ADF-14

The ADF-14 Financing Framework

Discussion Paper

ADF-14 First Replenishment Meeting
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AFRICAN DEVELOPMENT FUND

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Executive Summary

1. This financing framework paper analyzes the main financial variables that will determine the ultimate size of the resources of the Fund for 2017-2019. Expected resources for ADF-14 are the replenishment amount (subscriptions from donors including the technical gap), internal resources of the Fund (based on the Advance Commitment Capacity), funds carried over from previous replenishments, as well as, potentially, resources made available to the replenishment by the introduction of innovative financing instruments.

2. The replenishment level should provide an accurate reflection of the amount that the Fund will be able to commit to new operations over the ADF-14 period. Consequently, Management recommends revising the technical gap back to 5 percent of the replenishment level, from 11.65 percent for ADF-13.

3. Proposals related to the determination of the ADF-14 exchange rates are made in this paper, reproducing upcoming changes in the SDR basket.

4. The replenishment's standard encashment schedule is also presented, updated to reflect an analysis of the Fund's loan and grant disbursement patterns. Furthermore, and in light of the negative rates environment currently affecting some major currencies, the mechanism of the accelerated encashment process will be amended for ADF-14 in order to continue preserving the financial integrity of the Fund.

5. The paper presents as well preliminary estimates for the Advance Commitment Capacity and discusses its key driving parameters.

6. Finally, the paper presents three replenishment scenarios taking into account the indicative pipeline of operations and resources needed to deliver the Bank Group's scaled-up and focused assistance to ADF countries.

Abbreviations

ACA	Advance Commitment Authority
ACC	Advance Commitment Capacity
ACE	Accelerated Encashment
ADF	African Development Fund
AfDB	African Development Bank
AsDF	Asian Development Fund
CEAS	Cumulative Exchange Adjustment on Subscriptions
EONIA	Euro Overnight Index Average
IDA	International Development Association
LIBOR	London Interbank Offered Rate
MDRI	Multilateral Debt Relief Initiative
NDR	Net Development Resources
OIS	Overnight Index Swap
PSF	Private Sector Credit Enhancement Facility
SDR	Special Drawing Right
TSF	Transition Support Facility
UA	Unit of Account

ADF-14
THE ADF-14 FINANCING FRAMEWORK

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1. Introduction

1.1. This financing framework paper presents expected sources of financing for the Fourteenth Replenishment of the African Development Fund (ADF-14), namely subscriptions from donors, internally generated resources, and funds carried over from previous replenishments. The paper also reviews the financial terms of the replenishment and analyzes the main financial variables that will determine the resource envelope available for commitment under ADF-14.

1.2. Following this introduction, Section 2 examines the burden sharing framework, technical gap, and financing terms of the replenishment. Section 3 presents the framework for grant and Multilateral Debt Relief Initiative compensation in ADF-14. Section 4 provides preliminary estimates for the Advance Commitment Capacity. Section 5 examines resources that will be carried over from previous replenishments, and Section 6 submits indicative financing scenarios.

2. Subscriptions from donors

2.1 The African Development Fund does not have the capacity to self-finance the level of development assistance required by its borrowing regional member countries. While principal reflows have continued to rise over the past years, as a consequence of the time profile of the loans that were approved and disbursed in previous replenishments, they still remain relatively small in the context of the magnitude of recent replenishments.

2.2 The Fund continues to rely heavily on support from donors that see the ADF as the most effective channel for development assistance to the most vulnerable African countries.

Burden sharing and technical gap

2.3 Some donors calculate their subscription to a new replenishment Fund by multiplying their burden share[1] from the preceding replenishment by the targeted new replenishment size. In the absence of the participation of new donors, or increases in burden share by existing donors vis-a-vis past replenishments, this approach tends to perpetuate or accentuate the Fund's technical gap[2] over time.

2.4 The ADF's burden-sharing framework was reviewed in 2007 during ADF-9 to ensure that targeted replenishments could be met. Furthermore, Deputies agreed during ADF-11 negotiations on a maximum technical gap of 5 percent. That level would give State participants the flexibility to increase their burden share during a particular replenishment without exceeding the target replenishment level. It would also allow for increased or additional subscriptions during the life of a replenishment, while at the same time accommodating the subscriptions of new donors. By recalibrating burden shares during ADF-11, the Fund substantially reduced that replenishment's technical gap to 5 percent from the 27 percent recorded in ADF-10. Figure 1 below depicts the evolution of ADF's technical gap since ADF-10.

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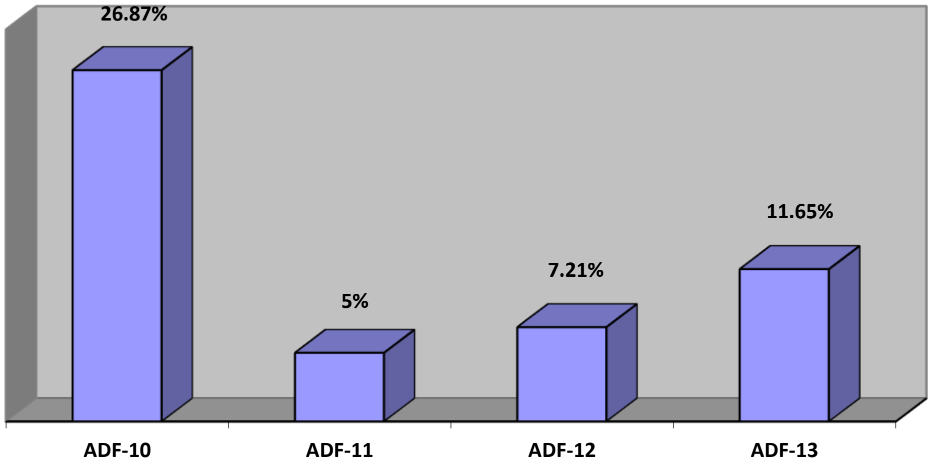
[1] Burden share is the ratio of a donor's subscription to the target replenishment amount.
[2] Technical gap is the structural gap resulting from a difference between the target replenishment amount and pledges or donor subscriptions actually received by the Fund.

Figure 1: Evolution of ADF's technical gap since ADF-10 as a % of the replenishment level



2.5 The technical gap for ADF-12 was set at 7.5 percent, a level that was based on the expectation that the membership formalities required from Turkey and Luxembourg would be concluded relatively swiftly and that they would be able to subscribe to the replenishment. The technical gap was also set to cater for certain countries which were constrained by burden share and would only be able to increase their subscriptions to match a higher replenishment amount. The membership formalities of Turkey and Luxembourg were finalized during ADF-13, but while these countries paid their membership contribution to ADF they did not pledge for the replenishment. For ADF-13, Deputies agreed on a technical gap of 12 percent, to maximize the contributions of certain countries that were constrained by burden share. As of December 2015, ADF-13's technical gap stood at 11.65 percent.

2.6 Management sees in ADF-14 an opportunity to tighten the technical gap back to 5 percent, as agreed in ADF-11. This smaller technical gap will translate into a replenishment amount that is relatively in line with the actual amount that will be used. The move towards a smaller technical gap is also supported by the fact that there are currently no new potential donors in the process of finalizing their membership applications to the Fund, one of the key reasons that justified a higher technical gap in previous replenishments.

Proposed financing terms

a. Currency of subscription and exchange rates

i. Currency of subscription

2.7 As in previous replenishments, donors will be able to denominate their subscriptions to ADF-14 in Special Drawing Right (SDR)[3], in one of the SDR component currencies, or their own national currencies, if freely convertible and if the average domestic inflation rate did not surpass 10 percent in the preceding three years.

ii. Exchange rate risk

2.8 Major deviations can occur between the exchange rate set for a replenishment and the exchange rate prevailing at the moment a State participant effectively pays its subscription, thus exposing the Fund to unanticipated changes in its replenishment resources. To mitigate this foreign exchange risk, at the beginning of each replenishment the Fund sets aside a contingency reserve, which is subtracted from its available resources in order to avoid over-commitment of resources due to exchange rate movements.

iii. Determination of the replenishment exchange rates

[3] The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is currently based on a basket of four major currencies, and the basket will be expanded to include the Chinese Renminbi (RMB) as the fifth currency, effective October 1, 2016.

2.9 There are three considerations that have governed the determination of the reference period for computing the average exchange rates for the replenishment. First, the reference period should leave donors with enough lead time to determine the national currency amounts required to meet their share of the replenishment objective. Second, the exchange rate reference period needs to be forward-looking to avoid the use of known rates. Third, the reference period needs to be long enough to minimize the effects of short-term currency fluctuations. Based on these considerations, the average of the daily exchange rates during a six month period, ending a few weeks before the last replenishment meeting and pledging session, has been used in previous cycles to determine the exchange rates applicable to those replenishments.

2.10 Given the introduction on 1 October 2016 of the RMB in the SDR basket, Management proposes to use a period of 6 months, observed from 3 April to 3 October 2016, as the reference averaging window for determining the replenishment exchange rates. The averages will be calculated against a synthetic SDR, which will be reconstructed by the Fund for the averaging period using the new currency amounts of the revised SDR basket as determined by the IMF on 1 October 2016. This reference period satisfies the criteria set in the previous paragraph, while at the same time reflecting the performance of the revised SDR vis-à-vis other currencies of subscription.

2.11 All donors that are in a position to do so are invited to subscribe to ADF-14 in SDR in order to further protect the Fund's net development resources and minimize the impact of exchange rates fluctuations.

b. Payment of subscriptions

i. Timing

2.12 As in previous replenishments, donors will be required to pay their respective subscriptions in up to three equal annual instalments, so that subscriptions can be committed to financing projects or programs in a timely manner during the ADF replenishment cycle. Management proposes to maintain the payment dates adopted for ADF-12 and ADF-13, that is, 15 January of each year. This helps mitigate disruptions in the Fund's operations by ensuring adequate commitment capacity early in the year.

2.13 Nevertheless, and as in previous replenishments, Management understands that some donors may not to be able to comply with the 15 January deadline, as a result of their legislative and budgetary cycle constraints. In such circumstances, donors are invited to discuss with the Fund their proposed alternative calendar of payments.

ii. Form of Payments

2.14 Payments for each subscription can be made in cash or, at the option of the donor, by depositing in the designated ADF custody account a non-negotiable non-interest-bearing note (promissory note) or similar obligations, encashable on demand by the Fund.

c. Encashment of subscriptions

2.15 Donor countries usually make their payments in promissory notes, which are subsequently converted into cash over time (encashed), in line with a standard encashment schedule which ensures that the Fund holds enough resources to meet disbursement requests from beneficiary countries at any time. ADF participants may choose between the standard encashment calendar and a customized accelerated calendar, which should be equal on a net present value basis to the standard encashment calendar.

i. Standard encashment schedule

2.16 The standard encashment schedule for ADF-14 will be adjusted to reflect an analysis of the Fund's loan and grant disbursement patterns. The computation of the encashment schedule, which continues to be fully compliant with the Fund's liquidity policy, took into account the following key assumptions:

1) Donor subscriptions will be committed evenly over the three years of the replenishment.

2) Disbursements on regular development projects and policy-based operations will follow the historical disbursement pattern observed during the period between 2002 and 2015.

3) Dedicated resource envelopes allocated to special initiatives such as the Transition Support Facility (TSF) or the Private Sector Credit Enhancement Facility (PSF) are expected to represent approximately 20 percent of donor contributions and to be fully disbursed over a period of 3 years. These dedicated resources envelopes are considered as fast disbursing initiatives.

4) For the purpose of determining the encashment schedule, as stipulated in the Fund's liquidity policy guidelines, the target liquidity level in any given year will be set at 62.5 percent of the three year moving average of net disbursements. This target level of liquidity represents a buffer which allows the Fund to meet both faster-than-projected disbursements, and shortfalls in encashment from donors.

2.17 On the basis of these key assumptions, the Fund's proposed standard encashment schedule for ADF-14 is presented in Table 1 and compared to the approved encashment schedule of ADF-13. Details on the assumptions and the computation methodology of the encashment schedule are provided in Annex 1.

Table 1: ADF-14 and ADF-13's standard encashment schedules

Encashment Year	Annual rate of encashment of subscriptions (%)	
	ADF-14	ADF-13
1	10.78	5.03
2	13.15	10.34
3	15.77	14.76
4	10.29	15.07
5	10.48	12.99
6	9.86	11.17
7	8.91	10.14
8	8.52	9.13
9	8.85	8.33
10	3.39	3.04
Weighted average maturity (in years)	4.3	4.6

2.18 The slightly faster encashment rate reflects the increased share of fast disbursing initiatives in recent ADF replenishments.

ii. Accelerated encashment framework

2.19 Since ADF-9, donors have been given the option of accelerating the rate of encashment of their subscriptions by selecting a customized encashment schedule. The returns generated by investing these funds received in advance are credited to donors based on a pre-agreed discount rate. These acceleration credits can be used to meet or increase donors' burden share, lower the technical gap of the replenishment, pay for other commitments to the Fund (such as grant compensation or contributions to the MDRI), or to meet past due payments on past replenishments.

2.20 A new accelerated encashment framework was introduced in ADF-13, allowing the Fund to hedge and significantly reduce its exposure to the interest rate risk stemming from the implementation of the accelerated encashment program. This new framework has indeed neutralized the Fund's exposure to the interest rate risk associated with the program while allowing it to fully recoup the accelerated encashment discounts or credits granted by the Fund. For ADF-14, the mechanism of the accelerated encashment process will be amended to ensure that ADF is not put at risk by the negative rates environment in some of the major currencies.

3. Compensation for foregone reflows due to Grants & MDRI

Grants

3.1 Starting with ADF-9, donors agreed to make supplementary contributions in addition to regular subscriptions, in order to compensate the Fund, on a "pay-as-you-go" basis, for principal reflows foregone due to the extension of grants.

3.2 ADF-14 will mark the beginning of compensation for grants extended during ADF-11. Annex 2 presents the grant compensation amounts expected from donors during the ADF-14 period, totalling UA 49.55 million.

Multilateral Debt Relief Initiative (MDRI)

3.3 The MDRI compensation scheme started in 2006 to ensure that debt relief provided under the initiative does not affect the financial capacity of the Fund. Forgone reflows from loans cancelled through the MDRI are compensated by donors, using the "pay-as-you-go" approach on a dollar-for-dollar basis.

3.4 MDRI costs are updated at the end of each ADF replenishment, and take into account the following factors:

- Exchange rate induced excesses or shortfalls that materialized over the replenishment period;
- Changes in the timing of beneficiary countries reaching completion point;
- Future amount of debt relief from the Heavily Indebted Poor Countries Initiative;
- The ADF replenishment rate used to determine donor contributions in national currencies for the upcoming replenishment period.

3.5 The MDRI cost applicable for the ADF-14 period will be determined during the fourth quarter of 2016, and updated schedules of MDRI contributions will be sent to donors by October 2016.

4. Internally Generated Resources

4.1 The Advance Commitment Authority (ACA) estimates the level of the Advance Commitment Capacity (ACC) that could be generated sustainably from funding sources other than donor subscriptions, and allows the Fund to make loan and grant commitments based on predictable future inflows which include loan repayments, loan cancellations and AfDB net income transfers. In effect, The ACC capitalizes on the fact that the resources needed to fund loans and grants do not have to be available immediately, but rather over the course of ten years, to reflect the disbursement profile of ADF loans and grants.

Overview of the Advance Commitment Authority

4.2 The ACC is fixed for each replenishment period, and its level is based on a set of deliberately conservative assumptions (as detailed in Annex 3). Safety margins have been built into the model to support future disbursements and to mitigate the risk of breaching its prudential minimum liquidity limits, thereby over-committing the Fund.

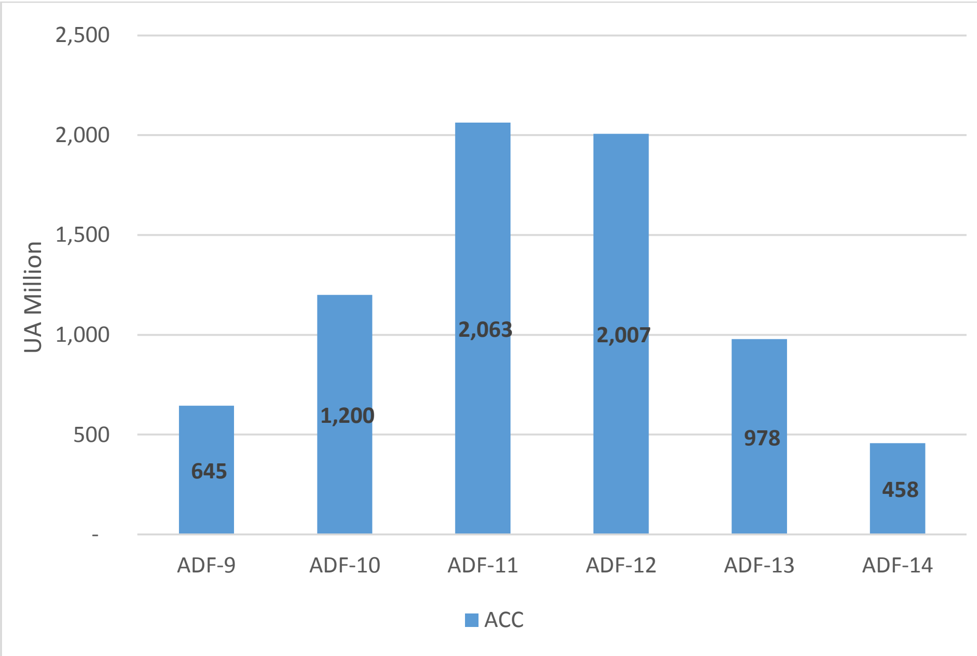
4.3 The ACA model uses core financial assumptions to predict future inflows and derive the ACC level for a particular replenishment. These assumptions include future donor replenishments, loan repayments, loan cancellations, loan and grant charges, MDRI compensation, net income transfers, and estimated returns on investment (c.f. Annex 3). Changes to the parameters of the model that occur during a replenishment do not translate into immediate changes in commitment capacity during that replenishment. For example, return on investments or loan cancellation levels that deviate from those initially assumed for the determination of an ACC do not change the level of the ACC established for that 3-year replenishment period. Rather, the ACA model is recalibrated at the beginning of each replenishment to account for differences between estimated and actual cash flows and to determine the ACC of the next replenishment. This prevents both the risk of over-commitment and preserves the integrity of previously extended ACC.

Preliminary ACC estimates for ADF-14

a. ADF-14 ACC core assumptions

4.4 The ACA model analyses the Fund's financial integrity over 50 years to capture the full impact of the Fund's cash flows over an entire project cycle from loan signature to full repayment. Based on the revised assumptions and assuming that donor subscriptions remain constant in real terms compared to ADF-13, i.e., increase by 5 percent in nominal terms to reflect SDR inflation, the preliminary estimate of the ACC for ADF-14 is UA 458 million. This estimate will continue to be updated during the year 2016, based on the evolution of the Fund's cash flows and the review of the key assumptions.

Figure 2: Evolution of the Advanced Commitment Capacity (UA million) since ADF-9



b. Explanation for the change in the ACC amount between ADF-13 and ADF-14

4.5 The key factors and changes in assumptions that explain the projected decrease of the ACC amount are the following:

- **Adjustment of the ACA model to ensure full compliance with the revised liquidity policy**

The Fund's liquidity currently includes 3 major portfolios:

i) a trading portfolio which includes treasury assets that can be immediately liquidated for operational purposes, to meet disbursement requirements.

ii) a "Held-To-Maturity" Investment portfolio (HTM) which includes treasury assets not immediately required for operational purposes. This portfolio is invested in long term maturity securities to enhance investment returns.

iii) a “Held to Maturity” investment portfolio for Accelerated Encashment (HTM-ACE) which was created specifically to invest the proceeds from accelerated encashments, and to match the standard encashment schedule. The key objective of this portfolio is to recoup the discount granted to State Participants and minimize interest rate risk on accelerated encashments.

The conceptual framework of the ACA model assumed that treasury assets were all of a similar nature and that they could be liquidated at any time to meet disbursement requests – assumptions that did not reflect the way liquidity was actually split between subportfolios of different characteristics.

During the update of the Fund’s Asset and Liability Management Guidelines[4], the Fund’s liquidity policy was revised to specifically exclude from eligible liquidity, available for operational purposes, both the HTM and the HTM-ACE portfolios. Consequently, for ADF-14, the ACA model was adjusted to ensure full compliance with this revised liquidity policy in order to further prevent risks of over-commitment. So for ADF-14, the operational liquidity that can be made available for disbursements now explicitly excludes both the HTM and the HTM-ACE portfolios.

- **Lower expected returns on investment**
  For ADF-14, based on prevailing forward interest rates and the declining outstanding balance of the HTM portfolio, the average investment return of the Fund’s liquidity is estimated at 1.23 percent, compared to the level of 2.65 percent for ADF-13.

- **Update of reflows from MDRI and grant compensations**
  A recent update of projections for these cash flows resulted in a downward adjustment over the ACC projection period. Furthermore, based on the recent trend on MDRI cash flows, further delays in receiving these cash flows have been built into the model.

- **Increased administrative expenses**
  The revised ACC projections are based on the latest approved 2016-2018 budget, which is on average UA 22 million per year higher than what was projected for ADF-13. The increase in administrative expenses is primarily due to additional costs related to the return of the Bank to its headquarters.

4.6 Annex 3 lists the evolution of key assumptions of the ACA model from ADF-10 to ADF-14 and indicates that over time, most assumptions have become more conservative to reduce the risk of over-commitment.

5. Resources carried over from previous replenishments

5.1 The two main sources of carry-over resources are subscriptions and payments received after the end of a given replenishment period, and available resources not committed during the previous replenishment cycle.

5.2 An amount of UA 377.71 million was carried over into ADF-13, of which UA 186.11 million has been received so far. UA 375.10 million is expected to be carried over into ADF-14, comprising UA 308.24 million of qualified subscriptions and UA 66.86 million of late subscriptions (Table 2).

Table 2: Estimated carry-over resources into ADF-14 (UA millions)

Resources carried over:	Previous ADFs	ADF-12	ADF-13 (estimate)	TOTAL

[4] See document ADF/BD/IF/2012/99 entitled “ADF – Update of Asset and Liability Management guidelines”

Qualified subscriptions	33.01	91.83	183.41	**308.24**
Late subscriptions	0	23.49	43.37	**66.86**
Uncommitted resources	0	0	0	**0**
Total	**33.01**	**115.32**	**226.78**	**375.10**

Qualified subscriptions

5.3 Under the terms of the replenishment, the subscriptions of State participants become available for payment and commitment in three equal annual tranches. Donors whose payments are subject to annual legislative or parliamentary approvals deposit a qualified Instrument of Subscription with the Fund.

5.4 Although all ADF resolutions require that qualified subscriptions be unqualified by the payment dates specified in the replenishment that has not always been the case, due to each donor's particular circumstances. Some subscriptions across replenishments from ADF-3 through to ADF-11 remain qualified, including those of Argentina (UA 7.02 million stemming from ADF-3) and the United States (UA 25.99 million related to residuals from subscriptions to ADF-8, ADF-9 and ADF-10). The qualified subscriptions from ADF-12 that are expected to be carried over into ADF-14 amount to UA 115.32 million, including Argentina's full subscription (UA 9.77 million) and the remainder of the United States' subscription (UA 82.06 million). The qualified subscriptions from ADF-13 that could potentially be carried over into ADF-14 amount to UA 183.41 million, and are comprised of the remainder of Spain's subscription (UA 41.99 million) and the expected remainder of the United States' subscription (UA 141.42 million).

Late subscriptions

5.5 Portugal's late subscription to ADF-12 is expected to commence being paid in 2016, and a substantial portion of the said subscription, UA 23.49 million, is expected to be paid during ADF-14 and ADF-15. The Fund is also considering a potential late subscription from Brazil (UA 10.27 million) and Libya (UA 24.53 million).

5.6 In line with practices under previous replenishments, carry-over resources will be pooled with available ADF-14 resources, and administered and used under the terms and conditions of ADF-14.

6. Indicative Financing Framework

6.1 Table 3 sets out three financing scenarios which would allow the Fund to deliver on its ambition for the ADF-14 replenishment cycle (see Strategic Directions for ADF-14 paper). These scenarios take into account potential resources from innovative financing instruments such as concessional donor loans and bridge loans (see Innovative Instruments for ADF-14 paper).

6.2 The baseline scenario increases ADF-13 donor contributions by 5 percent. The central scenario increases donor contributions by 10 percent. Finally, an upper case scenario would see donor subscriptions increase by 15 percent. Absent financial innovations, the first two scenarios would lead to a smaller replenishment envelope than ADF-13, while the third one would provide a slightly higher amount. However the picture is strikingly different should some combination of the financing innovations be successful. In this case, ADF-14 would be greater than ADF-13 by 30 percent (baseline scenario) to 54 percent (upper scenario).

Table 3: Financing scenarios (UA million, unless otherwise indicated)

	ADF-13	***ADF-14 Scenarios***		
Sources of Financing				
Item	*Actual*	*Baseline (5% increase in subscriptions)*	*Central (10% increase in subscriptions)*	*Upper case (15% increase in subscriptions)*
ACC	976	458	538	616
Donor subscriptions	3,840	4,032	4,224	4,416
Additional contributions	20	0	0	0
Initial Subscriptions	50	0	0	0
Carry-over amounts	378	375	375	375
Total resources	**5,264**	**4,865**	**5,136**	**5,407**
Additional Resources[5]	n/a	2,000	2,500	2,700
Total, including additional resources	**5,264**	**6,865**	**7,636**	**8,107**

7. Conclusion and recommendations

7.1 This paper has examined the sources of financing for ADF-14, namely, donor contributions, internal resources and amounts carried-over from previous replenishments. It has also analyzed a range of financial variables that drive the availability of internal resources, i.e., the parameters assumed in the calculations of the ACC. The forthcoming replenishment will see the introduction of new innovative financing instruments which could represent a significant source of financing for ADF-14.

7.2 Deputies are invited to provide their views on the three financing scenarios presented in the paper.

7.3 Deputies are also invited to endorse the following proposals:

1. Set the technical gap of the replenishment at 5 percent and recalibrate burden shares accordingly.
2. Use the 6-month period from 3 April to 3 October 2016 as the reference for determining the exchange rates applicable to the replenishment, which will be assessed against a synthetic SDR which reflects the revision of the SDR.
3. Take note of the revised standard encashment schedule.

[5] Concessional Donor Loans and Bridge Loans.

Annex I: Detailed information on the methodology for determining the proposed encashment schedule

1. At the beginning of each replenishment, the Fund's standard encashment schedule is revised to reflect the projected disbursement profile of loan and grant commitments, while ensuring that the Fund's liquid resources remain in line with its liquidity policy.

2. Table A-1 presents the evolution of the Fund's standard encashment schedule since ADF-11 and indicates that for ADF-12 and ADF-13, the Fund's standard encashment schedule remained unchanged, primarily because no changes were encountered in the Fund's disbursement profile.

Table A-1: Evolution of the Fund's Standard Encashment Schedule (% of Donors Contribution)

Year	ADF-11	ADF-12	ADF-13
1	3.43	5.03	5.03
2	7.76	10.34	10.34
3	12.58	14.76	14.76
4	14.78	15.07	15.07
5	14.88	12.98	12.98
6	13.7	11.17	11.17
7	11.74	10.14	10.14
8	9.74	9.13	9.13
9	8.4	8.33	8.33
10	3.01	3.04	3.04
Total	100	100	100
Weighted average maturity (years)	**4.88**	**4.62**	**4.62**

3. The disbursement profile used to determine the ADF-12 and ADF-13 encashment schedules assumed that Policy-based projects would represent 19 percent of total commitments.

4. The recent review of the Fund's disbursement profile resulted in two major changes:

- The first major change in the methodology concerns the disbursement profile for regular operations (including development projects and policy-based operations, but excluding resources envelopes allocated to special initiatives) which is slightly slower than initially projected. The revised disbursement profile indicates a higher share of policy-based projects[6], but a slower disbursement rate for both project loans and policy-based loans.

- The second major change in the methodology relates to the fact that since ADF-12, the Fund has been allocating dedicated resource envelopes to special initiatives such as the Transition Support Facility (TSF) and the Private Sector Credit Enhancement Facility (PSF). In ADF-14 we will assume that these fast disbursing initiatives will be disbursed during the first 3 years of the replenishment cycle during which they are approved.

5. The proposed encashment schedule for ADF-14 has an average weighted maturity of 4.3 years.

[6] An average share of 22% is determined for Policy-Based projects based on the fact that these projects represented respectively 22.6%, 22.4% and 17.4% of ADF-11, ADF-12 and ADF-13.

Annex 2: Amounts due during ADF-14 for grant compensation related to grants approved during ADF-9, ADF-10 and ADF-11

Table B-1: ADF-14 Grant Compensation Schedule

Donors	Grant Compensation (UA million)		
	2017	2018	2019
ARGENTINA	-	-	-
AUSTRIA	0.24	0.30	0.46
BELGIUM	0.26	0.33	0.47
BRAZIL	0.02	0.02	0.03
CANADA	0.75	0.93	1.29
CHINA	0.27	0.34	0.49
DENMARK	0.29	0.33	0.43
EGYPT	-	-	-
FINLAND	0.25	0.31	0.47
FRANCE	1.43	1.80	2.58
GERMANY	1.20	1.46	2.19
INDIA	0.03	0.04	0.05
ITALY	0.68	0.84	1.21
JAPAN	1.23	1.50	2.02
KOREA	0.11	0.13	0.19
KUWAIT	0.03	0.03	0.05
LUXEMBOURG	-	-	-
THE NETHERLANDS	0.63	0.79	1.16
NORWAY	0.59	0.73	1.05
PORTUGAL	0.10	0.12	0.18
SAUDI ARABIA	0.06	0.08	0.11
SOUTH AFRICA	0.02	0.02	0.04
SPAIN	0.37	0.46	0.67
SWEDEN	0.67	0.83	1.14
SWITZERLAND	0.45	0.55	0.74
TURKEY	-	-	-
UNITED KINGDOM	1.14	1.44	2.40
USA	1.56	1.89	2.50
Total	**12.36**	**15.28**	**21.91**

Annex 3: Key assumptions for the ACC model

Assumptions	Description	ADF-10	ADF-11	ADF-12	ADF-13	ADF-14
Liquidity framework of the ACA scheme	When the ACA scheme was conceptualized in 2005 during ADF-10, the Fund's eligible liquidity included HTM portfolios. For ADF-13, HTM portfolios were included in the Fund's liquidity. For ADF-14, HTM & HTM-ACE portfolios are excluded. Only maturing securities are included in the Fund's eligible liquidity over time.	ACA liquidity separated from Donor's liquidity			ACA liquidity merged with Donor's liquidity	
		100% treasury assets included in ACC liquidity (No distinction between Trading and Investment Portfolios).	Trading portfolio + 100% HTM & HTM ACE included in ACC liquidity		Trading portfolio +61% HTM + 100% HTM-ACE included in ACC liquidity	**Trading portfolio + amortizing HTM & HTM-ACE included in ACC liquidity**
Minimum Prudential Level of Annual Liquidity for the ACC	To comply with the Fund's liquidity policy, the level of liquidity is maintained at a percentage of projected disbursements for the following three years.	100%	75%	75%	75%	**75%**
Minimum Prudential Level of Annual Liquidity used for Encahsment determination		50%	50%	62.50%	62.50%	62.50%
Standard Encashment Schedule	10-year standard encashment schedule for ADF-14 is revised to take account of updated loans' disbursement profile - especially fast disbursing initiatives (Transition States Facility and Private Sector Facility). Thence Weighted Average Maturity (in years) of Standard Encashment Schedule has been reduced.	4.9	4.9	4.6	4.6	4.3
Increase in Donor Contributions in Future Replenishments	To establish the ACC for the baseline scenario, donor subscriptions for future replenishments are conservatively assumed to remain unchanged in real terms. The nominal amount of donor contributions is estimated to increase by the cumulative rate of inflation (for the special drawing right-SDR) of the previous replenishment period. The same inflation rate is used to project future increases in donor contributions.	0.00%	7.00%	4.49%	6.84%	**5.00%**
Discount Factor for Accelerated Encashment	Value of 1 UA for which the NPV encashed over 3 years matches the NPV of a note with a standard encashment of 10 years.	n.a	n.a	95.87%	95.87%	**95.87%**
Share of Grants in Replenishment	The grant level for the replenishment is determined as per the debt sustainability analysis of RMCs. The share of grants in ADF-13 is based on the level of grants observed during the ADF-12, adjusted for likely changes in the future.	44.00%	28.40%	30.65%	33.45%	**33.45%**
Signed amount year of approval	Percentage of projects signed/committed within their year of approval	10.00%	10.00%	15.00%	15%	**60%**

Assumptions	Description	ADF-10	ADF-11	ADF-12	ADF-13	ADF-14
Effective loan cancellations returning to the liquidity pool	The model assumes a certain level of annual cancellations in nominal terms, in UA millions. During ADF-12, the loan cancellation policy was modified and only 30% of loan cancellations are re-injected in the liquidity pool while 70% remain allocated to the country. Accordingly, for ADF-13 we assumd that only UA 30 million (30% of the gross cancellations of UA 100 million) will return to the liquidity pool used to estimate the ACC. This remains unchanged for ADF-14.	n.a	100%	100%	30%	**30%**
Disbursement Sensitivity Factor	To account for grant compensation and loan cancellations, reductions in disbursement flows are maintained constant at a percentage of signed loans.	93.18%	93.18%	95.18%	93.60%	**94.53%**
Percentage of Multilateral Debt Relief Initiative (MDRI) Compensation that is received	In addition to regular contributions, donors are expected to make additional contributions during future replenishments to cover 100% of MDRI costs for eligible countries on a pay-as-you-go basis. Based on historically observed MDRI recovery rate, the model assumes a percentage of contributions for MDRI compensations that will be received in ADF-14 and in future replenishments	0%	84%	90%	98.3% (incl. lag of 7.2%)	**88% (incl. lag of 10%)**
Upfront Charge on Grants	In addition to regular contributions, donors have agreed to finance 100% of foregone principal reflows due to grants through additional contributions in future replenishments, on a pay-as-you-go basis. Foregone charges income is addressed through volume discounts on grants. The upfront compensation for ADF-14 will be adjusted when the replenishment discount rate will be fixed.	12%	10%	15%	15%	**15%**
Percentage increase in Administrative Expenses	These expenses are based on the relevant aproved budget program and are set to increase annually thereafter at the percentage indicated.	3%	3%	3%	3%	**3%**
AfDB Transfers Per Year	Annual transfer from AfDB net income, in UA millions	10	20	35	47	**35**
Repayment Sensitivity Factor	To account for delayed repayments by countries in arrears to the Fund, repayment flows are maintained at a constant percentage of expected loan repayments	85%	85%	90%	95%	**95%**
Investment Return Rate	Annual rate of return of the investment portfolio	3.42%	4.45%	4.50%	2.65%	**1.23%**
Estimated ACC	Level of the ACC resulting from the model, in UA million	1,200	2,063	20,007	976	**458**