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Investing in rural people

Requirements for the Forty-first Drawdown of Member State Contributions in 2020

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Executive Board — 129th Session
Rome, 20-21 April 2020

For: **Approval**

Recommendation for approval

The Executive Board is invited to consider the requirements for the forty-first drawdown of Member State contributions, to take place in 2020 and adopt the following decision: The Executive Board, in accordance with article 4, section 5(c), of the Agreement Establishing IFAD and regulation V of the Financial Regulations of IFAD, approves the second drawdown of IFAD11 contributions in April 2020, or as may be stipulated in instruments of contributions with individual Member States, to meet loan and grant disbursements for 2020. Any further funds required for disbursement needs in 2020 not covered by the drawdown of these contributions will be met from the liquid assets of the Fund. The Executive Board authorizes the President to proceed accordingly.

Requirements for the Forty-first Drawdown of Member State Contributions in 2020

1. This document proposes a level of drawdown of Member State contributions for 2020 based on estimates of loan and grant disbursements for 2020.
2. Article 4, section 5(c) of the Agreement Establishing IFAD outlines the provisions to be applied regarding drawdowns. At its seventy-first session (December 2000), the Executive Board adopted a policy of 100 per cent drawdown of Member State contributions for disbursement requirements. Member States are allowed to enter into separate arrangements for individual encashment schedules of drawdown calls. The drawdown policy was based on the premise that these individual arrangements should not adversely affect the operational needs of the Fund and would remain in force until changed within the context of a replenishment, if so required, or until such time as callable resources are depleted.
3. The liquidity necessary to meet projected loan and grant disbursements for 2020 is estimated at US\$924.6 million. As per normal practice, this liquidity requirement will be met by using the Fund's existing liquid assets, the encashment of contributions, investment income and loan reflows. The 2020 drawdown currently requested reflects the second instalment due for unqualified contributions under the Eleventh Replenishment of IFAD's Resources (IFAD11). Based on the level of instruments of contribution received and payments received at the end of December 2019, the drawdown would correspond to an amount of approximately US\$163.4 million. It should be noted that the above balances are in line with the projections contained in document EB 2019/128/R.37, Resources Available for Commitment, presented to the Executive Board at its 128th session in December 2019 (for ease reference some details are provided in annex II). These figures will change as Member States make payments during the course of 2020. The difference between projected disbursement needs and the funds available as a result of this drawdown will be covered by using other funding sources, as cited above.
4. Information on estimated future disbursements and expected drawdowns based on the current level of pledges for IFAD11 is provided in annex I.

Way Forward

5. The drawdown practice was established under the Agreement Establishing IFAD (article 4, section 5(c)), and detailed in the Financial Regulations of IFAD (regulation V), to provide for a proportionate level of encashment of contributions among Member States to ensure liquidity to meet disbursement needs.
6. To date, the Executive Board has been called upon each year to approve the drawdown (contribution encashment) to meet disbursement needs.

7. The Board's approval was particularly relevant in years in which the replenishment contributions received exceeded the needs of the programme of loans and grants and disbursements, and in years in which IFAD drew down contribution balances in order to meet its disbursement needs.
8. Given the increase in IFAD disbursements in recent years, encashment should be aligned to the ceiling specified in the relevant replenishment resolution. It is no longer necessary to encash contributions based on a different drawdown schedule. This practice would also be aligned with IFAD's new financial architecture.
9. It should be noted that each replenishment resolution clearly sets out Member States' payments of contributions and encashment of promissory notes or similar obligations (see Governing Council resolution 203/XLI on the Eleventh Replenishment of IFAD's Resources, section VI).
10. It is therefore recommended that, from IFAD12 onwards, contribution encashments be based on the payment clauses of replenishment resolutions.

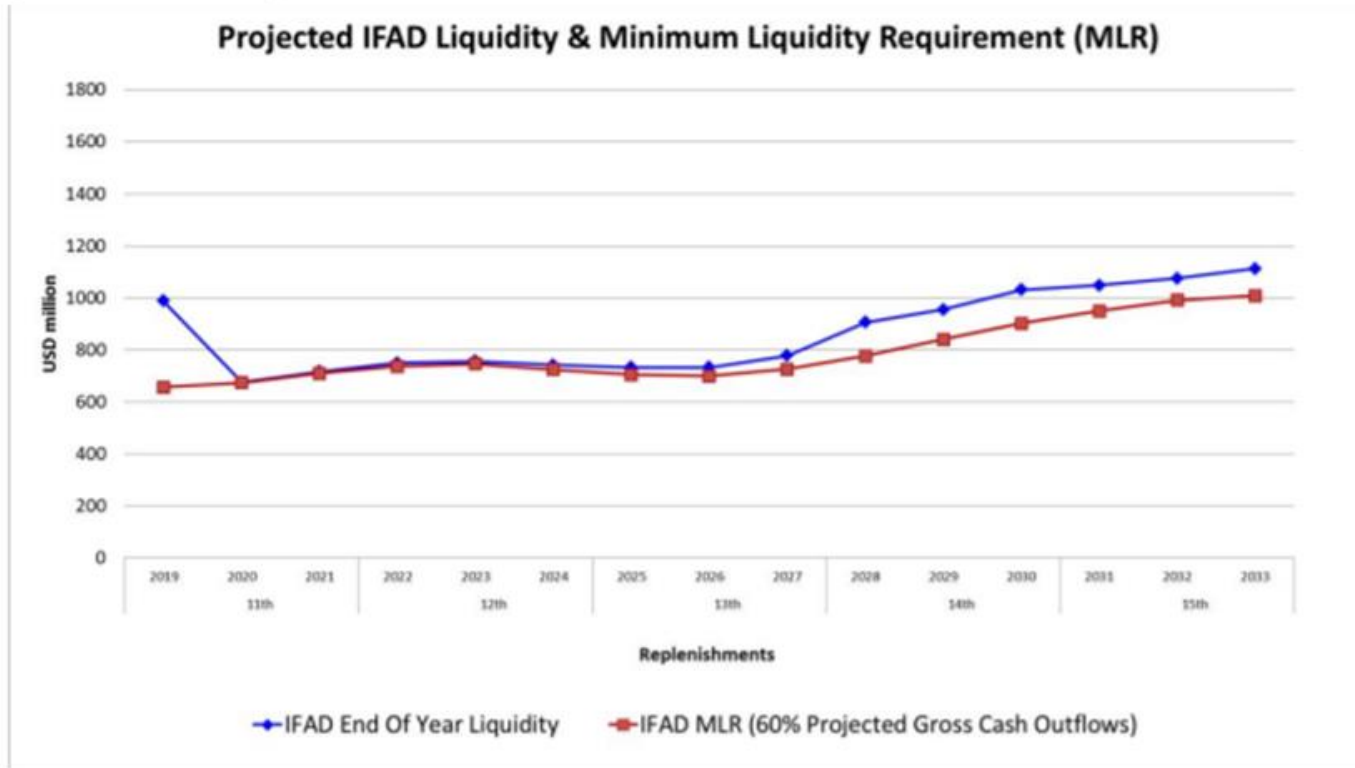
Estimate of future drawdowns as at 31 December 2019

(Millions of United States dollars)

	<i>2020 forecast</i>	<i>2021 forecast</i>
Percentage drawdown in year		
IFAD11	35%	35%
Cumulative percentages drawn down to year-end		
IFAD11	65%	100%
Based on:		
A. Projected disbursements *	924.6	973.5
B. Actual disbursements	-	-
C. Difference (B - A)	-	-
Current value of Member State contributions		
IFAD11		
Pledges received as at 31 December 2019	1 043.8	-
Instruments of contribution received as at 31 December 2019 <i>a</i>	956.0	-
Payments received as at 31 December 2019 <i>b</i>	489.1	-
Amount 2020 drawdown $(a-b)*35\%$	163.4	-

* These estimates are based on exchange rates prevailing at 31 December 2019. Projected disbursements take into account the normal disbursement pattern of the loan and grant portfolio.

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.