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Investing in rural people

Resources available for commitment

Note to Executive Board representatives

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Executive Board —128th Session
Rome, 10-12 December 2019

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 14 October 2019 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 2020 up to US\$1,062 million.

Resources available for commitment

I. Introduction

1. Pursuant to 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 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 IFAD9 and is engaging in further borrowing within the provisions established by the Sovereign Borrowing Framework.
4. In view of its evolving financial structure and the introduction of borrowing as a stable funding source in addition to contributions, IFAD has begun to move 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 2020 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 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. As of 14 October 2019, received pledges were US\$1.098 billion.
 10. The IFAD11 Consultation concluded with a replenishment target of US\$1.2 billion and a PoLG of US\$3.5 billion. As of 14 October 2019, received pledges were US\$1.04 billion.
 11. For the purposes of calculating resources available for commitment, the SCF PoLG is based on IFAD10 and IFAD11 core and unrestricted complementary contributions as at 14 October 2019, and IFAD resources stemming from:
 - (i) The loan from Agence Française de Développement (AFD) as approved by the Executive Board at its 119th session (EB 2016/119/R.38);
 - (ii) The concessional partner loan agreement with the Ministry of Foreign Affairs of Finland as approved by the Executive Board at its 126th session (EB 2019/126/R.28);
 - (iii) The concessional partner loan agreement with the Republic of India as approved by the Executive Board at its 126th session (EB 2019/126/R.29);
 - (iv) The concessional partner loan agreement with AFD as approved by the Executive Board at its 126th session (EB 2019/126/R.49); and
 - (v) 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 anticipated IFAD11 pledges, IFAD10 and IFAD11 pledges that are being processed for payment and 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. 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).
 15. The chart and table 2 below illustrate the level of available resources as of 14 October 2019, the level of payment obligations stemming from existing committed obligations (e.g. loan and grant disbursements from approved PoLG in previous replenishments), the proposed level of SCF PoLG for 2020 and the overall impact on IFAD's cash flows and liquidity up to IFAD15 (2033), and compare the resulting liquidity with the minimum liquidity requirement.
 16. A reduction in IFAD's liquidity from last year's projections is evident in the current and next replenishment periods. This is mainly due to the following factors:
 - (i) IFAD loan and grant disbursements have increased sharply in the past several months and are projected to stay on this trend throughout 2019, reflecting the strong focus on the disbursement action plan by IFAD Management. Based on actual figures, Management updated projections from last year's

¹ EB 2006/89/R.40.

resources available for commitment (RAC) scenario and included additional disbursements for IFAD11 of US\$562 million.

- (ii) IFAD10 pledges were computed at the level of received pledges, US\$1.098 billion against a target of US\$1.353 billion.
 - (iii) The replenishment target of US\$1.2 billion for IFAD11 was reduced to reflect only received pledges and pledges that are likely to materialize in the future. As of 14 October 2019, IFAD had received pledges for US\$1.04 billion, of which US\$992.1 million corresponds to regular pledges (including unrestricted complementary contributions and amounts owing in respect of the Debt Sustainability Framework) and US\$51 million corresponds to the grant element of concessional partner loans. Consequently, contribution projections from IFAD12 onwards were adjusted downwards at a more realistic growth rate of 1 per cent per annum.
 - (iv) As of 14 October 2019, committed borrowing was comprised of the final tranche of the loan from AFD² and three concessional partner loans: EUR 50 million from Finland, EUR 50 million from France and US\$20 million from India. Management expects additional borrowing of up to US\$637 million to be needed during the IFAD11 period.
 - (v) Projected borrowing needs are sensitive to the pace of loan and grant disbursements and future PoLG approvals. As shown in table 2, borrowing of up to US\$939 million is expected to be incurred during the IFAD12 period, mainly to effect disbursements of loans and grants approved under past replenishments. This pattern was anticipated as a result of the large increase in the PoLG that began under IFAD9 and continued under IFAD10 and IFAD11, unmatched by actual resources received against planned levels (i.e. actual contributions vs. replenishment targets), and the acceleration of disbursements over the past several months.
 - (vi) Management will closely monitor progress in obtaining new resources, the pace of loan and grant disbursements and PoLG approval levels.³ Special attention will be paid to mitigating factors such as cancellations of undisbursed balances and loan prepayments.
17. Based on available and projected resources and updated assumptions, IFAD's liquidity as projected does not fall below the minimum liquidity requirement of 60 per cent of projected annual gross disbursements.
18. Table 1 shows estimated RAC of US\$1,799 million in 2020. Based on this amount, IFAD expects to support a SCF PoLG for 2020 at an estimated level up to US\$1,062 million.

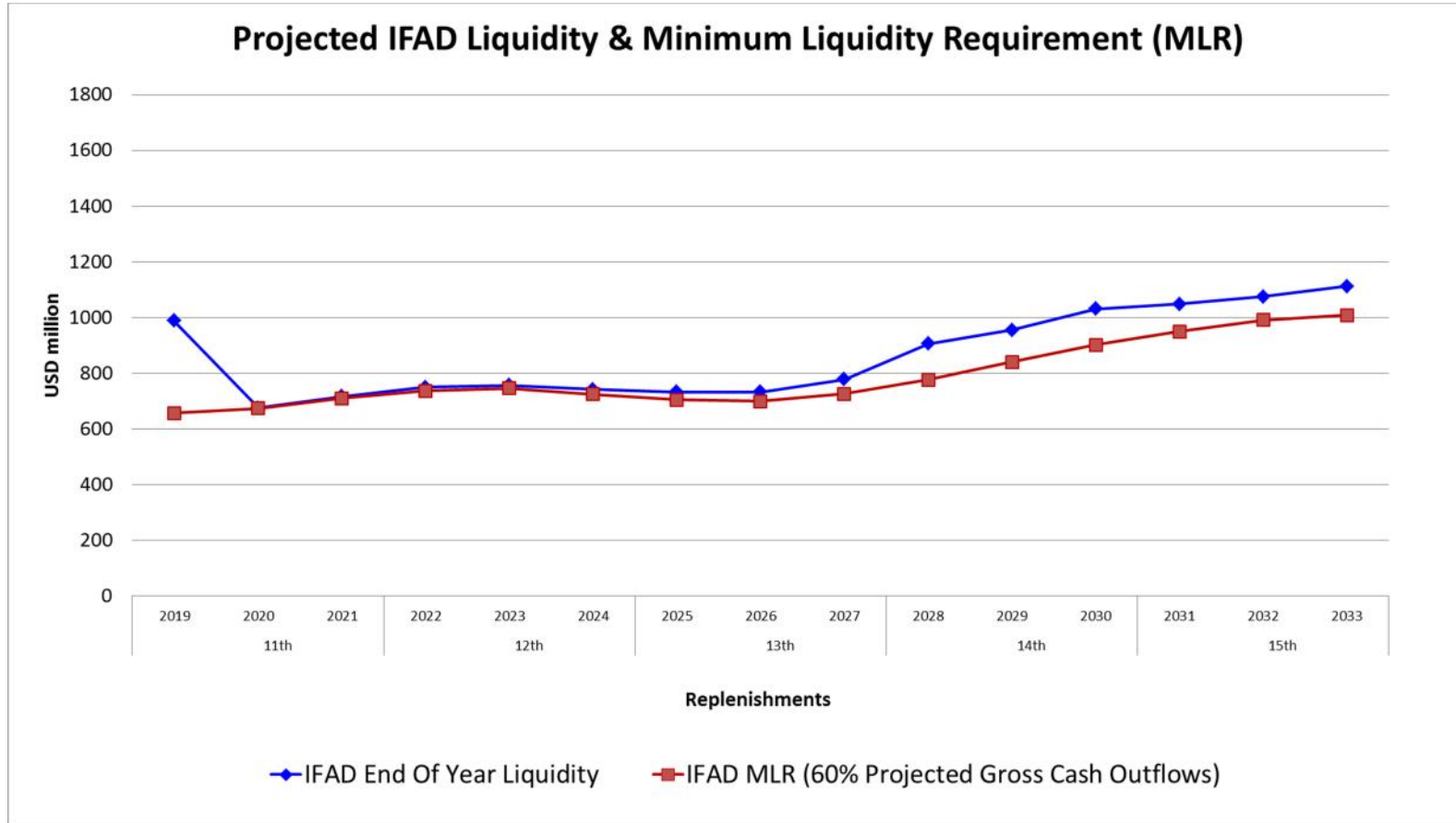
Table 1
2020 RAC and SCF PoLG

	<i>Total 2020 estimated RAC</i>	<i>Total 2020 estimated PoLG</i>
Total	US\$1 799 million	US\$1 062 million

² The loan from AFD was included in borrowing planned for IFAD10.

³ IFAD is negotiating a loan from a donor country for US\$114 million, to be withdrawn in two tranches in 2020 and 2021.

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



* The key assumptions driving these figures are: weighted average loan disbursement profiles of between 5 and 6 years; administrative expenses growing at 1.7 per cent in 2019 and subsequently at 1 per cent; and an investment portfolio rate of return equal to the weighted average of forward curves of Euribor, GBP Libor, USD Libor, JPY Libor and CNH Libor 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. IFAD11 contributions are assumed to be US\$990 million, which includes the pledged level of contribution for IFAD11 to date and pledges for which an instrument of contribution is likely to be received before the end of 2019. Subsequent replenishment amounts and levels of PoLG are assumed to grow at 1 per cent. Loans and grants disbursements reflect historical data and management strategies.

Table 2
Overall liquidity – Balance and Cash Flow Sustainability
(Millions of United States dollars)

	IFAD 10	IFAD11			IFAD12	IFAD13	IFAD14	IFAD15
	2018 (Actuals)	2019	2020	2021	2022-24	2025-27	2028-30	2031-33
Liquidity at beginning of Replenishment	1 348	1 037	989	675	715	737	775	1 031
Inflows								
Loan Reflow s	342	354	375	412	1 541	1 938	2 315	2 648
Encashment of contributions ^a	296	373	301	285	1 200	1 287	1 371	1 457
Committed Borrow ing	119	235	7	7	-	-	-	-
New Borrow ing		-	120	517	939	328	715	830
Investment income	1	23	7	5	24	35	50	60
Outflows								
Disbursements	(826)	(910)	(924)	(973)	(2 976)	(2 732)	(3 171)	(3 767)
Borrow ing Obligations (Debt Service and Fees)	(1.0)	(5)	(17)	(29)	(143)	(239)	(428)	(533)
HIPC Impact	(11)	(2)	(3)	(13)	(5)	(3)	(2)	(1)
Administrative Expenses and Other Budgetary Items	(158)	(172)	(177)	(179)	(559)	(576)	(593)	(611)
Fixed Assets	(5)							
Intrafund Movement and FX	(68)							
Other Cash Flow s		56	(3)	7	-	-	-	-
Liquidity at End of Replenishment	1 037	989	675	715	737	775	1 031	1 113
Total Outflow s ^b	996	1 090	1 121	1 192	1 228	1 183	1 398	1 637
Minimum Liquidity Requirement (MLR)	598	654	672	715	737	710	839	982
Liquidity vs Disbursements Percentage ^c	174%	151%	100%	100%	100%	109%	123%	113%
Sustainable Programme of Loans and Grants^d		1 759	1 062	679	3 500	3 606	3 715	4 203

^{a, d} Excluding Adaptation for Smallholder Agriculture Programme.

^b For IFAD11 onwards total outflow, MLR and liquidity vs. disbursement per cent represent the average of the three years.

^c The minimum liquidity requirement is at least 60 per cent of gross annual outflows.

III. Recommendations

19. Based on the projected long-term sustainable cash flow position for IFAD estimated as at 14 October 2019 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 2020 up to US\$1,062 million.

The following tables show 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>
More rapid disbursements	The base financial model assumes a fourteen-year disbursement profile. This shock assumes a profile of nine years.
Increase in loan arrears	This shock assumes an increase in loan arrears 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 the weighted average of forward curves of Euribor, GBP Libor, USD Libor, JPY Libor and CNH Libor adjusted by a conservative -20 basis points factor. This shock assumes a factor of -50 basis points.

Summary of major risk elements and their impact on IFAD's liquidity, 2019-2020

(Millions of United States dollars)

	<i>Amount</i>
(a) Average annual gross disbursements (cash outflows) over 2019-2020 under the base scenario	1 025
(b) Potential additional requirements due to liquidity shocks:	94.0
<i>More rapid disbursements</i>	<i>77.0</i>
<i>Increased loan arrears</i>	<i>10.0</i>
<i>Decrease in investment Income</i>	<i>7.0</i>
(c) Total (a) + (b)	1 119
(d) Minimum liquidity requirement (60 per cent of the total)	671