

LEGISLATIVE COUNCIL BRIEF

ASIAN DEVELOPMENT BANK :

HONG KONG'S CONTRIBUTION TO THE 7TH REPLENISHMENT OF THE ASIAN DEVELOPMENT FUND

INTRODUCTION

At the meeting of the Executive Council on 21 November 2000, the Council ADVISED and the Chief Executive ORDERED that subject to the approval by the Finance Committee of the Legislative Council, Hong Kong should contribute US\$16.28 million as requested by the Asian Development Bank (ADB) for the 7th replenishment of the Asian Development Fund (or ADF VIII).

BACKGROUND AND ARGUMENT

Background

1. The Asian Development Fund (ADF), established in 1973, is the concessional lending window of the ADB to its most needy members. The objective of the ADF is to promote poverty reduction and improvements in the basic quality of life in the poorer countries in the region.
2. ADF loans carry a concessional interest rate of only 1% - 1.5% p.a. and a loan maturity of up to 32 years. Resources are replenished every three to five years. ADF loan repayments would be pooled to form the ADB's internal resources for future ADF replenishments.
3. Borrower members have to meet certain criteria set by the ADB in order to be eligible for the ADF loans. These include mainly per capita gross national product or gross domestic product of the countries. At present, 27 ADB developing member countries are eligible for ADF resources (**see Annex A**).

4. Donors' contribution to the ADF is on a voluntary basis. The traditional donors have been industrial countries such as Japan, the United States, Canada, the United Kingdom and Germany. In recent years, newly industrialised economies such as Hong Kong, Korea and Taipei, China have been asked for a significant increase in the donation. Hong Kong contributed to four previous replenishments - US\$1 million each in 1983 (ADF IV) and 1987 (ADF V), US\$3 million in 1992 (ADF VI) and US\$15.4 million in 1997 (ADF VII). Unlike the token donations in ADF IV - VI, the amount contributed by Hong Kong to ADF VII matched that derived from the consensus burden sharing formula agreed amongst the donors.

5. ADF VIII is the 7th replenishment of the ADF covering the period from 2001-2004. After protracted negotiations, the ADB concluded the negotiations for ADF VIII in September 2000. Agreement was reached on a total replenishment size of US\$5.6 billion, of which US\$2.74 billion will come from the ADB's internal pool while the remaining US\$2.86 billion will be funded by donors' voluntary contributions. The target size of contributions by donors represents an increase of US\$0.16 billion, or 5.9%, from that of ADF VII.

6. A consensus has emerged among the donors that the burden sharing formula for ADF VIII should follow that of ADF VII. Under this formula (based on donor's GDP adjusted for voting right in the ADB), Hong Kong's share will be maintained at 0.57%, which translates into an amount of US\$16.28 million. It is worth noting that there are a number of exceptions from the consensus formula, for example, Singapore will contribute US\$4 million for the first time to ADF but the amount would be lower than its full burden share of 0.38%. However, Japan has agreed to contribute an amount above its burden share based on the consensus formula while Korea has voluntarily increased its burden share. The amounts to be pledged by donors for ADF VIII are set out in Annex B.

Justifications for Hong Kong's contribution

8. We believe that Hong Kong should accede to the request to contribute to ADF VIII for the following reasons -

- (a) **Hong Kong's commitment to the region** - the ADF has played a key role in reinforcing national efforts to reduce poverty in the Asia-Pacific region. Since its inception in 1973, the ADF has provided concessional loans totalling US\$22 billion to improve the conditions of the poor by helping them to have better access to basic amenities and social services, such as health and sanitary services, clean water supply and basic education. Although Asia as a whole has developed rapidly over the past

two decades, there are still over 900 million people in the Asia-Pacific region who live on less than US\$1 a day¹. By far, the largest beneficiaries of ADF loans are Bangladesh, Pakistan, Sri Lanka, Vietnam and Nepal, countries with an average per capita GNP of only US\$450. Given that Hong Kong's per capita GDP, at US\$23,659 in 1999, is among the highest in the region, Hong Kong's continued participation in the worthwhile cause of ADF is consistent with our overall stance to support development efforts in the region; and

- (b) **Hong Kong's commitment to the ADB** – the ADB is one of the few international financial institutions in which Hong Kong is a full member. Our membership at the ADB is derived from our Associate Membership of the United Nation Economic and Social Commission for Asia and the Pacific (ESCAP). We have been a contributor to ADF since 1983 (for ADF IV). Hong Kong should be seen to be playing its full part in the ADB's activities. The concessional loan facilities under ADF is a very important arm of the operation of the ADB. As a responsible member, it is Hong Kong's obligation, along with other economies from within and without the region, to support the ADB activities. Our contribution will be a solid demonstration of Hong Kong's support to the ADB.

The Proposal

9. Subject to the approval by the Finance Committee of the Legislative Council, US\$16.28 million will be contributed by Hong Kong to ADF VIII in 2001 to 2004. Payments will be made in promissory notes in four instalments to ADB, which will encash the notes in accordance with a 7-year encashment schedule as shown at Annex C.

FINANCIAL AND STAFFING IMPLICATIONS

10. Subject to Finance Committee's approval, our contribution will result in an expenditure of US\$16.28 million. There are no staffing implications.

PUBLICITY

¹ The World Bank uses "living on US\$1 per person per day" as the international benchmark for defining the poverty line, and estimated that 900 million poor people were living below the poverty line in Asia in 1998. The estimates are based on consumption or income data collected through household income and expenditure surveys.

11. A press release will be issued when we make the submission to the Finance Committee for funding approval on 15 December. A spokesman will be available to handle media enquires.

ENQUIRIES

12. Enquiries on this Legislative Council brief may be directed to Mr Arthur Yuen, Head (External Relations), Hong Kong Monetary Authority at 2878 1818 and Miss Clara Tang, Principal Assistant Secretary for Financial Services at 2529 0121.

Financial Services Bureau

22 November 2000

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Annex A

Overview of Eligible/ Existing ADF borrowers

ADF Loans, 1973 - August 2000

<u>Eligible / Existing Borrowers ^a</u>	<u>1999 Per Capita GNP (US\$)</u>	<u>Loans (US\$ mn)</u>
Bangladesh	370	5,755.0
Pakistan	470	5,480.7
Sri Lanka	820	2,376.9
Vietnam	370	1,665.4
Nepal	220	1,630.1
Philippines ^a	1,020	1,105.2
Indonesia	580	857.5
Lao PDR	280	810.7
Myanmar	102 ^c	524.3
Mongolia	350	452.4
Kyrgyz Republic	300	422.2
Cambodia	260	370.0
Papua New Guinea ^a	800	341.5
Samoa	1,060	99.1
Afghanistan	- ^b	90.0
Bhutan	510	85.2
Thailand ^a	1,960	72.1
Solomon Islands	750	69.3
Kazakstan ^a	1,230	60.0
Maldives	1,160	55.2
Rep. of Marshall Islands	1,560	52.3
Vanuatu	1,170	51.3
Tajikistan	290	45.0
Tonga	1,720	42.9
Fed. States of Micronesia	1,810	35.1
Cook Islands	4,862 ^c	24.5
Uzbekistan ^a	720	20.0
Kiribati	910	15.1
Tuvalu	1,378 ^d	4.0
China, People's Republic of	780	-
India	450	-
Nauru	2,895 ^d	-
Regional loans to a group of borrowers	-	197.0
Total		<u>22,809.9</u>

^a Some existing borrowers as marked with "a" are no longer classified as "eligible" borrowers for new ADF resources. The loan amounts shown for these economies are loans approved in past ADF programmes.

^b No data available

^c GDP figure

^d 1998 GDP figure

Annex B

**Overview of the Financing and Burden Sharing of
ADF VII and ADF VIII**

	ADF VII		ADF VIII	
	US Dollar (mn)	Burden sharing %	US Dollar (mn)	Burden sharing %
Non-regional members				
Austria	23.49	0.87	24.85	0.87
Belgium	19.44	0.72	20.57	0.72
Canada	125.82	4.66	133.14	4.66
Denmark	24.03	0.89	25.43	0.89
Finland	13.50	0.50	14.29	0.50
France	135.00	5.00	126.00	4.41
Germany	177.12	6.58	165.10	5.78
Italy	108.00	4.00	111.43	3.90
Netherlands	65.61	2.43	82.85	2.90
Norway	24.30	0.90	27.14	0.95
Portugal ¹	–	–	17.14	0.60
Spain	13.50	0.50	28.57	1.00
Sweden	36.99	1.37	39.14	1.37
Switzerland	33.21	1.23	35.14	1.23
Turkey	15.12	0.56	5.00	0.18
United Kingdom	102.60	3.80	137.14	4.80
United States	400.00	14.81	412.00	14.42
Sub-total	1,317.73	48.80	1,404.93	49.18
Regional members				
Australia	175.23	6.49	185.42	6.49
Japan	948.51	35.13	1,003.66 ²	35.13
New Zealand	17.55	0.65	18.57	0.65
<i>Hong Kong</i>	<i>15.39</i>	<i>0.57</i>	<i>18.28³</i>	<i>0.57</i>
Korea, Rep. Of	54.27	2.01	81.41 ⁴	2.85
Malaysia ⁵	10.00	0.37	–	–
Singapore ^{1,6}	–	–	4.00	0.14
Taipei, China	14.58	0.54	15.43	0.54
Thailand ⁷	4.00	0.15	2.64	0.09
Sub-total	1,239.63	45.91	1,327.41	46.46
Total	2,557.26	94.71	2,732.34	95.64

¹ Portugal and Singapore did not contribute to the ADF VII.

² The amount does not include (a) a contribution of US\$9.65mn which Japan has agreed to make to fill part of the funding gap arising from the inability of some donors to honour their full burden shares; and (b) a special contribution of US\$48.06mn.

³ The amount is subject to the approval of the ExCo and the LegCo.

⁴ Korea has voluntarily increased its burden share from 2.01% to 2.85%.

⁵ Malaysia will not contribute to the ADF VIII.

⁶ Singapore's burden share should be 0.38% under the burden sharing principle, but Singapore has only pledged to contribute 0.14%.

⁷ Thailand has reduced its burden share from 0.15% to 0.09%.

Annex C

**Encashment Schedule
(% of total contribution)**

<u>Year</u>	<u>Amount to be encashed US\$ million</u>	<u>% of Total Contribution</u>
2001	0.62	3.8
2002	1.25	7.7
2003	2.04	12.5
2004	3.04	18.7
2005	3.19	19.6
2006	3.29	20.2
2007	2.85	17.5
	<hr/> 16.28	<hr/> 100.0