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Investing in rural people

Requirements for the Forty-second Drawdown of Member State Contributions in 2021

Note to Executive Board representatives

Focal points:

Technical questions:

Advit Nath
Director and Controller
Financial Controller's Division
Tel.: +39 06 5459 2829
e-mail: a.nath@ifad.org

Allegra Saitto
Chief
Financial Reporting and Corporate Finance
Tel.: +39 06 5459 2405
e-mail: a.saitto@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Executive Board — 132nd Session
Rome, 19-21 April 2021

For: Approval

Recommendation for approval

The Executive Board is invited to consider the requirements for the forty-second drawdown of Member State contributions, to take place in 2021 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 final drawdown of IFAD11 contributions in April 2021, or as may be stipulated in instruments of contributions with individual Member States, to meet loan and grant disbursements for 2021. Any further funds required for disbursement needs in 2021 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-second Drawdown of Member State Contributions in 2021

1. This document proposes a level of drawdown of Member State contributions for 2021 based on estimates of loan and grant disbursements for 2021.
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 2021 is estimated at US\$858.0 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 2021 drawdown currently requested reflects the final 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 2020, the drawdown would correspond to an amount of approximately US\$257.7 million. It should be noted that the above balances are in line with the projections contained in document EB 2020/131(R)/R.19, Resources Available for Commitment, presented to the Executive Board at its 131st session in December 2020 (for ease reference some details are provided in annex II). These figures will change as Member States make payments during the course of 2021. 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. In line with the IFAD12 Consultation, from fiscal year 2022 (beginning of IFAD12 replenishment period) contribution encashment will be based on the payment clauses as contained in the relevant replenishment resolution.

Estimate of future drawdowns as at 31 December 2020

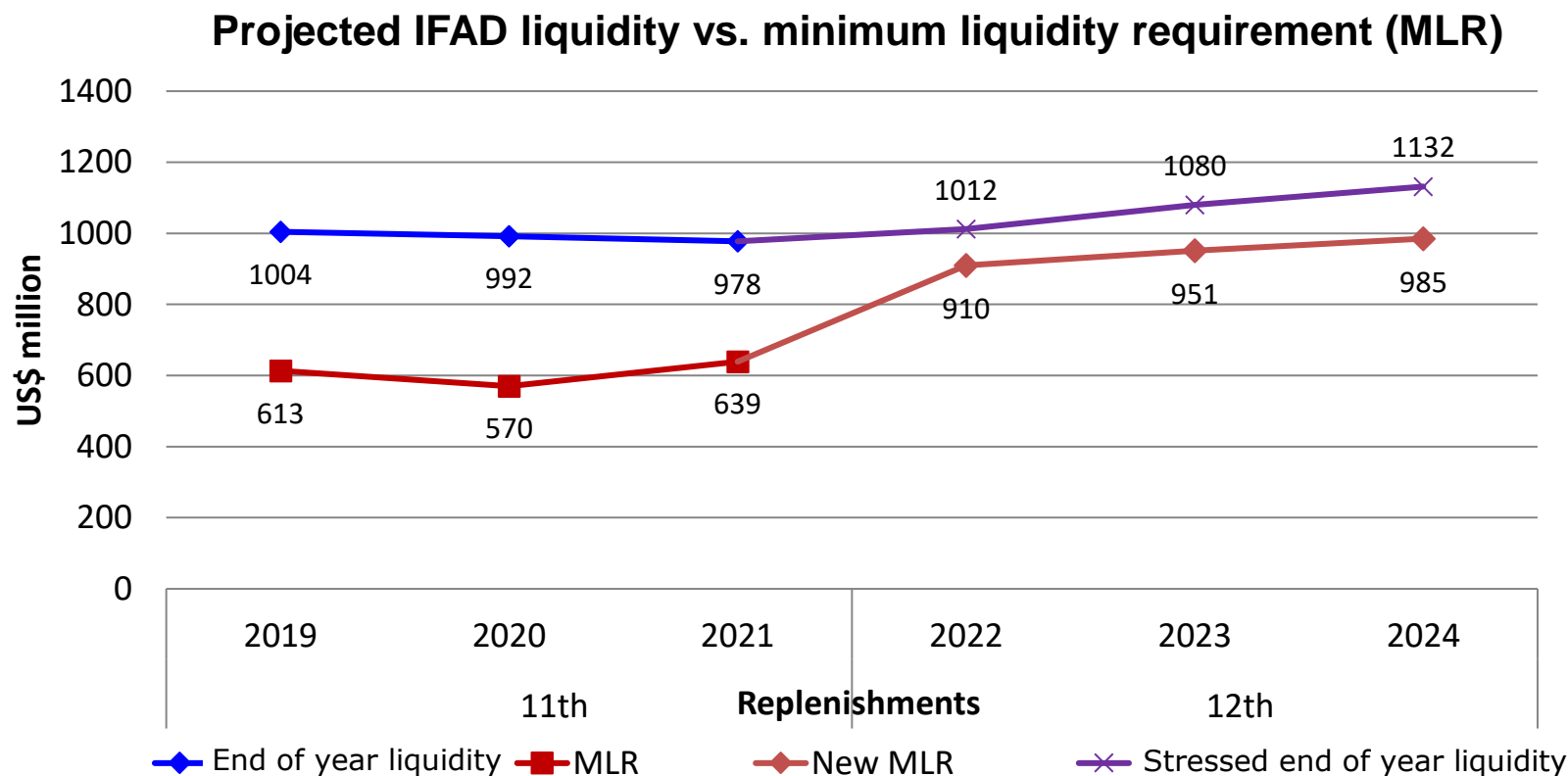
(Millions of United States dollars)

	<i>2020 actuals</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	858.0
B. Actual disbursements	778.1	-
C. Difference (A - B)	146.5	-
Current value of Member State contributions		
IFAD11		
Pledges received as at 31 December 2020	1 083.6	
Instruments of contribution received as at 31 December 2020 <i>a</i>	1 028.1	
Payments received as at 31 December 2020 <i>b</i>	770.4	
Amount 2021 drawdown (<i>a-b</i>)**	- -	257.7

* These estimates are based on exchange rates prevailing at 31 December 2020. Projected disbursements take into account the normal disbursement pattern of the loan and grant portfolio.

** Calculated as remaining balance of instruments of contribution received as at 31 December 2020.

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 five and six years; administrative expenses growing at 15 per cent in 2021 and subsequently at 1 per cent per year; 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 programme of loans and grants are assumed to grow at 1 per cent per year. Disbursements of loans and grants reflect historical data and management strategies. Management has 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.