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Joint Conference of Ministers of Finance
and Governors of Central Banks on the
Establishment of an African Monetary Fund

Libreville, Republic of Gabon
3 to 7 February 1986

SUBSCRIPTIONS TO THE CAPITAL OF THE AFRICAN MONETARY FUND

AND

FINANCIAL PROJECTIONS DURING THE FIRST FIVE YEARS

I. INTRODUCTION

1. The Intergovernmental Group of Experts from Ministries of Finance and Central Banks on the establishment of an African Monetary Fund at their second meeting held in Addis Ababa (Ethiopia) from 11 to 15 April 1985 decided that new tables showing computations of the subscriptions to the capital of the African Monetary Fund should be prepared to reflect the new authorized capital of 2.0 billion African Units of Account (AUA) and the paid-up capital of 500 million AUA. The co-operating secretariats agreed that the ECA secretariat should prepare tables showing member country subscriptions to the capital of 2.0 billion AUA and 500 million AUA paid-up. It was also agreed among the co-operating secretariats that the African Development Bank should prepare tables showing financial projections for the first five years including the position of projected loan approvals, disbursements, cash flows, income from loans and investments, administrative expenditures as well as net income.

2. Accordingly table 1 of this paper gives the percentage shares of the member countries, 1988 country payments, annual payments during the period 1989-1992 and total payments during the first five years. Total shares of African member countries of 1333.33 million AUA in table 1 are based on the assumption that out of 2000.00 million AUA authorized capital one-third (1/3) i.e. 666.67 million AUA would be reserved for external participation. If it is decided that there should be no external participation in the authorized initial capital of the African Monetary Fund, the individual country shares would be based on 2000.00 million AUA.

II. FINANCIAL PROJECTIONS FOR THE FIRST FIVE YEARS ASSUMPTIONS AND FINANCIAL PROJECTIONS

3. Financial projections during the first five years of the operations of the African Monetary Fund are based on a number of assumptions. First, it is assumed that the major part of the Fund's operations during the initial five year period will be to provide credit in support of balance of payments. Although a lending level of 50 million AUA assumed under the first alternative level of lending may appear too small to make an impact on member countries, the African Monetary Fund, like any new institution, needs to learn to "walk before it can run". In any case since the Fund is expected to be selective in its lending, this level of lending should be regarded as adequate at least during the first five years of its establishment. If a credit ceiling of say 10 million AUA were to be adopted, 5 countries could borrow from the Fund each year.

4. In addition, a 50 million AUA level of lending during the initial years is justified by the fact that the Fund would need:

(a) to build up liquidity and reserves with a view to enhancing its resource mobilization prospects in the long run;

(b) to develop the necessary administrative and financial management structures so as to ensure high quality and capability of operations;

(c) to ensure a steady growth of its operations;

(d) not to rely on possible subscription payments made in national currencies prior to evolving mechanisms and methods for the utilization of these funds; and

(e) to rely almost exclusively on the support of its regional membership.

5. Thus, liquidity growth should be one of the prime objectives of the Fund which ensures financial viability in the long run. For this reason, a yearly lending programme slightly below the annual inflow of subscriptions would be appropriate. This would enable the Fund to sustain a constant level of lending operations as well as enhance its overall financial standing.

III. TERMS AND CONDITIONS OF LENDING OPERATIONS

6. With regard to terms and conditions of lending, it is assumed that:

(a) all balance of payments credits would be given for a five year period, with one year grace;

(b) repayment of principal would be made in equal instalments;

(c) all credits approved during a given year would be fully disbursed during the same year; and

(d) all disbursed loans would attract an interest rate of 10 per cent per annum plus a service charge of 0.5 per cent.

7. Investment income

(a) For the purpose of projecting investment income, it is also assumed that liquid investments would also attract an average rate of return of about 10 per cent per annum; and

(b) all net profits are retained during the initial years and invested for relatively longer periods in higher yielding instruments.

IV. PROJECTED DISBURSEMENT PROGRAMME

8. As indicated by Table 2, the yearly disbursements are assumed to be 50 million AUA, commencing in year 2 of operations of the Fund. It should be noted that 200 million AUA of subscriptions would be paid in the first year and invested while out of the 75 million AUA paid in the second year, only 67 per cent is disbursed. This guarantees a healthy liquidity position of the Fund from the beginning as mentioned above. The Fund could start lending in the second year, even though it may sound optimistic. Due to problems usually met in establishing institutions of this type, the Fund may in fact, not commence lending operations until the third year.

Table 2

Projected Disbursement Programme
(million AUA)

Year	1	2	3	4	5
- Yearly disbursements	-	50.0	50.0	50.0	50.0
- Cumulative disbursements	-	50.0	100.0	150.0	200.0
- Credit repayment (yearly)	-	-	12.5	25.0	37.5
- Cumulative credit repayments	-	-	12.5	37.5	75.0
-Outstanding disbursements	-	50.0	87.5	112.5	125.0
Annual Cash-flow					
Inflow					
- Subscriptions	200.0	75.0	75.0	75.0	75.0
- Credit repayments	-	-	12.5	25.0	37.5
	200.0	75.0	87.5	100	112.5
Outflow					
- Disbursements	-	50.0	50.0	50.0	50.0
- Other	-	-	-	-	-
	-	50.0	50.0	50.0	50.0
- Net inflow	200.0	25.0	37.5	50.0	62.5
- Liquid Resource brought forward	-	200.0	225.0	262.5	312.5
- Year end liquid assets	200.0	225.0	262.5	312.5	375.0
1. Average outstanding disbursements	-	25.0	68.75	100.0	118.75
2. Average yearly liquidity	100.0	212.5	243.75	287.5	343.75

V. PROJECTED REVENUE AND EXPENDITURE

Table 3 shows projected net income of the Fund.

Table 3

Projected Revenue and Expenditure Statement
(million AUA)

	Year	1	2	3	4	5
1.	-Balance of payments credits at 10%	-	2.50	6.90	10.00	11.87
	-Service charges at 0.5%	-	0.13	0.34	0.50	0.59
2.	-Investment income at 10%	10.00	21.25	24.40	28.70	34.37
	Total Income	10.00	23.88	31.64	39.20	46.83
3.	-Total Expenditure	3.50	3.30	3.47	3.98	4.56
	Net Income	6.50	20.58	28.17	35.22	42.27
	-Percent charge	-	216.60	36.98	25.86	20.46
	-Return on paid-in capital	3.25	7.48	8.10	8.35	8.55

9. It will be noticed that, the earned income will be less by the amount resulting from service charges on average outstanding disbursements. The rate of interest on both credits and investments is assumed to be 10 per cent per annum. This is in line with the Experts' view that the Fund should charge a commercial or near-market rate of interest on its outstanding credits. While total expenditure could be considered to be rather high, it should be possible to revise this item downwards in order to realize higher net incomes. For example, employment of non-resident Executive Directors during the initial years, as was the case with the African Development Bank and is the case with the Andean Reserve Fund, could be recommended. Furthermore, the Fund could commence with few departments so as to reduce the administrative expenditure.

10. As far as the returns on paid-in capital are concerned, it be noted that they rise from 3.25 per cent in the first year to 8.55 per cent in the fifth year.

VI. PROJECTED BALANCE SHEET

Table 4 shows projected balance sheet of the Fund for the first five years.

Table 4

Projected Balance Sheet
(million AUA)

Year	1	2	3	4	5
- Cash at hand and investments	200.00	225.00	262.50	312.50	375.00
- Credits to member countries	-	50.00	87.50	112.50	125.00
- Other current assets	6.50	27.08	55.25	90.47	132.74
Total	206.50	302.08	405.25	515.47	632.74

12. Since it is unlikely that the Fund would borrow during the first five years, any other liabilities are likely to be negligible. This is a basic assumption. It should also be the objective of the Fund to realise a rapid growth of its balance sheet as operations begin to consolidate.

VII. PROJECTED CASHFLOW STATEMENT

Table 5

Forecast Cashflow Statement
(million AUA)

Year	1	2	3	4	5
1. Sources					
-Subscriptions:	200.00	75.00	75.00	75.00	75.00
-Net Income:	6.50	20.58	28.11	35.22	42.27
	206.60	95.58	103.17	110.22	117.27
2. Uses					
-Net Increase in credits:	-	50.00	37.50	25.00	12.50
-Increase in other assets	6.50	20.58	28.17	35.22	42.27
	6.50	70.58	65.67	60.22	54.27
Increase in liquidity	200.00	25.00	37.50	50.00	63.00

From about the third year, liquidity is expected to increase steadily as applications of the resources assume a steady and declining trend.

VIII. ALTERNATIVE LENDING PROGRAMME

13. Tables 6 to 9 indicate projections of the same financial statements as above but based on the assumption that only subscriptions would be used for lending. Repayments of credits beginning in year 3 are assumed to be invested in liquid assets. However, if repayments of credits are re-issued as credits, then the yearly lending programme would be larger as shown in Table 6.

14. The effect of this alternative use of credit repayments is to raise the yearly disbursement rate and to cause a virtually stagnant average yearly liquidity of the Fund. In fact, the average yearly liquidity will grow at a decreasing rate. This situation will make it difficult for the Fund to sustain the same lending level and eventually the Fund would be forced to either drastically curtail its lending tempo or run down its liquidity position.

15. It is clear that the second alternative is not viable, unless additional subscriptions are paid after the first 5 years of operations of the Fund. Therefore, it is strongly recommended that repayments of credits be invested in liquid assets and the lower lending programme be adopted for the first 5 years. This will ensure a solid and sound financial foundation for the African Monetary Fund.

Table 6

Projected Disbursement Programme
(million AUA)

Year	1	2	3	4	5
-Yearly disbursement	-	50.0	70.0	100.0	120.0
-Cumulative disbursement	-	50.0	120.0	220.0	340.0
-Credit repayments (yearly)	-	-	12.5	30.0	55.0
-Cumulative credit repayments	-	-	12.5	42.5	97.5
-Outstanding disbursements	-	50.0	107.5	177.5	242.5
Annual Cash flow:					
Inflow:					
-Subscriptions	200.0	75.0	75.0	75.0	75.0
-Credit repayments	-	-	12.5	30.0	55.0
	200.0	75.0	87.5	105.0	130.0
Outflow					
-Disbursements	-	50.0	70.0	100.0	120.0
-Others	-	-	-	-	-
	-	50.0	70.0	100.0	120.0
Net Inflow	200.0	25.0	17.5	5.0	10.0
Liquid resource brought forward	-	200.0	225.0	242.0	247.5
Year end liquid assets	200.0	225.0	242.5	247.0	257.5
1. Average outstanding disbursement	-	25.0	78.75	142.5	210.0
2. Average yearly liquidity	100.0	212.5	233.75	245.0	252.5

Table 7

Projected Income and Expenditure Statement
(million AUA)

Year	1	2	3	4	5
- Total Income	10.00	23.88	31.66	39.46	47.30
- Total Expenditure	3.50	3.30	3.47	3.98	4.56
	6.50	20.58	28.19	35.48	42.74
- Percentage change	-	216.00	36.90	25.80	20.50
- Return on paid-in capital	3.25	7.48	8.10	8.35	8.55

Table 8

Projected Balance Sheet
(million AUA)

Year	1	2	3	4	5
- Cash at hand and investments	200.00	225.00	242.50	247.50	257.50
- Credits to member countries	-	50.00	107.50	177.50	242.50
- Other current assets	6.50	27.08	55.27	90.75	133.49
Total	206.50	302.08	405.27	515.75	633.49
Capital Reserves and Liabilities					
- Authorized Capital	2000.00	2000.00	2000.00	2000.00	2000.00
-Subscribed/paid-up capital	200.00	275.00	350.00	425.00	500.00
-Reserves	6.50	27.08	55.27	90.75	133.49
-Liabilities	-	-	-	-	-
Total	206.50	302.08	405.27	515.75	633.49

Table 9

Projected Cash Flow Statement
(million AUA)

Year	1	2	3	4	5
1. Sources					
-Subscriptions:	200.00	75.00	75.00	75.00	75.00
-Net Income:	6.50	20.58	28.19	35.48	42.74
	206.50	95.58	103.19	110.48	117.74
2. Uses					
-Net Increase in B.O.P. Credits:	-	50.00	57.50	70.00	65.00
-Increase in other assets	6.50	20.58	28.19	35.48	42.74
	6.50	70.58	85.69	105.48	107.74
Increase in liquidity	200.00	25.00	17.50	5.00	10.00