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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eightieth Session

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ASSET LIABILITY MANAGEMENT REVIEW

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ABBREVIATIONS, ACRONYMS AND GLOSSARY

ACA	Advance Commitment Authority
AsDB	Asian Development Bank
ADF	Asian Development Fund (part of the Asian Development Bank)
AfDB	African Development Bank
ALM	Asset Liability Management
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
FSO	Fund for Special Operations (of the Inter-American Development Bank)
IAC	Investment Advisory Committee (of IFAD)
IBRD	International Bank for Reconstruction and Development (World Bank Group)
IDA	International Development Association (World Bank Group)
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFIs	International Financial Institutions
IOC	Instrument of Contribution
LIBID	London Inter-Bank Bid Rate
LIBOR	London Inter-Bank Offered Rate
SDR	Special Drawing Right

Term Structure Risk	Financial risks that result when the timing and/or final maturity of cash flows (i.e. principal and interest) between assets and their funding liabilities do not match.
Currency Risk	The risk that the value of an institution's assets could change relative to the value of its liabilities because the currency composition of the assets is different from the currency composition of the liabilities. For instance, if an institution's assets were denominated solely in euros and its liabilities solely in United States dollars, a change in the exchange rate of the euro versus the dollar would have an effect on the relative value of the institution's assets and liabilities. If the institution were forced to liquidate its assets to pay off its liabilities, it would face the risk that the value of its assets, after the exchange rate change, would not be sufficient to pay off the liabilities.
Liquidity Risk	The risk of being unable to meet financial commitments, which includes the risk of being unable to liquidate an investment holding in a timely manner at market price (i.e. liquidation risk) as well as the risk of having a large percentage of an asset class invested in a specific security (i.e. concentration risk).
Credit Risk	The risk that the credit perception and/or rating of a particular security may change, thus affecting its market value. This risk encompasses the investment portfolio, the loan portfolio and Members' contributions.

	Investment portfolio credit risk exposure could result from the default or downgrading either of the obligor/issuer of a security or of counterparties to investment transactions such as foreign exchange and time deposits. Loan portfolio risk is the risk resulting from default of a borrower. IFAD has various policies in place to protect itself against loan default. Member State credit exposure exists when Members' contributions remain overdue.
Market Risk	The risk that the market price of a financial instrument may change due to a change in the factors used to determine its market value. Market price reflects all the components (e.g.. credit risk, etc.) that the market believes are relevant in determining the price of a security.
Resources	The resources of IFAD are all the contributions received by it plus the funds derived or to be derived from operations or otherwise accruing to it in accordance with Article 4.1 of the Agreement Establishing IFAD (IFAD Financial Regulation IV).
Committable Resources	Committable resources include only the actual payments received in the form of cash or promissory notes. The value of Instruments of Contributions against which payment in the form of cash or promissory notes has not yet been made will be excluded from committable resources (paragraph 15(b)i), EB 1988/34 Minutes).
Value at Risk	Value at Risk (VaR) is a commonly used statistical methodology for estimating the maximum amount that could be lost over a certain time horizon, at a specified confidence level.

EXECUTIVE SUMMARY

1. The Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006)[1] recommended that IFAD management carry out a review in 2003 of the Fund's investment policy as it pertains to the security of investments, asset liability management and reporting to the Executive Board, with a view to bringing that policy into line with standards and principles used by other development lending institutions. It was specified that management carry out the review and that the output was to be an Executive Board paper for which the target date for presentation to the Executive Board was given as December 2003.

2. In terms of the Consultation Report, management has carried out a review of investments. In order to ensure both objectivity and the necessary competencies, the work was divided into the three following areas as approved by the Governing Council:

- review of investment security, which evaluated the adequacy of the system of internal controls in the investment area with the related operational risks of the investments (including custodial arrangement); this review is being presented to the Board in a separate document (document EB 2003/80/R.13);

- review of asset liability management, which reviews the asset liability management framework used by IFAD to manage exposure to financial risks by holding an appropriate combination of balance sheet assets and balance sheet liabilities in order to meet the Fund's financial objectives of preserving its capital and increasing investment returns, while lowering the volatility of returns and minimizing financial risks;

- the periodic reporting to the Executive Board, which is also addressed herein.

3. The documents that cover the above-mentioned three areas are:

(a) a paper on security of investments, containing a review carried out by external consultants (Madison Consulting Group) and management's response (document EB 2003/80/R.13);
(b) the present technical report (*Asset Liability Management Review)*, produced within IFAD (document EB 2003/80/R.14); and
(c) a paper supporting document EB 2003/80/R.14, entitled *Asset Liability Management – Background Information on Other International Financial Institutions (Background Information)*, which provides details of the comparison of IFAD with other international financial institutions in the area of asset and liability management.

4. The content of the first two main documents was discussed at the 11 November 2003 seminar on asset liability management and will be addressed again at the sessions of the Audit Committee and the Executive Board in December 2003. These two documents have been dispatched to the Executive Board, and the supporting document will be made available at the December meetings.

5. In working to achieve its overall vision to enable the rural poor to overcome their poverty, IFAD aims to maximize resources available to its borrowing Member States as efficiently as possible while maintaining the financial soundness of the Fund. The financial soundness of an organization is reflected in its balance sheet through the value of its assets, liabilities and equity, and an asset liability management review is a means of reviewing exposure to financial and operational risks that might affect this financial soundness. Comparisons with other similar international financial institutions have been made in this report

[1] Enabling the Rural Poor to Overcome their Poverty: Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) (document GC 26/L.4).

and, where appropriate, alternative strategies have been suggested to manage IFAD's assets and liabilities more efficiently. It is important to note that any changes suggested herein relate to the management of IFAD's existing assets and liabilities. The report does not suggest any fundamental change in the asset or liability level.

6. The purpose of this report is to review IFAD's current management of its balance sheet assets (with an emphasis on investments) and balance sheet liabilities as a framework for mitigating financial risks, to compare this to asset liability management at other international financial institutions, to make recommendations for improvement from an organizational, procedural and policy viewpoint, and to review IFAD's periodic reporting to the Executive Board.

Asset Liability Management Frameworks

7. The International Bank for Reconstruction and Development (IBRD) of the World Bank Group has a formal asset liability management (ALM) framework, as does its affiliate, the International Development Association (IDA). IDA is the only concessional lending arm of the larger international financial institutions reviewed that currently has a separate formal ALM framework. The Inter-American Development Bank, which has a formal ALM framework for its main operations, is also considering an ALM framework for its Fund for Special Operations. The Asian Development Bank is currently considering several ALM options, which may be implemented for its main operations as well as for the Asian Development Fund. IFAD's current management of its assets and liabilities is somewhat fragmented and, accordingly, this report recommends the formation of a separate ALM group within IFAD. By considering the establishment of a formal ALM framework, IFAD will bring itself in line with best practices and will be better able to achieve its ultimate goals.

Financial Risk Review

8. The major financial risks reviewed in this document are (refer to the glossary following the table of contents for definitions of each):

- term structure exposure
- currency risk exposure
- liquidity risk exposure
- credit risk exposure
- market risk exposure

9. IFAD has very little exposure to term structure risk in the traditional sense and is well covered against credit risk exposure. The areas of highest risk for IFAD are currency risk exposure and market risk exposure. The currency risk exposure exists to the extent that some of IFAD's external investment managers can take unhedged currency exposures and this report makes suggestions for eliminating such exposures. Market risk has been the risk to which IFAD has had the largest exposure in the past. The investment policy adopted in December 2001 – whereby, among other changes, the level of investment in equities was reduced from 45% to 10% – has contributed to reducing market risk. This report makes a further suggestion to reduce market risk by allocating a certain portion of the portfolio as 'held to maturity'.

10. Liquidity risk exposure for IFAD would exist only from over-concentration of liquid assets in any one country or security, and there are policies and procedures in place to ensure that this does not occur. Liquidity risk, in terms of being able to meet its financial commitments, is extremely small for IFAD inasmuch as the Fund maintains a highly liquid portfolio. IFAD's level of liquid assets is high in relation to its lending programme, compared with other international financial institutions. This report suggests an alternative strategy to better utilize IFAD's assets and, at the same time, increase funds available to borrower countries. This review proposes that IFAD can afford to, and in fact should aim to, reduce its level of liquidity.

11. The review of liquidity naturally led to a review of resource management within IFAD. The report concludes that, as part of the process of reducing liquidity, the assets considered in the current definition of 'committable resources' should be expanded to include not only cash, investments and contributors' promissory notes, but also contributors' Instruments of Contribution receivable as well as loan receivables. In this way, IFAD will be able to increase the level of resources available for commitment. It is important to note, however, that this would not change the level of IFAD's total assets. The financial model scenarios in section 4 demonstrate that expanding the definition of committable resources will result in the level of cash and investments being lower, while the level of loans receivable increases. This seems appropriate since IFAD is in the business of reducing poverty through lending to Member States rather than simply holding cash in the bank or investing its funds in the financial markets.

12. Recognizing that IFAD has adopted certain procedures under the Sixth Replenishment resolution,[2] management proposes that the recommendation to expand the definition of committable resources be addressed during negotiations for the Seventh Replenishment. The Sixth Replenishment resolution states that the Executive Board may use advance commitment authority with a ceiling of three years of reflows.

Financial Resource Management Options

13. The financial model, which considers the institution's net inflows and outflows, demonstrates how IFAD can raise its level of lending to borrowing Member States without adversely affecting its financial stability. The financial model and the statement of resources available for commitment assist the institution in making decisions on use of funds, however it is the balance sheet that will reflect the financial soundness of these decisions. For this reason, for each of the financial model scenarios presented in section 4 there is a corresponding balance sheet and income statement. The current base scenario is compared to one of higher lending and then to a third scenario showing higher lending and higher replenishments. The latter two scenarios are more dynamic than the current existing model, which is the base scenario. The dynamic scenarios reflect a situation closer to that of other international financial institutions. As mentioned above, this report suggests that loan receivables and Members' Instruments of Contribution receivable be considered as part of committable resources and, therefore, the dynamic scenarios include five years of loan reflows. The approach of some other international financial institutions is to include a larger portion of reflows. Although IFAD could aim towards such a scenario, a more moderate and preferred option of including only five years of loan reflows has been adopted in the dynamic scenario. In line with the proposal to address the wider definition of committable resources during negotiations for the Seventh Replenishment, it is suggested that the more dynamic financial scenarios be considered at the same time.

14. Obviously, changing the definition of resources could generate an element of risk, in the same way that raising the advance commitment authority (ACA) ceiling could do so. The financial management options have been prepared in a way to optimize asset and liability management and the use of resources within acceptable levels of risk. Financial risks can never be completely eliminated. It should also be noted that these scenarios have been prepared taking a long-term approach to IFAD's financial management. Each scenario is calculated up to 2020 so that the long-term effects of the assumptions are thoroughly evaluated.

Periodic Reporting to the Board

15. The periodic reporting to the Executive Board, with regard to investments, is addressed in this report. Inasmuch as the Board receives the reports outlined in section 5, it is concluded that the Executive Board is kept adequately informed of the financial situation of IFAD with regard to investments. The Board is also kept fully abreast of all major policy changes in this area.

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[2] Enabling the Rural Poor to Overcome their Poverty: Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) – Attachment B "Procedures for the Use of the Advance Commitment Authority" (GC 26/L.4).

Conclusion and Action Points

16. The conclusions drawn from this technical report are outlined below, and the resulting action points are presented for the Board's information. All of the action points are within IFAD management's mandate in the various areas, and the points are presented here in order to keep the Board fully abreast of what IFAD management is considering. No decisions or actions are required from the Board at this time. Any revision of the definition of committable resources will be considered during negotiations for the Seventh Replenishment.

17. This document reviews the informal ALM framework and the management of balance sheet assets and balance sheet liabilities of IFAD. It is important to distinguish between the management of assets, liabilities and resources. Assets and liabilities (and equity) are reflected on the balance sheet, while resources (which deal with flows of funds) are reflected in the statement of resources available for commitment.

18. In the past, IFAD's risk management of its assets and liabilities has been fragmented and not formalized into a framework. Even though financial risk management has been adequate, that management can be improved by having an ALM group that focuses on all aspects of ALM and risk management within IFAD, rather than having risk management and ALM responsibilities divided among several divisions. This group would build a formal framework, which would entail active management of risk exposures and safeguarding the financial soundness of IFAD, thus supporting the institution's continued effort to maximize its available resources for its borrowing Member States. The group would report to the Treasurer, who is also Secretary of the Investment Advisory Committee and thereby keep the President – as Chairman of IFAD's Investment Advisory Committee – abreast of all issues relating to ALM.

19. The overall conclusion reached is that, in general, IFAD is adopting similar risk aversion policies as other international financial institutions. However, its approach to liquidity management differs considerably from that of other such institutions. IFAD does have ALM policies, however they are not necessarily coordinated in a way to manage assets and liabilities in the most efficient way possible. Improvements in asset and liability management have been suggested in the following areas:

- The efficiency and effectiveness of IFAD's asset liability management could be improved by establishing a separate ALM group reporting to the Treasurer.

- Market risk could be further reduced by the allocation of a portion of the portfolio as 'held to maturity'.

- Alternatives for dealing with the unhedged currency portion of the portfolio should be considered and acted upon.

- The findings of this technical report clearly show that IFAD can remain within acceptable risk limits even with a lower liquidity level. Accordingly, the technical analysis recommends that the definition of 'committable resources' be revised as follows: "Committable resources shall include actual payments received in the form of cash or promissory notes. In addition, committable resources will include loans receivable for the next five years (net of provisions) as well as Members' Instruments of Contributions receivable (net of provisions)." However, due to the fact that the Sixth Replenishment resolution has already been adopted with specific modalities for the use of advance commitment authority, this proposal will be examined and elaborated further by the ALM group, with a view to its review and consideration during negotiations for the Seventh Replenishment.

1. INTRODUCTION

20. The Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006)[3] recommended that IFAD management conduct a review in 2003 of the organization's investment policy as it pertains to the security of investments, asset liability management and reporting to the Executive Board, with a view to bringing that policy into line with standards and principles used by other development lending institutions. It was specified that management carry out the review and that the output was to be an Executive Board paper for which the target date for presentation to the Executive Board was given as December 2003.

21. In terms of the Consultation Report, management has carried out the review of investments. In order to ensure both objectivity and the necessary competencies, the work was divided into the three areas indicated by the Governing Council as follows:

- review of investment security, which evaluated the adequacy of the system of internal controls in the investment area with the related operational risks of the investments (including custodial arrangement); this review is being presented to the Board in a separate document (document EB 2003/80/R.13);

- review of asset liability management, which reviews and builds an asset liability management framework used by IFAD to manage exposure to financial risks by holding an appropriate combination of balance sheet assets and balance sheet liabilities in order to meet the institution's financial objectives of preserving its capital and increasing investment returns, while lowering the volatility of returns and minimizing financial risks;

- the periodic reporting to the Executive Board, which is also addressed in this report.

22. The documents that cover the abovementioned three areas are:

(a) a paper on security of investments, containing a review carried out by external consultants (Madison Consulting Group) and management's response (document EB 2003/80/R.13);
(b) the present technical report (*Asset Liability Management Review*), produced within IFAD (document EB 2003/80/R.14);
(c) and a paper supporting document EB 2003/80/R.14, entitled *Asset Liability Management – Background Information on Other International Financial Institutions (Background Information)*, which provides details of the comparison of IFAD with other international financial institutions in the area of asset and liability management.

23. The content of the first two main documents was discussed at the November 2003 seminar on asset liability management and will be addressed again at the sessions of the Audit Committee and the Executive Board in December 2003. These two documents have been dispatched to the Executive Board, and the supporting document will be made available at the December meetings.

24. IFAD's vision is to enable the rural poor to overcome their poverty.

25. Each department within IFAD contributes to this vision and, against this backdrop, the goal of the Finance and Administration Department is to maximize the resources available to IFAD's borrowing Member States as efficiently as possible while maintaining the financial soundness of the institution.

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[3] Enabling the Rural Poor to Overcome their Poverty: Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) (GC 26/L.4).

26. More specifically, financial soundness is achieved by:

- stabilizing investment income mainly through diversification between asset classes as specified in the investment policy and through interest rate risk management;
- maintaining liquidity for disbursements through liquidity risk management;
- protecting against foreign currency risk through currency risk management; and
- preserving capital through appropriate investment management.

27. The objective of the asset liability management (ALM) review is to provide an overview of IFAD's overall ALM and risk exposure and to recommend, where appropriate, alternative strategies to more efficiently manage IFAD's balance sheet assets and balance sheet liabilities in order to meet the Fund's financial objectives of preserving its capital and increasing investment returns, while lowering volatility of returns and minimizing financial risks.

28. All financial institutions, including IFAD, are exposed to a series of financial risks in their balance sheet. ALM focuses on identifying, understanding and managing (not necessarily eliminating) these risks in the most efficient way possible and in keeping with the institution's financial objectives. This report will describe the potential financial risks but will discuss in detail only those risks that are relevant to IFAD.

29. Deloitte & Touche, in its *Review of IFAD Resource Adequacy* in 2000,[4] concluded that:

> "IFAD is unique among international financial institutions (IFIs) in that its concessional lending accounts for the majority of its operations, and income from conventional lending is not significant in terms of off-setting the grant element in concessional loans. In other words, the operating policies given to IFAD by its Member States effectively rule out financial self-sufficiency. The only alternative to periodic replenishment is to establish an endowment sufficiently large that its earnings are equal to the grant element in lending operations. The present funding mode is a combination of replenishments, investment income and reflows. For any agreed level of operations, constructive debate over funding must centre on the balance between these three sources, and consideration of possible alternative sources of external funding. The notion of IFAD 'going it alone' defeats the purpose for which it was founded."

IFAD's uniqueness, in the above sense, has a major impact on its risk profile in comparison to most other IFIs that are funded by shareholder equity and borrowings.

30. As part of the ALM review, not only has the risk management of IFAD's assets and liabilities been addressed, but a comparison has been made with other IFIs[5] in order to obtain an overview of the industry. The three organizations that are most similar to IFAD are the Asian Development Bank's Asian Development Fund (ADF), the World Bank's International Development Association (IDA) and the Inter-American Development Bank's Fund for Special Operations (FSO), since none of them relies on

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4 Partnerships for Eradicating Rural Poverty Report of the Consultation to Review the Adequacy of the Resources Available to IFAD (2000-2002) (GC 24/L.3).

5 Comparison has been made with the following IFIs:
- Asian Development Bank and its Asian Development Fund
- Inter-American Development Bank and its Fund for Special Operations
- African Development Bank
- European Bank for Reconstruction and Development
- European Investment Bank
- International Bank for Reconstruction and Development (World Bank Group)
- International Development Association (World Bank Group).

borrowings. The ADF, IDA and FSO do, however, differ from IFAD in that, firstly, most of them receive injections of capital from their associated banks, secondly, they do not adopt International Accounting Standards but prepare special purpose accounts, and thirdly, they do not invest in equities. These differences affect the strategies adopted and consequently the risk exposures experienced by IFAD. The details of the comparison to these and other IFIs are contained in a separate document titled *Asset Liability Management – Background Information on Other International Financial Institutions (Background Information)*. This document, which will be made available at the Audit Committee meeting and at the December 2003 session of the Executive Board, provides details of those IFIs whose funding includes borrowings, as well as those similar to IFAD that rely on Members' contributions and provide highly concessional lending.

31. When making these comparisons, it is important to note that IFAD is the most recently formed of these institutions and, with the exception of the African Development Bank, is the smallest in terms of net assets. The background information document contains a comparison of IFAD with the other IFIs in terms of the major asset and liability categories on the balance sheet.

2. ASSET LIABILITY MANAGEMENT FRAMEWORK

32. Before considering the potential risks involved in ALM, the types of ALM frameworks that already exist are reviewed below.

33. From an organizational point of view, the larger IFIs are similar and have ALM committees that oversee the organization's management of its assets and liabilities in a way to optimize returns while minimizing financial and operational risks. All of the larger IFIs have risk management units that deal mainly with credit and operational risks.

34. The World Bank Group's concessional lending arm – the International Development Association (IDA) – has an ALM committee and a formal ALM framework. The Asian Development Bank's Asian Development Fund (ADF) does not have a formal ALM framework and uses quarterly rebalancing procedures to mitigate exchange rate exposure which, besides market risk, represents its major risk. The Asian Development Bank is currently reviewing its ALM requirements and is considering several alternatives for the management of the assets and liabilities of its Ordinary Capital as well as for the ADF. A relevant policy review will also precede implementation of their new ALM framework. The Inter-American Development Bank's Fund for Special Operations (FSO) currently has no ALM framework; however, this is scheduled as one of the IDB's pending studies. The IDB's Committee for Asset Liability Management makes decisions regarding both the FSO and the main operations of the Bank. The details of the other IFIs' ALM frameworks can be found in the background information document.

35. Although IFAD does not have a formal ALM framework, risk management of its assets and liabilities has been addressed through the Investment Advisory Committee, through the implementation of and adherence to financial and accounting policies and procedures, and also through the use of its financial model. Internal and external auditors have always played an important part in the evaluation and assurance of IFAD's management of risk. Moreover, the terms of reference of the Executive Board's Audit Committee were recently expanded to include the review of the risks faced by the Fund and its risk-management procedures, as they relate to investments and procurement.

36. The mandate of the Investment Advisory Committee is to recommend to the President such action as is necessary for the sound management of IFAD's investment portfolio. More specifically, the committee:

- reviews investment policies and guidelines on an annual basis;
- reviews and recommends changes in the investment strategy on a quarterly basis;
- reviews the performance and composition of the investment portfolio on a quarterly basis;
- reviews the risk structure of the investment portfolio on a quarterly basis, including currency risk and value at risk;
- reviews annually the structure of the investment portfolio and makes recommendations on rebalancing;
- makes recommendations on external service providers and their fees; and
- reviews annually the list of eligible banks for time deposits and counterparties for foreign exchange.

37. IFAD's financial model is produced by the Policy Division of the External Affairs Department in association with Treasury and the Office of the Controller. The model is an analytic tool used to support management decision-making and to test the financial implications of alternative operational policies. The financial model is also used to facilitate discussions at Replenishment Consultations on resource strategy, to determine how IFAD operations will be funded and how IFAD will manage its financial assets over respective replenishment periods.

38. It was noted above that the smaller organizations do not have formal ALM frameworks but rely mainly on policies and procedures to manage their assets and liabilities. However, given the current trend of reviewing and strengthening risk management in all areas of business, it seems timely that, as a result of the Governing Council's recommendation, IFAD is considering the establishment of a formal ALM framework, which will bring it in line with best practices and better enable it to achieve its ultimate goals. As indicated in the following sections of the report, the financial risks of the institution are better evaluated and controlled when a formal ALM framework is established.

3. FINANCIAL RISK REVIEW

39. The major risks faced by IFIs are term structure exposure, currency risk, liquidity risk, credit risk, market risk and operational risks. This overview of IFAD's overall ALM risk exposure will accordingly focus on the institution's exposure to all those risks (except the last one, which is being addressed in a separate paper[6]).

40. In reviewing each of these risks, alternative strategies to more efficiently manage IFAD's assets and liabilities will be discussed.

41. Before addressing each of the financial risks, it is important to outline IFAD's investment policy. The current investment policy with corresponding changes in the asset allocation and credit criteria, as adopted in December 2001, was designed to preserve capital, reduce portfolio volatility and provide for a more stable (albeit lower) rate of return. In short, the policy calls for striking a more prudent balance between risk and return.

42. The investment policy allocates 5% in cash, 44% in government bonds, 23% in diversified fixed-interest, 18% in inflation-indexed bonds and 10% in equities. The previous investment policy allocated 5% in cash, 40% in government bonds, 10% in diversified fixed-interest and 45% in equities.

43. The new investment policy called for the following major changes:

- a reduction in equities from 45% to 10% and, implicitly, a decrease in investment management expenses;
- the introduction of the asset class of inflation-indexed bonds, to be funded from the proceeds of the liquidated equities portfolios; and
- an increase in credit quality to AA- (Standard and Poor's) / Aa3 (Moody's) for long-term fixed-interest investments.

44. The current investment policy has been implemented for the most part. However, as at 30 June 2003 investments in inflation-indexed bonds amounted to 10%, compared with the allocation of 18% stipulated in the policy. Consequently, the internally managed and the government bonds portfolios still reflected some excess allocation compared with the policy.

(a) Term Structure Risk Exposure

45. Term structure risks are the financial risks that usually result when the timing and/or financial maturity of cash flows (i.e. principal and interest) between assets and their funding liabilities do not match. Funding, refinancing and reinvestment risks are three of the most typical term structure risks. IFAD has no significant exposure to term structure risks because it is solely funded by equity (i.e. reserves and contributions), which, by definition, does not entail specific interest/principal payments. Although IFAD does not have exposure to term risk in the traditional sense outlined above, it could be said that it is exposed to such risk when the timing of fund outflows and inflows do no match. Term structure exposure is offset by IFAD's ample liquidity (i.e. investment portfolio); the timing of inflows and outflows is discussed in further detail in the section on liquidity risk exposure, while the maturity of IFAD's investment portfolio is

[6] Operational risks relating to systems, personnel, custodian risk and internal controls are being reviewed in detail in a separate document to the Executive Board prepared in conjunction with Madison Consulting Group (document EB 2003/80/R.15).

discussed in the section on market risk exposure. Given the minimal relevance of term structure exposure to IFAD, it does not need to be discussed in detail.

(b) Currency Risk Exposure

46. Currency risk refers to the risk that the value of an institution's assets will change relative to the value of its liabilities due to fluctuations in foreign exchange rates. It is noted that an exchange rate translation, such as expressing Special Drawing Rights (SDRs) in United States dollars, does not necessarily represent a risk in itself.

47. IFAD conducts its operations in several currencies, and at the present time maintains its accounting records in United States dollars. Its financial statements are also expressed in United States dollars for the purpose of summarizing the financial position. The majority of the Fund's commitments, however, are denominated in SDRs. Consequently, the overall assets of the Fund – including the investment portfolio, promissory notes and amounts receivable from contributors – are maintained in such way as to ensure that, to the extent possible, commitments for undisbursed loans and grants denominated in SDRs are matched by assets denominated in the four currencies included in the SDR basket, namely the United States dollar, the euro, the Japanese yen and the British pound sterling, and in their respective ratios. Similarly, the General Reserve and commitments for grants denominated in United States dollars are matched by USD-denominated assets.

48. The Fund has a well established currency alignment procedure that, inter alia, describes the chosen procedure of aligning currencies not included in the SDR valuation basket with either the United States dollar or the euro. This procedure has been adopted because some assets, such as promissory notes and amounts receivable from contributors, are unavoidably denominated in currencies other than those included in the SDR valuation basket. Such currencies currently constitute about one quarter of the aggregate amount of promissory notes and amounts receivable from contributors. Also, to enhance investment income, the Fund may invest in securities denominated in currencies other than those included in the SDR valuation basket. Typically the Fund's global government bonds portfolio contains approximately 5% of securities that are not denominated in SDR currencies (equivalent to approximately 2% of the overall investment portfolio), while the Fund's European equities portfolio contains approximately 15% of such currencies (equivalent to approximately 0.8% of the overall investment portfolio).

49. The benchmark index for the global government bonds portfolio plays a critical role in situations when the currency composition of the Fund's assets needs to be realigned with the SDR valuation basket. According to current procedure, a reweighting of the currency weights included in the global government bonds index constitutes the principal tool for bringing the currency composition of the Fund's assets in line with the SDR valuation basket.

50. At the same time, however, IFAD does not explicitly prohibit all of its external investment managers from taking unhedged currency exposures. With the exception of the inflation-indexed portfolio, managers are allowed to deviate from the currency allocations embedded in their benchmark indices as a means to enhance returns in United States dollar terms. This may cause a misalignment between the currency composition of IFAD's assets vis-à-vis the SDR valuation basket, in addition to increasing the volatility of the investment portfolio in United States dollar terms. Any major unhedged currency position causing a currency misalignment is indicated in the quarterly reports on the investment portfolio to senior management and the Executive Board.

51. The issue of unhedged currency positions is most relevant in portfolios where investment managers are allowed to allocate investments between several countries as well as currencies, thereby potentially creating deviations from the currency allocations embedded in the benchmarks. These portfolios are:

- global government bonds portfolio – IFAD's investment policy allocates 44% to this portfolio;

- European equities portfolio – IFAD's investment policy allocates 10% to equity investments, and approximately half of IFAD's present equity investments are held in the European equities portfolio.

52. Investment research has shown that hedging these portfolios and benchmarks into United States dollars would provide the lowest level of volatility. However, due to IFAD's need to align its assets against the SDR valuation basket, the United States dollar alone does not constitute the right currency base for IFAD's assets. Instead, exposure to several SDR currencies is needed, as at present. Therefore, alternative solutions to limit investment managers' currency exposures – which would better keep IFAD's overall assets in line with the SDR valuation basket – could include:

(a) Each investment manager and respective benchmark would invest/be invested in only one of the four countries/currencies included in the SDR valuation basket. This alternative would eliminate managers' possibilities to take currency exposures, but it would also eliminate possibilities to enhance returns through country allocation based on the expected returns of each country. Country allocation together with security selection, yield curve positioning and credit quality selection (and currency allocation, when allowed) constitute the available possibilities to achieve outperformance against a benchmark.

(b) Each investment manager and respective benchmark would remain with current exposure to several countries and currencies, but without the option to deviate from the currency allocations embedded in the benchmark. This alternative would continue to allow for enhancement of returns through country allocation, but would require managers to be fully hedged against their benchmarks in terms of currency weights.

(c) Each investment manager and respective benchmark would remain with current exposure to several countries and currencies, but with the flexibility to have a limited amount of unhedged currency exposure vis-à-vis currency allocations embedded in the benchmark. Setting an overall, absolute deviation limit of, for example, 5% would not provide any significant opportunity for outperformance due to currency management, but it would allow managers a limited range for adjusting their currency weights.

53. Alternative (b) is suggested as the preferred alternative, because this would reduce to zero the risk of having an unhedged currency position. The Investment Advisory Committee will review in detail the above-mentioned alternatives and the appropriate action to be taken by 30 June 2004 (see paragraph 136).

54. In order to manage its assets and liabilities, an organization must look at the total value of each item not only in the base currency, but also in all foreign currencies held. The currency risk faced by organizations is that, when holding various currencies, it will not have sufficient amounts of assets in the currencies in which it needs to pay its liabilities. Table 1, below, shows in general terms the currencies in which IFAD's assets, liabilities and equity were held at 31 December 2002. As can be seen, the value of assets in each currency exceeded the value of liabilities in the same currency, implying that, for these currencies, IFAD had enough assets to meet its obligations. For the United States dollar and other currencies, the total assets showed a shortfall against total liabilities and equity. Since it is assumed that contributions will not be refunded, it is noted that the net assets (assets less liabilities) amount was positive in United States dollars and in other currencies, and would comfortably cover also the General Reserve (USD 95 million), which is required to be held in United States dollars.

Table 1
IFAD Balance Sheet as at 31 December 2002 by individual currencies
(USD ’000 equivalent)

	USD	Euro (EUR)	Pound Sterling (GBP)	Japanese Yen (JPY)	SDR	Other Currencies	Total[7]
TOTAL ASSETS (includes cash & investments, contributions receivable, net loans receivable and other receivables)	**1 387 078**	**703 683**	**241 710**	**289 835**	**3 122 485**	**166 609**	**5 911 400**
TOTAL LIABILITIES (includes payables and accruals, undisbursed grants)	394 832	22 896	-328	0	0	22 492	439 892
Net assets	992 246	680 787	242 038	289 835	3 122 485	144 158	5 471 549
EQUITY (includes contributions, General Reserve and accumulated surplus)	2 244 481	102 348	15 740	12 039	2 888 167	208 774	5 471 549
TOTAL LIABILITIES AND EQUITY	**2 639 313**	**132 619**	**37 186**	**19 611**	**2 888 167**	**231 266**	**5 911 400**

55. The alignment of assets by currency group against the SDR valuation basket at 31 December 2002 is shown in Table 2. As can be seen, there were excess currency group holdings of euro and, to a very small extent, Japanese yen. The excess holdings were offset by shortfalls in currency group holdings of pound sterling and, to a lesser extent, United States dollars. The excess in euro currency group holdings, which was the most significant variance at 31 December 2002, was due to government bonds managers’ overweighting of euro-denominated government bonds.

Table 2
Alignment of Assets by Currency Group against the SDR Valuation Basket as at 31 December 2002
(USD ’000 equivalent)

		USD	EUR	JPY	GBP	TOTAL
	Assets[a]	1 097 339	770 190	290 360	234 321	2 392 210
Less	General Reserve	-95 000				-95 000
	Loan and grant commitments	-63 749				-63 749
		938 590	770190	290 360	234 321	2 233 461
	Actual weights	42.0%	34.5%	13.0%	10.5%	100.00
	SDR weights %	42.5%	32.9%	12.9%	11.7%	
	Difference	- 0.5%	+1.6%	+0.1%	-1.2%	

[a] Assets include unrestricted cash and investments, promissory notes and amounts receivable from contributors excluding complementary contributions.

[7] Total amounts agree with IFAD’s audited financial statements as at 31 December 2002.

56. All IFIs operate in numerous different currencies and the financial statements of four out of the eight IFIs reviewed are expressed in United States dollars. The European Investment Bank and the European Bank for Reconstruction and Development express their financial statements in euros, while the African Development Bank's accounts are denominated in units of account, which are assigned a one-to-one equivalence with Special Drawing Rights.

57. All the IFIs reviewed manage their exchange rate exposure by endeavouring to match the currencies in which they hold their assets and liabilities. This is done on an overall basis; however, for the majority of banks that borrow funds, the currency relationship between loan and grant obligations and borrowings is a critical one that needs to be particularly monitored. Currency misalignments between loan income and borrowing expenses can threaten an institution's financial viability.

58. Generally, hedging instruments are used to achieve currency alignment by the larger IFIs, some of which apply value at risk (VaR)[8] limits to their currency exposures. Some IFIs, including IFAD, require their borrowers to absorb exchange rate fluctuations attributable to the currency in which the loans are disbursed. Although IDA is allowed to use hedging instruments, its positions in forward instruments are small in relation to its total investments. To hedge against foreign exchange exposure due to a mismatch of its non-SDR assets and its SDR liabilities, IDA uses a liquidity-based proportional holding approach. On a quarterly basis, IDA's liquid assets in the four component currencies of the SDR are rebalanced in order to offset foreign exchange exposure resulting from market movements or a change in expected non-SDR inflows from donor contributions. The ADF provides an exchange rate cushion (currently 6.5%), which serves as a buffer against committable risk and against volatility in exchange rates, while the FSO currently does not perform any currency alignments. Details of the other IFIs' treatment of foreign exchange risk can be found in the background information document.

(c) Liquidity Risk Exposure

59. Liquidity risk refers to the risk of being unable to meet financial commitments, and accordingly includes the risk of being unable to liquidate an investment holding in a timely manner at market price (i.e. liquidation risk) as well as the risk of having a large percentage of an asset class invested in a specific security (i.e. concentration risk).

60. On a structural basis, IFAD is not exposed to liquidity risk since it runs a large and rather liquid investment portfolio that nearly covers the amount of the committed but as yet undisbursed loans and grants. At 31 December 2002, the signed but undisbursed loan obligations amounted to USD 2 100 million as per IFAD's audited financial statements,[9] while the investment portfolio amounted to USD 2 093 million.[10] Compared with annual disbursements, the investment portfolio amounted to approximately 7.24 times the disbursements of USD 289 million[11] (per Table 3) in 2002. Table 3 compares IFAD's investment portfolio with undisbursed obligations for the years 1998-2002.

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8 Value at risk (VaR) is a commonly used statistical methodology for estimating the maximum amount that could be lost over a certain time horizon, at a specified confidence level.

9 Audited Financial Statements of IFAD for 2002, Appendix D.

10 Audited Financial Statements of IFAD for 2002, Appendix H, Note 3(f).

11 From the audited financial statements of IFAD for 2002, Appendix C: loan disbursements of USD 267 295 000 plus grant disbursements of USD 21 793 000.

Table 3
IFAD's Investment Portfolio Compared with Total Undisbursed Loans and Grants and Annual Disbursements of Loans and Grants, 1998-2002
(USD millions)

	2002	2001	2000	1999	1998
Investment portfolio	2 093	1916	2 067	2 326	2 261
Total undisbursed loans and grants	2 100	1883	2 011	2 109	2 076
Ratio of investment portfolio to undisbursed loans and grants	**1. 0**	**1.02**	**1.03**	**1.10**	**1.08**
Annual disbursement of loans and grants	289	323	312	314	324
Ratio of investment portfolio to annual disbursement of loans and grants	**7.24**	**5.94**	**6.62**	**7.41**	**6.98**

61. In addition, IFAD's investment policy stipulates an allocation of 5% to cash. In United States dollar terms, the 5% allocation corresponded to approximately USD 105 million at 31 December 2002. This allocation provides immediate – or nearly immediate – liquidity through short-term time deposits for loan and grants disbursements as well as administrative expenses. Although in recent years cash disbursements have been less dependent on the investment portfolio and income thereon as a result of the drawdown policy adopted in December 2001, the situation is reversing as the end of the Fifth Replenishment period approaches. The 2001 drawdown policy called for a 100% drawdown of Members' contributions, with the exception of those covered by separate agreements, in order to cover annual estimated disbursement requirements. For example, in 2002, the inflow from drawdown proceeds and Members' cash contributions amounted to USD 226 million,[12] compared with disbursements of USD 289 million in the same year. The other significant annual inflow stems from loan reflows, which in 2002 amounted to USD 169 million.[13]

62. Table 4 shows annual cash flows (excluding investments) and IFAD's 5% cash allocation (per policy) in the years 1998-2002. As highlighted by the table, annual cash outflows have been approximately covered by cash inflows since the introduction of the 100% drawdown policy in 2001. At the current level of annual outflows and the current size of IFAD's investment portfolio, the 5% cash allocation corresponds to approximately 27% of annual outflows. This level of cash holdings is generally higher than that of the other IFIs. For example, it is significantly higher than the European Investment Bank's liquidity policy of holding 25% of annual **net** cash flows and also exceeds that of the ADF, which holds 20% of the subsequent year's disbursement requirements (see paragraph 64).

[12] From the audited financial statements of IFAD for 2002, Appendix C, under the heading "Net Cash Flows Provided by Financing Activities".
[13] From the audited financial statements of IFAD for 2002, Appendix C: loan principal repayments of USD 126 823 000 plus interest received from loans of USD 42 282 000.

Table 4
Annual Cash Flows (Excluding Investments) and
the Investment Portfolio's 5% Cash Allocation for 1998-2002
(USD millions)

	2002	2001	2000	1999	1998
Cash outflows:					
Disbursement of loans and grants	(289)	(323)	(312)	(314)	(324)
Other development and operating activities [a]	(51)	(22)	(17)	0	0
Administrative and investment expenses [b]	(44)	(64)	(60)	(58)	(61)
Total cash outflows	**(384)**	**(409)**	**(389)**	**(372)**	**(385)**
Cash inflows:					
Drawdown proceeds and cash contributions	226	198	98	101	80
Loans reflows (principal, interest)	169	170	177	177	165
Total cash inflows	**395**	**369**	**274**	**278**	**246**
Net cash flows	**11**	**(40)**	**(115)**	**(94)**	**(140)**
IFAD's investment portfolio's 5% cash allocation (per policy)	105	96	103	116	113
Ratio cash allocation/annual cash outflows	0.27	0.23	0.27	0.31	0.29

[a] Fund transfers relating to the Heavily Indebted Poor Countries (HIPC) Initiative, Programme Development Financing Facility (PDFF), Global Mechanism, International Land Coalition, interfund accounts (Belgian Survival Fund and supplementary funds [cofinancing funds, programmatic funds, associate professional officer funds, and other supplementary funds]), after-service medical coverage scheme and other funds.

[b] Administrative expenses are lower in 2002 due to the reclassification of PDFF expenditures from administrative costs to operating costs.

63. Besides the allocation to cash, IFAD's investment policy concentrates – within all its assets classes – on investing in highly liquid securities, which for the most part can be sold within a few days' time at market price. Furthermore, IFAD's investment portfolio is diversified by asset class as well as within asset classes. The purpose of this diversification is to provide reasonable assurance that no asset class or individual security will have a disproportionate impact on the total investment portfolio. For individual securities, both fixed-interest and equity portfolios have maximum concentration limits. For example, the global fixed-interest portfolio investment guidelines stipulate that "the maximum amount that may be invested in any debt issue shall not exceed 10% of the amount of the issue". For equities, the investment guidelines stipulate that "the maximum amount that may be invested in the shares or other securities of any single company at the time of purchase shall not exceed more than 5% of the total book cost of the asset portfolio". The equity investment guidelines also stipulate that "the maximum amount that may be invested in any security shall not exceed 5% of the total amount of shares or securities authorized by the issuer, with the exception of any approved pooled vehicles".

64. In addition to the cash allocation, liquidity and diversification of the portfolio, the maturity of the investment portfolio is distributed over a period of a number of years to enhance the availability of resources. Table 5 shows the maturity schedule of the investment portfolio.

Table 5
Fixed-Interest Maturity Bucket Ranges as at 30 June 2003
(USD millions)

	1-6 months	6-12 months	1-2 years	2-5 years	5-10 years	10-15 years	15+ Yyears	Total Market Value
Internally managed portfolio	184 716							**184 716**
Global government bonds portfolio	94 625	19 591	106 383	392 731	235 620	84 091	177 651	**1 110 691**
Diversified fixed-interest [a]	2 836	1 050	38 191	50 619	65 560	40 214	281 372	**479 842**
Global inflation-indexed bonds [b]				49 504		166 570		**216 074**
Total	**282 177**	**20 641**	**144 574**	**492 854**	**301 180**	**290 875**	**459 023**	**1 991 324**
Percentage of total value	**14%**	**1%**	**7%**	**25%**	**15%**	**15%**	**23%**	**100%**

[a] Unadjusted for prepayment risk (e.g. mortgages).

[b] The asset class of inflation-indexed bonds was funded on 27 June 2003. At 30 June 2003 a large portion was still held in cash equivalents, pending purchases of securities. The table reflects the average maturity of Salomon Brothers World Government Inflation-Linked Bonds Index and the actual maturity of IFAD's investments in a private placement issued by the European Investment Bank.

65. The investment guidelines of each organization specify a diversification policy that maximizes returns on invested assets while minimizing the volatility of their investment returns. In IFAD's case, it should maximize the resources available to its borrowing Member States as efficiently as possible while maintaining its financial soundness. Therefore, IFAD's financial policy with respect to resources should be aligned with the goal of maximizing resources available. IFAD's major assets are 'cash and investments' and 'loans outstanding' as well as contributions receivable. Under the current definition of committable resources,[14] IFAD does not consider loans outstanding or Members' Instruments of Contribution outstanding as a resource. In order to achieve IFAD's goal of maximizing resources available to its borrowing Member States, the concept of what constitutes resources available for commitment needs to be reviewed (see Section 4, Financial Resource Management Options, for a detailed discussion on this matter).

66. When considering the other IFIs' approach to liquidity management, it is noted that, although all the IFIs reviewed maintain a prudential minimum level of liquidity based on projected cash requirements, the basis of calculation varies considerably from one organization to the next. Most of the institutions split their liquid assets into tranches, with the first tranche holding the most liquid assets. The IFIs that rely on borrowings include not only projected loan disbursements in their projected cash requirements, but also debt service obligations, which obviously increase their need for liquid funds. A snapshot of how the other IFIs calculate their minimum level of liquidity is shown below:

[14] EB/34/1988 Minutes, paragraph 15(b).

Asian Development Bank	40% of the following three years' net cash requirements
Asian Development Fund	Minimum liquidity should be no less than 20% of the following year's disbursements
African Development Bank	Net cash requirement for a rolling 12-month period
European Investment Bank	25% of annual net cash flows
Inter-American Development Bank (Ordinary Capital)	50% of the undisbursed signed balance of loans at year-end, plus 33% of the cash flow requirements for the current and subsequent years. The liquidity policy establishes that the IDB's liquidity needs be within 60%-100% of the ceiling on a monthly basis, and between 70%-90% on an annual average.
Inter-American Development Bank (Fund for Special Operations)	There is no formulaic liquidity requirement. Rather, the FSO is managed in such a way that its liquidity is projected to stay above a reasonable minimum level at all times (set at about USD 250 to USD 300 million, which represents approximately 18% of the investment portfolio as at 31 December 2002).
World Bank	The highest consecutive six months of debt service obligations for the fiscal year, plus one half of net approved loan disbursements as projected for the fiscal year
International Development Association	No specific limit at the moment (although a liquidity policy is being devised at the moment), however the net present value of the projected net liabilities of IDA over the next 20 years is used to measure current liquidity position.

67. Further details of other IFIs' treatment of liquidity risk can be found in the background information document.

(d) Credit Risk Exposure

68. Credit risk exposure encompasses the areas of the investment portfolio, the loan portfolio and Members' contributions.

69. **Investment portfolio credit risk exposure** could result from the default or downgrading of either the obligor/issuer of a security or of counterparties for investment transactions, such as foreign exchange and time deposits:

- With regard to obligors, IFAD's investment policy and corresponding investment guidelines stipulate for its externally managed portfolios that investments may only be made in bond issues of governments, government agencies, supranational organizations and corporates having a long-term credit rating of at least AA- (Standard and Poor's) / Aa3 (Moody's, which is the only applicable rating agency for IFAD's diversified fixed-interest portfolio). Time deposits and certificates of deposit are limited to institutions having a credit rating of not less than A1 (Standard and Poor's) / P1 (Moody's).

- With regard to counterparties, IFAD requires its external investment managers and its Global Custodian to use due diligence in selecting counterparties for investment transactions, including in the selection of sub-custodians. Furthermore, futures and options may only be traded on regulated exchanges.

- With regard to counterparties for IFAD's internally managed portfolio, IFAD uses counterparties with a credit rating of not less than A1 (Standard and Poor's) / P1 (Moody's). IFAD's Investment Advisory Committee also authorizes as counterparties some full branches of List B banks, which operate under the regulations of the Bank of England and the Financial Services Act (FSA) of the United Kingdom.

70. Similarly, all the other IFIs reviewed have well established credit management guidelines that specify risk limits and monitoring procedures. The investment guidelines of the IDB's Fund for Special Operations specify the rating requirements for each category of investment, e.g. A+ for banks, AAA for mortgage-backed securities, and AA- for governments and agencies. IDA limits trading to a list of authorized dealers and counterparties, and credit limits have been established for each counterparty by type of instrument and maturity category.

71. **Loan portfolio credit risk exposure.** Loan portfolio risk is the risk resulting from default by a borrower. IFAD has different policies in place to protect itself against loan default:

- relatively low and stable lending rates
- solid arrears policy
- loan loss provisioning policy
- preferred creditor status evidenced through its track record

72. With reference to loan loss provisioning, IFAD has an accounting policy for estimating future loan losses: the accumulated allowance for impairment losses policy. The policy specifies that the allowance can be calculated in one of two ways. First, the allowance can be based on the difference between expected cash flows (calculated on the estimated or renegotiated repayment schedule) and the nominal value. In these circumstances, the entire loan – and not just the overdue instalment – is subject to impairment. Second, when it is not possible to estimate with any reasonable certainty the expected cash flows of a loan (as in all cases for which an allowance has been established to date), an alternative approach adopts a method based on the number of months overdue.[15] This method is similar to the benchmark used for the provisioning of Members' contributions.

73. The concessional-lending IFIs reviewed do not have loan loss provisions. Although the FSO does not provide for potential loan losses, when it lends to borrowers other than national governments, central banks or other governmental entities, it follows the general policy of requiring a guarantee engaging the full faith and credit of the government. The estimated fair value of loans at the ADF approximates the carrying amount and, as such, is not affected by credit risks to the extent that its experience with its borrowers has shown the difference between fair value and carrying amount to be immaterial. In making concessional loans to the poorest countries, IDA has a significant credit risk in the development credits portfolio, and management continually monitors this risk. No provision for credit losses, other than allowances for the Heavily Indebted Poor Countries (HIPC) Debt Initiative, has been established. It should be noted that the HIPC allowance represents a management decision to participate in a special initiative to relieve debt, rather than a method of loan loss provisioning in the normal course of business. IFAD also participates in the HIPC Debt Initiative, with the estimated debt relief to be provided standing at some USD 326 million as at 31 December 2002.[16]

74. Most of the IFIs place loans in non-accrual status when principal or interest becomes overdue. For IFAD, this occurs when the principal or interest is overdue by more than 180 days. Up to 2001, that period was 10 months (300 days). This change in time period was made in order to align IFAD more closely with the practices of other IFIs. Interest and service charges are recognized as income only when actually received for such loans.

15 IFAD Financial Statements, Appendix H, Note 8.
16 IFAD Financial Statements, Appendix G.

75. **Member State credit exposure.** IFAD provides against overdue Members' contributions by creating a balance sheet provision on the following basis:

- Whenever a payment of an instalment against an Instrument of Contribution or of a drawdown against a promissory note becomes overdue by 24 months, a provision is made equal to the value of all overdue contribution payments or the value of all unpaid drawdowns on the promissory note(s) outstanding.

- Whenever a payment of an instalment against an Instrument of Contribution or of a drawdown against a promissory note becomes overdue by 48 months or more, a provision is made against the total value of the unpaid contributions of the Member or the total value of the promissory note(s) of that Member related to the particular funding period (i.e. a replenishment period).[17]

76. In addition to the above provision policy, IFAD has an exclusion policy. This policy specifies that if payments on promissory notes are overdue for a period of 18 months, the total of unpaid drawdown calls will be excluded from committable resources.[18] In addition, if such payments are overdue for a period of 36 months or more, the entire value of all outstanding promissory notes, for the funding period in question and for any subsequent funding periods, will be excluded from committable resources.[19] A recommendation will be presented to the December 2003 session of the Audit Committee[20] to align the timeframes for both the provision and exclusion policies so that the first trigger will be after 24 months and the second trigger after 48 months.

77. Member State credit risk does not apply to the larger banks that borrow capital. It has limited relevance to IDA because that agency receives significant contributions from the World Bank. The ADF and FSO, which are also funded by contributions, do not have any provision for overdue contributions. The details of the other IFIs' treatments of the credit risk exposure can be found in the background information document.

(e) Market Risk Exposure

78. Market risk is the potential loss that could result from adverse market movements. IFAD is exposed to market risk in its investment portfolio as a result of several factors:

(a) **Valuing the investment portfolio at market price.** Since IFAD started to value its investment portfolio at market prices in 1994, the volatility of investment income has increased significantly due to fluctuations in unrealized gains and losses. This means that both realized and unrealized gains and losses in the market value of the investment portfolio have to be reflected in the income statement. This valuation is in accordance with International Accounting Standards, which specify that mark to market is required when the portfolio is held for purposes of trading (rather than held to maturity – see paragraph 77(a) below) in order to show the true realizable value at any point in time.

(b) **Fixed-interest investments with long duration.** For a fixed-interest portfolio valued at market prices, a longer duration implies higher sensitivity to movements in interest rates and thereby greater fluctuations in market value and investment income. Table 6 shows the duration of the benchmarks assigned to the fixed-interest portions of IFAD's

17 IFAD Financial Statements, Appendix H, Note 2(b).
18 EB/34/1988 Minutes, paragraph 15(b)(ii).
19 EB/34/1988 Minutes, paragraph 15 (b)(iii).
20 Audit Committee document AC/2003/83/R.6.

investment portfolio, and the minimum and maximum duration that investment managers are allowed to keep in relation to their respective benchmarks. As of 30 September 2003, IFAD shortened the duration of its benchmark for the government bonds portfolio from six to three years. Furthermore, the benchmark used for IFAD's inflation-indexed portfolio has been customized in order to reflect a duration that is two years shorter than a standard benchmark.

Table 6
Duration of IFAD's Fixed-Interest Portfolios as at 30 September 2003

Portfolio	Benchmark Average Duration	Portfolio Minimum and Maximum Duration
Government bonds portfolio	2.9 years	Minimum: zero years Maximum: one year above benchmark duration
Diversified fixed-interest portfolio	3.8 years	Minimum: zero years Maximum: two years above benchmark duration
Inflation-indexed portfolio	8.3 years	Minimum: zero years Maximum: no higher than benchmark duration

(c) **Exposure to equity investments.** Compared with fixed-interest investments, market prices for equity investments exhibit higher volatility. IFAD has been investing in equity investments since 1997. However, it began to reduce its exposure to equities in March 2002 by cutting its allocation from 45% to 10%, pursuant to the new investment policy. The present equity investments are held in the most mature equity markets, i.e. the United States and Europe, and in stocks of large capitalization companies. None of the other IFIs, neither large nor concessional, invests in equities.

(d) **Prepayment risk of mortgage-backed securities.** The primary risk to mortgage-backed securities (MBS) is prepayment risk, which is the term used to describe the risk of bonds being called away before their maturity date. For example, a home-owner in the United States may prepay all or part of the outstanding principal of his or her mortgage loan at his or her discretion. Prepayment risk, therefore, is the possibility that the mortgages underlying a security are repaid faster or slower than expected. In a falling interest rate environment, a greater number of home-owners are more likely to prepay/refinance their existing mortgage at a lower rate. This, in turn, will have an impact on the mortgage-backed security in which the mortgages are pooled because the duration of the securities will shorten. In a rising rate environment, the possibility arises that prepayments will be slower than the anticipated rate, causing later-than-expected return of principal. As a result, MBS durations could extend, potentially dramatically, as they did in July 2003. The duration of MBS holdings in IFAD's portfolio extended from 2.86 years on July 1 to 4.84 years on July 31. This has an impact on the portfolio's total duration and, hence, prepayment risk implies potential volatility. In IFAD's case, this is compensated by the fact that the MBS held by the Fund have a AAA rating, which results in a high yield. When market volatility abates, as it did in August 2003, mortgages outperform.

79. Alternative solutions to limit the exposure to market risk would include the following;

(a) **Assigning a portion of IFAD's investment portfolio to be held to maturity.** This would help to manage volatility in IFAD's resource position. It would allow the Fund to forecast with a high degree of reliability its net investment income on this portion of the investment portfolio. International Accounting Standards would allow the Fund to record the assets at amortized cost as the intention is to hold the asset to maturity. This means that the related investments are recorded at cost, while the discount or premium to the redemption value is amortized over the remaining period to maturity. IFAD could consider placing an amount to be held to maturity. There is an amount of USD 1 244 million below which the investment portfolio is not expected to fall according to the financial model, and therefore a portion of this amount could be considered for placement as held to maturity (see paragraph 111). This amount is purely an indicative amount and the present report is not suggesting that exactly USD 1 244 million be held to maturity. The ALM group along with the Investment Advisory Committee will study the matter taking into account all the advantages and disadvantages. The advantage of having a portion of the portfolio held to maturity is that the institution would be exposed to less volatility and have a more consistent level of resources. The disadvantage is that the institution would forgo higher returns; this is also a less flexible method of investment, which external managers might not be able or willing to handle. Also, IFAD has an agreed investment policy that includes many asset classes. A widely diversified policy is essential for a mark-to-market policy, but not for a buy-and-hold policy, where plain vanilla bonds are adequate. A process of consultation is needed before changing the asset allocation policy. Moreover, IFAD is currently not in a position to manage such a portfolio internally. The Fund is geared to operating through external investment managers and does not have systems in place for an internally managed bond portfolio. Implementing such a programme would entail preparing a new system of internal record-keeping, a careful assessment of staff requirements, consultations with the Global Custodian for reporting, the formulation and documentation of new procedures, and the delegation of responsibility. As the current yield of the investment portfolio is at historically low levels, if IFAD were to hold its existing government bond portfolio to maturity, it would imply quite low returns on investments for a number of years, when market interest rates may have risen substantially. In such a situation, IFAD's rate of return would compare very unfavourably with that of other institutions for many years to come.

(b) **Shortening the duration of the fixed-interest portfolio.** For portions of the fixed-interest portfolio that are valued at market price, the duration should continue to be short for the time being and should continue to be monitored in order to reflect market conditions (see paragraph 76(b)).

(c) **Exposure to equity investments.** An extensive study of IFAD's investment policy was undertaken by an expert group in 2001 and concluded that, in order to strike a prudent balance between risk and return, an allocation to equities of 18% would be appropriate. The final allocation to equities agreed upon was at an even more conservative level of 10%.[21] This report does not analyse the level of equity investments any further due to the fact that the expert group's report is very recent, and it is considered that a 10% equity level is within acceptable limits.

(d) **Reducing the prepayment risk for mortgage securities.** In order to mitigate this risk, IFAD's investment managers should apply analytical tools to forecast the potential prepayment speed of each mortgage security. Investment managers can also use futures to reduce exposure to mortgages and their potential long duration.

80. Given the well established ALM frameworks in place at the larger IFIs, market risk does not represent a major threat to them. Through the active use of hedging instruments they are able to minimize exposure to both foreign exchange as well as interest rate exposures. For the concessional lending organizations that do not use hedging instruments, however, market risk is greater. Currently, the FSO is taking very little market risk by being invested on the short end (1-3 months) with the London Inter-Bank Bid Rate (LIBID) as benchmark (i.e. 3-month LIBOR minus 1/8). Based on the FSO's liquidity projections,

[21] IFAD's Investment Policy (EB 2001/74/R.4/Rev.1).

the IDB is currently analysing a somewhat longer duration strategy (two to three years) in order to enhance the return on the portfolio.

81. Similarly to IFAD, all of the FSO's and IDA's investment securities are held in a trading portfolio carried at market value, with realized and unrealized gains and losses included in income from investments. By contrast, the ADF classifies its time deposits as 'held to maturity' and reports them at cost. Details of the other IFIs' treatment of market risk exposure can be found in the background information document, which also shows the value of investments held to maturity by each of the IFIs.

4. FINANCIAL RESOURCE MANAGEMENT OPTIONS

82. The three financial resource management options presented in this section demonstrate, through the use of the financial model and implementation of the proposed ALM framework, how IFAD can, first, reduce the volatility of investment returns; second, raise its level of lending to borrowing Member States without adversely affecting the financial stability of the institution; and third, continue to address all of the financial risks of the institution.

RESOURCES AND USE OF ADVANCE COMMITMENT AUTHORITY

83. Before presenting the various scenarios, it is important to review IFAD's financial resource management in the past. IFAD's practice has always been to have full upfront financial backing before approving new loans and grants. This practice has been followed, despite the fact that over 90% of these approvals (i.e. the loan portion) take an average of eight years to disburse and, during that period, IFAD can count on new resource inflows from both lending reflows and investment income. The advance commitment authority (ACA) facility – in use since 2001 – has allowed some deviation from this practice, though to a limited extent.

84. To further explain the history of the use of ACA within IFAD, in 1997 the Fund expanded the basis for commitment authority by adopting a policy that allows it to commit against future reflows.[22] This was initially approved for the period of the Fourth Replenishment (1997-1999) and up to a level of USD 450 million, i.e. the equivalent of three years of reflows. In the ensuing years, resource flows were such that this instrument was never required. With the adoption of the Fifth Replenishment resolution,[23] in June 2000 the ACA became an instrument untied to a specific replenishment period and with a cumulative resource level to be established by the Executive Board. Such a level was not formally established, instead the Executive Board has managed ACA by approving any additional use of it at each Executive Board session. There was, however, an informal understanding that cumulative ACA would not exceed the equivalent of three years' worth of projected reflows. This same understanding has been formally stated with the adoption of the Sixth Replenishment resolution.[24]

85. This conservative or 'static' approach of upfront financial backing is typical of a relatively young institution that needs to build up a strong financial base. In this respect, it has served IFAD well. Funds set aside at each Executive Board session to back new loans and grants were held in investments until disbursements fell due. Thus, IFAD was able to build up an investment portfolio over the years amounting to around USD 2 billion, which in the past generated substantial investment income.

86. Now, however, given the lower investment returns coupled with demand for support for rural poverty reduction, the time may be right to revisit the static approach. IFAD should now consider whether it can afford to continue operating in this manner or whether it should follow the path of other IFIs (see paragraph 64) by moving to a more 'dynamic' financial model.

87. This means adopting an approach in which operations are calibrated so as to ensure that sufficient funds are available to meet respective requirements (loan and grant disbursements, administrative and other expenditures) at the time the funds are actually needed. Clearly, this approach would be implemented within the context of a sound asset and liability management system featuring built-in checks and controls, regular monitoring and ample leeway for correction in case of unforeseen developments.

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22 Document GC 20/L.9Rev.1, 20 February 1997.

23 Resolution 119/XXIV, GC24/L.3 Annex IV, Attachment B, 29 June 2000.

24 Enabling the Rural Poor to Overcome their Poverty: Report of the Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) – Attachment B "Procedures for the Use of the Advance Commitment Authority" (document GC 26/L.4).

88. Explained from an accounting perspective, this simply entails including loan receivables and Members' Instrument of Contribution receivables as committable resources. This would make sense since undisbursed loan balances are already deducted from available resources in the current statement of resources available for commitment (see Annex 1).

89. Loan receivables and Members' Instrument of Contribution receivables have not been included in this heading thus far because IFAD has always taken a very conservative approach to resource management. As mentioned above, IFAD has used a 'static' approach, but now – after 25 years of operations – there is a history on which to base financial projections. There have been very few delinquent borrowers and, as per the audited financial statements as at 31 December 2002, the level of loans requiring provision was only 2.5% of the total loans outstanding.

90. The same result could be achieved if loan receivables were left out of committable resources and the level of the allowable ACA was to be increased. However, this approach implies that the institution is gaining access to funds it does not have, which is not true. Rather than continuing the complicated application of the ACA, it is simpler to just recognize the assets that the Fund has in its books and include them, net of allowances for the sake of prudence, in the committable resources.

91. In the financial model, since IFAD loans tend to have extremely long maturity periods, it is proposed to include loan reflows only for the following five-year period in the resources calculation to avoid exposure to liquidity risk. The average disbursement profile for IFAD loans stretches over eight years. Thus, by including loan reflows for the following five years and balancing this against loan disbursements for the following eight years, IFAD would be allowing a 'safety margin' of three years of loan reflows.

FINANCIAL MANAGEMENT OPTIONS

92. This section presents three financial management options. First, the base scenario, which is currently used by IFAD; second, the higher lending scenario; and third, the higher lending/higher replenishment scenario. The latter two scenarios adopt a dynamic rather than static approach. Each scenario will first be examined individually and then the key indicators of each scenario will be considered together. The financial model considers inflows of resources and outflows resulting from commitments to give a final resource position. Rather than including the full financial model for each scenario, the key data or indicators from each scenario have been presented. The details supporting these tables can be found in Annex 3. As mentioned earlier, the model deals with flows that can assist management in making decisions about resource management, however it is the balance sheet that reflects the financial stability of the institution, and for this reason the projected balance sheets and income statements associated with each of the three scenarios have also been presented.

93. It should be noted that these scenarios have been prepared taking a long-term approach to IFAD's financial management. Each scenario is calculated up to 2020 so that the long-term effects of the assumptions can be thoroughly analysed.

94. Clearly these projections are dependent on a number of assumptions about expected performance of the loan portfolio and the investment portfolio and various other aspects of financial management. A description of the assumptions can be found in Annex 2. However, a brief note is warranted here on how optimistic vis-à-vis conservative the assumptions tend to be.

95. On the whole, for what could be termed 'policy-driven' factors, it is assumed current approaches will prevail, for instance:

- Replenishment levels would at least be maintained in real terms if not raised over time.
- Contributions would be paid in within the respective replenishment period and fully encashed at the latest by one or two years after that.

- The lending portfolio would retain its current characteristics (lending terms, grant element, etc.).
- The administrative budget and the Programme Development Financing Facility (PDFF) will remain constant in real terms or increase only in conjunction with significant increases in lending levels.

96. In other areas, however, a more conservative approach is taken:

- Future arrears in lending reflows are assumed to be 5% (the reality is closer to 3%).
- Investment income is assumed to be 3.5% (impossible to forecast, but expected to be higher on average).
- PDFF funds are assumed to disburse fully in year of approval, grants in two years (in reality they are likely to be staggered).[25]

Base Scenario

97. In the base scenario (see Table 7), the underlying assumptions are that future replenishments will be more or less equal to the pledges currently obtained for the Sixth Replenishment (close to USD 500 million, equal to a yearly average of USD 167 million) and that the loan and grant commitment level will remain constant in real terms over the years (about USD 454 million).

Table 7
Base Scenario – Key Indicators
(USD millions)

	Sixth Replenishment 2004-06	Seventh Replenishment 2007-09	Eighth Replenishment 2010-12
Average annual lending level (loans and grants approved)	454	482	511
Average annual replenishment contributions	167	177	188
Average annual net cash inflows	(101)	(59)	(15)
Investment portfolio (end of period)	2096	1919	1873

98. The corresponding balance sheet for the period 2004-12 (see Table 8) shows the investment portfolio (liquid assets) decreasing from 32% of total assets in 2006 to 25% of total assets in 2012, and a relative increase in loan receivables (58% of total assets in 2006 to 64% of total assets in 2012). Contributions, in the equity section of the balance sheet, increase as a result of the new replenishments (from USD 4 733 million in 2006 to USD 5 827 million in 2012), however the proportion of equity remains constant at 98%.

[25] Under the PDFF, a carry-over policy allows for part of the funds approved in one year to be spent in the subsequent year. As for grants, there is no deadline as such for their disbursement and, with an expanding grant portfolio and new grant policy, it is likely that disbursement of new types of grants may extend beyond the past average of two years.

Table 8
Base Scenario – Projected Balance Sheet and Income Statement

	Sixth Replenishment 2006		Seventh Replenishment 2009		Eighth Replenishment 2012	
BALANCE SHEET						
Assets	**USD Millions**	**%**	**USD Millions**	**%**	**USD Millions**	**%**
Liquid assets	2 096	32	1 915	28	1 856	25
Other receivables	621	10	709	10	824	11
Loan receivables	3 781	58	4 318	62	4 737	64
Total assets	**6 499**		**6 942**		**7 417**	
Liabilities	116	2	134	2	155	2
Equity						
Contributions	4 733		5 264		5 827	
General Reserve	95		95		95	
Accumulated surplus	1 555		1 449		1 340	
Total equity	6 383	98	6 808	98	7 262	98
Total liabilities and equity	**6 499**		**6 942**		**7 417**	
INCOME STATEMENT						
Income from loans	49		55		58	
Net investment result	78		71		68	
Total revenue	*127*		*126*		*126*	
Expenditures	*161*		*159*		*160*	
Net result	**(34)**		**(33)**		**(34)**	

Higher Lending Scenario

99. The assumption underlying the higher lending scenario is that IFAD would adopt a dynamic approach that would allow for raising the level of lending operations as from the Seventh Replenishment Period, without increasing the normal demand for Members' contributions. The essential difference lies in the fact that the focus would be on managing assets and liabilities (i.e. financing disbursements) rather than, as at present, on 'financing' commitments. In this scenario, commitments could be made against five years of loan reflows and, consequently, the lending level could be raised from a yearly average of USD 454 million in the period 2004-06 to a yearly average of USD 563 million in 2010-12 (see Table 9), without requesting more contributions than currently planned. Compared to the base scenario, this represents an increase in average lending levels of 10% for the Seventh and 10% for the Eighth Replenishments. The total increase for this scenario is an average 24% for the complete period to 2012.

Table 9
Higher Lending Scenario – Key Indicators
(USD millions)

	Sixth Replenishment 2004-06	Seventh Replenishment 2007-09	Eighth Replenishment 2010-12
Average annual lending level (loans and grants approved)	454	530	563
Average annual replenishment contributions	167	177	188
Average annual net cash inflows	(101)	(66)	(37)
Investment portfolio (end of period)	2 096	1 899	1 789

100. Comparing the balance sheet relating for the higher lending scenario with that of the base scenario (see Table 10), it can be seen that contributions remain constant, while the value of loan receivables is higher in the higher lending scenario. Also, in this second scenario the investment portfolio (liquid asset) displays the same decreasing trend as the one shown in the base scenario.

Table 10
Higher Lending Scenario – Projected Balance Sheet
and Income Statement

	Sixth Replenishment 2006		Seventh Replenishment 2009		Eighth Replenishment 2012	
BALANCE SHEET						
Assets	**USD Millions**	**%**	**USD Millions**	**%**	**USD Millions**	**%**
Liquid assets	2 096	32	1 899	27	1 789	24
Other receivables	621	10	711	10	827	9
Loan receivables	3781	58	4 324	63	4 780	67
Total assets	**6 499**		6 934		**7 396**	
Liabilities	116	2	134	2	155	2
Equity						
Contributions	4 733		5 264		5 827	
General Reserve	95		95		95	
Accumulated surplus	1 555		1 441		1 319	
Total equity	6 383	98	6 800	98	7 241	98
Total liabilities and equity	**6 499**		**6 934**		**7 396**	
INCOME STATEMENT						
Income from loans	49		55		59	
Net investment result	78		71		66	
Total revenue	*127*		*126*		*125*	
Expenditures	*161*		*163*		*166*	
Net result	**(34)**		**(37)**		**(40)**	

Higher Lending/Higher Replenishment Scenario

101. In this scenario, which adopts a dynamic approach to lending levels (see Table 11), it is also assumed that replenishment levels will be higher as from the Seventh Replenishment (about USD 560 million in 2004 prices or USD 594 million in 2007, representing a yearly average of USD 198 million in 2007 prices). This would allow IFAD to increase the lending level to a yearly average of USD 612 million in the period 2007-09, which represents an increase of 27% over the base scenario.

Table 11
Higher Lending/Higher Replenishment Scenario – Key Indicators
(USD millions)

	Sixth Replenishment 2004-06	**Seventh Replenishment 2007-09**	**Eighth Replenishment 2010-12**
Average annual lending level (loans and grants approved)	454	612	650
Average annual replenishment contributions	167	198	210
Average annual net cash Inflows	-101	-64	-48
Investment Portfolio (end of period)	2096	1904	1761

102. As may be seen from the balance sheet shown in Table 12, the contribution level would be higher (from USD 4 733 million in 2004-06 to USD 5 958 million in 2010-12) and the investment portfolio (liquid assets) would be lower compared with the two preceding scenarios. These average annual contributions are compared to USD 4 733 million in 2004-06 and USD 5 827 million in 2010-12 for both the base scenario and the higher lending scenario.

Table 12
Higher Lending/Higher Replenishment Scenario – Projected Balance Sheet and Income Statement

	Sixth Replenishment 2006		Seventh Replenishment 2009		Eighth Replenishment 2012	
BALANCE SHEET						
Assets	**USD Millions**	**%**	**USD Millions**	**%**	**USD Millions**	**%**
Liquid asset	2 096	32	1904	27	1761	24
Other receivables	621	10	739	10	855	11
Loan receivables	3 781	58	4 339	63	4 872	65
Total assets	**6 499**		**6 982**		**7 488**	
Liabilities	116	2	134	2	155	2
Equity						
Contributions	4 733		5 327		5 958	
General Reserve	95		95		95	
Accumulated surplus	1 555		1 426		1 280	
Total equity	6 383	98	6 848	98	7 333	98
Total liabilities and equity	**6 499**		**6 982**		**7 488**	
INCOME STATEMENT						
Income from loans	49		55		60	
Net investment result	78		71		66	
Total revenue	*127*		*127*		*127*	
Expenditures	*161*		*172*		*174*	
Net result	**(34)**		**(45)**		**(48)**	

103. Table 13 shows the key indicators for all three scenarios and the percentage movement of each indicator between 2004 and 2012. It also shows the percentage increase (decrease) of the indicators compared to the base scenario after the Eighth Replenishment. For instance, under the higher lending scenario, average lending levels would have increased by 24% by 2012, but these levels would have grown to 10% by the end of the Eighth Replenishment if the base scenario had been adopted. The higher lending/higher replenishment scenario shows that lending levels could be increased by 27% compared to the base scenario by 2012, assuming the wider definition of resources as well as a higher replenishment level.

104. In all three scenarios, in general terms, the investment portfolio is decreasing and the lending levels/loan receivables are increasing. Other receivables are also increasing over the course of the years. In the next 10 years, a negative yearly result is projected, but the level of equity will not be eroded and will instead remain constant at 98%. The balance sheet and income statement projections ascertain the soundness of IFAD’s financial structure, and they show that even in future years IFAD is unlikely to encounter term risk.

105. Comparing the higher lending scenario with the other IFIs, it is noted that IFAD would use a more conservative approach. IDA uses long-term financial projections, based on long-term, realistic and prudent assumptions, to manage IDA as a going concern and to make sure that it remains on a financially stable path. Since 1988, IDA has been using an advance commitment scheme through which it can make lending commitments against future reflows. Under this scheme, its resource transfer capacity at any given time is not only based on the current replenishment, but is also related to future reflow volumes, estimates of future

donor contributions, projected lending volumes, existing commitments and other factors. IDA's model, projected over 20 years, includes 85% of future loan reflows.

106. The ADF has adopted an extended advance commitment authority, which allows it to include loan repayments as resources available. As a provision against delays in reflows, the ADF – when calculating its resource base – includes only 85% of the total projected reflows.

107. It is suggested that the higher lending scenario is the one that would make the most efficient use of IFAD's resources. The higher lending/higher replenishment scenario has been presented to see the effect of increasing replenishments. It is been demonstrated, however, that lending can be increased while maintaining replenishments at the current level.

Table 13
Comparison of Base and Higher Lending Scenarios – Key Indicators
(USD millions)

Scenario		Sixth Replenishment 2004-06	Seventh Replenishment 2007-09	Eighth Replenishment 2010-12	Percentage Change in Eighth Repl. Compared with Base Scenario	Percentage Movement between 2004-2012
Base Scenario	Average annual lending level (loans and grants approved)	454	482	511		13%
	Average annual replenishment contributions	167	177	188		13%
	Average annual net cash inflows	(101)	(59)	(15)		
	Investment portfolio (end of period)	2 096	1 919	1 873		(11%)
Higher Lending	Average annual lending level (loans and grants approved)	454	530	563	10%	24%
	Average annual replenishment contributions	167	177	188	0	13%
	Average annual net cash inflows	(101)	(66)	(37)		
	Investment portfolio (end of period)	2 096	1 899	1 789	(4%)	(15%)
Higher lending/ higher replenish-ment	Average annual lending level (loans and grants approved)	454	612	650	27%	43%
	Average annual replenishment contributions	167	198	210	12%	26%
	Average annual net cash inflows	(101)	(64)	(48)		
	Investment portfolio (end of period)	2 096	1 904	1 761	(6%)	(16%)

Stress Testing

108. In order to test that the proposed model is sufficiently robust to withstand shocks, a number of stress-test scenarios were produced. These focus on areas where there may be risk in terms of assumptions not matching future reality:[26]

- Delayed encashment of contributions leading to liquidity gaps
- Low investment income

109. Assuming that the higher lending scenario were adopted and lending were increased to USD 520 million in 2007 and maintained at that real level thereafter, Table 14 (in the row "Stress Test: Contributions") shows what would happen if all replenishments as from the Seventh Replenishment took seven years to be encashed. The row "Stress Test: Investment Income" shows the outcome of reduced investment income, down to an average of 2% per year, with lending at USD 520 million in 2007 prices and the base replenishment level equivalent to that of the Sixth Replenishment (USD 500 million in 2004 prices). The impact on the balance sheet and income statement for the two stress tests is indicated in Tables 15 and 16.

110. Results show that the model can withstand each of these developments. In each case, the established lending level can be maintained in real terms and fully funded along with associated raises in grants, PDFF and, where relevant, administrative costs. For a period ranging from 13 to 24 years, net cash inflows are projected to be negative on average. During that period therefore, annual income is used up and supplemented from accumulated surplus (i.e. 'the investment portfolio') to meet funding needs. However, there is recovery in all cases as a result of increased reflows generated by a growing loan portfolio, supplemented by regular timely replenishments. The investment portfolio is projected to revert to positive growth and generate increased annual income, from 2015 onward, depending on the scenario.

Table 14
Stress Tests – Key Indicators
(USD millions)

Scenario		Sixth Replenishment 2004-06	Seventh Replenishment 2007-09	Eighth Replenishment 2010-12
Stress Test: Contributions	Average annual lending level (loans and grants approved)	454	530	563
	Average annual replenishment contributions	167	177	188
	Average annual net cash inflows	(134)	(97)	(47)
	Investment portfolio (end of period)	2000	1817	1648
Stress Test: Investment Income	Average annual lending level (loans and grants approved)	454	530	563
	Average annual replenishment contributions	167	177	188
	Average annual net cash inflows	(116)	(98)	(68)
	Investment portfolio (end of period)	2054	1901	1667

26 Other tests were considered but were discarded, either because of the low impact that variance would have on the model (e.g. inflation levels, disbursement pace) or because there is a high level of confidence in the assumptions made (e.g. loan servicing performance).

Table 15
Stress Tests – Scenario Contribution – Projected Balance Sheet and Income Statement

Higher Lending Scenario	Sixth Replenishment 2006		Seventh Replenishment 2009		Eighth Replenishment 2012	
BALANCE SHEET						
Assets	**USD Millions**	**%**	**USD Millions**	**%**	**USD Millions**	**%**
Liquid assets	2 009	31	1 718	25	1 577	21
Other receivables	709	11	882	13	1 009	14
Loan receivables	3 781	58	4 324	62	4 780	66
Total assets	**6 499**		**6 924**		**7 366**	
Liabilities	116	2	134	2	155	2
Equity						
Contributions	4 733		5 264		5 827	
General Reserve	95		95		95	
Accumulated surplus	1 555		1 431		1 289	
Total equity	6 383	98	6 790	98	7 211	98
Total liabilities and equity	**6 494**		**6 924**		**7 366**	
INCOME STATEMENT						
Income from loans	49		55		59	
Net investment result	76		64		58	
Total revenue	*125*		*118*		*117*	
Expenditures	*161*		*163*		*166*	
Net result	**(36)**		**(45)**		**(49)**	

Table 16
Stress Tests – Scenario Investment – Projected Balance Sheet and Income Statement

Higher Lending Scenario	Sixth Replenishment 2006		Seventh Replenishment 2009		Eighth Replenishment 2012	
BALANCE SHEET						
Assets	**USD Millions**	**%**	**USD Millions**	**%**	**USD Millions**	**%**
Liquid assets	63	32	1 769	26	1 564	22
Other receivables	654	10	743	11	859	12
Loan receivables	3 781	58	4 324	63	4 780	66
Total assets	**6 499**		**6 836**		**7 203**	
Liabilities	116	2	134	2	155	2
Equity						
Contributions	4 733		5 264		5 827	
General Reserve	95		95		95	
Accumulated surplus	1 555		1 343		1 126	
Total equity	6 383	98	6 702	98	7 048	98
Total liabilities and equity	**6 499**		**6 836**		**7 203**	
INCOME STATEMENT						
Income from loans	49		55		59	
Net investment result	44		39		34	
Total revenue	*93*		*94*		*93*	
Expenditures	*161*		*164*		*166*	
Net result	**(67)**		**(70)**		**(73)**	

111. It is interesting to note that, in each of these stress tests, the investment portfolio is never expected to fall below USD 1 244 million. This 'floor' represents a constant safety margin, an amount that should constantly remain in reserve. Therefore, if a portion of the portfolio were to be held to maturity, its size should not exceed this amount. This is further discussed in the section on market risk exposure (see section 3(e), above).

Table 17
Investment Portfolio Lower Limit under the Five Scenarios

Scenario	Investment Portfolio Floor (USD millions) Up to 2020
Base Scenario	1 856
Higher Lending	1 664
Higher Replenishment/Higher Lending	1 387
Stress: Contributions	1 378
Stress: Investment Income	1 244

112. Finally, in considering the proposed new approach to resources available for commitment, it would be useful to keep in mind that, under the present system, IFAD makes commitments against promissory notes of contributors that are in effect a legal obligation of a 'promise to pay'. Under the proposed new system, in addition to those notes, IFAD would also be making commitments against expected repayments

of loans, which are an 'obligation to pay' and which historically have proven even more reliable than the former. See the section on conclusions and action points, below, for the specific discussion on this matter.

113. Obviously, changing the definition of resources could generate an element of risk, in the same way that raising the ACA ceiling could do so. The financial management options have been prepared in a way to optimize asset and liability management and the use of resources within acceptable levels of risk. Financial risks can never be completely eliminated. It should also be noted that these scenarios have been prepared taking a long-term approach to IFAD's financial management. Each scenario is calculated up to 2020 so that the long-term effects of the assumptions are thoroughly evaluated.

5. PERIODIC REPORTING TO THE BOARD

114. The purpose of periodic reporting to the Executive Board is to keep that body informed and to request approval, when required, on matters relating to the financial condition of IFAD. As recommended by the Consultation document, the review will now examine the framework of reporting to the Executive Board with respect to investments.

115. Reporting to the Executive Board consists of the following:

- quarterly report on the investment portfolio
- yearly report on the investment portfolio
- statement of resources available for commitment
- audited annual financial statements of IFAD (including supporting schedules presented to the Audit Committee)

116. The following paragraphs present a more detailed look at these reports for the Executive Board.

(i) Quarterly Report on the Investment Portfolio

117. At its Sixty-Fourth Session in September 1998, the Executive Board approved a proposal to present quarterly reports on the investment portfolio. The reporting format has developed over time, reflecting suggestions by the Executive Board as well as the Audit Committee.

118. The quarterly report provides the following main information on the investment portfolio:

- investment policy (i.e. changes, implementations)
- asset allocation
- investment income
- rate of return and performance comparison against benchmarks
- currency composition, including SDR-alignment analyses
- risk measurement, including standard deviation and value at risk

119. In addition, as approved at the Sixty-Fifth Session in December 1998, special reports are to be provided to the Board whenever total monthly investment return falls below minus 5%, or whenever the monthly return of either the equities section or the fixed-income section of the portfolio falls below minus 10%.

(ii) Yearly Report on the Investment Portfolio

120. This report provides cumulative information for the full year, based on information presented in the quarterly reports to the Executive Board, and provides additional information on the following items:

- investments conditions, including background on economics and financial markets
- performance comparison against benchmarks
- compositions of the portfolio by instruments, maturities and countries

(iii) Statement of Resources Available

121. At each session, the Board is provided with a statement of resources available for commitment. As mentioned in section 4, up to now the committable resources have included unrestricted cash and promissory notes, from which existing and pending liabilities are deducted. Annex 1 shows the statement of resources available for commitment as at 31 December 2002 as presented in the audited financial statements

of IFAD. By way of comparison, the statement as at the same date is presented using the wider definition of resources as recommended in section 4, which includes Members' Instrument of Contribution and loan receivables for the coming five years. This comparison shows how the inclusion of Instrument of Contribution and loan receivables, net of provisions, will yield a considerably higher level of resources.

(iv) Information on the Investment Portfolio for IFAD's Financial Statements

122. The audited financial statements presented, first to the Audit Committee and then to the Board, explain the accounting policies adopted with respect to investments.

123. Appendix H, Note 3, of the financial statements contains the following information in relation to investments:

- investment management information
- risk management
- derivative instruments
- composition of the investment portfolio by instrument, by currency and by maturity
- investment income
- rate of return

124. Inasmuch as the Board receives the reports described above, it is felt that the Executive Board is kept adequately informed of the financial situation of IFAD with regard to investments. The Board is also kept fully abreast of all major policy changes in this area.

6. CONCLUSIONS AND ACTION POINTS

125. The conclusions drawn from this technical report are outlined below, and the resulting action points are presented for the Board's information. All the action points are within IFAD management's mandate in the various areas, and the points are presented here in order to keep the Board fully abreast of what IFAD management is considering. No decisions or actions are required from the Board at this time. Any revision of the definition of committable resources will be considered during negotiations for the Seventh Replenishment.

126. This paper presents a review of the informal ALM framework and the management of balance sheet assets and balance sheet liabilities at IFAD. The findings of the review are presented below, together with the resulting action points.

127. In the past, IFAD's risk management of its assets and liabilities has been fragmented and not formalized into a framework. Even though financial risk management has been adequate, that management can be improved by having an ALM group that focuses on all aspects of ALM and risk management within IFAD, rather than having the risk management and ALM responsibilities divided among several divisions. This group would build a formal framework, which would entail active management of risk exposures and safeguarding the financial soundness of IFAD, thus supporting the institution's continued effort to maximize its available resources for its borrowing Member States. The group would report to the Treasurer, who is also Secretary of IFAD's Investment Advisory Committee, and thereby keep the President – as Chairman of the Investment Advisory Committee – abreast of all issues relating to ALM.

128. Compared with other concessional lending IFIs, IFAD is adopting similar risk aversion policies and has, in the area of credit risk, additional protection through provisions that the other concessional lending institutions do not have (see paragraph 73). The lack of such provisions at the other IFIs is primarily due to the fact that the ADF, IDA and FSO are all concessional lending arms of larger IFIs that provide injections of capital, either regularly or as required.

129. IFAD's foreign currency management policies are sound; however, there is the issue of unhedged positions being taken by some portfolio managers. The section on currency risk exposure (section 3(b), above) outlines three alternatives for dealing with the current unhedged currency portion of the portfolio. It is proposed that the Investment Advisory Committee review these alternatives in detail and recommend appropriate action.

130. IFAD is very well covered in terms of credit risk, which is well managed by having prudent credit ratings for investments as well as the creation of provisions for any potential loss on loans or contributions in arrears.

131. Market risk is the area that has affected IFAD the most in recent years, although this risk has recently been reduced by shortening the duration of the portfolio. Section 3(e), above, discussed how holding a part of the portfolio to maturity could further reduce market risk by valuing the portfolio at cost. It is proposed that IFAD maintain a 'held to maturity' portion of its portfolio and that the Investment Advisory Committee should consider and recommend the size of this portfolio.

132. Under the current investment policy, liquidity risk is minimal for IFAD and it could be suggested that it is so low that it is impeding the achievement of the goal of maximizing resources available to IFAD's borrowing Member States as efficiently as possible while maintaining the financial soundness of the institution. Lending levels could be increased – while at the same time remaining within prudent liquidity limits – by changing the definition of resources available for commitment.

133. Currently the assets included in committable resources include cash and investments, and promissory notes.[27] If the definition were revised to include loan receivables as well as outstanding Members' Instruments of Contribution (which, in effect, are amounts receivable), this would increase the level of resources available for commitment and, consequently, would enable IFAD to increase its lending level. The rationale for this recommendation is as follows. During IFAD's start-up phase, when the definition of committable resources was created, IFAD decided that it could only approve for commitment what it had received (except for other receivables). There was no track record to show reflows, and it was a prudent and entirely appropriate approach to adopt at that time. After 25 years, IFAD's disbursements and loan reflows are relatively stable, confirming that IFAD is a going concern that can reasonably expect the receipt of both contributions and loans outstanding. To exclude loan receivables and Members' Instruments of Contribution receivable entirely from committable resources is to suggest that IFAD believes that all its loans outstanding will default at once and that Members will not fulfil their obligations. This is highly unlikely and, accordingly, it is recommended that the policy be amended. IFAD's liquidity policy and the extent to which it addresses this goal of resource maximization are discussed in section 3(c), above. In this same regard, section 4 and Annex 1 of this paper discuss and present various scenarios that demonstrate how IFAD liquidity can be reduced while maintaining the same amount of assets.

134. Obviously, changing the definition of resources could generate an element of risk, in the same way that raising the ACA ceiling could do so. The financial management options were prepared in a way to optimize asset and liability management and the use of resources within acceptable levels of risk. Financial risks can never be completely eliminated. It should also be noted that these scenarios were prepared taking a long-term approach to IFAD's financial management. Each scenario was calculated up to 2020 so that the long-term effects of the assumptions are thoroughly evaluated.

Action Points

135. In order to enable IFAD, first, to better achieve its financial objectives of preserving its capital and increasing investment returns while lowering the volatility of returns and, second, to implement the risk management approach through an ALM framework, the following actions will be taken.

136. Asset liability management at IFAD is conducted through the Investment Advisory Committee, through the implementation of and adherence to financial and accounting policies and procedures, through the use of its financial model, and through regular reporting to senior management and the Board. To enable IFAD to make decisions that are less fragmented, more informed, better coordinated and more accurate, a separate ALM group – to report to the Treasurer – will be established to focus on the management of assets, liabilities and the related risks.

137. To minimize market risk, an agreed portion of the investment portfolio will be in assets that are held to maturity, which can be recorded at cost rather than marked to market. The Investment Advisory Committee, along with the ALM group, will analyse the investment portfolio fully, and take into account all the advantages and disadvantages associated with holding investments to maturity. The committee will complete its analysis and take appropriate action by 30 June 2004.

138. The portion of the investment portfolio that may be (but not necessarily will be) subject to the risk of having an unhedged currency portion is approximately USD 100 million. This amount is arrived at based on the USD 1.2 billion portion of the investment portfolio, representing the fixed income portfolio, and the fact that, on average, the portfolio managers can keep up to 5%-10% unhedged. The three potential alternatives for dealing with this risk are:

[27] EB/34/1988 Minutes, paragraph 15(b)(i).
"Policy for Determining Resources Available for Commitment:
(i) Only actual payments received in the form of cash or promissory notes will be included in committable resources. The value of Instruments of Contribution against which payment in the form of cash or promissory notes has not yet been made will be excluded from committable resources."

(a) Each investment manager and respective benchmark would invest/be invested in only one of the four countries/currencies included in the SDR valuation basket. This alternative would eliminate managers' possibilities to take currency exposures, but it would also eliminate the possibilities to enhance returns through country allocation based on the expected returns of each country. Country allocation together with security selection, yield curve positioning and credit quality selection (and currency allocation when allowed) constitute the available possibilities to achieve outperformance against a benchmark.

(b) Each investment manager and respective benchmark would remain with current exposure to several countries and currencies, but without the option to deviate from the currency allocations embedded in the benchmark. This alternative would continue to allow for enhancement of returns through country allocation, but would require managers to be fully hedged against their benchmarks in terms of currency weights.

(c) Each investment manager and respective benchmark would remain with current exposure to several countries and currencies, but with the flexibility to have a limited amount of unhedged currency exposure vis-à-vis currency allocations embedded in the benchmark. Setting an overall, absolute deviation limit of, for example, 5% would not provide any significant opportunity for outperformance due to currency management, but it would allow managers a limited range for adjusting their currency weights.

139. The Investment Advisory Committee will review these alternatives in detail and take appropriate action by 30 June 2004, noting that this report suggests alternative (b) be adopted inasmuch as this would reduce to zero the risk of having an unhedged currency position.

140. The findings of this technical report clearly show that IFAD can remain within acceptable risk limits even with a lower liquidity level. Accordingly, the technical analysis recommends that the definition of 'committable resources' be revised as follows: "Committable resources shall include actual payments received in the form of cash or promissory notes. In addition, committable resources will include loans receivable for the next five years (net of provisions) as well as Members' Instruments of Contribution receivable (net of provisions)." However, due to the fact that the Sixth Replenishment resolution has already been adopted with specific modalities for the use of advance commitment authority, this proposal will be examined and elaborated further by the ALM group, with a view to its review and consideration during negotiations for the Seventh Replenishment.

ANNEX 1

STATEMENT OF RESOURCES AVAILABLE FOR COMMITMENT
(Expressed in thousands of United States dollars)

	31 December 2002	
	Base Scenario	**Higher Lending Scenario**
Assets in freely convertible currencies		
Cash	322 899	322 899
Investments	1 987 654	1 987 654
Promissory notes – Member States	291 283	291 283
Other receivables	146 652	146 652
Instruments of Contribution receivable		103 480
Loan receivables (five years)		667 000
	2 748 488	**3 518 968**
Less:		
Payables and accrued liabilities	410 533	410 533
General reserve	95 000	95 000
Undisbursed effective loans	1 725 503	1 725 503
Approved loans signed but not yet effective	342 463	342 463
Undisbursed grants	32 251	32 251
Drawdowns on promissory notes that have not yet been paid	101 400	101 400
	2 707 150	**2 707 150**
Resources available for commitment	41 338	811 818
Less:		
Loans not yet signed	299 706	299 706
Grants not yet effective	19 412	19 412
Net resources available for commitment prior to ACA	**(277 780)**	**492 699**

ANNEX 2

NOTES AND ASSUMPTIONS UNDERLYING THE BASE SCENARIO FINANCIAL OPTIONS

(1) Programme of Work

For the current year, amounts for loan and grant commitments are those of the 2003 programme of work. For future years, a starting commitment level is assumed and this is projected to remain constant in real terms over the years. Of this total, grant commitments represent 10% and loan commitments the remaining 90%.

Assumption: USD 466 million in 2004

(2) Inflation

It is assumed that the average annual international rate of inflation will be constant in the long term. The rate assumed is based on projections for the next five years (usually from World Bank or Economist Intelligence Unit sources). Commitments are projected to increase at this rate to reflect growth in nominal terms only. The same rate is used to project growth in the administrative budget, which is assumed to remain constant in real terms.

Assumption: 2% annual

(3) Loan Disbursements

For the loan portfolio as at the end of 2000 (loans approved up to the end of 2000), future disbursement performance and expected savings were estimated on a case-by-case basis, taking into account actual annual performance, countries involved, expected closing dates and the possibility of one or two extensions in most cases. The source of this data was the loan model maintained in IFAD's Office of the Controller, Loans and Grants Unit (FC-Loans).

Future loan disbursements are projected as follows, with disbursements for each loan starting the year subsequent to loan approval.

Cumulative percentage of loan commitments disbursed

Year of Loan	Year of project disbursement							
Approval	1st	2nd	3rd	4th	5th	6th	7th	8th
1978-2000			Actual and estimated annual figures					
2001 onward	6.30	13.70	22.60	35.40	49.20	62.90	75.90	88.00

Unused loan balances are reverted at the close of disbursements and become available for new commitments. This profile applied to loans committed from 2001 onward is based on statistics of IFAD loans approved and disbursed between 1981-2000.

(4) Grant Disbursements

It is assumed that 40% of annual grant commitments will be disbursed in the current year and 60% in the following year. While some types of grants disburse over a number of years, others are very fast disbursing or even paid out in a single sum. A two-year disbursement profile is a reasonable weighted average for all grants.

(5) Lending Terms

For past years, actual annual flows of loan interest/service charge and loan principal repayment amounts are entered. Projections of future flows are obtained as follows: (a) for loans approved up to the end of 2000, from the FC-Loans model mentioned in point 3 above; and (b) for loans approved from 2001 onward, derived on the basis of the following lending portfolio structure.

Lending Term Parameters

Type of loan	Repayment period (years)	Grace period (years)	Interest rate/ service charge[1/]	Share of annual loan commitments
Highly concessional	40	10	0.75%	67%
Intermediate	20	5	2.6%[1/]	20%
Ordinary	15	3	5.1%[1/]	13%

[1] The interest rates applied to intermediate and ordinary loans approved from 1994 onwards will change annually, in accordance with Resolution 83/XVII. For projection purposes, however, the current year's rates are applied until 2005. Thenceforth the interest rate for ordinary term loans is assumed to be equal to the assumed future inflation rate plus 4%. The intermediate rate is half that.

(6) Lending Reflows

Future arrears are set at a slightly conservative level as compared with reality. It is assumed that reflows from interest/service charge and from principal repayments will be at 95% of total amounts billed annually. The remaining unpaid amount is added on to the amount billed the following year, etc. The total thus derived is then adjusted for the expected impact of the HIPC Initiative, as explained below.

Assumption: 5% arrears

(7) <u>Impact of IFAD's Involvement in the Highly Indebted Poor Countries Debt Initiative</u>

In 1998, the Governing Council approved IFAD's involvement in this initiative on a case-by-case basis and approved the establishment of a related trust fund. The Netherlands was the first country to contribute – with an amount equivalent to USD 15.4 million (1988 terms) – and since then another nine countries have contributed to the trust fund. In total, an amount of some USD 51.5 million has been pledged by external sources. In addition, amounts totaling USD 59.7 million have been transferred to the trust fund from IFAD's regular resources.

The extent to which borrowers' debt will be covered by the HIPC Initiative is decided on a case-by-case basis by the World Bank and the International Monetary Fund at the time a country becomes eligible for participation. Countries may become eligible gradually over the next three years or so. Figures used in projecting cash flows are a combination of: (a) actual debt relief scheduled, for countries with approved IFAD programmes; and (b) estimated debt relief requirements, for the remaining countries, assuming that 20% of their outstanding debt (disbursements less repayments) to IFAD will be entirely recovered through the trust fund.

The full programme is expected to cost IFAD about USD 366 million, or USD 260 million in net present terms. Unless further contributions can be raised, this amount will have to be recovered from IFAD's own resources.

Assumption: Aside from the contributions already received or pledged, the total programme costs will be internalized.

(8) Investment Income

The current investment policy is expected to yield 5.6% in the long term. However, in the shorter term (i.e. three years) the yield that can be expected with about 80% certainty is 3.5%.

Assumption: 3.5%

(9) Replenishments/Resource Requirement

For the current replenishment period, actual or expected annual receipts are shown. Thenceforth, unless otherwise indicated, the figure is derived as the annual amount required to supplement available uncommitted resources in order to maintain the established commitment level (see note 1, above, on the programme of work) with a given ACA level (note 11 below). Alternatively, the model could be used to determine the commitment level that can be maintained under the same conditions with a predetermined replenishment amount.

It is assumed that future replenishment contributions would be in promissory notes in convertible currencies.

(10) Drawdown practice

For past years up to 1992, total disbursement requirements were met by drawing down Members' contributions on a pro rata basis. In 1993, drawdown from Members' contributions under the Regular Programme was suspended, pending a decision on the liquidity issue. In 1994, only the first tranche of the annual drawdown requirement was called under the Regular Programme. In 1995, the Governing Council decided that the obligatory drawdown would be limited to 35% of annual disbursement requirements, though Members may opt to approve encashment of additional amounts from their promissory note contributions. In December 2000, the Executive Board reinstated the 100% drawdown policy, although some Members have asked for special arrangements regarding encashment of their contributions. At present, the number, volume and impact of such arrangements are not yet known.

Assumption: The remainder of the Fifth Replenishment will be drawn down over 2004-06, supplemented with encashment of the Sixth Replenishment (see next note).

(11) Encashment of contributions

To a certain extent, the issue of drawdown policy has been rendered of little significance at this stage because the stock of past promissory notes is quickly being depleted. Since the annual inflow of new replenishment contributions tends to be not much over 50% of annual disbursements, the drawdown ratio is effectively limited to that. Moreover, a number of donors have agreed with IFAD on specific schedules for encashment of their promissory notes, irrespective of disbursement needs. During the Sixth Replenishment Consultation (which concluded in December 2002), there was discussion of establishing encashment schedules as a norm, and some countries indicated their preference for a six-to-seven year encashment period. In the end, however, it was left up to the individual countries to seek special agreements with IFAD. The result is, effectively, a mixed drawdown-encashment system.

Assumption: Future replenishment contributions will be encashed over a five-year period starting from the first year of the respective replenishment period.

(12) Advance Commitment Authority (ACA)

Until 2001, IFAD practice was to only make commitments against resources in hand. In other words, resources had to be available and were then set aside to back each loan or grant committed. However, in recent years, IFAD has resorted to use of ACA in order to maintain commitments at a steady and stable level despite resource shortages. The systems adopted by IDA and AsDB (essentially the same) were explored along with other approaches, but a final policy has not yet emerged. In the interim, the Executive Board approves the use of ACA at each session based on the informal understanding that it should not exceed the value of three years of projected lending reflows (currently about USD 540 million).

Use of ACA, at these reasonably contained levels, does not pose much financial risk because loans tend to disburse over eight years (or nine years from approval date) and the disbursement curve peaks in year 4 or 5. However, as compared with earlier practice, it does tend to erode the investment portfolio.

(13) Underlying Assumptions of the Financial Statement

The latest audited financial statement (2002) was taken as a reference and linked to the model projections.

- Net liquid assets: this figure is connected to the model. It is made up of cash balance and investment.
  - Cash balance is equal to the balance of the prior period plus loan principal and interest repayment minus loan and grant disbursements, minus expenditures (netted from accruals from the after-service medical coverage scheme [ASMCS]), plus drawdown encashment and cash payments of Instruments of Contribution, plus investment result.
  - Investment is the difference between net liquid assets and the cash balance.
- Receivables: this item is made up of contributions and drawdown receivables and other receivables.
  - Contributions and drawdown receivables are equal to the balance of the prior period plus the Instrument of Contribution received in the period minus the encashment.
- Loans outstanding: is the result of the balance of the prior period minus loan cancellations, minus loan repayments plus yearly disbursements.
- Liabilities: As an exception (owing to the change in the investment policy), the year 2002 had a higher balance. Based on the historical trend, it was assumed that in 2003 the balance will be 100 and in future years IFAD will encounter an increase of 5%.
- Contributions: prior period balance plus Instruments of Contribution received during the year.
- General Reserve: assumed to remain stable.
- Accumulated surplus: balance from the prior period plus the result of the prior period.
- Income statement items: all linked to the model assumptions.

ANNEX 3

FINANCIAL RESOURCE MANAGEMENT OPTIONS

This annex presents the financial model for the following scenarios:

Base scenario

Higher lending scenario, i.e. higher lending levels as from the Seventh Replenishment

Higher lending/higher replenishment scenario (as from the Seventh Replenishment)

Stress Test: Contributions

Stress Test: Investment Income

For each scenario, the resource position as well as the projected balance sheet and income statement from 2003 through to 2020 are shown.

Base Scenario

Commitment level USD 445 million in 2004 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2%

	Resource Position								USD million
		2003	2004	2005	2006	2007	2008	2009	2010
1	Loan and grant commitments	440	445	454	463	472	482	491	501
2	PDFF	25	28	29	29	30	30	31	32
3	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
4	Administrative expenses	45	47	48	49	50	51	52	53
5	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
6	**Total Annual Requirements (expenditures and commitments)**	**550**	**560**	**569**	**577**	**585**	**593**	**600**	**613**
7	Lending reflows	180	180	190	205	216	227	244	260
8	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
9	Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50
10	Replenishments	163	167	167	167	177	177	177	188
11	Investment income	74	75	75	78	73	72	71	67
14	**Total Annual Resources**	**485**	**493**	**482**	**499**	**517**	**527**	**542**	**565**
	Cumulative resource position								
17	**(+) Carry-over from previous year / (-) Cumulative ACA used at start of year**	**-278**	**-343**	**-410**	**-497**	**-576**	**-644**	**-711**	**-769**
18	**(+) Carry-over to following year / (-) Cumulative ACA used at end of year**	**-343**	**-410**	**-497**	**-576**	**-644**	**-711**	**-769**	**-817**
	Financial Position								
	Cash Inflows								
3	Investment income	74	75	75	78	73	72	71	67
4	Lending reflows	180	180	190	205	216	227	244	260
5	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
6	Drawdown/encashment contributions [1] [2]	162	154	154	154	206	206	106	219
7	**Total Inflows**	**434**	**431**	**419**	**436**	**496**	**506**	**422**	**546**
	Cash Outflows								
8	Disbursements (loans & grants)	305	386	419	441	413	420	434	420
9	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
10	PDFF	25	28	29	29	30	30	31	32
11	Administrative expenses	45	47	48	49	50	51	52	53
12	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
13	**Total Outflows**	**415**	**501**	**534**	**555**	**525**	**532**	**543**	**532**
	Asset Holdings								
14	Investment portfolio (end year)	2401	2330	2215	2096	2067	2041	1919	1933
15	Promissory note holdings net of provisions (end year)	196	208	220	233	203	174	245	214
16	**Total Assets**	**2596**	**2538**	**2436**	**2329**	**2270**	**2215**	**2164**	**2147**
	Risk monitoring indicators								
17	Net cash inflow (total inflows - total outflows)	19	-71	-115	-119	-30	-26	-122	14
18	Growth of investment portfolio		-2.9%	-4.9%	-5.4%	-1.4%	-1.3%	-6.0%	0.7%

[1] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 2003

[2] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Base Scenario

Commitment level USD 445 million in 2004 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2%

	Resource Position	2011	2012	2013	2014	2015	2016	2017	2018
1	Loan and grant commitments	511	521	532	542	553	564	576	587
2	PDFF	32	33	34	34	35	36	36	37
3	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8
4	Administrative expenses	54	55	56	57	59	60	61	62
5	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage	0	0	0	0	0	0	0	0
6	**Total Annual Requirements (expenditures and commitments)**	**620**	**630**	**639**	**651**	**661**	**671**	**683**	**694**
7	Lending reflows	266	278	288	300	313	324	336	348
8	Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0
9	Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50
10	Replenishments	188	188	199	199	199	211	211	211
11	Investment income	68	68	66	67	69	67	69	72
14	**Total Annual Resources**	**572**	**584**	**602**	**616**	**631**	**652**	**666**	**681**
	Cumulative resource position								
17	**(+) Carry-over from previous year / (-) Cumulative ACA used at start of year**	**-817**	**-866**	**-911**	**-948**	**-984**	**-1013**	**-1032**	**-1049**
18	**(+) Carry-over to following year / (-) Cumulative ACA used at end of year**	**-866**	**-911**	**-948**	**-984**	**-1013**	**-1032**	**-1049**	**-1063**
	Financial Position								
	Cash Inflows								
3	Investment income	68	68	66	67	69	67	69	72
4	Lending reflows	266	278	288	300	313	324	336	348
5	Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0
6	Drawdown/encashment contributions [1] [2]	219	113	232	232	120	246	246	127
7	**Total Inflows**	**553**	**459**	**585**	**599**	**502**	**637**	**651**	**546**
	Cash Outflows								
8	Disbursements (loans & grants)	425	429	435	443	452	461	470	480
9	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8
10	PDFF	32	33	34	34	35	36	36	37
11	Administrative expenses	54	55	56	57	59	60	61	62
12	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage	0	0	0	0	0	0	0	0
13	**Total Outflows**	**534**	**537**	**542**	**552**	**560**	**568**	**578**	**587**
	Asset Holdings								
14	Investment portfolio (end year)	1951	1873	1916	1963	1905	1974	2048	2007
15	Promissory note holdings net of provisions (end year)	183	258	225	192	272	237	202	286
16	**Total Assets**	**2134**	**2131**	**2141**	**2155**	**2177**	**2211**	**2249**	**2293**
	Risk monitoring indicators								
17	Net cash inflow (total inflows - total outflows)	18	-78	43	47	-58	69	73	-41
18	Growth of investment portfolio	0.9%	-4.0%	2.3%	2.4%	-3.0%	3.6%	3.7%	-2.0%

[1] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 200

[2] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Base Scenario
Commitment level USD 482 million in 2007 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2% per annum

Balance Sheet USD million

		2002	2003	2004	2005	2006	2007	2008	2009	2010
	Assets									
a	Cash	394	417	371	279	184	178	175	76	112
b	Investment	1,988	1,984	1,960	1,936	1,912	1,888	1,864	1,839	1,814
c	**Liquid Assets**	2,382	2,401	2,330	2,215	2,096	2,066	2,039	1,915	1,926
d	Contribution receivables (Promissory notes)	336	337	349	362	374	345	316	386	355
e	Other receivables	147	164	194	233	247	271	296	323	359
f	**Total receivables**	**483**	**501**	**543**	**595**	**621**	**616**	**611**	**709**	**714**
g	**Loan receivables**	**3,046**	**3,151**	**3,333**	**3,557**	**3,781**	**3,965**	**4,144**	**4,317**	**4,463**
h	**Total assets**	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,648**	**6,794**	**6,942**	**7,103**
	Composition of total assets:									
	Liquid assets	40%	40%	38%	35%	32%	31%	30%	28%	27%
	Contribution and other receivables	8%	8%	9%	9%	10%	9%	9%	10%	10%
	Loan receivables	52%	52%	54%	56%	58%	60%	61%	62%	63%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	Total Liabilities									
i	**Liabilities**	**440**	**100**	**105**	**110**	**116**	**122**	**128**	**134**	**141**
j	Contributions	4,070	4,233	4,400	4,566	4,733	4,910	5,087	5,264	5,451
k	General reserve	95	95	95	95	95	95	95	95	95
l	Accumulated surplus	1,306	1,625	1,607	1,595	1,555	1,521	1,484	1,449	1,416
m	**Total equity**	**5,471**	**5,953**	**6,102**	**6,256**	**6,383**	**6,526**	**6,666**	**6,808**	**6,962**
n	**Total liabilities**	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,648**	**6,794**	**6,942**	**7,103**
	Composition of total liabilities:									
	Liabilities	7%	2%	2%	2%	2%	2%	2%	2%	2%
	Total equity	93%	98%	98%	98%	98%	98%	98%	98%	98%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

USD million

Profit and Loss	2002	2003	2004	2005	2006	2007	2008	2009	2010
Income from loans	42	40	40	45	49	51	53	55	56
Net investment income	26	74	75	75	78	73	72	71	67
Total revenue	**68**	**114**	**115**	**120**	**127**	**124**	**125**	**126**	**123**
Operating expenses	40	45	47	48	49	50	51	52	53
Grants approved	16	22	33	45	46	48	49	50	51
PDFF	23	25	28	29	29	30	30	31	32
Allowance impairement loss	6	0	0	0	0	0	0	0	0
Allowance HIPC	22	27	13	37	35	33	30	26	27
SCP	3	9	6	1	1	0	0	0	0
Provision AMSC	8	4	0	0	0	0	0	0	0
Total costs	**118**	**132**	**127**	**160**	**161**	**161**	**161**	**159**	**163**
	(50)	(18)	(12)	(40)	(34)	(37)	(35)	(33)	(39)
Exchange rate movements	369								
Transfer to ACC Surplus	**319**	**(18)**	**(12)**	**(40)**	**(34)**	**(37)**	**(35)**	**(33)**	**(39)**

Base Scenario
Commitment level USD 482 million in 2007 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 3.5% per annum
Loan Cancellations: 17% for the ongoing portfolio, and 12% for future loan commitments
Inflation: 2% per annum

	Balance Sheet										USD million
		2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
	Assets										
a	Cash	152	94	158	224	185	273	366	345	461	585
b	Investment	1,788	1,761	1,734	1,707	1,679	1,650	1,621	1,591	1,561	1,530
c	**Liquid Assets**	1,940	1,856	1,892	1,931	1,864	1,923	1,987	1,937	2,021	2,115
d	Contribution receivables (Promissory notes)	324	399	366	333	413	378	343	428	391	353
e	Other receivables	390	425	467	508	549	597	644	693	749	801
f	**Total receivables**	**714**	**824**	**833**	**841**	**962**	**975**	**988**	**1,121**	**1,139**	**1,154**
g	**Loan receivables**	**4,605**	**4,737**	**4,863**	**4,987**	**5,103**	**5,215**	**5,324**	**5,427**	**5,526**	**5,617**
h	**Total assets**	**7,258**	**7,417**	**7,589**	**7,759**	**7,929**	**8,114**	**8,298**	**8,484**	**8,687**	**8,886**
	Composition of total assets:										
	Liquid assets	27%	25%	25%	25%	24%	24%	24%	23%	23%	24%
	Contribution and other receivables	10%	11%	11%	11%	12%	12%	12%	13%	13%	13%
	Loan receivables	63%	64%	64%	64%	64%	64%	64%	64%	64%	63%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	Total Liabilities										
i	**Liabilities**	**148**	**155**	**163**	**171**	**180**	**189**	**198**	**208**	**218**	**229**
j	Contributions	5,639	5,827	6,026	6,225	6,425	6,636	6,847	7,059	7,283	7,507
k	General reserve	95	95	95	95	95	95	95	95	95	95
l	Accumulated surplus	1,377	1,340	1,305	1,267	1,230	1,195	1,158	1,123	1,090	1,055
m	**Total equity**	**7,111**	**7,262**	**7,426**	**7,588**	**7,749**	**7,926**	**8,100**	**8,277**	**8,468**	**8,657**
n	**Total liabilities**	**7,258**	**7,417**	**7,589**	**7,759**	**7,929**	**8,114**	**8,298**	**8,484**	**8,687**	**8,886**
	Composition of total liabilities:										
	Liabilities	2%	2%	2%	2%	2%	2%	2%	2%	3%	3%
	Total equity	98%	98%	98%	98%	98%	98%	98%	98%	97%	97%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

										USD million
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profit and Loss										
Income from loans	57	58	59	60	61	63	64	65	66	67
Net investment income	67	68	65	66	68	65	67	70	68	71
Total revenue	**125**	**126**	**124**	**127**	**129**	**128**	**131**	**135**	**134**	**138**
Operating expenses	54	55	56	57	59	60	61	62	63	65
Grants approved	52	53	54	55	56	58	59	60	61	62
PDFF	32	33	34	34	35	36	36	37	38	39
Allowance impairement loss	0	0	0	0	0	0	0	0	0	0
Allowance HIPC	23	20	17	17	14	11	10	8	7	6
SCP	0	0	0	0	0	0	0	0	0	0
Provision AMSC	0	0	0	0	0	0	0	0	0	0
Total costs	**161**	**161**	**162**	**164**	**164**	**164**	**166**	**167**	**169**	**171**
	(37)	(35)	(37)	(38)	(35)	(37)	(35)	(33)	(35)	(33)
Exchange rate movements										
Transfer to ACC Surplus	**(37)**	**(35)**	**(37)**	**(38)**	**(35)**	**(37)**	**(35)**	**(33)**	**(35)**	**(33)**

Higher Lending

From 2007, commitment level raised and maintained at USD 520 million in 2007 prices.

Resources available for commitment include 5 years of receivables for loan principal and interest

Replenishments: future replenishments USD 500 million in 2004 prices

Fixed encashment of contributions over 5 years, starting first year of replenishment period

Investment Income: 3.5% per annum

Grants: 10%

Inflation: 2% per annum

Resource Position USD million

		2003	2004	2005	2006	2007	2008	2009	2010
1	Loan and grant commitments	440	445	454	463	520	530	541	552
2	PDFF	25	28	29	29	30	30	31	32
3	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
4	Administrative expenses	45	47	48	49	50	51	52	53
5	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
6	**Total Annual Requirements (expenditures and commitments)**	**550**	**560**	**569**	**577**	**633**	**642**	**650**	**663**
7	Replenishment contributions	163	167	167	167	177	177	177	188
8	Carry forward (committable resources including loan receivables) [1]	566	527	511	504	500	461	421	382
9	Lending reflows	180	180	190	205	216	227	244	260
10	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
11	Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50
12	Investment income	74	75	75	78	73	72	71	66
13	**Total resources**	**1051**	**1021**	**993**	**1003**	**1017**	**987**	**963**	**947**
14	**of which actual resources in hand (end year)**	377	317	224	171	124	32	-47	-118

Financial Position

		2003	2004	2005	2006	2007	2008	2009	2010
	Inflows								
15	Investment income	74	75	75	78	73	72	71	66
16	Lending reflows	180	180	190	205	216	227	244	260
17	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
18	Drawdown/encashment contributions [2,3]	162	154	154	154	206	206	106	219
19	**Total Inflows**	**434**	**431**	**419**	**436**	**496**	**506**	**421**	**545**
	Outflows								
20	Disbursements (loans & grants)	305	386	419	441	414	428	445	435
21	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
22	PDFF	25	28	29	29	30	30	31	32
23	Administrative expenses	45	47	48	49	50	51	52	53
24	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
25	**Total Outflows**	**415**	**501**	**534**	**555**	**527**	**539**	**554**	**547**
	Asset Holdings								
26	Investment portfolio (end year)	2401	2330	2215	2096	2065	2031	1899	1897
27	Promissory note holdings net of provisions (end year)	196	208	220	233	203	174	245	214
28	**Total Assets**	**2596**	**2538**	**2436**	**2329**	**2268**	**2205**	**2144**	**2111**
	Risk monitoring indicators								
29	Net cash inflow (total inflows - total outflows)	19	-71	-115	-119	-32	-34	-133	-2
30	Growth of investment portfolio		-2.9%	-4.9%	-5.4%	-1.5%	-1.6%	-6.5%	-0.1%

[1] These resources include receivables of loan principal plus projected loan service charge/interest for the subsequent five years.

[2] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 2003

[3] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Higher Lending

From 2007, commitment level raised and maintained at USD 520 million in 2007 prices.

Resources available for commitment include 5 years of receivables for loan principal and interest

Replenishments: future replenishments USD 500 million in 2004 prices

Fixed encashment of contributions over 5 years, starting first year of replenishment period

Investment Income: 3.5% per annum

Grants: 10%

Inflation: 2% per annum

Resource Position USD mil

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	Loan and grant commitments	563	574	586	597	609	621	634	647	659	673
2	PDFF	32	33	34	34	35	36	36	37	38	39
3	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8	7	6
4	Administrative expenses	54	55	56	57	59	60	61	62	63	65
5	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	0	0	0	0	0	0	0	0	0	0
6	**Total Annual Requirements (expenditures and commitments)**	**672**	**682**	**693**	**706**	**717**	**728**	**741**	**754**	**768**	**782**
7	Replenishment contributions	188	188	199	199	199	211	211	211	224	224
8	Carry forward (committable resources including loan receivables) [1]	356	331	307	294	285	281	287	295	306	327
9	Lending reflows	267	280	291	304	320	332	345	359	374	392
10	Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0	0	0
11	Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50	50	50
12	Investment income	66	66	63	63	63	60	60	61	58	60
13	**Total resources**	**927**	**915**	**910**	**911**	**917**	**933**	**953**	**977**	**1013**	**1053**
14	**of which actual resources in hand (end year)**	-199	-272	-338	-401	-456	-506	-553	-597	-627	-650

Financial Position

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Inflows										
15	Investment income	66	66	63	63	63	60	60	61	58	60
16	Lending reflows	267	280	291	304	320	332	345	359	374	392
17	Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0	0	0
18	Drawdown/encashment contributions [2 3]	219	113	232	232	120	246	246	127	261	261
19	**Total Inflows**	**552**	**459**	**585**	**599**	**502**	**638**	**651**	**547**	**694**	**713**
	Outflows										
20	Disbursements (loans & grants)	446	456	468	483	498	508	518	528	539	550
21	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8	7	6
22	PDFF	32	33	34	34	35	36	36	37	38	39
23	Administrative expenses	54	55	56	57	59	60	61	62	63	65
24	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	0	0	0	0	0	0	0	0	0	0
25	**Total Outflows**	**555**	**564**	**575**	**592**	**605**	**615**	**625**	**635**	**647**	**659**
	Asset Holdings										
26	Investment portfolio (end year)	1894	1789	1799	1807	1703	1727	1753	1664	1711	1766
27	Promissory note holdings net of provisions (end year)	183	258	225	192	272	237	202	286	249	212
28	**Total Assets**	**2077**	**2047**	**2024**	**1999**	**1975**	**1963**	**1954**	**1950**	**1960**	**1978**
	Risk monitoring indicators										
29	Net cash inflow (total inflows - total outflows)	-3	-106	10	8	-103	23	26	-89	47	55
30	Growth of investment portfolio	-0.1%	-5.6%	0.6%	0.4%	-5.7%	1.4%	1.5%	-5.1%	2.8%	3.2%

[1] These resources include receivables of loan principal plus projected loan service charge/interest for the subsequent five years.

[2] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 2003

[3] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Higher Lending
Commitment level USD 520 million in 2007 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2% per annum

Balance Sheet USD million

		2002	2003	2004	2005	2006	2007	2008	2009	2010
	Assets									
a	Cash	394	417	371	279	184	176	167	60	83
b	Investment	1,988	1,984	1,960	1,936	1,912	1,888	1,864	1,839	1,814
c	**Liquid Assets**	2,382	2,401	2,330	2,215	2,096	2,065	2,031	1,899	1,897
d	Contribution receivables (Promissory notes)	336	337	349	362	374	345	316	386	355
e	Other receivables	147	164	194	233	247	273	297	325	361
f	**Total receivables**	**483**	**501**	**543**	**595**	**621**	**618**	**613**	**711**	**716**
g	**Loan receivables**	**3,046**	**3,151**	**3,333**	**3,557**	**3,781**	**3,965**	**4,146**	**4,324**	**4,478**
h	**Total assets**	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,648**	**6,790**	**6,934**	**7,091**
	Composition of total assets:									
	Liquid assets	40%	40%	38%	35%	32%	31%	30%	27%	27%
	Contribution and other receivables	8%	8%	9%	9%	10%	9%	9%	10%	10%
	Loan receivables	52%	52%	54%	56%	58%	60%	61%	62%	63%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	Total Liabilities									
i	**Liabilities**	**440**	**100**	**105**	**110**	**116**	**122**	**128**	**134**	**141**
j	Contributions	4,070	4,233	4,400	4,566	4,733	4,910	5,087	5,264	5,451
k	General reserve	95	95	95	95	95	95	95	95	95
l	Accumulated surplus	1,306	1,625	1,607	1,595	1,555	1,521	1,481	1,441	1,404
m	**Total equity**	**5,471**	**5,953**	**6,102**	**6,256**	**6,383**	**6,526**	**6,662**	**6,800**	**6,951**
n	**Total liabilities**	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,648**	**6,790**	**6,934**	**7,091**
	Composition of total liabilities:									
	Liabilities	7%	2%	2%	2%	2%	2%	2%	2%	2%
	Total equity	93%	98%	98%	98%	98%	98%	98%	98%	98%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

USD million

Profit and Loss	2002	2003	2004	2005	2006	2007	2008	2009	2010
Income from loans	42	40	40	45	49	51	53	55	56
Net investment income	26	74	75	75	78	73	72	71	66
Total revenue	**68**	**114**	**115**	**120**	**127**	**124**	**125**	**126**	**123**
Operating expenses	40	45	47	48	49	50	51	52	53
Grants approved	16	22	33	45	46	52	53	54	55
PDFF	23	25	28	29	29	30	30	31	32
Allowance impairement loss	6	0	0	0	0	0	0	0	0
Allowance HIPC	22	27	13	37	35	33	30	26	27
SCP	3	9	6	1	1	0	0	0	0
Provision AMSC	8	4	0	0	0	0	0	0	0
Total costs	**118**	**132**	**127**	**160**	**161**	**165**	**165**	**163**	**167**
	(50)	(18)	(12)	(40)	(34)	(40)	(39)	(37)	(44)
Exchange rate movements	369								
Transfer to ACC Surplus	**319**	**(18)**	**(12)**	**(40)**	**(34)**	**(40)**	**(39)**	**(37)**	**(44)**

Higher Lending
Commitment level USD 520 million in 2007 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2% per annum

Balance Sheet — USD million

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Assets										
a	Cash	107	27	65	100	25	76	132	73	150	236
b	Investment	1,788	1,761	1,734	1,707	1,679	1,650	1,621	1,591	1,561	1,530
c	**Liquid Assets**	1,894	1,789	1,799	1,807	1,703	1,727	1,753	1,664	1,711	1,766
d	Contribution receivables (Promissory notes)	324	399	366	333	413	378	343	428	391	353
e	Other receivables	392	428	470	511	553	603	651	701	757	811
f	**Total receivables**	**716**	**827**	**836**	**845**	**966**	**981**	**994**	**1,128**	**1,148**	**1,164**
g	**Loan receivables**	**4,632**	**4,780**	**4,927**	**5,076**	**5,221**	**5,361**	**5,498**	**5,629**	**5,755**	**5,872**
h	**Total assets**	**7,242**	**7,396**	**7,563**	**7,727**	**7,891**	**8,069**	**8,245**	**8,422**	**8,614**	**8,802**
	Composition of total assets:										
	Liquid assets	26%	24%	24%	23%	22%	21%	21%	20%	20%	20%
	Contribution and other receivables	10%	11%	11%	11%	12%	12%	12%	13%	13%	13%
	Loan receivables	64%	65%	65%	66%	66%	66%	67%	67%	67%	67%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	Total Liabilities										
i	**Liabilities**	**148**	**155**	**163**	**171**	**180**	**189**	**198**	**208**	**218**	**229**
j	Contributions	5,639	5,827	6,026	6,225	6,425	6,636	6,847	7,059	7,283	7,507
k	General reserve	95	95	95	95	95	95	95	95	95	95
l	Accumulated surplus	1,360	1,319	1,279	1,236	1,192	1,149	1,104	1,060	1,017	970
m	**Total equity**	**7,095**	**7,241**	**7,400**	**7,556**	**7,711**	**7,880**	**8,047**	**8,214**	**8,395**	**8,573**
n	**Total liabilities**	**7,242**	**7,396**	**7,563**	**7,727**	**7,891**	**8,069**	**8,245**	**8,422**	**8,614**	**8,802**
	Composition of total liabilities:										
	Liabilities	2%	2%	2%	2%	2%	2%	2%	2%	3%	3%
	Total equity	98%	98%	98%	98%	98%	98%	98%	98%	97%	97%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

USD million

Profit and Loss	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Income from loans	58	59	60	62	63	65	66	68	69	71
Net investment income	66	66	63	63	63	60	60	61	58	60
Total revenue	**124**	**125**	**123**	**125**	**126**	**124**	**127**	**129**	**127**	**130**
Operating expenses	54	55	56	57	59	60	61	62	63	65
Grants approved	56	57	59	60	61	62	63	65	66	67
PDFF	32	33	34	34	35	36	36	37	38	39
Allowance impairement loss	0	0	0	0	0	0	0	0	0	0
Allowance HIPC	23	20	17	17	14	11	10	8	7	6
SCP	0	0	0	0	0	0	0	0	0	0
Provision AMSC	0	0	0	0	0	0	0	0	0	0
Total costs	**166**	**166**	**166**	**169**	**169**	**169**	**171**	**172**	**174**	**176**
	(41)	(40)	(43)	(44)	(42)	(45)	(44)	(43)	(47)	(46)
Exchange rate movements										
Transfer to ACC Surplus	**(41)**	**(40)**	**(43)**	**(44)**	**(42)**	**(45)**	**(44)**	**(43)**	**(47)**	**(46)**

Higher Lending Higher Replenishment

From 2007, commitment level raised and maintained at USD 600 million in 2007 prices.
Resources available for commitment include 5 years of receivables for loan principal and interest
Future replenishments USD 560 million in 2004 prices (or USD 594 million in 2007 prices)
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2% per annum

Resource Position USD million

		2003	2004	2005	2006	2007	2008	2009	2010
1	Loan and grant commitments	440	445	454	463	600	612	624	637
2	PDFF	25	28	29	29	30	30	31	32
3	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
4	Administrative expenses	45	47	48	49	50	51	52	53
5	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
6	**Total Annual Requirements (expenditures and commitments)**	**550**	**560**	**569**	**577**	**713**	**723**	**733**	**748**
7	Replenishment contributions	163	167	167	167	198	198	198	210
8	Carry forward (committable resources including loan receivables) [1]	566	528	511	505	503	407	313	221
9	Lending reflows	180	180	190	205	216	227	244	261
10	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
11	Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50
12	Investment income	74	75	75	78	73	73	71	67
13	**Total resources**	**1051**	**1021**	**993**	**1004**	**1041**	**955**	**877**	**808**
14	**of which actual resources in hand (end year)**	377	317	224	171	145	-6	-144	-275

Financial Position

		2003	2004	2005	2006	2007	2008	2009	2010
	Inflows								
15	Investment income	74	75	75	78	73	73	71	67
16	Lending reflows	180	180	190	205	216	227	244	261
17	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
18	Drawdown/encashment contributions [2 3]	162	154	154	154	219	219	119	245
19	**Total Inflows**	**434**	**431**	**419**	**436**	**509**	**519**	**435**	**572**
	Outflows								
20	Disbursements (loans & grants)	305	386	419	441	418	441	463	460
21	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
22	PDFF	25	28	29	29	30	30	31	32
23	Administrative expenses	45	47	48	49	50	51	52	53
24	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
25	**Total Outflows**	**415**	**501**	**534**	**555**	**531**	**552**	**572**	**572**
	Asset Holdings								
26	Investment portfolio (end year)	2401	2330	2215	2096	2074	2041	1904	1904
27	Promissory note holdings net of provisions (end year)	196	208	220	233	212	191	270	236
28	**Total Assets**	**2596**	**2538**	**2436**	**2329**	**2286**	**2232**	**2174**	**2140**
	Risk monitoring indicators								
29	Net cash inflow (total inflows - total outflows)	19	-71	-115	-119	-22	-33	-137	0
30	Growth of investment portfolio		-2.9%	-4.9%	-5.4%	-1.0%	-1.6%	-6.7%	0.0%

[1] These resources include receivables of loan principal plus projected loan service charge/interest for the subsequent five years.
[2] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 2003
[3] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Higher Lending Higher Replenishment

From 2007, commitment level raised and maintained at USD 600 million in 2007 prices.

Resources available for commitment include 5 years of receivables for loan principal and interest

Future replenishments USD 560 million in 2004 prices (or USD 594 million in 2007 prices)

Fixed encashment of contributions over 5 years, starting first year of replenishment period

Investment Income: 3.5% per annum

Grants: 10%

Inflation: 2% per annum

Resource Position

USD millic

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Loan and grant commitments	649	662	676	689	703	717	731	746	761	776
2 PDFF	32	33	34	34	35	36	36	37	38	39
3 Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8	7	6
4 Administrative expenses	54	55	56	57	59	60	61	62	63	65
5 Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	0	0	0	0	0	0	0	0	0	0
6 Total Annual Requirements (expenditures and commitments)	**759**	**771**	**783**	**798**	**811**	**824**	**839**	**853**	**869**	**885**
7 Replenishment contributions	210	210	223	223	223	237	237	237	251	251
8 Carry forward (committable resources including loan receivables) [1]	142	66	-8	-70	-127	-177	-216	-252	-287	-310
9 Lending reflows	269	283	296	312	330	345	360	378	397	418
10 Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0	0	0
11 Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50	50	50
12 Investment income	67	66	62	61	60	55	54	54	49	49
13 Total resources	**738**	**675**	**622**	**577**	**537**	**509**	**485**	**466**	**460**	**458**
14 **of which actual resources in hand (end year)**	-415	-547	-671	-792	-905	-1013	-1120	-1221	-1307	-1385

Financial Position

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Inflows										
15 Investment income	67	66	62	61	60	55	54	54	49	49
16 Lending reflows	269	283	296	312	330	345	360	378	397	418
17 Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0	0	0
18 Drawdown/encashment contributions [2 3]	245	126	260	260	134	276	276	142	293	293
19 Total Inflows	**581**	**475**	**618**	**633**	**524**	**675**	**690**	**573**	**738**	**760**
Outflows										
20 Disbursements (loans & grants)	480	502	524	550	574	586	598	610	622	634
21 Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8	7	6
22 PDFF	32	33	34	34	35	36	36	37	38	39
23 Administrative expenses	54	55	56	57	59	60	61	62	63	65
24 Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	0	0	0	0	0	0	0	0	0	0
25 Total Outflows	**590**	**610**	**631**	**658**	**682**	**693**	**705**	**717**	**730**	**743**
Asset Holdings										
26 Investment portfolio (end year)	1895	1761	1747	1722	1564	1546	1531	1387	1395	1412
27 Promissory note holdings net of provisions (end year)	201	285	248	211	300	261	222	317	275	234
28 Total Assets	**2096**	**2046**	**1995**	**1933**	**1864**	**1808**	**1753**	**1704**	**1671**	**1646**
Risk monitoring indicators										
29 Net cash inflow (total inflows - total outflows)	-9	-134	-14	-25	-158	-18	-15	-144	8	17
30 Growth of investment portfolio	-0.5%	-7.1%	-0.8%	-1.4%	-9.2%	-1.1%	-1.0%	-9.4%	0.6%	1.2%

[1] These resources include receivables of loan principal plus projected loan service charge/interest for the subsequent five years.

[2] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 2003

[3] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Higher Lending Higher Replenishment
Commitment level USD 600 million in 2007 and maintained at that level in real terms.
Future replenishments USD 560 million in 2004 prices (or USD 594 million in 2007 prices)
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2% per annum

Balance Sheet USD million

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assets									
Cash	394	417	371	279	184	186	177	65	91
Investment	1,988	1,984	1,960	1,936	1,912	1,888	1,864	1,839	1,814
Liquid Assets	2,382	2,401	2,330	2,215	2,096	2,074	2,041	1,904	1,904
Contribution receivables (Promissory notes)	336	337	349	362	374	353	332	412	377
Other receivables	147	164	194	233	247	276	300	328	363
Total receivables	**483**	**501**	**543**	**595**	**621**	**629**	**632**	**739**	**740**
Loan receivables	**3,046**	**3,151**	**3,333**	**3,557**	**3,781**	**3,965**	**4,151**	**4,339**	**4,509**
Total assets	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,669**	**6,825**	**6,982**	**7,154**
Composition of total assets:									
Liquid assets	40%	40%	38%	35%	32%	31%	30%	27%	27%
Contribution and other receivables	8%	8%	9%	9%	10%	9%	9%	11%	10%
Loan receivables	52%	52%	54%	56%	58%	59%	61%	62%	63%
Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Total Liabilities									
Liabilities	**440**	**100**	**105**	**110**	**116**	**122**	**128**	**134**	**141**
Contributions	4,070	4,233	4,400	4,566	4,733	4,931	5,129	5,327	5,538
General reserve	95	95	95	95	95	95	95	95	95
Accumulated surplus	1,306	1,625	1,607	1,595	1,555	1,521	1,473	1,426	1,381
Total equity	**5,471**	**5,953**	**6,102**	**6,256**	**6,383**	**6,547**	**6,697**	**6,848**	**7,013**
Total liabilities	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,669**	**6,825**	**6,982**	**7,154**
Composition of total liabilities:									
Liabilities	7%	2%	2%	2%	2%	2%	2%	2%	2%
Total equity	93%	98%	98%	98%	98%	98%	98%	98%	98%
Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

USD million

Profit and Loss	2002	2003	2004	2005	2006	2007	2008	2009	2010
Income from loans	42	40	40	45	49	51	53	55	57
Net investment income	26	74	75	75	78	73	73	71	67
Total revenue	**68**	**114**	**115**	**120**	**127**	**124**	**126**	**127**	**123**
Operating expenses	40	45	47	48	49	50	51	52	53
Grants approved	16	22	33	45	46	60	61	62	64
PDFF	23	25	28	29	29	30	30	31	32
Allowance impairement loss	6	0	0	0	0	0	0	0	0
Allowance HIPC	22	27	13	37	35	33	30	26	27
SCP	3	9	6	1	1	0	0	0	0
Provision AMSC	8	4	0	0	0	0	0	0	0
Total costs	**118**	**132**	**127**	**160**	**161**	**173**	**173**	**172**	**175**
	(50)	(18)	(12)	(40)	(34)	(48)	(47)	(45)	(52)
Exchange rate movements	369								
Transfer to ACC Surplus	**319**	**(18)**	**(12)**	**(40)**	**(34)**	**(48)**	**(47)**	**(45)**	**(52)**

Higher Lending Higher Replenishment
Commitment level USD 600 million in 2007 and maintained at that level in real terms.
Future replenishments USD 560 million in 2004 prices (or USD 594 million in 2007 prices)
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2% per annum

Balance Sheet USD million

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assets										
Cash	107	(1)	13	15	(115)	(104)	(90)	(204)	(165)	(117)
Investment	1,788	1,761	1,734	1,707	1,679	1,650	1,621	1,591	1,561	1,530
Liquid Assets	1,895	1,761	1,747	1,722	1,564	1,546	1,531	1,387	1,395	1,412
Contribution receivables (Promissory notes)	342	426	389	352	442	403	363	458	417	375
Other receivables	394	430	473	514	557	607	656	707	765	819
Total receivables	**737**	**856**	**862**	**867**	**998**	**1,010**	**1,020**	**1,165**	**1,181**	**1,194**
Loan receivables	**4,688**	**4,872**	**5,062**	**5,263**	**5,469**	**5,669**	**5,866**	**6,055**	**6,238**	**6,410**
Total assets	**7,320**	**7,488**	**7,671**	**7,852**	**8,031**	**8,225**	**8,417**	**8,608**	**8,814**	**9,016**
Composition of total assets:										
Liquid assets	26%	24%	23%	22%	19%	19%	18%	16%	16%	16%
Contribution and other receivables	10%	11%	11%	11%	12%	12%	12%	14%	13%	13%
Loan receivables	64%	65%	66%	67%	68%	69%	70%	70%	71%	71%
Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Total Liabilities										
Liabilities	**148**	**155**	**163**	**171**	**180**	**189**	**198**	**208**	**218**	**229**
Contributions	5,748	5,958	6,181	6,404	6,627	6,864	7,101	7,338	7,589	7,840
General reserve	95	95	95	95	95	95	95	95	95	95
Accumulated surplus	1,329	1,280	1,232	1,181	1,129	1,078	1,022	967	912	851
Total equity	**7,172**	**7,333**	**7,508**	**7,680**	**7,851**	**8,037**	**8,219**	**8,400**	**8,596**	**8,787**
Total liabilities	**7,320**	**7,488**	**7,671**	**7,852**	**8,031**	**8,225**	**8,417**	**8,608**	**8,814**	**9,016**
Composition of total liabilities:										
Liabilities	2%	2%	2%	2%	2%	2%	2%	2%	2%	3%
Total equity	98%	98%	98%	98%	98%	98%	98%	98%	98%	97%
Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

USD million

Profit and Loss	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Income from loans	59	60	62	64	66	69	71	73	75	77
Net investment income	67	66	62	61	60	55	54	54	49	49
Total revenue	**125**	**127**	**124**	**125**	**127**	**123**	**125**	**127**	**124**	**126**
Operating expenses	54	55	56	57	59	60	61	62	63	65
Grants approved	65	66	68	69	70	72	73	75	76	78
PDFF	32	33	34	34	35	36	36	37	38	39
Allowance impairement loss	0	0	0	0	0	0	0	0	0	0
Allowance HIPC	23	20	17	17	14	11	10	8	7	6
SCP	0	0	0	0	0	0	0	0	0	0
Provision AMSC	0	0	0	0	0	0	0	0	0	0
Total costs	**174**	**174**	**175**	**178**	**178**	**179**	**181**	**182**	**184**	**187**
	(49)	(48)	(51)	(52)	(51)	(55)	(55)	(55)	(61)	(60)
Exchange rate movements										
Transfer to ACC Surplus	**(49)**	**(48)**	**(51)**	**(52)**	**(51)**	**(55)**	**(55)**	**(55)**	**(61)**	**(60)**

Stress Test: Contributions

From 2007, commitment level raised and maintained at USD 520 million in 2007 prices.
Resources available for commitment include 5 years of receivables for loan principal and interest
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 7 years starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2% per annum

Resource Position

USD million

		2003	2004	2005	2006	2007	2008	2009	2010
1	Loan and grant commitments	440	445	454	463	520	530	541	552
2	PDFF	25	28	29	29	30	30	31	32
3	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
4	Administrative expenses	45	47	48	49	50	51	52	53
5	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
6	**Total Annual Requirements (expenditures and commitments)**	**550**	**560**	**569**	**577**	**633**	**642**	**650**	**663**
7	Replenishment contributions	163	167	167	167	177	177	177	188
8	Carry forward (committable resources including loan receivables) [1]	566	527	511	504	498	456	411	365
9	Lending reflows	180	180	190	205	216	227	244	260
10	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
11	Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50
12	Investment income	74	75	75	76	70	67	64	60
13	**Total resources**	**1051**	**1021**	**993**	**1001**	**1012**	**977**	**946**	**923**
14	**of which actual resources in hand (end year)**	377	317	224	169	119	21	-65	-142

Financial Position

		2003	2004	2005	2006	2007	2008	2009	2010
	Inflows								
15	Investment income	74	75	75	76	70	67	64	60
16	Lending reflows	180	180	190	205	216	227	244	260
17	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
18	Drawdown/encashment contributions [2] [3]	162	126	126	126	147	147	147	228
19	**Total Inflows**	**434**	**402**	**391**	**406**	**434**	**442**	**455**	**548**
	Outflows								
20	Disbursements (loans & grants)	305	386	419	441	414	428	445	435
21	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
22	PDFF	25	28	29	29	30	30	31	32
23	Administrative expenses	45	47	48	49	50	51	52	53
24	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
25	**Total Outflows**	**415**	**501**	**534**	**555**	**527**	**539**	**554**	**547**
	Asset Holdings								
26	Investment portfolio (end year)	2401	2302	2158	2009	1915	1817	1718	1720
27	Promissory note holdings net of provisions (end year)	196	237	278	318	348	378	407	367
28	**Total Assets**	**2596**	**2538**	**2436**	**2327**	**2263**	**2195**	**2126**	**2087**
	Risk monitoring indicators								
29	Net cash inflow (total inflows - total outflows)	19	-99	-143	-149	-93	-98	-99	1
30	Growth of investment portfolio		-4.1%	-6.2%	-6.9%	-4.7%	-5.1%	-5.4%	0.1%

[1] These resources include receivables of loan principal plus projected loan service charge/interest for the subsequent five years.
[2] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 2003
[3] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Stress Test: Contributions

From 2007, commitment level raised and maintained at USD 520 million in 2007 prices.

Resources available for commitment include 5 years of receivables for loan principal and interest

Replenishments: future replenishments USD 500 million in 2004 prices

Fixed encashment of contributions over 7 years starting first year of replenishment period

Investment Income: 3.5% per annum

Grants: 10%

Inflation: 2% per annum

Resource Position USD millic

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Loan and grant commitments	563	574	586	597	609	621	634	647	659	673
2 PDFF	32	33	34	34	35	36	36	37	38	39
3 Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8	7	6
4 Administrative expenses	54	55	56	57	59	60	61	62	63	65
5 Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	0	0	0	0	0	0	0	0	0	0
6 Total Annual Requirements (expenditures and commitments)	**672**	**682**	**693**	**706**	**717**	**728**	**741**	**754**	**768**	**782**
7 Replenishment contributions	188	188	199	199	199	211	211	211	224	224
8 Carry forward (committable resources including loan receivables) [1]	331	300	268	248	231	217	215	215	214	225
9 Lending reflows	267	280	291	304	320	332	345	359	374	392
10 Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0	0	0
11 Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50	50	50
12 Investment income	60	58	55	56	53	51	52	50	48	50
13 Total resources	**897**	**876**	**863**	**857**	**853**	**861**	**873**	**885**	**911**	**941**
14 **of which actual resources in hand (end year)**	-229	-311	-385	-454	-520	-578	-634	-689	-730	-762
Financial Position										
Inflows										
15 Investment income	60	58	55	56	53	51	52	50	48	50
16 Lending reflows	267	280	291	304	320	332	345	359	374	392
17 Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0	0	0
18 Drawdown/encashment contributions [2 3]	156	156	242	166	166	256	176	176	272	187
19 Total Inflows	**484**	**494**	**588**	**526**	**539**	**639**	**572**	**585**	**695**	**629**
Outflows										
20 Disbursements (loans & grants)	446	456	468	483	498	508	518	528	539	550
21 Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8	7	6
22 PDFF	32	33	34	34	35	36	36	37	38	39
23 Administrative expenses	54	55	56	57	59	60	61	62	63	65
24 Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	0	0	0	0	0	0	0	0	0	0
25 Total Outflows	**555**	**564**	**575**	**592**	**605**	**615**	**625**	**635**	**647**	**659**
Asset Holdings										
26 Investment portfolio (end year)	1648	1577	1590	1524	1457	1481	1429	1378	1425	1395
27 Promissory note holdings net of provisions (end year)	399	430	388	421	455	410	445	480	433	470
28 Total Assets	**2047**	**2008**	**1978**	**1945**	**1912**	**1891**	**1874**	**1858**	**1858**	**1866**
Risk monitoring indicators										
29 Net cash inflow (total inflows - total outflows)	-71	-71	12	-66	-67	25	-53	-51	47	-30
30 Growth of investment portfolio	-4.2%	-4.3%	0.8%	-4.2%	-4.4%	1.7%	-3.6%	-3.6%	3.4%	-2.1%

[1] These resources include receivables of loan principal plus projected loan service charge/interest for the subsequent five years.

[2] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 2003

[3] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Stress Test: Contributions
Commitment level USD 520 million in 2007 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 7 years starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2% per annum

Balance Sheet

USD million

		2002	2003	2004	2005	2006	2007	2008	2009	2010
	Assets									
a	Cash	394	417	342	222	96	27	(47)	(121)	(94)
b	Investment	1,988	1,984	1,960	1,936	1,912	1,888	1,864	1,839	1,814
c	**Liquid Assets**	2,382	2,401	2,302	2,158	2,009	1,915	1,817	1,718	1,720
d	Contribution receivables (Promissory notes)	336	337	378	419	460	489	519	549	509
e	Other receivables	147	164	194	233	249	276	302	332	367
f	**Total receivables**	**483**	**501**	**572**	**652**	**709**	**765**	**821**	**881**	**876**
g	**Loan receivables**	**3,046**	**3,151**	**3,333**	**3,557**	**3,781**	**3,965**	**4,146**	**4,324**	**4,478**
h	**Total assets**	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,646**	**6,785**	**6,924**	**7,073**
	Composition of total assets:									
	Liquid assets	40%	40%	37%	34%	31%	29%	27%	25%	24%
	Contribution and other receivables	8%	8%	9%	10%	11%	12%	12%	13%	12%
	Loan receivables	52%	52%	54%	56%	58%	60%	61%	62%	63%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	Total Liabilities									
i	**Liabilities**	**440**	**100**	**105**	**110**	**116**	**122**	**128**	**134**	**141**
j	Contributions	4,070	4,233	4,400	4,566	4,733	4,910	5,087	5,264	5,451
k	General reserve	95	95	95	95	95	95	95	95	95
l	Accumulated surplus	1,306	1,625	1,607	1,595	1,555	1,519	1,476	1,431	1,386
m	**Total equity**	**5,471**	**5,953**	**6,102**	**6,256**	**6,383**	**6,524**	**6,657**	**6,790**	**6,933**
n	**Total liabilities**	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,646**	**6,785**	**6,924**	**7,073**
	Composition of total liabilities:									
	Liabilities	7%	2%	2%	2%	2%	2%	2%	2%	2%
	Total equity	93%	98%	98%	98%	98%	98%	98%	98%	98%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

USD million

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Profit and Loss									
Income from loans	42	40	40	45	49	51	53	55	56
Net investment income	26	74	75	75	76	70	67	64	60
Total revenue	**68**	**114**	**115**	**120**	**125**	**121**	**120**	**118**	**117**
Operating expenses	40	45	47	48	49	50	51	52	53
Grants approved	16	22	33	45	46	52	53	54	55
PDFF	23	25	28	29	29	30	30	31	32
Allowance impairement loss	6	0	0	0	0	0	0	0	0
Allowance HIPC	22	27	13	37	35	33	30	26	27
SCP	3	9	6	1	1	0	0	0	0
Provision AMSC	8	4	0	0	0	0	0	0	0
Total costs	**118**	**132**	**127**	**160**	**161**	**165**	**165**	**163**	**167**
	(50)	(18)	(12)	(40)	(36)	(43)	(45)	(45)	(50)
Exchange rate movements	369								
Transfer to ACC Surplus	**319**	**(18)**	**(12)**	**(40)**	**(36)**	**(43)**	**(45)**	**(45)**	**(50)**

Stress Test: Contributions
Commitment level USD 520 million in 2007 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 7 years starting first year of replenishment period
Investment Income: 3.5% per annum
Grants: 10%
Inflation: 2% per annum

Balance Sheet USD million

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assets										
Cash	(140)	(184)	(145)	(183)	(222)	(169)	(192)	(213)	(135)	(134)
Investment	1,788	1,761	1,734	1,707	1,679	1,650	1,621	1,591	1,561	1,530
Liquid Assets	1,648	1,577	1,590	1,524	1,457	1,481	1,429	1,378	1,425	1,395
Contribution receivables (Promissory notes)	540	572	529	563	596	551	586	622	574	612
Other receivables	398	436	477	519	563	611	659	712	767	821
Total receivables	**938**	**1,008**	**1,007**	**1,081**	**1,159**	**1,162**	**1,246**	**1,334**	**1,341**	**1,432**
Loan receivables	**4,632**	**4,780**	**4,927**	**5,076**	**5,221**	**5,361**	**5,498**	**5,629**	**5,755**	**5,872**
Total assets	**7,218**	**7,366**	**7,524**	**7,681**	**7,837**	**8,005**	**8,173**	**8,341**	**8,522**	**8,700**
Composition of total assets:										
Liquid assets	23%	21%	21%	20%	19%	19%	17%	17%	17%	16%
Contribution and other receivables	13%	14%	13%	14%	15%	15%	15%	16%	16%	16%
Loan receivables	64%	65%	65%	66%	67%	67%	67%	67%	68%	67%
Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Total Liabilities										
Liabilities	**148**	**155**	**163**	**171**	**180**	**189**	**198**	**208**	**218**	**229**
Contributions	5,639	5,827	6,026	6,225	6,425	6,636	6,847	7,059	7,283	7,507
General reserve	95	95	95	95	95	95	95	95	95	95
Accumulated surplus	1,336	1,289	1,240	1,189	1,138	1,086	1,032	979	925	868
Total equity	**7,070**	**7,210**	**7,361**	**7,509**	**7,657**	**7,817**	**7,975**	**8,133**	**8,303**	**8,471**
Total liabilities	**7,218**	**7,366**	**7,524**	**7,681**	**7,837**	**8,005**	**8,173**	**8,341**	**8,522**	**8,700**
Composition of total liabilities:										
Liabilities	2%	2%	2%	2%	2%	2%	2%	2%	3%	3%
Total equity	98%	98%	98%	98%	98%	98%	98%	98%	97%	97%
Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

USD million

Profit and Loss	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Income from loans	58	59	60	62	63	65	66	68	69	71
Net investment income	60	58	55	56	53	51	52	50	48	50
Total revenue	**118**	**117**	**115**	**117**	**116**	**116**	**118**	**118**	**117**	**120**
Operating expenses	54	55	56	57	59	60	61	62	63	65
Grants approved	56	57	59	60	61	62	63	65	66	67
PDFF	32	33	34	34	35	36	36	37	38	39
Allowance impairement loss	0	0	0	0	0	0	0	0	0	0
Allowance HIPC	23	20	17	17	14	11	10	8	7	6
SCP	0	0	0	0	0	0	0	0	0	0
Provision AMSC	0	0	0	0	0	0	0	0	0	0
Total costs	**166**	**166**	**166**	**169**	**169**	**169**	**171**	**172**	**174**	**176**
	(48)	(49)	(50)	(51)	(52)	(53)	(53)	(54)	(57)	(56)
Exchange rate movements										
Transfer to ACC Surplus	**(48)**	**(49)**	**(50)**	**(51)**	**(52)**	**(53)**	**(53)**	**(54)**	**(57)**	**(56)**

Stress Test: Investment Income

From 2007, commitment level raised and maintained at USD 520 million in 2007 prices.

Resources available for commitment include 5 years of receivables for loan principal and interest

Replenishments: future replenishments USD 500 million in 2004 prices

Fixed encashment of contributions over 5 years, starting first year of replenishment period

Investment Income: 2% per annum

Grants: 10%

Inflation: 2% per annum

Resource Position USD million

		2003	2004	2005	2006	2007	2008	2009	2010
1	Loan and grant commitments	440	445	454	463	520	530	541	552
2	PDFF	25	28	29	29	30	30	31	32
3	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
4	Administrative expenses	45	47	48	49	50	51	52	53
5	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
6	**Total Annual Requirements (expenditures and commitments)**	**550**	**560**	**569**	**577**	**633**	**642**	**650**	**663**
7	Replenishment contributions	163	167	167	167	177	177	177	188
8	Carry forward (committable resources including loan receivables) [1]	566	527	511	504	467	395	324	252
9	Lending reflows	180	180	190	205	216	227	244	260
10	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
11	Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50
12	Investment income	74	75	75	44	41	40	39	35
13	**Total resources**	**1051**	**1021**	**993**	**970**	**952**	**890**	**833**	**786**
14	**of which actual resources in hand (end year)**	377	317	224	138	59	-66	-178	-279
	Financial Position								
	Inflows								
15	Investment income	74	75	75	44	41	40	39	35
16	Lending reflows	180	180	190	205	216	227	244	260
17	Debt initiative (HIPC DI) contributions	18	21	0	0	0	0	0	0
18	Drawdown/encashment contributions [2] [3]	162	154	154	154	206	206	106	219
19	**Total Inflows**	**434**	**431**	**419**	**403**	**464**	**473**	**389**	**514**
	Outflows								
20	Disbursements (loans & grants)	305	386	419	441	414	428	445	435
21	Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	27	34	37	35	33	30	26	27
22	PDFF	25	28	29	29	30	30	31	32
23	Administrative expenses	45	47	48	49	50	51	52	53
24	Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	13	6	1	1	0	0	0	0
25	**Total Outflows**	**415**	**501**	**534**	**555**	**527**	**539**	**554**	**547**
	Asset Holdings								
26	Investment portfolio (end year)	2401	2330	2215	2063	2000	1934	1769	1736
27	Promissory note holdings net of provisions (end year)	196	208	220	233	203	174	245	214
28	**Total Assets**	**2596**	**2538**	**2436**	**2296**	**2203**	**2108**	**2014**	**1950**
	Risk monitoring indicators								
29	Net cash inflow (total inflows - total outflows)	19	-71	-115	-152	-64	-66	-165	-33
30	Growth of investment portfolio		-2.9%	-4.9%	-6.9%	-3.1%	-3.3%	-8.5%	-1.8%

[1] These resources include receivables of loan principal plus projected loan service charge/interest for the subsequent five years.

[2] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 2003

[3] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Stress Test: Investment Income

From 2007, commitment level raised and maintained at USD 520 million in 2007 prices.

Resources available for commitment include 5 years of receivables for loan principal and interest

Replenishments: future replenishments USD 500 million in 2004 prices

Fixed encashment of contributions over 5 years, starting first year of replenishment period

Investment Income: 2% per annum

Grants: 10%

Inflation: 2% per annum

Resource Position

USD millic

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Loan and grant commitments	563	574	586	597	609	621	634	647	659	673
2 PDFF	32	33	34	34	35	36	36	37	38	39
3 Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8	7	6
4 Administrative expenses	54	55	56	57	59	60	61	62	63	65
5 Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	0	0	0	0	0	0	0	0	0	0
6 Total Annual Requirements (expenditures and commitments)	**672**	**682**	**693**	**706**	**717**	**728**	**741**	**754**	**768**	**782**
7 Replenishment contributions	188	188	199	199	199	211	211	211	224	224
8 Carry forward (committable resources including loan receivables) [1]	194	138	82	38	-4	-41	-66	-91	-114	-127
9 Lending reflows	267	280	291	304	320	332	345	359	374	392
10 Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0	0	0
11 Loan & grant cancellations (unspent balances)	50	50	50	50	50	50	50	50	50	50
12 Investment income	35	34	31	31	30	28	27	27	25	25
13 Total resources	**734**	**690**	**653**	**622**	**595**	**580**	**567**	**557**	**559**	**565**
14 **of which actual resources in hand (end year)**	-392	-497	-595	-689	-778	-859	-940	-1017	-1081	-1138

Financial Position

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Inflows										
15 Investment income	35	34	31	31	30	28	27	27	25	25
16 Lending reflows	267	280	291	304	320	332	345	359	374	392
17 Debt initiative (HIPC DI) contributions	0	0	0	0	0	0	0	0	0	0
18 Drawdown/encashment contributions [2 3]	219	113	232	232	120	246	246	127	261	261
19 Total Inflows	**521**	**426**	**554**	**567**	**469**	**606**	**618**	**513**	**661**	**679**
Outflows										
20 Disbursements (loans & grants)	446	456	468	483	498	508	518	528	539	550
21 Costs for Debt Inititiative for Heavily Indebted Poor Countries (HIPC DI)	23	20	17	17	14	11	10	8	7	6
22 PDFF	32	33	34	34	35	36	36	37	38	39
23 Administrative expenses	54	55	56	57	59	60	61	62	63	65
24 Extra-budgetary items (Strategic Change Programme & After Service Medical Coverage)	0	0	0	0	0	0	0	0	0	0
25 Total Outflows	**555**	**564**	**575**	**592**	**605**	**615**	**625**	**635**	**647**	**659**
Asset Holdings										
26 Investment portfolio (end year)	1702	1564	1542	1518	1382	1373	1366	1244	1257	1277
27 Promissory note holdings net of provisions (end year)	183	258	225	192	272	237	202	286	249	212
28 Total Assets	**1884**	**1822**	**1767**	**1710**	**1654**	**1610**	**1568**	**1530**	**1506**	**1489**
Risk monitoring indicators										
29 Net cash inflow (total inflows - total outflows)	-34	-138	-21	-24	-136	-9	-7	-123	13	20
30 Growth of investment portfolio	-2.0%	-8.1%	-1.4%	-1.6%	-9.0%	-0.6%	-0.5%	-9.0%	1.1%	1.6%

[1] These resources include receivables of loan principal plus projected loan service charge/interest for the subsequent five years.

[2] Amounts shown in 2004-2006 include both the fixed encashment assumed for the 6th replenishment and drawdown of the remaining 5th replenishment ($ 163 million) expected to be deposited in 2003

[3] The uneven flow in the annual figures observed in some scenarios is due to the mismatch between replenishment periods and assumed encashment periods.

Stress Test: Investment Income
Commitment level USD 520 million in 2007 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 2% per annum
Grants: 10%
Inflation: 2% per annum

Balance Sheet — USD million

		2002	2003	2004	2005	2006	2007	2008	2009	2010
	Assets									
a	Cash	394	417	371	279	151	111	70	(70)	(78)
b	Investment	1,988	1,984	1,960	1,936	1,912	1,888	1,864	1,839	1,814
c	**Liquid Assets**	2,382	2,401	2,330	2,215	2,063	2,000	1,934	1,769	1,736
d	Contribution receivables (Promissory notes)	336	337	349	362	374	345	316	386	355
e	Other receivables	147	164	194	233	280	305	329	357	392
f	**Total receivables**	**483**	**501**	**543**	**595**	**654**	**650**	**645**	**743**	**747**
g	**Loan receivables**	**3,046**	**3,151**	**3,333**	**3,557**	**3,781**	**3,965**	**4,146**	**4,324**	**4,478**
h	**Total assets**	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,614**	**6,725**	**6,836**	**6,961**
	Composition of total assets:									
	Liquid assets	40%	40%	38%	35%	32%	30%	29%	26%	25%
	Contribution and other receivables	8%	8%	9%	9%	10%	10%	10%	11%	11%
	Loan receivables	52%	52%	54%	56%	58%	60%	62%	63%	64%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	Total Liabilities									
i	**Liabilities**	**440**	**100**	**105**	**110**	**116**	**122**	**128**	**134**	**141**
j	Contributions	4,070	4,233	4,400	4,566	4,733	4,910	5,087	5,264	5,451
k	General reserve	95	95	95	95	95	95	95	95	95
l	Accumulated surplus	1,306	1,625	1,607	1,595	1,555	1,488	1,415	1,344	1,274
m	**Total equity**	**5,471**	**5,953**	**6,102**	**6,256**	**6,383**	**6,493**	**6,597**	**6,702**	**6,821**
n	**Total liabilities**	**5,911**	**6,053**	**6,207**	**6,367**	**6,499**	**6,614**	**6,725**	**6,836**	**6,961**
	Composition of total liabilities:									
	Liabilities	7%	2%	2%	2%	2%	2%	2%	2%	2%
	Total equity	93%	98%	98%	98%	98%	98%	98%	98%	98%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

USD million

Profit and Loss	2002	2003	2004	2005	2006	2007	2008	2009	2010
Income from loans	42	40	40	45	49	51	53	55	56
Net investment income	26	74	75	75	44	41	40	39	35
Total revenue	**68**	**114**	**115**	**120**	**93**	**92**	**93**	**94**	**92**
Operating expenses	40	45	47	48	49	50	51	52	53
Grants approved	16	22	33	45	46	52	53	54	55
PDFF	23	25	28	29	29	30	30	31	32
Allowance impairement loss	6	0	0	0	0	0	0	0	0
Allowance HIPC	22	27	13	37	35	33	30	26	27
SCP	3	9	6	1	1	0	0	0	0
Provision AMSC	8	4	0	0	0	0	0	0	0
Total costs	**118**	**132**	**127**	**160**	**161**	**165**	**165**	**163**	**167**
	(50)	(18)	(12)	(40)	(67)	(72)	(72)	(70)	(75)
Exchange rate movements	369								
Transfer to ACC Surplus	**319**	**(18)**	**(12)**	**(40)**	**(67)**	**(72)**	**(72)**	**(70)**	**(75)**

Stress Test: Investment Income
Commitment level USD 520 million in 2007 and maintained at that level in real terms.
Replenishments: future replenishments USD 500 million in 2004 prices
Fixed encashment of contributions over 5 years, starting first year of replenishment period
Investment Income: 2% per annum
Grants: 10%
Inflation: 2% per annum

Balance Sheet USD million

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Assets										
a	Cash	(86)	(198)	(192)	(189)	(297)	(277)	(255)	(347)	(304)	(253)
b	Investment	1,788	1,761	1,734	1,707	1,679	1,650	1,621	1,591	1,561	1,530
c	**Liquid Assets**	1,702	1,564	1,542	1,518	1,382	1,373	1,366	1,244	1,257	1,277
d	Contribution receivables (Promissory notes)	324	399	366	333	413	378	343	428	391	353
e	Other receivables	424	460	501	543	586	635	684	735	791	845
f	**Total receivables**	**748**	**859**	**868**	**877**	**999**	**1,013**	**1,027**	**1,162**	**1,181**	**1,199**
g	**Loan receivables**	**4,632**	**4,780**	**4,927**	**5,076**	**5,221**	**5,361**	**5,498**	**5,629**	**5,755**	**5,872**
h	**Total assets**	**7,081**	**7,203**	**7,337**	**7,470**	**7,602**	**7,747**	**7,891**	**8,035**	**8,193**	**8,348**
	Composition of total assets:										
	Liquid assets	24%	22%	21%	20%	18%	18%	17%	15%	15%	15%
	Contribution and other receivables	11%	12%	12%	12%	13%	13%	13%	14%	14%	14%
	Loan receivables	65%	66%	67%	68%	69%	69%	70%	70%	70%	70%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	Total Liabilities										
i	**Liabilities**	**148**	**155**	**163**	**171**	**180**	**189**	**198**	**208**	**218**	**229**
j	Contributions	5,639	5,827	6,026	6,225	6,425	6,636	6,847	7,059	7,283	7,507
k	General reserve	95	95	95	95	95	95	95	95	95	95
l	Accumulated surplus	1,199	1,126	1,053	979	903	828	751	674	597	517
m	**Total equity**	**6,933**	**7,048**	**7,175**	**7,299**	**7,423**	**7,559**	**7,693**	**7,828**	**7,975**	**8,119**
n	**Total liabilities**	**7,081**	**7,203**	**7,337**	**7,470**	**7,602**	**7,747**	**7,891**	**8,035**	**8,193**	**8,348**
	Composition of total liabilities:										
	Liabilities	2%	2%	2%	2%	2%	2%	3%	3%	3%	3%
	Total equity	98%	98%	98%	98%	98%	98%	97%	97%	97%	97%
	Total assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

USD million

Profit and Loss	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Income from loans	58	59	60	62	63	65	66	68	69	71
Net investment income	35	34	31	31	30	28	27	27	25	25
Total revenue	**92**	**93**	**92**	**93**	**93**	**92**	**94**	**95**	**94**	**96**
Operating expenses	54	55	56	57	59	60	61	62	63	65
Grants approved	56	57	59	60	61	62	63	65	66	67
PDFF	32	33	34	34	35	36	36	37	38	39
Allowance impairement loss	0	0	0	0	0	0	0	0	0	0
Allowance HIPC	23	20	17	17	14	11	10	8	7	6
SCP	0	0	0	0	0	0	0	0	0	0
Provision AMSC	0	0	0	0	0	0	0	0	0	0
Total costs	**166**	**166**	**166**	**169**	**169**	**169**	**171**	**172**	**174**	**176**
	(73)	(73)	(74)	(76)	(75)	(77)	(77)	(77)	(80)	(81)
Exchange rate movements										
Transfer to ACC Surplus	**(73)**	**(73)**	**(74)**	**(76)**	**(75)**	**(77)**	**(77)**	**(77)**	**(80)**	**(81)**