ADF FINANCING FRAMEWORK II
Discount Rates, Grant Compensation and Replenishment Scenarios

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ADCF-11 FINANCING FRAMEWORK

1. Discount Rates for Accelerated Encashment
2. Grant Financing Framework
3. Core Financial Assumptions
4. Replenishment Scenarios
5. Conclusion
Discount Rates for Accelerated Encashment

<table>
<thead>
<tr>
<th>Eligible currencies</th>
<th>Adjusted CIRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian dollar</td>
<td>4.31%</td>
</tr>
<tr>
<td>Danish Krone</td>
<td>4.47%</td>
</tr>
<tr>
<td>Euro</td>
<td>4.28%</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>1.01%</td>
</tr>
<tr>
<td>Korean Won</td>
<td>5.13%</td>
</tr>
<tr>
<td>Norwegian Krone</td>
<td>5.09%</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>4.12%</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>2.83%</td>
</tr>
<tr>
<td>UK Pound</td>
<td>5.68%</td>
</tr>
<tr>
<td>US dollar</td>
<td>4.69%</td>
</tr>
<tr>
<td>SDR</td>
<td>4.30%</td>
</tr>
</tbody>
</table>

The SDR discount rate applied to currencies with no CIRR published.

Encashment profiles can be customized to take account of the preferred encashment schedules of donors.

Currency-specific Commercial Interest Reference Rate (CIRR) applicable as of 30 June 2007 for credits up to 5 years, adjusted downwards by 100 basis points.
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**Grant Financing Framework:**

**Grant Resources: 28.38% of ADF-11 Replenishment**

- **Compensation for foregone income**
  - Grant extended to an ADF country
  - Grant amount reduced by 20% = Volume discount
    - Upfront grant charge of 10.12% deducted from volume discount
    - Remaining volume discount amount distributed under PBA to ADF-only countries

- **Compensation for foregone principal**
  - Due date of ADF-11 foregone principal (2019-2058)
  - Compensation received from donors based on normalized burden shares
  - ADF 11 foregone principal compensation amount will be known in 2011
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Updated Core Financial Assumptions for the ACC: Grants & ADB Transfers

Grant Resources
- Increased from the 28% to 28.38%
- Upfront charge on grants decreased from 11.9% to 10.12%

ADB Transfers
- Recommend to the Board the doubling of ADB transfers to UA 20 million per year
- Management to reassess annually the feasibility of transferring additional income to ADF
**Core Financial Assumptions : MDRI Compensation**

- **MDRI Compensation coverage for the ACC**
  - Unqualified commitments: included at 100%
  - Qualified commitments: included at 85%
  - Loan Reflows not covered by commitments: Excluded
  - MDRI compensation coverage level will be updated in mid-November 2007

**ADF-11 disbursement period (2008-2020)**
- Loans not covered by commitments: 28%
- Qualified commitments: 41%
- Unqualified commitments: 31%
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**REPLENISHMENT SCENARIO: BASELINE SCENARIO**

**Donor Subscriptions**
- ADF-10: 2458
- ADF-11 (70% MDRI coverage): 2636
- ADF-11 (100% MDRI coverage): 2636

**ACC**
- 70% MDRI coverage: 1576
- 100% MDRI coverage: 1794

**Carry Over**
- 70% MDRI coverage: 359
- 100% MDRI coverage: 294

**Total Resources**
- 70% MDRI coverage: 4029
- 100% MDRI coverage: 4506

**Increase in ADF-11 Total Resources over ADF-10**

<table>
<thead>
<tr>
<th></th>
<th>70% MDRI coverage</th>
<th>100% MDRI coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>in Nominal terms</strong></td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>in Real terms</strong></td>
<td>4%</td>
<td>9%</td>
</tr>
</tbody>
</table>

7.28% inflation rate
**REPLENISHMENT SCENARIOS: DONOR SUBSCRIPTIONS**

The Fund can finance 90% of identified ADF-11 projects.

Additional UA 14 million in donor funds allocated on average to each of the 40 ADF countries per year.

Increase of UA 1.66 billion in donor subscriptions over ADF-10 or UA 553 million per year.

**Impact of Scenario 3**

- Subscriptions with 70% MDRI coverage
- Subscriptions with 100% MDRI coverage
**SCENARIO 3**: Resources increased by 60% in nominal terms and 49% in real terms

Assume that gap will be filled by Donors

<table>
<thead>
<tr>
<th>Increase in ADF-11 Donor subscriptions over ADF-10</th>
<th>70% MDRI coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>in Nominal terms</td>
<td>68%</td>
</tr>
<tr>
<td>in Real terms</td>
<td>56%</td>
</tr>
</tbody>
</table>

ADF-10

ADF-11 70% MDRI coverage
CONCLUSION

Deputies are requested to approve:

- The ADF-11 grant compensation framework with the foregone income due to grant levels covered by an upfront charge, currently estimated at 10.12%, while foregone principal refloows are offset using the “Pay as you go” approach.

- A replenishment level that would underpin the current pipeline of identified ADF-11 projects and support the scaling up of resources to Africa.

- A technical gap of 5%, based on the past 10 years trend where donors filled 1.4% to 3.5% of ADF gap.

Management urges donors to deposit unqualified instrument of commitments for the ADF-11 disbursement period (2008-2020) to ensure the highest possible replenishment level.
Thank You