High-level Review of IFAD’s Financial Statements for 2021

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Rome, 25-27 April 2022

For: Information
High-level Review of IFAD’s Financial Statements for 2021

I. Introduction
1. This document provides additional information on IFAD’s consolidated financial statements. The analysis contained herein focuses on the core business reflected in the IFAD-only financial statements and provides details and Management’s commentary on key figures and trends.

II. Highlights
2. IFAD is in a strong financial position. In February 2021, the Governing Council adopted resolution 219/XLIV on the Twelfth Replenishment of IFAD’s Resources (IFAD12). IFAD12 pledges reached the record level of US$1,199 million as at 31 December 2021.
3. IFAD is ready to take the next step towards enhancing its contribution to the 2030 Agenda and in this respect, through the Integrated Borrowing Framework (IBF), aims to expand its funding sources to deliver on the ambitions of the IFAD12 replenishment cycle and beyond, with the final goal of enhancing its impact on the ground.
4. IFAD received instruments of contribution throughout the year, and the cumulative contributions for regular resources (equity), net of impairment allowances, rose to US$10.1 billion (US$9.2 billion in 2020).
5. IFAD’s total assets (in nominal terms) amounted to US$10.6 billion at the end of 2021 (2020: US$9.9 billion).
6. Total net loans outstanding (in nominal terms) increased to US$8.1 billion at the end of 2021 from US$8.0 billion in 2020. This increase was the result of the net effect of additional disbursements and loan repayments, exchange rate movements and movement in the loan impairment allowance.
7. The positive evolution of the COVID-19 pandemic and the related economic outlook had somewhat of a positive effect on IFAD’s loan allowance for expected credit losses. As at 31 December 2021 there were no new cases of non-performing loans.
8. During fiscal year 2021, a total of US$891.9 million in new projects (loans and grants) were approved and disbursements to projects and other initiatives amounted to US$906.0 million. Operating expenditures remained below 2 per cent of total assets.

III. Key figures and ratios
9. During fiscal year 2021, in recognition of its sound capitalization, liquidity, risk management framework and Member support, IFAD’s rating was confirmed by Fitch Ratings and Standard & Poor’s at AA+ with a stable outlook.
10. Table 1 provides a summary of the main financial results.

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1 Total assets in fair value terms amounted to US$9.4 billion at end-2021 (2020: US$9.6 billion)
2 Net loans outstanding in fair value terms amounted to US$6.9 billion at end-2021 (2020: US$6.8 billion)
11. As at 31 December 2021, all financial risk parameters are within the thresholds established by the IFB adopted in 2020. The financial ratios are summarized in table 2 below.

Table 2

<table>
<thead>
<tr>
<th></th>
<th>Dec-21</th>
<th>Dec-20</th>
<th>Dec-19</th>
<th>Dec-18</th>
<th>Dec-17</th>
<th>Dec-16</th>
<th>Threshold*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity/total assets</td>
<td>96.2</td>
<td>93.7</td>
<td>97.5</td>
<td>97.3</td>
<td>93</td>
<td>97.3</td>
<td>&gt;60</td>
</tr>
<tr>
<td>Debt/capital available</td>
<td>19.5</td>
<td>14.6</td>
<td>9.8</td>
<td>7.5</td>
<td>n.a.</td>
<td>n.a.</td>
<td>&lt;35</td>
</tr>
<tr>
<td>Liquidity/assets</td>
<td>13.3</td>
<td>11.8</td>
<td>10.7</td>
<td>11.2</td>
<td>15.1</td>
<td>15.9</td>
<td>&gt;5</td>
</tr>
<tr>
<td>Debt service coverage</td>
<td>7</td>
<td>4.1</td>
<td>1.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>&lt;50</td>
</tr>
</tbody>
</table>

* Threshold as defined in the IFB approved in 2020.

12. Despite negative retained earnings, IFAD’s overall net equity is positive, and at the end of 2021 it represented 81.0 per cent of total assets in nominal terms. It should also be noted that at the end of 2021, IFAD’s total assets (US$10.6 billion in nominal terms) were sufficient relative to total liabilities (US$2.0 billion), undisbursed loan commitments (US$4.5 billion) and undisbursed DSF commitments (US$1.0 billion).

Risk management

13. Term risks are the financial risks that arise when the timing and financial maturity of cash flows (i.e. principal and interest) from assets do not match those of their funding liabilities. Funding, refinancing and reinvestment risks are three of the most typical term-structure risks. IFAD has limited exposure to term risks since it is funded mainly by equity (i.e. contributions and reserves). Furthermore, the terms of its borrowing are closely aligned with the onlending terms, thereby limiting refinancing risks.

14. Capital adequacy. The Fund’s main internal capital adequacy metric is the deployable capital (DC) ratio. The DC ratio assesses IFAD’s capital utilization and the availability of resources to support future commitments. To ensure that the Fund is well capitalized and maintains strong credit ratings at all times, the capital utilization trajectory is managed within appropriate tolerance levels, indicating that IFAD has enough capital to cover expected and unexpected losses derived from core and non-core risks embedded within operations. As at 31 December 2021, IFAD’s DC ratio was within the parameters established in the Capital Adequacy Policy.

15. Liquidity risk. The Fund’s liquidity position remained within policy thresholds. Liquidity at the end of 2021 represented 13.3 per cent of total assets (in nominal terms).
16. Risks and performance associated with IFAD’s investment portfolio are detailed in the disclosure notes to the financial statements (see appendix D), and in the Report on IFAD’s Investment Portfolio for 2021, which was submitted to the Audit Committee and Executive Board.

17. **Interest rate risk.** The introduction of borrowing activities has also generated interest rate risk. This risk is currently mitigated by ensuring that the lending terms of IFAD’s borrowing are matched with the terms of orient funds, while ensuring the sustainable distribution of resources per IFAD’s performance-based allocation system.

18. **Currency risk.** IFAD conducts its operations in various currencies: the bulk of its assets are denominated in special drawing rights (SDR), while for reporting purposes the accounting records are maintained in United States dollars. Fluctuations in the US$:SDR exchange rate create volatility in IFAD’s accounts.

19. IFAD’s currency risk is mitigated by ensuring that commitments for undisbursed loans and grants (mainly denominated in SDR) are supported by assets denominated in the SDR basket of currencies. Foreign exchange movements are always anticipated in institutions such as IFAD that work in a multi-currency environment.

20. The conversion of assets in United States dollars for reporting purposes has always generated foreign exchange movements, which appear as unrealized gains and losses on IFAD’s statement of comprehensive income. These changes have no effect on IFAD’s financial sustainability.

21. During fiscal year 2021, the SDR:US$ exchange rate decreased from 1.444 at the end of 2020 to 1.402 at the end of December 2021; the US$:EUR exchange rate increased from 1.123 at the end of 2020 to 1.137 at the end of December 2021. In 2021, an unrealized exchange rate loss of US$178.2 million was recorded. This was primarily due to the depreciation of the SDR against the United States dollar. Exchange rate fluctuations have historically netted out, as illustrated in figure 1 below.

Figure 1
Unrealized foreign exchange gains/(losses) due to movements in US$:SDR exchange rate trends since 2010

22. **Credit risk.** The Fund enjoys preferred creditor status and adopts several operational measures to reduce default risk. These include suspending

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3 Interest rate risk is the risk that IFAD is unable to repay interest due to a mismatch between the interest rate stipulated for its borrowed funds and the interest rate applicable to its entire loan portfolio.

4 For example, interest rates applied to outstanding loan balances should be higher overall than interest on financial liabilities.

5 The SDR is a basket of currencies (source: International Monetary Fund). The value of SDR is based on five currencies: the United States dollar, the euro, the Chinese renminbi, the Japanese yen and the British pound sterling.
disbursements on loans that are 75 days in arrears (after a grace period), as well as suspending disbursements on the entire country portfolio. At the end of December 2021, the percentage of amounts in arrears for more than 75 days (after a grace period) relative to overall billed amounts stands at 1.2 per cent, below the historical average (i.e. 2 per cent). After 180 days of arrears, loans are considered non-performing. At the end of December 2021, the non-performing loan ratio (calculated as non-performing loans outstanding over the overall outstanding loan portfolio balance) stands at 2.5 per cent.

Figure 2  
Non-performing loan ratio (2010-2021)

23. Expected credit losses (ECL) reflect a probability-weighted outcome, time value of money and the best available forward-looking information through the inclusion of the latest available macroeconomic factors. The ECL comprises a three-stage model based on changes in credit quality since origination or initial recognition of the financial instrument – the date on which disbursement conditions have been met (for loans).

24. The ECL loan impairment allowance at the end of December 2021 decreased to US$103.5 million from US$104.8 million in 2020 (in nominal terms). This trend was attributable to improved macroeconomic scenarios and probability of default. These positive effects were offset in part by negative effects derived by some stage transitions as explained below.

25. As of December 2021, IFAD’s financial instruments have been categorized by stages as follows and as summarized in table 3.

Table 3  
Exposure and ECL loan impairment allowance by stage  
(Millions of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>December 2021</th>
<th>December 2020</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exposure</td>
<td>Allowance</td>
<td>Exposure</td>
</tr>
<tr>
<td>Stage 1</td>
<td>9 049.5</td>
<td>5.0</td>
<td>9 872.3</td>
</tr>
<tr>
<td>Stage 2</td>
<td>2 208.4</td>
<td>36.9</td>
<td>1 309.2</td>
</tr>
<tr>
<td>Stage 3</td>
<td>205.4</td>
<td>61.6</td>
<td>214.3</td>
</tr>
<tr>
<td></td>
<td>11 463.3</td>
<td>103.5</td>
<td>11 395.8</td>
</tr>
</tbody>
</table>

- **Stage 1 – Performing loans**: 78.9 per cent of IFAD’s portfolio (2020: 86.1 per cent). The credit loss provision has been calculated with a required one-year time horizon and amounted to US$5.0 million (2020: US$12.9 million).

- **Stage 2 – Underperforming loans**: 19.3 per cent of IFAD’s portfolio (2020: 11.4 per cent). These loans show signs of creditworthiness deterioration. The credit loss provision has been calculated for the full life cycle of the loan and amounts to US$36.9 million (2020: US$27.6 million). The increase in underperforming loan balances was due to some countries with a large exposure transitioning to stage 2 from stage 1 because of signs of deteriorating creditworthiness associated with rating downgrades. It should
be noted that such countries are honouring their loan obligations towards IFAD on a timely basis.

- **Stage 3 – Non-performing loans:** 1.8 per cent of IFAD’s portfolio (2020: 1.9 per cent). In 2021, stage 3 exposure decreased because of the lower exposure for Somalia, which benefited from arrears clearance for EUR 2.5 million provided by the Belgian authorities to support the country to reach future relevant milestones under the Heavily Indebted Poor Countries (HIPC) Initiative. Stage 3 borrowers (the Democratic People's Republic of Korea, Somalia, the Bolivarian Republic of Venezuela and Yemen) have a history of outstanding arrears. The provision has therefore been calculated for the full life cycle of the loan, embedding a 100 per cent probability of default and amounting to US$61.6 million (2020: US$64.3 million). This category is a driver of the credit assessment of IFAD’s loan portfolio by credit rating agencies.

26. Movements between stages depend on the evolution of the financial instrument’s credit risk from initial recognition to reporting date. Both improvements and deterioration may therefore cause volatility in the impairment allowance balances.

**IV. IFAD’s operating activities**

27. During 2021, IFAD finalized the mapping of all its core indicators to one or more Sustainable Development Goals (SDGs) at both goal and target level. This exercise provided further evidence that IFAD is supporting 16 of 17 SDGs, making it a pure player in the development finance arena while maintaining its focus on SDG 1 and 2.

28. During 2021, the Fund approved loans and grants totalling US$891.9 million (2020: US$824.2 million). It should be noted that the level of project approvals in 2019 was particularly high as project designs were front loaded in the first year of the IFAD11 replenishment cycle (see table 4 for further details).

29. The balance of loans outstanding has been increasing over the years (as shown in figure 3 below). The majority of IFAD loans are provided on highly concessional terms, with a repayment period of up to 40 years. Loans are typically disbursed over an average of seven years.

![Figure 3: Outstanding loan balance 2010-2021](image)

30. During 2021, loan repayments continued to present an increasing trend.
31. Overall, yearly project activities are increasing. Figure 5 illustrates the trends in yearly disbursements for IFAD-funded projects (through loans, grants and DSF).

Figure 5
Yearly disbursements 2010-2021

32. Table 4 and figure 6 provide a summary of the volume of operational activities and loan approvals by product type.

Table 4
Loan and grant flows and balances
(Millions of United States dollars – nominal values)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Approvals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans approved</td>
<td>724.6</td>
<td>685.5</td>
<td>1,292.2</td>
<td>868.9</td>
<td>1,069.8</td>
<td>657.6</td>
</tr>
<tr>
<td>DSF loans approved</td>
<td>159.7</td>
<td>103.4</td>
<td>339.6</td>
<td>234.9</td>
<td>183.3</td>
<td>105.5</td>
</tr>
<tr>
<td>Grants approved</td>
<td>7.6</td>
<td>35.2</td>
<td>39.4</td>
<td>73.7</td>
<td>65.6</td>
<td>58.9</td>
</tr>
<tr>
<td>Total approvals</td>
<td>891.9</td>
<td>824.2</td>
<td>1,671.2</td>
<td>1,177.5</td>
<td>1,318.7</td>
<td>822.0</td>
</tr>
<tr>
<td>Outstanding/undisbursed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loans outstanding</td>
<td>8,111.6</td>
<td>8,049.9</td>
<td>7,501.4</td>
<td>7,312.9</td>
<td>7,140.3</td>
<td>6,377.2</td>
</tr>
<tr>
<td>Undisbursed loans</td>
<td>4,476.3</td>
<td>4,747.3</td>
<td>4,527.5</td>
<td>3,919.7</td>
<td>3,878.9</td>
<td>3,323.1</td>
</tr>
<tr>
<td>Undisbursed DSF</td>
<td>965.3</td>
<td>1,005.1</td>
<td>1,061.5</td>
<td>901.7</td>
<td>828.5</td>
<td>740.0</td>
</tr>
<tr>
<td>Undisbursed grants</td>
<td>116.5</td>
<td>158.0</td>
<td>123.6</td>
<td>101.3</td>
<td>98.0</td>
<td>80.5</td>
</tr>
<tr>
<td>Total disbursements</td>
<td>871.1</td>
<td>778.1</td>
<td>854.8</td>
<td>825.6</td>
<td>804.6</td>
<td>702.6</td>
</tr>
<tr>
<td>Loan repayments</td>
<td>432.6</td>
<td>390.5</td>
<td>370.5</td>
<td>341.9</td>
<td>315.9</td>
<td>299.2</td>
</tr>
<tr>
<td>Cancellations / reductions</td>
<td>216.7</td>
<td>91.8</td>
<td>44.1</td>
<td>127.9</td>
<td>102.7</td>
<td>42.4</td>
</tr>
</tbody>
</table>
V. IFAD’s financing activities

33. In line with IFAD’s replenishment cycles, additional instruments of contribution were received in 2021, mainly for IFAD12. This is reflected in an increase in equity (contributions) of US$934.1 million in 2021 compared to 2020. Equity (capital) at the end of 2021 totalled US$10.1 billion.

34. Under IFAD11, the total due in DSF additional compensation contributions during the period, over and above the regular contributions, was US$39.5 million. As part of the DSF reform approved by the Executive Board in December 2019, these amounts are part of the sustainable replenishment baseline and therefore they are carved out of the replenishment core resources to compensate for foregone reflows. Under IFAD12, the total due in DSF additional compensation contributions during the period, over and above the regular contributions (now carved out), amounted to US$88.0 million.

35. During 2021, IFAD encashed additional borrowings for an amount equivalent to US$477.7 million from sovereign borrowings and concessional partner loans. During the year, repayments for borrowing principal instalments amounted to US$26.5 million. At the end of 2021, overall borrowing liabilities amounted to US$1,527.4 million (2020: US$1,154.5 million).

36. In 2021, IFAD continued transforming its financial architecture with a focus on capital and liquidity management. After the adoption of the IBF in 2020 to broaden its funding sources, in 2021 IFAD established the Euro Medium-Term Note Programme that will form the issuance platform for its private placements.

37. In line with the IBF, IFAD will engage with selected institutional impact investors with a strong focus on sustainable finance and interest in supporting IFAD’s mission to eradicate rural hunger and poverty.

38. The Sustainable Development Finance Framework launched in June 2021 is the entry point for such investors. Funds raised in accordance with the framework will be entirely channelled to finance IFAD’s eligible development projects across all

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Some Member States included separate additional amounts in respect of DSF in their instruments of contribution. For those Member States that pledged but did not include any separate and additional DSF contribution in their instruments of contribution, amounts due were carved out of their core contributions for DSF compensation.

EB 2019/128/R.44.
sectors of the rural agricultural spectrum and in support of its target population: the poorest, most vulnerable and marginalized rural people.

VI. IFAD-only financial statements

39. The following analysis refers to the relevant appendices and related notes (appendix D) of the consolidated financial statements.

A. Balance sheet (appendix A)

Assets

40. Cash and investments. The value of the cash and investments portfolio, including investment receivables and payables, increased to US$1.4 billion from US$1.2 billion in 2020. This is consistent with the adopted replenishment scenarios and liquidity policy. Detailed information is included in the Report on IFAD’s Investment Portfolio for 2021.

41. Receivables in respect of instruments of contribution and promissory notes. Net receivables increased to US$829.2 million at the end of 2021 (US$382.7 million at the end of 2020). This is in line with IFAD12 cycles as reported in other paragraphs of this document.

42. Loans outstanding. Loans outstanding, net of accumulated allowances for loan impairment losses and the HIPC Initiative totalled US$6.88 billion in 2021 in fair value terms (2020: US$6.77 billion). This increase was a result of the net effect of additional disbursements, loan repayments, positive exchange rate movements and the movement in the loan impairment allowance (see table 5).

43. The fair value adjustment in United States dollar terms decreased due to the net effect of an additional fair value annual charge and the unwinding effect of loans valued at fair value in earlier years (see table 5).

Table 5

<table>
<thead>
<tr>
<th>Loans outstanding (Millions of United States dollars)</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans outstanding (principal)</td>
<td>8 215.5</td>
<td>8 156.4</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>18.6</td>
<td>20.3</td>
</tr>
<tr>
<td>Loans outstanding at nominal value*</td>
<td>8 234.1</td>
<td>8 176.7</td>
</tr>
<tr>
<td>Less fair value adjustment</td>
<td>(1 246.4)</td>
<td>(1 296.0)</td>
</tr>
<tr>
<td>Loans outstanding at fair value*</td>
<td>6 987.7</td>
<td>6 880.7</td>
</tr>
</tbody>
</table>

* Balances as at 31 December.

44. Allowance for loan impairment losses. As reported above, the allowance is calculated in accordance with International Financial Reporting Standard 9 (IFRS 9). Loan impairment losses in nominal terms amounted to US$118.7 million at the end of 2021 (2020: US$120.0 million). The methodology refers to the expected credit loss allowance of US$103.5 million and the provisioning requirements of US$15.2 million for the Haiti debt relief burden to be absorbed by IFAD.

45. HIPC Initiative allowance. The reduction to US$4.7 million, in nominal terms, in 2021 (US$6.7 million in 2020) mainly reflects the debt relief provided to eligible countries. IFAD has been participating in the HIPC Debt Initiative since 1997 (see details in appendix J of the financial statements). The total amount of debt relief provided to date is US$510.3 million, which includes US$394.1 million in principal and US$116.2 million in interest. It should be noted that from 2022 onwards this balance could also include the allowance for Somalia and Sudan HIPC debt relief, subject to Executive Board approval.

Liabilities and equity

46. Borrowing liabilities. At the end of December 2021, borrowing liabilities amounted to the equivalent of US$1,527.4 million (US$1,154.6 million in 2020).
47. **Contributions.** Table 6 below provides information on the status of contributions for IFAD11 and IFAD12.

   Table 6
   **Contribution flows**
   (Millions of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>IFAD11</th>
<th>IFAD12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
<td>2020</td>
</tr>
<tr>
<td><strong>Pledges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular resources</td>
<td>1 067.7</td>
<td>1 048.5</td>
</tr>
<tr>
<td>DSF compensation</td>
<td>35.2</td>
<td>35.2</td>
</tr>
<tr>
<td><strong>Cumulative pledges to date (A)</strong></td>
<td>1 102.9</td>
<td>1 083.7</td>
</tr>
<tr>
<td>Instruments of contribution received (B)</td>
<td>1 089.3</td>
<td>1 028.1</td>
</tr>
<tr>
<td><strong>Outstanding pledges (A)-(B)</strong></td>
<td>13.6</td>
<td>55.6</td>
</tr>
<tr>
<td><strong>Regular resources payments received</strong></td>
<td>1 049.9</td>
<td>735.9</td>
</tr>
<tr>
<td><strong>DSF payments received</strong></td>
<td>34.5</td>
<td>34.5</td>
</tr>
<tr>
<td><strong>Total payments received</strong></td>
<td>1 084.5</td>
<td>770.4</td>
</tr>
</tbody>
</table>

   **IFAD12**

   |                | 2021   | 2020   |
   | Pledges: regular resources (A) | 1 199.5 | 426.2   |
   | Instruments of contribution received (B) | 961.7  | -      |
   | **Outstanding pledges (A)-(B)** | 237.8  | -      |
   | **Total payments received** | 116.4  | -      |

   a In February 2018, the Governing Council adopted resolution 203/XLI on the Eleventh Replenishment of IFAD’s Resources.
   b For each replenishment, IFAD notifies each Member State that is a non-beneficiary of DSF financing of the total amount to be reimbursed over the following three years, over and above regular contributions. Should these reimbursements not be made, IFAD is required to deduct them (in full compliance with the original arrangements establishing the DSF) from the core resources pledged by the Member State for that replenishment.

   Note: For IFAD11, some Member States included separate additional amounts in respect of DSF in their instruments of contribution. For those Member States that pledged but did not include any separate and additional DSF contribution in their instruments of contribution, amounts due were carved out of their core contributions for DSF compensation as required by the IFAD12 resolution.

48. Full details of Members’ replenishment contributions are shown in appendix H of the consolidated financial statements.

**B. Statement of comprehensive income (appendix B)**

**Revenue**

49. Income from loan interest and service charges amounted to US$70.2 million in 2021 (US$68.1 million in 2020).

50. Income from cash and investments increased to US$7.3 million (from US$6.3 million in 2020).

**Expenses**

51. Expenses reported in 2021 include those incurred under the annual administrative expenses budget in that year but funded by carry-forward funds from the previous year’s budget, plus the costs of the Independent Office of Evaluation of IFAD and annual IFAD After-Service Medical Coverage Scheme (ASMCS) costs. Table 7 compares expenses incurred in 2021 and 2020 (see appendix B).
Table 7
Operating expenses
(Millions of United States dollars)

<table>
<thead>
<tr>
<th>Operating expenses</th>
<th>2021</th>
<th>2020</th>
<th>Movement +(-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff salaries and benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff salaries and post adjustments</td>
<td>62.3</td>
<td>58.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Other allowances*</td>
<td>46.3</td>
<td>40.8</td>
<td>5.5</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>108.6</strong></td>
<td><strong>99.6</strong></td>
<td><strong>9.0</strong></td>
</tr>
<tr>
<td>Office and general expenses</td>
<td>23.4</td>
<td>24.5</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Consultants and other non-staff costs</td>
<td>48.3</td>
<td>44.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Direct investment costs</td>
<td>3.5</td>
<td>1.0</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>183.8</strong></td>
<td><strong>170.0</strong></td>
<td><strong>13.8</strong></td>
</tr>
<tr>
<td>Depreciation</td>
<td>12.6</td>
<td>12.1</td>
<td>0.5</td>
</tr>
</tbody>
</table>

* This balance includes for example pension, repatriation and separation indemnity, education grants.

52. The total balances shown above include expenses funded from other sources (US$17.0 million in 2021; US$15.2 million in 2020). These funds were mainly provided by the Italian Government in the case of reimbursable expenses (US$8.4 million in 2021 and US$8.1 million in 2020) matched by associated revenue; and by the Targeted Investment in IFAD’s Capacity (TCI) budget in the amount of US$4.6 million (2020: US$2.9 million).

53. The above balances also include local staffing costs for IFAD Country Offices (ICOs) totalling US$6.3 million in 2021 (US$6.4 million in 2020), and operating and consultancy expenses of US$4.7 million (US$5.4 million in 2020). ICO administration is managed through service-level agreements with the United Nations Development Programme, the Food and Agriculture Organization of the United Nations and the World Food Programme.

54. **Staff salaries and benefits.** Staff salaries and post adjustments increased to US$108.6 million (from US$99.6 million in 2020). This increase is mainly related to a higher number of full-time equivalent positions during 2021 and to a larger volume of mutually agreed voluntary separations, the majority of which are funded by the TCI budget.

55. **Office and general expenses and depreciation.** In 2021, office and general expenses decreased to US$23.4 million from US$24.5 million in 2020. This decrease is attributable mainly to the lower volume of staff duty travel as a result of COVID-19.

56. **Consultants and other non-staff costs.** The increase to US$48.3 million (from US$44.9 million in 2020) reflects the larger volume of services provided by consultants and other organizations.

57. **Adjustment for changes in fair value.** A positive fair value adjustment of US$12.4 million was made in 2021. This was mainly attributable to effects deriving from net present value calculations at prevailing low interest rate conditions on loans recognized on the balance sheet during 2021.

58. **Exchange rate movements.** An analysis is provided in table 8.
As stated in paragraphs 18 and 19, IFAD’s assets are mainly denominated in SDR or held in assets replicating the SDR basket. Therefore the translation of these assets into United States dollars for reporting purposes generated an unrealized loss in 2021 of US$178.2 million. At the end of 2021, cumulative net unrealized gains amounted to US$259.5 million (see table 8).

**After-service medical benefits.** In 2021, as in previous years, IFAD engaged an independent actuary to perform a valuation of the ASMCS. The methodology adopted was consistent with the previous year’s valuation, and the assumptions used reflected prevailing market conditions. The 2021 ASMCS actuarial valuation calculated a liability of US$156.5 million at the end of 2021 (US$159.1 million at the end of 2020). IFAD recorded a net charge for current service costs of US$8.0 million during 2021 (comprising interest costs and current service charges). This resulted in a net unrealized actuarial gain of US$11.5 million (compared to an unrealized actuarial loss of US$13.5 million in 2020). The change in liability was caused principally by the prevailing market conditions, which also affected the discount rate used in the 2021 valuation of 2.0 per cent (1.5 per cent in 2020).

**Statement of changes in retained earnings (appendix B1)**

The balance of the accumulated deficit represents the accumulation of yearly reported financial results from operations and the impact of exchange rate movements – mainly the translation of loan balances denominated in SDR into United States dollars, IFAD’s reporting currency. The balance changed from negative US$2.37 billion at the end of 2020 to negative US$2.87 billion at the end of 2021. The total annual comprehensive loss of US$503.3 million for 2021 contributed to the aforementioned retained earnings balance.

The net loss of US$503.3 million in 2021 comprises: revenue of US$117.4 million offset by unrealized foreign exchange losses of US$178.2 million; grant and DSF expenses and contribution agreements of US$265.2 million; operating expenses (including staff, consulting services and supplier expenses) of US$183.8 million; actuarial gains of US$11.5 million and other negative accounting adjustments totalling approximately US$5 million.

In line with IFRS requirements, the General Reserve represents an appropriation of retained earnings. Between 1980 and 1994, the Executive Board approved several transfers, bringing the General Reserve to its current level of US$95 million.

Issues to be considered in assessing annual transfers to the General Reserve include: the overall balance of the accumulated surplus/deficit; and the underlying drivers of the yearly net income/loss, particularly unrealized gain/loss balances.\(^8\)

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\(^8\) IFAD Financial Regulation XIII states that: “Annual transfers from the accumulated surplus to the General Reserve shall be determined by the Executive Board after taking into account the Fund’s financial position in the context of the review/approval of yearly audited financial statements of the Fund.”
65. Considering that at the end of 2021 the Fund reported a net comprehensive loss of US$503.3 million and that net retained earnings remain negative at approximately US$2.8 billion, a transfer to the General Reserve at the end of 2021 is not recommended.

C. **Cash flow statement – IFAD-only (appendix C)**

66. Appendix C shows movements in liquid unrestricted cash and investments in the balance sheet. It is noted that 72 per cent of consolidated cash and investment balances relate to IFAD (68 per cent in 2020).

67. IFAD grant disbursements decreased to US$44.4 million (US$47.3 million in 2020).

68. Disbursements financed by the DSF decreased to US$163.9 million in 2021 (from US$172.4 million in 2020).

69. IFAD loan disbursements increased to US$662.8 million in 2021 (from US$558.4 million in 2020).

70. During 2021, IFAD encashed additional borrowings, including concessional partner loans for US$477.7 million (US$360.4 million in 2020). During the year the Fund repaid for US$31.2 million (US$15.9 million in 2020).

71. Receipts from cash and promissory notes as replenishment contributions totalled US$466.9 million in 2021 (US$314.0 million in 2020).


**VII. Internal controls over financial reporting and risk governance**

73. Since 2011, IFAD has included a Management assertion regarding the effectiveness of the Fund’s internal controls over financial reporting (ICFR) framework in its financial statements. An attestation by the external auditors (Deloitte) regarding the reliability of the Management assertion has also been included since 2012.

74. IFAD has identified the 2013 Framework of the Committee of Sponsoring Organizations of the Treadway Commission as a suitable basis for Management’s approach to evaluating the effectiveness of internal controls of financial reporting.

75. Management’s self-assessment against the framework underscores IFAD’s commitment to effective internal controls. This attentive stance places IFAD on par with industry best practice and provides a comprehensive account of IFAD processes underpinning the preparation of financial statements, and the implementation of internal controls over transactions impacting financial statements.

76. The ICFR is subject to internal and external auditing on a yearly basis to ensure effectiveness thereof. Testing is underpinned by 34 process flows mapped across five divisions and identifying 77 key controls.

77. During 2021, IFAD continued to strengthen its anti-money laundering and countering the financing of terrorism and sanction screening measures to reduce the organization’s exposure to serious reputational damage, financial loss or legal liability. IFAD has also adopted measures on personal data protection, thus ensuring overall consistency with industry best practice.

78. Finally, fiduciary and risk management was also strengthened during the year with the approval of the Enterprise Risk Management Policy and the IFAD Risk Appetite Statement, now in operation through the new governance Technical Risk Governance Committees.