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Investing in rural people

High-level Review of IFAD's Financial Statements for 2018

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For: Information

High-level Review of IFAD's Financial Statements for 2018

I. Introduction

1. This document provides additional information on IFAD's Consolidated Financial Statements. Its analysis focuses on the IFAD-only financial statements, which reflect the financial status and transactions of the Fund's core business.

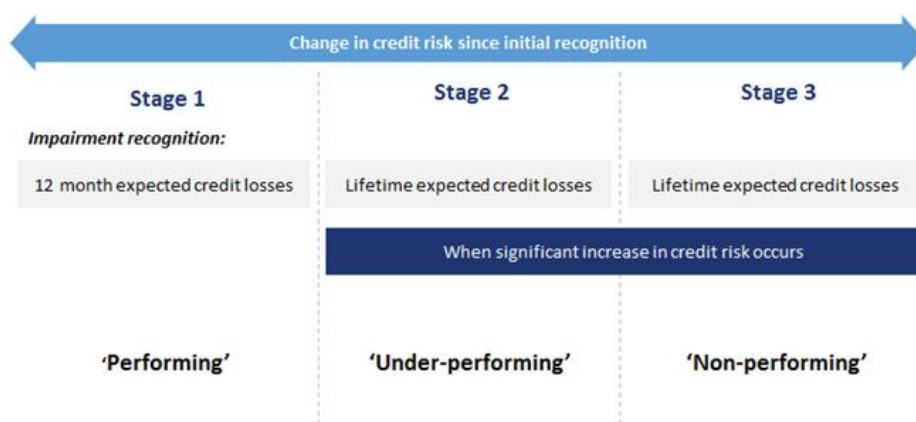
II. External financial environment

2. Financial markets remained volatile in 2018 with a prevailing negative interest rate in the euro area. Nonetheless, IFAD's overall investment portfolio had a positive net rate of return of 0.09 per cent (compared to 2.21 per cent in 2017).
3. The year's overall results have been negatively impacted by the strengthening of the United States dollar against both special drawing rights (SDR) and the euro (EUR). The US\$/SDR exchange rate decreased 2.4 per cent from 2017 to 2018, compared to an increase of 6.0 per cent from 2016 to 2017. The US\$/EUR exchange rate decreased 4.8 per cent from 2017 to 2018, compared to an increase of 13.8 per cent from 2016 to 2017.

III. Adoption of International Financial Reporting Standard 9 Impairment Section

4. International Financial Reporting Standard (IFRS) 9 on financial instruments has been issued in phases over several years, with entities allowed to early-adopt phases. It consists of sections on "classification and measurement", "impairment" and "hedge accounting". The first phase, classification and measurement, was adopted by IFAD in 2010.
5. From 1 January 2018, the complete IFRS 9 standard on financial instruments became mandatory. IFAD adopted the section on impairment on 1 January 2018; the section on hedge accounting is not applicable to derivative instruments currently adopted by the Fund.
6. The new impairment requirements are based on an expected credit loss (ECL) model, replacing the incurred loss model. The ECL model applies to financial instruments recorded at amortized cost such as loans, debt securities and loan commitments.
7. Prior to January 2018, the impairment of loans and bonds held at amortized cost was calculated based on strong evidence of creditworthiness deterioration.
8. After 1 January 2018, IFAD established a forward-looking ECL methodology with a three-stage model for the impairment of assets held at amortized cost.
9. IFAD has established a forward-looking ECL methodology to calculate an allowance for loan impairment that embeds IFAD's preferred creditor status features. The Fund is required to recognize an allowance for either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.
10. The ECL reflects a probability weighted outcome, time value of money and the best available forward-looking information through the inclusion of macroeconomic factors.
11. The ECL comprises a three-stage model based on changes in credit quality since origination or initial recognition of the financial instrument – the date on which disbursement conditions have been met (for loans), or the date on which the instruments purchased by the Fund. Impairment is reported based on

either 12-month or lifetime expected credit losses, depending on the stage allocation of the financial instrument. The stage allocation also determines if interest income for the financial instrument is reported on the gross carrying amount, as for Stages 1 and 2, or the net of impairment allowance, as for Stage 3.



12. Table 1 below provides data on consolidated securities at amortized costs (bond and loans) by their United States dollar value and number of instruments:

Table 1
Categorization by stage as of 31 December 2018

Instrument	Stage	Number of instruments	Exposure US\$ million	Provision US\$ million
Bonds	Stage1	25	144	0.03
Loans (outstanding amounts and undrawn commitments)	Stage1	752	8 848	8
	Stage2	157	1 001	36
	Stage3	30	208	62
		939	10 057	106
Total (bonds + loans)		964	10 201	106

13. With a total of 964 instruments (bonds and loans), IFAD's exposure as of 31 December 2018 is US\$10.2 billion. The related provision is US\$106 million (in nominal terms, on a consolidated basis).
14. As of December 2018, IFAD's financial instruments have been categorized by stages as follows:
- Stage 1 – Performing loans: 88 per cent of IFAD's portfolio. The credit loss provision has been calculated with a required one-year time horizon and amounts to US\$8 million.
 - Stage 2 – Under-performing loans: 10 per cent of IFAD's portfolio. These loans show signs of creditworthiness deterioration. The credit loss provision has been calculated for the full life cycle of the loan and amounts to US\$36 million.
 - Stage 3 – Non-performing loans: 2 per cent of IFAD's portfolio. Stage 3 borrowers (the Democratic People's Republic of Korea, Somalia, the Bolivarian Republic of Venezuela and Yemen) have an outstanding arrears history. Therefore, the provision has been calculated for the full life cycle of the loan, embedding a 100 per cent probability of default and amounting to US\$62 million.

15. Movements between stages depend on the evolution of the financial instrument's credit risk from initial recognition to reporting date. Both improvements and deterioration may therefore cause volatility in the impairment allowance balances.
16. IFAD has adopted some rebuttable presumptions associated with days past due. In line with the debt servicing procedures, financial instruments overdue by more than 75 days are classified as Stage 2 while financial instruments overdue by more than 180 days are classified as Stage 3.
17. The methodology leverages rating information officially available on the markets and embeds IFAD's preferred creditor status, along with qualitative and quantitative information such as level of debt distress, GDP growth and the government effectiveness index.
18. For rated exposures, IFAD has mapped borrower countries to the ratings provided by rating agencies at origination and reporting dates. Considering that IFRS 9 allows for simplification of investment-grade investments, financial instruments with a rating equivalent of Baa3 and above can be considered as investment grade, and therefore classified as Stage 1.
19. For unrated exposures/countries, an internal rating logic has been developed. The proxy model starts from the rated portfolio and calculates proxies based on a country's income level, region and level of debt distress since those indicators are deemed the best proxy of country credit risk indicators. The staging has been derived considering the rating as well as qualitative factors at the reporting date.
20. Probability of default has been determined by leveraging Moody's master rating scale, developed on the basis of Moody's proprietary Default and Recovery Database for sovereigns. Moody's master scale was calibrated to reflect IFAD's default experience, arriving at a historical average default rate of 2.98 per cent (in comparison to 5.89 per cent as derived by Moody's). A probability of default of 100 per cent has been used to calculate the ECL for loans in Stage 3.
21. Loss given default (recoverability) has been determined by leveraging Moody's data, calibrated to IFAD's business model, taking into account IFAD's preferred creditor status and considering the most senior debt for secured term loans. The long-run Loss Given Default (LGD) of 22.89, calculated using Moody's model, was adjusted to reflect IFAD's default experience by performing a historic analysis of IFAD's loan portfolio repayment behavior since the Fund's inception. The average LGD for IFAD's loan portfolio as a result was set at 10.04 per cent, which is better than the Moody's reference dataset reflecting IFAD's strong creditor status and payment history.
22. An LGD of 30 per cent was used for Stage 3 countries in default as per Standard and Poor's methodology for multilateral development banks with moderate preferred creditor status.
23. Credit risk-related inputs and assumptions (i.e. credit ratings composite, staging criteria, probability of default, LGD and unrated logic) have been validated by IFAD's Financial Risk Management Unit.

IV. Financial results (IFAD only)

24. 2018 was the final year of the Tenth Replenishment of IFAD's Resources (IFAD10: 2016-2018). During 2018, IFAD11 (2019-2021) was adopted. IFAD loans, grants and Debt Sustainability Framework (DSF) approvals, along with contributions received, were aligned with the IFAD10 and IFAD11 scenarios.
25. IFAD's total assets (in fair value terms) amounted to US\$8 billion at the end of 2018 (compared to US\$7.7 billion at the end of 2017).
26. Total net loans outstanding (in fair value terms) increased to US\$5.9 billion at the end of 2018 from US\$5.8 billion in 2017. This movement was the result of the net

effect of additional disbursements and loan repayments, negative exchange rate movements and the adoption of the IFRS 9 impairment section.

27. IFAD received additional instruments of contribution towards IFAD11, resulting in US\$8.9 billion in equity at the end of 2018 (US\$8.2 billion at the end of 2017).
28. The Fund reported a total comprehensive loss in 2018 of US\$411 million (total comprehensive income at the end of 2017 was US\$58.7 million).
29. The Fund's liquidity position remained within policy thresholds, with sufficient liquid assets to cover projected disbursement needs for two years.¹ Liquidity at the end of 2018 represented 11.2 per cent of total assets.
30. Term risks are the financial risks that arise when the timing and financial maturity of cash flows (i.e. principal and interest) from assets do not match those of their funding liabilities. Funding, refinancing and reinvestment risks are three of the most typical term-structure risks. IFAD has no significant exposure to term risks since it is mostly funded by equity (i.e. contributions and reserves), which by definition does not entail specific interest or principal payments.
31. Under the current financial mechanism (inclusive of borrowing), and despite negative retained earnings (as explained below), IFAD's net equity is positive. At the end of 2018, total equity (contributions plus general reserve) represented 89.7 per cent of total assets in nominal terms. It should be noted that at the end of 2018, IFAD's total assets (US\$8 billion at fair value) were sufficient relative to total liabilities (US\$1 billion), undisbursed loan commitments (US\$3.9 billion) and undisbursed DSF commitments (US\$0.9 billion).
32. As an additional risk indicator, the Sovereign Borrowing Framework requires the debt/equity ratio² to be no higher than 35 per cent. At the end of 2018, the ratio was calculated at 6.3 per cent.
33. All financial risk parameters are within the thresholds established by the Sovereign Borrowing Framework adopted in 2015. The financial ratios are summarized in the table below.

Table 2
Financial ratios as of December 2018, 2017, 2016 and 2015
(Percentage)

	<i>Dec 18</i>	<i>Dec 17</i>	<i>Dec 16</i>	<i>Dec 15</i>	<i>Threshold</i>
Equity/total assets	97.3	93.0	97.3	93.5	>60*
Debt/equity	6.3	5.8	3.3	2.0	<35
Liquidity/assets	11.2	15.1	15.9	17.8	>5
Liquidity/disbursement needs	2.0 years	2.5 years	2.2 years	2.2 years	
Debt service coverage	0.2	0.2	0.1	0.1	<50

* Threshold established in the framework agreement with KfW Development Bank.

34. The introduction of borrowing activities has also generated interest rate risk (the risk that IFAD is unable to repay interest due to a mismatch between the interest rate stipulated for its borrowed funds and the interest rate applicable to its entire loan portfolio). This risk is currently mitigated by ensuring that the lending terms of

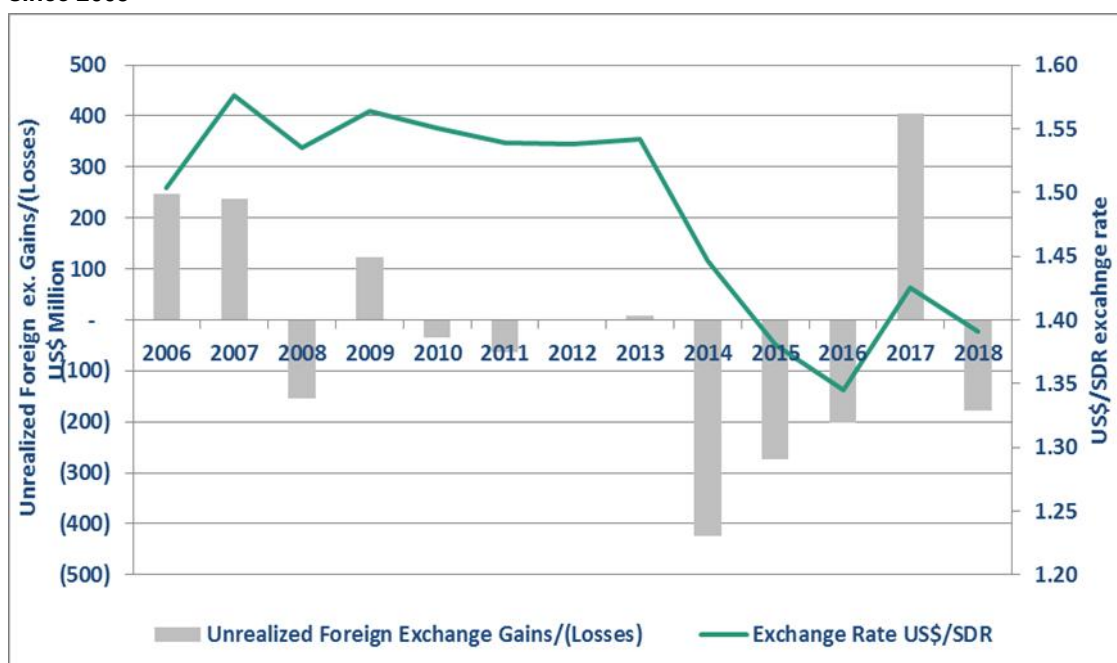
¹ IFAD liquidity of US\$1.03 billion/net disbursement needs of US\$514 million as per the minimum liquidity ratio = 2.02 years.

² The debt/equity ratio is: (i) the ratio of principal portion of total outstanding debt to total contributions plus the General Reserve (expressed as a percentage); (ii) calculated as (total outstanding debt principal/contributions plus General Reserve).

IFAD's financial liabilities are matched against the terms of onlent funds while ensuring the performance-based allocation system allocation.³

35. IFAD conducts its operations in various currencies: the bulk of its assets are denominated in SDR⁴, while for reporting purposes its accounting records are maintained in United States dollars. Fluctuations in the US\$/SDR exchange rate create volatility in IFAD's accounts.
36. The retranslation of assets in United States dollars for reporting purposes has always generated foreign exchange movements, which appear as unrealized gains and losses on IFAD's statement of comprehensive income. In other words, they do not have repercussions for IFAD's financial stability since the Fund ensures that it has enough liquidity to meet its disbursement requirements. IFAD's currency risk is mitigated by ensuring that commitments for undisbursed loans and grants (mainly denominated in SDR) are supported by assets denominated in the SDR basket of currencies. Foreign exchange movements are always anticipated in institutions such as IFAD, which work in a multi-currency environment.

Figure 1
Unrealized foreign exchange gains/(losses) due to movements in US\$/SDR exchange rate trends since 2003

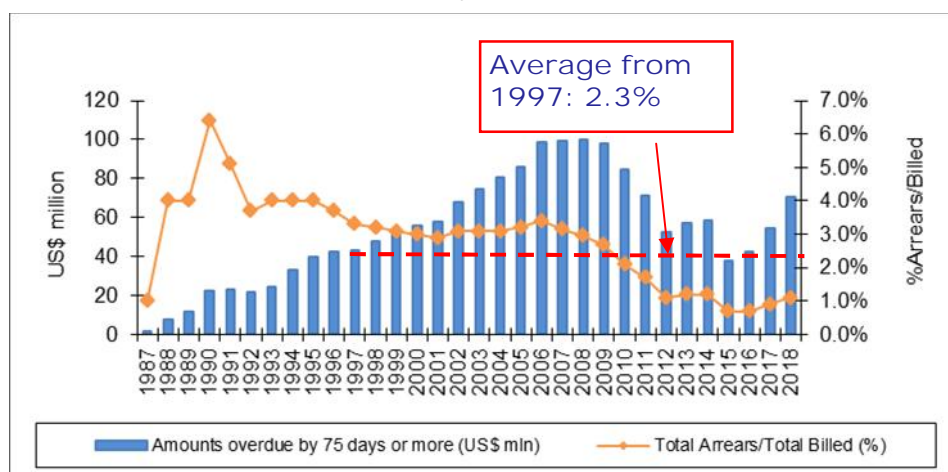


37. In 2018, an unrealized exchange rate loss of US\$150.5 million was recorded. This was primarily due to the depreciation of the SDR against the US\$. Exchange rate fluctuations have historically netted out, as illustrated in figure 1 above.
38. The Fund enjoys preferred creditor status and adopts several operational measures to reduce the risk of accumulating arrears balances (known as default risk). These include suspending disbursements on loans that are 75 days in arrears and suspending the entire country portfolio. Figure 2 shows the percentage of amounts in arrears for more than 75 days relative to overall billed amounts. As of 31 December 2018, the level of arrears is below the historical average of 2.3 per cent.

³ For example, interest rates applied to outstanding loan balances should be higher overall than interest on financial liabilities.

⁴ The SDR is a basket of currencies (Source: International Monetary Fund). The value of SDR is based on five currencies: the United States dollar, the euro, the Chinese renminbi, the Japanese yen and the British pound sterling.

Figure 2
Amounts in arrears for more than 75 days compared to billed amounts

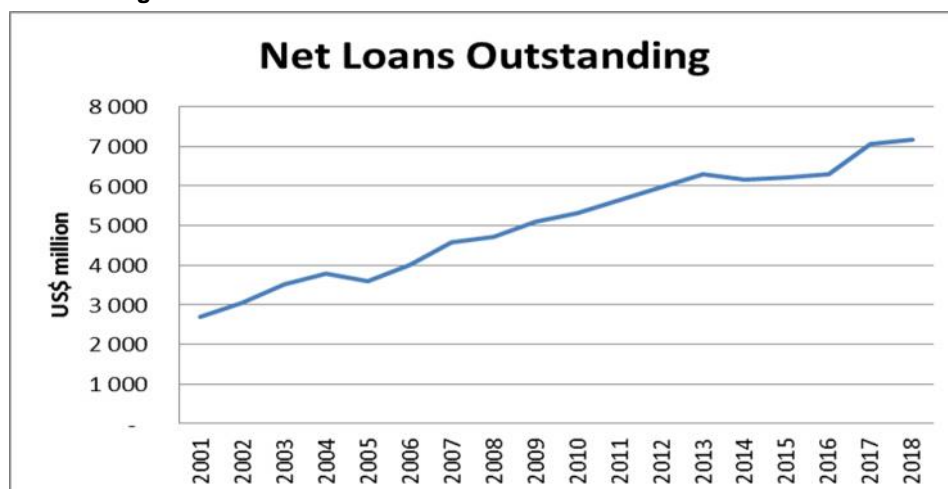


- 39. Risks and performance associated with IFAD’s investment portfolio are detailed in the disclosure notes to the financial statements (see appendix D), and in the Report on IFAD’s Investment Portfolio for 2018, which was submitted to the Audit Committee and Executive Board.

V. IFAD’s operational activities

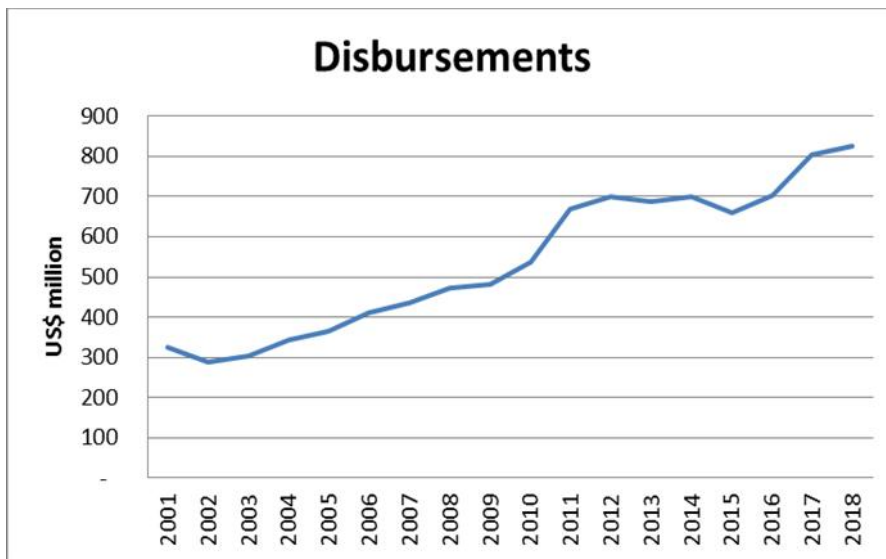
- 40. During 2018, the Fund approved loans and grants totalling US\$1.18 billion (US\$1.32 billion in 2017). This is aligned with replenishment trends (for further details, see table 3).
- 41. The balance of loans outstanding has been increasing over the years (as shown in figure 3 below); the majority of IFAD loans are provided on highly concessional terms, with a repayment period of up to 40 years. Loans are typically disbursed over an average of seven to eight years.

Figure 3
Outstanding loan balance 2001-2018



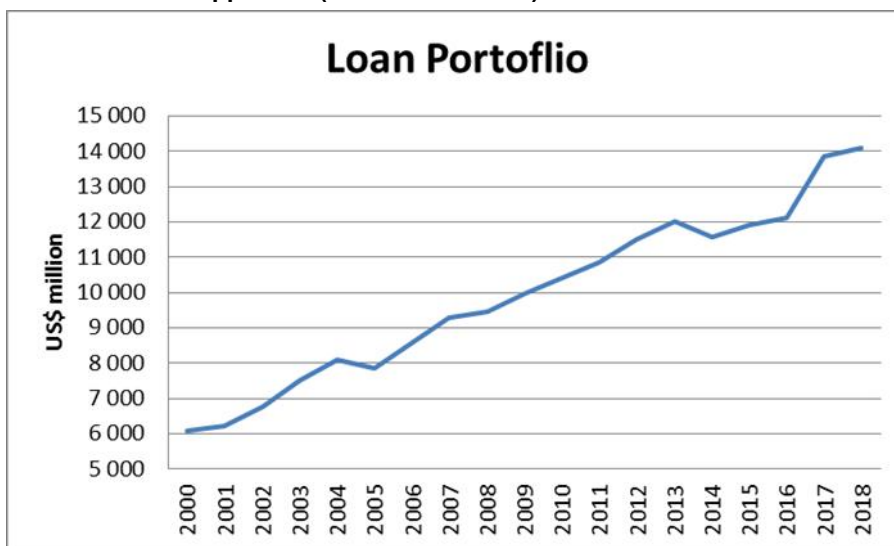
42. Overall, yearly operational activities are increasing. Figure 4 illustrates the trends in yearly disbursements for IFAD-funded projects (through loans, grants and DSF).

Figure 4
Yearly disbursements 2001-2018



43. Figure 5 provides loan portfolio trends related to the overall cumulative loans approved (committed).

Figure 5
Cumulative loan approvals (less cancellations) 2001-2018

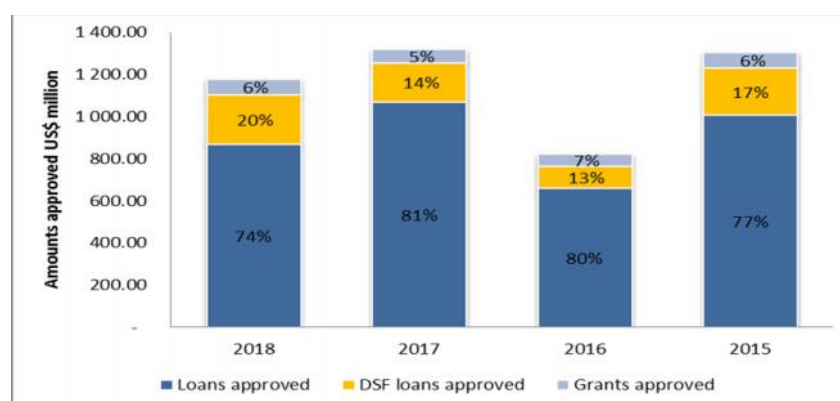


44. Table 3 and figure 6 provide a summary of the volume of operational activities and loan approvals by product type.

Table 3
Loan and grant flows and balances
(Millions of United States dollars – nominal values)

	2018	2017	2016
Approvals			
Loans approved	868.9	1 069.8	657.6
DSF loans approved	234.9	183.3	105.5
Grants approved	73.7	65.6	58.9
Total approvals	1 177.5	1 318.7	822.0
Outstanding/undisbursed			
Loans outstanding	7 312.9	7 140.3	6 377.2
Undisbursed DSF	901.7	828.5	740.0
Undisbursed grants	101.3	98.0	80.5
Disbursements			
Loan disbursements	627.1	631.4	539.4
DSF disbursements	138.6	127.8	123.9
Grant disbursements	59.8	45.4	39.3
Total disbursements	825.6	804.6	702.6
Loan repayments	341.9	315.9	299.2

Figure 6
Loan, DSF and grant approvals by year
(amounts approved and related percentages)



45. During 2018, the overall volume of loan repayments and disbursements was higher than in the previous year – both in terms of denomination and in reporting currency terms.
46. Loan interest income in 2018 was higher than in 2017 due to the fact that reference interest rates were higher in 2018 than in 2017 (for both ordinary and blend terms).

VI. IFAD financing activities

47. In line with IFAD's replenishment cycles, in 2018 additional instruments of contribution (IOCs) were received, mainly towards IFAD11. This is reflected in an increase in equity (contributions) of US\$721.3 million in 2018 compared to 2017. Overall equity (capital) at the end of 2018 totalled US\$8.9 billion.
48. During the IFAD11 Consultation in February 2018, Member States agreed to a target for IFAD11 contributions of US\$1.2 billion to fund a US\$3.5 billion programme of loans and grants for the three-year IFAD11 period.

The Replenishment became effective on 14 August 2018 with Member States depositing IOCs for more than 50 per cent of the amount pledged.

49. IFAD10 was the first replenishment cycle involving DSF compensation. The total due in additional compensatory DSF contributions, above the regular contributions during this period, was US\$3.4 million. The total received from Member States that additionally and separately included DSF contributions in their IOCs was US\$0.4 million. IFAD carved out US\$2.5 million from core replenishment contributions. The remaining US\$0.5 million of the total due could not be recovered from Members (since they had not pledged any contributions), and thus could not be carved out. As a result, only 12 per cent (US\$0.4 million of the US\$3.4 million target)⁵ was received by IFAD as additional and separate contributions as stated in the IOCs, over and above the regular contributions, to reimburse IFAD for DSF disbursements advanced in the past.
50. Similarly, under IFAD11, the total due in DSF additional compensatory contributions during the period, over and above the regular contributions, was US\$39.5 million. The amount received from Member States that separately and additionally included the DSF in their IOCs totalled US\$11 million. For Member States that made pledges without including a separate and additional DSF contribution in their IOCs, US\$20 million was carved out of core contributions. The remaining US\$8.5 million of the total has not yet been recovered from Members (since they have not pledged), and thus not carved out. As a result, only 28 per cent (US\$11 million of US\$39.5 million) has been received by IFAD as additional and separate DSF contributions (as stated in IOCs) over and above regular contributions to reimburse IFAD for DSF disbursements advanced in the past.
51. Negotiations with the French Development Agency (Agence Française de Développement [AFD]), were concluded in March 2017 with the signing of a loan agreement for EUR 200 million. During 2018, IFAD drew down two instalments totalling EUR 100.0 million. The overall borrowing liability towards sovereign entities amounted to EUR 500.0 million at year end, equivalent to US\$571.6 million.

VII. IFAD-only financial statements

Balance sheet

52. The following analysis was performed on appendix A of the consolidated financial statements and related notes (appendix D).

Assets

53. Cash and investments. The value of the cash and investments portfolio, including investment receivables and payables, decreased to US\$1.03 billion. This is consistent with the adopted replenishment scenarios. Detailed information is included in the Report on IFAD's Investment Portfolio for 2018.
54. Receivables for IOCs and promissory notes. Net receivables increased to US\$830 million at the end of 2018 (US\$350 million at the end of 2017). This is in line with the IFAD10 and IFAD11 cycles as reported in paragraphs 27 and 48 of this document.
55. Loans outstanding. Loans outstanding, net of accumulated allowances for loan impairment losses and the Heavily Indebted Poor Countries (HIPC) Initiative totalled US\$6 billion in 2018 in fair value terms (US\$5.8 billion in 2017). This increase was a result of the net effect of additional disbursements, loan repayments and positive exchange rate movements, and the adoption of IFRS9 impairment requirements.

⁵ As per resolution GC41/203/XLI.

56. The fair value adjustment in United States dollar terms decreased owing to the net effect of an additional fair value annual charge (as a result of higher market rates in 2018) and the unwinding effect of loans valued at fair value in earlier years.

Table 4

Loans outstanding

(Millions of United States dollars)

	2018	2017
Loan outstanding (principal)	7 293.2	7 123.5
Interest receivable	19.6	16.8
Loans outstanding at nominal value*	7 312.8	7 140.3
Less fair value adjustment	(1 255.4)	(1 280.6)
Loans outstanding at fair value*	6 057.4	5 859.7

* Balances as at 31 December.

57. Allowance for loan impairment losses. As reported in section III above, an impairment section of IFRS9 was implemented as of 1 January 2018. IFAD's provisioning methodology was revolutionized during fiscal year 2018. Based on the new methodology, loan impairment losses in nominal terms amounted to US\$119.3 million. The methodology refers to the excepted credit loss allowance of US\$104.1 million and the provisioning requirements of US\$15.2 million for the Haiti debt relief burden to be absorbed by IFAD.
58. Table 5 below provides an overview of the of the loan portfolio credit risk exposure (loan outstanding and undrawn commitments) as of 31 December 2018:

Table 5

Allowance for loan impairment loss and exposure

31 December 2018 (Millions of United States dollars)

	Stage 1	Stage 2	Stage 3	Individual	Total
ECL allowance	7.5	34.7	61.9		104.1
Haiti Debt relief				15.2	15.2
Impairment net of fair value					119.3
Loan outstanding	6 209.2	877.7	206.3		7 293.2
Loan commitments	2 374.4	85.8	-		2 460.3
Total exposure	8 583.7	963.6	206.3		9 753.5

59. HIPC Initiative allowance. The reduction to US\$11.4 million, in nominal terms, in 2018 (US\$14.8 million in 2017) mainly reflects the debt relief provided to eligible countries. IFAD has been participating in the HIPC Debt Initiative since 1997 (see details in appendix J of the financial statements). At the end of 2018, the total cumulative cost of debt relief approved by IFAD was US\$502 million, in nominal terms. The amount of debt relief provided was US\$371.7 million, including the principal as well as interest totalling US\$112.4 million.

Liabilities and equity

60. Borrowing liabilities. At the end of December 2018, borrowing liabilities amounted to the equivalent of US\$571.6 million (EUR 500 million).
61. Contributions. Cumulative contributions for regular resources, net of impairment allowances, rose to US\$8.9 billion (US\$8.2 billion in 2017). This is consistent with the IFAD10 and IFAD11 cycles. Table 6 below provides information on the status of contributions for IFAD10 and IFAD11.

Table 6
Contribution flows
(Millions of United States dollars)

<i>IFAD11*</i>	<i>2018</i>	<i>2017</i>
Pledges		
Regular resources	934.4	255.2
DSF compensation	31.0	10.0
Cumulative pledges to date (A)	965.4	265.2
IOCs received (B)	798.2	0.8
Outstanding pledges (A)-(B)	167.2	264.4
<hr/>		
Cash payments received	63.8	0.8
DSF payments received	5.9	0
Total payments received	69.7	0.8
<hr/>		
<i>IFAD10</i>	<i>2018</i>	<i>2017</i>
Pledges		
Regular resources	1 095.7	1 100.7
DSF compensation	2.9	2.9
Cumulative pledges to date (A)	1 098.6	1 103.6
IOCs received (B)	1 081.1	1 051.9
Outstanding pledges (A)-(B)	17.5	51.7
<hr/>		
Cash payments received	1 012.6	857.2
DSF payments received	2.9	2.8
Total payments received	1 015.5	860.0

* In February 2018, the Governing Council adopted resolution 203/XLI on the Eleventh Replenishment of IFAD's Resources (IFAD11).

62. Full details of Members' replenishment contributions are shown in appendix H of the consolidated financial statements.

Statement of comprehensive income (appendix B)

Revenue

63. Income from loan interest and service charges amounted to US\$65.5 million in 2018 (US\$57.5 million in 2017).
64. Income from cash and investments decreased to US\$2.0 million (from US\$33.3 million in 2017).
65. Expenses reported in 2018 include those incurred under the annual administrative expenses budget in that year but funded by carry-forward funds from the previous year's budget, plus the costs of the Independent Office of Evaluation of IFAD (IOE) and annual IFAD After-Service Medical Coverage Scheme (ASMCS) costs. Table 7 compares expenses incurred in 2018 and 2017 (see appendix B).

Table 7
Operating expenses
(Millions of United States dollars)

Operating expenses	2018	2017	Movement +/-
Staff salaries and benefits			
Staff salaries and post adjustments	53.5	52.5	1.0
Other allowances	39.6	36.8	2.8
Subtotal	93.1	89.3	3.8
Office and general expenses	39.6	39.8	(0.2)
Consultants and other non-staff costs	42.3	41.9	0.4
Direct investment costs	1.00	1.6	(0.6)
Total	176.1	172.6	

66. The total balances shown above include expenses funded from other sources (US\$24.1 million in 2018; US\$20.7 million in 2017). These funds were mainly provided by the Italian Government in the case of reimbursable expenses (US\$8.6 million in 2018 and US\$7.9 million in 2017), matched by associated revenue.
67. The above balances also include local staffing costs for IFAD Country Offices (ICOs) totalling US\$4.9 million in 2018 (US\$5.2 million in 2017), and operating and consultancy expenses of US\$3.4 million (US\$3.3 million in 2017). ICO administration is managed through service-level agreements with the United Nations Development Programme, the Food and Agriculture Organization of the United Nations and the World Food Programme.
68. Staff salaries and benefits. Staff salaries and post adjustments increased to US\$93.1 million (from US\$89.3 million in 2017). This increase is mainly related to other allowances paid for decentralization activities (US\$1.3 million for assignment grants; US\$0.5 million for recruitment and relocation; and US\$1.4 million for termination indemnities associated with the voluntary separation programme).
69. Office and general expenses. Administrative expenses are closely linked with the euro environment. In 2018, office and general expenses remained stable at US\$39.6 million.
70. Consultants and other non-staff costs. The increase to US\$42.3 million (from US\$41.9 million in 2017) reflects the larger volume of services provided by consultants and other organizations.
71. Loan interest expenditures. In 2018, IFAD accrued interest expenses and fees of approximately US\$0.8 million related to Sovereign Borrowing activities.

72. Adjustment for changes in fair value. A positive fair value adjustment of US\$4.8 million was made in 2018. This was mainly attributable to the unwinding effect of loan repayments.
73. Exchange rate movements. An analysis is provided in table 8 below.

Table 8
Exchange rate movements in 2018
(Millions of United States dollars)

	2018	2017
Cumulative net unrealized gain as of 1 January	358.6	19.8
Exchange rate movement on:		
Cash and investments	(8.6)	30.7
Net receivables/payables	4.8	(11.5)
Loans and grants outstanding	(145.1)	317.7
Promissory notes and Member States' receivables	(13.1)	22.8
Member States' contributions	11.5	(20.8)
Total movement in 2018	(150.5)	338.8
Cumulative net unrealized gain as of 31 December	208.1	358.6

74. As stated in paragraphs 35 and 36, IFAD's assets are mainly denominated in SDR or held in assets replicating the SDR basket. Therefore the translation of these assets into United States dollars for reporting purposes generated an unrealized loss in 2018. At the end of 2018, cumulative net unrealized gains amounted to US\$208.1 million (see table 8).
75. After-service medical benefits. In 2018, as in previous years, IFAD engaged an independent actuary to perform a valuation of the ASMCS. The methodology adopted was consistent with the previous year's valuation, and the assumptions used reflected prevailing market conditions. The 2018 ASMCS actuarial valuation calculated a liability of US\$113.2 million at the end of 2018 (US\$127.7 million at the end of 2017). IFAD recorded a net charge for current service costs of US\$6.7 million during 2018 (comprising interest costs and current service charges). This resulted in a net unrealized actuarial gain of US\$21.2 million (compared to an unrealized actuarial loss of US\$15.1 million in 2017). The change in liability was caused principally by the prevailing market conditions, which also affected the discount rate used in the 2018 valuation of 2.8 per cent (2.3 per cent in 2017), and positive effects generated by changes in foreign exchange.

Statement of changes in retained earnings (appendix B1)

76. The balance of the accumulated deficit changed from negative US\$1.36 billion at the end of 2017 to negative US\$1.86 billion at the end of 2018. This balance represents the accumulation of yearly reported financial results from operations and the impact of exchange rate movements – mainly the translation of loan balances denominated in SDR into United States dollars, IFAD's reporting currency. The total annual comprehensive loss of US\$411 million for 2018 contributed to the aforementioned retained earnings balance, which was partly offset by additional DSF compensation received during the year totalling US\$27.5 million. As reported above, during 2018 the adoption of a new accounting standard and the provisioning requirements for Haiti debt relief impacted negatively on the balance of retained earnings by US\$84.6 million overall.
77. The net loss of US\$411 million in 2018 comprises: revenue of US\$111.5 million offset against unrealized foreign exchange losses of US\$150.5 million; grant and DSF expenses of US\$205.2 million; operating expenses (including staff, consulting services and supplier expenses) of US\$176.1 million; and other positive expenses and required accounting adjustments totalling US\$5.3 million.

78. In line with IFRS requirements, the General Reserve represents an appropriation of retained earnings. Between 1980 and 1994, the Executive Board approved several transfers bringing the General Reserve to its current level of US\$95 million.
79. For the 2018 financial year, Financial Regulation XIII became applicable. It states that: "Annual transfers from the accumulated surplus to the General Reserve shall be determined by the Executive Board after taking into account the Fund's financial position in the context of the review/approval of yearly audited financial statements of the Fund".
80. Issues to be considered in assessing annual transfers to the General Reserve include: the overall balance of the accumulated surplus/deficit; and the underlying drivers of the yearly net income/loss, particularly unrealized gain/loss balances.
81. Considering that at the end of 2018, the Fund reported a net comprehensive loss on a consolidated basis of US\$427.1 million and a net comprehensive loss for IFAD-only of US\$411.1 million, the net retained earning remains negative at approximately US\$1.9 billion (for both the consolidated and the IFAD-only balance sheet). A transfer to the General Reserve at the end of 2018 is thus not recommended.

Consolidated cash flow statement (appendix C)

82. Appendix C shows movements in liquid unrestricted cash and investments in the balance sheet. It is noted that 58.8 per cent of consolidated cash and investment balances relate to IFAD (71.3 per cent in 2017).
83. IFAD grant disbursements increased to US\$59.8 million (US\$45.4 million in 2017). Non-IFAD grant disbursements decreased to US\$126.9 million in 2018 (from US\$131.1 million in 2017).
84. Disbursements financed by the DSF increased to US\$138.6 million in 2018 (from US\$127.8 million in 2017).
85. IFAD loan disbursements decreased to US\$627.1 million in 2018 (from US\$631.4 million in 2017). Non-IFAD loan disbursements decreased to US\$39.6 million in 2018 (from US\$59.2 million in 2017).
86. During 2018, IFAD drew down additional instalments through the AFD borrowing facility amounting to EUR 100.0 million (equivalent to US\$119.4 million).
87. Receipts from cash and promissory notes as replenishment contributions totalled US\$274.9 million in 2018 (US\$378.0 million in 2017).
88. Receipts for non-replenishment contributions totalled US\$200.4 million in 2018 (US\$314.2 million in 2017).

VIII. Governance

89. IFAD's business process is continually evolving and several measures have been adopted to mitigate underlying risks.
90. According to the Internal Control Framework for IFAD Investments, staff produce information used in the internal control system or take other actions needed for effective control. Each IFAD governance entity has a role to play:
 - (i) The Governing Council is the supreme plenary organ of the Fund. It is composed of representatives of the Member States. All powers of the Fund are vested in the Governing Council. Subject to the limitations stated in the Fund's charter, it may delegate powers to the Executive Board.
 - (ii) The Executive Board and the Audit Committee, appointed by the Board, supervise internal control and risk management. Assisted by the Audit Committee, the Board is informed and updated on any changes to the operating principles of internal control, including the main features of the risk management process, a summary of risks, control objectives and common control points for financial reporting.

- (iii) The internal auditors provide independent and objective assurance, and advisory services designed to add value and improve IFAD's operations. This function helps IFAD to accomplish its objectives by ensuring a systematic and disciplined approach to evaluation, and improving the effectiveness of risk management, control and governance processes.
 - (iv) The external auditors measure the effectiveness of IFAD's internal controls. They assess whether these controls are properly designed and implemented while making recommendations on how to improve internal controls. The external auditors also assess whether the financial statements are fair in presenting the Fund's financial position, its performance and cash flow.
 - (v) IOE conducts evaluations of IFAD-financed policies, strategies and operations to promote accountability and learning. It contributes to improving IFAD's and its partners' performance through independent evaluations that assess the impact of IFAD-funded activities, analyse successes and shortcomings, and identify factors affecting performance.
 - (vi) Management is responsible for designing, approving and implementing the Fund's internal control and risk management process together with the group management team, subsidiary management teams and finance managers. Management's objective is to ensure that the consolidated financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the Fund, in accordance with IFRS. The Enterprise Risk Management Committee is responsible for supporting and overseeing IFAD's risk management activities. Enterprise risk management is a critical element for the managing operational risk, which impacts the Fund's investment activities.
91. IFAD Management and staff are committed to the organization's code of conduct, which was established to regulate their conduct and align it with the Fund's interests.
92. IFAD has identified the 2013 Framework of the Committee of Sponsoring Organizations of the Treadway Commission as a suitable basis for Management's approach to evaluating the effectiveness of internal controls of financial reporting (ICFR).
93. Since 2011, IFAD has included a Management assertion regarding the effectiveness of the Fund's ICFR framework in its financial statements. An attestation by the external auditors (Deloitte) regarding the reliability of the Management assertion has also been included since 2012.
94. Management's self-assessment against the ICFR framework underscores IFAD's commitment to effective internal controls, and its proactivity in seeking to anticipate and address developments that may affect the integrity of the financial statements. This attentive stance puts IFAD at par with industry best practice. The ICFR provides a comprehensive account of IFAD processes underpinning the preparation of financial statements, and the implementation of internal controls over transactions impacting financial statements.
95. The ICFR is subject to internal and external auditing on a yearly basis. Testing is underpinned by 34 process flows mapped across six divisions and identifying 74 key controls. The testing is performed by the auditors to ensure effectiveness of ICFR. The timely updating of process flows is coordinated by the Accounting and Controller's Division (ACD). Process owners are responsible for ensuring that flows: accurately describe activities currently performed; reflect controls undertaken at various points along them; and clearly indicate the key controls. ACD is responsible for ensuring that any resulting audit recommendations are addressed and implemented.