AFRICAN DEVELOPMENT FUND

Long-Term Financial Sustainability of the ADF
(Background Paper #8)

ADF-XI Replenishment Meeting
14 – 15 March 2007
Dar-es-salaam, Tanzania

EXECUTIVE SUMMARY

1. This paper examines the combined impact of higher grant funding levels since Ninth Replenishment of the African Development Fund (ADF), and the implementation of the Multilateral Debt Relief Initiative (MDRI) on the long-term financial viability and sustainability of the ADF using the Fund's Advanced Commitment Authority (ACA) Model. The analysis has indicated that the increase in the proportion of grants in ADF financing will lead to an increase in the level of Advance Commitment Capacity (ACC) in the medium term because of the front loading of compensation for foregone loan charges.

2. Furthermore, both the base case projections and a scenario where donor subscriptions during future replenishments are assumed to be equivalent to ADF-X donor subscriptions in real terms indicate that the ACC is projected to range from UA 1,538 million during ADF-XI to UA 6,674 million during ADF-XXV. The ACC will represent between 34% and 41% of total replenishment resources during each replenishment in the projection horizon.

3. The implementation of the MDRI on the other hand is not expected to have an impact on the ACC and by implication on the long term sustainability of the Fund because the cash flows of the cancelled loans would be compensated for on a dollar-for-dollar basis within the same timeframe as the original cashflows. However, because the compensation for cancelled loans will be considered as subscriptions, loan income would be lower than it would have been otherwise. Despite this reclassification of loan income, ADF is projected to generate a surplus of UA 31 million in 2007, increasing steadily to UA 67 million by 2016, and the surplus will remain positive throughout the projection period This strong performance is partly attributed to increased investment income generated by resources transferred to the Fund from the Heavily Indebted Poor Countries (HIPC) Trust Fund as compensation for HIPC loans cancelled under MDRI.

4. Sensitivity analyses carried out on both the level of grant funding and the proportion of MDRI inflows that actually materializes as well as the level of donor subscriptions in future replenishments, indicates that the conclusions arrived at on the basis of the base case projections are robust.

5. It may therefore be concluded that the long-term sustainability of the ADF after the increase in grant funding and the implementation of MDRI is reasonably assured, *ceteris paribus.*

1. INTRODUCTION

1.1 The African Development Fund (ADF), as the concessional window of the African Development Bank Group, provides development financing at highly concessional rates to 38 sub-Saharan African countries with low income per capita levels. Up to and including ADF-VIII that covered the three year period 1999 – 2001, no less than 92.5% of ADF financing was in the form of loans. The balance of the resources of no more than 7.5% was extended to ADF beneficiaries in the form of grants. However, during ADF-IX, the proportion of loans in ADF financing was reduced to between 79% and 82%. During ADF-X the concept of debt sustainability was introduced and only those ADF-only countries that are assessed as having the economic strength to support ADF soft loan terms are provided financing in the form of loans. Within the current framework, it is expected that only 70% of ADF financing will be reimbursable to the Fund in the foreseeable future.

1.2 When financing is in the form of grants, the Fund foregoes both the loan charges income and the loan repayments that increase future commitment capacity. With the repeated increases in the proportion of ADF financing provided in the form of grants, concern has been expressed as to the continued long term financial viability and sustainability of the ADF. Given that the foregone loan charges income has been adequately compensated for using an appropriate level of volume discount[1], the long term sustainability problem relates mainly to a lower level of loan repayments and consequently the lower capacity to generate commitment capacity internally in the future[2].

1.3 In addition to the potential impairment to the volume of future operations caused by higher grant levels, the implementation of the Multilateral Debt Relief Initiative (MDRI) whereby ADF outstanding loans as at 31 December 2004 for HIPC countries that have reached completion point under the enhanced HIPC Initiative are cancelled and compensated for on a dollar-for-dollar basis with subscriptions from donor countries, has also been viewed by some donors as potentially detrimental to the Fund. This is mainly because compensation is on a pay as you go basis and donors have not yet made unqualified pledges to compensate for the totality of loans cancelled. There is therefore the fear that the dollar-for-dollar compensation may not be fully realized, thus creating a shortfall in expected reflows.

1.4 Nevertheless, State participants have not only made commitments to fully compensate for any cancelled loans, but have also pledged to maintain future ADF replenishment levels at least at the ADF-X level in real terms, so that compensation for cancelled loans under MDRI does not lead to reduced subscription levels for future ADF replenishment exercises. In theory, therefore, the MDRI is not expected to have an adverse impact on the long term sustainability of the Fund as State participants are expected to honor both their unqualified and qualified pledges made under MDRI and to compensate the Fund dollar-for-dollar for all cancelled loans.

1.5 This paper will examine the combined impact of higher grant funding levels and the implementation of the MDRI on the long term financial viability and sustainability of the ADF using the Fund's Advanced Commitment Authority (ACA) Model. It is organized in 5 sections. Following this introduction, a brief overview of ADF historical financial

[1] Part of the replenishment resources will be set aside as compensation for foregone lone charges income and not committed to fund operations during the replenishment period.

[2] Because of the long grace period of ten (10) years for ADF loans and the fact that repayments are at the rate one percent only (1%) of the loan amount from year eleven (11) to year twenty (20), it is only after twenty years, when loan principal repayments are at a rate of 3% year, that the impact of the forgone repayments becomes significant. There is a tentative agreement to compensate for ADF-IX foregone principal repayments on a pay-as-you-go basis.

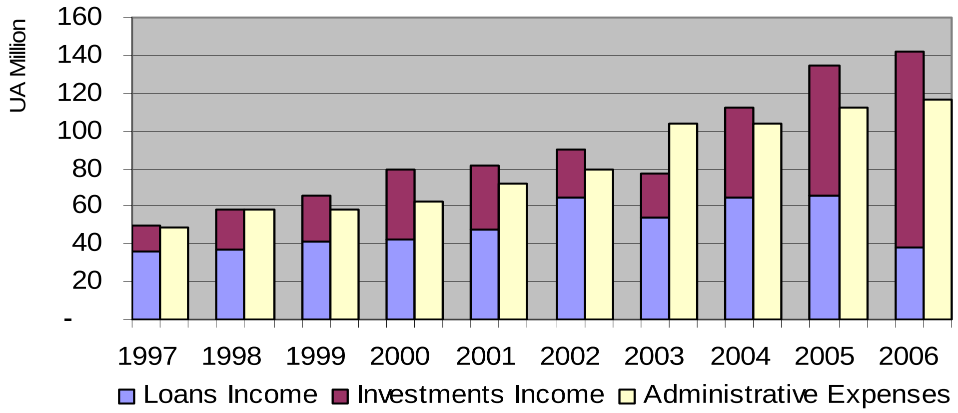
performance will be presented in section 2. The medium-to-long term financial viability of the Fund under a base case scenario and an alternative scenario[3] shall then be examined in section 3. The level of Advance Commitment Capacity (ACC) i.e. the level of future annual commitments based on internally generated inflows that can be sustained in the medium term and long, will also be estimated. In section 4, sensitivity analyses with respect to the financial viability and the level of the ACC for ADF-XI will be carried out focusing on two key variables, namely, the level of grant funding assumed and the proportion of loans cancelled under the MDRI that are effectively compensated for by donors. Section 5 will provide concluding remarks.

2. <u>ADF HISTORICAL FINANCIAL PERFORMANCE 1997 – 2006</u>

2.1 Profitability

2.1.1 During the ten-year period under review, the ADF has at least broken even and indeed generated modest surpluses in all the years except 2003 when the Bank Group incurred extraordinary administrative expenses because of its relocation to Tunis. As indicated in Graph 1 below, total ADF income grew at a compounded annual rate of 12.88% while administrative expenses (Management fees) grew at a rate of 10.55% to reach UA 116.5 million in 2006. The growth in loan income was attributable to loan portfolio growth and income from commitment fees introduced in 19974. Investment income fluctuated between 1997 and 2003, mainly due to fluctuations in interest rates. However, investment income has grown steadily since 2004 because of increasing volumes of investment and a change in the ADF investment Benchmark5. The growth in administrative expenses was due primarily to significant increases in staff compensation and benefits over a five-year period so as to remain competitive in the job market and to attract staff with the skill mix required to implement the Bank Group's developmental programs. There was also an increase in head count.

Graph 1: Evolution of ADF Surplus over the Period 1997 to 2006



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[3] The alternative scenario assumes that donor subscriptions during future replenishment exercises shall be equivalent to ADF-X subscriptions in real terms. For this purpose, an inflation rate of 2.5% per annum has been assumed.

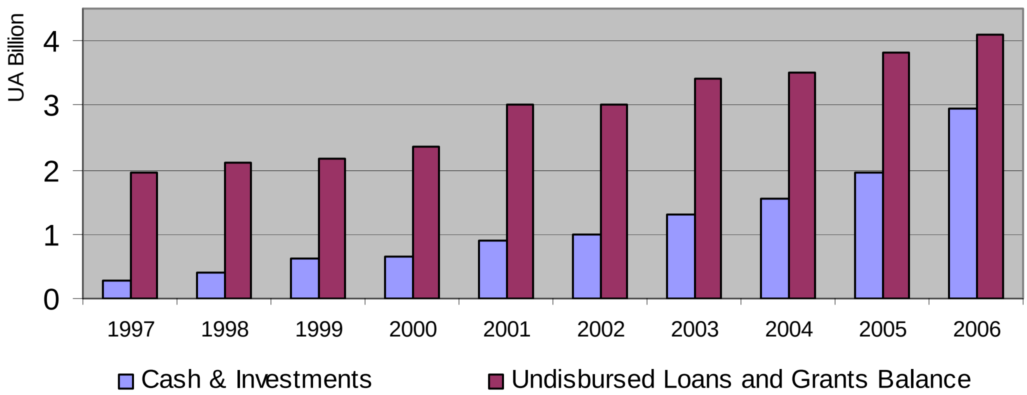
[4] The jump in loan income in 2002 was due the clearance of the arrears of the Democratic Republic of the Congo. The decline in loan income in 2006 is due to the implementation of the MDRI, whereby compensation for cancelled loan income is accounted for as subscriptions by State participants.

[5] Up to 2003 all ADF investments were made against a short-term investment benchmark (3 months). Since 2004 a two portfolio strategy has been employed whereby only the portion of the Funds liquidity required to comply with the Fund's Liquidity Policy is managed against a short-term benchmark, while the balance is managed against a 10-year ladder structure with a duration of approximately 5 years. The latter ensures higher and more stable returns.

2.2 Strong Liquidity Growth

2.2.1 The liquidity of the Fund has increased substantially since 1999 when the Fund adopted a liquidity policy that linked the level of liquidity to disbursements6. With the adoption of the fixed and customized replenishment specific encashment schedule system in 20007, ADF liquidity has continued to increase as indicated in Graph 2 below for two principal reasons: the build-up of loan repayments and other cash transfers to the Fund and the proceeds of accelerated encashment by some State participants. With the implementation of the MDRI in 2006, there was a transfer to ADF of HIPC resources held in trust for countries whose debts were cancelled under MDRI. As a result of the above, ADF liquidity has grown at an annual compounded rate of 30% since 19978. It is expected that with the introduction of the Advance Commitment Authority, which essentially commits loan reflows and other cash inflows before they are received, the rate of growth of ADF liquid investments would be attenuated, and eventually fall in line with the rate of growth of disbursed loans and grants, estimated at 4.06% per year during the period under review.

Graph 2: Historical Evolution of ADF Liquidity and Undisbursed Loans and Grants

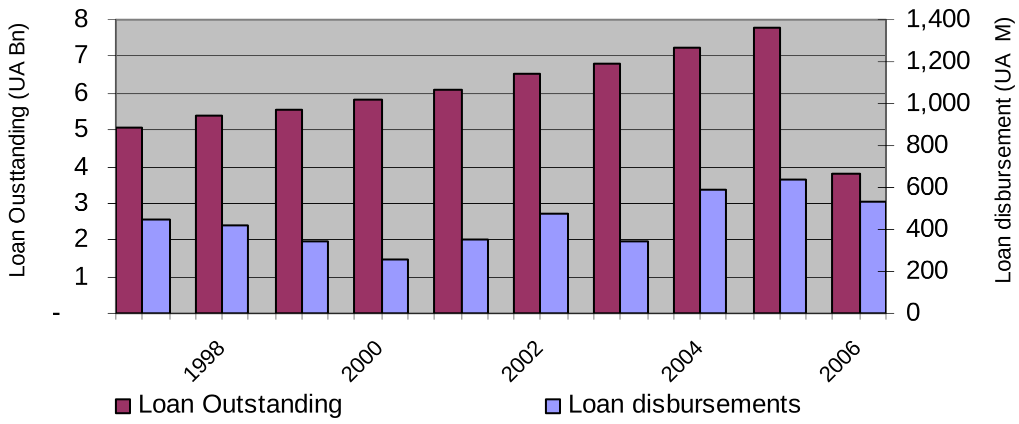


2.3 Growth in Financing Activities

2.3.1 As indicated in Graph 3 below, ADF disbursements declined between 1997 and 2000 mainly due to the fact that there were no loan or grant commitments in 1994 and 1995 and only limited commitments in 1996 as a result of the long delay in completing ADF-VII replenishment negotiations. Total disbursements (loans and grants) picked up in 2001 and have remained at level of approximately UA 700 million during the last three years. However, loan disbursements declined in 2006, reflecting the significant increase in grant financing in ADF-IX and X and the concomitant increase in grant disbursements. The loan portfolio grew steadily at a rate of approximately 5.6% from 1997 to 2005. In 2006 the outstanding loan portfolio declined by more than 50% as a result of loan cancellations under MDRI.

[6] Revised ADF Liquidity Policy: ref ADF/BD/WP/99/42/Rev.1. Prior to 1999 ADF the Liquidity Policy required that ADF liquidity at year-end not exceed a fixed ceiling that was not linked to the Funds cashflows.
[7] A Proposal to Introduce a Replenishment Specific Encashment Schedule System for ADF: ref ADB/BD/WP/2000/23/Add.2/approved.
[8] The higher level of liquidity enhances the Fund's ability to rebalance its currency exposure to minimize the effect of exchange rate changes on its commitment capacity.

Graph 3: Historical of loan Disbursements and Loans Outstanding



2.4 Summary

2.4.1 The above analysis indicates that the Fund's financial performance during the last decade has generally been in line with expectations , with the Fund generating surpluses in all but one year as summarized in Annex I. The Fund's portfolio business, defined as the sum of outstanding loans and undisbursed loan and grant balances grew at a compound rate of 6.54% from UA 6.989 billion in 1997 to UA 11.601 billion in 2005[9]. In terms of efficiency, the disbursement ratio,[10] which declined to 12% in 2000 rose to 20% per year in 2005 before declining slightly to 18% in 2006. The commitment coverage ratio which measures the extent to which Net Development Resources cover undisbursed commitments declined from 1.41 in 1997 to 1.1 in 2005 reflecting the higher levels of annual commitments following the adoption of the advance commitment authority scheme that increased the level of commitments while leaving cash inflow levels unchanged. The business efficiency ratio that measures the cost of doing business i.e., the volume of portfolio business that is administered with one UA (SDR) declined continuously over a five-year period due to the fact that administrative expenses (mainly staff compensation and benefits) grew at 10.28% per annum from 1998 to 2002 compared to portfolio business which only grew at 6.03% due to low replenishment levels[11]. This ratio has been improving since 2001 and is expected to continue to improve as the Fund steps up its level of activity while constraining growth in administrative expenses.

3. <u>ADF MEDIUM-TO-LONG-TERM OUTLOOK</u>

3.1 The analysis of the long-term viability and sustainability of the ADF has been carried out using the Advance Commitment Authority Model which is currently the Fund's long-term projection model. The base case projections are predicated on a number of assumptions summarized in Annex II.

3.2 Projected Financial Performance

3.2.1 Under the base case scenario, the Fund is projected to remain financially strong and would generate a surplus during each year of the period considered (2007-2056).

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[9] The apparent decline in 2006 is attributable to loan cancellations under MDRI.

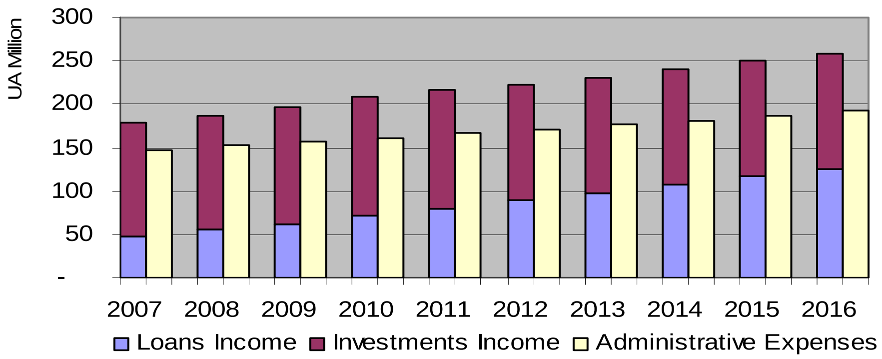
[10] The disbursement ratio relates disbursements during a year to undisbursed loan and grant balances at the end of the previous year.

[11] As previously indicated, the growth in staff compensation reflects a deliberate policy to increase staff compensation to align it more closely with that of comparator organizations to facilitate the recruitment and retention of quality staff.

3.3 Profitability

3.3.1 For the next ten-year period, the Fund's surplus is projected to increase from UA 30.6 million in 2007 to UA 66.9 million in 2016. Total income is projected to grow at a compounded annual rate of 4.23% while administrative expenses (Management fees) are projected to grow at a rate of 3% and to reach UA 192 million in 2016. Loan income is projected to grow at an annual rate of 11.43% in line with portfolio growth. Investment income that represented 73% of total income in 2006 is projected to remain relatively stable through out the ten-year period, reflecting only limited movement in the level of liquidity. The evolution of the ADF projected surplus is presented in Graph 4 below.

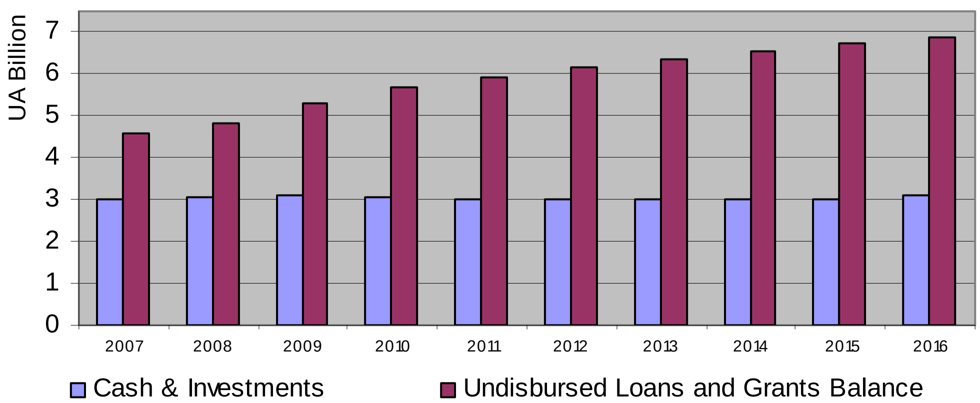
Graph 4: Projection Evolution of ADF Surplus over the Period 2007 to 2016



3.4 Liquidity

3.4.1 The relatively stable level of liquidity indicated in Graph 5 below is attributable to the introduction of the Advance Commitment Authority scheme that enables the Fund to frontload commitments whose disbursements are covered from internally generated resources. On the other hand, the projected growth rate in undisbursed loan & grant balances is expected to remain within the historical trend at 4.58% reflecting the growth in annual commitments.

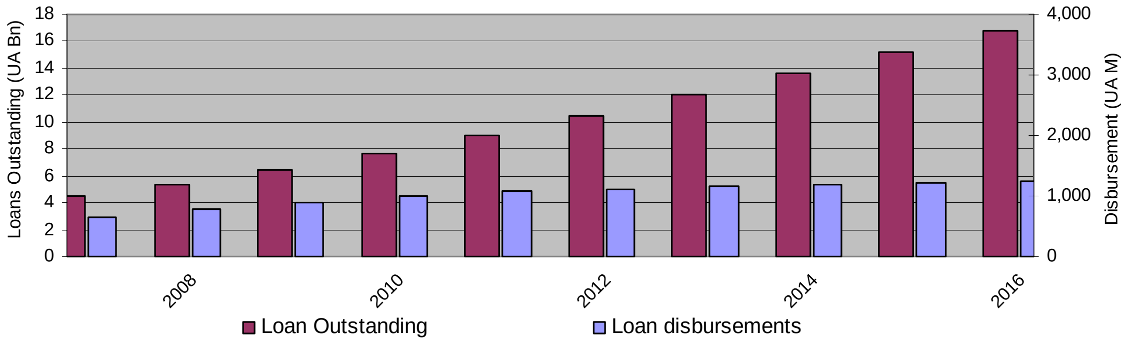
Graph 5: Projected Evolution of ADF Liquidity and Undisbursed Loans and Grants



3.5 Growth in financing activities

3.5.1 Graph 6 below indicates significant growth in ADF loan disbursements and outstanding loan portfolio mainly as a direct result of the projected increase in commitments as indicated in the assumptions. The outstanding loan portfolio is projected to increase to UA 16.83 billion by 2016 about twice the level of the Fund's outstanding loans before loan cancellations under MDRI. This significant increase in the portfolio in the medium term is primarily driven by the projected step up in ADF commitments since ADF-X as well as projected strong growth in both donor subscriptions and the advance commitment capacity.

Graph 6: Projected of loan Disbursements and Loans Outstanding



3.6 Projected Performance Indicators

3.6.1 The base case projections show that the Fund's major performance indicators are projected to improve over the medium-term. The Fund's portfolio business[12] is projected to grow at a compound rate of 11.27% reaching UA 23.7 billion in 2016. In terms of efficiency, the disbursement ratio is expected stabilize at a level of 27% over the 10- year period, a significant improvement over the performance during the past ten years. The business efficiency ratio[13] is expected to improve continuously over the next 10-years, as annual increases in the projected portfolio business of 11.3% far outstrip the corresponding annual growth rate in administrative expenses of 3%[14].

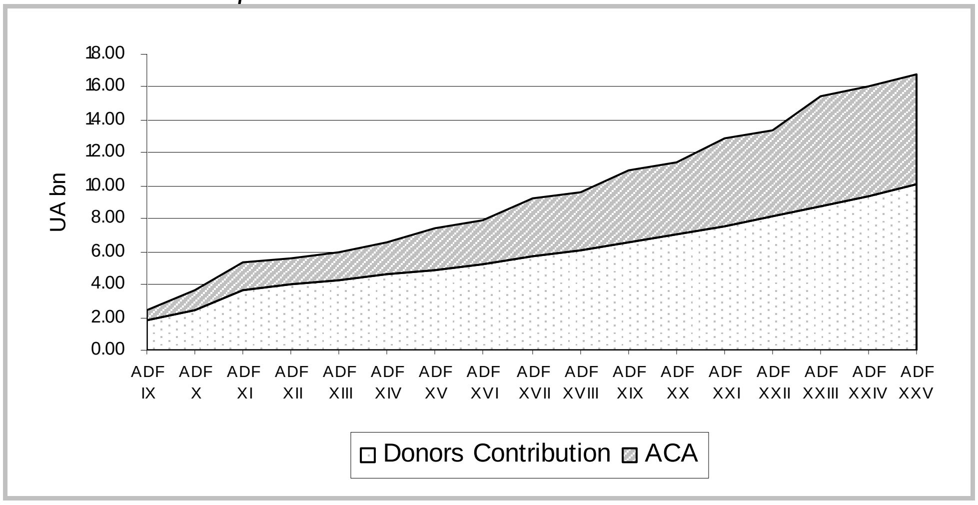
3.7 Estimates of Advance Commitment Capacity for ADF-XI

3.7.1 The base case projections show that an Advance Commitment Capacity (ACC) of UA 559 million per year for a total of over UA 1,677 million for ADF-XI is sustainable. With this level of ACC, the liquidity ratio would reach a minimum of 75% in 2017, thus indicating continued compliance with the Funds liquidity policy. This level of ACC compares favorably with the one for ADF-X of UA 1,200 million. The higher level of ACC is attributable in part to the impact of increased liquidity as a result of the transfer of approximately UA 500 million from the HIPC Trust Fund to the ADF as compensation for loans to completion point countries cancelled under MDRI. The proportion of financing during ADF-XI generated internally is projected at 31% compared to 33% for ADF-X, mainly because of the substantial increase in donor funds assumed.

3.7.2 Furthermore, the ACC is projected to increase to UA 2,484 million by ADF-XV representing 34% of total projected resources available for commitment. The ACC will continue to increase and will reach UA 6,674 million by the projection horizon of ADF-XXV and will represent 40% of total funding resources for the replenishment. Graph 7 below shows the evolution of the ACC for each replenishment during the projection horizon.

[12] The Fund's portfolio business is defined as the sum of outstanding loans and undisbursed loan and grant balances
[13] The business efficiency ratio measures the cost of doing business i.e., the volume of portfolio business that is administered with one UA (SDR)
[14] The base for increases in administrative expenses is the 2007 budget figure, which is significantly higher than actual administrative expenses in 2006.

Graph 7: The Evolution of the ACC under the Base Case Scenario.



3.8 Impact of the Multilateral Debt Relief Initiative (MDRI)

3.8.1 As already stated in the introduction, the implementation of the MDRI is not expected to have a significant long term impact on the ADF provided that the compensation promised by donors is duly received by the Fund. In particular, the level of ACC will be completely unaffected if the expected inflows from the cancelled loans are compensated dollar-for-dollar and on a timely basis. However, the cancellation of loans would result in lower loan income as compensation for foregone loan charges will be accounted for as subscriptions. The loan income reclassified as subscriptions will however be partially offset in the medium-term by investment income generated by the transfer to the ADF of resources in the HIPC Trust Fund earmarked for the debt service of HIPC loans for completion point countries that are cancelled under MDRI.

3.8.2 The analysis above indicates that the Fund's financial performance as measured by annual surplus and the volume of operations will be sound over the next decade. This sound performance is projected to continue throughout the rest of the projection period as shown in Annex III. It also shows that the level of ACC will continue to rise and will represent approximately one third of all ADF funding during each replenishment.

4. <u>SENSITIVITY ANALYSES</u>

4.1 Sensitivity on Grant and MDRI Funding Levels

4.1.1 Variations in the proportion of grant funding as a percentage of total ADF financing, and delays in receiving the promised dollar-for-dollar compensation from donors for loans cancelled under MDRI could adversely impact the financial viability and sustainability of the Fund in the future. To assess the impact of these two factors on the long term financial viability and sustainability of the ADF, the variability in the ACC level during ADF-XI was analyzed under three grant levels and three MDRI funding levels[15]. For all the scenarios, the minimum liquidity ratio is held constant at 75% in compliance with the Fund's liquidity policy.

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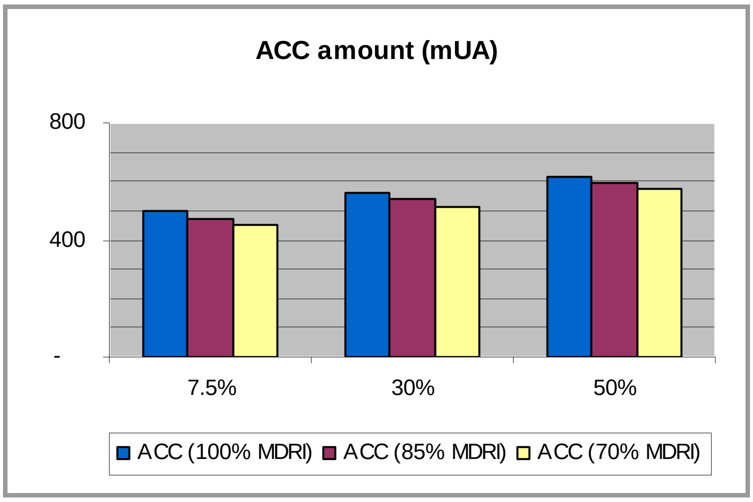
[15] For all scenarios, the minimum liquidity ratio occurs within the ADF XIV replenishment (2018-2019). The 7.5% grant percentage reflects the zero increase scenario as the grant percentage was historically 7.5% until ADF VIII (2001). The MDRI funding level of 70% corresponds to the MDRI effectiveness threshold adopted by the Board of Governors of the Fund. For all scenarios, the minimum liquidity ratio occurs within the ADF XIV replenishment (2018-2019).

4.2 Impact on the Level of Projected ADF Surplus and ACC

4.2.1 Under all the scenarios the Fund would continue to generate a surplus during each year of the projection period. The ACC for ADF-XI would vary as indicated in Graph 7 below and summarized in Annex V scenario 1.

Graph 8: Variability of ACC for ADF-XI with Grant Percentage and MDRI Funding Level

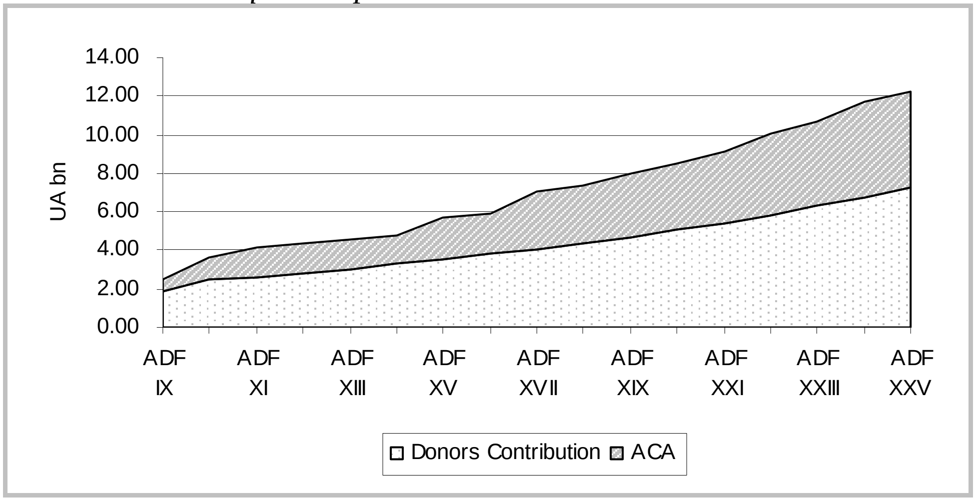


4.2.2 Graph 7 shows that for all the scenarios the level of the ACC for ADF-XI does not fall below UA 450 million. It also shows that the ACC level for ADF-XI increases as the grant percentage increases. This is attributed to the fact that compensation for foregone interest income due to increases in the grant percentage flows in during the encashment period (10 years) of each replenishment. While the ACC increases with the grant percentage, loan income and consequently ADF annual surplus deceases.

4.3 Sensitivity of Base Case Scenario Analysis to ADF-XI Assumption on Donor Subscription Level

4.3.1 Under MDRI State participants pledged to maintain donor subscriptions during replenishments at a level at least equivalent to ADF-X subscriptions in real terms. The results of running the ACA model with the assumption that donor subscriptions during ADF-XI increase only by 7.5%, the assumed inflation rate over the three year period 2005 – 2007, while maintaining all other base case assumptions, are summarized below in Graph 9.

Graph 8: The Evolution of the ACC under Scenario of .7.5% Increase in Donor Funding during ADF-XI and Subsequent Replenishments



4.3.2 Under the scenario where donor subscriptions during ADF-XI and subsequent replenishments are equivalent to ADF-X donor subscriptions in real terms (7.5% increase) the ACC will increase to UA 1,538 million during ADF-XI representing 37% of replenishment resources. The ACC is further projected to increase to UA 2,177 million during ADF-XV replenishment and to UA 4,998 million by ADF-XXV, representing approximately 40% of total resources available for commitment during the replenishment. The level of the ACC for this scenario is lower because grant compensation inflows, which are a component of the inflows in the ACC model, occur during the encashment period, and are proportional to the replenishment level.

4.4 Summary

4.4.1 The sensitivity analysis with respect to the grant and MDRI funding level as well as the levels of future ADF replenishments has shown that the ADF will continue to generate a surplus under a number of plausible scenarios. The level of the ACC going forward is projected to range between UA 1,245 million for ADF-XI to UA 6,674 million for ADF-XXV. The ACC would represent between 31% and 41% of total resources available for commitment during each replenishment period in the projection horizon

5. CONCLUDING REMARKS

5.1 This paper has examined the combined impact of higher grant funding levels since ADF-IX, and the implementation of the MDRI on the long term financial viability and sustainability of the ADF using the Fund's ACA Model. The analysis has indicated that the immediate impact of an increase in grant funding is an increase in the level of advance commitment capacity in the short-to-medium term. This counter intuitive result is attributed to the front loading of the compensation for foregone charges due to the higher grant levels.

5.2 The implementation of the MDRI on the other hand is not expected to have an impact on the long term sustainability of the Fund because the cash flows of the cancelled loans would be compensated for on a dollar-for-dollar basis within the same timeframe as the original cashflows. However, because the compensation for cancelled loans will be considered as subscriptions, loan income would be lower than it would have otherwise been the case. This reclassification of income is partially compensated for by income generated by investing resources transferred to the Fund from the HIPC Trust Fund as compensation for HIPC loans cancelled under MDRI.

5.3 An analysis of the results of the base case projections and a scenario where donor subscriptions during future replenishments are assumed to be equivalents to ADF-X donor subscriptions in real terms indicates that the ACC is projected to range from UA 1,538 million during ADF-XI to UA 6,674 million during ADF-XXV. The ACC will represent between 34% and 41% of total replenishment resources during each replenishment period in the projection horizon.

5.4 Sensitivity analyses on both the level of grant funding and the proportion of MDRI inflows that actually materializes and the assumption on the level of donor subscriptions in future replenishments, indicates that the conclusions arrived at on the basis of the base case projections are robust and that future ACC levels shall be higher than The ADF-X ACC level of UA 1,200 million per year for all plausible scenarios.

5.5 The analyses in the paper support the conclusion that the long term sustainability of the ADF is reasonably assured.

ANNEX I: ADF historical Income Statement

ADF Income 1997-2006
(Figures in UA Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	Actual	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*estimate*
Loans Income	36,150	36,951	40,958	42,412	47,167	64,911	53,932	64,149	65,767	37,856
Investments Income	14,058	21,371	24,270	36,870	34,171	24,821	23,639	48,176	68,750	103,686
other Income	-	-	-	-	-	-	-	-	-	7,877
Total Income	50,208	58,322	65,228	79,282	81,338	89,732	77,571	112,325	134,517	149,419
Management Fees	47,263	53,867	57,771	62,255	71,007	79,663	101,659	103,060	111,859	116,560
Other Expenses	1,753	4,238	55	59	1,531	153	2,121	441	318	276
Total Expenses	49,016	58,105	57,826	62,314	72,538	79,816	103,780	103,501	112,177	116,836
Discount on accelerated encashments of participants'demand obligations	-	-	-	-	-	-	-	(7,884)	(2,631)	(2,630)
Deficit / Surplus	*1,192*	*217*	*7,402*	*16,968*	*8,800*	*9,916*	*(26,209)*	*940*	*19,709*	*29,953*

ADF Net Development Resource 1997-2006
(Figures in UA Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Demand Obligations	2,466,349	2,457,304	2,151,962	2,711,971	2,762,469	2,713,364	2,693,858	2,568,563	2,229,831	*2,215,525*
Cash & Investments	280,304	411,579	609,633	647,126	891,173	993,814	1,302,242	1,537,397	1,961,443	*2,952,940*
Other Assets	17,488	16,009	36,562	209,977	191,407	143,652	151,206	66,231	72,948	*31,163*
Other Liabilities	(23,693)	(20,143)	(46,239)	(215,767)	(205,739)	(166,437)	(154,481)	(68,226)	(56,988)	*(58,698)*
Net Development Resources	**2,740,448**	**2,864,749**	**2,751,918**	**3,353,307**	**3,639,310**	**3,684,393**	**3,992,825**	**4,103,965**	**4,207,234**	***5,140,931***
Funding of Dev. Resources	**8,053,291**	**8,572,423**	**8,735,398**	**9,587,331**	**10,148,423**	**10,803,649**	**11,448,572**	**12,062,046**	**12,767,322**	
Tech Assistance & Grants Disb	269,703	293,446	378,045	398,641	427,326	608,689	660,364	723,131	770,675	*152,692*
Loans Outstanding	5,043,140	5,414,228	5,605,435	5,835,383	6,081,787	6,510,567	6,795,383	7,234,950	7,789,413	3,835,000
Net Development Resources	**2,740,448**	**2,864,749**	**2,751,918**	**3,353,307**	**3,639,310**	**3,684,393**	**3,992,825**	**4,103,965**	**4,207,234**	
CASHFLOW ITEMS										
Loans repayments	32,831	34,130	69,394	44,673	45,135	92,104	69,394	88,463	94,547	96,000
Total disbursements	478,841	443,089	368,314	270,922	371,144	660,038	393,568	680,495	691,065	*685,164*
Loans disbursements	*447,192*	*417,895*	*346,450*	*252,874*	*350,750*	*478,279*	*341,837*	*587,416*	*642,080*	*532,472*
Grants disbursements	*31,649*	*25,194*	*21,864*	*18,048*	*20,394*	*181,759*	*51,731*	*93,079*	*48,985*	*152,692*
Undisbursed Loans and Grants Balance	1,945,532	2,114,578	2,186,164	2,363,598	3,001,588	3,004,327	3,416,136	3,506,000	3,812,000	*4,100,000*
Portfolio Business	6,988,672	7,528,806	7,791,599	8,198,981	9,083,375	9,514,894	10,211,519	10,740,950	11,601,413	7,935,000
Business Effeciency Ratio	147.87	139.77	134.87	131.70	127.92	119.44	100.45	104.22	103.71	68.08
Disbursement Ratio	24%	23%	17%	12%	16%	22%	13%	20%	20%	18%
Commitment coverage Ratio	1.41	1.35	1.26	1.42	1.21	1.23	1.17	1.17	1.10	1.25

ANNEX II: Assumptions for base case projections.

The Base case projections of the ADF using the ACA model are predicated on the following assumptions:

- Donor subscriptions during ADF-XI are assumed to be at the same level as those assumed in the Bank Group's 2007 Budget Document[16], i.e., 50% higher than the ADF-X replenishment level.
- Donor subscriptions for subsequent replenishments are assumed to be equal to ADF-XI donor subscriptions in real terms, assuming an inflation rate of 2.5% per year.
- Annual loan and grant approvals during each year of any replenishment period shall be equal to one third (1/3) of the replenishment amount.
- Disbursements are assumed to follow the historical disbursement profile for ADF countries.
- The encashment schedule for ADF-X is assumed to apply for all future replenishments.
- The rate of return on ADF investments in the capital markets is assumed to be equal to the actual rate of return on ADF investments during 2006.
- It has been assumed that the standard ADF loan terms will remain unchanged through out the 50 year projection period.
- It has been assumed that the countries in arrears to the Fund will remain none performing while the performing countries will continue to perform throughout the projection period.
- It has been assumed that ADB will transfer UA 30 million out of its net income to the ADF during ADF-XI and subsequent replenishments.
- Finally, it has been assumed that that the proportion of funding operations in grant form will remain constant at 30% for future replenishments.

[16] 2007 Administrative Expenses and Capital Expenditure Budget Proposals ref – ADF/DB/WP/2006/140/Rev.2 or ADB/DB/WP/2006/116/Rev3, page 21.

ANNEX III: ADF projected financial results assuming a 50% increase in ADF XI Donor Subscriptions & 7.5% for subsequent replenishment

	ADF X	ADF XI	ADF XII	ADF XIII	ADF XIV	ADF XV	ADF XVI	ADF XVII	ADF XVIII	ADF XIX	ADF XX	ADF XXI	ADF XXII	ADF XXIII	ADF XXIV	ADF XXV
Loans Income	151	188	267	350	435	525	622	725	836	952	1 076	1 206	1 344	1 490	1 647	1 808
Investments Income	303	405	404	400	416	459	509	565	630	691	754	822	898	979	1 069	1 162
other Income	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Income	461	593	671	751	851	984	1 132	1 291	1 466	1 643	1 830	2 028	2 242	2 469	2 716	2 969
Management Fees	375	464	507	554	605	662	723	790	863	943	1 031	1 126	1 231	1 345	1 470	1 606
Other Expenses	3	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Total Expenses	377	470	513	560	611	668	729	796	869	949	1 037	1 132	1 237	1 351	1 476	1 612
Discount on accelerated encashments of participants'demand obligations	(5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deficit / Surplus	79	123	158	190	240	317	403	495	596	693	794	896	1 005	1 118	1 240	1 357
Demand Obligations	2 269	3 032	3 391	3 745	4 094	4 469	4 872	5 306	5 772	6 273	6 811	7 390	8 013	8 682	9 401	10 174
Cash & Investments	3 018	3 043	3 015	3 082	3 397	3 776	4 171	4 667	5 116	5 600	6 093	6 662	7 253	7 934	8 602	9 525
Other Assets	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
Other Liabilities	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)
Net Development Resources	5 260	6 048	6 378	6 799	7 463	8 217	9 015	9 945	10 860	11 845	12 876	14 025	15 238	16 588	17 976	19 672
Loans Outstanding	4 470	7 613	11 986	16 835	21 862	27 237	33 098	39 345	46 102	53 365	61 160	69 423	78 246	87 588	97 649	108 319
CASHFLOW ITEMS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans repayments	235	157	202	278	410	533	691	998	1 289	1 594	1 910	2 256	2 639	3 076	3 574	4 113
Total disbursements	2 290	3 803	4 783	5 210	5 530	6 057	6 696	7 389	8 228	9 025	9 872	10 691	11 639	12 633	13 874	14 908
Loans disbursements	1 656	2 662	3 348	3 647	3 871	4 240	4 687	5 172	5 759	6 318	6 910	7 484	8 147	8 843	9 712	10 436
Grants disbursements	634	1 141	1 435	1 563	1 659	1 817	2 009	2 217	2 468	2 708	2 962	3 207	3 492	3 790	4 162	4 473
Undisbursed Loans and Grants Balance	4 600	5 681	6 368	6 884	7 568	8 451	9 327	10 492	11 594	12 813	13 961	15 337	16 667	18 416	20 104	21 480
Internally generated resources	722	699	780	888	1 069	1 269	1 514	1 912	2 305	2 707	3 124	3 571	4 064	4 614	5 234	5 890
ACC	1 200	1 677	1 677	1 677	2 018	2 484	2 632	3 560	3 560	4 348	4 348	5 265	5 265	6 674	6 674	6 674
Portfolio Business	9 070	13 295	18 355	23 719	29 429	35 688	42 425	49 837	57 695	66 178	75 121	84 761	94 913	106 005	117 753	129 799
Business Effeciency Ratio	24	29	36	43	49	54	59	63	67	70	73	75	77	79	80	81
Disbursement Ratio		28%	28%	27%	27%	27%	26%	26%	26%	26%	26%	26%	25%	25%	25%	25%

ANNEX IV: ADF projected financial results assuming a 7.5% increase in ADF XI Donor Subscriptions per replenishment

	ADF X	ADF XI	ADF XII	ADF XIII	ADF XIV	ADF XV	ADF XVI	ADF XVII	ADF XVIII	ADF XIX	ADF XX	ADF XXI	ADF XXII	ADF XXIII	ADF XXIV	ADF XXV
Loans Income	151	185	251	317	380	445	516	590	669	752	839	930	1 025	1 125	1 231	1 341
Investments Income	303	401	372	332	318	343	384	428	477	519	562	608	663	720	786	858
other Income	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Income	461	586	623	649	697	788	900	1 018	1 146	1 271	1 401	1 538	1 688	1 846	2 017	2 199
Management Fees	375	464	507	554	605	662	723	790	863	943	1 031	1 126	1 231	1 345	1 470	1 606
Other Expenses	3	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Total Expenses	377	470	513	560	611	668	729	796	869	949	1 037	1 132	1 237	1 351	1 476	1 612
Discount on accelerated encashments of participants'demand obligations	(5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deficit / Surplus	79	116	110	89	86	120	171	222	277	321	364	406	451	495	541	588
Demand Obligations	2 269	2 238	2 193	2 426	2 676	2 945	3 234	3 545	3 879	4 238	4 624	5 039	5 485	5 964	6 480	7 034
Cash & Investments	3 018	2 855	2 548	2 365	2 533	2 840	3 151	3 539	3 848	4 175	4 513	4 923	5 345	5 832	6 361	6 991
Other Assets	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
Other Liabilities	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)
Net Development Resources	5 260	5 065	4 714	4 763	5 182	5 758	6 357	7 057	7 700	8 385	9 109	9 935	10 803	11 769	12 814	13 997
Loans Outstanding	4 470	7 602	11 640	15 649	19 521	23 488	27 787	32 366	37 316	42 624	48 273	54 205	60 446	67 042	74 023	81 425
CASHFLOW ITEMS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans repayments	235	157	202	278	407	511	647	928	1 159	1 389	1 623	1 870	2 149	2 469	2 838	3 230
Total disbursements	2 290	3 733	4 277	4 240	4 277	4 570	5 061	5 601	6 249	6 807	7 373	7 888	8 516	9 177	9 970	10 746
Loans disbursements	1 656	2 613	2 994	2 968	2 994	3 199	3 543	3 921	4 374	4 765	5 161	5 521	5 962	6 424	6 979	7 522
Grants disbursements	634	1 120	1 283	1 272	1 283	1 371	1 518	1 680	1 875	2 042	2 212	2 366	2 555	2 753	2 991	3 224
Undisbursed Loans and Grants Balance	4 600	5 138	5 196	5 377	5 728	6 401	7 088	7 973	8 803	9 614	10 426	11 282	12 286	13 364	14 566	15 678
Internally generated resources	722	693	732	786	913	1 051	1 237	1 569	1 856	2 130	2 407	2 696	3 020	3 383	3 798	4 237
ACC	1 200	1 538	1 538	1 538	1 538	2 177	2 177	2 950	2 950	3 300	3 475	3 709	4 175	4 450	4 998	4 998
Portfolio Business	9 070	12 740	16 835	21 027	25 249	29 888	34 876	40 339	46 119	52 238	58 700	65 486	72 732	80 407	88 589	97 103
Business Effeciency Ratio	24	27	33	38	42	45	48	51	53	55	57	58	59	60	60	60
Disbursement Ratio		27%	28%	27%	27%	27%	26%	26%	26%	26%	26%	25%	25%	25%	25%	25%

ANNEX V: Base case scenarios results assuming 50% increase in ADF XI replenishment (scenario 1) and 7.5% increase in ADF XI replenishment (Scenario 2)

Scenario 1:

Variability of ACC (UA m) and Year of occurrence of minimum liquidity ratio						
Grant level	**MDRI Funding Level**					
	100%		**85%**		**70%**	
7.5%	496	2017	475	2017	454	2017
30% (base case)	559	2017	537	2017	515	2017
50%	617	2018	595	2018	572	2018

Scenario 2:

Variability of ACC (UA m) and Year of occurrence of minimum liquidity ratio						
Grant level	**MDRI Funding Level**					
	100%		**85%**		**70%**	
7.5%	459	2018	438	2018	417	2017
30% (base case)	513	2019	491	2019	469	2018
50%	561	2020	538	2020	516	2020