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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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REPORT ON IFAD'S INVESTMENT PORTFOLIO FOR THE FIRST HALF OF 1998

I. INTRODUCTION

1. At its Thirty-Sixth Session in April 1989, the Executive Board approved a proposal to present the Report on IFAD's Investment Portfolio twice a year, covering the previous calendar year and the first six months of the current year at its April and September sessions respectively. Accordingly, the following report covers the six-month period ending 30 June 1998 and includes comparative figures for the year ending 31 December 1997.

II. INVESTMENT CONDITIONS AND STRATEGY

2. This section reviews the economic and investment environment prevailing in the first six months of 1998 and the strategic and technical responses applied.

A. Economic Background

Gross Domestic Product

3. Annex I, Chart 1, shows percentage changes in real gross domestic product (GDP) for the 13 member countries of the Organisation for Economic Co-operation and Development (OECD), whose bonds are included in the J. P. Morgan Global Government Bond Traded Index. The figures denote forecasts of brisk growth rates for 1998 and 1999, with the exception of Japan which is experiencing a recession.

4. In 1997, the United States economy posted 3.8% growth in real GDP. In the first quarter of 1998, GDP growth soared to an annualized rate of 5.4%, the highest increase in two years, due to a rise in consumer spending and an accumulation of inventories. The economic slowdown in Asia, however, may well have an impact on United States exports and reduce capital spending, thereby leading to slower growth for the rest of the year. Thus, 1998 growth is forecast at 2.9%.

5. In Japan, economic growth edged up 0.9% last year, but declined sharply in the first quarter of 1998. Tumbling domestic demand in both the consumer and corporate sectors, coupled with declining exports to Asian neighbours, is expected to lead to an average GDP growth of about -1.9%. Nonetheless, the Government of Japan's efforts to increase public spending and cut taxes could prove to be a remedy for the economic downturn.

6. In the United Kingdom, GDP growth for 1998 is not expected to attain last year's 3.3% rate due to a stagnating manufacturing sector and a restrictive monetary policy that is dampening any increase in domestic demand. An appreciating British pound sterling, combined with the Asian slowdown, is expected to turn the current account and trade balances into deficits in 1998, thereby contributing to the drag on GDP growth. In continental Europe, first-quarter GDP averaged an annualized 2.6%, up from 1.9% in the fourth quarter of last year. Falling unemployment has been the main factor contributing to most of Europe's growth. Strong capital spending has also contributed to growth in places such as Germany, while consumer demand has been most apparent in France and The Netherlands.

7. Annex I, Chart 2, shows percentage changes in real GDP for nine of the Asian nations which form part of IFAD's external equity portfolio. Falling aggregate demand in the region is expected to result in an average growth rate of -2.2% in 1998. The contraction has been caused by a drop in capital spending, employment and consumer spending. However, Asian economies are expected to recover in 1999, due to stimulative economic policies and strong trade performance.

Labour Market Development

8. Annex II, Chart 1, shows unemployment rates as a percentage of the labour force. Job markets appeared solid in most of the industrialized world, and are expected to perform well both in 1998 and in 1999.

9. Unemployment in the United States fell to 4.4% in the first quarter of 1998, the lowest rate since 1970, confirming tight labour markets and steady domestic demand. In Japan, the jobless rate continues to deteriorate after rising to a high of 3.6% in the first quarter of the year, which is unprecedented in the last few decades.

10. European labour markets continued to improve thanks to a combination of strong domestic demand and government employment programmes. In France and Germany, unemployment rates dropped to 12.1% and 11.5% respectively, while in the United Kingdom the rate fell to 4.8% .

11. Annex II, Chart 2, shows unemployment rates in nine Asian nations. Joblessness increased during the first half of 1998 as a result of considerable restructuring in the region, reflecting corporations' efforts to maintain their competitive edge during the economic contraction.

Inflation

12. Annex III, Chart 1, shows the percentage changes in consumer prices over the previous year. Global inflation slipped lower this year, mainly due to falling energy prices and the slowdown in demand from Asia.

13. Consumer prices in the United States dropped to 1.5% in the first quarter, and the actual rate is not expected to exceed 2% during the rest of the year. This is attributed to the drop in prices for both commodities and imports from Asia, as well as to the appreciation of the United States dollar against other currencies.

14. European inflation remained generally under control this year and is expected to average about 1.4%. The two primary factors behind this were the fall in oil prices and the anti-inflationary stance taken by the central banks prior to the implementation of the European Monetary Union (EMU) scheduled for 1999. In the United Kingdom, accelerating domestic demand lifted inflation to an estimated 2.8% in the first quarter, exceeding the government's 2.5% inflation target.

15. Annex III, Chart 2, shows the percentage changes in consumer prices over the previous year in Asia. Growth in regional price pressures has been mixed, due to varying strengths in exchange rates and to different stages of economic cycles. While strong currencies shielded countries such as Singapore and China against rampant inflation, economic turmoil and currency crises in Indonesia and Thailand have contributed to the rise in inflation.

Monetary Policies

16. Annex IV, Chart I, shows the evolution of central bank and government-controlled interest rates for the five currencies included in the Special Drawing Rights (SDR) valuation basket. Central banks kept their interest rates unchanged during the first half of this year, with the exception of the Bank of England which raised its base interest rate.

17. The Federal Reserve Bank's interest rates remained unchanged, based on the notion that an appreciating United States dollar and weakness in Asia will offset the rising sales and tightening job market. The Bank is expected to keep the same policy into the second half of 1998, unless price pressures start to emerge or the Asian slowdown begins to depress global demand. In Japan, the discount rate has been fixed at 0.5% since 1995. A rate cut cannot be ruled out in order to ease the deflationary state of the economy.

18. In the United Kingdom, domestic price pressures were the main motive for the Bank of England's decision in May to increase rates from 7.25% to 7.5%. The French and German central banks left rates unchanged due to the low inflation environment and falling commodity prices. The central banks, however, are expected to act upon any signs of price pressures or monetary expansion during the next six months as part of their anti-inflationary commitment prior to the implementation of the EMU in 1999.

Exchange Rates

19. Annex V, Chart 1, illustrates the end-of-the-month exchange rates of the United States dollar against the other four currencies included in the SDR evaluation basket during the course of 1998.

20. The United States dollar appreciated by some 11.00% against the Japanese yen as of the end of June 1998, reflecting the contrasting economic positions of the Japan and United States. During the same period, steady growth in Europe led to minimal changes in the United States dollar against the Deutsche mark and the French franc. The British pound sterling gained about 1.5% against the United States dollar as a result of the Bank of England's interest rate increase last May.

21. In Asia, currencies have posted mixed performances against the United States dollar over the past six months. In most cases, there was little change in the first quarter, followed by losses in the second quarter. Losses were most pronounced in the Indonesian rupiah because accelerating inflation in Indonesia remains an issue.

Fiscal Policy

22. Annex VI, Chart 1, shows budget deficits as a percentage of nominal GDP as projected by the International Monetary Fund (IMF). Deficits were lower in all 13 OECD countries comprising the J. P. Morgan Global Government Bond Traded Index during 1997, and are expected to continue improving in most cases during 1998.

23. The budget imbalance in the United States has turned positive so far this year as a result of economic growth and budget cuts. In Japan, the government's public spending packages and tax-cutting programmes designed to stimulate the economy have taken a toll on the deficit, lifting this year's estimate to 3.8% of GDP. In Europe, budget deficits have continued to fall throughout the past and current year, reflecting the fiscal tightening required to qualify for the EMU in 1999.

24. Annex VI, Chart 2, shows budget deficits as a percentage of nominal GDP in selected Asian countries. The regional recession has caused governments to step up public spending as a counter-cyclical fiscal policy, leading to a widening in deficit balances. Continued plans for government stimulus packages are likely to keep balances negative this year.

B. Financial Markets

25. Annex VII shows the evolution of interest rates and bond yields for the five currencies included in the SDR valuation basket. In the first half of 1998, in the United States there was a narrowing in the difference between short and long-term interest rates. The trend was similar but lesser in extent in France and Germany. In the United Kingdom, the tightening of interest rates continued to drive short-term rates above long-term rates.

26. Annex VIII shows bond market returns for the first half of 1998 measured in terms of local currency for countries making up the J. P. Morgan Global Government Bond Traded Index. Both bond coupon income and capital gains are included as elements in the measurement of returns.

27. In the United States, the return on Treasury bonds was 4.26% over the last six-month period, reflecting low inflationary growth and continuous capital inflows from emerging markets. The benchmark 30-year Treasury bond yield fell to a record low of 5.57% in June from 5.92% at the beginning of January.

28. In Japan, bonds returned 2.59% as of end-June as, given the deteriorating state of the economy, investors continued to seek higher yields abroad. Several economic stimulus packages failed to instil confidence in the financial markets and drove the currency down even further.

29. In the United Kingdom, the gilts market reached 5.98% and, during the first half of 1998, had the highest return among countries included in the SDR basket. Following the Bank of England's 25 basis point increase in interest rates, the yield curve resumed its inverted shape, reflecting a low inflation outlook.

30. French and German bond markets returned 4.96% and 4.79%, respectively. Low inflation, coupled with the French and German central banks' resolve to contain price pressures, contributed to the good performance of bond markets.

31. Equity markets in industrialized countries rose to new highs during the first half of 1998, with performance building up mainly in the first quarter and slowing down in the second quarter. In the United States, the Standard and Poors 500 index rose 16% due to sustained economic growth and low inflation. In Japan, the Topix registered a modest gain of 4.71%, reflecting the economic downturn in the country. European stock markets yielded the highest percentage returns during the six-month period under review due to domestic-led growth and increased merger and acquisition activity. French and German equity markets returned 39% and 35%, respectively. In the United Kingdom, stocks rose 13%, slowing their rally on concerns about further interest rate hikes.

32. Annex IX shows the evolution during the first half of 1998 of the three equity regional groups in which IFAD initiated investment, namely, Japan, Asia and Australasia (excluding Japan) and emerging markets. The graphs indicate a rallying first quarter, reflecting several promises of economic restructuring programmes, followed by renewed uncertainty as the economic downturn made its mark and Japan's recession affected corporate profits. The charts, however, suggest a bottoming-out of the slide in the markets as governments undertake aggressive spending and debt-relief packages.

C. Investment Strategy

Fixed-Income Managers

33. During the past six months, IFAD's external fixed-income managers pursued a strategy of longer-than-benchmark duration. The chances of the Federal Reserve Bank increasing rates diminished over the period as the impact of Asia's slowdown began to show itself in an already low global inflation environment. As a result, the longer-duration strategy proved beneficial to overall performance, enabling managers to capture bond market rallies throughout the period.

34. With respect to market selection, overweight allocation generally took place in Australia and in the European countries that will stay out of the EMU in 1999, mainly Denmark, Sweden and the United Kingdom. The rationale followed is that interest rates in these European markets are bound to come down in the medium term to converge with those of core Europe. Expectations of lower rates also applied in Australia due to the impact of the Asian crisis. Underweight allocation consistently appeared in Japan but began to diminish in core Europe as the potential of a summer rate hike began to fade. Allocation in the United States ranged from neutral to overweight.

35. The managers' currency-hedging strategy was somewhat mixed during the six-month period under review, with a tendency to maintain long positions in the United States dollar and the British pound sterling while hedging against the Japanese yen and the Australian dollar.

Equity Managers

36. IFAD's external equity portfolio managers cover three distinct regional markets: Japan, Asia and Australasia (excluding Japan), and emerging markets.

37. IFAD's Japanese equity manager has pursued a mainly consistent industrial sector strategy over the past six months. At the top of the list came manufacturing stocks, accounting for just over half the total portfolio. These stocks, which mostly consisted of blue chip electrical appliances

companies, were considered by the manager to have the capacity to weather the economic slowdown due to their large international exposure and potential benefits from a weak Japanese yen. Other industrial holdings comprised commerce, services, finance and insurance. Acquisitions of bank stocks were put off until the end of the second quarter with the aim of acquiring them at fundamentally attractive prices. A gradual increase in construction stocks was attributable to the government's fiscal stimulus packages, which promised significant public works spending.

38. The equity manager specializing in Asia and Australasia (excluding Japan) started its mandate with a focus on Australia and Hong Kong. In the second quarter, allocation expanded into South-East Asian markets following a strong overall regional performance in the first quarter. As market volatility ensued in the second quarter, the manager increased exposure in Australia and in United States dollar-denominated regional stocks as a possible hedge against the market correction. Industrial allocation was mainly geared towards a concentration in telecommunications stocks, followed by holdings in real estate and consumer goods.

39. IFAD's emerging markets equity manager initiated a strategy of gradually shifting away from cash securities and into stocks of Asia, Eastern Europe and Latin America. The manager aimed at acquiring stocks at bargain prices during the Asian downturn. As the downturn persisted, the manager reduced its equity holdings in the region and transferred the proceeds to cash so as to better position itself for the rest of the year. Meanwhile, United States dollar-denominated foreign stocks continued to constitute the highest proportion of equities in the portfolio. Throughout the period under review, industrial allocation revolved around stocks in the finance, materials and services-related industries.

III. RATE OF RETURN

Overall Performance

40. Net investment income for the six months up to 30 June 1998 amounted to USD 54 757 000 equivalent (1997 - USD 163 940 000 equivalent). In line with market practice, capital gains and losses include both realized and unrealized gains and losses. All amounts are included on an accruals basis. Table 1 summarizes net investment income earned during the period under review.

TABLE 1: INVESTMENT INCOME
(USD'000 equivalent)

	Six Months to 30 June 1998	Twelve Months to 31 December 1997
Interest from fixed income investments and bank accounts	57 833	128 779
Dividend income from equities	3 006	94
Realized capital gains	6 859	21 535
Unrealized capital gains/ (losses)	(9 791)	19 657
Subtotal: gross investment income	57 907	170 065
Securities lending revenue	455	463
Investment management and custody fees	(3 014)	(5 457)
Provision for withholding tax	(591)	(1 131)
Net investment income	54 757	163 940

41. After taking custodian and management fees into account, the overall rate of return of the portfolio for the first six months of 1998 was 2.56% (annualized - 5.12%) compared with the overall rate of return of the portfolio in 1997 of 7.54%.

42. The performance of the internally-managed portfolio and the externally-managed portfolios (both fixed income and equities) is measured against pre-assigned independent benchmarks that indicate the return which could be expected through passive management of a defined segment of the market. Table 2 compares the return of each of the major sections of the portfolio with the benchmark rate of return. Table 2 also shows an overall underperformance of eight basis points against the overall benchmark during the first six months of 1998 (1997 - outperformance of 47 basis points).

TABLE 2: PERFORMANCE FOR THE FIRST SIX MONTHS OF 1998 COMPARED WITH BENCHMARKS

Portfolio	Portfolio Rate of Return (%)	Benchmark Rate of Return (%)	Over/(Under) Performance (Basis Points)
Internally-managed portfolio	2.50	2.50	-
Externally-managed portfolio (fixed income)	4.77	4.52	25
Total fixed income	4.20	3.99	21
Equities (Japan)	4.11	4.71	(60)
Equities (Asia and Australasia, except Japan)	(13.47)	(15.07)	160
Equities (emerging markets)	(22.52)	(15.46)	(706)
Total equities	(11.09)	(8.71)	(238)
Overall portfolio gross rate of return	2.71	2.79	(8)
Less management fees, etc.	(0.15)	(0.15)	-
Overall portfolio net rate of return	2.56	2.64	(8)

43. In addition to the benchmarks included in Table 2 above, which were selected to measure the performance of IFAD Treasury and external investment managers for various defined mandates, the Fund uses a benchmark that sets a threshold for the expected overall rate of return of the investment portfolio. This consists entirely of instruments denominated in the component currencies of the SDR basket, and is used to measure both the effect of active management and of diversifying the portfolio into assets denominated in currencies other than those included in the SDR basket. The SDR benchmark returns for the first six months of 1998 are shown in Table 3.

TABLE 3: SDR BENCHMARK RETURNS FOR THE FIRST SIX MONTHS OF 1998

Component Currencies[a/] (%)		Bond-Market Return	Money-Market Return	Composite Benchmark Return [b/]
USD	43.1	4.26	2.86	3.98
DEM	18.4	4.79	1.77	4.19
JPY	15.5	2.59	0.82	2.24
FRF	10.1	4.96	1.76	4.32
GBP	12.9	5.98	3.82	5.55
SDR	100.0	4.39	2.36	3.98

[a]/ Ratios of the SDR valuation basket at 1 January 1998.
[b/] Consists of 80% of bond-market return and 20% of money-market return.

44. The overall portfolio rate of return net of fees of 2.56% for the first six months of 1998 is thus some 142 basis points lower than the SDR benchmark return, largely due to negative returns in two of the three equities markets in which IFAD had invested.

Internally-Managed Portfolio

45. The main purpose of the internally-managed portfolio is to ensure the availability of liquid funds to meet disbursements of loans and grants and administrative expenses.

46. In January 1998, the amount of the internally-managed portfolio was reduced by USD 100 000 000 which was transferred to the emerging markets equities mandate, while in May 1998 an amount of USD 60 000 000 was withdrawn from the externally-managed fixed-income portfolio to meet expected disbursements. Total flows relating to the internally-managed porfolio are outlined in Table 4.

TABLE 4: MOVEMENTS IN CASH AND INVESTMENTS UNDER INTERNAL MANAGEMENT
(USD ’000 equivalent)

	Six Months to 30 June 1998	Twelve Months to 31 December 1997
Opening balance	188 015	398 858
Allocated to external managers	(40 000)	(183 584)
Other net outflows	(61 976)	(45 338)
Interest income	2 910	18 226
Realized capital gains	-	1 237
Movements on exchange	(395)	(1 384)
Closing balance	88 554	188 015

47. As indicated in Table 2, the rate of return of the internally-managed portfolio for the first six months of 1998 was 2.5% compared with a composite benchmark rate of return also of 2.5%.

Externally-Managed Portfolio (Fixed Income)

48. During the six-month period up to 30 June 1998, there was one withdrawal, of USD 60 000 000, from the externally-managed fixed-income portfolio. This amount was transferred to the internally-managed portfolio to provide liquidity for loan and grant disbursements. Total flows relating to the externally-managed fixed-income portfolio are outlined in Table 5.

TABLE 5: MOVEMENTS IN INVESTMENTS UNDER EXTERNAL MANAGEMENT - FIXED INCOME
(USD '000 equivalent)

	Six Months of 30 June 1998	Twelve Months to 31 December 1997
Opening balance	1 795 698	1 783 365
Withdrawal	(60 000)	-
Interest income	53 696	110 208
Realized capital gains/(losses)	10 484	20 256
Unrealized capital gains/(losses)	20 554	28 823
Movements on exchange	(8 110)	(146 954)
Closing balance	1 812 332	1 795 698

49. As also indicated in Table 2, the rate of return of the externally-managed fixed-income portfolio for the first six months of 1998 was 4.77% compared with a benchmark rate of 4.52%, representing an outperformance of 25 basis points. This is attributable to overweighting investments in the higher-yielding markets such as Denmark, Sweden and the United Kingdom and underweighting investments in Japan and Australia. In addition, as indicated in Table 6, the duration of the portfolio was longer than the benchmark duration. This enabled the managers to take advantage of the rally in the bond markets during the period under review.

TABLE 6: DURATION OF THE EXTERNALLY-MANAGED FIXED-INCOME PORTFOLIO
(Years)

	30 June 1998	31 December 1997
Duration of portfolio	5.72	5.18
Benchmark duration	5.66	5.43

50. None of the external investment managers for fixed-income securities made use of futures and options during the first half of 1998, and there were no contracts outstanding as of 30 June 1998.

Externally-Managed Portfolio (Equities)

51. As part of the diversification programme, two equities mandates were funded in 1997, namely, the Japan equities mandate, amounting to JPY 12 500 000 000 or USD 103 584 000 equivalent at the time of inception on 22 October 1997, and the Asian and Australasian (excluding Japan) equities mandate, amounting to USD 80 000 000 at inception on 1 December 1997. A further equities mandate for emerging markets, amounting to USD 100 000 000 at inception, was funded on 21 January 1998.

52. During the first six months of 1998, the Japanese equities portfolio registered a positive return; but, after showing promise in the first quarter of 1998, both the Asian and the Australasian (excluding Japan) portfolio and the emerging markets portfolio registered losses in the second quarter of 1998. Total flows relating to the externally-managed equities portfolio are outlined in Table 7.

TABLE 7 - MOVEMENTS IN INVESTMENTS UNDER EXTERNAL MANAGEMENT - EQUITIES
(USD '000 equivalent)

	Japan	Asia and Australasia (excluding Japan)	Emerging Markets	Total Six Months to 30 June 1998	Twelve Months to 31 December 1997
Opening balance	87 923	79 094	-	167 017	-
New allocation	-	-	100 000	100 000	183 584
Interest income	-	473	754	1 227	345
Dividends	407	898	1 701	3 006	94
Realized capital gains/(losses)	473	(935)	(3 163)	(3 625)	42
Unrealized capital gains/(losses)	2 552	(11 088)	(21 809)	(30 345)	(9 166)
Exchange loss	(5 603)	(2 790)	(4 509)	(12 902)	(7 882)
Total	85 752	65 652	72 974	224 378	167 017

53. As indicated in Table 2, the manager for the Asian and Australasian (excluding Japan) portfolio outperformed the benchmark. The managers for Japanese equities and emerging markets equities underperformed their respective benchmarks, in the latter case due to overweighting purchases at bargain prices in distressed markets which offer good prospects for capital gains when the countries in question come out of recession.

54. During the first half of 1998, the use of futures and options by external equities managers was modest. Only one manager (responsible for the Asian and Australasian (excluding Japan) mandate) made use of futures (on two occasions) for hedging purposes. Details of the use of futures are provided in Annex X.

IV. COMPOSITION OF THE PORTFOLIO

General

55. As of 30 June 1998, IFAD's investment portfolio amounted to USD 2 125 254 000 equivalent (31 December 1997 – USD 2 150 730 000 equivalent), excluding amounts subject to restriction provided by donors for participation in specific IFAD projects and activities.

56. During the first six months of 1998, prior to taking into account the effect of movements in exchange rates, the amount of the investment portfolio decreased by USD 4 069 000 equivalent (1997 – increase of USD 124 727 000 equivalent). A detailed analysis of cash flows is presented in Annex XI, and summarized in Table 8.

TABLE 8: ANALYSIS OF CASH FLOWS
(USD '000 equivalent)

	Six Months to 30 June 1998	Twelve Months to 31 December 1997
Opening balance	2 150 730	2 182 223
Investment income	54 757	163 940
Other inflows:	119 050	299 375
Outflows	(177 876)	(338 588)
Increase/(decrease), prior to exchange adjustment	(4 069)	124 727
Exchange movement	(21 407)	(156 220)
Closing balance	2 125 254	2 150 730

Composition of the Portfolio by Type of Mandate and by Instrument

57. IFAD's portfolio is divided into three main sections by type of mandate:

(a) An internally-managed liquidity portfolio, managed by IFAD Treasury. As of 30 June 1998, this portfolio consisted of short-term instruments, such as cash and time-deposits, held pending disbursement for administrative expenses and loan and grant disbursements over the near term.

(b) An externally-managed fixed-income portfolio, the management of which has been entrusted, since 1994, to a number of external investment managers working under investment guidelines provided by the Fund. Instruments consist of bonds issued by sovereign states and international development institutions, and pools of cash and time deposits used for operating purposes.

(c) An externally-managed equities portfolio, under which, as at 30 June 1998, three mandates have been entrusted to external investment managers working under investment guidelines provided by the Fund.

58. Table 9 provides an analysis of the instruments held in each of the main sections of the portfolio as at 30 June 1998.

TABLE 9: ANALYSIS OF THE IFAD PORTFOLIO BY TYPE OF MANDATE AND BY INSTRUMENT AS AT 30 JUNE 1998
(USD '000 equivalent)

	Internally-Managed Portfolio	**Externally-Managed Portfolio (Fixed-Income)**	**Externally-Managed Portfolio (Equities)**	**Overall Portfolio**
Cash	36 905	29 093	25 081	91 079
Time deposits	48 652	162 397	2 067	213 116
Treasury bills	1 677	-	-	1 677
Bonds	-	1 709 806	60	1 709 866
Equities	-	-	195 361	195 361
Open trades	-	(123 600)	1 213	(122 387)
Accrued interest	244	34 626	-	34 870
Dividends receivable	-	-	596	596
Non-convertible currencies (NCC)	1 076	-	-	1 076
Total	88 554	1 812 322	224 378	2 125 254
Percentage	4.2	85.3	10.5	100.0

59. An analysis of the composition of the overall portfolio, providing fuller details of open trades, etc., and comparative figures as at 31 December 1997, is provided in Annex XII.

Composition of the Equities Portfolio

60. The composition of equities by sector as at 30 June 1998 is provided in Annex XIII. As of 30 June 1998, investments in equities amounted to USD 195 361 000 equivalent (31 December 1997 – USD 108 748 000) comprising some 319 different stocks denominated in 16 currencies, as indicated in Annex XIV.

Composition of the Portfolio by Currency

61. The majority of IFAD's commitments are expressed in SDR. Consequently, IFAD's overall assets are maintained in such a way as to ensure that, to the extent possible, commitments for undisbursed loans and grants denominated in SDR are matched by assets denominated in the currencies and in the ratios of the SDR valuation basket. Similarly, the General Reserve and commitments for grants denominated in United States dollars are matched by assets denominated in United States dollars.

62. Every five years, the Executive Board of the IMF reviews the valuation basket of the SDR for the purpose of determining which currencies should be part of the valuation basket, and which percentage weight should apply to each currency at the date of the reweighting of the valuation basket.

63. The last such review was made in September 1995, and weights were determined for each of the five component currencies which were applied to the reweighting of the valuation basket on 1 January 1996. The units of each currency which would constitute the valuation basket for the five-year period 1 January 1996-31 December 2000 were determined on the basis of the agreed weights and market exchange rates on 31 December 1995.

64. The exchange rates applicable to each currency change over time. Consequently, in terms of value, the ratio of the component currencies tends to depart quite substantially from the percentage weights determined at the time of each reweighting, as indicated in Table 10.

TABLE 10: UNITS AND WEIGHTS APPLICABLE TO THE SDR VALUATION BASKET

1 January 1996				30 June 1998		
Currency	Units	USD Value	Weight	Units	USD Value	%
USD	0.582	0.582	39.0	0.582	0.582	43.7
DEM	0.446	0.311	21.0	0.446	0.247	18.5
JPY	27.200	0.264	18.0	27.200	0.194	14.5
FRF	0.813	0.165	11.0	0.813	0.133	10.0
GBP	0.105	0.165	11.0	0.105	0.175	13.3
Total		1.487	100.0		1.331	100.0

65. Under the terms of the Treaty of Maastricht, 11 member countries of the European Union have qualified, and agreed, to participate in a currency union as of 1 January 1999.

66. Since the currency union will become effective at the beginning of the fourth year of the five-year SDR valuation basket cycle, it is likely that the IMF will decide to merge the allocations for the Deutsche mark and the French franc (which, at 30 June 1998, represented 28.5% of the value of the valuation basket), and allocate the combined weighting for the two currencies to the Euro.

67. During the course of the two-year period 1999-2000, the IMF will need to discuss the various options for the future of the valuation basket, which include the possibility of a tri-polar SDR comprising the Euro, the Japanese yen and the United States dollar, or a larger basket of currencies.

68. By the end of 1997, the convergence of the bond markets for the European currencies which were most likely to merge in 1999 was largely accomplished. In order to avoid having too heavy a weighting of investments in the Euro-zone currencies, currency matching procedures have been amended to include nine additional European currencies in the SDR allocation for the Deutsche mark and the French franc, namely the Austrian schilling, the Belgian franc, the Finnish markka, the Irish pound, the Italian lira, the Luxembourg franc, the Netherlands guilder, the Portuguese escudo, and the Spanish peseta. The European Currency Unit (ECU) will be also replaced by the Euro on 1 January 1999, and therefore investments denominated in ECU have been aggregated with holdings of the 11 Euro-zone currencies.

69. As at 30 June 1998, assets in the form of cash, investments, promissory notes and amounts receivable from contributors under the Fourth Replenishment amounted to USD 2 758 270 000 equivalent. An analysis of cash and investments in terms of currency composition is included in Annex XIV, while an overall analysis including promissory notes and amounts receivable from contributors is given in Annex XV. A list of the currency codes used in Annexes XIV and XV is given in Annex XVI. The alignment of assets with the currency composition of the SDR valuation basket at 30 June 1998 is shown in Table 11.

TABLE 11: ALIGNMENT OF ASSETS WITH THE CURRENCY COMPOSITION OF THE SDR VALUATION BASKET AT 30 JUNE 1998
(USD '000 equivalent)

Currency	Investment Portfolio Promissory Notes and Contributions Receivable	Less: USD Commitment[a/]	Assets Subject to Alignment with SDR		Composition of SDR Valuation Basket %
			Amount	%	
USD	1 153 095	(142 400)	1 010 695	46.3	43.7
JPY	273 299		273 299	12.5	14.5
GBP	280 151		280 151	12.8	13.3
Euro-zone currencies	619 165		619 165	28.4	28.5
Subtotal	2 325 710	(142 400)	2 183 310	100.0	100.0
Other convertible currencies	428 796				
Non-convertible currencies (NCC)	3 764				
Total	2 758 270				

[a/] Consists of the balance of general reserve (USD 95 000 000) and the undisbursed balance of grants denominated in USD (USD 47 400 000)

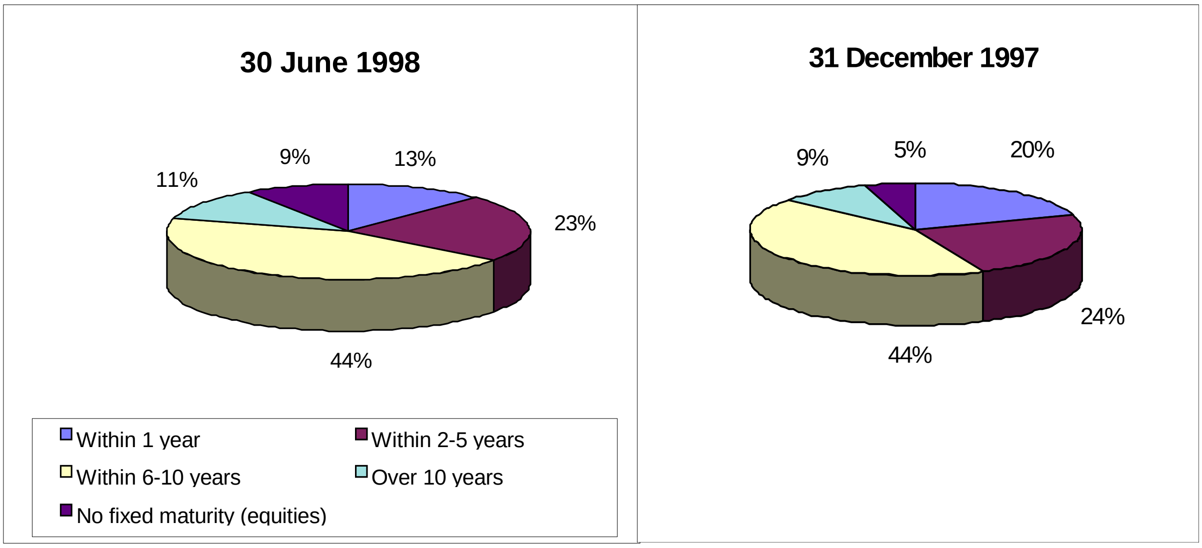
70. As of 30 June 1998, there were excess holdings of United States dollars and shortfalls of holdings in the other currencies included in the SDR valuation basket, particularly the Japanese yen, reflecting the decision of most fixed-income managers to underweight holdings of bonds denominated in Japanese yen.

71. As of 30 June 1998, net resources available for commitment denominated in freely-convertible currencies amounted to USD 444 762 000 equivalent. Adding to this the amounts receivable from contributors under the Fourth Replenishment of USD 173 344 000 equivalent, one arrives at a gross amount of USD 618 106 000 equivalent. This exceeds IFAD's holdings of convertible currencies not included in the SDR valuation basket and related Euro-zone currencies by USD 189 310 000 equivalent (31 December 1997 - USD 194 310 000 equivalent), indicating that the exchange rate risk was fully covered.

Maturity of Investments

72. Annex XVII provides details of the composition of the portfolio by maturity at 30 June 1998, while Figure 1 shows the maturity of the portfolio graphically:

FIGURE 1: MATURITY STRUCTURE OF THE INVESTMENT PORTFOLIO

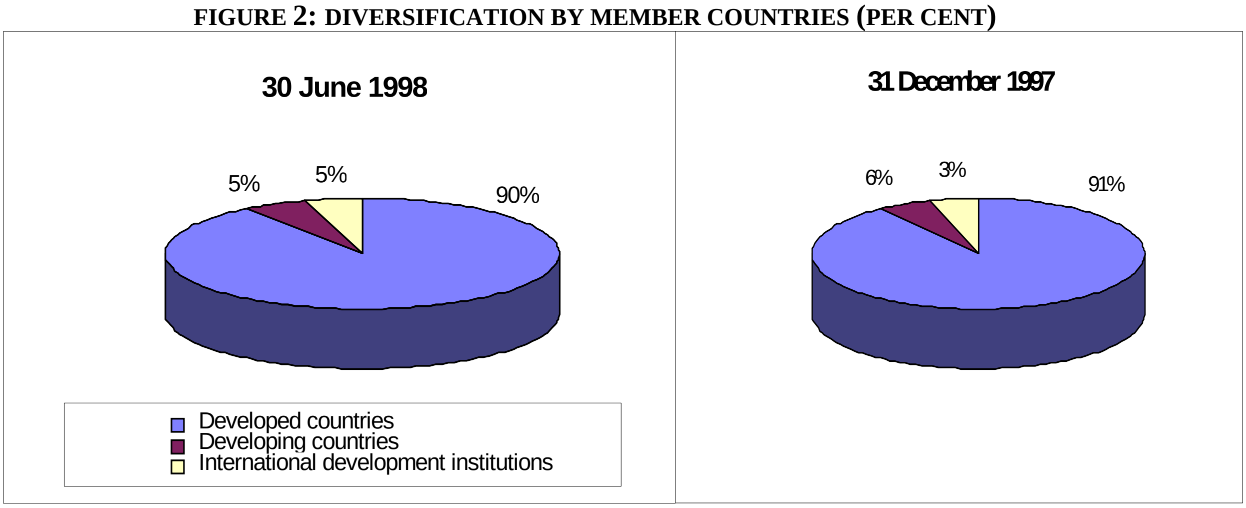


73. The average life to maturity at 30 June 1998 was 74 months (31 December 1997 – 66 months).

Diversification by Countries

74. It is IFAD's practice to diversify its investments with respect to countries. IFAD invests in suitable instruments issued by eligible institutions in both industrialized and developing countries, as well as in obligations issued by eligible development-related intergovernmental institutions. Annex XVIII provides details by type of instrument, while Figure 2 shows the overall diversification by Member States graphically.

FIGURE 2: DIVERSIFICATION BY MEMBER COUNTRIES (PER CENT)



75. The overall level of investment in developing countries and in international development institutions increased during the first six months of 1998, largely through increased investment in bonds issued by development-related intergovernmental institutions.

V. DIVERSIFICATION OF THE INVESTMENT PORTFOLIO

76. In early 1996, there was a growing awareness that it was unlikely that IFAD would be able to maintain the high average rate of return that it had experienced during the first half of the decade if it continued to invest predominantly in government bonds issued by industrialized countries.

77. It was noted that returns on time deposits and government bonds had begun to decrease as the market no longer expected to pay a premium against the possible resurgence of inflation.

78. A symposium on investment policy was convened in May 1996, bringing together the members of the Investments Advisory Committee, IFAD's financial advisors and a number of external investment managers. The symposium addressed the question of what alternative asset classes IFAD should consider for investment purposes in order to maintain its historical rate of return with an acceptable level of risk. The most attractive asset classes for this purpose proved to be corporate bonds and equities, and government bonds of emerging markets.

79. A study was subsequently carried out comparing the performance of equity and bond markets over a 15-year period. The study included an optimization exercise to construct a diversified portfolio that could reach the targeted real rate of return of approximately 5% per annum. In order to achieve this target, the recommendation was that 45% of the portfolio be placed in equities and 10% in corporate bonds, while the remaining 45% of the portfolio would remain in global government bonds and in cash.

80. The study was reviewed by the Executive Board at its Fifty-Ninth Session in December 1996, and was included among the documents on issues and options that the Governing Council considered at its Twentieth Session.

81. The proposal on the diversification of the investment portfolio was considered in-depth by the High-level Working Group on Policy Issues that met on 19 February 1997, just before the meeting of the Governing Council. While recognizing that management of the investment portfolio falls under the authority of the President of IFAD, the working group expressed broad support for the diversification proposal and stressed the need for a prudent and gradual approach in the implementation of the proposal. Similar views were expressed at the Governing Council and by members of the Executive Board in their subsequent discussions.

82. In consultation with IFAD´s financial advisors, a programme was drawn up in March 1997 which envisaged the phasing-in of diversification over a three-year period. Some USD 1 000 million equivalent was allocated for investment in the equities markets, as indicated in Table 12.

TABLE 12 - ALLOCATION OF THE EQUITIES PORTFOLIO
(USD million equivalent)

Market	Amount
Global	360
North America	180
Europe	180
Japan	100
Emerging markets	100
Asia and Australasia (excluding Japan)	80
Total	1 000

83. The global equities allocation is intended to cover investments in equities on a worldwide basis, while the other five equity allocations cover specific markets.

84. An allocation of USD 200 million was made for investment in a fixed-income portfolio comprising corporate bonds, emerging-market debt and government bonds. It was also decided to appoint a currency overlay manager, to be responsible for managing the portfolio's exposure to currency risk.

85. Implementation of the programme got under way with the appointment, in July 1997, of three external equity managers for the Japanese, emerging markets and Asian and Australasian (excluding Japan) mandates for a total initial amount of USD 280 million. The three mandates were funded between 22 October 1997 and 21 January 1998, using funds which had been previously managed internally.

86. Following a rigorous selection process, in February 1998, five specialist managers were appointed to manage the North American equities portfolio for a total amount of USD 180 million, of which USD 80 million was funded on 3 August 1998.

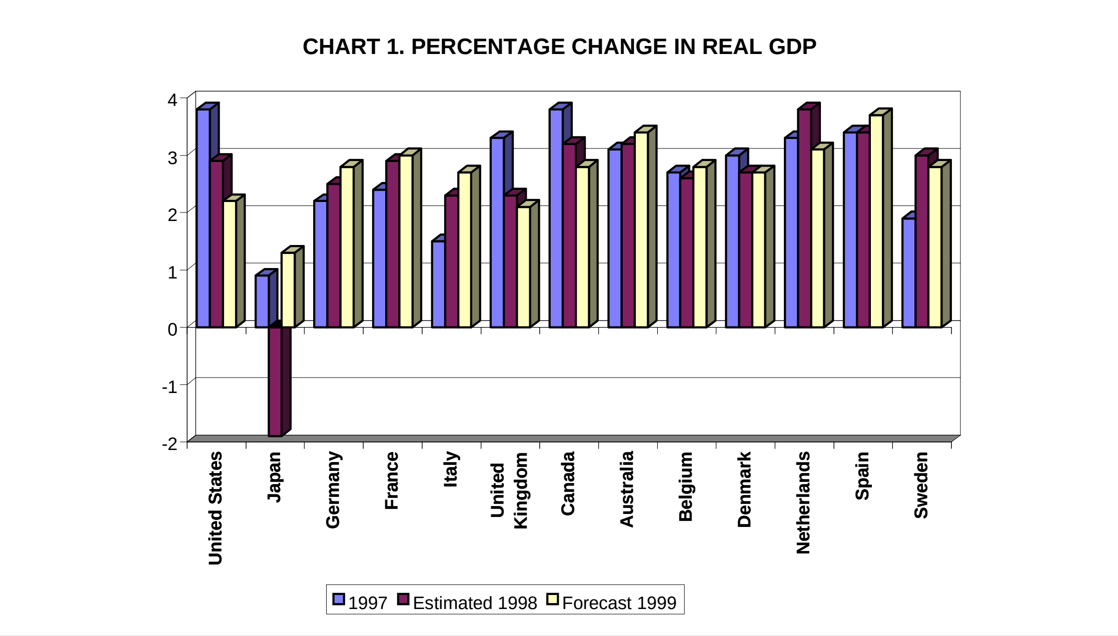
87. In addition, in February 1998, two managers were appointed to manage United States dollar-denominated diversified fixed-income mandates for a total amount of USD 200 million. These accounts were funded on 3 August 1998, using the proceeds of the liquidation of part of the externally-managed fixed-income portfolio.

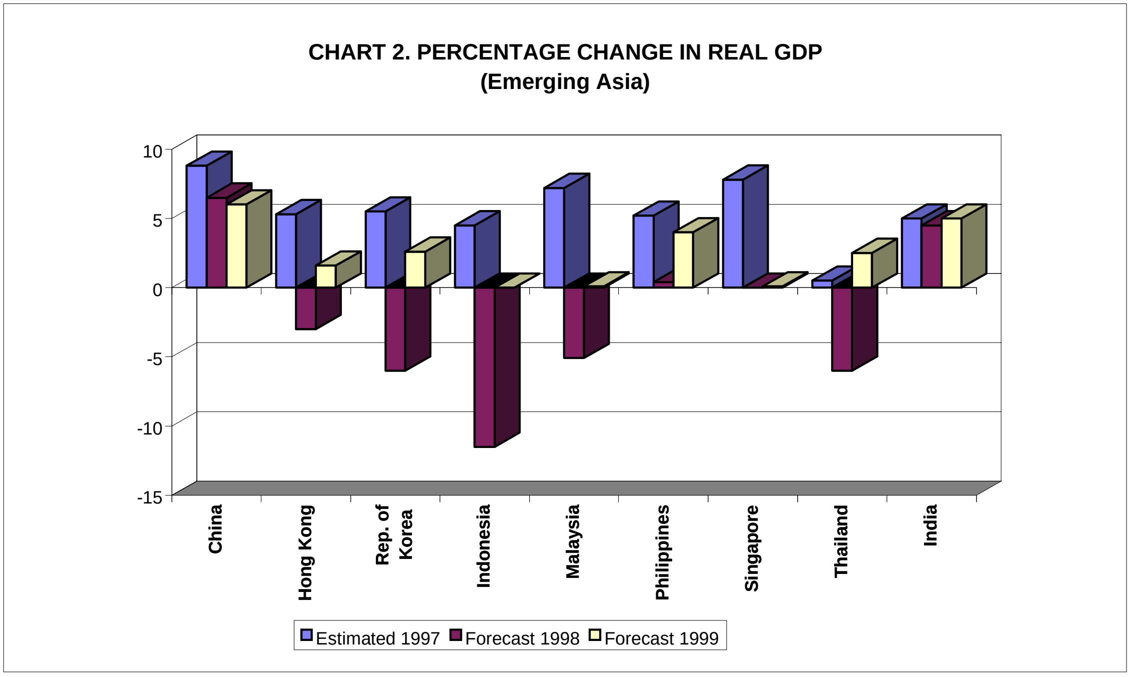
88. During the course of May 1998, a search was made for European equities managers. Three managers were appointed in June 1998, for a total amount of USD 180 million equivalent.

89. It is foreseen that the selection of the currency overlay manager will be made in the fourth quarter of 1998; and that the process of identifying managers for the global equities mandate will be started also at that time, although funding of the global equities mandate will not take place before 1999.

90. Every effort is being made to strengthen the capacity of the Investments Section of IFAD Treasury by means of training and the introduction of improved monitoring techniques.

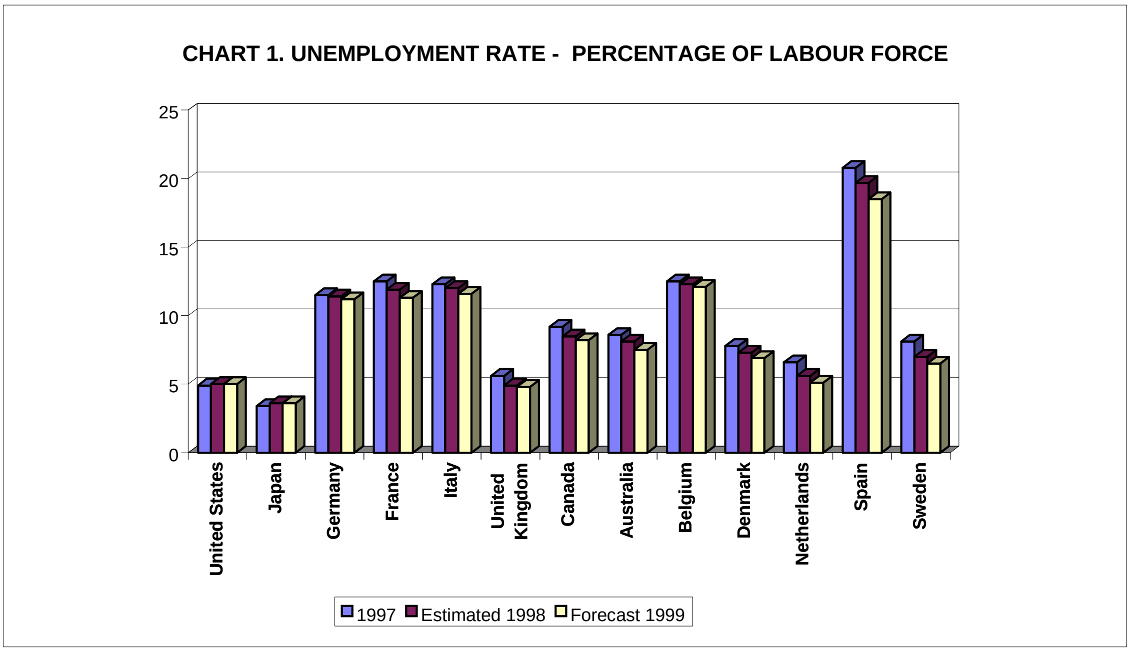
ANNEX I

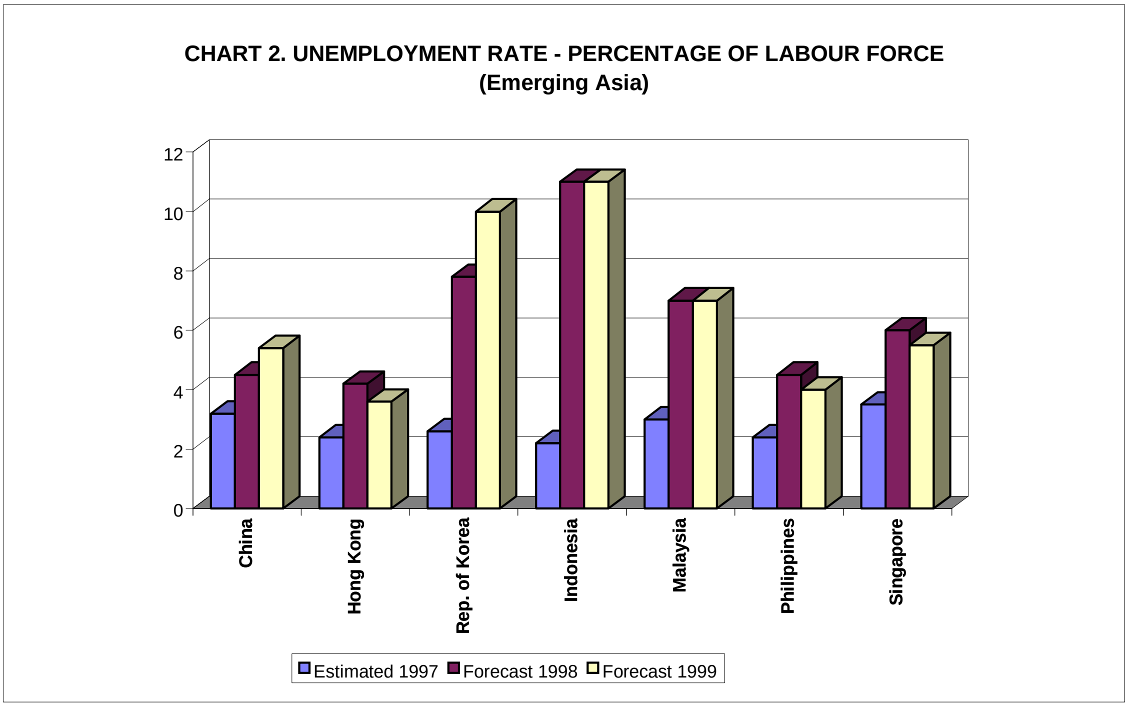




Source: IMF, J.P. Morgan

ANNEX II





Source: IMF, J.P. Morgan

ANNEX III

CHART 1. CONSUMER PRICE INDEX - ANNUALIZED RATES

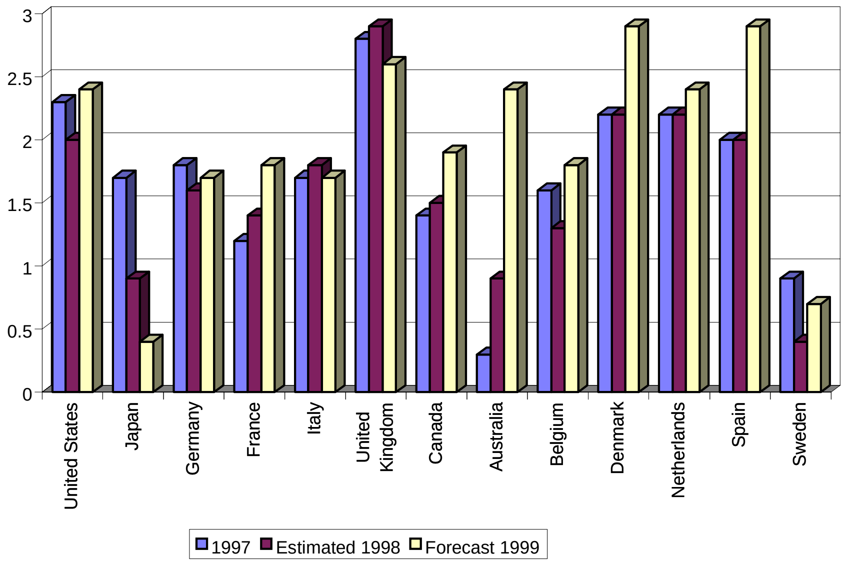
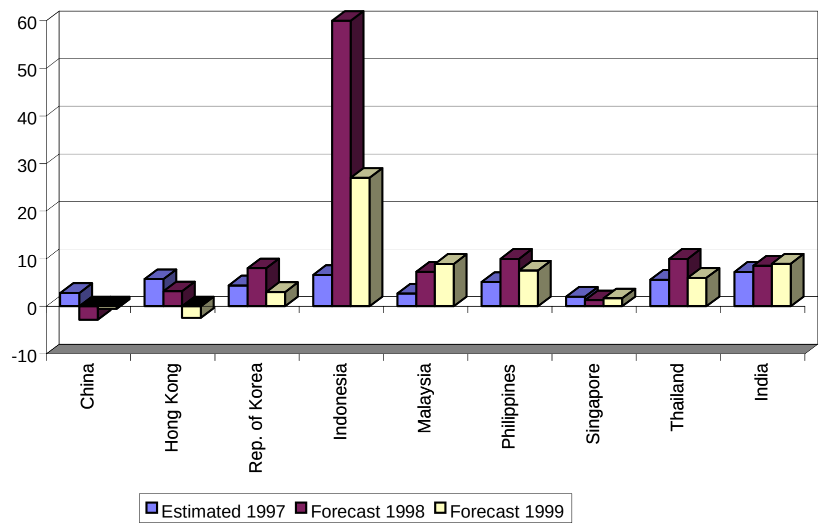


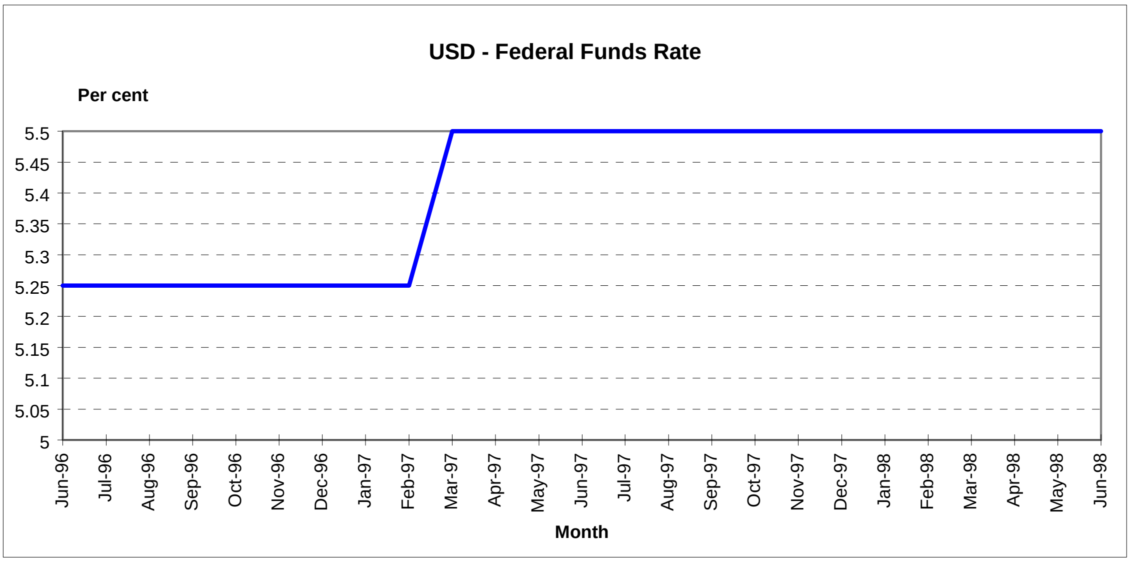
CHART 2. CONSUMER PRICE INDEX - ANNUALIZED RATES (Emerging Asia)

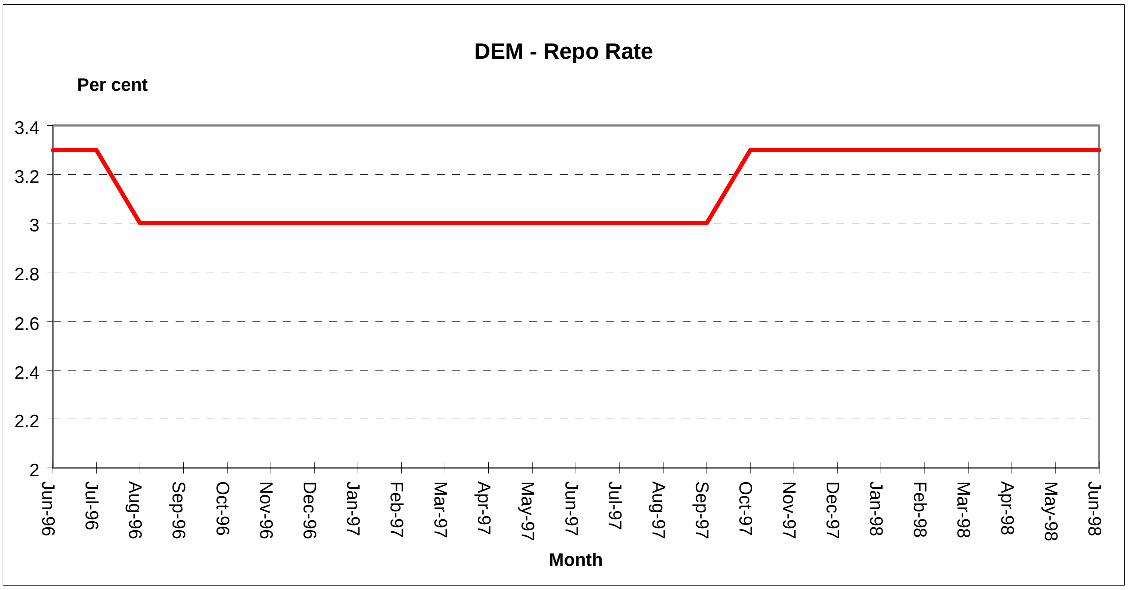


Source: IMF, J.P. Morgan

ANNEX IV

CENTRAL BANK AND GOVERNMENT-CONTROLLED INTEREST RATES

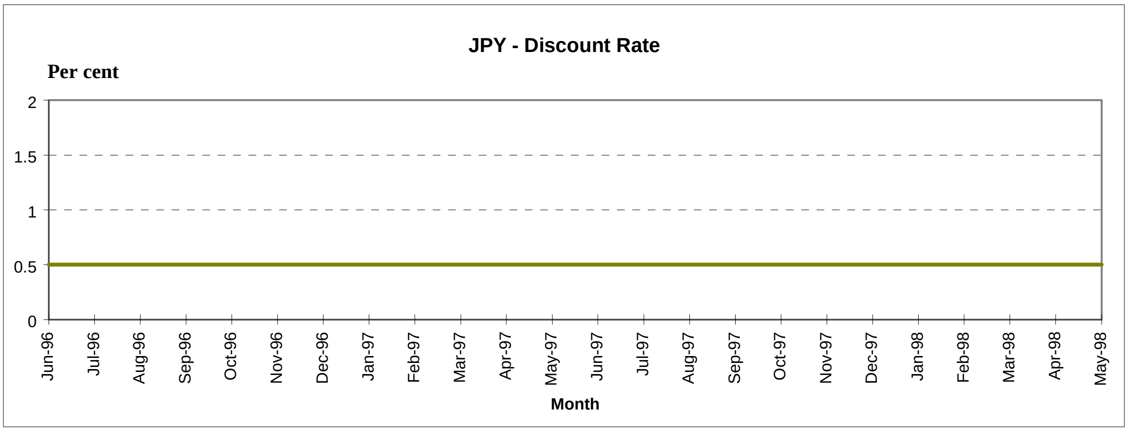


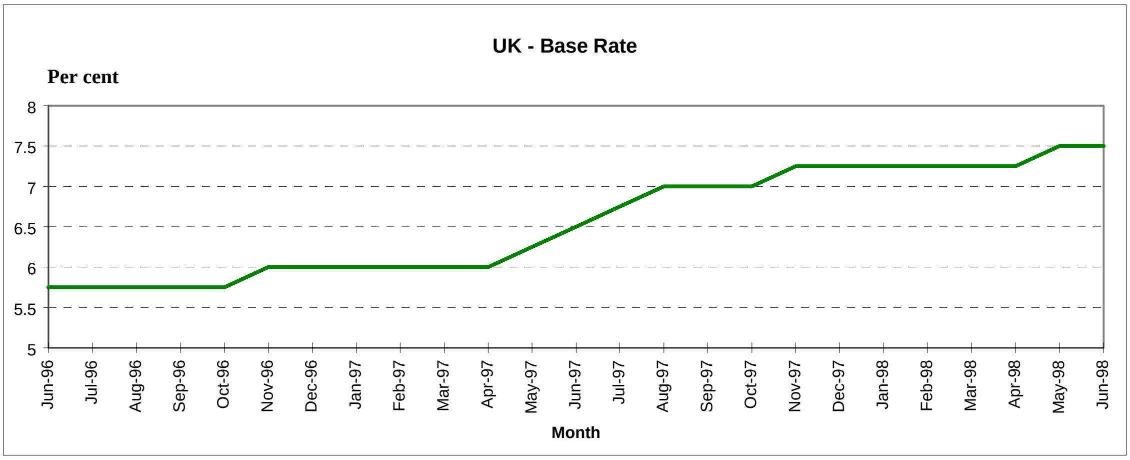


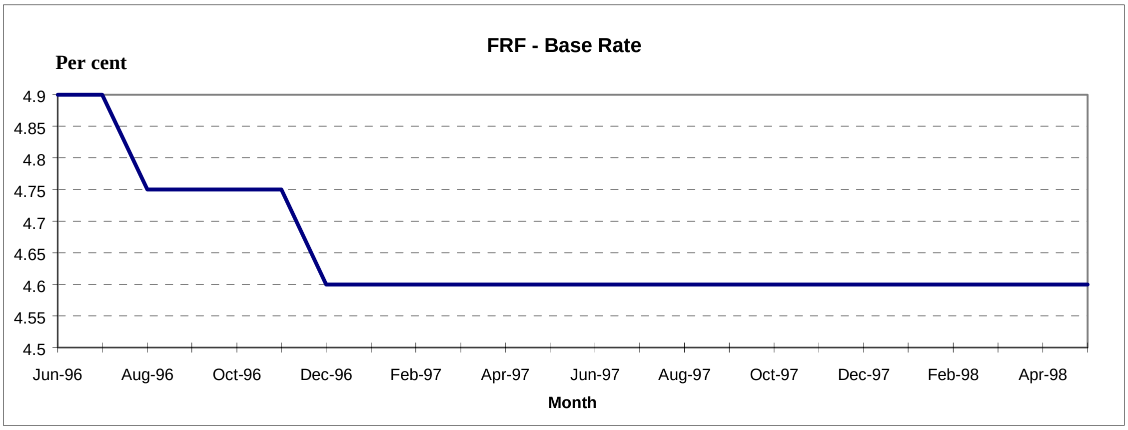
Source: Bloomberg Information Systems

ANNEX IV

CENTRAL BANK AND GOVERNMENT-CONTROLLED INTEREST RATES



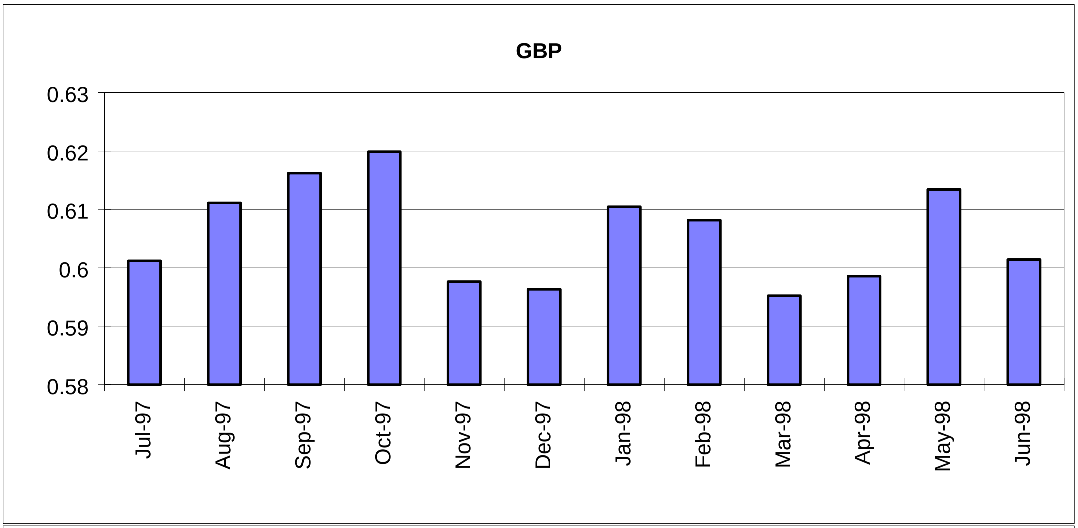


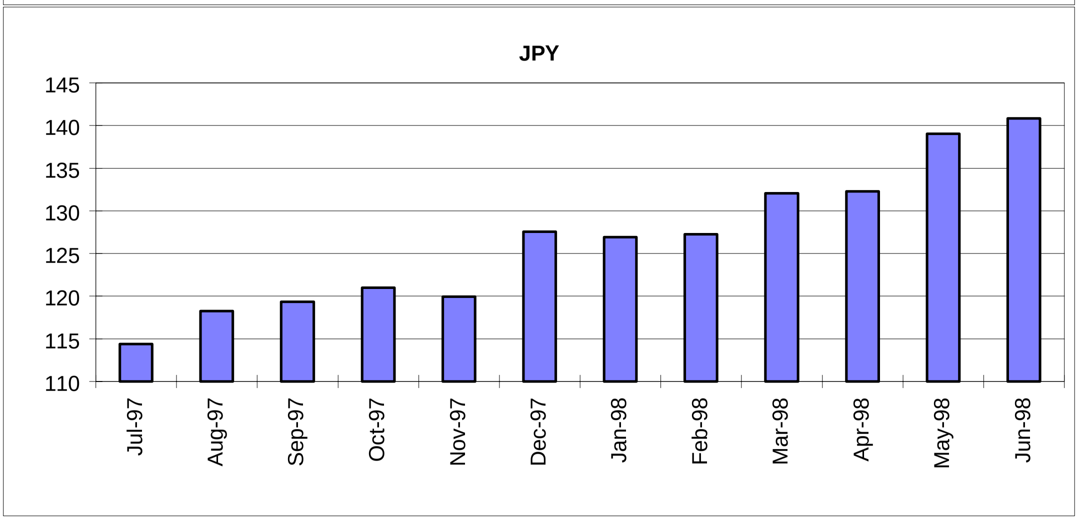


Source: Bloomberg Information Systems

ANNEX V

VALUE OF THE UNITED STATES DOLLAR AT IMF MONTH-END EXCHANGE RATES





Source: IMF

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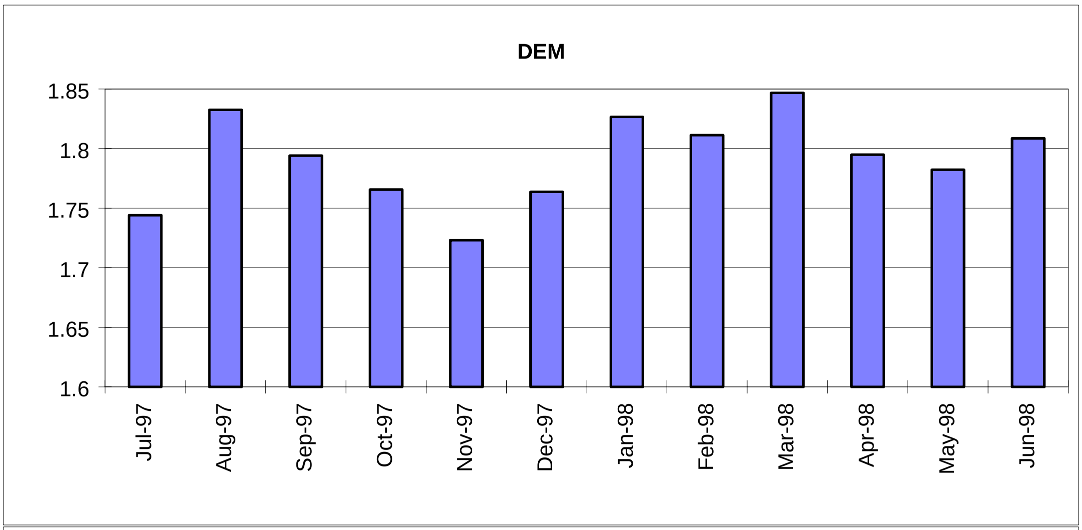
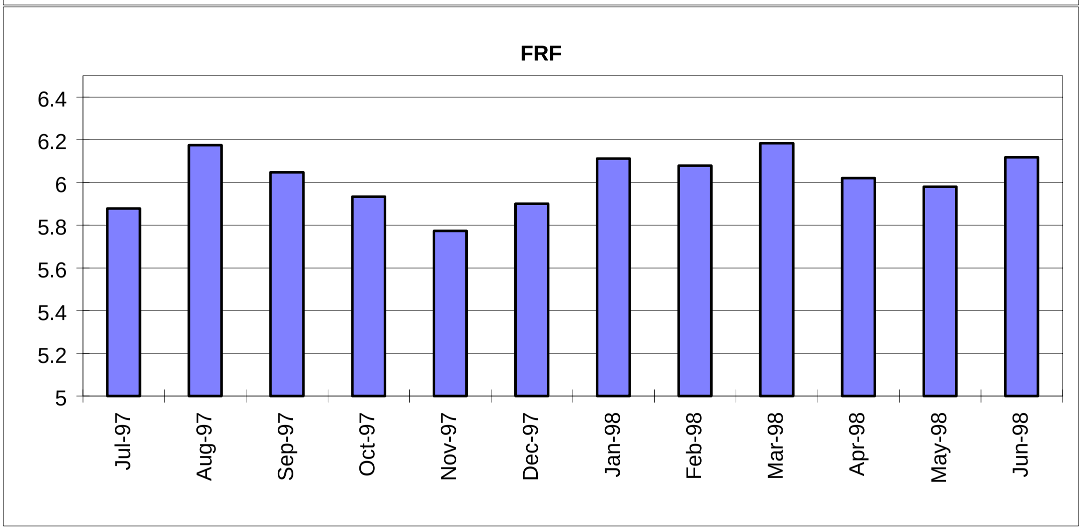
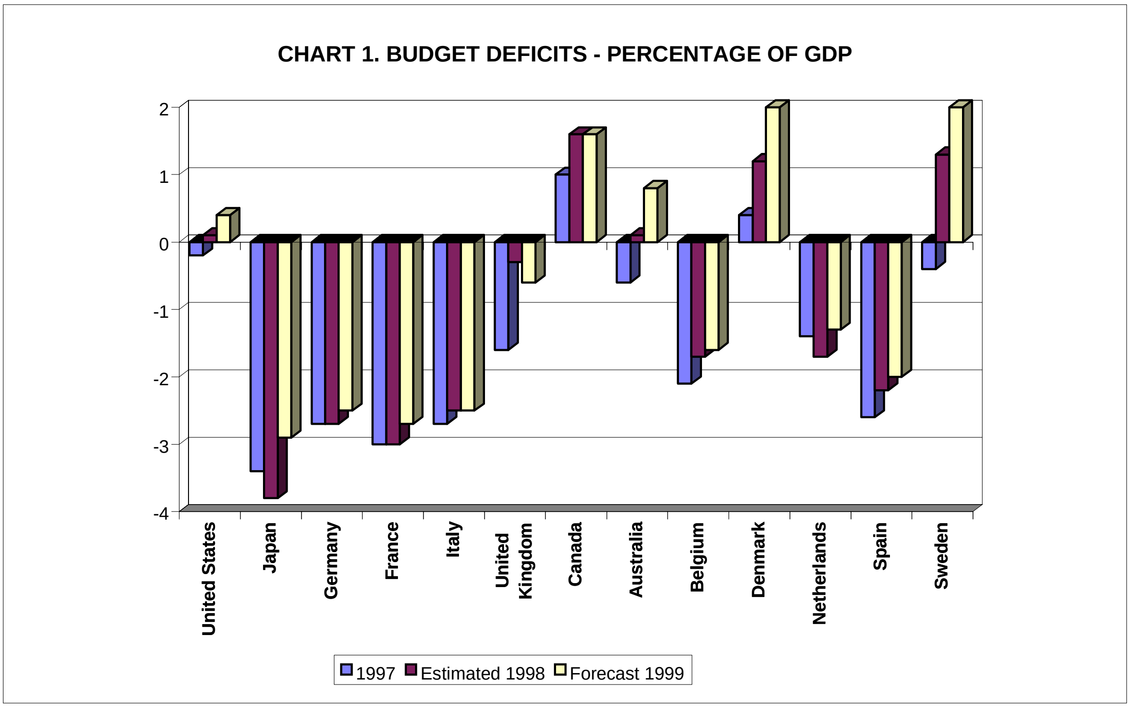
VALUE OF THE UNITED STATES DOLLAR AT IMF MONTH-END EXCHANGE RATES

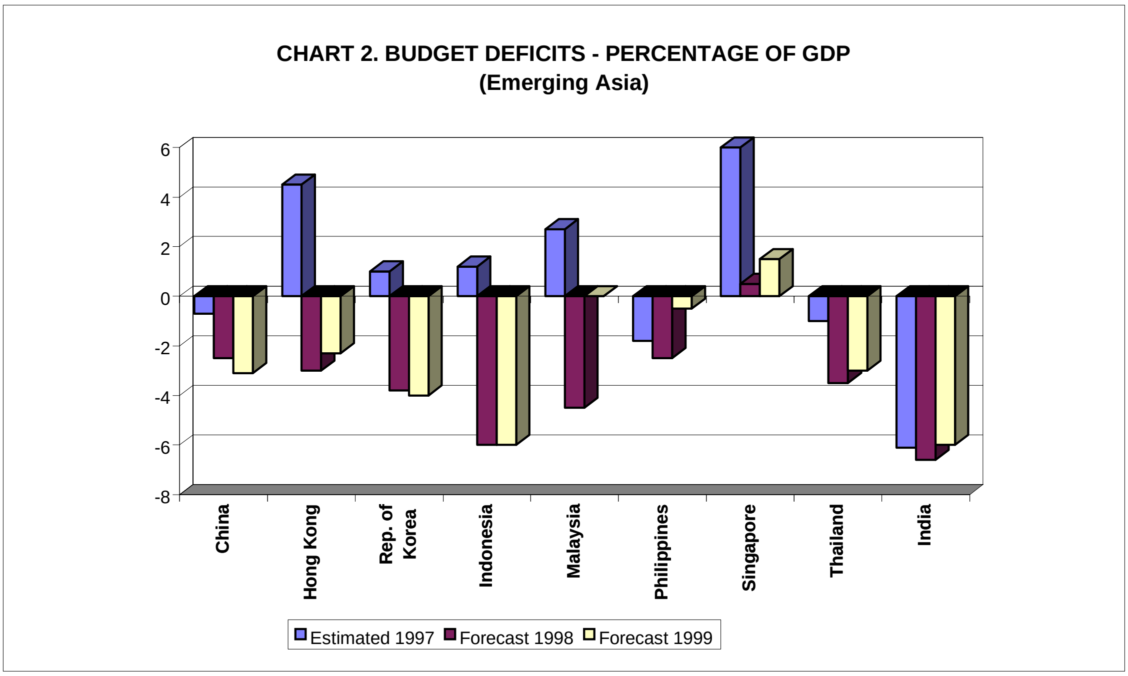




Source: IMF

ANNEX VI

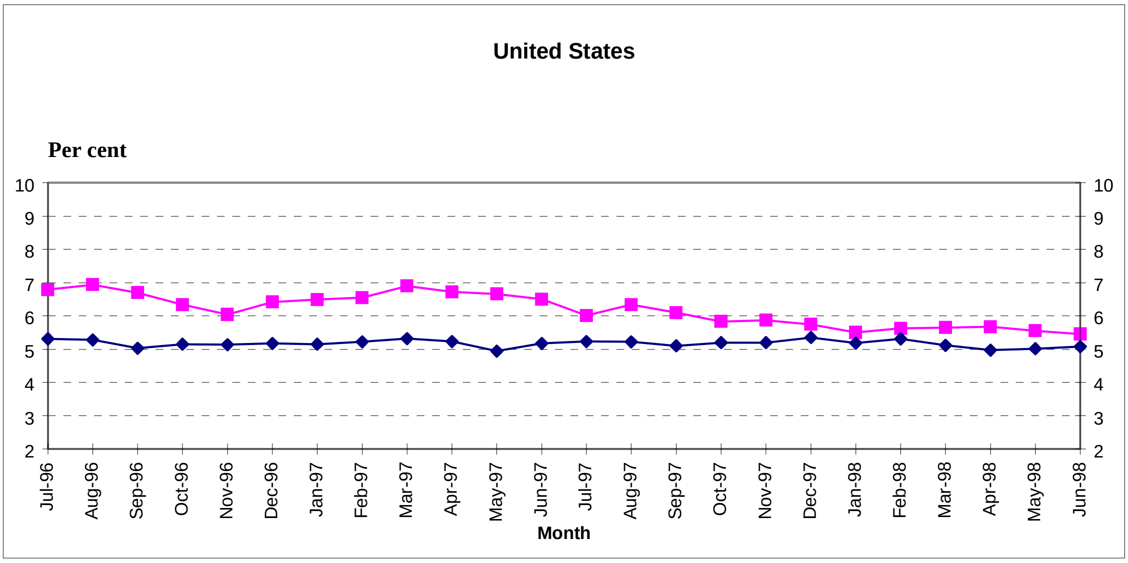


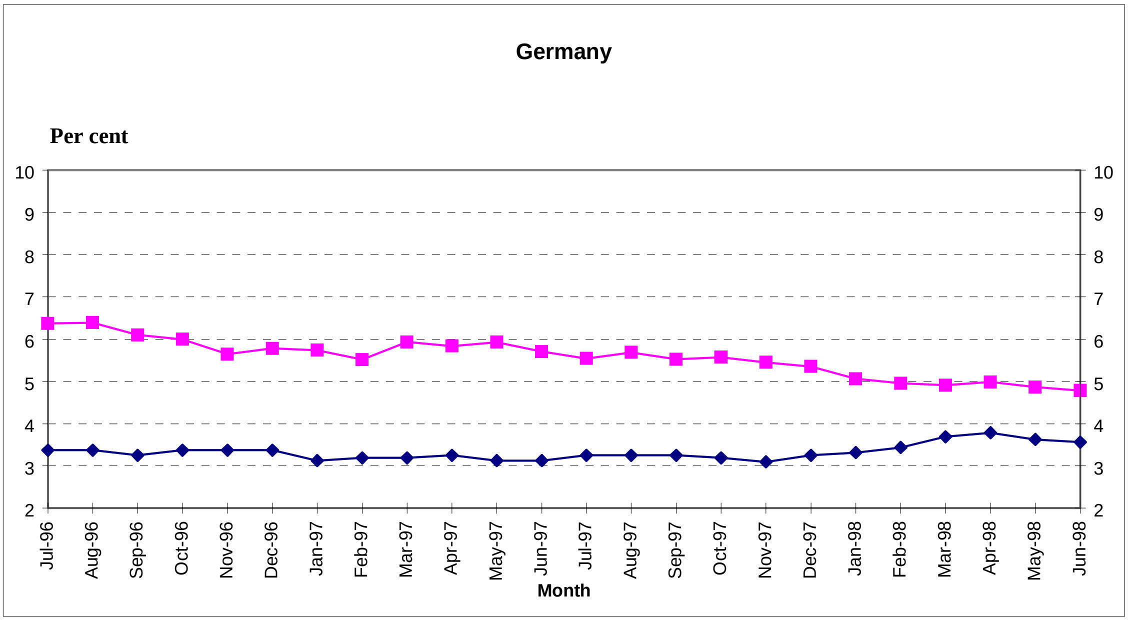


Source: IMF, J.P. Morgan

ANNEX VII

SHORT AND LONG-TERM INTEREST RATES

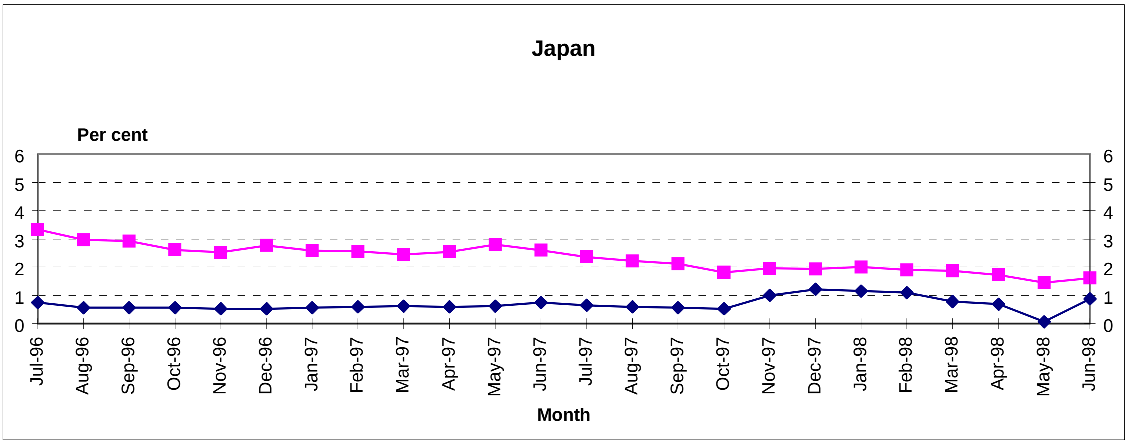


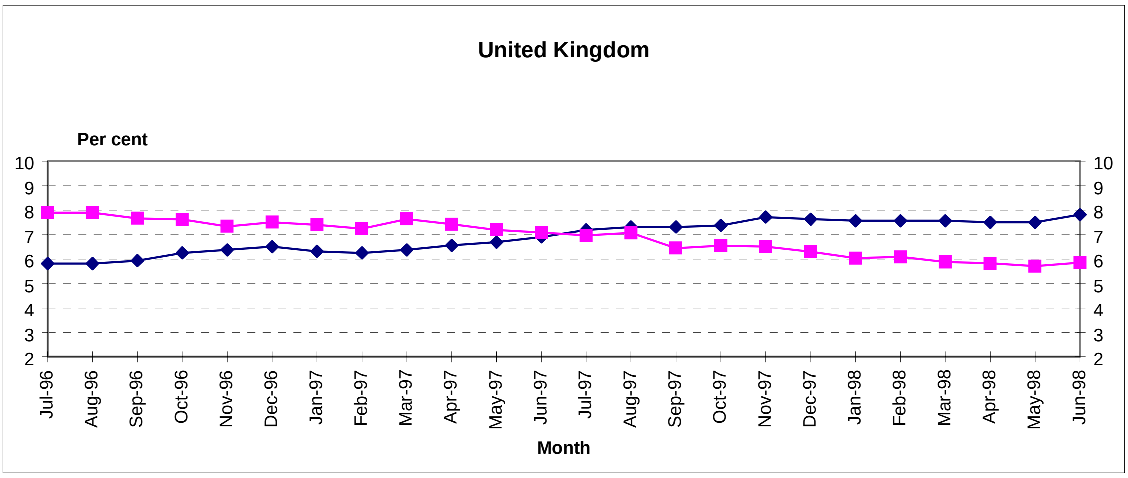


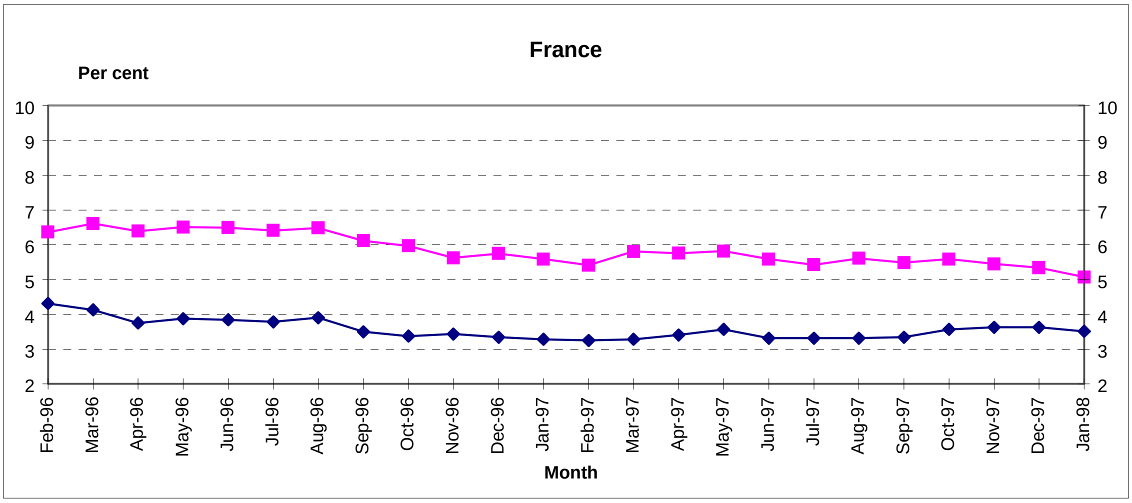
Source: Bloomberg Information Systems

ANNEX VII

SHORT AND LONG-TERM INTEREST RATES







3-month time-deposit rate
10-year bond rates

Source: Bloomberg Information Systems

ANNEX VIII

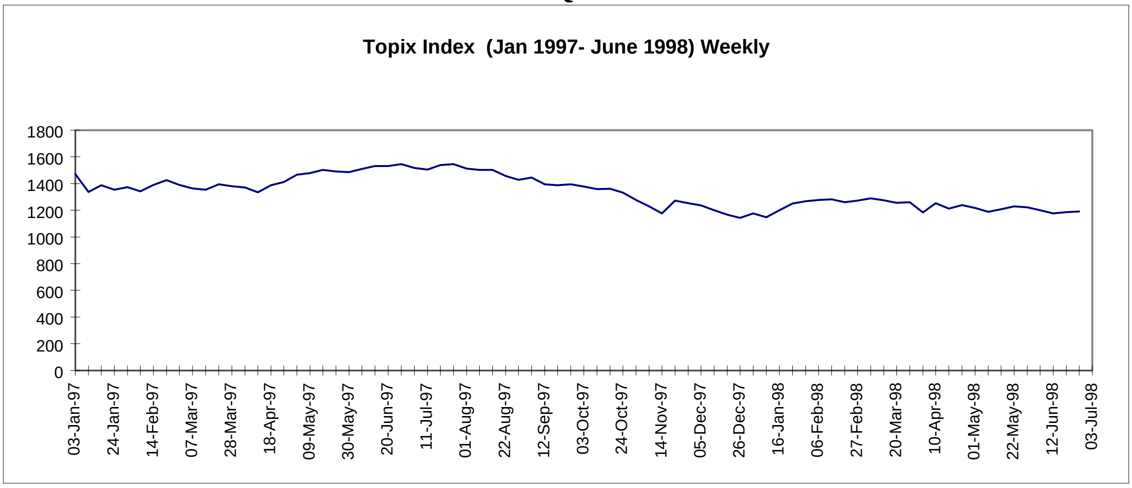
BOND MARKET RETURNS MEASURED
IN TERMS OF LOCAL CURRENCY
(per cent)

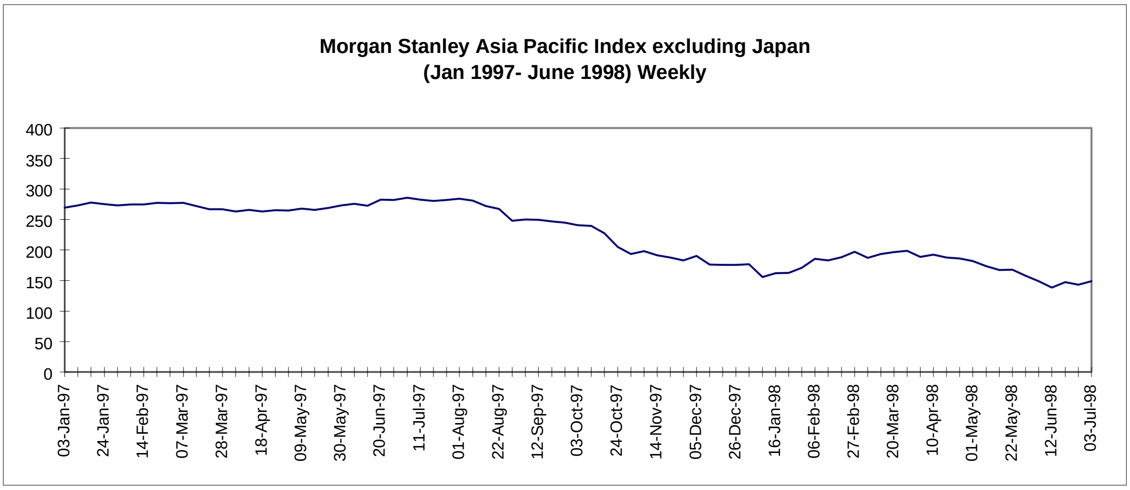
Currency	First QTR 1998	Second QTR 1998	Six months 1998	Twelve months 1997
USD	1.49	2.73	4.26	10.00
DEM	2.97	1.76	4.79	6.28
JPY	0.83	1.75	2.59	7.22
FRF	2.99	1.90	4.95	7.64
GBP	4.05	1.83	5.96	14.85
AUD	2.85	1.77	4.67	13.00
BEF	3.01	1.70	4.77	6.87
CAD	2.62	1.65	4.31	9.39
DKK	3.33	1.86	5.26	9.42
ITL	3.22	(1.78)	5.06	14.45
NLG	3.03	1.79	4.87	6.69
ESP	3.03	(1.65)	4.73	10.90
SEK	4.29	3.10	7.52	7.96
GLOBAL	**2.21**	**3.08**	**5.36**	**9.50**

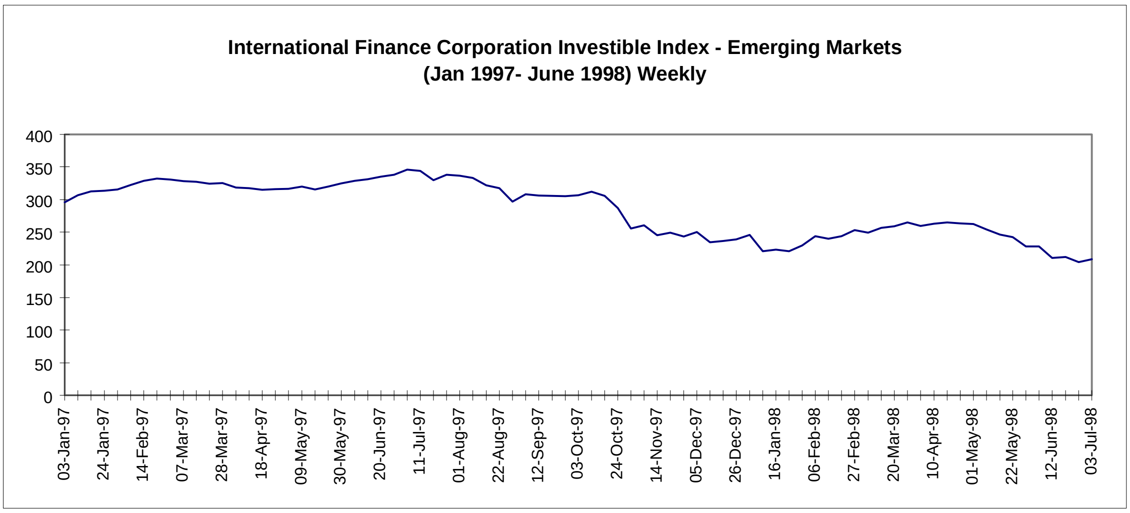
Source: J.P. Morgan

ANNEX IX

EVOLUTION IN EQUITIES MARKETS







Source: Bloomberg Information Systems

ANNEX X

OPTIONS AND FUTURES CONTRACTS
SIX MONTHS TO 30 JUNE 1998
(USD '000 equivalent)

Type of Future	Number of Trades	Opening Value	Closing Value	Gain/(Loss)
Buy	-	-	-	-
Sell	2	1 620	1 634	(14)
Total	2	1 620	1 634	(14)

ANNEX XI

ANALYSIS OF CASH FLOWS
(USD ’000 equivalent)

	Six Months to 30 June 1998	Twelve Months to 31 December 1997
Balance at 1 January	2 150 730	2 182 223
Investment income	54 757	163 940
Other inflows:		
Loan income received	21 207	43 014
Loan principal repayments	62 294	115 618
Encashment of promissory notes	33 615	122 499
Contributions received in cash	1 934	18 244
	119 050	299 375
Outflows:		
Loan disbursements	(140 000)	(259 808)
Grant disbursements	(10 000)	(21 569)
Payment of administrative expenses	(24 935)	(44 311)
Miscellaneous	(2 941)	(12 900)
	(177 876)	(338 588)
Effect of movements in exchange rates	(21 407)	(156 220)
Balance at end of period	2 125 254	2 150 730

ANNEX XII

COMPOSITION OF THE INVESTMENT PORTFOLIO

(USD '000 equivalent)

Type of Instrument	30 June 1998		31 December 1997	
	Amount	%	Amount	%
Freely-convertible Currencies				
Cash	91 079	4.29	74 359	3.45
Time deposits	213 116	10.03	279 748	13.01
Treasury bills	1 677	0.08	1 709	0.08
Bonds at market value	1 709 866	80.45	1 659 213	77.15
Equities at market value	195 361	9.19	108 748	5.06
	2 211 099	104.04	2 123 777	98.75
Open Trades				
Receivable for bonds sold	41 098		4 427	
Payable for bonds bought	(162 930)		(19 253)	
	(121 832)	(5.74)	(14 826)	(0.69)
Spot currency purchases	582		15 856	
Spot currency sales	(586)		(15 927)	
	(4)	(0.01)	(71)	(0.01)
Forward currency purchases	753 706		820 070	
Forward currency sales	(754 243)		(817 270)	
	(537)	(0.02)	2 800	0.13
Futures at cost	1 620			
Futures at market value	(1 634)			
	(14)	(0.01)		
Other Receivables				
Accrued interest	34 870		37 959	
Dividends receivable	596		46	
	35 466	1.69	38 005	1.77
Total Freely-convertible Currencies	**2 124 178**	**99.95**	**2 149 685**	**99.95**
Non-convertible Currencies				
Cash	566		537	
Time deposits	510		508	
Total Non-convertible Currencies	**1 076**	**0.05**	**1 045**	**0.05**
Grand Total	**2 125 254**	**100.00**	**2 150 730**	**100.00**

COMPOSITION OF THE EQUITIES PORTFOLIO BY SECTOR
AT 30 JUNE 1998
(USD '000 equivalent)

	Japan		Asia & Australasia (excluding Japan)		Emerging Markets		Total	
	Number of Stocks	Amount	Number of Stocks	Amount	Number of Stocks	Amount	Amount	%
Basic industries	9	5 096	1	721	20	5 609	11 426	5.8
Capital goods	12	11 806	1	1 477	12	2 224	15 507	7.9
Consumer basics	3	5 152	4	3 641	12	2 147	10 940	5.6
Consumer durables	8	17 949			5	1 762	19 711	10.1
Consumer non-durables	6	11 630	3	5 874	9	941	18 445	9.4
Consumer services	2	1 624	2	788	8	1 329	3 741	1.9
Energy	1	892	3	3 340	7	2 824	7 056	3.6
Finance	7	8 543	9	9 518	25	8 662	26 723	13.7
General business	4	8 306	4	7 063	5	686	16 055	8.2
Miscellaneous	2	1,122	16	15 830	65	10 267	27 219	13.9
Shelter	2	1 227			8	2 836	4 063	2.1
Technology	6	7 913			3	451	8 364	4.3
Transportation	4	4 096			4	496	4 592	2.4
Utilities			13	14 658	14	6 861	21 519	11.0
Total	66	85 356	56	62 910	197	47 095	195 361	100.0

CURRENCY COMPOSITION OF THE PORTFOLIO AT 30 JUNE 1998
(USD '000 equivalent)

Currency	Cash	Time Deposits	Treasury Bills	Bonds	Equities	Open Trades	Accrued Interest	Dividends Receivable	Overall Portfolio
USD	68 237	172 791	-	702 617	17 432	-42 613	12 392	235	931 091
JPY	4 163	12 898	851	86 367	85 356	23 831	1 047	29	214 542
GBP	7 196	-	-	253 515	-	-26 319	3 232	-	237 624
Subtotal	79 596	185 689	851	1 042 499	102 788	-45 101	16 671	264	1 383 257
DEM	2 272	-	826	263 895	-	9 982	8 483	-	285 458
ESP	548	-	-	12 977	-	-	240	-	13 765
FRF	2 150	-	-	106 153	-	-63 325	2 568	-	47 546
ITL	2 380	756	-	48 845	-	21 601	1 113	-	74 695
NLG	1 068	-	-	19 951	-	-	538	-	21 557
XEU	-	-	-	3 036	-	-3 040	151	-	147
Subtotal	8 418	756	826	454 857	-	-34 782	13,093	-	443 168
ARS	-	-	-	-	-	-	-	15	15
AUD	263	-	-	53 905	27 058	-43 655	865	54	38 490
CAD	232	12 683	-	31 058	-	5 894	234	-	50 101
CNY	11	-	-	-	947	-	-	7	965
DKK	421	4 851	-	77 451	-	-5 539	2 901	-	80 085
HKD	-89	-	-	-	22 435	-14	-	125	22 457
HUF	33	-	-	-	2 721	-	-	-	2 754
IDR	-15	-	-	-	1 989	13	-	-	1 987
KRW	38	-	-	-	4 230	-568	-	14	3 714
MXN	51	-	-	-	-	1 593	-	-	1 644
MYR	26	-	-	-	7 147	-	-	48	7 221
NZD	42	-	-	1 908	3 050	-1 935	58	-	3 123
PHP	1	-	-	-	3 403	-	-	1	3 405
SEK	1 288	9,137	-	48 128	-	1 517	1 048	-	61 118
SGD	61	-	-	-	6 642	-	-	33	6 736
SKK	-	-	-	-	100	-	-	2	102
THB	233	-	-	-	6,524	190	-	-	6 947
TRL	26	-	-	-	144	-	-	-	170
ZAR	443	-	-	60	6 183	-	-	33	6 719
Subtotal	3 065	26 671	-	212 510	92 573	-42 504	5 106	264	297 753
NCC	566	510	-	-	-	-	-	-	1 076
Grand Total	**91 645**	**213 626**	**1 677**	**1 709 866**	**195 361**	**-122 387**	**34 870**	**596**	**2 125 254**

ANNEX XV

CURRENCY COMPOSITION OF THE INVESTMENT PORTFOLIO, HOLDINGS OF PROMISSORY NOTES, AND AMOUNTS RECEIVABLE FROM CONTRIBUTORS AT 30 JUNE 1998

(USD ’000 equivalent)

Currency	Cash and Investments	Promissory Notes	Contributions Receivable	Total
USD	931 091	169 014	52 990	1 153 095
JPY	214 542	38 235	20 522	273 299
GBP	237 624	27 467	15 060	280 151
Subtotal	1 383 257	234 716	88 572	1 706 545
ATS	-	5 895	3 911	9 806
BEF	-	17 637	-	17 637
DEM	285 458	14 635	21 456	321 549
ESP	13 765	-	-	13 765
FIM	-	5 603	1 820	7 423
FRF	47 546	41 291	14 933	103 770
IEP	-	-	478	478
ITL	74 695	-	18 964	93 659
LUF	-	317	227	544
NLG	21 557	27 980	-	49 537
PTE	-	429	421	850
XEU	147	-	-	147
Subtotal	443 168	113 787	62 210	619 165
ARS	15	-	-	15
AUD	38 490	8 194	-	46 684
CAD	50 101	17 683	12 362	80 146
CHF	-	14 323	-	14 323
CNY	965	-	-	965
DKK	80 085	30 346	-	110 431
HKD	22 457	-	-	22 457
HUF	2 754	-	-	2 754
IDR	1 987	-	-	1 987
KRW	3 714	-	-	3 714
MXN	1 644	-	-	1 644
MYR	7 221	-	-	7 221
NOK	-	5 216	10 200	15 416
NZD	3 123	1 256	-	4 379
PHP	3 405	-	-	3 405
SEK	61 118	31 463	-	92 581
SGD	6 736	-	-	6 736
SKK	102	-	-	102
THB	6 947	-	-	6 947
TRL	170	-	-	170
ZAR	6 719	-	-	6 719
Subtotal	297 753	108 481	22 562	428 796
NCC	1 076	2 688	-	3 764
Grand Total	2 125 254	459 672	173 344	2 758 270

INTERNATIONAL STANDARDS ORGANIZATION CURRENCY CODES

ARS	Argentine peso	JPY	Japanese yen
ATS	Austrian schilling	KRW	Republic of Korea won
AUD	Australian dollar	LUF	Luxembourg franc
BEF	Belgian franc	MXN	Mexican peso
CAD	Canadian dollar	MYR	Malaysian ringgit
CHF	Swiss franc	NLG	Netherlands guilder
CNY	Chinese yuan renminbi	NOK	Norwegian krone
DEM	Deutche mark	NZD	New Zealand dollar
DKK	Danish krone	PHP	Philippine peso
ESP	Spanish peseta	PTE	Portuguese escudo
FIM	Finnish markka	SEK	Swedish krone
FRF	French franc	SGD	Singapore dollar
GBP	British pound sterling	SKK	Slovac koruna
HKD	Hong Kong dollar	THB	Thai baht
HUF	Hungarian forint	TRL	Turkish lira
IDR	Indonesian rupiah	USD	United States dollar
IEP	Irish pound	XEU	European currency unit
ITL	Italian lira	ZAR	South African rand

ANNEX XVII

COMPOSITION OF THE PORTFOLIO BY MATURITY OF INVESTMENTS

(USD ’000 equivalent)

Period	**30 June 1998**		**31 December 1997**	
	Amount	**%**	**Amount**	**%**
Within 1 year	266 110	12.5	421 244	19.6
Within 2-5 years	482 235	22.7	512 816	23.8
Within 6-10 years	941 160	44.3	916 809	42.6
Over 10 years	240 388	11.3	191 113	8.9
No fixed maturity (equities)	195 361	9.2	108 748	5.1
Total	**2 125 254**	**100.0**	**2 150 730**	**100.0**

ANNEX XVIII

DIVERSIFICATION OF THE INVESTMENT PORTFOLIO BY COUNTRIES
(USD '000 equivalent)

30 June 1998

	Cash	Time Deposits	Bonds/ Treasury Bills	Equities	Other Assets	Total	%
Developed countries	89 694	182 606	1 611 993	115 464	(88 999)	1 910 758	89.9
Developing countries	1 385	30 510	60	79 897	1 818	113 670	5.4
International development institutions	-	-	99 490	-	1 336	100 826	4.7
Total	**91 079**	**213 116**	**1 711 543**	**195 361**	**(85 845)**	**2 125 254**	**100.0**

31 December 1997

	Cash	Time Deposits	Bonds/ Treasury Bills	Equities	Other Assets	Total	%
Developed countries	74 350	179 748	1 577 978	96 536	25 159	1 953 771	90.8
Developing countries	546	100 508	10 000	12 212	524	123 790	5.8
International development institutions	-	-	72 944	-	225	73 169	3.4
Total	**74 896**	**280 256**	**1 660 922**	**108 748**	**25 908**	**2 150 730**	**100.0**

ANNEX XIX

DEFINITIONS

Duration

1. Duration is the weighted average term-to-maturity of a security's cash flows.

2. Duration is commonly used by investors to estimate the change in value of a single security or of a whole portfolio relative to a change in bond yields. The greater the duration of a bond, the greater its price volatility.

Forward Contracts

3. A currency forward contract is an agreement for the future delivery of an amount of currency at a specified price at a designated time. Unlike futures contracts which are traded in organized changes, a forward contract is traded by direct contact between buyer and seller.

Futures Contracts

4. A futures contract is an agreement to buy or sell a specific amount of a bond or of a currency at a specific price at a designated time. Such contracts are traded in organized exchanges for standard lots.

Options

5. An option is a contract in which the seller of the option grants the buyer the right to purchase at a specified price and at a specified time. The seller grants this right to the buyer in exchange for a certain sum of money called the premium.

6. A call option gives the buyer the right to buy a specific amount of a bond or of a currency at a specified price. A put option gives the buyer the right to sell a specific amount of a bond or of a currency at a specified price. The buyer of an option has the right but not the obligation to exercise the option.

7. IFAD's investment guidelines only permit the use of exchange-traded options. Tailor-made or over-the-counter options may not be used.

Hedge

8. A hedge is the use of techniques and/or financial instruments to manage or reduce foreign exchange or market risk. Forward exchange contracts are normally used to limit exposure to foreign exchange risk. Losses incurred on forward exchange contracts offset higher levels of interest income earned through investing in markets other than that of the base currency, and are referred to as "hedging costs".

9. Futures and options contracts are normally used to manage market risk.

Leverage

10. Leverage or gearing is the effect of multiplying profits and losses on financial transactions by obligating more funds than one owns.