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Investing in rural people

## Report on the Status of Contributions to the Eleventh Replenishment of IFAD's Resources

### Addendum

Executive Board — 126<sup>th</sup> Session  
Rome, 2-3 May 2019

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For: Information

# Report on the Status of Contributions to the Eleventh Replenishment of IFAD's Resources

## Addendum

The Executive Board is invited to review the attachment to the Report on the Status of Contributions to the Eleventh Replenishment of IFAD's Resources (EB 2019/126/R.31).

### Attachment 1

#### Options to finance the IFAD11 programme of loans and grants

- As indicated in the update on the status of contributions to the Eleventh Replenishment of IFAD's Resources (IFAD11) (EB 2019/126/R.31) as of 31 January 2019, the total pledges pertaining to core contributions, unrestricted complementary contributions and the grant element of concessional partner loans amounted to US\$934.4 million, or 78 per cent of the IFAD11 target of US\$1.2 billion. DSF compensation pledges received amounted to US\$31.0 million (of which US\$11.0 million had been received over and above core contributions, and was thus fully attributable to DSF, and US\$20.0 million had been carved out of core replenishment contributions received). This is compared to a target of US\$39.5 million (US\$8.5 million had yet to be recovered).
- Based on additional contributions received since 31 January and high confidence of further pledges and expected payments, the total level of contributions is expected to reach US\$1 billion by the end 2019, and between US\$1.05 billion and 1.1 billion by the end of the IFAD11 period (2021). This comprises approximately 90 per cent of the replenishment target. Higher contribution levels may be achieved depending on progress in mobilizing concessional partner loans, unrestricted complementary contributions and new or increased core pledges.
- Table 1 provides an overview of the maximum sustainable programme of loans and grants (PoLG) at different contribution and borrowing levels, based on the IFAD11 financial model. Each of these scenarios respect the parameters agreed during the IFAD11 Replenishment Consultation and ensure that the requirements of the performance-based allocation system in terms of resource allocations to different country groups and lending terms can be met.
- As indicated in table 1, contributions of US\$1.2 billion are required to reach a PoLG of US\$3.5 billion, assuming leverage of 36 per cent, or US\$430 million in borrowing. This assumes a leveraging effect of 36 per cent of grant contributions, which could be increased to a maximum of 50 per cent of grant contributions if additional borrowed funds become available.
- By increasing leverage to 50 per cent, as provided for in the IFAD11 replenishment report, it would be possible to fund the US\$3.5 billion PoLG with contributions of US\$1.1 billion.

Table 1  
**Maximum sustainable PoLG – Original IFAD11 model**  
(Millions of United States dollars)

<b>Contributions</b>	<b>950</b>	<b>950</b>	<b>1 000</b>	<b>1 000</b>	<b>1 100</b>	<b>1 100</b>	<b>1 200</b>
<b>Borrowing</b>	<b>342</b>	<b>475</b>	<b>360</b>	<b>500</b>	<b>396</b>	<b>550</b>	<b>430</b>
<b>Borrowing/contributions (percent)</b>	<b>36</b>	<b>50</b>	<b>36</b>	<b>50</b>	<b>36</b>	<b>50</b>	<b>36</b>
<b>Maximum sustainable PoLG</b>	<b>2 907</b>	<b>3 085</b>	<b>3 082</b>	<b>3 270</b>	<b>3 260</b>	<b>3 494</b>	<b>3 500</b>

6. Given the current status of contributions, and in order to avoid the risk of overestimation, Management will assume replenishment contributions totalling US\$1.1 billion for IFAD11 in its financial modelling, while maintaining an official target of US\$1.2 billion.<sup>1</sup> This assumption will be incorporated into IFAD's financial model, which is currently being updated on the basis of the 2018 audited financial statements.
7. IFAD's financial model already takes a conservative cash flow-based approach to projecting the Fund's liquidity over a 50-year time frame. Assumptions regarding replenishment contributions are typically updated at the end of each replenishment period on the basis of actual payments and instruments of contribution received, rather than on the level of the target. This is the case whether or not the target has been officially adjusted.
8. Assuming that the IFAD11 contributions reach close to US\$1.1 billion and additional borrowed funds are available to reach the higher borrowing target of US\$550 million, IFAD will be able to finance the target US\$3.5 billion PoLG sustainably. Management is confident that these levels are achievable and will also continue to work towards achievement of the full US\$1.2 billion IFAD11 target.
9. Next Steps. The status of contributions will continue to be monitored carefully and reported at each session of the Executive Board. A final decision on maintaining the IFAD11 PoLG target at US\$3.5 billion could be made at the time of the IFAD11 mid-term review. Up-to-date information to support this decision can be provided at that time, taking into consideration updated projections on the level of contributions, the pipeline of borrowing opportunities and any other factors affecting IFAD's financial model and the resources available for commitment during the remainder of the IFAD11 period.

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<sup>1</sup> In IFAD's history, the initial replenishment target has been revised downward due to a shortfall in pledges only twice: during IFAD7 and IFAD10. This was a requirement of the "structural gap" clause, or the level of funding deficit that should not be exceeded as of a cut-off date (six months following the adoption of the replenishment resolution). In past replenishment resolutions, the structural gap was expressed as a percentage of the target level of funding projected, and was usually set at 15 per cent. However the adjustment of the target did not prevent achievement of the PoLG target in either IFAD7 or IFAD10 since other funding sources were identified, such as borrowing. For IFAD11, borrowing has been fully integrated into the Fund's financial framework for the first time, and the structural gap clause has been removed from the replenishment resolution. Instead, the IFAD11 resolution adopted the "value" approach, whereby the actual amount of funding achieved in comparison with the IFAD11 replenishment target level is monitored as of the cut-off date and other reference dates. The projections above demonstrate that, as in IFAD10, lower contribution levels will not necessarily result in failure to meet the PoLG target in IFAD11. The possibility of adjusting borrowing levels provides options that allow IFAD to finance the US\$3.5 billion PoLG sustainably at contribution levels lower than US\$1.2 billion.