Investing in rural people

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High-level review of IFAD's financial statements for 2023

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High-level review of IFAD's financial statements for 2023

I. Introduction

1. This document provides additional information on IFAD's audited financial statements for the year ended 31 December 2023. 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. External and internal financial environment

2. In 2023, the external context was characterized by challenges such as the continuing effects of conflicts and increasing instability. To respond to these challenges IFAD has:

   - Continued implementing interventions focused on food security, climate adaptation and biodiversity;
   - Continued implementing the projects financed under the Crisis Response Initiative to support countries affected by the food crisis through grant resources; and
   - Strengthened its support to the private sector, with the implementation of Private Sector Engagement Strategy.

3. Inflation signals were registered in all economies and, as a consequence, interest rates presented an upward trend.

4. The special drawing right (SDR) to United States dollar (US$) exchange rate increased from 1.335 at the end of 2022 to 1.344 as at 31 December 2023.

5. IFAD's operations and financial situation remained stable, with all financial indicators within the established thresholds. In 2023, in recognition of IFAD's sound capitalization, liquidity, risk management framework and support from Members, IFAD's rating was confirmed by Fitch Ratings and Standard & Poor's at AA+, with a stable outlook.

III. Key figures and ratios

6. Pledges for the Twelfth Replenishment of IFAD's Resources (IFAD12) reached the level of US$1.28 billion as at 31 December 2023. Additional contributions were received, and IFAD's equity stood at US$10.4 billion. The overall net equity position was US$7.9 billion as at 31 December 2023. The IFAD13 Consultation took place throughout fiscal year 2023 with pledges reaching the record level of US$1.34 billion.

7. Long-term financial viability continues to be monitored closely. The non-performing loan (NPL) ratio deteriorated (2.3 per cent in 2023 compared to 2.15 per cent in 2022) because of the new default case of Cuba.

8. During the year, IFAD provided interim debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative to Somalia with the support of the compensation received from the HIPC Debt Relief Trust Fund amounting to US$5.8 million. IFAD received an additional EUR 6.0 million from Germany in 2023 to further contribute to the clearance process for the Somalia arrears.[1]

9. During fiscal year 2023, a total of US$532.4 million was approved in new projects (loans and grants). Disbursements to projects and other initiatives amounted to US$898.2 million. Operating expenditures remained below 2 per cent of total assets.

[1] Belgium, Italy and Sweden had already provided support to clear the Somalia arrears in 2022.

10. Table 1 provides a summary of the main financial results.

Table 1
Main financial results
(Millions of United States dollars)

	2023	*2022*	*2021*	*2020*	*2019*	*2018*
Total assets	10 567	10 240	10 596	9 883	9 399	9 286
Replenishment contributions (Equity)	10 373	10 185	10 104	9 170	9 073	8 938
Loans outstanding	8 367	7 998	8 111	8 050	7 501	7 182
Net equity/loans outstanding	94.7%	99.6%	105.8%	102.0%	107.0%	114.0%
Projects approved	532	1 043	892	824	1 671	1 176
Disbursements	898	934	906	778	855	826
Operating expenditures/total assets (annual)	1.9%	1.9%	1.8%	1.7%	1.8%	1.9%

11. Despite negative retained earnings, IFAD’s overall net equity is positive, and at the end of 2023, it represented 75.0 per cent of total assets in nominal terms. At the end of 2023, IFAD’s total assets (US$10.6 billion in nominal terms) were sufficient relative to total liabilities (US$2.6 billion), undisbursed loan commitments (US$4.0 billion) and undisbursed grant commitments (US$0.9 billion).

12. As at 31 December 2023, all financial risk parameters were within the thresholds established by IFAD’s policies and/or contracts. The financial ratios are summarized in table 2 below.

Table 2
Financial ratios
(Percentage)

	2023	*2022*	*2021*	*2020*	*2019*	*2018*	*Threshold*
Equity/total assets	99.2	100.4	96.2	93.7	97.5	97.3	n.a.
Debt/capital available*	29.0	24.9	19.5	14.6	9.8	7.5	<50
Liquidity/assets	15.2	14.0	13.3	11.8	10.7	11.2	n.a.
Debt service coverage	21.7	10.5	6.8	4.1	1.2	0.2	n.a.

* Threshold as per Capital Adequacy Policy.

IV. Risk management

13. **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. The debt-to-capital available ratio as at 31 December 2023 stood at 29.0 per cent, well within the threshold, and it is closely monitored.

14. **Liquidity risk.** The Fund’s liquidity position remained within policy thresholds. Liquidity at the end of the fourth quarter (Q4) of 2023 represented 15.2 per cent of total assets. IFAD also remained in compliance with internal liquidity prudential ratios and requirements by rating agencies.

15. **Interest rate risk.** This is defined as the potential for loss arising from adverse movements in market interest rates. The interest rate risk is mitigated by reducing the duration mismatch between its assets (investment portfolio and loan portfolio) and liabilities (borrowed funds). Table 3 below provides a summary of the interest margin in the period 2018-2023

Table 3
Interest margin
(Thousands of United States dollars)

	2023	*2022*	*2021*	*2020*	*2019*	*2018*
Loan income	123 572	79 638	68 084	70 158	68 669	65 545
Net investment income	78 075	5 909	6 257	7 295	23 716	1 035
Loan interest expenses	(77 506)	(17 028)	(3 346)	(1 164)	(1 054)	(820)
Interest margin	**124 141**	**68 519**	**70 995**	**76 289**	**91 331**	**65 760**
Interest margin/earning assets	**1.4%**	**1.2%**	**0.9%**	**0.9%**	**0.8%**	**1.1%**

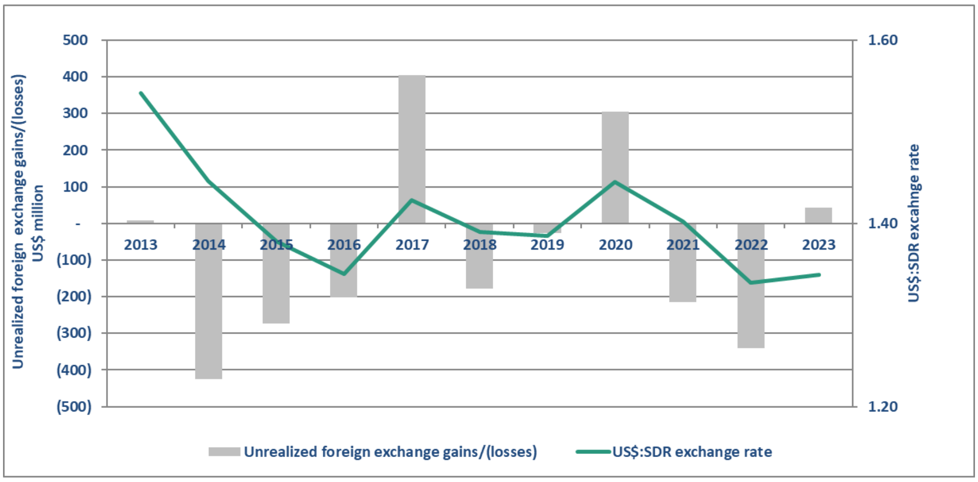
16. In 2023, IFAD entered into a new borrowing facility with the European Investment Bank for a total of EUR 500 million and encashed a first tranche of US$165.8 million equivalent. IFAD also issued private placements denominated in euro, totalling US$194.4 million equivalent. In order to mitigate exchange rate risks and align the currency to the currency of the assets to be financed, IFAD entered into two cross currency swaps. To mitigate interest rate risk, IFAD entered into two interest rate swaps to convert the interest rate profile of the liabilities from a fixed to a floating rate in line with the rate applied to loan assets at ordinary terms. IFAD applies International Financial Reporting Standard (IFRS) 9 hedge accounting treatment to individual identified hedge relationships when conditions set out by the standard are met. Table 4 describes the hedge adjustment on the bond and the fair value movement on the swaps, which closely mirror each other (or are similar).

Table 4
(Thousands of United States dollars)

31 December 2023	*Notional*	*Hedged value liabilities*	*Hedge adjustment on derivatives*
Cross currency swaps at floating rate	(198 837)	8 828	(10 601)
Fair value hedges interest rate risk	(150 000)	(15 432)	14 842

17. **Currency risk**. IFAD conducts its operations in various currencies, while accounting records are maintained in United States dollars. The conversion of assets into 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. Fluctuations in the United States dollar rate vis-à-vis the other currencies, and in particular against the SDR exchange rate, have always created volatility in IFAD's accounts. 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 2013–2023



18. During 2023, the SDR appreciated against the United States dollar by approximately 0.7 per cent (from 1.335 at the end of 2022 to 1.344 as at 31 December 2023). The US$:EUR exchange rate increased from 1.067 at the end of 2022 to 1.104 at 31 December 2023. At the end of December 2023, the unrealized exchange rate gains amounted to US$42.5 million. Table 5 provides some details about the main driving factors.

Table 5
Foreign exchange movements
(Millions of United States dollars)

January to December 2023	
Cash and investments	19.5
Loan liabilities	(38.4)
Other receivable and payables	(2.1)
Loans and grants	63.5
Total	**42.5**

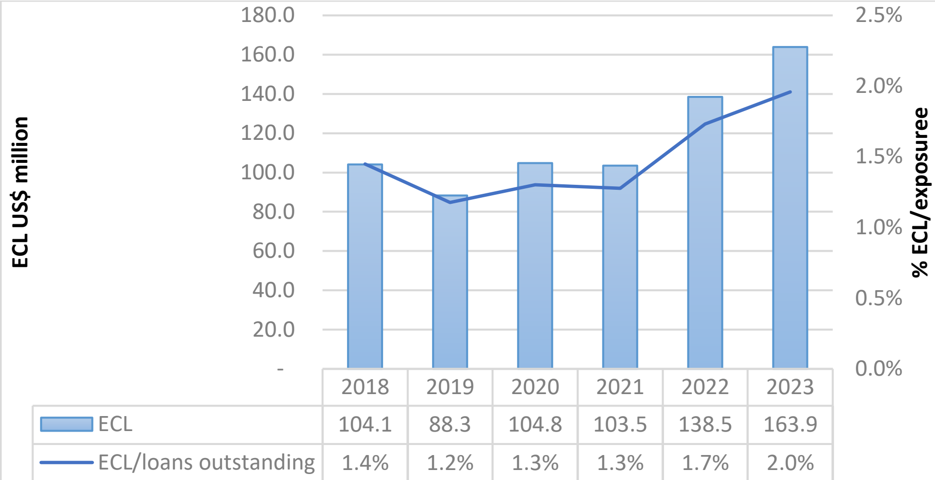
19. Foreign exchange risk on commitment capacity is mitigated by ensuring that commitments for undisbursed loans and grants are supported by assets denominated in the SDR basket of currencies, therefore the capital requirements for currency risk are computed on the net position of assets and liabilities in each currency. Capital requirements for currency risk are based on a historical simulation of the behaviour of each foreign exchange rate. IFAD’s balance sheet is still mainly denominated in SDR. Assets granted in euros are almost entirely matched with liabilities in the same currency. Accordingly, the gap in this currency remains relatively small. In order to immunize its short-term liquidity profile from foreign currency risk fluctuations, the Fund ensures that the currency composition of its projected inflows are aligned to its outflows over a 24-month horizon. IFAD holds sufficient amounts in each currency to fund the projected net outflows over a 24-month period, taking into consideration the 10 per cent tolerance level.

20. **Credit risk**. Credit risk is closely monitored. Details by region are provided in the annex.

21. The Fund enjoys preferred creditor status and adopts several operational measures to reduce default risk. These include suspending disbursements on loans that are 75 days in arrears (after a grace period) and suspending disbursements on the entire country portfolio. At the end of December 2023, as mentioned above, the NPL ratio (calculated as non-performing loans outstanding over the overall loan outstanding portfolio balance) deteriorated to approximately 2.3 per cent, from 2.15 per cent at the end of 2022. Additional details are provided in the annex.

22. 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 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). IFAD’s preferred creditor status remains strong as countries are honouring IFAD’s debt service on a timely basis despite macroeconomic trends and rating assessments. Figure 2 provides an overview on the ECL trends over the period 2018 to 2023. At the end of 2023, ECL represented 2.0 per cent of the loan outstanding balance.

Figure 2
Expected credit loss trends 2018-2023



23. The ECL loan impairment allowance at the end of December 2023 increased to US$163.9 million from US$138.5 million in 2022 (see table 6 below). The increase is attributable to concurrence factors such as:

- Macroeconomic scenarios embedding the effects of conflicts and instability.
- Some deterioration in country credit ratings with certain exposures transitioning from stage 1 to stage 2, and other cases (Cuba and Niger) transitioning to stage 3.

Table 6
Exposure and ECL loan impairment allowance by stage
(Millions of United States dollars)

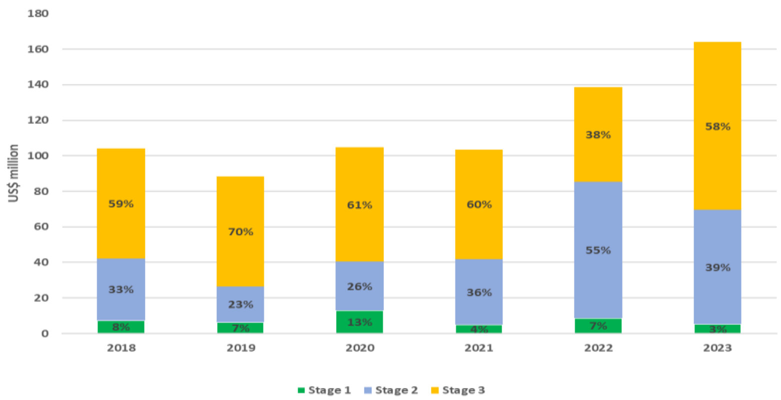
	December 2023			*December 2022*			*Difference*	
Stage	*Exposure*	*%*	*Allowance*	*Exposure*	*%*	*Allowance*	*Exposure*	*Allowance*
Stage 1	7 840.8	68.7	5.2	7 994.3	70.8	8.8	(153.5)	(3.6)
Stage 2	3 256.0	28.5	64.3	3 108.3	27.5	76.7	147.7	(12.4)
Stage 3	314.4	2.8	94.4	195.8	1.7	53.0	118.6	41.5
	11 411.2		**163.9**	**11 298.4**		**138.5**	**112.8**	**25.4**

- **Stage 1 – Performing loans.** The credit loss provision has been calculated with a required one-year time horizon. Overall, stage 1 exposure at default decreased because of countries transitioning to stage 2.
- **Stage 2 – Underperforming loans**. These loans show signs of creditworthiness deterioration. The credit loss provision has been calculated for the full life cycle of the loan. Due to rating downgrades, some exposures transitioned to stage 2, such as Plurinational State of Bolivia and Ecuador. It should be noted that such countries are honouring their loan obligations towards IFAD on a timely basis.
- **Stage 3 – Non-performing loans.** Stage 3 borrowers (Democratic People's Republic of Korea, Lebanon, Bolivarian Republic of Venezuela and Yemen) have a history of outstanding arrears. Due to strong signs of creditworthiness deterioration and as a result of international sanctions, Cuba and Niger moved to stage 3 in 2023. IFAD is holding regular conversations with these countries to ensure an efficient recovery.

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

25. Figure 3 provides details of ECL breakdown by stages from 2018 to 2023.

Figure 3
ECL by stages 2018–2023

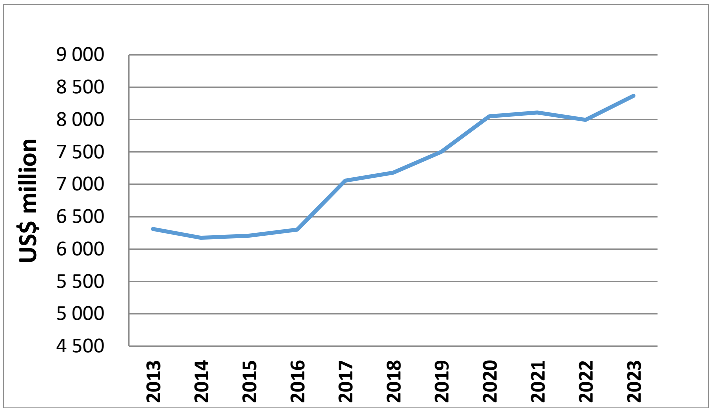


V. IFAD's operating activities

26. During 2023, the Fund approved loans and grants totalling US$532.4 million (2022: US$1.04 billion). Further details are provided in table 7.

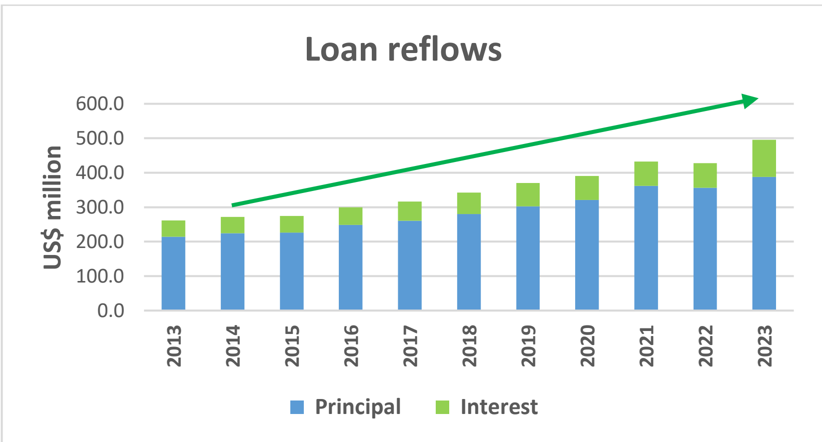
27. The balance of loans outstanding has been increasing over the years (as shown in figure 4 below). The majority of IFAD loans are provided on highly concessional terms, with a repayment period of up to 40 years. Loans are typically disbursed over an average of seven years.

Figure 4
Outstanding loan balance 2013–2023



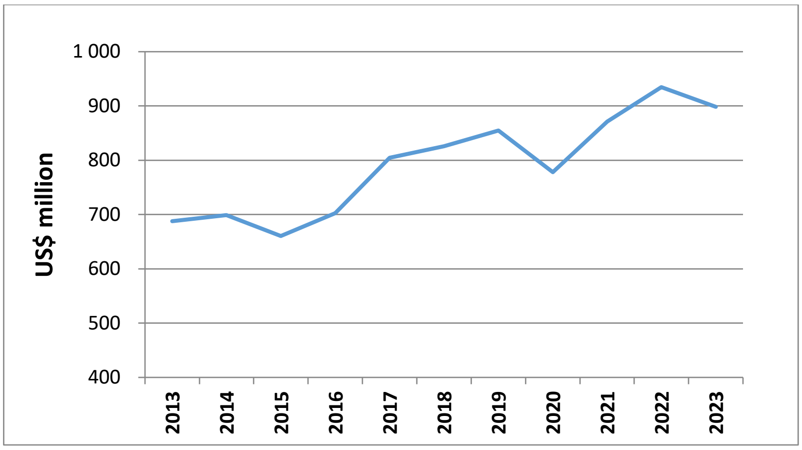
28. During 2023, loan repayments continued to present an upward trend, reaching the record level of US$496 million.

Figure 5
Loan repayments 2013–2023



29. Overall, annual disbursements to IFAD-funded projects through loans and grants have increased over the years (see figure 6 below).

Figure 6
Yearly disbursements 2013–2023



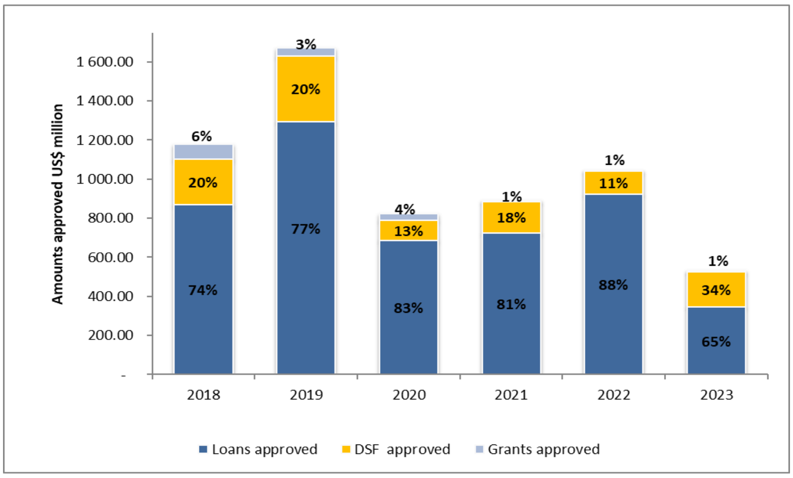
30. Table 7 and figure 7 provide a summary of the volume of operational activities and loan approvals by product type.

Table 7
Loan and grant flows and balances
(Millions of United States dollars – nominal values)

	2023	*2022*	*2021*	*2020*	*2019*	*2018*
Approvals						
Loans	344.8	921.5	724.6	685.5	1 292.2	868.9
Grants to countries in high debt distress*	181.6	118.8	159.7	103.4	339.6	234.9
Grants	6	3.0	7.6	35.2	39.4	73.7
Total approvals	**532.4**	**1 043.3**	**891.9**	**824.2**	**1 671.2**	**1 177.5**
Outstanding/undisbursed						
Net loans outstanding	8 367.3	7 997.9	8 110.6	8 049.9	7 501.4	7 312.9
Undisbursed loans	4 014.3	4 409.8	4 476.3	4 747.3	4 527.5	3 919.7
Undisbursed DSF	887.0	887.3	965.3	1 005.1	1 061.5	901.7
Undisbursed grants	54.2	82.1	116.5	158.0	123.6	101.3
Disbursements						
Loan disbursements	691.4	735.5	662.8	558.4	626.0	627.1
DSF disbursements	178.1	165.1	163.9	172.4	174.7	138.6
Grant disbursements	28.7	33.3	44.4	47.3	54.1	59.8
Total disbursements	**898.2**	**933.9**	**871.1**	**778.1**	**854.8**	**825.6**
Loan repayments	**495.5**	**427.8**	**432.6**	**390.5**	**370.5**	**341.9**
Cancellations/reductions	**113.1**	**124.9**	**216.7**	**91.8**	**44.1**	**127.9**

* Formerly referred to as Debt Sustainability Framework (DSF) grants.

Figure 7
Loan, DSF and grant approvals by year
(Amounts approved and related percentages)



VI. IFAD's financing activities

31. In line with IFAD's replenishment cycles, additional instruments of contribution were received in 2023, mainly for IFAD12. This is reflected in an increase in equity (contributions) to US$10.4 billion by the end of 2023 (US$10.2 billion in 2022).

32. During 2023, IFAD encashed additional borrowing for an amount equivalent to US$360.2 million from sovereign borrowing, concessional partner loans and the two private placements. During the year, repayments for borrowing principal instalments and interest amounted to US$112.8 million (US$44.0 million in 2022).

33. At the end of December 2023, overall borrowing liabilities amounted to US$2.2 billion (2022: US$1.9 billion). The resulting debt-to-capital available ratio stood at 29.0 per cent, well below the 50 per cent ceiling (24.9 per cent at the end of December 2022).

VII. IFAD's sustainability-related and environmental, social and governance reporting

34. In November 2023, IFAD published its first "impact report" in line with its Sustainable Development Finance Framework and the principles of the International Capital Market Association (ICMA).

35. The report provides information about the use of proceeds, allocation and expected results from a pool of projects financed through the issuance of two sustainable bonds in 2022, for a total amount of US$150 million.

36. These two sustainable bonds were issued under IFAD's Euro Medium-Term Note Programme, which is a full "use of proceeds" programme, as 100 per cent of bond proceeds will support the financing of development projects. Accordingly, all IFAD issuances will be sustainable bonds.

37. In 2022, IFAD became a voting member of the ICMA Principles and, as an environmental, social and governance (ESG) issuer, is committed to upholding the highest international standards and guidelines, as outlined by ICMA, with the ultimate goal of connecting global capital markets to rural and agricultural development.

38. As shown in the impact report, with the proceeds of these bonds, IFAD plans to reach almost 2 million people; provide more than 66,000 households with targeted support to improve their nutrition; construct or rehabilitate water-related infrastructure on 19,500 hectares of land; bring 105,400 hectares of land under climate-resilient practices; and promote the empowerment and decision-making of 62,000 individuals. These are only some of the results expected from the financing.

39. Through these endeavours, IFAD contributes directly to 8 Sustainable Development Goals (SDGs) and indirectly to 14 SDGs.

40. IFAD will publish an impact report each year to show incrementally how the proceeds of its bonds are supporting its mission and target population.

41. Throughout 2024, IFAD will be taking the necessary steps to adopt requirements that ensure compliance with IFRS Sustainability Standards S1 and S2.

42. IFRS S1 requires a company to disclose information[2] about its sustainability-related risks and opportunities that investors can use in making decisions about providing resources to the company. It sets out the general requirements for how a company should disclose that information, and the requirements for providing a complete set of sustainability-related financial disclosures.

[2] This information should cover governance, strategy, risk management, and metrics and targets of sustainability-related risks and opportunities.

43. IFRS S2 requires a company to disclose information about governance, strategy, risk management, metrics and targets in relation to its climate-related risks and opportunities. Climate-related risks refer to the potential negative effects of climate change on a company. Climate-related risks are associated with both physical risks (such as those resulting from increased severity of extreme weather) and transition risks (such as those associated with policy action and changes in technology).

VIII. IFAD-only financial statements

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

A. Balance sheet (appendix A)

Assets

45. **Cash and investments**. In 2023, the value of the cash and investment portfolio, including investment receivables and payables, increased to approximately US$1.6 billion (US$1.4 billion in 2022). This is consistent with the adopted replenishment scenarios and the liquidity policy. Detailed information is included in the Report on IFAD’s Investment Portfolio for 2023.

46. **Receivables in respect of instruments of contribution and promissory notes**. Net receivables decreased to US$326.3 million at the end of 2023 (US$550.8 million at the end of 2022). This is in line with the IFAD12 cycle, as reported earlier in this document.

47. **Loans outstanding.** Loans outstanding, net of accumulated allowances for loan impairment losses and the HIPC Initiative, totalled US$8.4 billion in 2023 (2022: US$8.0 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 8 below).

Table 8
Loans outstanding
(Millions of United States dollars)

	2023	*2022*
Loans outstanding (principal)	8 601.1	8 232.0
Interest receivable	42.2	26.2
Loans outstanding at nominal value*	**8 643.3**	**8 258.2**
Accumulated allowance for loan impairment lossess**	**(174.6)**	**(151.4)**
Accumulated allowance for HIPC	**(101.4)**	**(108.9)**
Net loan outstanding	**8 367.3**	**7 997.9**

***** Balances as at 31 December.

** Balance pertaining to ECL and Haiti Debt Relief.

48. **Allowance for loan impairment losses**. As reported above, the allowance is calculated in accordance with IFRS 9. Loan impairment losses amounted to US$174.6 million at the end of 2023 (2022: US$151.4 million) encompassing an expected credit loss allowance of US$163.9 million and the provision of US$10.7 million for Haiti Debt Relief to be absorbed by IFAD.

49. **HIPC Initiative allowance**. The decrease to US$101.4 million (US$108.8 million in 2022) mainly reflects interim debt relief provided to Somalia. IFAD has been participating in the HIPC Debt Initiative since 1997 (see appendix I of the financial statements). The total amount of debt relief provided to date is US$499.8 million, which includes US$387.7 million in principal and US$112.1 million in interest.

Liabilities and equity

50. **Borrowing liabilities**. At the end of December 2023, borrowing liabilities amounted to the equivalent of US$2,249.7 million (US$1,882.7 million in 2022).

51. **Contributions**. Table 9 below provides information on the status of contributions for IFAD12.

Table 9
IFAD12* contribution flows
(Millions of United States dollars at IFAD12 replenishment exchange rate)

*IFAD12**	*2023*	*2022*
Pledges regular resources (A)	1 280.3	1 277.8
Instruments of contribution received (B)	1 189.1	1 079.7
Outstanding pledges (A)-(B)	91.2	198.1

* In February 2021, the Governing Council adopted resolution 219/XLIV on the Twelfth Replenishment of IFAD's Resources.

52. The IFAD13 Consultation was held throughout fiscal year 2023; IFAD13 pledges reached the record level of US$1.34 billion.

53. Full details of Members' replenishment contributions are shown in appendix G of the consolidated financial statements.

B. Statement of comprehensive income (appendix B)

Revenue

54. Income from loan interest and service charges amounted to US$123.6 million in 2023 (US$79.6 million in 2022).

55. Income from cash and investments increased to US$79.6 million (from US$11.3 million in 2022).

Expenses

56. Expenses reported in 2023 include those incurred under the annual administrative expenses budget in that year and 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 10 below compares expenses incurred in 2023 and 2022 (see appendix B).

Table 10
Operating expenses
(Millions of United States dollars)

Operating expenses	*2023*	*2022*	*Movement +(-)*
Staff salaries and benefits			
Staff salaries and post-adjustments	67.2	61.6	5.6
Other allowances*	42.9	47.1	(4.2)
Subtotal	**110.1**	**108.7**	**1.4**
Office and general expenses	31.7	27.0	4.7
Consultants and other non-staff costs	52.7	49.8	2.9
Direct investment costs	1.6	5.4	(3.8)
Total	**196.1**	**190.9**	**5.2**
Depreciation	**12.4**	**12.2**	**0.2**

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

57. The total balances shown above include expenses funded from other sources for US$14.1 million (US$19.8 million in 2022). These funds were mainly provided by the Government of Italy in the case of reimbursable expenses (US$8.3 million in 2023 and US$8.0 million in 2022) matched by associated revenue.

58. The above balances also include local staff costs for IFAD Country Offices (ICOs) totalling US$7.5 million in 2023 (US$6.3 million in 2022), and ICO operating and consultancy expenses of US$4.7 million (US$4.1 million in 2022). 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.

59. **Staff salaries and benefits.** Staff salaries and post-adjustments increased to US$110.1 million from approximately US$108.7 million in 2022. This trend is the result of a higher number of full-time equivalent positions during 2023.

60. **Office and general expenses and depreciation**. In 2023, office and general expenses increased to US$31.7 million from US$27.0 million in 2022. This increase is attributable mainly to the higher volume of duty travel by staff.

61. **Consultants and other non-staff costs**. The increase to US$52.7 million in 2023 (from US$49.8 million in 2022) reflects the larger volume of services provided by consultants and other organizations.

62. **Exchange rate movements**. A detailed analysis is provided in paragraphs 17 to 19 above.

63. **After-service medical benefits**. In 2023, 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 2023 ASMCS actuarial valuation calculated a liability of US$109.1 million at the end of 2023 (US$102.8 million at the end of 2022). IFAD recorded a net charge for current service costs of US$4.8 million during 2023 (comprising interest costs and current service charges). This resulted in a net unrealized actuarial loss of US$1.4 million (compared to an unrealized actuarial gain of US$62.2 million in 2022). The change in liability was caused principally by the prevailing market conditions which also affected the discount rate used in the 2023 valuation of 3.9 per cent for international staff and 4.9 per cent for national staff (4.2 per cent in 2022).

Statement of changes in retained earnings (appendix B1)

64. 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$2.3 billion at the end of 2022 to negative US$2.5 billion at the end of 2023. The total annual comprehensive loss of US$231.2 million for 2023 contributed to the aforementioned retained earnings balance.

65. The net loss of US$231.2 million in 2023 comprises: revenue of US$221.4 million, unrealized foreign exchange rate gains of US$42.5 million offset by grant expenses of US$183.1 million; operating expenses (including staff, consulting services and supplier expenses) of US$196.1 million; loan interest expenses of US$77.5 million, actuarial losses of US$1.4 million and other loan allowances for impairment losses and HIPC expenses of US$15.1 million; and other expenses of US$21.7 million.

66. 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.

67. 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.[3]

68. Considering that at the end of 2023 the Fund reported a net comprehensive loss of US$231.2 million and that net retained earnings remain negative at approximately US$2.5 billion, a transfer to the General Reserve at the end of 2023 is not recommended.

[3] 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".

C. Adjusted statement of comprehensive income

69. To better represent IFAD's yearly results, an adjusted statement of comprehensive income is put forward to provide details considering the peculiarities of IFAD's business model that are not impacted by accounting estimates. The below report is not an IFRS compliant statement, but rather a managerial report.

70. IFAD statement of comprehensive income is adjusted to exclude the following items:

- **Development finance items.** This relates to grant expenses (mainly to indebted countries) provided for HIPC. From an accounting perspective, these items are treated as expenses, although they are funded directly by replenishment contributions (equity).
- **Currency gain and losses from currency exchange rate movements.** IFAD conducts its operations in several currencies. Fluctuations in the United States dollar vis-à-vis the other currencies and in particular the SDR exchange rate have long created volatility in IFAD's accounts. The conversion of such items into 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 and do not necessarily represent a financial risk.
- **Actuarial gains/losses for post-employment benefit scheme.** IFAD has established a Trust Fund to set aside assets necessary to fund the post-employment benefit scheme. Assets held in the Trust Fund are sufficient to cover in actuarial terms.

71. IFAD adjusted result for fiscal year 2023 was negative US$72.7 million compared with negative US$105.3 for 2022. Fiscal year 2023 was characterized by increasing interest rates which generated a larger volume of income from loans partially compensated by larger volumes of interest expenditures on borrowing liabilities.

Table 11
Adjusted statement of comprehensive income
(Thousands of United States dollars)

	2023	*2022*
Revenue		
Income from loans	123 572	79 638
Income/(losses) from cash and investments	79 633	11 320
Other income	18 168	23 127
Total revenue	**221 375**	**114 085**
Operating expenses	(194 922)	(189 643)
Interest expenditures on financial liabilities and leases	(77 507)	(17 028)
Depreciation	(12 428)	(12 236)
Total expenses	**(284 857)**	**(218 907)**
(Loss)/profit hedge accounting	(9 281)	(526)
Net (loss)/profit a	**(72 763)**	**(105 348)**
Reconciliation to statement of comprehensive income		
Operating expenses charged under the IFAD Climate Facility	(1 168)	(1 231)
Grant expenses	(183 247)	(174 070)
HIPC Initiative expenses gains	6 875	(106 165)
Allowance loan impairment losses	(22 007)	(34 949)
Change in provision for ASMCS benefit	(1 361)	62 205
Foreign exchange movements	42 494	(339 637)
Subtotal reconciling items b	**(158 414)**	**(593 845)**
Total comprehensive (loss)/income (a+b)	**(231 177)**	**(699 193)**

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

72. Appendix C shows movements in liquid unrestricted cash and investments in the balance sheet.

73. IFAD grant disbursements decreased to US$28.7 million (US$33.3 million in 2022).

74. Disbursements to countries in high debt distress (former DSF) amounted to US$178.1 million in 2023 (from US$165.2 million in 2022).

75. IFAD loan disbursements amounted to US$691.4 million in 2023 (from US$735.5 million in 2022).

76. During 2023, IFAD encashed additional borrowings, including concessional partner loans for US$360.2 million (US$459.8 million in 2022). During the year the Fund repaid borrowing liabilities principal and interest in the amount of US$112.8 million (US$44.7 million in 2022).

77. Receipts from cash and promissory notes as replenishment contributions totalled US$412.5 million in 2023 (US$366.1 million in 2022).

78. Receipts for non-replenishment contributions totalled US$13.9 million in 2023 (US$13.5 million in 2022).

IX. Internal controls over financial reporting and risk governance

79. 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 (PricewaterhouseCoopers) regarding the reliability of the Management assertion has also been included since 2012.

80. 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.

81. 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.

82. 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 78 key controls.

83. During 2023, IFAD continued to strengthen its anti-money laundering and countering the financing of terrorism and sanction screening and related risk 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.

84. 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.

Status report on arrears in principal, interest and service charge payments

This document provides Executive Board representatives with information regarding the status of arrears of more than 75 days as at 31 December 2023.

Table 1
Year-on-year comparison of arrears by region
(As at 31 December 2023)

		Thousands of United States dollars			
Region	*Number of loans*	*Principal*	*Interest and service charges*	*Total arrears*	*Percentage*
West and Central Africa					
As at 31 Dec 2023	32	3 961	1 092	5 053	5%
As at 31 Dec 2022	9	1 209	360	1 569	1%
East and Southern Africa					
As at 31 Dec 2023	1	320	33	353	0%
As at 31 Dec 2022	1	44	41	85	0%
Asia and the Pacific					
As at 31 Dec 2023	3	25 539	4 661	30 200	31%
As at 31 Dec 2022	3	23 748	4 180	27 928	27%
Latin America and the Caribbean					
As at 31 Dec 2023	7	5 523	1 657	7 180	7%
As at 31 Dec 2022	7	5 283	632	5 915	6%
Near East, North Africa and Europe					
As at 31 Dec 2023	37	45 929	8 732	54 661	56%
As at 31 Dec 2022	41	54 706	14 422	69 128	66%
Total all regions					
As at 31 December 2023	**80**	**81 272**	**16 175**	**97 447**	
As at 31 December 2022	**61**	**84 990**	**19 635**	**104 625**	

Note: 2022 figures reclassified according the established de minimis threshold.