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Investing in rural people

Resources available for commitment

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Executive Board — 122nd Session
Rome, 11-12 December 2017

For: Approval

Recommendations for approval

The Executive Board is invited to approve the following:

Based on the projected long-term sustainable cash flow position for IFAD estimated as at 12 October 2017 and 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 2018 up to US$1,215 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) are determined under a sustainable cash flow approach. The related definitions and procedures are set forth 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 commitments.

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 in the Ninth Replenishment of IFAD's Resources (IFAD9) and is engaging in further borrowing in IFAD10 within the provisions established by the Sovereign Borrowing Framework.

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 resources.

5. This shift will require adjustments to the policies and procedures that govern commitment capacity to reflect all funding sources necessary to meet the target set by Management.

6. This document presents a request for the use of commitment authority for the year 2018 based on the sustainable cash flow approach.

II. Resources available for commitment based on sustainable cash flow

7. Governing Council resolution 166/XXXV on 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."

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 the Adaptation for Smallholder Agriculture Programme (ASAP) complementary contributions.

10. The IFAD10 Consultation concluded with a replenishment target of US$1.353 billion and a PoLG of US$3.0 billion, subsequently increased to US$3.2 billion.

11. For the purposes of calculating resources available for commitment, the SCF PoLG is based on IFAD9 core contributions, IFAD10 core and unrestricted complementary contributions as at 31 December 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 + Add.1),[3] the loan from Agence Française de Développement as approved by the Executive Board at its 119th session (EB 2016/119/R.38), 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 the governing bodies.

13. This approach will also be applied to any further IFAD10 pledges that may materialize during the period, as well as potential resources from investment income in excess of the amount included in the forecasts. These amounts will be included in resources as and when they become available.

14. Table 1 shows an estimated total 2017 PoLG[4] of US$1,190 million, excluding the ASAP grant programme. Based on this amount, IFAD expects to have resources available to support the SCF PoLG for 2018 at an estimated level of US$1,215 million.

Table 1
2017 PoLG and 2018 resources available for commitment (RAC)

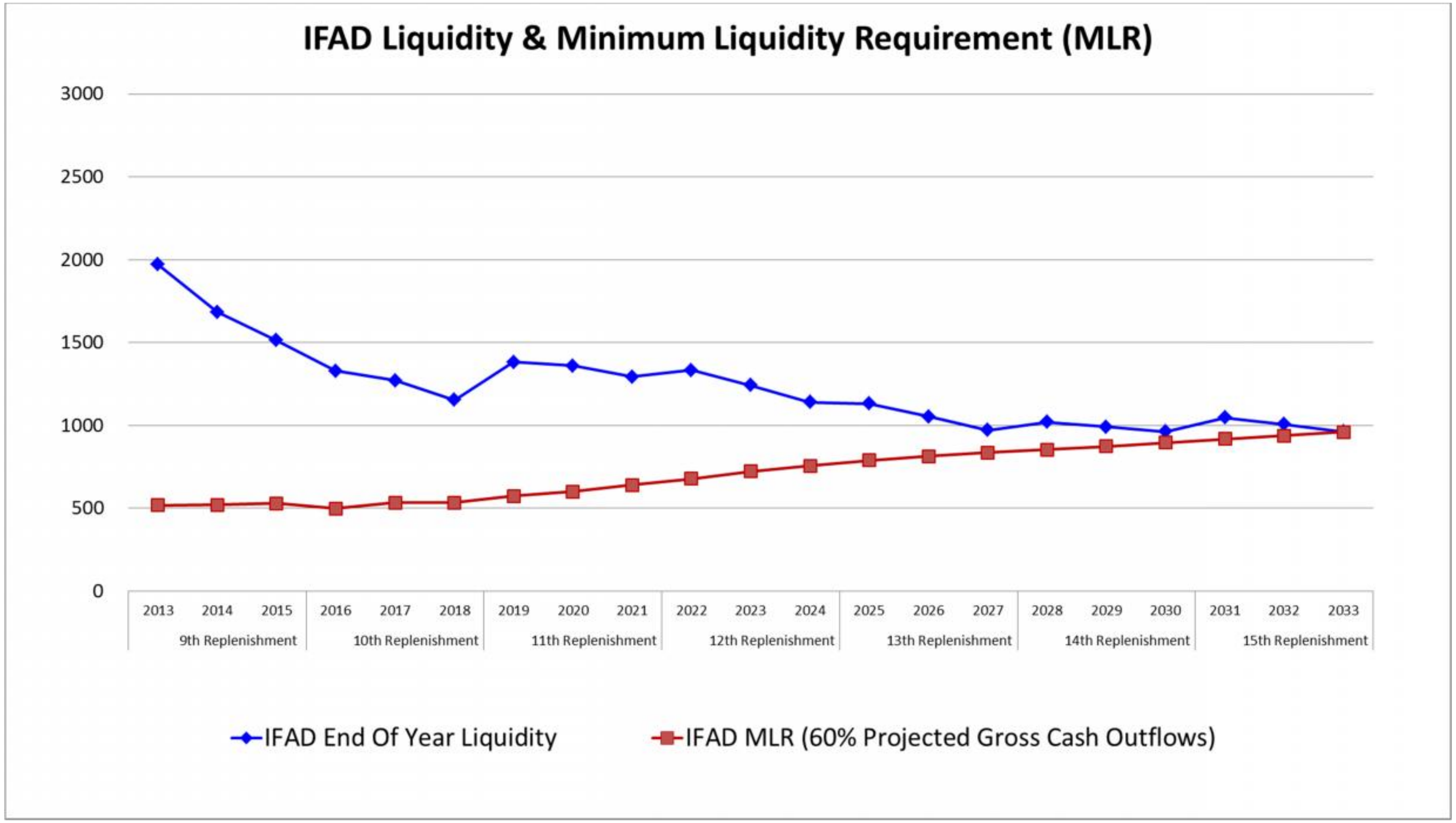
	Total 2017 estimated PoLG (excluding ASAP)	*Total 2018 estimated resources (RAC)*
Total	US$1 190 million	US$1 215 million

15. 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 (see annex).

16. 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 compare the resulting liquidity with the minimum liquidity requirement. Over the next fifteen 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. Beyond 2033, 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.

[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 (ILA) number 1 from KfW Development Bank in the amount of EUR 100 million, ILA number 2 in the amount of EUR 200 million and ILA number 3 in the amount of EUR 100 million.
[4] The 2017 PoLG includes actual amounts approved by the Executive Board during the period 1 January-12 October 2017, and best estimates of the amounts to be approved by the Executive Board up until December 2017.

Chart 1
IFAD cash flows and liquidity
(Millions of United States dollars)



* The key assumptions driving these figures are: a loan disbursement profile of 15 years; administrative expenses growing at 2.0 per cent during in 2017, 5.96 per cent in 2018 and subsequently at inflation; an investment portfolio rate of return of 1.51 per cent in 2017, 0.79 per cent in 2018, 0.50 per cent in 2019, 0.50 per cent in 2020 and then 0.75 per cent from 2021 onward; an encashment profile of Members' replenishment contributions over 6 years, based on the historical trend; and inflation at 2 per cent per annum. IFAD10 contributions are assumed to be US$1,129 billion, which is the target level of contribution for IFAD10. 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*
	2014 (Actuals)	*2015 (Actuals)*	*2016 (Actuals)*	*2017*	***2018***	*2019-21*	*2022-24*	*2025-27*	*2028-30*	*2031-33*
Liquidity at beginning of Replenishment	**1 978**	**1 685**	**1 513**	**1 328**	**1 271**	**1 153**	**1 293**	**1 139**	**972**	**962**
Inflows										
Loan reflows	277	275	299	343	361	1 253	1 588	1 927	2 238	2 393
Encashment of contributions[a]	390	297	387	239	223	1 384	1 370	1 466	1 593	1 737
Borrowing	-	163	107	211	158	483	456	484	513	543
Investment income	49	(2)	44	20	10	23	29	25	22	23
Outflows										
Disbursements	(699)	(661)	(539)	(730)	(719)	(2 457)	(2 901)	(3 225)	(3 419)	(3 624)
Borrowing obligations (debt service and fees)	0	(2)	(1)	(1)	(1)	(41)	(134)	(248)	(326)	(406)
Heavily indebted poor countires impact	(17)	(20)	(13)	(11)	(10)	(21)	(7)	(5)	(3)	(2)
Administrative expenses and other budgetary items	(190)	(133)	(163)	(159)	(169)	(526)	(558)	(592)	(627)	(665)
Fixed assets	(2)	(1)	(4)	-	-	-	-	-	-	-
Intrafund and foreign exchange movements	(100)	(87)	(302)	-	-	-	-	-	-	-
Other cash flows				31	29	43	3	-	-	-
Liquidity at End of Replenishment	**1685**	**1513**	**1 328**	**1 271**	**1 153**	**1 293**	**1 139**	**972**	**962**	**961**
Total outflows[b]	1 008	904	1 022	902	899	1 069	1 260	1 393	1 493	1 601
MLR	520	530	613	534	534	641	756	836	896	961
Liquidity vs disbursements percentage[c]	167%	167%	130%	141%	128%	121%	90%	70%	64%	60%
Sustainable programme of loans and grants[d]				1 190	**1 215**	3 500	3 710	3 933	4 169	4 420

[a] Excluding ASAP.
[b] For IFAD11 onwards total outflow, MLR and liquidity vs. disbursement per cent represent the average of the three years.
[c] The MLR is at least 60 per cent of gross annual outflows.
[d] Excluding ASAP.

III. Recommendations

17. Based on the projected long-term sustainable cash flow position for IFAD estimated as at 12 October 2017 and 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 2018 up to US$1,215 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

Type of liquidity shock	*Assumption*
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 2017 onwards (base scenario is 0.2 per cent per year)
Change in investment return	The base financial model assumes 1.51 per cent in 2017, 0.79 per cent in 2018, 0.5 per cent in 2019, 0.5 per cent in 2020, 0.75 per cent from 2020 onward. This shock assumes a return of 1 per cent in 2017, 0 per cent in 2018, 0 per cent in 2019, 0.25 per cent in 2020, and 0.50 per cent from 2021 onward.

Summary of major risk elements and their impact on IFAD’s liquidity, 2017-2018
(Millions of United States Dollars)

		Amount
(a)	**Average annual gross disbursements (cash outflows) over 2017-2018 under the base scenario**	**900.3**
(b)	**Potential additional requirements due to liquidity shocks:**	**135.0**
	Quicker Disbursements	*80.0*
	Increased loan arrears	*30.0*
	Decrease in Investment Income	*25.0*
(c)	**Total (a) + (b)**	**1035.3**
(d)	**Minimum Liquidity Requirement (60 per cent of the total)**	**621.2**