IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventy-First Session

Rome, 6-7 December 2000

IFAD DRAWDOWN POLICY AND ENCASHMENT SCHEDULES

Introduction

1. At its Twenty-Second Session in February 1999, the Governing Council established the Consultation to Review the Adequacy of the Resources Available to IFAD, which, during the course of its deliberations decided to review the Fund's drawdown policy. At its Seventieth Session in September 2000 the Executive Board discussed a proposal by the Secretariat to adopt a 100% drawdown policy and, while many Members supported such a policy, no consensus was reached. The Executive Board therefore requested management to review the experience of other organizations in this regard.

2. The drawdown policy stipulates the percentage of annual disbursements to be met from Members' contributions and that (the remainder) which is to be met from internally generated resources. The encashment of promissory notes is due at the time of each drawdown call; Members paying in cash often pay in advance of the drawdown calls, thus accelerating the rate of cash inflows to the Fund.

3. A higher percentage drawdown policy and/or accelerated payment schedules would help IFAD maintain its resource position in view of the relatively low level of the Fourth and Fifth Replenishments and, especially, the Fund's increased financial commitments due to its participation in both the initial and enhanced Heavily-Indebted Poor Countries Debt Initiative (HIPC DI). Commitments to the latter are currently estimated at a nominal value of USD 102 million. One Member State has made a complementary contribution for HIPC DI, amounting to USD 11 million equivalent.

Comparison of Drawdown Policies

4. The drawdown policy and encashment schedules of the following international financial institutions (IFIs), and of IFAD, are presented in the annex to this document:

- African Development Bank (AfDB)
- Asian Development Bank (AsDB)
- International Development Association (IDA)
- Inter-American Development Bank (IDB)
- IFAD.

5. AfDB, AsDB and IDB draw down 100% of their forecast net disbursement requirements or 100% of loan commitments, depending on their basis for drawdown. IDA draws down 60% from Members' contributions and 40% from internal resources. Under IFAD's present policy, 35% of annual disbursements is financed from Members' contributions and the remaining 65% is met from internally generated resources.

6. Two institutions – IDA and IDB – have a standard fixed payment schedule for drawdowns, which is established at the time of each replenishment. Both institutions recently initiated a procedure to encourage their Members to accelerate those schedules, largely due to the significant impact of the enhanced HIPC DI on their resources. AfDB recently changed its policy from a variable annual amount based on forecast net disbursement requirements to a fixed encashment schedule payable in three years. This change was instituted to increase the resources available in light of forecasted resource gaps. In the case of AsDB, the fixed payment schedule is based on loan disbursements plus a 20% cushion. However, based on a collective consensus to increase resource flows, its Members recently accelerated their payments.

IFAD's Experience

7. IFAD draws down funds as and when required, based on net disbursement needs that are forecasted annually. The Fund's forecast resource requirements are adjusted on a year-to-year basis; this flexibility is deemed preferable to a fixed-term policy given that IFAD is subject to external factors for items such as investment income, which could change significantly the amount of resources available in any one year.

8. IFAD's experience shows that a voluntary accelerated payment policy is not a viable solution except for the very short term.

9. Management has estimated the financial impact of three different drawdown policies, both in terms of the nominal value of amounts called and the estimated cashflow impact thereof. This is shown in the following table for the following scenarios:

- 35% mandatory policy;
- 100% mandatory policy;
- hybrid approach that combines a mandatory 35% policy plus an estimated half of members opting to accelerate their encashment schedules so as to bring them to the level of a 100% policy (based on interest expressed by individual members during recent meetings).

10. The table shows that the change from a 35% drawdown policy to one of 100% would accelerate the receipt of cash for the period 2001-2003 by an estimated USD 340 million. Moreover, based on forecast resource requirements, it would draw down completely the Third Replenishment in 2001, the Fourth Replenishment in 2002 and the Fifth Replenishment in 2003.

COMPARATIVE ESTIMATES OF DRAWDOWN POLICIES[1]

	Balance 31/12/99	2000 (actual)	2001	2002	2003	2004	2005	Total
35% Mandatory Policy								
Estimate of percentage drawdown[2]								
Third Replenishment	58.3	24.3	17.4					100.0
Fourth Replenishment			10.8	42.0	46.2	1.0		100.0
Fifth Replenishment[3]						37.2	39.2	76.4
100% Mandatory Policy								
Estimate of percentage drawdown[2]								
Third Replenishment	58.3	24.3	17.4					100.0
Fourth Replenishment			80.8	19.2				100.0
Fifth Replenishment[3]				80.0	20.0			100.0
Amount generated by drawdown in nominal value terms (USD million)[3]								
35% policy			137.4	153.2	168.6	175.0	180.3	814.5
of which: new cash to be received[4]			***106.0***	***120.7***	***126.6***	***138.2***	***141.1***	***632.6***
100% policy			392.5	437.8	92.0[5]			922.3
of which: new cash to be received[4]			***297.1***	***344.2***	***72.0***			***713.3***
Hybrid policy			268.8	290.0	126.6	89.4	92.2	867.0
of which: new cash to be received[4]			***192.0***	***260.4***	***112.9***	***58.4***	***58.1***	***681.8***
Based on: (USD million)								
Projected disbursements		366.5	392.5	437.8	481.8	500.0	515.0	
Value of Members' contributions at 31/12/99								
Third Replenishment		560.1	560.1					
Fourth Replenishment			364.8	364.8	364.8	364.8		
Fifth Replenishment (estimated)				460.0	460.0	460.0	460.0	

11. Taking account of the experience of other IFIs and in view of the diverse financial and legal situation of IFAD's Member States and the willingness of a large number of countries, who are in a position to do so, to financially support the 100% drawdown policy, it is recommended that the following drawdown and payment policy be adopted, i.e., that:

[1] The data for the Third and Fourth Replenishments are based on document EB 2000/69/R.7 presented to the Executive Board in May 2000 for the twenty-first drawdown of Members' contributions, with the exception of the actual percentage called in May 2000. Due to the changes in exchange rates between the estimates and the rates prevailing at the time of the drawdown, the estimated percentage of 22.11% was revised to 24.3%, bringing the cumulative percentage drawndown from the Third Replenishment to 82.6%.

[2] Future movements in exchange rates will impact, *inter alia*, the projected disbursements, the value of Members' contributions at the time of the drawdowns and the estimated percentage for the drawdown.

[3] Assumption made that no application is made of accelerated encashments against future drawdown calls.

[4] The new cash to be received at each drawdown has been estimated on the basis of a standard schedule modified where applicable for individual arrangements with Members, but will be affected by advance and delayed payments.

[5] Maximum resources available to drawdown from all replenishments to date.

- a mandatory 100% drawdown policy be adopted for all Members on a pro rata basis;
- where specific legal or financial restrictions apply (see paragraph 12), special arrangements for drawdown schedules be made for individual Members.

12. While the mandatory drawdown policy will be applied to all Members on a pro rata basis, the option of entering into individual schedules gives recognition to the fact that the cost of contributing to IFAD's resources varies between Member States. These special arrangements should not have an adverse effect on the operational needs of the Fund. Each Member is encouraged to accelerate its drawdown schedules to the extent possible, also taking account of its other commitments and costs of borrowing.

13. If approved, the proposed policy would be adopted with effect from 2001 and remain in force until changed within the context of the Sixth Replenishment, if so required, or until such time as callable resources are depleted.

14. The merits of this approach are multiple:

- the 100% policy aligns IFAD with the approach adopted by many other IFIs and, indeed, reverts back to the policy successfully applied by IFAD from 1979 until 1994 to manage its resource flows;
- the standard pro rata approach is in line with IFAD's statutes, which require that this policy be applied to all Members;
- the additional cash generated by a 100% policy would enable IFAD to increase its resources, which could be used to finance its commitments, for instance, its participation in enhanced HIPC DI; to maintain or increase its annual commitment level; or, possibly, to reduce future Replenishment requirements; and
- this change in policy would assist IFAD in its cash-flow planning and cash management;

Recommendation

15. Upon concluding its consideration of this item, the Executive Board may wish to adopt the following decision:

(i) the Executive Board adopts a policy for a 100% drawdown of Members' contributions on a pro rata basis;

(ii) Member States may enter into separate arrangements for payment schedules with IFAD. Such individual arrangements shall not affect adversely the operational needs of the Fund; and

(iii) the above-mentioned separate arrangements shall be formally agreed by Member States with IFAD on an individual basis prior to the Twenty-Fourth Session of the Governing Council in February 2001 so as to take effect for the next drawdown call in April 2001.

Institution	Drawdown Policy
AfDB – African Development Fund (AfDF)	From 1999 and the latest Replenishment period, AfDF-VIII, AfDF draws down contributions over three years, the length of the replenishment period, based on the donors' percentage burden share of the replenishment amount. All members are required to follow the same schedule, which is fixed at the beginning of the replenishment period. The annual amounts drawn down follow roughly the pattern of the forecast net outflows under the lending programme. In prior replenishments, the drawdown amount varied from year-to-year and was based on estimated net annual disbursements. The change in policy was made to accelerate encashments in order to augment resources available for replenishments.
AsDB – Asian Development Fund (AsDF)	Drawdown requirements are pro rated among all donors and made semi-annually. Under the new financial planning framework adopted in 1996, contributions for AsDF-VII, the latest replenishment, are encashed solely for meeting AsDF-VII loan disbursements. Contributions are made available for operational needs, and hence drawn down, over a four-year period. To facilitate donor budgetary planning, there is a fixed payment schedule over a ten-year period, agreed in advance, based on projected disbursement needs plus a 20% cushion. Certain Members have recently accelerated their payment schedules in view of the forecast "structural gap in donor funding". This acceleration of payments is projected to continue under the next replenishment. Use may be made of the enhanced advance commitment authority in the event resources are not available in any one year. Previously, drawdowns were based on the difference between the projected annual disbursements for all loans plus a cushion of 20%, and the available investment balance at the beginning of the year, consisting mainly of the previous year's loan repayments. Pre AsDF-VII contributions (AsDF-V and AsDF-VI) are being drawn down to meet disbursements of loans approved up to the end of 1996. This extends the remaining period of encashment from seven to 15 years.
IDA	Under IDA 12, the latest replenishment, 60% of commitments is drawn down from donors and 40% from internal resources. Payment schedules are established at the time of the negotiation of a replenishment and vary between replenishment. These schedules are based on forecast commitments and run concurrently with the period of the related loan disbursement requirements. This means that IDA may draw down against more than one replenishment in any one year. Under IDA 12, members have recently agreed to accelerate the payment schedules in order to enable resourcing of the enhanced HIPC DI. This acceleration has been made collectively by Members to the extent it was financially viable. Individual agreements have been accepted, although Members have been required where possible to achieve at least the present value of the standard payment schedule in order to maintain equity with other donors. On effectiveness of the replenishment, disclosure of these separate payment schedules was made for reasons of transparency.

Institution	Drawdown Policy
IDB	Payment schedules are fixed in equal instalments at the beginning of a replenishment and vary between replenishment, in general over 4-6 years (four years for its special operations facility (SOF) window) based on a flows analysis. No variations from the standard schedule are permitted. IDB is currently negotiating the acceleration of payments for its SOF window in the light of the gap in resources caused by enhanced HIPC DI commitments; Members are participating in this acceleration on a 'best efforts' basis.
IFAD	The drawdown policy of IFAD has changed on several occasions: • on the inception of IFAD, a 100% drawdown policy was adopted to allow IFAD to generate enough cash to cover its administrative expenses; • in following years, and since IFAD did not have sufficient experience to determine with enough accuracy the amount needed for disbursement of its loans, it was decided that the 100% drawdown should be maintained but that the drawdown call would be made twice-yearly; • in January 1995, the Governing Council endorsed the recommendation of the Special Committee on Resource Requirements and Related Governance Issues to draw down in the ratio of 65% from internally generated resources and 35% from Members' contributions; • in December 1996 and July 1997, a voluntary drawdown of 65% was called from Members. However, in view of increasingly limited action from Members, from 1998 onwards the President proposed only the mandatory drawdown of 35%; Members were strongly urged to voluntarily accelerate encashment of their promissory notes. A number of Member States used this opportunity to reach agreement on more flexible individual payment arrangements.