrow in some national currencies.
53. **The current financial architecture fails the test of financial sustainability.** Losses lead to capital erosion and need to be compensated for by replenishment infusion. However, there are measures to increase the size of the PoLG (through higher leveraging) and bring IFAD closer to financial sustainability. The current arrangements for the DSF, and, to some extent, regular grants, contribute to IFAD's deteriorating profit and loss situation and lack of financial sustainability. This is a matter of concern, particularly if IFAD seeks to obtain a high credit rating. While IFAD Members have made and reaffirmed a commitment to repay the foregone principal, this agreement is not legally binding and is vulnerable to future policy reversals.

G. Recommendations

Recommendation 1

54. **Improve financial sustainability.** As a first priority, IFAD needs to address uncertainty regarding future DSF compensation. IFAD could adopt an up-front payment system: the DSF would be moved to a special purpose fund, not consolidated on IFAD's balance sheet. At each replenishment, new DSF financing would be approved only after the fund has been replenished.
55. Second, IFAD needs to act on both its revenues and expenses in order to reduce the current structural deficit. On the revenue side, IFAD could increase the yield of the portfolio, notably by raising interest rate margins for ordinary loans. On the expense side, IFAD needs to devise strategies to contain expenses while increasing the PoLG, thereby improving economies of scale.

Recommendation 2

56. **Enhance flexibility of current financial products and consider new products.** Flexible products are better adapted to the preferences and needs of borrowers. Similar to other DFIs, IFAD should provide a wider range of options relating to grace periods and maturity periods, choice of currency and amortization schedule. IFAD could also introduce an accelerated repayment option.

57. Given that the repayment period is very long and country classifications may change considerably, for future loans and DSF financing IFAD could allow for adjustments in loan terms after approval, to reflect changes in country classifications. For example, if a country no longer qualifies for the DSF, the terms of existing DSF financing could be hardened.
58. To better fulfil its mandate and respond to borrowing countries' needs, IFAD could also introduce new financial products that: (i) facilitate scaling up results; (ii) help respond to natural disasters or fragility; and (iii) pre-finance project implementation preparedness and capacity-building.
59. IFAD lacks financial instruments to partner with private-sector enterprises. While the recent SIF proposal aims to address this gap, IFAD needs to prepare a clear viability strategy to reduce the risk of high overhead costs and non-performing loans. Such a strategy could emphasize working through intermediaries rather than processing many small loans at the quasi-retail level.

Recommendation 3

60. **Revise the financial allocation system.** If IFAD substantially increases its leverage through borrowing, it will need to onlend the proceeds for ordinary loans to avoid incurring losses. The current PBAS constrains IFAD's ability to increase ordinary lending relative to other types of lending. Thus, IFAD would need to create a second lending window for ordinary loans, to be allocated through a risk-based system.

Recommendation 4

61. **Conduct preparatory work for potential access to capital markets.** IFAD needs to review the requirements to obtain a high credit rating, which are likely to include reducing the uncertainty linked to future DSF compensation.

Recommendation 5

62. **Use hedging instruments to manage foreign exchange risks.** IFAD is exposed to foreign exchange risks for the following reasons: (i) most of its loans are denominated in SDR; (ii) some replenishment pledges are denominated in currencies other than United States dollars; and (iii) some operational expenses are not denominated in United States dollars. Other DFIs use hedging instruments and IFAD could learn from their practices.

Recommendation 6

63. **Strengthen financial governance.** If IFAD significantly increases its borrowing, it will be exposed to higher risks. The experience of other DFIs shows that this is manageable, but it will be important to enhance the governing bodies' financial oversight capacity, for example by expanding the Audit Committee's terms of reference and establishing minimum qualifications for membership. Moreover, more detailed policies on asset and liability management and a strengthened risk management function will be needed.

Recommendation 7

64. **Strengthen replenishment efficiency.** In replenishment consultations, there is a need to improve the balance of representation between List A and List B countries, the poorest borrowing countries and the growing number of List C donors.
65. Complementary contributions and supplementary funds should be treated in the same way. Both may be announced in headline replenishment figures; however, both should be subject to service charges so as to cover related administrative costs, which are currently subsidized by the regular administrative budget. Management also needs the flexibility to accept supplementary funds for minor amounts in line with the agreed strategy and criteria, including from private sources. In sum, four decades after its establishment, the financial architecture of IFAD is in need of important reforms. Accomplishing these reforms will be essential if IFAD is to continue to fulfil its unique mandate of rural poverty reduction and contribute to achievement of the Sustainable Development Goals.



THE PHILIPPINES

IFAD's second Cordillera Highland Agricultural Resource Management Project (CHARMP 2) builds on the first CHARMP Project, which contributed to reducing poverty among indigenous peoples in the highlands of the Cordillera Administrative Region, in the northern Philippines. The project also aims to improve the livelihoods of indigenous peoples living in the poorest areas in all six provinces of the region.

IFAD Management's response¹

I. Introduction

1. Management welcomes the final report on the corporate-level evaluation (CLE) of IFAD's financial architecture, and commends the Independent Office of Evaluation of IFAD (IOE) for the thorough analysis. The evaluation is timely as Management is working towards enhancing the Fund's financial model for the Eleventh Replenishment of IFAD's Resources (IFAD11) period and beyond. The evaluation has therefore provided Management with useful insights for a corporate reflection on the way forward on a topic that is central to IFAD's business model.
2. Management would like to express appreciation for IOE's constructive collaboration throughout the evaluation exercise, in particular by providing IFAD Management and staff with the opportunity to share their inputs, data and documentation on the topic. Management particularly appreciates the self-assessment workshop, organized jointly with IOE, as a key step in the evaluation process to stimulate dialogue and learning.
3. The final evaluation report provides a useful analysis of the opportunities and challenges that IFAD needs to consider in connection with its financial model moving forward. Given IFAD's hybrid nature as a United Nations specialized agency, fund and international financial institution (IFI), the report appropriately reflects on the link between its loan portfolio, resource allocation mechanism, pricing of loans, leverage, Debt Sustainability Framework (DSF) mechanism, types of products and instruments, and margins for cost recovery.

4. At the same time, Management believes the final evaluation report could have been more thoroughly anchored within the context of the far-reaching institutional reforms and transformation currently under way. The business model and financial architecture are being enhanced in numerous ways to make IFAD fit for purpose to deliver on its mandate of promoting sustainable and inclusive rural transformation. For example, the commitment under IFAD11 to introduce a coherent transition framework to govern engagement with borrowing Member States, and within that framework, new financial instruments such as results-based lending and regional lending, are some of the areas that will have implications for IFAD's financial architecture in the future – and are not adequately covered in the report.

II. Assessment of IFAD's financial architecture

5. Management is pleased to note that the report confirms Management's own assessment – as reflected in the IFAD11 paper on country demand and IFAD's capacity to deliver – that the demand for IFAD funding exceeds the size of its programme of loans and grants (PoLG). This is an important conclusion, as it underlines the continued relevance of IFAD as a key development organization with an important role to play in meeting the objectives of 2030 Agenda for Sustainable Development and the Sustainable Development Goals.
6. The report indicates that IFAD's financial architecture is generally effective and efficient, although some areas could be strengthened to support financial sustainability. Management also notes that the evaluation recommendations are on the whole consistent with the broad directions agreed with Member States as part of IFAD11.

¹ The Operational Policy and Results Division of IFAD sent the final Management response to IOE on 14 May 2018.

7. In reference to the foregoing, it is important to note that work to enhance IFAD's financial model has already started. An internal working group has been set up to review the DSF mechanism, which has an important bearing on the Fund's financial sustainability. The working group's findings will be discussed with relevant IFAD governing bodies during the year. Additionally, an Executive Board working group has been set up on the transition framework and will present its findings to the Board by the end of 2018. Work continues on exploring the feasibility of tapping capital markets. Steps are being taken to strengthen financial governance and risk management, and initiatives are in the works to improve financial management and sustainability.
8. IFAD welcomes the conclusion that the liquidity portfolio is being managed professionally. Regarding investment management, the report notes that existing policies and guidelines could be strengthened, and that IFAD's investment risk profile is higher than other IFIs. In this regard, Management is already at work to reduce its risk profile, and initial results – on the reduction of credit exposure, value at risk and duration – have been presented to the Audit Committee. More will be done in the coming months in terms of portfolio repositioning and risk reduction.

III. Areas for improvement

9. Management appreciates the conclusions and recommendations included in the report. Going forward, Management is committed to further enhancing IFAD's financial sustainability and strategy in line with its renewed business model.
10. As the report indicates, there are areas that require further preparatory work and focus during the IFAD11 period. Management has committed (under monitorable action 3 of the IFAD11 commitments) to fully implement the roadmap for improving IFAD's financial strategy. The roadmap was agreed to during the IFAD11 Consultation and contains a number of activities to prepare for accessing capital markets in the future, to meet increasing demand for assistance from developing countries and enhance long-term financial sustainability.
11. While the suggestion to raise lending rates contained in the evaluation report merits consideration, the report also highlights that the interest rates of IFAD loans on ordinary terms are generally competitive with those provided

by other development financing organizations. Although the report contains some insights from the perspective of Member States on the possibility of such changes, a more thorough analysis would be warranted on the topic. Moreover, the report does not analyse the potential impact on country demand, should IFAD deviate structurally and significantly from its current policy on lending terms.

12. To support Management's efforts, plans call for a comprehensive independent financial risk assessment by a third-party consulting firm, which will address many of the issues and challenges raised in the evaluation report. A peer review may also be considered to benchmark IFAD's current approaches, and to enhance knowledge sharing and harmonization of good practices with other IFIs.

IV. Management's observations

13. Overall, the CLE captures the main opportunities and challenges of the current financial architecture.
14. However, Management notes that the report would have benefited from fuller consideration of a number of current initiatives undertaken to address such issues as financial sustainability, risk management framework, currency alignment, product offering and flexibility, including of lending terms. Management does recognize that the CLE analysis was done prior to finalization of the IFAD11 Report and related commitments.
15. In addition, the CLE would have benefited from a more in-depth analysis of reimbursable technical assistance (RTA) – an important instrument introduced by IFAD several years ago – and its implications on IFAD's overall financial strategy. RTAs are likely to be deployed more extensively, especially as part of IFAD's engagement in MICs and UMICs.
16. Management also notes that some of the CLE findings and recommendations are repetitions of issues already raised by IOE in previous evaluations. While Management acknowledges the need to reflect on these interrelated matters in such a broad evaluation, they have been extensively discussed at a number of sessions of the Executive Board and Evaluation Committee along with Management's comprehensive responses on the way forward. One example is the analysis in chapter V where the CLE suggests

extending the IFAD replenishment cycle from three to four years. The same recommendation was made by IOE in the CLE on replenishments (2014), and was not considered appropriate by either Management or the Executive Board. Another example is the performance-based allocation system (PBAS), which was covered separately and extensively in the CLE on the PBAS (2016).

Management believes that the CLE report would have benefited from a full consideration of Management’s responses to previous recommendations, and suggests that recommendations that have already been addressed should be avoided in new evaluations, to ensure efficient feedback loops.

17. Management notes that the final CLE report contains some inaccuracies that were not addressed despite having been flagged to IOE in Management comments on the draft CLE report. For example, DSF negative impact is recognized upon disbursement rather than upon approval, as stated in the report.

V. Recommendations to Management

18. Overall, Management welcomes and agrees with the CLE recommendations, which will contribute to improving the Fund’s financial architecture more broadly with a focus on financial sustainability.

RECOMMENDATION 1

Address the problem of systematic financial losses, which leads to substantial capital erosion

Management response	
1a	<p>Agreed</p> <p>Management generally agrees with the proposals to improve financial sustainability and the need to look at various dimensions in a holistic way – in particular, to study in depth the link between the cost of resource mobilization and the terms at which these resources are being lent. Management would like to clarify that the option presented to move all DSF grants to a special purpose fund will, per International Financial Reporting Standards accounting requirements, need to be consolidated on IFAD’s balance sheet.</p>
1b	<p>Agreed</p> <p>Management takes note of the recommendation. In this context, Management will be implementing the roadmap of IFAD’s financial strategy and developing the transition framework.</p>
1c	<p>Agreed</p> <p>Management agrees with the recommendation, particularly on efficiency and the relative size of concessional and non-concessional products.</p>

RECOMMENDATION 2

Provide more flexible conditions for existing financial products and prepare for the introduction of new products

Management response	
2a	<p>Agreed</p> <p>Management takes note of the recommendation. Transition framework commitments will be implemented throughout IFAD11.</p>
2b	<p>Agreed</p> <p>Management appreciates the recommendation. As per changes made to the Policies and Criteria for IFAD Financing approved by the Governing Council in February 2018, country classifications based on gross national income and creditworthiness are taken into consideration to determine eligible lending terms. Also, IFAD will make any transitions to hardened lending terms predictably and smoothly by applying the phasing-out/phasing-in mechanism.</p>
2c	<p>Agreed</p> <p>Management takes note of the recommendation. Transition framework commitments will be implemented throughout IFAD11.</p>
2d	<p>Agreed</p> <p>Monitorable action 6 for IFAD11 focuses on developing a strategy for private-sector engagement and developing the Smallholder and Small- and Medium-Sized Enterprise Investment Finance Fund (now Agri-Business Capital Fund [ABC Fund]). Recognizing that working with the private sector may require greater appetite for risk, the Financial Operations Department is working with the Programme Management Department on the introduction of ABC in order to support considerations that improve its financial sustainability, while Management is taking steps to mitigate risks with the vehicle’s design, governance and recruitment of professional fund managers, currently under way. It is estimated that, at least initially, roughly half of the resources may be invested through financial intermediation for the smallest deals.</p>

RECOMMENDATION 3

Revise the financial allocation system

Management response	
3	Agreed While acknowledging the transparency of resource allocation, the report discusses in detail the limitations of the PBAS and its impact on financial sustainability. Management agrees that further revision of the resource allocation system may be needed. Management would like to recall that the current PBAS formula was approved only for IFAD11 and that Management and Executive Board have agreed to revise it for IFAD12.

RECOMMENDATION 4

Conduct preparatory work for potential access to capital markets

Management response	
4	Agreed Management is in agreement with the conclusions of the report in this area. A high credit rating will be crucial to IFAD's feasibility to run a hybrid funding model composed of core replenishment and debt funding. The comprehensive independent financial risk assessment will also be of use in highlighting next steps for IFAD in this regard.

RECOMMENDATION 5

Use hedging instruments to better manage foreign exchange risks

Management response	
5	Agreed The report's conclusions in this area are welcome and Management agrees. Special drawing right conversion is a complex exercise that would require an in-depth analysis, including of costs and risks.

RECOMMENDATION 6

Strengthen IFAD's financial governance

Management response	
6a	This recommendation has been made to the governing bodies.
6b	Agreed Management agrees on the importance of financial governance, including asset liability management at IFAD, given its financial nature.

RECOMMENDATION 7

Strengthen the efficiency of the replenishment process

Management response	
7a	<p>Agreed</p> <p>This recommendation has been made to the governing bodies.</p> <p>The composition of the replenishment consultation is decided by IFAD's Membership at the Governing Council session. The balance of List A, B, and C representation has recently been reviewed by the Working Group on Governance. Based on the working group's recommendations, in 2017 the Governing Council adopted a resolution approving the transfer of four replenishment consultation seats from List A and List B to List C. This new formula took effect for the first time during the IFAD11 Consultation.</p> <p>Management agrees that the voices of all its Member States should be heard during replenishment consultations, but also recognizes the need to ensure the efficiency and effectiveness of the meetings. These issues were addressed by the Working Group on Governance. Management is committed to identifying ways to enhance dialogue within and among the Lists at the time of replenishment consultations to ensure that the views of all Member States are heard, regardless of their direct participation. As in the past, observer status can be granted to non-members of the consultation.</p>
7b	<p>Agreed in part</p> <p>Management notes that unrestricted complementary contributions (UCCs) (recall that complementary contributions were removed in IFAD11) and supplementary funds (SFs) are fundamentally different in purpose and therefore have different governance mechanisms. Specifically, UCCs are part of core resources and part of the replenishment funds used for the PoLG. The IFAD11 resolution identified two thematic areas for UCCs: climate and nutrition. SFs, on the other hand, are not part of core resources or replenishment funds, but are used to channel grants from donors tied to a specific purpose. IFAD has no ownership of SFs, acting effectively as a service provider to agree on terms and monitor the use of funds together with the donor and recipients. IFAD also established procedures to fully recover the cost of acting as a service provider in managing SFs. Because of the difference in purpose, UCCs and SFs are also programmed and reported on separately.</p> <p>Management agrees to review the delegated authorities for the acceptance of supplementary funds.</p>



COLOMBIA

The Building Rural Entrepreneurial Capacities Project - Trust and Opportunities aims to tackle inequality and poverty issues in rural financial services. The overall goal is to improve living conditions, income and employment in post-conflict rural areas.

I. Introduction and context

1. The Executive Board approved the conducting of a corporate-level evaluation (CLE) on IFAD's financial architecture by the Independent Office of IFAD (IOE) as part of its 2017 work programme.¹ The evaluation report will be presented to the Executive Board in September 2018. IOE is not aware of any comprehensive, independent evaluation of financial architecture conducted in other multilateral development banks (MDBs). However, this evaluation builds upon the findings of previous CLEs, such as those on efficiency (2013), replenishment (2014), policy for grant financing (2014) and performance-based allocation system (2016).
2. The evaluation is opportune as it will inform decisions related to IFAD's financial architecture, long-term financial sustainability and financial contribution to the 2030 Agenda for Sustainable Development (2030 Agenda). More specifically, the evaluation is timely because: (i) elements of the financial architecture were key topics of discussion during the Eleventh Replenishment of IFAD's Resources (IFAD11) consultations; (ii) in 2016 and 2017 Management presented various proposals to the Executive Board that will affect IFAD's financial architecture, and further changes are contemplated under IFAD12 and will be discussed with the Executive Board in the coming years; and (iii) other Development Finance Institutions (DFIs)² are working on changes in their financial architecture.
3. For the purposes of this evaluation, "financial architecture"³ is defined as the policies and systems adopted to mobilize, manage, allocate and disburse financial resources to fulfil IFAD's mandate of helping to reduce rural poverty. The key elements of the financial architecture

can be summarized under four broad headings: (i) sources of funds; (ii) financial support instruments; (iii) allocation system; and (iv) management, oversight and governance.

4. The financial architecture of IFAD is not a discrete "programme" or a "policy" underpinned by a dedicated logical framework. It is rather the result of the stratification of a number of policies and decisions made by the governing bodies and IFAD Management over forty years. Table 1 sets out key dates in the evolution of the financial architecture.

A. Overview of IFAD's financial architecture

5. **IFAD was established as a fund and specialized United Nations agency and is the only international financial institution focusing exclusively on agriculture and rural development.**⁴ The Agreement Establishing IFAD (1974) stipulates that IFAD's financial resources would consist of: (i) initial contributions; (ii) additional contributions; (iii) special contributions from non-Member States and from other sources; and (iv) funds derived from operations or otherwise accruing. When necessary, the Governing Council may invite Members to make additional contributions or authorize Members to increase their contributions.
6. The Agreement also mandates that IFAD financing will take the form of loans, grants and a debt sustainability mechanism to developing

⁴ According to article 2: "The objective of the Fund shall be to mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States. In fulfilling this objective the Fund shall provide financing primarily for projects and programmes specifically designed to introduce, expand or improve food production systems and to strengthen related policies and institutions within the framework of national priorities and strategies, taking into consideration: the need to increase food production in the poorest food-deficit countries; the potential for increasing food production in other developing countries; and the importance of improving the nutritional level of the poorest populations in developing countries and the conditions of their lives."

¹ <https://webapps.ifad.org/members/eb/119/docs/EB-2016-119-R-2-Rev-1.pdf>

² DFIs include bilateral and multilateral institutions. Generally, the acronym IFI (International Financial Institution) is applied to the multilateral ones. Therefore, IFIs are a subcategory of DFIs.

³ A glossary of technical terms used in this evaluation is provided in annex II.

States that are members of the Fund or to intergovernmental organizations in which such members participate. The Agreement states that contributions will be made in freely convertible currencies without restriction on use, special contributions may be made by non-Member States or other sources and that the special drawing right (SDR) will be IFAD's unit of account.

7. IFAD applies universality principles: (i) each borrowing country is eligible for IFAD's services to help eradicate poverty and eliminate hunger, wherever they exist; and (ii) strategies and operational policies apply to all borrowing countries irrespective of their income level, geography or degree of fragility.

TABLE 1

Key events in the evolution of IFAD's financial architecture

Timeline	Key events
1976	Agreement Establishing IFAD adopted by the United Nations Conference on the Establishment of an International Fund for Agricultural Development.
1978	The Governing Council adopted the Lending Policies and Criteria.
1982	The Audit Committee, a subcommittee of the Executive Board, was established.
1986	The concept of complementary contributions was introduced.
1993	Lending terms changed, including from fixed to variable interest rates on ordinary and intermediate loans; service charge reduced for highly concessional loans from 1 to 0.75 per cent with a shortened repayment period from 50 to 40 years. IFAD uses the International Bank for Reconstruction and Development's (IBRD) spread for its ordinary loans.
1994-1998	Lending Policies and Criteria for IFAD Financing revised five times.
2000-2004	Governing Council decided that IFAD would participate in the Heavily Indebted Poor Countries Initiative.
2004	The performance-based allocation system (PBAS) introduced and the policy for grant financing was approved. IFAD's Asset and Liability Management System reviewed. Treasury model adopted.
2006	Lending Policies and Criteria for IFAD Financing revised.
2007	Debt Sustainability Framework adopted.
2008	Enterprise Risk Management Committee established and risk management policy formulated.
2009	Grant policy revised.
2010	Approval of agreement for Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund).
2012	Additional Resource Mobilization Initiative launched. Lending policies and criteria reviewed. New blend terms approved. Reimbursable technical assistance product established.
2013	The Governing Council adopted a revised version of the Lending Policies and Criteria and renamed it Policies and Criteria for IFAD Financing.
2014	Financial Framework for IFAD10 adopted. Financing options for IFAD beyond 2015 considered. The KfW Development Bank (KfW) and IFAD sign a framework agreement for a EUR 400 million loan.
2015	Sovereign Borrowing Framework adopted. Grant policy revised.
2016	Report of the Corporate Working Group on IFAD's Financial Policies presented to Management's Finance and Investment Committee and the Audit Committee. Sovereign Borrowing Framework reviewed. Treasury model enhanced. EUR 200 million sovereign loan negotiated with AFD. Launch of single-currency loans.
2017	During the IFAD11 Replenishment Consultations, a roadmap for a comprehensive reform of IFAD's financial architecture to increase financial leverage adopted. PBAS revised for IFAD11 and framework for Concessional Partner Loans adopted. DSF reviewed.

Source: elaborated by IOE.

Inflows/sources of funds

8. **Periodic replenishments are at the heart of the financial architecture and are IFAD's most important source of funding.** In addition to Members' replenishment contributions, IFAD's sources of funding have included loan reflows, interest on loans and treasury investment income. Sources of funding also include compensations for foregone debt forgiveness in the context of the Heavily Indebted Poor Countries Initiative (HIPC); and loan repayments associated with project grants provided under the Debt Sustainability Framework (DSF). Beyond these core resources, IFAD also receives complementary contributions and supplementary funds as grants (box 1).
9. During the IFAD9 replenishment period, sovereign borrowing was introduced as an additional source of financing. As a first step, IFAD began sovereign borrowing from Spain. Since then, IFAD has borrowed sovereign loans from KfW Development Bank (KfW) and *Agence Française de Développement* (AFD) and adopted the Sovereign Borrowing Framework (SBF) in 2015. During IFAD10, options were examined to: (a) expand the programme of loans and grants (PoLG) through other sources of financing; (b) borrow sovereign loans; and (c) explore the scope for borrowing from the financial markets.

10. In 2017 IFAD adopted the Concessional Partner Loan (CPL) framework, which will introduce another source of debt into the financial architecture. During IFAD11, IFAD expects to borrow up to the equivalent of 50 per cent of core contributions using the SBF and CPL frameworks.

Outflows/uses of funds

11. IFAD's major use of funds is to finance loans for projects. Other uses of funds include regular grants, uncompensated HIPC debt forgiveness and DSF grants, IFAD's own operating expenses and repayment of sovereign loans. IFAD's main products include: (i) loans and DSF grants to support development initiatives in borrowing Member States; (ii) grants to support innovation, research, policy engagement and capacity-building and to finance some loan components at the country level (box 1). Resources for grant-funded activities (excluding DSF grants) are capped at 6.5 per cent of the annual PoLG.⁵

⁵ IFAD, 2015. Policy for Grant Financing.

BOX 1

An overview of the main inflow and outflow of IFAD's financial resources

Inflow

- **Non-reimbursable**
 - Replenishment contributions
 - Loan reflows
 - Interest paid on loans
 - Income from Treasury investments
 - Complementary contributions
 - Supplementary funds
 - Compensation for HIPC initiative
 - Compensation for DSF
- **Reimbursable**
 - Sovereign borrowing
 - Concessional partner loans
 - Spanish Trust Fund

Outflow/utilization of funds

- Loans and DSF grants
- Regular grants
- Other grant funding
- IFAD's own operating expenses
- Repayment of sovereign loans

Source: CLE (2017).

B. Key policies and arrangements shaping the financial architecture

12. Many IFAD policies have contributed to shaping the financial architecture. Of these, eight deserve special attention:
- i. **Highly Indebted Poor Countries Debt Initiative (HIPC).** Adopted in 1996, this policy implied that IFAD would receive compensation payments from Members in return for an agreed reduction of loan repayments by selected highly indebted countries.
 - ii. **Performance-based allocation system (PBAS).** IFAD adopted the PBAS in 2003 to allocate financial resources among borrowing Member States in a transparent manner.⁶ The PBAS is designed to ensure that: (i) resources flow to countries where the need is greatest; and (ii) countries show a commitment to use the funds effectively. The PBAS was evaluated by IOE in 2016. IFAD revised the PBAS in 2017, with guidance provided by the Executive Board, and drawing on operational experience and the PBAS CLE findings and recommendations. The new PBAS will be applied during IFAD11.
 - iii. **Debt Sustainability Framework (DSF),** introduced in 2007. IFAD provides financial support for countries with: (i) low debt sustainability (“red”): 100 per cent DSF grant; (ii) medium debt sustainability (“yellow”): 50 per cent DSF grant and 50 per cent highly concessional loan; and (iii) high debt sustainability (“green”): 100 per cent loan. The DSF approvals granted up to the end of 2016 will result in an estimated foregone reflow of principal of US\$1.695 billion, up to the end of 2056. The compensation is expected to take place through the replenishment process.
 - iv. **Single currency lending.** For most of the evaluation period, IFAD financing was denominated in SDRs. Loans financed from the proceeds of sovereign loans were initially denominated in the currency of the sovereign loan (i.e. euro). During IFAD10, IFAD began offering single currency loans, either in euros or United States dollars. The pilot phase had a US\$200 million ceiling that was reached in early 2016.
 - v. **Policies and Criteria for IFAD Financing.**⁷ This policy and the DSF policy set out the terms and conditions for DSF grants and highly concessional, blend and ordinary loans. The current types of IFAD financing are: (a) DSF grants; (b) highly concessional loans: free of interest; 0.75 per cent per annum service charge; 40-year maturity, including a 10-year grace period; (c) blended loans: 1.25 per cent annual interest rate on the principal amount outstanding; 0.75 per cent per annum service charge; 25-year maturity, including a 5-year grace period;⁸ and (d) ordinary loans: variable interest rate based on the six-month LIBOR rate for the five SDR currencies plus a spread (for euro-denominated loans, a spread on Euribor is applied). IFAD’s spread equals IBRD’s variable spread for loans with an average maturity greater than 18 to 20 years. The repayment period is 15 to 18 years, including a 3-year grace period.
 - vi. **Policy for grant financing.** IFAD adopted and revised policies for grant financing in 2003, 2009 and 2015, the latter drawing on the CLE on the IFAD Policy for Grant Financing.
 - vii. **Sovereign Borrowing Framework (SBF).** The SBF, adopted in 2015, allows IFAD to mobilize additional resources to increase the PoLG. IFAD uses prudential norms and risk mitigation measures to manage the effects of sovereign borrowing on liabilities.
 - viii. **Concessional Partner Loans (CPLs).** In October 2017, the Executive Board approved the CPL framework as a new debt element of the financial architecture. Key elements of the CPL framework include additionality (i.e. CPLs are not a substitute for contributions to core resources), unrestricted use, allocation through the PBAS, pricing substantially below market terms and with long maturities and grace periods, denominated in SDR or any SDR basket currency (United States dollar, euro, Japanese yen, British pound sterling and Chinese renminbi) and voting rights based on the grant element of the loan. CPLs are expected to have a lower cost for IFAD than sovereign loans.

⁶ Prior to the PBAS, IFAD’s funding was allocated by region, based on country needs. With the adoption of the PBAS, IFAD abandoned the provision in para 21 of the Lending Policies and Criteria that IFAD “will not seek to develop a pattern of country allocations; it will, instead, designate a number of priority countries for programming purposes.”

⁷ These were first introduced in 1978 and revised several times, most recently in 2013. IFAD approved policies for grant financing in 2003, 2009, 2015 and February 2018.

⁸ Previously, IFAD also had: loans on intermediate terms with a rate of interest per annum equivalent to 50 per cent of the variable reference interest rate, and a maturity period of 20 years, including a grace period of 5 years; and loans on hardened terms bearing a service charge of three fourths of one per cent (0.75 per cent) per annum and having a maturity period of 20 years, including a grace period of 10 years.

13. **Arrangements for risk management:** When IFAD's sources of financing were limited to replenishments and loan reflows and IFAD only made sovereign loans financed by its equity, it faced financial risks related to: (i) its Treasury investments; and (ii) foreign exchange risks (lending is denominated in SDRs);⁹ and (iii) erosion of its capital base in a high-inflation environment (the largest part of IFAD's lending is at concessional fixed interest rates). As the financial architecture broadened, with the introduction of the SBF, IFAD faced additional potential risks (e.g. interest and maturity risks). As a prudential measure, the SBF established thresholds for the equity ratio, the debt/equity ratio, liquidity and the debt coverage ratio.
14. In 2012, the Fund created the Financial Operations Department (FOD), headed by an Associate Vice-President/Chief Financial Officer/Chief Controller which has three divisions: (i) the Financial Management Services Division (FMD); (ii) Treasury Services Division (TRE); and (iii) Accounting and Controller's Division (ACD). Since 2015, IFAD has reformed the finance and treasury infrastructure. This has involved inter alia:
- (i) making changes to the investment guidelines (December 2015);
 - (ii) concluding negotiations on IFAD's first International Swaps and Derivatives Association Master Agreement and building in-house capacity to engage in cross-currency swaps;
 - (iii) improving the treasury

⁹ An additional foreign exchange risk was inherent in the fact that capital pledges were multi-year and, unless the amounts were fixed in United States dollars or hedged back into dollars, were subject to foreign exchange movements.

model to bring it closer to what is used in multilateral development banks (MDBs); (iv) more sophisticated reporting on financial ratios (i.e. debt/equity; liquidity; debt coverage); (v) creating a high-level task force on borrowing.

C. Recent Official Development Trends (ODA) trends

15. **Total allocated ODA from donors reporting to the Organisation for Economic Co-operation and Development (OECD), as well as ODA for the agricultural sector, rose from 2006 to 2016 in real terms.** Total ODA, both from OECD donors and donors as a whole, increased in constant 2015 prices from US\$133.6 billion in 2006 to US\$195.4 billion in 2016 (table 2).^{10,11} The agriculture-sector ODA also increased since the 2007-2008 food crisis in real terms, from US\$4.9 billion (4.1 per cent of total allocated ODA) in 2006 to US\$9.8 billion (5.8 per cent) in 2012, reaching US\$10.3 billion in 2015 (6.0 per cent) and falling slightly to US\$9.7 billion in 2016 (5.7 per cent; table 2).

¹⁰ All data from OECD Development Database except where otherwise stated.

¹¹ Donors not reporting to the OECD are responsible for some 5-6 per cent of ODA, according to estimates from the Hudson Institute. Most of the flows from major MICs to developing countries are not on ODA terms. The Hudson Institute estimated in 2014 that the total ODA from donors not reporting to the OECD was around US\$9.7 billion or 6 per cent of the total (this includes Brazil, China, Colombia, India, Indonesia, Mexico, Turkey and South Africa).

TABLE 2

Total ODA and agriculture ODA (Billions of United States dollars, constant 2015 prices) by all donors

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total ODA (for purpose specified)	133.6	129.4	145.2	145.8	152.0	151.0	159.4	171.0	164.0	194.1	195.4
Agriculture, forestry, fishing	4.9	6.6	6.9	8.6	8.0	9.1	9.8	9.2	9.2	10.3	9.7
Agriculture as percentage of ODA for purpose specified	4.1%	5.5%	5.2%	6.5%	5.7%	6.6%	6.7%	5.8%	6.2%	6.0%	5.7%

Source: OECD.

16. **Climate-related ODA.** OECD data¹² on climate conflates ODA and concessional development loan financing. The bilateral total reached US\$30.2 billion in commitments made in 2016. The total rose from 14 per cent of development financing committed (concessional and ODA) in 2010-2011 to 30.2 per cent in 2016. The total of bilateral and multilateral commitments in 2014 was US\$47 billion, of which multilateral was 55 per cent. In terms of sector breakdown of commitments in 2014-2015, agriculture received 11 per cent of the total as compared with 29 per cent for energy, transport and storage, 16 per cent, and water and sanitation, 9 per cent.
17. **The regional distribution of total ODA has not changed greatly over the ten-year period from 2006 to 2015.** Sub-Saharan Africa accounts for around 34 per cent of total ODA. The Far East and South Asia account for almost 23 per cent, of which South Asia accounts for 15 per cent. There has been a decline in ODA for China from 2.8 per cent of the total in the three years from 2006 to 2008 to only 0.1 in the three years from 2013 to 2015. Europe has seen a slight decline and has averaged 8 per cent, while Latin America and the Caribbean saw a rise from 7.3 per cent in the three years 2006-2008 to 12 per cent in the three years from 2013 to 2015. Of disbursements classified as ODA by multilaterals over the period 2006-2015, the International Development Association (IDA) and the European Union (EU) were the largest single sources at 22 and 37 per cent respectively.
18. **Long-term credits and loans advanced each year to developing countries, not classified as ODA or export credits and grants, have increased in real terms** (United States dollars, 2015 constant) over the ten-year period from 2006 to 2015 but not as fast as ODA, with considerable year-to-year fluctuation. The overall increase was US\$45.50 billion in 2006 to US\$54.06 billion in 2014 and to US\$71.15 billion in 2015 with peaks also in 2009 and 2010 (excluding China). Multilaterals, in particular the IBRD and regional development banks, accounted for 76 per cent of the total over the period. As might be expected, Asia and the Americas dominate the picture for loans on more commercial terms, with 38 and 33 per cent respectively of the total. The African total of 13 per cent includes North Africa. The picture for multilateral funders in terms of regional balance is not significantly different from that for funders as a whole, with slightly more emphasis on Asia and Europe.

12 Climate-Related Development Finance in 2016 OECD-DAC December 2017.

ODA contributions to concessional windows of the MDBs and sector funds

19. **Notwithstanding the above positive ODA trends, both the IDA and AfDF saw declines in the donor ODA contributions to their most recent replenishments, expressed in United States dollars.** In the case of IDA17, the grand total increase masks important internal differences, notably a decrease in the traditional partner resources and the introduction of a large market borrowing plan (table 3). As of February 2017, AfDF required 19 per cent more resources to fulfil its proposed programme of work for AfDF-14. The donor commitments were some US\$5.2 billion net of loans compared with the headline figures published for AfDF-13 of US\$5.8 billion.¹³ The Inter-American Development Bank Fund for Special Operations is not separately funded and comparisons between the Asian Development Fund (ADF) and Bank Replenishments 11 and 12 (2017-2020) are not possible as, since 2017, concessional lending was taken onto the AsDB's ordinary balance sheet.
20. Among the sector funds, the Global Environment Facility (GEF) saw a fractional increase in its most recent Replenishment pledges (2017-2019). The GEF saw a very minor increase (2 per cent) at current terms between the Fifth Replenishment (2010/2011 and 2013/2014) and the Sixth (2014/2015-2017/2018). The Seventh GEF Replenishment was under discussion in 2017. This occurred at a time when multilateral contributions overall were increasing and US\$10.1 billion has been announced for the new Green Climate Fund but, at the same time, the Global Agriculture and Food Security Program (GAFSP), launched in 2009, received pledges of US\$1.6 billion following the global food crisis. However, it has received no recent pledges.¹⁴

13 The situation for the AfDF is less evident as detailed donor commitments are not easily publicly available.

14 The objective of GAFSP is to improve incomes and food and nutrition security in low-income countries by increasing agricultural productivity through technical assistance and by investing to raise agricultural productivity, link farmers to markets, reduce risk and vulnerability and improve non-farm rural livelihoods. GAFSP works in partnership with AfDB, AsDB, FAO, IADB, IFAD, the World Bank Group and WFP. GAFSP includes both public- and private-sector financing windows: (i) the public-sector window assists strategic country-led priorities; (ii) the private-sector window provides long- and short-term loans, credit guarantees and equity to support private-sector activities for improving agricultural development and food security. By the end of 2015 GAFSP had financed US\$1.02 billion in public sector projects and US\$223 million in private sector projects. In 2017 two major donors announced that they would withdraw from GAFSP.

TABLE 3

IDA17 summary data

	IDA17 Agreed ^A (SDR, billions)	IDA18 (SDR, billions)	Change over IDA17
TOTAL PARTNER RESOURCES	20.3	19.4	-4%
Total new partner contributions	17.3	16.5	-5%
Partner compensation for Multilateral Debt Relief Initiative debt forgiveness	4.0	2.9	-3%
TOTAL INTERNAL RESOURCES	11.9	15.5^B	+29%
DEBT FINANCING	2.3	18.6	+713%
Concessional partner loan (net of grant element)	2.3	2.8	+21%
Market debt		15.9	
TOTAL	34.6	53.5	+55%

Notes: A: IDA17 Scale-up Facility approved by IDA's Executive Directors in 2016 is not included.

B: Internal resources include: (i) Reflows: SDR 14.2b (US\$19.9b); (ii) Carry forward of arrears clearance: SDR 0.8b (US\$1.1b); (iii) IBRD transfers expected: SDR 0.3b (US\$0.43b)* (iv) IFC transfers expected: SDR 0.1b (US\$0.2b)*. IBRD and IFC transfers include additional investment income that IDA can potentially generate from a three-year encashment schedule.

Source: World Bank.

D. Steps taken by multilateral development banks (MDBs) to reform their financial architecture

21. **MDBs are reforming their financial architectures to increase leverage.** MDBs were established as banks that are guaranteed by their shareholders. They have leveraged their equity by issuing bonds on the international capital markets since their inception. IFAD has not yet issued bonds. Other DFIs have established separate lending windows (or institutions) for ordinary and concessional loans respectively. This distinction does not exist at IFAD.
22. The G20, which represents the world's largest economies, is a major driver of consensus on issues of financial architecture for development, including adjustments in the principal global financial institutions. The G20 Action Plan for taking forward the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda were approved in Hangzhou in 2016.¹⁵ It was reaffirmed¹⁶ in Hamburg in July 2017,¹⁷ when the collective actions decided upon placed renewed emphasis on Africa and the achievement of an enabling environment for the business sectors to contribute to development.
23. Encouraged by the G20, MDBs are exploring ways to change their financial architectures to more efficiently leverage the equity in their balance sheets, while maintaining their AAA credit ratings. This is expected to increase their financial support to help achieve Agenda 2030 and the Sustainable Development Goals (SDGs).¹⁸ It is estimated that achieving Agenda 2030 will require US\$3.3 trillion to US\$4.5 trillion per year in additional funding with the largest amounts needed for infrastructure, climate change and agriculture.¹⁹
24. The United Nations Third International Conference on Financing for Development, held in 2015, Addis Ababa Action Agenda stressed that "development banks should make optimal use of their resources and balance sheets, consistent with maintaining their financial integrity, and should update and develop their policies in support of the post-2015 development agenda, including the sustainable

15 https://www.g20.org/profiles/g20/modules/custom/g20_beverly/img/timeline/China/2016-09-08-g20-agenda-action-plan.pdf

16 The United States of America is reviewing both the Hangzhou and Hamburg G20 Action plans on the 2030 SDGs and cannot be considered a full party to the text.

17 Annex to G20 Leaders Declaration Hamburg Update: Taking forward the G20 Action Plan on the 2030 - Agenda for Sustainable Development Hamburg Germany 2017 https://www.g20.org/profiles/g20/modules/custom/g20_beverly/img/timeline/Germany/2017-g20-hamburg-update-en.pdf

18 The MDBs Action Plan to Optimize Balance Sheets. G20 Antalya Summit, 15-16 November 2015.

19 <https://brilherman.wordpress.com/2016/01/09/exploring-the-role-of-multilateral-development-banks-and-development-finance-institutions-in-conjunction-with-capital-markets-and-how-they-can-contribute-to-the-funding-need-related-to-the-new-un-sus/>

development goals.” The Addis Ababa Agenda for Action also recognized IFAD’s efforts in mobilizing investment to enable rural people living in poverty to improve their food security and nutrition and raise their incomes.²⁰

25. **The Asian Development Bank (AsDB), in 2013,** began planning the combination of the Asian Development Fund’s (ADF) equity and lending operations with the Ordinary Capital Resources balance sheet. Completed in 2017, this allowed AsDB’s annual lending to increase by 50 per cent to US\$20 billion and donor contributions to the ADF grant operations to fall by 50 per cent from US\$1.2 billion, beginning with the 2017 Fund replenishment. These measures increased AsDB’s lending capacity by more efficiently and effectively utilizing existing resources. This merger did not change AsDB’s governance or voting power and AsDB retained its AAA credit rating.
 26. In 2016, AsDB the Swedish International Development Cooperation Agency (SIDA) signed an agreement on an innovative risk transfer mechanism. SIDA will guarantee up to US\$155 million of AsDB’s sovereign loans. The guarantee will allow AsDB to increase its lending capacity by US\$500 million over the next 10 years from its Ordinary Capital Resources. Risk transfer agreements pass specified risks from one party to another party in return for a fee. This can release capacity for additional operations by improving the risk profile of balance sheets and reduce the capital held in reserve to cover guaranteed loans. This was the first time such a risk transfer arrangement was used for a sovereign loan portfolio of an MDB.
 27. **The African Development Bank (AfDB)** is seeking to leverage its capital to tap private resources. That includes opening its non-concessional window to the poorest countries. To complement its efforts to strengthen its financial architecture, AfDB is working to become a more efficient institution: (i) AfDB’s administrative costs are the lowest among the MDBs; and (ii) the cost-to-income ratio has fallen during recent years. AfDB plans to achieve efficiency gains and greater value for money as it rolls out its new development and business delivery model.
 28. **The Inter-American Development Bank (IDB),** in 2015, began maximizing its policy mandate and providing better services to Member States.
- The IDB and the Inter-American Investment Corporation (IIC) consolidated the IDB group’s private-sector activities to better use resources and improve coordination with private- and public-sector projects. The structure involved a US\$2.03 billion capital increase for the IIC. The Fund for Special Operations (FSO) is IDB’s concessional window.²¹ Its funding is part of IDB’s normal capital-raising process, which has been done nine times. The 2010 Ninth Capital Increase (IDB-9) recapitalization resulted in an additional US\$479 million in funds for FSO.
29. IDB-9 strengthened FSO by reducing administrative expenses by 3 per cent and transferring funding for the non-reimbursable technical cooperation to Ordinary Capital. In addition, US\$479 million in new FSO contributions were to be used to provide full debt relief and additional resources to Haiti and ensure the sustainability of the FSO until 2020. To ensure efficient use of FSO resources, the blend of market-based and FSO financing was maintained, thus preserving the degree of concessionality consistent with the DSF.
 30. **The World Bank and the International Development Agency (IDA):** during the IDA18 Replenishment consultations, participants acknowledged the strong demand for resources to help countries achieve their 2030 goals. The IDA18 financing package pioneered market leverage and new instruments and blending grant contributions with capital market debt. The IDA18 financing framework is a hybrid model in which traditional sources of financing are blended with debt in the form of capital market borrowing and CPLs. As a first step in September 2016, Standard & Poor’s (S&P) and Moody’s rated IDA AAA, a necessary pre-condition to issue bonds on the capital markets. Further steps will include: (i) updating IDA’s financial framework, accounting policies, and risk management parameters to ensure robust sustainability rules commensurate with capital market and AAA rating requirements; and (ii) preparing for an IDA bond issue and investor engagement to launch market access by obtaining all required regulatory approvals, devising a funding strategy, programme, and outreach and establishing needed operational protocols and systems.²²

²⁰ Addis Ababa Action Agenda of the Third International Conference on Financing for Development, Addis Ababa, Ethiopia, 13-16 July 2015. Endorsed by the United Nations General Assembly in resolution 69/313 of 27 July 2015, United Nations, New York.

²¹ Only five IADB Member States qualify for access to FSO. Haiti qualifies for grants and four countries (Guyana; Plurinational State of Bolivia; Guatemala; Honduras) have access to 40-year fixed interest rate bullet loans priced at 25 basis points.

²² World Bank Group. 2016. IDA18. Draft of IDA18 Deputies’ Report. Additions to IDA Resources: Eighteenth Replenishment. Towards 2030: Investing in Growth, Resilience and Opportunity.

Importantly, IDA18 added loans at non-concessional terms to the continuum of terms available to eligible IDA clients.

31. The IDA18 consultations recognized that CPLs complement market debt in increasing the size of IDA18. Relative to IDA17, the IDA18 funding approach significantly increased IDA's commitment authority by US\$23 billion, a 44 per cent increase over IDA17. However, partner grant contributions fell by 4 per cent as compared to IDA17. IDA18 also introduced an International Finance Corporation-Multilateral Investment Guarantee Agency (IFC-Miga) Private Sector Window to mobilize increased private sector investment in IDA countries, especially in fragile and conflict-affected situations.

E. Structure of the report

32. The remainder of the report is structured into the following chapters: (i) evaluation objectives, approach and methodology; (ii) source of funds; (iii) use of funds and products; (iv) financial oversight and management; (v) IFAD's financial performance and sustainability; and (vi) conclusions and recommendations to strengthen IFAD's financial infrastructure.

Key points

- IFAD's financial architecture is defined as the policies and systems adopted to mobilize, manage, allocate and disburse financial resources to fulfil its mandate of helping to reduce rural poverty.
- IFAD is a Fund and a specialized United Nations agency dedicated to rural poverty reduction. Periodic replenishments, provided as equity, are at the heart of IFAD's financial architecture and main source of financing.
- The total for ODA from OECD donors increased from US\$133.6 billion in 2006 to US\$195.4 billion (constant price) in 2016. ODA for agriculture in 2015 was twice as large as in 2006 (constant price) and represented circa 6 per cent of ODA. Climate change-related commitments (ODA and other concessional development loan financing not classified as ODA) rose from 14 per cent of development financing committed in 2010-2011 to 30.2 per cent in 2016.
- In spite of this ODA increase, the recent replenishments of IDA and AfDF have experienced a decline in their traditional donor contribution. However, in the case of IDA, there has been an increase in leveraging resources through borrowing from financial markets.
- The structure of IFAD's financial inflows and balance sheet differs from MDBs. The latter have credit ratings and issue debt (bonds) on the financial markets to leverage lending activities. Encouraged by the G20, MDBs are exploring ways to change their financial architectures to increase their financial support for Agenda 2030 and the SDGs by more efficiently leveraging the equity in their balance sheets, while maintaining their AAA credit ratings.



UGANDA

Moses Wandera prunes banana plants in Buswekera, Hoima district.

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II. Evaluation objectives, approach and methodology

A. Purpose and objectives of the evaluation

33. The overarching purpose of this evaluation was to independently assess IFAD's financial architecture as a means to contribute to rural poverty reduction. **The evaluation's objectives** were to: (i) assess the relevance of the financial architecture in mobilizing resources; (ii) examine the value added of IFAD's financial instruments to Member States; (iii) analyse the efficiency of IFAD's financial architecture; (iv) assess the contribution of the investment and financial strategies to IFAD's financial sustainability; and (v) make recommendations and identify alternatives and options that would strengthen the financial architecture and IFAD's capacity to fund rural poverty reduction programmes.

B. Scope of the evaluation

34. **The scope of the evaluation** covers: (i) the sources of funds mobilized through replenishments, cofinancing and other sources including sovereign borrowing; (ii) the use and allocation of the resources to countries; (iii) the financial instruments and their performance; (iv) IFAD's corporate financial management and oversight systems (senior management oversight, treasury and financial services); and (v) the external financial oversight system (including the role of the Governing Council, the Executive Board and the Replenishment Consultation).

35. **The evaluation focused on the years from 2007 to 2017.** During that period, important changes were made to IFAD's financial architecture (e.g. refinement of the PBAS; launching of the Additional Resource Mobilization Initiative; adoption of the DSE, SBF and CPL frameworks; and strengthening the financial management and treasury functions; see annex V). As required, the evaluation reviewed developments prior to 2007 to the extent that they were relevant to

understanding the evolution of IFAD's financial architecture.

36. In addition to looking at internal factors, the evaluation examined relevant aspects of the external environment to identify factors that affect IFAD's financial architecture and financial performance (e.g. trends in ODA and capital markets; experience of comparator organizations and impact investors, supporting private-sector rural small and medium enterprises of the type that IFAD targets). The evaluation drew from the documentation prepared during the IFAD11 replenishment process.

C. Approach and methodology

37. The evaluation was undertaken within the overall framework of the Revised IFAD Evaluation Policy (2011)¹ and followed the broad methodological fundamentals set out in the second edition of the 2015 IFAD Evaluation Manual.²

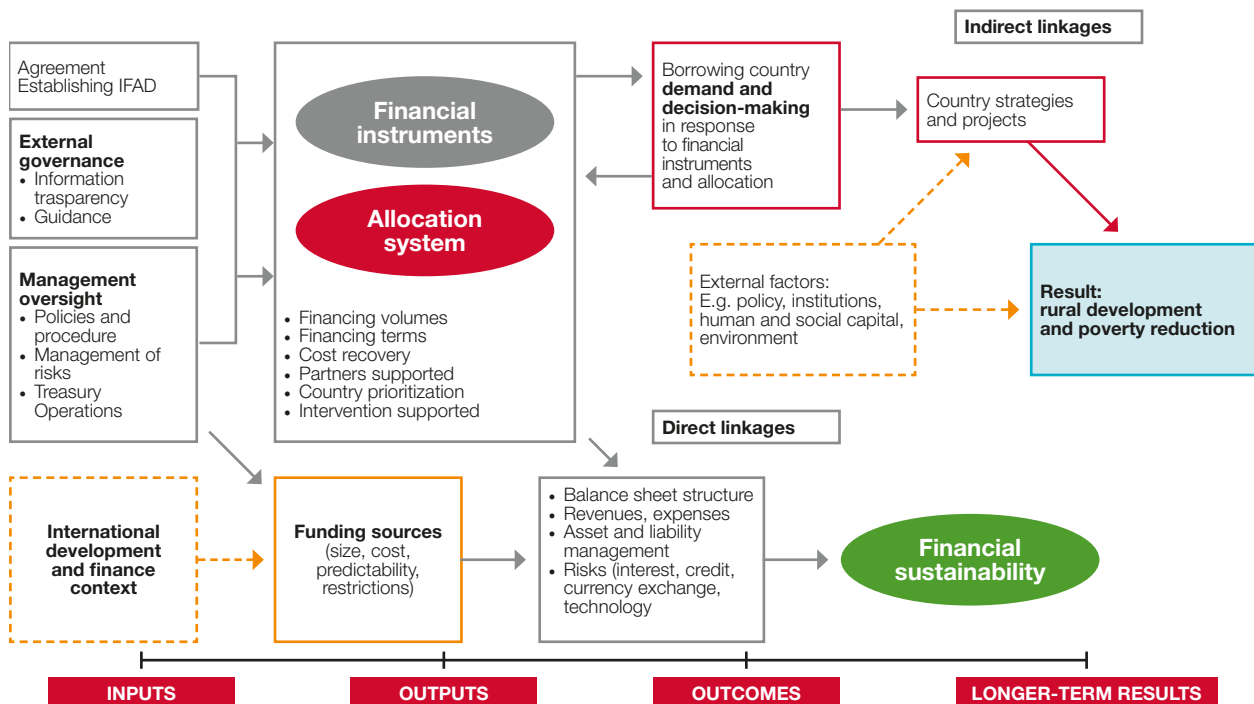
38. **A conceptual scheme.** The financial architecture of IFAD is not a self-standing programme, strategy or policy but rather the results of a progressive accumulation of decisions, policies and working practices over a long period. Unlike a programme or a strategy, the financial architecture has not been constructed through a formal logical framework. For this reason, rather than a full-fledged theory of change, this evaluation provides a simpler conceptualization as to how the elements of the architecture are connected and how they may contribute (albeit indirectly) to development results. A graphic representation of this is provided in figure 1.

1 <https://webapps.ifad.org/members/eb/102/docs/EB-2011-102-R-7-Rev-3.pdf>

2 www.ifad.org/evaluation/process_methodology/doc/manual.pdf
However, the CLE used past evaluations that were produced following the 2009 Manual and its definition of criteria and domains.

39. As a first step (upper part of figure 1), the financial architecture requires a governance system that sets the basic rules and exerts oversight functions, as well as a managerial structure that implements and reports on the same. The management structure and governance system relate to preparation, approval and implementation of policies and procedures on: sourcing of funds that IFAD uses to finance its development programmes, coverage of operational costs and financial risk management. These policies determine the: (i) funding sources; (ii) financial instruments available; and (iii) procedures to allocate financial resources to development partners. The volume and type of financial resources are also, in part, determined by the international development and finance context.
40. The above description largely refers to the “supply side” of the architecture: the total volume of resources available, the financing instruments and the resource allocation system provide the initial building blocks for negotiation with development partners at the country level. An important aspect in this conceptualization is also the role of the ‘demand side’: the development needs and priorities in borrowing countries and their decision-making in response to the allocation of financial resources and to the available financial instruments. Important elements here are the price, lending terms and suitability of financial instruments to country needs.
41. The interaction of the above “supply and demand sides”, along with a number of external factors, contribute to determining the contents of the strategies and projects agreed upon between governments and IFAD. In turn, the content of the development interventions, along with the quality of their implementation and performance, as well as other external and contextual factors, contribute to the final development results. While this is obviously a simplified scheme, the main point to be taken here is that the relation between the financial architecture and the final development outcomes is largely indirect.
42. On the other hand (lower part of figure 1), the volume of funding, the characteristics of the funding sources, the financing instruments and the allocation system contribute in a more direct manner to shape the margins for cost recovery. Together with the policies and procedures to manage financial risks, they eventually contribute to the financial sustainability of the Fund and, ultimately, to IFAD’s capacity to deliver development results.

FIGURE 1
A conceptual scheme for the financial architecture



Source: IOE elaboration (2017).

43. As a first approximation, desirable financial architecture may be defined as: (i) mobilizes sufficient resources to maximize IFAD's contributions to help borrowing countries reduce rural poverty with a stable (or, ideally, growing) lending volume; (ii) provides instruments that respond to the priorities of recipient countries for rural poverty reduction; (iii) provides opportunities to enhance IFAD's financial efficiency through leveraging with due consideration to institutional capacities, costs and risk management; and (iv) ensures that IFAD is financially sustainable in the long term and is not subject to undue risks. This also requires some flexibility in the architecture and continued support from members.
44. The **evaluation framework** contains evaluation criteria (relevance; effectiveness; efficiency; financial sustainability) that have been adapted taking into account the above conceptual framework, through key questions and sub-questions and to the special subject of this evaluation (see more details in annex I).³ The main questions and sub-questions, by evaluation criterion, are summarized below and detailed in annex I. It is recognized that, while fully valid for assessing a project or broader programme, standard evaluation criteria are not necessarily well suited to a non-standard evaluation topic such as IFAD's financial architecture. Evaluation criteria have been used as a broad reference to guide the definition of specific evaluation questions. For clarity of exposition, this report is organized following the key elements of the financial architecture rather than the standard evaluation criteria.
45. **Relevance.** The evaluation assessed the relevance of the current financial architecture and supporting policies and instruments to fulfil IFAD's mandate as expressed in the Agreement Establishing IFAD and subsequent corporate documents. The main related sub-questions were:
- i. How relevant was/is the financial architecture in mobilizing financial resources and offering them to Member States for the expected value and types of interventions in rural poverty reduction and development?
 - ii. How relevant were the assumptions underpinning the financial architecture to IFAD's operational performance, risk-adjusted results and cost efficiency? Are they still valid?
 - iii. Did the financial architecture allow for the mobilization of additional financial resources beyond core replenishments (e.g. complementary contributions; supplementary funds; cofinancing) and with what conditions?
 - iv. How could the relevance of IFAD's financial architecture be enhanced in light of the changing international development context and appetite for replenishments and increased financial leverage on IFAD's mission, operations and risk management?
46. **Effectiveness.** The key evaluation question for effectiveness was "How effective were IFAD's financial architecture and instruments used in supporting IFAD's contributions to reducing rural poverty?" The main related sub-questions were:
- i. Was IFAD's financial architecture effective in addressing the demand of financial resources and in the PoLG to grow? Were borrowing countries able to avail of the resources? Did lending terms affect the typology of interventions financed or generate bias in programme performance and results?
 - ii. Were the instruments (loans, grants, reimbursable technical assistance) effective in serving rural development demands from different countries (e.g. in countries eligible for DSF grants and highly concessional, blend and ordinary loans) and effective in delivering development results?
 - iii. Does the experience gained by comparator organizations suggest alternatives that IFAD should consider in order to strengthen its financial architecture?
47. **Efficiency.** Under this criterion, the evaluation examined two main aspects: financial efficiency and financial organizational matters. The main related sub-questions were:
- i. Were governance and financial organizational matters appropriate? This involved an analysis of policies for investing treasury assets, financial control, risk management, accounting, treasury and resource mobilization strategies, policies and procedures and financial governance, management, organizational structure, middle and back office functions, supporting systems and reporting systems.

³ Key questions were presented in the approach paper and further refined in the course of the evaluation.

- ii. Was the financial architecture efficient? This involved an analysis of treasury functions (investment profits within cash and risk constraints), recovery of operating costs from loan charges and profits from Treasury investments and the trends in liquidity and other standard financial ratios.
48. **Financial sustainability** means that profits from loan margins, Treasury investments and equity exits, cover both the operational costs and help build a buffer of provisions to deal with the institution's financial, credit and operational risks in the long term. This is different from the notion of sustainability often used at IFAD that relies mostly on future cash flow and liquidity scenarios. The evaluation assessed IFAD's financial sustainability in terms of its ability to provide the necessary funds to fulfil IFAD's mandate over the long run. By running simulations on a financial model, the CLE used standard financial ratios to assess financial sustainability by examining projected sources and uses of financing. The main related sub-questions were:
- i. What are the effects of the mix of financial products, terms and conditions on IFAD's short and long-term financing (e.g. optimality of the balance sheet, use of financial leverage, amount of liquidity held, revenue generated from management of liquid assets and interest rate/service charges)?
 - ii. What are the key drivers of IFAD's financial sustainability (e.g. volume, pricing and margins, terms, tenors, treasury operations)? What are the implications of external factors?
 - iii. Do the profits from loan margins and Treasury investments cover operational costs and help build a buffer of provisions to deal with IFAD's financial, credit and operational risks?
 - iv. Can IFAD operate in the long term without further financial support from its shareholders? How does IFAD need to be structured to be financially sustainable in the long term with and without further sizable member contributions?
 - v. What organizational changes would be required to deal with added risk factors associated with changes in the financial architecture, sources of financing, products and terms?
- vi. What are the lessons from other comparable organizations that could help enhance IFAD's financial sustainability and risk management?
49. **Nature of the evaluation.** While there are summative elements in this evaluation, it contains important formative aspects.⁴ Because IFAD is in the process of examining ways to strengthen its financial architecture, the formative aspects of this CLE were designed to identify findings, conclusions and recommendations intended to contribute to improving the financial architecture. However, many aspects of the financial architecture have been in place for a decade or more. Thus, some data on performance are available for the summative aspects of the evaluation as well.

D. Data collection and information sources

- 50. The CLE adopted a **mixed-method approach**, using qualitative and quantitative data collection tools and analysis, including examining information from comparator institutions, to assess IFAD's financial architecture, experience to date and likely future financial sustainability. Taking the conceptual framework as a reference, the use of a mixed-method approach allowed IOE to consider information of different types and from different sources, and to triangulate to increase the robustness of the findings, conclusions and recommendations.
- 51. **Management self-assessment.** In line with the Evaluation Policy, Management normally conducts a self-assessment as an input to CLEs. During 2016/2017, Management undertook significant work to review the financial architecture. Building on that, IOE identified key issues for Management to consider and Management prepared a self-assessment presentation that was discussed with IOE in a half-day internal workshop in September 2017. That process enriched the evaluation by providing an opportunity for different units from IFAD Management to present their experience and perspectives on IFAD's financial architecture.

⁴ OECD defines formative evaluations as evaluations intended to improve performance, most often conducted during the implementation phase of projects or programmes and summative evaluations as those conducted at the end of an intervention (or a phase of that intervention) to determine the extent to which anticipated outcomes were produced. See OECD, 2010. Glossary of Key Terms in Evaluation and Results Based Management.

52. **Document review.** The evaluation team reviewed many documents that are related to the financial architecture and the associated policies and instruments (e.g. reports from replenishment consultations; financial statements; annual programmes of work and budget; medium- and long term strategic frameworks; President's bulletins; related policies and procedures; selected country strategic opportunities programmes (COSOPs) and operational documents; and minutes of Audit Committee meetings). The evaluation team also reviewed selected documents prepared by the G20 and MDBs related to their financial architectures and replenishments of their concessional windows and relevant reports for the Rome-based agencies. The evaluation team mined IOE evaluation reports, particularly CLEs and selected country strategy and programme evaluations (CSPEs), to extract relevant findings and analysis.
53. **Key informant interviews in IFAD** were a major source of information for the evaluation. Semi-structured interviews, both of individuals and groups of people, were undertaken with a wide range of staff at IFAD headquarters and working in country offices, including selected members of the Replenishment Consultation, Executive Board, Evaluation and Audit Committees, IFAD senior Management, key staff in the Financial Operations Department (FOD), selected staff in the Programme Management Department (PMD), the Office of Partnership and Resource Mobilization (PRM) and other departments or divisions as required. Interactions were held with members of the Executive Board and of the Replenishment Consultation. Feedback collected during the interviews was not disclosed in a manner that could be traced back to the source.
54. **Analysis of IFAD's quantitative data.** Quantitative data was extracted and analysed from IFAD's financial systems, financial statements and reports and operational databases (i.e. the Grants and Investment Projects System [GRIPS, Flexcube]). Based on historical performance and various assumptions, a financial model was developed by IOE and used to simulate long-term forecasts of IFAD's financial performance to assess the implications of various options to modify salient features of the financial architecture.
55. **Ratings generated by IOE project evaluations** were used to assess the contribution of IFAD's financial architecture to its operational performance and the contribution of the financial architecture to IFAD's operational performance and achievement of development results by type of financing. Statistical analysis was performed across types of financing (e.g. DSF grants; 50 per cent DSF grant/50 per cent highly concessional loan; 100 per cent highly concessional loan; blended loans; ordinary loans). Statistical tests were undertaken to determine whether the differences in the ratings were statistically significant at the 1, 5 and 10 per cent levels.⁵ This analysis looked at correlation between the type of financing and evaluation ratings. It did not assume nor imply a direct causal link between type of financing and project performance.
56. **Data from external sources.** Examples of external data used in the evaluation include selected World Bank governance indicators and country classifications in 2009 and 2017, OECD Development Assistance Committee (OECD DAC) data on the trends in ODA flows, trends in interest rates and returns in the international capital markets, international credit ratings and bond issues for borrowing Member States, and information on financial results, products, pricing, terms and other aspects available on MDB web pages.
57. **During the country interactions,** IOE obtained input from selected government officials, development organizations and IFAD staff on the use of PBAS allocations, whether loan terms affect the nature of the projects put forward for financing, the demand for IFAD financing and its sensitivity to terms and interest in new products. The following criteria were used to select the countries for the case studies: (i) a mix of countries that receive financial support on different terms; (ii) countries for which the loan terms changed during the evaluation period; (iii) countries where COSOPs were being prepared in 2017 or 2018; (iv) regional representation; and (v) logistics that resulted in cost-efficient travel.
58. A mix of ways was used to undertake 17 country interactions: (i) six CLE-dedicated country visits (Côte d'Ivoire; Indonesia; Mexico; Morocco; the Philippines; Zambia); (ii) five countries for which there were ongoing projects (Angola; Cambodia; Cameroon; Georgia; Peru); and (iii) remote interview interactions with CPMs and/or country stakeholders in six countries (Bosnia and Herzegovina; Brazil; Ethiopia; Ghana; India; Sudan).

⁵ In the text of the report, ***, ** and * means significant at the 1, 5 and 10 per cent levels respectively.

59. **Electronic survey of IFAD staff and stakeholders.** An anonymous electronic survey was used to seek feedback from many stakeholders (e.g. Executive Board members, Senior Management, IFAD staff in both the headquarters and country offices, key government officials in ministries of finance, planning and selected line ministries in the List A, B and C countries). The e-survey was designed after the large number of interviews at IFAD and country visits and interactions had been completed. The survey was instrumental to probe into specific issues and triangulate the results with other data. A total of 1,194 people (343 IFAD Senior Management and Professional staff; 851 government counterparts) were in the survey population. Including partial responses, the response rate was 68 per cent (IFAD: 82 per cent; non-IFAD: 60 per cent).⁶ The e-questionnaire included: (i) answers to categorical closed questions; (ii) answers requiring agreement/ disagreement on a 6-point Likkert scale (1-strong disagreement to 6-strong agreement); and (iii) a few open questions/comments.
60. Information gathered from the e-survey are shown in the tables in annex VIII. Responses were broken down by IFAD respondents, non-IFAD respondents and respondents from low-income countries (LICs), lower-middle-income countries (LMICs), upper-middle-income countries (UMICs) and List A countries. Statistical testing was undertaken on the differences in responses between various groups. Results of the surveys have not been utilized in isolation but after triangulation with other sources.
61. **Review of comparator organizations.** The evaluation team collected information on and conducted interviews and visits with major MDBs (e.g. the World Bank Group; AsDB; AfDB; the European Bank for Reconstruction and Development [EBRD]; and IADB) as these are DFIs and have experience in financial products and practices that provide learning opportunities for IFAD. This covered areas such as governance and organizational matters, treasury management, financial performance and balance sheet restructuring, products, pricing, terms and currency choice and the views of donors as enunciated by the G20 and during replenishments of concessional windows.
62. In order to better diversify the spectrum of experiences, interviews and visits were also conducted with: (i) bilateral agencies that have introduced reforms to grow balance sheets and borrow on the capital markets (e.g. AFD; the Netherlands Development Finance Company (FMO); (ii) the Global Alliance for Vaccines and Immunisation (GAVI);⁷ (iii) Rome-based United Nations agencies, the Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP); (iv) six social impact investors, which were members of the Council on Smallholder Agriculture Finance (CSAF);⁸ and (v) KfW.
63. **Timeline and phases.** The CLE was undertaken during 2017 and 2018. The Evaluation Committee considered the approach paper in March 2017⁹ and the evaluation was completed in March 2018. The draft report was peer-reviewed in IOE in January 2018. The approach paper and the main report benefited from comments by two senior independent advisors, Frederik Korfker, former Manager and Chief Evaluator, EBRD; and Zenda Ofir, Honorary Professor at the School for Public Leadership at Stellenbosch University in South Africa and independent evaluator (annex XIII). The report was shared with IFAD Management in February 2018. Management provided written comments which were taken into consideration in finalizing the report. After consideration by the Evaluation Committee in June 2018, the final report was presented to the Executive Board in September 2018.
64. **Boundaries, constraints and limitations to the evaluation.** A major challenge for the CLE on financial architecture was the absence of an established methodology for assessing financial architecture in a comprehensive manner. Another challenge was to set a “boundary” for

6 Several measures were taken to get an adequate response rate: (i) translation of the questionnaire into IFAD's four official languages; (ii) personalized communications; and (iii) several follow-ups to non-respondents. Of the 1,310 invitations sent, 116 bounced or opted-out, all of which were non-IFAD respondents. Netting out the bounced, opted out and partial responses, there were 595 complete returns (221 for IFAD; 374 from non-IFAD), resulting in a 50 per cent response rate (64 per cent for IFAD; 44 per cent for non-IFAD). Response rates were based on the 1,194 questionnaires received by the respondents. The e-survey was sent to 95 per cent of IFAD's active countries in West and Central Africa Division (WCA), 91 per cent in Latin America and the Caribbean Division (LAC), 89 per cent in Near East, North Africa and Europe Division (NEN), 82 per cent in Asia and the Pacific Division (APR) and 76 per cent in East and Southern Africa Division (ESA).

7 GAVI brings together key United Nations agencies, governments, the vaccine industry from developed and developing countries, the private sector and civil society. GAVI has developed an innovative financing structure to turn long-term pledges into large-scale, long-term funding through the International Finance Facility for Immunisation (IFFIm) and raises financing on the international capital markets.

8 The impact investors were: Alterfin, Root Capital, Triodos Investment Management, Incofin Investment Management, ResponsAbility, Rabo Rural Fund. Interviews were also held with the CSAF, an alliance of social lending institutions and impact agricultural lenders.

9 EC 2017/96/W.P.3/Rev.1

the analytical framework. As presented in figure 1, IFAD's financial architecture has implications for its development results. However, this happens in an indirect manner, because results are also affected by many other factors including: the quality of operations, national strategies and policies, the capacity of institutions, the work of many individuals and by a number of other exogenous factors. Many of these were beyond the boundaries of this evaluation. Thus, while part of the analysis contemplates statistical correlation between specific features of the financial architecture and some indicators of performance and results, it is important to not assume a deterministic causal association between them.

65. While the financial architecture is not a "development programme" and does not have comprehensive and clearly stated targets and objectives, it can be evaluated by using: (i) internal benchmarks (i.e. identify which options are available within the present architecture and how important they are for

IFAD's mandate); and (ii) external benchmarks (existing options and lessons learned in other development organizations). While the review of comparator organizations was useful, there are important caveats: IFAD has a specific mandate for rural poverty and agriculture and is much smaller than MDBs: not all features of other institutions can be replicated at IFAD and vice versa. MDBs were established as banks and have a credit rating and they support both sovereign and non-sovereign operations.

66. Finally, a very specific issue related to the uncertainty of the long-term forecasts needed to assess IFAD's financial sustainability. To address this issue, sensitivity testing of various scenarios was undertaken. A time frame was set at 10 years (2018-2028), encompassing three replenishment cycles (IFAD11-IFAD13). From an analytical point of view, this appeared to be more helpful than making projections over 30 to 40 years, when too many variables and parameters are out of control and cannot be modelled in a credible manner.

Key points

- While there are summative elements in this evaluation, it also contains important formative aspects. The evaluation focused on the years from 2007 to 2017. The objectives of this evaluation were to: (i) assess the relevance of the financial architecture in mobilizing resources; (ii) examine the value added of IFAD's financial instruments to Member States; (iii) evaluate the efficiency of IFAD's financial architecture; (iv) assess the contribution of the investment and financial strategies to IFAD's financial sustainability; and (v) make recommendations and identify alternatives and options that would strengthen the financial architecture and IFAD's capacity to fund rural poverty reduction programmes.
- The scope of the CLE covers: (i) the sources of funds mobilized; (ii) the use and allocation of the resources; (iii) the financial support instruments and their performance; (iv) IFAD's corporate financial management and oversight systems; and (v) the external financial oversight system.
- The evaluation developed a simple conceptual framework outlining: (i) how the main elements of the financial architecture interact with demands from borrowing countries and other country contexts and external factors in shaping country strategies, and how these may contribute (mostly indirectly) to development results; (ii) through what mechanisms the financial architecture contributes to shape the financial sustainability of IFAD.
- The evaluation used mixed methods and analysed both quantitative and qualitative information and data from a range of sources (e.g. information from IFAD's treasury system and financial modelling; document reviews; semi-structured interviews of key informants; 17 country consultations; quantitative analysis of data available in various IFAD information systems; an electronic survey of stakeholders; and information from comparator organizations).



THE PHILIPPINES

Arlene Hemedes does not have a bank account. She uses an ATM card to withdraw remittances sent by her sister, who is working in Saudi Arabia. The money is sent to her via mobile phone using the G-Xchange system, which, being linked to her ATM card, gives her immediate access to the money. With this money, she buys food for her family in Bulacan, the Philippines.

III. IFAD's funding sources

67. This chapter addresses questions that fall under the area of relevance, as defined in the methodology section (chapter II). Such questions relate to the mobilization of financial resources to be utilized by IFAD for rural poverty reduction and development interventions. In doing so, this chapter reviews costs, risks and practical arrangements that relate to the mobilization of resources. The governance aspects of the sourcing of funds are treated in chapter V.
68. Prima facie, IFAD's reliance on members' replenishment contributions and funds derived from operations (e.g. loan reflows, income from Treasury investments) appears to be a relevant arrangement to support financing at concessional terms. The implicit assumption is that, over the long term, IFAD members would be in a financial position and willing to continue providing financial support in grant form, and to a level that allows the Fund to maintain (and ideally increase) its PoLG. As noted in the previous chapters, ODA from OECD donors has increased from 2007 up to 2016; however, the recent replenishment of IDA and AfDF have experienced a decline in their donor contribution.
69. The next paragraphs review IFAD's funding sources and examine trends, constraints and risks. As will be clear from the discussion, the definition of financial resources stated in the

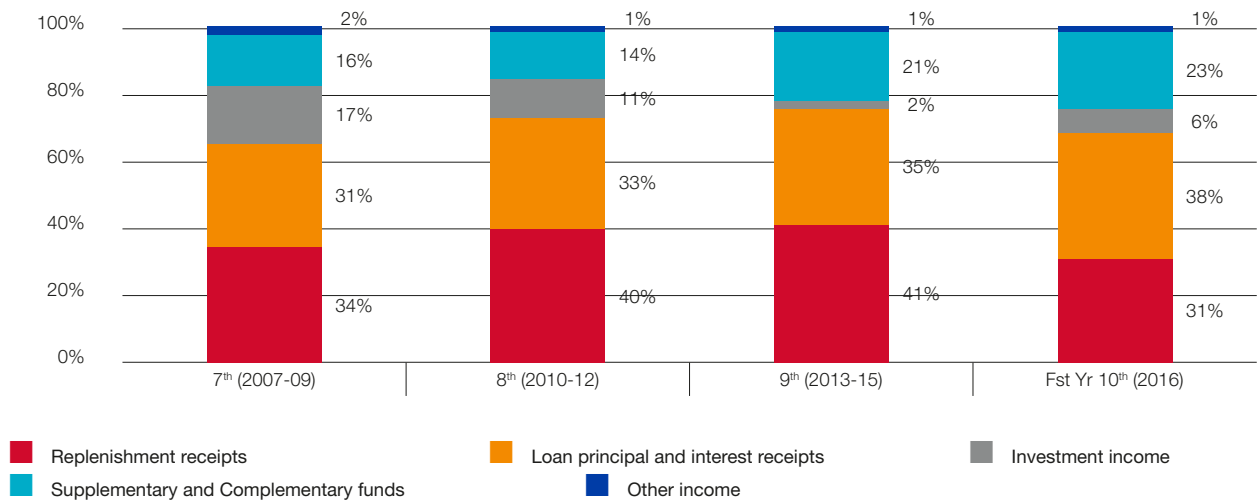
Agreement Establishing IFAD allowed flexibility in introducing additional funding sources beyond replenishment contributions, although they remain the most important source.

Incoming resources at IFAD's disposal

70. The incoming financial resources at IFAD's disposal are those that can be used by IFAD for loans and grants and to pay its administrative costs and are not reimbursable (instead, sovereign loans are not "at disposal"). They include the following categories: (i) replenishment receipts; (ii) loan principal reflow and interest receipts; (iii) income from financial investments made by IFAD's Treasury; (iv) supplementary funds and complementary contributions (since IFAD10, complementary contributions have been replaced by unrestricted complementary contributions); and (v) other income (e.g. foregone debt forgiveness in the context of the HIPC, foregone loan repayments and service charges associated with DSF grants).
71. **Between IFAD7 and IFAD9, reliance on replenishment and loan reflows increased.** Between IFAD7 and IFAD9, there was an initial slight increase followed by a decline in overall IFAD incoming resources at disposal. Based on IFAD's financial statement data, these financial resources were for IFAD7 (2007-2009); for IFAD8 (2010-2012) and for IFAD9 (2013-2015) at constant 2015 prices. The IFAD10 period will finish in 2018.

FIGURE 2

Changes in the composition of non-reimbursable resources to IFAD (IFAD7-IFAD9)



Source: calculated on basis of data from IFAD Financial Statements.

72. Figure 2 provides a breakdown of incoming resources during the Seventh, Eighth and Ninth Replenishment periods and 2016, the first year of the Tenth Replenishment period (excluding sovereign borrowing as they are not available). The proportion of income from Treasury investments declined notably between IFAD7 and IFAD9, while the proportion of supplementary funds and complementary contributions of the total has tended to increase. In the same period, reliance on loan reflows, and even more so on replenishment contributions, has grown markedly.

A. Core replenishment resources and loan reflows

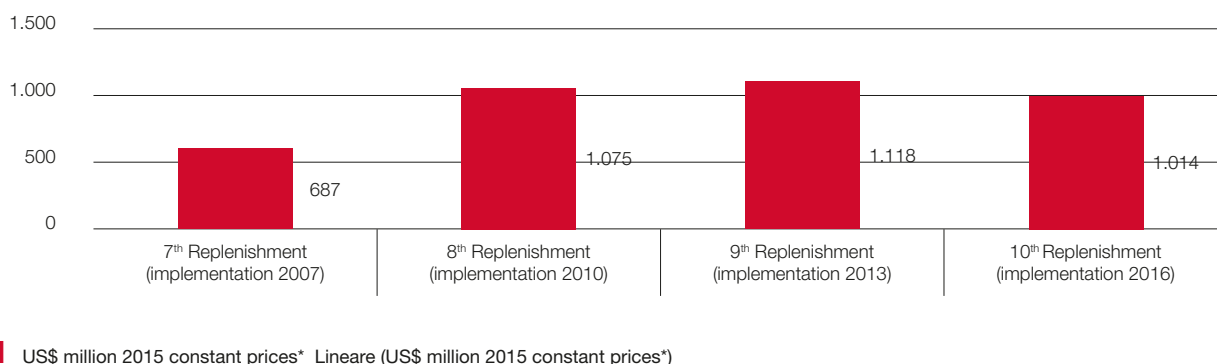
A.1 Trends in pledges for replenishments

73. After a steep rise in total pledges of core contributions for IFAD8 compared with IFAD7, pledges have largely stabilized at constant prices. There was a slight further rise to IFAD9 and a slight decline to IFAD10 (figure 3). One hundred and thirty-seven countries made pledges between IFAD7 and IFAD10.¹

¹ For IFAD10, Belgium did not make a pledge, Denmark withdrew its pledge and Sweden reduced its pledge. If these three countries had pledged the same amount to IFAD10 that they pledged to IFAD9, IFAD10 would have been some US\$70 million greater). The United Kingdom increased its commitment to provide the largest pledge to IFAD10. Spain did not pledge to IFAD9 or IFAD10. The United Kingdom increased its commitment to provide the largest pledge in the Tenth Replenishment. Spain did not pledge for the Ninth or Tenth Replenishments.

FIGURE 3

Pledges of core contributions (Million of United States dollars, constant 2015 prices)



Source: Core Replenishment Contributions calculated from IFAD Financial Statements (in 2016 Appendix H) also with reference to Summaries of Status of Contributions presented to the Executive Board. Constant Prices obtained from OECD multiplier for second year of Replenishment Period.

74. **More members participate in pledging for IFAD replenishments compared to other institutions. However, as with other DFIs, IFAD remains dependent on a few major donors.**

Ninety-eight countries have pledged for IFAD10 Replenishment, compared with 52 for IDA18 and 26 for the AfDF Fourteenth Replenishment,² compared with 52 for IDA18 and 26 for AfDF-14.2 however, the nine countries contributing 5 per cent or more of pledges to IFAD accounted for 63 per cent of total pledges to IFAD. The 12 countries contributing more than 1 per cent of pledges brought the total pledges to 93 per cent.³ The 21 countries contributing more than one per cent of IFAD’s resources include five borrowing countries: Brazil, China (5.8 per cent of the total), India, Indonesia and Nigeria.

75. **There are risks connected to foreign exchange movements.** Because countries can make pledges in their own currencies but the total replenishment is accounted in United States dollars, IFAD is exposed to a currency exchange risk, a topic that is further discussed in chapter V. Similar to other institutions, such as World Bank-IDA, IFAD is considering the introduction of hedging instruments.⁴ The

movement of currencies against the United States dollar means that, even where the major non-dollar contributors maintain or increase their contributions in national currencies, this may not be reflected in the replenishment pledge. In IFAD9, the United Kingdom increased its pound sterling contribution by 51 per cent, which resulted in a 27 per cent increase in United States dollar terms. France’s contribution remained steady, which resulted in a drop of 6 per cent in its United States dollar pledge. The most striking changes occurred between IFAD10 and IFAD9. Canada, Japan, Germany and France kept their pledges at the same level, but this resulted in declines of 11 per cent, 24 per cent, 7 per cent and 7 per cent, respectively, for pledges expressed in United States dollars. The United Kingdom pledged an 11 per cent increase in national currency, which was recorded as a 15 per cent increase in United States dollars due to appreciation of the British pound sterling, which has since declined considerably vis-a-vis the United States dollar.⁵ The topic of the hedging of promissory notes is discussed in chapter V.

2 IFAD’s major donors’ pledges to the IFAD10 replenishment as a percentage of the total were: UK (9.3), United States (8.8), Italy (8.3), Netherlands (7.3), Germany (6.8), Canada (6.7), China (5.8), Japan (5.5), and Norway (5.0). The major difference between IFAD and IDA in terms of number of countries is the number of poorer borrowing countries contributing small amounts to IFAD.
 3 In order of size of pledge: Switzerland; France; Sweden; India; Saudi Arabia; Austria; Finland; Brazil; Nigeria, Kuwait, Algeria and Indonesia.
 4 IDA allows members to make contributions in local currencies but hedges against foreign exchange risk with United States dollars. Instead, IBRD for its capital increase eliminates currency exchange risk

by establishing that all contributions be denominated in United States dollars, thus shifting the risk to contributors.
 5 Some countries have occasionally chosen to make their pledges in United States dollars rather than their national currency, notably the Netherlands in IFAD9 and IFAD10, and Germany in IFAD8. It may be noted that the biennial assessed contributions to the United Nations and United Nations specialized agencies are normally paid in two tranches in the currency specified in the budget (normally United States dollars, although some institutions have a split assessment in United States dollars and the currency of the headquarters’ location). Thus, for two years the entity knows what currency it will receive.

A.2 Trends in receipts from replenishments

76. **Replenishment contributions rose markedly between IFAD6 and IFAD8, but declined in IFAD9 (figure 4).**
77. **IFAD's encashment schedule for pledges is more favourable than for comparator institutions.** Instruments of contribution are to be deposited by the end of each replenishment cycle and are normally encashed in one, two, or maximum three instalments, except in the few cases where extended encashment periods are agreed. As loan disbursements extend considerably beyond the replenishment cycle, with many projects only getting started as the cycle ends, this contributes to IFAD's cash balance and opportunity for investment income, which accrues to IFAD.
78. Among the comparators, IDA17 has a nine-year standard encashment schedule; however, members may pay earlier and either receive discounts and pay amounts lower than their contribution amount or receive acceleration credits and pay the full contribution amount, receiving additional voting rights. The AfDF has a 10-year schedule and is moving to offset the problems of the encashment schedule through a hedged accelerated encashment framework approved at the Twelfth Replenishment in 2016. The framework allows the Fund to accrue investment income for the benefit of donors by encashing their subscriptions at earlier dates, in fewer instalments or in different proportions than those specified in the standard 10-year calendar.⁶

6 Donors can use this investment income to: (i) increase their contributions and burden share in the replenishment; (ii) pay a discounted amount on their subscription while maintaining burden share; (iii) to reduce AfDF-13's technical gap; (iv) pay for other commitments to the Fund (such as grant contributions of Multilateral Debt Relief Initiative compensation); (v) meet their past due payments on past and future replenishments.

79. **IFAD had not experienced a significant problem of delays in honouring of pledges and payments against promissory notes until the recent retraction of initial pledges by Denmark and Sweden.** This compares positively with the experience in other funds and IFIs.⁷ At the close of 2016, only the United States had minor amounts outstanding for IFAD7 and IFAD8. A total of US\$47.5 million was outstanding for IFAD9; however, this was only one year after closure and represented just 3.3 per cent of total pledges. Special arrangements have been entered into for some members who have had severe internal cash flow problems, notably Iraq.⁸

A.3 Loan reflows

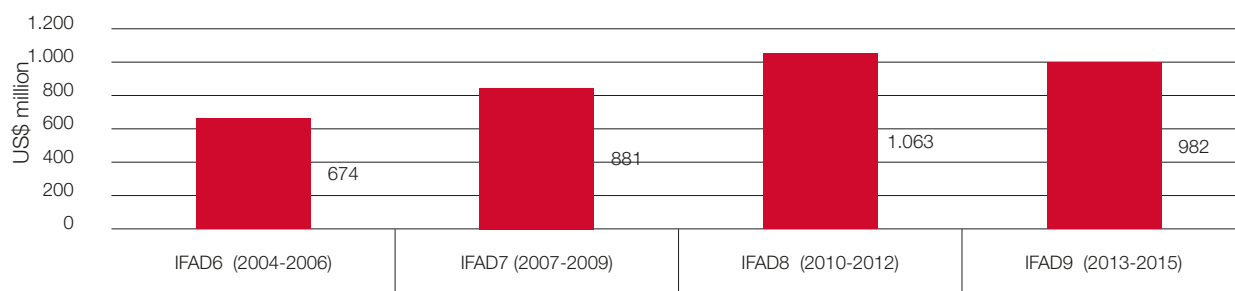
80. Reflows, including repayments of loan principals and interest have increased, as expected with an increasing portfolio (table 4). Reflows are a fundamental feature of the financial architecture, because together with replenishment, they are critical for PoLG financing. IFAD's PoLG and operational expenses in a given replenishment period are not fully covered by the replenishment contribution reflows and borrowing that takes place in the same replenishment period; instead, they require funds from loan reflows and replenishment that come in the future.
81. **There are minimal issues of loan default with IFAD.** Countries tend to privilege loan repayment to multilateral financing institutions. The HIPC Initiative and the DSF ensure that countries with major difficulties that meet the criteria are not placed in an unsustainable debt position.

7 For example, the GEF has at times suffered from major delays in honouring pledges.

8 As per the 2016 financial statements, Iran has not paid US\$83.2 million of its initial pledged contribution of US\$124.8 million or US\$2.4 million of its pledged contribution to IFAD3 of US\$4 million. No other country had significant receivables outstanding with limited expectation of payment (i.e. an allowance had been made in the accounts).

FIGURE 4

Received replenishment contributions (Million of United States dollars, constant 2015 prices)



Source: IFAD Financial Statements, appendix C. Conversion to constant prices used the OECD multiplier (note that these figures do not correspond to receipts for the actual replenishment as some are from previous replenishments and encashed during the replenishment period; further, there are minor advance payments).

TABLE 4

IFAD loan reflows (Million of United States dollars, constant 2015 prices)

	Interest	Principal repayment	Total
IFAD7 Replenishment period 2007-2009	164.7	509.8	674.6
IFAD8 Replenishment period 2010-2012	155.0	655.8	810.8
IFAD9 Replenishment period 2013-2015	157.9	660.9	818.8

Source: IFAD Financial Statements 2007-2015 with application of OECD multiplier.

Key points

- IFAD’s financial architecture can be considered as broadly relevant for providing financing on highly concessional terms. It has been centred on replenishment contributions and other non-reimbursable sources of funding (e.g. reflows from loans, income from Treasury investments, supplementary funds and complementary contributions).
- The underlying assumption in this architecture was that Member States would be able and willing to continue providing grant resources in the foreseeable future to a level that allows for PoLG growth. The PoLG is financed to a large extent on a “pay-as-you-go” basis, requiring liquidity from future replenishments and loan reflows.
- The above assumption is increasingly under strain. There was an slight initial increase followed by a decline in overall IFAD incoming non-reimbursable resources between IFAD7 and IFAD9. Because of the reduction of income from Treasury investments, reliance increased on replenishment contributions and loan reflows. Replenishment contributions received rose markedly from IFAD6 to IFAD8 but declined in IFAD9.
- While IFAD’s replenishment procedures generally follow those of MDBs, there are also some differences. IFAD’s encashment schedule for pledges and experience of timeliness of payment are more favourable than for MDBs. More Member States participate in pledging to IFAD. However, the largest pledges are concentrated over a small number of members. Pledges in currencies other than the United States dollar are vulnerable to foreign exchange movements.

B. Overview of funds additional to core replenishment resources

82. **Specially earmarked and supplementary funds are not new to IFAD.** For example, in 1995, IFAD's Executive Board decided to integrate the US\$351 million Special Resources for Sub-Saharan Africa (SRS) into IFAD's programme; however, the funds remained separately stated. Most additional funding since that time has been disbursed as grants. Supplementary, complementary and other non-regular resources from members and other sources are a very substantial part of the new resources and are mostly utilized for grants. At constant 2015 prices, a total of some US\$610 million (of which almost half was for the Adaptation for Smallholder Agriculture Programme [ASAP]) was provided by Member States to IFAD from 2007 to 2016 and this included contributions and supplementary funds. In addition, non-members (mostly the EU and GEF) provided the equivalent of US\$870 million in supplementary funding. In the same period, IFAD received US\$2.76 million in replenishment contributions. Therefore, the ratio of volumes of complementary contributions and supplementary funds combined, *vis-à-vis* the volume of core replenishment contributions can be estimated at 0.53:1.
83. Mechanisms for mobilizing resources additional to IFAD's replenishment funding fall under the following major categories:
- Funds raised in the contexts of replenishments but additional to the regular replenishment (special and complementary).** Such funds are made without restrictions as to the countries where they are to be used but the Governing Council decides, in consultation with the contributing Member State, how they will be used. In practice, for complementary contributions, this has meant the Member State decides the thematic area(s) of use, the most recent major example being the contributions in IFAD10 for the ASAP.
 - Supplementary funds** are received for specified purposes from one or more donors and normally carry a service charge. In practice, nearly all significant funding passes through the Executive Board for approval. Supplementary funds include: (i) trust funds for specific programmatic purposes raised from donors; and (ii) funds for Associate Professional Officers.
 - Cofinancing arrangements** where each party remains responsible for its own resources. In practice, many shared project initiatives fall

into this category (see further definition and discussion at the end of this chapter).

- Financing by private foundations and private entities.** These are among the options explored since IFAD9 and 10.
- Sovereign borrowing.** If KfW and AFD loans are taken to apply to IFAD9 and 10, their combined size would represent a ratio of 0.39:1 compared to the replenishment in the same period.

C. Complementary contributions and supplementary funds

C.1 Complementary contributions

84. Complementary contributions are pledged in the context of and counted in IFAD replenishments, but do not accrue voting rights. Complementary contributions amounted to US\$76.1 million in IFAD8, US\$360 million in IFAD9 (100 per cent for ASAP climate change adaptation) and US\$100 million in IFAD10 (92 per cent for climate change adaptation). Since IFAD10, complementary contributions have been called Unrestricted Complementary Contributions. As far as the evaluation could ascertain, they do not have an equivalent in comparator MDBs. In theory, they are not restricted as to their (country-wise) use but are in effect thematically earmarked and the great majority are placed in trust funds. There are no service charges on complementary contributions and special contributions; therefore, their operational costs are absorbed by IFAD's administrative budget and, as nearly all have been used for grants to date, there is no reflow. There is no requirement for individual reporting to donors, but when there is a single donor (as with the Belgian Survival Fund or Russian, Chinese and Saudi complementary contributions), there was *de facto* separate reporting.
85. **There is no evidence that complementary contributions reduce core contributions.** Complementary contributions will often be provided by countries from alternative national donor budget allocations. While complementary contributions are received as a part of replenishments (but without voting rights) and supplementary funds are established outside the replenishment, in many ways, proceedings from complementary contributions are used in a very similar way to supplementary funds (there is *de facto* a thematic although not country earmarking); however, they do not contribute to the coverage of administrative costs. Such

contributions to administrative costs would be possible if they were treated in exactly the same way as supplementary funds, placed in trust accounts and subject to service charges. This would in no way impinge on donors' possibilities to record their contributions against purposes such as climate change, or on IFAD announcing them within the headline replenishment figure.

C.2 Supplementary funds

86. In IFAD, the Partnership and Resource Mobilization Office (PRM) provides an overall coordination function and has responsibility for developing new initiatives. Supplementary funds were introduced in 2001 and updated procedures for them were set out in a President's Bulletin in November 2014. Funds can be used directly by IFAD, or they can be channelled through other entities. The implementation of nearly all supplementary funds are currently under the responsibility of PMD (mostly by the Policy and Technical Advisory Division and Environment and Climate Division (ECD) within the framework of bilateral partnership agreements with donors, the latter manages climate and environment funds, including GEF and ASAP).

87. **Institutions other than Member States contributed more than Member States to supplementary funds – US\$870 million** from 2007 to 2016 and 98 per cent of this total was contributed by just four sources: the European Commission (EC; 59 per cent); and three specialized funds: the Global Agriculture and Food Security Programme (15 per cent);⁹ the LDC Climate Fund (11 per cent) and GEF (14 per cent).¹⁰ IFAD was accredited to the Green Climate Fund in 2016, which may become a significant source of additional funding. It is of interest that List A members appear to see the Green Climate Fund as a source of future funds to ASAP.¹¹

⁹ The Global Agriculture and Food Security Program (GAFSP) is a fund for which the World Bank provides a coordination secretariat and acts as Trustee. It was established following the world food crisis of 2008 by the G20 and works in partnership with the World Bank, regional development banks and the Rome-based agencies. Pledges have been for the most part already received, and there appears to be limited expectation of future funding during the ongoing consultations. GAFSP has a public-sector window (US\$1.2 billion) and a much smaller private-sector window (US\$400 million) managed separately by the IFC. Eligible countries are only those qualifying for IDA. The majority of resources have been committed. According to the 2015 annual report, GAFSP has financed US\$1.02 billion in public sector projects and US\$223 million in private sector projects (61 per cent in Africa, 11 per cent in East Asia and 10 per cent in South Asia). IFAD supervises projects for US\$130 million, a relatively small part of the total.

¹⁰ Since 2013 IFAD has reported annually to the Executive Board on supplementary funds and includes funds received in the annual financial statements. The figures presented in the report are, however, derived by differences from the cumulative figures reported in the financial statements over a 10-year period on a roughly comparable basis.

¹¹ See minutes of 119th Session, December 2016.

88. **IFAD's Adaptation for Smallholder Agriculture Programme (ASAP).** ASAP, along with GEF and other climate-related funding, is IFAD's current flagship non-core programme. The ASAP Trust Fund has been resourced from both complementary contributions and supplementary funds. Allocation criteria include the application of IFAD's Social, Environmental and Climate Assessment Procedures (SECAP). ASAP is a grant programme which aims to mainstream climate change in IFAD's project work with the goal of improving the climate resilience of 8 million farmers by 2020. The ASAP multi-donor Trust Fund¹² was established in April 2012, launched in September 2012 and received a major increase in funding under IFAD9 as a complementary contribution. The first phase was of five years, from September 2012 to September 2017 and a second phase was approved by the Executive Board in December 2016 with the intention of raising a further US\$100 million for commitment by the end of IFAD10 (December 2018). The devaluation of the the British pound sterling (the United Kingdom was the largest donor) largest donor) and, to a lesser extent, the euro against the United States dollar, posed a financing challenge for ASAP.

89. **Other significant focus areas** for supplementary funds have been: (a) the Financing Facility for Remittances (to date US\$21.2 million committed from the EU, Spain, Switzerland and the United Nations Capital Development Fund); (b) the Agricultural Risk Management: about US\$7 million from the EU, France and Italy; (c) Contributions to and work with the CGIAR, the EU has funded a pass through arrangement (US\$36 million completing 2016; US\$54 million completing 2017; and US\$21.7 million completing 2019); and (d) the EU-funded programme for strengthening farmer organizations (US\$20 million). There are also cases of thematic areas in which projects are currently ongoing with support from one or more donors including: Nutrition Sensitive Agriculture and Rural Development; Food-loss Reduction; Mainstreaming Gender Equality; and Rural Finance.

90. **IFAD staff interviewed for this evaluation considered that IFAD did not have a well-developed strategy for supplementary funding, with a mechanism to prioritize needs and opportunities.** Some staff stressed that supplementary funds were useful and provided opportunities to do knowledge work and make

¹² Eleven donors: Belgium, Canada, Finland, Flanders (Belgium), France, Norway, Netherlands, the Republic of Korea, Sweden, Switzerland and the United Kingdom.

IFAD responsive to donors' interests as well as those of recipients. Others considered that, in the absence of a strategy, supplementary funds were not necessarily directed to the priorities of Management and the Executive Board and could lead to work being diverted from core country priorities. In its presentations to the the Executive Board, as well as in programmes such as ASAP, Management has emphasized that supplementary funds permit IFAD to develop pilot approaches and cross-country approaches in a way that is not possible with loan funds.

91. **IFAD service charges are unlikely to be adequate to cover the administrative costs associated with supplementary funds.** IFAD has established a service charge in a range of 5 per cent to 10 per cent. This was on the basis of an internal review; however the basis is not clear because IFAD has no staff time recording system. Where United Nations system agencies have assessed their costs for very similar work, the percentage has been higher and there has often been a cross-subsidy from core resources. IDA and IBRD are stricter in their service charges for supplementary funds, which are intended to cover indirect as well as direct costs, and average 10 per cent to 12 per cent.¹³

D. Cofinancing and counterpart financing

92. Cofinancing and national counterpart financing form an essential element of IFAD's funding architecture.¹⁴ IFAD Management has consistently endorsed the idea of increasing cofinancing. The target for the cofinancing ratio has been increased from 1.2 under IFAD9 and IFAD10 to 1.4 under IFAD11, with the Member States requesting differentiated targeting for national and international cofinancing. IFAD data are reported based on predictions at project design. Although these predictions may on occasion be over-fulfilled, the reverse is much more often the case. Government inputs frequently do not materialize in full, and the input from beneficiaries for such things as feeder road and irrigation system improvement is unpredictable. In addition, inputs from

donors and IFIs may be out of sequence, less complementary than hoped, simply not materialize or be parallel funding for projects which would have materialized anyway.

93. On the basis of IFAD's reported data, over the 10-year period from 2007 to 2016, there was a slight tendency for the ratio of international cofinancing to decline and that of domestic counterpart funding to increase (figure 5).¹⁵ Domestic counterpart funding has an average ratio of approximately 0.7: 1 to IFAD financing and has formed 57 per cent of total cofinancing. The proportion increases with country income status from 50 per cent in LICs to 79 per cent in UMICs. Latin America and the Caribbean (LAC) is the region with the highest domestic cofinancing as a ratio to IFAD investment. Asia is surprisingly low, comparable with ESA, and the Near East, North Africa and Europe (NEN) region has a less favourable ratio of domestic cofinancing to IFAD investment (annex XII). While those countries borrowing on ordinary terms report a ratio of 0.9 to IFAD'S resource input, DSF countries also had relatively good ratios, compared with the highly concessional and blend borrowers. Beneficiaries are reported overall to contribute approximately 19 per cent of counterpart financing with the highest proportion in Latin America.

94. **International cofinancing accounts for 43 per cent of total cofinancing.** IFIs accounted for 63 per cent of international cofinancing and bilaterals for 16 per cent (of which 3 per cent from the EU, table 5). The ratio of international cofinancing to IFAD financing was 0.52:1 in 2007-16. The regional development banks account for more international cofinancing than the World Bank; however, this is entirely due to the AsDB and AfDB, which are more significant than the World Bank in Asia and West Africa respectively. International cofinancing is most important as a ratio to IFAD investment in the LICs and least important in the UMICs, but in regional terms, Asia has the highest amount of international cofinancing and the highest proportion of DFI financing, due to stronger partnership with AsDB since country offices were established (see CLE on decentralization, 2016). IFAD Management points to its arrangements with the AsDB as a model, and a pipeline for cofinanced projects has been developed.

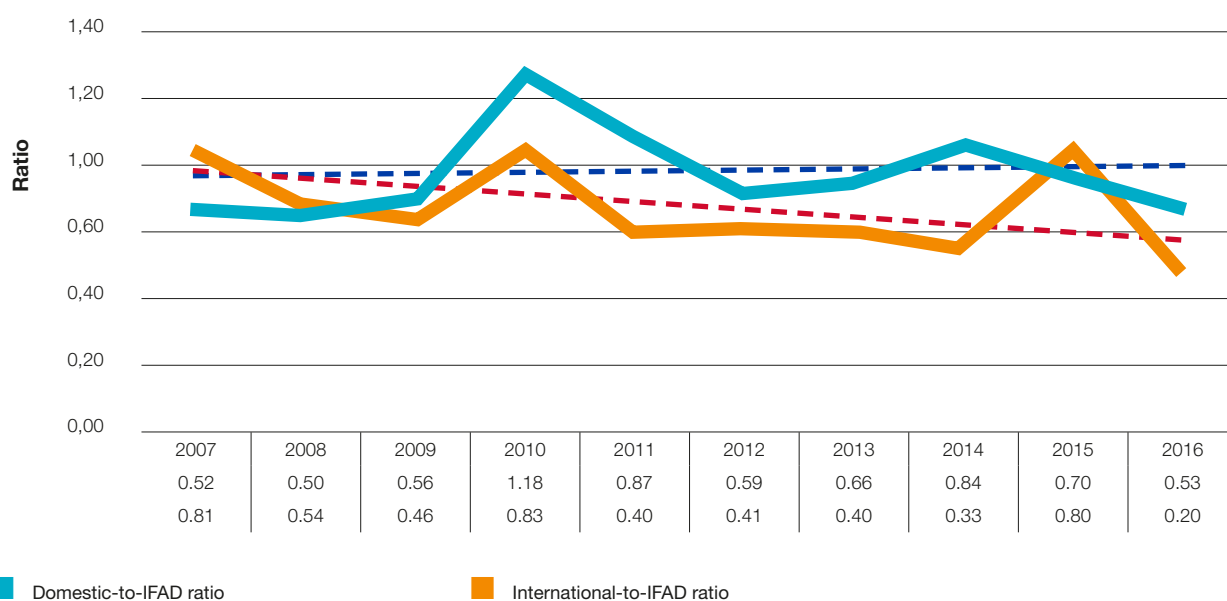
¹³ IDA financial statements.

¹⁴ International cofinancing is parallel funding to that of IFAD by another international funder, which is integrated to a greater or lesser extent with an IFAD project and makes a contribution towards the achievement of the IFAD projects' objectives. Domestic cofinancing is resources mobilized nationally from governmental, private, civil society or beneficiary sources to contribute to the achievement of the IFAD project objectives.

¹⁵ According to the 2017 Report on IFAD's Development Effectiveness, (2017 RIDE) in the IFAD9 period and early in IFAD10, the Fund exceeded the cofinancing ratio target of 1.2 (ratio of 1.4 by the end of 2015) but then decreased to 1.27 in 2016.

FIGURE 5

Trend in ratio of international cofinancing and counterpart funding to IFAD investment



Source: IFAD Management data.

TABLE 5

Percentage of domestic counterpart and international cofinancing by source (2007-2016)

Percentage of domestic counterpart financing		Percentage of international cofinancing	
Total governmental	58.1%	World Bank including IFC	22.0%
Domestic financial institutions and parastatal corporations	14.0%	Regional development banks	26.9%
Local private sector including some financial institutions	4.8%	Islamic Development Bank	2.8%
Local NGOs	1.2%	OFID	8.5%
Other domestic institutions and not identified	3.0%	Other IFIs	2.9%
Beneficiaries	18.9%	GEF	2.4%
		Bilaterals	13.5%
		European institutions	2.7%
		United Nations System	1.0%
		International private sector	0.3%
		International NGOs	0.2%
		Other internatl. org. and other institutions	16.9%
Total domestic cofinancing	100.0%	Total international	100.0%

Source: CLE elaboration from GRIPS (October 2017).

TABLE 6

Views of E-survey respondents on cofinancing

Category of respondent	Descriptor for the average of the ratings for all responses	Firmly agree (rating 5-6)	Moderately agree (rating 4)	Moderately disagree (rating 3)	Firmly disagree (rating 1-2)	No opinion
IFAD respondents						
IFAD is good at mobilizing national counterpart funding	Moderately agree	20%	36%	21%	10%	13%
IFAD is good at mobilizing international cofinancing	Moderately agree	16%	42%	22%	10%	10%
Non-IFAD respondents						
IFAD is good at mobilizing national counterpart funding	Moderately agree	41%	32%	11%	5%	11%
IFAD is good at mobilizing international cofinancing	Agree	58%	24%	6%	2%	10%

Source: Financial Architecture E-survey.

95. During country visits, respondents from governments and international organizations expressed positive views about IFAD's capacity to attract cofinancing but highlighted that there could be opportunities to attract more cofinancing from MDBs. The CLE e-survey shows overall moderate satisfaction with cofinancing but with IFAD respondents being more critical than non-IFAD respondents (table 6). To provide a sense of the size of engagement in the agricultural sector of other IFIs, according to OECD data and IFAD's financial information, in the period from 2007 to 2016 disbursements for agricultural development were US\$9.9 billion for IBRD, US\$6.9 billion for IDA, US\$2.8 billion for IADB, US\$2.5 billion for AfDB, US\$2.2 billion for AsDB and US\$1.2 billion for EBRD (for comparison, IFAD's cumulative disbursements were US\$5.6 billion). Additional opportunities include climate-related funding (note the figure of commitments of bilateral and multilateral for US\$47 billion in 2014, chapter I).

96. **Although cofinancing opportunities are often scouted and discussed at the country level, these can be facilitated through higher-level management engagement with IFIs, where regional or subregional cofinancing and cooperation opportunity can be reviewed.** The examples provided by IFAD staff related to talks with the AsDB in recent years, as well as discussions held with the AfDB and World Bank ten years ago.

E. Potential for financing cooperation by foundations

97. **Significant resources are disbursed by private foundations but most have distinct agendas.** Many are also closely linked to the sector of the corporation that has established them. Compared with over US\$164 billion in official ODA flows, total private philanthropic ODA flows for 2014 were estimated at US\$64 billion¹⁶ (this includes religious, individual and private company flows). The United States accounted for US\$44 billion of the private flows and, of this, foundations contributed 11 per cent.¹⁷ The largest of the foundations contributing to development ODA is the Bill & Melinda Gates Foundation. Since 2009 the Gates Foundation has been providing data on its ODA to the OECD. This reached US\$3.6 billion in 2015 (64 per cent of the United States' foundations total). In 2015 the Gates Foundation was a larger donor than Australia, Austria, Belgium, Denmark, Finland, Spain, Russia, Switzerland and the Republic of Korea, but considerably smaller than the United States (US\$31 billion), the United Kingdom (US\$18.5 billion), Germany (US\$17.9 billion) the EU (US\$13.7 billion);

¹⁶ Hudson Center for Global Prosperity.

¹⁷ The remainder being made up of private and voluntary organizations (NGOs); corporations; religious organizations; volunteers and higher education institutions.

Japan; France; Sweden; Saudi Arabia and the Netherlands. Over the period from 2009 to 2015, 57 per cent of Gates Foundation's went to health. The only other sector receiving a substantial proportion was agriculture, with 15 per cent. The Gates Foundation contributes and sits on the governing bodies alongside Member States in the Global Fund and GAVI. This arrangement would not be possible at IFAD, given that only Member States and not foundations can be represented in its governing bodies.

98. **IFAD has had limited cooperation with private foundations to date.** Traditional donors in agriculture include the Rockefeller Foundation and the Ford Foundation; and Ford; however, there has not been significant collaboration with IFAD. A study conducted by the IFAD Private Sector and Foundations Unit of PRM (based in New York) found that the greatest alignment of IFAD priorities with those of the 20 target foundations it identified was in climate resilience and environment, women's economic empowerment, food security and nutrition, poverty reduction, smallholder agricultural development and fragile contexts.¹⁸ Foundations were reportedly interested in IFAD's capacity to scale up their pilot approaches.¹⁹ An IFAD document produced for the IFAD11 Consultation recognizes the limited funding received from private foundations and companies and envisages greater efforts to increase such funding.²⁰

99. The Bill & Melinda Gates Foundation has made minor contributions to individual initiatives (US\$1.8 million in the 10-year period 2007-16). The most recent ongoing initiative is for small ruminant value chain development in India US\$500,000. A newly developed project is for the Rural Finance Institution-Building Programme (RUFIN) in Nigeria, with support of US\$300,000 to US\$500,000 for policy development over a period of 36 months. An agreement with the Rockefeller Foundation to finance work a cassava value chain development in Nigeria (US\$1.5 million) working with the private sector was approved in 2016 by the Executive Board.

100. **Questions arise on returns to the effort** when small amounts of money are involved. There is currently one New York-based P-4 staff member post working 30 per cent on this activity and as well as other staff members, and incidental costs. Although there may be opportunities to expand funding from foundations, based on recent experience it is not clear whether they will provide major additional resources.

101. It is probably at national level that there is the greatest potential for a return on IFAD's investment in private sector partnership. Value added production, whether it be in livestock, fisheries, fruit and vegetables, flowers or cash crops is largely in the hands of subsidiaries and joint ventures, local companies and individuals. Finance, insurance, mobile telephony and IT may be more in the direct hands of multinationals, depending on the local context. Memorandums of understanding with multinationals can provide an underpinning for local initiative, but private sector potential may be better captured at the time of COSOPs and project identification and implementation.

18 EB 2016/119/R.31 Proposed framework for new financing facilities: Enhancing IFAD's catalytic role in mobilizing resources for rural transformation.

19 Areas identified in which to develop collaboration, included: (i) a Professional Pathways Programme with foundation partners that are sponsoring global tertiary education scholarship programmes, provision by IFAD of three-year professional work experience for graduates; (ii) an Accelerator Fund, with lead foundations to scale up innovative approaches and technologies developed by foundations and by IFAD through IFAD projects. The focus would be on: resilience, food security and nutrition, poverty reduction, women's economic empowerment and smallholder agricultural development; (iii) the Smallholder and Small and Medium-sized Enterprise Investment Finance Fund (SIF); (iv) Financing Facility for Remittances, and the Facility for Refugees, Migrants, Forced Displacement and Rural Stability (FARMS).

20 IFAD11 – Leveraging partnerships for country-level impact and global engagement, IFAD11 Replenishment Consultation, October 2017.

Key points

- Complementary contributions and supplementary funds are an important part of resources at IFAD's disposal. Their combined volume in the period from 2007 to 2016 represented slightly over half of the volume of replenishment contributions. There is no evidence that complementary contributions displaced core contributions.
- While there are clear differences from the legal point of view between complementary contributions and supplementary funds, this CLE found little difference in practice between the utilization of the two, except that complementary ones do not contribute to covering administrative costs. Supplementary funds provide coverage of administrative cost but at a lower rate than in comparator organizations. Overall, mobilization of supplementary funds appears to be more coincidental than strategic. In practice, nearly all significant funding passes through the Executive Board for approval.
- Cofinancing and national counterpart financing form an essential element of IFAD's funding architecture to mobilize resources from national partners and international organizations and are essential for scaling up. Since 2007, there has been a slight decline in international cofinancing but an increase in national counterpart funding.
- There is scope for increasing international cofinancing through Management-concerted efforts with the World Bank and regional banks. Additional opportunities may come from climate-related funding. IFAD cofinancing data are often ex ante and likely to provide an over-optimistic picture.
- In principle, foundations could provide options to expand and diversify funding of operations. However, the size of funding and cooperation has been very limited. More opportunities could materialize at the country strategy and project level, rather than broadly at the corporate level.

F. Extending the IFAD programme through borrowing

F.1 Sovereign borrowing

¹⁰² IFAD is currently authorized to borrow from sovereign lenders and not from the capital markets. Sovereign lenders include state-owned financial institutions. A precursor to sovereign loans was the Spanish Food Security Cofinancing Facility Trust Fund approved by the Executive Board in 2010. This agreement for loans in euro was more favourable to IFAD than subsequent sovereign borrowing, in that it consisted of a loan²¹ of EUR 285.5 million and a grant of EUR 14.5 million. Accounts were maintained separately for this trust fund. The loan was drawn down as a lump sum and interest receipts were used to defer IFAD's costs. The majority of funds were used to finance loans on ordinary terms to Latin American countries and outside the PBAS.

¹⁰³ The first sovereign borrowing after the Spanish Trust Fund was designed to help bridge the difference between the IFAD9 target PoLG and the financing level achieved from the replenishment. A sovereign loan of keep with number 400 million was obtained from KfW with the agreement of the Executive Board in September 2014. In April 2015, subsequent to the KfW loan, the Executive Board approved a Sovereign Borrowing Framework.²² The negotiation of a loan with the AFD was completed in 2017 for EUR 200 million to help finance the IFAD10 PoLG.²³ Discussions are under way with further sovereign lending institutions. Currently IFAD will only enter into borrowing discussions with a Member State or a state-supported institution, if the Member State's core contribution to the latest replenishment is at least equal to the amount contributed in the previous replenishment (or 10 per cent higher than the penultimate replenishment).

²¹ Repayment within 45 years, including a grace period of five years. Interest rate: Reuters-screen 12-month flat EURIBOR prevailing on the first day of the interest calculation period.

²² EB 2015/114/R.17/Rev.1 Sovereign Borrowing Framework: Borrowing from Sovereign States and State-Supported Institutions, April 2015.

²³ Negotiation is ongoing with the Government of Canada for a new sovereign loan.

104. **Sovereign borrowing from KfW and the Spanish Trust Fund has allowed IFAD to finance a larger PoLG than would have been possible by relying only on replenishment contributions, loan reflows and Treasury income.** Sovereign lending was IFAD's first step in introducing debt to leverage the equity in its balance sheet. This has provided a learning experience and allowed IFAD to develop a framework for sovereign borrowing which safeguards against donors reducing their replenishment contributions and offering instead loans from sovereign lending institutions. However, the lending terms from KfW mean that IFAD can only onlend funds on ordinary loans (in euros on a floating rate basis) without incurring serious financial risks (this is further discussed in chapter V).²⁴ Sovereign borrowing through concessional partner loans is expected to provide more favourable conditions than borrowing from state-owned DFIs, both with regard to interest rates and matching incoming borrowing durations to those of outgoing loans.

F.2 Ongoing options for extension of IFAD borrowing

F.2.a Concessional Partner Loans (CPLs)

105. IFAD Management has proposed, and the Executive Board agreed (special session of October 2017) to the introduction of CPLs for IFAD11. CPLs are loans offered by Member States (or their institutions) under concessional terms. These include well-below market interest rates, long maturities, long grace periods and no earmarking for particular countries or themes. CPLs are to be in addition to and not a substitution for core contributions, at least as concessional as the loans to be funded from them, so they are serviced by re-flows and any support credits approved.

106. CPLs were introduced for the first time for IDA17 (2013) replenishment when five countries made such loans for a total of SDR 2.3 billion (US\$3.4 billion, 6 per cent of the total IDA17 financing). They were also negotiated for IDA18 and introduced at the AfDF in its Fourteenth Replenishment.²⁵ **Both IDA and AfDB started consultation with donors on the introduction of CPLs well before the start of the replenishment consultation.** Even though there was the IDA experience to draw from, AfDF consultation began with a working group in May 2015.

24 Considering the different return target on the borrowed funds and in order to avoid mingling the KfW-borrowed funds with IFAD's existing portfolio, IFAD Management established a new investment portfolio, the Asset Liability Portfolio (ALP) dedicated to the management of the borrowed funds and following a fair value (marked-to-market) strategy. This necessitated IFAD investing in other than Government Euro Bonds to meet the cost of the KfW borrowing, and quality floating rate Corporate Bonds were purchased with shortened maturities of two to four years. The funds are kept in euro so as to avoid currency mismatch pending disbursements, which are also in euro. As current sources of sovereign borrowing are all denominated in euro and some countries prefer SDRs or United States dollars, hedging is now being considered to match the currencies with the demand (however, it would be difficult to hedge repayments). In November 2015, ALP was comprised of approximately 40 per cent corporate bonds and 37 per cent government bonds, while the remainder was kept in cash to fund expected disbursements. More than half of the portfolio was invested in securities rated AA- or above. A negative marked-to-market valuation of the portfolio was caused predominantly by the two investments in government bonds that the portfolio had to execute to comply with the investment guidelines.

25 For IDA18 (2016) five countries committed to lend a total of SDR 3.7 billion (US\$5.2 billion five per cent of the total IDA18 financing). Concessional donor loans (CDLs) were introduced by the AfDF in its Fourteenth Replenishment (2016). CDLs are being used to fund AfDF loans to gap, blend and graduating countries. Bridge loans have also been introduced for AfDF-14. These are loans on very similar terms to CDLs and also accrue voting rights based on the grant component. The AfDF obtained one CDL and two bridge loans of which by far the largest was from Japan. Together, the two types of loans amounted to US\$964 million (16 per cent of the total replenishment resources as reported in February 2017). Bridge loans are intended, not as an addition to total lending, but as a means of bringing forward the commitments. This is apparently because loan reflows are expected to accelerate in AfDF-16, AfDF-17 and AfDF-18 and the bridge loans will have the effect of smoothing the programme of work and effectively target fragile states because of the way AfDB's PBAS is constructed.

107. IFAD Management has proposed that the core contribution to a replenishment, for a country that intends to provide a CPL, should not fall below 80 per cent of the average core contribution for the past two replenishments and that the calculated ODA contribution of the CPL should make up at least the difference to reach 100 per cent or more. Voting rights would be allocated for the concessional portion of the loan and the discount rate for determining the concessional element is calculated on the basis of the alternative of sovereign borrowing (slightly higher than in IDA and AfDF). All CPL funds will be allocated through the PBAS and CPLs are intended to be raised on terms to allow IFAD to match the requirements for outgoing funding.²⁶ Given that the PBAS is applied to all IFAD loans, there is a gap in the discussion. **It is not clear what would happen if the PBAS did not permit the whole of sovereign borrowing and CPLs to be allocated on terms that cover the repayment schedule and interest rate.**

²⁶ CPL resources will be allocated through the PBAS to Member States borrowing on terms comparable to or higher than those applicable to the CPL. It is expected that priority would be given to loans provided on highly concessional and blend terms. The difference between the coupon rate on the CPL and the country's target coupon rate (if higher) may be covered by an additional grant payment, as Member States would have the option of providing such an additional grant payment to bridge the difference between the target coupon provided by the framework and the desired coupon on the loan. In cases where a Member State plans to provide an additional grant to lower the coupon rate on the CPL, IFAD will require the payment of the additional grant as a prerequisite to accepting the loan disbursements from the CPL provider. EB 2017/121/R.28/Rev.1.

F.2.b Borrowing from the markets

108. **IFAD is considering options for market borrowing as a potential for IFAD12.**

The current IFAD11 proposal is that total borrowing from all sources will not exceed 50 per cent of replenishment resources, in any one replenishment period. However, the great majority of IFAD's PoLG is intended for countries that qualify for DSE, concessional or blend terms. Such loans cannot be funded with market borrowings without generating considerable financial risks and losses, as discussed later in this report.

109. The CLE e-survey shows that Member States and IFAD staff were in favour of IFAD extending its borrowing in order to increase the total volume of resources available to onlend to developing countries (table 7). There was also support (albeit less firm) for borrowing on the international capital markets.

110. Borrowing from the markets was introduced for IDA17 after a long period of preparation and consultation with the contributors. IDA has secured triple AAA rating, perhaps in part because it is implicitly, if not in legal terms, underwritten by the IBRD. The AfDF has for the moment excluded the possibility of market borrowing as this would require a change in its statutes. Borrowing from markets is further discussed in chapters V and VI.

TABLE 7

E-Survey responses – IFAD borrowing²⁷

	Firmly agree (rating 5-6)	Moderately agree (rating 4)	Moderately disagree (rating 3)	Firmly disagree (rating 1-2)	No opinion
1. IFAD should mobilize long-term financing from sovereign sources (e.g. national development finance institutions, or concessional partnership loans) to support higher volume of operations					
All Member States	78%	12%	3%	2%	5%
Non-borrowing high- and upper income countries	71%	22%	2%	0%	4%
UMICs	71%	13%	4%	5%	7%
LICs/LMICs	82%	10%	3%	1%	4%
IFAD staff	71%	19%	4%	2%	4%
2. IFAD should issue bonds on the international capital markets to support a higher volume of operations					
All Member States	40%	27%	9%	11%	13%
Non-borrowing high- and upper income countries	39%	27%	10%	14%	10%
UMICs	35%	35%	8%	10%	13%
LICs/LMICs	42%	25%	8%	11%	14%
IFAD staff	45%	20%	11%	11%	13%

Source: CLE e-survey (2017).

G. Implications of the Heavily Indebted Poor Countries Initiative (HIPC) and the Debt Sustainability Framework (DSF) for IFAD's resources

G.1 Participation in the HIPC Debt Initiative

111. **The IFAD Executive Board endorsed engagement in the original HIPC Debt Initiative in December 1996 and the 1997 Governing Council amended the *Lending Policies and Criteria* to allow for HIPC. In 1998, it adopted the operational policy framework for IFAD's participation in HIPC and authorized the establishment of the IFAD HIPC Debt Trust Fund. The Trust Fund is designed to reimburse IFAD for the principal and interest foregone from debt relief.**

112. **The total cost implications of IFAD's participation in the HIPC Initiative results in debt relief being charged against core replenishment income. As per the 2016 IFAD Consolidated Financial Statements, the total contribution to the IFAD HIPC Trust Fund to December 2016 was US\$287.14 million with interest income of US\$8 million (total US\$295.14 million). Total debt relief under HIPC was expected to be US\$478.01 million plus US\$135.21 million for Eritrea, Somalia and**

the Sudan not yet included (a total of US\$613.22 million). About two thirds of this total debt relief are to be covered by transfers from the World Bank-HIPC Trust Fund. However, the total to be covered by IFAD from its own resources can be expected to be of the order of US\$300 million. The tendency of some donor members to accept the use of core replenishment resources for debt relief has negative implications for IFAD's financial sustainability.

G.2 IFAD's DSF

113. **The DSF forms part of the architecture of MFI's support for debt relief and management in the poorest countries in order to maintain the poorest countries debt at sustainable levels in following up on the HIPC. In 2006 the IFAD Governing Council decided that, commencing in 2007, IFAD would adopt the IDA model of a debt sustainability framework to govern the allocation of assistance to countries eligible for highly concessional assistance and with high to moderate debt-distress risk. The IFAD 11 Replenishment has agreed to maintain the existing DSF framework.**

114. **IFAD follows the IDA country classification of risk of debt sustainability; however, there are important differences in the mechanisms, notably regarding the compensation of foregone principal (box 2). The analyses are carried out jointly by the World Bank and the International Monetary Fund and result in country classification**

²⁷ Respondents to the electronic survey – responded to statements on a six-point Likert scale: 1=Strongly disagree; 2=Disagree; 3=Moderately disagree; 4=Moderately agree; 5=Agree; 6=Strongly agree.

as “red”, “yellow” and “green”. The level of funding for countries in both IFAD and IDA is determined by PBAS. The compensation to IFAD for foregone loan principal is on the basis of compensation in each replenishment for income foregone in the previous replenishments as additional contributions by Member States.

115. DSF contributions accrue voting rights. IFAD Member States may opt to make a single pledge from which their assessed DSF compensation contributions will be taken or alternatively, they may pledge two separate amounts (comprising DSF and regular contributions). In the case of a single contribution, Member States’ obligations towards the DSF take precedence over the regular contributions. Unless there are major increases in pledges over the years, IFAD funding is eroded. By 2016, total DSF funding approved was US\$1.46 billion. The amounts required to date are minor because the compensation is not paid until after the 10-year grace period.

116. At the IFAD11 Consultation in July 2017, Management brought to the attention of Member States the risks for the future of the growing need for compensation on a “pay as you go” basis and the continuance of the DSF for country loans into the future and proposed that the DSF either be aligned with the practice in other IFIs or discontinued. The discussion was inconclusive, both in terms of any reform and members’ extent of commitment to increase their replenishment contributions in line with DSF obligations. As very long-term horizons are being considered (with countries still being eligible for DSF and 40-year time horizons for repayments), the commitment of countries to ensuring IFAD financial sustainability on a “pay as you go” basis has limited credibility and practical value.

BOX 2

The DSF at IFAD and in other IFIs

The DSF mechanism in IFAD differs in important respects from that applied in IDA and the AfDF

1. The amount to be granted or lent to the country on the basis of the PBAS is reduced by 20 per cent in IDA and AfDF compared with 5 per cent in IFAD. In the case of the AfDF, currently, 13.3 per cent is allocated as an upfront charge to compensate the DSF;
2. IFAD is intended to receive the difference between highly concessional and grant terms (principal). It appears that in IDA and AfDB compensation is on interest at ordinary terms (IDA currently at 3.125 per cent);
3. The compensation to IDA and AfDF is received earlier than in IFAD, as both IDA and AfDF calculate the amounts to be compensated to coincide with the replenishment disbursement schedule and not with the repayment schedule (thus, 10 years in IDA and AfDF as compared with 40 years in IFAD);
4. There is a clearer degree of donor commitment. In IDA there is now a predetermined burden share which contributes to clarity as compared with the AfDF and IFAD system which calculates the share of each country for DSF compensation based on the loans made under the donor countries share in each replenishment.

Source: CLE elaboration.

Key points

- During more recent replenishment periods, replenishment contributions, loan reflows and Treasury income have not been sufficient to finance the desired PoLG. Thus, IFAD has begun to change its financial architecture by using debt to leverage its equity to close the gap between the available financial resources and the PoLG.
- The use of sovereign borrowing from the Spanish Trust Fund and KfW has been a relevant source to increase the PoLG and bridge the gap. However, the lending terms of KfW only allow for onlending at ordinary terms and in euros without incurring serious financial risks, thus limiting the number and type of countries where they can be utilized.
- CPLs are a new instrument that could fund onlending at highly concessional terms if very low interest rates can be negotiated and if Member States agree to continue providing such funding of a large amount in the foreseeable future. It is not clear what would happen if the PBAS did not permit the entire amount of sovereign borrowing and CPLs to be allocated at terms that cover the repayment of their interest rate.
- The lack of a clear agreement from donors to compensate IFAD for the foregone DSF reflows in a way that is incremental to replenishment contributions represents a serious risk to IFAD's financial sustainability and ability to grow the PoLG.



UGANDA

A member of the Busisi SIDA women's group in Hoima receives credit. Members must demonstrate that they have a working business before they can apply for a loan.

©IFAD/Radhika Chalasani

IV. Use of funds and financial instruments

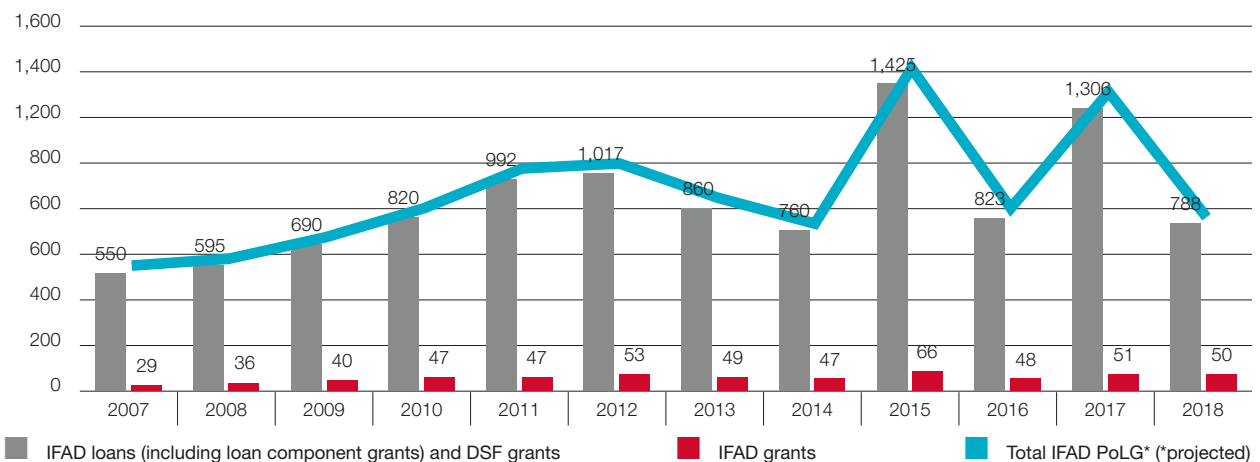
117. This chapter focuses on: (i) how financial resources are allocated to support rural development and poverty reduction interventions; (ii) to what extent they are used and whether they appear to satisfy demand for funding in quantitative terms from the borrowing countries; (iii) any observable association between the lending terms and the typology of development intervention supported and their performance and results; and (iv) the financial instruments available to IFAD to fund rural poverty reduction and development interventions, their appreciation by borrowing countries and their demand for additional instruments and products. In terms of the evaluative criteria and questions, this chapter mainly attempts to address questions that relate to effectiveness issues (with particular focus on the allocation systems and on the financial instruments and how they relate to strategies, operations and development results). As stated in chapter II, there are indirect linkages between the financial architecture, the preparation of country strategies, projects and their results that

are mediated by a number of steps and factors.

A. The programme of loans and grants (PoLG) and potential demand from borrowing countries

118. As already noted, reliance on replenishments to finance the annual PoLG served IFAD well during IFAD7 (2007-2009) and IFAD8 (2010-2012) when annual PoLGs consistently increased (figure 6). The total PoLG increased from US\$1.8 billion in IFAD7, to US\$2.8 billion in IFAD8, then to US\$3 billion in IFAD9, and is projected to slightly decline to US\$2.9 billion in IFAD10. During IFAD9 and IFAD10, IFAD augmented its core resources with funds mobilized from the Spanish Trust Fund and sovereign borrowing from KfW and AFD to close the gap between supply and demand to finance larger PoLGs.

FIGURE 6
Trend in the PoLG



Source: CLE, derived from IFAD systems.

TABLE 8

E-survey respondents views on the demand for the financing from IFAD

Criteria	Descriptor for responses	Firmly agree/satisfactory (rating 5-6)	Moderately agree/satisfactory (rating 4)	Moderately disagree/unsatisfactory (rating 3)	Firmly disagree/unsatisfactory (rating 1-2)	No opinion
Rating the volume of financing available from IFAD to meet the demands from client countries	Moderately satisfactory	30%	39%	12%	7%	11%
Supporting agriculture and rural development will remain an important priority for the foreseeable future	Strongly Agree	97%	2%	0%	0%	1%
Country would borrow more from IFAD on the same terms and conditions prevailing in 2016	Agree	62%	20%	3%	2%	13%
Country expects to borrow less from IFAD	Moderately disagree	19%	14%	17%	37%	13%
Country expects borrowing from IFAD to remain about at the current level	Moderately agree	27%	20%	14%	27%	13%
Country would like to borrow more money if IFAD hardened its terms	Moderately disagree	22%	21%	18%	26%	13%

Source: CLE E-survey (2017).

119. One of the questions that the CLE pursued with IFAD staff and government representatives during country interactions and through its E-survey related to perceptions on the size of funding from IFAD. Answers were diverse, as expected, and subject to uncertainty given the hypothetical nature of the questions (the actual demand for funding from IFAD is contingent upon the identification of a project proposal). Overall, the CLE interviews and E-survey suggest that for many (but not for all) countries, the demand for IFAD funding exceeds the size of the PoLG. Most countries would like to be able to borrow more from IFAD on the prevailing terms. Some countries expressed interest in borrowing more on harder terms.

120. The e-survey rated the volume of financing available from IFAD to meet the demands from client countries as moderately satisfactory but over a quarter of respondents firmly disagreed (i.e. thought that resources available from IFAD were insufficient, see table 8 and data disaggregated in annex VIII). LIC, LMIC and UMIC respondents strongly agreed that public investment in agriculture and rural development would remain an important priority in their countries (suggesting a continuing demand for

IFAD financing). Government officials from all types of borrowing countries agreed that their governments would like to borrow more money from IFAD on the terms and conditions prevailing in 2016. Respondents moderately disagreed that their countries would borrow more if IFAD hardened its terms, although one quarter firmly agreed (i.e. would hypothetically consider borrowing more on harder terms).

121. IFAD's long-term plan is to increase leverage. An option could be to issue bonds in the international capital market, beginning under IFAD12. If IFAD wishes to pursue this plan, it will need to determine to what extent: (i) countries are actually willing and have the capacity to effectively absorb the funds that are allocated through the PBAS; and (ii) IFAD has the capacity to effectively and efficiently deliver a larger PoLG. Although these issues are partly addressed further below in this report, a full analysis of IFAD's capacity to deliver higher volumes of lending was beyond the scope of this evaluation.

B. Allocation of financial resources

B.1 The PBAS

122. The PBAS was introduced in 2003. The PBAS allocation process can be separated into two formulae. The first formula uses performance and needs components to generate country scores.¹ The second formula [(country score/sum of country scores) * PoLG] calculates country allocations. The PBAS was evaluated in 2016 and the evaluation concluded that, although some issues needed to be addressed, on the whole the PBAS resulted in a more systematic, transparent, flexible and predictable resource allocation system and contributed to greater fairness in the allocation of IFAD's resources across borrowing Member States. IFAD revised the PBAS in 2017, with guidance provided by the Executive Board, and drawing on the PBAS CLE recommendations. The major changes included: (i) increasing the focus on rural poverty; (ii) rebalancing the weights of the rural sector performance variable and the portfolio performance and adding a disbursement variable within the country performance component; (iii) adding IFAD's Vulnerability Index; and (iv) adjusting the weights and exponents of variables to increase stability and predictability.²
123. In commenting on the proposed changes in the PBAS, IOE found that there were efforts to follow up on the PBAS CLE recommendations. IOE commended the proposals to strengthen the rural-sector performance assessment, introduce the IFAD Vulnerability Index, technical improvements in the formulae, and the greater rigour, transparency and quality of the new PBAS. At the same time, IOE pointed out that, despite the positive changes to the formula, the PBAS was largely driven by country needs variables rather than performance indicators.

1 The version of the formula approved by the Executive Board in September 2017 is the following: Country Score = (Rural Pop^{0.405} x GNI_{pc}^{-0.265}) x IVI^{0.95} x (0.35x RSP + 0.65 PAD). Rural Pop is the rural population (in absolute number), GNI_{pc} is the GNI per capita, IVI is the IFAD Vulnerability Index, RSP is the rural sector performance indicator and PAD is the portfolio performance and disbursement indicator. As the topic of the PBAS has already been the subject of an evaluation and the discussion with governing bodies has been extensive, treatment in the present evaluation is rather succinct. In addition to the CLE on the PBAS, a reference is the 2017 September Board document on the revised PBAS formula: <https://webapps.ifad.org/members/eb/121/docs/EB-2017-121-R-3.pdf>

2 The expectation is that, during IFAD11, 90 per cent of IFAD's core resources will be allocated to LICs and LMICs, 50 per cent to Africa, and between 25 and 30 per cent to the most fragile situations. The new PBAS will only be applied during IFAD11.

B.2 The actual use of the original PBAS

124. Not all borrowing Member States were included in past PBAS allocations at the beginning of each replenishment cycle. For IFAD7, IFAD8, IFAD9 and IFAD10, the number of countries receiving an initial PBAS allocation was 112, 136, 114 and 103 respectively. The number of potential borrowing countries that were not included in the original PBAS allocations totalled 45 for IFAD7, 21 for IFAD8, 39 for IFAD9 and 50 for IFAD10³ (see annex IX). More detailed analysis showed that many small island countries, primarily in APR and LAC, were included in every second replenishment cycle because of limited absorptive capacity. Other countries were excluded because of peace and stability concerns,⁴ portfolio performance or repayment problems⁵ or no request for borrowing from IFAD.⁶ A few countries were not included in any of the PBAS allocations in IFAD7, IFAD8 and IFAD9.⁷
125. While retaining its principles of universality, IFAD plans to improve the transparency of selecting the countries included in the IFAD11 PBAS formula. Three criteria are being considered:⁸ (i) strategic focus: the availability of a valid COSOP or country strategy note early in the PBAS cycle that sets out a strategic vision on how to use IFAD resources in the country; (ii) absorptive capacity: all operations that have been effective for more than one year must have disbursed funds at least once in the previous 18 months; and (iii) ownership: no approved loans are pending signature for more than 12 months. IFAD11 replenishment documents indicated that about 80 countries would be included in the PBAS allocation process, which is lower than the number of countries included in the IFAD allocation process for previous replenishment periods.

3 A few of these countries received PBAS allocations during the reallocation process: 2 during IFAD7 and 1 during both IFAD8 and IFAD9.

4 Libya and South Sudan.

5 Eritrea, Gabon and Somalia.

6 Algeria, Chile and Jordan.

7 Chile, Croatia, Cyprus, Malta, Namibia, Oman, Romania and Uruguay.

8 IFAD. 2017. PBAS formula enhancements.

TABLE 9

Use of original PBAS allocations

Percentage of original PBAS allocations used	Number of countries for IFAD7		Number of countries for IFAD8		Number of countries for IFAD9		Total
Countries not included in the original PBAS allocations ^A	45	(29%)	21	(13%)	39	(25%)	105 (22%)
PBAS usage under 50%	17	(11%)	36	(23%)	26	(17%)	79 (17%)
PBAS usage between 50% and 90%	13	(8%)	16	(10%)	9	(6%)	38 (8%)
PBAS usage between 90% and 110%	33	(21%)	38	(24%)	26	(17%)	97 (21%)
PBAS usage between 110% and 150%	34	(22%)	38	(24%)	38	(25%)	110 (24%)
PBAS usage exceeded 150%	15	(10%)	8	(5%)	15	(10%)	38 (8%)
Total	157	(100%)	157	(100%)	153	(100%)	467 (100%)

Notes: A: the number of countries that did not receive allocations during the original PBAS allocation process and were subsequently included in the PBAS during the reallocation were 2 for IFAD7 and 1 for both IFAD8 and IFAD9.

Source: derived from the detailed tables in annex IV.

TABLE 10

E-survey respondents' views on the system IFAD uses to allocate funds

Criteria	Descriptor for responses	Firmly agree (rating 5-6)	Moderately agree (rating 4)	Moderately disagree (rating 3)	Firmly disagree (rating 1-2)	No opinion
All respondents						
IFAD should continue to allocate all of its funding through the PBAS	Moderately agree	41%	22%	15%	14%	7%
For countries that wish to borrow more than the PBAS allocation, IFAD should provide additional financing on ordinary terms	Agree	58%	22%	6%	6%	7%
IFAD should only allocate DSF grants and highly concessional funding through the PBAS and allocate ordinary lending and market-based funds separately	Agree	54%	20%	9%	7%	10%

Source: CLE E-survey (2017).

126. **The majority of countries have been able to use at least 90 per cent of PBAS allocation but there are variations between countries.** Table 9 shows the use of PBAS allocation under IFAD7, IFAD8, IFAD9 and consolidated between the three. As can be seen, 53 per cent of the countries used at least 90 per cent of PBAS allocation. If countries not included in the original PBAS allocation are taken out of this calculation, then 68 per cent of countries used at least 90 per cent of PBAS allocation. Also, a sizeable proportion of countries used more funds than originally allocated. However, there were also countries that used less and some less than 50 per cent. Variations in PBAS absorption was a consistent pattern across the three replenishments, underlining the importance of having a mechanism that reallocates funds in a timely manner.

127. **Factors at both the country level and within IFAD contribute to the less-than-full use of PBAS allocations.** Country-level issues were the main reasons for not fully using PBAS allocations (e.g. fragility and peace and order conditions;⁹ changes in governments or government priorities).¹⁰ In some cases there was a long delay in project processing that resulted in project approval slipping from one IFAD replenishment period to another, thus depressing the use of the original PBAS allocation.¹¹ According to the CLE interviews and

⁹ Central African Republic, the Democratic Republic of the Congo, Syrian Arab Republic and Yemen.

¹⁰ Azerbaijan, Colombia, Lebanon, Mauritania and the Philippines.

¹¹ The Philippines and Peru.

the CSPE, in Indonesia the reason for a major shortfall in lending during IFAD8 was that the Fund disengaged from the country for a period of time. With the appointment of a new CPM and the opening of the Indonesian country office, IFAD established a stronger partnership and the PBAS usage increased substantially during IFAD9 (148 per cent, against 75 per cent during IFAD8).

128. **At the aggregate level, LICs have absorbed PBAS allocations more than LMICs or UMICs.** Between IFAD7 and IFAD9, LICs used 107 per cent of the original PBAS allocations compared to 90 per cent for LMICs and 75 per cent for UMICs, a relative ranking that was consistent across IFAD7, IFAD8 and IFAD9. The PBAS reallocation process, in aggregate, shifted funds from UMICs and LMICs to LICs as conditions changed at the country and project level.¹²

129. **IFAD is the only DFI in which all lending is allocated through the PBAS.**¹³ MDBs with concessional windows only allocate concessional funds through their PBAS; they allocate ordinary lending and support for the private sector based on project demand, risk management principles, (e.g. geographic, sectoral and portfolio exposure limits) and the asset/liability management strategy. Given the importance of their AAA credit ratings, MDBs are concerned about the allocation of their assets (i.e. loans) to various categories of borrowers based on their country credit ratings and concentration of lending. The 2017 Executive Board document on PBAS formula enhancement and the documentation presented by Management to the IFAD11 Replenishment mention the option of a separate financing window under IFAD12, particularly if borrowing from international markets is pursued.

130. **The E-survey provided mixed messages on respondents' perceptions regarding the single PBAS window.** On average, respondents moderately agreed that IFAD should continue to do so. However, respondents also agreed that: (i) for countries wishing to borrow more

than the PBAS allocation, IFAD should be able to provide additional resources on ordinary terms (as other IFIs do); and (ii) IFAD should only allocate grants and highly concessional funding through the PBAS and allocate ordinary lending and market-based funds separately. On the option of the separate financing windows, the stronger consensus was from borrowing LIC and LMIC countries, moderate consensus from UMICs countries and from IFAD staff while list A respondents were "in between" (see table 10, and annex VIII for further disaggregation).

B.3 The IFAD country classification system

131. The country classification determines the price and terms on which financing is provided. MDBs classify countries based largely on GNI per capita and debt sustainability. IFAD broadly applies the IDA country classification system to determine eligibility for DSF grants, highly concessional and blend loans eventually graduate to ordinary loans.¹⁴

132. **As economic development has progressed, there has been a gradual hardening of IFAD's lending terms at portfolio level** (see maps in annex IX). Although there was a noticeable shift in IFAD's classification of countries between 2007 and 2017, progress was uneven and not uniform:

- i. 64 of the 141 (45 per cent) countries had the same classification in 2017 as they had a decade earlier;
- ii. 44 countries (31 per cent) had a country classification with harder financing terms;
- iii. 8 (6 per cent) changed their classification so that IFAD provided lending on softer terms; and
- iv. the classifications of 25 countries (18 per cent) fluctuated, both hardening and softening terms.

133. Similar to all MDBs, IFAD uses the DSF framework and the red, yellow and green traffic light system based on the IMF's estimate of eligibility for DSF grant financing.¹⁵ Regarding highly concessional loan eligibility, Member

12 Given these findings, this evaluation conducted regression analysis to search for any robust patterns of PBAS usage at the country level. The analysis found that there was no systemic relationship between the use of PBAS allocations and the type of financing: coefficients were not statistically significant for most types of financing. Instead, the regressions found that the larger the PBAS allocation, the less likely it was to be fully used and this negative relationship was statistically significant across IFAD7, IFAD8 and IFAD9. Countries in ESA tended to have higher than average usage in IFAD7. During IFAD8, countries in ESA, LAC and NEN had lower than average usage. There was no statistically significant difference across regions during IFAD9.

13 GEF has a performance allocation system but does not provide loans.

14 The IDA graduation policy was reviewed during the IDA18 replenishment. World Bank. 2016. IDA18. Review of IDA Graduation Policy.

15 Countries classified as: (i) red receive 100 per cent grant financing; (ii) yellow receive 50 per cent DSF grant and 50 per cent highly concessional loans; and (iii) green receive 100 per cent concessional loan financing.

States having a gross national product (GNP) per capita of US\$805 or less in 1992 prices are classified as IDA-only countries and are normally eligible to receive loans from IFAD on highly concessional terms. Eligibility for IDA support depends on a country's relative poverty, defined as GNI per capita below an established threshold and updated annually (US\$1,215 in fiscal year 2016). Although IFAD has guidelines for country classification, it has sometimes exercised discretion in determining the financing terms when a project is being processed and approved soon after a country's classification has changed, especially if the change in classification resulted in a hardening of the financing terms. During the IFAD11 consultation process, IFAD developed an approach to a transition framework to more clearly guide the transition of borrowers through changing levels of income, vulnerability and performance and provide the rationale for different country-specific solutions.¹⁶

134. The approach is based on the principles of predictability, transparency and sustainability and is generally consistent with the principles underlying MDB transition frameworks: (i) the use of both objective criteria¹⁷ and judgment based on country situations; and (ii) dialogue with borrowers to promote smooth, sustainable transitions that avoid abrupt changes in financing terms to reduce uncertainty for borrowers. IFAD11 proposals include: (i) aligning IFAD's GNI per capita thresholds put with text those of IDA; and (ii) continuing to review financing terms annually but only hardening terms to coincide with the replenishment period rather than annually, with reversals implemented annually. IFAD expects to approve the transition framework at the end of 2018. In February 2018 the Governing Council of IFAD also approved a resolution on the revision of the Policies and Criteria for IFAD Financing, which shall take effect from 2019.
135. **IFAD does not have a policy of when, or whether, it would cease lending to countries.** Although that differs from the practice followed by some MDBs, it is consistent with IFAD's universality principles. The approach to the transition framework proposes a voluntary and non-mandatory graduation threshold.

The literature on the graduation policies does not present a uniform view on the need for such a policy.¹⁸ It rather presents "pros and cons" but without a firm conclusion. Reasons cited to have such a policy include: (i) development is viewed as a process of graduation from both the demand and supply sides; (ii) the national and international prestige and signalling effect associated with graduation; (iii) using limited resources in a more effective way; and (iv) effectively planning future resource requirements. Arguments against having such a policy include: (i) development is non-linear process; (ii) lending is a vehicle for policy change and for promoting international goals, such as the SDGs, and standards; and (iii) some UMICs that have graduated from MDBs could benefit from access to MDB resources if this approach were selectively and flexibly applied.¹⁹

B.4 Allocation of IFAD financing by type of lending

136. **Consistent with the Agreement Establishing IFAD, the financial architecture has resulted in the large majority of the funds during the evaluation period being provided on highly-concessional terms or DSF:** 21 per cent as DSF grants and 50 per cent as highly concessional loans. A further 11 per cent was provided on blended terms and 18 per cent was ordinary loans (see table 11). This mix of funding over the evaluation period is consistent with the Policies and Criteria for IFAD Financing (2013 revision) requiring about two thirds of IFAD's funding to be provided on highly concessional terms. Such financing can only be provided because of the replenishments.
137. **There has been an increase in the proportion of ordinary loan volume between IFAD7 and IFAD9** (table 11). There was a gradual decline in the share of the lending made as DSF grants and highly concessional loans from IFAD7 to IFAD9. Looking at the country income classification, for IFAD7 to IFAD9 combined, LICs accounted for

¹⁶ IFAD. 2017. Approach to a Transition Framework.

¹⁷ Primarily GNI per capita income and creditworthiness.

¹⁸ ODI. 2016. *Graduation from ADB regular assistance: a critical analysis and policy options*.

¹⁹ The World Bank Group's vision to 2030 calls for engagement with MICs to help eradicate extreme poverty and ensure shared, sustainably prosperity because: (i) MICs have a high demand for financing, knowledge and innovation to reduce poverty and inequality, promote growth, address climate change, provide basic infrastructure and build robust institutions; and (ii) without assistance, some MICs are at risk of losing their poverty-reduction gains. A recent World Bank evaluation concluded that: (i) many MICs have unfinished development agendas and need to accelerate their economic, social, and structural transformation through a set of second-generation reforms; and (ii) continued engagement would promote learning, financial sustainability, income generation, south-south learning and advancement on global issues such as the SDGs.

nearly two thirds (63 per cent) of total approvals, LMICS for 30 per cent and UMICs for 6 per cent (see annex IX). This is consistent with the provision in the Agreement Establishing IFAD that gives priority in allocating its resources to assisting the poorest rural populations living in food-deficit countries.

C. Terms of financing, project design content and project performance

C.1 Terms of financing and type of project design

138. **Government priorities and the evolution of the national context have been stronger determinants of the nature of projects than the terms of IFAD's financing.** The evaluation examined 20 projects in 10 countries that changed country classification, two in each region and broadly distributed by type of financing. In each country, the type of project design (i.e. the detailed description of the project objectives and project components) were compared for a project approved immediately before and after the change in country classification (see annex IX). This analytical work suggested that changes in country classifications, and the resulting hardening of the terms of financing, was not consistently associated with changes in the type of project design.
139. This was confirmed by feedback received during key informant interviews and during the CLE country interactions. According to the respondents, while there has been a gradual shift to designing projects with more emphasis on marketable production, value chains, and

interventions that may be expected to generate higher financial (and not only economic) rates of returns, that shift was largely unrelated to the IFAD country classifications and loan terms. Rather, it reflected changes in government policies, perceptions from the financial or technical ministry on changing needs and opportunities in the country, and expectations on the contribution of market linkages to rural poverty reduction. In some cases, that shift had begun in the absence of any discussion on changes in lending terms.

140. Moreover, while ministries of finance are concerned about IFAD's terms, in most countries loan proceeds are passed onto implementing agencies as a grant.²⁰ Unsurprisingly, during interviews, representatives from the line agencies were less likely to mention the financing terms of projects or link design contents and priorities with loan terms. Respondents' views from the E-survey also suggest that government priorities and the needs of the rural poor are more strongly associated with the project design rather than lending terms (table 12), while, regarding the association between IFAD's lending terms and type of projects, responses were more mixed.
141. The only caveat to this finding, as signalled by some IFAD staff members, was that, during loan negotiation, some ministries of finance may raise issues about using borrowed funds for "soft" components, such as training. However, this item did not emerge consistently during interviews and country consultations.

20 There are of course also exceptions, such as China, India and Mexico.

TABLE 11

IFAD lending by type, 2007 to 2016 (Millions of United States dollars; percentages in parentheses)^A

	IFAD7 2007-2009	IFAD8 2010-2012	IFAD9 2013-2015	First year IFAD10 2016	Total
DSF grants	402 (23%)	681 (25%)	457 (18%)	106 (21%)	1,646 (21%)
Highly concessional loans	949 (55%)	1,315 (49%)	1,284 (50%)	292 (50%)	3,840 (50%)
Blended loans ^B	180 (10%)	248 (9%)	250 (10%)	159 (11%)	837 (11%)
Ordinary loans	187 (11%)	442 (16%)	594 (23%)	181 (18%)	1,404 (18%)
Total ^C	1,718 (100%)	2,686 (100%)	2,585 (100%)	738 (100%)	7,727 (100%)

Notes: A: Amounts are from the President's Report for each programme or project approved by the Executive Board. The data excludes fully cancelled or rescinded loans.

B: Blended loans include US\$60 million in hardened loans and US\$368 million in intermediate loans. Those products, which carried terms between highly concessional and ordinary lending, were discontinued in 2012.

C: A project may be financed by both a loan and a DSF grant.

Source: GRIPS.

TABLE 12

Views of E-survey respondents on the determinants of project design

Category of respondent	Descriptor for responses	Firmly agree (rating 5-6)	Moderately agree (rating 4)	Moderately disagree (rating 3)	Firmly disagree (rating 1-2)	No opinion
All respondents						
Government priorities, policies and the needs of the beneficiaries determine the nature of the projects rather than IFAD's terms	Strongly agree	72%	20%	4%	2%	2%
IFAD's terms have no influence on project design	Moderately agree	36%	22%	21%	18%	4%
If IFAD hardened its terms, governments would propose different types of projects	Moderately agree	40%	25%	14%	13%	8%

Source: CLE E-survey (2017).

142. IFAD's Rural Sector Performance (RSP) index is a unique knowledge product in the international community that assesses aspects of governance that are directly related to rural development. IFAD assesses relevant aspects of the policy and institutional environment for every country of operation and summarizes the findings in the RSP score, which is included as a variable in the PBAS formula.²¹

143. **Countries eligible for ordinary lending score better on the RSP and World Bank governance indicators²² than those eligible for the other types of financing.** Conversely countries with access to DSF score lower on these indicators (see annex X). These findings are statistically robust and suggest that implementing projects in countries eligible for DSF financing would, prima facie, be more challenging than for projects financed by ordinary loans.

144. **The time required to reach entry into force is shorter for fully DSF-funded projects.** Compared to an average time of 8.4 months for 424 projects in the active portfolio, the time required to enter into force was shorter,*** 2.7 months, for projects that were 100 per cent DSF grant financed.²³ The time required for the

other types of financing all clustered around the average, although the time for projects financed by highly concessional loans required to reach this milestone was longer** than average. The reasons why 100 per cent DSF-grant-financed projects enter into force more quickly include: (i) simplified legal formalities, as soon as the legal documents are signed the project enters into force; (ii) parliamentary approval is not generally required for grant-financed projects; and (iii) while new governments may question the need for loan-financed projects, that is less often the case for grant-financed projects.

145. Projects that were 100 per cent DSF grant-financed also took significantly less time to reach the first disbursement at milestone (0.5 years against 1.5 for other projects).*** Conversely projects in ordinary countries required more time to make the first disbursement (2.0 years).*** Similar patterns were observed for the time from approval to completion which impinges on efficiency.

C.3 Lending terms and project results

146. **IOE's ratings of project performance and results ratings do not show strong patterns of project success by type of financing (see annex XI).**²⁴ Across project evaluation criteria, the ratings by type of financing were not statistically different from the average.

21 The 2016 PBAS CLE identified weaknesses in the RSP: (i) the processes for RSP scoring were not systematic; (ii) quality assurance varied from division to division; and (iii) stakeholder input varied significantly across countries.

22 These indicators are: (i) voice and accountability; (ii) political stability and absence of violence; (iii) government effectiveness; (iv) regulatory quality; (v) rule of law; and (vi) control of corruption. These governance indicators are for countries and are not specific for agriculture and rural development.

23 The symbols ***, ** and * mean significance at 1, 5 and 10 per cent levels, respectively.

24 IOE's database covers 288 projects that have been independently rated using a scale of 1 (highly unsatisfactory) to 6 (highly satisfactory). For each project, IOE rates 16 evaluation criteria. These projects were grouped by the five types of financing, resulting in a total of 80 average ratings. The large majority of the ratings were in the moderately satisfactory range, i. e. a little above or below 4.0 on the 6-point scale.

The eight ratings that were significantly different were for blended loans and were better than average.²⁵ There is no evidence that the priorities set by the financial architecture to the poorest countries were affecting IFAD's ability to finance successful projects. The type of financing is not consistently related to either better or worse IOE project ratings.

C.4 Loan size and project performance and results

147. **Average loan size increased during IFAD7, IFAD8 and IFAD9.** Average financing per project during IFAD9 (US\$32 million) was 2.5 times more than the average for the 1978 to 2006 period (US\$13 million). Changes proposed for the PBAS for IFAD11 are designed to reinforce the trend toward larger loans by limiting the number of countries included in the PBAS.

148. Policies and procedures covering processing, approval and implementation are the same, regardless of loan size, borrowing country capacity or the strength of country systems. The time and costs involved in identifying, designing and supervising implementation do not vary greatly with loan size. The evaluation analysed IOE ratings by loan amount for the cohorts of projects closed between 2010 and 2015 (to control for other confounding factor such as direct supervision and implementation support and country presence), dividing the loan sizes into four quartiles (see figures 7-8 and annex XI). The average loan sizes for the quintiles were: (i) highest quartile: US\$28.7 million; (ii) highest quartile: US\$18 million; (iii) lower quartile: US\$14 million; and (iv) lowest quartile: US\$9.0 million.

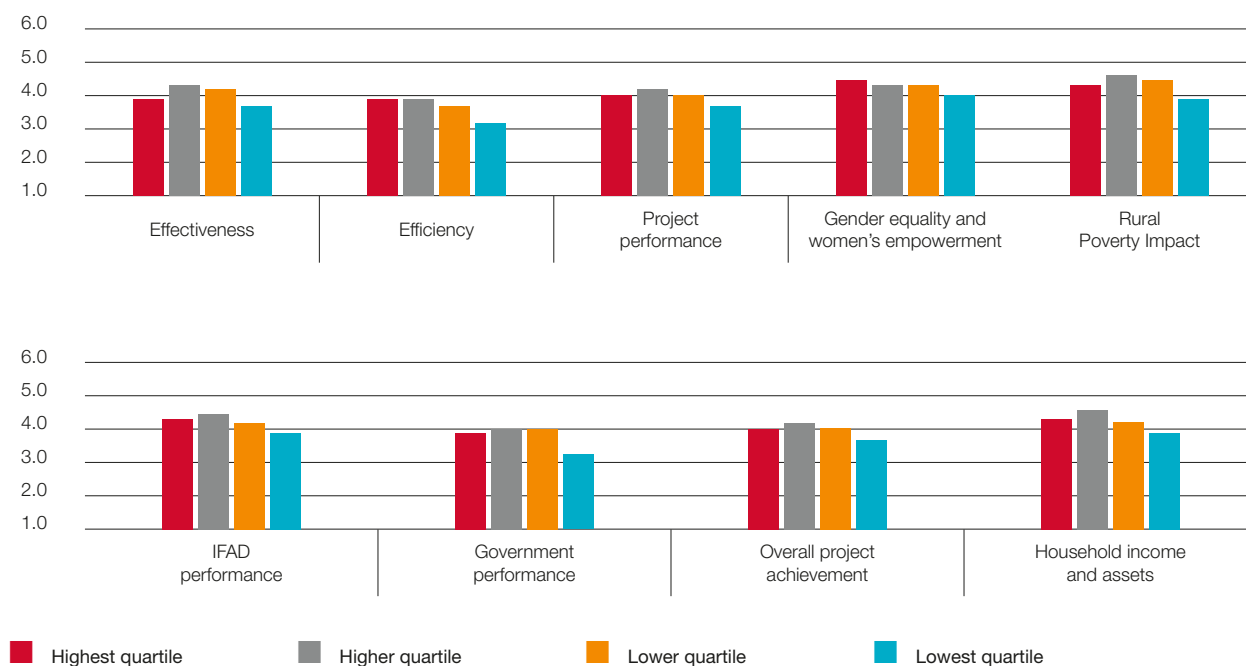
149. **Statistical analysis of IOE ratings by IFAD loan size quintile showed that projects in the lowest quartile performed significantly worse than average in nine evaluation criteria.**²⁶ Instead, there was almost no significant difference between the upper three quartiles (figures 7 and 8).

25 These differences were for the following evaluation criteria: (i) effectiveness; ** (ii) efficiency; *** (iii) sustainability; ** (iv) rural poverty impact; **; (v) IFAD performance; ** (vi) government performance; *** (vii) overall project achievement; * (viii) household income and assets. It is to be noted that the evaluated projects on blended terms were relatively more recent than average and clustered around a small number of countries.

26 These were: effectiveness; ** efficiency; ** project performance; ** innovation and scaling-up; * gender equality and women's empowerment; * IFAD performance; ** government performance; ** overall project achievement; ** household income and assets**.

FIGURES 7 AND 8

IOE ratings by quintile of IFAD loan size amount of funding (project closed in 2010-2015)



Notes: projects were grouped into quintiles by amount of IFAD funding.

Source: CLE elaboration from IOE rating database (2017).

150. One of the explanatory arguments made by IFAD and government staff was that loan size may directly correlate with attention received from governments (the lower the size, the lower the attention and priority received). In addition, small loan size may also be correlated with limited absorption and implementation capacity of specific line agencies. In any case, these findings suggest that, as far as evaluations could assess thus far, the shift towards larger

projects has not compromised performance and effectiveness results and that the results at the portfolio level are likely to improve if IFAD approves fewer smaller projects. The obvious caveat here is that these findings are for evaluated projects that have been designed at a time when a US\$30 million project was 'large' by IFAD standards. It is to be seen whether in the future the same result will hold for larger loan sizes.

Key points

- IFAD's resource mobilization has been effective in increasing the PoLG from IFAD6 to IFAD8. However, the PoLG has stabilized at around US\$3.0 billion since IFAD9.
- The CLE interviews and E-survey suggest that, for many countries, the demand for IFAD funding exceeds the size of their PBAS allocation and some countries would even consider borrowing more than allowed by the PBAS on harder terms.
- On the other hand, demand for funds does not translate automatically into use of funds. While the majority of countries have used at least 90 per cent of their original PBAS allocation between IFAD7 and IFAD9, about a quarter have used less. LICs absorbed on average 107 per cent of the original PBAS allocations while upper-middle income countries 75 per cent. The reason for using more or less of the PBAS original allocation is idiosyncratic: country-level issues were the main reasons (e.g. fragility, conflicts and order conditions; changes in governments or changes in government priorities).
- Consistent with the Agreement Establishing IFAD, the financial architecture has been effective in providing the large majority of the funds (71 per cent) during the evaluation period on highly concessional terms or DSF. At the same time, there has been an increase in the proportion of ordinary loan volume between IFAD7 and IFAD9 (from 11 per cent to 23 per cent), reflecting the fact that 31 per cent of countries experienced a shift to harder financing terms between IFAD7 and IFAD9.
- Government priorities and the evolution of the country context appear to have had more weight in determining the design of projects than the terms of IFAD financing. In other words, there is no impediment a priori to keep a strong poverty focus even when projects are financed on ordinary terms. While ministries of finance are more sensitive to interest rates, most technical agencies in charge of projects are not, as they receive funds in the form of grants.
- Based on evaluation ratings, the terms and conditions of financing do not seem to have introduced bias to the performance and results of the operations financed. Projects financed at highly concessional terms or DSF (i.e. in countries with lower governance and RSP indicators), do not systematically under-perform compared with projects financed under ordinary loans. This means that the IFAD mandate to provide most resources to countries under a high degree of concessionality has not generated a downward bias in the use of resources, performance and results.
- Regarding average project size, there is some evidence that very small loans (in the lowest size quartile) are associated with projects that perform at a lower level, while differences disappear in the higher quartiles.

D. Current terms and pricing of IFAD's loans and the demand from borrowing countries for more flexible options

D.1 Interest rates

151. **IFAD's interest rates on ordinary loans are generally comparable with those of similar MDB loans** (see table 13). Spreads over LIBOR vary between the MDBs, but they are transparent and formula-driven.²⁷ The formula involves the contractual spread, a maturity premium, if applicable, and a rebate or surcharge on the cost of borrowing.^{28,29} There are, nonetheless, limitations in comparing interest rates between

27 IBRD flexible loans offer borrowers the option of fixed and variable spreads. As at end-FY16 70 per cent of such loans had a variable spread and 30 per cent had a fixed spread. One commentator recently suggested that IBRD consider introducing differentiated pricing for LMICs and UMICs. The commentator noted that such a policy would not be welcomed by UMICs and that the specifics would have to be negotiated by all IBRD shareholders (see Center for Global Development, 2017. Getting to Yes on a World Bank Recapitalization).

28 Because the MDBs have AAA credit ratings, they can generally mobilize the funds through bonds at a cost lower than the six-month LIBOR rate. IBRD recalculates the variable spread every 1 January and 1 July based on the cost of the underlying funding. IBRD's variable spread is composed of a 0.50 per cent contractual spread, a 0.50 per cent annual maturity premium and a rebate/premium that reflects IBRD's actual funding cost of borrowing, which was -0.06 per cent in 2017. IBRD's fixed spread for the same maturity is higher at 1.65 per cent that reflects a 0.15 per cent market risk premiums and 0.50 per cent for projected funding cost. The sub-LIBOR funding cost margin is returned to borrowers through a rebate following the principle of automatic cost pass-through pricing. A surcharge is added if the MDB's funding cost exceeds the six-month LIBOR rate. MDBs calculate rebates and surcharges on their funding cost margin twice a year based on the actual average funding cost margin for the preceding six months. The rebate or surcharge is applied to individual loans on the interest payment date following announcement date.

29 IFAD's Transition Framework is considering more favourable terms for Small Island Development States and/or Small State Economies.

DFIs because IBRD, IDA, AfDB, AsDB and IADB levy other fees (e.g. commitment fees and front end fees) while IFAD does not.^{30,31} IBRD also provides options to help borrowers mitigate currency and interest rate risks.

152. **Officials in ministries of finance are well aware of the pricing structures of the MDBs, bilateral sources of financing and the coupon rate of their international bonds.** Some countries did not view the marginally higher interest rate on IFAD's loans compared to some regional development banks and bilateral sources as a significant factor, noting that the MDBs levied other charges and that IFAD provided other sources of value added. In other countries officials were focused on interest rates and advised that if IFAD's pricing were not competitive, other sources of financing would be sought. The E-survey found that government officials from borrowing countries rated IFAD's interest rates as satisfactory, a rating that was consistent across LICs, LMICs and UMICs. IFAD staff rated IFAD's pricing as moderately satisfactory.

30 IBRD's fees include: (i) a 0.25 per cent front-end fee; (ii) a 0.25 per cent commitment fee; (iii) Development Policy Loans with a Deferred Drawdown Option incur a 0.25 per cent Front-End Fee and a 0.50 per cent Stand-by Fee; and (iv) Development Policy Loans with Catastrophe Deferred Drawdown Options incur a 0.50 per cent Front-End Fee and a 0.25 per cent Renewal Fee. IBRD levies a 0.50 per cent per annum surcharge on countries with loan balances exceeding US\$16.5 billion (e.g. Brazil; China; Indonesia; Mexico) and US\$17.5 billion for India. A basis swap adjustment of -0.15 per cent is applicable for euro fixed spreads, -0.35 per cent for Japanese yen fixed spread, and -0.05 per cent for British pound sterling.

31 AfDB, AsDB and IADB charge commitment fees on undisbursed loan amounts.

TABLE 13

Benchmarking IFAD's interest rates on ordinary loans (June 2017)

MDB	Product	LIBOR rate ^{A,B} (%)	Spread (%)	Interest rate
IFAD ^{A,B,C}	Ordinary	1.32	0.94	2.26
IBRD ^B	Flexible w/variable	1.32	0.94	2.26
IDA	Hard term (floating)	1.32	0.31	1.63
AfDB	Fully flexible	1.32	0.97	2.29
AsDB	LIBOR-based loan	1.32	0.63	1.95

Notes: A: Based on maturities of between 18 and 20 years for United States dollar loans. LIBOR rates change. For comparability the LIBOR rate as of 30 December 2016 was used.

B: As of 30 June 2017 the LIBOR rate was 1.45 per cent and the World Bank and IFAD spreads were 0.95 per cent. From 1 April 2017, IBRD is calculating its variable spread on a quarterly basis because of asset liability management considerations. Because IFAD does not borrow from the markets it continues to change its spreads on a semi-annual basis.

C: as of 30 June 2017, IFAD's spread for ordinary loans denominated in SDRs, United States dollars and euro was 0.95 per cent. When added to the corresponding LIBOR rates, the resulting interest rate charged to borrowers was 2.41 per cent for United States dollar-denominated loans, 0.95 per cent for euro-denominated loans and 2.08 for SDR-denominated loans.

Source: CLE elaboration (2017).

153. **There was a close relationship between country classifications and whether or not countries had a sovereign credit rating.** While two thirds of IFAD's borrowing Member States have sovereign credit ratings, the large majority of countries eligible for DSF grants do not have access to the international capital market.³² A significant majority of countries eligible for 100 per cent highly concessional loans, blend or ordinary loans had a credit rating. Credit ratings above A- are rare for IFAD's borrowing members.³³ About half of the sovereign ratings were between B- and B+ (see annex IX).
154. **The pricing of IFAD's ordinary loans is more attractive for most Member States than borrowing funds on the market.** Average bond spreads are significantly higher than IFAD's spread.³⁴ This may suggest that the demand for ordinary lending exceeds PBAS allocations for some countries eligible for highly concessional, blend and ordinary countries that also issue bonds. That proposition is consistent with the feedback received during some country interactions and the e-survey results discussed in the preceding sections of this chapter. However, there is also evidence that some MICs have not used their full PBAS allocations over the IFAD7-IFAD9 period.
155. **For some countries, MDBs provide highly concessional loans on harder terms than IFAD does.**³⁵ IFAD's pricing of highly concessional loans is consistent with the pricing that all MDBs used for many years for their concessional windows. More recently, MDBs have adopted differentiated pricing structures for concessional loans, based on country classifications. IDA terms take into account the increasing variation in the level of development of IDA countries and are designed to promote a smooth transition to IBRD lending terms.
- For IDA funding: (i) there is a 0.25 per cent front-end fee and a 0.25 per cent commitment charge; (ii) pricing varies by country classification;³⁶ and (iii) the pricing for IDA's hard loans is linked to IBRD pricing.³⁷ Resources for transitional support to IDA18 graduating countries³⁸ and for the IDA18 Scale-up Facility are provided on IBRD lending terms. Under IDA18, additional non-concessional financing can be provided to IDA clients taking into consideration their debt situation. AsDB applies differential pricing for concessional loans for countries that are only eligible for concessional financing, blend countries and for emergency loans. AfDB introduced differentiated pricing and hardened financing terms for regular AfDF-only countries, advanced AfDF-only countries and blend, gap and graduating countries.
156. **E-survey results suggest that borrowing countries would be moderately sensitive to a hardening of IFAD's pricing.** E-survey respondents from borrowing countries "moderately agreed" that their countries would borrow less if IFAD increased interest rates by 0.5, 1, 1.5 and 2 per cent (table 14).³⁹ However, some respondent disagreed and about one fifth to one fourth of respondents had no clear view. Respondents agreed that, if IFAD's terms were harder than those of MDBs and bilateral sources, countries would maximize their borrowing for agriculture and rural development from those sources before seeking financing from IFAD (57 per cent firmly agreed with that notion and 13 per cent moderately agreed).

32 None of the countries that received 100 per cent DSF grants had a credit rating and only 17 per cent of the countries eligible for 50 per cent DSF grants/50 per cent highly concessional loans had a sovereign credit rating.

33 Only three borrowing countries (e.g. Botswana; China; Malaysia) have ratings of A- or above.

34 6.20 per cent for LICs; 3.42 per cent for LMICs; 3.15 per cent for UMICs. Peru had a bond spread (0.85 per cent) lower than IFAD's spread for ordinary loans. Two countries had spreads slightly higher than IFAD's (Mexico; China).

35 MDBs price all loans to a particular country based on its country classification. To ensure that pricing does not distort priorities, loans for all sectors are priced the same within a country.

36 IDA's pricing for fixed rate United States dollar loans: (a) small island countries: 1.39 per cent service charge; (b) IDA-only countries: 1.42 per cent service charge; and (c) blend countries: of 2.85 per cent (1.47 per cent service charge plus a 1.38 per cent interest rate).

37 The fixed rate for a United States dollar loan is 3.02 per cent (0.75 per cent service charge plus a 2.27 per cent interest rate).

38 Plurinational State of Bolivia, Sri Lanka and Viet Nam.

39 However, during country interactions there was feedback that Cameroon, Côte d'Ivoire, Ethiopia and Zambia would consider borrowing more on ordinary terms.

TABLE 14

Views of government officials from borrowing countries regarding borrowing at increased interest rates

Questions	Descriptor for responses	Firmly agree (rating 5-6)	Moderately agree (rating 4)	Moderately disagree (rating 3)	Firmly disagree (rating 1-2)	No opinion
"Our government would"						
Reduce borrowing if IFAD increased interest rates by 0.5 per cent	Moderately agree	34%	19%	12%	15%	20%
Borrow at the same level if IFAD increased interest by 0.5%	Moderately agree	25%	21%	14%	20%	20%
Reduce borrowing if IFAD increased interest by 1.0%	Moderately agree	38%	17%	9%	11%	25%
Borrow at the same level if IFAD increased interest by 1.0%	Moderately disagree	16%	14%	21%	25%	24%
Reduce borrowing if IFAD increased interest by 1.5%	Moderately agree	42%	15%	5%	13%	25%
Borrow at the same level if IFAD increased interest by 1.5%	Moderately disagree	10%	11%	16%	38%	25%
Reduce borrowing if IFAD increased interest by 2.0%	Agree	50%	8%	4%	12%	26%
Borrow at the same level if IFAD increased interest by 2.0 per cent	Moderately disagree	10%	8%	11%	45%	26%
Borrow from mdb and bilaterals before seeking financing from IFAD, if ifad's terms were harder	Agree	57%	13%	4%	9%	17%

Source: CLE E-survey (2017).

D.2 Grace and maturity periods

157. **Compared to other DFIs, there is limited flexibility in IFAD's grace and maturity periods for all classes of loans.** There is a mismatch between the grace period for ordinary (three years) and blend (five years) loans and the average project implementation period (about nine years). This means that countries must begin repaying loans before project implementation is complete and the full benefits associated with projects materialize. For ordinary loans, the World Bank⁴⁰ and AsDB offer options to choose to pay an interest rate premium for longer maturities or grace periods and can tailor repayment schedules to debt management and project needs. The MDBs' flexible LIBOR-based loans provide clients with the ability to make choices based on their needs and debt management strategies. Such decisions are transparent as borrowers can use a formula to simulate the cost of different options for the amortization profile, maturities and grace

period. During interactions with countries that borrow on ordinary terms, government officials stated that they appreciated the flexibility and choice offered by MDBs and suggested that IFAD adopt a similar approach.

158. **MDBs have a more differentiated approach than IFAD for loan maturities for concessional loans.** Over the last 30 years, the maturity period for IDA loans was progressively shortened from 50 years prior to 30 June 1987 to 35 to 40 years from 30 June 1987 to 30 June 2011 and 25 to 40 years between 1 July 2011 and 30 June 2014. Since 1 July 2014, IDA maturities have been linked to IDA's country classification: (i) 40 years for small island countries; (ii) 38 years for IDA-only countries; and (iii) 25 years for blend countries. IDA's three scale-up facilities have maturity periods of 24, 27 and 30 years respectively. The maturity periods of highly concessional loans offered by AsDB and AfDB are shorter than IFAD's 40-year maturity for some borrowers depending on the country classification.

⁴⁰ World Bank. 2013. Product Note. *IBRD's Flexible Loan: Major Terms and Conditions*. Treasury Department.

The amended Policies and Criteria for IFAD Financing approved in February 2018 are meant to provide more flexibility, although this cannot be compared to other DFIs.⁴¹

159. **MDBs also have differentiated grace periods for highly concessional loans, depending on country classification.** For IDA loans, grace periods range from five years for blend countries and hard IDA loans, to six years for IDA-only countries and up to eight and nine years for some scaling-up facilities. AsDB and AfDB also vary the grace period based on country classifications.
160. **IDA credit agreements have included an accelerated repayment clause since 1987.** The clause, which was amended in 1996, applies to the borrowers that have a GNI per capita above the IDA operational cut-off for three consecutive years and are creditworthy for IBRD. The clause stipulates a doubling of the principal repayments on outstanding credits provided that a five-year grace period has elapsed,⁴² subject to consideration of the country's economy and effect on debt sustainability. During IDA16 and IDA17, the accelerated repayment clause was exercised for fifteen IDA graduates.⁴³ A similar accelerated repayment provision was introduced under AFD13.

D.3 Currency choice

161. **For more than two decades, MDBs have offered their clients options, appropriately priced, to select the currency for market-based lending, although concessional lending continues to be denominated in SDRs.**⁴⁴ When the MDBs were established, SDRs were viewed as a hedge for countries with little or no capacity to manage financial risks. Countries now have far better access to international capital and currency

markets and many have sophisticated treasuries that manage their foreign exchange assets and liabilities and understand the financial risks associated with currencies.

162. **IFAD was slow to introduce currency choice for ordinary borrowers.** Until recently, all IFAD loans were denominated in SDRs. The use of SDRs adds complexity to, and complicates, transactions and both governments and IFAD incur frictional costs.⁴⁵ During IFAD10, IFAD began to provide some currency choice by offering ordinary loans denominated in a single currency (either euro or United States dollars) as an alternative to SDR-denominated loans.⁴⁶ Judging by the uptake, the introduction of single currency lending was successful. Feedback from interviews with key informants at IFAD headquarters and during country interactions was that allowing greater currency choice was a welcome development, although some countries would prefer to remain with SDRs.
163. **The strong demand for United States dollars was reiterated during country interactions and key informant interviews at IFAD headquarters.** Most countries in APR and LAC wanted to borrow in United States dollars. To manage its foreign exchange risks, IFAD initially required loans financed from the KfW sovereign loan to be lent in euro. Some countries in APR and LAC were unhappy that they were required to borrow in euro. Some countries in NEN, whose economies are closely linked to Europe, and WCA, whose currency is linked to the euro, expressed interest in borrowing in euro.⁴⁷
164. **Some IFAD clients would like to have the option to borrow in their local currency.** During some country interventions, government officials noted that MDBs offer local currency loans.⁴⁸ Although the E-survey showed that the preference of most respondents would have been to borrow in United States dollars, it also

41 Paragraph 12 of the amended Policies and Criteria for IFAD Financing takes the case of ordinary loans whereby IFAD applies a 3-year grace period and a maturity of 15-18 years and states that a borrower could be given the flexibility of up to a 10-year grace period and a maturity up to 35 years as in the World Bank Group. The same paragraph acknowledges that: "a marked difference, however, would still remain between IFAD and IFIs in terms of full flexibility and options".

42 Instead of doubling the principal repayments, borrowers may request IDA to substitute an interest charge for some or all of the higher principal repayments, provided the new terms have a grant element equivalent to that resulting from doubling of the principal payments alone.

43 Albania, Angola, Armenia, Azerbaijan, Bosnia and Herzegovina, China, Egypt, Equatorial Guinea, Georgia, India, Indonesia, Iraq, Macedonia FYR, the Philippines and St. Kitts and Nevis. For the three IDA18 graduates, IDA deferred exercising the acceleration clause until the IDA18 Mid-Term Review.

44 Although IDA accounting is done in SDR and all IDA commitments and grants are denominated in SDR, a small (SDR7 million) single currency window was recently expanded to accommodate demand. AfDB denominates their concessional loans in the Unit of Account.

45 Accounts must be kept in SDRs, United States dollars and, for governments, local currencies. IFAD has a currency mismatch because its audited financial statements are in United States dollars, but its loans are denominated in SDRs. Depending on currency movements, IFAD can experience a gain or loss on its financial statements. During the past several years, IFAD has recorded substantial financial losses because of this factor.

46 IFAD cautiously offered currency choice. The first pilot phase had a ceiling of US\$200 million, which was reached in early 2016. In November 2016, the ceiling was increased to US\$1.6 billion, about half of IFAD10.

47 As at end-FY16, United States dollar loans accounted for 79 per cent of the total outstanding loans in IBRD's portfolio; 19 per cent were euro-denominated.

48 IBRD and IADB offer local currency loans for some clients. AsDB introduced local currency loans in 2005 for private sector enterprises and certain public-sector entities, (e.g. local governments, public sector enterprises).

showed that some government officials from borrowing countries would consider the option of local currency borrowing (local currency products allow countries to avoid foreign exchange risks and foreign risk premiums that some ministries of finance charge when the proceeds of foreign loans are on-lent).⁴⁹

D.4 Financial management issues related to loans

165. During some country interactions (e.g. Indonesia; Mexico; Morocco; the Philippines), the feedback was that IFAD's requirements as well as its paper-based system for processing withdrawal applications and disbursements was antiquated, cumbersome and time-consuming. They generally welcomed IFAD's ongoing efforts to roll out an online portal and felt that it should have been done earlier. Because of the paper-based system, some government officials reported that it could take IFAD up to one month to process withdrawal applications and disburse the funds. This is considerably longer than for MDBs, which had simplified these unwieldy procedures many years ago. Government officials noted that they needed training to be able to efficiently use the new online portal.
166. Government officials reported that delays in processing drawn-down applications contributed to delays in reaching key milestones during project implementation. They also reported that there were issues related to disbursements: (i) late delivery of withdrawal applications because of delays by the spending units submitting the required documents to the executing agency; and (ii) detailed documents needed to support withdrawal applications.
167. Key problems identified during country interactions associated with IFAD's procedures include: (i) too much detail required to support withdrawal applications; (ii) the time required between the receipt of the withdrawal application and the disbursement.

⁴⁹ This view was more strongly held in UMICs than in LICs and LMICs. UMIC respondents agreed that their countries would like to borrow in local currency but respondents from LICs and LMICs moderately agreed that they would like to have that option. LICs were less interested in this option than LMICs.

E. Demand for additional financial products

168. **IFAD offers a more limited range of products than MDBs** (see annex X), which is related to the larger number of sectors and typology of interventions (e.g. beyond the classical project financing). In addition to sovereign lending, MDBs have a lending window that supports the private sector.
169. During country visits, interviews at IFAD headquarters, and through the E-survey, the general view was that more products would increase choice and flexibility so that borrowing countries could select the product that would best meet their needs. This view was particularly prevalent in countries eligible for ordinary lending. Those interviewed noted that the needs of borrowing Member States have evolved over time and have become more sophisticated. While government officials interviewed during the country visits generally felt that IFAD could develop a wider range of projects and provided many examples, there was no clear consensus on what new products should be prioritized. Interest in new products was stronger in ministries of finance and planning but less pronounced in line agencies where some of those interviewed felt that IFAD should continue to operate in traditional project finance.
170. The overwhelming majority (92 per cent) of E-survey respondents were of the view that IFAD should develop a broader range of products (see further details in annex VIII). Government officials responding to the E-survey assigned a high priority to IFAD developing products such as: (i) results-based lending (RBL) (i.e. a lending instrument that disburses against the achievement of specific programme results and performance indicators); (ii) a special facility for managing the risks of natural disasters and drought; (iii) agriculture trade financing; (iv) drought and natural disaster insurance for IFAD's target groups; (v) quick disbursing, policy-based sovereign loans (i.e. loans disbursed against the achievements of policy-related milestones);⁵⁰ and (vi) sector adjustment sovereign loans (i.e. includes both a policy component and a project component).

⁵⁰ Typically, programme loans, a form of budget support, are used in sectors other than agriculture and rural development. However, some World Bank development policy loans include components related to changes in agricultural policies. AsDB approved agriculture programme loans to help Mongolia, Kazakhstan and the Kyrgyz Republic to make the transition from centrally planned to market-oriented agriculture sectors.

171. In contrast, IFAD respondents assigned a high priority to developing only one new product – results-based lending (RBL). This may reflect caution regarding IFAD’s capacity to develop and use a full range of differentiated products.
172. The decision to develop new products will require ad hoc feasibility studies, which is beyond the remit of this evaluation. The next paragraphs concentrate on needs that have emerged more prominently throughout the analysis undertaken for this evaluation: (i) products to support scaling up; (ii) products to support management of the risk of natural disasters and drought; and (iii) products to support pre-financing of implementation preparedness. In addition, trade financing, hedging commodity prices and non-sovereign lending are also discussed; (iv) trade financing; (v) hedging commodity prices; and (vi) non-sovereign lending are also discussed.

E.1 Products supporting scaling up

173. **IFAD is the only DFI that has a formal scaling-up framework.** At IFAD, scaling up means that a government, international organization, private entrepreneur, NGO, or other entity outside IFAD commits resources to broaden and strengthen results. When IFAD allocates more of its resources on its own, this is not necessarily an example of scaling up. Yet, actual practice differs from the theory. In order to facilitate scaling up by others, it is often necessary for IFAD to continue to be involved financially over an extended period of time. This is in order to provide a ‘proof’ of commitment, to safeguard the quality of design and ensure the ‘fidelity’ of implementation (2017 Evaluation Synthesis on Scaling Up).
174. **IFAD does not have a product specifically designed to facilitate scaling up or the programmatic approach.**⁵¹ As recommended in several IOE evaluations,⁵² IFAD sometimes provides additional financing for an existing project to close a financing gap or to increase the coverage and impact of the projects (e.g. expanding the geographic scope). Issues that need to be considered include: (i) the terms on which the additional financing would be provided; (ii) procedures for allocating funds across multiple PBAS cycles; and (iii) the role of

the Executive Board in approving the additional financing, including the minimum threshold when formal Executive Board approval is required. In considering options to support a tailor-made scaling-up product, MDB experience with some of their products is discussed below (details in annex X).

175. **Results-based lending (RBL):** Consistent with the responses to the E-survey,⁵³ during IFAD 11 IFAD will test RBL in countries with well-developed financial management, safeguard and monitoring and evaluation systems. In RBL, disbursements are linked to the achievement of specific performance indicators rather than on specific contracts or expenditures, which is the typical case of traditional investment project financing. Both the World Bank and AsDB have introduced RBL products and IDB will soon introduce it. This product uses country institutions, programmes and country systems, including procurement and fiduciary systems. A World Bank real-time evaluation of RBL⁵⁴ found that: (i) RBL was well accepted by countries and World Bank staff and its use had grown rapidly; (ii) borrowing countries appreciated the use of country systems; (iii) there was a cautious introduction of this product with initial limits on total RBL lending; and (iv) there was a need for significant frontloading training to the World Bank staff on this modality and this had not been done to a sufficient extent.
176. **Multitranches financing facility (MFF):** AsDB piloted this product in 2005 and mainstreamed it in 2008 to: (i) strengthen its capacity to mobilize development finance; (ii) reinforce the flexibility and client orientation of its financial products; and (iii) make AsDB more compatible with evolving market practices. The MFF facilitates the efficient programming of a sequence of individual loan tranches in a sector. MFFs now account for almost a third of AsDB’s resource envelope, indicating widespread acceptance by clients and AsDB staff. In 2012, a real-time evaluation of this product was conducted.⁵⁵ The AsDB board approves the financing for the entire MFF programme and the first subproject but not the subsequent tranches. If IFAD were to decide to adopt an MFF product,

51 This is mentioned as a possibility in the Transition Paper approved by the Executive Board in December 2017.

52 Because a single project does not usually solve poverty issues in a certain geographic area or subsector, IOE has recommended a programmatic approach in several project and country programme evaluations.

53 There was strong agreement that IFAD should develop an RBL instrument – 70 per cent of non-IFAD respondents assigned a high or highest priority to developing an RBL product as did 59 per cent of IFAD respondents.

54 IEG. World Bank Group. 2016. Program-for-Results: An Early-Stage Assessment of the Process and Effects of a New Lending Instrument.

55 IED. AsDB. 2012. Real-Time Evaluation Study of the Multitranches Financing Facility.

then the role of the Executive Board in approving subsequent subprojects would have to be reconsidered.

177. **IFAD's flexible lending mechanism:** In the past, IFAD had a product that was, in theory, suited to promote scaling up. Key features of the flexible lending mechanism, adopted in 1998, were: (i) project design: programming and decision-making tools and participatory methods reflected ongoing experience and changing priorities; (ii) identification of activities in cycles: physical targets and costs were specified only for the first subproject; and (iii) use of defined triggers to release funding for later subphases. A 2009 Management self-assessment concluded that the flexible lending mechanism had only had limited success. A lack of resources during implementation and an overly bureaucratic approach led to shortcomings. Operational issues included: (i) ill-defined triggers (i.e. too many, not quantified; weight of individual triggers not defined); (ii) the expected shift in resources from design to implementation supervision during implementation did not occur; (iii) weaknesses in monitoring and evaluation; and (iv) a financing gap if the process of moving from one cycle to the next was not processed quickly. After reviewing the self-evaluation, the Board decided that: (i) no new projects would be approved using this modality; (ii) positive features, including a programmatic approach combined with the use of triggers, would be integrated into IFAD project designs. IFAD's experiment with the flexible lending mechanism preceded the direct supervision policy and establishment of country offices: the Fund's capacity for implementation support was constrained.

178. **IDA Scale-up Facility:** the IDA Scale-up Facility was developed in 2016 to mobilize additional resources to help meet the SDGs in IDA countries.⁵⁶ Financing is provided on non-concessional terms after considering the country's debt situation and ability to absorb non-concessional lending. IDA estimated that the demand for such financing would exceed the available supply. The allocation framework reflects equity, performance, poverty and debt sustainability.

⁵⁶ The additional funds can be provided for project financing, development policy, RBLs and guarantees.

E.2 Products to support an integrated strategy for managing the risk of natural disasters and drought and fragility

179. **IFAD does not have a product to rapidly provide financing to help mitigate the impact of natural disasters and conflict on the rural poor.**⁵⁷ Natural disasters and extreme weather events and emergencies related to fragility and conflict impact severely on the rural poor and food security. Extreme weather events (e.g. floods; droughts), which often receive extensive coverage in the international media, can wipe out harvests resulting in famine and worsening rural poverty. The CLE on the Grant Policy (2014) found some examples of grants used to finance emergency operations because no other product was available to act upon emergencies and the Grant Policy in force at the time (2009) did not contemplate such use of grants. IFAD did, however, adopt Guidelines for Disaster Early Recovery in 2011 and IDA's guidelines for post-conflict and crisis-affected countries in 2007, which also cover natural disasters. MDBs have special products that can be used in such situations and IFAD could build on their experience.⁵⁸

180. As an example, AsDB has an integrated policy for managing its disaster and emergency assistance that links the phases of the disaster management cycle from prevention and mitigation through preparedness and recovery.⁵⁹ Should such an event occur, AsDB provides two types of loans: (i) emergency assistance loans, which are provided in the immediate aftermath; and (ii) normal development loans, which are provided after emergency assistance loans and follow normal AsDB policies, procedures and pricing.

181. Emergency assistance loans finance emergency, short-term transitional assistance: (i) rehabilitating high priority physical and social infrastructure; (ii) revitalizing basic services; and (iii) jump-starting economic productivity. After the emergency crisis period, efforts shift to designing comprehensive medium- to long-term rehabilitation and reconstruction programmes, which are financed by a subsequent normal development loan.

⁵⁷ This is mentioned as a possibility in the Transition Paper approved by the Executive Board in December 2017.

⁵⁸ Examples include the IDA Crisis Response Window7, IADB's Contingent Credit Line for Natural Disasters and AsDB's Disaster Response Facility.

⁵⁹ AsDB. 2015. Operations Manual Bank Policies. Disaster and Emergency Assistance.

182. The completion period for emergency assistance loans is normally up to two years for natural disasters and three years for a post-conflict situation. Subsequent normal development loans address comprehensive, medium- to long-term reconstruction, including prevention and mitigation activities, and complement emergency assistance loans. Because the burdens created by sudden and unpredictable emergencies fall hardest on the poor, emergency assistance operations are normally financed on AfDF terms and conditions for countries eligible to receive such assistance (i.e. an interest rate of 1 per cent per year; 40-year maturity including a 10-year grace period). A portion of AfDF resources may be allocated on a grant basis to poor countries emerging from conflict. Because emergencies and disasters are unpredictable, funding for emergency assistance is not allocated through the PBAS and is incremental to the country programme.
183. Another example comes from the Policy Guidelines for Emergency Relief Assistance of AfDF/AfDB which distinguishes between short-term assistance (through grants up to a maximum of US\$1 million) outside the PBAS and with fast-tracking approval procedures, and longer-term relief assistance through loans using the common procedures.⁶⁰ These guidelines have not yet been evaluated by AfDB to the knowledge of this CLE and their experience would need to be assessed before IFAD decided to follow their example.⁶¹
184. Also related to these, and highlighted in the E-survey, was interest in insurance products connected to the risk of drought and natural disasters. Detailed worldwide mapping, both satellite and on the ground, can help farmers even in remote parts of the world buy protection for pre-specified geographic areas. Under “parametric insurance”, insured losses are correlated to an index (e.g. rainfall or even levels of soil moisture) and a set amount is paid out. If that index is reached. The drawbacks include “basis risk”, i.e. the risk that a specific farm may have suffered from flooding while the general area observed has not recorded similar rainfalls.⁶²
185. IFAD has accumulated some knowledge in these areas through two supplementary funds, the Platform for Agriculture Risk Management (PARM)⁶³ and the Weather Risk Management Facility (WRMF).⁶⁴ PARM is a four-year multi-donor partnership between developing countries and development partners that identifies risks and the most appropriate tools to make agricultural risk management an integral part of policy planning in eight sub-Saharan African countries.⁶⁵ WRMF, established in 2008, supports initiatives to reduce the vulnerability of smallholders to weather and other agricultural production risks, to encourage and protect investments in smallholder agricultural production, and contribute to food security. WRMF is designed to develop and support innovative weather and climate risk management tools such as weather index insurance to improve rural livelihoods and reduce hunger. Weather index insurance pilots have been supported in China, Ethiopia and Mongolia. The challenge is to translate such knowledge into new financial products or approaches.
186. Through a grant, IFAD is also collaborating with Milliman/Micro Insurance Centre on developing new products. Additional initiatives are funded through an EUR 4 million grant from Swedish International Development Cooperation Agency (SIDA). Pilot initiatives have also been included in projects in Kenya and Senegal (approved in 2015 and 2017 respectively). While pilots have been promoted through grants and in the context of loan-financed projects, it is not clear at this stage whether supporting parametric insurance would require IFAD to develop new financial products or support could be provided through traditional loans and grants.

60 <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/REVISED%20POLICY%20GUIDELINES%20AND%20PROCEDURES%20FOR%20EMERGENCY%20RELIEF%20ASSISTANCE%20AND%20GENERAL%20REGULATIONS%20OF%20THE%20SPECIAL%20RELIEF%20FUND.pdf>

61 In a different context, another initiative rolled out in 2016 is the European Investment Bank Economic Resilience Initiative. The initiative, part of the joined-up EU response to the challenges posed by forced displacement and migration, is to be implemented in close cooperation with EU Member States, the EU and other partners. It aims at rapidly mobilizing additional financing in support of the capacity of economies in the Southern Neighbourhood and Western Balkans regions to absorb and respond to crises and shocks, such as the Syrian refugee crisis, while maintaining strong growth. <http://www.eib.org/projects/initiatives/resilience-initiative/index>

62 The World Bank is also currently working on this area <http://www.worldbank.org/en/programs/disaster-risk-financing-and-insurance-program>

63 PARM is a four-year multi-donor partnership between developing countries and development partners to make agricultural risk management an integral part of policy planning in eight sub-Saharan African countries.

64 WRMF is designed to develop and support innovative weather and climate risk management tools such as weather index insurance to improve rural livelihoods and reduce hunger. Weather index insurance pilots have been supported in China and Ethiopia.

65 Cameroon; Cape Verde; Ethiopia; Liberia; Niger; Senegal; Uganda; Zambia.

E.3 Financing of project pre-implementation support

187. In IFAD, as in DFIs, project approval by the Executive Board is a key project milestone that is used to assess the delivery of corporate, regional, divisional and individual work programmes. However, project implementation does not begin immediately after project approval. Rather, several steps need to be taken before the first disbursement is made and implementation begins in earnest (e.g. completing the legal formalities; establishing the project office; completion of design; recruitment of consultants; preparation of contract packaging; securing counterpart financing).
188. Many IOE evaluations have reported delays in project start-up which may detract from the development results achieved by some projects (this is also regularly reported in the Annual Report on Results and Impact of IFAD Operations (ARRI) and recognized by Management). Such delays have often been attributed to gaps in project implementation readiness. Similar issues were echoed during CLE country visits, including length and complication in project design documents (e.g. Indonesia, the Philippines, Mexico).
189. One way to shorten the time required for actual implementation start-up and reduce front-end delays is to invest more resources in the preparation phase and ensure strong country ownership, implementation capacity and preparedness, so that projects are ready to implement when they are submitted to the Executive Board. IFAD used to have a Special Operations Facility to help start up projects. This was discontinued after the approval of the Grant Policy in 2003 and because Management had concerns over its actual use (i.e. covering administrative costs rather than strengthening implementation preparedness).

190. IFAD's Financing Administration Manual offers the option the option of retroactive financing, whereby on an exceptional basis, and with the approval of the Executive Board, project expenditures may be incurred before entry into force. However, this is considered an exception and not necessarily geared towards improving implementation preparedness and implementation capacity. In this regard, AsDB recently reformed its technical assistance, introducing "transaction technical assistance grants" which can be used to finance project preparation and project implementation capacity support or develop capacity in the project-executing agency.⁶⁶ This may provide useful lessons for IFAD as well.

E.4 Trade and supply chain finance

191. Trade finance helps to manage the risks faced by companies engaged in international trade by providing a means of payment and/or guaranteeing payments. MDBs and commercial banks provide trade finance for many sectors and lines of business and are not limited to the agriculture sector. Trade finance is typically used to support private sector clients rather than sovereign borrowers. IFAD does not have a portfolio of private sector clients or a systematic way of providing agriculture trade finance. The CLE interviews with impact investors found that they provided agriculture-related trade finance to help cooperatives export their products (mainly coffee and cocoa). If IFAD succeeds in developing a viable private sector portfolio (see section below) and a large portfolio of value chain projects focuses on exports, and if an unsatisfied demand for trade materializes, then there may be an option to study a trade finance product at a later stage.

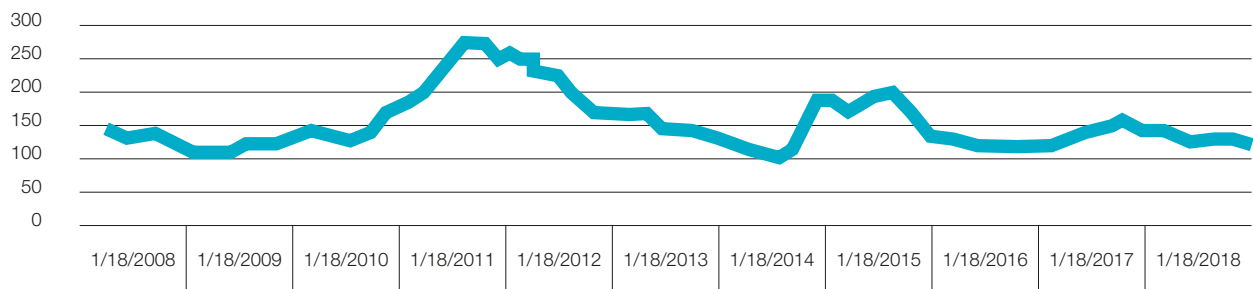
E.5 Hedging commodity prices

192. Some recent value chain projects supported by IFAD are beginning to link smallholders, through intermediaries and international companies, to export markets for commodities like cocoa and coffee. One of the risks of such a strategy is that commodity prices are volatile (see an example in figure 9). Tools are available to hedge prices for some commodities. The question is whether those tools could be adopted to support smallholders involved in projects that IFAD supports.

66 AsDB. 2017. Technical Assistance Reforms—Improving the Speed, Relevance, and Quality of Technical Assistance Operations and AsDB. 2017. Operational Manual Policies and Procedures Section D12.

FIGURE 9

Coffee price, US\$/MT (using a 60-day moving average)



Source: elaborated from Bloomberg (2018).

193. MDBs have relatively little experience in providing hedging products of the type that would benefit small farmers. In 2000, the World Bank convened an international task force on commodity risk management in developing countries to explore market-based approaches to help those countries better manage their vulnerability to commodity price volatility.⁶⁷ Although the task force agreed on the principles of a possible market-based approach to bridge the gap between providers of risk management instruments and potential users in developing countries, this did not become a major World Bank product to help smallholders. IFC offers derivative, structured finance and local currency products and solutions to help clients hedge foreign exchange, interest rate and commodity price exposure. EBRD had some experience helping clients to hedge price risks associated with some commodities (e.g. gold; aluminium) but little in the way of hedging commodities that would be more directly relevant to smallholders. Some impact investors have provided hedging services to cooperatives and farmers' associations, but some of these were involved in speculation and became insolvent.

194. Hedging products involve risks and, to date, IFAD has limited experience and expertise in this area. While this is certainly an area of interest for IFAD, considerably more analysis of options for hedging products would be required before taking a decision on whether to work on such products. Moreover, it remains to be seen whether this can be done within the framework of traditional lending products or whether it would require developing new products.

E.6 Products to support the private sector

195. The private sector plays an important role in value chain development and facilitating the growth of micro-, small- and medium-sized rural enterprises. All MDBs have private-sector windows that offer a sophisticated range of products (e.g. loans, equity investment and guarantees). Only a small share of MDBs' private sector lending supports agriculture and rural development and MDBs generally do not target the types or scale of organizations that IFAD supports. The 2011 evaluation of IFAD's private sector strategy recommended establishing a private-sector development financing facility and assessing IFAD's human resources and organizational architecture to support private sector development. IFAD's 2012 private sector strategy committed the organization to exploring options in a gradual manner in order to better support the growth of small- and medium-sized rural enterprises in line with its mandate. The recent evaluation synthesis on building partnerships for enhanced development effectiveness acknowledges the limited instruments available for supporting partnerships with the private sector.

196. The Dalberg pre-feasibility study for an IFAD private sector finance facility⁶⁸ concluded that IFAD acting as a direct funder of rural SMEs was not feasible and would have little impact. In examining direct lending to the private sector by IFAD, it is critical to define what is intended to incrementally, sustainably achieve for IFAD's target group through institutional arrangements that are cost-efficient.

⁶⁷ <http://siteresources.worldbank.org/PROJECTS/Resources/commoditypriceriskmanagement.pdf>

⁶⁸ Dalberg: Pre-feasibility Study for an IFAD Private Sector Finance Facility targeting Rural SMEs – Final Report, 18 November 2011.

197. **Some private impact investors are providing financing to small rural enterprises.** Members of the Council on Smallholder Agriculture Finance (CSAF) support private sector agribusinesses in the “missing middle”⁶⁹ in LICs and MICs. Financing has been provided for: (i) trade finance; (ii) capital expenditure; (iii) harvest cycle loans; (iv) equity; and (v) guarantees. Loans were generally between US\$200,000 and US\$3 million. Interest rates ranged between 7 per cent and 12 per cent and maturities were of five years on average for loans financing capital expenditures, and under 12 months for short-term loans. All of these financiers take collateral to secure their loans.

198. **Evaluation interviews with CSAF members found that lending to micro-, small- and medium-sized rural enterprises involves substantial risks.** CSAF impact investors have non-performing loans (NPLs) ranging between 3 and 36 per cent. Of the 12 CSAF members only one or two were making a small profit.⁷⁰ The others incurred losses.⁷¹ Investing solely in agriculture was not deemed to be financially sustainable as revenues were not covering costs, thereby resulting in an erosion of capital. Losses were related to weather, poor corporate governance and weak management. Few of the clients produced reliable monthly/quarterly reports or financial statements. The risks involved raise issues of whether it is the right time for IFAD to provide private sector financing in this area and whether it may not be a better priority to fund technical assistance, providing mechanisms for local currency hedging, catastrophe-risk insurance, supporting domestic agriculture markets and working with intermediaries (e.g. microfinance institutions) rather than on a quasi-retail basis. Deepening its exchanges with CSAF would allow IFAD to monitor the performance of their portfolios and determine whether and when there is a way for IFAD to work with such organizations.

69 Small and growing agricultural businesses that are too large for microfinance and often do not qualify for loans from local financial institutions.

70 Triodos Investment Management, ResponsAbility, Alterfin, Root Capital, Rabo Rural Fund and Incofin Investment Management were interviewed in addition to IFAD managers and document review.

71 Incofin Investment Management and ResponsAbility were considered the best peers in 2016 with 3 per cent NPLs, the worst had a 36 per cent NPL rate.

E.7 IFAD ongoing initiatives for the private sector

199. Through the EU-financed Small and Medium Agribusiness Development Fund in Uganda (SMADF) and the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund (SIF), IFAD is beginning to experiment with initiatives that provide financial support to the private sector. IFAD’s challenges in developing private-sector products include: (i) identifying profitable and sustainable investments that benefit smallholders and the rural poor; (ii) keeping IFAD’s overhead low and (iii) not replacing existing private sector lenders through over-competitive pricing.

200. The SMADF, an EU-driven initiative, is a partnership between public and private investors offering equity and semi-equity funding to small/medium agribusiness companies. The planned EUR 30 million fund has three components: (i) SMADF establishment; (ii) capital investment; and (iii) business development services support. IFAD provides supervision through the country office, sits on the board of directors and the management committee and manages the second component.

201. Investments are to range from EUR 200,000 to EUR 2 million and normally have a time horizon of five to seven years. Investments must be in limited liability companies. In Uganda, cooperatives do not have the scale or shareholder structures that permit equity investment. Although five projects have been approved by the internal review committee and are undergoing full due diligence, no investments had been approved as of November 2017. There have been some differences of opinion between IFAD staff and the fund manager on the concept of indirect benefit and benefits created through employment generation. The fund manager believes that the minimum size for a viable equity investment is about EUR 500,000 to ensure that overhead is controlled.

202. It is too early to draw firm conclusions and lessons on SMADF. Early observations suggest that: (i) it takes considerable time to identify and approve investments; (ii) issues related to the minimum and maximum size of investments and direct and indirect impacts on beneficiaries need to be addressed in a manner that is both consistent with IFAD’s mandate and does not undermine the financial viability of the fund; (iii) the choice of crops is important to ensure that poor smallholders can be lifted out of poverty by producing and selling the crops; and, (iv) given that the fund is limited to making

investments only in agriculture, this increases risks relative to funds that can be invested in many sectors. Further limits by category of investment and beneficiary may impact adversely on the funds' profitability. Perhaps a wider definition that could include rural and peri-urban development in addition to agriculture purely agriculture could be considered while maintaining a clear pro-poor focus.

203. **The Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund (SIF) and Technical Assistance Facility (TAF).**⁷² This proposal was approved by the Executive Board in December 2017⁷³ and will be formally launched in 2018. IFAD's approach has three pillars: (i) Pillar 1: leveraging IFAD's existing project portfolio as the major source of SIF's pipeline of investments and to reduce risks; (ii) Pillar 2: the SIF Fund, which will target farmer organizations and SMEs using both direct financing and financial intermediation. (iii) Pillar 3: TAF that will provide pre- and post-investment technical assistance to the entities supported by SIF and incubate young entrepreneurs and their start-ups. The TAF will also support monitoring and evaluation (M&E).

204. The SIF portfolio is expected to reach between US\$50 million and US\$100 million during the first phase (three to five years) and further diversify its funding sources to include commercial investors during the second phase. During the first phase, SIF will provide debt and subordinated debt, ranging between US\$100,000 to US\$1 million, to SMEs and to larger, more structured rural producer organizations for working capital, term loans, farm renewal, agro-tourism, climate adaptation, input supply, plantations, irrigation, marketing, certification, distribution, food services, new technologies and equipment for processing or transformation. Smaller loans in the range of US\$25,000 to US\$250,000 will be provided through financial intermediation. SIF will provide between US\$2 million and US\$5 million to local financial institutions. Initially SIF will prioritize countries in sub-Saharan Africa.

205. SIF will operate as an independent entity registered as an investment fund. It will have arm's length autonomy from IFAD but will be aligned with IFAD's strategic objectives

and existing portfolio.⁷⁴ Initial SIF funding will come from supplementary funds and other investors. While this will limit the transmission of financial risks to IFAD, IFAD nevertheless may be exposed to reputational risk if SIF is not successful.

206. A portion of TAF could be used to address youth employment opportunities and capacity-building to incubate young people's enterprises that could eventually become eligible for SIF financing. The TAF is envisaged as a separate multi-donor fund to provide technical assistance at all stages, including the pre-investment phase. TAF would partner with United Nations agencies, consultancy firms, and specialized technical agencies to provide support for SIF operations and private-sector development under sovereign lending.⁷⁵

207. **The SIF proposal addresses a real gap in available financing but also leaves open questions.** It identifies as its target not the missing middle (which is now the target at upper levels of many MDBs, charities and impact investors), but the missing low middle. However, all risks and issues are not fully captured in the proposal. First, there is a question on the level of overhead costs and technical support of the initiative, likely to be high, particularly for direct debt financing. The emphasis on direct lending, rather than lending through intermediaries, both significantly raises costs and makes the minimum size of enterprises which can benefit higher. The second question relates to the cost recovery potential of the initiative: this evaluation's interviews with impact investors have documented serious problems with NPLs and loan losses. The third question relates to the expertise that IFAD country staff have in dealing with private entrepreneurs (they typically work with public-sector partners).

208. The SIF proposal states that there will be start-up costs in the first two years, but SIF is expected to break even by year three. IFAD Management

⁷⁴ SIF's investment committee will include two to three independent members with investment experience in private-sector agriculture, which will somewhat offset the lack of experience of IFAD Management and staff in making risk-based decisions to invest in private-sector entities in the agriculture sector.

⁷⁵ The Smallholder Agriculture Finance and Investment Network (SAFIN) is to complement SIF and TAF. IFAD plans to establish SAFIN in 2018, with a secretariat in Rome, to bring together smallholder representatives and agrifood SMEs with international and country-based public and private financial institutions, governments and larger businesses to promote knowledge exchange and incubate scaling-up pathways. SAFIN was announced at the International Conference on Investing in Inclusive Rural Transformation: Innovative approaches to financing held by IFAD and the Government of Italy in Rome in January 2017.

⁷² EB 2017/120/R.26 Update on the design of the SIF at IFAD.

⁷³ IFAD. 2017. Strategy for Establishment of the Smallholder and SME Investment Finance (SIF) Fund.

did not release detailed financial data on the grounds that this is sensitive and confidential and may undermine the effort if disclosed too early. This implies that it is not possible to verify the soundness of financial analysis on which decisions were taken to establish SIF.

209. **Instruments to fund microfinance intermediaries** may offer an opportunity for IFAD to support private-sector institutions in small-scale agribusinesses.⁷⁶ An evaluation of AfDB's microfinance operations⁷⁷ found that private-sector microcredit operations performed better and were more sustainable than microcredit provided through governments or public-sector institutions. The evaluation recommended that AfDB consider stopping indirect microcredit financing to retailers through governments and state-owned apexes and avoid including microfinance components in larger non-financial sector projects. The best performing microfinance projects involved investing in retail institutions, including supporting the creation of new institutions, with sufficient internal risk management capacity and sound lending methodologies.

F. Grants

210. IFAD's Policy for Grant Financing covers grants funded from core resources but excludes DSF grants and grants funded from supplementary funds and complementary contributions. Grant financing is designed to: (i) promote innovative, pro-poor approaches and technologies with the potential to be scaled up; (ii) strengthen institutional and policy capacities; (iii) enhance advocacy and policy engagement; and (iv) generate and share knowledge. In preparing the grant policy of 2015, Management drew on the 2014 CLE on the IFAD Policy for Grant Financing.⁷⁸

⁷⁶ IFAD does not provide credit lines for subsidized lending. The 2009 Rural Finance Policy provides guidance for rural finance projects. One of its six guiding principles is that IFAD will work with private-sector partners to support market-based approaches that strengthen rural financial markets and avoid market distortions thereby leveraging IFAD's resources. The policy recognizes the success of microfinance and states that IFAD will focus in this area.

⁷⁷ AfDB. 2014. *Fostering Inclusive Finance in Africa: An Evaluation of the Bank's Microfinance Policy, Strategy and Operations, 2000–2012*.

⁷⁸ While the 2014 Grant CLE concluded that grants have the potential to be an important instrument, it rated the relevance, effectiveness and efficiency of the policy as moderately unsatisfactory.

211. **By policy, the funding for grants is set at 6.5 per cent of the PoLG,**⁷⁹ a figure that Management believes to be an appropriate balance between the demand for grants, IFAD's capacity to manage grants and IFAD's financial capacity. According to the CLE on the IFAD Policy for Grant Financing (2014), in MDBs grants were typically between 1 and 1.5 per cent of the annual programme of loans and grants, although comparisons should be viewed with caution due to large differences in the lending portfolio size and different categorization of non-reimbursable financing in different organizations. Inter alia, the CLE found that grants allowed IFAD to better collaborate with a wider range of organizations, for example NGOs, notably farmers' federations, civil society organizations, indigenous people's organizations, and of course institutions involved in international agricultural research. However, IFAD had missed opportunities to leverage the grant programme in a strategic manner, notably due to weak linkages with corporate and country-level priorities.

212. Although the 2015 revision of the grant policy reflected many of the findings and recommendations in the CLE on grants, it did not address two areas:

- **Allocation for resources for country-specific grants.** These continue to be managed within the PBAS while the CLE recommended that country-specific grants should be allocated through a competitive process within each region rather than through the PBAS.
- **Share of country grants relative to regional grants.** Of the 6.5 per cent of the PoLG used to finance grants, 5 per cent finances global and regional grants and 1.5 per cent finances country-specific grants. Thus, only 23 per cent of the total grants can be allocated to country-specific needs. The CLE recommended rebalancing the allocation in favour of country grants. The CLE on decentralization found that limited resources were allocated at the country level in areas such as policy dialogue, knowledge management and capacity-building, where grant funding could be used. In the E-survey, 81 per cent

⁷⁹ IFAD. 2015. *Policy for Grant Financing*.

of non-IFAD respondents firmly agreed that IFAD should allocate more of its regular grant funds to support operations at the country level rather than at the regional and global (IFAD respondents broadly agreed but only 41 per cent firmly agreed).

G. Reimbursable Technical Assistance (RTA)

213. IFAD introduced the RTA product in 2012 as an instrument to provide analytical support to MICs, including those no longer borrowing from IFAD. The RTA is provided “on demand” and is incremental to country programmes. IFAD charges a mark-up of 15 per cent of the RTA’s direct costs (this is defined as “indirect costs”).
214. Only two RTAs have been approved.⁸⁰ IFAD is not specialized in providing technical assistance and many countries can receive similar services for free under regular grants; the question the question is whether there is enough demand for this product. Other international organizations, especially the World Bank, have large numbers of staff devoted to analytical tasks. The World Bank, recognized as the leader in the international community in the production of knowledge products, offers Reimbursable Advisory Services to deliver specific assistance to eligible clients requiring services that cannot be fully funded from the World Bank’s country programme. Since 2007, the World Bank has provided more than 800 reimbursable advisory services in more than 70 countries for knowledge and advisory services in a range of sectors and covering a broad spectrum of issues. The associated costs are determined by using uniform pricing norms based on the estimated costs of delivering the specific programme.⁸¹ In FY16, Reimbursable Advisory Services generated fee revenues of US\$51 million.
215. AsDB provides TA to borrowing Member States for advisory or general institution building on a grant basis if: (i) there are likely to be continuing contacts with the entity; (ii) no other source of financing is likely to be available; (iii) the entity is relatively new and/or financially weak; and/or (iv) the activities are of high national importance and priority for development purposes. AsDB can also provide TA on a reimbursable basis to graduated developing Member States, should they so desire, for reviews of sector plans and policies, institution building or staff training. There has been little, if any, demand for this product among graduated countries.⁸² An evaluation of AsDB’s MIC strategy⁸³ concluded that, among other things, AsDB should increase the knowledge intensity of operations in MICs and with graduated countries by strengthening knowledge partnerships and expanding fee-based services, to cover a wide spectrum of development issues, noting that the World Bank Group provides such services to UMICs and high-income countries. The evaluation also stated that to mainstream such services, AsDB would need to have credible in-house staff with expertise in the areas where such knowledge services would be provided.

⁸⁰ The 2015 RTA for the Development of Mauritius Seed Sector. An agreement for RTA has also been signed with Saudi Arabia in early 2018.

⁸¹ The fees charged by the World Bank covered only the costs of the staff and resources provided and did not include a profit element.

⁸² Brunei Darussalam joined AsDB on 27 April 2006 and accepted a US\$600,000 reimbursable TA project in 2018 for capital market development. Since then, Brunei Darussalam has not accepted any other support from AsDB.

⁸³ AsDB. 2016. The Asian Development Bank’s Engagement with Middle-Income Countries.

Key points

- Borrowing countries deem that IFAD's financial products are broadly effective in financing their demand for rural poverty reduction and poverty interventions. However, this CLE makes several important qualifications. First, while IFAD's terms of lending are on par or competitive with those of other MDBs, for both ordinary and concessional loans, other MDBs offer far broader options, notably in terms of maturity, grace period and currency choice, depending on country and project needs. In particular, other MDBs have introduced accelerated repayment loan clauses.
- Second, for over two decades, other MDBs have offered options to select the currency for ordinary loans, although SDRs are still used for concessional lending. It was only recently that IFAD introduced single currency lending. Some IFAD clients have shown an appetite for borrowing in their local currency.
- Third, MDBs offer a wider range of financial products than IFAD, both sovereign and non-sovereign. Considering the focus and strategic priorities of IFAD: (i) there is no specific product to facilitate scaling up or programmatic approaches; (ii) there is interest from borrowing countries for specific products to support the implementation of an integrated strategy for managing the risk of natural disasters and drought; (iii) there is interest for "parametric insurance" type of products to manage risks of natural disasters; and (iv) based on past evaluations, there is justification for (re)introducing instruments to pre-finance project implementation preparedness.

The E-survey also highlighted trade finance and hedging for commodity price risk as areas of potential interest. However, given complications and risks, considerably more analysis of the pros and cons are required before working on these.

- IFAD cannot provide loans directly to non-sovereign entities. This limits its engagement with private-sector operators. Through external funding, IFAD is piloting initiatives to support medium and small agribusinesses and rural finance institutions through equity and debt. However, key challenges such as overhead costs and risks stemming from NPLs are not adequately reflected in the existing proposal. The CLE survey of impact investors unveiled serious problems with non-performing loans.
- IFAD provides grants which are capped at 6.5 per cent of the PoLG. About three quarters of grants are regional and global while a quarter are country-specific. The CLE on the Grants noted that this constrained engaging in non-lending activities at the country level. It recommended rebalancing the two windows in favour of country grants, but this was not done.
- IFAD also has RTA. So far, its demand has been very limited and the question is to what extent, given its business model and limited involvement in traditional technical assistance, this product is an area of comparative advantage for IFAD.



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The project initiative entitled Management of Natural Resources in the Southern Highlands capitalizes on farmer-to-farmer training in the use of technical alternatives for natural resource conservation and recovery.

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V. Financial governance, financial oversight and risk management

216. This chapter reviews key topics related to IFAD's financial governance, the internal financial oversight and risk management and the adequacy of the policies, procedures and organizational structure and treasury functions (investment profits within cash and risk constraints). It also reviews the matter of financial leverage, including comparisons with other DFIs. These topics mainly relate to the questions on efficiency as defined in chapter II. Some of the topics reviewed in this chapter also have implications for IFAD's financial sustainability, the subject of the next chapter.

A. Role of the Replenishment Consultation

217. The replenishment discussion is critical to defining IFAD's strategy and determines the overall level of core funding and much of the willingness to provide supplementary funds. The representation and the focus and organization of the replenishment process are thus of major significance and a number of improvements have been made over the years, notably the introduction of an external chair for IFAD9, freeing the President to clearly represent Management. Informal sessions have also been introduced that promote full discussions on selected topics.

218. The 2013 CLE of IFAD Replenishments fed into the decisions of IFAD10, but its follow-up is only really evident for IFAD11, following an *ad hoc* working group of the Executive Board on governance, which issued its report¹ in time for the finalization of arrangements for the IFAD11 Consultation. The recommendations were endorsed by the Executive Board in December 2016 for decision by the IFAD Governing

Council.² Major points discussed included: (a) the List system in IFAD and how this relates to representation in the Executive Board and the replenishment; (b) the replenishment cycle (three years as at present, or four years); (c) the format and number of replenishment meetings and to some extent the efficiency and clarity of the relative roles of the Executive Board and the replenishment; and (d) the make-up of country delegations to the replenishment, which was discussed in the CLE on IFAD Replenishments, but not extensively in the working group or the Executive Board.

219. The *ad hoc* working group did not recommend any modification that would require a change in IFAD's articles of agreement. The working group concluded that there should be no change in the List system, but that definitions would be tightened. It was agreed that: (a) List A be restricted to Member States that are contributors to IFAD resources, declare themselves ineligible for IFAD financing and services, and not eligible for ODA according to OECD definitions; (b) List B be restricted to Member States that are members of OPEC and are contributors to IFAD resources. Some members may also be eligible for IFAD financing and services; and (c) List C only includes Member States that are "developing countries" and have not declared themselves ineligible for IFAD financing and services. Note that a number of List C members also contribute to IFAD resources (chapter III).

220. In light of the above proposals, List A and List B offered two seats each in the IFAD11 consultation to be distributed one seat each to the three regional sub-Lists of List C, plus one floating seat.³ This increased the number of seats available to List C to 22 (seven seats per group, plus one floating seat).⁴ The current challenge

¹ Final Report of the Ad Hoc Working Group on Governance Document: EB 2016/119/R.39/Rev.2, 15 December 2016.

² Minutes of the Executive Board, December 2016.

³ The previous position was that all List A and List B members were entitled to send a delegation to the replenishment meetings, which in practice did not happen.

⁴ EB 2016/119/R.52 14 December 2016 Establishment of the Consultation on the Eleventh Replenishment of IFAD's Resources.

for List C is to ensure a balance of representation from the poorest borrowing countries and the growing number of donor countries in List C.

221. **Format and structure of replenishment sessions.** Some recommendations of the working group were adopted for IFAD11, such as having an informal and open consultation on the agenda prior to the replenishment. It was also proposed to reduce the number of meeting sessions and the length and number of papers and make more use of the digital platforms. This did not happen for IFAD11, to some extent due to the pressure of members for papers. This evaluation noted the duplicative content of papers presented and questions whether there could not be one paper per session, which integrates the contents. This CLE also notes that there is some duplication of discussion between the Executive Board and the replenishment, which could be avoided during the replenishment year.
222. **Establishing the target level for replenishments.** The starting point for IFAD in establishing the target funding level for replenishments has been setting several PoLG scenarios. In order to arrive at this, within regional divisions, country programme managers make an estimate of the demand and absorption capacity of countries (lower, middle and upper scenarios), based on historical experience and some consultation with the authorities in borrowing countries. This is then assessed by Management at the regional divisional level, PMD level and Senior Management level, which also includes assessing IFAD's delivery capacity, political factors and experience from other IFIs and the United Nations system. The eventual target is then a product of iterative discussion with Member States, in informal dialogue and in the replenishment meetings and is, to some extent, a compromise between the evident needs of borrowing countries and the assessed realities of the international funding environment. Although, not strictly based on "scientific methods", this approach to target setting is not fundamentally different from that in other IFIs, as the evaluation interviews suggest.

B. Length of the replenishment cycle

223. **The *ad hoc* working group of the Executive Board recognized that a longer replenishment cycle could foster greater efficiency** (including a more balanced midterm review) and generate some cost savings. The working group recommended that the three-year replenishment cycle be maintained and discussions on the issue continued with other IFIs to ensure alignment and strengthen partnership opportunities. The factors which seem to have weighed most in reaching this conclusion were that: (i) most but not all other institutions had a three-year rather than four-year cycle; (ii) a fear expressed in other fora than IFAD, that an extension of the cycle could reduce the funding available per year as donors would not increase their pledges in a commensurate manner; and (iii) maintaining the timing vis-à-vis that of IDA and AfDF in particular. The extension of the AfDF cycle to four years did not have a negative funding effect.
224. What does not seem to have been considered in any depth, and is evident in the IFAD11 consultation, is the mismatch between the replenishment cycle and the term of the President. This has resulted in the new President taking up his post part way through the IFAD11 Consultation. The President took office when the consultation process had already started. This could be resolved for the future, either by adjusting the term of the replenishment cycle to four years with the President elected one year before the replenishment consultation starts, or extending the term of the President to, for example, a single six-year term, covering two replenishments with no re-election. Extending the replenishment cycle to four years would have the incidental benefit of making it easier for IFAD to increase loan size in smaller countries.

C. Financial oversight and management

C.1 Governing bodies

225. The existing level of financial oversight can be considered adequate for the current level of operations and risks. In terms of member oversight, the Governing Council, the Executive Board, and the Audit Committee share responsibilities. Having a single Executive Board committee for financial matters is in line with practices of IFIs and bilateral financial institutions.⁵ Audit Committee members receive regular reports on financial ratios, performance and risk parameters. The documentation provided to the Committee and the Board is detailed and contains sufficient information for oversight and decision-making under the present configuration and risk structure. However, the documentation of a financial nature submitted to the Executive Board is fragmented into a number of separate documents. As sometimes observed by Board members, consolidation of the documentation would not only simplify accessibility but also help present information in a more consistent manner (particularly as far as different documents are prepared by different divisions).
226. **One area of limitation has been the practice of making all Audit Committee documentation confidential** and not open to the public or easily available beyond delegations (it is understood that disciplinary and investigation reports cannot be made public). The Action Plan on Increasing Transparency for Greater Accountability, approved by the Executive Board in December 2017 foresees public disclosure of additional information on “important financial trends” generated by the Accounting and Controller’s Division.
227. The make-up of national delegations reflects the sector specialization of IFAD and its location in Rome. The presence of Permanent Representations for the Rome-based Food and Agriculture agencies in Rome has advantages for IFAD which does not have a standing Board and could not justify one, given its size. However, during interviews with Board members, it was repeatedly mentioned that many country representatives have limited financial expertise (which is not the case with the IFIs’ permanent Boards, as many of

their executive directors are from ministries of finance and/or from central banks) and that, specifically, the Audit Committee does not have an independent expert to provide advice. These items also emerged during discussions with IFAD staff. When responding to the E-survey (see table 15), country representatives were overall satisfied with financial governance arrangements and information submitted. There were some complaints about lack of technical competence of Executive Board members and hints at some information overload.

228. Moving forward, as IFAD’s financial architecture becomes increasingly complex and more reliant on debt (and thus exposed to risks), the Audit Committee and the Board will face further requirements. However, this is not novel and other financial institutions have already followed a similar pathway. In the same way as IFAD’s Management has been obtaining advice from peer IFIs, so can Board and Audit Committee members profit from a more formalized exchange of views with Board members of other IFIs that have a more sophisticated financial set-up, such as the World Bank Group and regional development banks. This would provide Audit Committee members with better familiarity with standards and benchmarks. An additional option could be to specify minimum qualifications for individuals for membership on the Audit Committee.

⁵ There are exceptions of course such as EBRD (in addition to an Audit Committee, it also has a Financial and Operational Policies Committee), which has a more complex balance sheet including leverage and the extensive use of derivatives for asset and liability management.

TABLE 15

Adequacy of IFAD governance – Members' views

	All Members			Non-borrowing Donor Countries			Upper-Middle-Income Countries			Lower & Lower-Middle-Income Countries		
	% of respondents		No opinion	% of respondents		No opinion	% of respondents		No opinion	% of respondents		No opinion
	Agree (4-6)	Firmly agree (5-6)		Agree (4-6)	Firmly agree (5-6)		Agree (4-6)	Firmly agree (5-6)		Agree (4-6)	Firmly agree (5-6)	
The Executive Board and Audit Committee provide adequate oversight of IFAD's:												
Financing strategy and loan policy	73%	58%	25%	85%	65%	13%	61%	47%	38%	74%	72%	23%
Resourcing and loan management	71%	56%	26%	85%	65%	13%	61%	44%	36%	72%	70%	25%
Because of its diverse makeup, the Executive Board has limited knowledge and expertise of strategic financial issues related to major changes in IFAD's financial architecture												
	33%	19%	50%	60%	25%	29%	39%	23%	59%	28%	25%	51%
The Executive Board lacks independent external expert advice to assist it in making financing and loan policy decisions for IFAD												
	32%	21%	46%	48%	23%	33%	28%	17%	55%	33%	30%	47%
IFAD's internal and external audit arrangements are satisfactory	72%	57%	25%	88%	67%	10%	59%	44%	36%	74%	70%	24%
IFAD's management provides information of a financial nature:												
Sufficient for the Executive Board to make decisions	62%	46%	36%	81%	46%	17%	48%	33%	48%	63%	60%	36%
In excessive amounts, which overloads the Executive Board and constrains decision-making.	32%	21%	46%	44%	15%	35%	39%	16%	53%	29%	24%	47%
Which is as transparent as in other DFIs	69%	55%	26%	75%	56%	19%	67%	55%	25%	69%	66%	26%

Notes: Total number of respondents in each category:

Non-Borrowing High- and Upper-Income countries 49

Upper-Middle-Income Borrowing Countries (UMICs) 84

Lower- and Lower-Middle-Income Countries (LICs/LMICs) 282

All Members 415.

Note that this table only reports answers in the 'agreement zone' (ratings of 4-6) and 'no opinion'. Answers in the 'disagreement zone' are the complement to 100 per cent.

Source: CLE E-survey (2017).

Typical staffing requirements in Treasury operations and current IFAD situation

Unit and typical requirement	Current at IFAD (2017)
Front office. This requires staff with a background in the areas of funding, investments and/or asset and liability management.	IFAD's Treasury team has more experience with investments and less with funding. There is good knowledge in the front office on modern ALM, albeit concentrated in a few staff members ('key person risk').
Middle office. Staff are required for deal capture and preparation of reports for the front office.	The reports produced are detailed and comprehensive, reflecting good knowledge.
Back office. Staff are required for the settlement of transactions; specialized knowledge (or training) is required for more complex transactions (sometimes forgotten, even in large investment banks).	Sufficient for current operations but will require training when it comes to the settlement of derivatives with collateral management and the management of a portfolio of liabilities.
Risk management. An independent risk manager is the typical standard for oversight. Knowledge in both market risk and credit risk assessment is necessary, as well as derivatives product knowledge.	IFAD has one individual responsible for risk management (rather thin staffing).
Controller. Staff need to have adequate knowledge to provide the more complex reporting.	Sufficient for current operations but, as IFAD adds leverage and uses more derivatives, product-specific further training may be required.
Legal. Lawyers with special knowledge in the field of bonds and derivatives may be needed.	Ad hoc specialist may be required in the future. Other IFIs often outsource these services but have experienced capital market lawyers to supervise the processes.
Accounting. Expertise in accounting standards.	The accounting team is knowledgeable and IFAD's accounts follow standard accounting rules and practices. As IFAD adds liabilities and derivatives, the treatment of such instruments needs to be decided and agreed with the external auditors.

Source: CLE elaboration (2017).

C.2 Internal systems

229. At the level of management, the Financial Operations Department (FOD - established in 2012), is headed by an Associate Vice-President who is part of IFAD's Senior Management and is the Fund's de facto Chief Financial Officer (CFO) and Chief Risk Officer. Reporting to the AVP are three divisions: (a) Financial Management Services, (b) TRE and (c) Accounting and Controller's Division.

230. **Front office/Back office.** Treasury is responsible for both front-office and back-office functions. The cash management and back office teams (who also deal with payments, disbursements, reconciliation and country office accounts) report to the Treasurer. This is different from some other DFIs, where there is a clear separation of responsibility between the front office and the settlement functions of the back office. Generally, in DFIs, the Treasurer heads the front office and is responsible for the functions of funding, investments, asset and liability management (ALM) and the middle office, which provides deal-capturing and a certain level of reporting. Settlements and the "moving of cash" are handled by the back office, which is part of the Controller's Division.

231. **Risk Management Division.** Absent in FOD is a fourth separate unit (with the same ranking) with responsibility for risk management. While in some DFIs risk management is part of the responsibilities of the CFO, e.g. at the World Bank or the AsDB, in others, notably the IFC or EBRD, risk is the responsibility of a separate unit with the same seniority as the CFO. At present, having an independent risk management function at the same level as the CFO may not be considered necessary for IFAD given the current low level of financial risk-taking and limited complexity of the organization. Except for its sovereign loan portfolio, which is not subject to independent credit reviews, it is only the Treasury that takes credit risk. However, **should IFAD grow its balance sheet through leverage and an expansion of its product and client base, this configuration may need to be revisited.**

232. **Staff are knowledgeable and skilled for current functions.** However, if and when the environment becomes more sophisticated (e.g. utilizing derivatives more pro-actively, borrowing in the capital markets), there may be need for retraining or replacement. Box 3 summarizes key areas for Treasury operations (i.e. funding, asset and liability management and investments)

and the associated knowledge and experience requirements for staff.

Risk reporting and review and key committees

233. IFAD does not have an operating asset and liability committee (ALCO). Financial institutions, including DFIs, have ALCOs responsible for matters such as policies (financial, liquidity and risk) and their implementation, funding, ALM, hedging and other treasury activities. ALCOs are generally chaired by the CFO. At IFAD, Management has organized the review of risk through regular reporting and through the top management level Investment and Finance Advisory Committee (FISCO). FISCO, chaired by the President, has a wide management level membership and draws on the experience and resources of the whole organization. Its role is to advise the President in determining the overall investment strategy and review, monitor and make recommendations to the President on strategic financial matters. In other DFIs, generally, the President delegates the determination of the investment strategy to the CFO and Treasurer and installs an ALCO as a part of the management checks and balances committee.

234. IFAD had a Finance Asset, Liability Management Advisory Committee (FALCO), but FALCO meetings were suspended during the departmental leadership transition period. At the fiftieth FISCO meeting in December 2016, it was decided that FALCO would cease operations. With the dissolution of FALCO, its functions were taken over by a revised FOD management group. This is different from other DFIs where ALCO membership is generally wider, which lends more weight to the committee.⁶ In terms of mandate, ALCOs key tasks are to review an institution's asset and liability management and its compliance, but increasingly, ALCOs are forward looking, focusing on the effects of future plans and strategy and their implications.

235. **Regular reporting.** Reports such as financial statements, Status of Replenishment, Status of Arrears of Loan Portfolio are prepared by

⁶ Reducing ALCO to FOD management may not be viewed as best practice. The Bank of England published a recommendation stating that, "The membership of good senior ALM committees includes all the business line heads, together with the chief finance officer, group treasurer, chief risk officer, head of market risk and head of ALM, and are often also attended by the head of internal audit and the chief economist." Bank of England, Supervisory Statement | LSS1/13 Asset and liability management: suggestions for greater effectiveness. April 2013.

the Accounting and Controller's Division.⁷ TRE - IFAD's Treasury Services Division, reports risk measurement metrics and analyses to the Executive Board and Audit Committee on a quarterly basis. Comprehensive monthly risk reports are also produced by the unit and shared internally with the Treasurer and the CFO. The key risk oversight lies in the monthly reports by TRE. The Portfolio Planning team in Treasury is responsible for these reports based on information provided by IFAD's Custodian (Northern Trust). These reports cover risks and portfolio performance. The type of information that FISCO receives is detailed (more detailed than those provided to similar committees by other DFI treasuries, as the papers include all bonds purchased and sold) although some crucial market risk parameters do not seem to be consistently reported. Duration and Conditional Value at Risk (CVaR)⁸ and performance attribution (i.e. splitting up of the various factors contributing to the profit and loss movements of the portfolio) are not consistently reported. It would also be more consistent to report performance and outperformance *versus* benchmarks on a regular basis.^{9,10}

C.3 Information Technology (IT) support systems

236. IFAD has an adequate IT system for the current operating environment. The main finance systems in use are: (i) *PeopleSoft*, an enterprise resource planning (ERP) legacy system used for payments, disbursements, investments and accounting reconciliations. The IFAD

⁷ Since 2011, IFAD includes in its financial statements a management assertion as to the effectiveness of IFAD's framework of internal controls over financial reporting (ICFR). An attestation by the external auditors (Deloitte) regarding the reliability of the Management assertion has also been included since 2012, in line with international good practices. The ICFR provides a comprehensive account of IFAD's processes, underpinning the preparation of financial statements and the implementation of internal controls over transactions impacting financial statements. The ICFR is subject to internal and external auditing testing on a yearly basis.

⁸ CVaR is defined as the "potential average probable loss of a portfolio under extreme conditions. CVaR Budget level is: *Maximum 6.0 per cent of total portfolio market value for portfolio with a 95 per cent confidence level over a one-year time horizon*. IFAD uses a 95 per cent confidence level and a one-year time horizon. This quantifies the distribution of losses in the 5 per cent left tail and is an indicator of so-called "tail risk". IFAD 2016 Investment Policy Statement.

⁹ E.g. in FISCO 44 vs FISCO 51, 52 or 53.

¹⁰ Furthermore, given that the portfolio funded by borrowings is going to be managed on a floating rate basis, it is noteworthy that other managers like the World Bank's Trust Funds, also report spread duration. The duration of a floating rate note is short term even if the maturity is long term. The spread of a long term floating rate note remains the same, however, until maturity. Spread duration is therefore linked to the maturity of the note. It is an important risk indicator as the price of the floater falls if the spread widens. The longer the spread duration, the higher the sensitivity of the floater's price to an increase in spread.

Treasury Executive Manual prescribes daily account balance reconciliation against IFAD payment instructions using the PeopleSoft Cash Management Manual (on a monthly basis, Accounting and Controller's Division closes the books for reconciliation); (ii) TRE Database, an in-house-developed system which provides limited, manual solutions to Treasury liquidity management and reconciliation; (iii) SWIFT, a critical international inter-bank system for payments and reconciliation. Because of its critical nature to IFAD and intrusion risk, SWIFT has been physically cut off from IFAD's internal local network, including PeopleSoft, and payments are now processed by manual upload (USB drives) in a badge-access room within Treasury;¹¹ (iv) Oracle FLEXCUBE, introduced to IFAD in 2013, primarily used for loan and grant disbursements. Add-on integrations can be made dependent on IFAD's operational needs. For instance, funding front-office reporting tools can be integrated should IFAD issue bonds on the capital markets. Treasury could also opt for other integrated platforms in the future.

237. The Treasury Cash Management team is experiencing moderate growth in total volume of transactions, alternative borrowing mechanisms (Sovereign Borrowing Framework and potential market participation), and an increase in internally managed funds and their complexity.

238. Holistically, IFAD's IT security architecture is robust given its operating risk exposure. As part of the United Nations IT infrastructure, IFAD benefits from three layers of firewalls and daily systems backup on to United Nations data sites. Two of these sites are located in continental Europe, and one in North America. While IFAD possesses a multi-tiered systems backup mechanism, it lacks a physical disaster recovery site for its Treasury. This is a long-established best practice amongst financial institutions (including DFIs). However, this is not an issue of immediate concern because traders have access to Bloomberg anywhere and the custodian portal through which trades may be booked and executed remotely. Going forward, if IFAD leverages its balance sheet and issues bonds, commercial paper and derivatives more actively to manage financial risks, it may consider purchasing systems to deal with the complexities of new instruments and to provide correct deal capture and risk reporting.

11 While this de-automation may introduce the risk of human error, and reduce systems integration and efficiency, such retroactive method is a constructive fast-response reaction in dealing with the emerging security/hacking threat.

D. Adequacy of the policies, procedures and organizational structure for IFAD's financial architecture

239. Changes are taking place particularly in the following areas:

- Treasury investments: Treasury is in the process of restructuring its investment activities and managing investments in a more sophisticated – and risk-conscious – manner.
- Leverage: IFAD has started taking sovereign loans in the form of floating rate debt, from other DFIs (from KfW and AFD). As detailed in IFAD's Financial Strategy for IFAD11 and beyond, Management considers that borrowing from these sources is a first step and hopes to eventually be able to borrow from the capital markets and better leverage IFAD's balance sheet.¹²
- ALM: IFAD has recently started using derivatives for hedging purposes, i.e. to manage financial exposures, related inter alia to exchange rate fluctuations.¹³

240. For all three of these activities, IFAD requires policies and guidelines. The policies and guidelines for the investment activities are relatively detailed and appropriate but less so in the areas of funding and ALM.¹⁴

D.1 Treasury investments guidelines, portfolio structuring and risks and investment policies

241. The key document is IFAD's Investment Policy Statement as approved by the Executive Board. This document empowers the President to invest IFAD's liquidity and sets the general parameters and processes. While giving the President wide-ranging powers in the execution of the mandate of the Investment Policy Statement, the document is notably vague when it comes to the delegation of specific functions and roles in the investment process.

12 See various papers regarding the Sovereign Borrowing Framework, including the Second Review of IFAD's Sovereign Borrowing Framework for Borrowing from Sovereign States and State-Supported Institutions of 8/17.

13 Cf IFAD11/2/R.5 Financial Strategy for IFAD11 and beyond; Executive Board Informal Seminar 5-4-17, Update on IFAD's Strategy for Borrowing.

14 Both multilateral and bilateral DFIs have well-developed policies, strategies and guidelines, setting parameters and managing the processes of borrowing and ALM as well as of measuring and managing risks. Regarding IFAD's funding and ALM, one option would be to internalize existing best practices common across DFIs.

242. **The role and responsibilities of risk management are defined in excessively broad terms** in IFAD's Investment Policy Statement. The statement that "The President will ensure that the adequacy of risk-budgeting measures and their tolerance levels are constantly monitored and reviewed on a quarterly basis by the relevant organizational unit" is not specific enough. Other DFIs operate with more clearly defined checks and balances and the delegation of responsibility to specific functions (e.g. to the Treasurer for the selection of external asset managers).
243. **IFAD's policies regarding the investment of Treasury assets are defined in less detail than in other DFIs.** Particularly with regards to permitted risks, both market risk and credit risk, the documents leave a fair degree of leeway. However, IFAD's Treasury portfolios are professionally structured and managed. Risk has been reduced in the last two years.
244. **In spite of the reduction, IFAD's investment risk profile is higher than in other IFIs.** Market risk is set for the overall Treasury portfolio and is defined in relation to Conditional Value at Risk (CVaR). Market risk taken was reported to be at CVaR of 2.71 per cent at the 95 per cent confidence level over a one-year horizon.¹⁵ This refers to the average investment (nominal) loss in the 5 per cent of worst-case scenarios of the overall portfolio over a one-year horizon, i.e. in absolute terms about US\$28 million. The duration of investment was reduced from 3.49 years to 2.83 years.¹⁶ While a duration of 2.83 years is more conservative than before, it is also on the high side compared to other IFIs. Thus, the portfolio may be exposed to mark-to-market losses if medium and long-term interest rates rise. As Treasury in the future is likely to have a greater proportion of its assets financed by liabilities rather than equity, duration may have to be further reduced, limiting potential revenues between the investment returns and funding costs.
245. In terms of credit risk, the portfolio was invested in investment grade exposure. While generally the portfolio is highly rated, about 10 per cent was invested in BBB-rated assets. This is a higher proportion than that of its peers and several DFIs would not allow investments below single A.¹⁷ Also, in terms of asset class split, IFAD's portfolio has a higher amount of both corporate and emerging market exposures than its peers.
246. **Treasury investment portfolio performance is good but with higher volatility than for comparator DFIs.** IFAD's Treasury net investment income of US\$43.1 million on a portfolio of US\$1.3 billion (by end 2016) is a very good result. In yield terms, the net return amounted to 2.94 per cent, outperforming the benchmark of 2.39 per cent. The performance of IFAD's investment portfolio compares well with that of other institutions. Also, in a comparison of investment returns for the years 2012-2016, IFAD's performance was higher than that of other peer institutions (figure 10) but also showed a higher degree of profit and loss (P/L) volatility, as measured by the so-called Sharpe ratio (a higher Sharpe ratio indicates a more favourable risk-return relationship).¹⁸

D.2 Liquidity policy and volume of Treasury assets

247. **IFAD's liquidity policy is conservative and prudent.** The current policy prescribes that IFAD keep 60 per cent of the next three year's gross disbursement plus a buffer for potential shocks as liquidity.¹⁹ Figure 11 compares IFAD's liquidity in terms of per cent of total assets with that of other DFIs. Other DFIs have to hold higher levels of liquidity because of their obligation to serve outstanding liabilities. Any delay in the payment of interest or capital would have negative consequences for a DFI and could even lead to the default of the institution. Looking at the comparative table, IFAD's liquidity position is satisfactory given the limited leverage. However, the policy may require adjustment as IFAD continues borrowing to take all cash flows into account, not just disbursements. Liquidity policies are a key input for the rating agencies and one can observe a relatively standardized approach towards liquidity across the DFIs.

¹⁵ IFAD. 2016. Report on IFAD's Investment Portfolio for 2016.

¹⁶ IFAD's Investment Policy Statement, 2016.

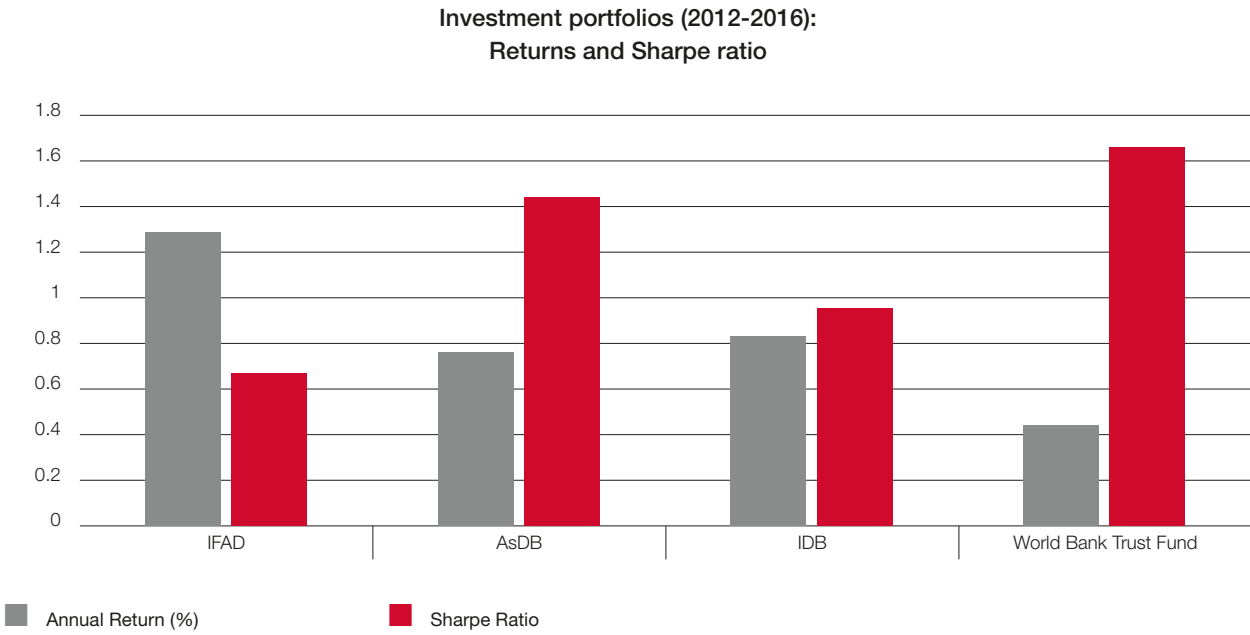
¹⁷ DFI's 2016 Annual Financial Reports.

¹⁸ The Sharpe ratio, also known as the reward-to-volatility ratio, is a measurement of the risk-adjusted rate of return of a portfolio. It is calculated by deriving the excess portfolio return over a risk-free asset and adjusting for the level of volatility measured by the standard deviation of returns. The higher the Sharpe ratio, the greater the compensation per unit of volatility or total risk. In the graph, the 3-Month United States Treasury Bill return was used as the risk-free rate. The relatively short duration of the sampled portfolios makes this the most appropriate risk-free benchmark. For the period, the average Sharpe ratio of the sampled portfolios stood at 1.07. IFAD's Sharpe ratio of 0.69 fell below the average.

¹⁹ As stated in IFAD's 2016 Investment Portfolio Report: IFAD's latest financial model assumptions – incorporating 2016 resources available for commitment under the sustainable cash flow approach – calculate a minimum liquidity requirement of US\$582.5 million (60 per cent of gross annual outflows), which is comfortably cleared by IFAD's investment portfolio balance of US\$1,328,300,000.

FIGURE 10

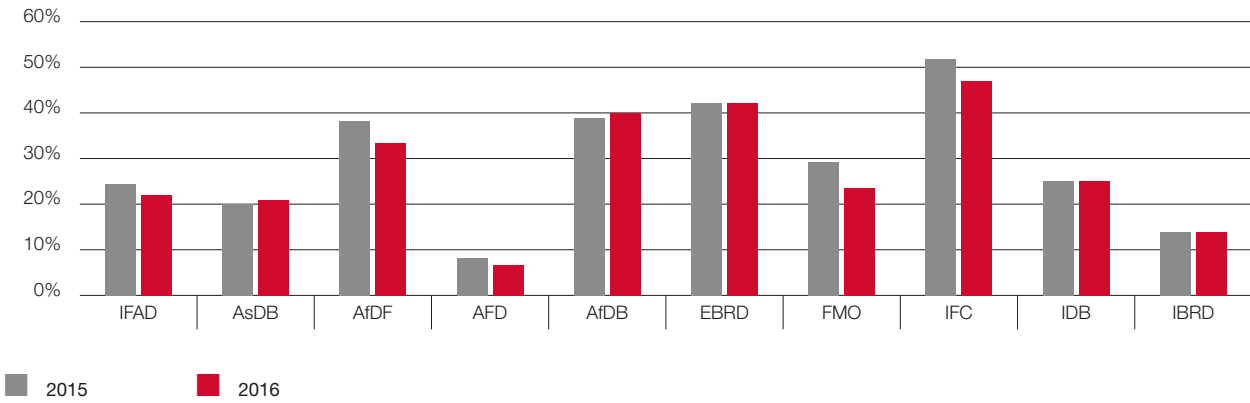
Returns and Sharpe ratio (2012-2016)



Source: CLE calculation (2017) from: IFAD: Annual Financial Report; IDB: Annual Financial Report; AsDB: Annual Financial Report; IFFIm: IFFIm's World Bank Trust Fund trustee reports.

FIGURE 11

Liquidity ratio (liquid assets / total assets)



Source: CLE elaboration from data extracted from institutional website.

D.3 Longer-term challenges regarding liquidity

248. Liquidity can be funded out of equity or debt.

If IFAD increases reliance on borrowing, in the long term a higher portion of the institution's liquidity position may be funded using debt. Such borrowings will have to be longer term in order to satisfy the institution's liquidity requirements. Longer-term borrowings generally carry a higher margin over LIBOR. Treasury may thus be faced with the challenge of having to generate a positive spread ("positive carry") in an environment where its funding costs are at a spread above LIBOR. This is likely to be challenging if Treasury remains committed to maintaining a conservative investment profile. As a comparison, the Dutch FMO's treasury portfolio which is funded at FMO's average borrowing costs of United States dollar LIBOR plus 30 basis points is invested at a lower margin. This generates "negative carry", i.e. a loss to the institution.²⁰

249. Over the long term, if IFAD's Treasury assets are increasingly derived from borrowed funds rather than from equity, Treasury will only be able to generate a margin over the cost of funds (IFAD's Treasury will no longer have the benefit of "free" equity). As a result, Treasury's contribution to IFAD's bottom line is likely to diminish significantly. A conservatively-managed floating rate portfolio generates about between 10 and 20bp over LIBOR. If IFAD's funding costs are at LIBOR flat, Treasury's investment operations, assuming a portfolio of US\$1.5 billion, would only generate about US\$1.5 billion - US\$3 million. If IFAD's borrowing costs continue to be in the range of Euribor + 30 bp, as per its sovereign borrowings, it would make a loss on investments, unless it invests at a higher risk profile (the case may be different if very low interest rates are negotiated under concessional partner loans).

D.4 Asset and Liability Management

250. ALM refers to managing risks that are generated by mismatches between assets and liabilities. These include, interest rate risks, currency risks and liquidity risks. As previously noted, ALM is an area where IFAD policies, guidelines and instruments are at an incipient stage.

20 FMO's Treasury portfolio is very conservatively invested mainly in AAA and AA-rated sovereign and the primary aim is not to achieve positive carry but to reduce the amount of capital allocated for regulatory reasons to the Treasury portfolio. As IFAD is not subject to banking regulation, it is not bound by such capital usage constraints.

251. **Other DFIs actively use derivatives to manage financial exposures.** For this purpose, DFIs define the open currency (and open interest rate) positions and measure and report them internally to the relevant committees (generally the ALCO). DFIs enter into ALM transactions using over the counter derivatives or exchange traded derivatives as appropriate in order to: (i) swap borrowings into the desired currency; (ii) swap loans denominated in other currencies into the base currency;²¹ (iii) manage interest rate risks on borrowings and on loans; (iv) allow for a wider choice of investment products; (v) hedge future capital contributions; (vi) hedge certain aspects of a DFI's budget; (vii) hedge loans made in local currency; and (viii) provide local currency hedging to clients, particularly to local banks, allowing them to lend in local currency to those of their clients that do not generate foreign currency revenues.

252. IFAD's operations with derivatives are at their beginning phase. IFAD has started incorporating borrowings into its balance sheet. The loans from KfW and AFD were both denominated in euro and on a floating rate basis. This means that IFAD can only on-lend these funds on a floating rate basis in euro without incurring undue financial risks. However, in terms of demand for single currency loans, most demand is United-States-dollar denominated and there remains considerable demand for SDRs. IFAD would have to use derivatives – a cross currency swap - to transform a liability denominated in euro into a liability denominated in United States dollars if it wanted to onlend in United States dollars. If IFAD wished to onlend such funds on a fixed rate basis, it would have to lock in the interest rate via an interest rate swap.²² An ALM policy defines these strategies, setting the parameters (also in terms of credit risk and collateral) and delegates authority to the CFO and to the Treasurer to execute an effective ALM for the institution.

253. **Hedging future replenishment commitments.** Since its establishment, IFAD has received capital payments in a number of currencies. As of end January 2018, close to 80 per cent of the replenishment contribution funds due were denominated in non-dollar currencies.²³

21 Even loans made in SDR, which are currently left unhedged, can, in principle, be swapped into United States dollars.

22 Without an interest rate swap, IFAD would incur very significant interest rate risks as its funding would be floating rate whereas its lending would be fixed rate.

23 Of the total due, 8 per cent was in Canadian dollars, 25 per cent in euro, 22 per cent in British pound sterling, 12 per cent in Swiss francs and Norwegian krone and 21 per cent in United States dollars.

Non-dollar contributions pose a foreign exchange risk as IFAD does not have a clear calculation basis of its equity base in the future. For instance, if certain payments are pledged, for example, in euro and the euro depreciates vis-à-vis the United States dollar, then IFAD would receive less capital contributions than originally anticipated.

254. In the future, IFAD will continue to receive future capital contributions as payments in a number of currencies. From the time of commitment, these non-United States dollar payments pose an open currency position for IFAD and could be hedged – or if there is a degree of uncertainty about the likelihood of payment, partially hedged - in order to have a higher degree of certainty of the amount of equity available to support IFAD's business. The point of time when the hedges are to be entered into would have to be decided: whether at the time of verbal commitment or when a promissory note has been received, or, staggered with a certain percentage hedged upfront and the remainder at a later date when promissory notes, which have a more binding character, are received.²⁴ These non-dollar payments can be hedged by entering into foreign exchange forwards, converting any non-dollar payments into United States dollar contributions.

255. Other IFIs either request their shareholders to make future capital payments in the currency of the DFI (IBRD requests payments to be made in United States dollar) or hedge those payments that are made in the donor's home currency. When EBRD was established, it used this method to hedge its Japanese yen and United States dollar-denominated capital contributions into the ECU,²⁵ thereby locking in its future equity instalments and providing a clearer basis of calculation of available equity. IDA also hedges its future contributions.²⁶

256. As reviewed in chapter IV, **other DFIs offer more diversified options in terms of interest rates on their loans.** DFIs generally run their balance sheet on a LIBOR basis. This means that all liabilities are swapped into pools of e.g. United States dollar LIBOR or Euribor funding. Funds are invested by Treasury in these currencies in floating-rate products until such time that they are needed for loan disbursement,

eliminating foreign exchange risks and interest rate mismatches. When loans are LIBOR-based, there would not be a mismatch in interest rates and no currency mismatch if loans are made in one of the pool currencies. Where a client prefers to have fixed rate loans, such fixed rate funding can be 'created' using interest-rate swaps. The rate for a loan is fixed at the time of disbursement or, possibly, at the time when the loan terms are agreed upon and the loan is signed. DFIs also offer loans with an interest-rate cap, limiting a client's risk that floating interest rates rise beyond a certain level. A cap needs to be hedged with derivatives. Some DFIs also offer loans in local currency.

257. **In principle, IFAD could offer local currency loans, if they can be hedged using cross-currency swaps.**²⁷ IFAD could flexibly offer products on other interest rate bases: rates linked to inflation, or floating rates with a maximum rate (a so-called cap), as long as Treasury is able to hedge the exposures. An important caveat here is that IFAD's loans are very long term and certain of the above hedges may not be available for such long-term maturities.

E. Leveraging

258. As a Fund, IFAD has approached equity and liabilities as a part of its "resource mobilization" (i.e. replenishments). Banks, including bilateral and multilateral development banks, in contrast, focus on equity and debt. Equity is raised from shareholders (and increased by adding profits as reserves) and used to back the business. Debt is added to increase the operational capacity and thus the outreach of the institution. The World Bank and other DFIs would be unthinkable without capital markets borrowings and leverage. Reflows, which appear as a key component for IFAD's financial planning, are generally not a factor in balance sheet management for DFIs and are taken into consideration mainly for calculating liquidity requirements and the borrowing programme. DFIs make loans (and in some cases equity investments) and fund these loans with both equity and debt. Treasury assets are there to provide and manage liquidity and 'park' money until it is needed for operations and to contribute to the institution's profit and loss (P/L), where possible.

24 Source: IOC Schedule of Payments, provided by Accounting and Controller's Division, Financial Operations Department, IFAD, as of 25 July 2017. Nota bene, promissory notes are not legally binding instruments for the donor.

25 Prior to the euro, the ECU was EBRD's currency of accounts.

26 IDA pledges can be made and paid in local currency. "IDA uses currency forward contracts to convert the majority of partners' encashments provided in national currencies into the five currencies of the SDR basket. These transactions are intermediated by IBRD for efficiency purposes." (*IDA MANAGEMENT'S DISCUSSION AND ANALYSIS: SEPTEMBER 30, 2015*).

27 Local currency loans were first offered by EBRD and are now a standard product for many DFIs. DFIs issue bonds in local currency or hedge with TCX, a fund that was created by DFIs to provide local currency hedging.

259. IFAD has historically been funded by equity (replenishment) and loan reflows. Equity was used to make loans, grants and, when IFAD's income was insufficient, to pay for its operational costs (or other losses). IFAD thus needed regular replenishments in order to grow its operations and cover its losses. IFAD requires additional equity to continue its operations (retained earnings in 2017 stood at a negative of US\$1.36 billion) by raising new equity through a replenishment every three years. Other IFIs, which are operating on a financially sustainable basis (the IBRD, IFC, EBRD, AfDB or AsDB), seek additional capital when they reach limits to their operating capacity. However, concessional arms of other IFIs (e.g. IDA and AfDF) also have periodic replenishments.
260. **Liabilities and leverage.** IFAD operated without leverage until it contracted its first loan from KfW. Being incorporated as a fund, liabilities were not envisaged at the time of IFAD's establishment, though, generally, there is no principal limitation to leveraging funds. Leverage can double or triple the operational outreach of an institution. IFAD would not be the first development entity incorporated as a Fund that uses borrowings to grow its operations. In Paris, the Council of Europe Resettlement Fund for National Refugees was an active borrower in the capital markets in the 1980s and 1990s, before it changed its name in 1994 to Council of Europe Social Development Fund and then in 1999 to Council of Europe Development Bank.
261. **There are constraints from limited leveraging.** With US\$6.6 billion of equity (taking into account US\$1.5 billion of negative retained earnings), IFAD has a solid capital base. Operating by deploying only this capital, however, limits IFAD's size of PoLG. This capital could be leveraged to the order of 1:1, 2:1 or even more. Figure 12 illustrates the leverage of other DFIs for which leveraging is 'business as usual'.²⁸ IDA has now obtained a credit rating and is set to borrow in the international capital markets to increase its operational capacity and contribution to achieving the SDGs.
- risks in the balance sheet that would have the potential of producing serious losses. The next paragraphs review IFAD's assets against its liability structure. The review suggests that, at this juncture, given the current loan pricing terms, it is challenging to fund IFAD's assets sustainably through borrowings, perhaps with the exception of concessional partner loans in the future (and only under highly favourable interest rates).
263. **Highly concessional loans.** IFAD's assets are dominated by very long-term loans with a fixed interest rate (de facto) of 0.75 per cent. Such loans are generally funded out of an institution's equity. Funding such loans out of debt could be theoretically feasible if IFAD can raise long-term debt that carries very low interest. Such loans would have to be funded with a fixed-rate debt as funding with a floating-rate debt would pose a serious interest rate mismatch.²⁹ Fixed-rate debt can be obtained either by borrowing directly in the fixed-rate bond markets or by hedging floating-rate funds with an interest-rate swap. To illustrate the long-term fixed-rate funding costs for IFAD, it is important to consider the long-term swap rate.³⁰ The 30-year swap rates had the following levels as of August 2017: 30-year swap rate EUR 1.75 per cent and US\$2.50 per cent.³¹
264. If IFAD funded its long term fixed rate loans from borrowing, it would generate losses (table 16). On a loan portfolio of EUR 2 billion or US\$1 billion, the losses would be in the range of EUR 12.5 million p.a. and US\$22.5 million p.a. respectively. The situation would only change if IFAD could obtain long-dated fixed-rate funding at a level below 0.75 per cent p.a. Such low market interest rates for long-dated euro and United States dollar-denominated interest rate swaps are exceptional and mainly a result of Central Bank policies of quantitative easing adopted to combat the 2009 financial crisis. In the future, long-term swap rates are likely to rise significantly again as central banks move away from quantitative easing.

E.1 Main considerations regarding IFAD's leveraging potential

262. IFAD's loan products set certain parameters for the structure of its balance sheet. The premise is that assets and liabilities should be matched to avoid structural interest rate and/or currency

28 Sources: Financial Statements, 2016.

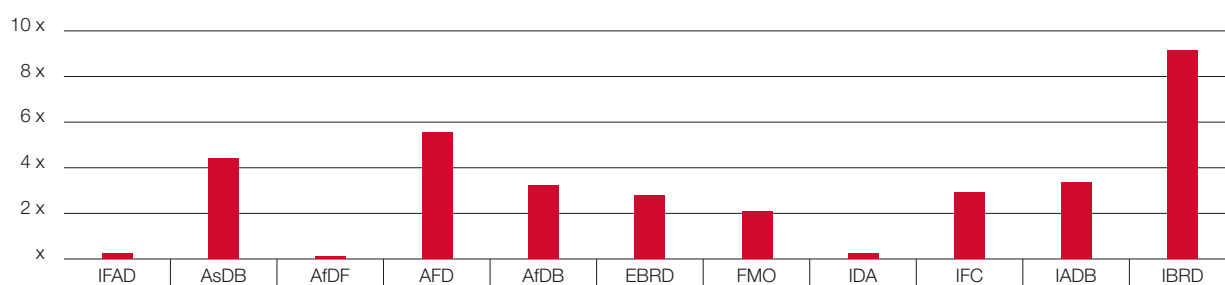
29 If LIBOR rises, the funding cost of IFAD would increase but the revenues would remain fixed at 0.75 per cent of the outstanding loan.

30 Via an interest rate swap, IFAD can swap floating rate debt for fixed rate debt, i.e. IFAD would pay a market counterparty, usually a bank, the fixed rate and in return receive LIBOR, or in the case of euro, Euribor. In this way, IFAD can lock in long-term fixed funding rates.

31 Swap rates are subject to change and are generally correlated to long-term government bond rates.

FIGURE 12

Leveraging - debt-to-equity (usable capital) ratio³²



Source: CLE elaboration from data available from DFI website and documentation (2017).

TABLE 16

Losses to IFAD on highly concessional loans in case of borrowing with interest rate swap

Euro Loans		US\$ Loans	
Loan income in euro:	0.75%	Loan income in US\$	0.75%
IFAD Funding at Euribor +	-0.25%	IFAD Funding at LIBOR +	-0.50%
Interest rate swap	-1.75%	Interest rate swap	-2.50%
Total loss for IFAD p.a.	-1.25%	Total loss for IFAD p.a.	-2.25%

Source: CLE simulation (2017).

265. **Blended term loans.** Blended term loans are similar to concessional loans but carry a rate of 2 per cent p.a. fixed for the life of the loan. As such, while providing marginally higher revenues, if funded via market borrowings, they may generate losses and are exposed to the same risks as already discussed.

266. **Ordinary loans.** As the interest rate of ordinary loans is floating rate, such loans can be funded with sovereign or capital market borrowings without necessarily generating losses. IFAD's profit/loss will be determined purely by the margin it generates over its own cost of funds. Borrowing at a margin of 25-30 basis points over LIBOR is sustainable as long as IFAD can charge on its ordinary loans a margin above the cost of funds.

267. **As a result of the pricing of IFAD loans, only ordinary loans have the potential to be funded out of borrowings without generating losses.** If the PBAS remains the sole determinant of the allocation of available funding for loans,

then this sets the limit to leveraging. Assuming ordinary loans constitute 10 per cent allocation and assuming IFAD's available equity equals US\$6.5 billion, then the total volume of loans would be equal to and limited to 1.111 times 6.5 billion = US\$7,222,200,000 (US\$722 million could be funded by debt). On the other hand, if IFAD decided to allow countries to take up additional loans on the basis of project demand and their credit situation, but on ordinary terms (this option exists at IDA for example), any additional ordinary loan allocated outside PBAS could be funded (without generating losses) by leverage, as long as the loan is floating rate (denominated in United States dollars or euro or another currency that can be generated via a cross currency swap) and carries a margin which is higher than IFAD's funding cost.

268. In summary, there are four potential uses for borrowed funds without IFAD incurring losses: (i) loans that are LIBOR-based and that carry a margin above IFAD's cost of funds; (ii) loans that are fixed-rate and carry a margin reflecting IFAD's cost of generating fixed-rate funds via an interest rating swap; (iii) loans that are in local currency reflecting IFAD's cost of generating local currency funds through local currency borrowings or

³² Excluding callable capital, but including reserves.

cross-currency swaps; (iv) and Treasury.³³ Conversely, funding other types of loans through borrowing would generate considerable losses, to be covered through replenishment, thus reducing the new resources available for onlending.

269. **“Pros and cons” of capital market borrowing.**

Only capital markets provide volumes, liquidity, the range of currencies and interest rate bases that are necessary for DFIs to structure their balance sheets. Institutions like the World Bank, the first DFI to extensively borrow from the capital markets, have borrowed billions since inception and continue to tap the markets on a weekly basis. For the World Bank, the first bond issue was in 1947. There are, however, “pros and cons” and requirements which are discussed below.

270. **Pros - Capital markets provide the widest range of funding opportunities, subject to credit rating:**

- Potential to grow the size of the PoLG and increase the contribution to reducing rural poverty
- Potential to reduce the burden of taxpayers to ordinary lending through replenishments
- An unprecedented depth and liquidity, practically eliminating re-funding risks
- A multi-trillion investor base ranging from central banks to pension funds and other institutional investors to retail and impact investors
- The widest range of maturities
- Currencies in which IFAD operates
- Advanced and standardized documentation
- Appropriate regulation

271. **Cons - Potential drawbacks on borrowing on capital markets include:**

- IFAD’s very long dated assets cannot economically be match-funded by liabilities of similar maturities. This has the implication that IFAD will have to run a continuing borrowing operation, issuing bonds not only to fund new loans but also to repay maturing bonds. This is normal practice amongst DFIs.
- Unless IFAD borrows in the form of floating rate notes, all funding would need to be swapped into Euribor/LIBOR-based funding. While this also applies to other DFIs, building up a derivatives portfolio implies additional risks and costs, including more sophisticated accounting requirements than those required for simple loans.
- Derivative counterparties will require IFAD to post (and accept) cash as collateral under certain circumstances. This may require IFAD to borrow additional funds with the implication that posting collateral is likely to incur some losses due to so-called “negative carry.”³⁴

272. **On balance, the “pros” of market borrowing outweigh the “cons” which can be addressed by drawing on the experience of the MDBs in tackling similar issues.**

273. **Constraints from leveraging through sovereign borrowings.** The so-called sovereign borrowings, i.e. borrowing in the form of loans from other DFIs, are a convenient first step towards capital market borrowings but may prove not to be sustainable both in terms of volumes and cost. IFAD’s clients borrowing on ordinary terms have, in addition to euro, predominantly a need for loans denominated in United States dollars. IFAD would thus need to contract United States dollars liabilities but the loans from KfW and AFD are denominated in euro.³⁵ Principally,

³³ In principle, borrowed funds could also be allocated to the Treasury’s liquidity portfolio Point, freeing up equity from funding Treasury liquidity to support additional loans on concessional terms. However, this would reduce Treasury’s contribution to IFAD’s P/L, thus increasing IFAD’s annual losses.

³⁴ IFAD’s cost of funds is likely to be higher than the margin earned on the collateral. The amount of collateral posted depends on the mark to market of the totality of derivative positions with each counterparty and is likely to be a fraction of the nominal amounts. IFAD may also receive collateral posted by derivative counterparties as the collateral agreements are mutual.

³⁵ IFAD pays KfW an interest rate based on the Euribor six-month rate plus a spread based on KfW’s variable funding costs (0.25 per cent in July 2017). IFAD onlends the proceeds of the KfW loan for projects on ordinary terms (i.e. the Euribor six-month rate plus a spread based on the relevant IBRD variable spread, 0.94 per cent, July 2017). Thus IFAD’s 0.69 per cent net margin on the KfW loan is lower than the margin on highly concessional loans. This means that IFAD’s margins on sovereign loans contribute less to help finance IFAD’s operating costs, particularly if swaps into the United States dollar are needed. Assuming a swaps cost at 0.50 per cent, IFAD’s net margin would then be 0.19 per cent.

with the help of derivatives, such liabilities can be transformed into floating rate United States dollar funding. But the conversion of such loans into floating rate United States dollar liabilities would, up to now, have incurred an additional cost of about 40-60 basis points per annum due to the cost of the hedge.³⁶ Other DFIs would not borrow in the form of sovereign borrowings as the cost of funds would not be advantageous, even if the long maturities offered are attractive.

274. **Concessional partner loans contribute to leveraging but are not a panacea.** If partners are willing to provide IFAD with funding at (quasi-) zero per cent interest rate, and in the currency in which IFAD has loan demand (presently more in United States dollars than in euro), IFAD could utilize such funds to make concessional loans and blended loans, provided that there is no significant maturity mismatch. Here it would be important for IFAD to analyse whether it is preferable to receive the subsidy in the form of a reduced interest rate or as a cash contribution. When calculating the concessional element of such financing for United States dollar and euro, it is important to correctly assess the NPV of the difference between IFAD's hypothetical all-in cost of funds for the respective maturities and the concessional rate.

E.2 Requirements for accessing market borrowing: an overview

275. **Time to market.** IFAD's tentative plan to enter the capital markets stretches over five years. Depending on the decision of the governing bodies, the current timetable envisions a first bond issue in 2022. This timeline would be prudent and conservative, subject to the outcome of credit rating (see below).³⁷

276. **Inaugural benchmark.** For an inaugural bond issue, DFIs (and other institutions) generally need to have a benchmark-sized transaction denominated either in euro or United States dollars. Benchmark size means a minimum of US\$500 million to establish a new DFI in the markets. The inaugural benchmark is of utmost importance as it determines the institution's standing in the market, and the spread it has to pay in comparison to its peers, i.e. the pricing it will be able to achieve not only for the first issue but to some extent for future issues also. While DFIs generally try to obtain long-dated funding to avoid too large maturity mismatches, in the case of the inaugural benchmark, DFIs have tended to position themselves where a potential bond offering meets the greatest demand.³⁸

277. **Infrastructure and Treasury staffing for capital markets borrowings.** IFAD has competency in Treasury and in finance. The experience of other DFIs suggests that IFAD may not need to hire many more additional staff: notably, FMO and AFD operate their treasuries with only four to six professionals respectively and both institutions issue billions of dollars worth of bonds in the markets every year, in addition to managing the financial risks (ALM) and Treasury investments (see figure 13). However, IFAD would need to hire, or retrain, at least one staff member to have specialized funding and derivatives experience. In addition, as already observed in this report, there would be a need to carefully revisit its arrangements for risk management function and significantly strengthen its ALM policies.

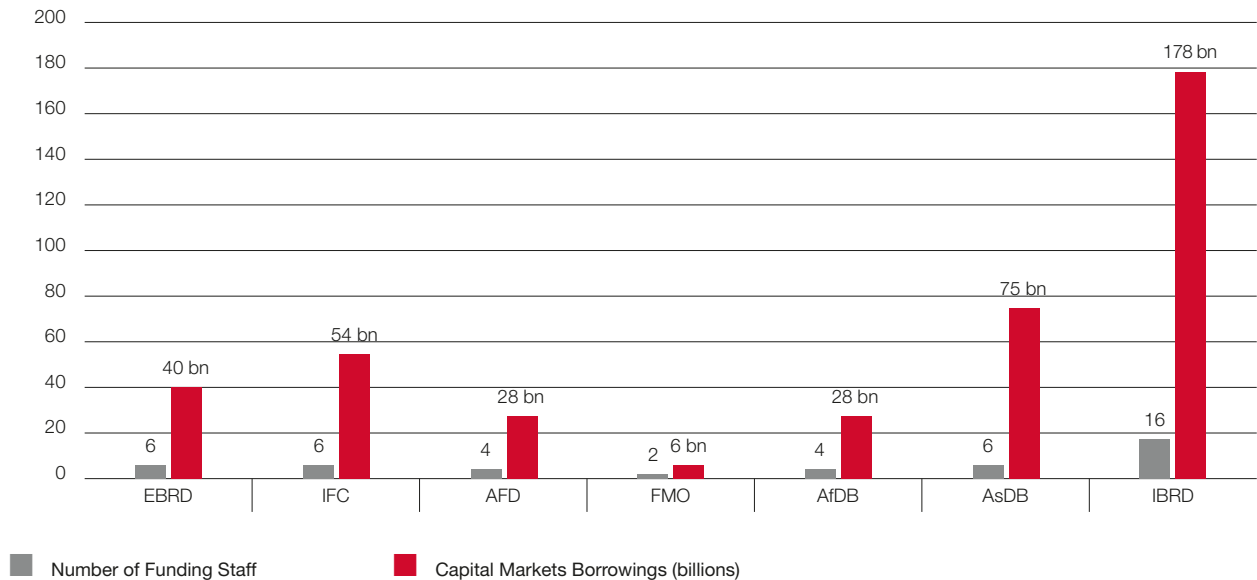
³⁶ The cost of the hedge varies over time. While theoretically it should be close to zero, in reality, it is driven by supply and demand and currently IFAD would have to pay about 40bp per annum, i.e. three- or six-month United States dollar LIBOR + 0.40 per cent p.a. over the life of the swap if it wanted to receive EUR LIBOR flat in return. IFAD's all-in funding cost in United States dollars would thus be approximately United States dollar LIBOR + 0.70 per cent as the cost of funds from KfW/AFD amount to approximately Euribor plus 0.30 per cent.

³⁷ As a comparison, EBRD was inaugurated as a new DFI in April 1991. Policies, guidelines, strategies all had to be written – or adopted from other DFIs – and approved by the Board of Directors. By July, the bank had 30 staff members in total and EBRD's Treasury consisted of only three professionals. By late summer, EBRD had obtained an AAA/Aaa rating, its board of directors (N.B. not the board of governors) had developed and approved the relevant policies, the borrowing programme, the finance team had set up the infrastructure, chosen the lead-manager and the banks to underwrite the bond issue through an open and transparent selection process and was therefore able to launch its inaugural ECU 500 million five-year bond by September 1991. However, EBRD's operations and "clients" differ notably from IFAD's.

³⁸ A different case is that of the International Finance Facility for Immunisation (IFFIm), further discussed below. As a very small supranational borrower, it had a US\$1 billion five-year maturity inaugural bond issue in 2006. For a long time, as an AAA/Aaa rated borrower, its cost of funds was in the sub-LIBOR range. But having been downgraded to AA, its cost of funds is now generally about 15-20 bp higher than that of the AAA-rated World Bank.

FIGURE 13

Capital market borrowings and funding team staff



Source: CLE elaboration from several documents - EBRD: organigram and 2016 investor presentation; IFC: interview and 2016 IFC Investor Pitchbook; AFD: interview and 2016 investor presentation; FMO: interview; AfDB: interview and 2016 investor presentation; AsDB: interview and 2016 investor presentation; IBRD: interview and the World Bank Treasury 2016 investor presentation.

278. **Credit rating.** A fundamental pre-condition for successful bond issuance is for IFAD to obtain a rating, ideally AAA/Aaa but at least AA. Rating agencies undertake very thorough due diligence of institutions, including an analysis of shareholder support, use of funds, policies, risks, profit/losses and balance sheet development, as well as interviews with key staff and top management. Certainty and predictability are key drivers for ratings and any issues providing uncertainty may negatively impact IFAD’s future rating. The most obvious issue in this respect is IFAD’s financial sustainability (which is examined in the next chapter) and the dependence on, and unpredictability of, the amounts of future replenishments and the outflows in the forms of grants, DSE, operating expenses and potential losses from currency exchange movements. The current financial architecture of IFAD is very different from that of DFIs with an AAA/Aaa rating. Annex VII provides a review of the requirements for credit ratings of multilateral DFIs.

279. **Borrowing strategy.** DFIs generally have a defined, yet flexible annual borrowing strategy, detailing approach, and volume. Borrowing amounts can be determined either as an absolute amount linked to the institution’s anticipated lending volumes or in relation to the balance sheet. Institutions with very long-dated assets frequently aim to borrow as long

term as possible, but lengthening the maturity of a bond issue, as discussed above, is normally only possible by increasing the all-in-cost in spread above LIBOR terms. Optimizing the liability structure and the execution of the borrowing strategy within set parameters is generally delegated to the TRE team and the implementation is reviewed by the institution’s ALCO.

280. **Borrowing amounts.** Currently, the approved borrowing approach links IFAD’s volume of liabilities directly to the amounts raised by the next replenishment. Other DFIs generally determine the amount of borrowings with reference to multi-year cash-flow forecast based on loan demand, cash-outflows and liquidity requirements. A cap is frequently set as an absolute number or in relation to total equity. In case IFAD accessed market borrowing, a more prudent alternative could be to initially fund the existing and future ordinary loans (even within the single PBAS window) through capital market borrowings. This would free up equity for other purposes (e.g. highly concessional loans), although there may be negative profit/loss implications for Treasury operations. As a second step, capital market borrowings could fund loans where the volumes are not determined by PBAS but instead by demand for additional funding from Member States (two-window framework).

281. As a comparison, borrowing levels of other DFIs are presented below (table 17). DFIs may borrow at costs below United States dollar LIBOR and Euribor for short maturities but well above for longer ones: DFIs generally cannot achieve long-dated sub-LIBOR funding. To lower the average cost of funds, DFIs therefore frequently: (i) borrow with shorter dated maturities and “roll” the funding, i.e. allowing maturity mis-

matches between long term assets and shorter-term liabilities; (ii) borrow in a variety of arbitrage markets and in different structures, using derivatives to swap the borrowings into United States dollars or Euribor-based funding.

TABLE 17
Examples of market borrowing levels for selected DFIs

Issuer	Amount (US\$ bil)	Issue Date	Maturity (years)	All-in Spread (bp)
US\$				
IDB	3.75	04/05/2017	3	\$L -2.6
EBRD	1.5	04/25/2017	3	\$L -1.6
AsDB	4.0	04/26/2017	3	\$L -1.6
Council of Europe Dev. Bank	1.0	05/10/2017	2	\$L -2.2
Asian Development Bank	1.75	05/31/2017	4	\$L +9.6
IDB	2.3	06/28/2017	10	\$L +25.9
IFFIm* Indication as 6/30/2017 ³⁹				
IFFIm	1.0 (min.)		3	\$LIBOR+22
IFFIm	1.0 (min.)		10	\$LIBOR+22
Euro				
European Financial Stability Facility	1.0	04/04/2017	28	Euribor +54
European Financial Stability Facility	4.0	04/04/2017	8	Euribor -3
European Financial Stability Facility	6.0	04/25/2017	10	Euribor +1
European Financial Stability Facility	2.0	04/25/2017	26	Euribor +38
European Investment Bank	3.0	05/09/2017	16	Euribor -6
IFFIm Indication as 6/30/2017				
IFFIm	1.0 (min)		3	Euribor -5
IFFIm	1.0 (min)		10	Euribor +12

* International Finance Facility for Immunisation (IFFIm).

Source: IFC News + Views. Issue No 9, November 2017.

³⁹ The numbers for IFFIm are indicative quotes for a potential issue, should IFFIm decide to tap the markets. In November, IFFIm issued a three-year US\$ denominated floating rate note at a spread of United States dollar LIBOR + 16 bp all in (i.e. including all costs).

Key points

- In terms of the efficiency of governance of the financial architecture, this chapter first discussed the replenishment consultation. This is a well-established process. However, a CLE on replenishment (2014) identified areas for improvement. Two of these are still outstanding. First, there is a challenge for List C to ensure balance of representation from the poorest countries and the increasing number of donors.
- Second, the periodicity of replenishment: the CLE on replenishment had recommended considering a four-year period, instead of the current three-year one. This may bring about more efficiency in the use of budget for replenishment consultation and could in principle help raise allocations for some “small” countries in the PBAS cycle. It could also avoid a mismatch between the periodicity of the IFAD replenishment cycle (three years) and the term of the president (four years renewable). There is no evidence that having a four-year cycle would be detrimental to the total replenishment size.
- In finance, the notion of efficiency is also linked to managing risks. The existing level of financial oversight by the governing bodies and by management is adequate for the current low level of risk of IFAD’s financial operations. However, should IFAD’s borrowing from sovereign of market sources increase in a significant manner, these may no longer be sufficient.
- Information of a financial nature submitted to governing bodies is adequate although fragmented into many documents. There is limited financial expertise among members of the Board and Audit Committee which constrains members’ contributions to the discussions.
- Internally, the roles and responsibilities for risk management on Treasury investments are defined in very broad terms without clear delegation of responsibility. The Asset and Liability Committee, which is standard in other DFIs, has ceased its operations. IFAD’s Treasury investments have higher returns compared to other DFIs but also a higher risk profile and volatility.
- In terms of asset and liability management, IFAD’s experience with derivatives is at a very early stage. Other DFIs make wide use of derivatives, for example, to hedge future capital contributions, swap loan currency denomination, manage interest rate risks on borrowings and on loans.
- IFAD’s leveraging of its capital base through borrowing is limited, compared to other IFIs. This leads to lower efficiency of use of capital resources. At present, as a result of the pricing of IFAD loans, only ordinary loans have the potential to be funded out of borrowings without generating losses.
- Borrowing from markets offers wider options (volumes, liquidity interest rates) to expand IFAD’s leveraging and PoLG, compared to sovereign borrowing. While there are “pros and cons” to market borrowing, these are dealt with by other DFIs on a routine basis. In order to issue bonds at favourable terms, IFAD would need to take a number of steps and meet some requirements. The most challenging of these is to obtain a high credit rating (see also next chapter).
- Concessional partner loans may offer leveraging opportunities, only if donor countries agree to very low interest rates (ideally close to zero) and continue to provide such loans in large volumes in the future.

VI. Key aspects of IFAD's financial performance and sustainability

A. Definition and current situation

282. For this evaluation, financial sustainability is defined as the extent to which an institution has financial resources to operate without regular recourse to donors/ shareholders, protect its equity capital and generate enough revenues to cover its operational costs and build up loan provisions. This is more stringent than IFAD Management's definition of financial sustainability, which is based on the notion of liquidity and ability to meet loan disbursement commitments by relying largely on future replenishments.¹ While replenishments are indeed important, relying on replenishments is not consistent with the notion of financial sustainability used in the markets: priorities of donors may change in the future that may result in lower replenishments. A satisfactory degree of financial sustainability is one of the likely conditions needed to obtain a high credit rating. Sustainability also implies that an institution's balance sheet is structured in a way that risks are managed in order to avoid structural imbalances which may lead to the occurrence of heavy losses. It does not preclude leverage. Leverage, in fact, may be a precondition for an institution to become financially sustainable.

283. **In the past decade, IFAD has incurred financial losses in most cases.** IFAD made losses every year from 2009 to 2016. IFAD made an accounting profit of US\$58.7 million in 2017 (figure 14) but this was only due to an exceptional accounting gain from currency exchange movement (US\$338,800,000) which cannot be relied upon in the future. Within the

current modus operandi, conditions for financial sustainability are not met. As shown in figure 15, since 2010, revenues from loans and Treasury investments have been insufficient to cover IFAD's operational costs.

284. **The breakdown of profits and losses can be explained using the year 2016 as an example.** The main performance drivers of the IFAD P/L are on the revenue side: (i) interest and fees from loans of US\$51 million (of these approximately 85 per cent for concessional loans, and 2 and 13 per cent for blended and ordinary, respectively); and (ii) treasury income of US\$46 million. On the expense side, the main drivers are: (i) operating expenses (the cost of running the organization) of US\$156 million; (ii) US\$55 million grants; (iii) US\$124 million DSF; and (iv) US\$169 million foreign exchange losses. There are also other categories of revenues and expenses, but these are less important for the purpose of this discussion.

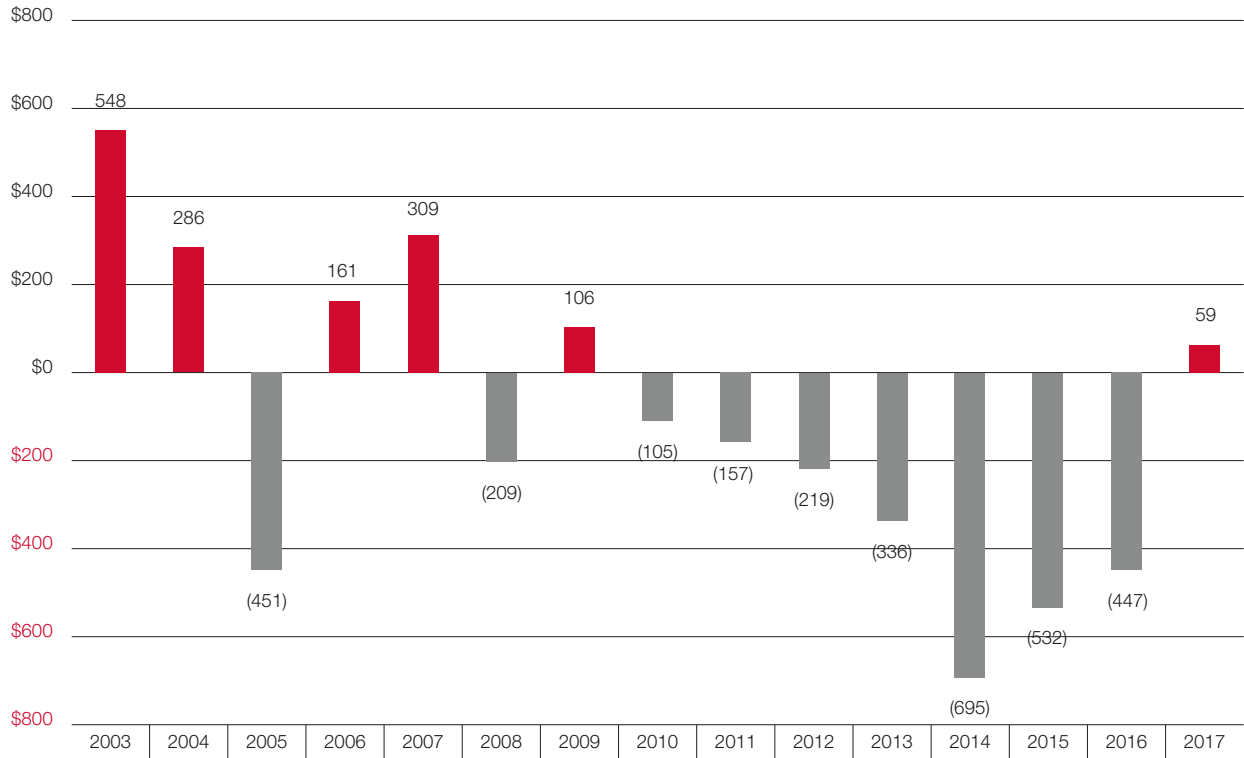
285. The factor that allowed IFAD to run profits in the past was the high gains from treasury investment operations (in some years, but not recently, IFAD also experienced high gains from currency exchange movements). Those high rates from Treasury investments have not been feasible recently, given the financial market trends, and the liquid portfolio managed by TRE has been shrinking. The introduction of DSF has generated additional accounting losses.²

1 "The long-term sustainability of the Fund is safeguarded by the sustainable cashflow approach." IFAD Resources available for commitment, 14-15 December, 2016. The document states, "A certain level of PoLG is defined as sustainable cash flow (SCF PoLG) over the next 40 years if, after forecasting all of the inflows and outflows derived from the current and future PoLGs and related obligations during such period, IFAD's liquidity (i.e. the balance of its cash and investments) never breaches the minimum liquidity requirement stipulated in its Liquidity Policy".

2 Also, the introduction of fair value accounting has added to accounting losses.

FIGURE 14

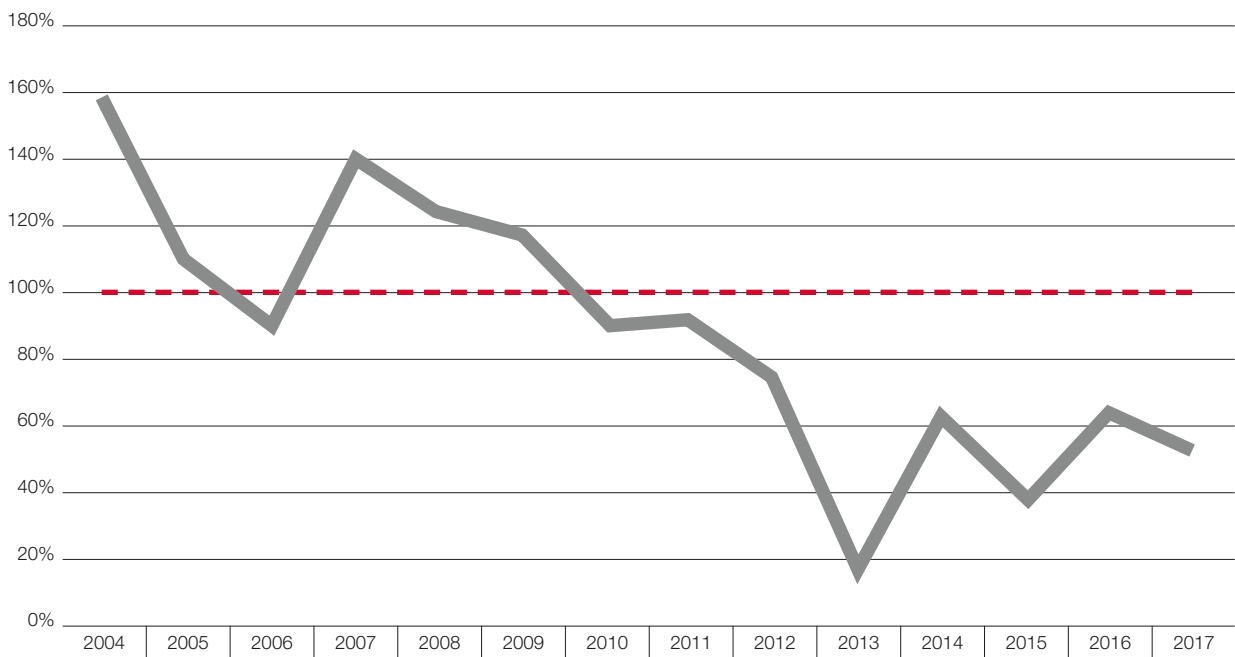
IFAD's net income/loss 2003 – 2017 (Millions of United States dollars)



Source: CLE elaboration from IFAD's financial statements (several years).

FIGURE 15

Proportion of IFAD operating expenses recovered by loan and investment income



Source: CLE elaboration from IFAD's financial statements (several years).

TABLE 18

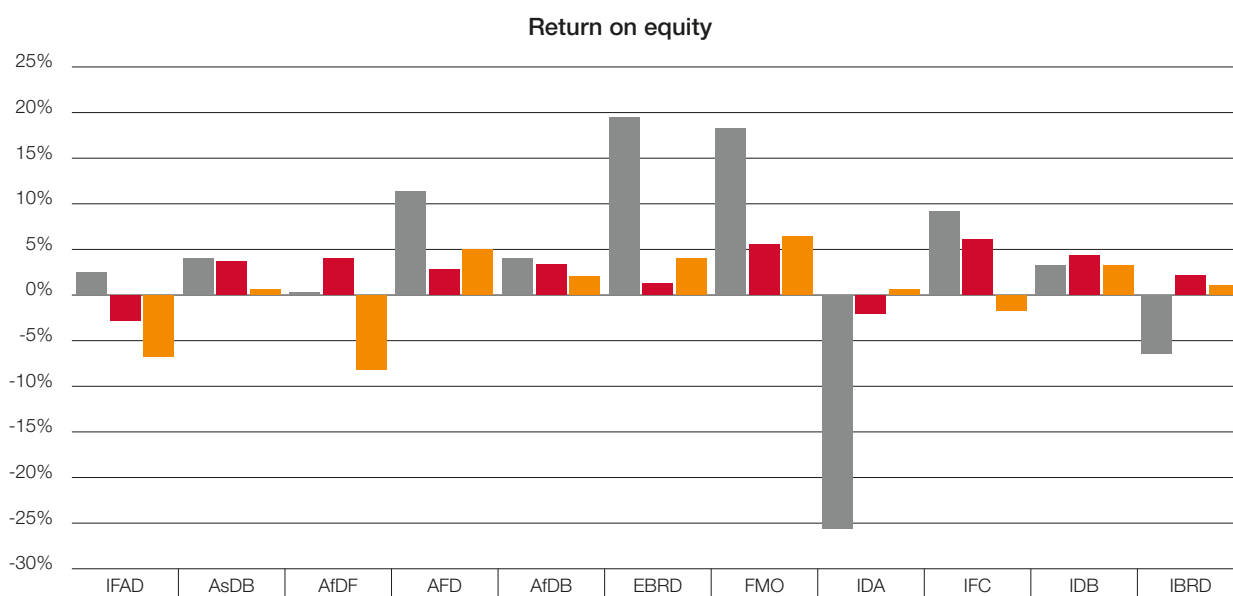
Key figures from IFAD's balance sheet

	2005 (US\$ 000)	2010 (US\$ 000)	2017 (US\$ 000)	Change 2005-2010	Change 2010-2017
Total assets	5 625 376	8 232 327	7 711 33	46%	-6%
Total liabilities	371 307	436 139	863 481	17%	86%
<i>Total contributions</i>	4 618 124	6 157 886	8 205 537	33%	33%
<i>General reserve</i>	95 000	95 000	95 000	0%	0%
<i>Retained earnings</i>	540 945	871 850	(1 357 585)	61%	-141%
Total equity	5 254 069	7 124 736	6 847 952	36%	-4%

Source: extracted from IFAD's Financial Statements (2005, 2010, and 2016).

FIGURE 16

Return on equity, comparison across DFIs



Source: DFI's annual financial statements (2006, 2011, 2016).

286. Longer-term effects of the above on the balance sheet are illustrated in table 18. Changes between 2005 and 2010 (increase in retained earnings) reflect a period in which IFAD could run profits, while changes between 2010 and 2017 reflect several years of losses and this caused retained earnings to turn negative. Ultimately, this leads to capital erosion which needs to be compensated for through the replenishments, thus reducing the funds that can be used to finance the PoLG.
287. Revenues from interest on loans are too low to cover operating expenses: under the present conditions, IFAD would have to charge an average rate of circa three per cent which is well above current margins on interest rates (average portfolio yield was circa 1 per cent in 2016), or a rate of approximately 3-month United States dollar LIBOR plus a margin of 1.5 per cent. Although borrowing members may criticize this increase in rates, such interest rates would still be below the coupon rate that many borrowing Member States would have to pay if they issued bonds (see chapter IV).
288. Generally, a key indicator for an organization's financial sustainability is return on equity. A positive return on equity implies that the organization strengthens its capital base. A negative return on equity means that the institution is depleting its reserves and, ultimately, its capital base. Looking at other DFIs (with the exception of IDA and AfDF), all of them are financially sustainable (figure 16). Soft-loan windows of the World Bank and the AfDB have negative return on equity. However, IDA and AfDF cannot be compared to IFAD, as these two entities do not have dedicated separate staff, office buildings or other infrastructure. IDA receives capital and operational support from the World Bank and AfDF from the AfDB. As such, these institutions are part of a larger, financially sustainable group, i.e. the World Bank Group and the AfDB. IFAD, in contrast, is a stand-alone institution. These considerations are likely to be important in the context of a credit rating assessment.
- structure are important. Operating expenses at IFAD (comprising staff costs, office and general expenses, consultant and other non-staff costs, and direct bank and investment costs) increased from US\$104 million in 2004, to US\$151 million in 2010, to US\$171 million in 2013 and 2014, then fell to US\$156 million in 2016 and increased to US\$172.8 million in 2017. As IFAD is set up as a fund, emerging market debt funds generally charge a fee of 2 per cent of assets under management to cover their operating expenses. Impact investment funds that lend to organizations benefiting smallholder farmers charge a management fee of around 2 per cent to 2.5 per cent p.a.³ to cover operating expenses. IFAD's operating expense ratios are in the range of impact investment funds but above those of other DFIs.
290. Staff costs are a major driver of IFAD operational costs. Table 19 provides an overview of the operating costs in relation to total assets, loans and equity outstanding, and to risk assets as well, in relation to the annual PoLG (for the year 2016 for comparative purpose). IFAD is in the upper end of comparator DFIs.⁴ A few caveats have to be added: (i) the larger DFIs benefit from "economies of scale"; (ii) IFAD operates in the "difficult to reach" areas of countries while many other DFIs structure transactions close to countries' capitals; and (iii) impact investors making private sector investments also have rather high cost-to-assets ratios.⁵ If IFAD achieves a significant increase in PoLG through leveraging but does not increase by the same proportion (or ideally reduces) its operating expenses, by definition, operating expense ratios would decrease.
291. Relative to other MDBs, IFAD allocates a lower proportion of its budget for the programme management department (taking 2014 for comparability purpose, the proportion of IFAD's "operational" costs was 49.2 per cent, against 75.3 at AfDB, 74.9 at AsDB and 70.2 at IBRD).

B. Main factors related to financial sustainability

B.1 Operating expenses

289. A detailed review of operating expenses is not part of this CLE. This section looks at some comparator figures across DFIs while noting that differences in mandate and financial

³ Alterfin, Incofin, Triodos, Rabobank Foundation, ResponsAbility, Root

⁴ IFC costs include those charged by IBRD for common overhead shared for efficiency reasons. (US\$ 1 = UA 1.34 and EUR 1.055)

⁵ These impact investors have high operational expenses as their average investment size is in the range of US\$1 million to US\$2 million, with many loans below the US\$1 million mark, significantly smaller than those of IFAD and also in the most difficult regions of the world. Furthermore, as their portfolios consist of short-term loans, new loan evaluations have to be made every one to three years on average.

TABLE 19

Operational cost and ratio comparison (US\$ billion and percentages) - 2016

Balance sheet (US\$ billion)	IFAD	AsDB	AfDB	EBRD	IDB	IBRD
Total assets	7.2	125.9	39.9	59.2	113.3	371.3
Net loans outstanding	5.2	67.6	20.3	23.4	81.4	167.6
Equity investments	0	0.814	0.967	5.6	0	0
Investments and cash on hand and in banks	1.3	26.7	16.0	25.3	27.9	51.7
Statement of comprehensive income (US\$ billion)	IFAD	AsDB	AfDB	EBRD	IDB	IBRD
Operating expenses	0.156	0.412	0.190	0.492	0.743	2.131
Operating expenses to total assets	2.2%	0.3%	0.5%	0.8%	0.7%	0.6%
Operating expenses to net loans & equity outstanding	3.0%	0.6%	0.9%	1.7%	0.9%	1.3%
Operating expenses to risk assets*	2.6%	0.4%	0.8%	1.5%	0.9%	0.7%
Operating expenses to annual PoLG	13.1%	2.9%	3.2%	5.2%	6.9%	7.2%

*Total assets - Treasury assets.

Source: CLE Elaboration from figures in DFI financial documents (October 2017).

292. IFAD is also exposed to inflation, mainly through its operating expenses. IFAD's operating expenses may grow in line with inflation while income from outstanding loans will remain static till maturity. This may not be seen as an issue at present, but inflation is likely to pick up again during the next 20 to 30 years (the lifetime of concessional loans). An average inflation rate of 2 per cent to 3 per cent would increase the operating expenses from US\$156 million in 2016 to US\$190 million to US\$210 million p.a. by 2027. Other institutions that lend predominantly on a floating rate basis do not face this problem with the same magnitude, as LIBOR usually rises in parallel with the rise of inflation, off-setting the negative effects, while IFAD mainly lends at fixed rates (highly concessional and blended loans).⁶

B.2 Foreign exchange factors

293. IFAD has an inbuilt foreign exchange exposure in the budget in so far as not all its expenditures are in United States dollars. Because its headquarters are in Rome, some expense items are, for instance, in euro. This is mitigated by the fact that part of its revenues is also in other currencies such as the euro.⁷

294. **Foreign exchange losses related to loans are a result of foreign exchange fluctuations of the SDR versus the United States dollar.** Although IFAD accounts are denominated in United States dollars, loans are predominantly denominated in SDR. Many institutions have either never adopted a basket (IFC, EBRD) or have at a later stage moved to single currency lending (World Bank, AfDB, AsDB and others; IDA and AsDB's concessional windows still denominate concessional loans in SDR).^{8,9} Some IFAD borrowing members have stated a clear preference for single currency loans and also to convert their existing loans into United States dollars. Many borrowers still favour SDRs and if clients chose to stay in SDR or decide to take up loans in euro or other currencies, such positions could

⁶ IFAD TRE has its own financial model which takes inflation into account by projecting key variables such as replenishment contributions and administrative budget to remain flat in real terms.

⁷ The World Bank does not hedge its non-United States dollar budget as the large majority of its expenses are in United States dollars. EBRD hedges its non-euro expenses on an annual basis. AfDB hedges its administrative budget every year into SDR.

⁸ IDA now offers loans in United States dollars, euro, British pound sterling and Japanese yen in addition to SDR. Floating rate loans are not available in SDR. <http://treasury.worldbank.org/bdcm/html/ibrd.html>

⁹ From 2017 WB Annual Report, page 17 (PDF page 157): "Commitment Currency The currency of commitment for IDA grants and loans is predominantly the SDR. However, in response to client needs to reduce currency exposure and simplify debt management, IDA offers a Single Currency Lending option that allows IDA recipients to denominate new IDA loans in United States dollars, euro, British pound sterling and yen. As of June 30, 2017, \$5.5 billion of United States dollar-denominated loans and United States dollar equivalent \$3.3 billion in euro-denominated loans had been approved under the Single Currency lending programme, of which \$1.2 billion in US\$ equivalent was outstanding. Further, loans provided under IDA18 from the Scale-up Facility and for transitional support, may only be denominated in either United States dollars, euro, British pound sterling and yen [circa \$0.5 billion for FY 16 & FY 17]".

then be hedged in the derivatives markets.¹⁰ Swapping floating rate funding in one currency into floating rate funding in another currency may entail a cost for the institution.¹¹ The cost is dependent on market movements and is thus subject to change (but once it is locked in through a swap, it stays locked-in until maturity).

B.3 The DSF and grants

295. Both the DSF and grants are an important part of IFAD's array of operational instruments. The DSF and grants will remain part of the product range of the institution, unless there is a major change of strategy by members in the Governing Council. However, it needs to be recognized that the DSF and grants are a serious source of uncertainty for the institution's financial sustainability, posing threats to the assessment of IFAD's credit standing.
296. Should IFAD continue to provide DSF and grants on an annual basis to the tune of over US\$192.6 million as it did in 2017, the P/L impact would be substantial and the erosion of the institution's capital noticeable. DSF grants hit IFAD's P/L when they are approved and the negative impact is only balanced in later years once donor countries compensate IFAD for the DSF made in previous years. This has significant uncertainty, given that it will happen in a 40-year period and after a 10-year grace period. P/L losses due to DSF and grants, unless compensated by replenishments, lead to a shrinkage of IFAD's equity base and thus to a reduction of IFAD's lending activities. Donors that have agreed to compensate IFAD for making operations in the form of DSF will only compensate the institution in future years, i.e. starting from 10 years from the time the DSF are made. While these commitments can be considered as 'morally binding', they are not legally binding: governments can opt to change decisions and not to pay if their priorities change. Such uncertainty can be detrimental to IFAD's credit rating.

297. **Separate accounts are an option for the funding of the DSF and grants.** One alternative to provide a key building block for IFAD's financial stability and transparency, could be to hold grants and the DSF in separate accounts, similar to trust fund accounts, rather than being financed via IFAD's balance sheet and P/L. The initial funding for DSF grants made during current replenishment cycles would have to come directly from fresh replenishment donations. In this way, only money in those separate accounts can be spent on the DSF or grants. As a result, IFAD's P/L and balance sheet would be shielded from the drain of the DSF and grants and IFAD's financial stability better protected.¹² Separating the DSF and grants from IFAD's balance sheet would thus take a crucial factor of uncertainty away and help in the stabilization of IFAD's financial predictability and sustainability. Even if IFAD continued to operate on a loss-making basis, its credit standing would be strengthened.¹³

298. **The IFFIm Model.** A second, more complex, model for addressing the issue of the DSF can be found in the International Finance Facility for Immunisation (IFFIm) that provides front-loaded funding to the GAVI. In 2006, donors agreed to make multi-year legally binding payment pledges to GAVI to support vaccination. These pledges, amounting to over US\$6 billion in total, were legally assigned to IFFIm, providing a very strong balance sheet to obtain a (then) AAA/Aaa rating and allowing IFFIm to raise funds in the international capital markets at low costs. Figure 17 shows IFFIm's use of donor payment commitments stretching out to 2030 as the basis for borrowing in the capital markets (purple columns). IFFIm's model was explicitly mentioned in the United Nations Third International Conference on Financing for Development – Addis Ababa July 2015 declaration: "We encourage consideration of how existing mechanisms, such as the IFFIm might be replicated to address broader development needs." Applying the IFFIm example to IFAD would mean that future DSF compensation could be made legally binding, thus enabling the use of these pledges as assets on the balance sheet and to borrow against them in order to make payouts under the DSF.

10 N.B. Long-term hedging in derivatives markets has potentially an indirect cost as IFAD would, under certain conditions, have to post collateral to its counterparties. Depending on whether the posting of collateral has a positive or negative spread, such posting could have negative P/L implications, albeit at a fraction of the losses recorded for foreign exchange fluctuations in the 2016 P/L.

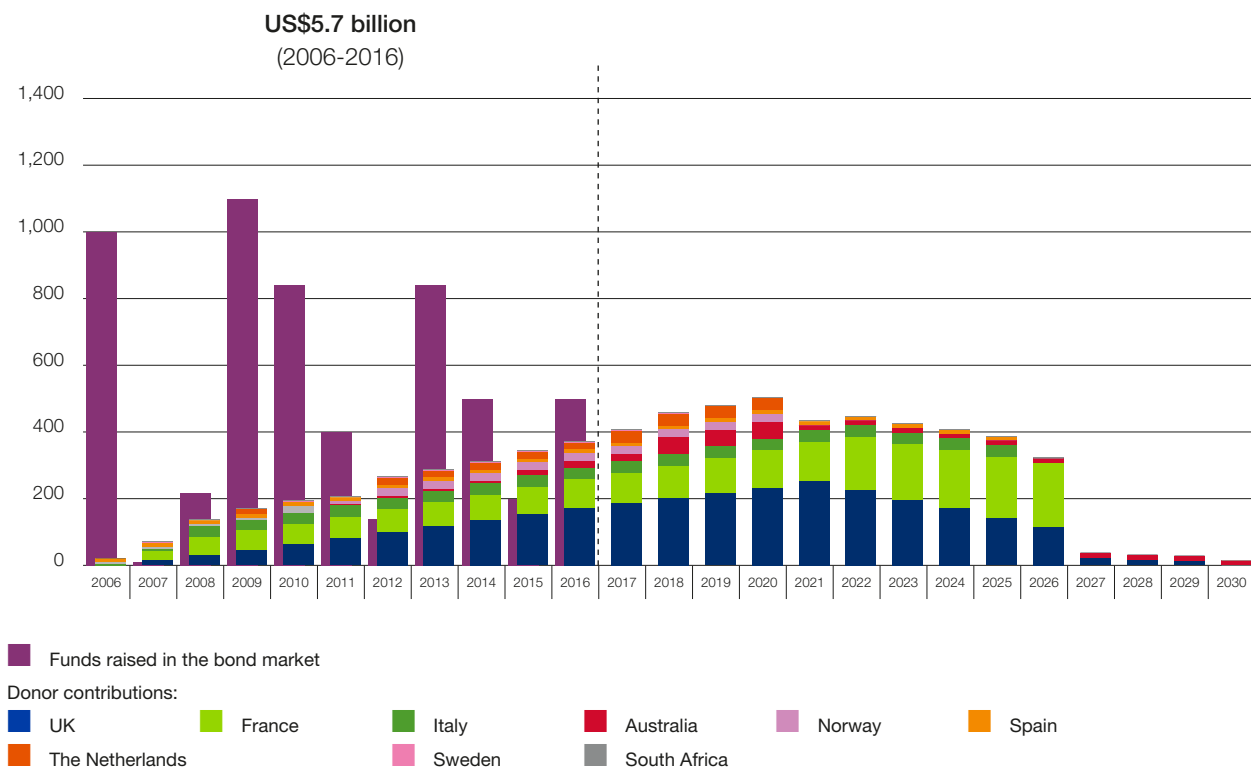
11 That is the main reason why the funds from KfW had to be onlent in euro; swapping the KfW Euribor funding into United States dollar LIBOR funding would have added a cost of about 40 to 60 bp p.a.

12 In each replenishment, the DSF/Grant accounts would have to be refilled if IFAD were to continue to use DSF/Grants as part of its product range. If the DSF/Grant accounts are empty, then these instruments would no longer be offered until they are replenished.

13 EBRD obtained an AAA/Aaa rating from the start though it was predicted to be loss making for a while as it started operations.

FIGURE 17

IFFIm issues bonds based on long-term pledges



Source: IFFIm website.

299. **Allowing for shifting borrowing conditions.**

Complementary to the above, an additional measure would be to change the loan arrangements for future loans, to replace DSF by a loan whose terms and conditions follow the country's classification. Interest and principal repayments would be waived as long as the country is classified as a DSF recipient. Should the classification change, then the principal and interest repayment may be re-introduced (e.g. after an adjustment period) so as to match the lending conditions normally applied to that country classification. A similar principle could be applied in the future to DSF and highly concessional loans: the terms of the loan could be hardened depending on the evolution of the country classification (loan maturity is 40 years). While not applying strictly this principle, other DFIs have moved towards accelerated repayment clauses for concessional financing as the classification of a country changes (see chapter IV).

B.4 Loan terms

300. **Revenues from concessional loans are limited and eroded by inflation.**

The low amount of US\$51 million in interest income on a net loan portfolio of US\$5.2 billion is evidence of the fact that the vast majority of loans are made on highly concessional terms (see chapter IV and breakdown in section A of this chapter). As inflation drives an increase in the operating budget (even if the budget itself is at zero real growth), the income/expense ratios would continually deteriorate as IFAD's concessional loans charge only a fixed fee of 0.75 per cent p.a., regardless of the interest rate environment or inflation.

301. Even if there were a marginal increase of the fee on highly concessional loans (e.g. by 25 bp to 1 per cent), it would take time before having a significant effect due to the fact that the fee for existing loans cannot retroactively be changed and highly concessional loans remain outstanding for many years. By the year 2027, when new concessional loans will have been made to the order of around US\$2.3 billion,

the additional revenue would amount to about US\$6 million p.a.¹⁴

302. Changes to future loan structures that may improve financial sustainability in the long term may consist of: (a) allowing the term of a loan to change during its life following the classification of the country (IFAD could charge ordinary loan fees once a country is no longer eligible for highly concessional loans, including an accelerated repayment option for the country at that stage); (b) instead of a flat fee of 0.75 per cent, charge a fee that is linked to LIBOR (or even inflation) which could provide a partial hedge to the operating budget; (c) another alternative, could be to link the interest payments of highly concessional loans to the country's GDP growth.¹⁵
303. **Ordinary loans can avoid erosion by inflation**, inasmuch as they are LIBOR-based (thus adjusting for market trends and expectations in inflation) and IFAD can determine the spread rate. When such loans are funded using borrowed funds (currently sovereign borrowings) there is an option to modify loan terms so as to explicitly charge over average cost of funds.^{16,17}

B.5 Treasury income

304. **It may prove difficult in the long run to maintain or increase Treasury income without either significantly increasing the volume of funds under management or increasing the risk parameters.** Assuming that an increase in the risk parameters is not on the agenda, Treasury could increase its assets under management by either managing a larger portion of IFAD's equity or by increasing the amounts of borrowed funds. In the former case, IFAD would have fewer funds available for making loans on concessional terms which is contrary to its mandate.

305. Increasing Treasury assets by borrowing would only make sense if Treasury can invest such funds profitably, i.e. at a better margin than the spread over Euribor or LIBOR it has to pay on its funding. The funding spread greatly depends on IFAD's funding strategy. In turn, borrowing at 'aggressive' levels in the international capital markets will depend on IFAD's future rating. A triple-A rating would enable the institution to borrow at attractive terms in the markets. With an AA rating in contrast to an AAA rating, the terms would deteriorate by 10-20+ basis points or more, depending mainly on maturity and market conditions. If IFAD managed to lock-in a 10 bp positive carry on additional borrowings of US\$1 billion, it would only contribute an additional US\$1 million to the P/L. While a higher positive carry may be possible, it may not be sustainable in the long run. Such small additional revenue is no panacea to solve IFAD's issue of financial sustainability.

C. IFAD's future financial sustainability under various scenarios

C.1 General questions

306. The fundamental question to be addressed by IFAD's members or Management is whether IFAD is satisfied with its current modus operandi and volume of loans which is limited to its equity and a small amount of borrowed funds or whether it should seek to significantly leverage its equity to full capacity through borrowing, and thus increase its outreach to help a greater number of poor rural people move out of poverty. Other DFIs never asked themselves this question and decided from the outset to maximize their investments and separate out programmes for the poorest countries and poorest people into separate lending facilities such as IDA. The lending portfolios of other DFIs would be dramatically reduced without borrowing. Figure 18 below illustrates how small other DFIs would likely be today, had they operated the way IFAD operates.

14 As blended loans charge a fixed rate of 2 per cent p.a., the same considerations apply as for the concessional loans.

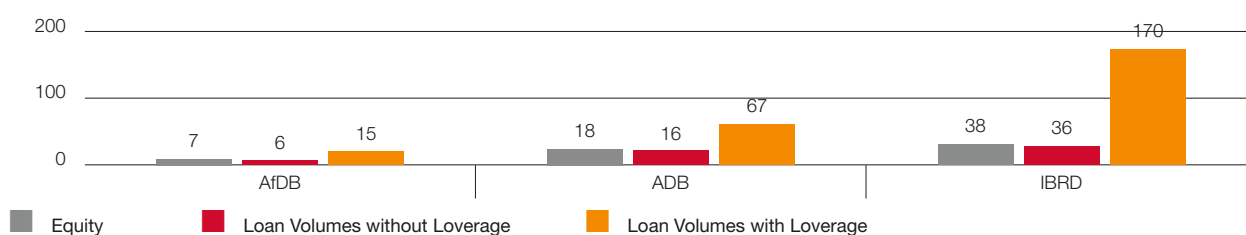
15 Cf Christian Kopf, The Case for GDP Linked Securities; https://www.ecb.europa.eu/paym/groups/pdf/bmcg/170207/Item_1_-_GDP-linked_bonds_and_sovereign_bond_backed_securities.pdf?be259a371b60997ecddf4fa3276631dd

16 The funding cost of the KfW loan is Euribor + 30bp and the cost of the AFD loan is Euribor + 35bp. Note that most demand for ordinary loans is in US\$ and converting the KfW and AFD funding into United States dollar LIBOR would add about 40-50bp p.a. The all-in cost IFAD would thus have to achieve in order to cover this funding is ca. United States dollar LIBOR + 80bp p.a. A loan margin of United States dollar LIBOR + 130 bp would generate revenues of 50bp.

17 Also, the AfDB lends at a margin that takes its cost of funds into account and the formula amounts to LIBOR +/- cost of funds + a margin of 80bp.

FIGURE 18

A hypothetical comparison of IFIs with and without leveraging (Billions of United States dollars)



Source: CLE elaboration from DFI data.

307. Some IFAD members and Management have repeatedly stressed that IFAD is a fund and not a bank. In practice, IFAD operates as a supranational financial institution and enjoys privileges such as: (a) preferred creditor status in its countries of operations; (b) independence from national regulation and financial supervision; and (c) potentially, zero per cent risk weighting of its securities, which is crucial for many institutional investors. Becoming incorporated as a bank would not bring obvious additional advantages.

308. Two institutions recently changed their status: the Dutch DFI, FMO, became a development bank and it is now supervised by the Dutch Central Bank and has to fulfil capital adequacy and other requirements. The Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe became the Council of Europe Development Bank, following a change in its main activities. Neither example provides a compelling reason for IFAD to change its form of incorporation into a bank.

309. **Continuing business as usual?** If IFAD decides to continue its operations as at present, it would depend on regular replenishments to cover the losses or experience depletion of its equity base and reduction in the PoLG. Even assuming that grants and the DSF are either fully covered by donations or reduced to zero, the operating budget would exceed IFAD's revenue generation from loans plus a more variable contribution from Treasury operations. Making annual losses in the range of US\$250 million to US\$400 million per year would require replenishments in equal amounts to preserve the *status quo*, let alone allow the institution to grow. Continuing business as usual would not lead to bankruptcy (assuming that replenishments continue to materialize), but severely limit IFAD's contribution to the 2030 agenda.

C.2 Assessing different scenarios for sustainability

310. While the future evolution of IFAD's financial sustainability cannot be easily predicted, it is possible to run simplified scenarios to illustrate what would be the consequences of different measures regarding the Fund's borrowing and lending policies, including leveraging options. Other measures, such as changes in operating expenses, would also have implications for financial sustainability. However, they are not examined in detail in this report as they do not strictly belong to the financial architecture. The following paragraphs analyse, for each scenario: (i) the profit/loss implications; (ii) the cumulative additional profit/loss; and (iii) the size of the loan portfolio outstanding. The model for the scenarios, developed for this CLE, is a recursive one: it simulates a baseline for replenishment and sovereign borrowing, revenues and expenses of IFAD, based on 2017 mid-year data, starting in 2018 and projects it through 2028 (a 10-year time frame). The simulation could have been run for a longer period but holding assumptions constant over several decades would not have been meaningful.

311. Key assumptions for the model are: (i) all existing loans continue as before, no loan terms changes and no defaults; (ii) inflation: 2.00 per cent p.a. over the next 10 years; (iii) LIBOR: 2.50 per cent p.a.; (iv) treasury assets remain at about US\$1.4 billion and Treasury return is set at LIBOR + 50 bp; (v) operating expenses: US\$156 million p.a., growing at inflation (in case of a major increase in lending, this assumption translates into some improvement in the economies of scale); (vi) replenishment: US\$400 million p.a. (i.e. US\$1.2 billion replenishment per triennium); (vii) DSF: US\$125 million p.a.; (viii) grants: US\$55 million p.a.;¹⁸

¹⁸ The amounts for DSF and grants are assumed to remain static till 2028.

(ix) new loans have been limited (to simplify) to highly concessional: 0.75 per cent p.a. and ordinary: LIBOR + 0.95 per cent p.a. (85 per cent of volume on highly concessional and 15 on ordinary loans);¹⁹ and (x) cost of borrowed funds for IFAD: 25 bp over LIBOR.²⁰ Some of these assumptions depend on the evolution of monetary trends and financial markets and may not be realized in the forthcoming decade. The simulation outcomes are summarized in tabular form further below. Detailed outcomes are presented in annex III in graphic form (with a breakdown of treasury net profit, interests on loans, operational expenses and DSF).

312. The scenarios analysed below differ from IFAD's financial statements as they do not take into account losses or gains from potential foreign exchange movements, income from other sources, depreciations, loan impairments and other items. The concentration on the key factors serves as a general indicator of the balance sheet and P/L dynamics and, specifically, to provide an indication of the magnitude of changes needed to achieve financial sustainability.

¹⁹ https://www.ifad.org/what/operating_model/tags/interest_rates/1966113

No assumption about grace periods has been made. The basic premise is that, generally, reflows are onlent without any great time delay, keeping the amounts of Treasury assets basically constant over the years.

²⁰ The average cost of funds will greatly depend on IFAD's future rating and IFAD's borrowing strategy. Currently, the cost of sovereign borrowings is higher than the 20 bp assumed. If IFAD receives a very strong rating and can establish itself as a premier borrower in the capital markets, an average cost of funds of LIBOR + 20bp may be achievable. However, in the next paragraphs, if scenario F were re-run using LIBOR + 50bp, the results would not change in a substantial manner.

313. The modelling starts with a base-case scenario (table 20-i). This scenario shows that, without any adjustment, and without borrowing, the loan portfolio would continue to increase until 2028 but, due to increasing annual losses, cumulative losses would approach US\$3 billion. Thus, an increasing percentage of the replenishments would be devoted to cover losses. The base-case scenario is then slightly modified (table 20-ii) should LIBOR increase in the future to 3.5 per cent. If global economic growth continues and expansive monetary policies are progressively phased out, LIBOR is likely to increase. This would lead to slightly lower cumulative losses and larger loan portfolio.

314. Next, the model considers several scenarios (*ceteris paribus* on the base-case). These are presented in table 21.

315. **Scenario A** assumes that IFAD makes all future loans on highly concessional terms and would not borrow. IFAD would only generate a net margin of 0.75 per cent on all of its future loans instead of a margin of LIBOR + 95bp on the 15 per cent of reflows and net replenishments that are onlent at ordinary terms. Under this scenario, in 2028 cumulative additional losses slightly increase and the loan portfolio size slightly decreases compared to the base-case scenario.

TABLE 20

Base-case scenario and base-case scenario plus LIBOR increase to 3.5 per cent (US\$, thousands)

(i) Base Case	2018	2023	2028
Net profit	(233 566)	(241 791)	(252 202)
Cumulative additional P/L		(1 656 977)	(2 896 233)
Total lending	6 881 854	7 698 394	8 469 549
(ii) Base Case and LIBOR at 3.5%	2018	2023	2028
Net profit	(214 511)	(220 808)	(229 228)
Cumulative additional P/L		(1 518 069)	(2 646 462)
Total lending	6 900 676	7 816 319	8 696 346

316. **Scenario B** explores the consequence for IFAD of borrowing additional funds at half of replenishment size, i.e. US\$200 million p.a.²¹, and onlending these at highly concessional terms of 0.75 per cent fixed. As the borrowings are at a floating rate but highly concessional loans are at fixed rates, the funds would have to be swapped into fixed-rate funding at a rate in euro of 1.75 per cent p.a. and in United States dollars of 2.50 per cent.²² IFAD would lock in an annual loss of about 2 per cent on these onlent funds. Not hedging the funding, i.e. borrowing floating rate and lending fixed rate would lead to potentially higher losses. Such open interest rate positions would have negative implications for IFAD's credit rating and thus IFAD's borrowing costs.²³ Compared to the base-case, this scenario would imply a larger loan portfolio in 2028 but higher cumulative losses.

317. **Scenario C.** This scenario simulates borrowing (sovereign or market-based) set at half of the annual replenishment (i.e. US\$200 million

p.a.) and onlending these amounts at ordinary terms of LIBOR plus 0.95 per cent. Driven by borrowings and ordinary loans, by 2028 the loan portfolio would further increase compared to scenario B but with lower cumulative losses (lending margins on borrowing are now positive). Reduction in losses would be beneficial but not sufficient for full cost recovery.

318. **Scenario D** is based on Scenario C but assumes that IFAD borrows US\$500 million p.a. and onlends the funds at the level of LIBOR + 0.95 per cent.²⁴ This scenario implies two separate lending windows in order to lend all borrowings at ordinary terms. Again, driven by borrowings and ordinary loans, by the year 2028, the loan portfolio would be over US\$14 billion but with lower cumulative losses compared to scenario C because a higher amount of borrowing would be invested on ordinary loans carrying a positive margin. This would further improve the P/L situation of IFAD but would still fall short of recovering operating expenses.

21 Sovereign or from the market at a rate of LIBOR + 25bp p.a.

22 These rates are assumptions of market rates and can vary significantly.

23 If, for example, LIBOR rose to 5 per cent, the annual additional loss as a result of such lending would amount to US\$90 million by 2028.

24 Allocating loans not using PBAS but project demand would require a change of policy and the opening of a "demand window".

TABLE 21

Summary of simulations A, B, C and D (US\$, thousands)

Scenarios	Scenario Description	Years			Comparison with base case for 2028
		2018	2023	2028	
Scenario A					
Net Profit	No borrowing; all loans are highly concessional	(234 022)	(244 511)	(257 148)	Total lending decreases by 0.3%; Additional cumulative losses increase by 1.1%
Cumulative additional P/L			(1 656 514)	(2 926 068)	
Total Lending		6 881 854	7 691 576	8 444 659	
Scenario B					
Net Profit	Borrow additional funds (volume of half replenishment), onlend at highly concessional terms	(238 429)	(267 319)	(299 473)	Total lending increases by 23.2% and additional cumulated losses increase by 9.8%
Cumul. additional P/L			(1 748 583)	(3 180 267)	
Total Lending:		7 081 001	8 832 316	10 432 786	
Scenario C					
Net Profit	Borrowing additional funds at half of replenishment, onlend at ordinary terms	(232 146)	(233 050)	(235 760)	Total lending increases by 26.9% and additional cumulated losses reduce by 3.4%
Cumul. additional P/L			(1 626 644)	(2 799 249)	
Total Lending:		7 081 854	8 919 986	10 750 091	
Scenario D					
Net Profit	Borrows US\$500 million p.a. and onlend at ordinary terms	(230 016)	(219 940)	(211 749)	Total lending increases by 67.3% and additional cumulated losses reduce by 8.4%
Cumul. additional P/L			(1 581 145)	(2 653 773)	
Total Lending:		6 381 854	10 752 374	14 170 903	

Source: CLE modelling exercise (2017).

TABLE 22

Summary of simulations E and F (moving towards financial sustainability) (US\$, 000)

Scenarios	Scenario Description	Years			Comparison with base case for 2028
		2018	2023	2028	
Scenario E					
Net Profit	Case-base but remove DSF and grants from the balance sheet	(53 556)	(61 791)	(72 202)	Total lending reaches same level but cumulative losses on balance sheet are reduced to a fourth
Cumulative additional P/L			(396 977)	(736 233)	
Total Lending		6 713 580	7 698 076	8 468 906	
Scenario F					
Net Profit	Remove DSF and grants from the balance sheet, borrow US\$500m p.a. and onlend at 2% increased margin on ordinary loans	(43 700)	(4 223)	35 642	Total lending would increase by 71% and the Fund would achieve net positive profit, decreasing cumulative losses
Cumulative additional P/L			(195 089)	(96 651)	
Total Lending		7 382 502	10 842 714	14 501 287	

Source: CLE modelling exercise (2017).

319. **Key lessons** from the above scenarios are that: first, borrowing and lending at highly concessional terms entails increasing the loan portfolio but at the price of generating high cumulative losses. This option would produce further imbalances and uncertainty for future financial sustainability. Second, more borrowing and onlending at ordinary terms leads to increasing the size of the loan portfolio and reducing cumulative losses. Inter alia, these results are due to the fact that a lower proportion of the replenishment would be used to subsidize losses and more of it would be used for increasing the PoLG. Moreover, onlending at ordinary terms the borrowed funds would carry a positive margin under the model's assumptions. Note that a sizeable increase in the borrowing would require two lending windows, as that amount could not be allocated via the PBAS.

C.3 Moving closer to financial sustainability

320. The previous scenarios succeeded in increasing the loan portfolio but did little to improve financial sustainability (cumulative losses would continue to grow in all the above scenarios, albeit at a different speed, because interest rate margins are too low for cost recovery). For this reason, two additional scenarios are proposed (table 22). In these, some parameters are changed from the base-case assumptions in order to "solve" for financial sustainability.

321. **Scenario E. Removing DSF and grants from the balance sheet.** Under this scenario, payment for the DSF and grants would be held in separate accounts and taken out of IFAD's balance sheet. Replenishments for IFAD's operations would be subsequently reduced to US\$220 million. The

remaining amount to cover the DSF and grants (assumed to amount to US\$180 million p.a.) would need to be deposited in a separate fund to finance DSF and grants. The "cost" to IFAD members would be the same as before (US\$400 million per year). Under this scenario, the loan portfolio would increase up to the same level as the base-case scenario, IFAD would still run an annual loss but this would be dramatically reduced.

322. **Scenario F. Removing DSF and grants from the balance sheet and increasing the margin on ordinary loans.** As a further development of scenario E, in order to cover IFAD's operating expenses of US\$156 million p.a. (growing at 2 per cent inflation rate) IFAD would need to increase its loan margins on ordinary loans. Under scenario F, IFAD would: (i) invest reflows 85:15 highly concessional: ordinary; (ii) charge a margin of 0.75 per cent on highly concessional, and LIBOR + 2.0 per cent on new ordinary loans;²⁵ and (iii) borrow US\$500 million p.a. and onlend the funds for ordinary loans at the same terms as above. By the year 2028 the loan portfolio would reach US\$14 billion and, soon after 2023, IFAD would break even.²⁶ Lending at a margin of 2 per cent over LIBOR would still constitute lending at favourable terms in

²⁵ As IFAD's borrowings both from other DFIs or from the capital markets is likely to be at a margin above LIBOR on average, it is important to reflect this in the interest rate charged on ordinary loans which thus has to be LIBOR + IFAD's borrowing cost + its margin to cover operating expenses and capital charges, etc.

²⁶ If we assume a borrowing cost of 50bp instead of 25bp, IFAD would break even only in year 2025 and by 2028 the net profits would be US\$21 million instead of US\$35 million.

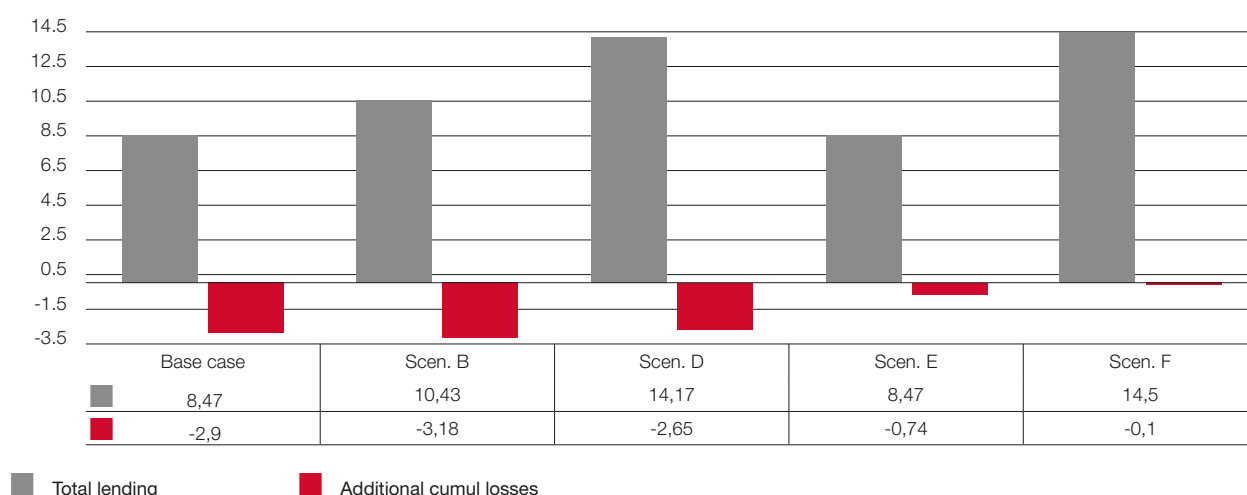
comparison to the terms achieved by sovereign borrowers in the capital markets.²⁷

323. **Summary and key observations from the simulation exercise.** The above scenarios, while being the outcome of a simplified modelling exercise, provide a sense of the magnitude of the issues that IFAD would face when seeking to expand the size of its operations while trying to improve financial sustainability.
324. Inter alia, the scenarios show that, trying to simultaneously increase borrowing (i.e. leverage) while onlending borrowed funds at highly concessional terms, would increase the loan portfolio but aggravate losses. Such a strategy would not be implementable as IFAD's credit rating would deteriorate, driving up costs or even preventing IFAD from borrowing from the markets. Instead, significantly increasing leverage while onlending at ordinary terms (this may require a second lending window) would increase the loan portfolio and only slightly reduce losses.

325. In order to move closer to full cost recovery (financial sustainability), IFAD would need two main measures. First, it could remove DSF and grants from the balance sheet and create a separate account (as described earlier in this chapter) to finance them, whereby DSF and grants could be fully paid up ex ante, instead of being funded through a pay-as-you-go system as at present. Removing this situation of uncertainty may improve credit rating assessment opportunities.
326. Second, IFAD could also consider increasing its lending margins on ordinary loans. While there may be some initial sensitivity from borrowing members (as discussed in chapter IV), this would still be more favourable for sovereign borrowers than the existing terms on capital markets.
327. The above discussion is visualized in figure 19, comparing the base-case scenario with scenarios B (borrowing and onlending at highly concessional terms), D (increased borrowing and onlending at ordinary terms), E (removing DSF and grants from the balance sheet) and F (i.e., E plus increasing the margin on ordinary loans).

27 Compare with the spreads of 6.20 per cent for LICs; 3.42 per cent for LMICs; 3.15 per cent for UMICs mentioned in chapter IV.

FIGURE 19
Modelled total lending and additional cumulative losses in 2028 (US\$, billions)



Source: CLE modelling exercise (2017).

Key points

- This evaluation defines financial sustainability as the extent to which an institution has financial resources to operate without regular recourse to donors/shareholders, protect its equity capital and cover its operational costs and loan-loss provision.
- In the past ten years, conditions for financial sustainability at IFAD have not been met. Income from loans (structurally low) and Treasury investments have not covered operating expenses. Until 2007, IFAD was able to cover expenses mainly due to large revenue from Treasury investments, which is not feasible under the current market trends. IFAD experienced continuous losses since 2010 which have led to some capital erosion.
- Operating expenses as a ratio to the total assets are significantly higher for IFAD than for other DFIs. IFAD has dis-economies of scale compared with other institutions and operates in areas that are more difficult to reach (design and implementation support are costlier per dollar lent). Relative to other DFIs, IFAD allocates a lower proportion of its administrative budget to “operational” work. Measures to reduce expenses, to increase the size of the PoLG (or ideally on both) would lead to a decline of IFAD's operating expense ratio.
- DSF, as well as grants, are important factors in determining the size of losses. While IFAD Member States have agreed to compensate for the foregone principal of DSF, this will happen in the decades to come and is not legally binding, causing high uncertainty.
- This may be a detrimental factor to high credit rating. Options to address this issue may be: (i) for members to pre-pay the principal of DSF (and grants) by establishing a separate fund from the replenishment; or (ii) to make the compensation for DSF principal legally binding. In addition, an innovative approach could be to set clauses for shifting borrowing conditions for future loans (when country classification changes in the future, so would lending terms change).
- Financial scenarios run by this evaluation provide three key findings: first, increasing IFAD's leveraging (borrowing) and onlending borrowed funds at highly concessional terms is not feasible as this would increase losses (this would prevent IFAD from borrowing at acceptable terms). Second, by significantly increasing borrowing while onlending at ordinary terms, IFAD would increase the loan portfolio and reduce losses compared to the base-case scenario but would not achieve cost recovery. Third, in order to move closer to achieve full cost recovery, IFAD would need to establish a mechanism to pre-pay the DSF principal and increase its lending margins (i.e. its interest rates) on ordinary loans.
- The main conclusion of the scenario analysis is that there is a possible path to move closer to financial sustainability while increasing leverage and total lending. However, this requires significant changes to the current financial architecture in order to remove factors of uncertainty and to raise the portfolio yield.

VII. Conclusions and recommendations

A. Conclusions

A.1 Relevance of the financial architecture

328. **Since IFAD9, IFAD's financial architecture has been under strain and could not support an expanding financial portfolio of loans and grants for rural development and poverty reduction.** One of the implicit assumptions of IFAD's financial architecture was that Member States would continue to provide replenishment contributions at a level that supports the expansion of the PoLG. However, the international context poses challenges. While total ODA and agricultural ODA increased between 2006 and 2016, there has been a decline in donor contributions to the concessional funds of other multilateral DFIs, such as in IDA and AfDF in recent years.
329. Between IFAD6 and IFAD8, replenishments have increased considerably but, since IFAD9, they have declined at constant prices. Income from Treasury investments decreased, following the low interest rate trends in the financial markets. As a result, IFAD has become increasingly reliant on replenishment contributions, supplemented by "sovereign borrowing". This will become increasingly apparent in the future as the financial footprint of DSF grows.
330. Achieving Agenda 2030 and the SDGs will require a significant increase in funding, in the order of US\$3.3 trillion to US\$4.5 trillion per year. MDBs have leveraged their equity by issuing bonds on the international capital markets since their inception and the G20 are now encouraging MDBs to reform their financial architectures in order to more efficiently leverage the equity in their balance sheets, while maintaining their high credit rating, something all MDBs are now doing.
331. **Efforts to diversify the pool of financing resources have palliated some of the shortcomings of the financial architecture. However, the alternatives have costs, constraints and risks.** Following generous replenishments, the PoLG grew between IFAD7

and IFAD8 but, from IFAD9, the replenishments and reflows were insufficient to finance the PoLG. To fill that gap, IFAD began introducing modest amounts of debt through sovereign borrowing from the Spanish Trust Fund, KfW and, most recently, from AFD. However, the demand for financial assistance from many borrowing Member States exceeds IFAD's capacity to provide financing even with the additional funds mobilized through sovereign borrowing. Moreover, the KfW borrowing terms are such that IFAD can only onlend the proceeds on ordinary terms and in euro without incurring financial losses. This limits the number and categories of borrowing countries.

332. CPLs have the potential to offer lending terms that are more favourable to IFAD than the sovereign borrowing undertaken to date. However, they are unlikely to provide a sufficient volume and a predictable stream of funding to meet needs.
333. Complementary contributions and supplementary funds are additional to the replenishment pledges and this CLE found no evidence that complementary contributions replace core replenishment contributions. Their combined volume in the period from 2007 to 2016 was slightly over half of the volume of replenishment contributions. In spite of the normative differences between complementary contributions and supplementary funds, in practice there are many similarities in their usage. An important difference, however, is that no commission is levied on complementary contributions to cover their administrative costs. The latter are subsidized by IFAD's administrative budget. On the other hand, a commission is paid to IFAD for supplementary funds but at a rate that is lower than in comparator organizations.
334. Cofinancing and national counterpart funding add important resources from international organizations and national partners. International cofinancing has slightly declined and national counterpart funding has slightly

increased in the past ten years. The level of funding of MDBs in agriculture and the amounts committed by bilateral and multilateral sources for climate change-related projects suggests that there are further opportunities for scaling up the results of IFAD-funded interventions.

335. IFAD Management is considering, for IFAD12, the possibility of further leveraging its equity resources by borrowing on international capital markets. The latter provide volumes, liquidity, the range of currencies and interest-rate bases that are necessary for DFIs to structure their balance sheets. However, the challenge is to obtain a high credit rating.

A.2 Effectiveness of the financial architecture

336. **The current system to allocate financing resources based on performance (PBAS) has merits in terms of transparency. However, there are challenges regarding its future application, particularly if IFAD increases its sovereign borrowing or accesses capital markets.** The benefits of introducing the PBAS and the enhancement it brought to IFAD's credibility have been recognized by the dedicated CLE on IFAD's PBAS published in 2016. However, many countries are interested in borrowing more from IFAD than their PBAS allocations and some would consider borrowing additional amounts on hardened terms. It is a challenge to satisfy these demands with the current allocation system.
337. In case of a large increase in borrowing, either from sovereign sources or from international capital markets (should IFAD decide to take this direction), only ordinary-term loans would carry an interest rate margin capable of covering borrowing costs. The challenge is that the PBAS constrains IFAD's ability to increase ordinary lending relative to other types of lending. To overcome this challenge, Management has considered an option, on a preliminary basis, to further reform the PBAS under IFAD12, establishing a second window, dedicated to ordinary loans, to be allocated through a risk-based system rather than a country needs and performance-based system.
338. **There is general appreciation from borrowing countries for IFAD's project financing modality. However, compared to other DFIs, IFAD offers a limited range of financial products and flexibility of lending terms.** The current loan modalities and conditions (notably the long-term amortization plan) allow borrowing members to finance a wide range of activities to support rural development and poverty reduction. However, other DFIs offer far more flexibility in terms of the choice of maturity, grace period and amortization schedule, including accelerated repayment loan clauses. Regarding the currency of lending, other DFIs introduced options other than SDRs many years ago while single currency borrowing has been introduced at IFAD only recently. Many countries manage their national debt in United States dollars (or euro) and would appreciate the flexibility to select the currency of their choice, including, in some cases, their national currency.
339. Considering IFAD's current priorities and needs, the CLE finds that some financial instruments are missing, such as: (i) products to facilitate scaling up of development results; (ii) products to support integrated strategies for managing the risk of natural disasters and fragility; and (iii) a facility for prefinancing of project implementation preparedness. Borrowing countries have some appetite for financial products that support agricultural trade finance and hedging for agricultural commodity price risk. However, these may require non-sovereign lending instruments and careful analysis of possible options before being operationalized.
340. The Agreement Establishing IFAD prevents the Fund from engaging in non-sovereign lending. In 2017, IFAD's Executive Board agreed on a proposal to establish the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund a company with external funding, to support medium and small agribusinesses and rural finance intermediaries through loans (SIF). Experience from prominent social impact investors suggests that the current proposal may face two risks: (i) high overhead costs; and (ii) problems of NPLs and significant financial losses.
341. **The IFAD terms and conditions for lending, including for ordinary loans, have been consistent with focus on rural poverty.** This CLE finds that the country needs, policies, priorities and the evolution of the national context have been stronger determinants of the contents of project design than the loan terms. In general, there is no evidence that hardening of lending terms has reduced project focus on poverty reduction.
342. Project performance and results are not correlated with lending terms in a significant manner. In the past ten years, IFAD has provided 71 per cent of its funding on highly concessional terms or as DSF. While countries eligible for these terms typically score low for governance and rural sector performance, on average, their

project performance and results are at par with countries that borrow on ordinary terms.

A.3 Efficiency of the financial architecture

343. **While the replenishment consultation is a well-established process, there is space to improve the representation of selected members, as well as the efficiency of the consultation.** The replenishment process is critical in establishing the overall level of resources available for lending and for operating expenses as well as in shaping the strategic focus of IFAD. A number of improvements have been made over the years in the representation, focus and organization of the replenishment process. At present, however, List C has difficulty in ensuring a balance of representation from the poorest borrowing countries and the growing number of MIC donors, whereas List A can be over-represented if all eligible members take their seats.

344. **The current internal and external systems of financial oversight are geared to a low risk environment, characterized by a relatively low level of borrowing. However, should IFAD shift to higher leveraging and sophistication of Treasury instruments, these systems may not be sufficient.** This CLE found that the financial information and data provided to the governing bodies is sufficient, albeit fragmented in its presentation, involving several documents. The capacity of IFAD's governing bodies for financial oversight is limited by the make-up of national government delegations in Rome and lack of financial background of many members of the Board and Audit Committee.

345. Internal control systems are missing elements that maybe become more important as IFAD's financial architecture becomes increasingly more complex. For example, IFAD does not have an asset and liability committee which is standard in other DFIs. This committee would have the responsibility to review matters such as financial, liquidity and risk policies, funding, asset and liability management, hedging and other Treasury activities. The role and responsibilities for risk management are defined in broad terms in IFAD's Investment Policy Statement and rest with the President, without a clear delegation of authority and responsibility.

346. IFAD's policies regarding the investment of Treasury assets are less detailed than in comparator organizations. Because of higher risk tolerance, IFAD's Treasury investments have higher yields and volatility than those of other DFIs. However, IFAD has adopted a more conservative risk appetite in recent years.

347. **IFAD has made limited use of hedging instruments until recently and is exposed to foreign exchange fluctuations and risks.** DFIs use derivatives for risk management purposes, notably to swap borrowings and loans denominated in other currencies into the base currency, manage interest rate risks on borrowings and loans, hedge future replenishment contributions and provide options to borrow in some national currencies.

348. Replenishment pledges in currencies other than United States dollars pose a foreign exchange risk for IFAD if, for example, they are denominated in a currency that depreciates vis-à-vis the dollar. Since IFAD's financial accounts are denominated in United States dollars and loans are denominated in SDRs, IFAD is also exposed to foreign exchange losses related to loans, as a result of foreign exchange fluctuations of the SDR against the United States dollar. IFAD also has some exposure to foreign exchange risk in the administrative budget because not all of its expenditures are in United States dollars. Other DFIs (i.e. EBRD, AfDB) have hedged their administrative budget.

A.4 Financial sustainability

349. **The current financial architecture fails the test of financial sustainability, at least as far as the latter is generally understood in the markets. This has implications for the use of the replenishment proceeds and for the future size of the PoLG.** IFAD has incurred financial losses every year since 2010 (except in 2017 and only due to favourable currency exchange movements), resulting in an erosion of its retained earnings and capital base. From a financial standpoint, the main contributing factors to this loss situation have been: (a) the low yield of the portfolio, dominated by highly concessional loans with fixed interest rates; (b) the DSF foregone principal and interest as well as the grant programme; and (c) the current low interest environment that suppresses yields on Treasury investments.

350. In addition to the above financial factors, there are also non-financial factors affecting cost recovery. These factors relate to the structural size of IFAD's operational expenses in relation to the size of the PoLG. As already highlighted by past evaluations such as the CLE on IFAD's institutional efficiency (2013), this CLE also notes that IFAD's operating expense ratios are higher than in comparator multilateral DFIs. These are due to lack of economies of scale (given IFAD's lower PoLG) and the specific nature of IFAD's operations involving interventions in areas that are remote and costly to serve. Any measure to reduce the size of expenses or to increase the size

of the PoLG (or a combination of both) would also reduce operating expense ratios, other things being equal.

351. Losses lead to capital erosion and need to be compensated for by replenishment infusion. Thus, an increasing proportion of the replenishment receipts is used to subsidize losses and to fully pay for operating costs rather than to increase the size of the PoLG. As IFAD plans to increase its leverage and thus the efficiency of its use of capital, the implications for profit and losses must be considered. The simulations run for this evaluation show that there are possible measures to increase the size of the PoLG (through higher leveraging) and bring IFAD closer to financial sustainability. A scenario of full cost recovery would require an increase in the interest rate margin from the loan portfolio, notably from ordinary loans.
352. **The current arrangements of DSF, and to some extent the regular grants, contribute to IFAD's deteriorating profit and loss situation and lack of financial sustainability. This is a matter of concern, particularly if IFAD seeks to obtain a high credit rating.** DSF appears as an expenditure on IFAD's financial accounts in the period when conditions for the release of funds are met. This may be balanced in later years once donor countries compensate IFAD for the foregone principal. However, according to the present system, compensation will be on a "pay as you go" basis over a period of 40 years and with a 10-year grace period. While IFAD Member States have made and reaffirmed a commitment to repay the foregone principal (but not the foregone interest), this agreement is not legally binding and is vulnerable to future policy reversal in the concerned donor countries. This uncertainty, if unresolved, may hamper a high credit rating.
353. In sum, as highlighted by this evaluation, **four decades after its establishment, IFAD's financial architecture requires important reforms.** These reforms concern the mobilization of financial resources, the system for allocating financial resources, the financial products available to respond to the need and demand of borrowing Member States, the financial sustainability of the Fund as well as internal and external financial governance features. Accomplishing these reforms will be essential in order to fulfil IFAD's unique mandate of rural poverty reduction and contribute to the SDGs in a more effective and efficient manner.

B. Recommendations

Recommendation 1

354. Address the problem of systematic financial losses which leads to substantial capital erosion.

- IFAD needs to address the long-term effects and risks on its balance sheet connected to the DSF and regular grants. Reducing the degree of future uncertainty would improve IFAD's situation in terms of both financial sustainability and when seeking a credit rating. All DSF and grants could be moved to a special purpose fund that is not consolidated on IFAD's balance sheet. At each replenishment, the accounts of this fund would be refilled and further DSF and grants would not be approved until the accounts have been replenished. As an alternative, IFAD may consider turning future compensation for the DSF principal into a legally binding agreement.
- In order to move closer to financial sustainability, it will be important to improve the returns on IFAD's loan portfolio. A measure to be considered is to increase the interest rate margins for ordinary loans, and this can be done to a level that remains favourable compared to prevailing market rates for borrowing by sovereign entities, as shown by this evaluation.
- In order to support the above fundamental changes to IFAD's financial architecture, this CLE reiterates the importance of cost-efficiency measures that have been recommended by past evaluations (notably, the CLE on IFAD's institutional efficiency). Measures to reduce expenses, increase the PoLG, or a combination of both, would improve economies of scale and reduce operating expense ratios.

Recommendation 2

355. **Provide more flexible conditions for existing financial products and prepare for the introduction of new products.** IFAD should conduct feasibility studies on both broadening choices on terms and conditions of current loans and on introducing new financial products. These studies will need to review current practices in other international DFIs and assess their adaptability to IFAD's context.

- Broaden the options on existing financial products. IFAD should offer more flexibility regarding the length of the grace period, maturity period and the amortization schedule, including the accelerated repayment option as is currently provided by some MDBs. IFAD could also offer the option of selecting of currency for new loans (e.g. euro, United States dollars), including in some cases national currencies, appropriately priced, if IFAD can generate such funding either through borrowing in the market or via cross currency swaps.
- Adjusting the terms of new loans to reflect changes in a country's classification. For new loans and DSF, IFAD could introduce a clause allowing loan terms to be adjusted to reflect changing country classifications (thus hardening or softening of terms, depending on the direction of change). In particular, the lending conditions for DSF or highly concessional loans would be applied as long as a country classification remains in that category.
- Preparing the introduction of new financial instruments. This may include: (i) loan products designed to facilitate scaling up, drawing from experience of other DFIs and streamlining project approval procedures (e.g. results-based lending, multitranche financing facility or IDA scale-up facility); (ii) instruments to better respond to natural disasters or situations of fragility; and (iii) instruments to pre-finance project implementation preparedness and reducing project start-up time.
- The SIF would benefit from further refinements. For financially sustainable results and a viable exit strategy and to enhance efficiency, the SIF could emphasize working through intermediaries (e.g. in the finance sector or marketing, whether these be microfinance institutions, investment funds, banks, mobile phone companies or more apex-level marketing or processing companies) rather than processing and administering many small loans at the quasi-retail level.

Recommendation 3

356. **Revise the financial allocation system.** IFAD's plans to substantially increase leverage through borrowing would mean that the totality of resources cannot be lent through the existing PBAS only. Responding to this challenge would consist of creating a second lending window for proceeds from borrowing (e.g. sovereign loans; bonds issued on international markets). This window would be for ordinary loans (i.e. LIBOR-based, single currency with a margin that compensates IFAD for the risk and administrative costs), separate from the PBAS, administered in a manner that is consistent with IFAD's asset liability management strategy. The PBAS could then be used to allocate concessional funds only. In line with practices in other DFIs, IFAD could allow selected Member States to borrow amounts in excess of their PBAS allocation on terms that are similar to ordinary loans.

Recommendation 4

357. **Conduct preparatory work for potential access to capital markets.** Learning from the IDA case, it may not be strictly necessary for IFAD to be profitable to tap markets. However, a high credit rating is a *condicio sine qua non* and would in all likelihood require a restructuring of IFAD's financial architecture, by addressing those factors that create uncertainty. In particular, it would be fundamental to address the issues of DSE, grants and foreign exchange swings. IFAD would need to obtain a rating from at least two of the main rating agencies that have experience in rating DFIs (i.e. Standard & Poor's [S&P], Moody's and Fitch/IBCA) and early initial discussions may be helpful in order to be able to address any fundamental concerns that the credit rating agencies may have.

Recommendation 5

358. **Use hedging instruments to better manage foreign exchange risks.** To reduce risks connected with foreign exchange fluctuations, IFAD could consider hedging future replenishment pledges into United States dollars either fully or at certain stages during the encashment process. Pledges are not legally binding but have had a fair degree of certainty of being realized. In addition, IFAD could consider offering its clients the possibility of converting their existing portfolios of SDR-denominated loans to United States dollars or euro-denominated loans. In this context, IFAD may consider the pros and cons of undertaking currency swaps into the United States dollar for the remaining SDR loans to hedge the foreign exchange risk. Finally, IFAD could also hedge non-United-States-dollar administrative expenditures (e.g. staff salaries) or operate a split budget, holding the latter in euro.

Recommendation 6

359. **Strengthen IFAD's financial governance.** This includes aspects of both the external and internal governance; in particular:

- Enhance the capacity of the IFAD governing bodies for financial oversight. As the complexity of IFAD financial architecture increases with the introduction of borrowing, further leverage and hedging, it may be beneficial to extend the terms of reference and role of the audit committee and to specify minimum qualifications of individuals for audit committee membership.
- Elaborate more detailed guidelines for asset and liability management and for risk management. IFAD would benefit from more detailed policies and guidelines for asset and liability management and for liquidity management. These would cover the use of derivatives, swaps, futures and options as hedging mechanism, as well as the hedging of future replenishment payments and budgetary items, and liquidity. An ALCO should be reconstituted to periodically review these policies and their application. Moreover, should IFAD significantly increase borrowing, it would need to strengthen the internal risk management function which could be tasked with overseeing Treasury and other risk factors such as treasury market risks (interest rate, foreign exchange, derivatives, credit, spreads, and liquidity), treasury operational risk (including middle and back office and IT), operational risk of lending and of any fund managed.

Recommendation 7

360. **Strengthen the efficiency of the replenishment process.**

- In the replenishment consultation, there is a need to improve the balance of representation between List A and List B countries, the poorest borrowing countries and the growing number of List C donors.
- Complementary contributions and supplementary funds should be treated in the same way. Both may be announced in headline replenishment figures, but both should be subject to service charges so as to cover the administrative costs related to them, which are currently subsidized by IFAD's regular administrative budget. IFAD Management also needs more flexibility for acceptance of supplementary funds for minor amounts in line with the agreed strategy and criteria, including from private sources.

Annex I.

Evaluation framework

Relevance

KEY QUESTION: How relevant has IFAD's financial architecture been in mobilizing the necessary funding to maximize IFAD's contribution to reducing rural poverty?

How relevant was/is the financial architecture in mobilizing financial resources and offering them to Member States to increase investment in rural poverty reduction and development?

How relevant were the design and assumptions underpinning the financial architecture? Are these still valid?

What needs to be done to enhance the future relevance of IFAD's financial architecture in the context of the changing international development context and appetite for replenishments?

What are the implications of increased financial leverage on IFAD's mission, operations and risk management? Would IFAD be more relevant in terms of reducing rural poverty if it: (i) retains the current financial architecture; or (ii) changes the financial architecture to expand or widen its financing activities?

What changes would be required in the Agreement Establishing IFAD and other legal documents?

Effectiveness

KEY QUESTION: How effective were IFAD's financial architecture and instruments used in supporting IFAD's contributions to reducing rural poverty?

Were the instruments (loans, grants, reimbursable technical assistance) effective in serving rural development demands from different countries (e.g. in countries eligible for DSF grants and highly concessional, blend and ordinary loans) and in delivering development results?

Was IFAD's financial architecture effective in mobilizing sufficient resources to meet the demand for IFAD's financing and allow the PoLG to grow without incurring disproportionate risks? How did IFAD manage its risks? (treasury investment risks; foreign exchange risks related to replenishment pledges/payments; risks related to lending in SDRs; inflation risks).

Were the volume, pricing, tenor and flexibility of financing appropriate and would new products and pricing/terms enhance IFAD's effectiveness by offering more flexibility to borrowers and generating additional income to IFAD?

Do the products and instruments influence the type of projects included in COSOPs?

How did IFAD's financial strategies contribute to mobilizing additional financial resources beyond core replenishments (e.g. complementary contributions; supplementary funds; cofinancing)?

How have the financial policies and procedures supported the financial architecture and risk management and what needs to be strengthened?

Does the experience gained by comparator organizations suggest alternatives that IFAD should consider to strengthen its financial architecture?

Indicators

Data sources

Timeline of key events in the evolution of IFAD's financial architecture from 1978 to the present.

Analysis of corporate policies, strategies and IFAD replenishment documents.

Responses to the Financial Architecture CLE E-survey.

Analysis of selected evaluation reports, especially the Replenishment CLE.

The degree that the financial architecture mobilized financial resources to deliver the corporate objectives set out in key documents (e.g. Articles Establishing IFAD; IFAD replenishment papers; medium-/long-term strategies).

Interviews with Executive Board members, IFAD management and staff.

Ability to respond to requests for increased financial assistance from client countries.

The Financial Architecture CLE E-survey.

Trends in the PoLG and gaps between the size of PoLGs and IFAD replenishments.

Interviews with clients during selected country visits.

IFAD's ability to meet the needs of all borrowing countries ranging from the poorest to the MICs.

Data extracted from IFAD's systems.

Financial support provided to groups of countries.

Analysis of risk management practices.

Analysis of comparator institutions.

Risk-adjusted returns.

Shareholders' view about: (i) IFAD's structure and focus on providing loans exclusively to sovereign entities; (ii) cofinancing; (iii) mobilizing thematic or geographic trust funds; (iv) growing IFAD's balance sheet by borrowing funds; (v) providing other forms of support to allow IFAD to borrow long-term funds to increase lending to MICs.

Lessons from MDB for risk management.

Under what conditions would countries be willing to borrow from IFAD on harder terms for projects that are focused on the rural poor?

Influence of key events in the evolution of IFAD's financial architecture on its effectiveness.

Interviews with Executive Board members, IFAD Management and staff.

Trends in the size and composition of PoLGs.

Interviews with clients during selected country visits, MDBs and members of the Council on Smallholder Agriculture Finance (CSAF).

Examining whether the demand for IFAD financing exceeds the level of funding allocated through the PBAS and an analysis of the actual use of PBAS allocations.

The Financial Architecture CLE E-survey.

Analysis of IFAD's pricing, terms and choice of currency, including benchmarking to those of MDBs and the price and terms of bonds issued by borrowing Member States.

Data related to IFAD's terms and pricing and those of comparator organizations and bond pricing and credit ratings for borrowing Member States.

Assessment of policies that define which countries are eligible for which types of assistance.

Analysis of corporate policies, strategies and documents including IFAD replenishment documents.

Analysis of evaluation report ratings by type of IFAD financial support: (i) DSF grants; (ii) 50 per cent DSF grants/50 per cent highly concessional loans; (iii) highly concessional loans; (iv) blend loans; (v) ordinary loans.

Comparison of project objectives approved before and after a change in country classification in selected countries.

Data extracted from IFAD's systems.

The degree that various policies, instruments and processes enhanced or detracted from the effectiveness of IFAD's financial architecture and decisions to include projects in COSOPs.

Analysis of evaluation project and Project Status Report (PSR) ratings and GRIPs/Flexcube project implementation data.

Analysis of governance and RSP indicators.

Trends in the amount of international and domestic cofinancing leveraged during the replenishment periods by type of financing.

Analysis of the range of IFAD's products and comparison to those offered by MDBs.

Comparison of results for projects with and without international cofinancing by type of financing.

Data extracted from IFAD's systems related to the PoLG, approvals, cofinancing and other funding.

Comparison of results for projects with and without grant financed loan components by type of financing.

Regression analysis of the use of PBAS allocations for IFAD7, IFAD8 and IFAD9.

Analysis of general financial policies, credit risk management for lending, credit risk management for treasury, market risk management, treasury policies, borrowing, lending products, pricing, liquidity; etc.

Model simulations of various scenarios

Responses to the Financial Architecture CLE E-survey.

Analysis of:

- DSF, including reimbursing IFAD for foregone principal and interest reflows
- Pros and cons of one PBAS covering all financial support or two PBASs, one for concessional financing and one for ordinary lending allocated depending on the ALM
- Sovereign borrowing framework and procedures for managing the associated risks.
- Single currency lending, use of SDRs and procedures for managing the associated risks.

Analysis of relevant comparative information for: (i) the World Bank/IFC/IDA; (ii) AfDB; (iii) AsDB; (iv) IDB; (v) MDB's provision of private-sector agriculture financing, including GAFSP; (vi) bilateral organizations that have changed their financial architecture (e.g. AFD and FMO); (vii) GAVI, an organization that uses innovative financing and includes non-government representatives on the Board; and (viii) CSAF members.

Review of MDB graduation policies and relevant reports on the pros and cons of graduation policies.

Evaluation criteria**Evaluation questions****Efficiency**

KEY QUESTION: How efficient is the financial architecture?

Policy for investing treasury assets, borrowing funds, asset and liability management. Are risk management and the middle and back office adequately staffed to support treasury and lending?

Is IFAD's IDB; IT system adequate and does it allow the correct reporting of risks and P/L?

Is the governance and financial organizational framework adequate to support IFAD's financial architecture?

The oversight framework, including the guidance and control provided by the governing bodies, including the Executive Board, the Governing Council and the Audit Committee.

Organization of the governing bodies and related decision making and voting procedures, Executive Board representation and membership in Lists A, B and C.

Organizational structure for the internal financial management and procedures, IFAD's financial indicators and reporting procedures and systems.

Are IFAD's supporting systems for the financial architecture appropriate?

What proportion for IFAD's operating costs were recovered from loan charges and profits from Treasury investments?

Estimated incremental costs to support a new financial architecture.

Timing and phasing to implement the required changes.

Financial Sustainability

KEY QUESTION: How financially sustainable is IFAD?

What are the effects of the mix of financial products, terms and conditions on IFAD's short- and long-term financing (e.g. optimality of the balance sheet, use of financial leverage, amount of liquidity held, revenue generated from management of liquid assets and interest rate/service charges)?

Do the profits from loan margins and Treasury investments cover operating costs and help build a buffer of provisions to deal with IFAD's financial, credit and operational risks?

What are the implications of external factors (e.g. interest rates and ODA trends on IFAD's sustainability)?

Can IFAD operate in the long term without further financial support from its shareholders? How does IFAD need to be structured to be financially sustainable in the long term with and without further sizable member contributions?

What are the needs arising from a possible new financial architecture to enhance IFAD's financial sustainability and risk management?

Given the increased cost of funds that IFAD may face, what lending rates/credit margins would IFAD have to charge to operate sustainably?

Does IFAD have the right financial structure to successfully broaden its financial infrastructure?

What would be the optimal capital structure and balance sheet in terms of equity and debt?

Would a private sector window generate a profit to enhance financial sustainability at an acceptable level of risk?

What organizational changes would be required to deal with added risk factors associated with changes in the financial architecture, sources of financing, products and terms?

What are the lessons from other comparable organizations that could help enhance IFAD's financial sustainability and risk management?

Indicators

Data sources

Financial efficiency indicators (e.g. P/L; risk-return analysis liquidity ratio; cost of funds).

Data extracted from IFAD's systems, for comparator organisations and from international bond issues and ratings and reports prepared by credit rating agencies.

Optimal debt-equity ratio for IFAD to obtain a high credit rating from key rating agencies?

Interviews with Executive Board members, IFAD management and staff.

Appropriate separation of front office and middle and back office and risk management.

Interviews with clients during selected country visits and officials from comparator institutions.

Risk management framework.

The Financial Architecture CLE E-survey.

Analysis of trends in the recovery of IFAD's operating costs from loan charges and profits on treasury operations.

Findings from relevant IOE evaluations, particularly CLEs and selected CPEs.

Adequacy of IFAD's corporate governance and organizational framework related to financial architecture.

Examination of the experience gained by comparator organizations that is relevant to IFAD and its financial architecture.

Adequacy of incentives for members to contribute to IFAD's financing.

Analysis of the trends in IFAD's operating costs, loan revenues and profits from treasury operations.

Appropriate roles of structures for risk management, asset and liability management, loan approval and pricing.

Financial modelling.

Adequacy of IFAD's human resources/skills, treasury tools and systems related to financial architecture.

Review of IFAD's corporate governance and procedures for determining voting power.

Responses to the Financial Architecture CLE E-survey.

Analysis of IFAD's organizational structure, human resources/skills and systems supporting IFAD's financial architecture.

Responses to the Financial Architecture CLE E-survey.

Interviews with Executive Board members, IFAD Management and staff.

Possible trends in ODA and the implications for future IFAD replenishments.

Interviews with government officials during selected country visits and officials from comparator institutions.

Key indicators of IFAD's past and expected future financial performance. A PoLG was judged to be cash-flow sustainable if, by projecting all the cash inflows and outflows resulting from the past, current and future PoLGs if IFAD's liquidity never fell below its minimum liquidity requirement (60 per cent of the annual projected gross disbursements).

Data extracted from IFAD's systems and for comparator institutions.

Comparison of inflows (e.g. loan reflows, treasury investment income, compensation for foregone DSF principal and interest reflows; contributions through IFAD replenishments; other contributions; sovereign loans; market borrowings) and outflows (disbursements for loans and grants for the past, current and future PoLGs; uncompensated foregone DSF principal and interest reflows; repayment of sovereign loans; repayment of capital market borrowings; disbursements for operating costs).

The Financial Architecture CLE E-survey.

OECD DAC trends in ODA in absolute terms and as a percentage of GDP and government budgets.

Key indicators of IFAD's future financial performance under different scenarios and assumptions.

Analysis of key IFAD policies (e.g. Policies and Criteria for IFAD Financing; products, pricing and terms; DSF; PBAS) and possible new policies.

Proportion of contributions likely to be counted as IFAD equity by rating agencies.

Past IFAD replenishments and assumptions about future replenishments and the demand for IFAD financing.

Benchmarking IFAD against the MDBs.

Possible changes in IFAD's financial architecture.

Model simulations of various scenarios going forward.

COLOMBIA

The programme entitled Building Rural Entrepreneurial Capacities - Trust and Opportunities aims to tackle inequality and poverty issues in rural financial services. Its target group is composed of approximately 50,000 rural households living in extreme poverty in Colombia. In the picture, Rosamila Mina Gongora (51 years old) from the 'Pollos Chamon' group breeds chicken and sells seafood at 'la Galeria', a fish market in Guapi, Cauca.

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Annex II.

Glossary of technical terms

Additional Resource Mobilization (ARM)	Launched by the President of IFAD in May 2012 to implement Governing Council resolution 166/XXXV (2012), the ARM initiative explores possibilities for mobilizing new resources beyond the replenishment to finance agricultural and rural development that are in line with IFAD's operational, financial and legal structures.
Advanced commitment authority (ACA)	The ACA allowed IFAD to use its stable and predictable loan reflows as a basis for commitment authority to make loans and grants. ACA was used for the first time in 2001, with the maximum amount available through ACA equal to the total loan reflows expected for the subsequent three years. This maximum had increased to seven years for IFAD8 and IFAD9.
Asset liability management (ALM)	ALM is the management of financial risks, arising mainly from an institution's mismatches between its assets and liabilities of interest rates, foreign exchange denominations and maturity profiles.
Cash flow sustainable	For IFAD9 steps were taken to ensure that financing projections were cash-flow sustainable meaning: (i) for all PoLG scenarios, IFAD's liquidity (i.e. the balance of its cash and investments) should never breach the minimum liquidity requirement stipulated in its Liquidity Policy over the next 40 years; and (ii) the donor contribution requirement for a given PoLG scenario should be sustainable in future replenishments.
Core replenishment contributions	Contributions that are additional resources to the resources of the Fund. These contributions are made without restriction as to their use and carry voting rights.
Debt/equity ratio	(a) The ratio of (i) principal portion of total outstanding debt to (ii) total contributions plus General Reserve (expressed in percentage terms); (b) Calculated as (total outstanding debt principal/contributions + General Reserve); (c) The threshold to be complied with by IFAD shall not be higher than 35 per cent.
Debt service coverage ratio	(a) The ratio of (i) principal and interest to all IFAD lenders in a given year to (ii) total yearly loan reflows from IFAD borrowers as per latest audited financial statements; (b) Calculated as total debt service (principal and interest)/(average of the previous year's actual total loan reflows and the current year's projected total loan reflows); (c) The threshold to be complied with by IFAD shall not be higher than 50 per cent.
Demand for IFAD resources	Demand for IFAD's resources for projects funded by IFAD's programme of loans and grants.
Equity ratio	(a) The ratio of (i) total contributions plus General Reserve to (ii) total assets (expressed in percentage terms) (b) Calculated as (total contributions and General reserve)/total assets) (c) The threshold to be complied with by IFAD shall not be lower than 60 per cent.
Existing lending terms	See document GC 36/L.9 – Review of the Lending Policies and Criteria.
Financial statements	The consolidated and unconsolidated financial statements (including a balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the accounts of IFAD, prepared in accordance with International Financial Reporting Standards on a yearly basis and in nominal terms semi-annually.
Framework agreement	An umbrella agreement covering the terms and conditions of the total amount borrowed.
General Reserve	IFAD's General Reserve as established by Governing Council resolution 16/IV.

Governance structures	As defined in the Agreement Establishing IFAD, EB 2015/114/R.17/Rev.
IFAD Member State	State Membership of IFAD is open to any state that is a member of the United Nations, any of its specialized agencies or the International Atomic Energy Agency.
IFAD's minimum liquidity requirement	As defined in the Liquidity Policy (http://www.ifad.org/gbdocs/eb/89/e/EB-2006-89-R-40.pdf).
IFAD resources	IFAD's resources consist of external resources (replenishment contributions from Member States) and internal resources.
IFAD total equity	Total contributions plus General Reserve.
Internal resources	Internal resources consist mainly of loan reflows, investment income and future net flows in the amount determined under the Sustainable Cash Flow approach.
Investments	The investments at amortized costs as well as investments at fair value as stated in IFAD's balance sheet in accordance with IFRS.
Liquidity ratio	(a) The ratio of (i) cash-in-hand and in banks plus investments to (ii) total assets, expressed in percentage terms; (b) Calculated as (cash-in-hand and in banks + investments)/total assets; (c) The threshold to be complied with by IFAD shall not be lower than 5 per cent.
Loan products	See document GC 36/L.9.
Periodic reports	The Financial Statements, IFAD Annual Report and financial ratios reports.
Programme of loans and grants (PoLG)	The annual total of IFAD loans, Debt Sustainability Framework (DSF) grants, and grants for approval in a specific year. This also includes grants financed under the Adaptation for Smallholder Agriculture Programme (ASAP) (as of 2012) and loans provided under the KfW Development Bank loan (as of 2014).
Programme of work (POW)	This includes the PoLG plus other funds managed by IFAD from the Spanish Food Security Cofinancing Facility Trust Fund, Global Environment Facility/Least Developed Countries Fund, Global Agriculture and Food Security Program (GAFSP), European Commission and European Union, in addition to bilateral supplementary/complementary grants. In addition, the POW includes cofinancing (net of cofinancing managed by IFAD and domestic cofinancing) (see GC.38/L.6, page 7, table 3).
Recipient countries	IFAD Member States entitled to borrow from IFAD.
Total assets	The aggregate of IFAD's balance sheet assets in accordance with IFRS or in nominal terms, and off-balance sheet engagements in accordance with IFRS or in nominal terms.
Total debt service (principal and interest)	The interest received from loans plus the loan principal repayments, as defined in the consolidated cash flow statement of IFAD.
Total loan reflows	The cash flows from financing activities as defined in the Financial Statements of IFAD.
Sovereign States	IFAD Member States and Sovereign States that are not members of IFAD.
State-supported institutions	All state-owned or state-controlled enterprises and development finance institutions of IFAD Member States.

Notes: Financial ratios are calculated regularly on the basis of IFAD's unconsolidated and consolidated financial statements. All financial ratios are based on figures calculated in accordance with the International Financial Reporting Standards (IFRS) and all applicable laws.

Source: Adapted from IFAD, Sovereign Borrowing Framework: Borrowing from Sovereign States and State-Supported Institutions. 2015.

Annex III.

Detailed outputs from financial scenario modelling (graphs)

FIGURE 1
Base-case scenario

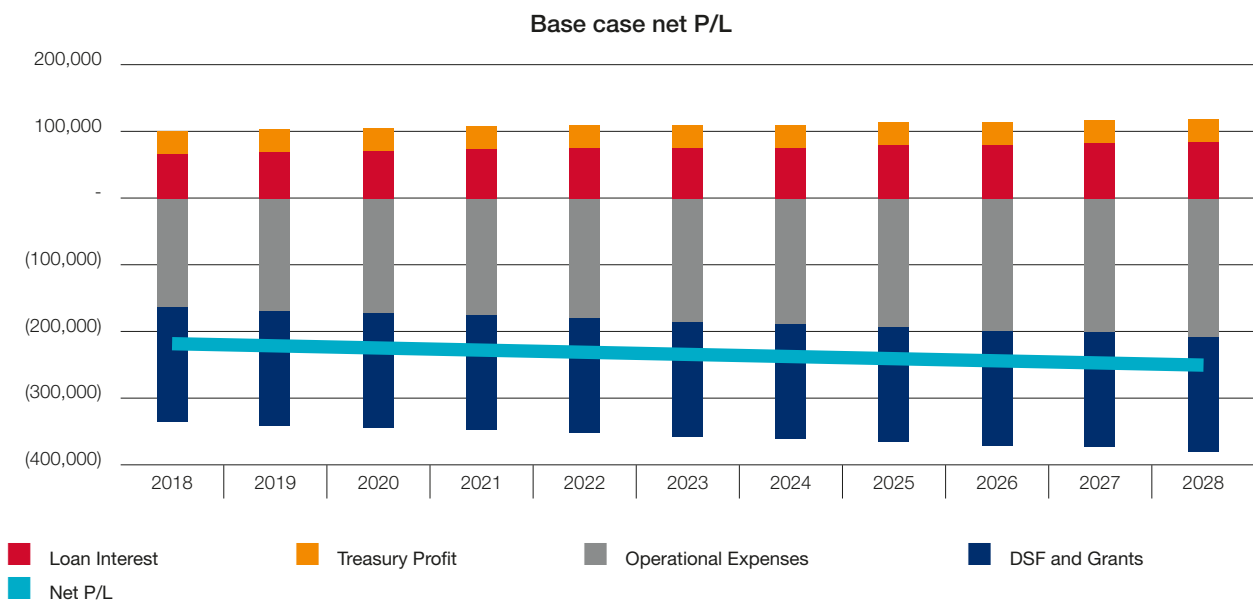


FIGURE 2
Scenario A. Assuming all loans are concessional and no-borrowing

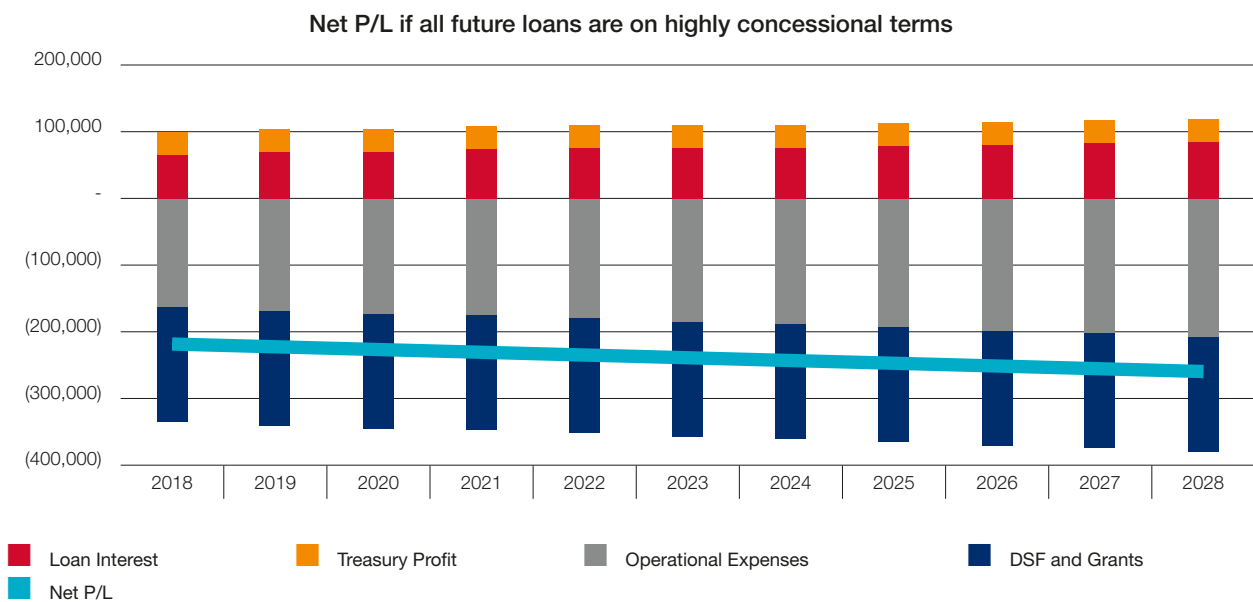


FIGURE 3

Scenario B. Borrowing and onlending proceedings on highly concessional terms

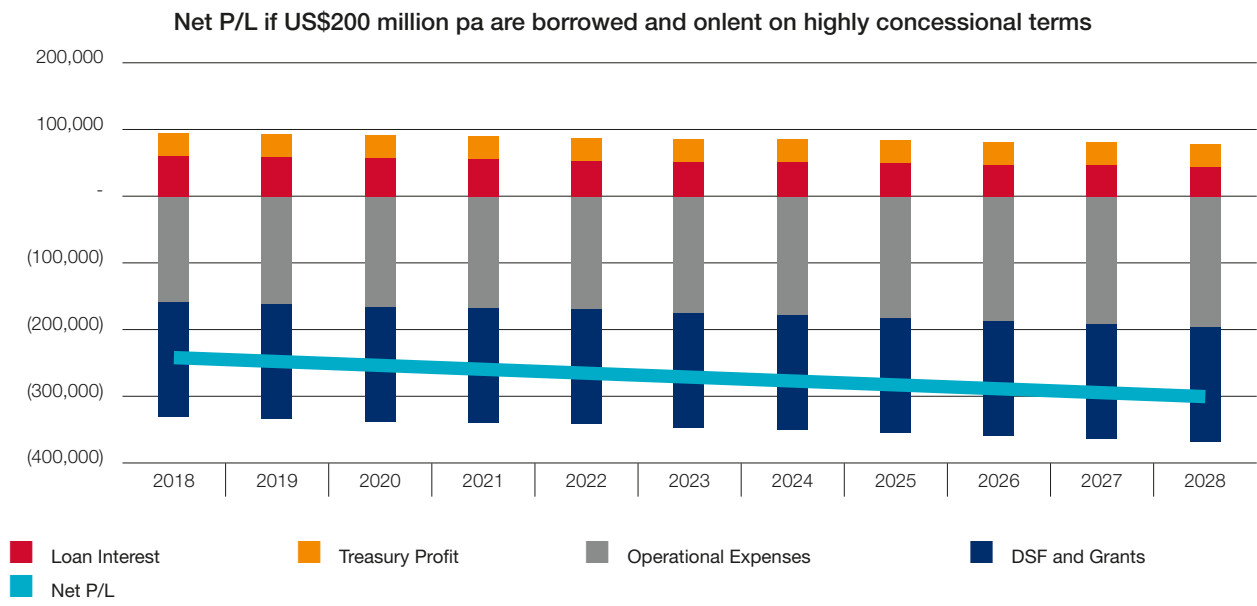


FIGURE 4

Scenario C. Borrowing and onlending proceedings at ordinary terms

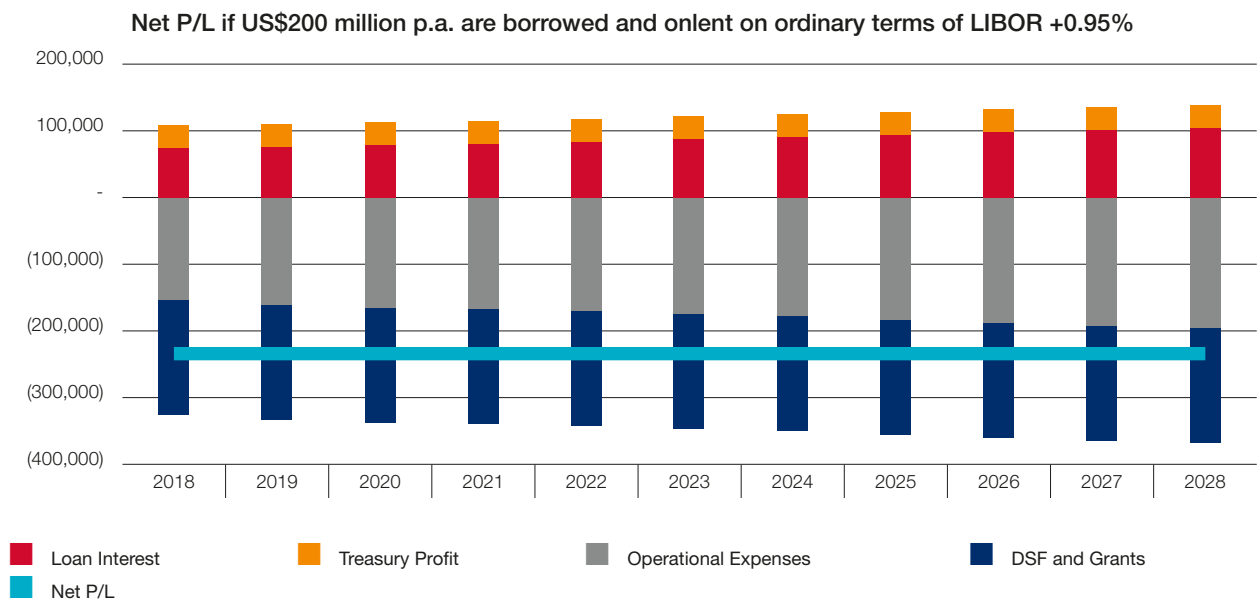


FIGURE 5

Scenario D. Increasing borrowing and onlending proceedings at ordinary terms

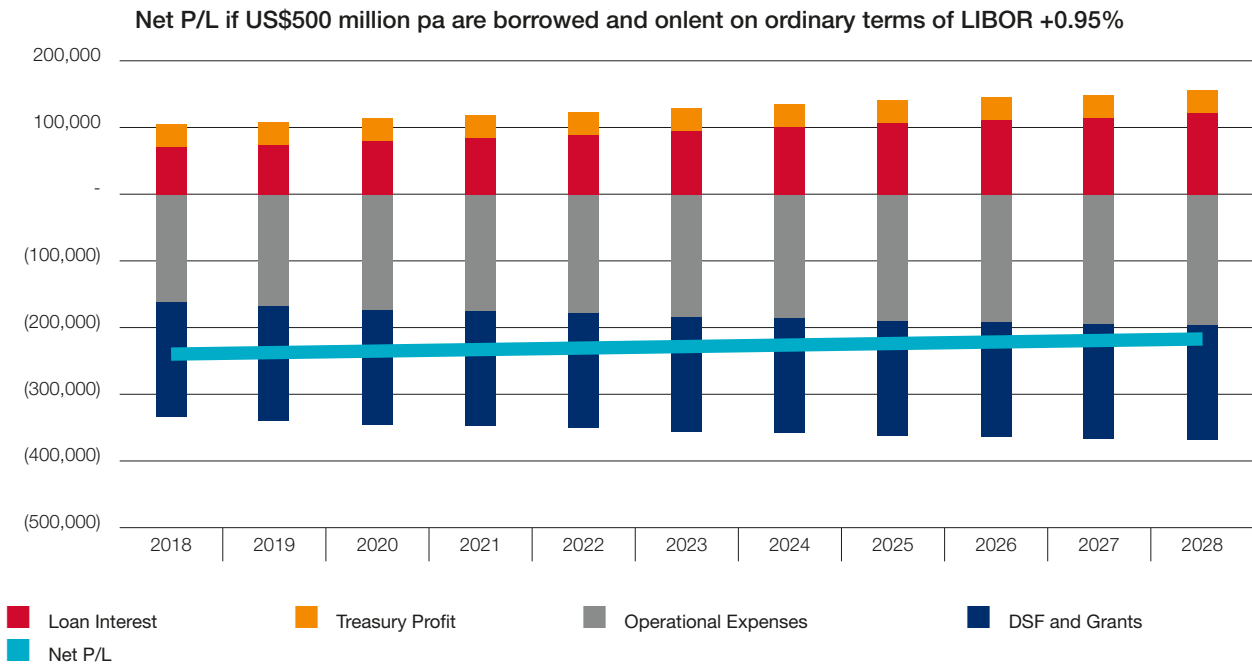


FIGURE 6

Scenario E. Taking the base case but removing DSF and grants from the balance sheet

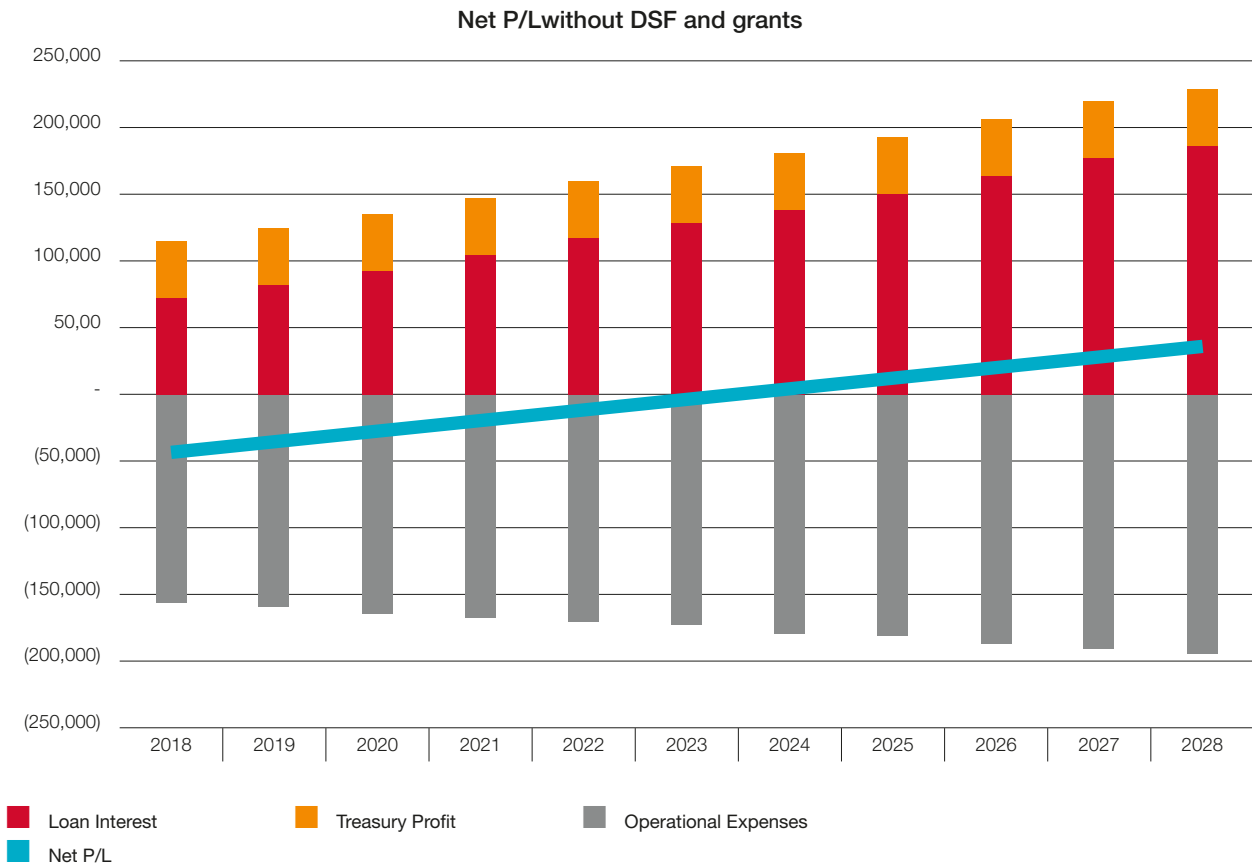
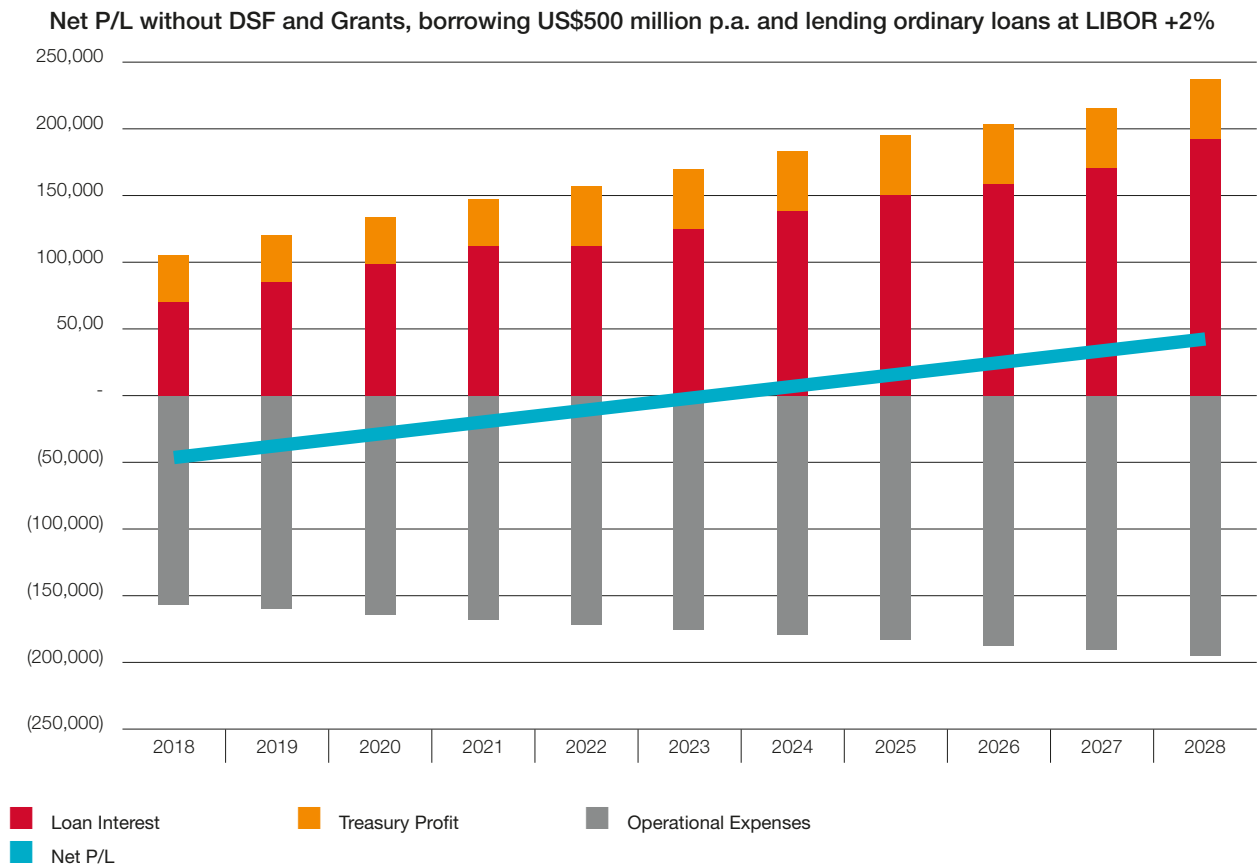


FIGURE 7

Scenario E. Remove DSF and grants from the balance sheet and increasing sizeably the lending margins on ordinary loans



Source for all the above graphs: CLE modelling exercise (2017).

Annex IV.

Loans and Debt Sustainability Framework (DSF) grants by type

- IFAD policies state concessional loans must be provided on more favourable terms (i.e. in terms of interest rate, maturity period, fees, etc.) than borrowers can obtain from the market.¹ The policy on concessionality states that developing Member States that have graduated from IBRD may receive concessional loans from IFAD subject to the availability of funds, including funds that IFAD obtains from sources other than replenishment. That approach allows IFAD to coordinate its lending to concessional borrowers with the different sources of funding (e.g. the Spanish Food Security Cofinancing Facility Trust Fund).
- IFAD provides financing on the terms shown in table 1 below.²

¹ IFAD. Review of the Lending Policies and Criteria. 2012.

² The Policies and Criteria for IFAD Financing states "No commitment charge shall be levied on any loan."

TABLE 1
IFAD Lending Terms

	Interest rate	Maturity	Grace period	Service charge	Observation
DSF grants					Financing is provided as a grant but IFAD compensated by donors based on the amortization schedule of a highly concessional loan
Highly Concessional	Interest free	40 years	10 years	0.75 per cent per annum	
Blend	1.25 per cent per annum	25 years	5 years	0.75 per cent per annum	
Ordinary	A variable interest rate plus a spread. The interest rate is based on the six-month LIBOR rate for the five SDR currencies (Euribor rate for EUR) weighted by the SDR weights. SDR weights are based on SDR units and exchange rates published by IMF.	15 to 18 years	3 years. The Executive Board may vary the grace period.		The IBRD variable spread for loans with maturity greater than 15-18 years is applied.
Hardened	Interest-free	20 years	10 years	0.75 per cent per annum	Discontinued in 2012
Intermediate Terms	An interest rate of one half of the IFAD Reference Interest and have a 20-year maturity, including a 5-year grace period. This product was discontinued in 2011	20 years	5 years. The Executive Board may vary the grace period.		Discontinued in 2012

Source: IFAD. Review of the Lending Policies and Criteria. 2012.

TABLE 2

Summary of loans and DSF grants, 1978 -2016 (Millions of United States dollars)^A

	1978-2006	2007-2009	2010-2012	2013-2015	2016	1978-2016
DSF Grants						
Amount		402	681	457	106	1 645
Number of Grants		43	50	33	8	134
Highly Concessional Loans						
Amount	6 826	949	1 315	1 284	292	10 666
Number of Loans	545	55	61	62	11	734
Hardened Loans						
Amount		9	51			59
Number of Loans		1	4			5
Intermediate Loans						
Amount	1 606	171	197			1 975
Number of Loans	133	9	6			148
Blend Loans						
Amount				250	159	409
Number of Loans				13	7	20
Ordinary Loans						
Amount	951	187	442	594	181	2 353
Number of Loans	69	17	24	25	9	144
Total						
Amount	9 382	1 717	2 686	2 584	737	17 106
Number of Loans and DSF Grants ^{B,C}	747	125	145	133	35	1 185

Notes: A: Amounts are from the President's report for each programme or project approved by the Executive Board.

B: A programme or loan may be financed by more than one loan or DSF grant.

C: Fully cancelled or rescinded loans are not included.

Source: extracted from IFAD's grants and investment projects systems.

Annex V.

Key policies supporting IFAD's financial architecture

A. Heavily Indebted Poor Countries (HIPC) Debt Initiative

1. Since 1996, IFAD has been involved debt relief and debt management in Member States by participating in the Heavily Indebted Poor Countries (HIPC) Debt Initiative. The objective of the HIPC Debt Initiative is to reduce the net present value of the debt of poor countries that carry unsustainable levels of debt to a level that will no longer compromise their ongoing economic reforms and rural poverty eradication efforts. Five principles guided the design of the HIPC Debt Initiative: (i) addressed countries total debt sustainability with a reliable exit strategy and involved all creditors to be effective and equitable; (ii) assisted only countries with a track record of economic policy and structural reform and are making efforts towards poverty eradication; (iii) built on the existing mechanisms of debt relief; (iv) preserved the financial integrity of the IFIs involved; and (v) secured a continued flow of new external financing on appropriately concessional terms from IFIs and from the private sector.
2. For IFAD, the HIPC Debt Initiative involves two financial factors: (i) agreed reduction of debt repayments from debtor countries to IFAD; and (ii) payments to IFAD's loan fund accounts to compensate for the associated loss of the financial reflows. IFAD participated in the HIPC Debt Initiative on a country-by-country basis.
3. IFAD established an operational policy framework for its participation in the HIPC Debt Initiative and a Trust Fund. The main issues that IFAD addressed during the preparation of each country-specific HIPC Debt Initiative were: (i) the country's policy focus on rural poverty eradication; (ii) the strength of the country's poverty eradication and rural development programme; and (iii) the sensitivity to rural poverty eradication of the ongoing structural adjustment efforts. During replenishments, IFAD's compensation for the debt write-off for HIPC countries is shown separately.

B. Performance-based Allocation System (PBAS)

4. Introducing the PBAS had important implications for the financial architecture. The PBAS formula incorporates measures of both country needs and country performance.¹ With the PBAS, IFAD abandoned the provision in para 21 of the Lending Policies and Criteria that IFAD "will not seek to develop a pattern of country allocations; it will, instead, designate a number of priority countries for programming purposes."
5. Prior to the PBAS, IFAD's funding was allocated by region, based on country needs, with Africa receiving about half of the funding. Under the PBAS, Asia and the Pacific region had the highest allocation (33 per cent), followed by East and Southern Africa (22 per cent), West and Central Africa (19 per cent), Near East, North Africa and Europe (14 per cent) and Latin America and the Caribbean (12 per cent). Although regional lending shares were not included in the PBAS design, 41 per cent of total funds were allocated to sub-Saharan Africa. If including the countries in North Africa, then Africa received about half of the financing.
6. The PBAS CLE concluded that although some issues needed to be addressed, the PBAS resulted in a more transparent, flexible and predictable resource allocation system and contributed to greater fairness in the allocation of IFAD's resources across developing Member States than was the case with the allocation system that was in place before 2003. IOE found that the PBAS was generally well tailored to IFAD and enhanced IFAD's credibility.

¹ IOE found that 65 per cent of a country's allocation is driven by country needs and 35 per cent by country performance. See IOE, 2016. Corporate-level evaluation of IFAD's performance-based allocation system.

7. IFAD enhanced the PBAS in 2017, with guidance provided by the Executive Board, and drawing on operational experience and the PBAS CLE findings. The major changes included: (i) increasing the focus on rural poverty; (ii) rebalancing the weights of the rural sector performance variable and the portfolio performance and disbursement variable within the country performance component; (iii) adding IFAD's Vulnerability Index; and (iv) adjusting the weights and exponents of variables to increase stability and predictability. These changes were designed to increase allocations to the countries with the greatest needs and that perform the best. The expectation is that during IFAD11, 90 per cent of IFAD's core resources will be allocated to LICs and LMICs, 50 per cent to Africa, and between 25 and 30 per cent to the countries with the most fragile situations. The new PBAS will only be applied during IFAD11 as it is recognized that further changes may be needed if IFAD changes its financial architecture during IFAD12 to increase leverage through market borrowing.
 8. Relative to the other MDBs, IFAD is unique in that all loans, DSF grants and country grants, including ordinary lending and the proceeds of sovereign borrowing, are allocated through the PBAS.² The other MDBs use their PBASs to allocate only concessional funds and their ordinary lending is allocated on the basis of asset liability management considerations.³ Consequently, MDBs have been able to grow their market-related portfolios by increasing their lending to MICs and other countries that were able to absorb the increased lending. By growing that part of their portfolios, future MDB profitability increases. This will generate funds that can be contributed to their soft windows, technical assistance funds, reserves and finance operating costs.
- part of IFAD's financial architecture because it governs the nature of the financial assistance provided to eligible countries. IFAD uses the IMF/World Bank debt sustainability country classification⁴ to determine which countries are eligible for DSF grants.
 10. Based on the country classification, IFAD provides financial support allocated by the PBAS on the following basis: (i) for countries with low debt sustainability: 100 per cent DSF grants; (ii) for countries with medium debt sustainability: 50 per cent DSF grants and 50 per cent highly concessional loans; and (iii) for countries with high debt sustainability: 100 per cent highly concessional loans.⁵
 11. Under the 2007 DSF policy, IFAD's Member States expressed a commitment "to compensate IFAD within a **pay as-you-go mechanism** as adopted under the fourteenth replenishment of the International Development Association" (underscoring added). IFAD was to be compensated for the financial impact from the DSF in a way that reflected the repayment schedule of the loans that were converted into DSF grants. Since IFAD's first DSF grant financed projects were approved in 2007 and included 10-year grace periods, the impact of the foregone reflows will materialize from 2017 onwards. Since the PoLG has increased, and the 10-year grace periods will end for a larger number of projects in future years, the impact of the DSF on IFAD's financial position will grow progressively from 2017 onwards. As of 31 December 2016, the estimated foregone reflows until 2056 totalled SDR 1.26 billion, which will increase as more DSF grants are approved.
 12. There are several issues related to IFAD's compensation for the DSF: (i) during the IFAD10 replenishment consultations, Members agreed to compensate IFAD for foregone principal payments but not for foregone service charges; (ii) for IFAD10 only five countries made incremental pledges to cover the DSF; and (iii) some countries that were part of IFAD7 and IFAD8 were not part of IFAD10, raising the issue of how their share of DSF compensation would be covered if they are not part of IFAD11 and subsequent replenishments. As part of the IFAD11 replenishment, IFAD prepared a paper on its experience and that of other MDBs on the

C. Debt Sustainability Framework (DSF)

9. The Debt Sustainability Framework (DSF) was developed to complement the HIPC initiative. Since 2007, the DSF has been an important

² In principle, about 95 per cent of the PoLG is allocated through the PBAS, with the remaining 5 per cent set aside for the Regional and Global Grants programme.

³ AfDB has identified seven to eight AfDF-only countries that are allowed to borrow more than their PBAS allocation on non-concessional terms if they have the demand and if their public debt is sustainable. Similarly, IDA has now offers hard IDA loans to selected countries that are incremental to the PBAS allocation and are subject to similar conditions as at AfDB.

⁴ The World Bank and the IMF assessed the debt sustainability of 38 countries of which 35 are receiving debt relief. Sudan, Somalia and Eritrea are not yet eligible.

⁵ Since most of the DSF eligible countries are in Africa, the greatest impact of the DSF among MDBs is on IDA, AfDB and IFAD.

DSF reflecting actual and estimated net losses in service charge payments and proposals on future approaches to compensation. If IFAD were not fully reimbursed for the foregone DSF reflows it would have an adverse impact on IFAD's financial sustainability, thus putting downward pressure on the feasible size of future PoLGs.

D. Single currency window

13. In the past, all IFAD loans were denominated in SDRs. Most countries in APR and LAC receiving ordinary loans would prefer to borrow in dollars, while the economies and currencies of some countries in the Near East, North Africa and Europe region and the West and Central Africa region are more closely linked to the euro. IOE received feedback that some countries were unhappy at being required to borrow in euros when their projects were financed from the proceeds of the KfW loan. IFAD has made progress in introducing the single currency lending option. The initial US\$200 million ceiling was reached in the first year of IFAD10. It will eventually reach 100 per cent of the IFAD10 resource envelope.
14. As long as single currency loans are made in United States dollars, and out of equity, IFAD would not face foreign currency risk as the institution's equity is denominated in United States dollars. Loans made in another currency would either have to be funded in that currency or hedged back into United States dollars via a cross currency swap. Equally, borrowings denominated in non-United-States dollars would have to be either swapped back into United States dollars or on-lent in that currency. Consistent with the practice of MDBs, IFAD should have the ability to lend in a currency that is demanded by, and appropriate for, the client's project. If IFAD received attractive funding in Japanese yen, market conditions suggest that it might be challenging to find natural takers of yen-denominated loans. If that proves to be the case, IFAD would have to swap such funding into United States dollars. Funding denominated in Chinese renminbi, however, could be interesting for a number of IFAD's Asian borrowers.

E. Sovereign Borrowing Framework (SBF)

15. The IFAD9 replenishment was not sufficient to finance the planned US\$3.1 billion PoLG. To fill that gap, in 2014 IFAD negotiated a loan of up to

EUR400 million with KfW to be used to finance loans on ordinary terms and allocated through the PBAS.⁶ Although the KfW loan facility was approved prior to the SBF, all the financial covenants of the SBF are being monitored for the KfW facility. Based on lessons learned from implementing the KfW facility, IFAD is strengthening its in-house capacity to manage forthcoming SBF loans.

16. The SBF was approved in 2015 for IFAD to borrow from sovereign states and state-supported institutions, thus providing a mechanism to mobilize additional resources through debt to be made available on concessional terms during IFAD10 and beyond. Sovereign borrowing is to be: (i) demand-driven with consideration given to the terms (i.e. interest rate, currency denomination, and grace and maturity periods); (ii) incremental to, and not a substitute for, the contribution of Members to replenishments; (iii) condition free (i.e. no beneficiary, purpose, theme or geographic area restrictions); (iv) allocated through the PBAS if the sovereign borrowing is expected to fund the PoLG⁷ and in accordance with the Policies and Criteria for IFAD Financing; and (v) satisfy the principles of financial sustainability in isolation (or "self-funding"). The anticipated effect of the sovereign borrowing framework is to increase IFAD's PoLG by approximately 1:1. The Executive Board approved a sovereign loan from the Agence Française de Développement in 2016.
17. IFAD has established prudential norms to manage the impact of sovereign borrowing: (i) debt/equity: not higher than 35 per cent; (ii) liquidity ratio: not lower than 5 per cent; and (iii) debt service coverage ratio: not higher than 50 per cent. IFAD has also adopted risk mitigation measures for sovereign borrowing related to term risk, interest rate risk, currency risk, default risk, liquidity risk, operational risk, conflict of interest risk, and other risks that IFAD faces in its normal operations (e.g. reputational, environmental and social) that are mitigated through IFAD's existing measures.

⁶ The establishment of the Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund) in 2010 gave IFAD some experience managing borrowed funds. Because the Spanish Trust Fund resources are considered cofinancing, they are not allocated through the PBAS and can be used to increase IFAD's support in particular countries/ areas. The grant element of the Spanish Trust Fund facilitates allowed IFAD to onlend to Member States at concessional rates. However, at least 50 per cent of the Spanish Trust Fund will be allocated under IFAD's ordinary terms.

⁷ The framework also envisions the possibility that sovereign loans could be used to increase the PoLG above the level decided during replenishments.

F. The concessional partner loan framework

18. Concessional partner loans (CPLs) have been introduced in IDA and AfDB as a financing instrument to expand the funding base beyond core contributions. CPLs are attractive to some donors because of financial constraints faced by some and the willingness of others to increase their development assistance.
19. CPLs are provided at an interest rate well below market rates and have long maturities and grace periods. There are no restrictions on the use of the proceeds of CPLs as they are used as part of the overall pool of funding that includes grant contributions, loan reflows and investment income. An important principle of CPLs is additionality, i.e. CPLs are additional to core contributions and do not substitute for core contributions. Voting rights accrue based on the grant element of the CPL.
20. In October 2017, the Executive Board approved the Concessional Partner Loan (CPL) Framework, effective in 2018 when the Governing Council adopts the IFAD11 Resolution including necessary amendments to the Agreement Establishing IFAD related to the CPL framework.⁸
21. Key elements of the CPL framework include:
 - (i) **additionality**: Member States providing CPLs will provide core contributions equal to at least 80 per cent of a minimum grant contribution benchmark and target a total grant equivalent contribution (which includes core contribution and the grant element of the CPL) to at least their minimum grant contribution benchmark. The minimum grant contribution benchmark will be equal to 100 per cent of the average core contribution of the preceding two replenishment periods;
 - (ii) **use**: The proceeds of CPLs will finance the PoLG and thus there will be no restrictions on their use;
 - (iii) **allocation**: CPL proceeds will be allocated through the PBAS on terms comparable to or higher than those applicable to the CPL with priority being given to loans provided on highly concessional and blend terms.
 - (iv) **pricing and terms**: an all-in SDR equivalent coupon of up to 1 per cent and maturities of 40 years including a 10 year grace period or 25 years including a five-year grace period;
 - (v) **currencies**: SDR or any SDR basket currency (United States dollar, euro, Japanese yen, British pound sterling and Chinese renminbi);
 - (vi) **amounts**: CPLs must be US\$20 million or more;
 - (vii) **grant element**: The grant element is calculated as the present value of IFAD's financial benefit of the CPL compared to a loan on market terms;
 - (viii) **voting rights**: The amount of the grant element of the CPL determines the Member's voting rights associated with the CSPE in accordance with the voting rights formula;
 - (ix) **risk management**: The proceeds of CPLs will be subject to the same risk management measures as are used for the SBF.

⁸ Article 4, section 5(c) of the Agreement Establishing IFAD states that contributions are to be made in the form of cash, promissory notes or obligations payable upon demand. The IFAD11 Resolution will propose an amendment to recognize the grant element of CPLs as type of contribution and the associated voting rights.

Annex VI.

Financial architecture reforms in multilateral development banks (MDBs)

A. The context

1. Some factors constrain direct comparisons of IFAD to the MDBs. Importantly, IFAD was established as a fund within the United Nations system whereas the MDBs were established as banks and were expected to operate at a profit. MDBs provide both financing raised in the international capital markets by issuing bonds and on concessional terms. The MDBs have generally high (AAA – AA) credit ratings.¹ Funds for concessional lending are raised through periodic replenishments, reflows and transferring net operating surpluses. The administrative budgets are financed from profits on the MDBs' operations. The MDBs have generally highly sophisticated treasury and financial management systems.
2. All MDBs are much larger than IFAD, operate in many sectors and have larger average loan sizes. Size and economies of scale matter. These factors undermine the relevance of MDB comparisons with IFAD using standard indicators of efficiency (e.g. operating costs as a ratio of the active portfolio; the size of the portfolio per staff; disbursements per staff; cost per dollar disbursed; etc.).
3. IFAD's main product is sovereign project financing. MDBs have many more products (e.g. large structural/sector adjustment loans; counter-cyclical support facilities; programmatic approaches; multi-tranche financing facilities;

quick disbursing policy loans; sector-wide approaches; trade finance; programs for results). All MDBs also have a private sector window, either within the institution, or in a sister organization, that provide non-sovereign risk priced loans and equity investments. In addition to providing their own financing, MDBs also mobilize cofinancing from official and commercial sources and offer various forms of guarantees and types of credit enhancement products.

4. Although most MDBs offered loans denominated in SDRs when they were created, they shifted to providing appropriately priced loans in currencies requested by their clients 20 to 30 years ago for their market-based lending. Concessional loans are still denominated in SDRs.

B. Specific steps MDBs have taken to reform their financial architecture

5. **Asian Development Bank (AsDB).** In 2013, AsDB began planning the combination of AfDF's equity and lending operations with the ordinary capital resources (OCR) balance sheet. When completed in 2017 it allowed AsDB's annual lending to increase by 50 per cent to US\$20 billion, OCR equity to triple from US\$18 billion to US\$53 billion and donor contributions to AfDF grant operations fell by 50 per cent from US\$1.2 billion, beginning with the 2017 AfDF replenishment. These measures will increase AsDB's lending capacity by more efficiently and effectively utilizing existing resources. This merger did not change AsDB's governance or voting power and AsDB retained its AAA credit rating.
6. In 2016, AsDB and SIDA signed an agreement on an innovative risk transfer mechanism. SIDA will guarantee up to US\$155 million of AsDB's

¹ The major MDBs, including the European Investment Bank and the Islamic Development Bank, have AAA credit ratings, although AfDF had an AA rating for a considerable period of time. The ratings of the smaller MDBs (e.g. Black Sea Trade and Development Bank; Corporación Andina de Fomento; the Caribbean Development Bank; Council of Europe Development Bank; range between A- and has a AA+) and the rating for the Eurasian Development Bank is BBB-. The rating of the Asian Infrastructure Bank has not yet been assigned. The New Development Bank, owned by the BRICs, received an AAA rating from a Chinese rating agency but has not yet received a rating from international credit rating agencies.

sovereign loans. The guarantee will allow AsDB to increase its lending capacity by US\$500 million over the next 10 years from its OCR. Risk transfer agreements pass specified risks from one party to another party in return for a fee. This can release capacity for additional operations by improving the risk profile of balance sheets and reducing the capital held in reserve to cover guaranteed loans. This was the first time such a risk transfer arrangement was used for a sovereign loan portfolio of an MDB.

7. **The African Development Bank (AfDB) focuses** on five goals: (i) light up and power Africa; (ii) feed Africa; (iii) industrialize Africa; (iv) integrate Africa; and (v) improve the quality of life for the people of Africa. AfDB views these as development “accelerators” that could help Africa achieve 90 per cent of the SDGs. AfDB is working to align donor countries around these five priorities and China, France, Japan and South Korea have committed billions of dollars to support them.
8. AfDB is trying to squeeze investment resources out of limited capital reserves, but will eventually need more money if it is going to stay responsive to its client countries’ financing needs. AfDB is seeking to leverage its limited capital to tap private resources and using all available instruments at its disposal. That includes opening a non-concessional window to the poorest countries and exploring the possibility for the AfDF, which focuses on the 40 least developed African countries, to raise money by going to capital markets.
9. To complement its efforts to strengthen its financial architecture, AfDB is also working to become a more efficient institution: (i) AfDB’s administrative costs are the lowest among the MDBs; and (ii) the cost-to-income ratio has fallen during recent years. AfDB plans to achieve greater efficiency gains and value for money as it rolls out its new development and business delivery model.
10. **Inter-American Development Bank (IDB).** In 2015, IDB and the Inter-American Investment Corporation (IIC) consolidated the IDB’s private-sector activities to better use resources and improve coordination with private- and public-sector projects. The structure involved a US\$2.03 billion capital increase for the IIC (US\$1.305 billion new contributions, payable over a seven-year period starting in 2016; US\$725 million in capital transfers from the IDB as of 2018).
11. The Fund for Special Operations (FSO) is IDB’s concessional window.² Its funding is part of IDB’s normal capital raising process, which IDB has gone through nine times. The 2010 Ninth Capital Increase (IDB-9) recapitalization resulted in an additional US\$479 million in funds for FSO.
12. IDB-9 strengthened FSO by reducing administrative expenses by 3 per cent and transferring funding for the non-reimbursable technical cooperation to OCR. In addition, US\$479 million in new FSO contributions were to be used to provide full debt relief and additional resources to Haiti, and ensure the sustainability of the FSO until 2020. To ensure efficient use of FSO resources, the blend of market-based and FSO financing was maintained, thus preserving the degree of concessionality consistent with the DSE. IDB-8 provided for a programme of direct lending to the private sector to encourage greater private provision of infrastructure. In the next five years, IDB approved US\$13.4 billion in loans and guarantees through its Sovereign Guaranteed and Non-Sovereign Guaranteed windows, representing 36 per cent of IDB’s total lending for the period, as well as technical assistance amounting to US\$24.8 million.
13. Although IDB has appropriate exposure limits, the overriding issue in risk management is to maintain the AAA rating, which means satisfying the capitalization requirements of rating agencies. Following the 2009 global financial crisis, demand for IDB loans increased, resulting in reductions in capital buffers as the balance sheet grew. In response, IDB decided to merge FSO into IDB’s balance sheet, thereby increasing its overall capital. This was primarily in response to the need for capital and reflects the fact that rating agencies consider callable capital in their calculations, but only callable capital from non-borrowing shareholders, which FSO was able to provide. Effective 2017, the assets and liabilities of FSO were transferred to IDB’s balance sheet, thereby providing an additional US\$5.2 billion in capital.
14. Credit rating agencies changed their rating methodology that involves the weight placed on single country exposures. Regional MDBs lend to a relatively small number of sovereign

2 Only five IDB Member States qualify for access to FSO financing. Haiti qualifies for grants and four countries (Guyana; Plurinational State of Bolivia; Guatemala; Honduras) have access to 40 year fixed interest rate bullet loans priced at 25 basis points.

states which results in asset concentration, thus requiring regional MDBs to hold additional capital. In the past, MDBs managed their capital concentration risks by reducing or limiting exposure in countries where lending volumes were especially high. The sovereign exposure exchange agreement is a risk management tool collaboratively developed by the major MDBs that was launched in October 2013 by the World Bank and endorsed by MDB heads following a meeting of the G8 Ministers of Finance.

15. Exchanging exposures between MDBs enhances flexibility and efficiency in capital management. This initiative was endorsed by the G20 and was discussed at multiple international conferences, including the Financing for Development Forum in Addis Ababa in July 2015. The swaps involve what have been agreed between the counterparties as equal risk on both sides so no fees are paid between counterparties. The swaps are for 15 years; 10 years of full guarantees. For each exposure swapped, the issuing party must retain half the exposure to align incentives. On 15 December 2015, AfDB, IDB and IBRD approved the first three bilateral exposure exchanges totalling US\$6.5 billion. IDB swapped a total of US\$4.9 billion in exposure. As a result, the exposure of the top 10 countries in the IDB portfolio declined from 82.6 per cent before the swaps to 77.2 per cent, which is similar to a US\$1.8 billion capital injection according to the new credit rating methodology.
16. **IDA.** The World Bank Group's "margins for manoeuvre" initiative is designed to leverage IBRD's balance sheet. The IFC is expanding its Asset Management Company and syndications platforms to mobilize more third party capital. The IDA18 replenishment discussed ways to leverage IDA's capital for non-concessional loans through a private-sector set-aside window. During the IDA18 consultations participants acknowledged the strong demand for resources to help countries achieve their 2030 goals.
17. The IDA18 financing package pioneered market leverage and new instruments and blending grant contributions with capital market debt. The IDA18 financing framework is a hybrid model in which traditional sources of financing are blended with debt in the form of capital market borrowing and CPLs. The systems required to implement the new IDA financing model are being put in place. As a first step, in September 2016, S&P and Moody's rated IDA AAA, a necessary pre-condition to issue bonds on the capital markets. Further steps will include: (i) updating IDA's financial framework, accounting policies, and risk management parameters to ensure robust sustainability rules, commensurate with capital market and AAA rating requirements; and (ii) preparing for an IDA bond issue and investor engagement to launch market access by obtaining all required regulatory approvals, devising a funding strategy, programme, and outreach and establishing needed operational protocols and systems.³ The IDA18 consultations recognised that CPLs (i.e. sovereign loans) complement market debt in increasing the size of IDA18. The existing IDA voting rights system will continue for the IDA18 period and the CPL contributors will receive additional voting rights based on the grant element of the CPL. CPL funding will not be earmarked for any purpose and will be allocated to IDA's pool of funding.
18. Relative to IDA17, the new funding approached developed under IDA18 significantly increased IDA's commitment authority by US\$23 billion, a 44 per cent increase over IDA17. Of particular note was the fact that partner contributions fell by 4 per cent for IDA18 as compared to IDA17. IFAD18 also introduced an IFC-MIGA Private Sector Window to mobilize increased private-sector investment in IDA countries, especially in fragile and conflict-affected situations, by strengthening the collaboration among IDA, IFC and MIGA to scale up their work in the most challenging countries.

³ World Bank Group. 2016. IDA18. Draft of IDA18 Deputies' Report. Additions to IDA Resources: Eighteenth Replenishment. Towards 2030: Investing in Growth, Resilience and Opportunity.

Annex VII.

Credit rating treatment of multilateral development banks (MDBs)

Brief overview: credit rating agencies' treatment of MDBs

1. The capital market's three major credit rating agencies, Moody's, S&P and Fitch each have dedicated rating methodologies for multilateral lending institutions. While there are a number of other rating agencies, most international investors would look at the ratings of these three agencies for credit evaluation and risk assessment. As a multilateral development institution using leverage, IFAD is likely to be evaluated using the rating methodology these agencies apply for the rating of multilateral development banks (MDBs).
2. The agencies are guided by two primary criteria – the stand-alone credit profile (SACP) and the impact of extraordinary shareholder support (ICR). SACP is comprised of financial and business assessments. Once the stand-alone credit profile has been determined, an increase of the resulting rating by taking into account strong shareholder support may or may not be made.
3. MDB ratings are determined by their standing against the characteristics highlighted below.

Business profile

4. Policy significance: the analysis would focus on the policy significance of an institution which is contingent on its historic support, contemporary policy relevancy, and level of unique expertise in carrying out its objective. An institution's policy importance is greatest if its objective constitutes a priority for Member States and its know-how is not easily replicated by peer institutions.
5. Governance and management expertise: the assessment evaluates how the institution is run, its ability to implement strategic plans and achieve long-term financial and operational goals.
6. Asset quality: much scrutiny is made on the quality of the loan portfolio and risk management policies. Loan portfolios are assessed on the historic performance (defaults and arrears), diversification and single name concentration.

Financial profile

7. Solvency: credit rating agencies assess an institution's financial profile by analyzing the capital adequacy and profitability as well as its funding and liquidity positions. Central to this evaluation is for example S&P's risk-adjusted capital ratio (RAC) that looks at current capital adjusted for projected earnings, divided by the risk-adjusted assets (23 per cent being extremely strong).
8. Historic and projected profitability: this is central to the assessment and balance sheet indicators alone are not sufficient. Fitch measures capital adequacy by more traditional ratios such as equity-to-total assets and guarantees (above 25 per cent being excellent), and debt to shareholder's equity. Moody's focuses on the assets coverage ratio, debt as percentage of usable equity, NPLs, and return on assets (ROA).

9. Because of their unique nature (i.e. countercyclical) and inability to increase capitalization without complex shareholder negotiations, MDBs are subject to highly conservative stress tests and are unlikely to attain even a AA- rating solely on the premise of extraordinary shareholder support or a strong business profile.
10. Shareholder support is assessed by the long-term significance of the MDB and the callable capital provided, where it is recognized that in the long-term, it is difficult to gauge the level of favorable impact of callable capital on a given rating; it is common practice for rating agencies to count callable capital for AAA-oriented MDBs only if the capital comes from AAA countries. Fitch provides an ICR uplift by up to three notches if significant callable capital is pledged by highly-rated countries. Callable capital pledged by the United States of America is not counted.

Sources: “S&P IBRD Rating”, 2016. <http://treasury.worldbank.org/cmd/pdf/Standard-and-Poors-Report-2016.pdf>;

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Annex VIII.

E-survey results

1. The objective of the E-survey was to assess the views of stakeholders and IFAD staff on the current financial architecture, possible future changes, the likely demand for new products and views on terms and pricing.
2. The survey population included: (i) Executive Board members; (ii) IFAD Senior Management and Professional staff; and (iii) government officials from borrowing and non-borrowing IFAD Member States. There were 1,194 people¹ in the survey population, of which 343 were IFAD Senior Management and Professional staff and 851 were government counterparts² from borrowing and non-borrowing Member States and Executive Board members.
3. Several measures were taken to enhance the response rate: (i) translating the questionnaire into IFAD's four official languages; (ii) personalized communications; and (iii) several follow-ups to non-respondents. Netting out the bounced, opted-out and partial responses, there were 595 complete returns (221 IFAD staff; 374 non-IFAD respondents). Thus the total response rate was 50 per cent – 64 per cent for IFAD and 44 per cent for non-IFAD respondents. Including partial responses, the response rate was 68 per cent – IFAD 82 per cent and non-IFAD 60 per cent. Table A shows detailed information about the response rate.
4. IFAD respondents were asked whether they worked in PMD, FOD, Office of Audit and Oversight (AUO), PRM or another division. Using the responses to that question and the number of professional staff in the relevant divisions shows that 86 per cent of PMD professional staff and 87 per cent of professional staff from FOD, AUO and PRM participated in the E-survey.

Survey design

5. The anonymous survey had two sets of questions. The first set of 12 questions was to be answered by all the survey respondents. The second set had a number of filter/classification questions that led the respondents to questions that were relevant to them. In total, the E-survey had 22 questions. However, given the various filters, the maximum number of questions for a group of respondents was 18 (government officials in borrowing countries).
6. The survey was designed to seek feedback on issues such as: (i) sources of IFAD funds; (ii) use and allocation of IFAD's resources; (iii) IFAD's financial instruments, their characteristics, performance and preferences; and (iv) possible future scenarios and likely demand for new products.

¹ Of the 1,310 E-survey invitations sent, 116 bounced or opted out. Response rate calculations were based on the 1,194 survey invitations received by the respondents.

² For each country, the respective Country Programme Managers and CPAs provided the contacts for the in-country respondents. The E-survey covered 82 per cent of active countries in APR, 76 per cent in ESA, 91 per cent in LAC, 89 per cent in NEN and 95 per cent in WCA.

TABLE A

Detailed response rate

	Email addresses provided by PMD	Bounced emails	Emails received	Total responses (partial and complete)	Complete responses	Response rate
IFAD	343	0	343	283	221	64%
Non-IFAD	967	116	851	509	374	44%
Total	1 310	116	1 194	792	595	50%

Source: CLE (2017).

TABLE B

Number of respondents by type

	Completed responses	Share (%)
IFAD	221	100%
Senior Management	10	5%
IFAD professional staff	211	95%
Non-IFAD	322³	100%
Non-borrowing countries	49	15%
Borrowing countries	273	85%

Source: IOE, CLE-Financial Architecture E-survey.

Data analysis

7. Consistent with IOE's evaluation manual, the survey used six-point rating scales. Depending on the formulation of the question, the rating scale was used in the following way: 1=highly unsatisfactory/highly disagree; 2=unsatisfactory/disagree; 3=moderately unsatisfactory/moderately disagree; 4=moderately satisfactory/moderately agree; 5=satisfactory/agree; and 6=highly satisfactory/strongly agree.
8. The filter/classification questions helped to categorize and disaggregate the results by the different groups of respondents. For example, respondents were asked to: (i) select the country where they worked; (ii) if their countries were borrowing or non-borrowing members; and (iii) the type of organization they worked in. An example on the way the filter/classifications questions were used was by asking respondents whether they worked for IFAD or in a government agency and to identify the country where they were located. Those responses allowed the E-survey responses to be analysed by countries according to GNI per capita classification.
9. The results shown below are disaggregated by:
 - IFAD: IFAD Senior Management and IFAD professional staff.
 - Non-IFAD, including IFAD's Executive Board members:
 - ▶ Government officials from non-borrowing countries.
 - ▶ Government officials from borrowing countries by LIC, LMIC and UMIC.
 - ▶ Government officials from non-borrowing Member States.
10. Graph 1 shows the distribution of non-IFAD staff respondents by region, and by country by income classification. There is a reasonable balance among IFAD regions and between countries based on their 2016 GNI per capita income group classification (atlas method). For comparison, the GNI per capita income group classification of countries included in the 2016 PBAS is: LICs 31 per cent; LMICs 36 per cent and UMICs 33 per cent.

3 Fifty-two survey respondents stated that they worked in "another organization". However, the survey was only sent to government officials and IFAD staff.

GRAPH 1

Non-IFAD responses by region and country income classification

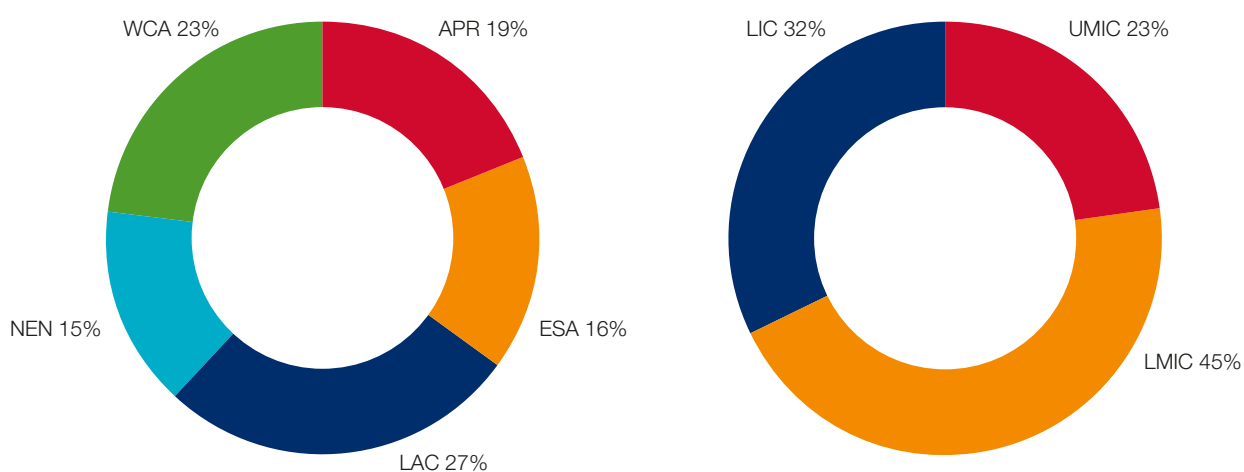


TABLE 1

How familiar are you with IFAD's activities, operations and/or replenishments?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
Extremely familiar	3%	7%	5%	4%	5%	25%	12%
Very familiar	29%	42%	42%	41%	36%	37%	35%
Familiar	46%	38%	44%	45%	39%	27%	35%
Some knowledge	21%	13%	8%	10%	14%	12%	13%
Very little knowledge	0%	1%	1%	0%	5%	0%	5%
No knowledge	0%	0%	0%	0%	1%	0%	1%
Answered	117	165	84	49	459	221	796

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 2

To what extent do you agree or disagree with the following statements on IFAD's resource mobilization?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
IFAD's has mobilized sufficient financial resources to meet the demand for financing of rural poverty reduction.	4.5	4.4	4.3	4.2	4.3	3.0	3.8
In the future, IFAD is likely to experience increasing difficulty mobilizing financial resources from the replenishment.	3.9	3.9	4.1	4.3	4.0	4.7	4.3
IFAD should be an institution that primarily provides funding at concessional terms.	5.0	4.9	4.9	4.9	4.9	4.1	4.6
IFAD should mobilize long term financing from sovereign sources (e.g., national development finance institutions, or concessional partnership loans) to support higher volume of operations.	5.2	5.2	4.9	5.0	5.1	4.9	5.0
IFAD should mobilize financing from commercial sources (e.g. banks; pension funds; insurance companies) to support higher volume of operations.	3.6	4.0	4.3	4.1	3.9	4.1	4.0
IFAD should issue bonds on the international capital markets to support higher volume of operations.	4.0	4.4	4.2	4.1	4.2	4.2	4.2
IFAD should mobilize more "supplementary funding", additional to the replenishment.	5.1	5.0	4.9	4.9	5.0	5.0	5.0
Supplementary funds should be subject to full recovery of the related IFAD administrative and operational costs.	4.7	4.4	4.5	4.5	4.5	4.9	4.7
IFAD should mobilize other sources of financing (please specify)	30	43	25	11	104	43	152
Answered	117	165	84	49	397	221	659

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 3

To what extent do you agree or disagree with the following statements related to IFAD's replenishment process?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
IFAD's replenishment process works well.	4.6	4.6	4.5	4.4	4.6	3.9	4.3
When specific funds are established outside of the normal replenishment, contributors to these funds, including NGOs, foundations and private donors should have a voice in their governance.	4.7	4.7	4.6	4.3	4.6	4.2	4.4
IFAD is good at mobilizing national counterpart funding.	4.3	4.4	4.2	4.2	4.3	3.7	4.1
IFAD is good at mobilizing international cofinancing.	5.0	4.8	4.6	4.5	4.7	3.7	4.3
Answered	117	165	84	49	397	221	659

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 4

To what extent do you disagree or agree with the following statements on the allocation and use of IFAD funding?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
The terms and conditions associated with IFAD loans are appropriate for helping the rural poor to escape from poverty.	5.1	4.8	4.8	4.9	4.9	4.4	4.7
IFAD should continue to allocate all of its financial resources only through the Performance-based Allocation System (PBAS).	4.8	4.7	4.2	4.4	4.6	3.1	4.1
For countries that wish to borrow more than the PBAS allocation, IFAD should provide additional resources on ordinary terms.	4.5	4.7	4.7	4.5	4.6	4.6	4.6
IFAD should only allocate grants and highly concessional funding through the PBAS and allocate ordinary lending and market based funds separately.	4.8	4.7	4.2	4.5	4.6	4.3	4.5
IFAD should allocate more of its regular grant funds to directly support operations at the country level (rather than at the regional and global level).	5.3	5.2	4.9	4.7	5.1	4.0	4.7
Answered	117	165	81	49	393	221	642

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 5

Where should IFAD concentrate its financial resources?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
All countries that request IFAD assistance.	3%	11%	21%	18%	12%	20%	15%
Countries with the highest number of rural poor.	35%	22%	12%	16%	23%	24%	24%
Countries with the lowest gross national income per capita.	4%	10%	1%	14%	7%	10%	8%
Countries with the highest situations of fragility and vulnerability in rural areas.	38%	38%	51%	43%	40%	32%	37%
Countries where the track record of the performance of IFAD-funded projects is good.	20%	16%	12%	8%	16%	10%	14%
No knowledge / no opinion	1%	3%	2%	0%	2%	3%	3%
Answered	117	165	81	49	393	221	642

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 6

Please rate the following aspects of IFAD's products

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
The choice of IFAD products (i.e., loans and grants) that can be used to finance projects.	4.3	4.7	4.5	4.4	4.5	3.8	4.3
The pricing of IFAD's products (Interest rates).	3.6	4.1	4.3	3.8	4.0	4.2	4.1
The grace period of IFAD's products.	3.5	4.1	4.4	3.9	4.0	4.4	4.2
The maturity period for IFAD's products.	3.3	4.1	4.4	3.7	3.9	4.2	4.1
The flexibility of currency selection for IFAD products.	3.7	4.2	4.2	3.6	4.0	3.6	3.9
The volume of financing available from IFAD to meet the demands from client countries.	3.4	3.9	3.5	3.3	3.6	3.1	3.5
IFAD's performance in mobilizing cofinancing.	3.9	4.1	4.0	4.1	4.0	3.4	3.9
The way in which IFAD classifies countries for different lending terms: Debt Sustainability Framework (DSF) grants, highly concessional financing, blended loans and ordinary loans.	3.4	3.6	3.5	4.0	3.6	3.8	3.7
IFAD's ability to provide grants to finance some components of the project.	4.2	4.3	4.0	3.9	4.2	3.6	4.1
IFAD's ability to provide financing in convertible currencies that indirectly helps to build up the foreign reserves of a country.	3.3	3.7	3.3	3.2	3.4	3.1	3.4
Answered	113	164	80	48	387	212	613

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 7

Should IFAD offer a wider range of financial products?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
Yes	78%	78%	84%	82%	79%	79%	79%
No	5%	7%	3%	6%	6%	8%	6%
No knowledge / no opinion	17%	15%	14%	12%	16%	14%	15%
Answered	115	164	80	49	389	221	624

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 8

Please indicate the level of priority that you would assign to IFAD introducing new products in the following areas.

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
A private-sector window that provides loans priced on market, risk-adjusted terms	4.2	3.9	4.0	4.2	4.0	3.9	4.0
A private-sector window that makes equity investments on commercial terms	4.0	3.6	3.5	3.8	3.7	3.7	3.7
Quick disbursing, policy-based sovereign loans (i.e. loans disbursed against the achievements of policy-related milestones)	4.6	4.5	4.7	4.5	4.6	4.0	4.3
Sector adjustment sovereign loans (i.e. includes both a policy component and a traditional project component)	4.5	4.5	4.6	4.5	4.5	3.8	4.3
Line of credit to a financial intermediary for a defined purpose	4.3	3.9	3.7	4.0	4.0	3.5	3.8
A refinancing facility for a defined purpose	4.5	4.4	4.3	4.2	4.4	3.5	4.1
Local currency sovereign loans	4.2	4.2	4.2	4.3	4.2	3.6	4.0
Results-based lending (i.e. a lending instrument that disburses against the achievement of results)	4.9	4.8	4.8	4.7	4.8	4.6	4.7
Answered	86	127	64	40	298	174	472

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 9

Please indicate the level of priority that you would assign to IFAD introducing new products in the following areas.

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
Islamic financing	3.7	3.7	3.2	3.6	3.5	3.2	3.4
Guarantees/credit enhancement products	4.4	4.2	4.3	4.4	4.3	4.0	4.2
A special facility to support the implementation of an integrated strategy for managing the risk of natural disasters and drought	5.3	5.0	5.0	4.8	5.0	4.2	4.7
Agriculture trade financing	5.3	5.1	5.1	4.7	5.1	4.1	4.8
Import credit guarantees for basic farm inputs used by the IFAD target group	4.9	4.4	4.6	4.6	4.6	3.6	4.2
Minimum price guarantees for marketed production by the IFAD target group	4.7	4.8	4.7	4.5	4.7	3.6	4.3
Drought and natural disaster insurance for the IFAD target group	5.2	5.1	5.2	4.8	5.1	4.4	4.8
IFAD lending should only cover the foreign exchange needs of the projects that it supports in MICs	4.0	3.7	3.6	3.7	3.7	2.9	3.4
Other (please specify)	3	9	5	2	20	6	26
Answered	86	127	64	40	298	174	472

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 10

To what extent do you agree or disagree with the following statements related to IFAD's cost recovery and efficiency?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
IFAD should harden the terms of its financing to recover more of its operating costs	3.9	3.5	3.3	3.6	3.5	3.6	3.6
IFAD should improve its cost efficiency by cutting its overheads	5.0	4.7	4.6	4.6	4.7	4.0	4.4
Answered	110	162	75	49	377	221	598

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 11

Please indicate which role best describes your relation to IFAD.

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
I work in a government ministry or agency of a non-borrowing Member State	6%	7%	21%	100%	13%	0%	8%
I work in a government ministry or agency of a borrowing Member State	79%	76%	69%	0%	72%	0%	46%
I am a member of Senior IFAD Management (D1 and above)	0%	0%	0%	0%	0%	5%	2%
Government ministry or agency in a donor country (List A or List B country)	0%	0%	0%	0%	0%	0%	0%
I am an IFAD staff member	0%	0%	0%	0%	0%	95%	35%
I work for another organization	15%	17%	9%	0%	15%	0%	9%
Answered	110	162	75	0	377	221	598

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 12

For IFAD staff, in which department do you work?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
I work in the PMD or a country office	0%	0%	0%	0%	0%	47%	47%
I work in FOD, AUO or PRM	0%	0%	0%	0%	0%	20%	20%
I work in another department/office	0%	0%	0%	0%	0%	33%	33%
Answered	0	0	0	0	0	211	211

Source: IOE, CLE-Financial Architecture E-survey.

*Question for IFAD staff.

TABLE 13

To what extent do you agree or disagree with the following statements about the nature/design/type of projects put forward for IFAD financing by a country?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
The nature of the projects is determined by government priorities and policies and the needs of the beneficiaries rather than the terms of IFAD's financing.	5.3	5.0	5.0	0.0	5.1	4.8	5.0
The terms of IFAD's loans have no influence on the nature and design of the projects.	3.9	3.9	4.0	0.0	3.9	3.8	3.9
If IFAD hardened its loan terms, governments would propose different types of projects for IFAD to finance (e.g. projects with more financial sustainability).	4.1	4.3	4.1	0.0	4.2	3.8	4.1
Projects financed on grant or highly concessional terms are more likely to directly benefit the rural poor.	5.0	5.0	4.9	0.0	5.0	3.5	4.6
Projects financed on harder loan terms are more likely to benefit the rural poor indirectly.	3.3	3.6	3.4	0.0	3.4	2.9	3.3
Answered	87	122	51	0	271	98	369

Source: IOE, CLE-Financial Architecture E-survey.

*Common question for IFAD staff working in management, or FOD, PRM, AUO and government officials from borrowing Member States.

TABLE 14

Which statement best describes your organization?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
Government ministry or agency of a non-borrowing Member State	0%	0%	0%	0%	0%	0%	0%
Government ministry or agency of a borrowing Member State	100%	100%	100%	0%	100%	0%	73%
Senior IFAD management (D1 and above)	0%	0%	0%	0%	0%	0%	0%
IFAD staff member	0%	0%	0%	0%	0%	100%	27%
Answered	87	122	51	0	271	98	369

Source: IOE, CLE-Financial Architecture E-survey.

*Common question for IFAD professional staff and government officials from borrowing Member State.

TABLE 15

To what extent do you agree or disagree that you would prefer to borrow from IFAD in the following currencies?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
No currency preference	3.0	2.8	3.1	0.0	2.9	0	2.9
SDRs	4.7	4.0	3.7	0.0	4.2	0	4.2
United States dollars	4.6	4.7	4.8	0.0	4.7	0	4.7
Euro	4.3	3.6	3.8	0.0	3.8	0	3.8
British pound sterling	2.8	2.6	2.5	0.0	2.6	0	2.6
Japanese yen	2.3	2.3	2.3	0.0	2.3	0	2.3
Chinese yuan renminbi	2.3	2.2	2.9	0.0	2.4	0	2.4
Local currency	3.6	4.1	4.7	0.0	4.0	0	4.0
Other (please specify)	4	6	1	0	13	0	13
Answered	84	116	49	0	260	0	260

Source: IOE, CLE-Financial Architecture E-survey.

*Question for government officials from borrowing Member States.

TABLE 16

To what extent do you agree or disagree that you would prefer to convert your existing SDR-denominated loans from IFAD to one of the following currencies?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
Do not wish to convert existing SDR denominated loans to another currency	3.9	3.2	3.9	0.0	3.6	0	3.6
United States dollars	4.4	4.7	4.6	0.0	4.6	0	4.6
Euro	4.1	3.4	3.5	0.0	3.6	0	3.6
British pound sterling	2.7	2.6	2.6	0.0	2.6	0	2.6
Japanese yen	2.3	2.4	2.4	0.0	2.3	0	2.3
Chinese yuan renminbi	2.3	2.4	3.1	0.0	2.5	0	2.5
Local currency	3.7	4.2	4.3	0.0	4.1	0	4.1
Other (please specify)	3	5	2	0	11.0	0	11
Answered	84	116	49	0	260	0	260

Source: IOE, CLE-Financial Architecture E-survey.

*Question for government officials from borrowing Member States.

TABLE 17

To what extent do you agree or disagree with the following statements on your country's borrowing from IFAD?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
Supporting agriculture and rural development will remain an important priority in our country for the foreseeable future.	5.9	5.7	5.8	0.0	5.8	0	5.8
We would like to borrow more money from IFAD on the same terms and conditions prevailing in 2016.	5.2	4.9	5.1	0.0	5.0	0	5.0
Going forward, we expect to borrow less from IFAD.	2.6	3.4	3.4	0.0	3.1	0	3.1
We would like our borrowing from IFAD to remain about at the current level.	2.9	3.7	4.1	0.0	3.5	0	3.5
We would like to borrow more money even if IFAD hardened its terms.	3.9	3.2	3.4	0.0	3.4	0	3.4
IFAD's terms and conditions are competitive with those of other sources of funding that can be used to help the rural poor escape from poverty.	4.5	4.8	5.1	0.0	4.7	0	4.7
Answered	84	116	49	0	260	0	260

Source: IOE, CLE-Financial Architecture E-survey.

*Question for government officials from borrowing Member States.

TABLE 18

Suppose IFAD increased the interest rate currently paid by your country to recover more of its operating expenses. Would you agree or disagree with the following statements about the likely impact on your country's decisions to seek financial support from IFAD?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
Our country would reduce our borrowing if IFAD increased the cost of borrowing by 0.5%.	4.2	4.2	3.3	0.0	4.0	0	4.0
Our country would continue borrowing at the same level if IFAD increased the cost of borrowing by 0.5%.	3.7	3.5	3.9	0.0	3.6	0	3.6
Our country would reduce our borrowing if IFAD increased the cost of borrowing by 1.0%.	4.2	4.4	3.8	0.0	4.2	0	4.2
Our country would continue borrowing at the same level if IFAD increased the cost of borrowing by 1.0%.	3.4	2.9	3.6	0.0	3.2	0	3.2
Our country would reduce our borrowing if IFAD increased the cost of borrowing by 1.5%.	4.0	4.6	4.1	0.0	4.3	0	4.3
Our country would continue borrowing at the same level if IFAD increased the cost of borrowing by 1.5%.	2.9	2.6	3.0	0.0	2.7	0	2.7
Our country would reduce our borrowing if IFAD increased the cost of borrowing by 2.0%.	4.3	4.8	4.6	0.0	4.6	0	4.6
Our country would continue borrowing at the same level if IFAD increased the cost of borrowing by 2.0%.	2.7	2.4	2.8	0.0	2.6	0	2.6
If IFAD's terms were harder than the terms of the MDBs and bilateral sources, our country would maximize our borrowing for agriculture and rural development from those sources before seeking financing from IFAD.	4.9	4.9	4.1	0.0	4.7	0	4.7
Answered	84	116	49	0	260	0	260

Source: IOE, CLE-Financial Architecture E-survey.

*Question for government officials from borrowing Member States.

TABLE 19

To what extent do you agree or disagree with the following statements about possible future developments?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
Pro-poor agricultural and rural development will continue to be a major priority.	5.9	5.7	5.6	5.5	5.7	5.4	5.6
Declining development funding by some Member States and the needs of emergencies will reduce the total amount of funding available for development.	4.8	4.8	4.6	4.6	4.8	4.8	4.8
Because of competing priorities and fiscal constraints, budgets for ODA will be under increasing pressure in future years.	4.7	4.8	4.7	4.7	4.7	5.0	4.8
IFAD's target funding level is based on a satisfactory methodology.	4.8	4.7	4.7	4.6	4.7	3.8	4.5
IFAD's target funding level should be based on countries' demands and needs.	5.1	5.3	5.1	4.8	5.1	4.8	5.1
The fiscal/political conditions in Member States countries are the main determinants of the level of IFAD's replenishments.	4.7	4.7	4.8	4.6	4.7	4.3	4.6
Member States should fully reimburse IFAD dollar for dollar for the foregone principal associated with the DSF grants.	4.4	4.6	4.4	4.1	4.5	5.0	4.6
Compensation for DSF principal should be incremental to their replenishment contributions.	4.2	4.5	4.3	4.2	4.3	4.8	4.4
Answered	90	126	64	48	306	51	356

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 20

To what extent do you agree or disagree with the following statements on the governance of IFAD's financial architecture?

Answer options	Government respondents in LICs	Government respondents in LMICs	Government respondents in UMICs	Government respondents in List A countries	Government respondents	IFAD respondents	Total
The Executive Board and Audit Committee provide adequate oversight of IFAD's financing strategy and loan policy.	5.2	4.8	4.8	4.9	4.9	4.4	4.8
The Executive Board and Audit Committee provide adequate oversight of IFAD's resourcing and loan management.	5.3	4.8	4.7	4.8	4.9	4.3	4.8
IFAD's internal and external audit arrangements are satisfactory.	5.1	4.8	4.7	4.8	4.9	4.7	4.8
IFAD's management provides sufficient information for the Executive Board to make decisions with regard to IFAD's financial management, resourcing and loan policies.	5.1	4.8	4.7	4.6	4.8	4.5	4.8
If IFAD expands its borrowing (from sovereign, markets and other sources), at present there is adequate capacity to manage the organization from a financial point of view.	4.7	4.5	4.6	4.1	4.5	3.2	4.2
Information on IFAD's resourcing and loan policy is as transparent as in other development financing institutions.	5.1	4.8	4.7	4.8	4.8	4.3	4.8
IFAD management presents excessive amounts of information, which overloads the Executive Board and makes decision making difficult.	3.6	3.6	4.2	3.7	3.7	3.2	3.6
The Executive Board lacks independent external expert advice to assist it in making financing and loan policy decisions for IFAD.	4.3	3.8	3.9	3.9	3.9	3.9	3.9
IFAD's voting rights formula provides adequate incentives to encourage Members to contribute core resources.	4.6	4.5	4.2	3.8	4.4	3.9	4.3
Because of its diverse makeup, Executive Board has limited knowledge and expertise of strategic financial issues related to major changes in IFAD's financial architecture.	4.0	3.6	4.7	4.1	3.9	4.3	4.0
Answered	90	126	64	48	306	51	356

Source: IOE, CLE-Financial Architecture E-survey.

*Common question for government officials, IFAD senior management and IFAD professional staff working in FOD, AUO or PRM

Statistical tests for the significance of the difference of means (t-test)

Statistical significance testing was undertaken¹ to determine whether differences were statistically significant for the survey responses when divided into subgroups of respondents. In the tables below,

the underlined values are statistically significant at the 10 per cent level, bold values denote statistical significance at the 5 per cent level and **underlined and bold values** denote statistical significance at the 1 per cent level. The table numbers below correspond to the table numbers in the preceding section of this annex.

¹ Two sample t-tests for unequal variances. The statistical software used was STATA: Data Analysis and Statistical Software, version 15.

TABLE 21

To what extent do you agree or disagree with the following statements on IFAD's resource mobilization?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
IFAD's has mobilized sufficient financial resources to meet the demand for financing of rural poverty reduction.	<u>0.00001</u>	0.7206	0.8924	0.6697
In the future, IFAD is likely to experience increasing difficulty mobilizing financial resources from the replenishment.	<u>0.00001</u>	0.9647	0.1435	0.2058
IFAD should be an institution that primarily provides funding at concessional terms.	<u>0.00001</u>	0.888	0.6165	0.5628
IFAD should mobilize long-term financing from sovereign sources (e.g. national development finance institutions, or concessional partnership loans) to support higher volume of operations.	<u>0.0006</u>	0.6439	0.1009	0.0744
IFAD should mobilize financing from commercial sources (e.g. banks; pension funds; insurance companies) to support higher volume of operations.	0.2818	<u>0.0765</u>	<u>0.0607</u>	0.0018
IFAD should issue bonds on the international capital markets to support a higher volume of operations.	0.6498	0.0391	0.6688	0.166
IFAD should mobilize more "supplementary funding", additional to the replenishment.	0.7192	0.238	0.5771	0.146
Supplementary funds should be subject to full recovery of the related IFAD administrative and operational costs.	<u>0.00001</u>	0.0374	0.2762	0.3883

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 22

To what extent do you agree or disagree with the following statements related to IFAD's replenishment process?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
IFAD's replenishment process works well.	0.00001	0.5374	0.3908	0.9006
When specific funds are established outside of the normal replenishment, contributors to these funds, including NGOs, foundations and private donors should have a voice in their governance.	0.00001	0.8728	0.7637	0.8862
IFAD is good at mobilizing national counterpart funding.	0.00001	0.214	0.2013	0.9037
IFAD is good at mobilizing international cofinancing.	0.00001	0.0329	0.2972	0.0105

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 23

To what extent do you disagree or agree with the following statements on the allocation and use of IFAD funding?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
The terms and conditions associated with IFAD loans are appropriate for helping the rural poor to escape from poverty.	0.00001	0.0534	0.9742	0.1689
IFAD should continue to allocate all of its financial resources only through the PBAS.	0.00001	0.4471	0.0099	0.0042
For countries that wish to borrow more than the PBAS allocation, IFAD should provide additional resources on ordinary terms.	0.98	0.2525	0.4454	0.1048
IFAD should only allocate grants and highly concessional funding through the PBAS and allocate ordinary lending and market-based funds separately.	0.001	0.9173	0.0026	0.0048
IFAD should allocate more of its regular grant funds to directly support operations at the country level (rather than at the regional and global level).	0.00001	0.1787	0.1543	0.0171

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 24

Please rate the following aspects of IFAD's products.

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
The choice of IFAD products (i.e. loans and grants) that can be used to finance projects	0.00001	0.0228	0.1386	0.5876
The pricing of IFAD's products (interest rates)	0.0064	0.8622	0.3306	0.2849
The grace period of IFAD's products	0.743	0.6362	0.1927	0.3685
The maturity period for IFAD's products	0.1238	0.1364	0.8104	0.1831
The flexibility of currency selection for IFAD products	0.00001	0.4372	0.6353	0.8623
The volume of financing available from IFAD to meet the demands from client countries	0.00001	0.1475	0.1482	0.9294
IFAD's performance in mobilizing cofinancing	0.00001	0.2603	0.7204	0.2276
The way in which IFAD classifies countries for different lending terms: DSF grants, highly concessional financing, blended loans and ordinary loans	0.0044	0.1702	0.4361	0.0475
IFAD's ability to provide grants to finance some components of the project	0.00001	0.3359	0.3939	0.9727
IFAD's ability to provide financing in convertible currencies that indirectly helps to build up the foreign reserves of a country	0.00001	0.2627	0.4506	0.8459

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 25

Please indicate the level of priority that you would assign to IFAD introducing new products in the following areas.

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
A private-sector window that provides loans priced on market, risk adjusted terms	0.7262	0.0876	0.4994	0.4773
A private-sector window that makes equity investments on commercial terms	0.8588	<u>0.0524</u>	0.9015	<u>0.0766</u>
Quick disbursing, policy-based sovereign loans (i.e. loans disbursed against the achievements of policy-related milestones)	0.00001	0.7321	0.1832	0.3298
Sector adjustment sovereign loans (i.e. includes both a policy component and a traditional project component)	0.00001	0.9897	0.4213	0.4661
Line of credit to a financial intermediary for a defined purpose	0.0006	0.0473	0.383	0.0157
A refinancing facility for a defined purpose	0.00001	0.4652	0.8995	0.4933
Local currency sovereign loans	0.00001	0.9195	0.8566	0.9316
Results-based lending (i.e. a lending instrument that disburses against the achievement of results)	0.0231	0.6214	0.8986	0.6046

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 26

Please indicate the level of priority that you would assign to IFAD introducing new products in the following areas.

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
Islamic financing	0.0203	0.9927	0.1271	0.1373
Guarantees/credit enhancement products	0.00001	0.3505	0.3954	0.9293
A special facility to support the implementation of an integrated strategy for managing the risk of natural disasters and drought	0.00001	0.0205	0.7824	0.082
Agriculture trade financing	0.00001	0.0152	0.4705	0.1
Import credit guarantees for basic farm inputs used by the target group	0.00001	0.0014	0.2723	0.1094
Minimum price guarantees for production by the target group	0.00001	0.901	0.6951	0.7806
Drought and natural disaster insurance for the IFAD target group	0.00001	0.3914	0.1952	0.7281
IFAD lending should only cover the foreign exchange needs of the projects that it supports in DSF	0.00001	0.1052	0.8385	0.1442

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 27

To what extent do you agree or disagree with the following statements related to IFAD's cost recovery and efficiency?

Answer options	IFAD vs. Non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
IFAD should harden the terms of its financing to recover more of its operating costs.	0.7408	0.017	0.5272	0.0137
IFAD should improve its cost efficiency by cutting its overheads.	0.00001	0.0192	0.7769	0.0332

Source: IOE, CLE-Financial Architecture E-survey.

TABLE 28

To what extent do you agree or disagree with the following statements about the nature/design/type of projects put forward for IFAD financing by a country?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
The nature of the projects is determined by government priorities and policies and the needs of the beneficiaries rather than the terms of IFAD's financing.	0.0377	0.0171	0.5769	0.1089
The terms of IFAD's loans have no influence on the nature and design of the projects.	0.2988	0.9708	0.6904	0.6928
If IFAD hardened its loan terms, governments would propose different types of projects for IFAD to finance (e.g. projects that have a greater degree of financial sustainability).	0.009	0.1281	0.2521	0.8654
Projects financed on grant or highly concessional terms are more likely to directly benefit the rural poor.	0.00001	0.8296	0.3049	0.4085
Projects financed on harder loan terms are more likely to benefit the rural poor indirectly.	0.0007	0.1082	0.2439	0.8737

Source: IOE, CLE-Financial Architecture E-survey.

*Common question for IFAD staff working in management, or FOD, PRM, AUO and government officials from borrowing Member States.

TABLE 29

To what extent do you agree or disagree that you would prefer to borrow from IFAD in the following currencies?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
No currency preference	na	0.5673	0.2955	0.6291
SDRs	na	0.0005	0.3786	0.0002
United States dollars	na	0.6511	0.6341	0.3953
Euro	na	0.0015	0.4043	<u>0.0876</u>
British pound sterling	na	0.306	0.8636	0.3423
Japanese yen	na	0.7514	0.9526	0.7652
Chinese yuan (renminbi)	na	0.4476	0.014	<u>0.0617</u>
Local currency	na	<u>0.0946</u>	0.109	0.0052

Source: IOE, CLE-Financial Architecture E-survey.

*Question for government officials from borrowing Member States.

TABLE 30

To what extent do you agree or disagree that you would prefer to convert your existing SDR-denominated loans from IFAD to one of the following currencies?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
Do not wish to convert existing SDR-denominated loans to another currency	na	0.0133	0.0385	0.8829
United States dollars	na	0.2643	0.9222	0.4699
Euro	na	0.0102	0.7196	0.1014
British pound sterling	na	0.8296	0.8522	0.7426
Japanese yen	na	0.6511	0.8635	0.6278
Chinese Japanese yen	na	0.6511	0.0328	0.022
Local currency	na	<u>0.0731</u>	0.8707	0.1338

Source: IOE, CLE-Financial Architecture E-survey.

*Question for government officials from borrowing Member States.

TABLE 31

To what extent do you agree or disagree with the following statements on your country's borrowing from IFAD?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
Supporting agriculture and rural development will remain an important priority in our country for the foreseeable future.	na	0.0119	0.1858	0.3513
We would like to borrow more money from IFAD on the same terms and conditions prevailing in 2016.	na	0.0327	0.2557	0.5037
Going forward, we expect to borrow less from IFAD.	na	0.0002	0.8288	0.0036
We would like our borrowing from IFAD to remain about at the current level.	na	0.0005	0.2007	0.0001
We would like to borrow more money even if IFAD hardened its terms.	na	0.0016	0.3382	0.1407
IFAD's terms and conditions are competitive with those of other sources of funding that can be used to help the rural poor escape from poverty.	na	0.2312	<u>0.0922</u>	0.0126

Source: IOE, CLE-Financial Architecture E-survey.

*Question for government officials from borrowing Member States.

TABLE 32

Suppose IFAD increased the interest rate currently paid by your country to recover more of its operating expenses. Would you agree or disagree with the following statements about the likely impact on your country's decisions to seek financial support from IFAD?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
Our country would reduce our borrowing if IFAD increased the cost of borrowing by 0.5%.	na	0.6564	0.0004	0.0031
Our country would continue borrowing at the same level if IFAD increased the cost of borrowing by 0.5%.	na	0.2884	<u>0.0932</u>	0.5279
Our country would reduce our borrowing if IFAD increased the cost of borrowing by 1.0%.	na	0.1937	0.0222	0.2053
Our country would continue borrowing at the same level if IFAD increased the cost of borrowing by 1.0%.	na	0.046	0.0424	0.6782
Our country would reduce our borrowing if IFAD increased the cost of borrowing by 1.5%.	na	0.0126	<u>0.0688</u>	0.778
Our country would continue borrowing at the same level if IFAD increased the cost of borrowing by 1.5%.	na	<u>0.0801</u>	0.1775	0.8431
Our country would reduce our borrowing if IFAD increased the cost of borrowing by 2.0%.	na	<u>0.0625</u>	0.5975	0.2437
Our country would continue borrowing at the same level if IFAD increased the cost of borrowing by 2.0%.	na	0.1161	0.2152	0.7637
If IFAD's terms were harder than the terms of the MDBs and bilateral sources, our country would maximize our borrowing for agriculture and rural development from those sources before seeking financing from IFAD.	na	0.7421	0.0165	0.0124

Source: IOE, CLE-Financial Architecture E-survey.

*Question for government officials from borrowing Member States.

TABLE 33

To what extent do you agree or disagree with the following statements about possible future developments?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
Pro-poor agricultural and rural development will continue to be a major priority.	0.006	0.0018	0.7076	0.0033
Declining development funding by some Member States and the needs of emergencies will reduce the total amount of funding available for development.	0.6004	0.734	0.1352	0.2895
Because of competing priorities and fiscal constraints, budgets for ODA will be under increasing pressure in future years.	0.074	0.5121	0.2173	0.5708
IFAD's target funding level is based on a satisfactory methodology.	0.00001	0.7963	0.4242	0.3484
IFAD's target funding level should be based on countries' demands and needs.	0.0122	<u>0.0847</u>	0.1343	0.9015
The fiscal/political conditions in Member States countries are the main determinants of the level of IFAD's replenishments.	0.039	0.9349	0.4318	0.5028
Member States should fully reimburse IFAD dollar for dollar for the foregone principal associated with the ODA grants.	0.004	0.2146	0.4209	0.8261
Compensation for DSF principal should be incremental to their replenishment contributions.	0.0447	0.1501	0.3311	0.8082

Source: IOE, CLE-Financial Architecture E-survey.

*Common question for government officials, IFAD senior management and IFAD professional staff working in FOD, AUO or PRM.

TABLE 34

To what extent do you agree or disagree with the following statements on the governance of IFAD's financial architecture?

Answer options	IFAD vs. non IFAD (P value)	LIC vs. LMIC (P value)	LMIC vs. UMIC (P value)	LIC vs. UMIC (P value)
The Executive Board and Audit Committee provide adequate oversight of IFAD's financing strategy and loan policy.	0.0013	0.0017	0.8178	0.0121
The Executive Board and Audit Committee provide adequate oversight of IFAD's resourcing and loan management.	0.0006	0.0002	0.7633	0.0041
IFAD's internal and external audit arrangements are satisfactory.	0.2599	0.0289	0.2824	0.0074
IFAD's management provides sufficient information for the Executive Board to make decisions with regard to IFAD's financial management, resourcing and loan policies.	<u>0.0832</u>	0.0127	0.4314	0.0137
If IFAD expands its borrowing (from sovereign, markets and other sources), at present there is adequate capacity to manage the organization from a financial point of view.	0.00001	0.1502	0.6424	0.4154
Information on IFAD's resourcing and loan policy is as transparent as in other development financing institutions.	0.0017	0.0322	0.8626	<u>0.0693</u>
IFAD management presents excessive amounts of information, which overloads the Executive Board and makes decision making difficult.	0.014	0.9915	0.0247	0.0432
The Executive Board lacks independent external expert advice to assist it in making financing and loan policy decisions for IFAD.	0.9325	0.0433	0.5909	0.2344
IFAD's voting rights formula provides adequate incentives to encourage Members to contribute core resources.	0.0038	0.4341	0.3564	0.1723
Because of its diverse makeup, the Executive Board has limited knowledge and expertise of strategic financial issues related to major changes in IFAD's financial architecture.	0.0246	0.1838	0.00001	0.0176

Source: IOE, CLE-Financial Architecture E-survey.

*Common question for government officials, IFAD senior management and IFAD professional staff working in FOD, AUO or PRM.

Annex IX.

Use of performance-based allocation system (PBAS) allocations, maps of IFAD Country Classification (2007, 2012, 2017) and comparative tables

TABLE 1

Use of original PBAS allocation by country classification for IFAD7 to IFAD9

	100% DSF grants	50% DSF grants/50% highly concessional loans	100% highly concessional loans	Blended loans	Ordinary loans	Total
IFAD 7						
Countries not included in the original PBAS allocation	10 (2 were added in the PBAS pool later)	0	6	1	28	45 (2 were added in the PBAS pool later)
Used <50% of the original PBAS allocation	2	1	6	0	6	17
Used between 50% and 90% of the original PBAS allocation	5	3	4	0	1	13
Used between 90% and 110% of the original PBAS allocation	6	4	8	5	10	33
Used between 100% and 150% of the original PBAS allocation	6	5	10	7	6	34
Over 150% of the original PBAS allocation	5	2	2	0	6	15
Countries receiving funds under the PBAS that were not included in the initial PBAS allocation	2	0	0	0	0	2
Average % use of the original PBAS allocation IFAD7	110%	107%	86%	110%	99%	98%

Source: Compiled by IOE from data provided by PMD front office.

TABLE 2

Use of original PBAS allocation by country classification for IFAD7 to IFAD9

	100% DSF grants	50% DSF grants/50% highly concessional loans	100% highly concessional loans	Blended loans	Ordinary loans	Total
IFAD 8						
Countries not included in the original PBAS allocation	1	0	1	2 (1 was added in the PBAS pool later)	17	21 (1 was added to the PBAS pool later)
Used <=50% of the original PBAS allocation	4	2	7	1	22	36
Used between 50% and 90% of the original PBAS allocation	3	2	3	2	6	16
Used between 90% and 110% of the original PBAS allocation	6	4	14	1	13	38
Used between 100% and 150% of the original PBAS allocation	8	7	15	0	8	38
Over 150% of the original PBAS allocation	4	0	2	1	1	8
Countries receiving funds under the PBAS that were not included in the initial PBAS allocation	0	0	0	1	0	1
Average % use of the original PBAS allocation IFAD7	98%	93%	86%	92%	47%	74%

Source: compiled by IOE from data provided by PMD front office.

TABLE 3

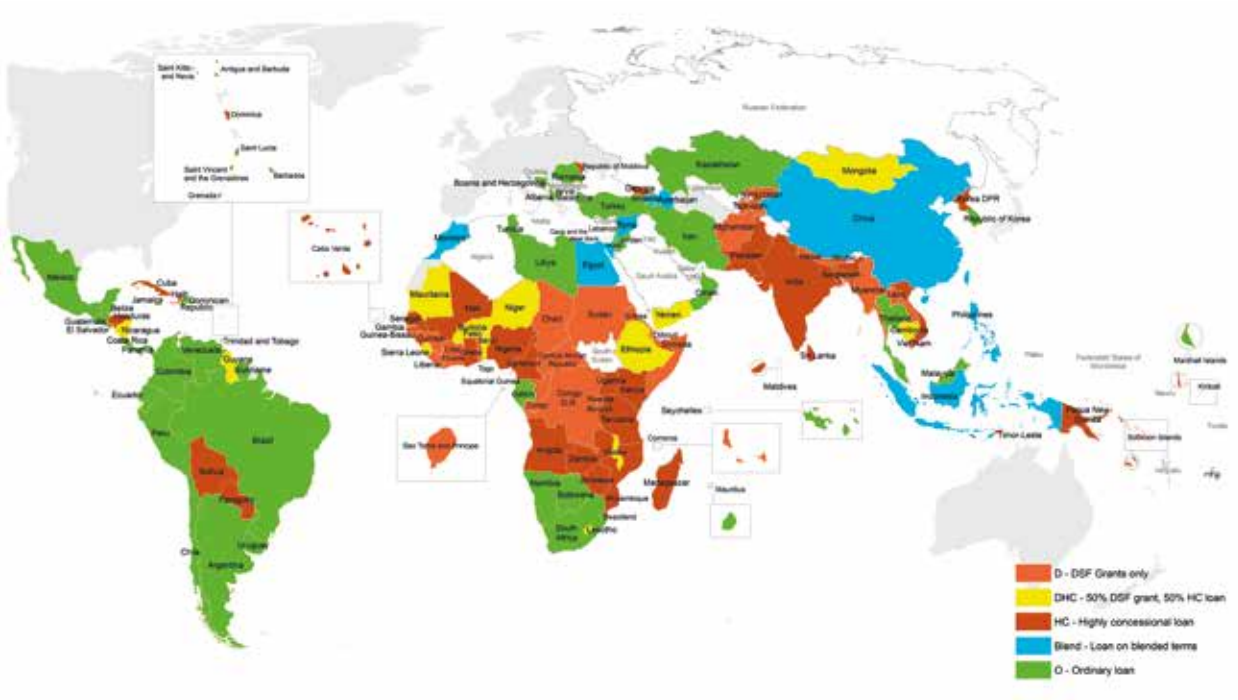
Use of original PBAS allocation by country classification for IFAD7 to IFAD9 (continued)

	100% DSF grants	50% DSF grants/50% highly concessional loans	100% highly concessional loans	Blended loans	Ordinary loans	Total
IFAD 9						
Countries not included in the original PBAS allocation	3	6	10	1	19 (1 was added in the PBAS later)	39 (1 was added in the PBAS pool later)
Used <50% of the original PBAS allocation	7	2	4	5	8	26
Used between 50% and 90% of the original PBAS allocation	0	2	4	0	3	9
Used between 90% and 110% of the original PBAS allocation	6	4	4	5	7	26
Used between 100% and 150% of the original PBAS allocation	6	2	7	5	18	38
Over 150% of the original PBAS allocation	3	3	2	4	3	15
Countries receiving funds under the PBAS that were not included in the initial PBAS allocation	0	0	0	0	1	1
Average % use of the original PBAS allocation IFAD7	85%	112%	92%	83%	90%	91%

Source: compiled by IOE from data provided by PMD front office.

MAP 1

Country classifications, 2007

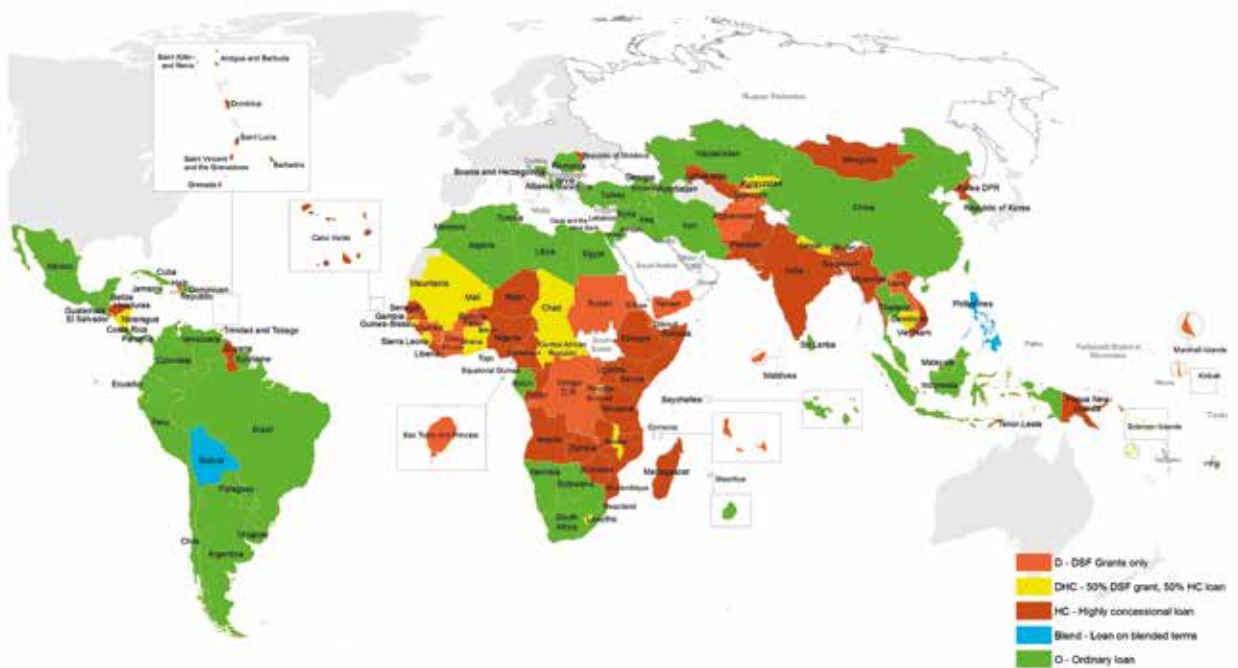


Notes: the designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the definition of the frontiers or boundaries, or the authorities thereof.

Source: derived by IOE from PMD data.

MAP 2

Classification of countries, 2012



Notes: the designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the definition of the frontiers or boundaries, or the authorities thereof.

Source: derived by IOE from PMD data.

MAP 3

Classification of countries, 2017



Notes: the designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the definition of the frontiers or boundaries, or the authorities thereof.

Source: derived by IOE from PMD data.

TABLE 4

Benchmarking IFAD and World Bank Classifications, 2009

		2009 World Bank Country Classifications							
		100% DSF grant	50% DSF grant/ 50% Highly concessional	100% Highly concessional	Blend	Ordinary	No data	Total	Per cent (%)
2009 IFAD Country Classifications	100% DSF grant	19	2	3	1	0	0	25	24
	50% DSF grant/ 50% Highly concessional	1	10	1	0	0	0	12	12
	100% Highly concessional	0	0	18	5	0	1	24	23
	Blend	0	0	0	3	5	0	8	8
	Ordinary	0	0	0	2	26	1	29	28
	No data	0	0	1	1	2	1	5	5
	Total	20	12	23	12	33	3	103	100
	Per cent	19	12	22	12	32	3	100	

Source: IOE estimates based on a country-by-country review of IFAD and World Bank country classifications.

TABLE 5

Benchmarking IFAD and World Bank classifications, 2017

		2017 World Bank Country Classifications							
		100% DSF grant	50% DSF grant/ 50% Highly concessional	100% Highly concessional	Blend	Ordinary	No data	Total	Per cent (%)
2017 IFAD Country Classifications	100% DSF grant	9	0	0	0	1	0	10	10
	50% DSF grant/ 50% Highly concessional	0	18	0	0	0	0	18	17
	100% Highly concessional	0	0	15	4	0	1	20	19
	Blend	0	0	8	8	0	0	16	16
	Ordinary	0	0	0	0	38	1	39	38
	No data	0	0	0	0	0	0	0	0
	Total	9	18	23	12	39	2	103	100
	Per cent	9	17	22	12	38	2	100	

Source: IOE estimates based on a country-by-country review of IFAD and World Bank country classifications.

TABLE 6

IFAD's country classification benchmarked against sovereign credit ratings

Sovereign credit rating	IFAD's 2017 country classification						Per cent (%)
	100% DSF grant	50% DSF grant/ 50% Highly concessional	100% Highly concessional	Blend	Ordinary	Total	
A- to A+	0	0	0	0	3	3	3
BBB- to BBB+	0	0	0	1	9	10	10
BB- to BB+	0	0	1	2	11	14	13
B- to B+	0	3	11	9	11	34	33
C to CCC+	0	0	0	0	3	3	3
D	0	0	2	0	0	2	2
Not rated	10	15	6	4	2	37	36
Total	10	18	20	16	39	103	100
% Distribution of IFAD's country classification	10	17	19	16	38	100	
% Distribution of countries with a sovereign rating	0	17	70	75	95	64	
% Distribution of countries without a sovereign rating	100	83	30	25	5	36	

Notes: The default was to use S&P's rating as the S&P ratings were available for the largest number of countries. For countries rated by Fitch but not by S&P, the Fitch rating was used. For the few countries with a Moody's rating but no S&P or Fitch rating, a rating equivalency scale was used to convert the Moody's rating to the equivalent S&P rating. For the investment-grade ratings, the equivalencies were straightforward. For ratings in near-default/default territory, the equivalency is less clear.

Source: country classifications: PMD; sovereign ratings: Standard and Poor's, Moody's and Fitch.

TABLE 7

Project objectives and changes in country classifications

Region	Country	Comparison of project objectives before/after a change in country classification and financing terms	
APR	Indonesia	Smallholder Livelihood Development Project in Maluku and North Maluku (SOLID)	Coastal Community Development Project (CCDP)
		Lending terms – Intermediate (2010)	Lending terms – Ordinary (2011)
		Approval year – 2011	Approval year – 2012
		Project goal: reduce poverty and improve food security and incomes in poor rural communities located in the two provinces of Maluku and North Maluku. Most of the targeted populations are engaged in tree and food crop production. The project builds on the positive experiences of the Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas.	Project goal: reduce poverty and enhance economic growth for poor but active coastal and small island communities from West Kalimantan to Papua by increasing household incomes for families involved in fisheries and marine activities in the target communities in eastern Indonesia with a high incidence of poverty.
		Project interventions focus on: (i) community empowerment; (ii) boosting productivity by introducing integrated farming systems; (iii) enhancing natural resource management; (iv) value chain development and marketing; (v) investing in productive rural infrastructure; and (vi) strengthening local institutions.	Project interventions focus on: (i) community empowerment; (ii) a market-focused strategy so fisher and marine households can increase their incomes in a sustainable manner through the creation of community enterprise groups that develop high-potential value chains; (iii) using poverty and pro-poor targeting to select the project communities; (iv) replication and scaling up of successful project activities and processes.
APR	India	Jharkhand Tribal Empowerment and Livelihoods Project	Livelihoods and Access to Markets Project
		Lending terms – Highly concessional (2012)	Lending terms – Blend (2013)
		Project approval year: 2012	Project approval year: 2014
		The overall project goal is to improve the living conditions of tribal communities, especially Primitive Tribal Groups, across the tribal scheduled area districts of Jharkhand. The project development objective is to empower and enable 136,000 tribal households, including 10,000 Primitive Tribal Group households, to take up livelihood options based on sustainable and equitable use of natural resources.	The goal of the Project is to improve family incomes and the quality of life in rural Meghalaya. The objective of the Project is to adapt expanded and sustainable livelihood opportunities to the hill environment and to the effects of climate change.
		Project components: a. community empowerment; b. integrated natural resource management; c. livelihoods support; and d. project management.	Project components: a. Natural resources and food security; b. Livelihoods Support; c. Knowledge Service.

Region	Country	Comparison of project objectives before/after a change in country classification and financing terms	
ESA	Ethiopia	Community-based Integrated Natural Resources Management Project	Rural Financial Intermediation Programme – Phase II
		Lending terms – DHC (2010)	Lending terms – Highly concessional (2011)
	Approval year: 2009	Approval year: 2011	
	The project objectives are to enhance access by poor rural people to (i) natural resources (land and water), and (ii) improve agricultural production technologies, mainly through the adoption of sustainable land management practices. Goal: Poverty sustainably reduced for about 450,000 rural households in 21 districts of Lake Tana Watershed.	The goal of the Programme shall be to contribute to the reduction of poverty in rural Ethiopia. The objective of the Programme is to provide access to a range of financial services for an estimated 6.9 million rural households in Ethiopia building on the accomplishments of the Rural Financial Intermediation Programme I (RUFIP I). The Programme will achieve this through a nationwide network of Microfinance Institutions (MFIs) and 5 500 RUSACCOs and RUSACCO Unions. The Programme shall also support these Rural Financial Institutions to bridge their liquidity gap through a credit fund, and improve the policy environment including regulatory and supervisory architecture.	
		Project components: (i) community-based integrated watershed management; and (ii) institutional, legal and policy analysis and reform.	Project components: (i) institutional development in the microfinance and cooperative sub sectors including knowledge management; (ii) improved regulation and supervision of MFIs; and (iii) credit funds for MFIs and RUSACCOs.
	Mali	Fostering Agricultural Productivity Project	Rural Youth Vocational Training Employment and Entrepreneurship Support
Lending terms: Highly concessional (2011)		Lending terms: DHC (2012)	
Approval year: 2010	Approval year: 2014		
The key project objective is to increase the productivity of smallholder agricultural and agribusiness producers in the targeted production systems (irrigated rice and vegetables, rainfed cereals, cowpea, fodder, livestock) within the targeted project areas.	The development objective of the project is to facilitate access by rural young people to employment opportunities and attractive, well-paying jobs in agriculture and related economic activities. As a result, they will become actors in modern agricultural value chains that are responsive to market demand and resilient to climate change.		
Project component: (i) technology transfer and service provision to agricultural producers; (ii) investments in small- and large-scale irrigation; and (iii) comprehensive programmatic approach and sector monitoring.	Project component: (i) improve regional training mechanisms in response to demand from young people, based on the labour market and potential job prospects; and (ii) promote economic initiatives by rural young people in agricultural value chains and related economic activities, to enable them to gain sustainable access to vocational employment.		

Region	Country	Comparison of project objectives before/after a change in country classification and financing terms	
LAC	Bolivia	<p>Plan Vida – PEEP to Eradicate Extreme Poverty – Phase I: Pilot Project to Strengthen the Capacity of Communities and Families Living in Extreme Poverty in Cochabamba and Potosí</p> <p>Lending terms: Highly concessional (2009)</p> <p>Approval year: 2009</p> <p>The main objective of the project is to promote the economic and productive capacities of families and community organizations according to their potential at the regional level, while at the same time lowering poverty rates and providing income sustainability.</p> <p>The specific objectives are to:</p> <ul style="list-style-type: none"> (i) promote and strengthen identified potential productive activities in order to contribute towards the economic development of extremely poor families living in northern Potosí and southern Cochabamba; (ii) extend and support the organizational capacities of beneficiary communities in a way that respects their cultural identities, maintains their organizational patterns, and furthers coordinated efforts among stakeholders that will be to the advantage of the communities involved; and (iii) develop monitoring and evaluation (M&E) mechanisms to assess project results and impacts. <p>Project component:</p> <ul style="list-style-type: none"> (i) Strengthening and managing means of production; (ii) Organizational strengthening and capacity-building. 	<p>Economic Inclusion Programme for Families and Rural Communities in the Territory of the Plurinational State of Bolivia</p> <p>Lending terms: Blend (2010)</p> <p>Approval date: 2011</p> <p>The development objective of ACCESOS is to improve the quality of life of approximately 32,000 mainly food-insecure rural households that are largely dependent on small-scale agriculture and related activities for their livelihoods and are consequently vulnerable to the effects of climate change.</p> <p>Project component:</p> <ul style="list-style-type: none"> (i) Natural resource management, investment in assets and enterprise development; (ii) Financial inclusion and protection.
		<p>Northern Horizons-Competitiveness and Sustainable Rural Development Project in the Northern Zone</p> <p>Lending terms: Highly concessional (2012)</p> <p>Approval year: 2011</p> <p>The project development objective is to increase income, employment and food security of rural poor families in the project area and reduce their environmental vulnerability within a framework of gender equality and rural youth inclusion.</p> <p>Project component:</p> <ul style="list-style-type: none"> (i) Human and social development; (ii) Value chains and competitiveness. 	<p>Project for Competitiveness and Sustainable Development in the South-Western Border Region</p> <p>Lending terms: Blend (2013)</p> <p>Approval year: 2013</p> <p>The project development objective is to improve incomes, employment opportunities, food security and general living conditions of the poor rural population, with a focus on social inclusion and gender, and with a view to reducing poverty and extreme poverty.</p> <p>Project component:</p> <ul style="list-style-type: none"> (i) Development and strengthening of rural organizations; (ii) Productive and business development; and (iii) Improvement of rural infrastructure and management of natural resources.
	Honduras		

Region	Country	Comparison of project objectives before/after a change in country classification and financing terms		
NEN	Egypt	Promotion of Rural Incomes through Market Enhancement Project	Sustainable Agriculture Investments and Livelihoods Project	
		Lending terms: Blend (2011)	Lending terms: Blend (2012)	
		Approval year: 2011	Approval year: 2014	
		The project will contribute to the reduction of rural poverty in the seven governorates of Lower and Upper Egypt, through improved production and profitability in high-value crops and promotion of SMEs for better market linkages and employment creation.	The development goal of the project is to contribute to poverty reduction and increased food and nutrition security for poor rural women and men in Egypt. The development objective is to enable smallholder farmers to enhance their incomes, increase profitability and diversify their livelihoods.	
		Project component: (i) marketing support - organizing and strengthening farmer groups/ associations; - market intelligence; - value chain linkages; and - market-oriented production (ii) rural finance - market-based credit research and development; - credit facility; and - strengthening financial intermediaries.	Project component: (i) Community and livelihood development; (ii) Agriculture development and diversification; and (iii) Rural financial services.	
NEN	Georgia	Rural Development Project	Agricultural Support Project	Agricultural Modernization, Market Access and Resilience
		Highly concessional (2007)	Blend (2008)	Ordinary (2010)
		Approval Year: 2005	Approval Year: 2009	Approval Year: 2014
		The project's overall goal is sustained rural income growth and poverty reduction. This will be achieved by facilitating the access of Georgia's mainly small- and medium-scale farmers to commodity supply chains, improving the competitiveness of agribusinesses and the associated supply chains, and strengthening the capacity of selected agricultural and financial institutions serving private-sector agricultural market activity. Project activities are expected to increase incomes and employment and reduce poverty in rural areas.	The overall goal of the project is to increase income among rural people engaged in agriculture activities in Georgia. The project's objectives are: (i) to increase assets and incomes among actually and potentially economically active poor rural women and men willing to move towards commercially viable agricultural and associated rural enterprises; and (ii) to remove infrastructure bottlenecks that inhibit increasing participation of economically active rural poor in enhanced commercialization of the rural economy.	The overall goal of the AMMAR project is to sustainably increase incomes and reduce poverty for women and men in rural Georgia. Its development objective is to stimulate private investments in climate-smart agricultural value chains to increase incomes and strengthen resilience of smallholder farmers in selected project areas.
		Project component: (i) Agricultural supply chain development; (ii) Rural financial services; and (iii) Legal, regulatory and institutional development.	Project component: (i) Support for leasing operations in rural areas; (ii) Small-scale rural infrastructure.	Project component: (i) irrigation and agricultural value chain investment - Irrigation and value chain infrastructure; - Private investments in agricultural value chains (ii) climate-smart agricultural and value chain development - Value chain development processes and support; - Climate-smart agricultural technology transfer.

Region	Country	Comparison of project objectives before/after a change in country classification and financing terms	
WCA	Côte d'Ivoire	Support to Agricultural Development and Marketing Project	Support to Agricultural Production and Marketing Project
		Lending terms: 100% DSF grant (2012)	Lending terms: 50% DSF grant/50% highly concessional (2013)
	Approval year: 2011	Approval year: 2014	
	PROPACOM's overall objective is to contribute to a reduction in rural poverty and to stimulate economic growth in the regions of Savanes, Bandama Valley and Zanzan. The development objective of the project is to sustainably improve the food security and incomes of the population in the project areas, through smallholder access to markets, effective services and appropriate technologies.	The overall objective of the project is to contribute to reducing rural poverty and stimulating economic growth in the regions of Tonpki, Kabadougou, Folon, Bafing, Worodougou and Béré. The development objective is to sustainably improve food security by increasing smallholder access to effective services, appropriate technology and markets while increasing the resilience of production systems to climate change.	
		Project component: (i) enhancing agricultural production; (ii) value addition and marketing; (iii) coordination, monitoring and evaluation, and knowledge management.	Project component: (i) sustainable improvement in agricultural production - APO organization and professionalization; - access to factors of production; and - access to rural finance (ii) value addition and marketing of agricultural products - professionalization of post-harvest actors and access to markets; and - marketing infrastructure.
Togo		Support to Agricultural Development Project	National Rural Entrepreneurship Project
		Lending terms: 100% DSF grant (2011)	Lending terms: 50% DSF grant/50% highly concessional (2012)
	Approval year: 2010	Approval year: 2014	
	The project's overall goal is to help improve the food security and incomes of farm families. Its specific objectives are to: (i) boost the productivity and outputs of three staple food crops (maize, rice and cassava); and (ii) improve the processing and marketing of outputs.	The objective of the project is to promote the development of rural enterprises generating long-term paid employment for young people at the local level.	
		Project component: (i) support to production and productivity, involving both technical support (quick-start kits, proven packages, animal traction, pilot mechanization, advisory services, soil fertility management, irrigation) and capacity-building of farmers and their organizations; and (ii) value addition by facilitating access to processing equipment and economic infrastructure (storage, roads), marketing assistance (review of existing policy and law, market studies, bulking of produce, information systems, support to farmers' forums).	Project component: (i) Facilitating access to non-financial services - Strengthening the supply of MSRE support services; - Supporting MSRE start-ups and consolidation and promoting their products and services (ii) Facilitating access to financial services - Supporting start-ups by first-time entrepreneurs; - Building supply and developing capacity.

Annex X.

Overview of multilateral development bank (MDB) financial products

TABLE 1
Summary of the products of the World Bank Group

	Purpose	Disbursement mechanism	Implementation mechanism
Sovereign operations			
Investment Project Financing (IPF), which accounts for about three quarters of the World Bank Group's sovereign operations. Special provisions for small and fragile states.	Support specific investment operations. Can include provisions for project preparation advances. Variations allow for financing a series of projects, providing additional financing or lines of credit.	Disbursed against the implementation of specific contracts or expenditures that support the project.	World Bank IPF rules and procedures, including procurement rules. Funds specific expenditures.
Development Policy Financing (DPF), which accounts for about one quarter of the sovereign operations of the World Bank Group. The use of the DPF in a country is determined in the context of the Country Partnership Framework (i.e. the COSOP).	Supports government programs or subprograms in both LICs and MICS and is used in many sectors, including agriculture, water resource management and rural development.	Disburses upon policy change achievements of results and performance indicators/ triggers/milestones as specified in advance.	Changes in country policies and processes. Funds are not earmarked specific purposes budget rather are for general budget support. Thus, country processes, public financial management and anti-corruption and other safeguards govern the use of the funds.
Adaptable Program Loan (APL). Provides for phased World Bank support for long-term development programs. APLs require agreements between the World Bank and the client on: (i) the phased, long-term sector development program supported by the APL; (ii) development priorities for sector investments and recurrent expenditures within the sector; and (iii) the evolution of sector policies in each APL phase.	APLs are used when sustained changes in institutions, organizations, and client behaviour are needed to successfully implement a programme. Such reforms generally take a long time to implement, requiring sequenced activities, specific investments, institutional strengthening, policy reforms and constituency building.	APLs have triggers, or conditions, that define when the next sequential loan can initiate operations. APLs provide incentives through staggered disbursements for clients to implement such long run programmes.	Key advantages for clients include: (i) reform realism : arbitrary front-loading of policy conditionalities is replaced by realistic phasing of reforms; (ii) continuity : Long-term planning and sustainable institution-building that is supported by bridging electoral cycles and administration changes; and (iii) financial charges : Commitment fees are reduced.
Program-for-Results (PforR) financing, developed in 2012, the use of which has been increasing steadily.	Delivers results through a country's institutions, programmes and processes and uses country systems, including those for procurement. Supports government programs or subprograms and can be used in many sectors.	Disbursements linked to the achievement of specific programme results and performance indicators.	Program systems funds for a specific expenditure programme, for example in the agriculture, rural development or water resource management sectors.
The IDA Scale Up Facility was developed in 2016 to mobilize resources to help meet the 2030 SDGs. The IDA18 scale up facility is designed to increase non-concessional financing available for potentially transformational projects. Such funds would be provided to meet the very strong client demand. IDA estimated that the demand for such financing would far exceed the available funds in the facility.	Provides additional, non-concessional support to IDA countries assessed as having a low to medium risk of debt distress, consistent with the World Bank Non-Concessional Borrowing Policy and IMF's Debt Limits Policy, to finance projects with a strong development impact, which could include investment project financing for both infrastructure and non-infrastructure projects, development policy and program for results operations and guarantees.	Disbursed following IPF, DPL or PforR procedures, depending on the design of the transaction.	IPF, DPL, PforR or guarantee, depending on the design of the transaction. While the nature of the non-concessional resources requires a flexible allocation framework, ideally it would draw as much as possible on links with the PBAS to ensure consistency with its performance and poverty orientation. The allocation framework would reflect equity, performance, poverty and debt sustainability.

	Purpose	Disbursement mechanism	Implementation mechanism
Sector-Wide Approaches (SWAps) , introduced in the 1990s, leverage World Bank funds by disbursing against large, priority client programme expenditures. SWAps are designed to bring together governments, donors and other stakeholders within any sector. SWAps are characterized by a set of operating principles rather than a specific package of policies or activities, acceptable to all stakeholders.	SWAps meet demands for flexibility and harmonization with COSOPs and the strategies of borrowing Member States. SWAps are designed to minimize transaction costs associated with more traditional World Bank products, such as the need to detail loan components, procure goods and services, and then account for them through statement of expenses, supervision missions, and audits.	Donors deposit that funds into, and disburse from, a single account to support the SWAp. World Bank loan disbursed at a rate defined as a per cent of the annual client expenditures in the sector.	Mostly used in the social sectors. Relatively few for agriculture and rural development because: (i) role of governments in the agriculture/rural development sector is different than in health and education; (ii) agriculture involves millions of producers and market intermediaries; and (iii) it is difficult to arrive at consensus on the key issues in the sector. Using client systems can simplify the process. Expected development benefits of SWAps derive from their being vehicles for strengthening governance and implementation capacity by encouraging: (i) stronger country ownership; (ii) coordinated and open policy dialogue; (iii) rational resource allocation based upon priority programs; (iv) scaling up of program benefits throughout the country; (v) sector-wide accountability and strengthening of fiduciary and environmental and social safeguards; (vi) upgrading client capacity, systems and institutions; (vii) reducing unnecessary bureaucracy and transactions costs; and (viii) a greater results focus.

Non-sovereign/private sector operations			
Loans	IFC finances projects and companies through loans and makes loans to intermediary banks, leasing companies and other financial institutions for on-lending.	Disbursed against milestones that are applicable for the transaction.	Used for specific proposes are applicable for the transaction (project procurement; balance sheet restructuring; line of credit).
Trade and supply chain financing	Guarantees trade-related payment obligations of approved financial institutions to complements the capacity of banks to deliver trade finance by providing risk mitigation on a per-transaction basis.	Disbursed against milestones that are applicable for the transaction.	Follows IFC procedures that are applicable for the transaction.
Equity investments	IFC invests equity both directly in companies and indirectly through equity funds. IFC generally invests between 5 and 20 per cent of a company's equity and encourages companies to broaden share ownership and other reforms.	Disbursed as an equity investment.	Follows IFC procedures that are applicable for equity investments. IFC's exit mechanism is considered up front.
Syndications	IFC mobilizes commercial financing for the private sector through syndications.	Disbursed against milestones that are applicable for the syndication.	IFC procedures applicable to: (i) B loans; (ii) parallel loans; (iii) A loan participations; or (iv) Managed co-lending portfolio programmes.
Partial credit guarantees. Guarantees are mainstreamed into the operational policy for IPF (in the case of project-based guarantees) and DPF (in the case of policy-based guarantees). Guarantees are no longer treated as a separate instrument, but rather as an alternative source of financing. Policy-based guarantees are available to some IDA countries at low or moderate risk of debt distress.	A partial credit guarantee represents a promise of full and timely debt service payment up to a predetermined amount if there is a default.	Only disbursed if the guarantee is called, which is rare.	Procedures applicable to guarantees.

	Purpose	Disbursement mechanism	Implementation mechanism
Securitization	Help companies seeking financing that cannot tap funding sources for the desired tenor and funding cost because of perceived credit risk. In general, any asset class with relatively predictable cash flows can be securitized.	Disbursed against milestones that are applicable for securitization.	Procedures applicable to securitization.
Blended financing	Blend financing, with funds from development partners alongside IFC's commercial funding, crowds in private-sector financing that would otherwise not be available to projects with high development impact. Blended finance helps mitigate early-entrant costs or project risks. IFC currently uses this approach in three areas: (i) climate change; (ii) agribusiness and food security; and (iii) finance for small and medium enterprises, including women entrepreneurs.	Disbursed against milestones that are applicable for blend financing.	Procedures applicable to blend financing.
IFC-MIGA IDA private sector window. Introduced under IDA18 to mobilize increased private sector investment in IDA countries, especially Fragile and Conflict-affected Situations. Collaboration among IDA, IFC and MIGA is expected to scale up their work in the most challenging markets.	Can be implemented through: (i) a Local-Currency Financing Facility; (ii) a Risk-Mitigation Facility; (iii) a MIGA Guarantee Facility; or (iv) a Blended-Finance Facility.	As per the facility chosen.	As per the facility chosen.

Notes: In AsDB and IFAD, PforR is referred to as results based lending (RBL). AsDB's sector development programme combines elements of both IPFs and DPLs.

Source: adapted from World Bank. Products and Services: <http://www.worldbank.org/en/projects-operations/products-and-services#2> and World Bank. Independent Evaluation Group. 2016. Program-for-Results: An Early-Stage Assessment of the Process and Effects of a New Lending Instrument. Page 36.

Annex XI.

Statistical analysis tables related to country classification

TABLE 1

Average RSP and governance scores for countries receiving IFAD financing as 100% DSF grants

	1996	2000	2004	2006	2009	2012	2015	Average
Voice and Accountability Score	19.4	18.7	16.8	19.7***	20.0***	26.5*	35.9	22.2
Political Stability and Absence of Violence Score	24.1	20.1	22.9	22.4***	21.8***	32.2*	37.4	25.3
Government Effectiveness Score	16.2	17.2	14.0	14.0***	12.4***	16.8***	17.8***	14.5
Regulatory Quality Score	14.0	16.8	14.8	15.2***	14.5***	21.2***	19.2***	16.2
Rule of Law Score	20.7	18.3	16.4	17.1***	13.9***	22.7**	24.3	17.5
Control of Corruption Score	22.7	22.5	19.0	19.1***	18.2***	24.6**	28.7	20.5
Average Governance Score	19.5	18.9	17.3	17.9	16.8	24.0	27.2	20.2
Rural Sector Performance Score	NA	NA	3.3	3.4***	3.4***	3.4***	3.3***	3.4
GDP/capita (US\$) (preferably in real terms -- whatever figure is readily available)	193.7	211.6	292.6	542.8***	941.6***	848.9***	1070.9***	668.2
Number of observations	29	28	29	29	29	20	13	25

Notes: ***, ** and * denote significance at 1%, 5%, and 10% level compared to the rest of the financing terms

Sources: Rural Sector Performance database and World Bank governance indicators. <http://info.worldbank.org/governance/WGI/#doc>

TABLE 2

Average RSP and governance scores for countries receiving IFAD financing as 50% DSF grants and 50% highly concessional loans

	1996	2000	2004	2006	2009	2012	2015	Average
Voice and Accountability Score	34.8	38.2	37.2	36.4	33.9	30.4	29.8	32.8
Political Stability and Absence of Violence Score	35.3	37.0	37.6	39.7	33.8	31.8	31.7	33.3
Government Effectiveness Score	28.0	31.3	30.0	27.6**	31.9	24.5**	18.7***	26.5
Regulatory Quality Score	32.6	34.5	32.6	31.2	31.8	30.6	24.0***	30.3
Rule of Law Score	29.1	29.5	29.8	31.8	31.5	26.4*	22.4***	28.4
Control of Corruption Score	35.3	35.3	33.4	30.1	33.2	28.7	22.3***	30.1
Average Governance Score	32.5	34.3	33.4	32.8	32.7	28.7	24.8	31.3
Rural Sector Performance Score	NA	NA	3.7	3.7	3.9	3.6*	3.5***	3.7
GDP/capita (US\$) (preferably in real terms -- whatever figure is readily available)	253.2	249.4	323.3	407.4***	504.6***	899.6***	729.4***	599.0
Number of observations	13	13	13	13	14	17	20	15

Notes: ***, ** and * denote significance at 1%, 5%, and 10% level compared to the rest of the financing terms.

Sources: Rural Sector Performance database and World Bank governance indicators. <http://info.worldbank.org/governance/WGI/#doc>.

TABLE 3

Average RSP and governance scores for countries receiving IFAD financing on highly concessional terms

	1996	2000	2004	2006	2009	2012	2015	Average
Voice and Accountability Score	37.2	38.3	37.2	38.8	39.1	34.1	39.3	37.4
Political Stability and Absence of Violence Score	31.6	33.6	38.1	37.8	37.8	34.7	35.0	36.2
Government Effectiveness Score	31.9	34.7	34.2	35.2	32.6	29.5*	30.0	32.7
Regulatory Quality Score	31.5	34.1	32.3	33.3	35.2	27.8**	33.1	32.3
Rule of Law Score	34.5	35.3	34.6	35.9	35.5	29.4	36.2	34.3
Control of Corruption Score	31.1	30.9	31.9	34.8	31.2	27.9*	35.6	32.1
Average Governance Score	33.0	34.5	34.7	35.9	35.2	30.6	34.9	34.1
Rural Sector Performance Score	NA	NA	3.7	3.8	3.9	3.7	4.0	3.8
GDP/capita (US\$) (preferably in real terms -- whatever figure is readily available)	430.6	466.2	638.5	830.5***	1072.5***	1397.8***	1051.2***	1044.3***
Number of observations	33	33	33	33	27	33	24	31

Notes: ***, ** and * denote significance at 1%, 5%, and 10% level compared to the rest of the financing terms.

Sources: Rural Sector Performance database and World Bank governance indicators. <http://info.worldbank.org/governance/WGI/#doc>.

TABLE 4

Average RSP and governance scores for countries receiving IFAD financing on blend terms

	1996	2000	2004	2006	2009	2012	2015	Average
Voice and Accountability Score	24.4	26.4	25.9	23.9**	26.3*	46.5***	39.8	32.6
Political Stability and Absence of Violence Score	26.2	24.2	23.0	21.7***	24.0**	22.3	38.6	27.8
Government Effectiveness Score	37.1	35.3	40.2	38.9	43.6	50.9	34.2	38.9
Regulatory Quality Score	38.7	34.3	35.8	38.2	45.6**	37.7	31.7	38.1
Rule of Law Score	41.5	39.0	39.2	37.3	38.1	26.3	33.7	35.9
Control of Corruption Score	37.3	31.2	31.2	26.1	29.9	29.9	33.5	30.8
Average Governance Score	34.2	31.7	32.5	31.0	34.6	35.6	35.3	33.6
Rural Sector Performance Score	NA	NA	4.0	4.1*	4.4***	4.1**	3.8	4.0
GDP/capita (US\$) (preferably in real terms -- whatever figure is readily available)	761.5	931.4	1,440.6	1,920.8***	3,303.0	2,932.5	1,790.9**	2,126.1
Number of observations	9	9	9	9	10	2	17	9

Notes: ***, ** and * denote significance at 1%, 5%, and 10% level compared to the rest of the financing terms.

Sources: Rural Sector Performance database and World Bank governance indicators. <http://info.worldbank.org/governance/WGI/#doc>.

TABLE 5

Average RSP and governance scores for countries receiving IFAD financing on ordinary terms

	1996	2000	2004	2006	2009	2012	2015	Average
Voice and Accountability Score	50,2	51,1	50,0	49.2***	49.5***	38,7	44.6*	47,3
Political Stability and Absence of Violence Score	44,0	46,0	48,7	46.0**	49.2**	34,3	42,6	45,1
Government Effectiveness Score	45,5	49,7	50,9	51.1***	50.1***	44.8**	50.4***	49,7
Regulatory Quality Score	47,7	50,7	49,8	50.8***	48.0***	44.4**	49.5***	48,8
Rule of Law Score	46,0	48,2	48,4	47.2***	46.7***	39,8	45.7***	45,6
Control of Corruption Score	45,2	51,1	50,6	50.7***	51.4***	43.3*	46.2***	48,9
Average Governance Score	46,4	49,5	49,7	49,2	49,1	40,9	46,5	47,3
Rural Sector Performance Score	NA	NA	4,0	4.2***	4.1**	4.2***	4.3***	4,2
GDP/capita (US \$) (preferably in real terms -- whatever figure is readily available)	4014,6	3933,0	4494,7	5944.1***	7473.4***	6523.3***	7345.8***	6710,2
number of observations	51	50	51	51	54	44	57	51

Notes: ***, ** and * denote significance at 1%, 5%, and 10% level compared to the rest of the financing terms.

Source: Rural Sector Performance database and WB governance indicators.

TABLE 6

Average 2015 RSP and governance scores by IFAD country classification

	100% DSF grants	50% DSF grants/50% highly concessional	100% highly concessional	Blend	Ordinary
Voice and Accountability Score	35.9	29.8	39.3	39.8	44.6*
Political Stability and Absence of Violence Score	37.4	31.7	35.0	38.6	42.6
Government Effectiveness Score	17.8***	18.7***	30.0	34.2	50.4***
Regulatory Quality Score	19.2***	24.0***	33.1	31.7	49.5***
Rule of Law Score	24.3	22.4***	36.2	33.7	45.7***
Control of Corruption Score	28.7	22.3***	35.6	33.5	46.2***
Average Governance Score	27.2	24.8	34.9	35.3	46.5
Rural Sector Performance Score	3.3***	3.5***	4.0	3.8	4.3***
GDP/capita (US\$) (preferably in real terms -- whatever figure is readily available)	1 070.9***	7 294.4***	1 051.2***	1 790.9**	7 345.8***
Number of observations	13	20	24	17	57

Notes: ***, ** and * denote significance at 1%, 5%, and 10% level compared to the rest of the financing terms.

Sources: Rural Sector Performance database and World Bank governance indicators. <http://info.worldbank.org/governance/WGI/#doc>.

TABLE 7

Time required to reach selected project milestones by type of financing (projects approved 1979 – 2015)

Lending term	Time from project approval to original completion (years)	Time from project approval to actual completion (years)	Time from entry into force to original completion (years)	Time from entry into force to actual completion (years)	Time from approval to disburseable (years)	Time from project approval to first disbursement (years)	Project duration difference (years)
Ordinary							
Average	9.0**	10.0**	7.6	8.7	2.0***	2.0***	0.78*
Median	8.3	10.5	7.0	9.1	1.7	1.7	0.8
Standard deviation	2.1	2.5	1.9	2.5	1.0	1.0	0.9
Number of observations	75	73	75	73	75	75	68
Blend							
Average	8.6	9.50	7.50	8.50	1.40	1.50	0.67
Median	8.6	9.6	7.4	8.4	1.3	1.3	0.6
Standard deviation	2.2	2.6	2.1	2.5	0.8	0.8	1.2
Number of observations	140	136	140	136	140	140	115
Highly concessional							
Average	8.4	9.23	7.54	8.36	1.38	1.38	0.82
Median	8.2	9.0	7.5	8.1	1.3	1.3	0.5
Standard deviation	2.4	2.7	2.2	2.6	0.8	0.8	1.1
Number of observations	240	240	240	240	240	240	206
50% Highly concessional and 50% DSF grant							
Average	8.4	9.7	7.4	8.6	1.4	1.4	0.8
Median	8.4	9.6	7.5	8.5	1.3	1.3	0.9
Standard deviation	2.3	2.5	2.1	2.3	0.8	0.8	2.2
Number of observations	305	291	305	291	305	305	284
DSF grant							
Average	3.0***	4.1***	2.9***	4.0***	0.51***	0.51***	0.92
Median	2.7	3.6	2.6	3.7	0.3	0.3	0.6
Standard deviation	1.7	1.9	1.5	1.7	0.8	0.8	1.3
Number of observations	22	21	22	21	22	22	19
Loan component grant							
Average	5.7***	6.5***	5.3***	6.0***	3.0***	3.0***	0.8***
Median	5.95	6.37	5.59	5.87	1.55	1.55	0.54
Standard deviation	3.21	3.24	2.97	2.98	3.60	3.60	1.06
Number of observations	130	130	130	130	115	115	79
Total							
Average	8.3	9.4	7.4	8.4	1.45	1.45	0.79
Median	8.4	9.5	7.4	8.3	1.3	1.3	0.7
Standard deviation	2.4	2.7	2.3	2.6	0.8	0.8	1.8
Number of observations	782	761	782	761	782	782	692

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 8

Average IOE project ratings by type of financing (2003 – 2016)

Financing terms	Number of projects	Relevance	Effectiveness	Efficiency	Sustainability	Project performance	Rural poverty impact	Innovation and scaling up	Gender equality and women's empowerment
Ordinary									
Average		4.5	3.8	3.6	3.7	3.9	4.1	4.0	4.0
Median		4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	45	0.8	0.8	1.1	0.9	0.8	0.7	1.1	1.0
Number of observations		45	45	45	45	45	42	45	34
Blend									
Average		4.4	4.3*	4.1**	3.9	4.3	4.4**	4.2	4.4
Median		4.0	4.0	4.0	4.0	4.0	5.0	4.0	4.0
Standard deviation	27	0.6	0.9	0.9	0.9	0.6	0.8	0.6	0.8
Number of observations		27	27	27	27	27	27	27	20
Highly Concessional									
Average		4.4	4.1	3.9	3.6	4.2	4.1	4.3	4.2
Median		4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	76	0.9	0.9	1.0	0.8	0.8	0.9	0.9	1.1
Number of observations		76	76	75	76	76	74	75	63
50% DSF grant/50% highly concessional									
Average		4.6	3.9	3.5	3.6	4.0	3.9	4.1	4.3
Median		4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	39	0.8	0.8	1.1	0.9	0.8	0.7	1.1	1.0
Number of observations		39	39	39	39	39	38	39	29
Grant									
Average		4.5	3.6	3.4	3.4	3.8	3.9	4.0	3.9
Median		5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	41	0.8	0.9	1.1	0.9	0.8	0.8	0.9	0.9
Number of observations		41	41	41	40	41	40	38	36
Total	228	4.5	4.0	3.7	3.6	4.0	4.1	4.1	4.1

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 9

Average IOE project ratings by type of financing (2003 – 2016)

Financing terms	IFAD performance	Government performance	Overall project achievement	Household income and assets	Human and social capital and empowerment	Food security and agricultural productivity	Institutions and policy	Environment and natural resources management
Ordinary								
Average	4.1	3.8	4.0	4.1	4.3	3.8	3.9	3.9
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.9	0.9	0.8	0.9	1.0	1.0	1.1	0.8
Number of observations	45	45	44	36	37	33	37	39
Blend								
Average	4.2	4.2*	4.3*	4.7***	4.4	4.4*	4.1	4.2***
Median	4.0	4.0	4.0	5.0	5.0	5.0	4.0	4.0
Standard deviation	0.7	0.8	0.7	0.7	1.1	0.9	0.9	0.7
Number of observations	27	27	27	22	21	21	21	23
Highly concessional								
Average	4.2	4.0	4.0	4.2	4.2	4.0	4.0	3.6
Median	4.0	4.0	4.0	4.5	4.0	4.0	4.0	4.0
Standard deviation	0.8	1.0	0.8	1.0	0.9	1.0	1.1	1.1
Number of observations	76	76	76	64	66	62	64	56
50% DSF grant/50% highly concessional								
Average	4.1	3.7	3.9	4.0	4.0	3.9	3.5	3.5
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.9	0.9	0.8	0.9	1.0	1.0	1.1	0.8
Number of observations	36	38	39	31	33	28	31	34
Grant								
Average	3.9	3.6	3.7	4.1	4.2	3.8	4.1	3.6
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.8	0.9	0.8	0.9	1.0	1.0	1.1	1.0
Number of observations	40	41	41	29	31	30	29	34
Total	4.1	3.9	4.0	4.2	4.2	4.0	3.9	3.7

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 10

Average IOE project ratings for some evaluation criteria by loan size (2003-2016)

Region	Number of projects	Relevance	Effectiveness	Efficiency	Sustainability	Project performance	Rural poverty impact	Innovation and scaling up	Gender equality and women's empowerment
Highest quintiles		4.5	4.4**	4.1**	3.7	4.3**	4.2	4.3*	4.4*
Number of observations	46	45	45	45	45	45	43	45	39
Higher quintile		4.6	4.0	3.7	3.7	4.1	4.3**	4.3**	4.2
Number of observations	47	46	46	46	46	46	46	46	32
Middle quintile		4.4	4.0	3.7	3.6	4.1	4.2	4.0	4.3
Number of observations	44	44	44	43	43	44	41	44	36
Lower quintile		4.6	4.0	3.6	3.7	4.0	4.0	4.0	4.0
Number of observations	46	47	47	47	47	47	47	46	38
Lowest quintile		4.4	3.5***	3.3**	3.2**	3.7**	3.5***	3.9*	3.7***
Number of observations	45	46	46	46	46	46	44	43	37
Total	228	4.5	4.0	3.7	3.6	4.1	4.1	4.1	4.1

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 11

Average IOE project ratings for some evaluation criteria by loan size (2003-2016)

Region	IFAD performance	Government performance	Overall project achievement	Household income and assets	Human and social capital and empowerment	Food security and agricultural productivity	Institutions and policy	Environment and natural resources management
Highest quintiles	4.3**	4.1**	4.2**	4.5**	4.3	4.2	3.9	3.9
Number of observations	44	45	45	34	36	32	36	38
Higher quintile	4.2	4.0	4.0	4.4	4.6***	4.3**	4.0	3.9
Number of observations	46	46	46	36	35	34	35	40
Middle quintile	4.2	3.9	4.1	4.4*	4.1	4.1	4.1	3.7
Number of observations	44	44	43	31	34	29	33	34
Lower quintile	4.1	3.8	4.0	4.2	4.1	3.9	4.0	3.7
Number of observations	47	47	47	43	44	42	42	34
Lowest quintile	3.7***	3.5***	3.6***	3.6***	3.8**	3.5***	3.6	3.4**
Number of observations	43	45	46	38	39	37	36	40
Total	4.1	3.9	4.0	4.2	4.2	4.0	3.9	3.7

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

Projects with grant-financed components

TABLE 12

2016 project status report (PSR) ratings for projects with and without a component financed by a grant from any source

Loan projects with different types of grants	Effectiveness lag (months)	Quality of financial management	Acceptable disbursement rate	Counterpart funds	Compliance with financing covenants	Compliance with procurement	Quality and timeliness of audits	Quality of project management
Projects with a grant								
Average	8.3	3.9	3.5	4.0	4.2	4.0	4.3	4.0
Median	6.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	8.2	0.7	1.2	1.0	0.8	0.7	0.6	0.7
Number of observations	222	222	222	222	222	222	222	222
Projects without a grant								
Average	8.5	3.9	3.3	4.0	4.1	4.1	4.2	4.1
Median	5.1	4.0	3.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	8.4	0.7	1.2	1.0	0.7	0.7	0.8	0.7
Number of observations	205	205	205	205	205	205	205	205

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: IOE analysis of PSR rating data.

TABLE 13

2016 PSR ratings for projects with and without a component financed by a grant from any source

Loan projects with different types of grants	Performance of M&E	Gender focus	Poverty focus	Effectiveness of targeting approach	Innovation and learning	Climate and environment focus	Institution-building (organizations, etc.)	Empowerment
Projects with a grant								
Average	3.9	4.5	4.4	4.3	4.2	4.3	4.1	4.2
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.8	0.7	0.7	0.6	0.7	0.6	0.6	0.7
Number of observations	222	222	222	222	222	222	222	222
Projects without a grant								
Average	4.0	4.3	4.4	4.4	4.2	4.1	4.0	4.2
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.7	0.7	0.6	0.6	0.7	0.6	0.6	0.7
Number of observations	205	205	205	205	203	203	203	203

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: IOE analysis of PSR rating data.

TABLE 14

IOE ratings for projects with and without a component financed by a grant from any source

Loan projects with or without a grant	Relevance	Effectiveness	Efficiency	Sustainability	Project performance	Rural poverty impact	Innovation and scaling up	Gender equality and women's empowerment
Projects with a grant component								
Average	4.7**	4.0	3.5	3.6	4.1	4.2	4.3	4.2
Median	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.76	0.91	1.10	0.80	0.78	0.83	0.80	0.84
Number of observations	51	51	51	50	51	49	50	39
Projects without a grant component								
Average	4.4	4.0	3.7	3.6	4.0	4.0	4.1	4.1
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.76	0.90	1.06	0.88	0.78	0.82	0.95	0.98
Number of observations	177	177	176	177	177	172	174	143

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 15

IOE ratings for projects with and without a component financed by a grant from any source

Loan projects with or without a grant	IFAD performance	Government performance	Overall project achievement	Household income and assets	Human and social capital and empowerment	Food security and agricultural productivity	Institutions and policy	Environment and natural resources management
Projects with a grant component								
Average	4.3	4.0	4.0	4.3	4.3	4.3**	3.8	3.9
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.76	0.75	0.84	0.78	0.98	0.85	1.23	1.08
Number of observations	49	51	51	37	38	36	37	41
Projects without a grant component								
Average	4.1	3.8	4.0	4.2	4.2	3.9	4.0	3.7
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.85	0.95	0.81	0.96	1.01	1.08	1.08	0.94
Number of observations	175	176	176	145	150	138	145	145

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 16

2016 PSR ratings for projects with and without a component financed by a grant from IFAD allocated through the PBAS

	Effectiveness lag (month)	Quality of financial management	Acceptable disbursement rate	Counterpart funds	Compliance with financing covenants	Compliance with procurement	Quality and timeliness of audits	Quality of project management
Projects with a loan component grant								
Average	9.3	4.0	3.6	4.2***	4.2	4.0	4.2	4.1
Median	7.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	9.1	0.8	1.3	1.0	0.7	0.7	0.6	0.8
Number of observations	112	115	115	115	115	115	115	115
Projects without a loan component grant								
Average	8.1	3.9	3.4	3.9	4.1	4.0	4.2	4.0
Median	4.9	4	3	4	4	4	4	4
Standard deviation	7.9	0.7	1.2	1.0	0.8	0.7	0.7	0.7
Number of observations	312	312	312	312	312	312	312	312

TABLE 17

2016 PSR ratings for projects with and without a component financed by a grant from IFAD allocated through the PBAS

	Performance of M&E	Gender focus	Poverty focus	Effectiveness of targeting approach	Innovation and learning	Climate and environment focus	Institution-building (organizations, etc.)	Empowerment
Projects with a loan component grant								
Average	3.8	4.6***	4.5*	4.3	4.2	4.4***	4.2*	4.3
Median	4.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.9	0.7	0.7	0.6	0.7	0.5	0.6	0.7
Number of observations	115	115	115	115	115	115	115	115
Projects without a loan component grant								
Average	3.9	4.3	4.4	4.3	4.2	4.1	4.0	4.2
Median	4	4	4	4	4	4	4	4
Standard deviation	0.7	0.7	0.6	0.6	0.7	0.6	0.6	0.7
Number of observations	312	312	312	312	310	310	310	310

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: IOE analysis of PSR rating data.

TABLE 18

IOE ratings for projects with and without a component financed by a grant from IFAD sources allocated through the PBAS

	Relevance	Effectiveness	Efficiency	Sustainability	Project Performance	Rural poverty impact	Innovation and scaling up	Gender equality and women's empowerment
Projects with a loan component grant								
Average	4.6	3.9	3.7	3.6	4.1	4.2	4.3	4.4**
Median	5.0	4.0	4.0	4.0	4.3	4.0	4.0	4.0
Standard deviation	0.66	0.92	1.12	0.83	0.87	0.83	0.92	0.91
Number of observations	34	34	34	33	34	32	32	29
Projects without a loan component grant								
Average	4.5	4.0	3.7	3.6	4.0	4.0	4.1	4.1
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.78	0.90	1.07	0.87	0.76	0.82	0.92	0.95
Number of observations	194	194	193	194	194	189	192	153

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 19

IOE ratings for projects with and without a component financed by a grant from IFAD sources allocated through the PBAS

	IFAD performance	Government performance	Overall project achievement	Household income and assets	Human and social capital and empowerment	Food security and agricultural productivity	Institutions and policy	Environment and natural resources management
Projects with a loan component grant								
Average	4.3	3.9	4.0	4.2	4.3	4.2	3.7	4.0
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.72	0.87	0.87	0.87	0.78	0.72	1.31	1.16
Number of observations	32	34	34	25	26	24	25	27
Projects without a loan component grant								
Average	4.1	3.9	4.0	4.2	4.2	3.9	4.0	3.7
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.85	0.92	0.81	0.93	1.03	1.08	1.07	0.94
Number of observations	192	193	193	157	162	150	157	159

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 20

2016 PSR ratings for projects with and without a component financed by a grant sources not allocated through the PBAS

Loan projects with different types of grants	Effectiveness lag (months)	Quality of financial management	Acceptable disbursement rate	Counterpart funds	Compliance with financing covenants	Compliance with procurement	Quality and timeliness of audits	Quality of project management
Projects with international grant								
Average	7.4	3.9	3.4	3.8***	4.1	3.9***	4.2	3.9
Median	5.5	4.0	3.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	6.4	0.7	1.3	1.0	0.8	0.8	0.6	0.7
Number of observations	129	129	129	129	129	129	129	129
Projects without a grant								
Average	8.5	3.9	3.3	4.0	4.1	4.1	4.2	4.1
Median	5.1	4.0	3.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	8.4	0.7	1.2	1.0	0.7	0.7	0.8	0.7
Number of observations	205	205	205	205	205	205	205	205

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: IOE analysis of PSR rating data.

TABLE 21

2016 PSR ratings for projects with and without a component financed by a grant from sources not allocated through the PBAS

Loan projects with different types of grants	Performance of M&E	Coherence between annual work programme and budget (AWPB) & implementation	Gender focus	Poverty focus	Effectiveness of targeting approach	Innovation and learning	Climate and environment focus	Institution-building (organizations, etc.)	Empowerment
Projects with international grant									
Average	3.9	3.6	4.4**	4.3	4.2	4.1	4.2***	4.0	4.2
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.7	0.8	0.6	0.6	0.6	0.7	0.6	0.6	0.7
Number of observations	129	129	129	129	129	129	129	129	129
Projects without a grant									
Average	4.0	3.7	4.3	4.4	4.4	4.2	4.1	4.0	4.2
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.7	0.8	0.7	0.6	0.6	0.7	0.6	0.6	0.7
Number of observations	205	205	205	205	205	203	203	203	203

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: IOE analysis of PSR rating data.

TABLE 22

IOE ratings for projects with and without a component financed by a grant from sources not allocated through the PBAS

Loan projects with or without a grant	Relevance	Effectiveness	Efficiency	Sustainability	Project performance	Rural Poverty impact	Innovation and scaling up	Gender equality and women's empowerment
Projects with an international grant								
Average	4.8*	4.0	3.3*	3.5	4.1	4.1	4.2	4.0
Median	5.0	4.0	3.5	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.84	0.95	1.12	0.84	0.76	0.86	0.65	0.72
Number of observations	32	32	32	32	32	32	31	22
Projects without a grant component								
Average	4.4	4.0	3.7	3.6	4.0	4.0	4.1	4.1
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.76	0.90	1.06	0.88	0.78	0.82	0.95	0.98
Number of observations	177	177	176	177	177	172	174	143

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 23

IOE ratings for projects with and without a component financed by a grant from sources not allocated through the PBAS

Loan projects with or without a grant	IFAD performance	Government performance	Overall project achievement	Household income and assets	Human and social capital and empowerment	Food security and agricultural productivity	Institutions and policy	Environment and natural resources management
Projects with an international grant								
Average	4.6*	4.1*	3.9	4.3	4.2	4.2	3.7	3.7
Median	5.0	4.0	4.0	5.0	4.0	4.0	4.0	4.0
Standard deviation	0.80	0.69	0.76	0.87	1.05	0.93	1.23	1.21
Number of observations	31	32	32	24	25	25	24	25
Projects without a grant component								
Average	4.1	3.8	4.0	4.2	4.2	3.9	4.0	3.7
Median	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Standard deviation	0.85	0.95	0.81	0.96	1.01	1.08	1.08	0.94
Number of observations	175	176	176	145	150	138	145	145

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: analysis of IOE project ratings.

TABLE 24

Time required to reach implementation milestones loans with and without a grant from IFAD sources that are allocated through the PBAS (closed projects)

Projects with and without a loan component grant	Time from project approval to original completion (years)	Time from project approval to actual completion (years)	Time from entry into force to original completion (years)	Time from entry into force to actual completion (years)	Time from approval to disbursement (years)	Time from project approval to first disbursement (years)	Project duration difference (years)
Projects with a loan component grant							
Average	7.6***	8.4***	6.8***	7.6***	2.6***	2.6***	0.8***
Median	7.6	8.4	6.7	7.5	1.7	1.7	0.7
Standard Deviation	2.6	2.7	2.5	2.5	2.4	2.4	0.7
Sample size	163	163	163	163	162	162	131
Projects without a loan component grant							
Average	8.4	9.4	7.3	8.4	1.5	1.5	1.0
Median	8.6	9.5	7.5	8.3	1.4	1.4	0.7
Standard Deviation	2.5	2.7	2.3	2.6	0.9	0.9	1.1
Sample size	753	753	753	753	753	753	688

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: IOE analysis of Flexcube data.

TABLE 25

Time required to reach implementation milestones for loans with and without a grant from sources that are not allocated through the PBAS (closed projects)

Loan grants	Time from project approval to original completion (years)	Time from project approval to actual completion (years)	Time from entry into force to original completion (years)	Time from entry into force to actual completion (years)	Time from approval to disbursement (years)	Time from project approval to first disbursement (years)	Project duration difference (years)
International financed grants							
Average	4.5***	6.2***	4.0***	5.7***	1.0***	1.0***	1.7***
Median	3.8	5.2	3.2	4.7	0.7	0.7	1.0
Standard deviation	2.6	3.4	2.4	3.2	0.9	0.9	2.3
Number of observations	184	184	184	184	184	184	184
Projects without a grant							
Average	8.3	9.3	7.3	8.3	1.5	1.5	1.0
Median	8.4	9.4	7.4	8.2	1.4	1.4	0.7
Standard deviation	2.5	2.8	2.3	2.6	0.9	0.9	1.1
Number of observations	838	838	838	838	838	838	838

Notes: ***, ** and * denote significance at 1%, 5% and 10% level.

Source: IOE analysis of Flexcube data.

Annex XII.

Data on government counterpart funding and cofinancing

FIGURE 1

Trends in sources of project financing



Source: IOE derived from GRIPS, Investment project portfolio.

TABLE 1

Source of project financing, 2007-2015, by type of financing (Millions of United States dollars)

Type of financing	Domestic	IFAD	International	Total
IFAD 7 (2007-2009)				
Ordinary	121	194	47	362
Blend	153	181	22	356
Highly concessional	480	895	518	1 893
50% HC and 50% grant	105	223	184	512
DSF grant	81	238	226	545
Total IFAD 7	940	1 731	997	3 668
IFAD 8 (2010-2012)				
Ordinary	542	454	215	1 211
Blend	157	253	244	654
Highly concessional	1 279	1 164	656	3 099
50% HC and 50% grant	225	393	113	731
DSF grant	152	431	256	839
Total IFAD 8	2 355	2 695	1 484	6 534
IFAD 9 (2013-2015)				
Ordinary	824	623	700	2 147
Blend	328	258	49	635
Highly concessional	636	1 233	654	2 523
50% HC and 50% grant	270	466	116	852
DSF grant	212	336	274	822
Total IFAD 9	2 270	2 916	1 793	6 979
IFAD 7, 8 and 9 (2007-2015)				
Ordinary	1 487	1 271	962	3 720
Blend	639	692	314	1 645
Highly concessional	2 394	3 293	1 828	7 515
50% HC and 50% grant	600	1 082	413	2 095
DSF grant	445	1 005	756	2 206
Total	5 565	7 343	4 273	17 181

Source: IOE derived from GRIPS, Investment Project Portfolio, total financing as of current amounts (August 2017).

TABLE 2

Source of project financing by type of financing, 2007-2015 (%)

Type of financing	Domestic	IFAD	International	IFAD resource mobilization ratio
Ordinary	40%	34%	26%	1.9
Blend	39%	42%	19%	1.4
Highly concessional	32%	44%	24%	1.3
50% HC and 50% grant	29%	52%	20%	0.9
DSF grant	20%	46%	34%	1.2
Total	32%	43%	25%	1.3

Source: IOE derived from GRIPS, Investment Project Portfolio, total financing as of current amounts (August 2017).

TABLE 3

Cofinancing 2007-2016 (Millions of United States dollars)

	APR	ESA	LAC	NEN
Total Financing	6 315	4 241	2 155	2 363
Total IFAD Financing	2 666	1 916	836	1 177
Total Cofinancing	3 649	2 325	1 319	1 186
Ratio all cofinancing to IFAD financing	1.37	1.21	1.58	1.01
Total Domestic Co-Financing	2 062	1 360	917	756
Domestic % of cofinancing	56.5%	58.5%	69.5%	63.8%
Ratio Domestic cofinancing to IFAD investment	0.77	0.71	1.10	0.64
Domestic % cofinancing without beneficiaries' contribution	48.8%	50.1%	51.0%	45.1%
Governmental % cofinancing	33.5%	34.9%	44.4%	26.8%
Beneficiaries' % cofinancing	7.7%	8.4%	18.6%	18.7%
Total international cofinancing	1 587	965	402	430
International % of cofinancing	43.5%	41.5%	30.5%	36.2%
Ratio international cofinancing to IFAD Financing	0.60	0.50	0.48	0.37
IFIs inc. WB & Reg Banks % of cofinancing	34.5%	26.0%	11.8%	19.0%
World Bank % of cofinancing	11.2%	15.5%	0.0%	2.4%
Reg Dev Banks % of cofinancing	23.0%	6.2%	0.0%	0.0%
GEF % of cofinancing	0.1%	0.6%	0.6%	3.7%
Bilaterals % of cofinancing	3.2%	4.0%	15.8%	6.3%
European institutions as % cofinancing	0.6%	1.6%	0.0%	2.9%
United Nations as % cofinancing	0.2%	1.0%	0.0%	0.3%

Source: CLE computation from GRIPS database.

	WCA	LICs	LMICs	UMICs	DSF	Highly concessional	Blend	Ordinary	Total
	3 046	7 850	7 236	3 034	7 495	3 730	2 096	4 799	18 120
	1 521	3 685	3 290	1 141	3 265	2 084	804	1 963	8 116
	1 525	4 165	3 946	1 893	4 231	1 646	1 291	2 836	10 004
	1.00	1.13	1.20	1.66	1.30	0.79	1.61	1.44	1.23
	651	2 067	2 193	1 487	2 583	851	573	1 739	5 747
	42.7%	49.6%	55.6%	78.6%	61.1%	51.7%	44.4%	61.3%	57.4%
	0.43	0.56	0.67	1.30	0.79	0.41	0.71	0.89	0.71
	33.3%	41.0%	44.3%	63.6%	50.7%	35.9%	36.0%	51.4%	46.6%
	26.1%	27.8%	30.0%	52.6%	34.7%	24.5%	25.7%	40.0%	33.4%
	9.5%	8.6%	11.3%	15.0%	10.3%	15.8%	8.4%	9.9%	10.9%
	874	2 098	1 754	406	1 647	796	718	1 097	4 258
	57.3%	50.4%	44.4%	21.4%	38.9%	48.3%	55.6%	38.7%	42.6%
	0.57	0.57	0.53	0.36	0.50	0.38	0.89	0.56	0.52
	29.2%	31.1%	31.3%	8.4%	28.2%	25.1%	41.0%	19.5%	27%
	9.1%	19.9%	1.9%	1.6%	5.1%	16.3%	23.1%	5.5%	9%
	10.5%	6.6%	22.1%	0.0%	18.3%	3.0%	5.8%	8.8%	11%
	2.2%	1.3%	1.0%	0.4%	0.9%	2.1%	0.0%	1.0%	1%
	5.3%	4.8%	4.0%	11.3%	4.3%	6.3%	10.8%	5.1%	6%
	1.3%	1.3%	1.4%	0.2%	0.1%	1.8%	0.0%	2.7%	1%
	0.5%	0.8%	0.2%	0.0%	0.5%	0.5%	0.3%	0.3%	0%

Annex XIII.

Report of the Senior Independent Advisors: Frederik Korfker and Zenda Ofir

Summary statement

1. This CLE is a very necessary and timely initiative. It offers an extraordinary amount of useful information about IFAD's financial policies and instruments, challenges and risks. It should be an essential point of reference during any process aimed at improving the financial architecture in order to respond better to internal demands as well as external changes in context. At the moment IFAD faces challenges in ensuring financial sustainability, and the analysis and findings presented in the report present a serious situation. It is surprising that capital erosion with, *inter alia*, major exposure to foreign exchange movements, unpredictable grant incomes or replenishment, and high operating expenses have been allowed to continue. As the CLE team also points out, it will be very important to be fully cognizant of the risks inherent in both the current situation and the solutions proposed in the evaluation report. According to the Review Panel, it will be imperative to have a conservative approach to capital market engagement, carefully monitor and respond nimbly to emerging opportunities and risks, and track and learn from innovative policies and ways of working among conventional as well as non-conventional actors. At the same time it is important that IFAD's development function does not become weaker at the behest of a stronger banking function.

Evaluation credibility and utility

2. The evaluation has been well conceptualize and executed and establishes a good methodology for this type of still rather unique evaluation. The extent and diversity of data collection methods and analyses make for rich detail that respond well to the comprehensive set of very relevant evaluation questions. The methodology was appropriate, even impressive within noted constraints. The sampling for triangulation was reasonable. Especially appreciated is the integrated mixed methods design with extensive use of available data, case studies and financial scenario modelling as evidence that could inform or enhance interviews and the survey. The report contains a wealth of useful facts on the use of funds, allocation approaches and financial instruments. It provides excellent insights into the diversity of instruments and charges within IFAD's mandate, with the concomitant risks and challenges. The analyses are done in a manner that highlights nuances and variations between groups and countries. This strengthens the credibility of conclusions and recommendations in the report.

Comparator organizations

3. IFAD's area of work is recognized worldwide as very important for sustainable development with a "no-one left behind" focus - an area where until now grants and highly concessional financing were the only available finance options, as is generally the case in United Nations institutions. In this report, the focus for comparison and possible adjustments to financial architecture is on the MDBs, even though they are far larger and with distinctive characteristics that set them apart from IFAD. The experience of the MDBs in dealing with lending instruments, currency issues and other challenges is frequently highlighted in the report as an important learning opportunity for IFAD. The focus is largely justifiable as these organizations have valuable experience. They have been given preferential status to leverage their capital effectively for sustainability, while other organizations mentioned in the report provide grants largely dependent on ex-ante replenishments.
4. However, MDB models and strategies should not be blindly followed. There are also increasingly other financing actors and funding streams from the private sector and emerging economies that are taking traditional donors' and lenders' place and altering the financial landscape. In this respect, the implications for IFAD's financial architecture, its underpinning capacities and structures should be adequately understood.
5. IFAD's evolving landscape. Ideally, the CLE would have been complemented by an evaluation of IFAD's strategic positioning and comparative advantage, performance and value proposition within the evolving rural poverty reduction and sustainable development landscape, cognizant of dynamics in closely related fields such as climate change, economic advancement and disaster risk reduction. The report recommends that IFAD should conduct feasibility studies about options for the introduction of new products (e.g. ordinary loans) and increased flexibility of choice in the terms and condition of existing products. It is essential to understand how attractive IFAD is likely to (continue to) be for ODA, philanthropic foundation and private sector funding streams, as well as for strategic partnerships and coalitions that can strengthen funding flows into the future. Such insights, together with detailed information on the demand for IFAD grants and (concessional) loans, could lead to a better understanding of the extent to which it can for example benefit from partnerships and grants from non-traditional sources, raise interest rates, harden borrowing terms or implement other measures to arrive at a sustainable financial architecture.
6. Learning to handle risks. If IFAD is likely to follow a path similar to other MDBs in becoming more reliant on debt, it will be more exposed to risk. It will therefore have to cope with more complex structures and demands for new capacities among its Board, Audit and other relevant Committees, IT systems and staff. The critical question remains whether the size of IFAD, and the scope and nature of its work would justify all the demands and trade-offs that will result. The organization will take a big step by moving forward with processes to borrow from capital markets and use derivatives for hedging purposes to mitigate foreign exchange risk. At this point, the policies and guidelines for asset and liability management are still underdeveloped, and relevant functions, roles and responsibilities are not clearly defined. IFAD will require a conservative approach to investment strategies in the light of the likelihood of increased risk in capital markets in coming years, and hedging against foreign exchange fluctuations, dependence on derivatives or investment in BBB-rated equities (already in use) will have to be very carefully managed. Capital markets performed very well from a low base over the last decade, but this situation is unlikely to continue. It will therefore be prudent to ensure that IFAD, possibly with expert external help, creates sufficient internal expert knowledge and experience, as well as internal guidelines and controls. These will also be a prerequisite for obtaining an acceptable credit rating from rating agencies.

Recommendations

7. The proposals presented in the Recommendations chapter are constructive, and focus on enhancing flexibility and introducing innovations into financial products and the Review Panel largely agrees with the recommendations. Scaling up and drawing from the experience of other development finance institutions (DFIs) around the world is important and building instruments to better respond to natural and man-made disasters will help IFAD to stay close to its mandate. Providing more options for existing instruments, such as the length of the grace period and amortization schedule and selecting the currency for new loans will help IFAD on its path to become sustainable. The suggestion to change the financial allocation system through creating a second lending window for ordinary loans separate from the existing PBAS is useful and can provide selected Member States with new opportunities. At the same time, it will be essential to ensure that there are no increased risks or unforeseen negative impacts – financial or otherwise – that result for recipient or borrowing countries.
8. Addressing the problem of systematic financial losses causing substantial capital erosion is correctly at the heart of the CLE. The concrete proposals are challenging as it is suggested that all concessional financing (DSF) and grants be moved to a special purpose fund that is not consolidated on IFAD's balance sheet. In this respect it would be essential for IFAD to turn future compensation for DSF principal into a legally binding agreement, thereby reducing the degree of future uncertainty related to DSF and improving IFAD's financial architecture and potential for a good credit rating. The envisaged increased margin on IFAD's ordinary loans are not without risk; IFAD's traditional Member States might have reservations about such type of financing for their highly developmental programmes. It is indeed critical that the proposed strategies and instruments aimed at improving IFAD's financial architecture consider and protect not only its own financial interests, but also those of the borrowing Member States.
9. Going the route of entering the capital market carries high risk and will require substantial work before rating agencies will be ready to provide IFAD with the required rating. If IFAD would indeed move its financial architecture to a higher degree of complexity, as the CLE recommends, the drafting of a more detailed Funding Policy and Annual Borrowing Strategy will be crucial, and the Risk Management Function in IFAD will have to be substantially strengthened. However, following this route does not necessarily require a long period of time, as expertise is readily available at the other MDBs and/or can be easily acquired in the market. Early discussion with the rating agencies when preparing for this higher degree of complexity will be essential.

Annex XIV.

Key persons met

IFAD

Executive Board Representatives

- Mr Adolfo Di Carluccio, Executive Board Representative for Italy
- Mr Alberto Cogliati, Executive Board member for Italy
- Mr Arnaud Guigné, Executive Board Representative for France
- Mr John Hurley, Executive Board Representative for the United States
- Mr Quaye-Kumah, Executive Board member for Ghana
- Mr Shi Jiaoqun, Counsellor Deputy Permanent Representative for China
- Ms Martina Metz, Executive Board Member for Germany
- Mr Wierish Ramsoek, Executive Board member for Netherlands

Financial Operations Department (FOD)

- Mr Mikio Kashiwagi, Associate Vice-President, Chief Financial Officer and Chief Controller, FOD
- Mr Advit Nath, Director and Controller, ACD
- Ms Allegra Saitto, Chief Financial Reporting & Corporate Fiduciary, ACD
- Ms Ruth Farrant, Director, FMD
- Mr Gianluca Capaldo, Finance Officer, FMD
- Mr Malek Sahli, Senior Finance Officer & Team Leader, FMD
- Mr Domenico Nardelli, Director of Treasury, TRE
- Mr Henk Janse Van Vuuren, Senior Treasury Officer, TRE
- Ms T. Galloni, Treasury Senior Officer, Back Office, TRE
- Mr Marco Penna, Resource Modelling Officer, TRE
- Mr Domenico Passafaro, Financial Data Analyst, TRE
- Ms B. Vukadin, Assistant Treasurer, Middle Office, TRE

Programme Management Department

- Mr Perin Saint Ange, Associate Vice-President, PMD
- Mr Amine Zarroug, Consultant, Operational Policy and Results Division (OPR)
- Ms Soledad Marco, Programming and resource officer, OPR

Asia and the Pacific Division (APR)

- Ms Hoonae Kim, Director, APR
- Mr Nigel Brett, Portfolio Advisor, APR
- Mr Ronald Hartman, Country Director Indonesia, APR
- Ms Anissa Pratiwi, Country Programme Analyst, Indonesia, APR
- Ms Heike Hakim, Country Programme Assistant, Indonesia, APR
- Mr Muhammad Iskandar, Country Programme Analyst, Indonesia, APR
- Ms Rasha Omar, Country Programme Manager India, APR
- Mr Omer Zafar, Country Programme Manager, APR
- Mr Jerry Pacturan, Country Programme Officer Philippines, APR
- Mr Yolando Arban, Former Country Programme Officer, APR

East and Southern Africa Division, (ESA)

- Mr Sana Jatta, Director, ESA
- Ms Shirley Chinien, Regional Economist, ESA
- Mr Henrik Franklin, Portfolio Advisor, ESA
- Mr Alessandro Marini, Country Portfolio Manager for Uganda, ESA
- Mr Francisco Pichon, Country Programme Manager Tanzania, ESA
- Ms Abila Benhammouche, Country Director and Representative Zambia, ESA
- Mr Dick Siame, Country Programme Officer Zambia, ESA
- Mr Oscar Anaadumba, Consultant, ESA

Latin America and the Caribbean Division (LAC)

- Mr Joaquin Lozano, Director, LAC
- Mr Paolo Silveri, Country Programme Manager Brazil, LAC

Near East, North Africa and Europe Division (NEN)

- Ms Khalida Bouzar, Director, NEN
- Mr Abdelkarim Sma, Regional Economist, NEN
- Ms Sylvia Schollbrock, Portfolio Adviser, NEN
- Mr Ahmed Tarek, Country Programme Manager, NEN
- Mr Naoufel Telahigue, Country Programme Manager Morocco, NEN
- Mr Chakib Nemmaoui, Programme Officer Morocco, NEN

West and Central Africa Division (WCA)

- Mr Ides de Willebois, Director, WCA
- Mr Bernard Mwinyel Hien, Country Programme Manager Cameroon, WCA
- Ms Odile Sarassoro, Country Programme Officer Côte d'Ivoire, WCA

Environment and Climate Division (ECD)

- Ms Margarita Astralaga, Director, ECD
- Mr Gernot Laganda, Lead Technical Specialist, ECD

Other IFAD Departments/Divisions

- Mr Michel Mordasini, Vice-President of IFAD, Office of the President and Vice President (OPV)
- Mr Paul Winters, Associate Vice President, Strategy and knowledge Department, (SKD)
- Mr Ashwani Kaul Muthoo, Director, Global Engagement, Knowledge and Strategy Division, (GKS)
- Mr Luis Jimenez Mc-Innis, Director, PRM
- Ms Nicole Carta, Senior Officer, PRM
- Mr Bambis Constantinides, Director, AUO
- Mr Saheed Adegbite, Director, Office of Budget and Organizational Development (BOD)
- Mr Ed Gallagher, Senior budget specialist, Office of Budget and Organizational Development (BOD)

Government**Bosnia and Herzegovina**

Mr Samir Baki, Assistant to the Minister, Subnational Federal, Ministry of Finance

Cambodia

- Mr H.E. Mam Amnot, Secretary of State, Ministry of Agriculture, Forestry and Fisheries
- Mr H.E. Hem Vandy, Under Secretary of State, Ministry of Economy and Finance
- Mr H.E. Pen Thirong, Director General, General Department of International Cooperation and Debt Management

Cameroon

- Mr Patrick Mvondo Nna, Secretary General, Ministry of Agriculture and Rural Development
- Mr Bernard Comoe, Director of Production and Food Security, Ministry of Agriculture and Rural Development
- Mr Charles Assamba Ongodo, Director General of International Cooperation and Regional Integration

Côte d'Ivoire

- Mr Siaka Coulibaly, Chief of office, Ministry of Agriculture and Rural Development
- Mr Sidy Cisse, Deputy chief of office, Ministry of Budget and State Portfolio
- Mr Franck Herve Aduko, Deputy Director Guaranteed Loans Public Sector Debt and Public-Private Partnership Financing, Ministry of Economy and Finance

Georgia

- Mr Ioseb Skhirtladze, Head of Foreign Debt Department, Ministry of Finance
- Mr Lasha Komakhidze, Minister of Agriculture of the Autonomous Republic of Adjara
- Mr Me Nodar Kereselidze, First Deputy Minister for Agriculture

Indonesia

- Mr Agustin Arry Yanna, Director for Multilateral Foreign Financing, Bappenas, State Planning Agency
- Mr Arief Rachman, International Cooperation Division, Ministry of Agriculture
- Mr Dalyono, Deputy Director Multilateral Forum, Fiscal Policy Agency, Ministry of Finance
- Mr Syaiful, Deputy Director of Cash Management, Ministry of Finance
- Mr Ferryal, World Bank Loans, Cash Management Division, Ministry of Finance
- Mr Kukuh Widodo, IFAD Loans, Cash Management Division, Ministry of Finance
- Mr Mesah Tarigan, Director of International Cooperation, International Cooperation Division, Ministry of Agriculture

- Mr Sagcing Meraes Rasno Dewi, International Cooperation Division, Ministry of Agriculture
- Mr Pak Amdi Very Darma, Director of Audit of Foreign Loans and Grants, General Auditor
- Mr Riki Antariksa, Manager of Programme Section, Research and Development Center, General Auditor
- Mr Zandy A. Rassat, Deputy Director, Loans and Grants Division, Ministry of Finance
- Ms Aisyah Mayuliani, Sub Division Head, Loan and Grants Division, Ministry of Finance
- Ms Ayu Sukorini, Director, Loans and Grants Division, Ministry of Finance
- Ms Era Herisne, Staff, Multilateral Forum, Fiscal Policy Agency, Ministry of Finance
- Ms Rosianna, Multilateral Foreign Financing, Bappenas, State Planning Agency
- Ms S. Fifi Herwati, Deputy Director of Audit of Foreign Loans and Grants, Financial Aid Supervisory Board, General Auditor

Mexico

- Mr Oscar Alonso Ramirez Herrera, International Affairs Unit, Secretariat of Finance and Public Credit
- Mr Celestino Calderon Martinez, Coordination Manager Director, Prospera, Social Inclusion Programme
- Ms Teresita de Jesus Fausto Moya, Productivity Manager, Prospera, Social Inclusion Programme
- Mr Luis Alfonso Franco Maraver, External credit manager director, Prospera, Social Inclusion Programme
- Mr Pablo Alejandro Villaseñor Vazquez, Director of the Regional Coordination of Prospera, Social Inclusion Programme
- Ms Veronica Caras Contreras, Project Officer, Nacional Financiera (NAFIN), Secretariat of Finance and Public Credit
- Mr Luis Gomez Menendez, Deputy Director of Finance Operations, NAFIN, Secretariat of Finance and Public Credit
- Ms Lourdes Gonzalez C., Financial agent manager, NAFIN, Secretariat of Finance and Public Credit
- Ms Violeta Silva Juarez, Executive Sub-directorate, Financial Agent, Sectorial Executive, NAFIN, Secretariat of Finance and Public Credit
- Ms Liliana Velazquez Correa, Finance Deputy Director, NAFIN, Secretariat of Finance and Public Credit
- Mr Alejandro C. Vazquez Leon, Deputy Director and Financial Agent, Project Executive, Secretariat of Finance and Public Credit
- Mr Mauricio Castañeda Leon, Disbursement manager and financial follow up, Secretariat of Finance and Public Credit

- Mr Julio Cesar Toledo Ordaz, Administrative and debt portfolio manager, Secretariat of Finance and Public Credit, Secretariat of Finance and Public Credit
- Mr Francisco Arrasate Garcia, Finance and Monitoring Division, Comisión Nacional Forestal
- Ms Berenice Hernandez, Financial Inclusion Director, Comisión Nacional Forestal
- Ms Victoria Muñoz, Administration and Product Department, Comisión Nacional Forestal

Morocco

- Mr Mohamed El Guerrouj, Director General, Agriculture Development Agency
- Mr Mohamed Lemghari, Divisional inspector, Budget Division, Ministry of Finance
- Mr Said Laith, Directeur du Développement de l'Espace Rural et des Zones de Montagne. Ministère de l'agriculture, de la pêche maritime du développement rural et des eaux et des forêts

Peru

- Mr Cobenas, Ministry of Economy and Finance

Philippines

- Ms Rhya L. Daluddung, National Economic and Development Authority (NEDA)
- Ms Maria Luisa R. Magbojos, NEDA
- Mr Calixto M. Mangilin Jr, NEDA
- Ms Sylvia Mallari, Under Secretary Department of Agrarian Reform
- Mr Romy C. Maningai, Chief of staff/Technical staff Department of Agrarian Reform
- Mr Rowel B. Del Rosario, Project Development Service, Department of Agriculture
- Ms Stella Laureano, Director, Department of Finance (DOF)
- Ms Donalyn Minimo, Department of Finance
- Ms Everette Villaraza, Department of Finance
- Ms Ester Aida G. Simbajon, Development Management Officer, Special Projects Coordination and Management Assistance Division
- Ms Evelyn L. Valeriano, Development Management Officer, Special Projects Coordination and Management Assistance Division

Uganda

- Mr Benjamin Kumumanya, Permanent Secretary Ministry of Local Development
- Mr Frederick Matyama, Commissioner, Financial Services Department, Ministry of Finance, Planning and Economic Development
- Ms Maris Wanyera, Acting Director, Directorate for Debt and Cash Policy, Ministry of Finance, Planning and Economic Development

United States - Treasury

- Mr Chuck Moravec, covered IDB 9th and IDA18 replenishment
- Ms Joanna Veltri, covered IDB 9th and IDA18 replenishment

Zambia

- Mr Brian Childamba Senior Economist, Ministry of Finance
- Mr William Kabwe, Director Investments and Debt Management, Ministry of Finance
- Mr Boyd Nga'ndu, Senior Economist Government Investment, Investment and Debt Management Department, Ministry of Finance
- Mr Thomas Phiri, Chief Accountant, Ministry of Finance
- Mr Likumba Zyambo, Senior Economist, Ministry of Finance
- Mr Kaunda Kapepula, Acting Director Agribusiness and Marketing Department, Chief Agricultural Economist, Ministry of Agriculture
- Mr Derrick Sikombe, Acting Director, Policy and Planning Department, Ministry of Agriculture
- Mr Charles M. Sondashi, Deputy Director Agric. Advisory Services Branch, Ministry of Agriculture
- Mr Michael M Mbulo, Programme Coordinator IFAD funded Rural Finance Expansion Programme
- Ms Cecilia Brumér, First Secretary Agriculture, Environment and Inclusive Growth, Embassy of Sweden; SIDA-Sweden

Development Partners**Belgium***Alterfin*

- Mr Jean-Marc Debricon, General Manager

Incofin Investment Management

- Mr David Dewez, Chief Risk & Compliance Officer

Cameroon*African Development Bank (AfDB)*

- Mr Albert Nyaga, Agriculture Task team leader

Agence Française de Développement (AFD)

- Mr Gael Wassmer, project manager for rural development and biodiversity

Japan International Cooperation Agency (JICA)

- Ms Junko Masuda, Resident Representative
- Mr Takayuki Muraoka, Deputy representative

World Bank

- Mr Thomas Ngue Bissa, National coordinator PIDMA project

Colombia*Incofin Investment Management*

- Ms Rita van den Abbeel, Regional Director LAC/ Fund Manager Agro

Côte d'Ivoire*African Development Bank (AfDB)*

- Mr Ben Messaoud, Resource Mobilization and Partnerships Department, Senior Resource Allocation Officer
- Mr Boulard Gauthier, Chief Resources Mobilization Officer
- Mr Ricardo Carvalheira, Principal Treasury Officer, Treasury Department
- Mr Trevor De Kock, Ag. Director, Financial Management Department
- Mr Hachem Samer, Division Manager Independent
- Development Evaluation (IDEV)
- Mr Kapoor Kapil, Vice President for Strategy and Operational Policies
- Mr Densil Magume, Assistant to Vice President, Finance Complex
- Mr Alex M Mubiru, Division Manager, Resource Mobilization and Partnerships Department
- Mr Stefan Nalletamby, Director, Financial Sector Development
- Mr Rakesh Nangia, Director of IDEV
- Mr Omar Sefiani, Chief Investment Officer Treasury
- Ms N'Sele Hassatou, Treasurer and Director, Treasury Department
- Ms Sheila Codamus-Platel, Treasury Department Senior Investment
- Ms Toda Atsuko, Director for Agricultural Finance and Rural Development

Agence française de développement (AFD)

- Mr Lezou Joachim, Operation Officer agriculture and environment, focal point NGOs and Civil society

World Bank

- Mr Jean Philippe Tre, Agro-Economist Senior

France

Agence française de développement (AFD)

- Mr François Parmentier, General secretary
- Mr Jean-Luc François, Director, Agriculture, rural development and biodiversity
- Ms Françoise Lombard, Director, Finance Division
- Mr Bokar Cherif, Trading room manager
- Mr Cédric Vautier, Chief of mission, General secretary
- Mr Claude Torre, Agriculture, Rural development biodiversity

ResponsAbility

- Ms Gaëlle Bonnieux, Head Agriculture Debt Investments

Indonesia

Asian Development Bank (AsDB)

- Mr Anthony Gill, Senior Country Specialist

World Bank

- Mr Yogana Prasta, Operations Adviser
- Mr P. K. Subramanian, Lead Financial Management Specialist

Italy

FAO

- Mr William Marvin, OiC Treasury group
- Ms Simona Colaiacomo, Treasury group

WFP

- Mr Sedulio Amari, Chief of Treasury Branch
- Mr Nicholas Nelson, Director, Finance and Treasury Division
- Rob van der Zee, Deputy Director and Treasurer, Finance and Treasury Division

Mexico

Inter-American Development Bank (IDB)

- Ms Veronica Zavala Lombardi, Representative

World Bank

- Mr Gregor V. Wolf, Sector Manager, Sustainable Development Department
- Mr Renan Poveda, Senior Environment Specialist

Morocco

African Development Bank (AfDB)

- Ms Yacine Diama Fall, Resident Representative

World Bank

- Mr Mohammed Medouar, Senior Specialist In Rural Development

Netherlands

FMO

- Mr Pim Arends, Senior Treasury Officer
- Mr Tony Bakels, Credit Manager
- Mr Jan-Job de Vries Robbe, Manager, Legal Affairs
- Mr Steven Duyerman, Manager, Agribusiness, Food and Water Division
- Mr Jeroen Horsten, Senior Risk
- Mr Bas Rekveld, Manager, Financial Institutions Africa
- Ms Ima Schoonbeck, Senior Planning and Control Office, Strategy Department
- Mr Anton Timpers, Senior Investment Officer, Agricultural Department

Rabo Rural Fund

- Mr Alexander Meyer, Manager

Triodos Investment Management

- Mr Karel Nierop, Fund Manager Hivos-Triodos Fund (MicroFinance)
- Mr Michael van den Berg, Fund Manager Triodos Sustainable Trade Fund (Emerging Markets)

Philippines

Asian Development Bank (AsDB)

- Mr Allan Carlo H. Soller, Attorney Resource Person
- Mr Joven Balbosa, Country Specialist

Development Bank of the Philippines (DBP)

- Mr Romeo Carandang, Senior Assistant Vice President, Small and Medium Investment and Loans for Entrepreneurs Department

Foundation for a Sustainable Society Inc.

- Mr Jay Lacsamana, Executive Director
- Mr Jerome Ignacio, Assistant Director for Development Services

World Bank

- Ms Frauke Jungbluth, Lead Agriculture Economist

United States***Global Environment Facility (GEF)***

- Dr. Juha I. Uitto, Director, Independent Evaluation Office Global Environment Facility

Inter-American Development Bank (IDB)

- Luis Alberto Giorgio, Chief of Staff, Office of the Presidency
- Marcelo Bisogno, Executive Director for Paraguay
- Cheryl Gray, Director, Office of Evaluation and Oversight
- Luis Echebarria, Country Representative for Haiti

Root Capital

- Mr Brian Milder, EVP Strategy & Innovation

United Nations Department of Economic and Social Affairs (United Nations DESA)

- Mr Alexander Trepelkov, Director, Financing for Development Office

United Nations Development Programme (UNDP)

- Mr Arild Hauge, Deputy Director, Independent Evaluation Office

World Bank

- Ms Angelic De Plaa, Acting Director, DFIRM and Ms. Natalia Antsilevich, Acting Manager, Finance, DFIRM
- Ms Caroline Heider, Director General of the Independent Evaluation Group
- Mr Martin Spicer, Director of Blended Finance Department, IFC
- Mr van Trotsenburg, World Bank Vice President for Development Finance

Zambia***African Development Bank (AfDB)***

- Mr Damoni Kitabire, Resident Representative
- Mr Lewis Bangwe, Agricultural Expert

European Union

- Mr Friedrich Mahler, Agriculture and Rural Development Advisor

United States Agency for International Development (USAID)

- Mr Anafrida Bwenge, Chief, Feed the Future Division
- Mr Mlotha Dameaseke, Agriculture Specialist

World Bank

- Mr Willem Janssen, Lead Agricultural Specialist

Annex XV.

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Independent Office of Evaluation
International Fund for Agricultural Development
Via Paolo di Dono, 44 - 00142 Rome, Italy
Tel: +39 06 54591 - Fax: +39 06 5043463
E-mail: evaluation@ifad.org
www.ifad.org/evaluation
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 www.youtube.com/IFADevaluation

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