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Investing in rural people

Resources Available for Commitment

Note to Executive Board representatives

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Executive Board — 131st Session
Rome, 7-9 December 2020

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 9 October 2020, and on 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 of an estimated US\$934 million to be approved by the Board in 2021.

I. Introduction

1. Pursuant to the Report of the Consultation on the Ninth Replenishment of IFAD's Resources (IFAD9), the resources available for commitment (RAC) for the Fund's programme of loans and grants (PoLG) are determined using 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 RACs.
3. In 2014 IFAD started diversifying its funding sources, in order to increase capacity and deliver a growing PoLG. In IFAD9 IFAD borrowed for the first time, and it is engaging in further borrowing within the provisions established by the Sovereign Borrowing Framework (SBF) and Concessional Partner Loan (CPL) Framework (as amended or superseded from time to time).
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, so as 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 2021, 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 that 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

¹ EB 2006/89/R.40.

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 9 October 2020, received pledges were US\$1.096 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 9 October 2020, received pledges were US\$1.08 billion.
11. For the purposes of calculating RAC, the SCF PoLG is based on IFAD10 and IFAD11 core and unrestricted complementary contributions as at 9 October 2020, 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 CPL 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 CPL agreement with the Republic of India, as approved by the Executive Board at its 126th session (EB 2019/126/R.29);
 - (iv) The CPL agreement with France, as approved by the Executive Board at its 126th session (EB 2019/126/R.49);
 - (v) The loan from the Department of Foreign Affairs, Trade and Development of Canada, as approved by the Executive Board at its 128th session (EB 2019/128/R.42/Rev.1);
 - (vi) The loan from AFD as approved by the Executive Board at its 130th session (EB 2020/130/V.B.C.5); and
 - (vii) Loan reflows and investment income.
12. Anticipated IFAD10 and IFAD11 pledges that are being processed for payment and may materialize during the period are included in the forecasts.
13. The SCF 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 SCF, at any given moment IFAD should hold 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 I).
14. Chart 1 and table 2 below illustrate: the level of available resources as of 9 October 2020; the level of payment obligations stemming from existing committed obligations (e.g. loan and grant disbursements from approved PoLGs in previous replenishments); the proposed level of SCF PoLG for 2021; and the overall impact on IFAD's cash flows and liquidity up to IFAD12 (2024).² They compare the resulting liquidity with the minimum liquidity requirement.³
15. A stabilization of IFAD's liquidity is expected by the end of the current replenishment, to be followed by an ensuing effort to enhance the Fund's liquidity buffers during IFAD12, as can be seen in chart 1. This is due mainly to the following factors:
 - (i) Implementation of a more efficient loan portfolio management strategy.
 - (ii) The prudential gradual build-up of a liquidity buffer above the minimum requirement, to bring IFAD liquidity to the level required by the new Liquidity Policy, upon its implementation in 2022.

² This is to anticipate the short-term focus of the revised RAC to be submitted as of next year.

³ Starting from 2022, the chart includes projected levels of the minimum liquidity requirement and a stressed measure of IFAD liquidity, in compliance with the new Liquidity Policy.

- (iii) The planning of new borrowing under the SBF (as amended or superseded from time to time), as described in the funding plan (see annex II).
 - (iv) As of 9 October 2020, committed borrowing during the year was comprised of the first and second tranche of the US\$113 million loan from Canada and the US\$6.7 million second tranche of the CPL from India. Management expects additional borrowing of up to EUR 300 million (US\$337 million), which will be withdrawn between 2020 and 2021. Additional borrowing needs are of US\$150 million in 2021, for a total of approximately US\$490 million up to the end of the IFAD11 period.⁴
 - (v) Projected borrowing needs are sensitive to the level of contributions obtained from Members for IFAD12, the pace of loan and grant disbursements, projected new liquidity requirements, the expected increase in loans reflows and future PoLG approvals. As shown in table 2, borrowing of US\$1.3 billion is expected to be incurred during the IFAD12 period.
16. 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. IFAD's total borrowing for IFAD11 is currently estimated at US\$733 million, subject to endorsement of the IFAD12 Replenishment Report by the Governing Council.
17. Table 1 shows an estimated RAC of US\$992 million available at the beginning of 2021. Based on this amount, IFAD expects to support an SCF PoLG for 2021 at an estimated level of US\$934 million.

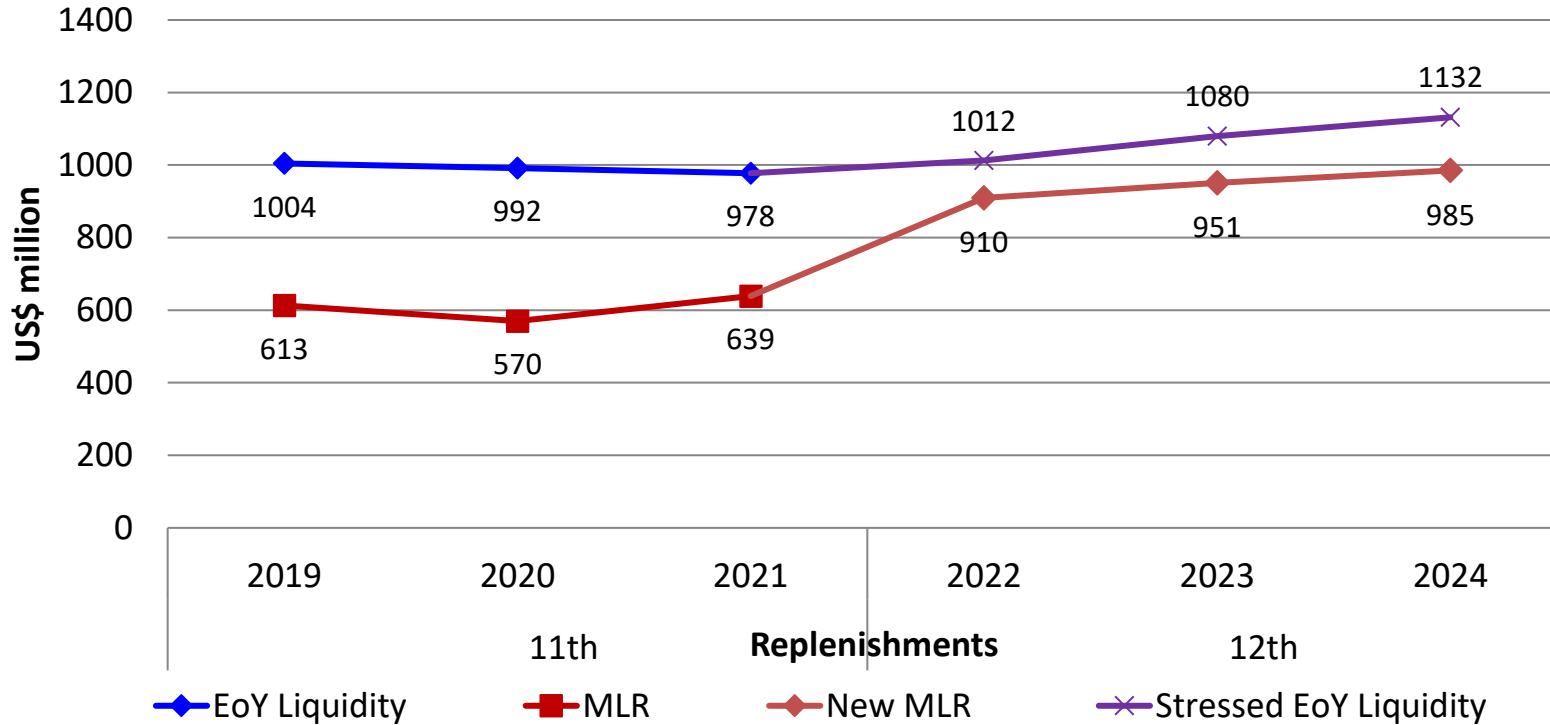
Table 1
2021 RAC and SCF PoLG
(Millions of United States dollars)

	<i>Estimated RAC</i>	<i>Estimated PoLG</i>
Total	992	934

⁴ IFAD is negotiating a new loan from AFD for EUR 300 million, approved by the Board (EB 2020/130/V.B.C.5) and expected to be withdrawn in 2020 and 2021 (see annex II).

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

Projected IFAD liquidity vs. minimum liquidity requirement (MLR)



The key assumptions driving these figures are: weighted average loan disbursement profiles of between five and six years; administrative expenses growing at 15 per cent in 2021 and subsequently at 1 per cent per year; and an investment portfolio rate of return conservatively reduced to zero, to reflect ongoing de-risking and other restructuring strategies aimed at minimizing the impact of the haircut on non-liquid assets; and an encashment profile of Members' replenishment contributions over six years, based on the historical trend. IFAD11 contributions are assumed to be US\$1.08 billion, which include the level of contribution for IFAD11 pledged to date and pledges for which an instrument of contribution is likely to be received before the end of 2020. IFAD12 contributions are assumed to be US\$1.1 billion, flat in real terms from IFAD11, consistent with the past modelling approach. Subsequent replenishment amounts and levels of PoLG are assumed to grow at 1 per cent per year. Disbursements of loans and grants reflect historical data and management strategies. Management have assumed projected new liquidity requirements that are expected to be implemented starting from 2022. Accordingly, Management started the implementation of liquidity management strategies during IFAD11, in order to meet the new requirement from IFAD12 onward. Stressed liquidity, with the current portfolio composition, would be calculated applying a haircut of 20 per cent (i.e. liquid assets would be calculated at 80 per cent of their current market value). The new minimum liquidity requirement is calculated as 100 per cent of the sum of loan and grant disbursements and debt service.

Table 2
Overall liquidity – balance and cash flow sustainability
(Millions of United States dollars)

	IFAD11			IFAD12		
	2019 (actual)	2020	2021	2022	2023	2024
Liquidity at beginning of year	1 037	1 004	992	978	1 266	1 350
Inflows						
Loan reflows	371	377	392	432	463	507
Encashment of contributions ^a	394	339	268	405	343	339
Committed borrowing	184	120	7	-	-	-
Planned/new borrowing	-	101	386	542	410	386
Investment income	22	3	-	-	-	-
Outflows						
Disbursements ^b	(855)	(778)	(858)	(869)	(896)	(923)
Borrowing obligations (debt service and fees) Heavily Indebted Poor Countries Initiative (HIPC) impact	(5)	(16)	(28)	(41)	(55)	(62)
	-	(2)	(2)	(1)	(1)	(1)
Administrative expenses and other budgetary items	(162)	(156)	(179)	(180)	(181)	(182)
Fixed assets	-	-	-	-	-	-
Intra-fund movement and foreign exchange	17	-	-	-	-	-
Other cash flows	-	-	-	-	-	-
Liquidity at end of year	1 004	992	978	1 266	1 350	1 415
Total outflows	1 022	952	1 067	1 091	1 132	1 167
MLR ^c	613	570	639	910	951	985
Liquidity vs disbursements (percentage) ^d	98	104	92	111	114	115
Stressed liquidity at end of year ^e				1 012	1 080	1 132
Sustainable Programme of Loans and Grants^f	1 697	869	934	1 033	1 033	1 033

^{a, b, f} Exclude Adaptation for Smallholder Agriculture Programme.

^c In 2022 the MLR definition is expected to change from 60 percent of annual gross outflows to 100 percent of disbursements and debt service.

^d In 2022 the floor of the MLR ratio is expected to change from at least 60 per cent to at least 100 per cent.

^e From 2022 a haircut will be applied to liquidity at end of year. The resulting stressed liquidity will be measured against the new MLR.

III. Recommendation

18. Based on the projected long-term sustainable cash flow position for IFAD estimated as at 9 October 2020, and on 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 of an estimated US\$934 million to be approved by the Board in 2021.

- The following tables show the liquidity shocks and related assumptions used in the calculation of IFAD end-of-year liquidity for 2021.

Table 1
Liquidity shocks and related assumptions

<i>Type of liquidity shock</i>	<i>Assumption</i>
Higher disbursements	This stress assumes an increase of the disbursement ratio of 1.7 per cent (US\$100 million)
Increase in loan arrears	This shock assumes an increase in loan arrears to 6 per cent for 2021 (base scenario is 4 per cent per year)
Delayed borrowing	This stress assumes that withdrawal of US\$150 million of new borrowing in 2021 is delayed by one year

Table 2
Summary of major risk elements and their impact on IFAD's liquidity in 2021
(Millions of United States dollars)

	<i>Amount</i>
(a) IFAD end-of-year liquidity in 2021 under the base scenario	978
(b) Potential additional requirements due to liquidity shocks:	(258)
Increased disbursements	(100)
Increased loan arrears	(8)
Delayed new borrowing	(150)
(c) Total (a) + (b)	720
(d) MLR	639

- Liquidity shocks stemming from crystallization of material risks linked to disbursements, loan arrears and delay in obtaining new borrowing would severely reduce IFAD liquidity. Compliance with the current MLR is expected to be ensured.
- Management will closely monitor progress in obtaining new borrowed resources, the pace of loan and grant disbursements, and loan arrears.

IFAD11 Funding plan
(Millions of United States dollars)

	2019	2020	2021	IFAD11 total
Signed borrowing				
France CPL	56	-	-	56
India CPL	7	7	7	21
Finland CPL	56	-	-	56
Canada SBF	-	113	-	113
Subtotal – signed borrowing	119	120	7	246
Planned borrowing				
AFD	-	101	236	337
New borrowing needs	-	-	150	150
Total borrowing	119	221	393	733