

FORUM BRIEFER 01-22

Sources of ADB Funds - ADF, OCR, GCI

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ASIAN DEVELOPMENT FUNDS (ADF)

The Asian Development Bank is authorized by its Charter to establish and administer special funds that are financed either by an individual member or a group of member countries. The biggest and oldest of these special funds is the Asian Development Fund (ADF) and to date, remains as the only multilateral source of concessional assistance exclusively designed for developing member countries with low per capita GNP and limited debt-repayment capacity. The ADF is periodically replenished every four years. From the first ADF in 1973, a total of seven replenishments have already been made from both its regional and non-regional member countries. The current ADF period, tagged as ADF VIII, covers the years 2001-2004.

Contribution for each replenishment depends on the donor's relative position in the global market and/or within the region, hence, the fundamental principle of all replenishments is fair burden sharing. The ADF VII negotiations focused on making the ratio of burden sharing between nonregional and regional donors to 57:43, an improvement from ADF VI's 53:47. The target for ADF VIII is 50:50.

Concessional replenishments are applied at three levels: a pledge at the end of replenishment negotiation, a promissory note payment for each tranche release, and encashment of promissory notes in an appropriate and timely manner. The first level gets the most prominence but the other two are still deemed critical in the management of ADF resources. disbursing loans had the following terms: 24-year maturity including an 8-year grace period, 1% interest charge during the grace period and 1.5% during the amortization period and equal amortization. ADF-financed loans do not require a commitment fee.

ADF VIII. Twenty-five donor member countries of the Asian Development Bank agreed on September 7, 2000 to the seventh replenishment of the Asian Development Fund (ADF) following five successive rounds of negotiations (www.adb.org/Finance/ADF/default.asp). The new replenishment amounting to \$5.65 billion will consist of \$2.91 billion worth of contributions with the

balance coming from repayments of earlier ADF loans.

The ADF VIII features several developments. Foremost is the inclusion of Singapore and Portugal in the list of contributing member countries. Second, East Timor and Azerbaijan are the latest additions to countries availing of ADF funds. Third, the new replenishment undertakes the establishment of a Development Effectiveness Committee (DEC), which is aimed to enhance the impact of ADB's operations in its DMCs as well as measures to improve the relationship between the Bank management and its shareholders.

A total of twenty-five developing member countries will be recipients to the concessional loans that carry a 1 to 1.5 percent interest charge. It may be noted that the Bank's Board of Directors approved on December 1998 the amended ADF loan terms for new loans that took effect at the start of 1999. Project loans (i.e. other than quick-disbursing program loans) had the following terms: 32-year maturity including an 8-year grace period, 1% interest charge during the grace period and 1.5% during the amortization period and equal amortization. Quick-

For the ADF VIII, Japan remains the largest donor with commitment amounting to more than \$1.06 billion. The United States agreed to pitch in \$412 million, \$860 million from the 14 European member countries and \$185 million from Australia. Almost half of the replenishment is from the developed and developing countries in Asia and the Pacific.

Aside from supporting the creation of the DEC, ADF VIII will continue to sustain several of its operational priorities, among which are:

- the installation of a more robust performance-based allocation system for ADF loans;
- stronger support for good governance in the region; and
- increased focus on gender equality, environmental protection and regional cooperation among developing member countries.

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As a result of the replenishment, the ADB is now bent on answering two major ADF challenges, of which are: (a) to make the ADF be sensitive to its social impacts, particularly to the secondary effects brought about by the Asian financial crisis; and (b) the emergence of new borrowers.

ADF VII. Viet Nam and Bangladesh accounted for the largest borrowings made, each of which got \$600 million or almost 50% of the total ADF lending. Sri Lanka, Pakistan, Krygyz Republic, Nepal and Lao People's Democratic Republic followed. 24% of the total (\$618 million) were loaned to Group A countries while Group B1 countries received 72% of the total (\$1,873 million).

From 1997 to 1998, 68 projects and programs were implemented through ADF VII. Almost \$1.1 billion or 44% of the total ADF lending from 1997-1998 financed more traditional growth-oriented projects². On the other hand, projects with explicit environmental and social objectives, including specific poverty reduction objectives accounted for 56% of funds lent or \$1.5 billion in the same period. Of these explicit poverty-reduction projects, \$790 million funded projects primarily for the social concerns of women in development, human resource development and access for the poor to income/employment opportunities and human development services; \$214 million for projects directly aimed at protecting the environment; and \$450 million for growth-oriented projects that incorporated explicit social or environmental targets as secondary objectives.

ORDINARY CAPITAL RESOURCES (OCR)

ADB provides loans either from its OCR or its special funds. Unlike the special funds, OCR lending operations consist, among which, of (a) paid-in capital, (b) funds raised by borrowings of the Bank, (c) retained earnings and (d) loan repayments.

Twenty-one DMCs have already availed of loans from OCR, of which Indonesia was recipient to the largest aggregate amount. Following the graduation policy practiced by the Bank effective January 1999, OCR loans are made available to countries deemed to have more advanced borrowing capabilities. Since the Bank's start of operations until the end of December 31, 1999, an aggregate of \$41.9 billion-worth of outstanding loan commitments (less amounts cancelled or repaid) from its ordinary operations.

Priority projects out of OCR loans tended towards the energy sector, followed by transport and communications, and finance and social infrastructure. Having redefined its goal, the Bank's Poverty Reduction Strategy redirects its resources towards projects parallel to the three pillars of reducing poverty: pro-poor, sustainable economic growth, social development and good governance.

GENERAL CAPITAL INCREASE (GCI)

The GCI is the periodic replenishment of ADB's authorized capital stock. In the Bank's Articles of Agreement, authorized capital stock (also known as capital stock) pertains to the sum of paid-in shares and callable shares. Section 3 of the same Article legitimizes any move of the Board of Governors⁵ to increase the authorized capital stock of the Bank.

In 1996, the fourth GCI (GCI IV) was instituted with the doubling of the authorized capital stock from \$23.2 billion to \$48 billion. Together with the increase came the issues that the Bank had to incorporate in its lending activities. In the case of GCI IV, the issue on good governance was upheld. As a result, a big chunk of bank lending from its OCR had components of governance.

Of the two components of authorized capital stock, the paid-in portion is allotted for the Bank's ordinary lending operations. The callable portion serves the purpose of protecting the Bank's creditors (e.g. bondholders and other lenders) and can be called only if required to meet its obligations in relation to its borrowings or to cover and guarantees outstanding.

Movements of authorized capital stock imply a parallel change primarily in the lending activities of the Bank. Hence, an increase in the capital stock implies greater Bank lending to reach the Bank's ultimate development goal: the reduction of poverty.

For the fourth CGI, protests came upon the heightened lending activities of ADB at the expense of an increasing number of backfiring projects.