

立法會
Legislative Council

LC Paper No. CB(1)365/04-05(06)

Ref: CB1/PL/FA

Panel on Financial Affairs
Meeting on 6 December 2004

Background Brief
on the proposal for Hong Kong to contribute
to the 8th replenishment of the Asian Development Fund

Purpose

This paper sets out the background of the Administration's proposal for Hong Kong to contribute US\$19.19 million to the 8th replenishment of the Asian Development Fund (ADF) (i.e. ADF IX), and summaries the major concerns expressed by Members at meetings of the Panel on Financial Affairs (FA Panel) and the Finance Committee (FC) on the proposal for Hong Kong to contribute to the 7th replenishment of the ADF (i.e. ADF VIII) in 2000.

Background

2. The ADF, established in 1973, is the concessional lending window of the Asian Development Bank (ADB) to its most needy members in the Asia and Pacific region to support poverty reduction and improve the quality of life. At present, 29 developing member countries including Bangladesh, Pakistan, Sri Lanka, Vietnam and Nepal etc. are eligible for ADF resources. The ADF is replenished once every three to five years and contributions by ADB members are on a voluntary basis.

3. Hong Kong joined the ADB in 1969 and has been a donor of the ADF since 1983. Details of Hong Kong's contributions to the last five ADF replenishments are as follows –

	<u>Date approved by</u> <u>Finance Committee</u>	<u>Amount</u> <u>(US\$ million)</u>
ADF IV	13 October 1982	1.0
ADF V	11 March 1987	1.0
ADF VI	12 June 1992	3.0
ADF VII	19 September 1997	15.39
ADF VIII	15 December 2000	16.28

4. Since ADF VII, Hong Kong has made contributions according to the consensus burden sharing formula agreed amongst the donors^{Note}. According to the formula, Hong Kong's burden sharing ratio is 0.57% of the target size of contributions by donors. The same ratio was maintained for ADF VIII.

5. In May 2004, ADF donors agreed that ADF IX would have a replenishment size of US\$7.17 billion, of which at least US\$3.37 billion would be provided by donor contributions and the remaining from the ADB's internal pool. A consensus was also reached that the burden sharing formula for ADF IX should follow that of ADF VIII. In the circumstance, Hong Kong's share will be maintained at 0.57%, i.e. US\$19.19 million.

6. On 2 November 2004, the Chief Executive in Council decided that subject to FC's funding approval, Hong Kong should contribute the amount of US\$19.19 million to ADF IX over a 10-year period. The Administration plans to seek FC's funding approval on 14 January 2005.

Major concerns expressed by Members on the proposal for Hong Kong to contribute to ADF VIII

7. The Administration consulted FA Panel on the proposal for Hong Kong to contribute US\$16.28 million for ADF VIII on 4 December 2000 before seeking FC's funding approval on 15 December 2000. Members generally supported the proposal in principle. Some Members however expressed the following concerns:

- (a) justifications for Hong Kong to maintain the same burden sharing ratio given the downturn in Hong Kong's economy in recent years and whether Hong Kong could contribute less to ADF VIII;
- (b) implications on Hong Kong's share of contribution in the event that other donors failed to make their contributions in full;
- (c) how to ensure that the ADF loans would serve its intended objective of reducing poverty in the Asia and Pacific region; and
- (d) how Hong Kong could play a role in ensuring the fair allocation of the ADF loans.

Note

The burden sharing formula is based on a donor's per capita Gross National Product/Gross Domestic Product (which reflects the member's financial strength) and adjusted for its shareholding in the ADB.

8. The relevant extracts from the minutes of the FA Panel meeting on 4 December 2000 and the FC meeting on 15 December 2000 are in **Appendices I and II** respectively.

Council Business Division 1
Legislative Council Secretariat
30 November 2004

**Extract from the minutes of meeting
of the Panel on Financial Affairs on 4 December 2000**



Action

**V Asian Development Bank - Hong Kong's Contribution to the
7th Replenishment of the Asian Development Fund**
(Legislative Council Brief Ref : A2/5C III)

16. The Acting Secretary for Financial Services (SFS(Atg)) briefed members on the proposal for Hong Kong to contribute US\$16.28 million (about HK\$127 million) as requested by the Asian Development Bank (ADB) for the 7th replenishment of the Asian Development Fund (ADF VIII). She informed members that the Administration would seek funding approval of the Finance Committee on 15 December 2000.

17. Members generally supported the proposal in principle as they opined that the contribution would help reduce poverty and improve the basic quality of life in the poorer countries in the Asia Pacific region.

18. In reply to the enquiry by Mr Bernard CHAN and Mr Henry WU about the method for deriving the contribution by respective member countries, the Executive Director, Hong Kong Monetary Authority (ED/HKMA) advised that participants including Hong Kong, agreed on a burden-sharing formula for calculating contributions in the donors' negotiation for ADF VII in 1996-1997. The formula was based on the donor's subscribed capital at ADB, adjusted for per capita Gross National Product (GNP)/Gross Domestic Product (GDP). The calculated burden share of Hong Kong in ADF VII was 0.57% of the target size of contributions by donors. Negotiation for ADF VIII was concluded in September 2000 and participating members agreed that the burden sharing percentages of donors should follow those of ADF VII. Based on the agreed target size of contributions by donors at US\$2.86 billion, Hong Kong's share in ADF VIII was US\$16.28 million.

19. Mr NG Leung-sing enquired about the justification for Hong Kong to maintain the same burden share of contribution for ADF VII in view of the downturn in Hong Kong's economy in recent years. SFS(Atg) stressed that

Hong Kong should continue to contribute its share to ADF VIII in order to show its commitment to the region and to ADB. Hong Kong's prosperity was closely linked to the development and economic prospects in the region. Moreover, Hong Kong's continuous support to ADF would further strengthen its well established international image. On the concern that the contribution would become a financial burden for the Government, SFS(Atg) said that ADF VIII would cover the period from 2001-2004 and the contribution of HK\$127 million would be encashed in seven years. The Administration did not envisage any adverse effect on public finance. For members' reference, SFS(Atg) informed members that the Government's revised estimates of social welfare expenditure was HK\$28.4 billion in 1999-2000 and the proposed contribution to ADF VIII was just 0.45% of this social spending.

20. On the contribution for ADF VIII to be made by other donors, ED/HKMA stressed that donors' contribution was on a voluntary basis. Contribution was made by members with regard to their individual circumstances and considerations. She said that the traditional donors of ADF were industrial members such as Japan, the United States and Canada etc. Newly industrialized economies such as Hong Kong, Korea and Taipei had been asked to increase their donations in recent years. For ADF VIII, while some donors like France and Germany had indicated that they would contribute a lower burden share percentage as in ADF VII, it should be noted that 15 out of the 25 donors had indicated that they would contribute their burden shares as in ADF VII or even increase their burden shares. For instance, Japan and Korea had pledged to contribute amounts above their burden shares. As a newcomer, Singapore had agreed to contribute US\$4 million which would be lower than its full burden share of 0.38%.

21. As regards Mr Henry WU's enquiry about the structure of ADB and whether Hong Kong's share of contribution was related to its representation and power in ADB, SFS(Atg) advised that the policy-making hierarchy of ADB comprised a Board of Governors (BG) in which Hong Kong was represented by the Financial Secretary (as the Governor) and the Chief Executive, Hong Kong Monetary Authority (as the Alternate Governor). Beneath the BG was a Board of Directors (BD) responsible for the general operation of ADB. Hong Kong was in the same constituency with eight other members including Australia, which was one of the largest ADB members in terms of regional and total voting power. The Australian Director represented Hong Kong in the BD and would consult the Administration on matters which might affect its interests. ED/HKMA added that the voting power of an ADB member was related to its share holding in ADB. The allocation of initial shares to a member was related to factors such as, its GDP, population size etc. when it joined ADB. Hong Kong joined ADB in 1969. As at 31 August 2000, Hong Kong held 0.56% of the total shares and 0.78% of the total voting power of ADB. For comparison, Australia held about 6% to 7% capital share of ADB and controlled about 5% of the total voting power.

22. Regarding ADB's support towards Hong Kong and China, SFS(Atg) informed members that ADB had granted five loans amounting to US\$97 million to finance several infrastructure projects in Hong Kong from 1972 to 1980. These loans had been fully repaid by 1987. China was a major beneficiary of ADB financial support. Although China was not eligible for ADF loans, ADB had granted a total of 79 loans to China from its ordinary capital resources representing about 21% of ADB total loans. As by the end of 1999, the amount of outstanding ADB loans owed by China amounted to US\$4.5billion.

23. On Mr James TIEN's enquiry about the eligibility criteria for ADF loans, ED/HKMA said that borrowing members had to meet certain criteria including requirement on per capita GNP/GDP. ADB management would also assess the progress made by the borrowing members in women development, environment protection, improvement in project quality, economic governance and transparency issues etc. before granting the loans.n ED/HKMA stressed that all ADF loans were unconditional and carried a concessional interest rate of only 1% to 1.5% per annum with a maturity up to 32 years.

24. Responding to Mr LEE Cheuk-yan's enquiry on sanction against Myanmar, ED/HKMA advised that Myanmar was one of the existing ADF borrowers. She was not aware of any discussion by ADB recently on the imposition of economic sanction on Myanmar.

* * * * *

**Extract from the minutes of meeting
of the Finance Committee on 15 December 2000**



Item No. 3 - FCR(2000-01)54

HEAD 106 - MISCELLANEOUS SERVICES

New Capital Account Subhead “Contribution to the Seventh Replenishment of the Asian Development Fund”

14. Members noted that the Panel on Financial Affairs had discussed the present proposal on 4 December 2000.

15. Mr LAU Ping-cheung expressed support in principle for Hong Kong to make a contribution to the seventh replenishment of the Asian Development Fund (ADF VIII) in recognition of its worthwhile cause. He however had reservation about the amount of contribution and enquired whether Hong Kong could contribute less. In response, the Deputy Secretary for Financial Services (DS(FS)) and the Deputy Chief Executive, Hong Kong Monetary Authority (DCE, HKMA) emphasized that Hong Kong's share had been calculated according to a burden-sharing formula agreed by the donors after detailed negotiation. As such, although donors' contributions to ADF were voluntary and failure to contribute in full would not give rise to any legal liability, it was appropriate for Hong Kong to observe the consensus burden-sharing formula.

16. As regards past cases of donors failing to make their contributions in full and the implications on Hong Kong's burden share, DCE, HKMA confirmed that so far, it had not been necessary for Hong Kong to contribute more than its fair share because, although some donors could not honour their full burden shares, the shortfall had been met by other donors who voluntarily increased their contributions.

17. Mr Howard YOUNG concurred that Hong Kong should make contributions to ADF. In response to his question, DS(FS) confirmed that Singapore had not contributed to the last replenishment.

18. Noting that a donor's subscribed capital at the Asian Development Bank (ADB) was a variable in the burden-sharing formula, Mr Henry WU sought to

ascertain the relationship between Hong Kong's subscribed capital at ADB and its contributions to ADF. In reply, DS(FS) and DCE, HKMA explained that Hong Kong's subscribed shares at ADB, amounting to 0.56% of ADB's total shares, were financial obligations incurred by Hong Kong by reason of its membership in the ADB, whereas Hong Kong's burden shares to ADF were purely voluntary contributions. They were therefore two very different types of financial commitments. Members also noted that to be a Regional Director of ADB, a member state had to secure at least 8% of the total regional votes. In other words, a member holding 8% of the total shares would be able to elect a Director of its own.

19. Mr Henry WU noted that Hong Kong had only paid for 1 300 of its 19 000 subscribed shares at ADB because ADB could operate on proceeds from its bonds and had not required Hong Kong to pay for the remainder, i.e., the callable portion of its subscribed shares amounting to around US\$250 million. He was concerned about Hong Kong's ability to pay for the callable portion when required. In response, the Secretary for the Treasury (S for Tsy) advised that Hong Kong's capital subscription to the ADB had been separately approved by the Finance Committee and funding for the callable portion was already provided for and shown as a contingent liability in the Accounts of the Government.

20. Miss Emily LAU expressed strong support for the proposal in furtherance of Hong Kong's international image. She however sought confirmation that the concessional loans of ADF would serve its intended objective of reducing poverty in the Asia-Pacific region. In reply, DS(FS) assured members that a monitoring mechanism was in place. ADF loans had mostly been granted for the implementation of basic amenities projects such as clean water supply. DCE, HKMA supplemented that ADB's Board of Directors would be responsible for vetting and monitoring ADF loans on the basis of appraisal reports. Borrowers that had implemented the loan projects well would be in a better position to secure further loans. Moreover, the ADB management would conduct an interim review of ADF VIII projects in 2003.

21. Dr YEUNG Sum stated that Members of DP would support the proposal to facilitate Hong Kong's continued participation in the worthwhile cause of ADF. He was concerned about how Hong Kong could play a role in ensuring the fair allocation of ADF loans. In response, DS(FS) said that although Hong Kong did not have its own Director, Hong Kong would nevertheless monitor the grant of the loans for worthwhile projects through Australia, its representative on the Board of Directors.

22. Mr LEE Cheuk-yan expressed support for the proposal. He however stated his view that loan applications from Myanmar should be boycotted as a form of economic sanction against its dictatorial military rule.

Admin 23. Noting that the ADF supported quite a number of Mainland projects, Mr LAU Ping-cheung requested assistance from the Administration in ensuring Hong Kong companies could bid for such projects. In response, DCE, HKMA advised that ADF-sponsored projects were normally subject to a competitive bidding process. He undertook to follow up with the ADB to see how their tender notices/information were disseminated so that interested companies in Hong Kong could bid for the projects.

24. The Committee approved the proposal.

