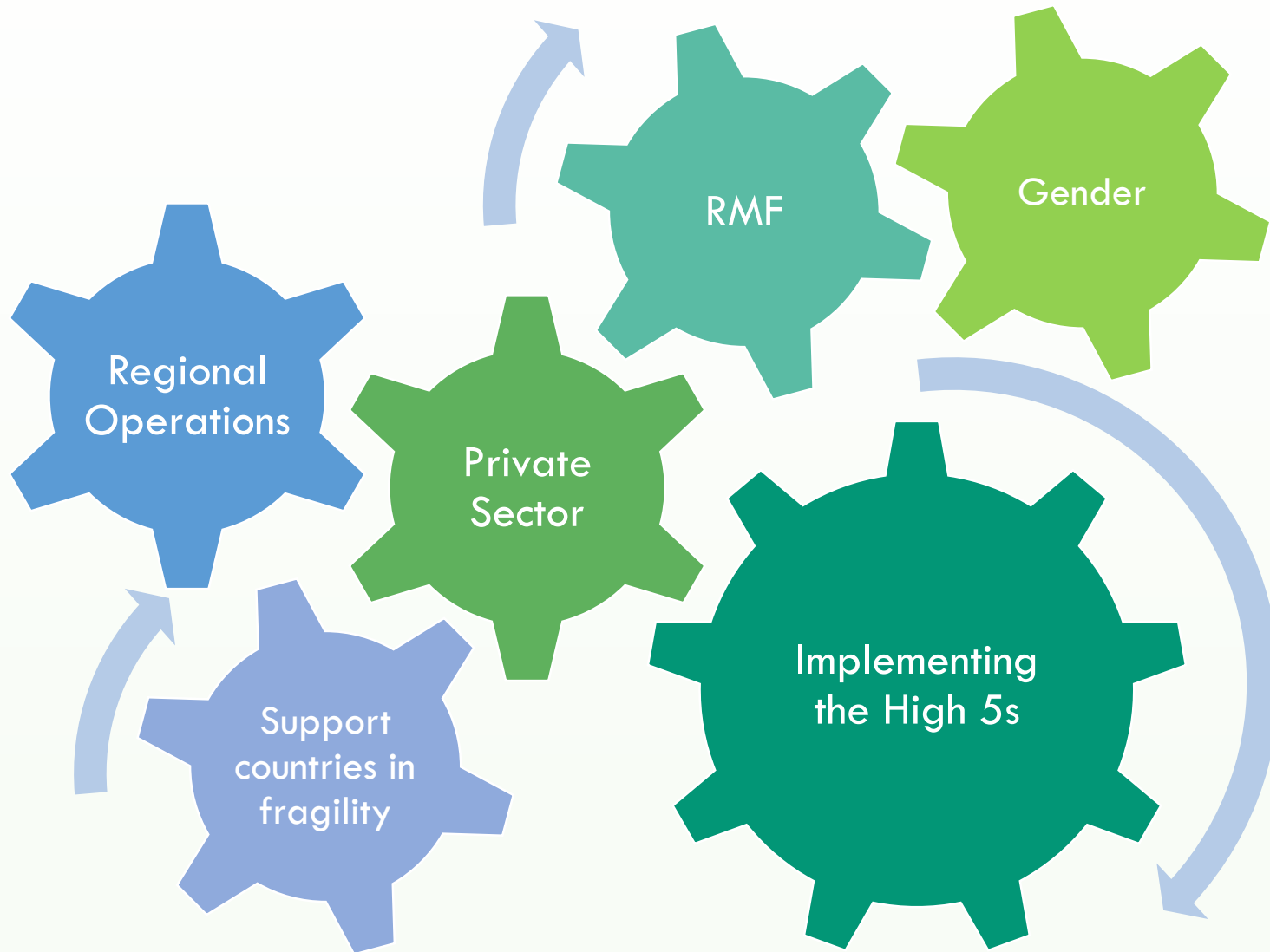


# Innovative Financing Instruments under ADF-14

## 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:*

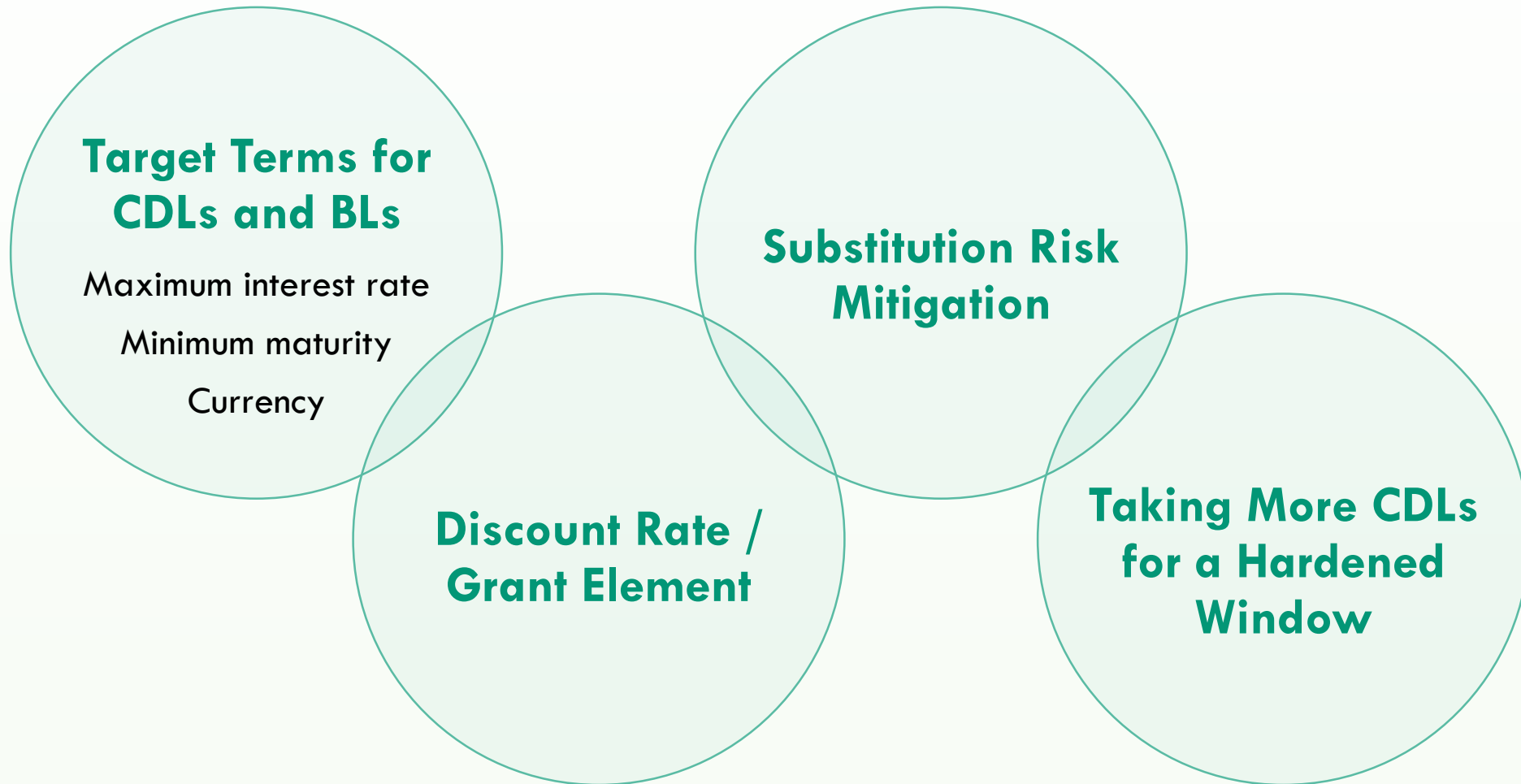
Grants as the main  
source of financing for  
ADF

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

<b>EUR</b>	<b>GBP</b>	<b>JPY</b>	<b>USD</b>
<b>0.5%</b>	<b>1.0%</b>	<b>0.01%</b>	<b>0.5%</b>

# 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

<b>EUR</b>	<b>GBP</b>	<b>JPY</b>	<b>USD</b>
<b>0.4%</b>	<b>0.9%</b>	<b>0.01%</b>	<b>0.9%</b>

# 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

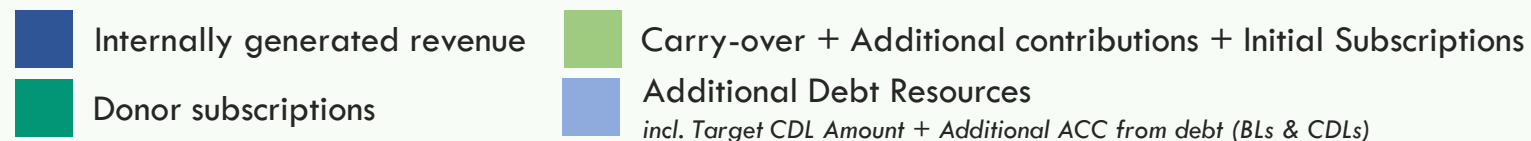
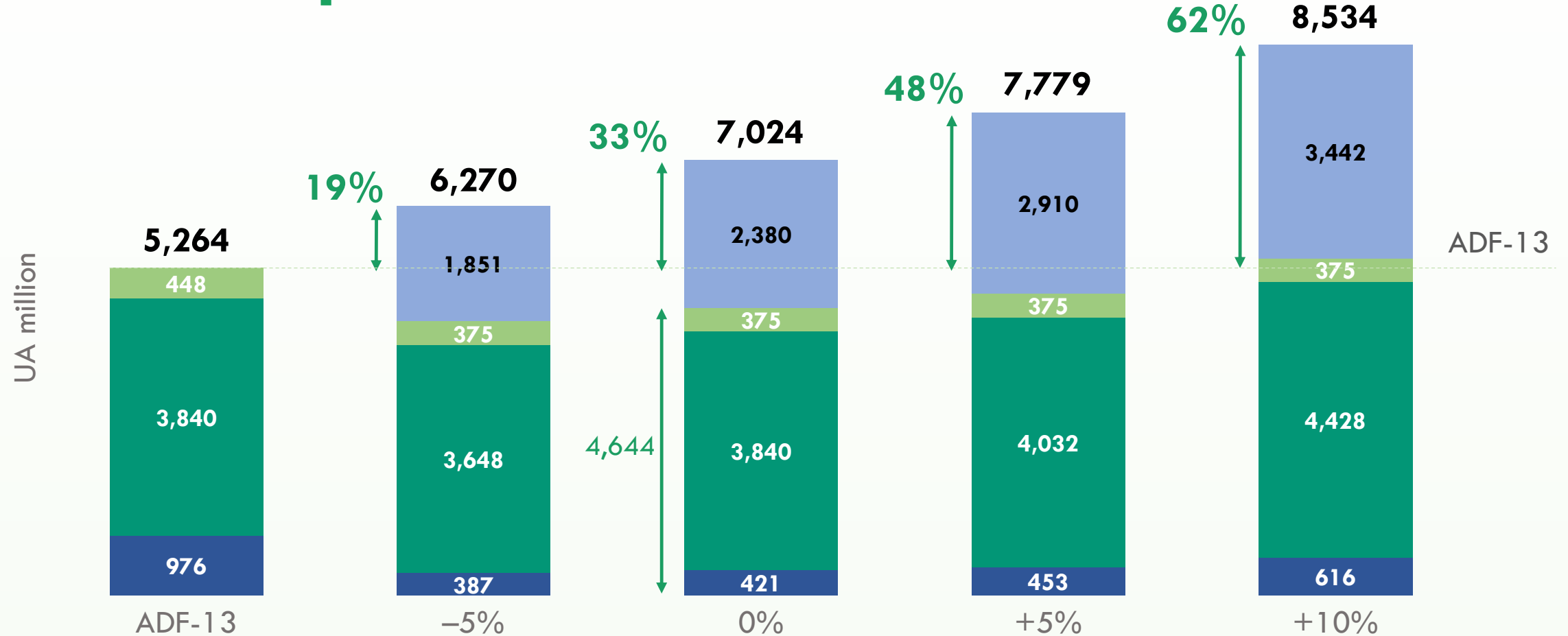
- **Competition** between CDL and BDM since both instruments **target the same ADF countries**
- BDM has a **negative impact on the ACC**
- BDM has a **negative impact on the Grant Compensation Scheme** in the longer term

**BDM would only be implemented if there are limited CDLs**

# ADF-14 Pipeline



# ADF-14 Replenishment Scenarios



# ADF-14 Alternative Financing Scenarios

SCENARIOS	ADF-13	SCENARIO 1	SCENARIO 2
ACC (without Innovative Instruments)	976	415	415
Donor Grant subscriptions	3,840	3,502	3262
Grant element of Debt (CDL and BL)		338	578
<i>Change in Donor Grant contributions excluding Grant element of Debt</i>		-8.8%	-15.1%
<i>Change in Donor Grant contributions including Grant element of Debt</i>		0%	0%
Additional contributions	20		
Initial Subscriptions	50		
Carry-over amounts	378	389	389
Total resources	5,264	4,644	4,644
Additional Resources	n/a		
of which: Target CDL Amount net of grant element		723	723
of which: Additional ACC from CDL and BL		221	596
Total resources, including additional resources	5,264	5,588	5,963
Change in total resources		6.2%	13.3%

➤ Scenario 1: CDL of UA 1.06 billion \*

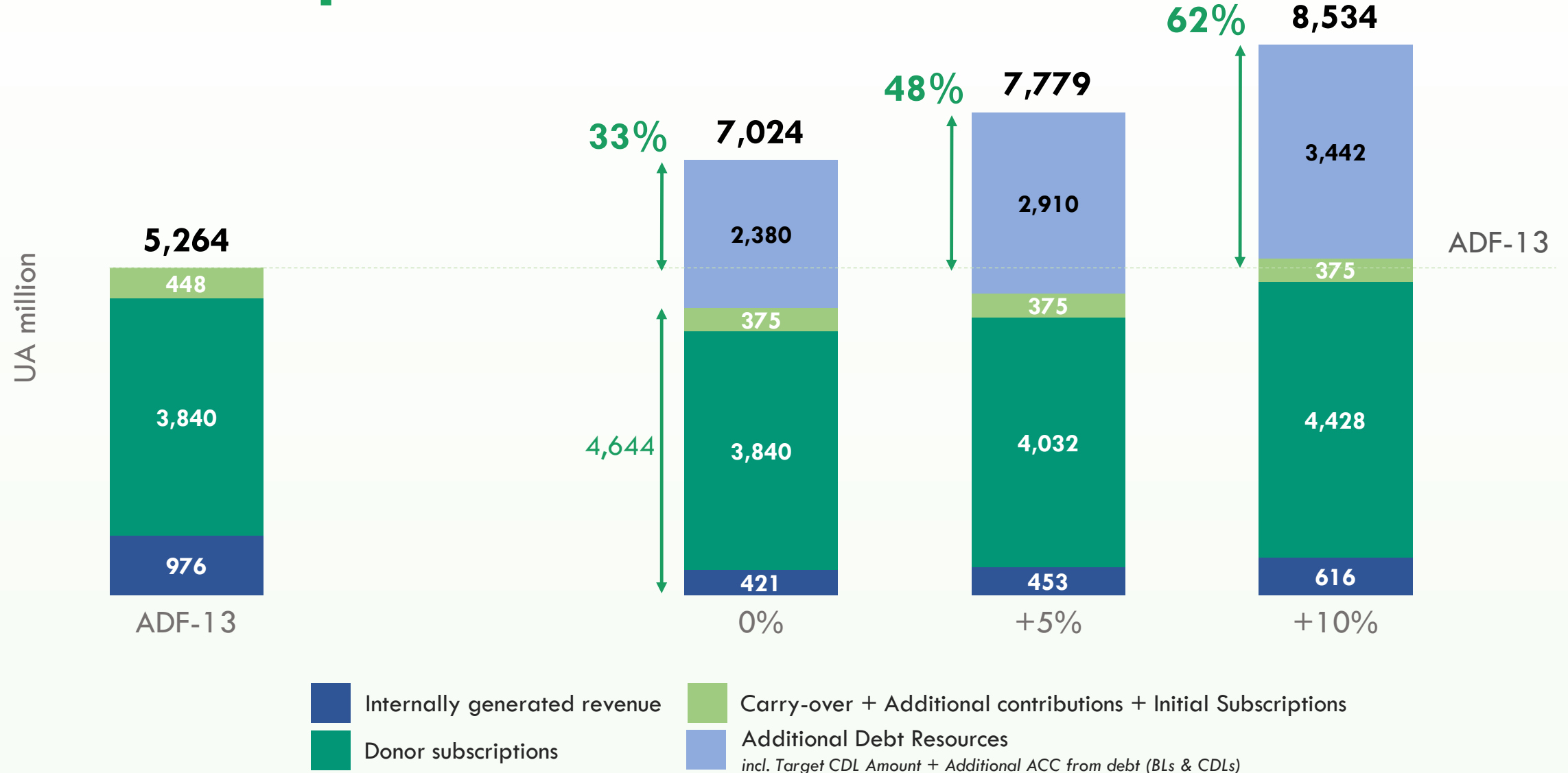
➤ Grant subscriptions + Grant element of debt = 3840

\*discount assumed at 2.65% for a 5/35 year CDL  
at 0.5% . NO BL

➤ Scenario 2 :

= Scenario 1 + BL of UA 1 billion

# 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**