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

Regional Operations
Private Sector
Support countries in fragility
Implementing the High 5s
Gender
RMF
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

Target Terms for CDLs and BLs
- Maximum interest rate
- Minimum maturity
- Currency

Discount Rate / Grant Element

Substitution Risk Mitigation

Taking More CDLs for a Hardened Window
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**

<table>
<thead>
<tr>
<th>Currency</th>
<th>Maximum Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>0.5%</td>
</tr>
<tr>
<td>GBP</td>
<td>1.0%</td>
</tr>
<tr>
<td>JPY</td>
<td>0.01%</td>
</tr>
<tr>
<td>USD</td>
<td>0.5%</td>
</tr>
</tbody>
</table>
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**

<table>
<thead>
<tr>
<th>Currency</th>
<th>Maximum Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR</td>
<td>0.4%</td>
</tr>
<tr>
<td>GBP</td>
<td>0.9%</td>
</tr>
<tr>
<td>JPY</td>
<td>0.01%</td>
</tr>
<tr>
<td>USD</td>
<td>0.9%</td>
</tr>
</tbody>
</table>
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)
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

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

UA 2.1 bn

UA 1.5 bn

UA 1.2 bn

UA 2.0 bn

UA 1.3 bn

Climate Change

Gender Equality

Fragility

Governance
ADF-14 Replenishment Scenarios

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Internally generated revenue</th>
<th>Carry-over + Additional contributions + Initial Subscriptions</th>
<th>Donor subscriptions</th>
<th>Additional Debt Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF-13</td>
<td>3,840</td>
<td>448</td>
<td>976</td>
<td>48%</td>
</tr>
<tr>
<td>-5%</td>
<td>3,648</td>
<td>1,851</td>
<td>375</td>
<td>33%</td>
</tr>
<tr>
<td>0%</td>
<td>3,840</td>
<td>2,380</td>
<td>375</td>
<td>48%</td>
</tr>
<tr>
<td>+5%</td>
<td>4,032</td>
<td>2,910</td>
<td>375</td>
<td>62%</td>
</tr>
<tr>
<td>+10%</td>
<td>4,428</td>
<td>3,442</td>
<td>375</td>
<td>8534</td>
</tr>
</tbody>
</table>

- Internally generated revenue
- Carry-over + Additional contributions + Initial Subscriptions
- Donor subscriptions
- Additional Debt Resources
  - incl. Target CDL Amount + Additional ACC from debt (BLs & CDLs)
### ADF-14 Alternative Financing Scenarios

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

- **Scenario 1**: CDL of UA 1.06 billion *
- **Scenario 2**:  
  - Grant subscriptions + Grant element of debt = 3840  
  - = Scenario 1 + BL of UA 1 billion

*discount assumed at 2.65% for a 5/35 year CDL at 0.5% . NO BL
ADF-14 Replenishment Scenarios

<table>
<thead>
<tr>
<th>UA million</th>
<th>ADF-13</th>
<th>ADF-13</th>
<th>ADF-13</th>
<th>ADF-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,840</td>
<td>3,840</td>
<td>3,840</td>
<td>3,840</td>
<td>3,840</td>
</tr>
<tr>
<td>976</td>
<td>421</td>
<td>453</td>
<td>616</td>
<td>616</td>
</tr>
<tr>
<td>448</td>
<td>2,380</td>
<td>2,910</td>
<td>3,442</td>
<td>3,442</td>
</tr>
<tr>
<td>5,264</td>
<td>7,024</td>
<td>7,779</td>
<td>8,534</td>
<td>8,534</td>
</tr>
</tbody>
</table>

- Internally generated revenue
- Carry-over + Additional contributions + Initial Subscriptions
- Donor subscriptions
- Additional Debt Resources incl. Target CDL Amount + Additional ACC from debt (BLs & CDLs)

16% triggers the increase of ADF-13 to 8,534 UA million.
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