

RFA

Regional Fund for Agricultural Technology

**SPECIAL PURPOSE FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE**

December 31, 2020 and 2019

(with Independent Auditors' Report thereon)



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

To the Inter-American Development Bank,
Administrator of the Regional Fund for Agricultural Technology:

We have audited the accompanying special purpose financial statements of the Regional Fund for Agricultural Technology (the Fund), which comprise the special purpose balance sheets as of December 31, 2020 and 2019, and the related special purpose statements of changes in fund balance and cash flows for the years then ended, and the related notes to the special purpose financial statements.

Management's Responsibility for the Special Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the financial reporting provisions of the special purpose basis of accounting described in Note B of the special purpose financial statements; this includes determining that the special purpose basis of accounting is an acceptable basis for the preparation of the special purpose financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the assets and liabilities of the Regional Fund for Agricultural Technology as of December 31, 2020 and 2019, and, additions, deductions, changes in fund balance, and cash flows for the years then ended, in accordance with the financial reporting provisions of the special purpose basis of accounting described in Note B of the special purpose financial statements.



Basis of Accounting

We draw attention to Note B of the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements are prepared by the Inter-American Development Bank, as Administrator of the Fund, on the basis of the special reporting provisions of the special purpose basis of accounting described in Note B to the special purpose financial statements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the special purpose financial statements as a whole. The accompanying supplemental schedule included in Appendix I is presented for purposes of additional analysis and is not a required part of the special purpose financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the special purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the special purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special purpose financial statements or to the special purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the special purpose financial statements as a whole.

Restriction on Use

Our report is intended solely for the information and use of the Donors to the Regional Fund for Agricultural Technology and the Inter-American Development Bank as Administrator and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Washington, DC
May 21, 2021

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY

(Administered by the Inter-American Development Bank)

SPECIAL PURPOSE BALANCE SHEETS

(Expressed in thousands of United States dollars)

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
ASSETS		
Cash	\$ 193	\$ 213
Investments	102,114	99,903
Accrued interest on direct investments	279	312
Total assets	<u>\$ 102,586</u>	<u>\$ 100,428</u>
LIABILITIES AND FUND BALANCE		
Due to Administrator	\$ 138	\$ 70
Undisbursed grants	5,005	4,503
Other liabilities	23	23
Total liabilities	5,166	4,596
Fund balance	97,420	95,832
Total liabilities and fund balance	<u>\$ 102,586</u>	<u>\$ 100,428</u>

SPECIAL PURPOSE STATEMENTS OF CHANGES IN FUND BALANCE

(Expressed in thousands of United States dollars)

	For the year ended	
	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
ADDITIONS		
Income from cash and investments, net	\$ 3,444	\$ 4,694
Grant contributions	596	69
Total additions	<u>4,040</u>	<u>4,763</u>
DEDUCTIONS		
Grants, net	2,027	2,302
Secretariat expenses and audit fees	425	491
Total deductions	<u>2,452</u>	<u>2,793</u>
Change in Fund balance	1,588	1,970
Fund balance, beginning of year	95,832	93,862
Fund balance, end of year	<u>\$ 97,420</u>	<u>\$ 95,832</u>

The accompanying notes are an integral part of these special purpose financial statements.

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY

(Administered by the Inter-American Development Bank)

SPECIAL PURPOSE STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States dollars)

	For the year ended	
	December 31, 2020	December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Fund balance	\$ 1,588	\$ 1,970
Adjustments to reconcile Change in Fund balance to Net cash used in operating activities:		
Amortization of premium on direct investments	132	132
Decrease in Accrued interest on direct investments	33	18
Increase (Decrease) in Due to Administrator	68	(39)
Increase in Undisbursed grants	502	638
Inflation adjustments on direct investments	(641)	(933)
Net investment gains	(2,091)	(2,931)
Net cash used in operating activities	<u>(409)</u>	<u>(1,145)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(22,151)	(10,071)
Proceeds from sale or maturity of investments	22,540	11,186
Net cash provided by investing activities	<u>389</u>	<u>1,115</u>
 Net decrease in Cash	(20)	(30)
Cash, beginning of year	213	243
Cash, end of year	<u>\$ 193</u>	<u>\$ 213</u>

The accompanying notes are an integral part of these special purpose financial statements.

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY

(Administered by the Inter-American Development Bank)

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

December 31, 2020 and 2019

(Currency amounts expressed in thousands)

NOTE A – NATURE, GOVERNANCE, AND RESOURCES, OF THE FUND

On March 15, 1998, the Inter-American Development Bank (Bank) signed the Administration Agreement of the Cooperative Program for the Regional Fund for Agricultural Technology (Fund), also known by its Spanish acronym FONTAGRO. The objectives of the Fund are to create a sustainable financing facility and a forum in which Latin American and Caribbean (LAC) countries can discuss priority topics related to technological innovation, thereby strengthening the role these countries play in defining the regional research agenda.

The Agreement Establishing the Cooperative Program for the Regional Fund for Agricultural Technology (Agreement), also signed on March 15, 1998, establishes the Fund as a consortium that fosters strategic agricultural research with a regional focus and direct participation by LAC countries in identifying priorities and financing research projects. The mission of the Fund is to increase the competitiveness of the agricultural sector through research, thus ensuring sustainable management of natural resources and reduction of poverty in the region.

The operations of the Fund comprise, non-reimbursable financing of priority projects identified in the Regional Fund's Medium Term Plan (Plan). The Plan describes the strategic vision for allocating the Fund's resources and identifies priority investment opportunities at the regional level.

Membership to the Fund is open to all Bank members and other countries, or legal entities that would like to contribute additional resources to the Fund and sign the Agreement. Contributions from Bank member countries and organizations are made on a voluntary basis. Once the entire amount of a member's commitment to the Fund has been satisfied, the member may withdraw from the Fund upon written notification, to take effect at a minimum of six months thereafter. Per Article VII of the Agreement, members that withdraw from the Fund will not have the right to withdraw their contributions until the termination and liquidation of the Fund.

From time to time the Fund may receive contributions for specific projects from parties that are not members of the Fund. These contributions are recorded as Grant contributions¹ in the Special Purpose Statements of Changes in Fund Balance. During 2020, the Fund received a grant contribution from the Ministry for Primary Industries of New Zealand amounting to \$596 (NZD 901) to co-finance three projects. In 2019, the Fund received a grant contribution from the Ministry for Primary Industries of New Zealand amounting to \$69 (NZD 100) to co-finance one project.

As of December 31, 2020, total cumulative contributions received from members amounted to \$83,050 (2019 - \$83,050). See Appendix I for the Supplemental Schedule of Cumulative Member Commitments and Contributions Received, which lists current members and their respective cumulative commitments and contributions as of December 31, 2020 and 2019.

The Fund's governing body is its Board of Directors (BOD), which is headed by a Chairman elected from among the LAC member countries. Its executive body is the Technical-Administrative Secretariat (TAS), headed by an Executive Secretary. The BOD consists of representatives designated by each of the Fund's members. Only countries and national, regional and international organizations that have signed and ratified the Agreement can become members of the Fund. Each member has one proportional vote for every \$100, or its equivalent, contributed to the Fund. In

¹ References to captions in the special purpose financial statements are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the (special purpose) financial statements.

addition, LAC member countries have basic votes. The total number of basic votes equals 25% of the total number of proportional votes and is distributed equally among LAC member countries.

Pursuant to the Agreement, from inception to June 30, 2024, the TAS is designated as the executive body that provides technical and operational support to the Fund, and is therefore responsible for the Fund's program and operations among other activities. The Agreement also provides that the Bank administers the Fund. As Administrator of the Fund, the Bank is the Fund's legal representative, provides support to the Fund and invests the Fund's resources in accordance with the Bank's policies and procedures and the investment decisions adopted by the Fund's BOD. Pursuant to the Administration Agreement signed between the Bank and the Fund, the Bank is not reimbursed for either direct or indirect costs of Fund administration, with the exception of costs associated with the preparation of the audited financial statements (Art. II Section 2(b)).

Effective March 22, 2013, the Fund's BOD approved a number of amendments to the Agreement as well as to the Administration Agreement. The amendments included, amongst others, the revision of the use of the Fund's resources, the Fund's BOD functions, the services provided by the Bank, and the Bank's liability in the administration of the Fund. One of the effects of the implementation of these amendments was the discontinuation of the previous requirement to set aside an annual amount to maintain the value of the resources contributed to the Fund. As a result, and due to the absence of donor-imposed permanent and/or temporarily restricted use of resources, the Fund no longer qualified as an endowment fund. On June 19, 2013, the Bank's Board of Executive Directors approved the proposed amendments to the Administration Agreement.

On August 2, 2017 the Bank's Board approved the proposed amendments to the Fund's BOD voting process, reference to the initial period and the composition of the Fund's TAS (GN-1965-14).

On December 18, 2018, the President of the Fund's BOD requested the Bank to extend the Administration Agreement for another five-year period until June 30, 2024. The extension request was approved by the Bank's Board of Executive Directors on June 19, 2019 (GN-1965-16).

On December 18, 2020 the Bank and the Inter-American Institute of Cooperation for the Agriculture (IICA) signed an agreement to relocate the TAS personnel from the Bank to the IICA office in Washington, DC starting January 1 of 2021 through December 31, 2023. The Bank continues to perform the role of the administrator of the Fund and transfers the FONTAGRO administrative budget to the IICA to cover the administrative expenses of the TAS, which will continue to be deducted from the resources of the Fund.

The Fund is audited annually and for the year ended December 31, 2020 the audit fee amounted to \$21 (2019 - \$20).

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The special purpose financial statements of the Fund are expressed in United States dollars (USD) and prepared in conformity with the Unified Special Basis of Accounting developed by the Bank ("USBA"), and are not intended to be a presentation in accordance with U.S. generally accepted accounting principles (GAAP). USBA is a customized accounting framework that fulfils the reporting requirements of the third-party donors whose resources are administered by the Bank while leveraging the Bank's existing integrated accounting systems and financial reporting policies and procedures. It became the standard accounting basis for all new donor trust funds established under the Bank's administration starting in 2017.

The primary differences between USBA and U.S. GAAP are as follows:

- Under USBA, contributions are recognized as additions to Fund balance when an invoice is issued to a donor.
- Grants are recognized as deductions to the Fund balance when approved by the Bank, regardless of whether any donor-imposed conditions or restrictions exist, and may be reflected in the special purpose financial statements sooner than under GAAP.

The preparation of the special purpose financial statements requires the Bank, as Administrator, to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the special purpose financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates. Significant accounting policies for special purpose financial statements prepared in conformity with USBA are disclosed in detail below.

Contributions and Receivable from a Donor

Contributions are recorded as additions to the Fund balance when an invoice is issued to a Donor in accordance with the authorized commitment for each Donor. At the same time, a Receivable from a Donor is recognized for the same amount. Such receivable balance is cleared when the cash payment for the invoiced amount is received.

Undisbursed Grants and Grants

Grants are recorded as deductions from the Fund balance when approved, by charging the full amount to Grants and recording a corresponding liability in Undisbursed grants. Disbursements are recorded as a reduction to undisbursed liability when paid. Cancellations of the undisbursed portion of grants are recorded as Grant cancellations, representing additions to the Fund balance, in the period in which they are approved.

Investments

Investments are recorded using the trade-date-method. The Fund holds direct investments in United States inflation-indexed bonds as well as interests (referred to as shares) in a mutual fund type structure internally maintained and managed by the Bank exclusively for the portfolio of funds administered by the Bank and comprise what is referred to as the investment pool. The Fund's investments are reported at fair value, with realized and unrealized gains and losses included in Income from cash and investments, net, in the Special Purpose Statement of Changes in Fund Balance. The Fund holds shares in the internal investment pool and a daily net asset value (NAV) is calculated by the Bank. Note C discloses the nature of the investments securities held by the investment pool and the Fund's pro rata interest in the fair value of each investment security class based on the ratio of the shares held by the Fund as compared to the total shares issued by the investment pool. Shares in the investment pool are also held by other funds administered by the Bank.

Interest income earned on investments in the investment pool is reinvested in the funds. Investment shares are derecognized upon sale and a realized gain or loss is recognized in the Special Purpose Statement of Changes in Fund Balance as the difference between the sales price and recorded investment. The first-in, first-out method is used to determine the cost basis of the shares sold.

Secretariat expenses

The Fund's resources are also used to pay eligible expenses related to the financial administration incurred by the TAS. These expenses are recorded when cash is paid.

Related party transactions

As part of the administration of the Fund's resources, the Bank pays administrative expenses and may disburse grants or make payments on behalf of the Fund. The amount payable related to these activities is reported as Due to Administrator.

NOTE C – INVESTMENTS

The Bank invests the Fund’s resources according to the investment policy approved by the BOD and in accordance to the Bank’s policies and procedures as applicable. As of December 31, 2020, the majority of the resources are invested in United States inflation-indexed bonds. The remaining resources are invested in securities through the mutual fund type structure – The Treasury Bills Mutual Fund (TBF Mutual Fund). Substantially all the Fund’s securities have a credit quality equivalent to a rating of AA² as of December 31, 2020 and 2019.

The Bank limits the Fund’s investments activities to a list of authorized dealers and counterparties. Further, exposure and term limits have been established for these counterparties based on their size and creditworthiness.

The Fund can contribute or withdraw funds from the investment pool by purchasing or redeeming shares. The number of shares purchased or redeemed each time a trust fund undergoes a transaction is the result of the dollar amount of the contribution or withdrawal divided by the NAV as calculated on a daily basis. At December 31, 2020, the Fund held 10,289,332 shares or 0.88% of the TBF Mutual Fund (2019 - 10,664,788 shares or 0.86%).

The table below shows the assets held by the investment pool through the mutual fund type structure. The amounts represent the Fund’s proportionate ownership share in the securities based on the aforementioned ownership share.

As of December 31, 2020, Investments comprise the following:

Investment pool ⁽¹⁾ :	2020	2019
Obligations of the United States Government	\$ 9,951	\$ 10,391
Commercial bank obligations ⁽²⁾	1,036	923
	<u>10,987</u>	<u>11,314</u>
Direct investments:		
Obligations of the United States Government ⁽³⁾	91,406	88,901
Total Investments and accrued interest on direct investments	<u>\$ 102,393</u>	<u>\$ 100,215</u>

(1) Detail of investments by class represents the Fund’s proportionate share of the investment pool’s assets.

(2) May include bank notes and bonds, certificates of deposit, commercial paper, and money market deposits.

(3) Represents the fair value of the referred assets, including their accrued interest presented on the Special Purpose Balance Sheets under Accrued interest on direct investments of \$279 at December 31, 2020 (2019 - \$312).

NOTE D – FAIR VALUE MEASUREMENTS

The framework for measuring fair value establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 -Unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 -Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 -Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

² Letter ratings refer to the average ratings from major rating agencies and to the entire range in that rating category including numeric (i.e., 1–3), symbolic (i.e., +/-), or similar qualifications used by eligible rating agencies.

Obligations of the United States Government amounting to \$101,357 as of December 31, 2020 (2019 - \$99,292) are valued based on quoted market prices in active markets, a valuation technique consistent with the market approach, and are classified within Level 1 of the fair value hierarchy.

The remaining securities are comprised of bank obligations, that is, money market deposits, whose face value approximates their fair value. These securities amount to \$1,036 as of December 31, 2020 (2019 - \$923).

NOTE E– UNDISBURSED GRANTS

For the year ended December 31, 2020, the BOD approved nine grants for a total of \$2,180 (2019 - five grants for \$2,393). The following is a summary of changes in Undisbursed grants for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Undisbursed grants as of January 1	\$ 4,503	\$ 3,865
Approved grants	2,180	2,393
Cancellations	<u>(153)</u>	<u>(90)</u>
Grants, net	2,027	2,303
Disbursements	<u>(1,525)</u>	<u>(1,665)</u>
Undisbursed grants as of December 31	<u>\$ 5,005</u>	<u>\$ 4,503</u>

NOTE F - CONCENTRATION OF CREDIT RISK

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties fail completely to perform as contracted. For concentration of credit risk related to the Investments, refer to Note C. In addition, at December 31, 2020, the Fund had deposits in two financial institution in the United States in the amount of \$193 (2019 - \$213). The Bank, as Administrator, does not anticipate nonperformance by the counterparty.

NOTE G – FUND BALANCE

Fund Balance as of December 31, 2020 and 2019 comprises:

	<u>2020</u>	<u>2019</u>
Contributions (See Appendix I)	\$ 83,050	\$ 83,050
Maintenance of value adjustments ⁽¹⁾	<u>14,294</u>	<u>14,294</u>
	97,344	97,344
Cumulative change in Fund balance, excluding contributions	<u>76</u>	<u>(1,512)</u>
	<u>\$ 97,420</u>	<u>\$ 95,832</u>

(1) Until March 2013 the Fund was required to set aside an annual amount to maintain the value of the resources contributed to it.

NOTE H – SUBSEQUENT EVENTS

The Bank, as Administrator, evaluated subsequent events through May 21, 2021, the date the special purpose financial statements were available to be issued. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the Fund’s special purpose financial statements as of and for the year ended December 31, 2020.

APPENDIX I

REGIONAL FUND FOR AGRICULTURAL TECHNOLOGY

(Administered by the Inter-American Development Bank)

SUPPLEMENTAL SCHEDULE OF CUMULATIVE MEMBER COMMITMENTS AND CONTRIBUTIONS RECEIVED AS OF DECEMBER 31, 2020 AND 2019³

(Expressed in thousands United States dollars)

Members	Commitments	Contributions Received
Argentina	\$ 20,000	\$ 20,000
Bolivia	2,500	2,500
Chile	2,500	2,500
Colombia	10,000	10,000
Costa Rica	681	681
Dominican Republic	2,500	2,500
Ecuador	2,500	2,500
Honduras	2,500	2,500
Nicaragua	2,500	1,000
Panama	5,000	5,000
Paraguay	2,500	2,000
Peru	2,500	2,500
Spain	14,723	14,723
Uruguay	5,000	2,500
Venezuela	12,000	12,000
IDRC (International Development Research Center - Canada)	100	146
	\$ 87,504	\$ 83,050

See accompanying independent auditor's report

³⁾ *The supplementary information included in Appendix I is presented for purposes of additional analysis and is not a required part of the special purpose financial statements.*