

For discussion
on 4 January 2021

Legislative Council Panel on Financial Affairs

Asian Development Bank - Contribution of Hong Kong to the 12th Replenishment of the Asian Development Fund

PURPOSE

This paper briefs Members on the proposal for Hong Kong to contribute US\$16.08 million to the 12th replenishment of the Asian Development Fund (“ADF 13”)¹.

BACKGROUND

2. The Asian Development Fund (“ADF”) was established by the Asian Development Bank (“ADB”)² in 1973. With the objective of reducing poverty and improving the quality of life in the Asia Pacific region, ADF has served as a concessional financing window for developing members of ADB. Over the years, ADF has provided funding for numerous projects, ranging from infrastructure projects for road improvement, power distribution, water supply and sanitation, to development programmes in agriculture, education and public health.

¹ This is the 13th round of contribution to ADF, and is commonly known as the 12th replenishment after the first round.

² Established in 1966, ADB is a multilateral development bank with an aim of reducing poverty in the Asia Pacific region. It currently has 67 members, including 48 regional members and 19 non-regional members. Regional members comprise (a) developed members such as Hong Kong and (b) developing members that are eligible for ADF and other forms of ADB’s assistance.

3. Given its concessional nature, ADF needs to be replenished, typically once every four years, by both regional and non-regional developed members of ADB. As a regional developed member, Hong Kong has been contributing to ADF since 1983. In the last round of replenishment in 2017, i.e. the 11th replenishment, Hong Kong committed a contribution of US\$17.47 million.

THE 12TH REPLENISHMENT OF ADF

4. ADF is due to be replenished in 2021, i.e. ADF 13. This round of replenishment meetings commenced in November 2019 and concluded in September 2020, during which the performance of ADF was reviewed. Donors, i.e. regional and non-regional developed members, were generally satisfied with the performance of ADF, as confirmed by the Independent Evaluation Department of ADB, an external assessment by the Multilateral Organization Performance Assessment Network and the feedbacks of ADF recipient members. Donors also broadly endorsed the effort of ADB to support ADF recipient members to reduce poverty, as well as to tackle the challenges brought about by the ongoing global coronavirus pandemic.

5. For ADF 13, donors agreed to a total replenishment size of US\$4.056 billion. The replenishment will be funded by **target donors' contribution of US\$2.820 billion**, together with other ADB resources. While contributions to ADF are voluntary, donors have generally referred to the burden sharing framework adopted by ADB in setting their levels of contributions. The burden sharing framework is largely based on a donor's economic status, adjusted by its shareholding in ADB.

CONTRIBUTION OF HONG KONG

6. Based on the established burden sharing framework, Hong Kong has been contributing **0.57%** of the target donors' contributions in the last six replenishments, i.e. ADF 7 to ADF 12.

7. We propose that Hong Kong should continue to contribute to ADF 13 based on the established burden sharing framework on the following grounds –

- (a) **Hong Kong's commitment to support poverty reduction in the region** – notwithstanding the considerable economic progress in the Asia Pacific region over the past decades, poverty continues to affect the lives of millions in developing members in the region. The ongoing global pandemic also calls for swift responses by ADB, and ADF provides the necessary tool as a concessional financial window, i.e. offering grants to developing members in need;
- (b) **Hong Kong's commitment to ADB** – Hong Kong has been a member of ADB since 1969. Hong Kong has continued to participate in ADB as a full and separate member after 1997. ADB is among the few multilateral development banks where Hong Kong can participate on its own as enshrined by the Basic Law. Hong Kong has been contributing to ADF since 1983 and has continued to do so after 1997. Notwithstanding the economic cycles over the years, Hong Kong has maintained the burden sharing of 0.57% since ADF 7 in 1997;
- (c) **Expectation on Hong Kong** – in the 1970's, Hong Kong, as a then developing regional member, benefited from ADB's assistance. Between 1972 and 1980, Hong Kong obtained five loans from ADB, amounting to

US\$101.5 million, to finance various infrastructure projects³. As in other regional members who have “graduated” from ADB’s assistance, there is a general expectation for Hong Kong to contribute to ADB’s effort in poverty reduction through ADF. It should also be of note that, the per capita Gross Domestic Product of Hong Kong stood at US\$48,938 in 2019. It was amongst the highest in the Asia Pacific region; and

- (d) **Increasing contributions by other regional members** – the contribution share of regional members to ADF has been increasing over time from 48% in ADF 7 to 68% in ADF 12. For ADF 13, the majority of regional donors, i.e. China, India, Japan, Korea, Singapore and Thailand, have pledged to increase, or at least maintain, their burden sharing. In particular, China increased its contribution to US\$120 million in ADF 13, i.e. a 20% increase compared to its contribution in ADF 12. Its burden sharing accordingly increased from 3.26% in ADF 12 to 4.25% in ADF 13. Similarly, India also increased its burden sharing from 1.36% in ADF 12 to 1.82% in ADF 13. Two members, namely the Philippines and Azerbaijan, became new regional donors in ADF 13 and pledged to contribute US\$3.15 million and US\$2 million respectively.

8. Taking the above into consideration, we consider that Hong Kong should maintain our contribution to ADF 13 based on the established burden sharing framework, i.e. 0.57% of the target donors’ contribution. This translates into US\$16.08 million, which is 7.9% less than our contribution to ADF 12.

³ The loans from ADB were used to finance public housing projects (Wo Che Estate, Sha Kok Estate, Mei Lam Estate and part of the development of Shatin New Town), sewage projects (Shatin Sewage Treatment Plant Stage 1), a polyclinic (Shatin Hospital Polyclinic Project) and other infrastructure projects (Lok On Pai Sea Water Desalting Plant). All loans were repaid in full by 1987.

BENEFITS TO HONG KONG

9. While Hong Kong is no longer eligible for ADB's assistance, we continue to benefit from our participation in ADB. Specifically, as an ADB member, Hong Kong service providers can bid for ADB-financed projects. In 2019, Hong Kong service providers were awarded a total of US\$6.67 million of contracts. Cumulatively, Hong Kong service providers have been awarded US\$976.45 million of contracts since 1969. Similarly in 2019, ADB raised a total of US\$370 million under its Global Medium-term Note Programme in Hong Kong.

ALTERNATIVES CONSIDERED

10. Given the adverse impact of the pandemic and the ensuing fiscal constraint, we have considered whether Hong Kong can reduce our contribution to ADF 13. Yet, given that the adverse impact of the pandemic is global in nature and most of the donors, regional and non-regional alike, have at least maintained their burden sharing, it will affect Hong Kong's reputation in the international community if we are to reduce our burden sharing at this juncture when developing members are most in need to tackle the challenges brought about by the pandemic.

PAYMENT SCHEDULE

11. We will adopt an 11-year encashment schedule for Hong Kong's contribution to ADF 13, as set out at [Annex](#). Sufficient provision will be included in the draft Estimates of the relevant financial years.

ADVICE SOUGHT

12. Members' views are sought on the above proposal.

**Financial Services Branch
Financial Services and the Treasury Bureau
December 2020**

ADF 13 Encashment Schedule

Payment Date	Encashment Drawdown Rate ¹ (%)	Estimated Encashment ² (US\$)	Subtotal Estimates (in Each Financial Year)		
			(US\$)	(HK\$ equivalent) ³	(rounded up to nearest thousand HK\$)
FY 2021/2022					
Jul-21	10.40	1,671,828			
Feb-22	6.50	1,044,893	2,716,721	21,462,096	21,462,000
FY 2022/2023					
Jul-22	6.50	1,044,893			
Feb-23	7.95	1,277,984	2,322,877	18,350,727	18,351,000
FY 2023/2024					
Jul-23	7.95	1,277,984			
Feb-24	9.40	1,511,076	2,789,060	22,033,572	22,034,000
FY 2024/2025					
Jul-24	9.40	1,511,076			
Feb-25	5.15	827,877	2,338,953	18,477,721	18,478,000
FY 2025/2026					
Jul-25	5.15	827,877			
Feb-26	4.60	739,463	1,567,340	12,381,978	12,382,000
FY 2026/2027					
Jul-26	4.60	739,463			
Feb-27	3.65	586,747	1,326,210	10,477,059	10,477,000
FY 2027/2028					
Jul-27	3.65	586,747			
Feb-28	2.55	409,919	996,667	7,873,668	7,874,000
FY 2028/2029					
Jul-28	2.55	409,919			
Feb-29	1.75	281,317	691,237	5,460,770	5,461,000
FY 2029/2030					
Jul-29	1.75	281,317			
Feb-30	1.70	273,280	554,597	4,381,315	4,381,000
FY 2030/2031					
Jul-30	1.70	273,280			
Feb-31	1.55	249,167	522,446	4,127,326	4,127,000
FY 2031/2032					
Jul-31	1.55	249,167	249,167	1,968,417	1,968,000
Total	100.00	16,075,272	16,075,272	126,994,649	126,995,000

¹ Source: ADF 13 Donors' Report² Source: ADB estimates³ Converted into Hong Kong dollars using the exchange rate of US\$1 = HK\$7.9