



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Consultation on the Sixth Replenishment of IFAD's Resources – Second Session**  
Rome, 18-19 April 2000

**INFORMATION NOTE**

**THE USE OF ADVANCE COMMITMENT AUTHORITY IN IDA AND ASDF**

**Introduction**

1. The purpose of this information paper is to describe the basis upon which the International Development Association (IDA) and the Asian Development Fund (AsDF) establish the authority to commit resources for annual lending operations, taking into account the recourse each institution makes to advance commitment of future reflows.
2. Two features are common to both IFIs: the existence of a planning framework and operations mandate tied to a replenishment period, and a multi-year commitment authority framework based on projections of a combination of donor resources (with a predictable encashment profile of contributions), internal resources (reflows, loan charges, investment income), accumulated surplus and reserves, carryovers from earlier replenishments, and net income transfers from banking operations. In the case of IDA, advance commitment accounts for 40% of annual commitment authority. In the case of AsDF, advance commitment covers about 42% of commitment requirements during the current replenishment period. Both institutions operate their soft loan facilities with a view to achieving equilibrium between resource inflows and outflows for operations in approximately ten years' time.

**International Development Association**

3. IDA commitment authority for new lending is derived from donor contributions and from RITO resources, namely reflows from credit repayments, investment income, net income transfers from the International Bank for Reconstruction and Development (IBRD) and other resources such as



service charges paid to IDA, net of administrative expenses and residual resources from past replenishments. Future reflows are also used under the advance commitment scheme to maximize IDA's commitment authority from RITO resources while ensuring that liquidity remains at prudent levels.

4. In 30 June 2000, the IDA 12 (2000-2002) Commitment Authority Framework was SDR 15.3 billion. The commitment authority comprised:

- (a) IDA 12 donor contributions (SDR 8.6 billion);
- (b) internal resources (SDR 5.9 billion);
- (c) IBRD net income transfers (SDR 650 million);
- (d) special contributions (SDR 41 million);
- (e) carry-over of IDA 11 donor contributions (SDR 91 million).

5. RITO resources (categories b, c and d above) are expected to account for 44% of the IDA 12 Commitment Authority Framework. Advance commitment accounts for approximately 40% of current annual commitment authority to meet future disbursement obligations, and this share is expected to increase to about 50% over the next three or four years. IDA's liquidity will be approximately USD 10 billion for the next few years, but is expected to decline rapidly and reach a prudential minimum (USD 2-3 billion) before the end of the decade. This will be done by increasing lending commitments over internal resources and projected future replenishments; in time, cash inflows are expected to match cash outflows (IDA Investment Policy, 2001).

6. Investment income is a small proportion of the total commitment authority, about USD 500 million per annum at present and expected to go down to USD 10 million over the next ten years. Reflows from IDA credits (principal and interest income from development credits) were on average about USD 1.5 billion per annum in 1999, 2000 and 2001. Assuming a comparable pattern in 2002, it may be estimated that during the IDA 12 period, income from reflows will be roughly USD 4.5 billion (approximately SDR 5.6 billion) against advance commitment authority of roughly USD 4.7 billion (SDR 5.9 billion). Thus reflows nominally represent about 95% of internal resource projections and 37% of the Commitment Authority Framework for the three-year period.

7. Executive Directors approve a three-year framework for RITO resources for the replenishment period and also approve the use of RITO resources on an annual basis through the advance commitment scheme and the Fifth Dimension Programme. The selection of appropriate levels of commitment is done iteratively by choosing the streams of commitment levels that best meet the operational resource requirements, while maintaining an adequate precautionary balance. The projection of future resource availability excludes principal repayments and service-charge payments from IDA borrowers in non-accrual status and assumes that arrears will increase. It assumes no transfers to IDA from IBRD net income beyond those indicated in the IDA 12 agreement.

8. IDA currently projects their lending programme to remain flat in real terms, and donor contributions to remain flat in nominal terms. The difference in resources that this implies is expected to be taken up by reflows, loan charges and other income.

9. IDA 12 donors provide their contributions in the form of cash or notes in three equal annual instalments (January 2000, January 2001 and January 2002). Donor contributions are encashed on the basis of a defined schedule on an approximately pro rata basis among donors.



## Asian Development Fund

10. AsDF eighth replenishment (AsDF VIII 2001-2004) resulted in a planned lending level of USD 5.6 billion, consisting of USD 2.9 billion in new donor contributions and USD 2.7 billion in commitment authority to be generated from resources expected to be made available during AsDF VIII (including commitment against future reflows). Contributions from donors are to be paid and become available for operational commitments in four equal amounts over the four years covered by the replenishment period.

11. The current financial objective for AsDF is that it should become self-financing by the time of AsDF XI, that is to say in a dozen years. The strategy consists of: (i) maximizing commitment authority in a prudent and sustainable manner from non-donor resources; (ii) broadening and strengthening the donor resource base; and (iii) maximizing the commitment authority from the synergy of donor and non-donor resources. To achieve the new goal of self-sufficiency, AsDF was redesigned in 1997 as a revolving fund. Essentially, the Extended Advance Commitment Authority (EACA) scheme uses loan repayments from past AsDF loans to generate commitment authority by matching future repayments with disbursements. Projections indicate that with a level of lending of USD 6.0-6.3 billion and donor contributions of USD 2.8-3.0 billion in AsDF IX and X, AsDF could become self-financing at a range of USD 6.0-6.3 billion from AsDF XI onwards.

12. The basic methodology used in calculating EACA is similar to that used by IDA in determining advance commitment authority, i.e. to determine the maximum amount of annual lending that can be sustained indefinitely, without future disbursements on such loans exceeding the projected reflows, and without the liquidity falling below a minimum floor. EACA is set at 85% of projected reflows, and liquidity is not allowed to fall below 20% of the next year's ACA projected disbursements. Based on the most recent three-year average, annual reflows are approximately USD 290 million. A conservative estimate of total reflows over the AsDF VIII replenishment period may therefore be USD 1.1 billion, or about 42% of the total commitment authority provided by the non-donor pool for the period.

13. Under the EACA framework, AsDF resources are segregated into three pools: (i) current replenishment pool, (ii) post-replenishment pool, and (iii) non-donor resources pool. The **current replenishment pool** is intended exclusively to meet new loan commitments. Disbursements on such commitments during the current replenishment period and beyond are funded by current replenishment contributions. In other words, AsDF VII loans will be funded by AsDF VII replenishments; AsDF VIII loans by AsDF VIII replenishments, and so forth. The commitment authority is equivalent to the value of resources from the current replenishment actually released by donors for operational commitments, plus the level of EACA, less cumulative loan commitments during the current replenishment period, less a contingency for exchange risk set at 6.5%.

14. The **post-replenishment pool** is intended exclusively to meet disbursements of loans committed prior to the current replenishment. AsDF VII (1997-2000) contributions have become part of the post-replenishment pool. This pattern will follow for each subsequent replenishment cycle. As the resources in the post-replenishment pool are disbursed over time, a net surplus or shortfall could emerge. The non-donor resources will be used as a buffer against any shortfall. A net surplus will be included in the non-donor pool. A deficit in the post-replenishment pool will be compensated by siphoning off resources from the non-donor pool. An exchange risk margin of 6.5% is built into the pool.



15. The **non-donor resource pool** is intended to meet both new commitments through EACA and disbursements of post-replenishment loans if the resources in that pool prove insufficient. The non-donor resource pool is the source of disbursements for EACA loans. This pool would receive liquid holdings derived from loan repayments, investment income, excess net income on AsDF operations, and surplus from past donor contributions. In 1998 the Board of the Asian Development Bank approved the inclusion of proceeds from loan savings and cancellations in the non-donor pool, providing for a substantial increase in the level of EACA.