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IFAD

Investing in rural people

Resources Available for Commitment

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Executive Board — 134th Session
Rome, 13-16 December 2021

For: **Approval**

Recommendations for approval

The Executive Board is invited to approve the following:

Based on the projected long-term sustainable cash flow position, estimated at US$1,355 million by the end of 2021, 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, including the proposed funding plan and future capital position. On this basis, the Board authorizes the President to conclude agreements for loans and grants in the amount of an estimated US$1.167 billion to be approved by the Board in 2022.

I. Executive summary

1. To ensure IFAD's financial sustainability, it is critical to carefully analyse the organization's financing capacity to deliver on the expected programme of loans and grants (PoLG), meet any contractual payment obligations, and maintain liquidity ratios in line with internal policies and rating agencies' requirements.
2. IFAD's commitment capacity for future operations will rely on the availability of projected resources, including capital. IFAD will need to be prepared to make adjustments to the PoLG if actual financing capacity or available capital deviate from the expected levels.
3. IFAD is expected to fully implement financial policies adopted during the Eleventh Replenishment of IFAD's Resources (IFAD11) over the IFAD12 period. Thus, periodic reviews of resource availability will be key to re-assess financing capacity and commitment capacity. Management will update the base case scenario projections once IFAD11 comes to a close on 31 December 2021.
4. Executive Board approval of resources available for commitment (RAC) for 2023 will be sought at the 137th session, to either confirm or revise the level of grants and overall IFAD12 PoLG based on the updated level of resources.

II. Background

5. IFAD12 became effective on 18 August 2021, in accordance with paragraph 16 of resolution 219/XLIV. The resolution provides, in paragraph 18 relating to availability for commitment, that "As of the effective date of the replenishment, all additional contributions paid to the resources of the Fund shall be considered available for operational commitment under article 7.2(b) of the Agreement and other relevant policies of the Fund".
6. In 2020, Management presented to the Executive Board the 2020 Update to the Methodology for Determination of IFAD's Resources Available for Commitment.[1]
7. The updated RAC methodology draws a clearer distinction between financing capacity and commitment capacity and identifies borrowing as a key resource to support growing operations and disbursement needs, while maintaining adequate liquidity and capital levels.
8. IFAD's financing capacity is defined as its capacity to honour outstanding obligations over the next 12-month period through the stock of available resources.
9. IFAD's commitment capacity is defined as its capacity to approve new loans and grants for disbursements over a multi-year period. In addition to prudent resource

[1] EB 2020/130/R.35. The previous RAC methodology focused primarily on the Fund's commitment capacity to support new operations based on a single approach, including available resources and projections of future cash flows, such that liquidity would not fall below a minimum requirement over a horizon of 40 years.

projections, including planned and new borrowing and future contributions, it is supported by an assessment of capital availability for the planning period.

III. Resources available for commitment

10. The IFAD12 Consultation concluded with a replenishment target of US$1.55 billion and a PoLG of up to US$3.8 billion. As of 30 September 2021, donor pledges amounted to US$1.144 billion, excluding the grant elements of concessional partner loans (CPLs).

11. While the IFAD12 replenishment target remains at US$1.55 billion, Management is expecting additional contributions, with a reasonable degree of certainty based on current assumptions, to bring the total to at least US$1.3 billion, including the grant elements of currently known CPLs.

12. At a replenishment level of US$1.3 billion, and supported by total new borrowing of US$1.1 billion and CPLs in the amount of US$93 million, the maximum sustainable IFAD12 PoLG has been set at a level of up to US$3.5 billion,[2] as illustrated in table 1.

Table 1
Updated level of sustainable IFAD12 PoLG
(Millions of United States dollars)

Replenishment contributions	**1 300**
CPL grant elements (included above)	23
Total borrowing	**1 183**
Borrowing (net of CPL)	*1 090*[3]
CPLs	*93*
Total grants	**550**
Regular grants	75
Debt Sustainability Framework (DSF) grants	425
Reserve	50
PoLG	**3 500**
Leverage ratio IFAD12 (debt/equity)	29%
Deployable capital (end of IFAD12)	24-28%

A. Financing capacity

13. Table 2 below shows IFAD's main sources and uses of funds.

Table 2
IFAD main sources and uses of funds

Cash inflows	*Cash outflows*
Encashment of donor contributions and DSF-related contributions	Disbursements for DSF and regular grants
Loan reflows	Disbursements for loans
Investment income	Administrative expenses
Debt drawdowns	Debt servicing

Source: 2020 Update to the Methodology for Determination of IFAD's Resources Available for Commitment, EB 2020/130/R.35, p. 4, table 1.

14. Calculations to assess IFAD's financing capacity take into account the encashment of donor contributions and DSF-related contributions, and proceeds from debt

[2] EB 2021/133/R.13.
[3] US$150 million projected to be encashed in December 2021.

drawdowns, in addition to existing liquidity, to cover committed obligations for the ensuing 12 months.[4]

15. IFAD's stock of resources at the beginning of 2022 will be sufficient to cover committed obligations for the next 12 months even without the use of borrowing or contributions not supported by instruments of contribution (IOCs) (see annex I, table 1). Any reduction in the amount of planned resources or shift in the expected timing of their encashment, however, would raise the need for remedial actions to ensure compliance with the minimum liquidity requirement (MLR), including a revision of the PoLG.

16. Executive Board approval of the RAC for 2023 will be sought at the 137th session to confirm or revise the level of grants and overall IFAD12 PoLG. This first reassessment will be the checkpoint for the level of PoLG eight months into the replenishment cycle, based on comparing the actual replenishment to the target, and secured borrowing to planned borrowing for the cycle.[5]

B. Commitment capacity

17. The assessment and monitoring of commitment capacity serve as the key control for the determinants of IFAD's capacity to approve the PoLG in the medium to long term, including the availability of planned and future borrowing, future contributions, available capital and other net resource flows, all projected based on prudent assumptions (see annex III for the full set of assumptions).

18. Table 3 shows financial projections based on half-year financial statements, contribution pledges and receivables and the funding plan updated as of 30 September 2021. Based on assumptions outlined in annex III, financial models are used to project cash flow, balance sheet and income statements for the next three replenishments.[6]

[4] Committed payment obligations are those stemming from contractual obligations with borrowers (disbursements for existing loans and grants), lenders (debt service for existing Sovereign Borrowing Framework loans and CPLs) and administrative expenses (payments of salaries and other staff expenses, and payments for provision of goods and services).
[5] 2020 Update to the Methodology for Determination of IFAD's Resources Available for Commitment, EB 2020/130/R.35, p. 1, para. 6.
[6] Management plans to include the full suite of projected statements with the RAC for 2022.

Table 3
Long-term projections of commitment capacity
(Millions of United States dollars)

	IFAD11	*IFAD12*			*IFAD13*			*IFAD14*		
	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*2030*
Liquidity at beginning of year	**1 165**	**1 355**	**1 850**	**1 679**	**1 417**	**1 447**	**1 501**	**1 496**	**1 644**	**1 604**
Inflows										
Loan reflows	**421**	**432**	**472**	**521**	**571**	**628**	**696**	**777**	**851**	**933**
Encashment of contributions[a]	**449**	**435**	**473**	**350**	**365**	**377**	**410**	**428**	**410**	**434**
Borrowing	**429**	**798**	**107**	**127**	**400**	**395**	**300**	**400**	**395**	**300**
existing	429	398	7	7						
planned	-	400	100	120	400	395	300	400	395	300
Investment income	**2**	**-**	**-**	**-**	**-**	**2**	**2**	**2**	**2**	**2**
Outflows										
Disbursements[b]	**(915)**	**(963)**	**(985)**	**(1009)**	**(1035)**	**(1033)**	**(1067)**	**(1090)**	**(1119)**	**(1119)**
existing	(914)	(946)	(885)	(789)	(668)	(494)	(338)	(200)	(102)	(43)
planned	(1)	(17)	(100)	(219)	(366)	(540)	(729)	(890)	(1016)	(1076)
Borrowing obligations (debt service and fees)	**(28)**	**(43)**	**(57)**	**(65)**	**(74)**	**(109)**	**(139)**	**(159)**	**(369)**	**(178)**
Administrative expenses and other items	**(151)**	**(159)**	**(171)**	**(183)**	**(195)**	**(202)**	**(204)**	**(206)**	**(208)**	**(210)**
Other cash flows	**(16)**	**(5)**	**(11)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**
Net flows	190	495	(172)	(262)	30	54	(5)	148	(41)	159
Liquidity at year-end	**1 355**	**1 850**	**1 679**	**1 417**	**1 447**	**1 501**	**1 496**	**1 644**	**1 604**	**1 763**
Stressed liquidity percentage	**n/a**	0.83	0.83	0.83	0.83	0.83	0.83	0.86	0.93	0.83
Stressed liquidity beginning of year[c]	**n/a**	**1 125**	**1 536**	**1 393**	**1 176**	**1 201**	**1 246**	**1 287**	**1 532**	**1 336**
MLR[d]	**639**	**1 005**	**1 042**	**1 074**	**1 109**	**1 142**	**1 206**	**1 249**	**1 488**	**1 297**
MLR ratio (>100%)	182%	112%	147%	130%	106%	105%	103%	103%	103%	103%
Liquidity ratio (>5%)	12.3%	15.8%	14.6%	12.6%	11.5%	11.9%	11.9%	11.9%	11.8%	13.1%
Disbursement ratio (>16% from IFAD12)	15.6%	16.6%	16.4%	16.3%	16.3%	16.0%	16.2%	16.3%	16.5%	16.4%
Debt/Equity ratio (<35%)	20%	29%	29%	29%	33%	37%	39%	41%	42%	43%
DSCR (<50%)	7%	10%	12%	12%	13%	17%	20%	20%	43%	19%
Deployable capital	30%-36%	24%-28%			16%-21%			15%-20%		
Total balance undisbursed	5 792	5 995	6 177	6 335	6 466	6 598	6 696	6 768	6 814	6 853
Total PoLG[e]	**1 007**	**1 167**	**1 167**	**1 167**	**1 167**	**1 167**	**1 167**	**1 167**	**1 167**	**1 167**

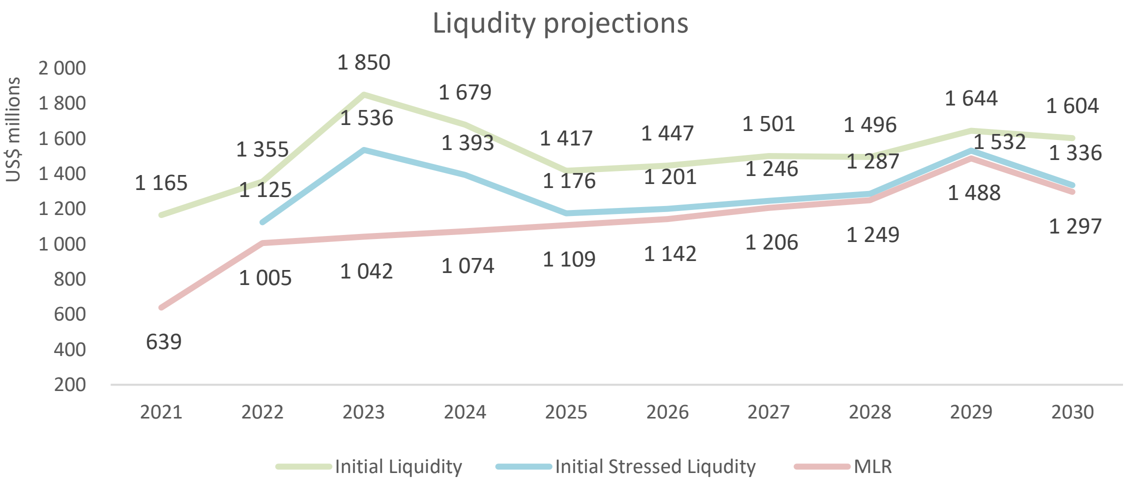
[a,b,e] Excluding the Adaptation for Smallholder Agriculture Programme (ASAP).
[c] Effective in 2022, a haircut will be applied to the level of liquidity. The resulting stressed liquidity will be measured against the new MLR.
[d] In 2022 the MLR definition will change to 100 per cent of disbursements and debt service, according to the updated Liquidity Policy.

Box 1

The table incorporates the changes included in the updated RAC methodology and in the updated Liquidity Policy,[7] namely:
(i) Stressed liquidity as a new metric for compliance with the MLR, derived by applying a haircut to marketable securities in the investment portfolio to calculate cash and liquid assets;
(ii) A new definition of MLR, calculated as the forward looking 12-months' worth of disbursements and debt service, with a minimum limit of 100 per cent;
(iii) A disbursement ratio calculated as the sum of loan, regular grant and DSF disbursements in a given period (excluding ASAP grants) over the undisbursed balance at the beginning of the same period; and
(iv) Evolution of the deployable capital ratio,[8] required to be above 0 per cent.

19. IFAD liquidity and stressed liquidity at the beginning of each period, as shown in chart 1, are projected to increase in IFAD12. In particular, the liquidity profile shows a peak in 2023 due to the US$798 million planned and new borrowing expected to be received in 2022, almost 70 per cent of all borrowing for IFAD12. As further explained in paragraph 26, the aim is to frontload the funding for IFAD12 to support operational planning needs and to successfully position IFAD as a new issuer in the private placement arena. Should the ceiling of US$400 million in new borrowing not be reached in 2022, borrowing needs for 2023 and 2024 will be adjusted accordingly and submitted to the Executive Board for approval in the RAC for 2023.

Chart 1
Projected IFAD liquidity[9]
(Millions of United States dollars)



20. When monitoring IFAD's commitment capacity, a key variable for the evolution of available capital is the size and trend in the undisbursed balance, which represent the level of operational commitments to be honoured by the Fund once projects are approved by the Executive Board. IFAD's undisbursed balance is composed of cumulative, approved but not yet disbursed loans and grants. Projected PoLG approvals of US$3.5 billion are higher than the sum of loan, grant and DSF disbursements in each cycle. Consequently, the undisbursed balance is projected to grow steadily and is expected to reach US$6.9 billion in 2030.

[7] The target liquidity level will be projected starting next year.
[8] Deployable capital ratio = (initial capital available−total resources required−buffer)/initial capital available.
[9] Liquidity at the beginning of the period. Effective in 2022, a haircut will be applied to marketable securities in the investment portfolio to calculate cash and liquid assets, i.e. to account for the illiquidity risk of securities in the investment portfolio at the time of sale, in line with rating agencies' methodology. The resulting stressed liquidity will be measured against the updated MLR.

21. In addition to financing capacity, deployable capital is a key metric to determine growth in IFAD's balance sheet, including borrowing. Deployable capital remains above zero, gradually falling from between 24 and 28 per cent during IFAD12 to between 16 and 21 per cent in IFAD14. This occurs partly as a consequence of growth in leverage and the undisbursed balance of loans, regular grants and DSF grants, as explained above.

22. The debt to equity ratio is the ratio of the total outstanding balance of debt to the initial capital available, a measure of IFAD's equity.[10] In a scenario of significantly increased borrowing, the debt to equity ratio would increase and could require a revision of the 35 per cent debt to equity limit in IFAD13.

23. Based on the assumptions outlined in annex III, the funding plan in section IV and the expected levels of available capital, a PoLG of up to US$1.167 billion in 2022 is deemed financially sustainable.

IV. Funding plan

24. In accordance with the updated RAC methodology, the funding plan is submitted to the Executive Board for approval as part of the RAC. The funding plan shows annual borrowing broken down into three categories, as indicated in the new RAC methodology: (i) existing; (ii) planned; and (iii) new borrowing for each replenishment cycle.[11]

25. For the IFAD12 period, IFAD will need to secure new borrowings estimated at US$1.182 billion to sustain the PoLG of up to US$3.5 billion.[12] The amount of borrowing is reassessed on an annual basis to take into account updated cash flows.

26. The status of the borrowing included in the funding plan is outlined below:

    (i) **Existing borrowing**: existing borrowing already drawn down or a committed loan or facility on which IFAD has a contractual right to draw down in the future.

    - **KfW loan**:
        - Amount: US$470 million
        - Currency of denomination: United States dollars
        - Maturity: 20 years; grace period (principal): five years
        - Repayment: straight line amortization
        - Interest rate: variable six-month London Interbank Offer rate (Libor)[13] + spread
        - Drawdown schedule: US$150 million in December 2021; US$320 million in January 2022
        - Spread over Libor: TBD
        - Upfront cost compensation fee: 0.35 per cent
        - Commitment fee: zero
    - The new KfW loan agreement is expected to be signed, and US$150 million of the loan drawn down, by 31 December 2021. This will allow IFAD to enter the IFAD12 period with a solid liquidity position. The remaining balance of US$320 million will be drawn down in January

[10] EB 2020/131(R)/R.21/Rev.1.
[11] EB 2020/130/R.35.
[12] EB 2021/133/R.13.
[13] The loan agreement foresees a fallback clause in the event of Libor discontinuation, in line with the market standard.

2022 as per the loan agreement. Therefore, the full KfW loan amount can be considered secured.

- **CPL Finland**: Finland and IFAD are close to finalizing the negotiations and Finland has indicated a willingness to sign and disburse before the end of 2021. Therefore, this borrowing can be considered secured.
  - Loan amount: EUR 60 million
  - Currency of denomination: euros
  - Maturity: 40 years; grace period (principal): 10 years
  - Repayment: straight line amortization
  - Interest rate: 0.10 per cent
  - Drawdown schedule: TBD

(ii) **Planned borrowing**: planned borrowing to be secured where evidence of commitment is in place in the form of a letter of intent or framework agreement.

- **CPL India**: India pledged a CPL during the replenishment session with terms confirmed to be in line with the CPL provided for IFAD11. However, this borrowing cannot be considered secured as yet.
  - Loan amount: US$20 million
  - Currency of denomination: United States dollars
  - Maturity: 25 years; grace period (principal): five years
  - Repayment: straight line amortization
  - Interest rate: 1.0 per cent
  - Drawdown schedule: in three tranches

(iii) **New borrowing**: additional borrowing that is forecasted but not included in the following year's RAC in the absence of certainty about the ability to secure it.

- As of 30 September 2021, new borrowing is assumed in the amount of US$620 million equivalent.
- Following Executive Board approval of the establishment of IFAD's euro medium-term note programme,[14] IFAD's inaugural private placement issuance is currently scheduled for the beginning of 2022. As IFAD is targeting long-dated buy-and-hold investors, pension funds and insurance companies are the most likely to be a good fit. A series of renowned impact investors with a strong focus on Sustainable Development Goal bonds – and that have been buying private placements of other international financial institutions – have expressed their commitment to IFAD in writing. IFAD is currently performing due diligence on these potential investors, as prescribed by the Integrated Borrowing Framework, and the proposed investor names and borrowing transactions will be submitted to the Board for approval.
- Market conditions will ultimately dictate the exact timing of private placement issuances, but it is reasonable to assume that there will be more than one investor willing to invest in IFAD in 2022. The overall amount of US$400 million assumed for 2022 represents a ceiling that Management is proposing for the first year of IFAD's access to financial markets as a private placement issuer. According to current

[14] EB 2021/133/R.11.

assumptions, the remaining US$220 million will be sourced in 2023 (US$100 million) and 2024 (US$120 million). The strategy is to frontload the funding in order to: (i) provide a higher degree of certainty for potential borrowers accessing funding through the Borrowed Resource Access Mechanism (BRAM); and (ii) position IFAD successfully as a private placement issuer by taking advantage of more than one funding opportunity when market conditions are most favourable. Projections of the RAC for 2023 and borrowing needs for the remainder of IFAD12 will reflect the actual borrowings secured in 2022. Therefore, should IFAD not be in a position to reach the full US$400 million in 2022, the borrowing needs for 2023 and 2024 will be reassessed and submitted to the Executive Board for approval in the 2023 funding plan.

- Borrowing will be managed in accordance with the IFAD Asset and Liability Management (ALM) Framework. To that effect, maturities of no less than seven years are being targeted for private placements. Initially, private placements will be denominated in United States dollars and euros, to match assets. In addition, ALM mismatches will be minimized by using derivatives when needed.

- Although price levels have not yet been discussed with investors, IFAD's AA+ rating and peer comparison will be the starting point.

Table 4
IFAD funding plan for IFAD12
(Millions of United States dollars)

(i) Existing borrowing	*Denomination (DEN) currency*	*Total in DEN currency*	*Total US$ equivalent*	*2021*	*2022*	*2023*	*2024*	*Total IFAD12*
CPL Finland	EUR	60	71		71			71
KfW	US$	470	470					0
Tranche 1				150				150
Tranche 2					320			320
Subtotal: existing borrowing			541	150	391	0	0	541
(ii) Planned borrowing								
CPL India	US$	20	20					
Tranche 1					7			7
Tranche 2						7		7
Tranche 3							7	7
Subtotal: planned borrowing			20	0	7	7	7	21
(iii) New borrowing								
Private placement (PP) I	US$	400	400		400			400
PP II	US$	100	100			100		100
PP III	US$	70	70				70	70
PP IV	US$	50	50				50	50
Subtotal: new borrowing		620	620	0	400	100	120	620
Cumulative borrowing IFAD12				150	948	1055	1182	1182

V. Conclusions

27. IFAD's financing capacity and compliance with MLR for 2022 will be ensured by future contributions and new borrowed resources.

28. Based on the level of pledges received as of 30 September 2021 (US$1.144 billion, excluding CPL grant elements), the IFAD12 sustainable replenishment baseline calculation will be marginally below the required level.

29. If future contributions, loan reflows, borrowings and deployable capital deviate from planned levels, IFAD commitment capacity will be affected and the PoLG will need to be adjusted to minimize overcommitment in the long term.

30. The undisbursed balance is projected to grow steadily to reach US$6.9 billion in 2030. The growing stock of undisbursed loans and regular and DSF grants reduces available capital for new commitments in the future.

31. In order to plan IFAD's operations prudently for the IFAD12 cycle, Management proposes the following:

    (i) That the authorized PoLG for 2022 (estimated at US$1.167 billion) remain in line with the updated PoLG scenario approved by the Executive Board at its 133rd session;

    (ii) Management will continue to monitor resources closely, with periodic updates of financing and commitment capacities; and

    (iii) Management will present to the Board an update on the status of IFAD12 contributions at the September 2022 session, including potential implications for the PoLG, and will seek a Board decision with the RAC for 2023 to be presented in December 2022 to confirm or adjust grant and overall IFAD12 PoLG levels, according to the available resources received at that point.

Financing capacity

1. Table 1 shows IFAD's capacity to honour committed payments in 2022 under two scenarios:

   (i) 2022-A, which includes all projected resources; and

   (ii) 2022-B, which excludes new, planned and existing debt for 2022 and pledges without instruments of contribution (IOCs), i.e. resources not yet encashed or committed.

Table 1
Available resources for financing capacity
(Millions of United States dollars)

	2021	**2022-A**	**2022-B**	**Notes**
		Including projected resources	Excluding new debt and pledges without IOCs	
Total initial liquidity	**1 165**	**1 355**	**1 355**	Projected stock of available resources at the beginning of 2022
Loan reflows	421	432	432	Projected reflows according to each loan's contractual repayment schedule
Contributions	449	**435**	**266**	Financial capacity tests the resilience of IFAD resources in a scenario of no proceeds from future pledges or without IOCs and no access to new borrowing in 2022
Borrowing[15]	429	**798**	**-**	
Investment income	2	0	0	Projected return on securities in IFAD investment portfolio
Loan, grant and DSF disbursements	(915)	(963)	(963)	Projected contractual disbursements
Debt service	(28)	(43)	(43)	Projected payment of contractual principal and interests on borrowing
Administrative expenses	(151)	(159)	(159)	Projected payment of contractual operating expenses[16]
Other	(16)	(5)	(5)	Other projected payments that are bounded by contract (e.g. IFAD portion of Heavily Indebted Poor Countries [HIPC] debt relief)
Total closing liquidity	**1 355**	**1 850**	**883**	Projected stock of available resources at the end of 2022
Liquidity haircut percentage[17]	-	17%	17%	Haircut applied to marketable securities in IFAD investment portfolio to calculate cash and liquid assets
Stressed initial liquidity	1 165	1 125	1 125	Initial cash and liquid assets
Stressed closing liquidity	1 355	1 535	733	Closing cash and liquid assets
MLR	639	1 005	1 005	12 months of disbursements and debt service
MLR ratio initial liquidity	**182%**	**112%**	**112%**	A result of <100% would indicate that cash and liquid assets would fall below the MLR
MLR ratio closing liquidity	**212%**	**153%**	**73%**	

2. In both scenarios, the projected MLR ratio at the beginning of 2022 is expected to be compliant with the required limit. The stock of resources projected at the

[15] See para. 26.
[16] Operating expenses are defined in IFAD's statement of comprehensive income as staff salaries and benefits, office and general expenses, consultants and other non-staff costs, and direct bank and investment costs.
[17] The haircut will apply from 2022 onwards, when the provisions of the updated Liquidity Policy enter into full effect.

beginning of 2022 will cover the upcoming committed obligations for the following 12 months.

3. Should scenario B materialize, i.e. should new debt and contributions without IOCs fail to be received during 2022, the projected liquidity stock at the end of the year risks falling below the MLR. The Liquidity Policy provides guidance on the project and non-project related actions to undertake in such a scenario.[18] Management will endeavour to monitor the level of resources on a weekly basis.

Sustainable replenishment baseline approach for IFAD12

4. The sustainable replenishment baseline approach is part of the assessment of the Fund's financing capacity. It prescribes that new commitments for grants and operating expenses must be fully covered by new contributions from Members in any cycle. Table 2 shows the sustainable level of grants for the approved IFAD12 replenishment scenario.[19]

Table 2
Sustainable replenishment baseline approach for IFAD12
(Millions of United States dollars)

	Updated replenishment
Contributions net of concessional partner loan (CPL) grant elements	**1 277**
Total grants	**(550)**
DSF compensation	(88)
HIPC	(18)
Total operating expenses	(513)
Baseline replenishment	**Sustainable**

5. The US$1.277 billion in contributions include future pledges expected with a high degree of certainty. Should the amount of actual contributions not reach the level approved for the replenishment scenario, IFAD's sustainable grant level would have to be adjusted. With US$1.144 billion in contributions, an adjustment of at least US$25 million would be needed. For this reason Management will reassess the sustainable replenishment baseline each year by means of the annual RAC document.

[18] EB 2020/131(R)/R.20/Rev.1, annex II.
[19] Update on the Sustainable Level of IFAD12 PoLG, EB 2021/133/R.13, p. 11, table 1.

Variance analysis

1. The 2020 Update to the Methodology for Determination of IFAD's Resources Available for Commitment requires that the RAC document reports on any significant deviations from initial projections so as to mitigate the underlying risk of overcommitment should future resources fail to materialize, or to ensure maximization of resource usage should additional unexpected resources materialize.

2. Table 1 provides a comparison of 2021 projections in last year's RAC table as of 9 October 2020 and projections in this RAC document updated as of 30 September 2021, with an explanation of the difference for each value.

Table 1
Variance in IFAD12 projections
(Millions of United States dollars)

	Projections 2021		Variance
	RAC 2020	**RAC 2021**	
Total initial liquidity	**991**	**1 165**	Early encashment of first Agence Française de Développement (AFD) tranche – EUR 200 million in December 2020. RAC 2020 included the full loan in 2021
Loan reflows	392	421	Updated assumption of interest rates affecting loan income and updated loan principal balances
Contributions	268	449	RAC 2021 includes: • US$26 million promissory note for IFAD11 scheduled for December 21 – initially scheduled for 2022 • US$21 million in delayed pledges from 2020 • US$32 million in encashment of IFAD12 pledges projected/encashed in 2021 • Inclusion of all IOCs in the encashment schedule available for existing pledges instead of profiles
Borrowing	393	429	RAC 2021 includes : • EUR 100 million AFD loan (second tranche) • US$151 million Canada loan • US$150 million KfW loan (first tranche) • US$6.7 million India CPL
Investment income	0	2	Updated assumptions on investment income
Loan and grant disbursements	858	915	Updated disbursement target
Debt service	28	28	-
Administrative expenses	179	151	Updated by the Office of Strategic Budgeting (OSB)
Other	2(2)	16	Including midyear interfund settlements
Total closing liquidity	**977**	**1 355**	+39%, explained chiefly by increased and early drawdown of borrowing, early proceeds from contributions in 2021 and delayed contributions payment from 2020

Financial model assumptions

<table>
<tr><th>Type</th><th>Description</th><th>Value</th><th>Confirmed with</th></tr>
<tr><td>Balance sheet date</td><td>30 June 2021</td><td>Unaudited financial statements and financial ratios as at 30 June 2021</td><td>Financial Controller’s Division (FCD)</td></tr>
<tr><td>Balance sheet input</td><td>Reconciled balances as of the financial statements’ date</td><td>Other liabilities, contributions, retained earnings, reserves, revenue, grant and DSF expenses, interest expenses, operating expenses, other expenses, foreign exchange losses and gains, other comprehensive income, cash and investments, loans, contribution receivables, other receivables, other assets, undisbursed grants, other payables, debt, impaired loans, loan accrued interest</td><td>FCD</td></tr>
<tr><td>Grant element (GE) CPLs</td><td>Balance sheet value as of 30 June 2021</td><td>Excluded from outstanding borrowing (CPLs) and from contribution receivables as a non-cash flow item and included in equity
Total GE outstanding US$51.2 million</td><td>FCD</td></tr>
<tr><td>Foreign exchange rates date</td><td>Calculated based on balance sheet data as at 30 June 2021</td><td>30 June 2021</td><td>FCD</td></tr>
<tr><td>Foreign exchange rates input</td><td>Rates aligned with PeopleSoft values used for balance sheet</td><td>
<table>
<tr><th>REFERENCE_DATE</th><th>CURRENCY_CODE</th><th>VALUE</th></tr>
<tr><td>30/06/2021</td><td>CAD</td><td>1.2383</td></tr>
<tr><td>30/06/2021</td><td>CHF</td><td>0.92435</td></tr>
<tr><td>30/06/2021</td><td>CNY</td><td>6.46145</td></tr>
<tr><td>30/06/2021</td><td>EUR</td><td>0.8432414</td></tr>
<tr><td>30/06/2021</td><td>GBP</td><td>0.723877</td></tr>
<tr><td>30/06/2021</td><td>JPY</td><td>110.99</td></tr>
<tr><td>30/06/2021</td><td>NOK</td><td>8.6052</td></tr>
<tr><td>30/06/2021</td><td>NZD</td><td>1.431127</td></tr>
<tr><td>30/06/2021</td><td>SEK</td><td>8.55215</td></tr>
</table>
</td><td>FCD</td></tr>
<tr><td>Interfund movements</td><td>Not included in projections</td><td>Zero projected interfunds
US$29 million in June interfunds included</td><td>FCD</td></tr>
<tr><td>Expected credit loss</td><td>Calculated based on balance sheet data as at 30 June 2021</td><td>Expected credit loss stock = US$115.8 million</td><td>FCD</td></tr>
<tr><td>Arrears</td><td>For existing loans: all loans to countries in arrears are suspended
For planned loans: flat percentage applied to all loans</td><td>Existing countries in arrears: Democratic People’s Republic of Korea, Somalia, Venezuela (Bolivarian Republic of), Yemen (arrears monitoring 10 July 2021)
Planned loans: 2.8% projected arrears</td><td>FCD</td></tr>
</table>

HIPC flows for IFAD	Projected outflows (US$ million)	Total projected expenditure: Special drawing rights (SDR) 37.6 million Projected over the period 2021-2038	FCD
Interest rate forward curves floor for loans	EB 2016/118/R.28	Zero floor on Libor/Euribor for variable interest loans	IFAD's variable interest rate methodology: Impact of negative interest rates
Interest rate forward curves date	Curves observed from Bloomberg as at 30 June 2021	Yearly forward rates for 50 years SDR curve calculated using International Monetary Fund weights for the basket of five currencies	Treasury Services Division (TRE)
Replenishment cycle PoLG growth rate	PoLG projected to remain unchanged across cycles	0% per annum	TRE
Replenishment cycle contribution growth rate	Contributions projected to remain unchanged across cycles	0% per annum	TRE
Contributions encashment projection	Profiles by currency group	Expected encashment date at contribution level included or all contributions with IOCs and promissory notes Monthly profiles over six years applied to currency groups: US$, EUR, JPY, GBP and CNY when IOC not available	TRE
Disbursement	Target disbursement ratio agreed with the Programme Management Department (PMD) and Senior Management	2021: US$858 million + US$7million + US$50 million additional disbursement = US$915 million 16% per annum target from 2022	TRE/PMD
Investment portfolio return	Estimated based on current market conditions	2021: 10 basis points (based on current performance) 2022-2026: 0 basis points 2026-2031: 15 basis points From 2032 onward: 55 basis points	TRE

<table>
<tr>
<td>Investment portfolio haircut</td>
<td>Aligned with Standard & Poor's liquidity and credit risk haircut matrix. Credit haircut for horizon less than 12 months and liquidity haircut for greater than 12 months</td>
<td>17% target haircut flat for IFAD12
From IFAD13 onwards, the haircut is kept at 17% unless a reduction is required to comply with the MLR</td>
<td>TRE</td>
</tr>
<tr>
<td>Interest rate forward curves floor for borrowing</td>
<td>Floor structure as per loan agreement for each borrowing instrument</td>
<td>
<table>
<tr><th>Debt Type</th><th>Lender</th><th>interestSpread</th><th>Floor</th></tr>
<tr><td>Sovereign</td><td>KfW</td><td>0.20%</td><td>0 on Euribor</td></tr>
<tr><td>Sovereign</td><td>KfW</td><td>0.20%</td><td>0 on Euribor</td></tr>
<tr><td>Sovereign</td><td>AFD 1st loan</td><td>0.35%</td><td>0 on overall interest rate</td></tr>
<tr><td>Sovereign</td><td>AFD 1st loan</td><td>0.35%</td><td>0 on overall interest rate</td></tr>
<tr><td>Sovereign</td><td>AFD 1st loan</td><td>0.35%</td><td>0 on overall interest rate</td></tr>
<tr><td>Sovereign</td><td>AFD 1st loan</td><td>0.35%</td><td>0 on overall interest rate</td></tr>
<tr><td>Sovereign</td><td>AFD 2nd loan</td><td>0.62%</td><td>0.15% on overall in</td></tr>
</table>
</td>
<td>TRE</td>
</tr>
<tr>
<td>Borrowing stock</td>
<td>Existing as at 30 June 2021 as per contractual arrangements and additional stock received to date</td>
<td>US$1.433 billion including GE
<table>
<tr><th>CURRENCY_CODE</th><th>DEBT_CODE</th><th>LENDER</th><th>BALANCE_APPROVED</th></tr>
<tr><td>EUR</td><td>AFD-ILA-I</td><td>AFD</td><td>200000000</td></tr>
<tr><td>EUR</td><td>KFW-ILA-I</td><td>KFW, Germany</td><td>100000000</td></tr>
<tr><td>EUR</td><td>KFW-ILA-II</td><td>KFW, Germany</td><td>200000000</td></tr>
<tr><td>EUR</td><td>KFW-ILA-III</td><td>KFW, Germany</td><td>100000000</td></tr>
<tr><td>EUR</td><td>CPL-FRA</td><td>France</td><td>50000000</td></tr>
<tr><td>EUR</td><td>CPL-FIN-I</td><td>Finland</td><td>50000000</td></tr>
<tr><td>USD</td><td>CPL-IND-I</td><td>India</td><td>20000000</td></tr>
<tr><td>USD</td><td>CAD-I</td><td>Canada</td><td>52485701</td></tr>
<tr><td>USD</td><td>CAD-II</td><td>Canada</td><td>59983658</td></tr>
<tr><td>EUR</td><td>AFD-ILA-II</td><td>AFD</td><td>300000000</td></tr>
<tr><td>USD</td><td>CAD-III</td><td>Canada</td><td>151941654</td></tr>
</table>
</td>
<td>TRE</td>
</tr>
</table>

Borrowing future size	As per funding plan shared by funding unit	IFAD12: Sovereign borrowing (KfW) - US$470 million with early encashment of first tranche of US$150 million in December 2021 and second tranche of US$320 million in January 2022 Private placements US$620 million (encashment US$400 million in 2022, US$100 million in 2023 and US$120 million in 2024) IFAD13 and beyond: Private placements US$1 billion (encashment US$400 million, US$300 million and US$300 million)	TRE
Borrowing future terms	As per funding plan	KfW – grace period 5 years, maturity 25 years, spread 0.6% over Libor Private placement in IFAD12:US$200 million, maturity 7 years, bullet, spread 0.26% over Libor Private placement in IFAD12: US$420 million, maturity 10 years, bullet, spread 0.36% over Libor Private placement in IFAD13: US$300 million, maturity 7 years, bullet, spread 0.26% over Libor Private placement in IFAD13: US$700 million, maturity 10 years, bullet, spread 0.36% over Libor	TRE
Pledges from previous replenishments	Report from data warehouse: includes pledges with IOCs, non-IOCs and promissory notes for previous replenishments, projected using available scheduled dates	Includes only receivables from current (IFAD11) and previous (IFAD10) replenishments Total receivables US$163 million	TRE
IFAD12 contribution receivables	US$1.272 billion	Existing pledges as of June: US$1.126 billion excluding GE Additional pledges expected – as agreed with the Global Engagement, Partnership and Resource Mobilization division (GPR): Pledges received from July to September = US$17.7 million Planned pledges = US$128.8 million	GPR
IFAD13 and beyond planned contributions	Flat to IFAD12	For future replenishments, from IFAD13 onwards, flat US$ (value) billion for IFAD12, equivalent to 90% of historical payments over target replenishment contributions of US$1.4 billion	GPR/TRE
CPL	Existing and projected CPLs	IFAD12 existing: Finland EUR 60 million: maturity 40 years, single encashment in 2022, interest 1% India US$20 million: maturity 25 years, encashment in three instalments, interest 1%	GPR

<table>
<tr><td></td><td></td><td>IFAD13 and beyond:
Replicate existing CPLs in IFAD12</td><td></td></tr>
<tr><td>Operating expenses growth</td><td>Match assumptions from OSB</td><td>Projected total for 2021: US$151 million as per e-mail from OSB
Projected growth: 6.25% per annum for IFAD12, 1% per annum thereafter</td><td>OSB</td></tr>
<tr><td>Sustainable grants and DSF</td><td>Calculated in respect of the sustainable replenishment baseline EB 2019/128/R.46</td><td>US$550 million divided into US$425 million in DSF and US$125 million regular grants</td><td>Office of Enterprise Risk Management/Office of the President and Vice-President</td></tr>
<tr><td>Allocation of core resources by lending terms</td><td>Updated lending terms:
EB 2021/133/R.13</td><td>Breakdown of PoLG by lending terms
<table>
<tr><td></td><td>IFAD11</td><td></td><td></td><td>Revised IFAD12</td><td></td></tr>
<tr><td>Lending terms</td><td>Total amount</td><td>%</td><td></td><td>Total amount</td><td>%</td></tr>
<tr><td>DSF</td><td>596</td><td>17%</td><td></td><td>425</td><td>12%</td></tr>
<tr><td>SHC</td><td>-</td><td>-</td><td></td><td>407</td><td>12%</td></tr>
<tr><td>HC</td><td>1 393</td><td>40%</td><td></td><td>355</td><td>10%</td></tr>
<tr><td>Blend</td><td>445</td><td>13%</td><td></td><td>646</td><td>18%</td></tr>
<tr><td>Ordinary</td><td>891</td><td>25%</td><td></td><td>451</td><td>13%</td></tr>
<tr><td>Total PBAS</td><td>3 325</td><td>95%</td><td></td><td>2 285</td><td></td></tr>
<tr><td>Ordinary-BRAM</td><td>-</td><td>-</td><td></td><td>1 090</td><td>31%</td></tr>
<tr><td>Reserve</td><td>-</td><td>-</td><td></td><td>50</td><td>1%</td></tr>
<tr><td>Regular grants</td><td>175</td><td>5%</td><td></td><td>75</td><td>2%</td></tr>
<tr><td>Total</td><td>3 500</td><td>100%</td><td></td><td>3 500</td><td>100%</td></tr>
</table></td><td>Financial Management Services Division/Operational Policy and Results Division (OPR)</td></tr>
<tr><td>PoLG pipeline</td><td>PoLG approval of existing cycle</td><td>Projected approval based on pipeline with expected approval date at project level
Approved from 1 January 2021 to 30 June 2021: US$156 million</td><td>OPR</td></tr>
</table>