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Investing in rural people

Resources Available for Commitment

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Executive Board —125th Session
Rome, 12-14 December 2018

For: Approval

Recommendation 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 5 October 2018 and programmed borrowing (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 2019 up to US\$1,759 million.

Resources Available for Commitment

I. Introduction

1. As requested in the Report of the Consultation on the Ninth Replenishment of IFAD's Resources (IFAD9), resources available for commitment for the Fund's programme of loans and grants (PoLG) are determined under a sustainable cash flow (SCF) 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 SCF 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 IFAD9 and is engaging in further borrowing in IFAD10 within the provisions established by the Sovereign Borrowing Framework (SBF).
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 2019 based on the SCF 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 can be defined as sustainable cash flow-based (SCF PoLG) if, over the next 40 years and after forecasting all of the inflows and outflows derived from 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 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.
10. The IFAD11 Consultation concluded with a replenishment target of US\$1.2 billion and a PoLG of US\$3.5 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 5 October 2018, IFAD resources stemming from 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 SBF 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 and anticipated IFAD11 pledges that are being processed for payment and 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 2018 PoLG² of US\$1.215 billion, excluding grants under the Adaptation for Smallholder Agriculture Programme (ASAP). Based on this amount, IFAD expects to have resources available to support the SCF PoLG for 2019 at an estimated level of US\$1,329 million.

Table 1
2018 PoLG and 2019 resources available for commitment (RAC)

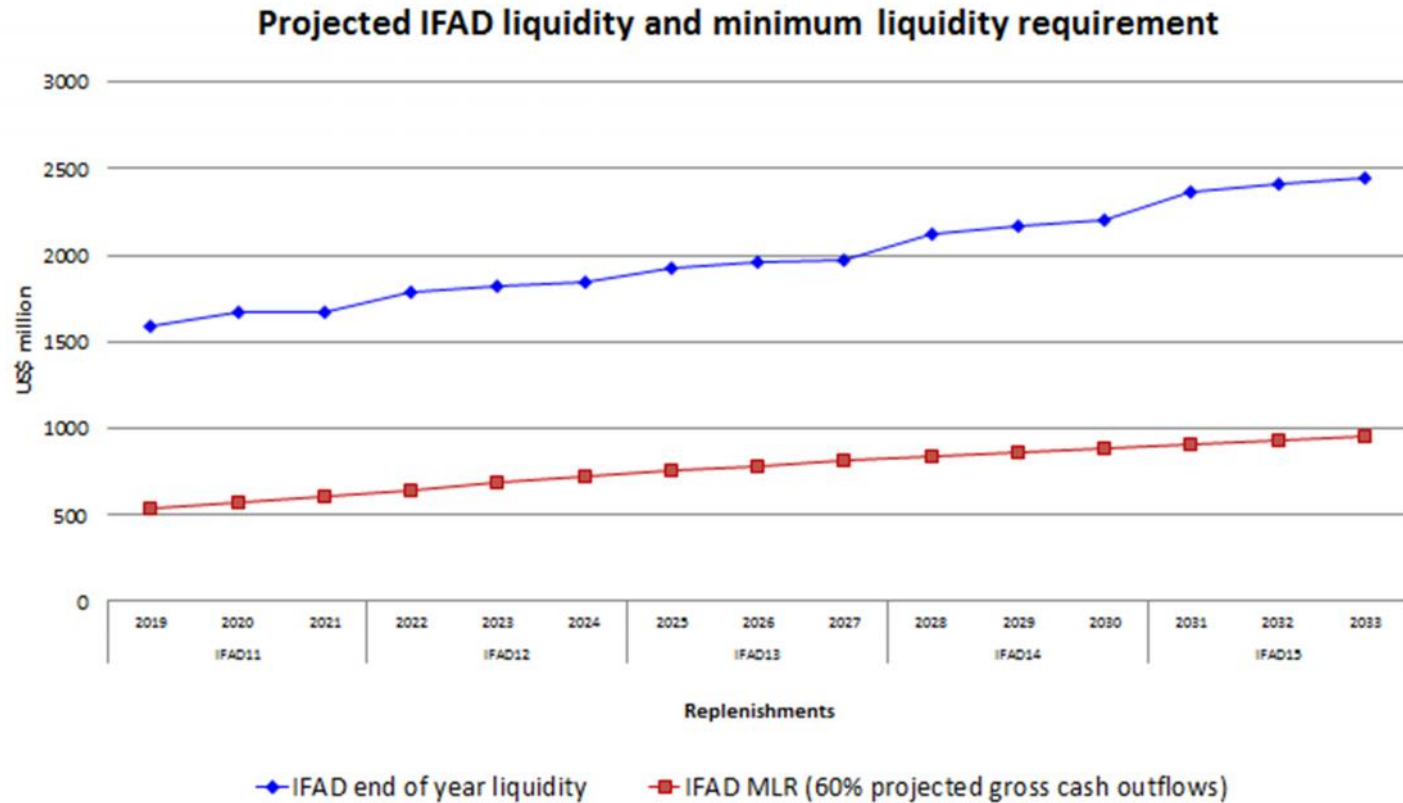
	<i>Total 2018 estimated PoLG (net of ASAP)</i>	<i>Total 2019 RAC</i>
Total	US\$1 215 million	US\$1 329 million

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. An increase in IFAD's liquidity is discernible during the coming 15 years, mainly due to updated financial model assumptions, the increased IFAD11 target of US\$1.2 billion and the two concessional partner loans from France and India for the IFAD11 period. Over the long term, liquidity is expected to decrease as the maximum amount of liquidity (consistent with not breaching the liquidity policy threshold) is deployed for the PoLG. 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 See EB 2006/89/R.40.

² The 2018 PoLG includes actual amounts approved by the Executive Board during the period 1 January to 5 October 2018, and best estimates of the amounts to be approved by the Board up until December 2018.

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



Note: The key assumptions driving these figures are: a loan disbursement profile of 15 years; administrative expenses up 4.1 per cent in 2018 and subsequently at inflation; an investment portfolio rate of return equal to the weighted average of LIBOR (in pound sterling, United States dollars, Japanese yen and Chinese yuan) and EURIBOR forward curve reference rates adjusted by a conservative -20 basis points factor. Weights are: the current currency composition of the net asset value of the investment portfolio; an encashment profile of Members' replenishment contributions over 6 years, based on the historical trend; and inflation at 2.06 per cent per annum. IFAD10 contributions are assumed to be US\$1.1 billion, which is the pledged level of contributions for IFAD10; and IFAD11 contributions are assumed to be US\$1.2 billion, which is the target level of contributions for IFAD11. Subsequent replenishment amounts and levels of PoLG are assumed to be flat in real terms.

Table 2

Overall liquidity – balance and cash flow sustainability

(Millions of United States dollars)

	IFAD10		IFAD11		IFAD12	IFAD13	IFAD14	IFAD15
	2017 (actuals)	2018	2019	2020-21	2022-24	2025-27	2028-30	2031-33
Liquidity at beginning of replenishment	1 328	1 348	1 329	1 588	1 670	1 840	1 974	2 204
Inflows								
Loan reflows	316	361	412	913	1 674	1 997	2 314	2 475
Encashment of contributions ^a	411	310	480	867	1 384	1 470	1 595	1 754
Borrowing	174	158	254	236	457	486	517	549
Investment income	32	9	9	32	72	96	111	127
Outflows								
Disbursements	(805)	(673)	(708)	(1 538)	(2 679)	(3 053)	(3 326)	(3 561)
Borrowing obligations (debt service and fees)	(1.0)	(1.0)	(5.1)	(39)	(133)	(222)	(302)	(387)
Heavily Indebted Poor Countries Initiative impact	(17)	(10)	(8)	(13)	(7)	(5)	(3)	(2)
Administrative expenses and other budgetary items	(152)	(170)	(171)	(378)	(597)	(635)	(675)	(717)
Fixed assets	(4)	(3)	(3)	-	-	-	-	-
Intrafund movement and foreign exchange	66	-	-	-	-	-	-	-
Other cash flows	-	-	-	-	-	-	-	-
Liquidity at end of replenishment	1 348	1 329	1 588	1 670	1 840	1 974	2 204	2 442
Total outflows ^b	913	857	896	656	1 139	1 305	1 436	1 556
Minimum liquidity requirement	548	514	538	394	683	783	861	933
Liquidity vs total outflows (percentage) ^c	148	155	177	255	162	151	154	157
Sustainable programme of loans and grants ^a	-	1 215	1 759	1 741	3 721	3 955	4 204	4 469

^a Excluding ASAP.^b For IFAD11 and onwards, total outflows, MLR, and liquidity vs total outflows shown represent the average for the three-year replenishment period.^c The MLR is at least 60 per cent of gross annual outflows.

III. Recommendations

17. Based on the projected long-term sustainable cash flow position for IFAD estimated as at 5 October 2018 and programmed borrowing (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 2019 up to US\$1,759 million.

Liquidity shocks and risks

- The following tables detail 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 2017 onwards (base scenario is 0.2% per year)
Change in investment return	The base financial model assumes the weighted average of LIBOR (in pound sterling, United States dollars, Japanese yen and Chinese yuan) and EURIBOR forward curve reference rates adjusted by a conservative -20 basis points factor. This shock assumes a factor of -50 basis points

Table 2
Summary of major risk elements and their impact on IFAD's liquidity, 2017-2018
(Millions of United States Dollars)

	<i>Amount</i>
(a) Average annual gross disbursements (cash outflows) over 2018-2019 under the base scenario	874.7
(b) Potential additional requirements due to liquidity shocks:	
<i>Quicker disbursements</i>	78.0
<i>Increased loan arrears</i>	33.0
<i>Decrease in investment income</i>	32.0
Subtotal (b)	143.0
Total (a) + (b)	1 017.7
Minimum liquidity requirement (60 per cent of the total)	610.6