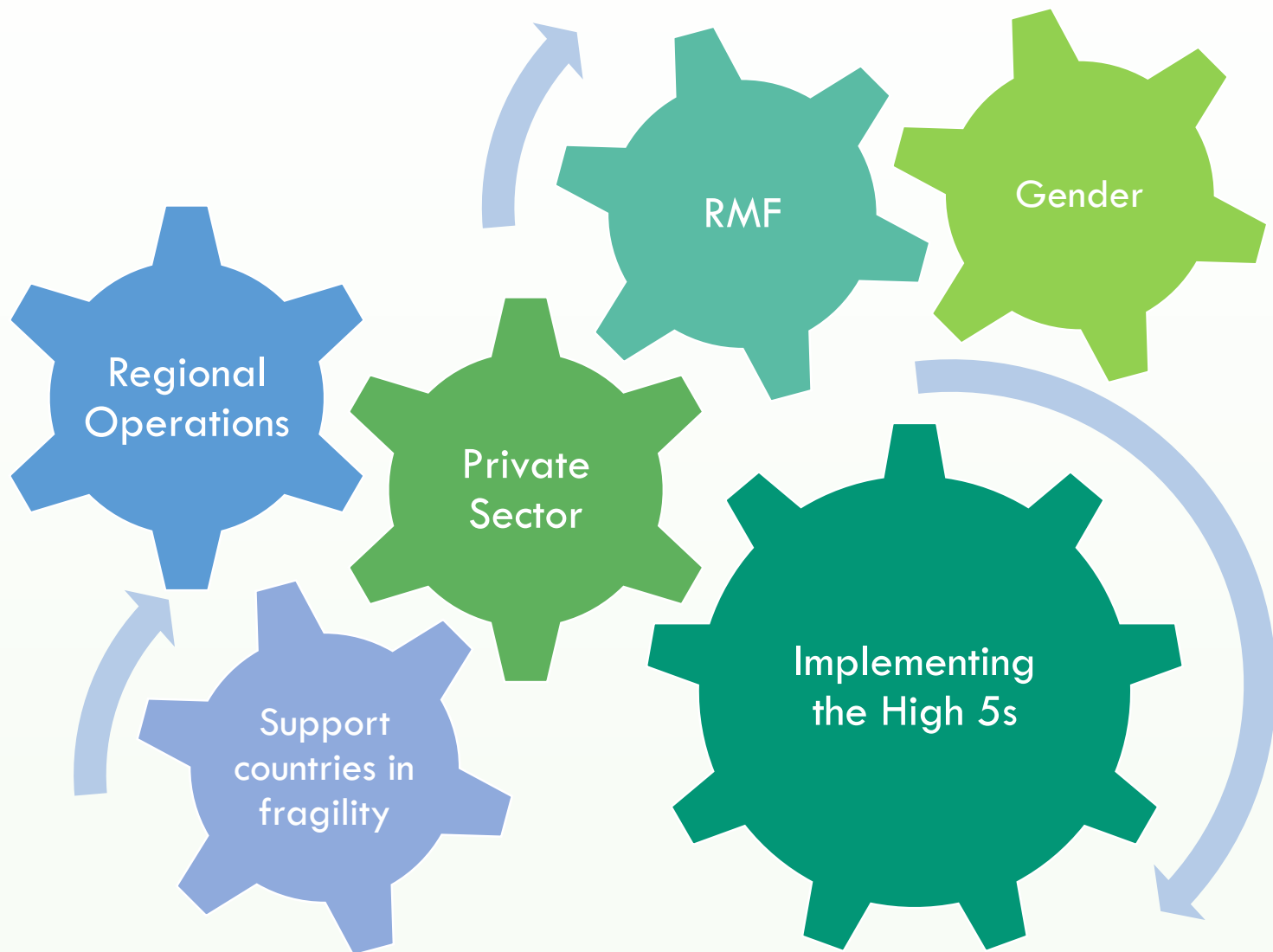


Innovative Financing Instruments under ADF-14

ADF-14 Second Replenishment Meeting

June 30 – July 1, 2016
Abidjan, Côte d'Ivoire

ADF-14 at Work



Ambitious pipeline

New Business Delivery Model

Increased support for private sector in ADF countries

Strong focus on fragility situations

Scale-up ADF resources

Innovations Building Blocks

ADF-14 Working Group

CDLs

**Concessional Donor
Loans**

BLs

Bridge Loans

BDM

Buy-Down Mechanism

During the March Meeting, Deputies agreed that:

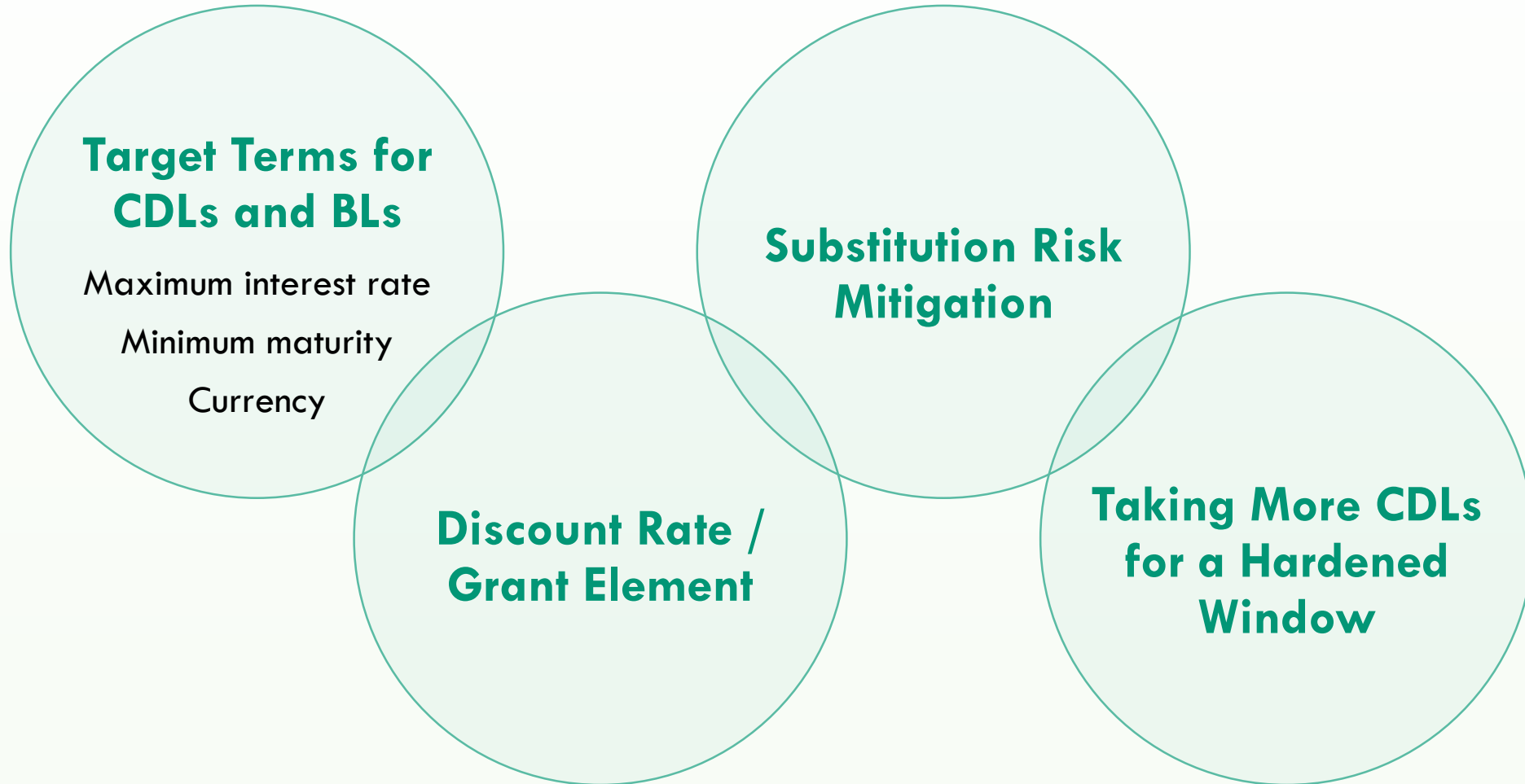
Grants as the main
source of financing for
ADF

ADF long-term
sustainability should be
preserved

No earmarking of the
proceeds of CDLs

Instruments should be
attractive in terms of
donors recognition and
simplicity

Ingredients for Successful Debt in ADF-14



Principles and Terms of CDLs

Principles

- Average CDLs maturity must exceed ADF loans maturity
 - CDLs either in:
 - Currencies highly demanded by ADF borrowers (EUR and USD)
- OR**
- If in other currencies, should be swapped into EUR and USD

Preferred Maturity

40 Years

Grace Period

5 Years

Targeted Amount

UA 1.5 bn

Currency & Maximum Interest Rate

EUR	GBP	JPY	USD
0.5%	1.0%	0.01%	0.5%

Principles and Terms of BLs

Principles

- Amount and maturity to optimize liquidity profile and ACC
- Proceeds will remain in received currency and will be invested in an HTM portfolio with an average duration of 15 years
- Coupon rate must remain below expected return on HTM portfolio

Preferred Maturity

20 Years

Grace Period

10 Years

Targeted Amount

UA 1.0 bn

Currency & Maximum Interest Rate

EUR	GBP	JPY	USD
0.5%	1.1%	1.01%	1.3%

Discount Rate

March Meeting:

“Net Income Earned Approach”

Discount Rate for both CDLs and BLs

1.75%

Donors interested in CDLs and BLs asked for a

More Attractive Rate

Management Proposal:

Discount Rate for both CDLs and BLs

2.65%

(similar to IDA-17)

Substitution Risk Mitigation Rule

March Meeting:

90:10 Rule

- 90% of ADF-13 contribution in grant
- ADF-14 contribution greater or equal to ADF-13 on a grant-element basis

Donors interested in CDLs and BLs asked for an alignment with IDA-17

80:20 Rule

Management Proposal:

80:20 Rule

Prioritization Rule

CDLs

1. *The most concessional rate after any swaps*
2. *The proportion of grants in the contribution*

BLs

1. *Loan that provides the best value to the Fund*
(i.e. highest positive differential between the expected return in HTM investments and the borrowing cost of BLs)
2. *The proportion of grants in the contribution*

Contributing to the **SDGs**

by Availing More Resources to ADF Countries

Strong demand to finance projects with high development impact

- Lend to **creditworthy ADF countries** additional development resources on hardened but still concessional conditions
- **Sustainable alternative** to much more expensive resources
- Hardened terms **comparable** to other MDBs
- CDLs proceeds above UA 1.5 billion to be on-lent on hardened but still concessional terms

Harder Terms **Do Not Contradict** Debt Sustainability

The ADF Lab paper on the **debt sustainability impact** of hardened terms

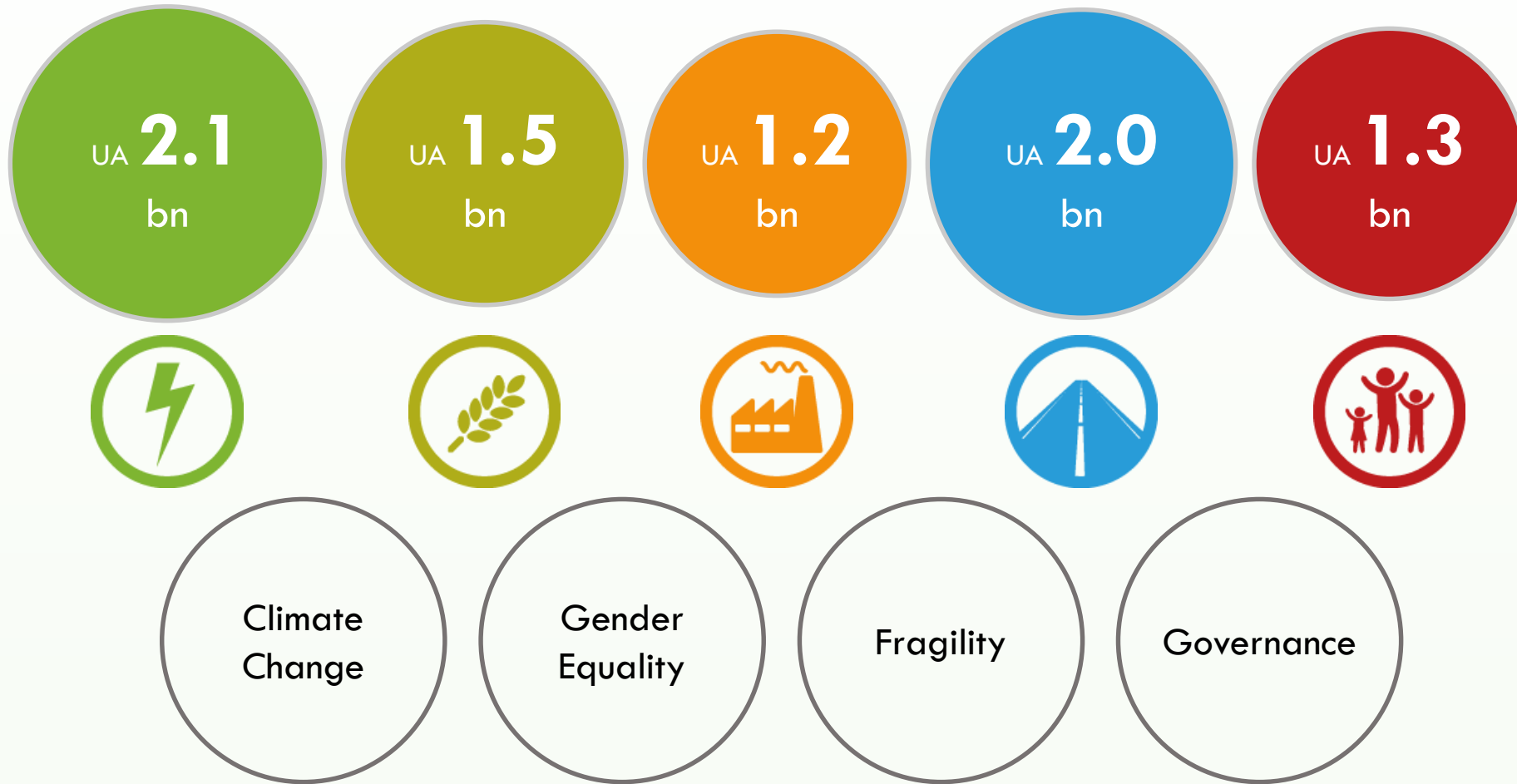
- Hardening by donors part of **the new reality of development finance** (and not necessarily bad)
- Hardened terms **not likely to be a tipping factor** in debt sustainability for borrowers
- Essential that hardened terms be accompanied by **larger volume of funds** and by a **hardened policy dialogue** with ADF countries

BDM as a Backup Option

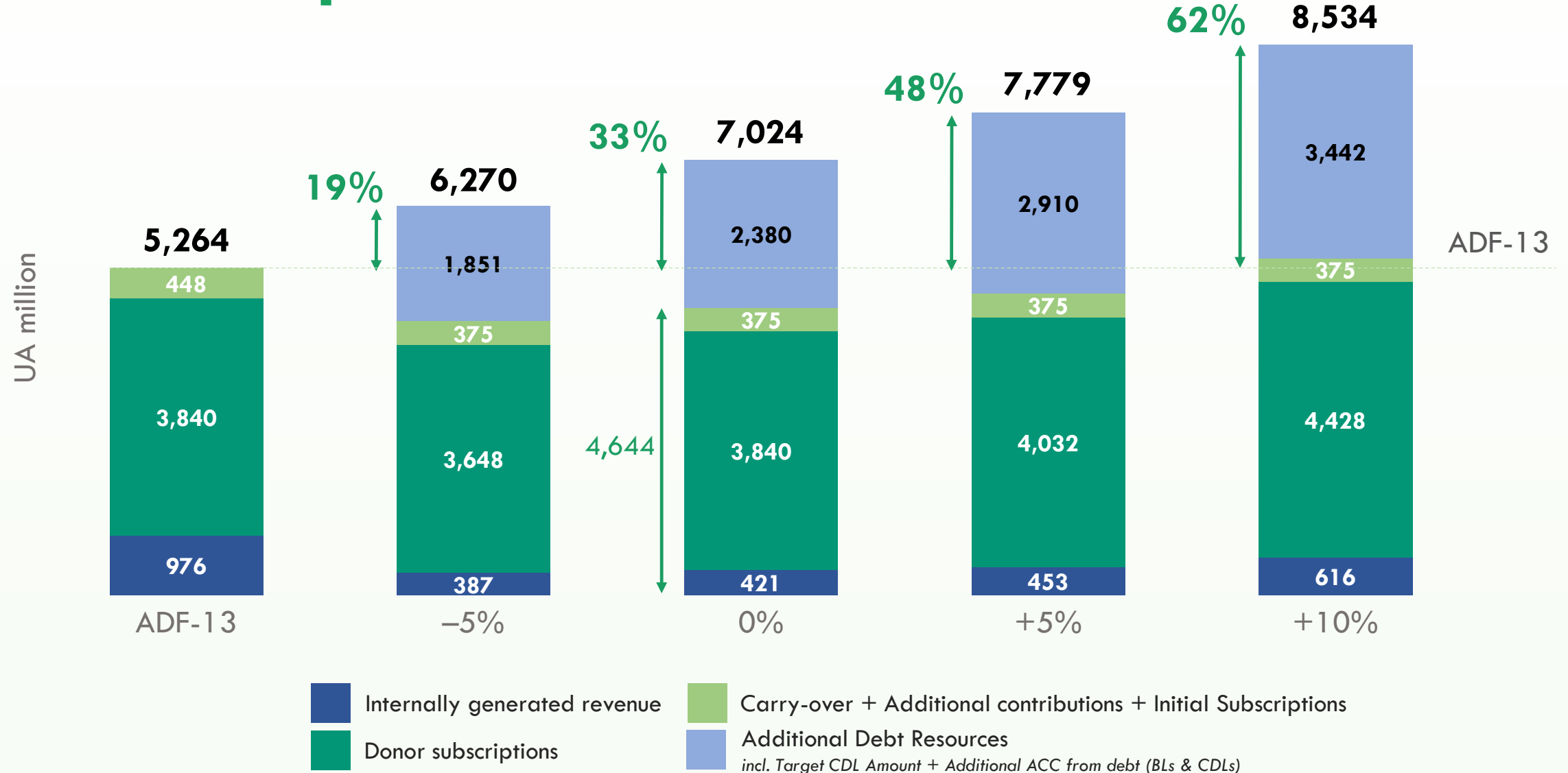
- **Competition** between CDL and BDM since both instruments **target the same ADF countries**
- BDM has a **negative impact on the ACC**
- BDM has a **negative impact on the Grant Compensation Scheme** in the longer term

BDM would only be implemented if there are limited CDLs

ADF-14 Pipeline



ADF-14 Replenishment Scenarios



ADF-14 Way Forward

- **Ambitious objectives for ADF-14**
TYS scaled up around the high 5's
New Business Delivery Model
- **Maintaining grants supplemented by BLs and CDLs**
Key ingredients for success
- Looking forward to capitals' indications on their **contributions**





Thank You