

GAO

Briefing Report to the Chairman,
Committee on the Budget, House of
Representatives

April 1995

MULTILATERAL DEVELOPMENT BANKS

Financial Condition of the African Development Bank



**National Security and
International Affairs Division**

B-261157

April 21, 1995

The Honorable John Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

Multilateral development banks occupy an important position in development assistance strategies. They provide loans at concessional rates to their lower income borrowing members and extend near market-rate loans to meet the project financing needs of other member developing countries. Recently, however, the effectiveness of the aid channeled through multilateral development banks and the efficiency of their operations have come into question.¹ In this regard, the financial condition and policies of the African Development Bank (AFDB) have been a growing source of concern to the United States.

As you requested, this report, one of a series on multilateral development banks, provides information on (1) the financial condition of the AFDB and (2) issues relevant to that condition.

We limit our focus to the operations of the AFDB's hard-loan window, the near market-rate lending window for which member countries have pledged to honor AFDB debts if necessary. (In AFDB's other window, the soft-loan window, highly concessional loans are made to poorer African countries. This window is financed largely by grants from non-regional members.) On March 24, 1995, we briefed your staff on these issues. This report summarizes the information provided at that briefing.

Background

AFDB has 76 member countries; the 52 African regional members includes the Bank's borrowers. The remaining 24, such as the United States, Japan, Germany, and France are non-regional members. They do not borrow from the Bank.

To help finance operations, regional and non-regional members provide the Bank with paid-in capital, generally payable in hard currencies, such as dollars, marks, or yen. Members also pledge callable capital—essentially a promissory note—that amounts to much more than the paid-in capital.

¹For example, see: *The Quest for Quality*. Report of the Task Force on Project Quality, African Development Bank, April 1994. (Generally known as the Knox report).

AFDB uses the callable capital as collateral to borrow funds on the world capital markets. AFDB's borrowings are then used to make loans to members, and the members' repayments are used to help pay off AFDB's debts. Because callable capital backs up AFDB debt, all members have a stake in the Bank's financial condition. If a call were made, Congress would have to appropriate the funds because U.S. callable capital has been authorized but not appropriated. The United States presently has about a 6 percent share (\$944 million) of the Bank's callable capital. Members periodically negotiate increases in their contributions to the Bank through capital increases.

Results in Brief

AFDB is financially solvent but vulnerable. It has sufficient liquidity (cash plus short-term investments such as treasury bills) to finance its lending operations in the near term and adequate funds to meet its operating costs. Moreover, it has a AAA credit rating; this rating is based primarily on the expectation of continued support by the non-regional members.

However, AFDB faces several significant problems.

- It has experienced persistent levels of arrears (non-payment of loans) since 1988, and its policy is not to write off non-performing loans.
- Of 46 borrowing countries, 29 are severely indebted and several are experiencing political and civil strife.
- Nearly one-third of AFDB's outstanding loan portfolio (\$3 billion of \$9.7 billion) is held by countries not sufficiently creditworthy for hard loans from the World Bank.

These conditions reflect the poor economic performance of the Bank's borrowers. But two other factors within the Bank's control further contribute to its vulnerability. First, AFDB's existing credit policy considers regional members eligible for loans without due regard for their creditworthiness. Second, the Bank's non-regional members provide the financial strength of the Bank, but have limited influence over policy decisions. This is exemplified by the impasse over the current credit policy, which has led to a suspension of negotiations over further financing for the Bank. This situation continues as of this report.

To improve its financial situation, AFDB recently limited new lending and borrowing, strengthened arrears policies, and increased reserves. In early 1995, the Board of Directors also approved an internal management reform plan, which shifts operations to a country lending focus, cuts

senior staff, and consolidates offices.² These are steps in the right direction. However, if the current trend in member's economic performance continues and arrears are not controlled, steps beyond management reforms may be necessary to ensure the long-run financial viability of the Bank.

Scope and Methodology

In conducting our review, we had the full cooperation and assistance of the AFDB, the Department of the Treasury, and the U.S. Executive Director. The Executive Directors representing member countries are responsible for the conduct of the general operations of the Bank.

To determine the financial status of AFDB, we obtained and analyzed AFDB's financial statements for the years 1988 through 1994. This time period was chosen because it followed the last general capital increase in 1987. As part of our analysis, we examined the Bank's balance sheet, income and expenditures, and the cash flow statements. We also reviewed the Bank's policies and data on lending and borrowing operations, arrears and reserves, country exposure, and members' capital subscriptions. To analyze AFDB's portfolio risk exposure, we used the September 1993 criteria for eligibility to borrow near market-rate and concessional loans from the World Bank and also examined country debt in terms of the World Bank's definitions of per capita income and severity of country debt. Appendix I provides some of the key tables we developed in conducting our analysis.

To review AFDB's financial and management reforms, we examined Bank plans, documents, and files on Bank efforts to date. We also discussed AFDB's policies and management with AFDB officials in Abidjan, Cote d'Ivoire, and with AFDB's Executive Directors from the United States and other countries. We also interviewed and obtained reports on AFDB from officials responsible for overseeing U.S. interests in the AFDB from the Departments of Treasury and State and the U.S. Agency for International Development.

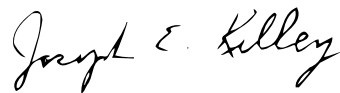
We obtained comments on a draft of this report from the Department of Treasury, the U.S. Executive Director, and the AFDB and revised the report as appropriate. Our review was conducted between November 1994 and March 1995 according to generally accepted government auditing standards.

²Management reforms were undertaken in response to growing concerns about the effectiveness of the operations, management, and policies of AFDB. The Knox report provided a review of many of these concerns.

We are sending copies of this report to other appropriate congressional committees; the Secretaries of Treasury and State; the Administrator, U.S. Agency for International Development; the Director, Office of Management and Budget; and the U.S. Executive Director, AFDB. Copies will also be made available to others upon request.

If you or your staff have any questions about this report, please call me on 512-4128. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in cursive script that reads "Joseph E. Kelley".

Joseph E. Kelley
Director-in-Charge
International Affairs Issues

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Abbreviations

AFDB	African Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
USAID	U.S. Agency for International Development

Financial Condition of AFDB

GAO Key Findings

- AFDB is solvent, but vulnerable.
 - Donor aid, beyond paid-in capital, helps borrowers repay AFDB.
 - AFDB is taking steps to address financial weaknesses.
 - Borrower control of decision-making is a key issue of AFDB's current condition.
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Briefing Section I
Financial Condition of AFDB

GAO Background

- Members provide paid-in and callable capital.
 - Regional members--African countries-- provide 65 percent of capital; non-regionals provide 35 percent.
 - U.S. has 6-percent share of Bank's capital (largest among non-regionals).
-

AFDB has \$22.2 billion in subscribed capital, composed of \$2.7 billion or 12 percent paid-in capital, and \$19.5 billion or 88 percent callable capital. Callable capital is like a promissory note which can be called upon by the Bank as a last resort to repay its creditors.

The 52 regional members have the controlling share of the Bank's capital. They hold about \$14.4 billion of the total subscribed capital (65 percent), including \$12.7 billion callable capital and over \$1.7 billion of paid-in capital. The 24 non-regional countries account for nearly \$7.8 billion of subscribed capital (35 percent), including \$6.8 billion callable capital and \$1 billion paid-in capital.

The United States holds about 6 percent of the Bank's capital, the largest share among non-regional members, including \$135 million in paid-in capital and \$944 million in callable capital.¹ If AFDB made a call to repay creditors, Congress would still have to appropriate the U.S. share because U.S. callable capital has been authorized, but not appropriated.

¹These are the subscribed capital amounts approved by Congress and are the limits of U.S. obligations. Amounts recorded in AFDB financial statements based on year-end currency conversion rates would be \$163 million for paid-in capital and \$1.1 billion for callable capital.

GAO AFDB Is Solvent, but Vulnerable

- Bank is able to meet requirements with existing funds for the near term.
 - Most hard-loan borrowers are severely indebted.
 - Bank is experiencing a mounting arrears problem.
 - Decline in net income causes Bank to fall below key ratio targets.
-

The AFDB is a solvent institution with assets of about \$13 billion, including some \$9.7 billion in outstanding loans, about \$1.1 billion in net reserves, and \$2.3 billion in net paid-in capital. As such the Bank can meet its near-term operating and financial costs including disbursements on approved loans. The Bank has lowered its liquidity requirements in recent years in order to reduce its borrowing requirements. Growth in borrowing and lending has exceeded the Bank's growth in equity and the risk to member countries and creditors has increased commensurately. This is to be expected since AFDB's last capital increase was in 1987.

The economic performance of the Bank's clientele is at the heart of its vulnerability. In 1994, 29 of AFDB's 46 borrowing members were classified by the World Bank as severely indebted and 31 were classified as low income.

Although the proportion has decreased, the amount of loans held by higher risk countries stood at about \$3 billion at the end of 1994—about one-third of the Bank's \$9.7 billion outstanding loan portfolio. The gross level of income lost to arrears has also increased from about \$32 million in 1990 to about \$110 million in 1994.

In 1994 the AFDB was below two key financial ratio targets watched closely by the international rating agencies. First, the level of reserves to outstanding loans fell below the 15 percent target set by the Bank. This is a key indicator of the Bank's ability to meet loan defaults. Second, AFDB has fallen below its interest coverage ratio target of 1.25 (net income plus financial charges as a proportion of financial charges alone). This ratio is an indicator of the Bank's ability to service its debt. Rating agencies, however, are aware of these shortfalls and have retained the Bank's AAA rating mainly because of the expectation of continued strong member support primarily in the form of a general capital increase for the Bank by 1997.

GAO AFDB Borrowing

- Borrowings against callable capital provide funds for AFDB loans.
 - Non-regionals' callable capital is the key to borrowing at preferred rates.
 - Bank is within borrowing ceilings.
 - Debt at 46% of all callable capital
 - At 95% of highly rated callable capital
 - Capital increase is expected in order to fund future operations.
-

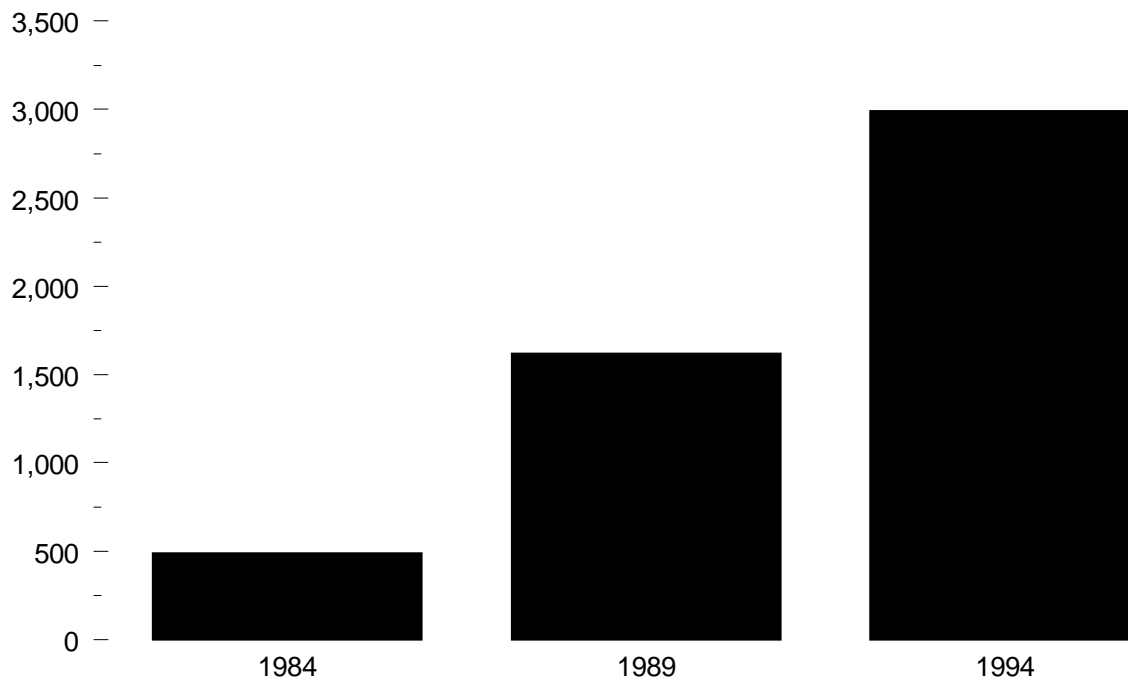
Callable capital—pledges by member countries to honor AFDB's debts if necessary—allows AFDB to borrow from the world capital markets. According to credit rating agencies, however, it is primarily the continued commitment of the non-regional members as well as their callable capital that gives AFDB its AAA credit rating. This credit rating allows the Bank to borrow from the world capital markets at preferred rates, and subsequently to lend to AFDB borrowing members at near-market rates. Many of the Bank's borrowers would otherwise have to borrow at much higher rates, if at all. Leveraging high quality callable capital into loans to poorer borrowers at affordable rates is a fundamental role of the multilateral development banks.

Although AFDB's borrowings outstanding (\$8.9 billion as of the end of 1994) are still within its policy limits, the level has doubled in relation to member's callable capital since 1988, demonstrating the increased exposure of its member countries. Partly, this is because the Bank's last capital increase was in 1987. AFDB officials expect another capital increase by 1997 in order to continue the Bank's borrowing and lending operations.

At the end of 1990, AFDB's outstanding borrowings were 23 percent of the total callable capital of regional and non-regional members. At the end of 1994, outstanding borrowings were at about 46 percent of this level. A more widely watched measure is the Bank's outstanding borrowings as a percent of the callable capital of the most highly rated member countries—essentially the non-regionals—plus the AFDB's hard currency paid-in capital and reserves. By the end of 1994, AFDB's outstanding borrowings had reached a level of about 95 percent of this total.

GAO Dollar Amount of Portfolio in Higher Risk Countries^a

Millions of dollars



^aNot eligible for World Bank hard loans.

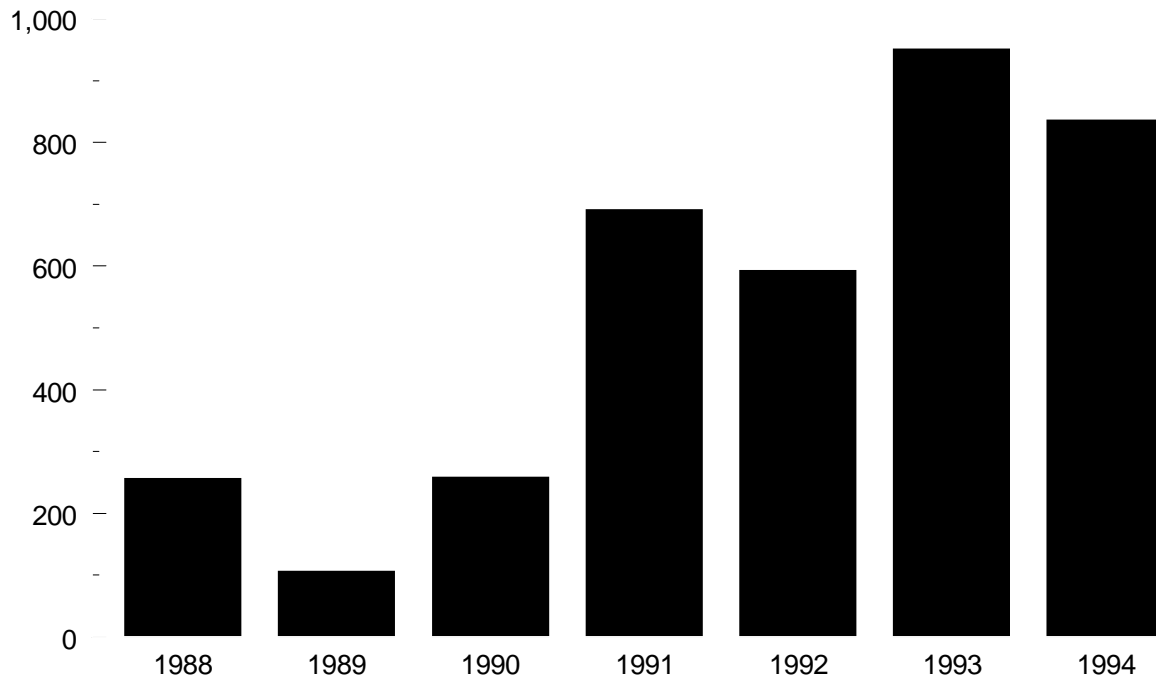
Since 1984, the dollar amount of loans to countries rated in September 1993 by the World Bank as ineligible for hard loans has increased, although their proportion has fallen.² In 1984, \$490 million of outstanding loans were accounted for by such countries. At the end of 1994, about \$3 billion of outstanding loans were held by such higher risk countries. An additional \$4.5 billion of the portfolio was held by other members rated by the World Bank as highly indebted. Thus, members rated as either higher risk or severely indebted held \$7.5 billion of the outstanding loans—over 75 percent of AFDB’s portfolio. In response to the overall riskiness of the loan portfolio, AFDB began to more closely monitor country exposure in late 1992. According to AFDB documents, this was deemed necessary due to the expanding list of the Bank’s borrowing member countries experiencing difficulties in servicing their debts.

During 1994 almost all new loans were made to a relatively small number of lower risk, more creditworthy countries. However, by the end of 1994 one of the countries (Nigeria) accounting for 22 percent of the loans made during 1994 was removed from the list of countries eligible to borrow hard loans from the World Bank. This highlights the vulnerability of AFDB’s portfolio.

²We used the World Bank’s criteria for lending to countries, as of September 1993. We termed countries eligible to borrow from the “soft loan” or concessional rate window as higher risk and countries eligible to borrow from the near-market rate loan window as lower risk. Because eligibility for these loans changes over time, our analysis is not a direct measure of the risks taken by AFDB when the loans were actually approved.

GAO Non-Performing Loans Increase

Millions of dollars



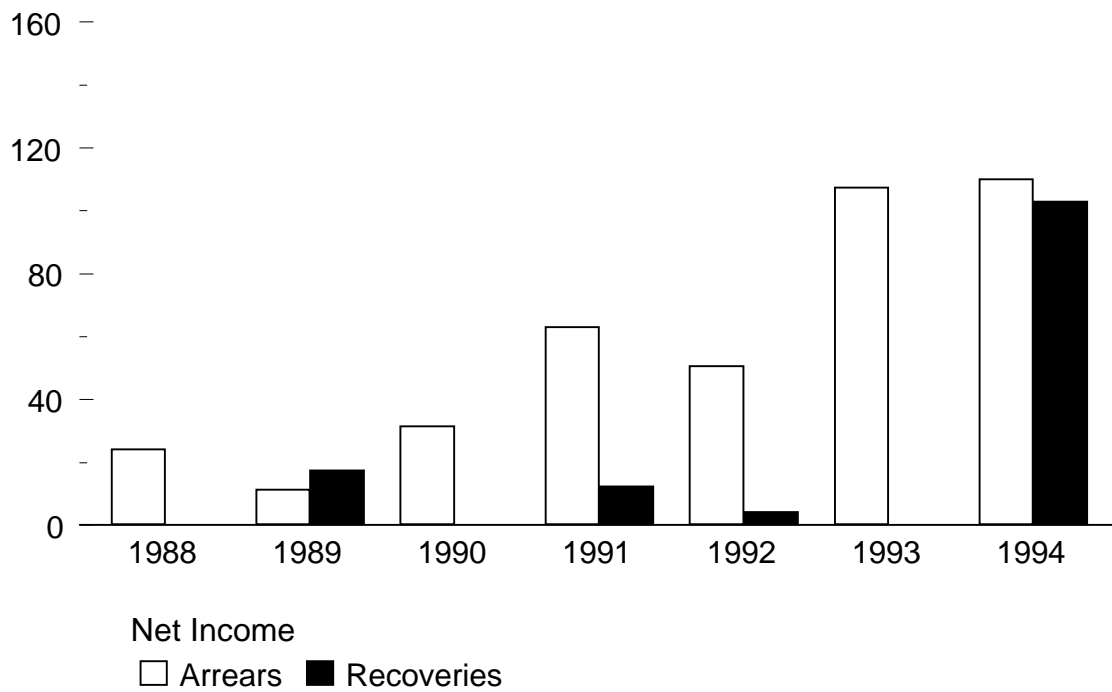
Note: Amounts above refer to the principal (face value) of non-performing loans. Loans were placed in non-performing (non-accrual) status when they were 12 months overdue until July 1994, when the period was shortened to 6 months.

Non-performing loans have been the cause of the Bank's more serious financial problems in recent years. The principal amount of such loans (loans in arrears for a specific period of time) has ranged from a low of about \$105 million in 1989 (3.1 percent of loans outstanding) to a high of over \$950 million in 1993 (11.4 percent). At the end of 1994, the principal of non-performing loans declined to \$835 million (8.6 percent of loans outstanding).

According to an analysis by the Bank, the problem of serious arrears and non-performing loans is due to (1) already highly indebted countries failing to adopt appropriate policies to foster economic growth and (2) political and civil strife in some countries. This results in an accumulation of arrears over time. For countries enduring conflict, civil and political strife, the concern is that even if they were to return to peace and political and economic stability, some of them would probably not have the necessary resources to pay off their arrears.

GAO Arrears and Recoveries

Millions of dollars



Although income from loans has grown, a general pattern of increased arrears, particularly between 1988 and 1993, has adversely affected the Bank. The decline in net arrears (the difference between arrears and recoveries) in 1994 was almost totally financed by the Bank's reallocation of undisbursed funds from prior year loans. AFDB and Congo agreed to clear its arrears by reallocating funds from eight previously approved but non-performing loans. The Bank and Cameroon similarly agreed to reallocate funds for the same purpose. The result of these transactions was to clear the \$101.4 million in arrears of Congo and Cameroon, restore the eligibility of these countries to borrow from the Bank, and to increase the total amount of their loans in good standing with AFDB to \$554 million. However, this is, at best, only a temporary solution if these countries are not creditworthy.

At the end of 1993 there were 27 countries in arrears but about 83 percent of those arrears (\$550 million) were accounted for by only 5 countries. By the end of 1994, 22 countries were in arrears but only three countries accounted for about 87 percent of total arrears (\$552 million). According to Bank officials, some countries experienced arrears due to temporary cash flow problems or technical transaction delays. However, there are about ten countries, many experiencing serious civil strife, accounting for the most serious and long overdue arrears, including Angola, Liberia, Somalia, Sudan, Zaire, and others.

Bank efforts to restructure non-performing loans are consistent with efforts to improve overall Bank operations. However, as the Bank has noted, recent initiatives to restructure the lending portfolio, such as for Congo and Cameroon, provide only a temporary and partial solution to the arrears problem.

GAO Donor Aid, Beyond Paid-in Capital,
Helps Finance AFDB

- AFDB lending entails additional costs to donors.
 - Direct donor aid helps borrowers pay arrears.
 - International aid and bilateral debt rescheduling facilitates borrower repayments.
-

AFDB operates in a risky environment which includes numerous highly indebted low-income countries. Some of the associated costs of AFDB lending are paid for by donor assistance to the Banks' borrowers. In some instances, bilateral donors and other international financial institutions provide aid to AFDB's borrowers to help pay arrears. According to two Executive Directors, their governments paid the arrears of several countries as part of bilateral aid packages. According to an AFDB document, donor contributions were used to eliminate or reduce the arrears of Central African Republic, Niger, Uganda, and Sao Tome. The restructuring of the Congo portfolio, and the clearing of its arrears, was part of a \$2.4 billion dollar recovery package, that included financing by the International Monetary Fund, the World Bank, the European Union, and international rescheduling of loans.

GAO AFDB Financial and
Management Reforms

- Reduction in lending and borrowing
 - Increases in reserves
 - Stricter arrears policies
 - Reduced liquidity but can cover near-term needs
 - Restructuring proposals to shift to country focused operations reduce top heavy management
-

In 1993 and 1994, AFDB implemented a number of management and financial reforms. These are steps in the right direction, but their full implementation and impact are yet to be realized. For example, the Executive Directors agreed to reduce 1995 lending to AFDB members to \$1.2 billion and AFDB net borrowings from capital markets to \$526 million. The Bank also tripled its reserves, including loan loss provisions, from about \$300 million to about \$1.1 billion at the end of 1994. However, the Bank still fell below its target of 15 percent of reserves to outstanding loans.

The Bank has also taken steps to deal with its arrears. Non-accrual status now starts at 6 months after the due date instead of 12. Billings are more frequent and penalties have been strengthened. It has also initiated having other international financial institutions, such as the World Bank, include penalties under their loans when borrowers are in arrears to the AFDB.

From 1988 through 1992 the Bank's liquidity—cash and short-term investments such as Treasury bills—available at the end of the year grew from \$1.7 billion to \$2.7 billion. By the end of 1994 liquidity had declined to \$2.2 billion, partly because of a decision to retire some AFDB debt ahead of schedule (see appendix I, cash flow analysis). To further reduce future borrowing, AFDB lowered the liquidity ratio from 2 to 1.5 times the following year's anticipated loan disbursements, which were about \$927 million in 1994. The planned draw down in liquidity was initiated in 1993 because of the Bank's worsening financial situation and the need to limit further borrowing and lending.

In early 1995, AFDB's Executive Board approved a set of management reforms to (1) shift to a comprehensive country focused operating structure, (2) reduce top heavy management by eliminating senior management positions, and (3) consolidate staff and offices. AFDB is also taking steps to improve oversight and monitoring of its activities. The Bank states that it has improved performance monitoring by implementing a program of country-level portfolio reviews and increasing compliance with project completion reporting.

GAO Non-Regional Members' Influence Is Limited

- Regional members, the Bank's borrowers, have the most influence over policies, procedures and operations.
 - Non-regional members are the financial strength behind the Bank.
 - Non-regionals are outvoted.
-

Regional members retain two-thirds share of the capital subscriptions and voting shares, which gives them control over Bank policies and lending operations. While this approach was established to ensure the Bank remained an African institution after non-regional members were admitted beginning in 1982, it limits the influence of non-regional members who are the principal financial strength behind the Bank. Rating agencies emphasize the continued commitment and support of the non-regional members in giving AFDB its AAA credit rating. The world capital markets also look primarily to the non-regionals to back up the Bank's borrowings. This is demonstrated by the Bank's maintenance of its borrowings within the total callable capital of higher rated non-regional members, plus paid-in capital in convertible currencies, and reserves.

Non-regional members, however, hold only about one-third of the voting shares. Because of this minority share, non-regionals cannot prevent loan approvals they consider economically unsound. Since 1992, the United States has attempted unsuccessfully to block 11 loans, worth \$953 million, based on economic and financial concerns. The United States as well as other non-regional members expressed concern over the need for clear and unambiguous criteria for determining country eligibility to borrow hard loans from the Bank and the need to address related governance issues within that institution.

GAO **Stalemate in Credit Policy Illustrates
Decision-Making Impasse**

- Regional and Non-regional Bank Governors agree to new lending guidelines (Oct. 94).
 - Regional executive directors contravene agreement by passing liberal policy unanimously opposed by Non-regional Directors (Nov. 94).
 - Non-regional members respond by withholding replenishment (continuing at Apr. 95).
-

The current dispute over the Bank's lending policy offers a telling illustration of how the imbalance between risk and voting power plays out in the Bank's decision-making process. In October 1994, in Madrid, Spain, the United States and other donors achieved an accord with regional members to curtail near-market rate lending to less creditworthy countries. In November 1994, however, the Bank's Board of Executive Directors passed a resolution concerning a credit policy that was not only more liberal than the one agreed to by the Governors, but that was also unacceptable to every non-regional executive director. The non-regional executive directors shared the U.S. position that the more liberal policy would allow less creditworthy countries to borrow from the Bank's hard window, thus weakening the financial viability of the Bank. This position was taken despite the reduced, but still continuing, lending to such borrowers in recent years. The dispute between regional and non-regional executive directors had not been resolved as of mid-April, 1995.

The continuing stalemate over the credit policy has serious implications for the Bank. The United States and the other non-regional shareholders responded by conditioning the replenishment of the African Development Fund, the Bank's soft loan window, (currently under negotiation) on adoption of a credit policy consistent with the October 1994 accord reached in Madrid. Representatives of non-regional shareholders have also stated that future discussions concerning the Bank's capital adequacy can not be started until conditions improve.

GAO U.S. Policy

Bank's weaknesses must be addressed before U.S. participates in negotiations for a general capital increase.

According to Treasury Department officials and correspondence the U.S. position is that there must be a satisfactory resolution of the credit policy issue that faithfully reflects the Madrid understanding before concluding negotiations on the replenishment of the African Development Fund. Further, the United States will not participate in future general capital increase negotiations in the absence of fundamental reforms in the Bank's operations and governance.

Tables on AFDB Financial Status

AFRICAN DEVELOPMENT BANK

Subscribed Capital Shares

As of 12/31/94

(In Million of \$)

	Callable Capital	Paid-in Capital	Total Capital	Percent
Regional Members				
Nigeria	2,040.62	291.50	2,332.12	10.52%
Egypt	1,175.69	167.96	1,343.65	6.06%
Libya	839.62	119.94	959.56	4.33%
Morocco	759.78	108.54	868.32	3.92%
Algeria	694.17	99.17	793.34	3.58%
Zaire	637.84	77.66	715.50	3.23%
Other Regionals	<u>6,521.56</u>	<u>890.70</u>	<u>7,412.26</u>	<u>33.43%</u>
Total Regionals	12,669.28	1,755.47	14,424.75	65.06%
Non-Regional Members				
United States	1,142.62	163.24	1,305.87	5.89%
Japan	941.47	134.50	1,075.97	4.85%
Germany	706.74	100.96	807.71	3.64%
Canada	643.79	91.97	735.76	3.32%
France	643.79	91.97	735.76	3.32%
Other Non-Regionals	<u>2,700.50</u>	<u>385.79</u>	<u>3,086.30</u>	<u>13.92%</u>
Total Non-Regionals	6,778.93	968.44	7,747.37	34.94%
Total	19,448.21	2,723.90	22,172.11	100.00%
Percent	87.71%	12.29%	100.00%	

Note: The above table lists members with a capital share of 3 percent or more. The other 45 regional members (for a total of 52) range from .027 percent of capital for Equatorial Guinea to 2.98 percent for Cote d'Ivoire. The other 17 non-regionals (for a total of 24) range from .17 percent of capital for Saudi Arabia to 2.14 percent for Italy.

The amounts in this table are based on year-end currency conversion rates. The amounts for the United States as actually approved by Congress and subscribed at a fixed rate are \$135 million for paid-in capital and \$944 million for callable capital.

Appendix I
Tables on AFDB Financial Status

African Development Bank
Balance Sheet - Five Year Summary
As of December 31, 1990 - 1994
(Amounts in Millions of \$)

	1990	1991	1992	1993	1994
Assets					
Due from Banks	424.59	456.98	241.44	333.05	228.61
Demand Obligations	1.49	0.70	0.73	0.00	0.00
Investments	2,019.27	2,212.85	2,424.62	2,163.51	2,008.97
Non-negotiable Instruments	521.32	524.87	477.04	432.07	388.60
Accounts Receivable	302.32	325.95	411.11	425.57	393.91
Outstanding Loans	4,711.99	5,947.41	7,041.13	8,306.56	9,737.45
Equity Participation	175.07	179.29	182.64	189.98	201.84
Other Assets	<u>93.10</u>	<u>98.24</u>	<u>95.08</u>	<u>97.01</u>	<u>80.39</u>
	<u>8,249.15</u>	<u>9,746.29</u>	<u>10,873.79</u>	<u>11,947.75</u>	<u>13,039.77</u>
Special and Trust Funds	<u>414.53</u>	<u>442.23</u>	<u>451.67</u>	<u>473.19</u>	<u>502.83</u>
Total	8,663.69	10,188.52	11,325.46	12,420.94	13,542.61
Liabilities, Capital & Reserves					
Accounts Payable	438.58	451.93	368.45	408.57	483.18
Borrowings	5,064.10	6,291.72	7,317.53	8,180.57	8,907.96
Grants	25.68	28.74	22.08	18.50	20.85
Accumulated Provision for					
Loan Losses	35.25	64.15	121.98	207.67	292.12
Paid-in Capital Subscriptions	2,495.93	2,623.55	2,523.62	2,565.11	2,724.21
Arrears on Subscriptions	(120.33)	(130.01)	(20.39)	(18.89)	(16.89)
Cumulative exchange adjustment					
on Subscriptions	(301.25)	(319.17)	(327.44)	(355.01)	(422.41)
Reserves	819.31	979.67	1,104.03	1,213.54	1,369.88
Cumulative currency translation					
adjustment	<u>(208.12)</u>	<u>(244.29)</u>	<u>(236.06)</u>	<u>(272.31)</u>	<u>(319.12)</u>
	<u>8,249.15</u>	<u>9,746.29</u>	<u>10,873.79</u>	<u>11,947.75</u>	<u>13,039.77</u>
Special and Trust Funds	<u>414.53</u>	<u>442.23</u>	<u>451.67</u>	<u>473.19</u>	<u>502.83</u>
Total	8,663.69	10,188.52	11,325.46	12,420.94	13,542.61
Financial Indicators/Ratios					
Average return on liquid funds (%)	7.81	8.60	8.28	7.65	2.10
Average cost of borrowings (%)	7.32	7.35	7.50	7.14	7.50
Average return on loans (%)	9.14	8.25	8.75	7.85	8.66
Total debt/Total Callable					
Capital (%) (80.00)*	23.13	27.02	33.13	39.51	45.80
Senior debt/Callable Capital of					
non-borrowing members (%) (80)	37.10	42.78	49.53	59.68	71.19
Debt/Equity ratio (%)	233.99	263.82	285.09	302.94	302.18
Reserve/Loan ratio (Note 1) (0.1	0.13	0.12	0.12	0.11	0.14
Reserve/Debt ratio (%)	12.07	11.69	11.86	11.51	11.81
Disbursements	\$ 1,249.78	1,473.89	1,460.02	1,434.30	1,460.26
UA	879.48	1,030.38	1,061.83	1,044.22	1,000.28

* Indicates parameters

Note 1: From 1993 the Reserve/Loan ratio incorporated the general loan loss provision as cc to the previous years ratios which were computed without the specific loan loss provision.

Appendix I
Tables on AFDB Financial Status

African Development Bank
Financial Highlights - Five Year Summary
(As of December 31, 1990 - 1994)
(Amounts in Millions of \$)

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Income & Expenditure Account					
Operational Income & Expenses					
Income from Loans	385.97	440.99	557.93	601.95	804.10
Income from Investments	<u>182.02</u>	<u>220.44</u>	<u>216.74</u>	<u>197.41</u>	<u>51.31</u>
Total Operational Income	567.98	661.43	774.68	799.36	855.41
Interest on Borrowings	(328.85)	(409.66)	(490.06)	(544.16)	(650.19)
Provision for Loan Losses	(20.66)	(28.31)	(57.53)	(82.11)	(73.71)
Amortization of Issuance Costs	<u>(7.65)</u>	<u>(8.48)</u>	<u>(11.03)</u>	<u>(8.75)</u>	<u>(9.50)</u>
Net Operational Income	<u>210.82</u>	<u>214.98</u>	<u>216.05</u>	<u>164.33</u>	<u>122.01</u>
Other Income and Expenses					
Administration Expenses	121.98	122.69	137.75	134.14	129.36
Management Fees	<u>(81.82)</u>	<u>(78.63)</u>	<u>(87.22)</u>	<u>(79.67)</u>	<u>(81.09)</u>
	40.16	44.06	50.53	54.48	48.25
Other Income	(2.02)	(3.62)	(4.85)	(2.53)	(18.10)
Depreciation	4.97	6.07	7.11	7.82	5.43
Loss (gain) on Exchange	0.67	0.29	0.39	(0.54)	(0.28)
Other Provisions	<u>0.00</u>	<u>7.51</u>	<u>0.56</u>	<u>3.35</u>	<u>6.60</u>
Total Other Expenses	<u>43.78</u>	<u>54.30</u>	<u>53.74</u>	<u>62.58</u>	<u>41.90</u>
Net Income before cumulative effect of accounting policy change	167.05	160.68	162.32	101.75	80.12
Effect of accounting policy change				8.91	
Appropriation to Special Reserve	<u>(29.05)</u>	<u>(29.60)</u>	<u>(31.96)</u>	<u>(27.38)</u>	<u>(36.73)</u>
Net Income after appropriation to Special Reserve	138.00	131.08	130.36	83.29	43.37
Financial Indicators/Ratios					
Increase (decrease) in Loan Income	12.39	13.63	31.62	8.00	25.69
Increase (decrease) in Investment Income	29.11	20.45	2.28	(8.82)	(75.54)
Increase (decrease) in interest expense	24.68	23.90	24.45	11.16	12.42
Increase (decrease) in other expenses	8.77	23.37	2.95	16.58	(37.01)
Increase (decrease) in net operational income	0.37	1.42	4.55	(23.86)	(30.14)
Loan Income/interest expense ratio	1.17	1.08	1.14	1.11	1.24
Increase (decrease) in Net Income before appropriation to Special Reserve (%)	(1.63)	(4.33)	5.09	(31.75)	(31.88)
Interest coverage ratio (x) (1.25)*	1.52	1.40	1.34	1.19	1.13
*Indicates parameters					
Supplementary Disclosures					
Principal of Non-performing Loans	257.76	690.30	592.75	950.57	835.76
As a percent of Loans Outstanding	5.47	11.61	8.42	11.44	8.58
Non-accrued income	31.54	63.11	50.55	107.45	109.97
Less Recoveries on prior years	<u>0.00</u>	<u>12.44</u>	<u>4.24</u>	<u>0.00</u>	<u>102.45</u>
Equals net reduction in income	31.54	50.67	46.31	107.45	7.52

Appendix I
Tables on AFDB Financial Status

AFRICAN DEVELOPMENT BANK							
Cash Flow Analysis							
(in millions of \$)							
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
A. Net Cash Used in lending & Development Activities	(624.77)	(816.22)	(1,028.06)	(1,229.13)	(1,180.37)	(1,081.12)	(922.20)
B. Net Cash from Operations	69.72	102.04	246.39	224.06	147.55	209.36	275.37
C. Gain (Loss) from Foreign Exchange, Swaps, & Grants	<u>20.05</u>	<u>(33.70)</u>	<u>(33.49)</u>	<u>34.22</u>	<u>(269.42)</u>	<u>(36.73)</u>	<u>54.42</u>
D. Cash (Deficiency) A+B+C	(535.00)	(747.88)	(815.16)	(970.85)	(1,302.24)	(908.49)	(592.41)
Financing:							
E. Net Borrowings - Composed of:	<u>750.71</u>	<u>931.63</u>	<u>905.40</u>	<u>1,084.31</u>	<u>1,268.19</u>	<u>656.09</u>	<u>111.44</u>
New Issues	764.82	1,112.99	934.42	1,268.78	1,644.20	854.31	724.17
Repayments on Borrowings	(14.10)	(181.35)	(29.02)	(184.47)	(376.01)	(198.22)	(612.73)
F. Equity used - Cash From Capital Subscriptions	<u>122.12</u>	<u>157.94</u>	<u>138.33</u>	<u>98.36</u>	<u>133.77</u>	<u>84.95</u>	<u>65.15</u>
G. Total (E+F)	872.83	1,089.57	1,043.72	1,182.67	1,401.96	741.05	176.60
H. Increase (Decrease) in Cash and Investments (D+G)	337.84	341.69	228.56	211.82	99.73	(167.44)	(415.81)
I. Cash - End of Year	1,746.99	2,047.74	2,445.37	2,670.54	2,666.79	2,496.56	2,237.59

Appendix I
Tables on AFDB Financial Status

AFDB LOAN PORTFOLIO RISK EXPOSURE

IBRD Only (A) & Blend (B) Borrowers

(Amounts in \$ Millions)

<u>Borrower</u>	IBRD /IDA Rank	Low Income Debt Rank			Middle Income Debt Rank			<u>As of Dec. 31, 1994</u> Loans		<u>Severely Indebted</u>	
		S	M	L	S	M	L	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
		<u>Outstanding</u>		<u>Severely Indebted</u>							
Algeria	A				S			566.83	5.82%	566.83	5.82%
Botswana	A						L	153.07	1.57%		
Cameroon	A				S			317.17	3.26%	317.17	3.26%
Congo	A				S			237.21	2.44%	237.21	2.44%
Egypt	B	S						673.25	6.91%	673.25	6.91%
Gabon	A					M		368.06	3.78%		
Mauritius	A						L	29.56	0.30%		
Morocco	A				S			1,444.96	14.84%	1,444.96	14.84%
Nigeria	B	S						1,255.49	12.89%	1,255.49	12.89%
Seychelles	A						L	25.28	0.26%		
Swaziland	A						L	25.15	0.26%		
Tunisia	A					M		1,200.48	12.33%		
Zimbabwe	B		M					313.60	3.22%		
Total IBRD Only & Blend Borrowers								6,610.11	67.88%	4,494.91	46.16%
<u>Borrower</u>											
Multinational								121.11	1.24%		
Private Sector								14.93	0.15%		
Total								136.04	1.40%		

AFDB LOAN PORTFOLIO RISK EXPOSURE

Based on World Bank Lending Criteria

(Amounts in \$ Millions)

As of Dec. 31, 1994

<u>Category</u>	<u>Loans</u>			
	<u>Outstanding</u>		<u>Severely Indebted</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Total IDA Only Borrowers	2,991.31	30.72%	2,538.97	26.07%
Total IBRD Only & Blend Borrowers	6,610.11	67.88%	4,494.91	46.16%
Multinational & Private Sector	<u>136.04</u>	<u>1.40%</u>	<u>0.00</u>	<u>0.00%</u>
Total All Borrowers	9,737.46	100.00%	7,033.88	72.24%

Appendix I
Tables on AFDB Financial Status

AFDB LOAN PORTFOLIO RISK EXPOSURE

IDA Only Borrowers (C)

(Amounts in \$ Millions)

Borrower	IBRD /IDA Rank	Low Income Debt Rank			Middle Income Debt Rank			Loans Outstanding		Severely Indebted	
		S	M	L	S	M	L	Amount	Percent	Amount	Percent
		As of Dec. 31, 1994									
Angola	C				S			51.68	0.53%	51.68	0.53%
Benin	C			L				0.70	0.01%		
Burkina Faso	C			L				19.74	0.20%		
Burundi	C	S						27.07	0.28%	27.07	0.28%
Cape Verde	C						L	7.97	0.08%		
Cent. Afr. Rep.	C	S						7.30	0.07%	7.30	0.07%
Comores	C		M					9.69	0.10%		
Cote d'Ivoire	C				S			856.20	8.79%	856.20	8.79%
Eq. Guinea	C	S						4.95	0.05%	4.95	0.05%
Ethiopia	C	S						129.08	1.33%	129.08	1.33%
Gambia	C		M					10.07	0.10%		
Ghana	C	S						193.19	1.98%	193.19	1.98%
Guinea	C		M					134.99	1.39%		
Guinea Bissau	C	S						9.31	0.10%	9.31	0.10%
Kenya	C	S						146.53	1.50%	146.53	1.50%
Lesotho	C			L				27.82	0.29%		
Liberia	C	S						58.83	0.60%	58.83	0.60%
Madagascar	C	S						65.96	0.68%	65.96	0.68%
Malawi	C		M					26.22	0.27%		
Mali	C	S						1.49	0.02%	1.49	0.02%
Mauritania	C	S						80.07	0.82%	80.07	0.82%
Mozambique	C	S						55.42	0.57%	55.42	0.57%
Niger	C	S						1.31	0.01%	1.31	0.01%
Rwanda	C	S						0.54	0.01%	0.54	0.01%
Senegal	C				M			212.38	2.18%		
Sierra Leone	C	S						0.00	0.00%	0.00	0.00%
Somalia	C	S						5.53	0.06%	5.53	0.06%
Sudan	C	S						58.04	0.60%	58.04	0.60%
Tanzania	C	S						15.40	0.16%	15.40	0.16%
Togo	C		M					2.74	0.03%		
Uganda	C	S						34.67	0.36%	34.67	0.36%
Zaire	C	S						522.41	5.36%	522.41	5.36%
Zambia	C	S						<u>214.00</u>	<u>2.20%</u>	<u>214.00</u>	<u>2.20%</u>
Total IDA Only Borrowers								2,991.31	30.72%	2,538.98	26.07%

Note: -- IBRD/IDA Rank refers to the eligibility of a country to borrow from the World Bank. Countries ranked as "A" are those who can only borrow from the hard loan window. Those ranked as "B" can borrow from either that or the soft loan window - the International Development Association (IDA). Those ranked "C" can borrow only from IDA, per September 1993 World Bank criteria.

-- Income categories are those set out in the World Bank's World Development Report, 1994. Low income are those countries with a 1992 per capita income of \$675, while the middle income range is from \$676 to \$8,355.

-- Standards of indebtedness are also those contained in the World Development Report, 1994. Severely indebted countries are ranked "S", moderately indebted "M", and less indebted "L", based on debt and debt service criteria.

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