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Enabling poor rural people
to overcome poverty

Financing requirements and modalities for IFAD9

Review of the adequacy of IFAD's resources to combat rural poverty

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Consultation on the Ninth Replenishment of IFAD's Resources —
Second Session
Rome, 13-14 June 2011

For: **Review**

Contents

Abbreviations and acronyms

ACA	advance commitment authority
CGIAR	Consultative Group on International Agricultural Research
DSF	Debt Sustainability Framework
GAFSP	Global Agriculture and Food Security Program
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFI	international financial institution
PDFF	Programme Development Financing Facility
PoLG	programme of loans and grants

Executive summary

1. **The Consultation on the Ninth Replenishment of IFAD's Resources (IFAD9) comes at a key moment, during the implementation of IFAD's Change and Reform Agenda and rising demand for financing to support global food security.** At the same time, the global economy is facing challenges posed by difficult financial environments and major setbacks caused by natural disasters that seem to be increasing in frequency and intensity.

2. **Given this context, Management is conscious of the need to strike the right balance between IFAD's resource requirements and the availability of funding for IFAD9.** This paper seeks the guidance of Consultation members on how to approach IFAD's financial framework for IFAD9.

3. **Growth in demand for IFAD's programmes continues to increase.** Growth in demand is being experienced in almost all areas in which IFAD operates and in some the potential need for assistance in developing agriculture among the rural poor seems effectively limitless. This growth shows no sign of subsiding, indeed between June 2010 and now, global food prices increased by 36 per cent, which has pushed an additional 44 million people into poverty.[1] A separate paper outlining demand scenarios for IFAD9 suggests that the lending target set for the Eighth Replenishment (US$3.0 billion) could be substantially enlarged.

4. **IFAD has evolving financing requirements**. IFAD8 represented a 50 per cent growth in the programme of loans and grants over IFAD7. This was supported by the largest increase yet seen in donor contributions to IFAD, but still required the bulk of IFAD8's resource requirements to be funded from internal sources. This extraordinary one-off effort enabled the Fund to rapidly increase its support to borrowing countries while simultaneously limiting the financial burden on the Membership. The objective of IFAD8 was to bring more support to the rural poor faster, and while successful in meeting this immediate objective, it is not a repeatable exercise since it has left a lower level of internal resources available to fund new commitments in future replenishment periods.

5. **Several key assumptions have changed since IFAD8,** particularly those relating to the levels and speed of disbursements. There has been a significant drop in the level of loan and grant shortfalls and cancellations over the past three years and the speed of disbursement of funds has accelerated. While both of these factors reflect positively on the efficiency of IFAD's operations, both also place a heavier financial burden on the Fund.

6. **A financing challenge may emerge during IFAD9.** Management is fully aware of the budgetary constraints facing many Members, hence any total replenishment target will draw – to the extent that financial prudence allows – on IFAD's internal resources. Nevertheless, during IFAD9, there will likely be an increased financing burden on donor Member States, even if the size of IFAD's programme of loans and grants is maintained, due to the factors set forth in paragraphs 4 and 5 above.

7. **IFAD Management believes that additional sources of funding should be considered during the IFAD9 Consultation.** In order to meet demand for IFAD's programme and simultaneously limit the replenishment burden on the Membership, new funding approaches should be developed to complement the traditional financing framework. Possible routes include: (i) strengthening internal resource mobilization by exploring other potential sources of financing such as prepayments of outstanding loans, negotiating the payment of arrears and encouraging full payment of outstanding commitments; and (ii) aligning IFAD's lending terms with those of the International Development Association (IDA)/International Bank for Reconstruction and Development (IBRD). Additional opportunities for accessing

[1] *Responding to Global Food Price Volatility and its Impact on Food Security* – World Bank report, April 2011.

financing through a broadening of IFAD's membership base may also be considered over the medium term.

8. **IFAD must continue to pursue its mission while simultaneously widening the scope for mobilizing its financial resources.** The donor contributions required under the various demand scenarios described in the Programme of loans and grants for IFAD9 document are presented in this paper.

I. Introduction

1. The deadline for achieving the first Millennium Development Goal (MDG) of halving poverty and hunger is approaching fast. Furthermore, rapid global population growth, expected to near 9 billion by 2050, poses the twin challenges of increasing food production by 70 per cent and improving poor people's access to food.

2. The food price crisis of 2007 and 2008 has proved not to be an isolated event. Food prices are at a new high and volatility persists, with the attendant problems of social unrest and huge population movements. Past failure to invest adequately in agriculture and smallholders is one of the main reasons for this predicament; the result is low production, low income and low food security. However, this need not, and should not, be the case.

3. Today, governments fully understand that agricultural development is a key issue for the global economy, and one that requires long-term and substantial engagement to ensure that smallholders and agricultural development receive the necessary support to realize their potential for stimulating and balancing growth. As stated by global leaders during a recent meeting[2] at the Food and Agriculture Organization of the United Nations (FAO): food security is the cause of our time. As a specialized agency of the United Nations and an international financial institution (IFI) exclusively dedicated to agricultural and rural development for over three decades, IFAD has the capacity and expertise to play an important role in addressing this situation in the IFAD9 period, 2013-2015, the final critical years leading up to the MDG target date of 2015.

4. In accordance with article 4.3 of the Agreement Establishing IFAD, the thirty-fourth session of the Governing Council set the IFAD9 Consultation the task of reviewing the adequacy of the Fund's resources and reporting to the Governing Council.[3] In considering the adequacy of the resources, account must be taken of the needs of Member States eligible for IFAD financing, and of IFAD's operational capacity to effectively channel resources to them, as discussed in the document Programme of loans and grants for IFAD9 (REPL.IX/2/R.4).

5. This paper analyses IFAD's commitment capacity in the IFAD9 period and, on that basis, proposes adjustments to its approach to resource management and to certain financial instruments in order to strengthen its financial capacity and long-term sustainability.

II. Non-repeatability of IFAD8

6. IFAD8 represented an extraordinary one-off effort, enabling the Fund to rapidly increase its support to borrowing countries while simultaneously limiting the burden on the Membership to fund the increase. While successful in meeting these immediate objectives, it is not a repeatable exercise since it has left a lower level of internal resources available to fund new commitments in future replenishment periods.

7. Management has performed a hypothetical modelling exercise in which the effects on IFAD's liquidity were examined under the scenario of repeating IFAD8 for IFAD9, IFAD10, IFAD11 and so forth, maintaining the same PoLG and Member contributions in real terms. The result is an indefinitely negative cash flow leading to a breach of IFAD's liquidity requirement in IFAD10 and a cash-negative situation during IFAD11.

8. This scenario could never become a reality, as there are checks and balances in place that would restrict the PoLG and prevent any breach of IFAD's liquidity covenants. However, it serves as an illustration of why IFAD8 is non-repeatable. A

[2] 6 May 2011.
[3] Resolution 160/XXXIV (2011), Establishment of the Consultation on the Ninth Replenishment of IFAD's resources.

fuller description of this modelling exercise along with assumptions and graphical representation can be found in annex I.

9. In addition, the following factors need to be considered relative to IFAD9:

- The so-called pledge-gap: while it is not unusual to have a shortfall in pledges (a proxy for actual contributions to be received) compared with the donor contribution target, the pledge-gap in IFAD8 is expected to be exceptionally high, approximately US$160 million; and
- Revision of key assumptions in IFAD's financial model: with the benefits of IFAD's new business model (mainly involving country presence and direct supervision) starting to materialize, two key operational assumptions must be revised: (i) reduction of the loan disbursement profile from 13 years to 10 years; and (ii) reduction of loan cancellation rates from 17 per cent to 13 per cent. While these developments represent a welcome improvement in operational effectiveness and efficiency, they also accelerate the pace of cash outflows. Furthermore, with the planned drawdown of IFAD's investment portfolio and the less favourable outlook for fixed-income investments, projected investment income has been revised downwards, lowering projected cash inflows.

10. As such, the combination of the Fund's growing disbursement requirements, the high degree of reliance on internal resources (IFAD currently funds nearly 67 per cent of its resource requirements internally, the highest such ratio among its peer group of IFIs), the current advance commitment authority (ACA) ceiling and changes in key financial assumptions implies that considerably higher levels of external funding will be required to support IFAD's operations during 2013-2015. Table 1 illustrates this point, showing the resource needs for IFAD8 and a hypothetical IFAD9, both of which support the same PoLG (US$3.0 billion) and employ an ACA with a maximum ceiling of seven years of reflows.[4]

[4] IFAD8 projection as of December 2008. IFAD9 assumptions: loan disbursement profile of 10 years; average loan cancellation rate of 13 per cent; DSF principal repayments forgone fully compensated by additional Member contributions on a pay-as-you-go basis; DSF allocation is assumed constant at approximately 20 per cent of the PoLG from 2011 onwards; administrative expenses growing at inflation after IFAD9; investment portfolio rate of return of 1.5 per cent in 2011, 2.0 per cent in 2012 and 3.0 per cent from 2013 onwards; SDR-US$ exchange rate assumed constant at 1.55027 (as at 31 December 2010); encashment profile of Members' replenishment contributions based on IFAD8 trend; PoLG held constant at US$3.0 billion in IFAD9 then increased by inflation thereafter.

Table 1
Programme of loans and grants of US$3.0 billion under IFAD8 and a hypothetical IFAD9
(millions of United States dollars)

	IFAD8	*IFAD9*
PoLG	3 000	3 000
Administrative expenses and HIPC[a]	626	584
Total resources required	**3 626**	**3 584**
Funded by:		
Loan reflows	809	927
Loan reductions and cancellations	252	193
Investment income	202	180
Resources from ACA[b]	1 163	284
Member contributions/gap	**1 200**	**2 000**
Total	**3 626**	**3 584**
ACA maximum ceiling (years)	7	7

[a] Heavily Indebted Poor Countries (HIPC) Debt Initiative.
[b] Resources from the ACA are considerably higher during IFAD8 because the maximum ACA ceiling was increased from five to seven years. Under this hypothetical scenario, resources from ACA during IFAD9 would not benefit from an increase in the ACA ceiling (as it remains at seven years under this scenario), however some benefit is gained due to the shift in the time horizon.

11. The table indicates that a PoLG of US$3.0 billion during IFAD9 would require a significantly higher level of external resources than in IFAD8. Consequently, unless IFAD's internal resources are supplemented by new forms of internal and external resource mobilization during IFAD9 – including a rise in the ratio between external and internal financing towards levels more compatible with other IFIs' concessional arms – it will not be possible to sustain the IFAD8 PoLG level in IFAD9. Alternatively, Members could choose to instruct the Fund to maintain or lower the level of financing provided to developing Member States. However, some of these options (including a zero-growth or even modestly reduced programme of loans and grants) would still require increases in Member contributions, albeit to a lesser extent.

12. As is clear from the above, the Fund's financing model has reached an important crossroads, and adjustments are necessary in order for IFAD to continue to be an effective tool for improving food security and reducing poverty, and to progress towards achieving its strategic vision for 2015. Members' support will be imperative for IFAD to pursue measures to enhance its financial capacity and long-term sustainability. Most importantly, Members will need to consider moving towards a ratio of donor contributions to total financing requirements more comparable with other IFIs' concessional arms. Given the rapid PoLG growth in recent years, such a shift is critical to ensuring that IFAD's valued contribution is sustained in IFAD9 and beyond.

III. IFAD9 financial structure considerations

13. Management has explored various means to further strengthen its financial capacity and long-term sustainability, while simultaneously expanding the PoLG. To this end, efforts to mobilize both external and internal resources need to be maximized. With respect to external resources, given the sharp expansion of commitments under IFAD8, a growth in the ratio of external to internal financing will be required during IFAD9. With respect to internal resources, a thorough review of options has been carried out and is discussed below.

A. Options for strengthening internal resources

Enhanced resource mobilization

14. *Loan prepayments.* Taking a lesson from IDA16, IFAD could explore the possibility of inviting ordinary-term borrowers to make prepayments on outstanding debt previously contracted on highly concessional terms. The main benefit of

prepayments is that they boost IFAD's cash flow up front, which can be invested and then reallocated for future loans; however, such an approach also implies fewer reflows in the future. Management has explored several scenarios and conservatively estimates that US$15 million could be generated from this measure for IFAD9.

15. *Reduced grants.* IFAD could lower the share of grants below the Board-approved limit of 6.5 per cent of PoLG; this would generate approximately US$20 million to US$25 million in additional resources for IFAD9.

16. *Pursue outstanding Replenishment contributions and resolve outstanding arrears with Members.* Outstanding replenishment contributions total US$168.5 million, which – if collected – would represent one-off gains towards reducing the burden of financing for IFAD9. Receipt of outstanding contributions would be helpful since IFAD's PoLG is always set based on the Replenishment commitment levels rather than actual payments. Separately, there are loan arrears from Members outstanding in the amount of SDR 15.7 million (US$24 million equivalent). While IFAD's efforts in this regard are ongoing, many factors influencing the resolution of such issues – including economic and political considerations – are beyond Management's control.

Alignment with IDA and IBRD

17. In an effort to rationalize internal resources and seek additional sources of financing, Management proposes to explore a variety of measures to align aspects of IFAD's lending terms and conditions with those currently offered by IDA and IBRD. Management recognizes that such changes could result in additional costs associated with IFAD financing for some of the Fund's borrowing Members, and asks the Consultation to consider whether such changes are warranted and acceptable given: (i) the financing adequacy and needs of the Fund; (ii) the current terms provided by other IFIs; and (iii) the economic advancements, improved credit worthiness and strengthened debt sustainability profiles of some of IFAD's borrowing Members.

18. *Hardening of lending terms.* The IDA16 replenishment consultation agreed to new lending terms, effective July 2011, for so-called blend countries (i.e. countries eligible for assistance from both IDA and IBRD) in light of their economic advancement, improved credit worthiness and strengthened debt sustainability. IFAD currently applies highly concessional lending terms to these countries. By aligning the terms of its loans to these countries with IDA's new terms from IFAD9 onwards, IFAD will benefit from faster and higher repayments with shorter grace periods and a higher interest rate (see annex II, table A.II.3 for a comparison of the lending terms between IFAD, IDA and IBRD). This measure would generate approximately US$40 million to US$55 million in additional internal resources for IFAD9.

19. *Eliminate intermediate lending terms.* By eliminating intermediate lending terms and offering only ordinary terms to all borrowers not eligible for highly concessional and hardened terms, IFAD will benefit from faster and higher loan repayments with shorter grace periods and higher interest rates. This would generate approximately US$20 million to US$30 million in additional internal resources for IFAD9.[5]

20. Table 2 presents the financial impact associated with implementing some of these options. The benefits derived from capping grants, hardening terms and eliminating intermediate terms are range-bound because they are linked to the size of the programme of loans and grants.

[5] Management would seek to implement the hardening of lending terms and the elimination of intermediate lending terms simultaneously.

Table 2
Benefits of enhancing IFAD's internal resource mobilization for IFAD9
(millions of United States dollars)

	Loan prepayment	*Reduced grants*	*Hardened terms (IDA Blend)**	*Eliminate intermediate terms**
Estimated benefit for period 2013-2015	15	20-25	40-55	20-30

* The Executive Board approved in December 2010 and the Governing Council considered in February 2011 a proposed revision of IFAD's Lending Policies and Criteria (EB/2010/101/R.13/Rev.1) which would allow the Executive Board to create new loan products in order to respond to the needs of Member States while ensuring that the Fund remains financially sustainable.

Sustainable cash flow approach and implied advance commitment authority

21. Other IFIs' resource management frameworks differ from IFAD's in that commitment capacity is assessed and determined by matching financial obligations (cash outflows) arising from commitments against projected cash inflows over the time horizon corresponding to the expected disbursement periods of the loans concerned. Under this approach, the projected level of liquid assets is the binding constraint when projecting future commitment capacity, as this is conditional upon maintaining projected liquidity at or above a prudential minimum level, or "minimum liquidity requirement". In contrast, previous IFAD replenishments did not explicitly consider the Fund's long-term cash flow movements and corresponding liquidity balance.

22. In an effort to preserve the long-term financial health of the Fund, Management is now taking the view that all IFAD9 financing projections must be first and foremost "cash flow sustainable". That is, firstly, for all PoLG scenarios, IFAD's liquidity (i.e. the balance of its cash and investments) should never breach the minimum liquidity requirement stipulated in its Liquidity Policy over the next 40 years. Secondly, all things being equal, the donor contribution requirement for a given PoLG scenario should be sustainable in future replenishments. One major distinction between the proposed approach and that employed for previous replenishments is that the maximum ACA ceiling is now a *derived* indicator, rather than an assumption of the financial model.

23. In other words, one of the driving factors in determining the necessary donor contribution requirement in a given scenario for IFAD8 was the seven-year ACA. In IFAD9, the driving factor is the future cash flow sustainability of the Fund, which makes the ACA a variable output as opposed to a fixed input. Under a cash flow sustainable model with a fixed seven-year ACA, IFAD9 would require an increased donor contribution to achieve the same PoLG scenario as IFAD8 (table 1). During IFAD9, Management plans to build a solid asset and liability management model that predicts future liquidity more consistently, allowing the Fund to manage cash flow needs in the long term and circumvent the need for corrective measures, such as those required in IFAD9 (further discussed in section IV).

24. The IFAD9 PoLG scenarios proposed in the following section rely on considerably higher donor contribution ratios, ranging from 42 to 50 per cent of total resource requirements, up from 33 per cent for IFAD8. The higher donor contribution ratios allow slightly greater use of future loan reflows in the proposed scenarios, ranging from 7.5 years to 8.0 years, compared to 7 years in IFAD8. In this respect, it is important to underline the positive correlation between the ratio of donor contribution to total requirements and the extended use of future loan reflows (i.e. increases in the former do allow for increases in the latter; but under no circumstance should the latter be extended without increases in the former), as this is a critical tenet of the proposed cash flow sustainable approach to assessing IFAD's commitment capacity.

25. Against this background, Management proposes that during IFAD9, the maximum *implied* ACA ceiling be expanded to eight years of reflows. Since the ratio of donor contribution to total resource requirements is raised accordingly, increasing the ACA ceiling in this manner will in no way negatively impact IFAD's long-term financial viability (as explained below in paragraph 30 and illustrated in chart 1), but rather will allow the Fund to take advantage of future assets (reflows) in order to reduce the replenishment burden on Members and ensure that all IFAD9 commitments are prefunded in accordance with current IFAD practice.

B. IFAD9 financing scenarios

26. As discussed in the Programme of loans and grants for IFAD9 (REPL.IX/2/R.4), over the short and medium term, IFAD will strive to become a global catalyst of investments to enable smallholder agriculture to drive progress towards increased food security and reduced poverty.

27. Four PoLG scenarios are being proposed for consideration by the IFAD9 Consultation based on the analysis of both the demand for IFAD's financing and the capacity to expand its operations and respond to demand.

28. Financial scenarios presented in table 3 have been prepared on the basis of the above proposed "cash flow sustainable" approach and incorporate the benefits accruing from implementation of the above proposed measures for enhanced internal resource mobilization (table 2).

29. Table 3 presents the four IFAD9 PoLG scenarios and the associated financing requirements for each,[6] assuming that all the benefits related to the resource mobilization options listed in table 2 materialize:

- Scenario 1 (PoLG US$3.2 billion) represents a zero real increase in the IFAD8 PoLG; this scenario would result in lower lending (in both real and nominal terms) in each year of the 2013-2015 period than planned for in 2012;
- Scenario 2 (PoLG US$3.5 billion) represents a "flat-line" continuation of IFAD's planned PoLG in 2012;
- Scenario 3 (PoLG US$4.0 billion) envisages a 33 per cent increase in the PoLG; and
- Scenario 4 (PoLG US$4.5 billion) represents a 50 per cent increase in the PoLG and the maximum amount of project support that Management believes it could reasonably deliver to meet the high demand from developing Member States.

[6] The key assumptions driving these figures are: a loan disbursement profile of 10 years; average loan cancellation rate of 13 per cent; DSF principal repayments forgone fully compensated by additional Member contributions on a pay-as-you-go basis; DSF allocation is assumed constant at approximately 20 per cent of the PoLG from 2011 onwards; administrative expenses growing at inflation after IFAD9; investment portfolio rate of return of 1.5 per cent in 2011, 2.0 per cent in 2012 and 3.0 per cent from 2013 onwards; SDR-US$ exchange rate assumed constant at 1.55027 (as at 31 December 2010); encashment profile of Members' replenishment contributions based on IFAD8 trend; for each scenario PoLG and Member contributions grow by inflation after IFAD9; inflation 2.5 per cent per annum; resource mobilization efforts listed in table 2 are fully implemented.

Table 3
IFAD9 PoLG scenarios and financing requirements
(millions of United States dollars)

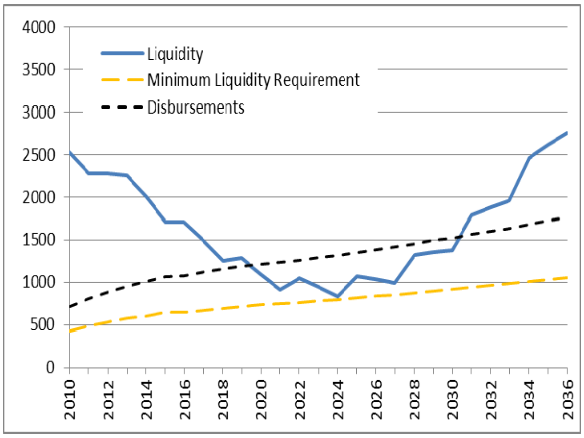
	IFAD9 Scenarios			
	Scenario 1	*Scenario 2*	*Scenario 3*	*Scenario 4*
Programme of loans and grants	3 200	3 500	4 000	4 500
Administrative budget and HIPC Debt Initiative payments	603	607	649	692
Total resource requirements	**3 803**	**4 107**	**4 649**	**5 192**
Internal resources available during IFAD9*	1 287	1 292	1 302	1 315
Additional resources from future loan reflows (implied ACA)	806	930	1 107	1 182
Additional resources from enhanced resource mobilization	95	105	115	125
Total internal resources	**2 188**	**2 327**	**2 524**	**2 622**
Required regular Member pledges	**1 615**	**1 780**	**2 125**	**2 570**
Member contributions as percentage of total resource requirements	42%	43%	46%	50%
Years of future loan reflows used (implied ACA)**	7.5	7.7	7.9	8.0

* Internal resources include: loan reflows, investment income and loan cancellations and reductions during the 2013-2015 period.
** Scenarios 1, 2 and 3 use less than eight years of future loan reflows and scenario 4 uses exactly eight years. Because ACA is now a derived indicator, these amounts represent the maximum years of reflows that are sustainably available in each scenario. Increasing the ACA *ceiling* beyond eight years would not change the outcome of the scenarios; increasing ACA *usage* beyond the amount listed for any one scenario would result in a breach of the Fund's minimum liquidity requirement under that scenario, assuming regular Member pledges are not increased.

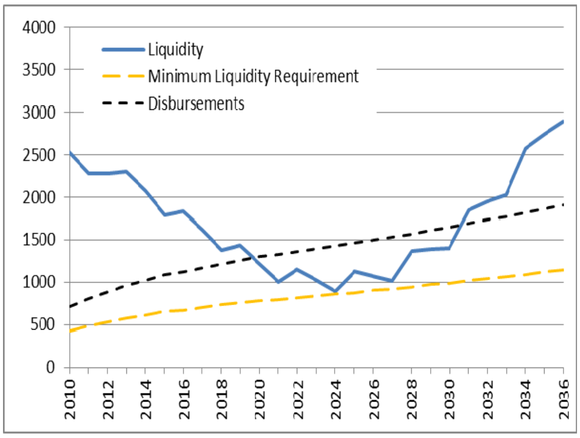
30. As mentioned in paragraph 22, a key consideration for Management in the financing of IFAD9 (and all future replenishments) is balancing the long-term sustainability of the Fund's cash position with the efficient use and deployment of its resources. Under each scenario – and over a 40-year horizon – IFAD's liquidity approaches the Fund's minimum liquidity requirement (indicating a maximum prudent use of the Fund's resources), but never breaches this level (indicating sustainability). Each scenario's impact on IFAD's liquidity is depicted in chart 1.

Chart 1
Cash flow sustainability profile for each IFAD9 PoLG scenario* (millions of United States dollars)

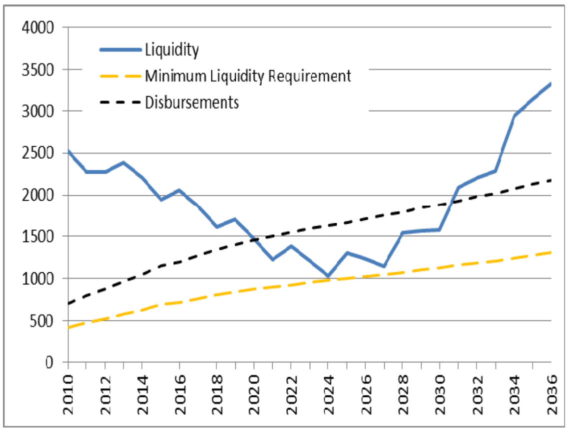
Scenario 1: US$3 200 million PoLG



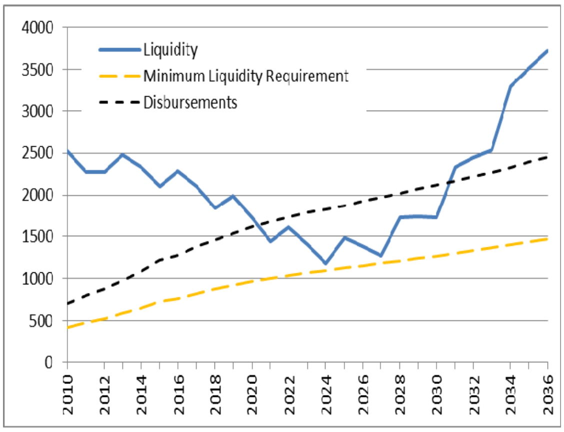
Scenario 2: US$3 500 million PoLG



Scenario 3: US$4 000 million PoLG



Scenario 4: US$4 500 million PoLG



* All scenarios are cash flow sustainable over a 40-year horizon. While the graphs present the time period 2010-2036, in all scenarios liquidity continues to grow well above the minimum liquidity requirement from 2037 onwards.

31. In addition to these scenarios, Management has also developed cash flow sustainable projections with an implied ACA ceiling of not more than seven years. These scenarios are presented in table 4 below.

Table 4
Cash flow sustainable PoLG scenarios for IFAD9 and financing requirements with an implied ACA ceiling of seven years
(millions of United States dollars)*

	IFAD9 scenarios			
	Scenario 1	*Scenario 2*	*Scenario 3*	*Scenario 4*
Programme of loans and grants	3 200	3 500	4 000	4 500
Administrative budget and HIPC Debt Initiative payments	603	607	649	692
Total resource requirements	**3 803**	**4 107**	**4 649**	**5 192**
Internal resources available during IFAD9*	1 304	1 313	1 328	1 343
Additional resources from future loan reflows (implied ACA)	299	294	321	349
Additional resources from enhanced resource mobilization	95	105	115	125
Total internal resources	**1 698**	**1 712**	**1 764**	**1 817**
Required regular Member pledges	**2 105**	**2 395**	**2 885**	**3 375**
Member contributions as percentage of total resource requirements	55%	58%	62%	65%
Years of future loan reflows used (implied ACA)	7	7	7	7

* Internal resources include: loan reflows, investment income and loan cancellations and reductions during the 2013-2015 period.

32. Under these scenarios, the ACA is limited to a ceiling of seven years thus reducing the internal resources available to support the PoLG. In this case Member contributions would need to increase if the same PoLG is to be maintained.

IV. Considerations over the medium term

33. Management recognizes that compared to IFAD8, all of the IFAD9 scenarios presented in table 3 present an increase in new donor contributions in both absolute and relative terms. In order to improve the Fund's financing framework and reduce the burden on Members for financing subsequent replenishments after IFAD9, Management proposes to explore the following options.

34. *Adjustment of IFAD's financial model and method for assessing future commitment capacity.* As IFAD's commitments expand, the Fund's resource management framework should broaden to incorporate a more holistic view of the institution's financial health. Although the current approach – using the statement of resources available for commitment and the ACA ceiling – has served IFAD well in the past, it is derived from the balance sheet, taking into account only a snapshot of the Fund's financial health at any one moment in time. During the IFAD9 replenishment period, Management proposes to explore a revised resource management framework that will consider the long-term timing implications as expressed by the Fund's cash flow movements and the resulting liquidity balance.[7] In anticipation of this revised approach, all IFAD9 financial scenarios are considered long-term sustainable if the Fund's liquidity is maintained above the projected minimum liquidity requirement over a 40-year period.

35. *Implementation of the Governing Council resolution on mobilizing resources from other sources*. In 2001, at its twenty-fourth session, the Governing Council adopted resolution 122/XXIV: Increasing the Financing Available from Non-Donor Resources, in which it requested Management to continue to explore the scope for increasing the financing available from non-donor resources and to submit any proposals that may result from such exploration to the Executive Board for approval. Management intends to revisit this resolution and make proposals to the relevant governing bodies.

36. *Increasing membership*. During the 2011 session of the Governing Council, two new Member States were welcomed to the Fund. Over the course of the IFAD9 Consultation period, these new Members, in addition to others that have signalled an interest in membership, will be approached to discuss contribution levels. Over the medium term, Management could also explore increasing IFAD's membership base to include non-member states as well as other entities, such as supranational entities. Any grouping of states is eligible for membership in the Fund (Agreement Establishing IFAD, article 1(c) and 3.1).

37. *Develop contribution partnerships with non-governmental institutions and other development funds*. Although currently the Agreement (in article 4.6) and the respective replenishment resolutions[8] permit non-Members to contribute to the replenishments through "special contributions", this potential source has not been pursued in a systematic way. During IFAD9, Management may submit to the Executive Board a comprehensive framework for an organized approach to the mobilization of special contributions from non-governmental entities and to arrange for their proper participation in the Fund's work within the existing institutional framework.

V. Guidance from Membership

38. Against this background, guidance from the Consultation is sought on the following questions:

    (i) Do Members support the proposed initiatives, as outlined in paragraphs 14 to 19, to enhance resource mobilization during the IFAD9 period?

    (ii) Does the Consultation have sufficient information to support Management's use of a "cash flow sustainable" approach during IFAD9 complemented by an effort to revisit the Fund's approach to asset and liability management over the medium term?

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[7] As part of the procedures introduced for the use of the ACA, at each session of the Executive Board, the Executive Board is called upon to approve the total resource commitment to be made through the ACA. This is done through a document entitled Resources available for commitment, which provides a regular report on the status of resources available for commitment, including the management of the ACA. While the specifics of the new resource management framework still have to be determined, IFAD Management would certainly continue to regularly report the resources available for commitment including cash flow and liquidity balance projections.

[8] Paragraph 5(a), Resolution 154/XXXII (2009) on the Eighth Replenishment of IFAD's resources.

(iii) Does the Consultation have sufficient information to support extending the *implied* ACA usage from the current maximum of seven years of future reflows to a maximum use of eight years of future reflows?

(iv) Do Members agree that the financing scenarios present a suitable range within which to discuss the needs of borrowing Member States during the IFAD9 period?

(v) Does the Consultation support exploring a broadening of IFAD Membership over the medium term beyond the current list of Member States, to include other states, supranational institutions, NGOs and other entities?

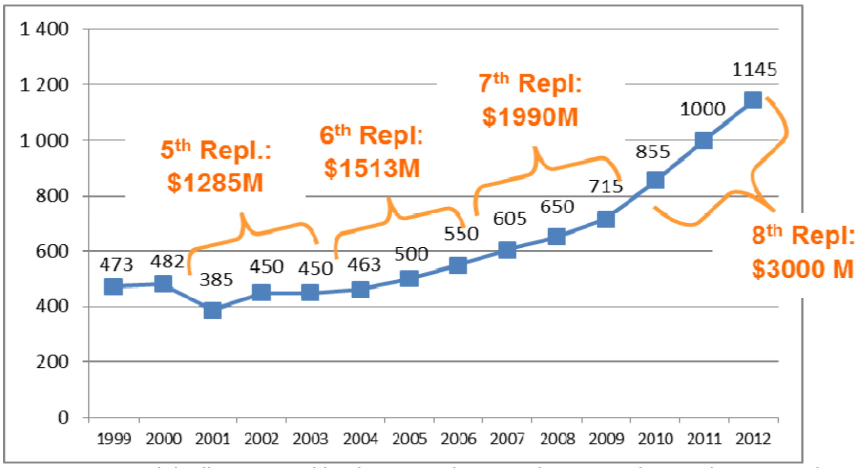
Review of IFAD's financing model

1. IFAD's funding structure is similar to that of the concessional arms of other IFIs (such as the IDA and the African Development Fund). However, unlike these, it does not benefit from being part of a larger banking institution (for instance IDA benefits from transfers from the IBRD and the International Finance Corporation). Moreover, although IFAD extends loans on predominantly highly concessional terms, it also lends on non-concessional terms (approximately 20 per cent of the total loan portfolio); and it is primarily replenishment-based (i.e. it does not borrow from the market). Consequently, IFAD's ability to commit and subsequently disburse loans, grants, administrative expenditures and other costs – such as those under the Heavily Indebted Poor Countries Debt Initiative (HIPC) – is determined on the basis of actual and projected future contributions from Members, loan reflows, HIPC-related funding and investment income from IFAD's cash and investments fully committed against undisbursed loans and grants (hereafter, "liquidity").[1]

2. From IFAD's inception until IFAD5, the Fund's operations ran on a relatively steady level of lending and grant commitments, met through modest administrative expenditures and stable donor funding.

3. From the Sixth Replenishment Consultation in 2004, the PoLG expanded at an increasing rate: 18 per cent in IFAD6, 32 per cent in IFAD7 and 50 per cent in IFAD8, in response to the food, fuel and financial crisis of 2007-2008 that threatened to wipe out several years of strong progress in reducing poverty and hunger. As such, the Fund's PoLG has doubled in the very short period since IFAD6 (chart A.I.1).

Chart A.I.1
IFAD programme of loans and grants 1999-2012* (millions of United States dollars)



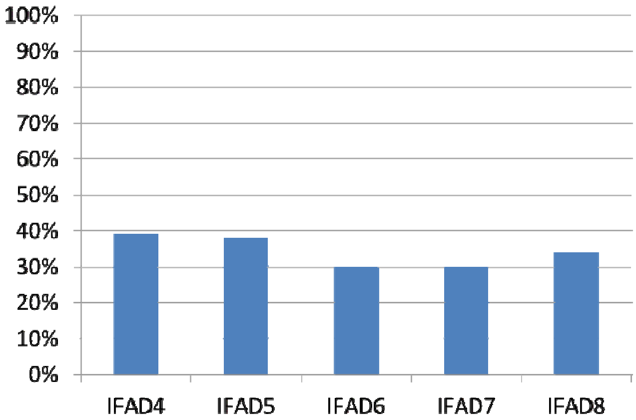
* Amounts as originally approved by the Executive Board; 2011 and 2012 data are estimates.

4. Throughout this period of expansion, donors' contributions have increased in absolute but not in relative terms (chart A.I.2). In each replenishment period, the ratio of new donor contributions to internal resources has remained by and large constant, thanks to successive extensions of the ACA ceiling (from a maximum use of three years of reflows in IFAD6, to five years in IFAD7 and finally seven years in

[1] IFAD's financial management requires balancing resource requirements (commitments and expenses) with the expected supply of available funding. IFAD's practice is to manage its resources on the basis of full up-front financial backing before approving new loans and grants. This practice has been followed, despite the fact that IFAD's loans approvals require an average of ten years to disburse – effectively precommitting much of the Fund's resources to unrealized obligations. See annex II for more information about IFAD's resource requirements and sources of funding.

IFAD8).[2] Consequently, IFAD currently funds nearly 67 per cent of its resource requirements internally, the highest such ratio among its peer group of IFIs.

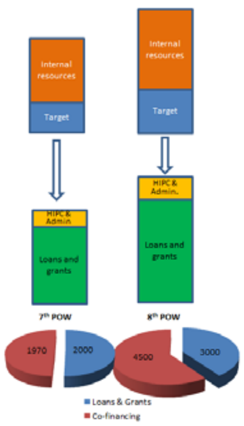
Chart A.I.2
Members' target contributions as a percentage of total resource requirements



5. Following the food price crisis, Members called upon IFAD to play a much stronger role in addressing poverty and food insecurity, and in accelerating agricultural productivity in rural areas. Consequently, a significant expansion of the Fund's PoLG was agreed to during the IFAD8 Consultation, resulting in a 50 per cent increase in the PoLG to an all time high of US$3.0 billion. In addition, Management committed to raising US$4.5 billion in cofinancing from various partners, bringing the Fund's total programme of work (POW) for 2010-2012 to some US$7.5 billion (chart A.I.3).

Chart A.I.3
Comparative overview of the funding structures of IFAD7 and IFAD8

7th Replenishment as of 31 Dec. 2007 (USD million)		8th Replenishment as of 31 Dec. 2010 (USD million)
720	Replenishment target	1,200
1,710	Internal resources (Investment income, loan reflows, ACA)	2,426
2,430	Sub-Total (Target + internal resources)	3,626
	Use of the sub-total	
430	HIPC financing and Administrative expenses	626
2,000	Programme of Loans and grants	3,000
	IFAD's Total Programme of Work	
2,000	Programme of Loans and grants	3,000
1,970	Co-financing	4,500
3,970	Total programme of work (including co-financing)	7,500



6. With HIPC and administrative expenses included, the resources required by IFAD to deliver the US$7.5 billion POW totalled approximately US$3.6 billion. This amount was financed through two sources: US$1.2 billion in pledges from Membership (the largest replenishment in the Fund's history, representing a 67 per cent increase in Members' contributions compared with IFAD7), and a major effort to mobilize IFAD's internal resources, including – in addition to loan reflows and investment

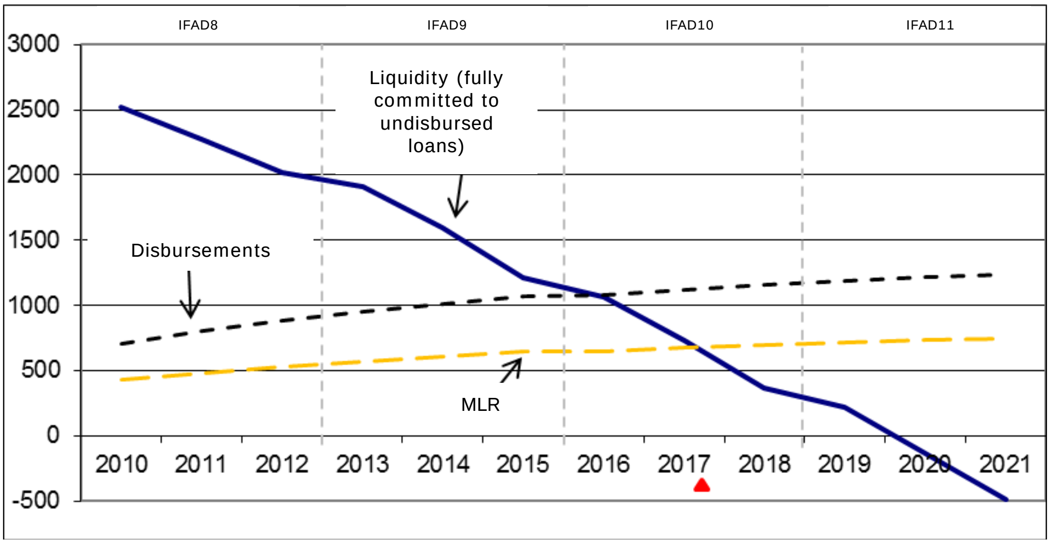
[2] Since IFAD's loans are repaid, on average, over the course of many years, increases in commitments translate into considerable up-front resource outflows in the short term and considerable resource inflows (mainly loan reflows) over the medium term. During the last 10 years, this time element in the repayment and disbursement of loans and grants has been, de facto, counterbalanced by the use of the ACA facility in precommitting future loan reflows.

income – a carefully calibrated drawdown on liquidity funded by an extension of the ACA horizon to seven years.

7. In extending the ACA horizon, maintaining target donor contributions at approximately 33 per cent of total resource requirements, and committing to a PoLG of US$3.0 billion, the IFAD8 financing arrangement was designed to make better use of the Fund's internal resources – including future reflows – in order to maximize its assistance to developing Member States.

8. The key constraint in the IFAD8 financial framework is the long-term sustainability of the Fund's cash flows under this approach. A large share of IFAD's new commitments are made on highly concessional terms, which have a 10-year grace period and a back-loaded repayment profile that leads to a timing difference or lag between disbursements and loan repayments. It is normal, therefore, that in a context where the PoLG grows at an increasing rate, where donor (or external) contributions do not rise as a share of total requirements and where loan repayments are not increased or accelerated, this timing difference or lag gives rise to a cash flow situation where outflows (mainly disbursements) rise at a higher pace than inflows (mainly donor contributions and loan repayments). While the IFAD8 financing scenario was sustainable as a stand-alone, one-time exercise, repeating the core elements of the structure (the level of Members' contributions relative to total resource requirements as well as the absolute size of the contributions) during each future Replenishment period would eventually deplete the Fund's liquidity (chart A.I.4).

Chart A.I.4
Hypothetical scenario: IFAD's liquidity if the IFAD8 financing structure were repeated in IFAD9, IFAD10 and IFAD11 (millions of United States dollars)



9. The simulation provided in chart A.I.4 above shows that if the financing structure of IFAD8 were repeated in IFAD9, a correction would have to be made to ensure that the Fund's minimum liquidity requirement[3] is not be breached during IFAD10.[4] The

[3] IFAD set its minimum liquidity at 60 per cent of total annual gross disbursements (cash outflows) and potential additional requirements due to liquidity shocks. (EB 2006/89/R.40)

[4] The key assumptions: IFAD8 PoLG grows only by inflation during IFAD9, IFAD10 and IFAD11; IFAD8 Member contributions equal US$1.2 billion and grow by inflation during IFAD9, IFAD10 and IFAD11; inflation 2.5 per cent per annum; loan disbursement profile of 10 years; average loan cancellation rate of 13 per cent; DSF principal repayments forgone fully compensated by additional Member contributions on a pay-as-you-go basis; DSF allocation is assumed constant at approximately 20 per cent of the PoLG from 2011 onwards; administrative expenses growing at inflation; investment portfolio rate of return of 1.5 per cent in 2011, 2.0 per cent in 2012 and 3.0 per cent from 2013 onwards; SDR-US$ exchange rate assumed constant at 1.55027 (as at 31 December 2010); encashment profile of Members' replenishment contributions based on IFAD8 trend.

simulation shows only what would happen if IFAD9 repeated the IFAD8 financing structure (with PoLG and contribution levels growing only by inflation). In reality IFAD Management would not allow this hypothetical scenario to occur. Steps would be taken to lower the PoLG – thus reducing disbursements prior to a breach of IFAD's minimum liquidity requirement – or to raise Member contributions. Clearly, the earlier these steps are taken the less disruptive they will be.

10. Chart A.I.4 is developed on the basis that IFAD8 is repeated for IFAD9, IFAD10 and onwards, indefinitely. This differs from the basis used for the charts provided in the paper, ACA implications for future replenishments (EB 2011/102/R.48), where IFAD8 repeated in IFAD9 dips to a liquidity minimum and then moves back into a positive liquidity position because IFAD9 is assumed to be the last replenishment, i.e. IFAD8 is not repeated any further.

11. While purely a theoretical exercise, the projection in chart A.I.4 highlights the mounting pressure on the Fund's internal resources as the sharp increase in new lending commitments generated during IFAD8 is expected to culminate in a wave of increased disbursement requirements over the next 10 years. These disbursements, when coupled with commitments from previous replenishments, will consume much of the Fund's existing internal resources, leaving few internal resources available to fund IFAD9 commitments. Consequently, to retain the Fund's ability to commit and disburse its resources to reduce rural poverty, IFAD9 funding scenarios will require a revised approach with respect to IFAD8.

IFAD's financial structure and resource flow

1. IFAD's balance sheet (table A.II.1) illustrates that the Fund is funded only by equity (i.e. by Member contributions and, to a lesser extent, by reserves). Among the components of IFAD's assets, cash and investments, and promissory notes are easily convertible into cash, providing the Fund's available "liquidity". In contrast, contribution receivables and loans outstanding are less liquid and represent future cash flows. Loans outstanding represent the largest portion of the total assets (roughly 61 per cent).

Table A.II.1
IFAD-only balance sheet as at 31 December 2010 in nominal terms
(millions of United States dollars)

Balance sheet			
Assets:		**Liabilities:**	
Cash and investments	2 591	Payables and liabilities	279
Promissory notes (Net)	348	Undisbursed grants	80
Contribution receivables (Net)	248	Deferred revenues	79
Other receivables	232		
Fixed assets	3	**Contributions**	**6 171**
Loans outstanding (Net)	5 316	**Retained earnings**	**2 034**
		General reserve	**95**
Total assets	**8 738**	**Total liabilities, contributions and retained earnings**	**8 738**

2. IFAD and its governing bodies generally assess the institution's financial stability and financing requirements by analysing the resources available for commitment statement.

3. Under the current definition,[1] resources available for commitment constitute all of IFAD's liquid assets held in freely convertible currency net of loans and grants commitments. This approach ensures that all commitments are fully backed up front and is therefore very prudent. On the one hand, contributions are only included when paid in the form of cash or deposited as promissory notes, while obligations are included in the statement as soon as they are committed,[2] rather than when they are actually recognized as liabilities on the balance sheet.

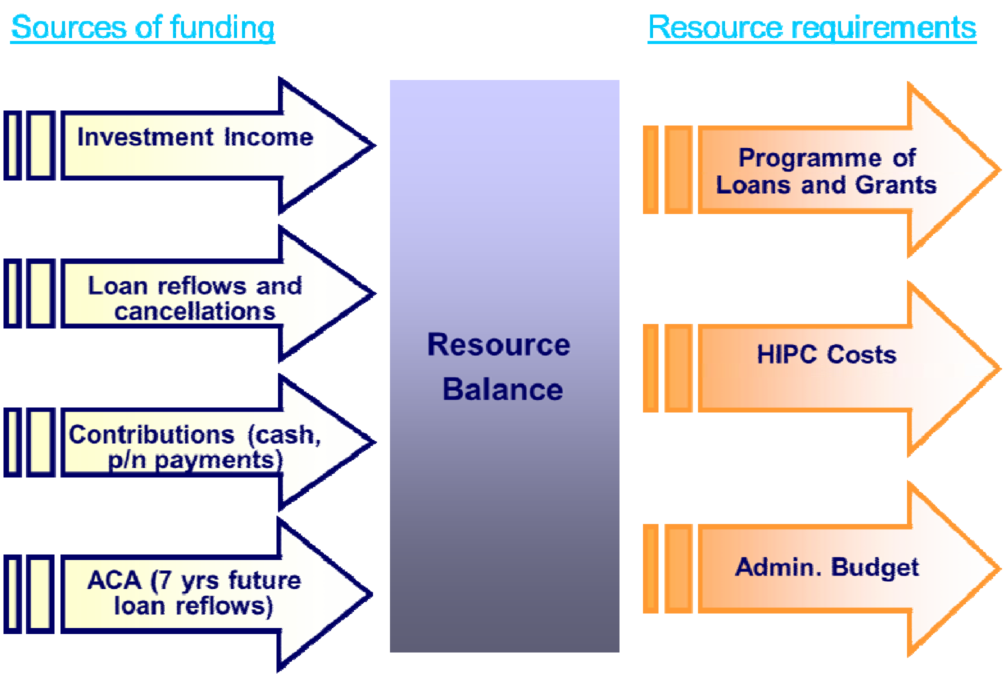
4. In 2001, IFAD introduced the use of the ACA framework to expand its internal resource base in order to increase its programme of loans and grants. The ACA mechanism, which is similar in principle to advance commitment schemes implemented by other IFIs, allows IFAD to use expected future loan reflows – currently up to seven years ahead – as an additional basis on which to make new loan and grant commitments.

5. Promissory notes, and cash and investments constitute IFAD's core resources. Through the ACA mechanism, any resource shortfall is covered by earmarking a portion of future loans outstanding (up to seven years of repayments) to match resource availability with resource requirements.

6. The flow components of the balance of resources available for commitment are listed in chart A.II.1.

[1] See article 4 of the Agreement Establishing IFAD.
[2] Loans and grants could be considered committed when approved by the Executive Board or by the President.

Chart A.II.1
Flow components of the balance of resources available for commitment



A. IFAD's resource requirements

7. IFAD's resource requirements have two drivers: (i) loans and grants, and (ii) costs incurred to deliver operations (administrative and capital budget expenditures) as well as HIPC financing costs.

8. **Loans.** Loan commitments represent some 60 per cent of IFAD's resource requirements in any given Replenishment period. Over the course of the Eighth Replenishment, IFAD expects to commit US$3.0 billion in new loans.

Table A.II.2
New loan commitments, 2005-2010
(millions of United States dollars)

	2005	*2006*	*2007*	*2008*	*2009*	*2010*
Ordinary	56.3	69.4	34.9	54.4	92.2	98.2
Hardened terms	-	-	-	-	-	13.6
Intermediate	16.6	32.5	18.7	77.3	87.6	25.2
Highly concessional	407.1	382.8	415.5	328.7	298.0	508.5
Loans	***480.0***	***484.7***	***469.1***	***460.3***	***477.8***	***645.5***

Amounts do not include commitments made using supplementary and complementary funding.

9. IFAD's loans have three sets of repayment terms – highly concessional, intermediary and ordinary; the terms offered depend solely on the borrowing country's per capita GNP.[3] However, in response to demand from borrowers for a broader range of financing products and more flexible eligibility criteria, the 2010 Governing Council delegated to the Executive Board the authority to determine the types of loans in each lending category and the terms (interest rate, fees, charges and maturity and grace periods) applicable to each type of loan.

[3] This approach is expressly mandated in IFAD's Lending Policy and Criteria and has been moderately revised since the Fund's inception in 1976. In December 1993, the Executive Board approved changes to the Fund's lending terms, including a change from a fixed interest rate to a variable interest rate or loans on ordinary and intermediate terms (without changing the maturity period) and a reduction in the fixed service charge for highly concessional loans from 1 to 0.75 per cent (with a change in the repayment period from 50 to 40 years). Average spread applied by IBRD to its variable loans for the same semester is published on the IFAD website.

10. While IFAD's terms have become more aligned with those of other IFIs, room for further convergence remains (table A.II.3).

Table A.II.3
Comparison of IFAD's current lending terms with those of IDA and IBRD as of July 2011

IFAD				*IDA/IBRD*			
Type	*Maturity period*	*Grace period*[a]	*Interest rate of fees*	*Type*	*Maturity period*	*Grace period*[a]	*Interest rate or fees*
Highly concessional	40 years	10 years	Annual service charge of 0.75%	IDA: Regular	40 years	10 years	Annual service charge of 0.75%[b/c]
	No comparable instrument[f]			IDA: Blend[d]	25	5	1.25% interest plus an annual service charge of 0.75%[c]
Intermediate	20 years	5 years	50% of: 6-month LIBOR[f] (aligned with IBRD) plus the IBRD spread (currently 0.28%)		**No comparable instrument** [g]		
Ordinary	15 to 18 years	3 years	6-month LIBOR (fixing aligned with IBRD) plus the IBRD spread (currently 0.28%)	IBRD: Flexible loan	Less than 12 years	Variable grace period	6-month LIBOR (fixed twice a year) plus a spread (currently 0.28%); plus 0.25% front-end fee

[a] The grace period is always included in the maturity period for both IDA and IDA/IBRD products.
[b] Annual repayments of IDA-only loans are set at 2 per cent of the principal for years 11-20 and increase to 4 per cent for years 20-40.
[c] IDA can apply a variable commitment charge set within a range of 0 to 0.5 per cent of the undisbursed balance of any credit or grant. This has been waived in recent years and currently stands at 0 per cent.
[d] Replaces the "hardened terms" instrument as from 1 July 2011.
[e] IDA also offers "hard term lending", however this category of loan is specific to IDA as the terms and conditions are derived from the manner in which DSF grant funding is allocated.
[f] London inter-bank offered rate.
[g] IFAD hardened terms are no longer available as of 30 June 2011.

11. **Debt Sustainability Framework (DSF) grants.** In addition to its regular grant programme, IFAD also extends grants to countries falling within the scope of the Debt Sustainability Framework. The DSF determines the mix of financing (grants and loans) available.[4] Under the DSF, IFAD has adopted IDA's debt sustainability model and now extends financial support in the following manner: countries with low debt sustainability ("red light"' countries) receive 100 per cent grant funding; countries with medium debt sustainability ("yellow light'' countries) receive financing on a 50 per cent grant and 50 per cent loan basis; and countries with high debt sustainability ("green light'' countries) receive 100 per cent loan financing.

12. Implementation of the DSF has significant consequences for IFAD. First, use of the DSF has increased the proportion of grants in IFAD projects and programmes. While this outcome is beneficial for recipient countries, it means that IFAD forgoes loan interest and principal. The amount of forgone principal related to DSF grants approved between 2007 and 2010 totals SDR 365.1 million (US$566 million

[4] See document EB 2007/90/R.2 which established the IFAD debt sustainability structure.

equivalent)[5] and is expected to be compensated by Member States on a pay-as-you-go basis in the period 2018 to 2050.

13. **Regular grants.** Following the approval of the DSF by the Executive Board in April 2007, the regular grant programme, pertaining to global/regional and country-specific grants, accounts for up to 6.5 per cent of the proposed IFAD programme of work.

Table A.II.4
Regular Grants and DSF commitments 2005-2010
(millions of United States dollars)

	2005	*2006*	*2007*	*2008*	*2009*	*2010*
DSF	-	-	100.9	117.7	199.0	152.4
Grants	36.8	78.6	35.4	46.2	46.0	44.9
Total	***36.8***	***78.6***	***136.3***	***163.9***	***245.0***	***197.3***

14. **Heavily Indebted Poor Countries Debt Initiative**. IFAD provides debt relief to countries eligible for the HIPC Initiative. IFAD funds its participation in HIPC through external contributions (paid directly to IFAD by Member States or transferred through the World Bank HIPC Trust Fund) and its own resources.[6] As at December 2010, total external contributions amounted to about US$193.7 million (of which US$122.2 million was provided by the World Bank HIPC Trust Fund) and contributions from the Fund's own resources amount to US$124.7 million. To date, IFAD has committed the required debt relief to all 35 HIPC countries that have reached their decision points. In the future, HIPC cost estimates will also include debt relief to be provided to HIPC countries not yet at decision point.

15. IFAD's total commitments so far amount to SDR 242.1 million (approximately US$375.2 million) in net present value terms, which amounts to SDR 362.3 million (approximately US$561.5 million) of debt service relief in nominal terms.

Table A.II.5
HIPC cost summary table

	Nominal value terms		*Net present value*	
	SDR in millions	*US$ in millions*	*SDR in millions*	*US$ in millions*
Total cost of IFAD participation in HIPC	458.8	711.1	305.5	473.5
Total commitments at decision point	362.3	561.5	242.1	375.2

16. **Operating costs.** IFAD's operating costs[7] are funded from IFAD's regular resources. They are mainly included in IFAD's administrative budget and capital budget which are approved annually by the Governing Council. In addition, one-time budgets funded from IFAD's regular resources can also be approved by the Governing Council when deemed appropriate (e.g. replenishment budget, extraordinary compensatory budget for the 2011 session of the Governing Council).

[5] In accordance with the decisions of the ninetieth session of the Executive Board, IFAD will present a paper in the context of the Consultation on the Eleventh Replenishment of IFAD's Resources on its experience and that of other multilateral financial institutions since their adoption of the DSF, with regard to actual and estimated net losses in service charge payments, and present proposals on future approaches to compensation as required.
[6] The first transfer, of US$104.1 million, was received in October 2007. The second was made in May 2009 to support debt relief for The Gambia, Sao Tome and Principe, and Sierra Leone, and totalled approximately US$18.1 million. The third transfer of US$46.2 million was received in January 2011.
[7] IFAD's operating expenditures include administrative budget, PDFF, one-time costs, budget for the Independent Office of Evaluation of IFAD, charges for actuarial gain and losses on post-employee benefit schemes and investment charges.

Table A.II.6
Operating costs
(millions of United States dollars)

	2005	2006	2007	2008	2009	2010
Operating expenditures	106.1	111.2	120.7	137.4	122.7	133.2

As reported in IFAD's Financial Statements. This table includes funding sources in addition to the administrative budget and the Programme Development Financing Facility.

17. The evolution of the nominal value of the administrative budget – including the Programme Development Financing Facility (PDFF)[8] – and other budgets approved since 2005 is set out in table A.II.7.[9]

Table A.II.7
Evolution of the administrative budget (including PDFF) and other budgets
(millions of United States dollars)

	Approved budget						
	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Administrative budget	53.30	61.14	67.49	72.31	73.33	**131.99**	**140.59**
PDFF	29.90	30.45	33.80	38.78	41.98	-	-
Total administrative budget (incl. PDFF)	**83.20**	**91.59**	**101.29**	**111.09**	**115.31**	**131.99**	**140.59**
Other budgets approved:							
Capital budget	-	-	-	*2.00*	*4.08*	*3.53*	*15.19*
Replenishment budget	1.60	-	-	*1.80*	-	-	*2.00*
Extraordinary compensatory budget for the 2011 session of the Governing Council	-	-	-	-	-	-	*0.49*
Other one-time costs	2.00	0.40	-	-	-	-	-

B. Sources of funding

18. **Member contributions.** IFAD's core resources derive from contributions made by its Member States. Since the Fund's inception, donors have contributed more than US$6.3 billion over the course of eight replenishment cycles.

19. In February 2009, the thirty-second session of the Governing Council adopted the resolution on the Eighth Replenishment of IFAD's Resources (2010-2012). The target level was set at US$1.2 billion, which represents an unprecedented 67 per cent increase over the previous replenishment and makes IFAD8 the largest in IFAD's history.

20. As at 31 December 2010, total pledges for the Eighth Replenishment period, including complementary contributions, amounted to US$1.08 billion, equivalent to 90 per cent of the US$1.2 billion target. Cumulative instruments of contribution deposited by Member States for the Eighth Replenishment totalled US$868.7 million, equivalent to 83 per cent of pledges.

21. **Internal resources.** Apart from Members' replenishment contributions, IFAD's sources of funding consist of: (i) loan reflows (principal and interest or service charges); (ii) investment income; (iii) use of ACA; and (iv) loan cancellations or reductions.

22. **Loan reflows.** Loan reflows consist of principal repayments on outstanding credits as well as related interest or service charges. As a resource stream, loan reflows are a reliable source of funding, thanks to the strong and stable repayment track

[8] The PDFF was integrated into the administrative budget in 2010.
[9] See annex III for details.

record of IFAD's beneficiary (borrowing) countries.[10] Currently, IFAD reflows total some US$250 million annually.

23. **Investment income.** IFAD's cash and investments, currently valued at approximately US$2.5 billion, are fully committed against approved but not yet disbursed loans and grants. The current level of cash and investments represents 3.8 times the level of current annual disbursements.

24. Over the past years, IFAD investment income has been a positive source of funding. The Fund's conservative investment style has been conducive to positive performance during periods of financial turmoil. Table A.II.8 below summarizes investment income and rate of return over the period 2005-2010.

Table A.II.8
Investment income
(millions of United States dollars)

	2005	*2006*	*2007*	*2008*	*2009*	*2010*
Investment income	68.20	57.9	142.46	126.60	110.11	78.60
Rate of return (percentage)	2.95	2.45	6.10	5.41	4.45	3.26

25. In order to maintain this stable source of funding, IFAD is in the process of reviewing its investment policy to adapt it to evolving market conditions. However, it should be noted that performance over the remainder of IFAD8 could be significantly lower as a result of the continuing financial challenges faced by highly rated governments in which IFAD has invested.

26. **Advance commitment authority.** As mentioned above, under an ACA scheme, future resources arising from stable loan reflows can be committed in advance. In so doing, IFAD is able to bring forward the volume of available funds for new loans and grants, taking advantage of the timing difference between making commitments and carrying out cash disbursements.

27. While use of ACA is normal practice within the IFI community, some IFIs have adopted a different approach from IFAD, based on long-term cash flow sustainability. Under their frameworks, financial obligations are projected and matched by a sequence of forecasted cash inflows over the time horizon of the disbursement period.

28. **Loan and grant cancellations or reductions.** Due to unforeseen circumstances or the effect of currency fluctuations, loan and grant amounts can be reduced or cancelled. Cancellations or reductions of loan and grant commitments are considered as an internal source of funding as they are recommitted to future approvals. In most cases, IFAD has little control over the extent to which cancellations and reductions occur, as they are driven by host country conditions or fluctuations in international currency markets.

Table A.II.9
Loan and grant cancellations 2005-2009

	2005	*2006*	*2007*	*2008*	*2009*
Loan and grant cancellations	58.40	98.40	52.10	75.30	51.40

C. Cofinancing

29. In addition to replenishment funding and internal resource mobilization, IFAD-supported activities also receive contributions at the project level through cofinancing from domestic sources (within the country) and external cofinanciers (such as multilaterals, bilaterals and NGOs). In 2010, multilateral cofinanciers

[10] Historically, provision for loans in arrears has been stable at approximately 3.0 per cent of total loan outstanding. Currently approximately 1.8 per cent of all outstanding loans are in arrears status.

continued to provide the bulk of external cofinancing during the year, followed by bilateral donors.

Table A.II.10
Financing of IFAD programmes and projects 1978-2010
(millions of United States dollars)

	1978-1998	*1999-2003*	*2004-2008*	*2009*	*2010*	*1978-2010*
IFAD	6 089.8	1 961.0	2 473.4	677.1	807.4	12 008.7
Cofinanced	5 747.2	917.5	1 117.1	313.4	691.7	8 786.9
Domestic	6 785.1	1 312.1	1 425.1	372.0	928.3	10 822.6
Total	**18 622.1**	**4 190.6**	**5 015.6**	**1 362.5**	**2 427.4**	**31 618.2**
Number of programmes and projects	521	128	144	33	33	859

Source: Project and Portfolio Management System.

30. **Spanish Food Security Cofinancing Facility Trust Fund.** In 2010, the Executive Board approved the establishment of a new source of cofinancing: the Spanish Food Security Cofinancing Facility Trust Fund (the Spanish Trust Fund), worth EUR 300 million. This has increased the total external resources available to developing Member States during the IFAD8 period. As demand from these countries far exceeds the current available funding, the Spanish Trust Fund provides an opportunity to scale up IFAD-funded projects, enabling them to have a greater and more meaningful impact (see annex V for details).

31. As a vehicle for financing poverty alleviation, the Spanish Trust Fund represents an innovative source of funding for IFAD and an investment in development for Spain. For the first time in its history, IFAD is administering a trust fund that borrows money from a third party – Spain – to provide loans to Member States under IFAD terms and conditions. At the same time, Spain – by lending funds to an IFAD-managed trust fund – can keep pace with its official development assistance commitments notwithstanding budget constraints. The financial model developed by the two parties ensures sound management of resources that will increase the funds available for IFAD projects and safeguard, under normal circumstances, the return of the Spanish investment. In case of adverse unforeseen events, Spain will provide grants to keep the Trust Fund's balance positive on a present value basis.

32. **Supplementary funds.** Supplementary funds constitute an additional source of financing available to IFAD. Through technical assistance funds, non-project-related funds, the Associate Professional Officer Programme and the Global Environment Facility, IFAD receives and administers funds on behalf of donors to finance a broad range of activities not directly related to providing financing to Member States.[11] At present, approximately US$230 million in supplementary funds support a portfolio of 130 activities, projects and programmes approved between 2005 and 2011. These funds have been provided within the framework of 39 agreements signed by IFAD with 18 different donors.[12] These supplementary funds often come with management fees to cover the incremental costs associated with the handling of extrabudgetary funds. Annex VI provides detailed information about IFAD's supplementary funds.

[11] IFAD uses supplementary funds resources mainly to: design and implement pilot/innovative activities; facilitate project development and implementation; strengthen strategic partnerships; finance studies, technical assistance and local capacity-building activities; and integrate a number of cross-cutting issues into IFAD-assisted projects and programmes.

[12] Belgium, Canada, Denmark, Finland, France, Ireland, Italy, Japan, Luxembourg, Norway, Spain, Sweden, Switzerland, United Kingdom, the Netherlands, the European Community; Coopernic; and the IBRD, as trustee of the GAFSP Trust Fund.

D. Assessing and managing financial risk

33. IFAD follows a comprehensive approach to assessing and managing the major risks that can affect its balance sheet. These are: term structure exposure, currency risk, liquidity risk, credit risk, market risk and operational risks.

34. **Term structure risk.** Term structure risks are the financial risks arising when the timing and/or financial maturity of cash flows stemming from 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 is not exposed to term risk in the traditional sense as outlined above, it could be said that it is exposed to such risk when the timing of fund outflows and inflows do no match. This term structure exposure, more linked to temporary fluctuations of cash flow items, is offset by IFAD's liquidity (i.e. cash and investments) and its provision for minimum liquidity requirement.

35. **Market risk.** IFAD's investment portfolio is allocated to several asset classes in the fixed-income universe in line with IFAD's Investment Policy. Occasionally, IFAD Management has taken short-term tactical measures to protect the overall portfolio from adverse market conditions. Cash and held-to-maturity investments are managed internally; marked-to-market investments are managed through 10 mandates to external managers. Exposure to market risk is adjusted by modifying the duration of the investment portfolio, depending on the outlook for changes in securities market prices. The upper limit for the duration of the fixed-income portion of the portfolio is set at 0-2 years above the benchmarks of respective fixed-income portfolios. The Fund no longer invests in equities.

36. **Currency risk.** IFAD's investment portfolio is used to minimize IFAD's overall currency risk. The majority of IFAD's commitments relate to undisbursed loans and grants denominated in special drawing rights (SDR). Consequently, the overall assets of the Fund are maintained, to the extent possible, in the currencies and ratios of the SDR valuation basket. Similarly, the General Reserve and commitments for grants denominated in United States dollars are matched by assets denominated in United States dollars. The monitoring of the status of alignment to the SDR valuation basket is usually performed on a monthly basis. In case of misalignments that are considered persisting and significant, Management undertakes a realignment procedure by changing the currency ratios in IFAD's investment portfolio so as to realign the total assets to the desired SDR weights. To enhance this currency alignment mechanism and make it more dynamic, IFAD is considering the use of a currency overlay manager.

37. **Liquidity Risk.** Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents to meet loan and grant disbursements as well as other administrative outflows as they arise. IFAD's Treasury Division maintains flexibility in funding by calculating estimated availability of funds from all relevant sources and monitors the liquidity situation based on various timelines. IFAD developed a liquidity policy, which was approved by the Executive Board in December 2006, to provide further safeguards in this area. The Liquidity Policy requires a minimum level of highly liquid assets in IFAD's cash and investments equal to 60 per cent of total annual gross disbursements (cash outflows) and potential additional requirements due to liquidity shocks.

38. **Credit risk.** The investment guidelines set credit floors for the eligibility of securities and counterparties. The eligibility of banks and bond issues is determined on the basis of ratings assigned by major credit-rating agencies. The minimum credit rating for IFAD's overall investment portfolio is AA-. IFAD is currently reviewing its investment policy and minimum credit rating.

39. **Loan portfolio credit risk.** Given the nature of its borrowers and guarantors, the Fund expects that each of its sovereign guaranteed loans will ultimately be repaid. Collectability risk is covered by both the accumulated allowance for loan impairment losses and the accumulated allowance for the HIPC Debt Initiative. Loans with amounts overdue more than 180 days are placed in non-accrual status. Historically, provision for loans in arrears has averaged at 3.0 per cent. As at 31 December 2010, the provision for loans in arrears was 1.8 per cent of overall loans outstanding.

40. **Member State credit.** IFAD has virtually no Member State credit exposure thanks to its excellent track record in contribution payments. To be extremely prudent, IFAD provides against overdue Members' contributions by creating a balance sheet provision.

IFAD's administrative and capital budgets

1. IFAD's administrative and capital budgets are funded from IFAD's regular resources and are approved annually by the Governing Council. In addition, one-time budgets funded from IFAD's regular resources can also be approved by the Governing Council when deemed appropriate (e.g. Replenishment budget, extraordinary compensatory budget for the 2011 session of Governing Council).

2. The evolution of the nominal value of the administrative budget – including the PDFF – and other budgets approved over the last five years is set out in table A.III.1 below.

Table A.III.1
Evolution of the administrative budget (including PDFF) and other budgets
(millions of United States dollars)

	Approved budget						
	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Administrative budget	53.30	61.14	67.49	72.31	73.33	**131.99**	**140.59**
PDFF	29.90	30.45	33.80	38.78	41.98	-	-
Total administrative budget (incl. PDFF)	**83.20**	**91.59**	**101.29**	**111.09**	**115.31**	**131.99**	**140.59**
Other budgets approved:							
Capital budget	**-**	**-**	**-**	*2.00*	*4.08*	*3.53*	*15.19*
Replenishment budget	1.60	-	**-**	*1.80*	-	-	*2.00*
Extraordinary compensatory budget for the 2011 session of the Governing Council	-	-	**-**	-	-	-	*0.49*
Other one-time costs	2.00	0.40	**-**	-	-	-	-

3. Future real growth in the administrative budget is expected to be limited. The trend over the last five years has been for real increases to be focused on activities directly supporting the increased programme of work and project portfolio, while non-operational administrative activities have experienced zero growth every year since 1995, except for 2006. Further administrative efficiencies are being sought, particularly in the non-operational area.

4. The administrative budget is also the numerator in calculating one of IFAD's key Results Measurement Framework targets (i.e. administrative efficiency ratio). Currently, the entire administrative budget is included in the administrative efficiency ratio although Management is currently reviewing this situation with a view to enhancing the ratio's meaningfulness to IFAD's operational model.

5. IFAD's capital budget was instigated in 2008 to provide secure funding for capital projects with an implementation time frame beyond one year. Depreciation costs are charged to IFAD's administrative budget on completion of the capital projects.

History of the replenishment process

1. IFAD's core resources derive from contributions made by its Member States. Originally contributions were mainly from List A and B Member States, but, as of the Third Replenishment, contributions from List C Member States figured far more predominantly. Initial contributions (i.e. those made at the start of the Fund's operations in 1977) amounted to US$1 billion in pledges for the period 1978-1980. In accordance with article 4.3 of the Agreement Establishing IFAD, which provides that "in order to assure continuity in the operations of the Fund, the Governing Council shall periodically, at such intervals as it deems appropriate, review the adequacy of the resources available to the Fund…", IFAD holds consultations to review its resources whenever the Governing Council considers it necessary.

2. Replenishment Consultations are normally composed of representatives of all List A and List B Member States, and a number of List C Member States as decided by the Governing Council at the establishment of the replenishment – up to IFAD6, there were four from each of the sub-lists; in recent years, some List C Member States have attended as observers to the negotiations. These compositions are established by the Governing Council. The representatives invited to participate in Consultation sessions are the Governors, who may, however, designate others to represent them. Consultation sessions are chaired by the President of IFAD.

Contribution processes

Governing Council resolution

3. The terms governing Member States' replenishment contributions are specified in a resolution, which is submitted to the Governing Council for adoption at its first session following the conclusion of the Consultation sessions.

Instrument of contribution

4. Member States are expected to follow the announcement of a replenishment pledge with the deposit of an instrument of contribution (IoC). An IoC is a legally binding commitment, specifying the amount of the contribution, and the mode and schedule of payment.

Replenishment effectiveness

5. The replenishment becomes effective when the ratio of IoCs to pledges specified in the resolution (normally 50 per cent) has been deposited.

Payment

6. Member States have the option to pay contributions in cash or in promissory notes, in a single sum or in up to three instalments. Payments are to be made within the replenishment period or as otherwise agreed with the President.

Table A.IV.1
Historical data

IOCs received as at 31 December 2010	*Millions of United States dollars*
Initial contributions	1 017.3
First Replenishment	1 016.4
Second Replenishment	566.6
Third Replenishment	553.8
Fourth Replenishment	361.4
Fifth Replenishment	441.4
Sixth Replenishment	567.0
Seventh Replenishment	639.0
Eighth Replenishment	805.3
	5 968.2
SPA*	351.2
Special contribution	20.3
Total Replenishment contributions	**6 339.7**

* SPA = Special Programme for Sub-Saharan African Countries Affected by Drought and Desertification.

Spanish Food Security Cofinancing Facility Trust Fund

1. In September 2010, the Executive Board approved the establishment of the Spanish Food Security Cofinancing Facility Trust Fund of EUR 300 million, which allows IFAD to increase the total external resources available to its developing Member States during the Eighth Replenishment period ending in 2012. The demand from these countries far exceeds the current available funding, and the Spanish cofinancing funds offer a great opportunity to scale up IFAD-funded projects, enabling them to have a greater and more meaningful impact. It represents an innovative source of funding to IFAD and an investment in development to Spain. For the first time in its history, IFAD will administer a trust fund that borrows money from a third party – Spain – to make loans to Member States under IFAD terms and conditions. At the same time, Spain, by lending to IFAD, can keep pace with its official development assistance commitments notwithstanding budget constraints. The financial model developed by the two parties ensures sound management of the resources, which will increase the funds available for IFAD-funded projects and, under normal circumstances, safeguard the return of the Spanish investment. In case of adverse unforeseen events, Spain will provide grants to balance the Trust Fund.

Terms and conditions of the Trust Fund

2. The Trust Fund consists of a loan from the Government of Spain of EUR 285.5 million and a grant of EUR 14.5 million. The basic terms and conditions of the Trust Fund are:

Principal:	EUR 285.5 million paid to the Trust Fund in a lump sum in December 2010
Interest rate:	Euro interbank offered rate (EURIBOR) 12 months
Maturity:	45 years
Repayment:	The total amount of loan repayments collected from Trust Fund borrowers according to the relevant amortization schedules annually
Allocation:	IFAD to commit funds during the Eighth Replenishment period 2011-2012
Grant:	EUR 14.5 million payable to the Trust Fund in four years (this grant money is provided to lower the average interest rate that the Government of Spain charges to the Trust Fund and is not to be used by IFAD to provide grants).

3. The Government of Spain will provide additional grant money to cover any negative annual balance of the Trust Fund and to cope with unexpected events of default or arrears for risk management of the Trust Fund. Any excess balance of the grant at liquidation of the Trust fund will be returned to the Government of Spain.

Eligibility and allocation criteria

4. IFAD Member States eligible to receive IFAD loans may be considered eligible borrowers under the Trust Fund. Loans shall be distributed among the various types of IFAD loans in such a way that at least 50 per cent of available funds shall be granted to borrowing countries in the form of loans on ordinary terms and that no more than 37 per cent of available funds shall be granted to borrowing countries in the form of loans on highly concessional terms. This to ensure the financial sustainability of the financing mechanism.

5. The criteria for lending through the Trust Fund will be that a country's allocation under the performance-based allocation system (PBAS) has been fully committed

and the potential borrowing Government is capable of taking on extra funding. Member States with no PBAS and Member States in arrears cannot borrow.

6. These additional resources will provide, on a demand-driven basis, incremental resources for countries in which the Eighth Replenishment resources do not fully meet the demand through IFAD investments. They will scale up ongoing operations but will not affect the country allocations already established under the PBAS.

Governance

7. The governance structure of the Trust Fund is part of the governance of IFAD, as follows:

- Submission of projects by the President to the Executive Board;
- Approval of projects by the Executive Board; and
- Implementation of projects by the relevant regional division of IFAD.

8. Projects funded through the Trust Fund will go through exactly the same quality enhancement and quality assurance processes as other projects. The lapse-of-time procedure cannot be used when Spanish cofinancing is contemplated.

Monitoring and information

9. IFAD and Spain have set up the Trust Monitoring Committee, which will meet at least once a year, preferably in October, to review progress on the execution of the Trust Fund and to propose any actions needed as determined by such review.

10. IFAD will periodically report to Spain on Trust Fund loan operations under review and any loans ultimately committed, as well as investments made with available Trust Fund resources. IFAD will also be responsible for preparing and presenting monitoring and final reports following usual practices and standards.

Supplementary funds

1. Over and above its main sources of funding, IFAD receives extrabudgetary resources committed voluntarily by IFAD's Member States (in addition to their regular replenishment contributions), non-Member States and multilateral and private entities. Supplementary funds are to be mobilized in the context of IFAD's strategic framework and for purposes that are consistent with the Fund's institutional priorities.

2. Supplementary funds are broadly categorized as follows:

   - **Cofinancing funds –** resources received and administered by IFAD on behalf of donors to cofinance projects financed by IFAD's loans and grants. The cofinancing agreement makes specific reference to the IFAD loan or grant agreement with the beneficiary government.

   - **Programmatic supplementary funds (technical assistance programme) –** resources received and administered by IFAD on behalf of the donors to finance a whole range of activities (e.g. sectoral and thematic studies, consultancy activities).

   - **Other supplementary funds –** resources received and administered by IFAD to finance non-project-related activities (e.g. contributions towards the Independent External Evaluation of IFAD).

   - **Associate Professional Officer (APO) Programme –** resources received by IFAD under the APO Programme or similar arrangements.

   - **Global Environment Facility (GEF) –** resources received by IFAD to cofinance IFAD loans and grants that address land degradation and sustainable rural development issues. IFAD is one of the GEF executing agencies.

3. IFAD uses supplementary funds resources mainly to:

   - Design and implement pilot/innovative activities;

   - Facilitate project development and implementation;

   - Strengthen strategic partnerships;

   - Finance studies, technical assistance and local capacity-building activities; and

   - Integrate a number of cross-cutting issues into IFAD-assisted projects and programmes.

4. Donors contribute to IFAD supplementary funds for different reasons:

   - To provide IFAD with some flexibility with regard to: (i) maintaining/enabling its portfolio activation or reactivation in fragile states; (ii) supporting IFAD-funded pilot innovative initiatives; and (iii) promoting regional initiatives in addition to programmes supported by country loans; and

   - To facilitate IFAD's catalytic role in networking and disseminating innovative experiences.

5. At present, supplementary funds of approximately US$230 million support a portfolio made up of 130 activities, projects and programmes approved between 2005 and 2011. These funds have been provided within the framework of 39 agreements signed by IFAD with the following 18 different donors: Belgium, Canada, Denmark, Finland, France, Ireland, Italy, Japan, Luxembourg, Norway, Spain, Sweden, Switzerland, United Kingdom, the Netherlands, and the European

Community; Coopernic; and the IBRD, as trustee of the Global Agriculture and Food Security Program (GAFSP) Trust Fund.

6. Historically, Italy (US$48.6 million overall contribution from 1994), the Netherlands (US$27.0 million overall contribution from 2001), and the United Kingdom (US$26.6 million overall contribution from 2001) have been the major Member State contributors to IFAD's supplementary funds. Since 2008, Spain has contributed US$18.0 million.

7. Following IFAD's adherence to the European Commission Financial and Administrative Framework Agreement in 2004, the Commission contributed EUR 4 million to establish the Financing Facility for Remittances at IFAD (agreement signed in December 2005). Since then, the Commission's contributions to IFAD have reached EUR 201 million overall:

- EUR 135.3 million for 2007-2010, channelled through IFAD as the European Union contributions to the Consultative Group on International Agricultural Research (CGIAR) to reduce food insecurity and poverty through agricultural development and rural innovations that work in favour of poor rural people;
- EUR 56.5 million for 2009-2010 provided within the European Union Food Facility to increase the availability of improved seed varieties, and help small farmers boost agricultural production in East and Southern Africa and in the Economic Community of West African States (ECOWAS); and
- EUR 5.4 million to support IFAD's work with African regional farmers' organizations in 2009.

Main initiatives funded through supplementary funds

European Union funds for agricultural research for development through the CGIAR Consortium
The European Union contribution complements IFAD's investment in CGIAR. IFAD's grant programme focuses on pro-poor innovation – mainly adaptive research for the generation and diffusion of sustainable agricultural technologies through participatory approaches in resource-poor and disadvantaged environments. The European Union investment in CGIAR is to support research for agriculture and sustainable management of natural resources (including land, water, soils and natural vegetation) and ecosystems since they have a demonstrated impact on poverty reduction and food security. Both IFAD and the European Union place an emphasis on Africa to deliver pro-poor scientific, technological innovations and policies; and to develop research programmes, and capacity- and institution-building, thus responding to beneficiaries' needs in that continent. They also support research activities in other regions to sustain biodiversity; produce more and better food at lower cost through genetic improvements; improve policies; and facilitate institutional innovation to support the sustainable reduction of poverty and hunger. IFAD is committed to furthering its strategic partnership with the European Union in supporting the CGIAR and its centres. It will do so through mega-programmes involving thematic project clusters and system-wide activities platforms; support to inter-centre activities to improve efficiency; specific pro-poor adaptive research programmes to improve effectiveness and impact on the rural poor and their food security.

European Union Food Facility
In December 2008, the EUR 1 billion European Union Food Facility was set up to bridge the gap between emergency aid and medium- to long-term development aid. This support came at a time of worsening food insecurity caused by volatile food prices. In 2009, under this facility, EUR 31.8 million was allocated to improving food security in IFAD-supported programmes in Burundi, Madagascar, Mozambique and the Philippines under three cofinancing agreements. About EUR 4.7 million cofinanced the food security component of the Post-crisis Rural Recovery and Development Programme in Eritrea. In 2010, the European Commission and IFAD signed a new agreement for EUR 20 million to work with ECOWAS in developing a coordinated response that would increase food security in the region by improving access to food. The programme is increasing the availability of improved seed varieties in the ECOWAS region. This will help small farmers increase agricultural production and grow enough food in the long term to meet the needs of vulnerable populations in the region.

Remittances
At well over US$350 billion each year, remittances that migrant workers send home to developing countries surpass foreign direct investment and development assistance combined. On average, from 30 to 40 per cent of remittances go to rural areas. These funds provide the basic food, clothing and shelter that are essential for lifting millions of people out of poverty. The truly transformative potential of these funds, however, lies in their investment in education, health care and small businesses. IFAD manages the US$18 million multi-donor Financing Facility for Remittances. Set up in 2006, the Facility supports the development of innovative, cost-effective and easily accessible remittance services around the world. Its projects and activities are helping to:

- Cut the costs of transferring hard-earned money;
- Provide much-needed banking services for unserved rural populations; and
- Promote the productive investment of migrants' capital in the rural areas of their home countries.

GAFSP
In November 2010, IFAD and GAFSP signed a US$3.4 million agreement for IFAD to design and supervise two programmes, one in Sierra Leone and the other in Togo. The programmes have been awarded grants worth a total of US$89 million by GAFSP, of which US$70 million will be under IFAD supervision.

In Togo, GAFSP resources will cofinance the Support to Agricultural Development Project (PADAT). The project will help raise the productivity of small-scale producers of three staple food crops (cassava, maize and rice) and enhance value addition and marketing of their outputs. With the support of the Government and other donors, the project will promote pro-poor rural economic growth. It will also facilitate the entry of food-insecure farmers into the market economy by enhancing self-reliance among marginally commercial small farmers and by helping rural producers' organizations develop integrated value chains for the three main staple foods.

The objective of the GAFSP proposal from Sierra Leone is to promote commercialization of smallholder agriculture. Its main components are: (i) establishment of 1,000 farmer field schools and 300 agribusiness centres nationwide; (ii) rehabilitation of 4,000 hectares of traditional rice-growing areas; (iii) strengthening the capacity of the Ministry of Agriculture to manage, monitor and evaluate implementation of the Comprehensive Africa Agriculture Development Programme (CAADP) investment plan. In addition to these components, IFAD is discussing with Sierra Leone the possibility of including under the GAFSP-financed programme the conducting of an agricultural census, an important need identified by the donor community.