AFRICAN DEVELOPMENT BANK GROUP

The African Development Bank Group Response to the Economic Impact of the Financial Crisis

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ABBREVIATIONS

ADF	African Development Fund
AfDB	African Development Bank
AsDB	Asian Development Bank
ATIA	African Trade Insurance Agency
CAR	Central African Republic
CFAF	CFA Francs
CIS	Community of Independent States
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DFI	Development Finance Institution
DRC	Democratic Republic of Congo
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
ELF	Emergency Liquidity Facility
FDI	Foreign Direct Investment
FI	Financial Institution
GDP	Gross Domestic Product
GNI	Gross National Income
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Financial Institutions
IFL	IBRD Flexible loans
IMF	International Monetary Fund
LC	Letter of Credit
LOC	Line of Credit
LPGS	Liquidity Program for Growth and Sustainability
MDB	Multilateral Development Bank
MTR	Mid-Term Review
ODA	Official Development Assistance
ORRU	Partnerships and cooperation Unit
PBA	Performance-based Allocation
PSD	Private Sector Development
RMC	Regional Member Countries
SACU	Southern Africa Custom Union
SDPL	Special Development Policy Loan
SDR	Special Drawing Rights
SLF	Short-Term Liquidity Facility
SME	Small and Medium Enterprises
SPL	Special Program Loan
TA	Technical Assistance
TF LOC	Trade Finance Line of Credit
TF	Trade Finance
TFFP	Trade Finance Facilitation Program
TFI	Trade Finance Initiative
UA	Unit Account
UMA	Uganda Manufacturers Association
UN	United Nations

USA	United States of America
USD	United States Dollars
WTO	World Trade Organization

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EXECUTIVE SUMMARY

1. Management prepared a discussion paper for the Board containing proposals for the African Development Bank Group's response to the impact of the crisis, including accelerated support to RMCs. This framework encompassed three initiatives, namely the establishment of an Emergency Liquidity Facility, a Trade Finance Initiative and various actions to be taken to accelerate and increase support to and resources for ADF countries.

2. Recent trends in global financial markets, in particular the rapidly diminishing availability of capital experienced worldwide, are having an increasingly adverse impact on African countries and on the Bank's clients. Some of the Bank's recent operations have witnessed the withdrawal of commercial partners; African financial institutions have seen their foreign credit lines cancelled; and regional member countries (RMCs) are now unable to raise funds in international capital markets at reasonable cost. These recent developments highlight the need to enhance the flexibility of the Bank's instruments to adapt to the changing environment. This paper outlines a proposal for a USD 1.5 billion Emergency Liquidity Facility (ELF) designed to alleviate the current liquidity crunch faced by the Bank's clients.

3. The ELF would be an exceptional multi purpose facility providing financial support to AfDB eligible countries and non sovereign operations in all RMCs that are suffering from lack of liquidity due to the global financial crisis. Eligibility would be extended to a broad range of beneficiaries including MICs and/or their Central Banks, public and private finance institutions and corporations in all RMCs. The facility will provide bridge financing, with a recommended fast track approval process. However, to safeguard and enhance the impact of the facility's resources, strict eligibility criteria will be applied to limit its access to clients facing short term and unexpected funding requirements resulting from the financial crisis.

4. ELF financing terms, conditions and modalities would be determined taking into account the need to maintain the financial soundness of the Bank, the short term emergency nature of the product and the terms established by other International Financial Institutions (IFIs) for similar facilities.

5. ELF Board approval will not only address the needs of RMCs, FIs and projects under financial distress as a cause of the crisis, but it will also enhance the Bank's credibility as a partner playing a critical role in the face of the impact of the financial crisis on African economies.

6. According to World Trade Organization statistics there has been a steady increase in trade flows into and out of Africa over the past few years. However, the financial crisis, which began to hit the trade finance markets in 2008, is expected to cause a sharp slow-down in trade in 2008 and 2009. The IMF recently indicated that the tightening of global credit has reduced capital inflows and curtailed the availability of trade finance. Africa's Ministers of Finance stressed during the November meeting in Tunis and reiterated in their January working group meeting in Cape Town that a sudden shortage of trade finance is already having a very detrimental impact on their economies.

7. This paper formalizes Management's proposal to establish a USD 1 billion Trade Finance Initiative that will be implemented in phases as the Bank develops the necessary capacity.

8. As the first phase of the TFI, the Bank proposes to introduce a new trade finance line of credit (TF LOC) that will allow African commercial banks and DFIs to use ADB resources to support trade finance operations. The terms and conditions of the TF LOC are adapted to the short-term nature of the trade finance business. The TF LOC is expected to attract strongest demand from specialized trade finance institutions such as Afreximbank and Tier II and Tier III commercial banks.

9. The TF LOC complements the Bankôs classical LOC product for long-term project and corporate on-lending. Therefore the Bank will also introduce a ñmulti-purposeò line of credit product that enables the borrower to use the proceeds for trade finance as well as long-term project and corporate finance operations. The ñmulti-purposeò LOC is expected to appeal specifically to Tier I commercial banks and DFIs that primarily need the Bankôs resources for long-term on-lending but also face occasional short-term shortages of financing for trade finance operations. Commercial banks and DFIs that have undisbursed balances on classical LOCs approved in the past will also be allowed to use these remaining resources to support their trade finance activities.

10. In the second phase of the TFI, the Bank will examine the feasibility of introducing products and services that provide more comprehensive assistance for trade finance and facilitation along the lines of the programs developed by the IFC and other regional MDBs. These programs generally focus on guarantee-like instruments that substitute the strong creditworthiness of the MDB for the weaker local bank financing the trade operation. The Bank has engaged the services of a trade finance expert to study African market needs and the operations of other MDBs. This study will serve as the basis for the Bank to propose new trade finance products and services in the future.

11. Preliminary indications from a recent assessment of all countries reveal that the full impact of the crisis is being felt with a time lag in low income countries compared to the other countries. Countries will likely need ADF support over time in the following areas: (i) budget support to offset shortfalls due to falling commodity prices, exports, terms of trade, and tourism; (ii) infrastructure financing for in key long-term development oriented infrastructure projects; and (iii) supporting PSD through leveraging of ADF.

12. As Africaôs leading development finance institution, the Bank is in a unique position to play the role of policy advocacy on the continent, given its location on the African landscape, its mandate and its expertise on Africa. It has at its disposal several avenues through which it can enhance its policy advocacy role.

I. INTRODUCTION

1.1 The ongoing financial crisis, coming on top of the recent oil and food price volatility, poses a challenge for Regional Member Countries (RMCs) of the Bank. Already its impact is being felt on African equities, currencies, exports and difficulties in accessing capital and trade finance, lower revenues, fiscal retrenchment and capital projects which risk being suspended. The impact will increase as the full extent of the global slowdown becomes evident. The gains of the past decade are at risk.

1.2 The financial and business implications for African countries resulting from the direct and indirect effects of the financial crisis are yet to be entirely obvious. The current situation is characterized by reduced private capital flows, lower foreign direct investment as investors and lenders face liquidity shortages and avoid markets that are perceived to be riskier, and widening credit spreads in the international capital markets making it difficult to issue bonds. Remittances will decline.

1.3 It is already evident in some RMCs that fixed capital formation and infrastructure development in particular is being delayed or canceled as a result of the liquidity crunch. Trade is being stifled by the absence of trade credit. There is already increased demand for financial support from the Bankȏs borrowing member countries.

1.4 This report presents a framework for the African Development Bankȏs response to the financial crisis and its accelerated support to RMCs. The paper has the following structure. Section II details a proposal for the establishment of an Emergency Liquidity Facility. Section III presents a proposal on a Trade Finance Initiative. Section IV outlines an Action Plan for increased Assistance to ADF Countries, section V presents an initiative to enhance the Bankȏs Policy Advocacy role in RMCs and section VI presents Managementȏs recommendations. Management is also providing two information notes which provide useful background information. These two informational notes are on the economic implications of the crisis and a financial impact assessment of the Bankȏs response to the Crisis..

II. PROPOSAL FOR AN EMERGENCY LIQUIDITY FACILITY

2.1 INTRODUCTION

2.1.1 The sharp reduction in international financial flows, resulting from the global loss of confidence has also led to the emergence of urgent liquidity needs in many RMCs. Currently, large international commercial banks are still in the process of deleveraging and international debt capital markets are almost closed although financing is available with steep premiums over labor.

2.1.2 Many governments are facing disruptions in the developmental prospects of their economies and yet must continue to sustain growth rates in order to avert exacerbating their post-crisis situation. Domestic financial institutions have seen their foreign credit lines dry up, thereby significantly affecting their ability to participate in project financing with governments and private sponsors. Existing projects and projects currently under preparation, particularly large scale infrastructure projects, are exposed to potential financial difficulties with the withdrawal of some commercial partners. Yet, infrastructure remains a key development priority of RMCs, not only for the provision of basic services and promotion of a competitive environment but also as an engine of economic growth.

2.1.3 The Bank, like most MDBs, has been called upon by the G20 and by the African Ministers' declaration in their communiqué following their meeting on November 12th 2008 in Tunis, to use its full capacity to provide timely, targeted and temporary response to the crisis. There was a specific request for innovation in lending tools, financial products and financing mechanisms and for a review of existing instruments to provide more flexible forms of financing.

2.1.4 The establishment of an Emergency Liquidity Facility (ñELFò or the ñFacilityò), tentatively set at USD 1.5 billion will allow eligible beneficiaries, in a fast turnaround time, to meet short term, urgent and unexpected funding requirements resulting from the global financial crisis.

2.2 CONCEPT AND RATIONALE

2.2.1 Challenging Environment. The sheer magnitude and depth of the global financial crisis justifies the need for an ELF at the Bank. Africa will progressively be adversely affected by falling demand for commodities, reduced foreign investment, remittances, tourism and taxes. The Bank has estimated that Africa will grow at an estimated rate of 3.2% in 2009 from an average of 6% in recent years, with Sub Sahara Africa (SSA) growing at 2.6%. The ELF will enhance AfDBôs credibility as a partner in a position to provide support to countries, institutions and projects in Africa in the face of a severe liquidity crunch. The Bank will learn valuable lessons from the establishment of this facility and will be better prepared to deal with future market disruptions.

2.2.2 Need for a New Instrument. The AfDB has numerous financial instruments which enable it to assist eligible borrowers to obtain financing under normal funding conditions. However, it needs to have in its repertoire innovative instruments which would allow it to meet RMCs diverse and evolving requests for support under extraordinary crisis situations. This new facility will address urgent liquidity requirements of AfDB clients facing financial difficulties as a result of the withdrawal of international investors, cancellations of credit lines to FIs, closure of debt and equity markets. Hence, the ELF will provide AfDB with the flexibility to respond to exceptional circumstances that demand large-scale crisis support while minimizing the potential impact on normal Bank operations. Ideally, this instrument will bridge funding gaps until normal funding conditions are restored.

2.2.3 New Initiatives. Unlike other MDBs which have established similar emergency crisis lending instruments to meet urgent liquidity requirements of their member countries during previous crises, this is the first time that the Bank is considering an emergency liquidity facility to address unprecedented challenges. This facility will not only complement the Bankôs existing instruments but also will fill a gap in the Bankôs toolkit. The Bank gained useful insight from the experience of other MDBs, whose facilities have either been recently reviewed or are currently undergoing a review to better deal with the current crisis. A review of these facilities is presented in the next section.

2.3 REVIEW OF OTHER MDBS EMERGENCY FACILITY INSTRUMENTS

2.3.1 The Bankôs proposed ELF will be similar to the facilities offered by other MDBs. The list of potential beneficiaries of the Bankôs ELF would be broader and the financial terms may differ. See Annex 1 for a comparative analysis of the financial terms of MDBs emergency facilities.

2.3.2 **IMF Short-Term Liquidity Facility (SLF).** This instrument is designed to help IMF members who face short-term balance of payments pressures arising from external market developments. Eligible countries should be well-integrated into global capital markets with strong macroeconomic positions and records of consistent policy implementation. Accordingly, expedited procedures are employed and no mission is required prior to Board approval. Resources under the SLF are made available in the form of outright purchases[1] from the General Resources Account (GRA) with access limited to three outright purchases per 12-month period. 500% of Quota is available in the form of outright purchases.

2.3.3 **IBRD Special Development Policy Loan.** The International Bank for Reconstruction and Development (IBRD) special sector adjustment loan (SSAL) was introduced in 1998 to provide crisis support to countries. The SSAL was transformed into Special Development Policy Loan (SDPL) and supports structural and social reforms by creditworthy borrowers approaching a possible crisis, or already in crisis, and with exceptional external financial needs. This loan helps a country to prevent a crisis or, if one does occur, to mitigate its adverse economic and social impact. The SDPL is currently undergoing another review.

2.3.4 **AsDB Special Program Loan.** The Asian Development Bankôs (AsDB) Special Program Loan (SPL), introduced in 1996, provides in exceptional circumstances large-scale lending to countries affected by a crisis. The SPL would typically be provided in a crisis situation where an international rescue effort is being mounted in one or more of AsDBs developing member countries (DMCs) to help restore stability. In this context, a crisis is defined as a situation in which a DMC is facing unanticipated difficulties in meeting its external and internal payment obligations. The SPL may also be provided when the crisis has significant structural dimensions and is likely to have significant negative social impact. Disbursements for SPLs are typically provided to stem the reversal in private capital flows.

2.3.5 **IADB Liquidity Program for Growth Sustainability.** The Inter-American Development Bank (IADB) introduced a one year Emergency Lending Program of US$ 9 billion in 1998, to mitigate the effect of sudden reversals in capital flows that were threatening the progress of economic and social development in the Latin American and Caribbean region. The terms and conditions were similar to those of the IBRDôs SSAL described above. The $6 billion Liquidity Program for Growth Sustainability (LPGS), announced in late 2008, forms part of this original program and will be provided to member governments or central banks. The aim is for the funds to be made available to domestic firms via commercial banks that may face transitory difficulties in accessing foreign and inter-bank credit lines as a result of the financial crisis in the United States and Europe. The loan amounts would be determined by the IADB on a case-by-case analysis, with an initial cap of US$ 500 million per country. As of end of January 2009, the IADB had extended 3 loans to central banks and development banks in Costa Rica, Jamaica and El Salvador totaling more than US$1 billion.

[1] The GRA resources consist of the currencies of Fund member countries, SDRs, and gold. A member to whom the Fund makes its resources available is said to make ñoutright purchasesò (also referred to as ñdrawingsò) from the Fund.

2.3.6 **IFC facilities.** Following the advent of the financial crisis, the International Finance Corporation (IFC) has launched or expanded four facilities, comprising (i) a USD 3 billion Expanded trade finance program that provides guarantees that cover the payment risk in trade transactions with local banks in emerging markets; (ii) a USD 3 billion Bank Recapitalization Fund, a global equity and subordinated debt fund to provide Tier I and Tier II capital to emerging markets banks currently lacking alternative financing; (iii) a multi purpose Infrastructure Crisis Facility to bridge the gap in available financing for viable privately funded or public private partnership infrastructure projects in emerging markets that are facing financial distress as a result of the financial crisis and (iv) an IFC Advisory Services Fund. The Infrastructure Crisis Facility proposed in December 2008 and yet to be launched[2], will be comprised of a debt financing trust, an equity facility and an advisory services financial crisis response. Terms for the facility include the provision of 3-7 year tenors to address roll over risks and to substitute for temporarily unavailable commercial funding in existing projects and longer tenors for new projects in the pipeline. Pricing is at a premium to pre-crisis terms which were available.

2.4 STRUCTURE AND OPERATIONAL MODALITIES OF THE FACILITY

2.4.1 **Proposal.** The AfDB proposes to establish a multipurpose Emergency Liquidity Facility to provide in exceptional cases financial support beyond anticipated levels to the Bankǿs eligible clients.

2.4.2 **ELF design.** ELF design is based on three broad guiding principles:

i. *Stringent eligibility criteria* are necessary to safeguard and enhance the impact of the facilityǿs resources. Access to the facility should be limited to clients facing short term, urgent and unexpected funding requirements resulting from the financial crisis rather than other long-term funding weaknesses.

ii. *The facility is multipurpose.* Given the diversity of potential beneficiaries, the facility can be used to meet a broad range of obligations. It will apply to all Bank existing operations or operations from other IFIs that are at risk or face delays or cancellation due to emerging financing gaps caused by withdrawing commercial funders who are unable to access capital as a result of the liquidity squeeze.

iii. *Fast and flexible product.* The facility is a bridge funding type of instrument, with a recommended fast track approval process, as described in sections 5.2 and 5.3 below. Proceeds of each financing should be quick disbursing, and expedited procedures applied with a quick turnaround time.

2.4.3 **Size.** The facility is tentatively set at 1.5 billion USD, but subject to review on the basis of actual demand. It will function as a revolving facility, disbursed in USD or Euro. Preliminary estimates indicate that the facility could be allocated equally between sovereign and non sovereign transactions over the 2009-2010 period.

[2] For more information on IFC facilities go to
http://www.ifc.org/ifcext/about.nsf/AttachmentsByTitle/IssueBrief_ICF/$FILE/IssueBrief_ICF.pdf

2.4.4 **Eligibility Criteria.** The ELF has a broad range of eligible beneficiaries including but not limited to existing sovereign and non sovereign clients in ADB countries and non sovereign clients in ADF countries. Eligibility could also be extended to non-Bank clients provided that they are already receiving assistance from other IFIs whose due diligence is similar to that of the Bank. Consistent with the Bankôs credit policy, sovereign clients in ADF countries are not eligible to the ELF. The broad outreach in terms of ELF eligible beneficiaries will include the following:

i. *Public and Private Financial Institutions (FIs).*One of the most significant and visible impact of the unfolding global financial crisis is a severe liquidity squeeze that affects all AfDB client countries alike. African public and private financial institutions (FIs) are confronted with increasing difficulties in sourcing domestic and international funding as access to debt capital markets and to equity markets has nearly disappeared. This has the effect of constraining the productive sector's ability to sustain the countryôs economic growth. Even when such financing is possible, it comes at a steep spread relative to historical borrowing rates and for shorter maturities. The facility could help existing client intermediaries with a proven market access preceding the crisis and a large presence in domestic and regional economies, to ensure that the flow of short and medium term funding to the real economy remains uninterrupted.

ii. *Public and Private Corporations.* The Bank will focus on those corporations sponsoring projects funded by the Bank and in line with its strategic objectives, notably in infrastructure, public utilities, industry, mining, or tourism. There must be a proven financing gap due to the withdrawal of co-financiers.

iii. *RMCs.* Consistent with the emergency assistance provided by the IBRD and other regional MDBs, emergency assistance can be extended to countries to help address a variety of impacts of the international crisis on their economic and social development such as: to mitigate the effects of such crisis on the poor and most vulnerable, to stabilize funding for infrastructure services that provide basic services including Bank financed projects where the Government is facing difficulties in funding the counterpart requirements, to ensure steady flow of financing to the real economy, including, small and medium enterprises through funding to FIs.

Similar to the IADBôs facility, the ELF may be extended as an APEX line of credit to central banks, for onward lending to public and private FIs to fund final beneficiaries. Central Banks are ideally placed to assess the needs of their banking sector and also to allocate emergency funding. Additionally, the use of a central bank as an intermediary is intended to serve as a conduit to reach FIs in need of liquidity with which the Bank may not have an existing relationship and speed up the Bank response by avoiding due diligence on individual financial institutions. AfDB should appraise CB to ensure their due diligence procedures are broadly similar or consistent with the Bankôs.

2.4.5 **Use of funds.** The beneficiaries will use the facilityôs resources to finance a broad range of obligations. The resources of the ELF may be used to underpin a fiscal stimulus, support private investment or PPPs at risk, or projects that help the poor or reinforce the social fabric. However, emergency liquidity assistance to countries and central banks will be done within a coherent and internationally coordinated policy framework as discussed in paragraph 5.4 below.

2.4.6 **Country and Project Limits.** The country limit will be set at an initial cap of USD 150 million and within country limits, there will be a maximum availability of USD 50 million per eligible FI or project. Operations in line with the Bank's strategic objectives will be given priority. Terms could be reviewed on the basis of actual demand, including the total size of the facility. The final loan size is subject to the borrowerôs debt carrying capacity, balance sheet strength, management capabilities, and evidence of future cash flows earmarked to pay-off draw amount(s). In addition, the maximum total exposure requirement of the Bank will remain capped at 50% of shareholder funds for financial institutions (including outstanding exposures).

2.4.7 **Type of financial product.** Senior loan and guarantees. Although the current crisis also calls for potential recapitalization of FIs and projects, the facility will not be used to provide equity or subordinated loans. The Bank will direct the projects in such need to existing private equity funds in which it has invested.

2.4.8 **Pricing.** To encourage targeted use of the facility, the facility will be priced at a premium to pre-crisis terms previously available to the borrower. The pricing for sovereign transactions will be set at Libor plus 250 basis points plus a flat front end fee of 0.5% on the loan amount. For non-sovereign guaranteed loans, the pricing is proposed at project specific terms plus an additional liquidity premium[3]. Depending on whether the fund is disbursed in USD or Euros the base rate would be either 6 month Libor or 6 month Euribor for both sovereign guaranteed operations and non-sovereign guaranteed operations. Only floating interest rates will be offered.

2.4.9 **Maturity and Grace Period.** The maturity for sovereign and sovereign guaranteed borrowers will be 5 years with a 3 year grace period from the date of signature. For non-sovereign borrowers a maximum final maturity of up to 5 years with up to 3 year grace period is also proposed.

2.4.10 The facility will be fast disbursing to better respond to the emergency funding needs of ELF beneficiaries. The Bank will closely monitor the impact of the ELF on its statutory and policy limits, including borrowing and lending headrooms.

2.4.11 **Disbursement.** Single or multiple drawdowns are permitted.

2.4.12 **Repayment.** Semi-annual repayments after expiration of the grace period.

2.4.13 **Prepayment.** Since ELF resources are provided for financial crisis support, prepayments, if required by the borrowers changed circumstances, would be highly encouraged through the waiver of any prepayment penalties. The loan can be prepaid at any time subject to 10 working days notice (as opposed to 30 days currently).

2.4.14 **Availability period of the Facility.** The facility will be available for an initial period of 18 months from the date of approval by the Board, with the possibility of extension after assessment of market conditions and the lending environment.

2.4.15 **Summary of Terms and Conditions**

[3] Non-sovereign guaranteed transactions will be priced at a markup relative to the existing loan/original terms of the loan. This mark up is estimated at 200basis points for a 5 year facility including a 3 year grace period.

Table 1: AfDB ELF financial terms

Loan Type	Sovereign Guaranteed	Non Sovereign Guaranteed
Interest Rate	6month Libor/Euribor	6month Libor/Euribor
Liquidity Premium	250 bp	Project Specific + Risk Premium
Final Maturity	Up to 5 years	Up to 5 years
Grace Period	Up to 3 years	Up to 3 years
Front end fee	0.5% flat	1% flat
Disbursement	Single or multiple drawdown	
Repayment	Semi-annual after grace period or faster	
Prepayment	Encouraged - No prepayment penalty charged	

2.5 IMPLEMENTATION CONSIDERATIONS

2.5.1 **Implementation Modalities**. The proposed ELF will be implemented by Operations Complexes in collaboration with the Finance Complex under the oversight of Operations Committee (OpsCom).

2.5.2 **Appraisal process.** In order to abide with ELF's eligibility terms, a pre-crisis evaluation of the borrower (for both sovereign guaranteed and non sovereign guaranteed operations) should be undertaken. The evaluation should include for sovereign borrowers an analysis of the macroeconomic and financial framework. For non sovereign transactions, the structure and financial situation of the borrower prior to the start of the global financial crisis and identification of key areas of risk, solvency and short-term viability of the borrower will be analysed. In principle, there should not be any need for an appraisal mission for existing clients. The Bank's flexibility to rely on other IFI due diligence would be required during the crisis period. However, there could be instances where a due diligence may be necessary. For non sovereign operations, the established appraisal and review process will be fast tracked.

2.5.3 **Approval procedures.** Approval would be by the Board of Directors of the Bank. Given that the ELF would be a quick-disbursing facility, it is proposed that the approval process be fast-tracked by reducing the period for distribution of documents to ten (10) business days. In addition, approvals would be for a global amount in the case of eligible countries. The country may however draw down from the approved envelope in tranches. It is however not considered efficient to return to the Board for approval of each tranche to draw by the country. Such tranches would be approved by the President, on the recommendation of the Operations Committee. Information would be provided to the Board on the use of the facility, including the cumulative usage of the facility, remaining balance of funds and to the extent possible, the transactions in the pipeline.

2.5.4 **Coordination mechanisms.** The emergency assistance to countries and central banks should to the extent possible be provided within a framework of an IMF led international financing package involving other donors and financial institutions including the World Bank. Given the exogenous nature of the current shock, there could however be instances where an assessment letter from the IMF and, if possible, a recent article IV consultation letter with the IMF would suffice to ensure compliance with the requirement to have collaboration from the IMF. This modality is in line with the requirements for the similar facility recently established by the IADB.

2.5.5 **Linkage with CSP.** Given the unexpected nature of the funding requirements, the requirement for the assistance to be linked to the CSP will be waived.

2.5.6 **Exposure limits management.** The prudential exposure management guidelines in terms of single obligor, country and sector limits will be applicable. Exceptions will be considered as per existing practice.

2.5.7 **Monitoring and evaluation.** The proposed rapid response nature of the ELF will require appropriate streamlined procedures for monitoring and evaluation.

2.5.8 **Legal Procedures.** Due diligence with regard to the ELF would focus, among others on eligibility of the borrower as well as the proposed use of the resources. The transactions would be documented as sovereign guaranteed or non-sovereign guaranteed transactions depending on the type of borrower. It should be noted that the proposed tenure of the loans, which will not exceed five (5) years, would be a departure from the Bankǿs policy of providing long term debt, but is justified by the exceptional nature of the facility and the use of the resources. It also should be recalled that loans to non-sovereign entities, which would include central banks, would not necessarily be priced as sovereign transactions. Furthermore, in accordance with Article 18 (3) of the Agreement establishing the Bank (the "Bank Agreement"), the Bank where it deems it advisable may require the relevant member state or other public agency to guarantee the proposed loan.

2.5.9 **Staffing and systems implications.** The proposed facility is not expected to have major staffing or systems implications.

2.6 RISKS AND MITIGATING MEASURES

2.6.1 **Underutilization of the facility.** Given the depth of the financial crisis and increasing volatility of the relative prices of key commodities and African currencies, it is improbable that the ELF will be underutilized. However, if countries either find the financial terms too onerous or the crisis subsides earlier than currently anticipated, leading to an underutilization of the facility, the Bank has the option to terminate the facility at any time during the initial 18-month availability period.

2.6.2 **Insufficient size.** The ELF is tentatively set at 1.5 billion USD, with a country cap of USD 150 million. Given the magnitude of the crisis and the broad range of eligible beneficiaries, the facility could prove insufficient. This should prompt a review by the Board consideration with a view to increase the size of the facility, as well as country and project limits.

2.6.3 **Crowding out effect on Bank normal activities**. The ELF could have potential adverse effects on mainstream Bank operations. To ameliorate this, the terms and conditions are determined to encourage a rapid return to normal funding considerations.

2.6.4 **Use of Risk capital.** Given the unanticipated and quick disbursing nature of ELF lending, the implementation of the ELF will consume risk capital quickly. The mitigation of this risk could only come from the strengthening of the Bankøs capital position. Another risk that the Bank will contend with is the possibility that the single obligor and single country limits for small high risk ADF countries might be exceeded and hence exceptions may be required from the ALCO in line with the current non-sovereign guidelines.

2.7 CONCLUSION

2.7.1 In light of the ongoing discussion on ñResponding to the economic impacts of the financial crisisò, Board approval is sought for introducing the Emergency Liquidity Facility (ELF), which, on an exceptional basis, will equip the Bank with the capacity to disburse resources in a swift and flexible manner, to enable eligible beneficiaries to meet urgent liquidity needs that result from factors related to the crisis.

2.7.2 The ELF, tentatively estimated at USD 1.5 billion, will cater for the needs of sovereign and non sovereign clients 15 MICs in all RMCs by providing short-term liquidity to those RMCs, financial institutions and projects that are experiencing difficulties in pursuing their developmental and commercial activities because of the financial crisis.

2.7.3 The AfDB as the continentøs premier development bank needs to provide support to institutions and projects in Africa in the face of the severe external shock caused by the world liquidity crunch. The establishment of the ELF will enhance the Bankøs credibility as a partner who can play such a role.

III. PROPOSAL FOR A TRADE FINANCE INITIATIVE

3.1 TRADE FINANCE AND THE FINANCIAL CRISIS

Overview of the Trade Finance Business Chain

3.1.1 According to World Trade Organization (WTO) statistics presented in Table 1 below, there has been a steady increase in trade flows into and out of Africa over the past few years. However, the financial crisis, which began to hit the trade finance markets in 2008, is expected to cause a slow-down in trade in 2008 and 2009.

Table 2: Gross African Trade Flows (Billions of USD)

Direction	2003	2004	2005	2006	2007
Imports	163	210	255	289	359
Exports	178	238	309	367	424

Source: WTO

3.1.2 Although African exports consistently exceed imports in the trade statistics, short-term import finance transactions represent by far the most significant portion of international trade in African markets. The IFC reports that short term import finance (less than 360 days) represents 90% of their African trade business by volume of transactions. The financing of exports from Africa is less vulnerable to the current crisis because it is largely determined by the availability of trade credit to the importer, which is typically located in a developed country.

3.1.3 In a typical import finance transaction, there are generally four parties: i) the Importer, ii) the Issuing Bank, iii) the Confirming Bank, and iv) the Exporter. The usual roles of these four parties are briefly described below:

3.1.4 ***Importer*** The African Importer of goods (generally food commodities, petroleum products, consumer goods, telecom equipment, intermediate products and agricultural inputs) asks a local commercial bank (Issuing Bank) to open (issue) a letter of credit (LC) in favor of the Exporter from whom the Importer is purchasing the goods.

3.1.5 ***Issuing Bank*** The Issuing Bank, which is usually domiciled in the country of the Importer, issues a LC containing the terms and conditions under which goods and payment are exchanged. The LC substitutes the Issuing Bankös creditworthiness for the Importerös creditworthiness provided the terms and conditions spelled out in the various trade documents (quantity of goods, quality of goods, delivery dates, etc) are respected. Almost all African commercial banks open LCs as a core business activity.

3.1.6 ***Confirming Bank*** Generally, Exporters are not in a position to assess the creditworthiness of local Issuing Banks, particularly the smaller banks in Africa. Accordingly, most Exporters require that the opened LC be confirmed (guaranteed) by another recognized bank. The result is that the Confirming Bank substitutes its creditworthiness for that of the Issuing Bank. In major African markets, some of the larger local commercial banks act as the Confirming Bank for smaller local Issuing Banks because of their solid international reputation (e.g. Commercial International Bank in Egypt). Generally, however, Confirming Banks are international commercial banks who extend credit lines to Issuing Banks. The terms and conditions of these credit lines vary greatly and will depend on the financial health and reputation of the Issuing Bank. In the case of smaller Issuing Banks, the Confirming Banks may require the Issuing Banks to cash collateralize their LCs.

3.1.7 ***Exporter*** The Exporter is the beneficiary of the payment for the goods and services sent to the Importer. Globally, the large players in this market are the major international banks: Citibank, Standard Chartered Bank, American Express, Barclays, HSBC, BNP-Paribas, Deutsche Bank, etc.

Current Market Constraints

3.1.8 The financial crisis that is unfolding across the world has left few parts of the global economy untouched. The credit crisis, which has weakened even the strongest international commercial banks, is exacerbating the sharp slowdown in the economies of most developed countries. Troubles in the developed world are quickly spilling over to the developing countries including Africa's most robust economies. Many international commercial banks, which have traditionally provided credit support for TF in Africa, are no longer willing to confirm the LCs required for African commercial banks to finance importers and exporters of goods to and from Africa. Paradoxically, although African commercial banks are ready to provide financing for trade operations, they are unable to do so because the global credit crisis has caused many international confirming banks to be forced to temporarily withdraw their credit support from the market. This has led to a growing gap between supply and demand for trade financing.

3.1.9 The evidence of a growing supply-demand gap for trade financing appears compelling. The Director-General of the World Trade Organization reported to WTO ambassadors on 12 November 2008 that his meeting with experts "confirmed that the market for trade finance has severely deteriorated". The WTO estimates the current liquidity gap for trade finance at around USD 25 billion and he urged government action to close the gap. The IMF recently indicated at the 12th African Union Summit in Addis Ababa, Ethiopia that the tightening of global credit has reduced capital inflows and curtailed the availability of trade finance. The IMF now expects growth in sub-Saharan Africa will slow from about 5 ¼ percent in 2008 to about 3 ¼ percent in 2009. Africa's Ministers of Finance stressed during the November meeting in Tunis and reiterated in their January working group meeting in Cape Town that a sudden shortage of trade finance is already having a very detrimental impact on their economies.

3.1.10 Preliminary reports from the Bank's consultant in the field reveal a mixed picture on the availability of trade financing for African banks. In the sample of countries examined, most Tier I commercial banks report having sufficient lines available for confirming LCs. However, both Tier II and III banks report having greater problems accessing clean (uncollateralized) confirmation lines and higher transaction pricing. In such cases, the availability of foreign currency financing for collateralized confirmation by Issuing Banks becomes a key requirement for maintaining the flow of trade.

3.1.11 In January 2009, OPSM conducted a survey of 26 financial institutions that are current or prospective clients to better understand the extent of the constraints in the trade finance market. Virtually all institutions in the survey indicated that the global crisis was hindering activity in their local markets. The survey also revealed that Tier I banks appear to be less affected than Tier II and III banks. There is also strong evidence for the surge in demand for trade finance from the Africa Export Import Bank (Afreximbank), the apex Pan-African financial institution in the TF market. Afreximbank reports that its pipeline of trade finance operations has doubled from pre-crisis levels to USD 5.5 billion. The IFC is planning to triple its global trade facilitation program to USD 3 billion in response to a sharp jump in financing requests, including from African clients. The Berne Union, which re-groups export credit agencies (ECA), also indicated that ECAs have been stepping in much more actively in recent months. Collectively, they have increased their business by more than 30 percent in the last twelve months, with an acceleration since the summer. Against this background, African countries have thus called upon the Bank to urgently assist in a sector that has traditionally been outside of the scope of its operations.

3.2 THE BANKôS EXISTING FINANCIAL PRODUCTS

3.2.1 Since the African Development Bank was established in 1963, the provision of support to financial intermediaries has been a core part of the Bankôs financing business. Over the years, the ADB has supported a wide range of financial institutions (FI) such as sub-regional development finance institutions (DFIs), commercial banks, leasing companies and insurance companies. It has also used a variety of financial instruments for FIs such as equity, callable capital and lines of credit (LOC).

3.2.2 As a provider of long-term finance, the Bank has traditionally limited its support through financial intermediaries to medium and long-term financing. The Bankôs LOCs have been used to enable FIs to on-lend to corporate and project finance operations as well as to support term SME and microfinance investment lending. However, in the past the Bank has not used LOC for short-term financing activities such as trade or working capital. Until recently, there has been little reason for institutions such as the Bank to provide support for short-term financing because the market has been adequately served by commercial banks from the private sector.

3.2.3 The financial crisis has revealed a gap in the Bankôs arsenal of financing instruments to enable it to respond to the present shortages of trade finance facilities. As described in the preceding section, the primary instruments used by banks to facilitate trade are letters of credit and confirmation lines of credit. Both instruments are more akin to guarantee products than the LOCs traditionally used by the Bank to provide financing to FIs for on-lending. Although the Bank does offer guarantee and LOC products, neither product is currently well adapted to the needs of Africaôs FIs engaged in trade finance. Therefore, an enhanced set of financial products will be required to enable the Bank to play a meaningful role in responding to the impact of the financial crisis on the trade finance market.

3.2.4 The Agreement establishing the Bank (the "Bank Agreement"), unlike the Agreement establishing the Fund, does not expressly provide for support for trade-related activities. Article 1(f) of the Bank Agreement, however, authorizes the Bank to undertake such activities and provide such other services as may advance its purpose. This Article therefore grants the Bank the flexibility to support other activities, including trade finance, that may not have been expressly provided for in the Bank Agreement. The *caveat* is that such activities should advance the purpose of the Bank (specifically, contributing to the sustainable economic development and social progress of the RMCs, individually and jointly). In light of this *caveat*, the trade finance activities to be supported by the Bank should be such as would advance the purpose of the Bank. Furthermore, the Bankøs Policies for Lines of Credit, Agency Lines and Guarantees to Private Sector Financial institutions would continue to be applicable to trade finance LOCs.

3.3 PROPOSED TRADE FINANCE PRODUCTS

3.3.1 As discussed in the information note presented to Executive Directors during the meeting of 21 January, enhancement of the Bankøs products and services under the Trade Finance Initiative will be phased. This step-wise approach is intended to enable the Bank to deliver a few basic products in the short-term while giving adequate time to prepare a more comprehensive set of new instruments to be proposed in the medium-term. This section focuses on the product enhancements that can be delivered in the short-term to respond to the sudden shortfall in financing for trade.

Trade Finance Lines of Credit

3.3.2 Building on the Bankøs extensive experience offering lines of credit to FI for on-lending to long-term operations such as corporate and project finance, the Bank proposes to offer a similar product dedicated to trade finance operations. Under the Trade Finance Initiative, the Bankøs new Trade Finance Lines of Credit (TF LOC) will have the following characteristics:

3.3.3 ***Eligibility*** African financial institutions (commercial banks and DFIs) that are engaged in trade finance may apply for a TF LOC under the TFI. In reviewing credit applications, the Bank will use its standard selection criteria including strategic alignment, commercial viability, development outcomes and additionality and complementarity. All FIs must meet the Bankøs credit standards (risk rating 6 or better) and the risks of each transaction will be evaluated on a case-by-case basis. All applications will be subject to the Bankøs prescribed review and approval processes and procedures.

3.3.4 ***Terms and Conditions*** The terms and conditions of the TF LOC will be adapted to the specificities of each transaction. However, some basic standards will apply:

- ***Use of Proceeds*** The proceeds of a TF LOC will be used by the recipient FI for trade finance operations. This includes, but is not limited to, standard import and export finance operations including pre- and post-shipment finance. Given the short-term nature of trade finance (90% is less than one year), the FI will be permitted to ñre-useò or ñrevolveò the proceeds until the contractual repayment dates of the facility.

- ***Maturity*** Given the short-term nature of most trade finance operations, the standard final maturity of TF LOCs will be up to 3.5 years. Shorter final maturities can be expected.

- ***Repayment Terms*** TF LOCs may have amortizing repayment terms with an agreed grace period on principal repayments (typically up to one year) or may be repaid in a single (bullet) installment at final maturity. In line with standard practices, the Bank may charge a prepayment fee for early repayment and a penalty for late repayment.

- ***Disbursement Terms*** Like standard LOCs, a TF LOC will usually disburse in two tranches. The first tranche (generally up to 50%) will be drawn after the conditions precedent have been met. The second tranche will be disbursed after the Bank has verified that the use of proceeds of the first tranche complies with the terms and conditions of the legal agreement.

- ***Security and Seniority*** Like standard LOCs, a TF LOC will typically be unsecured senior obligations of the borrowing FI. The risk assumed by the Bank will be the corporate risk of the FI and not the risk of the individual trade transactions financed under the TF LOC.

- ***Currency*** Like standard LOCs, TF LOCs will be denominated in one of the Bankœs lending currencies. All disbursements and repayments will be made in the currency of the TF LOC.

- ***Pricing*** Like standard LOCs, a TF LOC will attract up-front fees of up to 1% of the committed amount and will be priced with a margin over a standard interest rate reference such as LIBOR in the currency of the facility. The margin will reflect the Bankœs assessment of the risks, the senior unsecured nature of the transaction, the maturity and other characteristics of the facility. The margin will be determined by the Bank in accordance with its standard flexible cost-recovery pricing policy for operations without a sovereign guarantee.

- ***Monitoring and Evaluation*** Like standard LOCs, a TF LOC will be continuously monitored over the lifetime of the facility. Each TF LOC will have an assigned portfolio management officer at headquarters plus an officer in one of the field offices. Monitoring will typically be done quarterly and the Bank will ensure that the facility is used for the intended purpose as well as monitoring the commercial viability of the FI and the expected development outcomes. The standard rules for project completion reports and ex-post evaluation will apply.

3.3.5 ***Risk Management Limitations*** The Bank will offer TF LOCs in compliance with all of the prevailing risk management guidelines and exposure limits. The exposures created by TF LOCs will be measured on a standard ñloan equivalentò basis and will be aggregated with other exposures when determining compliance with the Bankœs single obligor, single country, and single sector limits. The same risk capital requirements for standard LOCs will apply to TF LOCs.

3.3.6 ***Program Size and Availability*** As a new product to respond to the financial crisis, the Bank will initially limit the total volume of TF LOCs to USD 500 million over a pilot period of one year (50% of the USD 1 billion total Trade Finance Initiative). A decision to continue or expand the program will be evaluated at the end of the pilot period.

Multi-Purpose Lines of Credit

3.3.7 The addition of the TF LOC to the Bankœs financial products also paves the way for ñmulti-purpose LOCsò. In such cases, the FI would be permitted to initially use the proceeds of the Bankœs facility for trade finance purposes until the FI identifies an appropriate long-term project or corporate finance operation. Given the short-term nature of most trade finance operations, the FI may initially re-use the resources several times until financing for trade from other more traditional sources has been restored. The terms and conditions for such "hybrid" facilities will be adapted to meet the needs of each operation on a case-by-case basis within the parameters allowed for the Bank's existing LOC products and those proposed for the new TF LOC.

3.3.8 ***Conversions of Undisbursed LOCs*** In the past, the Bank has approved 22 standard LOCs to FIs for long-term on-lending to project and corporate finance operations. Currently about UA 190 million of approved LOCs has not yet disbursed. A recent survey of these FIs indicates that approximately 75% of them would like to have the flexibility to include trade finance among the eligible uses of the Bank's undisbursed resources. These institutions are engaged in both short and long-term lending activities and, given the rapidly changing financing environment, they should be permitted to use the remaining undisbursed portion of their LOCs for trade finance. This would require an amendment of the terms on the use of proceeds but would not entail any changes to the financial terms and conditions of outstanding LOCs.

Trade Facilitation Program

3.3.9 In addition to these short-term measures to introduce a new TF LOC, the Bank is examining the feasibility of deploying additional products and instruments to help address the shortfall of financing for trade. For example, the African Trade Insurance Agency (ATIA) is a small but growing trade organization that provides political risk insurance to Confirming Banks. The Bank Group is currently appraising a possible equity investment in ATIA in conjunction with the World Bank.

3.3.10 Looking more broadly at the constraints in the trade finance markets, the Bank has engaged a trade finance expert that is currently undertaking a continental survey of the industry in Africa to better understand the nature and magnitude of the market crisis. This study will be completed by March and will feed into a conference or workshop on African trade finance that the Bank will co-sponsor with other partners to identify the niches where it could most effectively intervene. Based on these results, the Bank will propose a new set of instruments to address Africa's specific trade finance needs. At the same time, the Bank is also examining the Trade Finance Facilitation Programs (TFFP) established by sister institutions such as the IFC and the other regional MDBs for relevant lessons to inform the Bank's own future program. The highlights of some of these TFFPs are briefly described below:

3.3.11 ***International Finance Corporation*** The IFC lends to FIs using LOC products similar to the Bank's products. FIs may use the proceeds for trade finance as well as long-term operations. The IFC also provides guarantee coverage of risks faced by banks in emerging markets. Through its USD 1 billion Global Trade Finance Program, the IFC extends and complements the capacity of banks to deliver trade financing by providing risk mitigation in new or challenging markets where trade lines may be constrained.

3.3.12 ***Inter-American Development Bank*** The IADB also lends to FIs using LOC products for both long and short-term purposes. Like the IFC, the IADB also provides risk mitigation for trade finance transactions through its broader TFFP. The IADB's TFFP currently consists of a network of 181 confirming banks belonging to 70 different international banking groups in over 44 countries, and 36 issuing banks in 14 Latin American and Caribbean countries. To date, the IADB has issued guarantees in support of 495 individual international trade transactions totaling USD 540 million.

3.3.13 ***Asian Development Bank*** In addition to providing funded LOC products to FIs, the AsDBôs comprehensive TFFP aims to help its member country banks provide trade finance products to private sector importers and exporters to facilitate international trade between its member countries. The TFFP develops the capabilities of local issuing banks by: (i) providing partial credit guarantees and revolving credits; (ii) enhancing their ability to offer importers and exporters access to financial services in support of their business; and (iii) working in partnership with the private sector to provide capacity, liquidity and stability to the trade finance system. In addition, in 2007, the AsDB launched a new product called the Risk Participation Agreement under the TFFP. This product shares risks with the private sector in support of trade. It differs from the partial credit guarantee facility in its structure, and is designed to facilitate the rapid expansion of the TFFP into new markets through closer partnership with international banks. The Risk Participation Agreement will provide AsDBôs partners with a new and efficient vehicle for trade portfolio management in less-developed markets.

3.3.14 ***European Bank for Reconstruction and Development*** The EBRD provides guarantees to international confirming banks to guarantee any genuine trade transaction between the EBRD's countries of operations that promote foreign trade with central and eastern Europe and the CIS. Through the TFFP, the EBRD also provides financing for domestic factoring activities including in local currencies. In addition to providing trade finance guarantees, the EBRD also extends short-term loans to selected banks. These loans are structured to fund trade-related advances to local companies exclusively for the purpose of pre-shipment finance, post-shipment finance and other financing of working capital necessary for the performance of foreign trade contracts. Selection criteria are similar to the criteria used for issuing banks. With support of donors, the EBRD has been hiring experts to deliver trade finance advisory services for the banks in the countries of operations as well as conducting trade finance training for issuing banks. The EBRD TFFP has already provided ú4.8 billion in financing across 7,796 transactions since it was set up in 1999 (118 issuing Banks in 22 countries and 774 confirming banks). In 2009, the programmeôs budget will see a significant increase from ú800 million to ú1.5 billion to boost trade with and within eastern Europe, Central Asia, Russia and Ukraine.

3.3.15 These sister development finance institutions that are active in trade finance will use their experience and capacity to assist the Bank to develop its own TFFP[4].

3.4 IMPLICATIONS OF THE PROPOSED TF PRODUCTS

Expected Demand

3.4.1 The proposed TF LOC products are expected to appeal to FIs actively engaged in trade finance operations and currently experiencing reduced availability of traditional clean confirming lines of credit from international commercial banks. Amongst the immediate sources of demand, Afreximbank has already applied for funding from the Bank. Afreximbank was established in 1993 as a Pan-African trade finance organization with the ADB as a founding shareholder. The Bank is currently appraising a possible TF LOC for Afreximbank to reinforce its capacity to respond to a growing financing gap caused by the financial crisis.

[4] Discussed at the 12 February 2009 meeting of the ñHeads of MDBsò in Tunis.

3.4.2 Another key source of demand for the new TF LOC product is expected to come from Tier II and Tier III commercial banks. Given the size and profile of most of these commercial banks, these TF LOCs are likely to be smaller facilities. It is also expected that Tier I commercial banks may be interested in the ñmulti-purpose LOCò whereby the proceeds may be initially used for trade finance operations until the FI identifies other long-term operations for its funding. The risk management effects of these anticipated demand patterns on the Bank are dealt with in the next sub-section.

3.4.3 Depending on the duration and severity of the global financial crisis, the overall volume of new financing from the Bank that could potentially be used for TF is estimated at about USD 500 million, representing about half of the initial USD 1 billion Trade Finance Initiative. It is notable that given the revolving nature of trade finance, the Bankôs resources could support a volume of TF that could be as much as 10 times this notional level.

Risk Management

3.4.4 The introduction of TF LOCs is expected to be particularly attractive to Tier II and III financial institutions because they are the FIs currently most affected by the financial crisis. It is also expected that demand for TF LOCs will largely come from FIs in lower income countries, which also appear to have been most affected by the current squeeze on trade financing. It is therefore anticipated that the risk profile of the average FI applying for a TF LOC will be higher than the Tier I banks that are expected to be most interested in the ñmulti-purposeò LOC product.

3.4.5 The Bank will manage the likely shift in the risk profile of applying FIs by carefully appraising each operation on a case-by-case basis. The Bank will apply its normal stringent credit standards and will undertake full due diligence as part of the credit approval process. Although the shorter maturity of the TF LOC does provide some comfort from a risk perspective, the institutional risk profile of many applying banks may be higher than the current average. Therefore these facilities will be carefully managed and must comply with the Bankôs prevailing risk management guidelines and prudential exposure limits. The impact of introducing TF LOCs on the Bankôs risk profile will be evaluated annually during the portfolio credit risk review undertaken by the risk management department as well as at the end of the first year of the program.

Systems, Processes and Human Resources

3.4.6 The proposed introduction of TF and multi-purpose LOC products will not require any material changes to the processes, systems or human resources used to appraise and monitor these facilities. Initially, FIs requesting to use undisbursed LOCs for trade finance will require amendment of the existing loan agreements. This appears to be a relatively simple procedure that is not expected to require significant legal resources. The Bank is currently integrating specialist staff in the field offices to assist in monitoring and managing the Bankôs portfolio of private sector operations and therefore the resources required to implement these new products will be in place for the first phase of the Bankôs TFI.

3.4.7 Looking further ahead to the second phase of the Bankôs TFI, it is likely that additional dedicated resources will be required for implementation. The IFC and the other regional MDBs have specialized teams focused on delivering trade finance products and the Bank will need to obtain the required staff. The resource requirements for the Bankôs own TFFP will be comprehensively addressed when the proposals are presented in the second quarter of 2009.

Communication Strategy

3.4.8 The new TF products will be communicated to the Bankôs clients and other stakeholders using a multi-channel approach including the website as well as direct contact with commercial banks, DFIs and their associations. The Bank will also take advantage of upcoming events such as the trade finance conference and the Bankôs annual meeting to disseminate information on the Bankôs broader Trade Finance Initiative.

3.4.9 It is also expected that the proposed measures to address the impact of the financial crisis on Africaôs trade finance markets will open new opportunities for the Bank to reinforce existing relationships and build new partnerships with like-minded institutions and organizations. For example, over the past few years the Bank has strengthened its partnership with sister DFIs that are active in Africa through the African Financing Partnership. The trade finance initiative is one more avenue for the Bank to intensify its collaboration with these partners. It is also an opportunity to develop new partnerships with Africaôs trade finance organizations.

3.5 CONCLUSIONS

3.5.1 The Bank has traditionally focused its financing through financial intermediaries to long-term operations such as corporate or project finance. However, the speed and intensity of the global financial crisis has resulted in a sudden and acute shortfall of short-term financing for trade. The severity of the collapse has prompted Africaôs Ministers of Finance to request the Bank to intervene with financial support for trade.

3.5.2 On 21 January, the Board of Directors met to discuss options for the Bank to respond to the global financial crisis. Executive Directors agreed that the exceptional circumstances created by the crisis warranted an exceptional response from the Bank.

IV. ACTIONS TO SUPPORT ADF COUNTRIES

4.1 INTRODUCTION

4.1.1 On January 21, Executive Directors considered the document ñResponding to the Economic Impact of the Financial Crisisò,[5] which set out an initial proposed framework for the Bank Groupôs response to the unfolding global financial crisis and economic downturn. In addition to the proposal ELF and TFI, the document also proposed actions to support ADF countries.

4.1.2 This section responds to that request with respect to actions to support ADF countries. Board members will recall that the January 21 document set out a series of proposed actions for ADF countries, ranging from those to be undertaken in the short-run to those that would require additional time and/or formal consideration by the Bankôs shareholders and its decision-making bodies. This section provides further detail on specific actions, including the status of ongoing work and indicative timelines for future steps. It also recommends Board approval of a number of specific proposals.

4.1.3 All activities are informed and supported by intensified review and analysis of economic and financial developments ï in individual countries, by sector, and by sub-region and in consultation with sister institutions. Drawing extensively on Field Office resources wherever possible, and in close collaboration with partner institutions, Regional Departments are preparing regular assessments focusing on three key areas. These are: the emerging impact of the financial and economic contraction at the national level; mitigating actions by governments; and, specific proposals for Bank activities and interventions. These assessments feed into and complement the intensified work underway in other Complexes, particularly ECON, the Sector Complexes, and Finance.

4.1.4 Preliminary indications from a recent assessment of all countries reveal that the full impact of the crisis is being felt with a time lag in low income countries compared to the other countries. Countries likely will need ADF support over time in the following areas: (i) budget support to offset shortfalls due to falling commodity prices, exports, terms of trade, and tourism; (ii) infrastructure financing for in key long-term development oriented infrastructure projects; and (iii) supporting PSD through leveraging of ADF.

4.2 SHORT-TERM ACTION PLAN AND INITIATIVES

4.2.1 Possible short-term actions in support of the Bankôs low-income concessional borrowers fall broadly under either alternative use or accelerated use of currently available concessional resources. These include: ADF resources already committed for existing operations, i.e., the existing portfolio; ADF resources available from the ADF-11 pool of allocable funds, through either country-specific allocations

[5] ADB/BD/WP/2009/08 and ADF/BD/WP/2009/05

or as earmarked for special purposes; and, resources available via existing Trust Funds.

Portfolio Restructuring and Reprogramming

4.2.2 Regional Departments, in collaboration with Sector Departments, have intensified their ongoing review of the existing portfolio to identify opportunities to restructure operations. With some targeted restructuring having been done in response to pressures arising from higher food prices, there is now somewhat less scope for restructuring.

4.2.3 In connection with the Bank's urgent response to the Food Crisis, Management requested, and the Board approved, a number of specific measures to streamline and speed up the restructuring process. Those measures have proven extremely useful, and should be extended to cover restructuring for the purposes of financial crisis response. In particular Management would request that the Board approve:

- within a country portfolio, loan savings for purposes outside the broad objectives of the original project be used and thus augment available resources for priority areas affected by the financial crisis[6], with Board consideration on a lapse of time basis within 3 working day of document circulation;
- taking into account the radical changes in economic circumstances[7], a change of instrument from investment loans to lending instruments such as fast disbursing operations more appropriate in crisis times, with Board approval on the basis of 14 day document circulation;
- 14 day circulation of new budget and balance support loans in response to the crisis;
- Reprogramming resources in sectors and for purposes outside of the existing CSP pillars on the basis of a 14 day distribution of a combined project document and a note setting out the details and reasons for the request.

Cancellable Resources

4.2.4 Most ADF countries have amounts of previously committed resources tied up in projects that, for a variety of reasons, are not disbursing. These reasons include: approved projects are unsigned; disbursement for signed projects has not occurred for 2 or more years; or the project closing date has passed. Under Bank policy, such balances are eligible for cancellation.

4.2.5 While progress has been made to reduce the overall number and amount of "cancellable" public sector operations, their total volume nevertheless remains at about UA 600 Million, and their total number at just under 200.

[6] See paragraph 3.5 Bank Group Policy on Portfolio Review and Restructuring ADF/BD/WP/95/01/Rev.3 and Africa Food Crisis Response Framework Resolution ADF/BD/WP/2008/64/Add.1/Rev.1
[7] See paragraph 3.5.1 Bank Group Policy on Portfolio Review and Restructuring ADF/BD/WP/95/01/Rev.3: similar approach was adopted to address changing needs of CFA countries following the devaluation

4.2.6 The Bank has committed to reducing these balances significantly further, both to improve the portfolio performance of individual countries and to ensure that non-disbursing resources become available for high priority uses. However, progress on this front needs to be accelerated, with Regional and Sector Departments working collaboratively, and in support of a focused dialogue with RMCs. Bilateral consultations on the results of the 2009 ADF allocation exercise provide an important opportunity for such an exercise. Numerous countries have experienced lower portfolio performance ratings due to the presence of un-disbursing, cancellable operations; this in turn has pulled down their final allocation amount and limited their and the Bankôs options for future programming.

4.2.7 Although progress in cleaning up cancellable operations has a direct, and in some cases substantial effect on country allocations, it does not translate one-to-one into freed-up resources for direct new commitments to the country in question.

- First, under long-standing ADF policy, cancelled resources are returned to the general pool for reallocation on the basis of the PBA mechanism.
- Second, the Bankôs Advance Commitment Authority incorporates an assumption about the future reflow of cancelled project funds; thus, some portion of cancelled funds has already been absorbed by the Bankôs financial model and therefore is already built into available funding amounts.

4.2.8 Bank Management is exploring details and possible options. However, changing either of these prior policy agreements to allow a direct reprogramming of canceled ADF resources to the country from which they have been derived would require specific agreement by the ADF Deputies and the Boards of Directors and Governors.

Allocable ADF Resources

4.2.9 ADF allocable resources in 2009 have increased by 1.4% (UA 57.81 M) primarily as a result of Brazilôs contribution and an adjustment in contingencies to reflect current encashment schedules.

ADF-11 Allocations and Programming in 2009

4.2.10 Country-specific allocations of ADF resources for 2009 have now been completed[8]. A substantial majority of ADF eligible countries have allocations for 2009 that are larger than in 2008; the 9 countries eligible for Fragile States Facility Pillar 1 resources received allocations on average 11 percent larger than in 2008.

4.2.11 With the 2009 allocation amounts now in hand, the Regional Departments are moving ahead with the following steps as a matter of priority.

[8] See Board document ADF/BD/IF/2009/43 for details

- Immediate consultations with RMC governments to examine the agreed operational program, assess the existing priorities and pipeline, and consider whether adjustments would be appropriate. This could include reprogramming across agreed investment operations, introduction or enlargement of fast-disbursing operations as current PBLs share of available resources stand at 10% versus an ADF-11 limit of 25%, and/or acceleration of specific operations.
- Deepened coordination with other sister institutions for a leveraged response and impact on the ground.
- Internal consultations with Sector Departments to ensure consistency of the prospective operational program both with the available resources and with potentially changed priorities in light of the crisis. Where additional resources are available, we will examine scaling up operations expected to be able to deliver rapid impact on the ground.
- Creative efforts to identify possible opportunities to catalyze or deepen private sector engagement will be given particular emphasis.
- In close collaboration with Sector Departments, intensified outreach to and consultations with external partners to identify opportunities to consolidate activities for increased speed and impact, leverage up existing resources through additional co-financing, and/or to ensure more prioritization and effective division of labor at the country level.

Managementôs expectation is to have concluded this work by the end of March, making adjustments as necessary in the existing Board agenda.

4.2.12 Based on existing operational planning, and subject to modification as a result of the above efforts, the following table presents the key aspects of the utilization of ADF resources at the conclusion of the second year of the 11th replenishment period.

Table 3: ADF-11 Resource Usage

ADF-11 Country Allocations	2009 PBA Amounts (millions of UA)	Change versus 2008 Amounts (millions of UA)	Cumulative Commitments				Cumulative Policy Based Operations			
			end-2008		end-2009*		end-2008		end-2009	
			UA Million	% of 2009 Alloc.	UA million	% of 2009 Alloc.	UA million	% of 2009 Alloc.	UA million	% of 2009 Alloc.
> UA 300 million	1,772.53	-17.08	587.78	33.16%	1,114.78	68.89%	300.00	16.92%	300.00	16.92%
UA 200 million < UA 300 million	388.20	12.65	46.13	11.88%	156.13	40.23%	0.00	0.00%	30.00	6.69%
UA 100 million < UA 200 million	1,317.60	90.62	480.69	36.48%	914.69	69.42%	243.00	18.44%	340.00	25.80%
UA 30 million < UA 100 million	403.84	-30.52	68.40	16.94%	354.40	87.75%	0.00	0.00%	104.00	25.75%
UA 0 million < UA 30 million	138.03	1.34	34.92	25.30%	97.92	70.94%	17.32	12.55%	34.32	24.86%
TOTAL	**4,020.20**	**57.01**	**1217.92**	**30.30%**	**2,637.92**	**65.62%**	**560.32**	**13.94%**	**808.32**	**20.11%**

Regional Operations	965.27	12.26	409.21	42.39%	909.21	94.19%				
Fragile States Facility	408.43	0.00	21.00	5.14%	299.92	73.43%	21.00	5.14%	66.90	16.37%

* Based on Indicative Operational Program of November 2008

2.13 This programming snapshot makes clear that there is scope for additional frontloading, and this is expected to emerge from additional programming and prioritization work now underway.

Trust Fund Resources

4.2.13 ORRU is currently assessing the Bank Groupôs existing array of Trust Funds to ascertain available resources, the scope to accelerate resource utilization, and possible opportunities to restructure Trust Funds in order to make their resources available for priority uses. The table below summarizes key data on the status of the Bankôs Trust Funds.

Table 4: ADF-11 Resource Usage

ADF-11 Resource Usage	
Untied (multiple sectors)	13.506
Tied (multiple sectors)	21.16
Sub-Total	*34.666*
Untied Thematic Funds/Facilities	
Governance	0.79
NEPAD-Infrastructure Project Preparation Facility	18.155
Private Sector Development	4.417
Water	94.548
Congo Basin Forest Fund	93.704
Sub-Total	*210.905*
TOTAL	245.572

4.2.14 ORRU is hosting a 2 day AfDB Partnership Forum on 5-6 March to which all of the Bankôs key partners have been invited. In addition to updating our partners on the Bankôs reform and strategic priorities, this meeting is a key opportunity to review the status and direction of our Trust Funds and Co-financing and Cooperation agreements. Bank Senior Management will participate fully in these important consultations.

4.2.15 Key objectives are to: (i) identify together with our partners specific ways to enhance strategic alignment and make better use of available resources, including for targeted crisis response; (ii) highlight impediments to more rapid Fund usage, such at the annual commitment limits that exist in some cases; (iii) identify possible ways in which additional resources might be mobilized, under either new or existing agreements, to assist with crisis response; and, (iv) explore systematically ways in which we and our partners can collaborate more effectively with respect to catalyzing private financial flows.

4.2.16 Our expectation is that this meeting will produce specific follow-up action steps on which we and our partners can engage immediately. Ideally these will include: specific ways in which we can work with partners to accelerate the programming and disbursement of Trust Fund resources; elimination of obstacles and bottlenecks, on the part of both partners, that impede fuller Trust Fund usage; and, initiatives through which existing arrangements could be reprogrammed for rapid response to the new challenges. Any specific changes would need to be negotiated and agreed on a bilateral basis; the upcoming Forum is a key opportunity to make some progress toward that objective.

4.3 ADDITIONAL EFFORTS IN 2009

4.3.1 The January 21 paper also asked the Board to consider some specific additional steps that will require additional time to develop, as well as specific consideration and formal endorsement by shareholders. These included: supplemental ADF resources during the ADF-11 period; introduction of an ADF guarantee product that could help leverage commercial finance to support infrastructure investment; ADB net income transfers, including possibly on a leveraged basis linked to complementary funds from donor partners.

Supplemental ADF Resources

4.3.2 The Bankôs own analysis of the impact of the global economic and financial contraction on Africaôs poorest countries tracks with the prevailing view. That is, effects on the real economy through the transmission mechanisms of lower demand, commodity prices, investment flows and remittances ï while slower to emerge than direct financial impacts ï will likely be substantial and durable.

4.3.3 In this context, the need for additional ADF resources, quite possibly on a substantial scale, is expected to become more evident during the course of this year. This is the assessment set out by the G-20 Leaders Declaration, as well as the G-20ôs Working Group 4 and the most recent joint statement by the IFI Heads.

4.3.4 Obviously, the issues raised are substantial, and constraints and concerns will exist on the side of Donors. Nevertheless, a focused discussion around likely scenarios and possible options should be considered in the near term.

ADF Guarantee Instrument

4.3.5 Since the Board discussion on January 21, the Bank has moved to develop further a possible proposal for an ADF guarantee instrument to leverage infrastructure financing in low-income countries by backstopping government obligations to commercial banks under specific circumstances. A cross-Complex Task Force has been formed to examine the full range of operational, financial and legal issues and provide appropriate recommendations.

4.3.6 We will be looking carefully at the experience of other organizations with guarantees, particularly IDA. Of particular importance in designing and utilizing such an instrument would be:

- How guarantees are ñpricedò in terms of their utilization of ADF resources. The World Bankôs experience with guarantee products of most kinds has been that charging them 1:1 against committable resources is unnecessary and counter-productive. Since reducing the charge for guarantees against allocations from 100% to 25% of face value, demand for the IDA guarantee has increased significantly. We would argue to incorporate this experience from the outset.
- Effective and focused communication ï internally, with RMC counterparts, and with commercial partners ï would be essential to ensure adequate understanding and usage. Uptake by operational staff and member country officials will require a good appreciation of the unique leverage and additionality that can be provided by the guarantee instrument.

Bank Management expects to produce a concept note for informal Board discussion by early April with a view to having a more fully developed paper available for the Annual Meeting.

ADB Net Income Transfers

4.3.7 Board members will be asked to consider Managementôs proposals for allocation of 2008 net income, and to make specific recommendations to the Board of Governors for consideration and approval at the Annual Meeting. While final approval for the disposition of net income rests with the Boards of Directors and Governors, options with direct relevance to ADF include: allocations directly to ADF in excess of the UA 20 Million agreed under ADF-11; allocation to surplus, with possible subsequent allocation for specific purposes subject to Board approval; and, allocation for special purposes to be proposed by Management. Proposal for a catalytic trust fund for ADF countries to supplement existing could be further developed and brought to the board for consideration.

4.4 CONCLUSION

4.4.1 The discussion above has set out a variety of specific steps intended by Management to further develop individual proposals and to ensure focused and pragmatic consultations with stakeholders. In some cases this can use and build upon work that has already been agreed or is already underway. In other cases new work will be initiated on the basis of guidance from the Board. In all instances, mechanisms either exist or will be created to ensure effective dialogue with all stakeholders.

4.4.2 First, Bank Management has proposed to convene, on the margins of the upcoming annual meeting, a discussion of issues and preparation for the ADF-11 Mid-Term Review (MTR). Subject to guidance from stakeholders, this could be an occasion to exchange views on the following:

- Possibility of an accelerated ADF-12 replenishment process, concluding earlier in 2010.
- Issues around selected current ADF policies such as the cap on policy-based lending; disposition of cancelled resources; and, front-loading.
- Possible introduction of an ADF guarantee instrument.

4.4.3 Based on guidance received, and if agreed, Management could prepare specific proposals to place before Executive Directors and ADF Deputies in connection with the MTR later this year. The MTR would also serve its core purpose of agreeing on the specific issues to be addressed in the course of the ADF-12 consultation; overlap and congruence with many of the issues identified above is to be expected. It will provide an analysis of the impact of the financial crisis, the ADF response to date and implications.

4.4.4 Secondly, Management has separately proposed above that the Board extend to crisis response operations the same ñFast Trackò measures that it agreed in connection with the Bankôs food crisis response last year.

4.4.5 Third, Management will be bringing specific recommendations for the allocation of 2008 net income that would expand the resources potentially available for special crisis-related initiatives in ADF countries.

V. ENHANCING THE BANKôS POLICY ADVOCACY ROLE

5.1 Introduction

5.1.1 The global financial and economic crisis has revealed the need for policy makers to share experiences on the development challenges facing Africa. At the meeting of Ministers of Finance and Central Bank Governors on November 12, 2008, the Bank was specifically called upon to deepen its analysis of the impact of the crisis and to assist member countries mitigate the impacts of the crisis.

5.2 Rationale

5.2.1 The crisis has not only deteriorated the growth prospects, but it has also raised serious policy dilemmas that will need a critical rethinking of established practice. Policy challenges facing policy makers include: increasing goals with limited policy choices; the need for fiscal stimulus under conditions of low fiscal base, low capital inflows and declining revenue; regulation of capital flows; emerging accumulation of domestic arrears; the role of state institutions; the need for safety nets to protect the poor; and creeping protectionism.

5.2.2 The degree of exposure to the financial crisis varies across countries depending on economic structure and degree of openness. The middle income countries suffered most from private capital reversal than the low income countries. However the effects of the global slowdown have affected in varying degrees all countries including the MICs, LICs and post conflict countries. These effects have thrown up a number of challenges for policy makers across Africa.

5.2.3 Just like in the developed countries, national financial regulators must come up with counterï cyclical regulatory frameworks. Current regulations that are pro-cyclical have stifled credit creation at a time when it is most needed. These must be balanced with the need to build the capital base of financial institutions and make the sector more resilient in most of LICs.

5.2.4 The financial crisis has also introduced unintended protectionism in the financial sector in most advanced countries. Financial institutions that have benefited from public resources have preferred domestic to external lending. This will have the effect of delaying the flow of capital to emerging and developing countries.

5.2.5 In the field of macro- economic management, the crisis has increased the number of goals at a time when the potency of existing instruments is threatened. The use of fiscal stimulus in the MICs runs against the efforts at containing inflation and maintaining reserves to moderate the impact of temporary shocks. Attempts to implement expansionary fiscal policies are constrained by fiscal revenue shortfall. Countries have been faced with a trade off between inflation control and promoting competitiveness. Some countries have re-imposed controls on capital outflows and /or limiting the flexibility of the currency. Governments have also been forced to resort more to the domestic debt market as a substitute to the dwindling capital inflows. This has resulted in rising cost of credit and accumulation of arrears on domestic debt.

5.2.6 At the broad macro economic management level, there are a number of design challenges that countries need to grapple with. The current financial programming targets and debt sustainability frameworks were designed to assist countries establish macro economic stability in a manner that is consistent with sustainable debt levels. The frameworks did not provide for deviations in case of a crisis of the magnitude we are facing. What should be the appropriate response by LICs to mitigate the crisis in a manner that is consistent with long term sustainable growth?

5.2.7 The recent growth did not trickle down to the poor. Now, the poor have been disproportionately hit by this financial crisis, having not recovered from the earlier food and oil crisis. The crisis revealed the urgency of establishing safety nets for the poor and the marginalized. But doing so requires both resources and competent state institutions to implement pro-poor programs.

5.2.8 The crisis has reignited the debate on the role of the state institutions. Efficient institutions are needed to rebuild trust in financial markets, design and implement economic rescue programs, engage the international community, and implement pro-poor programs. Hence, the agenda for economic recovery must include strategies for building and consolidating state institutions.

5.3 Required action

5.3.1 It is imperative to deepen our understanding of these challenges faced by African countries so as to inform appropriate policy responses at the national and regional level. Against this background, the Bank seeks to:

- Strengthen its analytical capacity;
- Intensify detailed information gathering at the country, sector and regional levels on a consistent basis;
- Strengthen collaboration and partnerships with other MDBs and other organizations;
- Link actions to the communications strategy of the Bank;
- Generate suggestions for policies tailored to country-specific circumstances and needs and
- Produce regular policy briefs on issues relevant to the RMCs and the Bank

5.4 Conclusion

5.4.1 Existing efforts of the Bank have been prominent in promoting policy dialogue and enhancing debates to inform Africaȏs search for solutions. It is towards this end that the Bank convened the Tunis meeting in November 2008, followed by the January 2009 meeting of the Committee of Finance Ministers and Central Bank Governors in Cape Town. These two meetings created an opportunity for exchange of experiences, dialogue and consensus on the way forward at very high levels. These meetings clearly underscored the need to formalize this process of dialogue and exchange of experiences. They also emphasized the need deeper analytical work and consistent information monitoring for greater policy effectiveness. The results of the analysis will help member countries equip themselves with adequate tools to weather the crisis, adapt their development strategies, so as to sustain economic growth and alleviate poverty.

VI. RECOMMENDATIONS

The Board of Directors is hereby requested to approve:

1 The establishment of the Emergency Liquidity Facility.

2. The establishment of a USD 1 billion Trade Finance Initiative. The TFI will be implemented in phases and will be reviewed annually.

- As the first phase of the TFI, the Bank will introduce a trade finance line of credit (TF LOC) subject to the terms and conditions described in this paper. The Bank will also introduce a ñmulti-purposeò line of credit product that enables the borrower to use the proceeds for trade finance as well as long-term project and corporate finance operations.

- In the second phase of the TFI, the Bank will examine the feasibility of introducing products and services that provide more comprehensive assistance for trade finance and facilitation.

3. The fast track approach to utilization of the ADF resources laid out in paragraph 4.2.3.

4. Bank Management is requesting the Board to support the initiative laid out in section V

A. Annex I : COMPARISON OF AFDB EMERGENCY LIQUIDITY FACILITY TO OTHER MDBS

	AfDB Proposed Facility		IBRD	IADB	AsDB	IMF
Facility	ELF		SDPL	LPGS	SPL	SLF
Purpose	Provide short term liquidity to both AfDB eligible countries and non sovereign operations in all RMCs, institutions and projects that are suffering from the global financial crisis; specifically with financing difficulties as a result of the withdrawal of international investors or a cancellation of credit lines to FIs		To support structural and social reforms by creditworthy borrowers approaching a possible crisis, or already in crisis, with exceptional external financial needs	Provide funding to member countries that face transitory difficulties in accessing foreign and inter-bank credit lines as a result of the financial crisis in US and Europe	Provides in exceptional cases, financial support beyond anticipated levels to DMCs that suffer large unexpected economic shocks, as part of an international rescue effort, i.e. only under a large IMF-led rescue package	To help members with short-term balance of payments pressures arising from external market developments; only well-integrated members in global capital markets that have a record of consistent policy implementation
Beneficiaries	ADB Countries and Projects		IBRD Countries	Member Governments	OCR eligible DMCs	IMF Countries
Loan Type	Sovereign Guaranteed	Non Sovereign Guaranteed	Development Policy Loan	Case-By-Case Basis	Case-By-Case Basis	Outright Purchases from GRA
Initial Cap	US150mn	US50mn		US500mn		500% of Quota [9]
Maturity (years)	5 years	Up to 5 years	5 years	5 years	5 years	SLF purchases would be subject to terms, charges and maturities that apply to all General Resources Accounts (GRA) purchases.[10]
Grace Period	3 years	Up to 3 years	3 years	3 years	3 years	
Cost Base	6month Libor/Euribor	6month Libor/Euribor	6month Libor	6month Libor	6month Libor	
Minimum Loan Spread	250bp	200bp over pre-crisis terms	400bp	400bp	400bp	
Front-End fee	100bp flat	100bp flat	100bp flat	100bp flat		
Commitment Fee			75bp	75bp		
Disbursement	Single or multiple	Single or multiple	Single or Multiple-Tranches			

[9] For an average-sized emerging market country, SLF access at 500% of quota would be around SDR 4.3billion while for some countries access could be of the order of SDR 15 billion or larger.
[10] The SLF would be subject to charges and surcharges in line with the current schedule in the credit tranches. The charges are equal to the adjusted rate of charge plus surcharge of (i) 100 bps for outstanding credit in excess of 200 percent of quota and (ii) 200 bps for outstanding credit in excess of 300 percent of quota.)