Pacific Institute of Public Policy

Why is the ADB increasing the cost of membership - and why does it matter for Pacific island countries?

Key messages:

» The ADB will soon be asking all the countries in the Pacific to give cash and/or other guarantees.

» Countries will be asked to vote on this issue in March.

» This request raises several issues that Ministers of Finance and their constituents need to be aware of including:
- affordability
- political consequences
- impact of the global financial crisis on national budgets
- what do you get in return for any increased contribution to the ADB?

» The Pacific's contribution and more specifically vote will be important.

» This is a great opportunity for the Pacific to be heard and to also influence the debate.

» There are a number of options and each Pacific country needs to weigh them carefully, discuss with their representative on the executive and more importantly vote in line with the wishes of their people and governments.

Briefing Paper: 07

March, 2009

Many people in the Pacific, including key stakeholders in Pacific governments may not be aware that the Asian Development Bank (ADB) is about to ask all of its members (and this includes most of the countries in the Pacific) for a large capital injection. In other words they will be asking all the countries in the Pacific to give cash and/or other guarantees. The justification for these injections is to allow the ADB to increase its lending to assist its members achieve the Millennium Development Goals.

It is important to understand that as economies grow, the ADB needs to grow as well to remain relevant.Normally, increasing membership costs is not such a sensitive issue as in the past these requests have only required Pacific Islands to make essentially paper guarantees that can be called upon, but not actual cash. The ADB is then able to borrow cheaply using these guarantees and that extra money is then lent back to its members at subsidised interest rates. Previous general capital increases (or GCI) were undertaken before many Pacific countries passed revised public finance laws and so the rules governing the giving of guarantees and the payment of cash may have changed for some countries quite a lot since the last time this was done. Therefore, whilst the amounts may be small in global terms this raises several issues that Ministers of Finance and their constituents need to be aware of including:

> *Can you afford this out of the national budget, especially given the uncertainty of the impact of the financial crisis on domestic budgets?*

> *Can you justify giving cash and / or guarantees to the ADB on the floor of your parliament or is the potential political cost too high?*

> *If so what does your country want in return? Is it reform of the ADB to bring them more in line with the Paris Declaration and Accra Principals or greater transparency in their decision making, greater use of Government systems, more focus on human resource development?*

The Pacific's contribution and more specifically their vote will be important and therefore this is a great opportunity for the Pacific to be heard and to also influence the debate. If not then the larger Asian and developed countries will simply agree the deal in Bali with the concurrence of the Pacific and not only will an opportunity to reform the ADB have been missed, but more importantly the Ministers of Finance from around the region will have to come back and find those funds from their national budgets.

What is a general capital increase all about?

Basically the ADB is made up of lots of member countries. Each country gives them some money to essentially join the club. This money forms what is known as the general capital of the ADB. The ADB then borrows against this general capital and lends the money to its members. In a way it is like a giant cooperative. The amount of money you give determines how much influence you have, therefore the USA and Japan as large donors have a lot of shares and sit on the Board. However, the Pacific contributes little and so its representation on the board is left to others. So for example some countries in the Pacific are represented by Indonesia, some by Korea, some by the Indonesia or Australia. However, many of these representatives may not know the views of those they represent as normally all the information is sent in a very technical form to the Minister of Finance or the Permanent Secretary of Finance. Little effort is made to make sure the members understand what it being handed out to them. What the ADB are saying is that their funds are running out and they cannot borrow much more which means they cannot lend much more. This is why they are asking for an increase. There are three types of money the ADB receive from its members, subscribed capital, callable capital and paid-in capital. Paid-in capital is cash - the other two are essentially guarantees.

How much are the ADB asking for?

The ADB are asking members to consider five different options. The increases range as follow: 100%, 150%, 200%, 250%, 300%. The ADB has only formally asked shareholders to consider 100%, 150% and a 200% General Capital Increase. The 250% and 300% have been proposed by India. This means the initial suggestion of a 100% increase would double the GCI. In terms of the Pacific the paid-in capital figures look approximately as shown in Table 1 below. What this table says is that for a 100% general capital increase there would be no requirement for paid in capital or cash - only guarantees. For all other increases however there would be some amount of cash which would depend on the size of the capital increase. The figures for guarantees (which under many Pacific Islands Public Finance Acts also need to be approved by Parliament or Council) are shown in Table 2 below.

Why does the Pacific need to act now?

The deadline for countries to cast their votes is 30 days after the 'transmittal' of the Board of Directors report. This has to be done 30 days before the meeting in Bali, which is scheduled for the 4 May, 2009. Since this was posted on the internet the ADB has moved forward and expects to present by 23 March a preliminary final draft paper which will have an actual percentage in it: we anticipate the figure in this paper will be 200%. Then in 3 weeks from that date, the ADB will have a Board discussion to get shareholder's input via the Board directors. The Bank would then seek final say from the Board of Governors (i.e. Finance Ministers) as to their position on the GCI size. This is why the Pacific members on the Board of Governors need to prepare their positions and convey them to the ADB this month.

What can the Pacific do?

Each country has some votes and many options including:

> *Asking for more time*

> *Find a bi-lateral donor to fund these additional amounts*

> *Recommend one of the lower offers that have little or no direct cash impact such as the 100% increase.*

> *Accept a higher GCI increase and pay from your national budget, agree the guarantees in public and demand some reforms of the ADB in exchange. Potential reforms include but may not be limited to: ADB to be more in line with the Paris Declaration and Accra Principals; greater transparency in their decision making; greater use of Government systems; and/or more focus on human resource development.*

Are there any other costs?

The cost of these actions will be to probably delay the decision. This will adversely affect the low to middle income countries in the world who are the recipients of most of these loans, however, very few Pacific island states are in this group. It is important to note that the GCI is to increase the "ordinary capital resources" of the ADB. The poorest and least developed countries will not directly benefit from a GCI as support to them is primarily provided via the Bank's concessional "Asian Development Fund" operations, which were already replenished by Japan, US and other major donors last year. There is also a risk that a deal will be done at the last minute and this would probably be worse than a delayed, but well thought through, agreement.

There are many options and each Pacific country needs to weigh them carefully, discuss with their representative on the executive and more importantly vote in line with the wishes of their people and Governments.

Table 1: Paid in capital in US$ millions

COUNTRY	100% GCI	150% GCI	200% GCI	250% GCI	300% GCI
Cook Is.	0.0	0.0	0.1	0.15	0.2
Fiji	0.0	1.3	2.3	3.45	4.6
Kiribati	0.0	0.0	0.1	0.15	0.2
RMI	0.0	0.0	0.1	0.15	0.2
FSM	0.0	0.1	0.1	0.15	0.2
Nauru	0.0	0.1	0.1	0.15	0.2
Palau	0.0	0.1	0.1	0.15	0.2
PNG	0.0	1.8	3.2	4.80	6.4
Samoa	0.0	0.1	0.1	0.15	0.2
Solomon Is.	0.0	0.1	0.2	0.30	0.4
Tonga	0.0	0.1	0.1	0.15	0.2
Tuvalu	0.0	0.0	0.0	0.04	0.1
Vanuatu	0.0	0.1	0.2	0.30	0.4

Table 2: Subscribed plus callable capital in US$ millions

COUNTRY	100% GCI	150% GCI	200% GCI	250% GCI	300% GCI
Cook Is.	2.6	3.9	5.3	8.0	10.6
Fiji	68.4	100.9	133.9	200.9	267.8
Kiribati	4.0	5.9	7.9	11.9	15.8
RMI	2.6	3.9	5.3	8.0	10.6
FSM	4.0	5.9	7.9	11.9	15.8
Nauru	4.0	5.9	7.9	11.9	15.8
Palau	3.2	4.8	6.3	9.5	12.6
PNG	94.2	139.3	184.8	277.2	369.6
Samoa	3.2	4.9	6.5	9.8	13.0
Solomon Is.	6.8	9.9	13.1	19.7	26.2
Tonga	4.0	5.9	7.9	11.9	15.8
Tuvalu	1.4	2.1	2.8	4.2	5.6
Vanuatu	6.8	9.9	13.1	19.7	26.2

SOURCE: The data in these tables taken from the ADB brief on this topic. The figures in the last two columns are an approximate extrapolation.

The Pacific Institute of Public Policy (PiPP) is an independent, non-partisan and not- for-profit think tank based in Port Vila, Vanuatu.

For more information visit www.pacificpolicy.org

PMB 9034
Port Vila
VANUATU
Tel: +678 29842
Email: pipp@pacificpolicy.org