



An Introduction to the World of Development Banks

Workshop, May 2013

WU (Vienna University of Economics and Business)



(2) Public Sector Financing and the Asian Development Fund

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Presentation outline

- The Asian Development Bank
 - Facts and figures
 - Financing sources and instruments
 - Public sector financing
 - Development context
- The Asian Development Fund
 - Facts and figures
 - Asian Development Fund Replenishment negotiations
- Myanmar
- ADB Results Measurement

Asia: characteristics and challenges

- Home to 1,7 billion poor
- Home to about 2/3 of the world's extremely poor
- By 2050 possibly more than half of global GDP
- Climate change
- Population growth
- Rising inequalities
- Urbanization
- Gender issues



Asian Development Bank - facts

- Founded in 1966, HQ Manila
- 67 members (48 regionals – 40 operational)
- Japan and USA biggest shareholders (12,7% each)
- Board of Governors (BoG) – Board of Directors (BoD)
- Capital: \$ 160 Billion (4% paid-in)
- Loans, grants, equity, guarantees, TA, policy dialogue
- Staff: 3.050

- Austria:
 - 0,34% shares
 - Constituency (GB, G, Lux, T) - BoD
 - 10 staff + 4 secondments



Asian Development Bank - mission

- Asia and Pacific free of poverty
- „Strategy 2020“ – ADB’s strategic framework
 - Three objectives:
 - Inclusive growth
 - Environmentally sustainable growth
 - Regional Integration
 - Five core operational areas:
 - Infrastructure
 - Environment
 - Regional cooperation and integration
 - Finance sector development
 - Education



Asian Development Bank - financing

- \$ 21.57 billion in approved financing in 2012 (including \$ 8.27 billion cofinancing)
 - **Public sector financing** (\$ 13.60 billion / \$ 11.45 billion)
 - DMC governments and public sector entities
 - Loans, grants, TA
 - Government guarantee provided
 - Top-down approach
 - **Private sector financing** (\$ 7.96 billion / \$ 1.86 billion)
 - direct financial assistance to private sector projects
 - Leverages cofinancing from commercial resources
 - Clear development impact and/or demonstration effect
 - Loans, guarantees, equity, TA
 - Bottom-up approach

Asian Development Bank – financing II

- Modalities (excluding cofinancing)

Investment support	80%
Policy-based support	18%
Technical and Advisory support	2%

- Policy based loans
 - Non-project lending
 - Instrument to support policy reforms
 - Budget support
 - Conditionalities/prior actions

Public sector financing – OCR and ADF

- DMCs to borrow from ADB ordinary capital resources (OCR) or the Asian Development Fund (ADF)
 - OCR
 - Paid-in capital from member countries
 - Raised funds from the capital market
 - Accumulated reserves
 - ADF
 - Provides grants and loans on concessional terms
- Classification system for eligible DMCs according to
 - Gross national Income (GNI) per capita and
 - Creditworthiness

ADB country classifications

Group A (ADF only)	Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Lao People's Democratic Republic, Maldives, Myanmar, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Tonga, Tuvalu, Vanuatu
Group B (Blend of ADF and OCR)	Armenia, Azerbaijan, Bangladesh, Georgia, India, Marshall Islands, Federated States of Micronesia, Mongolia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Timor-Leste, Uzbekistan, Vietnam
Group C (OCR only)	Cook Islands, People's Republic of China, Fiji, Indonesia, Kazakhstan, Malaysia, Philippines, Thailand, Turkmenistan

Public sector financing – conditions

- Loan costs

OCR	Near market terms for ADB's lower to upper middle-income countries <ul style="list-style-type: none">• LIBOR-based loans• 6-months LIBOR + effective contractual spread (40 bp) + commitment fee (15 bp) + maturity premium if > 13 years
ADF	Loans at very low interest rates and grants for ADB's poorest borrowing countries <ul style="list-style-type: none">• ADF-only: 1% interest during the grace period, 1,5% during the amortization period, up to 32 years maturity• Blend: 2% interest per year, maturity: 25 years

- Country needs versus debt sustainability

 - Debt Sustainability Analysis

 - IMF/World Bank
 - ADF: Loans/grants

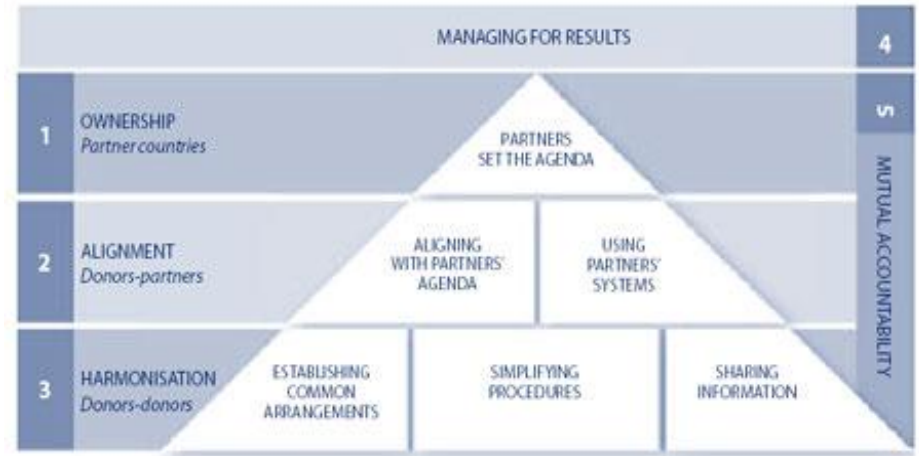
Public sector financing - standards

- Projects need to fulfil certain requirements:
 - Environmental and social standards (safeguards)
 - Gender mainstreaming
 - Publication and transparency standards
 - Design and monitoring framework
 - Procurement guidelines



ADB in the wider context

- Paris Declaration on Aid Effectiveness (2005)
 - Ownership
 - Alignment
 - Harmonisation
 - Managing for Results
 - Mutual accountability



- ADB in the donor coordination process
 - Coordinated policy dialogue with the partner country
 - Division of labor, information sharing
 - More effective aid over political and economic interests ?

Top-down but also bottom-up approach

- **Country Partnership Strategies (CPS)**
 - Main policy documents drafted in cooperation with DMCs
 - Frames partnership and all ADB operations
 - Sectoral focus
 - Main priorities
 - Needs to be approved by BoD

- **Presence on the ground → ADB Resident Missions**
 - 28 RMs, 22,3% of staff
 - Deconcentration
 - Many benefits but also risks

The Asian Development Fund (ADF)

- Established in 1973
- Largest of ADB's special funds
- Mainly funded by ADB member countries
 - So far: 32 direct contributing countries
- Loans on concessional terms and grants for ADB's poorest DMCs
 - Low per capita income and limited/low creditworthiness
 - Currently 29 ADF-countries (16 ADF-only countries)
 - Loans/grants → DSA



The Asian Development Fund (ADF)

- Allocation of resources:
 - Needs assessment / Performance based allocation
 - Population size
 - Per capita income
 - Country performance



- Same focus and strategic framework as ADB:
 - Vision: Asia and Pacific free of poverty
 - Strategy 2020: main objectives and sectoral focus

- Since 1973 over \$ 50 billion were provided



ADF Examples

- Infrastructure

Rural roads are bridging the gulf between poor villages, markets, and healthcare facilities in Bangladesh - as well as providing opportunities for women in dire need of employment.



- Regional cooperation and integration

A road between Phnom Penh and Ho Chi Minh marks a milestone in the Greater Mekong Subregion, promoting economic cooperation in a formerly conflict-torn area.



- Education

An education project is helping Viet Nam meet the labor demands of its booming economy.



ADF XI replenishment negotiations

- 3 rounds (Sept. 2011-April 2012) for ADF XI (2013-2016)
- ADB management and ADF donors
- Strong focus on
 - Climate change
 - Gender equality and women's empowerment
 - Measuring development results



ADF XI Financial envelope

- Recession and severe fiscal constraints for most donor countries
 - High growth rates in many emerging Asian economies
- Call for more regional engagement and ownership in the ADF (ADF overall: non-regional 53% - regional 47%)**
- Replenishment size of \$12,4 billion 2013-2016 (+9,5%)
 - Austria: 0,74% (ADF X: 0,91%)
 - Eurozone: share cut by 25%

ADF strategic vision

- Long-term strategic vision of the ADF
 - Possible future model for the ADF
 - Scale down/increase
 - Focus on poor people instead of poor countries
 - Focus on global and regional public goods (environment/climate change)
 -
 - Possible financing sources
 - Linking ADF contributions to ADB voting rights
 - Review grant framework
 - Solicit private contributions
 -

Myanmar



- ADF-only country
 - In arrears; no lending operations since 1988
 - Political and economic reforms since 2011
 - ADB consulted ADF donors and BoD for advice in 2012
 - EU and US sanctions lifted
- Coordinated cautious approach towards reengagement

ADB's reengagement with Myanmar

- Three phases approach:
 - (i) Initial sector assessments
 - (ii) Comprehensive sector assessments, capacity and institutional support
 - (iii) Resumption of lending operations
- ADB office in Yangon, TA and technical experts to support administration
- National development strategy and donor coordination mechanism set up by the government
- Debt Sustainability Analysis → loans

Myanmar: Towards resumption of lending

- Preparation of an Interim CPS 2012-2014 (endorsed by BoD in Oct. 2012)
 - Building of human and institutional capacity
 - Promotion of an enabling economic environment
 - Creation of access and connectivity for rural livelihoods and infrastructure development
- BoD approval of Policy based loan (Jan. 2013) to facilitate arrears clearance via Japanese bridge loan
- ADF allocation under ADF XI to be decided

ADB Results Measurement

- More effective aid for better development results
- Holding ADB accountable
- Control for shareholders
- ADB first MDB to adopt a corporate Results Framework in 2008 that covers all operations

ADB Results Framework

Indicators (examples)

- Population living on less than \$ 1.25/day (%)
- Under-5 child mortality (female/male) →

**Level 1: Development Progress
in Asia and the Pacific**

- Households with new or improved sanitation
- Students benefiting from new or improved educational facilities →

**Level 2: ADB's Contributions to
Development Results**

- Quality at entry of sovereign projects rated satisfactory (%) →
- Operations supporting gender mainstreaming (%)

**Level 3: Operational
Management**

- Sovereign operations processing time →
- Representation of women in the internat. staff category (%)

**Level 4: ADB Organizational
Management**

ANY QUESTIONS ?





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