



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventy-Third Session
Rome, 12-13 September 2001

ADVANCE COMMITMENT AUTHORITY

I. INTRODUCTION

1. At the Seventy-Second Session of the Executive Board in April 2001, during discussion of the resources available for commitment, Member States requested that additional information be provided regarding the Advance Commitment Authority (ACA). This document first defines the ACA and reviews how this is used by other international financial institutions (IFIs). It then briefly describes the components of the resources of IFAD, which form the basis for the Fund's commitment authority. The ACA is only one of these components. Finally, this document provides a brief history of the ACA in IFAD and outlines the Fund's current policy and related procedures.

II. WHAT IS THE ACA?

2. The ACA provides an organization with the means to approve commitments for loans and grants in cases when its current resources are unavailable or insufficient. The concept of the ACA is based on the future flow of funds and the ability of an organization to meet disbursement requirements as they fall due. Under an ACA, future resources, if stable and predictable, can be committed in advance. This creates additionality of committable resources over the period in which the ACA is made available, i.e. it creates reserve committable resources. In the case of IFAD, while resources for the full amount of each loan are committed as soon as approved by the Executive Board, the funds are actually disbursed against the loans usually over a period of up to eight years, during which time cash resources from future inflows become available.

3. The ACA is an instrument that is commonly used either as a permanent feature of operations and financial planning (as in the case of other IFIs - see paragraphs 4-8 below) or as a temporary measure to smooth out short-term fluctuations in resource levels (as in the case of IFAD).



III. HOW THE ACA IS USED IN OTHER IFIs

4. Like IFAD, other IFIs, such as the International Development Association (IDA) of the World Bank and the Asian Development Fund (AsDF), have a combination of the following broad categories of resources available for commitment:

- donor contributions;
- internal resources (loan reflows, loan charges, investment income);
- accumulated surplus and reserves; and
- carry-overs from earlier replenishments.

5. Unlike IFAD, other major IFIs can also revert to borrowing and net income transfers from banking operations for resource needs.

6. IDA and AsDF follow commitment policies and practices that are broadly comparable. They share the following characteristics:

- the ACA permits them to operate at higher commitment levels than those based only on regular resources;
- the ACA is used as a long-term structural instrument for commitment authority on a continuing basis in the planning of their operations;
- the methods used for advance commitment involve constructing a cash flow forecast model based on various assumptions;
- projections are based on a 10-15 year period; and
- the ACA is used as a tool to maintain or determine liquidity levels.

7. **International Development Association.** IDA sets a multi-year operations objective and mandate, which is tied to a replenishment period. The Executive Directors approve a three-year commitment authority framework for each replenishment period. Advance commitment is approved on an annual basis in consideration of operational resource requirements and can be scaled back as necessary. At present, advance commitment accounts for about 40% of current commitment authority, and this percentage is expected to increase in future years. IDA has adopted an explicit policy to use the ACA to reduce liquidity over time, by disbursing more than it expects to receive from inflows.

8. **Asian Development Fund.** AsDF has been redesigned as a revolving fund. An expanded ACA (EACA) scheme has been introduced to manage its resources. Its resources are segregated into three pools, namely, the current replenishment pool, the post-replenishment pool and a non-donor resources pool. AsDF manages the resources in the non-donor pool through the EACA. This pool includes EACA loan reflows, savings and cancellations, investment and other income, and surpluses from past donor contributions. The methodology used in calculating the EACA determines the maximum amount of annual lending that can be sustained indefinitely without future disbursement requirements on such loans exceeding the projected reflows, and without the liquidity falling below a minimum limit. It sets its EACA at 85% of projected loan reflows and establishes a minimum liquidity level. This means that disbursements will never exceed inflows.

IV. IFAD'S RESOURCES

9. Article 4.1 of the Agreement Establishing IFAD states that the resources of the Fund shall consist of:

- initial contributions;
- additional contributions;
- special contributions from non-Member States and other sources; and
- funds derived or to be derived from operations or otherwise accruing to the Fund.

10. IFAD's resources available for commitment are defined by Regulation IV, paragraph 1, of the Financial Regulations of IFAD, which states:

“The resources of the Fund shall consist of contributions received by the Fund and the funds derived or to be derived from operations or otherwise accruing to the Fund in accordance with Article 4.1 of the Agreement.”

11. Until 2001, IFAD's resources comprised a pool of funds drawn from three principal sources: contributions; investment income net of administrative expenses; and loan reflows. In recent years, with the exception of 2000, these three categories of flows were of about equal proportion. From 2001, the ACA also forms part of the pool of resources.

12. The Fund's Executive Board reviews a statement of resources available for commitment at every session to ensure that resources are available for commitment to be able to approve proposed loans and grants. The resources consist of specified assets and liabilities that are pooled to establish commitment authority. These assets and liabilities include cash and investments, eligible promissory notes and other receivables, less payables and accrued liabilities. To the extent that these resources have not already been committed for loans and grants, or set aside for the General Reserve, IFAD has the authority to commit these resources for operations.

13. In Resolution 100/XX, the Governing Council decided that:

“The Executive Board may, from time to time and having regard to the resources of IFAD available for commitment to loans and grants, including investment income net of administrative costs, employ an Advance Commitment Authority (ACA) in a prudent and cautious manner to compensate, year-by-year, for fluctuations in the resources available for commitment and to act as a reserve resource.”

This means that the ACA can be employed to serve as additional resources of the Fund, although only when regular resources are not available.

14. In recent years, the Fund has interpreted the level of resources available to be net of all commitments made to date, even where agreements for loans and grants have not been signed, but have been approved by the Executive Board. This is based on financial prudence, and also reflects the moral obligations of IFAD, which has given authority to the President through the Executive Board to conclude loan and grant agreements with borrowers/grantees, should all relevant conditions be satisfied.



V. IFAD AND THE ACA

History

15. At its Twentieth Session in February 1997, the Governing Council authorized the use of the ACA to allow the Fund to compensate for resource gap fluctuations. The ACA was initially approved for the period of the Fourth Replenishment and for an upper limit of USD 450 million.

16. With the adoption by the Governing Council on 31 July 2000 of Resolution 119/XXIV on the Fifth Replenishment, the ACA was extended until one year following the end of the Fifth Replenishment period, i.e. until 19 February 2005. The cumulative resource level available under the ACA is to be established by the Executive Board.

17. At the Seventy-Second Session of the Executive Board, the statement of resources available for commitment, prepared as at 31 March 2001, stood at USD 15.0 million, compared to approximately USD 84.6 million in loans and grants proposed for approval by the Executive Board. In order to be able to approve all loans and grants submitted for approval, the Board approved the use of up to USD 70.0 million under the ACA. This was the first time in the history of IFAD that the ACA was used.

Current Policy

18. The ACA allows the Fund to commit against future inflows when resources available for commitment are insufficient or not available to cover the proposed lending programme in any given period. The shortfall in available resources may arise in a particular period due to delays in the receipt of contribution payments under the Replenishment, volatility in the rate of return of investment income and/or delays in the receipt of payments and repayments under loans provided by the Fund.

19. At present, the ACA is intended for use only as a temporary measure. This means that when investment income, loan reflows and contributions are received, they are first used to cover ACA commitments. The ACA therefore acts as a short-term cushion that uses future inflows as a guarantee for its current commitments. The expectation is that such inflows and any other income will be in hand at the time that disbursements are required.

20. The ACA facility is currently used in periods in which regular resources are not sufficient, in order to carry on operating at the desired programme of work level.

21. A practical example showing the mechanism set up by IFAD management for the current use of the ACA is set out in the Attachment.

Procedures Governing the Responsibilities of the President, Executive Board and the External Auditor Regarding the ACA

22. The procedures for the use of the ACA, as contained in Attachment B to Resolution 119/XXIV of the Governing Council, require various parties to perform certain tasks, including the following:

23. **President.** The President shall ensure that mechanisms and procedures are established to show the level of the ACA used on each occasion, and to ensure that any ACA given is covered from subsequent inflows. He or she is required to report to the Executive Board on the status of resources available for commitment, including the management of the ACA.



24. **Executive Board.** The Executive Board shall decide the maximum amount that may be made available through the ACA during the Replenishment period and approve the total resource commitment to be made through the ACA at each session of the Executive Board. It shall ensure that the amount available for commitment under the ACA remains within the limits of financial prudence.

25. **External auditor.** The use of the ACA is to be reviewed by the external auditor and his or her findings shall form part of the regular audit of the financial statements of the Fund.

26. The contents of a draft of this document including the reporting mechanisms set up by management for the ACA have been discussed with IFAD's external auditor, PricewaterhouseCoopers. Based on his review, the external auditor has provided the following comment:

“Following your request, we have reviewed (this document) including the reporting mechanisms proposed by management for the Advance Commitment Authority (ACA). We consider the proposed reporting format and mechanisms to be reasonable for determining the level of ACA used and required in respect of the general procedures for the use of ACA as laid down in Resolution 119/XXIV of the Governing Council.”

PRACTICAL EXAMPLE OF THE USE OF THE ACA

Premise

1. At 31 March 2001 the net resources available for commitment totalled about USD 15 million. Loans and grants presented for commitment at the April 2001 Executive Board totalled some USD 85 million. The Executive Board authorized an ACA of up to USD 70 million.
2. In the period 1 April to 30 June 2001, loan reflows totalled USD 49 million; Members' contributions totalled USD 1 million; investment income totalled USD 38 million and others (e.g. administrative expenses) totalled USD 15 million.
3. Loans and grants presented for commitment at 30 June 2001 at the next Executive Board total USD 142 million.

Calculation of net resources available for commitment at 30 June 2001

4. A calculation is made to assess the level of resources at 30 June 2001, as follows:

	USD million
Resources available at 31 March 2001	15
Less: new loans and grant commitments approved at April 2001 Executive Board	(85)
	(70)
Plus: ACA approved at April 2001 Executive Board	<u>70</u>
Resources balance updated	-
Plus: Loan reflows received in the period (April-June 2001)	49
Plus: Members' contributions received in the period (April-June 2001)	1
Plus: Investment income in the period (April-June 2001)	38
Less: Others (e.g. administrative expenses) in the period (April-June 2001)	(15)
	73
Less: inflows used to cover commitments made under ACA	(70)
Total resources at 30 June 2001	<u>3</u>

5. Loan reflows, contributions and investment income are set first against ACA commitments.
6. A calculation is then made to assess whether the resources at 30 June 2001 are sufficient to be able to approve the loans and grants presented for commitment (USD 142 million). In the case above, resources available are insufficient therefore the ACA is required to cover the shortfall.

Analysis of the ACA

7. Analysis of the ACA is therefore as follows:

	Resources Inflows (USD million)	ACA Balance (USD million)
The ACA approved and used in the period		(70)
Total inflows in the period (April-June 2001)	73	
Of which: used to cover the ACA	(70)	<u>70</u>
Inflows available to approve future commitments	<u>3</u>	
Commitments made under the ACA carried forward at 30 June 2001		<u>-</u>