



Presentation by
Mr. Chongshan Liu
Senior Planning and Policy Economist
Strategy and Policy Department
Asian Development Bank

The views expressed in this paper/presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequence of their use. Terminology used may not necessarily be consistent with ADB official terms.

Graduation Policy

ADB Charter provides that,

- ⊗ in financing development of its DMCs, ADB shall pay due regard to the ability of the borrower to obtain financing elsewhere on terms and conditions that ADB considers reasonable for the recipient;**
- ⊗ ADB shall pay due regard to the prospects that the borrowers would be in a position to meet their obligations under the loan contract;**
- ⊗ ADB shall have special regard to the needs of smaller or less developed member countries in the region.**

Graduation Policy

ADF eligibility is fundamentally based on two **criteria** :

- ❖ ***Per Capita GNP***: (the IDA operational cutoff currently at **US\$1065 in 2006 prices** based on the WB Atlas methodology).
- ❖ ***Debt repayment capacity***: a multidimensional evaluation procedure, combining quantitative and qualitative assessments was used for assessing the debt repayment capacity of DMCs.

Graduation Policy

- ❁ Least Developed Country (LDC) classification by the UN is a relevant consideration.
- ❁ ADB DMCs on the list of LDC are either one of the poorest in the region, or small in size, or both.
- ❁ The UN used the *three criteria* for the identification of the LDCs:
 - ❖ low income
 - ❖ human resources weakness
 - ❖ economic vulnerability

Graduation Policy:
Decision Matrix

Debt Repayment Capacity	IDA Per Capita GNI Cutoff			
	Below Per Capita GNP Cutoff		Above Per Capita GNP Cutoff	
	LDC	Other	LDC	Other
Weak	ADF-only (Group A)	ADF-only (Group A)	ADF-only (Group A)	ADF with limited OCR (Group B1)
Limited	ADF with limited OCR (Group B1)	ADF with limited OCR (Group B1)	ADF with limited OCR (Group B1)	OCR with limited ADF (Group B2)
Adequate	OCR with limited ADF (Group B2)	OCR with limited ADF (Group B2)	OCR with limited ADF (Group B2)	OCR-only (Group C)

Graduation Policy

- 📄 To avoid frequent movements back and forth between groups, a *time lag of four years* should normally be provided between the achievement of the criteria and formal graduation.
- 📄 Eligibility for, or graduation from, ADF will normally be *coterminous with the ADF replenishment exercise*.
- 📄 Movement through the decision matrix can be *bi-directional*, i.e., graduation would not be irreversible.

Graduation Policy



The criteria for graduation from regular ADB assistance are (i) per capita GNP, (ii) availability of commercial capital flows on reasonable terms, and (iii) attainment of a certain level of development of key economic and social institutions.

Graduation Policy

- ⌘ The graduation policy and country classification framework provide strategic guidance on efficient utilization of ADB scarce resources and prudential risk management of ADB operations.
- ⌘ ADB DMCs are placed in five categories: (i) Group A (ADF only); (ii) Group B1 (ADF with limited amount of OCR); (iii) Group B2 (OCR with limited amount of ADF); (iv) Group C (OCR only); and (v) Graduates.

Graduation Policy



ADB currently is undertaking a review of the 1998 graduation policy. The review at this time indicates that the general thrust of the 1998 policy continues to be valid. However, certain revisions could enhance implementation of the policy, and align it more closely with that of the WB.

Revisions under consideration include

- ⌘ Use the term “creditworthiness” to replace the current “debt repayment capacity”
- ⌘ Refine methodology for assessing creditworthiness of DMCs for the purpose of country classification;
- ⌘ Use a three-tier country classification system (Group A [ADF-only]; Group B [blend]; and Group C [OCR-only]).



Thank you.