

Asian Development Bank

**ADF Operations
and
SDR Conversion Option**

Manila
October 2008

ADB

Outline

- I. Overview of the Asian Development Fund (ADF)**
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- II. Overview of ADF Currency Management**
- III. SDR Conversion Option**

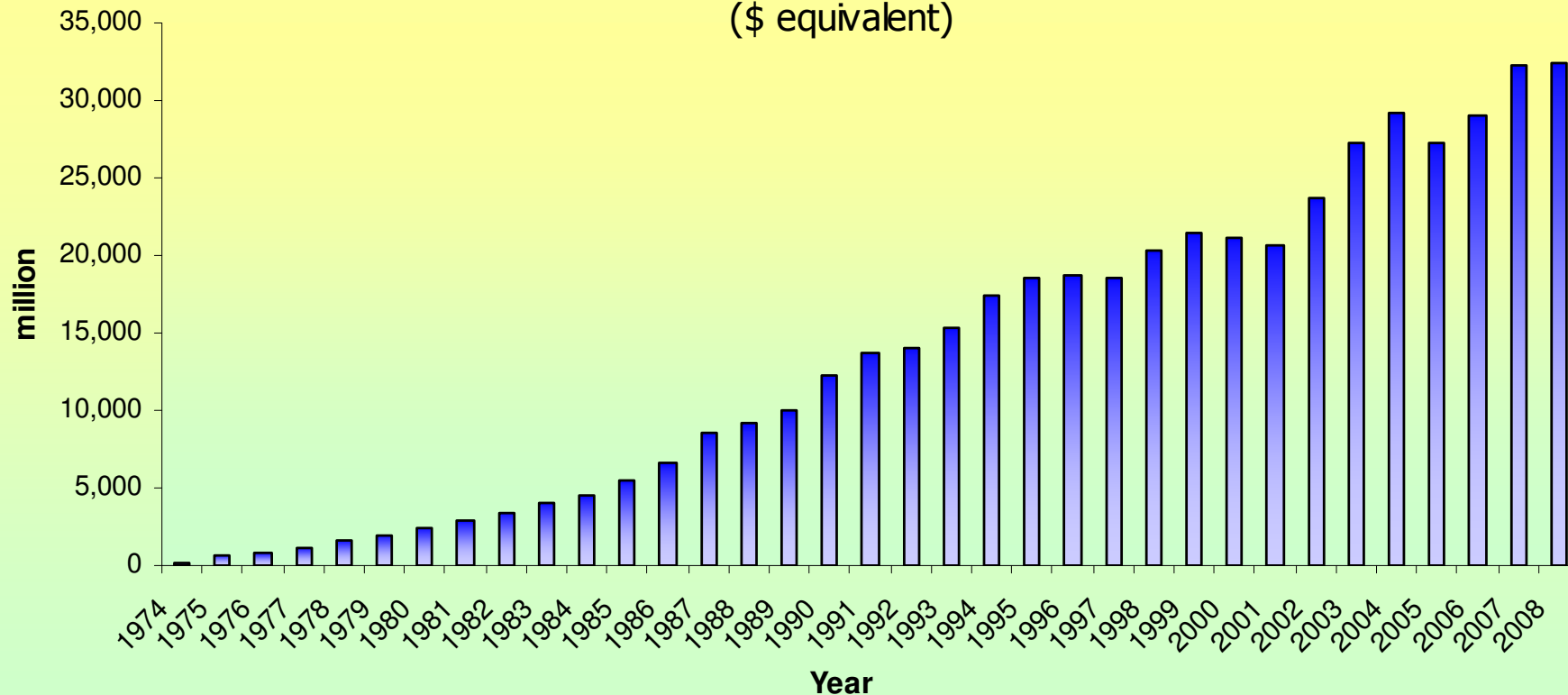
I. Overview of the Asian Development Fund (ADF)

Background Information on ADF

- Established in 1973
- ADB's oldest and largest special fund
- Provides loans on concessional terms and grants to eligible developing member countries
- Promotes economic and social development, poverty reduction, and improvement in the quality of life in the poorer countries of the Asia and Pacific region
- Disbursed and outstanding ADF loans (as of 31 August 2008): USD25.0 billion equivalent with 66% legacy loans and 34% full-fledged SDR loans

ADF Operations

Total ADF Assistance (1974 – August 2008)
(\$ equivalent)



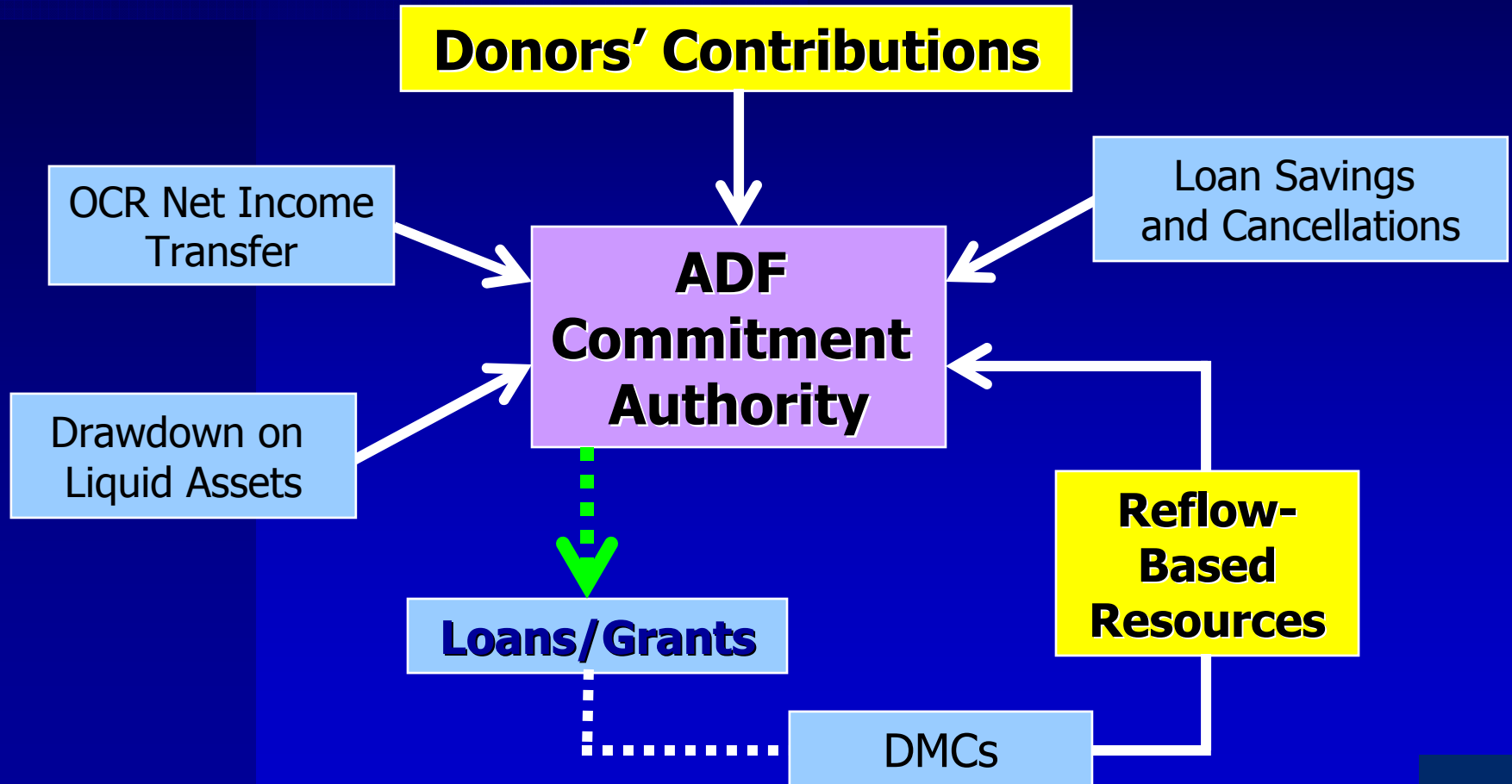
Note: Total loans and grants include the amounts (i) disbursed and outstanding, (ii) approved but not yet effective, and (iii) undisbursed.

Total ADF loans and grants increased from USD178 million in 1974 to USD32.4 billion in August 2008.

A. Financial Resources

ADF Financial Resources

ADF financial resources mainly consists of the following:



ADF Financial Resources

Three major financial resources:

1. Donors' Contributions

- periodic replenishments
- 9 replenishments: ADF I–X
- in 17 donors' currencies:

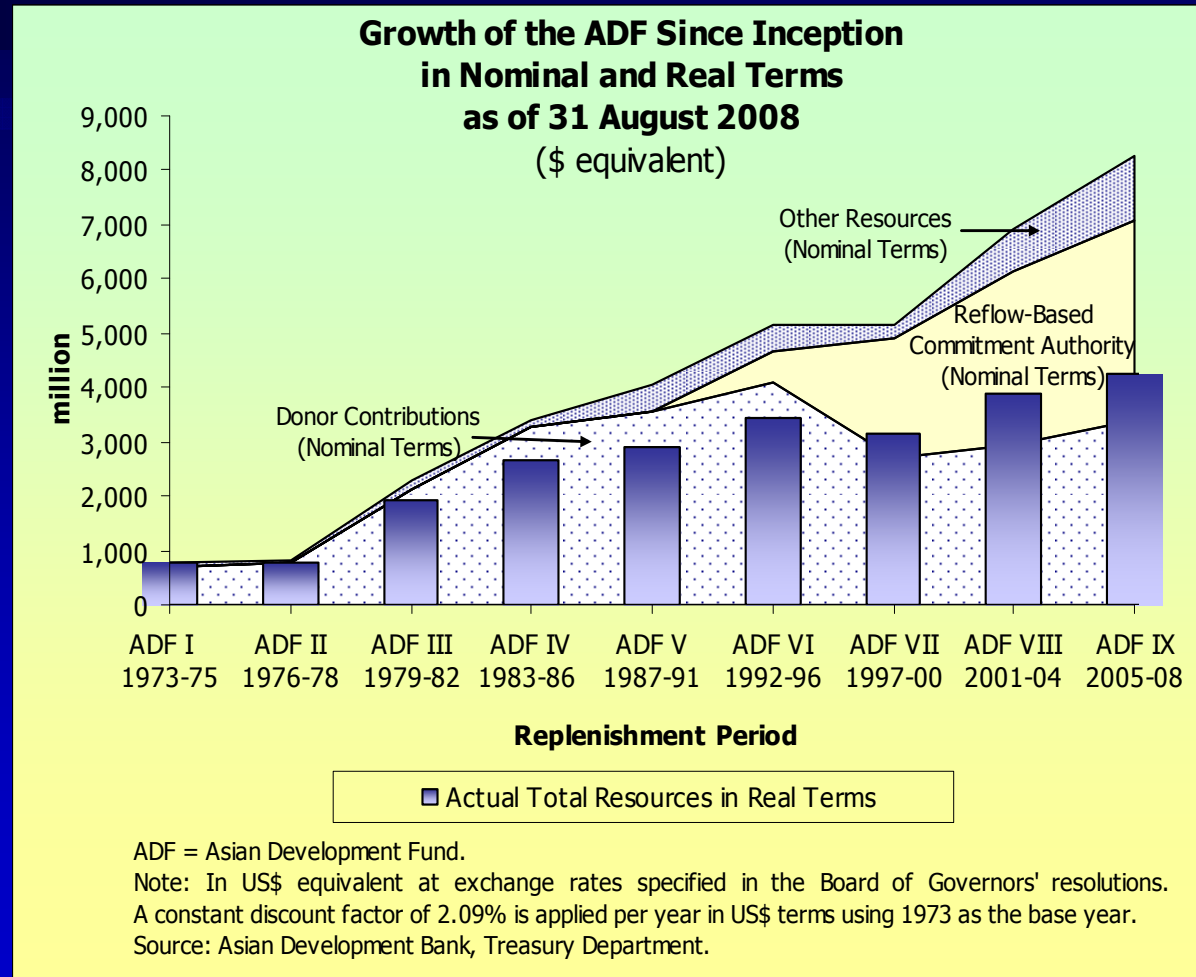
- Australian dollar
- Brunei dollar
- Canadian dollar
- Danish krone
- Euro
- Japanese yen
- Korean won
- Malaysian ringgit
- New Turkish Lira
- Norwegian krone
- New Zealand dollar
- Pound sterling
- Singapore dollar
- Swedish krona
- Swiss franc
- Thai baht
- United States dollar

2. Internal resources/reflows: loan repayment, loan income and investment income

3. OCR income transfer and miscellaneous sources

Commitment Authority ADF I–IX

- Since inception, ADF grew by 35% in nominal terms and 24% in real terms per replenishment
 - Total commitment authority accumulated to about \$36.8 billion
 - 64% funded by donor contributions
 - 26% funded by reflow-based resources



B. Development Financing Modes

Modes of ADF's Developmental Financing



LOANS

EQUITY

**TECHNICAL
ASSISTANCE**



GUARANTEES

GRANTS

Eligibility for ADF

- DMC Classification: 3 Groups — A, B and C
- Key Classification Criteria
 - Per capita gross national income (GNI)
 - Creditworthiness
- Financing Eligibility
 - **Group A** : ADF only
 - **Group B** : Blend
 - **Group C** : OCR only

Eligibility for ADF

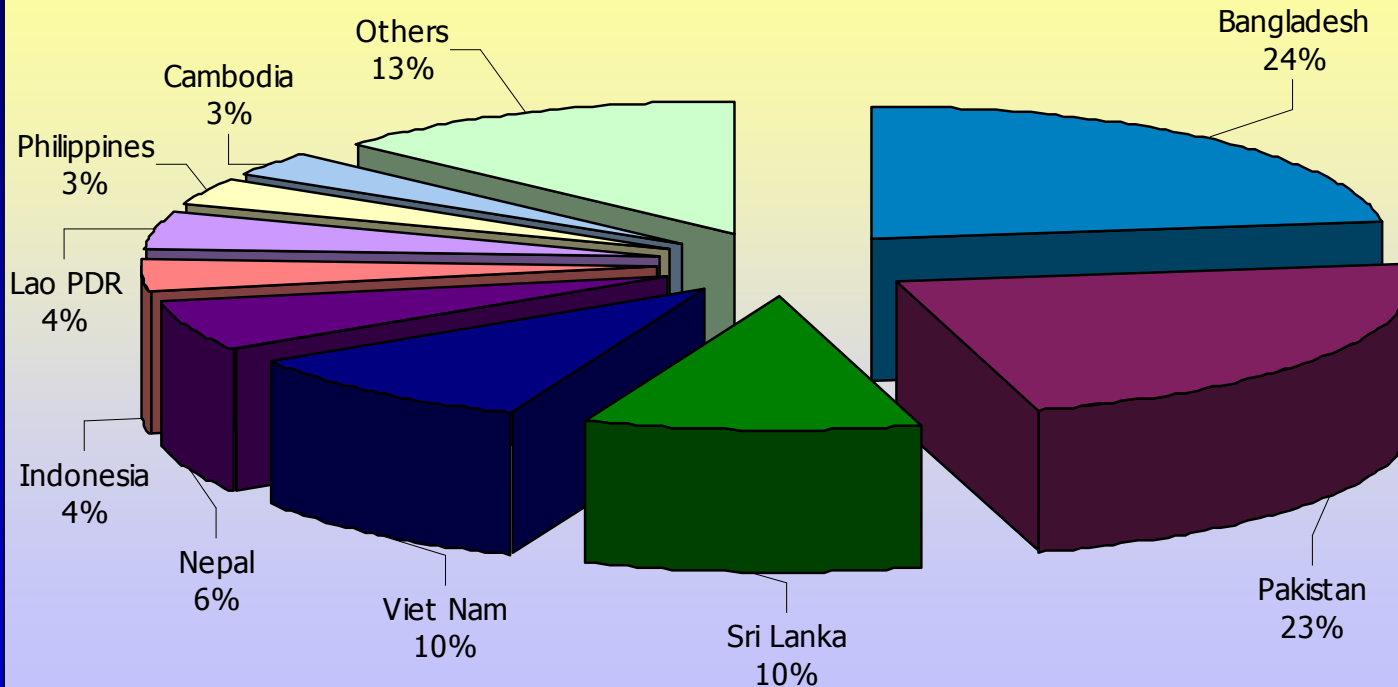
Decision Matrix of Classification

Creditworthiness	Per Capita GNI Cutoff		
	Below Per Capita GNI Cutoff	Above Per Capita GNI Cutoff	
		Least Developed Country ^a	Other
Lack of	ADF Only (Group A) Kyrgyz Republic, Mongolia, Nauru, Tajikistan, Tonga	ADF Only (Group A) Afghanistan, Bhutan, Cambodia, Kiribati, Lao PDR, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu	Blend (Group B) Marshall Islands, Federated States of Micronesia, Palau
Limited	Blend (Group B)	Blend (Group B) Bangladesh	Blend (Group B) Armenia, Azerbaijan, Georgia, Pakistan, Papua New Guinea, Sri Lanka, Uzbekistan, Viet nam
Adequate	Blend (Group B)	Blend (Group B)	OCR Only (Group C) PRC, Cook Islands, Fiji, Indonesia, Kazakhstan, malaysia, Philippines, Thailand, Turkmenistan

^a The following DMCs are classified as LDCs: Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao, People's Democratic Republic, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu (United Nations. June 2007. *List of Least Developed Countries.*).

Major Borrowers

ADF Loan Outstanding as of 31 August 2008
Disbursed and Outstanding: \$25.0 billion equivalent



Top 5 Borrowers:

- Bangladesh
- Pakistan
- Sri Lanka
- Vietnam
- Nepal

Concessional Lending Product

Current Loan Terms

Item	Maturity	Grace Period	Interest Charge
<u>Applicable to loans negotiations of which have been completed on or after 1 Jan 1999</u>			
Project Loans	32 years	} 8 years }	1% p.a. during grace period, 1.5% p.a. during amortization period, equal amortization
Program Loans	24 years		
<u>Loan terms that have been approved by the Board of Directors in June 2004</u>			
Emergency Assistance Loans	40 years	10 years	1% p.a.

Currency Denomination of Loan Commitment: SDR

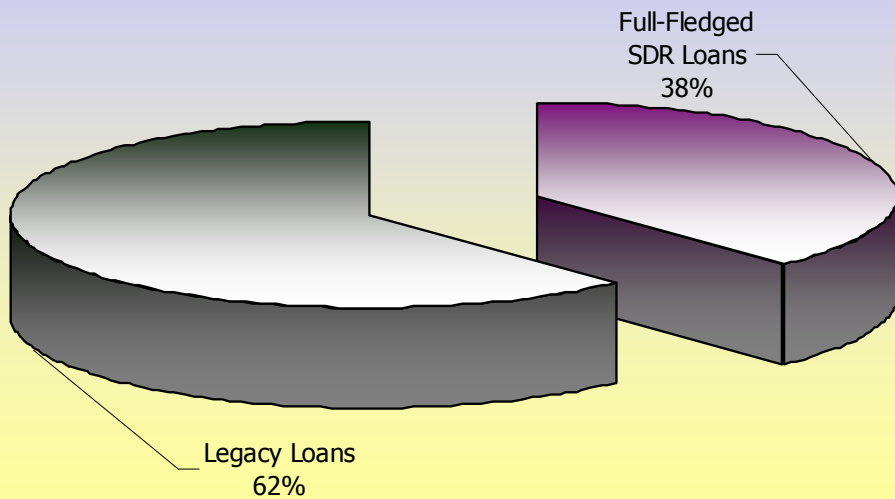
Currency of ADF Loan Commitment (Denomination)

History

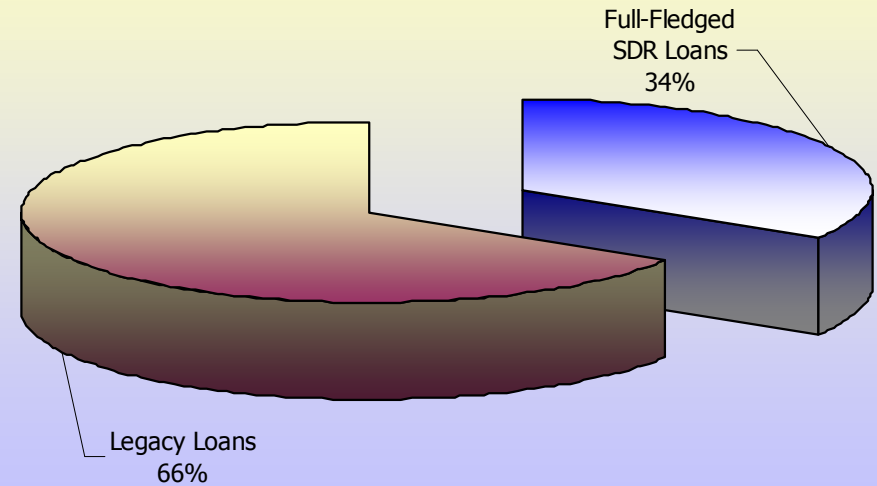


Loan Breakdown

**Total ADF Loans
as of 31 August 2008
(\$31.3 billion equivalent)**



**Disbursed and Outstanding
ADF Loans as of 31 August 2008
(\$25.0 billion equivalent)**



II. Overview of ADF Currency Management

Currency Management Practices

Evolution of Currency Management Practices

1. Currency Preservation Principle

- Prior to 2006
 - Legacy loans

2. SDR-Based Approach

- Phase 1 (since 2006)
 - New loans*/full-fledged SDR loans
 - Legacy loans**
- Phase 2 (starts 2008)
 - Conversion of legacy loans to full-fledged SDR loans

* Loans invited for negotiation from 1 January 2006.

** Loans invited for negotiation prior to 2006.

Summary of Currency Practices

Item	Full-Fledged SDR Loans and Converted Legacy Loans	Legacy Loans (Phase 1)		Pre-2006
		Undisbursed Balance	Disbursed and Outstanding	
Loan Denomination	SDR	SDR	SDR	SDR*
Cost Currency	SDR Currencies	SDR Currencies	Donors' Currencies	Donors' Currencies
Liability Currency	SDR	SDR Currencies	Donors' Currencies	Donors' Currencies
Repayment Currency	One of the SDR currencies; changeable upon advance notice	<ul style="list-style-type: none"> proportional recalling of multiple liability currencies option to pay in one of the SDR currencies; changeable upon advance notice 	High yield currencies from the liability currencies	

* Loans denominated in USD prior to 1983.

Benefits of Full-Fledged SDR Loan to Borrowers

- Resolves the mismatch between contractual loan commitments and borrower's actual obligations
- Reduces number of liability currencies from up to 15 currencies to SDR
- Increases flexibility in repayment currency
- Simplifies and streamlines currency planning and debt management
- Harmonizes concessional financing modality with IDA

Benefits of Full-Fledged SDR Loan to ADF

- Improves ADF product and financial management
- Harmonizes the practice with IDA
- Reduces currency volatility of the assets and frees up financial resources for developmental lending

III. SDR Conversion Option for Legacy Loans

III. SDR Conversion Option

- Starting January 2008
- Option to convert multiple liability currencies under legacy loans into SDR
- Available for all ADF borrowers with no arrears in outstanding legacy loans
- Multiple liability currencies of disbursed and outstanding balances will be converted into SDR
- Undisbursed balances remain in SDR and future disbursements will follow the practice of full-fledged SDR loans
- No administrative fee to borrowers

Conversion Steps and Status

- ADB provided the Letter of Agreement (LOA) to eligible borrowers with ADF legacy loans at the end of 2007
- Each borrower informs ADB of its decision to convert by submitting the signed LOA
- This submission will be applicable for all outstanding legacy loans
- Conversion will be effective 1 month after receipt of signed LOA from a borrower
- Conversion date will be 1st loan service payment date of each loan
- As of Sep 2008, 15 out of 28 countries, representing 57% of total outstanding loans already agreed for the conversion

Q & A

Thank you