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Investing in rural people

Resources available for commitment

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Executive Board — 119th Session
Rome, 14-15 December 2016

For: Approval

Recommendations 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 22 September 2016 and based on programmed borrowing (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 2017 up to US\$826 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 (PoLG) should be defined under a sustainable cash flow approach. The related definitions and procedures are defined in document EB 2013/108/R.20.
2. The long-term sustainability of the Fund is safeguarded by the sustainable cash flow approach. In line with current policies, only resources from actually available funding sources are used to calculate resources available for commitment.
3. In 2014, IFAD started diversifying its funding sources in order to increase capacity and deliver a growing PoLG. IFAD borrowed for the first time during the Ninth Replenishment of IFAD's Resources (IFAD9) period and is engaging in further borrowing under IFAD10 within the provisions established by the Sovereign Borrowing Framework: Borrowing from Sovereign States and State-supported Institutions.
4. IFAD's evolving financial structure and introduction of borrowing as a stable funding source in addition to contributions means that the Fund has started moving towards a more dynamic optimization of its resources.
5. This shift will require adjustments to policies and procedures which govern and define commitment capacity in order to holistically and dynamically embed all funding sources necessary to meet Management's target.
6. This document presents a request for the use of commitment authority for the year 2017 based on the sustainable cash flow approach.

II. Resources available for commitment based on sustainable cash flow

7. 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."
8. 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

9. 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 complementary contributions under the Adaptation for Smallholder Agriculture Programme (ASAP).
10. The IFAD10 Consultation concluded with a replenishment target of US\$1.353 billion and a PoLG of at least US\$3.0 billion.
11. For the purposes of calculating resources available for commitment, the SCF PoLG is calculated based on: IFAD9 core contributions; IFAD10 core and unrestricted complementary contributions as at 22 September 2016; IFAD resources stemming from the loan from KfW Development Bank as approved by the Executive Board at its 112th session (EB 2014/112/R.14);³ loan reflows; and investment income.
12. For transparency, and to maintain a prudent approach to resource definition, future borrowing to be undertaken during the period under the Sovereign Borrowing Framework will be included in the resources and presented to the Executive Board as and when approved by governing bodies.
13. This approach will also be applied to further IFAD10 pledges that materialize during the period, and to potential resources from investment income in excess of what has been included in the forecasts. These pledges will only be included as resources as and when they become available.
14. Actual data for 2015 based on IFAD's financial statements, excluding the ASAP complementary contributions and the corresponding grant programme, show a level of SCF PoLG for IFAD9 of US\$2.801 billion based on IFAD9 core contributions of US\$1.071 billion (as at 22 September 2016).
15. Table 1 shows an estimated total PoLG⁴ for 2016 of US\$867 million, excluding the ASAP grant programme. Based on this amount, IFAD expects to have resources available to support the SCF level of PoLG for 2017 at an estimated level of US\$826 million.
16. It is important to clarify that the level of 2017 PoLG shown in table 1 is not to be considered a forecast of the actual PoLG to be delivered. The operational target for 2017 is in the range of US\$1.5 billion of loan and grant approvals. Management will ensure that this level is sustainable during the remainder of the year by updating the projections with increased resources from borrowing, contributions, investment income, and any positive foreign exchange movement.

Table 1

2016 PoLG and 2017 resources available for commitment (RAC)

	<i>Total 2016 estimated PoLG (net of ASAP)</i>	<i>Total 2017 estimated RAC</i>
Total	US\$867 million	US\$826 million

17. The SCF 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 SCF, IFAD should hold, at any given moment, an amount equivalent to at least 60 per cent of the total of annual

¹ EB 2006/89/R.40.

² As at 24 October 2016, 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, Individual Loan Agreement number 2 in the amount of EUR 200 million and Individual Loan Agreement number 3 in the amount of EUR 100 million.

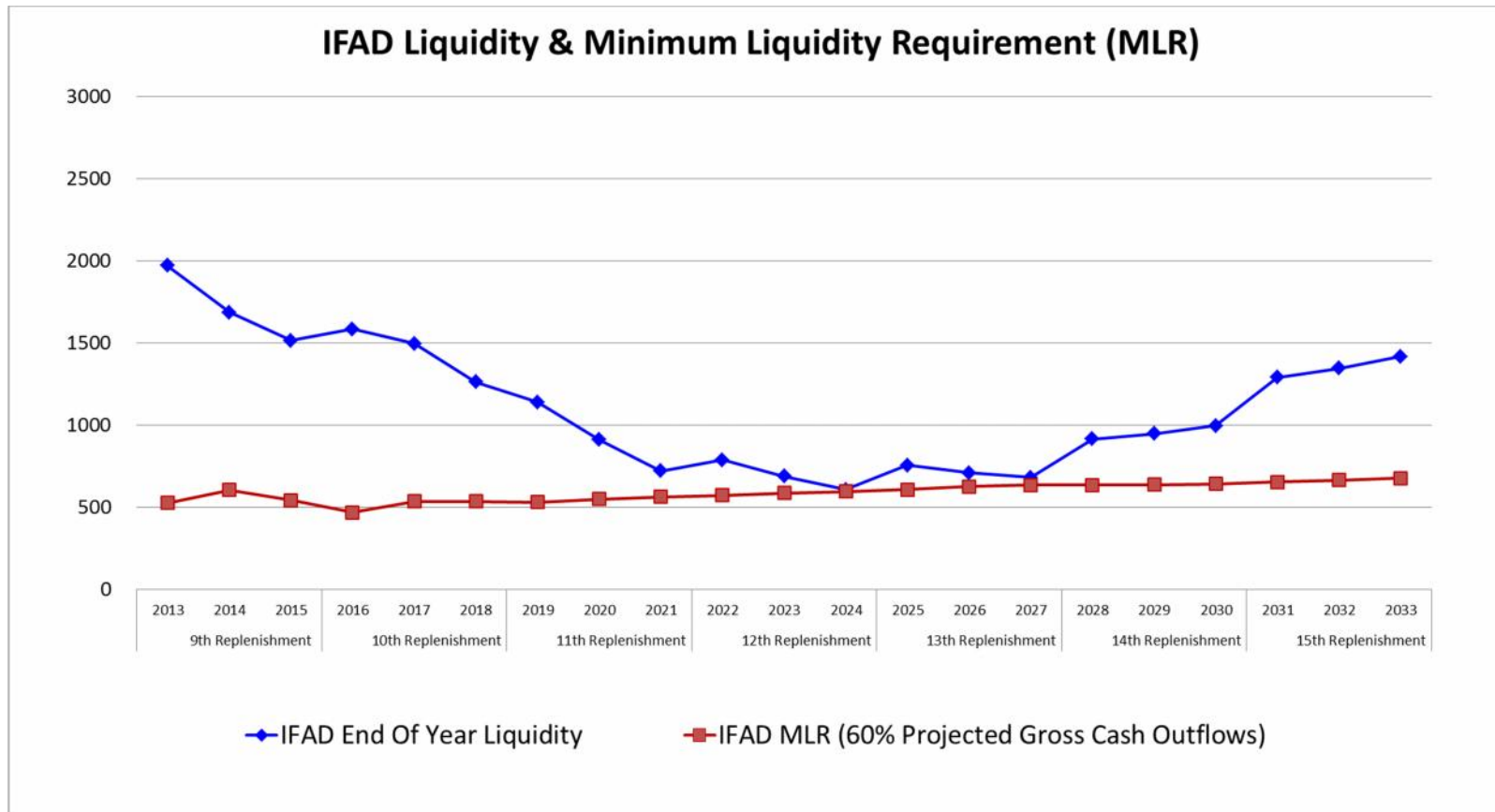
⁴ The 2016 PoLG includes actual amounts approved by the Executive Board during the period 1 January to 15 September 2015, and best estimates of the amounts to be approved by the Executive Board up until December 2016.

gross cash outflows and potential additional requirements due to liquidity shocks (see annex).

18. 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.

Chart 1

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 2.0 per cent during IFAD10 and subsequently at inflation; investment portfolio rate of return of 2.67 per cent in 2016, 2017 and 2018, 0.25 per cent in 2019, then 0.5 per cent from 2020 onwards; encashment profile of Members' replenishment contributions based on the IFAD8 trend; and inflation at 1.9 per cent per annum. IFAD10 contributions are assumed to be US\$1.126 billion, which is the actual level of contribution for IFAD10 as of 31 December 2015. Subsequent replenishment amounts and levels of PoLG are assumed flat in real terms.

Table 2

Overall liquidity – balance and cash flow sustainability

(Millions of United States dollars)

	IFAD9			IFAD10			IFAD11	IFAD12	IFAD13	IFAD14	IFAD15
	2013 (Actuals)	2014 (Actuals)	2015 (Actuals)	2016	2017	2018					
Liquidity at beginning of Replenishment	2 270	1 978	1 685	1 513	1 624	1 536	1 300	748	613	658	945
Inflows											
Loan reflows	263	277	275	314	330	343	1 180	1 463	1 704	1 916	2 031
Encashment of contributions ^a	338	390	297	376	366	316	1 009	1 335	1 472	1 587	1 707
Borrowing	-	-	163	163	109	-	-	-	-	-	-
Investment income	(24)	49	(2)	40	(-)	(-)	12	16	16	17	21
Outflows											
Disbursements	(670)	(699)	(661)	(671)	(699)	(713)	(2 220)	(2 320)	(2 486)	(2 546)	(2 655)
Borrowing obligations (debt service and fees)	-	-	(2)	(1)	(1)	(1)	(47)	(96)	(97)	(94)	(89)
Heavily indebted poor countries impact	(20)	(17)	(20)	(11)	(13)	-	-	(20)	(19)	(17)	(14)
Administrative expenses and other budgetary items	(160)	(190)	(133)	(147)	(152)	(153)	(478)	(505)	(535)	(566)	(599)
Fixed assets	(7)	(2)	(1)	(2)	(2)	(2)	(8)	(8)	(9)	(9)	(10)
Intrafund and foreign exchange movements	(19)	(100)	(87)	50	(25)	(25)	(-)	-	-	-	-
Liquidity at end of Replenishment	1 970	1 685	1 513	1 624	1 536	1 300	748	613	658	945	1 339
Total outflows ^b	876	1 008	904	832	867	869	917	983	1 049	1 077	1 122
Minimum liquidity requirement	519	520	530	499	520	521	550	590	629	646	673
Liquidity versus disbursements percentage ^c	225%	167%	167%	195%	177%	150%	105%	72%	67%	85%	114%
Sustainable programme of loans and grants^d				867	826	842	2 623	2 775	2 937	3 107	3 288

^a Excluding ASAP.^b For IFAD11 onwards total outflow, minimum liquidity requirement and liquidity versus disbursement percentage represent the average of the three years.^c The minimum liquidity requirement is at least 60 percent of gross annual outflows. A percentage greater than 60 indicates a sustainable cash flow period.^d Excluding ASAP.

III. Recommendations

19. Based on the projected long-term SCF position for IFAD estimated as at 22 September 2016 (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 2017 up to US\$826 million.
20. Based on Management's estimates of contributions and borrowing yet to be encashed over the IFAD10 period, the Executive Board authorizes the President to increase the above amount to up to US\$1.5 billion.

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 a fourteen-year disbursement profile. This shock assumes a profile of nine years.
Increase in loan arrears	Shock is that loan arrears will increase to 3 per cent per annum from 2015 onwards (base scenario is 0.20 per cent per year)
Change in investment return	The base financial model assumes 0.0 per cent in 2016, 0.0 per cent in 2017, 0.0 per cent in 2018, 0.25 per cent in 2019, then 0.5 per cent from 2020 onward. This shock assumes a return of -1 per cent in 2016, -1 per cent in 2017, -0.5 per cent in 2018, 0.0 per cent in 2019 and 0.25 per cent from 2020 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	855.9
(b) Potential additional requirements due to liquidity shocks:	115.0
Quicker disbursements	53.0
Increased loan arrears	29.0
Decrease in investment income	33.0
(c) Total (a) + (b)	970.9
(d) Minimum liquidity requirement (60 per cent of the total)	582.5