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Enabling poor rural people  
to overcome poverty

## **ACA implications for future replenishments**

### **Note to Executive Board representatives**

#### Focal points:

#### Technical questions:

**Iain Kellet**

Chief Finance Officer and Head, FOD  
Tel.: +39 06 5459 2403  
e-mail: i.kellet@ifad.org

**Munehiko Joya**

Treasurer and Director, TRE  
Tel.: +39 06 5459 2251  
e-mail: m.joya@ifad.org

#### Dispatch of documentation:

**Deirdre McGrenra**

Governing Bodies Officer  
Tel.: +39 06 5459 2374  
e-mail: gb\_office@ifad.org

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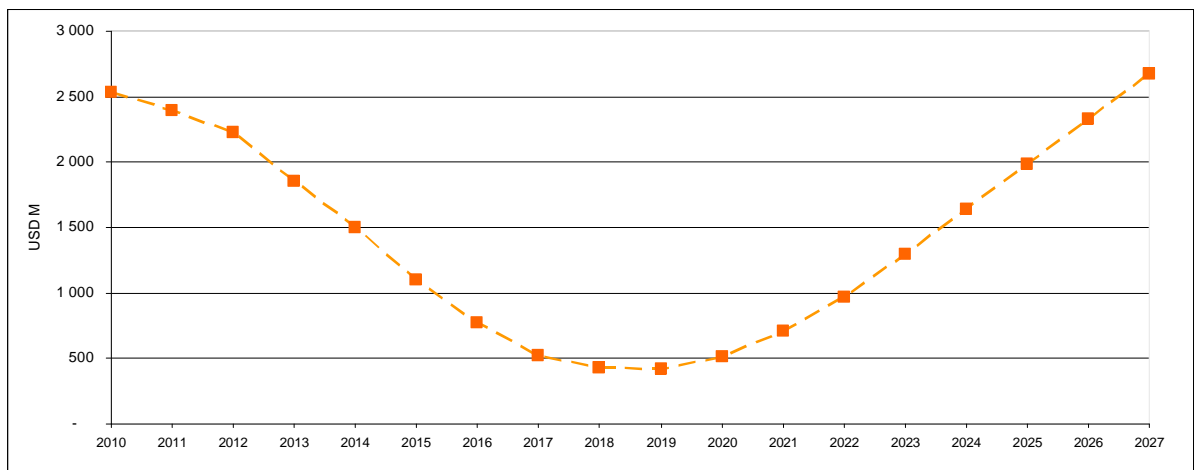
**For: Information**

## ACA implications for future replenishments

1. IFAD has a policy of balancing the programme of loans and grants (PoLG) associated with each replenishment, so as to ensure that the PoLG entered into is fully funded on the basis of current resources and future reflows from loan repayments. Only the first few years (currently seven) of the loan repayment flows are considered in this funding calculation. This prudence means that, at any point in time, if IFAD received no further replenishment contributions and made no more loan or grant commitments, all outstanding commitments could be fully funded out of current assets and future cash inflows from existing loan repayments.
2. While IFAD has a responsibility to practice prudent financial management, it has an equal responsibility to deploy its resources in pursuit of its mission. At the time of IFAD8, a decision was made to increase the PoLG in excess of the increase in Member State contributions, so as to deploy the maximum amount of resources in the field.
3. Despite the IFAD8 PoLG growing by US\$1 billion over IFAD7, it was still prudent, given the level of excess resources and other mobilizations existing at the time, as shown in Graph 1.

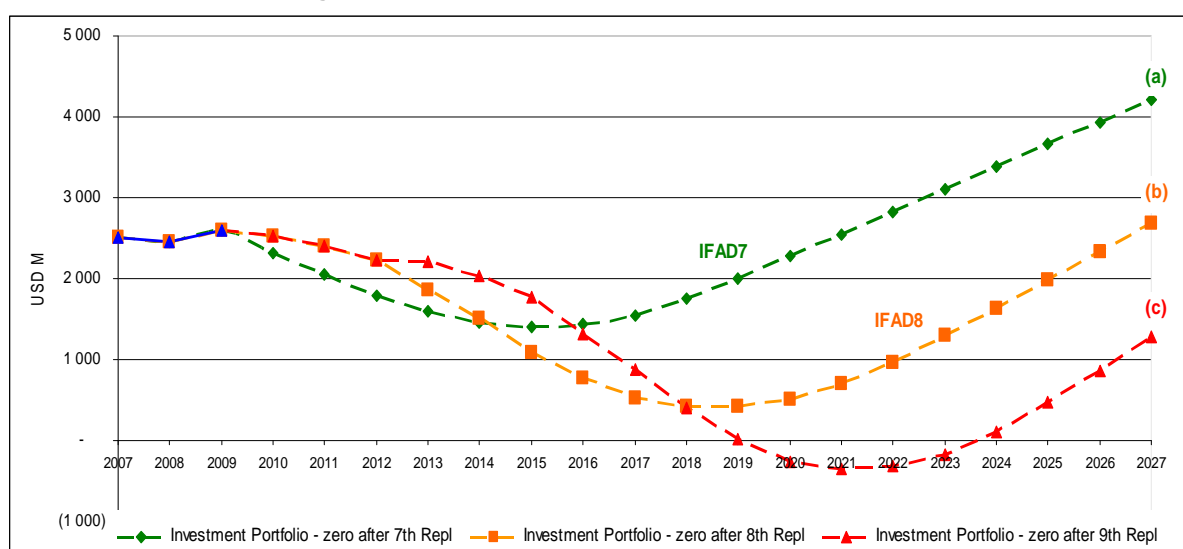
Graph 1

**Effect of IFAD8 on investment portfolio assuming zero commitments/ contributions after 2012**



4. The above graph shows that if IFAD ceased all uncommitted activity at the end of the IFAD8 replenishment period, it would remain in a positive cash position indefinitely, and though it is not evident from the graph, it would also stay within its liquidity requirements. Putting this in terms of the advance commitment authority (ACA), the above graph is commensurate with an ACA of seven years at the time of IFAD8.
5. It is necessary to recognize, however, that IFAD8 is not a repeatable exercise. Having significantly grown the PoLG over the past years (50 per cent growth between 2010 and projected 2012), IFAD9 cannot have the same profile. Graph 2 below puts this in context.

Graph 2  
Effect of IFAD9 at zero real growth over IFAD8



6. Graph 2 shows IFAD's cash balance (investment portfolio) from the beginning of IFAD7 in 2007 through today (solid blue line). The dotted green line (a) shows the projected cash flow of IFAD7 if all uncommitted activities had stopped at the time of IFAD7, i.e. end of 2009. The dotted amber line (b) shows the projected flow if all uncommitted activities stopped at the end of IFAD8, i.e. end of 2012 – the same line as shown on Graph 1. The dotted red line (c) shows the projected impact of an IFAD9 that is a duplicate of IFAD8, but grown by inflation (i.e. zero real growth after IFAD8), and as with the other two scenarios, all uncommitted activities are stopped at the end of IFAD9, i.e. end of 2015.
7. As is clear from line (c), if IFAD9 has the same relationship of PoLG to Member State contributions as IFAD8, this will result, assuming the absence of future alternate sources of income or increased replenishments, in IFAD breaking its liquidity covenant in 2018 and becoming cash negative in 2019.
8. This adverse scenario is projected to take place 8 years in the future, and is predicated on current best assumptions and predictions of investment market conditions, which may change. Nevertheless, it is felt that to maintain prudence, IFAD9 should not create a financial projection that depletes IFAD's resources below a safe level at any point in the future.
9. Accordingly, the proposals that will be put forward in the IFAD9 Consultation will require a higher proportion of Member State contribution to PoLG than was seen in IFAD8, if the prudence of IFAD9 is to be judged by the same metrics as used for IFAD8.
10. There are measures that can be taken to somewhat reduce the increased funding requirements from Member States, such as a 'hardening' of IFAD's lending terms. These enhanced resource mobilization measures will be spelled out in more detail in a paper to the June meeting of the Consultation, and could reduce the funding requirements by approximately US\$150 million. The graphs above do not include these potential improvements.
11. The graphs assume that replenishment contribution targets are met. It should be noted that contributions to the IFAD8 regular programme total US\$1.04 billion, approximately US\$160 million short of the US\$1.2 billion replenishment target. It is also assumed, however, that there are 17 per cent lower disbursements than the PoLG would indicate, due to factoring in loan cancellations/reductions based on historic averages.

12. In order to put this analysis in the context of IFAD8, these graphs are calculated using the assumptions current at the beginning of the IFAD8 period. Since then, revised assumptions have been validated that have the effect of depressing all the cash curves – i.e. repeating IFAD8 becomes even less sustainable under the new assumptions.
13. The above analysis constitutes what could be described as a stress test. It is, within reasonable bounds of assumptions, a worst case scenario. In reality, it is not envisaged that there will be no more replenishments. If it is felt that the programme of work should not be diminished, but that financial resources are constrained, then there are two other possible resolutions. First, IFAD could look at alternate sources of medium-term funds to fill the projected cash shortfall. Second, IFAD could manage its future cash flows on the assumption of a continuing series of replenishments, the effect of which would be to continually push the cash low point further and further into the future. It should be noted, however, that even under this scenario, it is not possible to have a continuation of replenishments using the IFAD8 contribution/PoLG ratio, as this would result in an indefinitely negative cash flow.
14. In conclusion, IFAD8 sought to practice prudent financial management, while maximizing the amount of resources in the field in support of the Fund's mandate. To achieve this impact, the PoLG was expanded in excess of the additional contributions by Member States, which has resulted in the full utilization of our ACA. Thus, in order to continue expanding our PoLG, or even to keep it at the same level, IFAD will need an injection of additional Member State contributions above the previous ratio of contributions/PoLG. Moreover, beginning with IFAD9, it is proposed to supplement using the ACA as the primary measure of PoLG capacity – given that it does not adequately show the longer-term impacts of decision-making – with methods that better reflect the effect of decisions on IFAD's future cash position – as is the practice in other IFIs.