

AFRICAN DEVELOPMENT FUND



ADF-X/CM.2/2004/07

ADF X

Note on Internally Generated Resources to Finance The Tenth General Replenishment of Resources for The African Development Fund

Consultations on ADF-X

27 - 28 May 2004
Kampala, Uganda

NOTE ON INTERNALLY GENERATED RESOURCES TO FINANCE ADF-X

1 Introduction

This note provides an estimate of the internally generated resources and possible carryovers from ADF-IX that will be included in the overall level of ADF-X replenishment resources. It is organized into 4 sections. Following this introduction, section 2 provides an estimate of internally generated resources. Section 3 presents possible carryovers from ADF-IX and the concluding remarks are summarized in section 4.

2 Internally Generated Resources

The internally generated resources that shall be available for commitment during the ADF-X period 2005 - 2007 are estimated at UA 532.21 million composed of the following components:

- ADF loan repayments;
- ADF net income;
- Net income transfers from the ADB; and
- Loan cancellations.

Estimates of the contribution from each of these components are presented in Table 1 below, while explanatory details on the four types of resources are provided in the following paragraphs.

Table 1
ADF-X Internally Generated Funds
(Amounts in UA Millions)

	2005	2006	2007	Total
Loan Repayments				
Gross	98.09	101.81	109.85	309.74
Non-Accruals	12.58	12.46	13.20	38.24
Net	85.51	89.35	96.65	271.51
ADF Net Income	8.23	13.86	14.21	36.30
Loan Cancellations	64.80	64.80	64.80	194.40
Sub-total	158.54	168.01	175.66	502.21
Transfers from ADB Net Income	10.00	10.00	10.00	30.00
Total	168.54	178.01	185.66	532.21

2.1 ADF Loan Repayments

Gross cumulative loan repayments over the period 2005-2007 are estimated at UA 309.74 million. Of this amount, UA 38.24 million is not expected to be paid-in during the ADF-X period because it is assumed that borrowers, who are currently non-performing, will remain in non-accrual status during the ADF-X period.¹ The net repayments during the ADF-X period will therefore amount to UA 271.51 million. If some of the countries in non-accrual status were able to resolve their arrears problems through the Bank Group's post conflict initiative, loan repayments would increase by the equivalent of the resources accruing during the period as well as the stock of principal in arrears as at 31 December 2004 for the countries in question. Total loan repayments received during the period would, under these circumstances, be higher than indicated.

2.2 ADF Net Income

ADF net income, expected to accrue during the ADF-X period, is estimated at UA 36.30 million². This estimate is based on an average liquidity level of approximately UA 1541.53 million during the period and an average return on investments of 3.4% per year. The implementation of the investment benchmark is expected to stabilize the investment income while ensuring higher returns during periods of low short-term interest rates, such as in the recent past.

2.3 Loan Cancellations

As indicated in Annex 1 on Trends in the Fund's loan cancellations, following the adoption of the Guidelines on the Cancellation of African Development Bank Loans and Grants (ADF/BD/IF/93/130), approved by the Board on 23 March 1994, a large number of loans and grants have been cancelled since 1994. After rising from UA 14.16 million in 1994 to a peak of UA 227.84 million in 1996, loan and grant cancellations declined sharply to UA 19.32 million in 1997 before stabilizing around UA 100.00 million in 1998 and 1999. During the period 1999 - 2003 the loan and grant portfolio underwent periodical reviews leading to cancellations averaging UA 64.80 million per year. During the ADF-X period, annual cancellations have been estimated as the average of the annual cancellations for the preceding five years.

¹ The ADF borrowers that are assumed to remain in non-accrual status for the purpose of these estimates include Burundi, Central African Republic, The Comoros Islands, Liberia, Sudan, Somalia, Republic of Congo and Zimbabwe.

A preliminary analysis of the undisbursed loan balances of the Fund as at 19 April 2004 indicates that up to UA 465.6 million of undisbursed balances may be attributed to ADF operations that have been completed but still have undisbursed balances. The Action Plan to Improve Implementation of ADF Operations calls for a systematic clean up of the portfolio by the December 2004. This exercise, which entails an examination of all ADF operations on a case-by-case basis, may result in significant additional cancellations during 2004. Some of the commitment capacity so released will be used up during the year, with the balance available for commitment during the ADF-X period³.

2.4 Transfers from ADB Operating Income

As was the case during ADF- VIII & IX, Management intends to propose through the ADB Board of Directors to the Board of Governors, that, each year, the Bank make an allocation from annual ADB operating income to ADF during the period 2005 – 2007. The aggregate amount that is expected to be transferred during the ADF-X period has been estimated at UA 30.00 million, the same amount as in the last two replenishments.

3 Residual Commitment Capacity as at 31 December 2004

Management does not expect that any ADF-IX resources available for commitment will remain uncommitted by 31 December 2004. However, if ADF-IX pledges that are either not yet subscribed or whose subscriptions are currently qualified remain in the same status by 31 December 2004, residual commitment capacity could increase by an amount of up to UA 272 million. In addition, any additional commitment capacity released during 2004 through loan cancellations that is not used up during the year would be available for commitment during the ADF-X period.

4. Concluding Remarks

From the foregoing analysis, it can be seen that UA 532.21 million in development resources could be provided by the ADF and ADB during the ADF-X period from internal sources. If ADF-IX pledges that are either not yet subscribed or whose subscriptions are currently qualified remain unsubscribed by 31 December 2004, a residual commitment

² These estimates are obtained from an ALCO document entitled "Review of Financial Projections, First Quarter 2004".

³ The projected remaining commitment capacity of the Fund as at 30 April 2004 is UA 1052 million compared to projected loans and grant approvals for 2004 of UA 992 million. The remaining commitment capacity includes UA272 million in pledges that may not be realized this year. Commitment capacity generated from loan cancellations will fill the gap created.

capacity amount from subscriptions of up to UA 272 million would also be available during the ADF-X period. These resources will be used to augment the contributions of State participants through ADF-X subscriptions. The actual contribution from internal sources and residual commitment capacity could differ from the above estimates for a number of reasons. Changes in the debt service performance of Bank Group borrowers would affect the contribution from loan repayments and the operating income of the Fund. Changes in project implementation performance could also lead to loan cancellations, thereby releasing additional resources for commitment during the ADF-X period.

Notwithstanding the above, it should be noted that, with the exception of any realized residual commitment capacity obtained through loan cancellation or a lower level of loan and grant approvals during 2004 than currently projected, the above resources would not be available for commitment on 1 January 2005 as the resources would be generated during the three-year replenishment period. This underscores the need to conclude the negotiations expeditiously so that the Fund can have commitment capacity at the beginning of the ADF-X replenishment period.

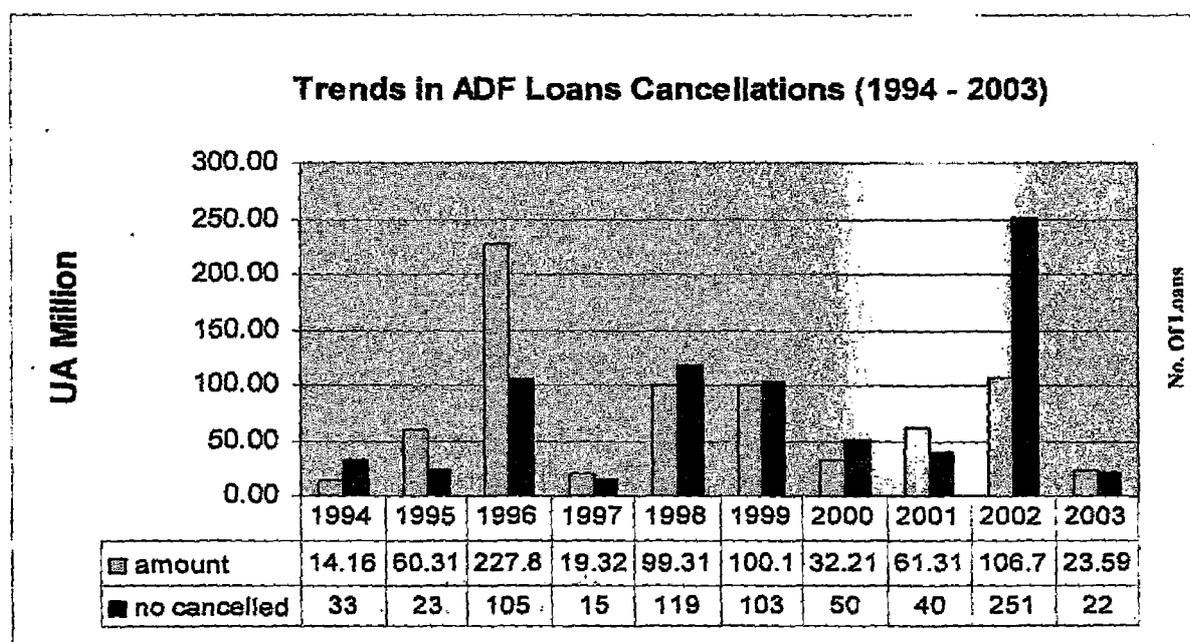
Deputies are requested to take note of the estimate of internally generated resources and possible carryovers during the ADF-X period.

Annex 1

Trends in Fund's Loan Cancellations

1. The mandate of the Bank Group, including the African Development Fund, is to support the development efforts of its borrowing member countries. Using its operational instruments, the Bank provides this support by financing, through loans and grants, development activities in these countries.

2. As an integral part of portfolio management, Bank Group loans and grants are, however, subject to cancellation in accordance with the criteria established by the Guidelines on the Cancellation of African Development Bank Loans and Grants (ADF/BD/IF/93/130), which Boards approved on 23 March 1994. The chart below depicts the annual distribution, by amounts and number, of ADF loans and grants cancelled during 1994 –2003.



3. As shown in the chart, after rising from UA 14.16 million in 1994 to a peak of UA 227.84 million in 1996, loan and grant cancellations have declined sharply to UA 19.32 million in 1997 before stabilizing around UA 100.00 million in 1998 and 1999. During the period 1999 - 2003 the loan and grant portfolio underwent periodical reviews leading to cancellations of between 22 and 251 operations amounting to between UA 23.59 million to

UA 106.76 million per year. It is notable that in 2002 a large number of operations carrying small balances were cancelled as part a periodic portfolio review. Under these circumstances, ADF loan cancellations have averaged about UA 64.80 million annually and are projected to remain in that range during the medium-term.