IDB Finance Department

Proposal for a Flexible Financing Facility for Ordinary Capital Sovereign Guaranteed Loan Operations

April 2011

The Project Team consist of: Maristella Aldana (EVP); Carlos Herrera (VPF/VPF); Morgan Doyle (VPS/VPS); Raul Tuazon (VPC/VPC); Cynthia Colaiacovo (LEG/CLA); Diego Buchara (LEG/SGO); Frank Sperling (RMG/RMG); Antonio Goncalves (FIN/FSV); Claudia Franco (FIN/FIN); Laura Fan (FIN/TRY); Walter Cuadrado (FIN/ACC); Sikander Daryanani, Yumiko Kusakabe, Fernando Rapanelli, Vinicio Stort, Yuri Zamora and Maria Herencia (FIN/FPD).

ACRONYMS

ALCO	Assets and Liabilities Committee
ALM	Assets and Liabilities Management
AfDB	African Development Bank
ADB	Asian Development Bank
CAF	Corporación Andina de Fomento
CCF	Credit Commission
CHF	Swiss Franc
CPS	Currency Pooling System
DCRM	Derivative Credit Risk Model
FIV	Inspection and Supervision Fee
FFF	Flexible Financing Facility
FSL	Fixed Spread Loans
FTE	Full-Time Employee
IBRD	International Bank for Reconstruction and Development
IFL	IBRD Flexible Loan
IMM	Income Management Model
INV	Investment Loan
LCF	Local Currency Facility
LC	Local Currency
LIBOR	London InterBank Offered Rate
MC	Major Currency
MDA	Master Derivatives Agreement
MDB	Multilateral Development Bank
MTM	Marked-to-Market
NOF	New Operational Framework
NSG	Non Sovereign Guaranteed
OC	Ordinary Capital
OLB	Outstanding Loan Balances
PBL	Policy Based Loan
SCF	Single Currency Facility
SG	Sovereign Guaranteed
ULB	Undisbursed Loan Balances
VAR	Value at Risk
VSL	Variable Spread Loans
WAL	Weighted Average Life

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

1.1 This proposal to establish the Flexible Financing Facility (FFF) for Ordinary Capital (OC) Sovereign Guaranteed (SG) loan operations is the result of the Bank's strategic commitment to meet the changing needs of its clients by providing greater access to a wider array of market-based financial products. This also corresponds to one of the key agendas highlighted in IDB-9, in the Agenda for a Better Bank, through "improvements in what the Bank does by providing innovative products, services and modalities of engaging with clients"[1]. The recent phasing out of the Bank's pool-based financial products with non-market features, through the Conversion Offer, is a successful example of this commitment[2]. Under the Conversion Offer, Bank borrowers migrated 92% of their Adjustable Rate loan exposures to market-based rates: LIBOR-based, Fixed rates or combination of both (See Annex I).

1.2 The foundation of the FFF resides in the consolidation of the existing Single Currency Facility (SCF)[3] and the OC SG loan portion of the new Operational Framework for Lending in Local Currency (LCF)[4] into a single platform for OC SG loans. This unification process will be carried out within Bank's policies and existing risk management, operational, accounting and legal considerations[5]. As a result, the FFF will enable borrowers to select from a menu of options to tailor the financial terms of their loans and provide flexibilities that borrowers can choose from during the life of the loan. This proposal deals exclusively with the financial terms and conditions of the Bank's OC SG loans and not with loan pricing issues. This proposal does not apply to Non Sovereign Guaranteed (NSG) loans and SG or NSG Guarantees nor does it apply to the OC portion of the Bank's "blended" loans[6], for which lending and operational policies (SCF/LCF) will remain unchanged.

1.3 Further to the approval of this proposal by the Board of Executive Directors (Board), implementation of financial options and features offered by the FFF will be based on: (i) demand by borrowers on the flexibilities being offered by the FFF and (ii) the prudent management and monitoring within the Bank's financial and risk management policies through the Bank's Assets/Liability Management Committee (ALCO).

1.4 The implementation of the FFF will benefit from the practices and experiences gained from prior financial product implementation initiatives, such as the introduction of: (i) the SCF Libor–based in 2003; (ii) the LCF in 2005 and its enhancement in 2008; and (iii) most recently the Conversion Offer of the Bank's adjustable rate loans in 2009 and 2010.

1.5 Upon its approval, some features to be offered under the FFF will become an option to choose from for Bank borrowing member countries. Specific requests by borrowers will be treated on a case-by-case basis, and will be subject to operational, legal and risk management

---

[1] Document AB-2764 "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank" Chapter IV.

[2] The Bank's Conversion Offer launched in January 2009 and completed in July 2010 provided borrowers with an opportunity to convert disbursed and undisbursed loan balances under the SCF and Currency Pooling System (CPS) Adjustable rate products to USD LIBOR-based or fixed-rate loans or any combination as determined by the borrowers, and to dollarize CPS-loans.

[3] Document FN-507-4 "Review of the Single Currency Facility (SCF)".

[4] Document GN-2365-2 "New Proposal for an Operational Framework for Lending in Local Currency".

[5] Loans under the FFF will use the same funding pool as the SCF Libor product.

[6] Since flexible features and options allowed under the FFF proposal may result in changes of concessionality levels and debt sustainability measures FSO countries are required to comply with, the FFF will not be applicable to the OC/FSO portion of the "blended" loans and/or existing FSO only loans.

considerations. Until the FFF is fully implemented (January 1, 2012), individual loan operations to be presented for consideration by the Board will continue to be approved under the SCF and/or the LCF. Once the FFF is fully implemented, it will become the sole facility where all new OC SG loans will be processed and approved (borrowers will have the ability to structure the financial terms and conditions of their existing loans as they currently do under the LCF).

1.6 The proposed FFF will enhance the attractiveness of the Bank's financial product offering by increasing the level of customization and use of risk management tools. This will enable borrowers to manage Bank debt more efficiently within their broader liability portfolios, according to their respective debt management strategies.

1.7 This document is structured as follows: Chapter II discusses the rationale for developing this proposal. Chapter III elaborates on the road map for implementation and future enhancements of the FFF. Chapter IV presents in detail the structure (options and features) of the FFF. Chapter V details the operational considerations needed to be taken into account to implement the FFF and Chapter VI presents Management recommendations for Board approval to implement the FFF. In addition Annexes I, II, III are provided as support to this proposal.

II. RATIONALE FOR DEVELOPING THE BANK'S FFF

2.1 As part of the IDB-9, the Agenda for a Better Bank (ref. Chapter IV, Document AB-2764) reflects the key commitments of the IDB towards its shareholders. The Agenda highlights as one of the main areas, "*improvements in what the Bank does by providing innovative products, services and modalities of engaging with clients with the objective of increasing development effectiveness. It supports the integration of the Bank's financial resources with the knowledge needed to design and implement successful policies and projects, financial and nonfinancial products and services and different modalities of engagement with a diverse client-base*."[7]

2.2 This FFF proposal tackles this key Agenda by offering Bank borrowers a flexible choice of financial products. It is an additional step in the Bank's continued strategic commitment to meet the changing needs of its clients by providing access to a wide array of market-based Bank financial products. The introduction of the SCF Libor–based financial product in 2003, the LCF and its enhancement in 2005 and 2008 respectively, and the recent phasing out of the Bank's pool-based financial products have led to the design of this FFF proposal. Currently, the Bank's financial products for OC SG operations are associated with one of two platforms: (i) the SCF-LIBOR available in the Bank's four Major Currencies (MC) (i.e.: US$, €, CHF and ¥), and (ii) the LCF, available in borrowing member's currencies. The FFF seeks to consolidate both into a unified facility thereby ensuring that all LCF options and features for lending in MCs[8] are available.

---

[7] See AB-2764 "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank", Section 4.2 and 4.3.

[8] As it will be referenced in paragraph 4.4, OC SG lending in MCs, subject to market availability, will be expanded to the currencies of the non *borrowing members of the Bank.*

2.3 As a result of the proposed consolidation, the FFF will allow borrowers to select from a menu of options to tailor the financial terms of their loans and will provide flexibilities that borrowers can choose during the life of the loan. The options offered in this proposal respond to borrowers' requests for additional flexibility in the Bank's financial product offering, which will be implemented in line with existing Bank's policy and risk management guidelines to ensure that the overall financial risk profile of the Bank is not affected. This proposal does not apply to NSG loans and SG or NSG Guarantees nor does it apply to the OC portion of blended loans[9], for which lending and operational policies (SCF/LCF) will remain unchanged.

2.4 The recent phasing out of OC financial products with non-market standard features, through the Conversion Offer, significantly reduced the SCF and CPS Adjustable Rate loan portfolios. However, there still remain small amounts of outstanding loan balances (OLB) and undisbursed loan balances (ULB) under these two portfolios[10]. Borrowers would be able to benefit from the flexibilities contained in this proposal by having the option to convert OLBs and ULBs under discontinued financial products by using some of the features proposed by the FFF.

2.5 In the context of reforms that Management is currently pursuing regarding the Bank's lending instruments[11], this proposal deals exclusively with the financial terms and conditions of OC SG loans. As such, this proposal neither conflicts nor overlaps with current efforts dealing with the reform of the Bank's lending instruments (for example the discussions regarding consolidation of the Bank's various types of investment loans). Rather, it will provide a unified and flexible platform to structure the financial aspects of the Bank's OC SG loans.

2.6 Last but not least, this process of consolidation is also consistent with the more advanced market-based, flexible product offerings of other MDBs that mirror the development of capital markets and increasing sophistication of their clients, as described in Annex III. For example, in 2008, the IBRD introduced the "IBRD Flexible Loan (IFL)" consolidating into a single platform two loan products: the Fixed Spread Loans (FSL), and the Variable Spread Loans (VSL). The IFL offers both variable and fixed spread loans in addition to features such as (i) market-based pricing (i.e. Libor-based), (ii) flexibility to modify the financial aspects of the obligations at approval or over the life of the loan, and (iii) ability to manage loan maturity, within a maximum period of 30 years and an average maturity limit of up-to 18 years. The FFF proposal will allow the Bank to be in line with the approach adopted by other MDBs to offer a full range of more market-based financial products.

---

[9]As described in Document FN-507-6, the applicable interest rate for the OC portion of the Bank's concessional "blended" loans will continue to be the 3-months Libor rate with an automatic rate fixing conversion.

[10]In addition, there are OLBs and ULBs under other discontinued Bank financial products (e.g. Dollar Window and CPS-fixed. Table II in Chapter IV shows the remaining amounts as of December 31st 2010.

[11]Document GN-2564-1 "Proposal to Reform the Bank's Sovereign Guaranteed Lending Instruments and the Emergency Lending Category". Revised version

III. ROADMAP FOR IMPLEMENTATION AND FUTURE ENHANCEMENTS OF THE BANK'S FFF

3.1 The FFF proposal consists of effectively integrating the options and features for approving OC SG loans of the SCF and the LCF into a single platform. Through such consolidation, flexible options and features currently offered under the LCF for loans in local currencies, would be extended and made available for lending in major currencies (MC)[12]. Legal considerations, operational, accounting and risk management requirements, procedures and guidelines of the existing SCF and LCF, where applicable, will be integrated into the FFF.

3.2 Once the FFF is approved by Board and up until January 1, 2012 (effective date), individual loan operations will continue to be processed and approved i.e. the under the SCF/LCF and borrowers would be able to benefit from some of the options offered by the FFF. Specific requests by borrowers will be treated on a case-by-case basis, and will be subject to market availability, operational, legal and risk management considerations. From January 1, 2012 and thereafter, all new loan operations will only be processed and approved under the FFF. This proposal does not apply to NSG loans and SG or NSG Guarantees nor does it apply to the OC portion of the Bank's "blended" loans[13], for which lending and operational policies (SCF/LCF) will remain unchanged.

3.3 Under the FFF, specific LCF options to tailor the financial aspects of the loans at approval and during the life of the loan, currently not offered under the SCF, would be extended to lending in major currency (MC). In addition, as stated in the LCF, options for borrowers to tailor the financial aspects of their loans would be subject to market availability and existing risk, operational, accounting and legal considerations. For example, the offering of local currency options would continue to be subject to the Bank's ability to efficiently source the required currency in a particular market.

3.4 Subsequent to the initial roll-out and implementation of this proposal, Management envisions the on-going implementation of the FFF driven by: (i) borrowers' needs; (ii) operational and accounting considerations; and (iii) financial policy and risk management framework constraints. As needs arise, Management will consider enhancements to the FFF options and features, to respond to borrowers' needs. The ALCO[14] will continue to be responsible for the detailed assessment of risk and operational issues that could arise in the on-going implementation of this proposal to ensure that the overall financial risk profile of the Bank is not affected. In addition, future possible enhancements would continue to be analyzed and considered by the ALCO. The Board would be kept informed of any new options or features introduced as part of the evolution of the FFF.

3.5 Furthermore, as the Bank is in the process of implementing the Income Management Model (IMM), which links loan charges to the overall Bank's long term capacity to lend[15], after careful consideration, Management decided not to incorporate options related to loan-pricing such as the offering of fixed spread loans[16] and the revision of the credit commission (CC)

---

[12] See Chapter IV for detailed explanation.
[13] See Footnote 6.
[14] Consistent with "The role of ALCO" as described in document GN-2365-6 Section II. C
[15] Document AB-2714 "Ordinary Capital Income Management Model – Concept document"
[16] Refers to the fixing of the OC lending spread, which is periodically determined by the Board.

and inspection and supervision (FIV) fees structure in this proposal[17]. The introduction of options that explicitly relate to loan pricing could be considered by Management once the Bank has gained more experience with the new approach to managing the Bank's income.

IV. STRUCTURE OF THE FLEXIBLE FINANCING FACILITY (FFF)

4.1 The structure of the FFF is based on the LCF and expands its terms and conditions to loans approved in MCs. This chapter describes the options and features borrowers can choose from under the proposed FFF.

A. Options of the Proposed FFF

4.2 Under the FFF, various flexible options will be offered to structure the financial aspects of OC SG loans in MCs as it is already offered in LCs under the LCF. These flexibilities will give borrowers the choice of: (i) currency; (ii) amortization schedule; (iii) underlying risk management tools; and (iv) conversions of OC SG discontinued products into market-based products.[18] Table I summarizes the proposed options of the FFF and, for comparative purposes, describes what is currently available under the SCF and LCF. A detailed explanation of the options considered in this table is provided in paragraphs 4.4 through 4.13.

TABLE I
Summary of Proposed Options for the FFF
- Comparison with Current Options under the SCF AND LCF -

OPTIONS		Single Currency Facility (SCF)	Local Currency Facility (LCF)	Proposed "Flexible Financing Facility" (FFF)
Currencies	Approval	Major Currencies (MC) US$, €, ¥ and CHF	Borrowing member Local Currency (LC)	US$ or Borrowing member LC.
	Disbursement	Currency of Approval	Currency of Approval OR Converted Currency	Currency of Approval OR Converted Currency
	Repayment	Currency Disbursed	Currency Disbursed/Converted	Currency Disbursed/Converted
	Conversion	NO	YES	YES
Flexible amortization schedules		NO	YES based on loan's contractual Weighted Average Life	YES based on loan's contractual Weighted Average Life
Underlying flexible risk management tools		YES Limited to fixings of the cost base.	YES	YES
Ability to manage Bank's discontinued financial products		NO	NO	YES

---

[17] However, transaction fees for conversions and hedges will be assessed under the FFF as shown in Table IV, to compensate for Bank resources occurring from the usage of such options and offset the burden on loan charges (see Chapter IV, Section B. (f)).
[18] Options and features under the FFF cannot be exercised for borrowers with loans in arrears for more than 30 days.

4.3 The following description provides an explanation of the specific aspects of the options being considered for structuring the financial terms of OC SG lending.

a) Currencies

4.4 Reflecting borrower's demand for the Bank's SCF loans in MCs, loan approvals under the FFF will be done in US$ (99.9% of SCF loan approvals have been in US$) or LC[19]. However, borrowers can also have access to other MCs[20] and LCs by requesting the desired currency through conversions of OLBs or upon disbursement. This flexibility would be subject to the Bank's ability to adequately source and/or hedge itself against currency exposures, and operational, accounting and risk management considerations.

4.5 Repayment will be in the currency of disbursement or, in the case of converted OLBs, in the currency of conversion.

b) Flexible Amortization Schedules

4.6 The Bank has historically used a standard straight-line repayment profile for all SG loans. That is, loan repayments are scheduled in equal semiannual repayments during the amortization period of the loan. The straight-line amortization will serve as the default repayment profile under the FFF unless borrowers request the flexibility to tailor the repayment schedule of their loans (e.g. bullet, extended grace periods, uneven amortization schedules, etc.); this could be done either at loan signature or at disbursement/conversion, as is currently the case for the LCF, provided that the schedule is consistent with the original Weighted Average Life (WAL[21]) of the Loan. As it will be explained in paragraphs 4.23 through 4.26, the WAL mechanism will be a required feature under the FFF to make this flexibility possible.

4.7 In addition, loan tranching (i.e., one loan could consist of multiple sub loans –or tranches– each one with different structures, such as currency, repayment schedule, etc.) will be allowed, as long as: (i) the WAL of all tranches does not exceed the loan's original WAL; and (ii) the final maturity of the loan, as specified in the loan contract, is not exceeded. This means that each tranche could have a different amortization pattern. A borrower's ability to tranche its original loan in MCs or LCs would be limited to accommodate operational considerations and market conditions. The ALCO will determine guidelines for minimum amounts and maximum number of tranches based on risk and operational considerations[22].

c) Underlying Flexible Risk Management Tools

4.8 Subject to market availability, risk management, operational and accounting considerations, borrowers will have the option to: (i) fix both or either one of the components of the floating

[19]Availability in LC will continue to be limited to currencies of the borrowing members of the Bank.
[20]Other MCs will be limited to the currencies of the non borrowing members of the Bank based on market availability for the currency at the time of execution.
[21]The WAL is defined, as per its current implementation in the LCF, as the weighted average time period from the date of signature of the loan to the date of repayment of the respective installments calculated on outstanding loan balances. See Annex II for reference.
[22] For example, given current operational considerations, rate fixings in US$ is allowed for a minimum of 25% or 3million, whichever is greater, of the net amount of the loan.

Base Rate of Disbursements/OLBs, i.e. the Libor rate and/or the Bank's funding margin vs. LIBOR; (ii) float the fixed rate; (iii) convert to an inflation-linked rate; (iv) contract an option to fix the above-mentioned floating base rate at a predetermined level on a future date (swaption); (v) add a derivative to establish limits on variability through "caps" or "floors"; and (vi) embed other types of derivatives. Hedges will be conducted according to the Bank's Asset/Liability management (ALM) policy, which insulates the Bank from this type of risk. The conditions and actual or estimated costs for the Bank to make these options available will be passed on to the borrower.

4.9 In addition, OC SG borrowers would have the option to hedge the interest rate, currency and other type of exposures through direct derivative transactions with the Bank as originally introduced in modality B of the LCF[23]. Borrowers would enter into a Master Derivatives Agreement (MDA)[24] with the Bank, pursuant to which they could execute these types of derivatives with the Bank. Such hedges would continue to be subject to market availability, risk management, and operational considerations and limited to the equivalent of the volume of their existing OC obligations, i.e., OLBs.

4.10 The above mentioned hedges will be offered against the OLB of one or multiple loans with the same borrower, with the limitation that the notional amount of the swap will be less or equal to the underlying OLB during the life of the transaction. Cross-default clauses between loans and derivatives would apply.

d) Give borrowers the ability to manage the Bank's discontinued financial products.

4.11 This option is aimed at giving borrowers the flexibility to manage ULBs and OLBs, associated with the Bank's discontinued financial products, through conversions to market-based products[25]. After the conversion, the OLB and ULB, when applicable, would be under a market-based product that would carry the flexibilities offered by the FFF. Furthermore underlying flexible risk management tools, as described above, will also be available to the Bank's discontinued financial products.

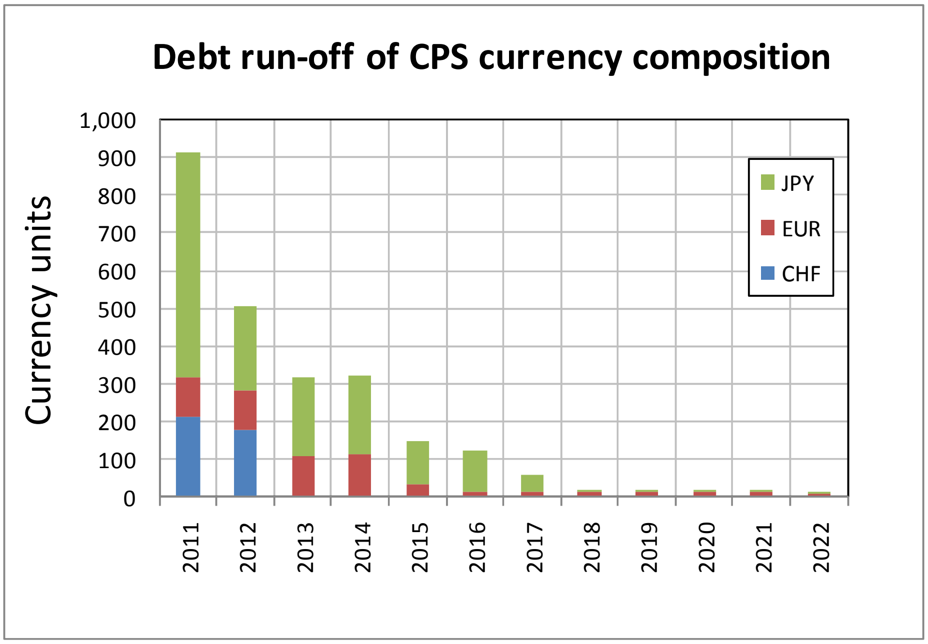
4.12 Although OLBs and ULBs under financial products that have been discontinued for new approvals are small, providing this flexibility would be beneficial to borrowers that have already expressed interest in this option. As some of the above-mentioned conversion types could be a highly customized exercise, it is not possible to describe them in detail in this document. However, this option would only be offered to the extent that the Bank can execute a market-based transaction that is cost and risk-neutral, and is equitable to all Bank borrowers. A fee of 3 bps on the OLB would be assessed to compensate the Bank for resources used to structure these highly customized conversions. Individual customized conversions would be reviewed and approved by the ALCO. Table II shows the current break-down of ULBs and OLBs under existing and discontinued OC-SG financial products.

[23] Document GN-2365-2 "Operational Framework for Lending in Local Currency". Section: "Local Currency Swaps with Borrowers Linked to Bank Debt" Pg. 12-14.
[24] And any other supplementary agreements and/or annexes that Risk Management deems appropriate (this could include collateral agreements.)
[25] Flexible risk management tools would also be available for the Emergency Lending Facility (ELF).

TABLE II
OC - Current and Discontinued Financial Products as of December 31, 2010

Financial Products	Undisbursed (millions of US$)	Outstanding (millions of US$)	Average Maturity (years)
CURRENT FINANCIAL PRODUCTS			
SINGLE CURRENCY FACILITY			
Libor	16,680.52	19,717.01	1.3
Fixed	-	4,422.96	4.8
Local	-	2,110.25	5.4
EMERGENCY			
Libor	-	601.67	4.5
Subtotal	**16,680.5**	**26,851.9**	**2.2**
CONVERTED FINANCIAL PRODUCTS			
CURRENCY POOL			
Libor converted	24.5	1,773.0	2.4
Fixed converted	-	5,573.0	4.7
SINGLE CURRENCY FACILITY			
Libor converted	2,046.5	3,831.8	2.2
Fixed converted	-	18,412.8	5.4
Subtotal	**2,071.1**	**29,590.6**	**4.7**
DISCONTINUED FINANCIAL PRODUCTS			
CURRENCY POOL			
Adjustable	167.3	1,348.4	3.2
Fixed at disbursement	-	254.6	6.9
SINGLE CURRENCY FACILITY			
Adjustable	1,163.8	1,304.7	3.5
DOLLAR WINDOW			
6M-Libor	-	299.4	1.3
Fixed at disbursement	24.0	116.1	4.1
NON-POOLED MULTICURRENCY			
Libor	200.0	100.0	1.3
Fixed	-	106.1	4.2
Subtotal	**1,555.2**	**3,529.3**	**3.4**
T O T A L	**20,306.8**	**59,971.8**	**3.5**

4.13 Through the CPS Adjustable Rate Conversion, the Bank was able to reduce the CPS loan portfolio by 88%, from approximately $11 billion to $1.3 billion. Given the relative small size of this remaining portfolio managing the required four MCs (with a target composition of 50% US$, 25% ¥, 12.5% € and 12.5% CHF), at the core of the CPS Adjustable rate funding pool, is becoming operationally more difficult and inefficient. For this reason, Management proposes to change the composition of the CPS Adjustable rate funding pool over time from its current composition to 100% US$. This change will be accomplished by replacing, CHF/€/¥ debt with US$ debt as the funding source either when it matures or through ALM transactions and collecting the corresponding non-US$ amounts as part of regular collections from the outstanding loans. Upon approval by the Board, Management would proceed with the CPS dollarization with the view to complete such process by 2013, if possible, as subjected by market conditions. Through this process, the Bank will obtain efficiency gains in systems and other resources by gradually eliminating the administrative burden associated with this discontinued loan product. The following chart depicts the projected debt-run-off (yearly average) of the CPS currency composition as of December 2010.



B. Features of the Proposed FFF

4.14 The financial features of the proposed FFF are shown in Table III together with the current features provided under the SCF and LCF.

Table III
Summary of Proposed Features for the FFF
- Comparison with Current Features Under the SCF AND LCF -

FEATURES		Single Currency Facility (SCF)	Local Currency Facility (LCF)	Proposed "Flexible Financing Facility" (FFF)
Pricing	Lending rate	Cost base plus variable lending spread	Cost base plus variable lending spread.	Cost base plus variable lending spread
	Cost base	3-month LIBOR ± funding margin	Local currency equivalent of 3-month LIBOR ± funding margin or actual funding cost	US$ LIBOR ± funding margin or currency equivalent of LIBOR ± funding margin, or actual funding cost
	Funding margin to LIBOR	Actual funding margin or estimated funding margin at the time of conversion	Actual funding margin or estimated funding margin at the time of disbursement / conversion	Actual funding margin or estimated funding margin at the time of disbursement / conversion
	Loan Charges	As determined periodically by the Board	As determined periodically by the Board	As determined periodically by the Board
Maturities (Total tenor of the loan. Includes: Disbursement, Grace and Repayment periods)		Up to 20 years for Policy Based Loans (PBLs) and up to 25 years for Investment Loans (INV)	Up to 20 years for Policy Based Loans (PBLs) and up to 25 years for Investment Loans (INV)	Up to 20 years for Policy Based Loans (PBLs) and up to 25 years for Investment Loans (INV)
Weighted Average Life (WAL) requirement		NA	For PBLs up to 12.75 years; for INV up to 15.25 years	For PBLs up to 12.75 years; for INV up to 15.25 years
Grace Period		For INV loans equal to 6 months after original disbursement period For PBLs 5 years. Includes the disbursement period\1\2	For INV loans equal to 6 months after original disbursement period For PBLs 5 years. Includes the disbursement period\1\2	For INV loans equal to 6 months after original disbursement period\2 For PBLs 5 years. Includes the disbursement period \1\2
Repayment Profile		Straight-line, equal semiannual installments	Flexible. Subject to WAL	Flexible. Subject to WAL
Conversion/hedges fees (For interest rate, currency conversion and other hedges)		Waived	Waived	See Table IV
Prepayment		No	Redeployment cost/gain	Redeployment cost/gain
Arrears in converted currencies		NA	Floating rate plus 100bps, additional charges assessed if necessary	Floating rate plus 100bps, additional charges assessed if necessary
Treatment for small-sized disbursements		Yes	Yes Subject to operational and risk management considerations	Yes Subject to operational and risk management considerations

\1 Loan repayment starts 6 months after the grace period.
\2 The grace period is subject to adjustment based on the borrower's request to choose a non standard repayment profile.

4.15 The following paragraphs describe the features of the FFF:

a) Pricing

4.16 This document proposes no changes to the way the Bank prices its OC SG loans. The lending rate for OC SG loans will continue to have two components: (i) cost base, as described in paragraph 4.17 ; and (ii) OC SG variable lending spread (which, as part of the loan charges are periodically determined by the Board).

4.17 There will be no changes to the concept of passing-through the Bank's funding cost as the cost base for the lending rate for OC SG loans as defined in the existing policy framework[26]. The funding cost for the FFF consists of 2 components: a US$ LIBOR rate plus/minus the Bank's actual funding margin or estimated funding margin at the time of disbursement/conversion. The Bank's funding margin includes; but is not limited to, the legal fees, underwriting and other bond issuance fees, premiums or discounts in the case of bond issuances, registration costs, fees for committed lines of credit, bank account fees, taxes, any regulatory fees as applicable.

4.18 In addition, the lending spread, the CC and the FIV fees will continue to be periodically determined by the Board.

4.19 Pricing of LC financing and derivatives will continue to reflect market conditions of the time of execution.

b) Maturities

4.20 The standard maturity for INVs and PBLs will continue to be 25 years and 20 years respectively.

4.21 The tenor of any standard INV and PBL as described above will continue to be composed of disbursement, grace and repayment periods, from signature until final maturity.

4.22 Tailored amortization schedules with different maturities for different tranches will be allowed under the FFF subject to a WAL limitation. This will allow borrowers to match particular loan repayment schedules and/or shorter loan maturity requirements, across currencies, to satisfy specific project needs. This flexibility, which exists already in the LCF, will be expanded to loans in MCs under the FFF.

c) Weighted Average Life (WAL) Requirement

4.23 The proposed FFF, as in the current LCF, will provide borrowers with the ability to request shorter loan maturities or different repayment structures at the time of signature or disbursement. The flexibility to determine a desired repayment profile will be bounded by the WAL of the original loan.

4.24 The WAL, as a feature to manage loan maturities, is a mathematical tool that allows maintaining and comparing, from a cash-flow perspective, the equivalence of different types

---

[26]Document FN-644-3 "Financial Risk Management: Asset/Liability Management".

of amortization schedules. For example, a straight-line amortizing loan can be equated to a bullet-type loan provided that the WAL of the straight-line amortizing loan is equal to the maturity of the bullet.

4.25 As explained in Annex II, a standard 25 year maturity INV loan with a 5 year disbursement/grace period translates into a WAL of 15.25 years. Likewise, a 20 year maturity PBL loan with a 5 year grace period translates into a WAL of 12.75 years.

4.26 Under the FFF, the final maturity limit of an INV loan and a PBL will be supplemented with a WAL constraint of up to 15.25 and 12.75 years respectively.

d) Grace Period

4.27 The standard grace period for INV loans is 6 months after the original disbursement period. For PBLs the standard grace period is 5 years, which includes the disbursement period. Under the FFF, the grace period will also depend on the borrower's choice of amortization schedule, subject to the WAL requirement as described above.

e) Repayment Profile

4.28 The standard loan repayment profile method historically used by the Bank has been a straight line. That is, loan repayments are scheduled in equal semiannual installments during the repayment period of the loan. Under the FFF, since borrowers will have the flexibility to tailor the repayment schedule of their loans, the repayment profile will be flexible provided the schedule of repayments is consistent with the original WAL of the loan.

f) Conversion Fee/Charge (For interest rate, currency conversions and other hedges)

4.29 In the context of the Bank's IMM, as approved under the 9th General Capital Increase (GCI), the Bank is required to manage the OC operating income in a comprehensive manner that fully captures the trade-offs associated with usages of the Bank's resources. Therefore, Management proposes that as part of the flexibilities that the Bank would offer under the FFF, the Bank will assess and charge fees to account and be compensated for the usages of Bank resources that implementing/executing these flexibilities would entail.

4.30 Therefore, Management proposes to assess and charge transaction fee(s) for conversions and hedges as shown in Table IV. These transaction fees are assessed to compensate, to the extent possible, the Bank for: (i) the increased usage of the Bank's front-to-back office resources and systems; (ii) increased usage of the Bank's counterparty swap-lines pursuant to the Bank's risk management policy/guidelines; and (iii) future potential impact of regulatory measures that the Bank may need to incorporate into its policies/guidelines[27]. As the level of these fees will, inter-alia, depend on the level of demand, complexity and market comparability, Management will have discretion to review these fees periodically. Under the cooperative principle of the Bank, Management intends to make the cost, for making these flexibilities available, equitable to all Bank borrowers.

[27] For example, the US - Dodd-Frank Wall Street Reform and Consumer Protection Act and comparable European regulatory measures.

4.31 Lastly, proceeds from FFF transaction fees would be used in the coverage rule for the determination of loan charges. This could possibly reduce slightly the lending spread on SG loans. This approach of charging the borrower based on transactions fees is consistent with current practices by other MDBs.

Table IV
Summary of proposed transaction fees for conversions/hedges under the FFF

Hedges	Transaction type	Transaction fees\1	
Embedded options in the FFF	**Interest Rate Conversions**	Initial rate fixings up to the net approved loan amount	No Charge
		Additional rate unfixing/fixing	0.010%
	Interest Rate Caps/Collars	0.125% \2	
	Currency Conversions	0.020%	
	Other Hedges	Assessed according to operational considerations and market comparability	
Hedges available via the execution of an MDA	**Currency Swaps**	0.020%	
	Interest Rate Swaps	0.010%	
	Interest Rate Caps/Collars	0.125% \2	
	Other Hedges	Assessed according to operational considerations and market comparability	

\1 Expressed as a percentage per annum on the outstanding loan amount involved in the transaction (unless otherwise indicated) and payable in the disbursed/converted or hedged currency
\2 Expressed as a percentage of the principal amount involved, and payable as a lump sum.

g) Prepayment

4.32 If a borrower chooses to prepay part or all of a converted loan balance under the FFF, the Bank would redeploy related funding and/or unwind related hedges. This could result in a cost or gain to the Bank depending on changes in the market conditions between the time of the conversion and the time of prepayment. The Bank will pass on such cost/gain, if any, to the borrower.

h) Arrears in converted currencies

4.33 Arrears in currencies in which the Bank does not have treasury operations would remain in the outstanding currency. To mitigate the risk of currency exposure to the Bank, overdue amounts under these currencies will accrue interest at a floating rate linked to a contractually defined index in the overdue currency, plus a spread of 100 bps. In exceptional cases, when the spread is not sufficient to cover the costs assumed by the Bank, additional charges would be assessed consistent with a full cost pass through.

i) Treatment of small-sized disbursements

4.34 Subject to risk management guidelines and operational considerations, the Bank may hold liquidity in selected LCs for transactional purposes, to extend LC financing to borrowers whose borrowing needs are small.

V. RISK CONSIDERATIONS

5.1 This document does not include any specific risk-related recommendations for Board approval because the FFF features contained in this proposal do not change significantly the overall risk profile of the Bank and the risks can well be managed within the existing risk management framework and policies.

5.2 Three areas of the Bank's risk management framework interact to control the different types of risk of providing the already existing[28] and newly proposed flexibilities under the FFF. The Bank's Derivative Credit Risk Model (DCRM), which has proven its robustness and value during the financial crisis, is the tool to manage counterparty credit risk on a daily basis, the Capital Adequacy policy[29] sets a limit on the capital requirements for counterparty credit risk and the ALM policy[30] stipulates how to manage the related market risk, i.e., exposure to exchange and interest rate risk. Comprehensive revisions of these two policies have been approved by the Board of Executive Directors during 2010.

5.3 This chapter provides more detail of how the risk management policies are utilized in managing exposures under the FFF and gives specific cross-references to the policies.

A. Market Risk

5.4 The flexibilities provided by the FFF are designed to allow borrowers to better manage their debt portfolio mainly by enabling them to hedge undesired interest rate, exchange rate and other risks as well as to adjust the timing of their debt amortization. This is achieved by modifying certain terms of their loans or through stand-alone derivatives[31] that the Bank would execute with the individual borrowers. Through these instruments, the market risk would be transferred from the borrower to the Bank, where it would be managed in accordance to the ALM policy. Specific features of the FFF that would create this kind of transfer are loan conversions and derivatives that affect the interest rate type and/or the currency of the loans.

5.5 Chapter 4.b (paragraphs 4.18 through 4.21) of the ALM policy describes how, consistent with the Charter, the Bank fully matches the currencies of its assets with the currencies of the debt that it uses to fund those assets, i.e., no exchange rate exposure is permitted. In the context of the FFF, this means that any currency conversion would have to be hedged at the time of execution, both with respect to amount and maturity. Similarly, following Chapter 4.a

---

28 Interest rate and currency conversions are already available under the SCF and LCF products and have been executed frequently.

29 Document FN-568-8

30 Document FN-644-3

31 Before executing stand-alone derivatives with a borrower, the signing of an ISDA agreement is required that links the derivatives through cross-default provisions back to the borrower's loans and makes them subject to the Bank's standard arrears policy.

(paragraphs 4.1 through 4.17) the Bank would hedge undesired interest rate exposure that might occur due to interest rate conversions or execution of derivatives[32] under the FFF.

B. Credit Risk

a) Sovereign Lending Exposure

5.6 Since the FFF would provide the borrowers with better tools for their respective debt management strategies, it does not seem likely that credit risk from sovereign lending would increase. Instead, it could be assumed that more flexibility and better debt management strategies would improve credit risk, at least marginally. Nonetheless, another risk mitigant for the Bank is the fact that all features are ultimately linked back to the loans with the Bank which limits their volume at the amount of the OLB of the individual borrowers. Flexibility to manage debt, other than debt with the IDB, will not be provided as part of the FFF product.

b) Derivative Counterparty Exposure

5.7 The Bank manages counterparty exposure on a daily basis. It determines the net Mark-To-Market (MTM) value of all derivatives it has contracted with each counterparty. Based on changes in the MTM value and in accordance with the stipulations in the ISDA agreements[33] the Bank has in place with its counterparties, it requests/returns corresponding collateral on a daily basis as well.

5.8 In addition, the DCRM calculates potential future exposure for the derivatives, which is used to limit exposure to individual counterparties and to promote diversification. Individual counterparty limits on potential future exposures are set as a function of rating, size, and other issuer-specific risk factors. The DCRM is also used to determine risk capital through credit VAR simulation. This risk capital is managed within a limit of 0.36% of debt funded assets, as set by the Board of Executive Director in the Bank's Capital Adequacy policy (Chapter E., paragraphs 5.26 through 5.35). The actual risk figure is quarterly reported as part of the "Quarterly Report on the Capital Utilization Ratio"[34], which showed as of September 30, 2010 a risk figure of 0.26%, well within the prescribed limit. The capital requirements as of that date - equivalent to the 0.36% limit - were $0.2 billion, which were attributed proportionally to the respective OLBs to SG and NSG lending as a whole.

5.9 Conceptually, increased use of derivatives due to hedging of exposure from the FFF would also increase the calculated economic capital and could, if demand were high, ultimately lead to the risk figure approaching the limit. At such time, Management would approach the Board with a proposal detailing the trade-offs between different options, e.g., increasing the limit vs. reducing the flexibilities.

5.10 However, since loan conversions, which require derivative use for hedging purpose, are already part of the existing SCF and LCF products, no substantial additional increase in

---

32 Such as caps, floors, collars, swaptions and other types of derivatives that the Bank can source efficiently in the financial markets.

33 The Bank executes derivatives only with counterparts that have an ISDA agreement with the Bank in places. In addition, the minimum credit rating requirement is set at "A+". Together, these requirements currently exclude any counterparts in borrowing member countries as counterparts for derivative transactions.

34 Document FN-651, FN-651-1, FN-651-2, etc.

derivative use is expected from the FFF. The one new flexibility likely met with high demand, i.e., the customization of amortization schedules for loans in US Dollars, does not require the use of derivatives.

VI. OPERATIONAL CONSIDERATIONS

6.1 If approved, the following considerations will apply to the implementation of the FFF:

a. The terms and conditions of the FFF, as stipulated in this document, will apply to all new OC SG loan proposals submitted for consideration by the Board of Executive Directors starting January 1, 2012.

b. All operational considerations pertaining to SG operations under the Local Currency Facility as detailed in Document GN-2365-6 will remain valid until January 1, 2012, when the FFF becomes effective.

c. For loan operations approved prior to January 1, 2012 borrowers may elect to request conversions of pending ULBs or conversions of OLBs under the terms of the FFF. Management will consider such requests, which may require modification of existing loan contracts, subject to the terms and conditions of the FFF and market availability, including applicable fees.

d. Once the FFF is approved by Board and until January 1, 2012 (effective date) individual loan operations will continue to be processed and approved by the Board under the SCF/LCF and borrowers would be able to benefit from some of the options offered by the FFF. Specific requests by borrowers will be treated on a case-by-case basis, and will be subject to operational, legal and risk management considerations. From January 1, 2012 and thereafter, all new loan operations will only be processed and approved by the Board under the FFF.

6.2 Implementation of the FFF will be done so as to reflect: (i) demand by borrowers on the flexibilities being offered by this proposal; and (ii) the prudent management and monitoring within the Bank's financial and risk management policies through the ALCO. In the course of doing business, the Bank may incur operational costs and marginal foreign exchange exposures (e.g. legal fees, fees for committed lines of credit, bank account fees, taxes), which may require the Bank to purchase and sell currencies as needed. Management will build on the knowledge, extensive experience and credibility gained during the implementation of prior financial product initiatives, from the introduction of the SCF Libor–based financial product through the LCF and most recently the Conversion Offer of the Bank's adjustable rate loans.

6.3 No limits on the take up of the flexible amortization feature are being established. Nonetheless, if through the monitoring of the take-up of this feature, it is observed that the trend is such that it could materially impact the lending capacity of the OC as determined by the OC LTFP, then Management would introduce limits to the take-up of the flexible amortization feature through the operational guidelines of the FFF.

6.4 Dissemination, training and marketing of the FFF to borrowers and Bank staff, and implementation costs (i.e.: front-to-back-office resources and systems) will be absorbed within Bank's current capacity. Administrative and financial resources will be needed to develop all necessary documentation to implement the FFF. Furthermore, additional resources may also be needed/used to support demand which, as explained in paragraph 4.29 and 4.30, will be self-financed, to the extent possible, through the transaction fees shown in Table IV.

6.5 The implementation of the FFF will be done in an on-going basis, and will require a true matrix management approach, with multi-disciplinary teams consisting of staff from FIN, RMG, LEG, VPS, VPC and country offices. The experience and information gathered from this kind of multidisciplinary work will continue to be crucial for further enhancements of the FFF.

6.6 Finally, the reporting on transactions under the FFF and related risks will be provided through the quarterly Integrated Finance and Risk Report to the Board of Executive Directors, thereby eliminating the semiannual reporting requirement of the LCF[35]. This report will include a summary of the activities performed under the FFF: (a) usage of flexible amortization schedules; (b) LCs and MCs conversions executed; (c) rate fixings and usage of other types of risk management tools; (d) execution of specific operations in response to borrowers requests to convert loans under discontinued financial products into market based instruments.

VII. RECOMMENDATIONS AND APPROVAL MAJORITIES

A. Recommendation

7.1 Management recommends that the Board of Executive Directors approve: [36]

a. The FFF as specified in chapters III, IV and VI of this document.

b. The amendment of Document FN-507-1 to allow for the gradual change in the CPS currency composition from the current target composition of 50% US$, 25% ¥, 12.5% € and 12.5% CHF to 100% US$.

c. The use of Ordinary Capital resources to purchase and sell such other currencies as may be required for the implementation of the FFF (Agreement Establishing the Inter-American Development Bank – the "Charter", Article V, Section 1(e)).[37]

B. Approval Majorities

7.2 The approval of the FFF, with the exception noted below, requires the favorable votes in the Board of Executive Directors of a simple majority of the total voting power of the member countries (Charter, Article VIII, Section 4(d)(iii)).

---

[35] VPP will continue to report on the LCF activity for NSG operations through their normal reporting process to the Board.

[36] The approval of these recommendations should be recorded in the Board minutes.

[37] This authority has been already granted to Management by the Board in connection with the approval of the LCF (Document GN-2365-6).

7.3 The authority to purchase and sell other currencies, as may be required to use paid-in capital and General Reserve to fund FFF transactions, or Ordinary Capital resources to finance transactional liquidity holdings and to meet operational expenses, requires the favorable votes in the Board of Executive Directors of a three-fourths majority of the total voting power of the member countries (Charter, Article V, Section 1(e)).

VIII. ANNEXES

ANNEX I: Results of the Bank's Conversion Offer for the OC SCF and CPS Adjustable rate products

ANNEX II: The Weighted Average Life (WAL) concept and examples

ANNEX III: Summary Comparison of Options & Features of loan products across selected MDBs

Annex I: Results of the Bank's Conversion Offer for the OC SCF and CPS Adjustable rate products

Conversion Offer
Final Participation Rates as of July 31, 2009 and as of July 31, 2010
Summary
- Amounts in millions of USD -

BORROWERS	OUTSTANDING 2009 CPS	OUTSTANDING 2009 SCF	OUTSTANDING 2009 Total	OUTSTANDING 2010 CPS	OUTSTANDING 2010 SCF	OUTSTANDING 2010 Total	TOTAL CPS	TOTAL SCF	TOTAL Total
Eligible CPS and SCF Adjustable									
Sovereign & Sub-sovereign borrowers	$ 11,383	$ 23,388	$ 34,771	$ 4,058	$ 4,202	$ 8,261	$ 11,036	$ 23,529	$ 34,565
Total	**$ 11,383**	**$ 23,388**	**$ 34,771**	**$ 4,058**	**$ 4,202**	**$ 8,261**	**$ 11,036**	**$ 23,529**	**$ 34,565**
Participation amounts									
Sovereign & Sub-sovereign borrowers	$ 6,978	$ 19,327	$ 26,305	$ 2,697	$ 2,955	$ 5,652	$ 9,675	$ 22,282	$ 31,956
Total	**$ 6,978**	**$ 19,327**	**$ 26,305**	**$ 2,697**	**$ 2,955**	**$ 5,652**	**$ 9,675**	**$ 22,282**	**$ 31,956**
	Number of loans		**518**	**Number of loans**		**151**			
Participation rates									
Sovereign & Sub-sovereign borrowers	61%	83%	76%	66%	70%	68%	88%	95%	92%
Total	**61%**	**83%**	**76%**	**66%**	**70%**	**68%**	**88%**	**95%**	**92%**
# of loans			**518**			**151**			**669**
# of borrowers			**41**			**32**			**68**
- Sovereign (*)			**19**			**10**			**24**
- Sub-sovereign			**22**			**22**			**44**
% Fixed	**77%**	**94%**	**89%**	**47%**	**76%**	**62%**	**69%**	**91%**	**84%**
% Libor Based	**23%**	**6%**	**11%**	**53%**	**24%**	**38%**	**31%**	**9%**	**16%**
Interest Rate Choice									
Fixed	**$ 5,383**	**$ 18,112**	**$ 23,495**	**$ 1,256**	**$ 2,240**	**$ 3,496**	**$ 6,639**	**$ 20,352**	**$ 26,992**
Libor Based	**$ 1,595**	**$ 1,214**	**$ 2,809**	**$ 1,441**	**$ 715**	**$ 2,156**	**$ 3,036**	**$ 1,929**	**$ 4,965**

(*) Five sovereigns participated twice in the Conversion Offer; one sovereign did not participate.

Annex II: The Weighted Average Life (WAL) concept and examples

1. The WAL is defined as the amount-weighted period of time from the signature date of the loan until the final repayment date of the respective amounts, calculated over all outstanding disbursements of the loan.

$$\mathrm{WAL}=\frac{\sum_{i=1}^{n}\sum_{j=1}^{m}[\mathrm{RPmt}_{i,j}\times(\mathrm{RPmtDt}_{i,j}-\mathrm{SignDt}_{\mathrm{Loan}})]}{\sum_{i=1}^{n}\sum_{j=1}^{m}\mathrm{RPmt}_{i,j}}$$

With:

I	=	Number of Disbursements
i j	=	Number of Repayments for Disbursement i
n	=	Total Number of Disbursements of loan
m	=	Total Number of Repayments for Disbursement i
$\mathrm{Rpmt}_{\mathbf{ij}}$	=	Amount of the j-th Repayment related to the i-th Disbursement
$\mathrm{RpmtDt}_{\mathbf{ij}}$	=	Date of the j-th Repayment related to the i-th Disbursement
$\mathrm{SignDt}_{\mathbf{Loan}}$	=	Date the loan was signed

2. The WAL is a mathematical tool that allows a comparison, from a cash-flow perspective, the equivalence of different types of amortization schedules. For example, a straight-line amortizing loan can be equated to a bullet-type loan, provided that the WAL of the straight-line amortizing loan is equal to the maturity of the bullet.

3. A typical 25 year maturity INV loan with a 5 year disbursement/grace period translates into a WAL of 15.25 years. This is a result of: (i) an average amortization period of 9.75 years (25 years minus a 5.5 years grace = 19.5 years, divided by 2 = 9.75 years) plus (ii) a disbursement/grace period of 5.5 years. The 5.5 years grace is the result of Bank policy, which stipulates a borrower should make its first repayment 6 months after the grace period.

4. A PBL with 20 years maturity, fully disburses in 2 years and have 3 years grace afterwards, it is typically a WAL 12.75 years. This is a result of: (i) an average amortization period of 5.75 years (20 years minus a 5.5 years disbursement/grace period =14.5 years, divided by 2 =7.25 years) plus (ii) a disbursement/grace period of 5.5 years. The 5.5 years grace period is the result of a Bank policy, which stipulates a borrower should make its first repayment 6 months after the grace period.

Annex III: Summary Comparison of Options & Features of loan products across selected MDBs

OPTIONS / FEATURES	IDB (current)		IDB (proposed)	IBRD	AsDB	AfDB	CAF \1
	SCF	LCF	"Flexible Financing Facility" (FFF)	IBRD Flexible Loan (IFL)	Libor-Based Loan (LBL) \2	Sovereign-Guaranteed Loan (SGL) \3	Sovereign-Guaranteed Loan (SGL)
Choice of Currencies of Approval	YES (MC)	YES (LC) \4	YES \4	YES (MC)	YES	YES \5	YES \4
Grace Period	INVs: 6 months after disbursement period PBLs: 5 years. Includes the disbursement period \6	INVs: 6 months after disbursement period PBLs: 5 years. Includes the disbursement period \6 \7	INVs: 6 months after disbursement period For PBLs 5 years. Includes the disbursement period \7	Adjusted subject to choice of repayment type and WAL	Typically 5-8 years, however flexible based on the project profile.	Up to 5 years	Standard: 5 years but flexible subject to borrowers' request.
Maturity	INV: up to 25 years PBLs: up to 20 years	INV: up to 25 years PBLs: up to 20 years	INV: up to 25 years PBLs: up to 20 years\8	Up to 30 years\9	Standard: up to 24 years defined by product (Other maturity as project economic life and other factors justify)	Up to 20 years	Any maturity, as justified by project. Standard: 5-18 years\10
Currency Conversion\11	NO	YES \12	YES \13	YES \14	YES \15	YES \16	YES \17
Flexible amortization	NO	YES \18	YES \18	YES \18	YES \19	YES \20	YES \21
Underlying flexible risk management products features\22	NO	YES \23	YES \24	YES \25	YES \26	YES \27	NO
Embedded option to convert OLB of discontinued financial products \28	NO \29	N/A	YES \30	NO	YES \31	NO	N/A
Option to fix variable lending spread	NO	NO	NO	YES \32	N/A \33	NO \34	N/A \33

\1 CAF provides flexible financial features and options upon borrowers' request. Management has discretion to offer any structure without board approval.
\2 AsDB's SG financial products consist of three platforms; Libor-Based Loans (LBL), Local Currency Loans (LCL) and Debt Management Products (DMP).
\3 Other AfDB's SG financial products include, Synthetic Local Currency Loans (SLCL), Enhanced Variable Spread Loans (EVSL) and Risk Management Products (RMP).
\4 Loans can be approved in USD or LC.
\5 AfDB provides SG financing mainly in US$, €, ¥, and ZAR, and in other currencies in which it can fund itself efficiently and for which there is sufficient demand, provided through Risk Management Products.
\6 Loan repayment starts 6 months after the grace period.
\7 The grace period is subject to adjustments based on the borrower's request to choose a non-standard repayment profile.
\8 Maturity limits for INV and PBL categories agreed by the Bank's Board of Governors.
\9 Average maturity of up to 12 to 18 years is available through price-differentiation by maturity buckets (for loans approved after June 30, 2010)
\10 Standard maturity is around 5-18 years; however other tenors are available upon borrowers' request. CAF differentiates pricing of its SG loans based on maturity buckets.
\11 Currency conversion refers to the option by the borrower to convert undisbursed and outstanding balances to another currency.
\12 LCs are available through embedded conversion options and/or through currency hedges via execution of the Master Derivative Agreement (MDA) with the Bank.
\13 MCs and LCs are available through embedded conversion options and/or through currency hedges via execution of the MDA with the Bank.
\14 Available through embedded conversion options and/or hedges via MDA with IBRD. In addition, currency hedges are available for third party liabilities.
\15 Currency conversion options are offered for Libor based Loan products.
\16 Currency conversion options are offered through the Risk Management Product platform. Hedges are also available via execution of MDA.
\17 Offered but mainly used for Non-Sovereign guaranteed borrowers.
\18 Based on loan's contractual Weighted Average Life.
\19 Based on the project's underlying cash flow characteristics.
\20 Standard is equal installments of principal. However, other repayment types such as annuities, bullet repayment and step-up or step-down amortization of the principal may be considered.
\21 Available upon borrower's request.
\22 Embedded flexible risk management features include; (i) fixing the floating base rate of disbursements/conversions and/or the Libor rate of the Base Rate and/or funding margin,(ii) float the fixed rate, (iii) convert to an inflation-linked rate, (iv) contract an option to fix the interest rate at a predetermined level on a future date (swaption), (v) interest rate caps and collars, and (vi) embed other types of derivatives.
\23 Borrowers have embedded options to hedge interest rate exposures of their new and existing obligations with the Bank. Does not include third party stand-alone hedges.
\24 Interest rate, currency and any other type of derivatives are available through embedded options or hedges via execution of MDA with the Bank. Does not include third party stand-alone hedges.
\25 Includes third party stand-alone hedges.
\26 Available via embedded conversion options under LBL and Debt Management Products which offers third party stand-alone hedges.
\27 Interest rate swaps, currency swaps, commodity/index swaps, interest rate caps and collars are offered through the Risk Management Product offerings. To enter into RMP transactions, clients would be required to enter into a MDA.
\28 Allow borrowers flexibility to convert loans under discontinued financial products to market-standard features.
\29 IDB offered its borrowers the opportunity to convert OLBs and ULBs under SCF/CPS Adjustable rate loans to U.S. dollar LIBOR-based or fixed-rate loans or a combination determined by the borrowers. These conversion offers were executed on August 1, 2009, and August 1, 2010 respectively each as a one-time offer.
\30 Discontinued products include SCF (Adjustable), Dollar Window, CPS (Fixed and Adjustable), Non-pooled Multicurrency loans.
\31 Pool-based single currency loans (PSCL) borrowers can convert to LIBOR-based loans until 31 Dec 2012.
\32 Through the IFL, fixed lending spread is available.
\33 All SG financial products are provided in fixed lending spread over Libor.
\34 Fixed spread option discontinued to ensure full cost pass through of increasing funding cost to its borrowers.