

AFRICAN DEVELOPMENT FUND



COMPENSATION FOR INCREASED GRANT FINANCING IN ADF- IX

**ADF-X MID TERM REVIEW
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The Hague, Netherlands**

FINANCE VICE-PRESIDENCY

COMPENSATION FOR INCREASED GRANT FINANCING IN ADF-IX

Background

During the ADF-X replenishment consultations, State Participants discussed various options to compensate the Fund for foregone charges and principal reflows caused by the increased share of grant financing in ADF-IX¹. The Participants finally agreed on a two-pronged approach, summarized below:

- Compensation for the foregone charges reflows with an upfront commitment, to be encashed over the ADF-X encashment period.
- Compensation for the foregone principal reflows on a ‘pay-as-you-go’ basis during the period of incidence.

To determine the additional contributions required by the State Participants, the compensation for foregone charges reflows was estimated at UA 33.5 million in present value terms². After adjusting for the UA 15 million already allocated in ADF-IX for grant compensation, the nominal contribution required by the State Participants, based on their ADF-IX burden shares, amounted to UA 29.7 million spread over the ADF-X encashment period.

Issue

Following the conclusion of the ADF-X replenishment consultations in December 2004, an implementation issue has arisen with regard to whether the donor pledges of UA 2,461.6 million towards the total ADF-X replenishment include, or exclude, the UA 29.7 million towards compensating increased grant financing in ADF-IX. The issue has primarily arisen due to the absence of any specific reference to the compensation in the final Deputies’ Report on the ADF-X replenishment, dated January 19, 2005.

Proposed Resolution

In submitting the proposed resolution of the aforementioned implementation issue, Management is guided by the treatment of a similar issue on grant compensation in IDA. The final Deputies’ Report of IDA 14 replenishment recommends that donor contributions of SDR 14.1 billion (required to achieve a total replenishment of SDR 24.2 billion) will include, inter alia, SDR 0.4 billion towards foregone income on IDA 13 grants³.

In the absence of any specific reference in the final ADF-X Deputies’ report to the compensation for increased grants in ADF-IX, it is proposed that, drawing on the IDA 14 conclusion on a similar issue (with a view to gauge donor intent), the final donor pledges of UA 2,461.6 million for the ADF-X be considered to include the compensation for increased grant financing in ADF-IX. Furthermore, any contributions made by State Participants under the assumption that the aforementioned compensation was excluded from the ADF-X donor pledges will be adjusted towards the next payment due.

¹ Offsetting Foregone Reflows due to Increased Grant Financing in ADF IX: Additional Options, April 2004.

² Addendum to ADF-X Financing Framework, December 2004.

³ Section IV of IDA 14 Final Replenishment Report, adopted by IDA Board on March 10, 2005.