
Updated status of IFAD12 resources and commitment capacity

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Useful references:

Update on the Sustainable Level of IFAD12 PoLG ([EB 2021/133/R.13](#));
Resources Available for Commitment ([EB 2021/134/R.17/Rev.1](#))

Action: The Executive Board is invited to review the status of contributions to the Twelfth Replenishment of IFAD's Resources (IFAD12) received as of 14 July 2022; the status of implementation of the funding plan; and the potential impact of these factors on IFAD's financing and commitment capacities.

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Updated status of IFAD12 resources and commitment capacity

I. Introduction

1. As per recent financial reforms, Management committed to set the programme of loans and grants (PoLG) based on actual resources to minimize the risk of over commitment while maximizing efforts to reach the original replenishment target. If IFAD12 contributions do not reach the US\$1.3 billion level,¹ there will be a direct impact on IFAD's ability to sustain the approved PoLG target of US\$3.5 billion; finance the planned level of disbursements mainly for loans, grants and Debt Sustainability Framework (DSF) grants approved in previous cycles; and support the Fund's operating expenses.
2. As part of Resources Available for Commitment (RAC) updated methodology,² Management committed to reassess available resources eight months into the replenishment cycle. For IFAD12, the 2021 RAC confirmed that Management will provide an update to the Executive Board in September 2022, by comparing the actual replenishment amount to the target, and by comparing secured borrowing to planned borrowing. The RAC for 2023 will review the status of resources for IFAD12, assess potential impact on IFAD's financing and commitment capacities, and confirm the maximum PoLG to be approved in 2023.
3. This paper presents the status of IFAD12 contributions received as of 14 July 2022; the status of implementation of the funding plan; and the potential impact of these factors on IFAD's financing and commitment capacities.

¹ US\$1.278 billion excluding the grant element of concessional partner loans.

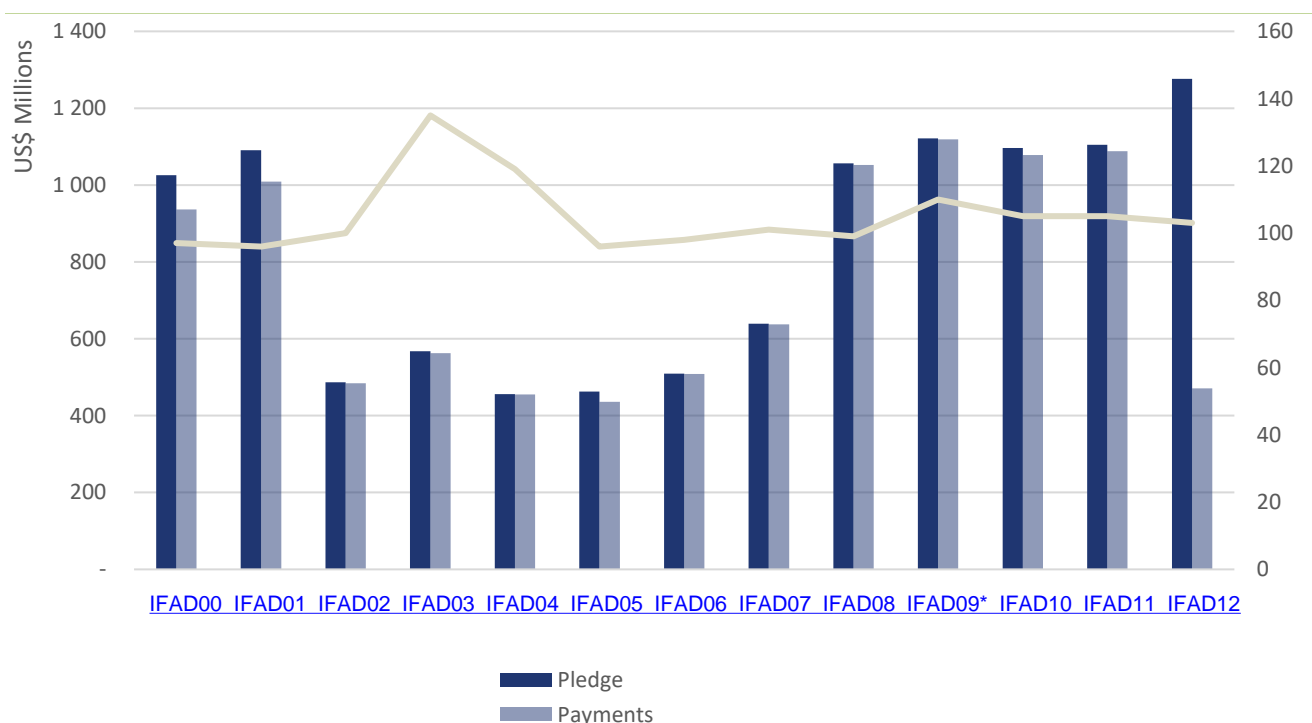
² EB 2020/130/R.35, section I, para. 6.

II. Status of IFAD12 resources

A. Status of contributions and concessional partner loans (CPLs)

4. During the IFAD12 Consultation, IFAD was able to achieve its highest ever replenishment in terms of core contributions and to counteract the trend of falling replenishment contributions observed in IFAD10 and IFAD11. For IFAD12 a 16 per cent increase compared to IFAD11 was achieved, supported by increases in contributions across all Lists, highlighting the Membership’s strong support for IFAD across both donor and borrowing countries.
5. To date, IFAD has received 103 pledges for a total of US\$1.278 billion in contributions to IFAD12, from 102 Member States and a special contribution from the Holy See. In addition to mobilizing core contributions, IFAD has successfully mobilized CPLs from India and Finland for US\$20 million and EUR 60 million respectively, for a total of US\$93 million.³
6. IFAD has received payments and instruments of contribution towards IFAD12 amounting to US\$1.07 billion, equivalent to 84 per cent of pledges received, which demonstrates the strong commitment of Member States to IFAD’s vision and mandate.
7. The current level of resource mobilization for IFAD12 leaves a gap of US\$23.4 million towards the mobilization requirements for the updated PoLG of US\$3.5 billion. Additional pledges from other Member States are still being pursued.

Figure 1.
Evolution of donors’ contributions versus pledges to IFAD replenishments



*Complementary contribution for the Adaptation for Smallholder Agriculture Programme under IFAD9 are excluded from the overview

³ The revised replenishment scenario included a reduction of CPLs of US\$132 million from the initial target of US\$225 million to the actual CPLs of US\$93 million. The grant element for the US\$93 million CPLs was US\$23 million.

B. Status of implementation of funding plan

8. In order to enhance its impact in future replenishments, IFAD needs to expand both core and borrowed resources. IFAD has consistently increased its PoLG, supported by donor contributions and, since IFAD9, through borrowing.
9. While replenishment contributions are and will remain the bedrock of IFAD's capitalization and commitment capacity, borrowing will grow in a prudent manner to fill funding gaps and support financing capacity, within the limits approved by the Executive Board and in line with financial ratios.
10. In June 2022, IFAD issued two private placements totalling US\$150 million, thus securing 38 per cent of the approved US\$400 million funding plan for 2022.
11. For IFAD12, the overall amount of new borrowing included in the 2021 RAC document was US\$620 million. Therefore, US\$470 million has yet to be secured for the remainder of IFAD12.

III. Factors driving the sustainable baseline replenishment approach

12. IFAD's financial sustainability must be preserved by implementing a prudent approach to the allocation of its core resources, avoiding the risk of over commitment.
13. It is critical to ensure that core resources cover IFAD's operating expenses, expenses for the Heavily Indebted Poor Countries (HIPC) Initiative and DSF compensation and grants. Any excess core resources are then allocated to performance-based allocation system (PBAS) loans.⁴ For this reason, Management assesses the sustainable replenishment baseline each year by means of the annual RAC document (see the annex).
14. As described in section II, IFAD12 contributions as of 14 July 2022 have almost reached the level to support a PoLG of US\$3.5 billion. Any gap in core resources will impact the Fund's commitment capacity to support that PoLG and its financing capacity to honour committed disbursement obligations in IFAD12 (see the annex).
15. The forgone compensation for DSF grants approved in past years and HIPC expenses that cannot be recovered through additional resources are included in the sustainable baseline calculation.⁵
16. Based on the long-term strategy to double IFAD's impact by 2030, Management has identified decentralization and building staff capacity in a holistic manner as priorities to achieve transformational results and ensure that it possesses the right capacities to deliver the services, products and expertise required by Member States. Based on this, Management projects IFAD's budget requirements, which include forecasted for real growth and inflation.
17. The replenishment baseline approach requires that replenishment contributions cover unrecoverable operating expenses for the whole three-year cycle. At the beginning of the cycle, this value is heavily reliant on projections that are susceptible to future adjustments as growth (real and nominal) assumptions align to actual developing trends. The global economy is affected by global inflation, which also impacts IFAD's operating expenses.

⁴ DSF reform, EB 2019/128/R.44.

⁵ The outstanding compensation in IFAD12 for DSF grants approved in the past totalling US\$88 million should, in principle, be paid by donors in addition to the pledged replenishment contributions. The fact that past grants have not been reimbursed with compensation has resulted in erosion of IFAD's capital (an effect that is accounted as accumulated deficit). As missed payments of past DSF grants cannot be recovered through additional core resources, they will in future be compensated by adjusting the size of DSF grants to restore liquidity and capital levels.

IV. Impact on PBAS allocation

18. Based on the current status of core contributions, the impact on the available resources for distribution through PBAS is expected to be very small compared to the overall amount of PBAS resources. In addition, this would affect countries receiving IFAD loans, while the level of DSF resources would be maintained.
19. Should no funds become available for reallocation, the shortfall of core resources will be compensated by applying a reduction to individual country allocations.

V. Conclusions

20. One of the overarching objectives of the financial reforms implemented in IFAD11 was to increase monitoring of sources and uses of resources for improved financial discipline. Management assessed available resources against commitments for IFAD12 eight months into the replenishment cycle, as required by policy, in order to provide the Executive Board with a summary of outstanding issues and expected outcome of the RAC for 2023.⁶
21. As of the 14 July 2022, IFAD has received pledges for US\$1.278, or US\$1.254 billion excluding the grant element of CPLs, making the twelfth replenishment one of the most successful resource mobilization exercises in the Fund's history.
22. In addition, the implementation of the funding plan for 2022 is well on its way to reach its planned size, supported by the successful issuance of two private placement transactions.
23. This result ensures that DSF grants, DSF reserve, and the regular grant programme will be confirmed at their planned levels for the three-year cycle.
24. If not filled with additional pledges, the current gap of contributions will be compensated through an adjustment to individual country allocations. In the short term, lower resources will impact disbursement capacity.
25. Member States are encouraged to fill the current gap to reach a level of replenishment contributions of US\$1.3 billion in order to minimize any impact on IFAD commitment and financing capacities in the future.

⁶ Management will keep monitoring the status of resources and will present any development occurring during the period before the September Executive Board session with an addendum to this paper if needed.

Baseline replenishment calculation

A. Impact on IFAD's commitment capacity

1. The 2022 RAC document states that a contribution level of US\$1.278 billion will be sustainable as it would cover IFAD's operating expenses, HIPC expenses, DSF forgone compensation and grants, with any excess to be allocated to loans.
2. As of 14 July, the sustainable replenishment baseline calculation shows that the level of contributions ensures full coverage of the grant envelope of US\$550 million.

Table 1

Sustainable replenishment baseline approach for IFAD12

(Millions of United States dollars)

	Updated level of sustainable IFAD12 PoLG (Sep 2021)	Checkpoint (July 14, 2022)	Shortfall/excess of resources
Replenishment contributions net of CPL grant elements	1 278	1 254	(24)
Grants (DSF, DSF reserve, regular programme)	(550)	(550)	-
DSF compensation	(88)	(88)	-
HIPC expenses	(18)	(18)	-
Operating expenses*	(557)	(554)	3
Total	65	44	(21)
Baseline replenishment result	Sustainable grants	Sustainable grants	Adjustment of loans in PBAS

* The annual growth rate assumption for operating expenses is 5.5 per cent, which reflects assumptions for inflation and real growth agreed with the Office of Strategic Budgeting.

3. A shortfall of US\$21 million of core resources from the updated level of IFAD12 contributions is mainly the result of lower pledges received as of 14 July 2022.
4. While no reduction in grants is envisaged with this outcome, the current shortfall of US\$21 million would need to be accommodated within the non-DSF core resources distributed through the PBAS.
5. Depreciation of non-US\$ denominated contributions as a result of foreign exchange movements may be significant under the current volatile markets, and could impact the value of available resources and consequently IFAD commitment capacity.⁷

C. Impact on IFAD's financing capacity

6. In the short term, IFAD will need resources to honour its disbursement obligations on approved loans and grants. Any change in the expected level of core resources and borrowing will impact IFAD's disbursement capacity in the short term and exert pressure on the projected liquidity position.
7. As the main actions available to Management to restore liquidity buffers, the Liquidity Policy considers controlling disbursements and raising borrowing. The current assumption for IFAD12 disbursements is set at US\$2.96 billion. The shortfall in core resources will require a reduction in the projected level of disbursements for 2023 and 2024 of up to US\$21 million.
8. The RAC document to be approved by the Executive Board in December 2022 will include the target disbursement level for 2023 based on available resources at that time.

⁷ Contributions are expressed in United States dollars at the replenishment exchange rates for non-US\$ denominated amounts, i.e. the average of month-end rates for the period 1 April – 30 September 2020. Actual values in United States dollars of contributions when paid could be substantially different given the current volatility in the foreign exchange market. The projected loss for the encashment of IFAD12 pledges at current rates is estimated at about US\$30 million, which represents 2.4 per cent of total pledges.