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Panel on Financial Affairs

Meeting on 4 January 2021

**Background Brief on
Hong Kong's contribution to the 12th replenishment
of the Asian Development Fund**

Purpose

This paper sets out the background of the Administration's proposal for Hong Kong to contribute to the 12th replenishment of the Asian Development Fund ("ADF") (i.e. ADF XIII), and summaries the major views/concerns expressed by Members at meetings of the Panel on Financial Affairs ("FA Panel") and the Finance Committee ("FC") on previous proposals for Hong Kong to contribute to the 9th, 10th and 11th replenishments of ADF (i.e. ADF X, XI and XII) in 2009, 2013 and 2017 respectively.

Background

2. 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. ADB currently has 68 members, including 49 regional members (e.g. Australia and Japan) and 19 non-regional members (e.g. the United States and the United Kingdom). Developing member countries including Bangladesh, Vietnam, Pakistan and Afghanistan which are eligible for ADF resources are by far the largest beneficiaries of ADF. ADF is replenished once every four to five years and contributions by ADB members are on a voluntary basis.

3. Hong Kong joined ADB in 1969 and has benefited from ADB's lending programme from 1972 to 1980 when it obtained five loans totaling US\$101.5 million to finance various infrastructure projects and all loans were repaid in full by 1987. Hong Kong has been a donor of ADF since 1983.

Details of Hong Kong's contributions to the last nine ADF replenishments are as shown in **Appendix I**.

4. Unlike the token donations in ADF IV to VI, Hong Kong has made contributions according to the consensus burden sharing formula agreed amongst the donors¹ since ADF VII in 1997. According to the formula, Hong Kong's burden sharing ratio is 0.57% of the target size of contributions by donors. The total donor contributions to ADF from Hong Kong since ADF IV amounted to US\$132.72 million. According to the Administration, while Hong Kong is no longer eligible for ADF assistance and hence will not derive any direct economic benefits from the contribution to ADF, there could be indirect benefits to the extent that firms in Hong Kong are able to bid for ADB projects.

Major views and concerns expressed by Members on Hong Kong's contribution to the 9th, 10th and 11th replenishments of the Asian Development Fund

5. FA Panel was briefed on the proposals for Hong Kong to contribute to the 9th, 10th and 11th replenishments of ADF at the meetings on 5 January 2009, 7 January 2013 and 3 January 2017 respectively. The proposals were approved by FC at the meetings on 20 February 2009 and 8 February 2013 respectively.² Members in general supported the proposals given that Hong Kong had benefited from ADB operations in the past and it was Hong Kong's international obligation to support ADF activities in principle. The major concerns/views expressed by Members and the responses of the Administration at the above meetings are summarized in the ensuing paragraphs.

Amounts of Hong Kong's contributions to the Asian Development Fund

6. Members enquired about changes in other donors' contributions over the past replenishments and the reasons for the lower contributions from Singapore to ADF than those of Hong Kong, although the two jurisdictions had a similar level of per capita Gross National Income. They also sought information on how the level of Hong Kong's contributions was compared to those of other donor members in the Asia and Pacific region. Some Members opined that the

¹ The burden sharing formula is based on donor member's per capita Gross National Income (which reflects the member's financial strength) and adjusted for its shareholding in the Asian Development Bank.

² The funding for Hong Kong's contribution to the 11th replenishment of the Asian Development Fund was approved through the passage of the Appropriation Bill 2017.

Administration should review Hong Kong's burden sharing ratio, which had remained unchanged since 1997.

7. The Hong Kong Monetary Authority ("HKMA") advised that in terms of donors' contribution in ADF XI, Hong Kong ranked fifth in the region, after Japan, Australia, Republic of Korea and the Mainland. Contributions to ADF were made on a voluntary basis and some donor members might choose to make contributions larger than or smaller than that derived from the burden sharing formula. While Hong Kong had made contributions according to its sharing ratio, Singapore had chosen to make contributions of amounts smaller than its ratio. It was observed that Singapore had increased its burden share for ADF XI compared with the last replenishment.

8. As ADF resources were allocated to member countries in the form of loans and these countries should make repayments regularly, Members enquired about the reasons for donors having to make substantial contributions to ADF every four to five years. HKMA advised that the repayment period for ADB loans could be as long as 40 years. Given the increase in demand for assistance, the size of ADF lending operations had enlarged in the past years and the funds recovered from loan repayments were insufficient to meet the increased demand.

Hong Kong's representation at the Asian Development Bank

9. Noting that Hong Kong was represented by the Australian Director in the Board of Directors of ADB, Members enquired why Hong Kong did not have direct representation in ADB's Board of Directors. Some Members were concerned how Hong Kong's interests could be represented in the Board of Directors and how Hong Kong could increase its participation in ADB matters for the benefit and protection of its rights, such as through the People's Republic of China given that it was one of the 12 Directors of the Board of Directors.

10. HKMA explained that Hong Kong was represented directly in the Board of Governors (the highest decision-making tier at ADB), to which each of the 67 ADB members nominated one Governor and an Alternate Governor. The Board of Governors delegated largely the day-to-day responsibilities of ADB to the 12-person Board of Directors. As there were over 60 members in ADB, each member of the Board of Directors represented one constituency and each constituency included one or a number of members of ADB. Given the small percentage of Hong Kong's shareholding in ADB (which ranked only 25th among the ADB members), it was unlikely for Hong Kong to have its own constituency and Director on the Board. Nevertheless, Hong Kong shared the same constituency with 10 other members and was collectively represented by the Australian Director, through which Hong Kong monitored the performance

of ADB programmes. A Hong Kong Officer was attached to the office of the Australian Director to assist in the work and HKMA had assigned staff to oversee ADB matters. This arrangement had been operating effectively over the years.

Monitoring of Asian Development Fund sponsored projects and participation of Hong Kong firms in these projects

11. Some Members expressed concern about the effective use of ADF resources and sought information on the mechanism for monitoring and evaluating the performance of ADB sponsored projects. There was also concern about the impact of inefficiencies and corruption in some developing countries on the effective use of ADF resources.

12. HKMA advised that there were two levels of monitoring of ADF operations. Firstly, as an ADF donor, Hong Kong participated directly in the ADF replenishment negotiations, the mid-term review meeting that usually took place half-way through the replenishment cycle, and the consultation with donors held annually on the sidelines of ADB's Annual Meeting to discuss the progress of ADF operations and review the effectiveness of ADF implementation. Secondly, for the day-to-day monitoring of ADF operations, Hong Kong was supported by the Australian Director in the Board of Directors and maintained close contact with the Australian Director to monitor key discussions at the Board. An Independent Evaluation Department, which reported to ADB's Board of Directors, had also been established to assess ADB's operations and the ADF programmes. In allocating ADF resources to eligible countries, ADB would take into consideration the level of probity in these countries and their past performance in the effective use of ADF resources.

13. Members enquired about the measures to facilitate the participation of Hong Kong firms and professionals in ADB sponsored projects and the resultant benefits, and considered that the Administration should liaise with the relevant professional bodies and/or trade organizations to devise measures in this regard. The Administration and HKMA advised that through Hong Kong's contribution to ADF, firms in Hong Kong might gain additional scores when bidding ADB sponsored projects. The Administration had worked in collaboration with the Hong Kong Trade Development Council to improve the dissemination of information on ADB sponsored projects through various means to facilitate Hong Kong firms and professionals to participate in and benefit from these projects. According to ADB, Hong Kong firms had been awarded ADB-financed projects such as procurement contracts and consultancy services worth US\$961.97 million in total as of end 2015. These projects covered various sectors including transportation, energy and information technology.

Work of the Asian Development Bank vis-à-vis that of the Asian Infrastructure Investment Bank

14. As to some Members' enquiry whether there would be overlap in the work of ADB and the Asian Infrastructure Investment Bank ("AIIB"), the Administration advised that ADB and AIIB had different work priorities. The former focused on supporting poverty reduction projects while the latter focused on financing infrastructure projects in Asia.

Latest developments

15. The Administration will consult FA Panel at the Panel meeting on 4 January 2021 on the proposed contribution of Hong Kong to ADF XIII.

Relevant papers

16. A list of relevant papers is given in the **Appendix II**.

Council Business Division 1
Legislative Council Secretariat
30 December 2020

Appendix I

Details of Hong Kong's contributions to the 3rd to 11th replenishments of the Asian Development Fund ("ADF")

| | <u>Date approved by Finance Committee</u> | <u>Amount (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 |
| ADF IX | 17 December 2004 | 19.19 |
| ADF X | 20 February 2009 | 26.25 |
| ADF XI | 8 February 2013 | 33.14 |
| ADF XII | Not applicable ¹ | 17.47 ² |

Source: Paragraph 1 of the paper entitled "Asian Development Bank – Contribution of Hong Kong to the 11th Replenishment of the Asian Development Fund" provided by the Administration and paragraph 3 of the background brief on Hong Kong's contribution to the 11th replenishment of the Asian Development Fund prepared by the Legislative Council Secretariat for the meeting of the Panel on Financial Affairs on 3 January 2017 (LC Paper Nos. CB(1)363/16-17(07) and (08) respectively).

¹ The funding for Hong Kong's contribution to ADF XII was approved through the passage of the Appropriation Bill 2017.

² According to the Administration, the reduction in Hong Kong's contribution to ADF XII when compared to its last contribution to ADF XI was due to the combination of the Asian Development Fund's ("ADF") loan operations and related assets with the Asian Development Bank's ("ADB") ordinary capital resources ("OCR") with effect from 1 January 2017. The transfer of ADF loan operations to OCR was to allow ADB to leverage on ADF's resources to borrow from the capital market. ADF would become a grant-only facility. Thus the replenishment size of ADF XII was substantially reduced.

List of relevant papers

| Date | Event | Paper/Minutes of meeting |
|------------------|---|---|
| 5 January 2009 | The Panel on Financial Affairs ("FA Panel") discussed Hong Kong's contribution to the 9 th replenishment of the Asian Development Fund | Discussion Paper (A2/5C) Minutes (LC Paper No. CB(1)857/08-09) Follow-up paper (LC Paper No. CB(1)679/08-09(01)) |
| 20 February 2009 | The Finance Committee ("FC") discussed the funding proposal on contribution to the 9 th replenishment of the Asian Development Fund | Discussion Paper (FCR(2008-09)63) Minutes (LC Paper No. FC145/08-09) |
| 7 January 2013 | FA Panel discussed Hong Kong's contribution to the 10 th replenishment of the Asian Development Fund | Discussion Paper (LC Paper No. CB(1)358/12-13(07)) Minutes (LC Paper No. CB(1)782/12-13) |
| 8 February 2013 | FC discussed the funding proposal on contribution to the 10 th replenishment of the Asian Development Fund | Discussion Paper (FCR(2012-13)69) Minutes (LC Paper No. FC175/12-13) |
| 3 January 2017 | FA Panel discussed Hong Kong's contribution to the 11 th replenishment of the Asian Development Fund | Discussion Paper (LC Paper No. CB(1)363/16-17(07)) Minutes (LC Paper No. CB(1)755/16-17) |

| Date | Event | Paper/Minutes of meeting |
|-------------|--|---------------------------------|
| 18 May 2017 | The Legislative Council passed the Appropriation Bill 2017 | <u>Hansard</u> |