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Investing in rural people

## Resources available for commitment

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**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 2014 (see chart 1 and table 2), 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 authorizes the President to conclude agreements for loans and grants to be approved by the Board in 2015 up to US\$1.152 billion.

## **Resources available for commitment**

### **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. 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 the sustainable cash flow approach for the year 2015.

### **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."
3. A certain level of PoLG is defined as cash flow sustainable (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.<sup>1</sup>
4. The IFAD9 Consultation 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.
5. For the purposes of calculating resources available for commitment, the SCF PoLG is calculated based only on core contributions and IFAD resources stemming from the loan from KfW as approved by the Executive Board at its 112th session (EB2014/112/R.14), in addition to loan reflows and investment income. Subsequent replenishment amounts are assumed flat in real terms from the core contributions received during IFAD9.

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

<sup>2</sup> As at 30 September 2014, pledges for the Adaptation for Smallholder Agriculture Programme (ASAP) amounted to US\$353 million.

6. Financial projections, including updated actual data for 2013 based on IFAD's financial statements and excluding the ASAP complementary contributions and the corresponding grant programme, show a level of SCF PoLG of US\$2.331 billion based on IFAD9 core contributions of US\$1.07 billion (as at 30 June 2014).
7. In addition to the US\$2.331 billion, the projected amount of loans on ordinary terms to be financed by the KfW loan is US\$155 million in 2014 and US\$307 million in 2015.<sup>3</sup>
8. Table 1 shows estimated total 2014 PoLG (actual amounts approved during the period 1 January - 30 September 2014, and best estimates of the amounts to be approved by the Executive Board at its 113<sup>th</sup> session in December 2014), excluding the ASAP grant programme of US\$819 million. Based on this amount, IFAD expects to have resources available to support the SCF level of PoLG for 2015 at an estimated level of US\$1.152 billion.

Table 1

**2014 estimated PoLG and 2015 estimated resources available for commitment**

	<i>Total 2014 estimated PoLG (net of ASAP)</i>	<i>Total 2015 RAC (net of ASAP)</i>
<b>Total</b>	US\$819 million <sup>a</sup>	US\$1.152 billion <sup>b</sup>

<sup>a</sup> Assumes US\$155 million of loans on ordinary terms to be financed by the KfW loan, subject to conditions that ensure IFAD's financial sustainability as defined in document EB 2014/112/R.14.

<sup>b</sup> Assumes US\$307 million of loans on ordinary terms to be financed by the KfW loan, subject to conditions that ensure IFAD's financial sustainability as defined in document EB2014/112/R.14.

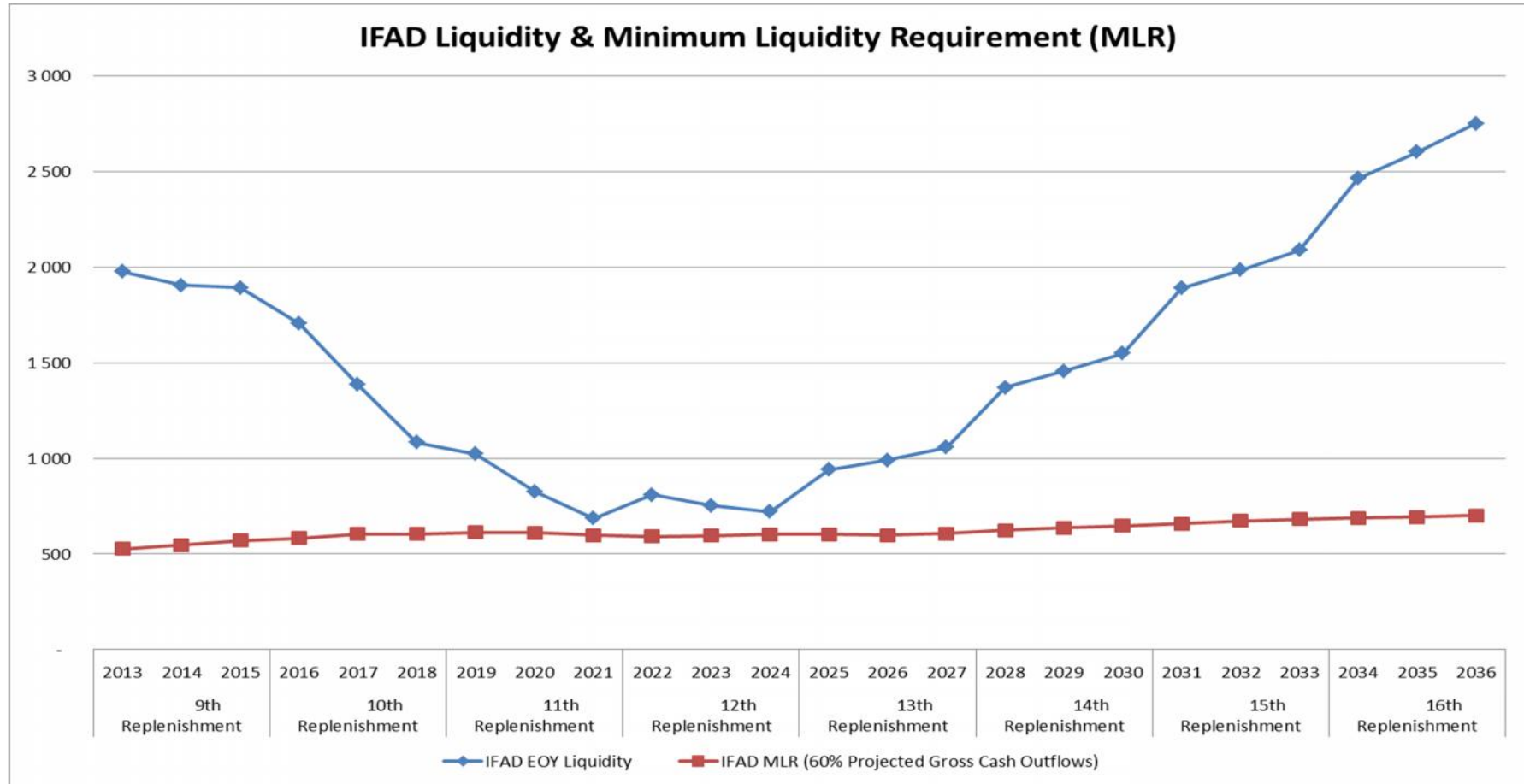
9. The sustainable cash flow approach ensures that net liquidity (inflows minus outflows) over a 40-year period will be greater than the minimum liquidity requirement. As defined in the Liquidity Policy and in order to guarantee a sustainable cash flow, IFAD should hold, at any given moment, an amount equivalent to at least 60 per cent of the total of annual gross disbursements and potential additional requirements due to liquidity shocks.
10. Chart 1 and table 2 below illustrate the impact of the proposed level of SCF PoLG on IFAD's cash flows and liquidity up to IFAD15 (2033), and compares the resulting liquidity with the minimum liquidity requirement. Over the next ten years, a decline in IFAD's liquidity is discernible as the maximum amount of liquidity (consistent with not breaching the liquidity policy threshold) is deployed for the PoLG. Subsequently, the level of liquidity rises as the inflows exceed the rate of disbursements. As shown, IFAD's liquidity as projected does not fall below the minimum liquidity requirement of 60 per cent of projected annual gross disbursements. This demonstrates strong long-term financial resilience and supports the current and future projected levels of PoLG.

<sup>3</sup> Subject to conditions that ensure financial sustainability as defined in document EB 2014/112/R.14.

Chart 1\*

**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 13.1 per cent; administrative expenses growing at 3 per cent during IFAD10 and subsequently at inflation; investment portfolio rate of return of -1 per cent in 2014, 0.5 per cent in 2015, 1.0 per cent in 2016 and 2017, 1.5 per cent in 2018, 2.0 per cent in 2019, then 2.0 per cent from 2020 onward; encashment profile of Members' replenishment contributions based on the IFAD8 trend; and inflation at 2 per cent per annum.

Table 2

**Overall liquidity – Balance and sustainability of cash flow as at 30 September 2014**

(Millions of United States dollars)

	IFAD8	IFAD9			IFAD10	IFAD11	IFAD12	IFAD13	IFAD14	IFAD15
	2012 (Actuals)	2013	2014	2015						
Programme of Loans and Grants <sup>a</sup>	1 034	821	819	1 152 <sup>b</sup>	2 318	2 460	2 610	2 770	2 940	3 120
<b>Liquidity at beginning of Replenishment</b>	<b>2 456</b>	<b>2 270</b>	<b>1 978</b>	<b>1 904</b>	<b>1 891</b>	<b>1 082</b>	<b>684</b>	<b>719</b>	<b>1 055</b>	<b>1 546</b>
<b>Inflows<sup>b</sup></b>										
Loan reflows	271	263	311	322	1 105	1 360	1 590	1 781	1 935	1 984
Receipt of contributions <sup>c</sup>	332	346	391	299	1 020	1 217	1 369	1 498	1 629	1 768
Borrowing	0	0	155	307	0	0	0	0	0	0
Investment income	72	(24)	(19)	9	52	63	56	70	103	142
<b>Outflows</b>										
Disbursements	(701)	(670)	(733)	(755)	(2 391)	(2 368)	(2 276)	(2 277)	(2 387)	(2 533)
Borrowing obligations (debt service)	0	0	(2)	(5)	(17)	(95)	(113)	(108)	(102)	(96)
HIPC impact	(10)	(20)	(14)	(29)	(57)	(18)	0	0	(23)	(20)
Administrative expenses and other budgetary items	(177)	(160)	(158)	(158)	(504)	(540)	(573)	(608)	(645)	(685)
Fixed assets	(4)	(7)	(5)	(5)	(16)	(17)	(18)	(19)	(20)	(21)
Intrafund and foreign exchange movements	30	(20)	0	0	(0)	(0)	0	0	0	0
<b>Liquidity at end of Replenishment</b>	<b>2 270</b>	<b>1 978</b>	<b>1 904</b>	<b>1 891</b>	<b>1 082</b>	<b>684</b>	<b>719</b>	<b>1 055</b>	<b>1 546</b>	<b>2 085</b>
Liquidity as a percentage of disbursements <sup>d</sup>	226%	226%	209%	199%	108%	69%	72%	94%	132%	172%

<sup>a</sup> Programme of Loans and Grants excludes grants under the Adaptation for Smallholder Agriculture Programme (ASAP). For 2014, the PoLG is based on actual data as at 25 September and estimated pipeline for the remainder of 2014. The 2015 amount is based on resources available for commitment as projected in this paper; it is not a forecast of the actual PoLG.

<sup>b</sup> For IFAD9, the Inflow and Outflow amounts are annual. For all other replenishments, the amounts are the total across the three years within the replenishment.

<sup>c</sup> Contributions include encashments/drawdowns as well as cash contributions (including supplementary), excluding those for ASAP.

<sup>d</sup> MLR defined as the minimum year-end liquidity position, or at least 60 per cent of gross annual outflows (loan and grant disbursements, borrowing obligations (debt service), HIPC impact, administrative expenses and other budgetary items, and fixed assets). 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 three-year replenishment cycle.

### **III. Recommendation**

11. Based on the projected long-term sustainable cash flow position for IFAD estimated as at 30 September 2014 (see chart 1 and table 2), 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 authorizes the President to conclude agreements for loans and grants to be approved by the Board in 2015 up to US\$1.152 billion.

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**

<i>Type of liquidity shock</i>	<i>Assumption</i>
Quicker disbursements	The base financial model assumes a ten-year disbursement profile. This shock assumes a profile of seven years.
Increase in loan arrears	Shock is that loan arrears will increase to 3 per cent per annum from 2014 onwards (base scenario is 0.2 per cent per year).
Change in investment return	The base financial model assumes -1 per cent in 2014, 0.5 per cent in 2015, 1.0 per cent in 2016 and 2017, 1.5 per cent in 2018, 2.0 per cent in 2019, then 2.0 per cent from 2020 onward. This shock assumes a return of -1 per cent in 2014 and 2015, 0 per cent in 2016, 0.5 per cent in 2017, and 1.0 per cent from 2018 onward.

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

	<i>Amount</i>
<b>(a) Average annual gross disbursements (cash outflows) over 2013-2015 under the base scenario</b>	<b>913</b>
<b>(b) Potential additional requirements due to liquidity shocks:</b>	<b>100</b>
Quicker disbursements	58
Increased loan arrears	18
Decrease in investment income	24
<b>(c) Total (a) + (b)</b>	<b>1,013</b>
<b>(d) Minimum liquidity requirement (60 per cent of the total)</b>	<b>608</b>