ADF-14 Second Meeting

Updated Parameters on Innovative Financial Instruments

Attachment to Chair's summary

Information to complement Paper on
"Financing Innovative Instruments under ADF-14"
September 2016

AFRICAN DEVELOPMENT FUND

I. INTRODUCTION

1.1 This note summarizes agreements reached by Deputies at the 2nd ADF-14 replenishment meeting and provides additional information to the paper on Innovative Financial Instruments. Specifically, the note contains :

- An update on maximum borrowing terms for Concessional Donor Loans (CDLs) and Bridge Loans (BLs) that can be borne by the Fund;
- An update on the methodology to compute the grant element of CDLs and BLs for each currency of the SDR basket; and
- A description of the risks associated with fixing the maximum CDL and BL borrowing rates ahead of the receipt of subscriptions from Donors. A proposal to address such risks is also described.

1.2 The updated parameters of the framework for Innovative Instruments presented in this note are intended to further address two concerns:

- Preserve the Fund's long term financial sustainability and particularly with regards to risks related to interest rate volatility; and
- Ensure fairness among all Donors in relation to the grant element.

1.3 Following the introduction, section II summarizes the key agreements reached during the 2nd replenishment meeting; then section III provides updated information on the maximum borrowing terms for CDLs and BLs. Section IV provides an update on the methodology for the determination of the grant element of concessional loans. Section V discusses risks inherent to setting maximum borrowing rates in each currency, before proceeds from loans are received, and proposes solutions to mitigate these risks. Finally, section VI summarizes Management's recommendations.

II. KEY AGREEMENTS REACHED IN JUNE 2016

Discount rate

2.1 A consensus was reached on a discount rate of 2.65% for Concessional Donor Loans (CDLs) and Bridge Loans (BLs).

Substitution rule

2.2 In order to ensure that concessional loans have a positive impact on the Fund's resources and do not result in the substitution of grants by loans, Deputies agreed on the 80/20 substitution rule:

1) The total grant contribution of any donor country that provides loans to the Fund, must be at least equal to its ADF-13 contribution on a grant equivalent basis; and

2) Donor countries should provide at least 80% of their ADF-13 basic burden share in the form of grants (excluding the grant element of concessional loans).

2.3 Deputies agreed that the substitution rule will be applied to their contributions in their national currencies because it is a fair way of measuring the effort made by each Donor in comparison to their ADF-13 contribution level, excluding the impact of exchange rate fluctuations[1].

2.4 However, Management invites Deputies to make every effort to maintain their burden shares - as a minimum - in order to lessen the negative impact of currencies' exchange rate fluctuations on ADF-14 total replenishment size.

Introduction of the option to "buy-down" interest rates of CDLs and BLs

2.5 Deputies agreed that donors can "buy-down" the interest rate of their CDLs or BLs by providing additional grant resources beyond the 80/20 substitution rule.
As a result, a Donor may provide a CDL or BL at an interest rate higher than those prescribed in section III of this note, but must also concurrently provide additional grant above the minimum threshold of 80% of its ADF-13 grant contribution (as required by the 80:20 substitution rule), in order to buy-down the loan rate to the prescribed level. Donors would not however obtain credit for these additional grants in terms of burden shares.

2.6 In this eventuality, the amount of the additional grant required to buy-down a CDL of UA 1 billion from an interest rate of 0.5% to 0% is as follows:

Table 1: Example of interest rate buy-down

Instrument	Amount	Maturity	Interest rate	Total coupon due[2]
CDL offer	UA 1 billion	5-35 years	0.50%	UA 102 million
Target CDL terms			**0.00%**	-
Additional grant required to meet target concessional rate*				**UA 102 million**

* Grant-element for the CDL will therefore be computed on the basis of a 0% interest rate. But no burden shares shall be provided for the additional UA 102 million grant.

III. MAXIMUM BORROWING TERMS FOR CDLs AND BLs

Maximum borrowing rates for CDLs

3.1 Loans extended by the Fund are approved in Units of Account (UA), but are denominated and disbursed in currencies selected by borrowing member countries. As set out in section 2.20 of the June 2016 Innovative Financial Instruments paper, CDLs will preferably remain denominated in US Dollars and Euros, the preferred currencies of ADF borrowing countries. The document also recommended that the maximum interest rate at which a CDL may be received in these currencies

[1] It is also in line with the approach used by IDA.
[2] Assuming loan straight line amortization after grace period.

should be set at 0.50%, slightly below the Fund's service charge of 0.75%. This will enable the Fund to generate a positive margin that helps cover the implementation costs of this new instrument. Any CDL provided in currencies other than USD and EUR will be swapped into one of those currencies, provided that the after-swap rate does not exceed 0.5%.

3.2 In addition to these constraints, loans provided by Donors must be concessional, in conformity with Article 8 of the Fund Agreement, and the average coupon rate for the pool of CDLs should not exceed 0.25% after swaps. Thus, while maximum rates are set at 0.5% in USD and EURO, targeting an average coupon rate of 0.25% for the pool of CDLs means that most donors are expected to provide loans at very concessional rates close to 0%. This is necessary in order to achieve a target total size for CDLs between UA 1 billion and UA 1.5 billion while complying with the Fund's debt sustainability framework.

3.3 Table 2 provides the updated maximum borrowing rates for CDLs by currency, based on the prevailing swap rates[3] as at September 2nd 2016.

Table 2: Maximum indicative borrowing rates for CDLs

Target Maturity	**Currency**	**Prevailing market rates (a)**	**Maximum CDL borrowing rates (b)**
40 years – including a 5-year grace period	EUR	0.50%	**0.5%**
	USD	0.50%	**0.5%**
	GBP*	0.95%	**0.7%**
	JPY ***(c)**	0.18%	**-0.1%**
	CAD*	1.96%	**1%**

*Assumes a target maximum after swap rate of 0.5% in EUR.

Notes:

(a) GBP, JPY and CAD are expected to be swapped into EUR.

(b) The maximum borrowing rates for currencies that will be swapped, are set taking into account: i) eventual swap costs for ADF as a swap counterparty, given the long maturity of the hedge transactions; ii) the interest rate volatility between the time maximum borrowing rates are fixed and the time hedge transactions are implemented; and iii) the need for donor countries to provide resources at highly concessional rates in their national currencies in order to preserve the Fund's long term financial sustainability.

(c) Where the target maximum CDL borrowing rate is negative, the donor may synthetically achieve such negative through a combination of a CDL at 0% and a "buy-down" mechanism.

(d) The Chinese Renminbi (RMB) is not included primarily because capital markets in China do not yet have the level of liquidity and depth to allow the Fund to fully hedge all risks embedded in the CDL. However ADF welcomes concessional loans in Renminbi as Bridge Loans (BLs).

[3] Mid-market rates which do not factor-in likely third-party swap execution and credit charges.

Maximum borrowing rates for BLs

3.4 The BL smooths the Fund's Advance Commitment Capacity (ACC) over several replenishments. Unlike CDLs, the proceeds of BLs will not be on-lent, but held as a buffer in the Fund's liquidity and invested in such a manner as to match the repayment profile of the corresponding bridge loans. BLs will enable the Fund to increase the ACC in ADF-14, as illustrated in table 3.

Table 3: Impact of BLs on the ACC for ADF-14

	BL of UA 300 million	BL of UA 1 billion
Base Line ACC level excl. innovative instruments[4]	344	284
Additional ACC generated by a BL of 20 years	342	850
Total ACC for ADF-14 (BL of 20 years)	**686**	**1,134**

3.5 Table 3 assumes a 0% interest rate margin (or break-even level) calculated as the difference between the interest rate charged on the BL and the returns achieved by the Fund when investing its proceeds. However, when defining the maximum rates at which BLs can be borrowed by the Fund, it is important to maintain a positive interest rate margin to preserve the Fund's financial sustainability.

3.6 Table 3 also shows that the ACC generated from a BL of UA300m is proportionally higher than that generated from a BL of UA1,000m. This is because, under the baseline financing scenario whereby a 0% growth in total grant contributions (including BL grant element) is assumed, there is less pure grants (or "free money") received by the Fund with a BL of UA1,000m than with a BL of UA300m as the greater the size of the BL, the greater its grant element. Therefore, ADF will comparatively produce less projects loans, therefore less loans reflows and in effect less incremental ACC.

3.7 In order to avoid any currency risk, the Fund will invest the proceeds of BLs in the currencies in which funds are received. The investment strategy will seek to replicate the repayment profile of the BLs, and, as a consequence, the Fund will mostly buy long-term securities with maturities spanning from 20 to 40 years, provided that the relevant financial markets are deep enough to allow the execution of such a strategy. Table 4 below presents long term investment returns that could be achieved in selected currencies based on current market trends and the corresponding maximum BL rates.

[4] The ACC excluding the impact of innovative instruments differs for the 2 scenarios because each scenario corresponds to a different level of grant contributions from donors (see details of scenarios in the separate note on updated financing scenarios).

Table 4: Indicative BL investment returns and maximum borrowing rates (based on prevailing interest rates as at September 2nd 2016).

Target Maturity	Currency	Prevailing Investment Returns (a)	Maximum BL borrowing rates (b)
20 years – including a 10 year grace period	EUR	0.30%	0.25%
	USD	1.50%	1.00%
	JPY	0.10%	0.01%
	GBP	1.00%	0.75%
	CAD	1.25%	1.00%
	CNY **(c)**	2.50%	1.00%

Notes:

(a) Prevailing market rates reflect returns that are achievable for a bond portfolio with a maturity of 20-years. As BLs may be provided for longer maturities up to 40 years, the same level of yields can be assumed for longer maturities, owing to the limited spread opportunities currently available in markets.

(b) Proposed maximum BL rates are set conservatively considering (i) the historical volatility of each currency investment returns, (ii) the need to ensure that donor loans are provided at highly concessional rates in national currencies in conformity with Article 8 of the Fund Agreement and (iii) in such a way as to avoid undue arbitrage between BLs and CDLs.

(c) Investment rate in CNY (RMB) is rather derived from prevailing yields available on 10-year maturity bonds, due to the limited depth of that market.

3.8 Moreover, in markets where the liquidity for securities with longer maturities is limited, customized lending terms will be discussed with donors in order to ensure matching assets and liabilities for the ADF.

IV. UPDATE ON METHODOLOGY FOR THE DETERMINATION OF THE GRANT ELEMENT OF CDLs AND BLs

4.1 During the second ADF-14 replenishment meeting, Management recommended using an approach similar to IDA to derive the grant element of CDLs and BLs. Tables 1 and 4 of the June 2016 Innovative Financial Instruments paper provided the grant element expected to be applied respectively to CDLs and BLs during ADF-14, but they did not specified how this grant element would be converted for each currency of the SDR basket. Subsequently, Deputies asked for more clarification on the computation of the grant element in their respective national currencies.

Management responded that the grant element would apply uniformly for all currencies of the SDR basket.

4.2 Management has further discussed the pros and cons of keeping a uniform grant element for all currencies of the SDR, against the approach of IDA which links the grant element in individual national currency to the equivalent coupon rate in SDR. The drawbacks of the initially proposed uniform grant element approach are the following:

- Inconsistency between the computation of the grant element on the basis of a SDR discount rate of 2.65% and its application to national currency loans with no equivalence provided between local currency coupons and SDR equivalent rates;

- Thus, donors whom provide differing loans in national currencies, would still receive the same levels of grant element and burden share as described in the example below:

Donor	currency	Loan Amount	UA equivalent	Coupon*	GE[5] %	GE amount
France	EUR	110	**100**	0%	**40.20%**	**40.2**
UK	GBP	98		0%		

* No equivalence provided between local currency coupons and SDR equivalent rates.

- Then, when applying the 80/20 substitution rule, the uniform approach would result in reduced CDL nominal amounts and therefore would likely lead to a lower total replenishment size:

		In millions	**ADF-14**			
Donor	currency	ADF-13 Contributions *(a)*	GE from min. Loan size *(b) = 20% x (a)*	Coupon*	GE % *(c)*	Min. Loan size *(d) = (b) / (c)*
Germany	EUR	464	93	**0%**	**40.2%**	231
UK	GBP	603	121			300
JPY	JPY	43,083	8,617			21,434

* The lack of equivalence between local currency coupons and SDR equivalent rates lowers the minimum size requirements for concessional loans particularly for negative yield currencies such as EUR and JPY.

- Finally, it would be slightly unfair to grant-only donors, as donors contributing CDLs in currencies such EUR or JPY, would enjoy higher grant elements than if the CDLs were based on SDR equivalent rates.

Given the above, Management therefore proposes to compute the grant element of concessional loans in national currencies, on the basis of the SDR equivalent rate of each currency.

[5] GE = Grant Element

Deriving the Grant Element of Concessional Donor Loans on the basis of Single Currency Equivalents of various SDR rates.

4.3 Table 5 below presents national currency interest rate levels and corresponding grant elements of equivalent SDR interest rates.

Table 5: Conversion of local currency interest rate into an SDR equivalent rate for a 5/40 CDL

(Indicative figures subject to changes based on prevailing swap rates and a discount rate of 2.65%)

SDR borrowing rate for 5/40 CDL	0%	0.25%	0.50%	0.75%	1%	1.75%
Grant element	**40.2**	**36.4%**	**32.6%**	**28.8%**	**25.0%**	**13.5%**
Equivalent rate in single currency:						
USD	+0.61%	+0.88%	+1.16%	+1.43%	+1.68%	+2.43%
JPY	-1.06%	-0.85%	-0.64%	-0.43%	-0.18%	+0.57%
EUR	-0.64%	-0.41%	-0.19%	+0.04%	+0.29%	+1.04%
GBP	-0.26%	-0.02%	+0.22%	+0.46%	+0.71%	+1.46%
CNY	+1.10%	+1.39%	+1.69%	+1.99%	+2.24%	+2.99%

4.4 Table 5 shows that, for instance, a 5/40 CDL denominated in USD with a rate of 0.88% would be equivalent to a similar CDL denominated in SDR with a rate of 0.25% and a grant element is 36.4%.

4.5 Moreover, donors may also use Table 5 to extract - by simple interpolation, the grant element of a CDL with a 5/40 year grace/maturity period and at the coupon rates they prefer. For example, Table 6 summarizes the same for JPY coupons of 0.01% vs. 0.35%:

- The SDR equivalent rate for JPY CDL with a 5-40 grace/maturity period and a coupon of 0.01% is an SDR coupon 1.18% and corresponds to a grant element of 22.24%.
- The SDR equivalent rate for JPY CDL with a 5-40 grace/maturity period and a coupon of 0.35 % is an SDR coupon 1.53% and corresponds to a grant element of 16.87%.

Table 6: Grant element for a JPY CDL with a 0.01% vs.0.35% coupon rates

CDL terms : 5-40 grace/maturity	0.01%	0.35%
Equivalent coupon in SDR	1.18%	1.53%
Grant Element	**22.24%**	**16.87%**

4.6 However, donors should recall that maximum rates prescribed under section III of this document must ultimately apply. Therefore, they may use the buy-down mechanism (as described under sections 2.5 and 2.6) to synthetically achieve the required concessionality level for their loans.

Determining the grant element in national currency for BLs

4.7 For the determination of the grant element in national currency for BLs, Management proposes to use exactly the same approach as for CDLs. The rationale for this is that a donor should receive the same grant element for providing loans with the same characteristics to the Fund, regardless of the Management's intended use of the loans' proceeds. Differing methodologies for CDLs and BLs could result in undue arbitrage issues, as a donor may prefer one product over another in an attempt to optimize its grant element. Henceforth, by applying the same methodology for determining the grant element of CDLs and BLs, the only differentiating factors that would have an impact on the computation of the grant element is the maturity and grace period of the loans. For indicative purposes, Table 7 and Table 8, provide the grant element conversion tables for a 10/20 BL and a 10/40 BL.

Table 7: Conversion of local currency interest rate into an SDR equivalent rate for a 10/20 BL
(Indicative figures subject to changes based on prevailing swap rates and a discount rate of 2.65%)

SDR borrowing rate for 10/20 BL	0.00%	0.25%	0.50%	0.75%	1.00%	1.75%
Grant element	**29.6%**	**26.8%**	**24.0%**	**21.1%**	**18.3%**	**9.9%**
Equivalent rate in single currency:						
USD	+0.64%	+0.93%	+1.20%	+1.45%	+1.70%	+2.45%
JPY	-1.37%	-1.12%	-0.90%	-0.65%	-0.40%	+0.35%
EUR	-0.83%	-0.57%	-0.34%	-0.09%	+0.16%	+0.91%
GBP	-0.28%	+0.00%	+0.24%	+0.49%	+0.74%	+1.49%
CNY	+1.43%	+1.74%	+2.03%	+2.28%	+2.53%	+3.27%

Table 8: Conversion of local currency interest rate into an SDR equivalent rate for a 10/40 BL
(Indicative figures subject to changes based on prevailing swap rates and a discount rate of 2.65%)

SDR borrowing rate for 10/40 BL	0.00%	0.25%	0.50%	0.75%	1.00%	1.75%
Grant element	**44.5%**	**40.3%**	**36.1%**	**31.8%**	**27.6%**	**14.9%**
Equivalent rate in single currency:						
USD	+0.65%	+0.92%	+1.17%	+1.42%	+1.67%	+2.42%
JPY	-1.08%	-0.88%	-0.63%	-0.38%	-0.13%	+0.63%
EUR	-0.63%	-0.41%	-0.16%	+0.09%	+0.34%	+1.09%
GBP	-0.28%	-0.05%	+0.20%	+0.45%	+0.70%	+1.45%
CNY	+1.03%	+1.33%	+1.58%	+1.83%	+2.08%	+2.83%

V. RISKS INHERENT IN SETTING MAXIMUM BORROWING RATES AND PROPOSED MITIGANTS

Identifying the risks inherent in setting maximum borrowing rates

5.1 During the second ADF-14 replenishment meeting, indicative maximum borrowing rates for CDLs and BLs, which were deemed sustainable for the Fund, were presented to Deputies. Deputies expressed the need to get the maximum borrowing rates fixed as early as possible, preferably before the November 2016 pledging session. This would facilitate the decision making process in their capitals. Management explained that an early fixing of the maximum borrowing rates for CDLs and BLs could be detrimental to the ADF, as adverse movements in interest rates could result in a higher than expected after-swap cost of borrowing for the Fund on CDLs and BLs. Management was specifically requested to address this issue.

5.2 The magnitude of donors' pledges in CDLs and BLs will be known during the ADF-14 last replenishment meeting scheduled in November 2016. However, it is only when the Fund receives instruments of subscription from donors (generally within 1 year following the pledges) that it is possible to implement necessary hedge transactions to lock-in the Fund's borrowing costs. Therefore, during the period between the date on which the maximum borrowing rates are communicated to Deputies and the date on which the hedge is implemented, the Fund would remain fully exposed to market risks.

Quantifying the impact of interest rate risk on the Fund

5.3 A historical analysis over a period of 1 year shows that interest rates have been quite volatile, moving by 1% to 2%. Simulations on the impact of a decrease of 1% in interest rates, with the detailed computations at Annex 2, indicate the following:

- For scenario 1, based on a CDL amount of UA 1 billion and a BL amount of UA 300 million, the Fund's annual income would decrease by UA 5 million over the life of the loans, while the ACC for ADF-14 (up till ADF-16) would decrease by about UA 35 million.
- For scenario 2, based on a CDL amount of UA 1.5 billion and a BL amount of UA 1 billion, the Fund's annual income would decrease by UA 11 million over the life of the loans, while the ACC for ADF-14 (up till ADF-16) is expected to decrease by about UA 73 million.

These negative impacts are expected to be counter-balanced by the positive impact of CDLs and BLs on the total volume of resources available for lending, as well as on loan income, both of which are expected to increase. However, if the interest rates volatility is very significant and impact on both the Fund's annual income and the ACC very negative, the Fund might be better off by not including these loans in its Balance sheet and so would consider declining them.

Management's proposal for addressing the risks inherent in setting maximum interest rate

5.4 In order to address the risks highlighted above that are inherent in fixing the maximum borrowing rates ahead of the actual commitment and drawdowns on CDLs and BLs, Management proposes the following:

1) Fixed maximum borrowing rates and grant elements will be communicated on October 10th 2016. In the meantime, information provided in this document may be used by Deputies for preliminary consultations in their capitals.

2) At the end of the pledging session during the 3rd replenishment meeting, a preliminary estimate of the Total Replenishment resources for ADF-14 will be established - subject to eventual changes in the ACC.

3) Following the pledges, the Fund expects to receive instruments of subscriptions for concessional loans as soon as possible thereafter, particularly for currencies expected to be swapped, in order to finalize loan agreements and to enable the implementation of hedge transactions in a cost effective manner. If subscriptions are received with significant delays and adverse changes in prevailing interest rates are material, the Fund reserves the right to decline loans which would no longer be concessional as a result of the interest rate volatility. The total replenishment resources would then be adjusted accordingly[6].

[6] The proposed roadmap is generally consistent with the approach taken by IDA for IDA 17. Indeed, total resources agreed during IDA-17 last replenishment were estimated at UA 34.6 billion. However the final replenishment size of IDA-17, following the receipt of all instruments of subscription and implementation of hedge transactions, was adjusted down by UA 200 million to UA 34.4 billion, owing to changes in market conditions.

VI. CONCLUSIONS AND RECOMMENDATIONS

Deputies are hereby requested to approve the following recommendations:

1) Management proposes an update of indicative maximum borrowing rates for CDLs and BLs as specified in the table below:

	CDL	BL
Maturity Currency	5-40 year	10-20 up to 10-40 year
EUR	0.50%	0.25%
USD	0.50%	1.00 %
GBP	0.70%	0.75%
JPY	-0.10%	0.01%
CAD	1.00%	1.00%
CNY	N/A	1.00%

Final maximum borrowing rates will be communicated by October 10^{th} 2016.

While these maximum rates are set to preserve the Fund's long term financial sustainability, donors are encouraged to provide loans at rates as close as possible to 0% in their respective currencies.

2) Management proposes a harmonization of the grant element for BLs and CDLs of the same characteristics and which are now determined on the basis of a SDR equivalent coupon rate.

3) Management proposes that the impact of market volatility on required hedging transactions for loans be reflected in an adjustment of ADF-14 total replenishment resources. The Fund would retain the right to cancel those loans whose concessionality may be significantly reduced due to market volatility and which would therefore jeopardize ADF long term financial sustainability, and thereby lead to the Fund violating Article 8 of its Agreement.

Annex 1: Terms of CDLs and BLs

CDLs

- ***Maturity***: Minimum 35 years - 40 years is preferred in order to match as closely as possible ADF's lending terms.
- ***Grace period***: minimum 5 years.
- ***Principal repayment***: would begin after the grace period - a straight-line amortizing repayment schedule would be applied.
- ***Effective borrowing interest rate***: 0% - with a maximum 0.5% after swap in EUR or USD.
- ***Currencies***: ADF would accept loans in any currency.
- ***Prepayment***: ADF may prepay some or the entire outstanding CDLs without penalty.
- ***Cancellation***: ADF may - partially or fully - cancel loans made available to it, without penalty.
- ***Drawdown***: ADF shall draw down on CDLs within the ADF-14 cycle in a maximum of 3 instalments but preferably in a single installment.

BLs

- ***Maturity***: Minimum maturity of 20 years - up to 40 years.
- ***Grace period***: minimum 10 years.
- ***Principal repayment***: would begin after the grace period - a straight-line amortizing repayment schedule would be applied.
- ***Effective borrowing interest rate***: 0% - with maximum set as per table 4.
- ***Currencies***: ADF would accept loans in any currency.
- ***Prepayment***: ADF may prepay some or the entire outstanding CDLs without penalty.
- ***Cancellation***: ADF may - partially or fully - cancel loans made available to it, without penalty.
- ***Drawdown***: ADF shall draw down on CDLs within the ADF-14 cycle in a maximum of 3 instalments but preferably in a single installment.

Annex 2: Impact of Interest Rate Sensitivity on the Fund

A variance in interest rates between when maximum rates are communicated to Deputies and when related hedge transactions are effectively implemented, will impact the Fund on two levels:

i) The income statement and ii) the ACC

Impact on Income Statement

The impact on the income statement is summarized in Table A2-1 for two scenarios of levels of CDLs and BLs.

Table A2-1: Impact of 1% interest rate decrease on ADF net income (in UA mil.)

#	Instrument	Amount	Maturity	ADF net income increase (decrease) over the life of the instruments		
				Impact of CDL & BL under Baseline[7] financing scenario (a)	Impact of 1% decrease in interest rates[8] (b)	Variance between baseline and the case for 1% decrease in interest rates (b)– (a)
1	Income generated by CDL	1,000	35 years	117.0	22.0	(95)
	Income generated by BL	300	20 years	0	(43.5)	(43.5)
	Annualized impact for scenario 1			**3.3**	**(1.5)**	**(4.9)**
2	Income generated by CDL	1,500	35 years	149.4	6.9	(142.5)
	Income generated by BL	1,000	20 years	0	(145.0)	(145.0)
	Annualized impact for scenario 2			**4.3**	**(7.1)**	**(11.3)**

[7] Baseline financing scenario assumes: 0% increase in total grant contributions compared to ADF-13; 0.25% average borrowing rate on CDLs and 0% interest rate margin on BLs.
[8] It is assumed that half of the proceeds of CDLs will need to be swapped and therefore be subject to the 1% adverse decrease in interest rates. BL cost of carry is increased to -1%.

Impact on ACC

The impact on the ACC is summarized in Table A2-2 for the same two scenarios of CDLs and BLs as described above.

Table A2-1: Impact of 1% interest rate volatility on ADF-14 replenishment

	Scenario 1		Scenario 2	
SCENARIOS	**Baseline** **CDL - 1.0 bl** **BL - 300 ml**	**Impact of 1% interest decrease**	**Baseline** **CDL - 1.5 bl** **BL - 1. bl**	**Impact of 1% interest decrease**
Total Grant Contribution	3,840	3,840	3,840	3,840
Carry-over amounts	389	389	389	389
ACC (excluding concessionnal loans)	344	344	284	284
Total resources, excluding concessional loans	**4,573**	**4,573**	**4,513**	**4,513**
Additional Ressources	**1,136**	**1,101**	**1,884**	**1,811**
of which: Maximum CDL Amount net of grant element	*667*	*667*	*1,000*	*1,000*
of which: Additional ACC from CDL and BL	***469***	***434***	***884***	***811***
Total resources, including additional resources	**5,709**	**5,674**	**6,397**	**6,324**
ACC Variance		***-35***		***-73***
Change in Total Resources vs. ADF-13	**8.87%**	**8.20%**	**21.99%**	**20.59%**