



# World Bank & Co. Are Development Banks still Relevant?

Workshop, April 2014

WU (Vienna University of Economics and Business)



# Public Sector Financing and the Asian Development Fund

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World Bank & Co. – Are Development Banks still Relevant?  
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# Presentation outline

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- The Asian Development Bank
  - Facts and figures
  - Operations, funding sources and financial products
  - Public sector financing
  - Development context
- The Asian Development Fund (ADF)
  - Facts and figures
  - ADF Replenishment negotiations
  - ADF outlook
- Myanmar

# Asia: characteristics and challenges

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- Home to 1,7 billion poor
- Home to about 2/3 of the world's extremely poor
- Average growth rate of 7,4% (2000-2012)
- By 2050 possibly more than half of global GDP
- Climate change
- Population growth
- Rising inequalities
- Urbanization
- Gender issues



# Asian Development Bank - facts

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- 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

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- 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

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- \$ 21,02 billion in approved financing in 2013 (including \$ 6,64 billion cofinancing)
  - **Public sector financing** (\$ 16,48 billion)
    - Loans, grants, TA
    - DMC governments and public sector entities
    - Government guarantee
    - Top-down approach
  - **Private sector financing** (\$ 4,54 billion)
    - Loans, guarantees, equity, TA
    - Direct financial assistance to private sector projects
    - Leverages cofinancing from commercial resources
    - Clear development impact and/or demonstration effect
    - Bottom-up approach

# Public sector financing – OCR and ADF

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- 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

- OCR or ADF ?

Classification system for eligible DMCs according to

- Gross national Income (GNI) per capita and
- Creditworthiness



# ADB country classifications

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

# Public sector financing – conditions

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- Loan costs

|     |   |
|-----|---|
| OCR | Near market terms for ADB's lower to upper middle-income countries <ul style="list-style-type: none"><li>• LIBOR-based loans</li><li>• 6-months LIBOR + effective contractual spread (50 bp) + commitment fee (15 bp) + maturity premium if &gt; 13 years</li></ul>   |
| ADF | Loans at very low interest rates and grants for ADB's poorest borrowing countries <ul style="list-style-type: none"><li>• ADF-only: 1% interest during the grace period (8 years), 1,5% during the amortization period, up to 32 years maturity</li><li>• Blend: 2% interest, maturity: 25 years, grace period: 5 years</li></ul> |

- Country needs versus debt sustainability

- Debt Sustainability Analysis

- IMF/World Bank
    - ADF: Loans/grants

# Public sector financing - standards

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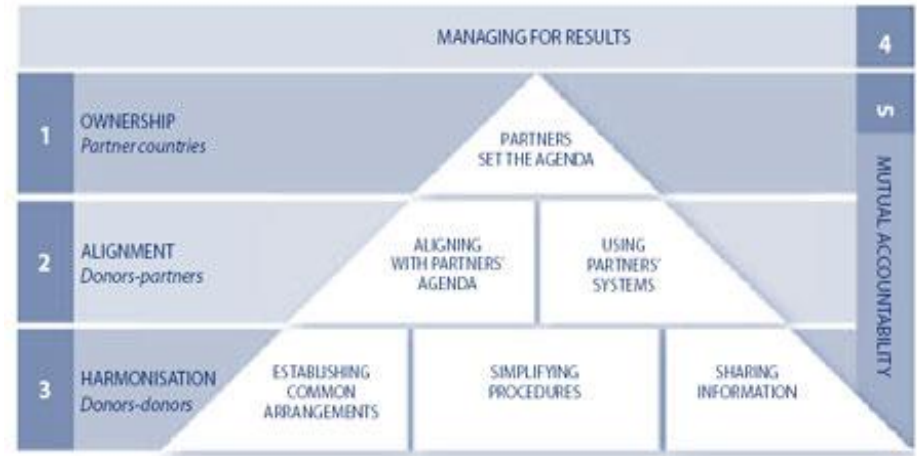
- Projects need to fulfil certain requirements:
  - Environmental and social standards (safeguards)
  - Gender mainstreaming
  - Publication and transparency standards
  - Design and monitoring framework
  - Procurement guidelines



# ADB in the wider context

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- 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 ?

# ADB on the ground

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- **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)

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- Established in 1973
- Largest of ADB's special funds
- Mainly funded by ADB member countries
  - Currently 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 → Debt Sustainability Analysis



# The Asian Development Fund (ADF)

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- Allocation of resources:
  - Performance based allocation incl. needs assessment
    - Country performance
    - Population size
    - Per capita income



- 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

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- 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

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



# ADF XI Financial envelope

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- 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%
    - Shift in burdensharing to regional donors (but not to emerging economies)

# The future of the ADF

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- Long-term strategic vision of the ADF – some options (2012)
  - Focus on poor people instead of poor countries
  - Focus on global and regional public goods
  - Review grant framework
  - Linking ADF contributions to ADB voting rights
  - Solicit private contributions
- ADB proposal (2014)
  - Increase country allocations to remaining ADF countries
  - Combining ADF and OCR resources

# The future of the ADF

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- Combining ADF and OCR resources (proposal)
  - Transfer the ADF loan and liquid assets to OCR
  - New OCR concessional lending window
  - ADF continues as special fund for grant assistance
  - Enhanced ability to leverage funds because of expanded ADB equity base
  - Increased OCR lending capacity
  - Increased net income transfer from OCR to ADF
  - Significantly less donor contributions
  - Tripling of ADB equity base thanks to ADF donors
- Proposal to be discussed - No decision taken yet!

# Myanmar

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- 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

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- Three phases approach (2012):
  - (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

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- 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
- ADB resumed operations in 2013

# ANY QUESTIONS ?







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