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Investing in rural people

Resources available for commitment

Note to Executive Board representatives

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Executive Board — 116th Session
Rome, 16-17 December 2015

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 28 September 2015 (see the chart 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 2016 up to US\$896 million.

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 2016.

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 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.¹
4. 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.
5. The IFAD10 Consultation concluded with a replenishment target of US\$1.353 billion and a PoLG of US\$3.0 billion.
6. For the purposes of calculating resources available for commitment, the SCF PoLG is calculated based on IFAD9 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),³ in addition to loan reflows and investment income.

¹ EB 2006/89/R.40.

² As at 28 September 2015, pledges for the Adaptation for Smallholder Agriculture Programme (ASAP) amounted to US\$360.6 million.

³ Includes Individual Loan Agreement number 1 from KfW Development Bank in the amount of EUR 100 million, and Individual Loan Agreement number 2 in the amount of EUR 200 million.

7. Financial projections, including updated actual data for 2014 based on IFAD's financial statements and excluding the ASAP complementary contributions and the corresponding grant programme, show a level of SCF PoLG for IFAD9 of US\$2.478 billion based on IFAD9 core contributions of US\$1.071 billion (as at 28 September 2015).
8. Table 1 shows estimated total 2015 PoLG⁴ of US\$1,292 million, excluding the ASAP grant programme. Based on this amount, IFAD expects to have resources available to support the SCF level of PoLG for 2016 at an estimated level of US\$896 million.

Table 1

2015 PoLG and 2016 resources available for commitment (RAC)

	<i>Total 2015 estimated PoLG (net of ASAP)</i>	<i>Total 2016 estimated PoLG (RAC)</i>
Total	US\$1,292 million	US\$896 million

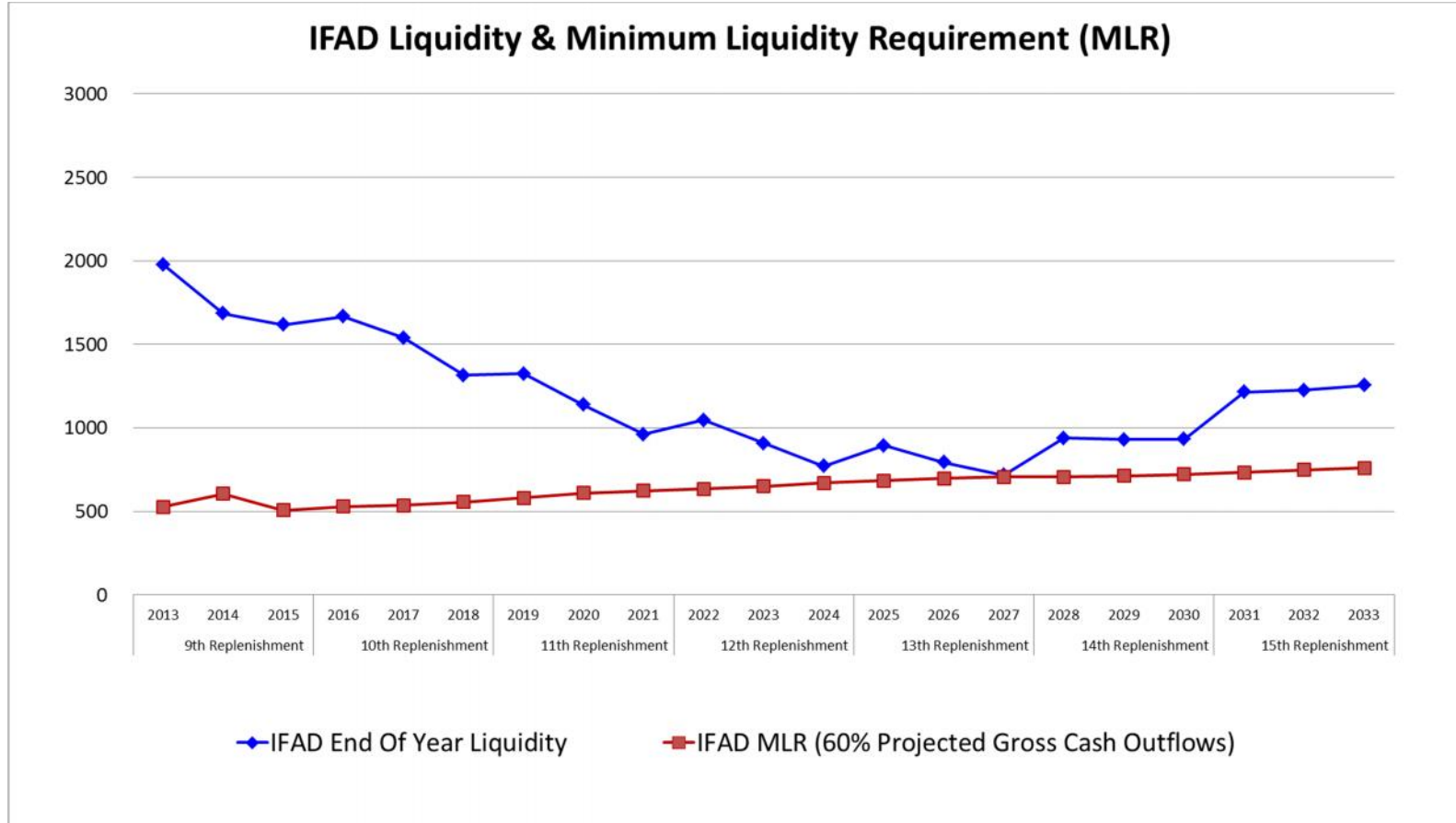
9. The sustainable cash flow approach ensures that net liquidity (inflows minus outflows) over a 40-year period will be greater than the minimum liquidity requirement. As defined in the Liquidity Policy and in order to guarantee a sustainable cash flow, IFAD should hold, at any given moment, an amount equivalent to at least 60 per cent of the total of annual gross cash outflows and potential additional requirements due to liquidity shocks.
10. The chart 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.

⁴ The 2015 PoLG includes actual amounts approved by the Executive board during the period 1 January-16 September 2015, and best estimates of the amounts to be approved by the Executive Board at its 116th session in December 2015.

Chart *

IFAD cash flows and liquidity

(Millions of United States dollars)



* The key assumptions driving these figures are: a loan disbursement profile of 14 years; average loan reduction rate of 12 per cent; administrative expenses growing at 2.19 per cent during IFAD10 and subsequently at inflation; investment portfolio rate of return of 0.8 per cent in 2015, 1.0 per cent in 2016, 1.2 per cent in 2017, 1.5 per cent in 2018, 2.0 per cent in 2019, then 2.5 per cent from 2020 onward; encashment profile of Members' replenishment contributions based on the IFAD8 trend; and inflation at 1.89 per cent per annum. IFAD10 core contributions are assumed to be US\$1.285 billion which is equal to 95 per cent of the IFAD10 replenishment target. Subsequent replenishment amounts and levels of PoLG are assumed flat in real terms.

Table 2
Overall liquidity – Balance and sustainability of cash flow as at 28 September 2015
(Millions of United States dollars)

	IFAD9			IFAD10			IFAD11	IFAD12	IFAD13	IFAD14	IFAD15
	2013 (Actuals)	2014 (Actuals)	2015	2016	2017	2018					
Programme of loans and grants ^a	821	717	1 292 ^a	896	913	930	2 896	3 063	3 240	3 428	3 626
Liquidity at beginning of Replenishment	2 270	1 978	1 685	1 617	1 667	1 539	1 314	962	771	716	931
Inflows^b											
Loan reflows	263	277	307	319	342	357	1 232	1 480	1 704	1 910	2 016
Receipt of contributions ^c	346	390	275	477	346	326	1 368	1 526	1 659	1 803	1 955
Borrowing ^d	0	0	182	121	61	0	0	0	0	0	0
Investment income	(24)	49	13	15	16	17	67	60	56	66	87
Outflows											
Disbursements	(670)	(699)	(657)	(687)	(719)	(751)	(2 431)	(2 597)	(2 769)	(2 829)	(2 969)
Borrowing obligations (debt service)	0	0	(2)	(1)	(2)	(2)	(47)	(80)	(78)	(76)	(73)
HIPC impact	(20)	(17)	(21)	(25)	0	0	0	(9)	(23)	(21)	(16)
Administrative expenses and other budgetary items	(160)	(190)	(159)	(161)	(167)	(168)	(526)	(557)	(589)	(623)	(659)
Fixed assets	(7)	(2)	(6)	(7)	(6)	(4)	(14)	(14)	(15)	(16)	(17)
Intrafund and foreign exchange movements	(20)	100	0	0	0	0	0	0	0	0	0
Liquidity at end of Replenishment	1 978	1 685	1 617	1 667	1 539	1 314	962	771	716	931	1 255
Liquidity as a percentage of disbursements^e	226%	167%	192%	189%	172%	142%	93%	69%	61%	77%	98%

^a The PoLG excludes grants under the ASAP. For 2015, the PoLG is based on actual data as at 28 September and estimated pipeline for the remainder of 2015. The 2015 amount is based on resources available for commitment as projected in this paper; it is not a forecast of the actual PoLG.

^b For IFAD9 and IFAD10, the inflow and outflow amounts are annual. For all other replenishments, the amounts are the total across the three years within the replenishment.

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

^d Borrowing represents the receipt of cash (in United States dollars) from KfW Individual Loan Agreements 1 and 2. For consolidation with the regular IFAD cash flows, the base model exchange rate of 0.82641 Euros per 1.0 US\$ is assumed. This paper does not include any borrowing amounts not yet formalized as at 28 September 2015.

^e 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). 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 28 September 2015 (see the chart 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 2016 up to US\$896 million.

The following details the liquidity shocks and related assumptions used in the calculation of the 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 an average 14-year disbursement profile. This shock assumes a profile of 9 years.
Increase in loan arrears	Shock is that loan arrears will increase to 3 per cent per annum from 2015 onwards (base scenario is 0.2 per cent per year).
Change in investment return	The base financial model assumes 0.8 per cent in 2015, 1.0 per cent in 2016, 1.2 per cent in 2017, 1.5 per cent in 2018, 2.0 per cent in 2019, then 2.5 per cent from 2020 onward. This shock assumes a return of -1 per cent in 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, 2016-2018
(Millions of United States dollars)

	<i>Amount</i>
(a) Average annual gross disbursements (cash outflows) over 2016-2018 under the base scenario	900
(b) Potential additional requirements due to liquidity shocks:	234
Quicker disbursements	192
Increased loan arrears	21
Decrease in investment income	21
(c) Total (a) + (b)	1 134
(d) Minimum liquidity requirement (60 per cent of the total)	680