

How the Asian Development Bank do?

1. The operations of the ADB

1.1 The Principal Operation

The ADB's principal mode of operation is the provision of capital assistance for development projects, in the form of loans on either ordinary or concessional terms.

Loans from the Bank's ordinary capital resources (OCR) have 2 to 7 year grace period and a maturity period of 10-30 years, and have carried interest rates on its pool-based US dollar loan facility will be 6.69 percent per annum for the period from 1 January to 30 June 2002. ADB will reduce its rate on the outstanding pool-based multi-currency loans from 5.21 percent to 5.08 percent per annum for the same period. Ordinary loans are made for all sectors of bank activity, and have concentrated on the member countries with a relatively high gross national product (GNP) per capita, particularly the Association of Southeast Asian Nations (ASEAN) countries and the East Asian developing countries.

Concessional loans have been granted mainly to the least developed members, particularly in South Asia, and are often more directly poverty-oriented, focusing predominantly on agriculture and rural development. **By the end of 2002,** Concessional loans from the Bank's special fund resources have a 10-year grace period, a maturity period of 40 years, and carry interest only in the form of a 1 per cent service charge.

1.2 Technical Assistance as well as various regional activities

In addition to its lending activities, the bank provides technical assistance grants and has carried out various regional activities.

Technical assistance is intended mainly to help the borrowing countries in project preparation and implementation, and has concentrated on the least developed member countries. And the Bank's regional activities include the undertaking or commissioning of various regional surveys and studies, and the organizing of meeting, seminars and workshops.

Technical assistance and regional activities provide the ADB with a means of influencing the formulation of development policies in its borrowing countries, and there has been a clear shift from the provision of policy guidance at the regional level, including the two agricultural surveys, to the enhancement of the Bank's role in country-level policy formulation in the 1980s. Compared with the World Bank, which often makes loans conditional on policy changes, the initial thrust of ADB operations was at the project rather than the policy level. Although recently the Bank has increasingly attached policy conditions to its loans, it is confined by its charter to lending for projects. By 2002, the bank had **provided ? million** in technical assistance grants, **of which ? million** for regional activities.

2. How are the operations funded

2.1 ordinary capital resources of the Bank

ADB operations are funded through three channels, which correspond to the Bank's modes of operation. The Bank's ordinary capital resources form the basis for ordinary lending operation, which the Asian Development Fund (ADF) provides concessional loans.

The bank's OCR consist of three main categories: subscribed capital stock, funds raised by the Bank through borrowing, and funds received by the Bank as repayment of and income from OCR loans. Based on its subscribed capital stock, the Bank borrows on the international capital markets, and lends to its developing members on terms which broadly reflect the Bank's own borrowing costs and administrative expenses. Member countries' subscriptions to Bank capital are divided into paid-in and callable shares.

And ADF resources consist of contributions from donor countries, funds received as payment and income from ADF loans, and a small portion of so-called set-aside resources from the bank's OCR. Because of the concessional terms of its loan, the ADF cannot sustain itself on repayments and income and is almost completely reliant on replenishments to maintain and expand its lending. By 2002 contributions to the ADF constituted 7 per cent of funds actually paid in to the Bank by donors. The replenishment negotiations for the ADF, at which both the size of each replenishment and the formula for cost-sharing among donors are worked out, are held at 4-year intervals. The negotiations have proved sensitive to changes in donor policies and have become increasingly politicized, with some contributions being used directly as a means of achieving leverage over Bank policies, particularly by the US. Due to the ADF's direct dependence on contributions, delays in payment and in replenishment negotiations have on several occasions restricted and threatened to halt ADF lending.

2.2 Special Funds

At the time of establishment of the ADB, there was considerable disagreement among the member countries regarding the importance of special funds and the form such funds should take. The ADB charter merely set out the general terms for eventual special funds. Since the Bank was operational in 1968 three special funds were set up, the MultiPurpose Special Fund (MPSF), the Agricultural Special Fund (ASF) and the Technical Assistance Special Fund (TASF). The MPSF and ASF at their own initiative on a bilateral basis, and under terms which varied considerable. As the bank's concessional lending expanded, the need to regularize the mobilization of additional resources for the special funds and achieve uniformity in the terms and administration of concessional lending led to the establishment in 1974 of the ADF, which gradually became the Bank's only source of concessional loans. Technical assistance grants are funded mainly through the Bank's Technical Assistance Special Fund (TASF), but these are supplemented with grants from other sources, mainly the donors' bilateral programmes and the United Nations Development Programmed (UNDP).

Although small in volume compared with the Bank's capital assistance, technical assistance is used mainly for project preparation and therefore plays an important role in determining project content. Compared with the ADF, which unified the terms of the Bank's concessional lending, contributions to the TASF, as well as other technical assistance contributions, are made by donors on a bilateral basis, giving them considerable influence on the use to which their contributions are put. Procurement and consultancy contracts under Bank and ADF loans are governed by international competitive bidding (ICB) and Bank procedures for the selection of consultants, but while an effort has been made by the bank to untie consultancy services provided under technical assistance grants, these continue to be tied in varying degree to the donor country.