Document:	EB 2013/110/R.15
Agenda:	10
Date:	18 Novemebr 2013
Distribution:	Public
Original:	English

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IFAD

Enabling poor rural people
to overcome poverty

Resources available for commitment

Note to Executive Board representatives

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Executive Board — 110th Session
Rome, 10-12 December 2013

For: **Approval**

Recommendation for approval

The Executive Board is invited to approve that:

Based on the projected long-term sustainable cash flow position for IFAD estimated as at 30 September 2013 (see chart 1 and table), the Executive Board, having regard to article 7, section 2(b) of the Agreement Establishing IFAD, notes the current and estimated future net cash position of the Fund generated by projecting cash outflows (resulting from financial obligations) against current and projected future cash inflows. On this basis, the Executive Board approves commitments for the 2014 programme of loans and grants estimated indicatively as up to US$714 million and authorizes the President to conclude agreements for loans and grants approved by the Board in 2014 accordingly.

In addition, the Board requests the President to report subsequently on the resources available for commitment and on loans and grants approved under the sustainable cash flow approach.

I. Introduction

1. 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 were provided in document EB 2013/108/R.20. This document presents a request for the use of commitment authority based on a sustainable cash flow approach for the year 2014.

II. Resources available for commitment based on sustainable cash flow

2. Governing Council resolution 166/XXXV on the Ninth Replenishment of IFAD's Resources (IFAD9) 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.

3. A certain level of programme of loans and grants (PoLG) is defined as cash flow sustainable 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.[1] "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).

4. 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

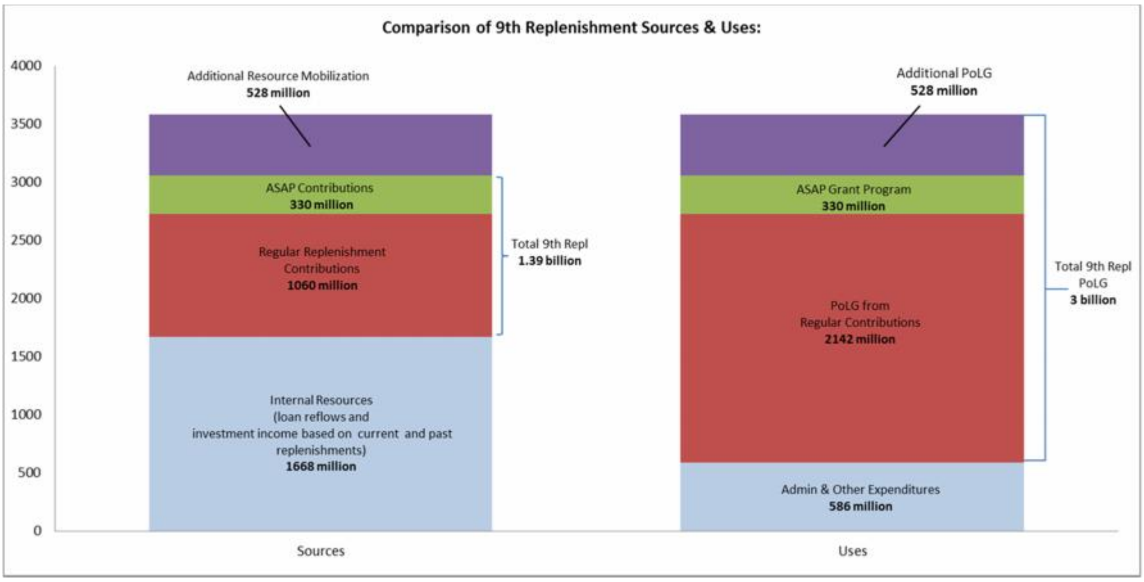
[1] EB 2006/89/R.40

analysed in IFAD's financial model based upon parameters negotiated for the replenishment period.

5. The IFAD9 Consultation concluded with a replenishment target of US$1.5 billion and a PoLG of US$3.0 billion.[2] 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.

Chart 1 illustrates IFAD9 sources to finance a PoLG level of US$3.0 billion and the administrative and other expenditures needed to deliver such a PoLG. These balances are inclusive of the ASAP complementary contributions and grants to be specifically approved for this purpose. For the purposes of calculating resources available for commitment, only regular replenishment contributions are counted in addition to loan reflows and investment income, although it is anticipated that additional resources will be forthcoming during the IFAD9 period in the form of contributions from new Members and complementary contributions mobilized through new financing modalities.

Chart 1
Comparison of IFAD9 sources and uses
(Millions of United States dollars)



6. Financial projections excluding the ASAP complementary contributions and its associated grant programme show cash flows from regular IFAD9 contributions of US$1.06 billion (as at 30 September 2013) and a PoLG of US$2.142 billion. Accordingly, these projections have a time horizon of 40-50 years based upon the maturity period of IFAD's highly concessional loans.

7. 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.

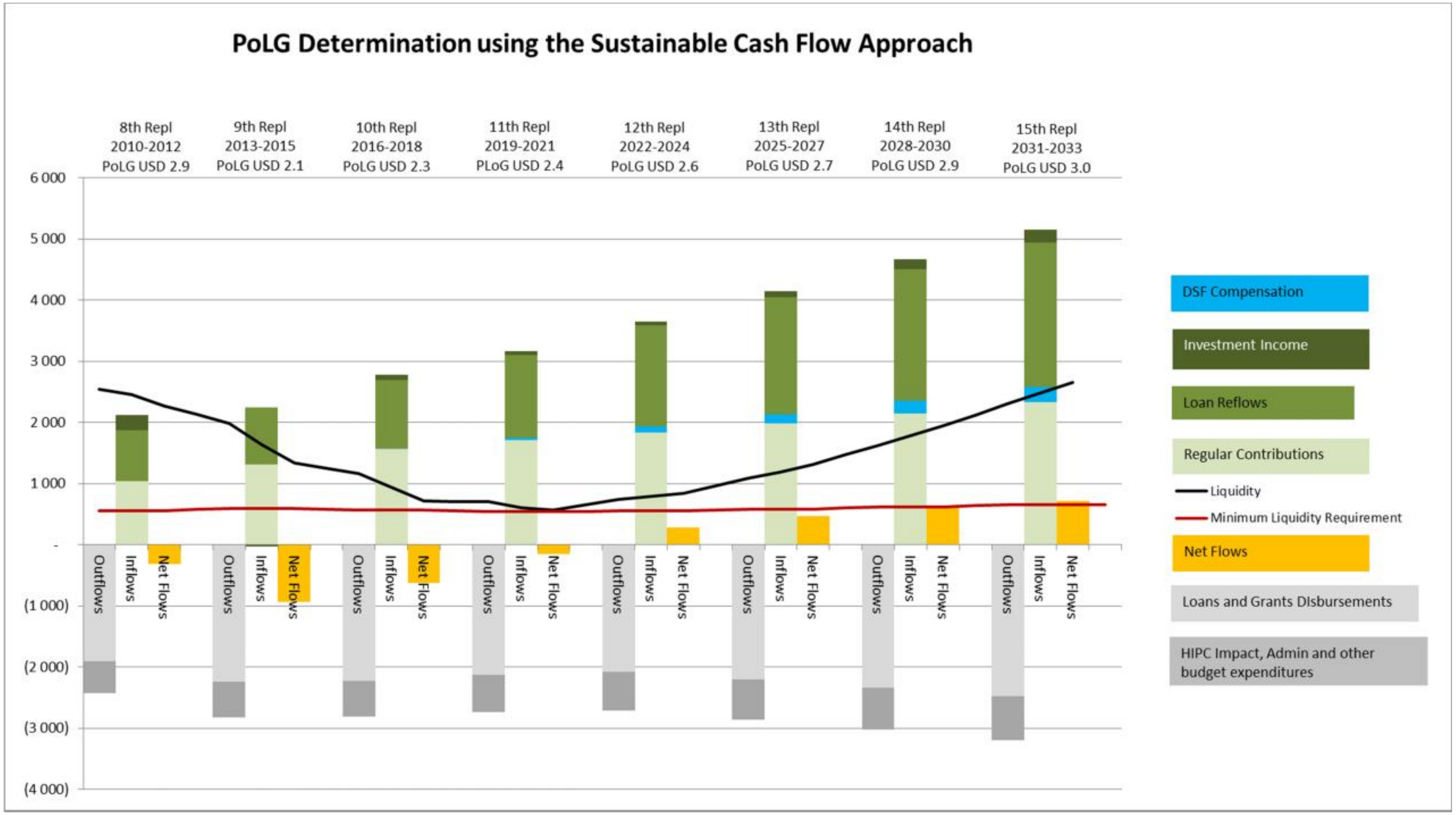
8. Chart 2 and table (below) illustrate the impact of cash flows on IFAD's liquidity until IFAD15 (2033), and compares the resultant PoLG with the minimum liquidity requirement. Over the next ten years, a decline in IFAD's internal resources is discernible as the maximum amount of liquidity (consistent with not breaching the liquidity policy threshold) is deployed into the PoLG. Subsequently, the level of

[2] As at 30 September 2013, pledges for the Adaptation for Smallholder Agriculture Programme (ASAP) amounted to US$330 million, considering the Ninth Replenishment target of US$1.5 billion.

liquidity rises as the inflows 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 PoLG is considered not to be cash flow sustainable. Chart 1 demonstrates 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.

9. This projection represents an implied average advance commitment authority for 2014 of 6.0 years. Additional details pertaining to projected cash flows are provided in the table below.

Chart 2*
IFAD cash flows and liquidity
(Millions of United States dollars)



* 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 -1.6 per cent for 2013, -1 per cent for 2014, 1.5 per cent for 2015, and 3.0 per cent from 2016 onwards; encashment profile of Members' replenishment contributions based on IFAD8 trend; and inflation at 2 per cent per annum.

Table
Overall Liquidity – Balance and sustainability of cash flow as at 31 October 2013
(Millions of United States dollars)

	IFAD8	*IFAD9*								
	2012 (Actuals)	*2013[e]*	*2014*	*2015*	*IFAD10*	*IFAD11*	*IFAD12*	*IFAD13*	*IFAD14*	*IFAD15*
Programme of loans and grants (PoLG)[a]	1 036	700	714	728	2 273	2 413	2 560	2 717	2 883	3 060
Liquidity at beginning of replenishment	**2 456**	**2 270**	**1 982**	**1 632**	**1 338**	**714**	**560**	**839**	**1 308**	**1 940**
Inflows										
Loan reflows	271	293	308	310	1 104	1 327	1 567	1 747	1 898	1 957
Contributions[b]	332	366	305	344	996	1 201	1 356	1 484	1 613	1 750
Investment income	72	(34)	(18)	22	94	58	67	101	151	212
Outflows										
Disbursements	(701)	(738)	(751)	(754)	(2 227)	(2 128)	(2 079)	(2 206)	(2 341)	(2 484)
HIPC Impact	(10)	(13)	(32)	(52)	(69)	(54)	(38)	(26)	(21)	(9)
Administrative expenses and other budgetary items	(177)	(150)	(159)	(159)	(507)	(543)	(576)	(611)	(649)	(688)
Fixed assets	(4)	(10)	(5)	(5)	(16)	(17)	(18)	(19)	(20)	(21)
PDFF	0	0	0	0	0	0	0	0	0	0
Liquidity at end of replenishment	**2 270**	**1 982**	**1 632**	**1 338**	**714**	**560**	**839**	**1 308**	**1 940**	**2 657**
Liquidity vs disbursements percentage[d]	254%	220%	170%	128%	64%	62%	89%	153%	227%	309%

[a]PoLG excludes grants related to the ASAP.
[b]Contributions include encashments/drawdowns as well as cash contributions (including supplementary), excluding those for ASAP.
[c]For IFAD9, total outflows are annual. For all other replenishments, the total outflow represented is the lowest value occurring in that period of the replenishment.
[d]Minimum liquidity requirement (MLR) defined as the minimum end-of-year liquidity position being at least 60 per cent of gross annual outflows (loan and grant disbursements, Heavily Indebted Poor Countries (HIPC)Debt Initiative impact, administrative expenses and other budgetary items, fixed assets, and the Programme Development Financing Facility [PDFF]). A percentage greater than 60 per cent indicates a sustainable cash flow period. For all replenishments after IFAD9, the number displayed here is the minimum within the respective 3-year replenishment cycle.
[e]Derived advance commitment authority (ACA) for 2014 is estimated at 6.0 years.

III. Recommendation

10. Based on the projected long-term sustainable cash flow position for IFAD estimated as at 30 September 2013 (see chart 1 and table 1), the Executive Board, having regard to article 7, section 2(b) of the Agreement Establishing IFAD, notes the current and estimated future net cash position of the Fund generated by projecting cash outflows (resulting from financial obligations) against current and projected future cash inflows. On this basis, the Executive Board approves commitments for the 2014 programme of loans and grants estimated indicatively as up to US$714 million and authorizes the President to conclude agreements for loans and grants approved by the Board in 2014 accordingly. In addition, the Board requests the President to report subsequently on the resources available for commitment and on loans and grants approved under the sustainable cash flow approach.

The following details the liquidity shocks and related assumptions used in the calculation of the IFAD9 minimum liquidity requirement.

Table 1
Liquidity shocks and related assumptions

Type of liquidity shock	*Assumption*
Delayed encashment of contributions	The base financial model assumes an encashment profile where 88 per cent of IFAD9 funds are received within the first three years. This shock assumes 75 per cent will be received in the first three years.
Increase in loan arrears	Shock is that loan arrears will increase to 3 per cent per annum from 2013 onwards (base scenario is 0.02 per cent per year).
Change in investment return	The base model assumes -1.6 per cent investment returns in 2013, -1 per cent in 2014, 1.5 per cent in 2015, then 3 per cent from 2016 onward. This shock assumes a return of -1.6 per cent in 2013, -1.6 per cent in 2014, a 1 per cent return in 2015, a 2 per cent return in 2016, and 3 per cent from 2017 onwards.

Table 2
Summary of major risk elements and their impact on IFAD's liquidity, 2013-2015
(Millions of United States Dollars)

	Amount
(a) Average annual gross disbursements (cash outflows) over 2013-2015 under the base scenario	**943**
(b) Potential additional requirements due to liquidity shocks:	**48**
Delayed encashments	33
Increased loan arrears	9
Decrease in Investment Income	6
(c) Total (a) + (b)	**991**
(d) Minimum liquidity requirement (0.6 * Total)	**595**