

Document:	EB 2013/108/R.7/Rev.1
Agenda:	5
Date:	10 April 2013
Distribution:	Public
Original:	English

**E**



Enabling poor rural people  
to overcome poverty

## Resources available for commitment

### Note to Executive Board representatives

#### Focal points:

##### Technical questions:

**Iain Kellet**

Associate Vice-President  
Financial Operations Department  
Tel.: +39 06 5459 2403  
e-mail: i.kellet@ifad.org

**Allegra Saitto**

Accounting Officer and Asset Liability Management  
Unit Leader  
Tel.: +39 06 5459 2405  
e-mail: a.saitto@ifad.org

**Michael Travisano**

Asset Liability Management  
Resource Modelling Officer  
Tel.: +39 06 5459 2543  
e-mail: m.travisano@ifad.org

##### Dispatch of documentation:

**Deirdre McGrenra**

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

Executive Board — 108<sup>th</sup> Session  
Rome, 10-11 April 2013

---

**For: Approval**

## Recommendation for approval

The Executive Board is invited to approve that:

Based on the estimated resource position as at 8 February 2013, which projects a long-term sustainable cash flow position for IFAD (see chart 1 and table 1), the Executive Board, having regard to article 7, section 2(b) of the Agreement Establishing IFAD, notes the estimated cash flow generated by matching financial obligations (cash outflows) arising from commitments for the 2013 programme of loans and grants, which Management indicatively proposes at US\$836 million, against current resources and projected cash inflows. On this basis, the Executive Board approves commitments for 2013 and authorizes the President to conclude agreements for loans and grants approved by the Board in 2013 during its sessions and through the lapse-of-time procedure. In addition, the Board requests the President to report at subsequent Board sessions on the resources available for commitment and on loans and grants approved under the sustainable cash flow approach.

## Introduction

As requested in the Report of the Consultation on the Ninth Replenishment of IFAD's Resources, resources available for commitment for the Fund's programme of loans and grants should be defined under a sustainable cash flow approach, with advance commitment authority (ACA) being a derived factor for information purposes only. The related definitions and procedures have been provided in document EB 2013/108/R.20.

Section I of this document presents a request for the use of commitment authority based on a sustainable cash flow approach, while section II reports on the usage of commitment authority up to 31 December 2012, as requested in the Report of the Consultation on the Ninth Replenishment of IFAD's Resources.

## Section I

### Resources available for commitment based on sustainable cash flow

1. Governing Council resolution 166/XXXV on the Ninth Replenishment of IFAD's Resources states that "Effective 1 January 2013, when the Executive Board authorizes advance commitment funds to be derived from operations pursuant to its power under article 7.2(b) of the Agreement, the Fund's commitment capacity shall be assessed and determined in accordance with the sustainable cash flow methodology by matching financial obligations (cash outflows) arising from commitments against current resources and projected cash inflows." This approach to the composition and determination of committable resources, taking effect in the Ninth Replenishment period, constitutes a major change with respect to the practice under previous replenishments.
2. A certain level of programme of loans and grants (PoLG) is defined as cash flow sustainable if, over the next 40 years, forecasting all of the inflows and outflows derived from the current and future PoLGs and related obligations, IFAD's liquidity (i.e. the balance of its cash and investments) never breaches the minimum liquidity requirement stipulated in its Liquidity Policy.<sup>1</sup> "One major distinction between the proposed [sustainable cash flow] approach and that employed for previous replenishments is that the maximum ACA ceiling is now a *derived* indicator, rather than an assumption of the financial model" (REPL.IX/2/R.5, p.5).

---

<sup>1</sup> EB 2006/89/R.40.

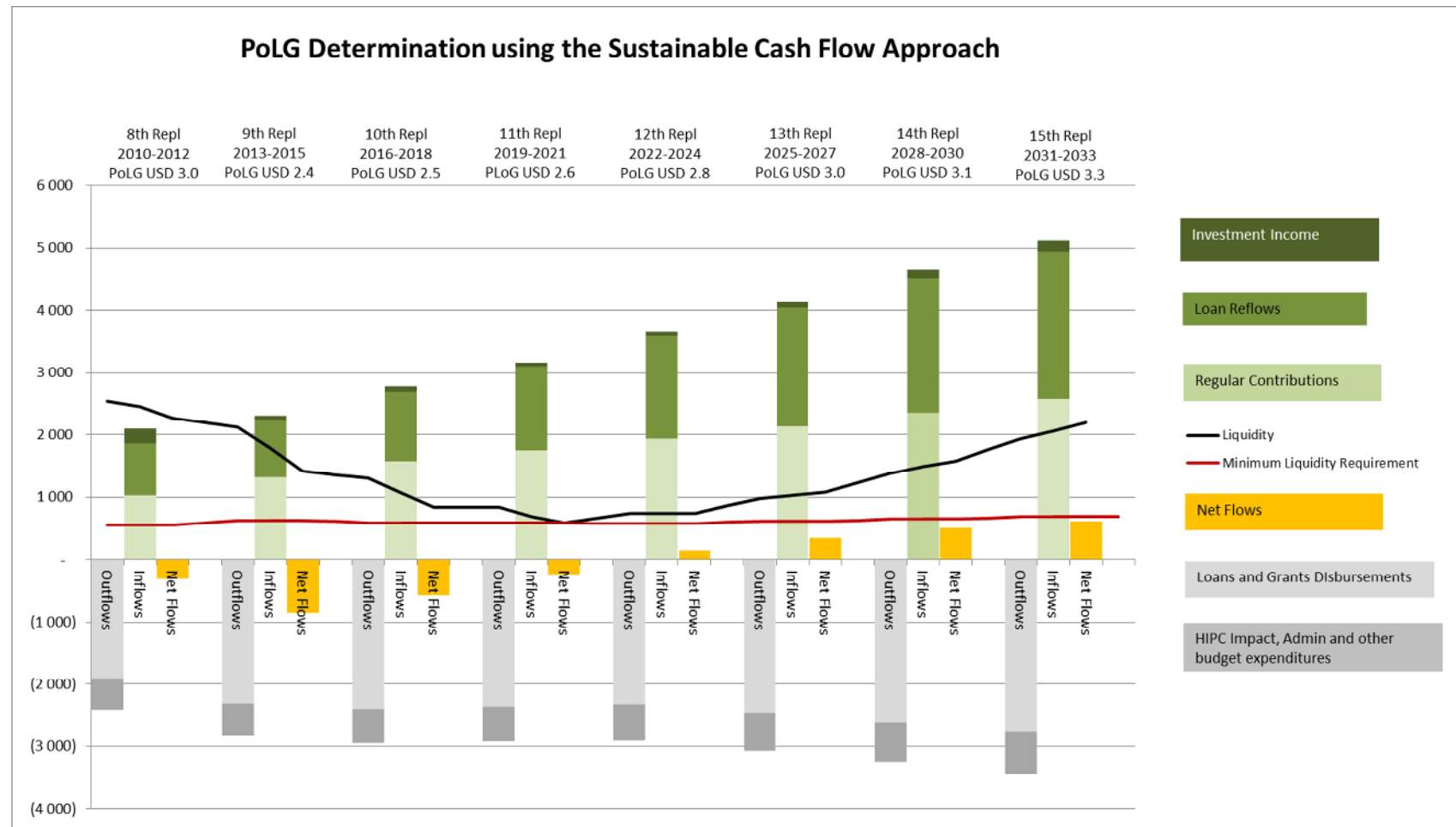
3. The document Procedures and definitions for determining resources available for commitment based on sustainable cash flow (EB 2013/108/R.20) provides detailed information on the implementation of the sustainable cash flow approach. In addition, it specifies all major IFAD cash flow components, which have been analysed in IFAD's financial model based upon parameters negotiated for the replenishment period.
4. The Consultation on the Ninth Replenishment of IFAD's Resources (IFAD9) concluded with a replenishment target of US\$1.5 billion and a PoLG of US\$3.0 billion.<sup>2</sup> This PoLG level is inclusive of grants to be financed by the Adaptation for Smallholder Agriculture Programme (ASAP) complementary contributions, projects to be financed and additional resources to be mobilized.
5. Financial projections excluding the ASAP complementary contributions and its associated grant programme show cash flows from regular IFAD9 contributions of US\$1.17 billion and a PoLG of US\$2.4 billion. Accordingly, these projections have a time horizon of 40-50 years based upon the maturity period of IFAD's highly concessional loans.
6. The sustainable cash flow approach ensures that the net liquidity (inflows minus outflows) during this 40-50 year period will be greater than the minimum liquidity requirement. As defined in the Liquidity Policy and in order to guarantee a sustainable cash flow, IFAD should hold, in any given moment, an amount equivalent to at least 60 per cent of the total of annual gross disbursements and potential additional requirements due to liquidity shocks.
7. Chart 1 (and table 1 below) illustrates the impact of cash flows on IFAD's liquidity until IFAD15 (2033), and compares the resultant PoLG with the minimum liquidity requirement. Over the next ten years, a decline in IFAD's internal resources is discernible as the maximum amount of liquidity (consistent with not breaching the liquidity policy threshold) is deployed into the PoLG. Subsequently, the level of liquidity rises again as the reflows exceed the rate of disbursements. If, during any replenishment period, the ratio of end-of-year liquidity to projected annual gross disbursements for the same year falls below 60 per cent, then IFAD's cash flow is considered not to be sustainable. Chart 1 demonstrates therefore that the long-term financial resilience of the Fund is strong and supports the current and future projected levels of PoLG. Specifically, the minimum liquidity level resulting from the proposed PoLG is projected to be 62 per cent of disbursements in IFAD11; this does not breach the minimum liquidity requirement of 60 per cent and therefore does not affect the sustainable cash flow position of IFAD.
8. This projection represents an implied average advance commitment authority 2013 of 6.9 years. Additional details pertaining to projected cash flows are provided in table 1 below.

---

<sup>2</sup> As at 31 December 2012 pledges for the Adaptation for Smallholder Agriculture Programme (ASAP) amounted to US\$330 million, considering the Ninth Replenishment target of US\$1.5 billion and regular resources totalling US\$1.17 billion.

Chart 1<sup>3</sup>

**IFAD cash flows and liquidity**  
(Millions of United States dollars)



<sup>3</sup>The key assumptions driving these figures are: a loan disbursement profile of 10 years; average loan cancellation rate of 13 per cent; administrative expenses growing at inflation after IFAD9; investment portfolio rate of return of 1 per cent for 2013-2015, 2.0 per cent for 2016, and 3.0 per cent from 2017 onwards; encashment profile of Members' replenishment contributions based on IFAD8 trend; and inflation at 2 per cent per annum.

Table 1

**Overall Liquidity – Balance and sustainability of cash flow as at 20 February 2013**

(Millions of United States dollars)

	IFAD9			IFAD10	IFAD11	IFAD12	IFAD13	IFAD14	IFAD15
	2013 <sup>d</sup>	2014	2015						
Programme of loans and grants <sup>a</sup>	836	900	630	2 479	2 631	2 792	2 963	3 144	3 336
<b>Liquidity at beginning of Replenishment</b>	<b>2 270</b>	<b>2 116</b>	<b>1 766</b>	<b>1 390</b>	<b>829</b>	<b>593</b>	<b>748</b>	<b>1 083</b>	<b>1 576</b>
<b>Inflows</b>									
Loan reflows	287	297	313	1 073	1 273	1 513	1 707	1 873	1 974
Contributions <sup>b</sup>	435	279	295	1 210	1 337	1 475	1 610	1 748	1 895
Investment income	22	19	16	90	67	65	88	126	176
<b>Outflows</b>									
Disbursements	(747)	(777)	(794)	(2 384)	(2 356)	(2 325)	(2 467)	(2 620)	(2 781)
HIPC impact	0	(12)	(51)	(67)	(45)	(29)	(26)	(21)	(9)
Administrative expenses and other budgetary items	(150)	(153)	(150)	(471)	(500)	(531)	(563)	(598)	(634)
Fixed assets	(4)	(4)	(4)	(12)	(12)	(13)	(14)	(15)	(16)
PDFF	0	0	0	0	0	0	0	0	0
<b>Liquidity at end of Replenishment</b>	<b>2 116</b>	<b>1 766</b>	<b>1 390</b>	<b>829</b>	<b>593</b>	<b>748</b>	<b>1 083</b>	<b>1 576</b>	<b>2 181</b>
Liquidity vs. disbursements percentage <sup>c</sup>	235%	187%	139%	84%	<b>62%</b>	77%	104%	143%	187%

<sup>a</sup>Programme of Loans and Grants excludes grants related to the Adaptation for Smallholder Agriculture Programme (ASAP).<sup>b</sup>Contributions includes encashments/drawdowns as well as cash contributions (including supplementary), excluding those for ASAP.<sup>c</sup>Minimum liquidity requirement defined as the minimum end-of-year liquidity position being at least 60 per cent of gross annual outflows (loan and grant disbursements, HIPC impact, administrative expenses and other budgetary items, fixed assets, and Programme Development Financing Facility (PDFF)). A percentage greater than 60 per cent indicates a sustainable cash flow period.<sup>d</sup>Derived advance commitment authority (ACA) for 2013 is estimated at 6.9 years.

### **Recommendation**

9. Based on the estimated resource position as at 8 February 2013, which projects a long-term sustainable cash flow position for IFAD (see chart 1 and table 1), the Executive Board, having regard to article 7, section 2(b) of the Agreement Establishing IFAD, notes the estimated cash flow generated by matching financial obligations (cash outflows) arising from commitments for the 2013 programme of loans and grants, which Management indicatively proposes at US\$836 million,<sup>4</sup> against current resources and projected cash inflows. On this basis, the Executive Board approves commitments for 2013 and authorizes the President to conclude agreements for loans and grants approved by the Board in 2013 during its sessions and through the lapse-of-time procedure. In addition, the Board requests the President to report at subsequent Board sessions on the resources available for commitment and on loans and grants approved under the sustainable cash flow approach.

## **Section II**

### **Resources available for commitment under ACA definition**

10. Attachment I contains a statement of resources available for commitment and attachment II lists amounts specifically excluded from resources available for commitment under IFAD's regular programme as at 31 December 2012.
11. Attachment III shows commitments made using ACA from 2001 to 2011. It also provides an analysis of net flows from 1 January to 31 December 2012, currently estimated at US\$600.1 million. In as much as loan and grant commitments amount to US\$1,062.6 million<sup>5</sup> taking into consideration ACA of US\$671.4 million already approved this year, no additional ACA is requested for approval.

---

<sup>4</sup> 2013 PoLG projection excludes grants related to the ASAP.

<sup>5</sup> The amount of US\$1,062.6 million includes:

- Loans and grants already approved amounting to US\$1,035.8 million; and
- Projects presented for approval through the lapse-of-time procedure in December 2012 and approved as at beginning of January 2013 amounting to US\$27 million, for the 2012 programme of loans and grants.

**Statement of resources available for commitment as at 31 December 2012**  
(Thousands of United States dollars)

<b>Assets in freely convertible currencies</b>		
Cash and investments	2 291 224	
Promissory notes – Member States <sup>a</sup>	334 182	
Other receivables	<u>21 951</u>	<u>2 647 357</u>
<b>Less:</b>		
Payables and liabilities		(172 401)
General Reserve		(95 000)
Undisbursed effective loans	(2 612 664)	
Approved loans signed but not yet effective	(125 433)	
Undisbursed grants	(91 044)	
Undisbursed Debt Sustainability Framework (DSF)	<u>(657 315)</u>	(3 486 456)
Drawdowns on promissory notes that have not been paid (see attachment II) <sup>a</sup>		<u>(80 861)</u>
<b>Resources available for commitment</b>		<b><u>(1 187 361)</u></b>
<b>Less:</b>		
Loans not yet signed		(432 947)
DSF not yet signed		(168 707)
Grants approved but not yet effective		<u>(43 042)</u>
<b>Net resources available for commitment before ACA carry-forward and 2012 net flows</b>		<b><u>(1 832 057)</u></b>
<hr/>		
<sup>a</sup> Promissory notes of US\$269,741,000 are gross of provisions for those amounts drawn down and not paid of US\$80,861,000 and include receivables for US\$10,000,000 of complementary contributions.		
<hr/>		
<b>Summary of resource flows in the period</b>		
ACA brought forward at 1 January 2012		<b>1 396 391</b>
Net flows to 31 December 2012	<b>600 170</b>	
Loan and grant commitments as at 31 December 2012	<b><u>(1 035 836)</u></b>	
ACA used/(ACA covered)		<b><u>435 665</u></b>
ACA carried forward at 31 December 2012		<b>1 832 057</b>
Loan and grant commitments approved under lapse-of-time procedure January 2013		<b>26 741</b>
ACA carried forward		<b><u>1 858 798</u></b>

**Amounts specifically excluded from the resources available for commitment under the Regular Programme as at 31 December 2012**

(Thousands of United States dollars)

---

**IFAD regular programme**

**Drawdowns on initial contribution**

**Promissory notes that have not been paid**

Iran (Islamic Republic of)	29 358	
Iraq	<u>13 717</u>	43 075

**Drawdowns on First Replenishment**

**Promissory notes that have not been paid**

Iraq	<u>31 099</u>	31 099
------	---------------	--------

**Drawdowns on Third Replenishment**

**Promissory notes that have not been paid**

Democratic People's Republic of Korea	600	
Libya	<u>6 087</u>	6 687

---

**Total amounts specifically excluded**

**80 861**

---



**Analysis of use of advance commitment authority**

	<i>Millions of United States dollars</i>											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>ACA brought forward at start of year</b>	-	153.7	277.8	331.1	136.8	296.0	453.3	585.3	742.3	789.0	936.1	1 396.4
Net ACA use/(cover)	153.7	124.1	53.3	(194.3)	159.2	157.3	132.0	157.0	46.7	147.1	460.3	462.4
<b>ACA carry-forward at end of year</b>	153.7	277.8	331.1	136.8	296.0	453.3	585.3	742.3	789.0	936.1	1 396.4	1 858.8

	<i>Millions of United States dollars</i>
	<i>Actual January to December 2012</i>
<b>1. Resources available at start of period</b>	<b>0</b>
<b>Analysis of flows</b>	
Members' contributions	370.0
Loan reflows	267.5
Loan and grant cancellations	51.3
Net investment income	72.5
Net exchange rate movements	1.5
HIPC and ASMCS transfers	(10.0)
Operating expenses	(152.7)
<b>2. Total estimated net inflows for the period</b>	<b>600.1</b>
<b>3. ACA approved by the Executive Board in the year</b>	<b>671.4</b>
<b>4. Loan and grant commitments<sup>a</sup></b>	<b>(1 062.6)</b>
<b>5. ACA to be approved at EB 108<sup>b</sup></b>	<b>0</b>
<b>6. ACA covered from flows in the period</b>	<b>(209.0)</b>
<b>7. ACA unused balance (=1+2+3+4+5+6)</b>	<b>0</b>
<b>8. ACA brought forward (= prior period)</b>	<b>1 396.4</b>
<b>9. ACA carried forward (= 3+5+6+7+8)<sup>c</sup></b>	<b>1 858.8</b>

<sup>a</sup> The amount of US\$1,062.6 million includes:

- Loans and grants already approved amounting to US\$1,035.8 million;
- Projects presented for approval through the lapse-of-time procedure in December 2012 and approved as at beginning of January 2013 amounting to US\$27 million, for the 2012 programme of loans and grants.

<sup>b</sup> EB 108: 108<sup>th</sup> session of the Executive Board (April 2013), HIPC Heavily Indebted Poor Countries Debt Initiative, ASMCS After-Service Medical Coverage Scheme.

<sup>c</sup> The ACA ceiling of seven years of loan reflows amounts to approximately US\$2.4 billion, as per the Eighth Replenishment definition. The current estimated carried-forward balance corresponds to about 5.8 years of loan reflows.