

# Challenges and Measures for Debt Sustainability in Asia and the Pacific

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# Overview: Asian Development Bank (ADB)

- A multilateral development bank (MDB) founded in 1966
  - 31 founding members: 19 regional members, 12 non-regional members
  - 68 current members: 49 regional members, 19 non-regional members
- Headquartered in Manila, Philippines
- Main Roles: Help developing members in Asia and the Pacific through:
  - (i) combining finance and knowledge;
  - (ii) promoting good policies; and
  - (iii) catalyzing regional cooperation and friendship.
- Financial resources: paid-in/callable capital; bond issuance (with triple A status); shareholders' contributions (Asian Development Fund grants, trust funds); income
- 3,840 Staff (including 1,404 international staff)



# Products and Services

ADB supports its developing member countries (DMCs) through:

## Loans, Guarantees, Equity Investments, Grants, Advisory Services

Sovereign  
Financing

Nonsovereign  
Financing

Transaction Advisory  
Services (TAS)

Technical  
Assistance (TA)

### Funding Sources

- Regular ordinary capital resources (OCR)
- Concessional OCR
- Asian Development Fund (ADF)
- TA Funds, Special Funds and other Trust Funds
- Cofinancing

- Knowledge products and services
- Capacity building support
- Policy dialogue
- “Honest Broker”



# Debt landscape of developing Asia

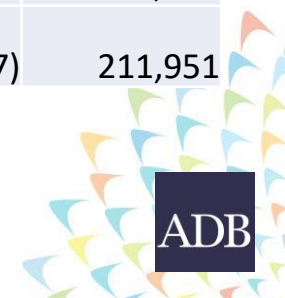
- Isolated cases of debt crisis and default so far
- Some economic crises over the past decades (including 1997 Asian financial crisis), resulting in structural adjustment and debt sustainability measures
- Still world growth center with steady GDP expansion and post-COVID recovery
- Net resource flows remain positive in most countries with some declining trend and fluctuations



# Net Resource Transfer

(\$ million)

		2010	2016	2017	2018	2019	2020	2021
Aggregate Net Resource Flows from All Sources	ADB's member developing economies	136,553	119,547	115,940	91,542	169,294	82,703	99,817
	Developing economies worldwide	524,265	316,641	430,735	302,587	408,448	215,275	481,002
Net Official Development Assistance from All Sources	ADB's member developing economies	25,876	23,134	24,790	22,470	24,150	32,316	30,289
	Developing economies worldwide	129,264	158,811	165,081	167,562	163,493	195,210	203,693
Net Private Flows from All Sources	ADB's member developing economies	88,177	83,357	83,916	58,766	131,819	50,666	48,428
	Developing economies worldwide	324,145	128,540	235,112	96,429	216,919	(15,867)	211,951



# ADB's role in debt management

- Ex-ante support for debt sustainability monitoring and measures through capacity building and policy-based programs
- Preferred creditor status maintained → generating scope for fresh/reprogrammed funds flow
- Participation in debt restructuring dialogues including the Paris Club discussions as observer
- Ex-post support for socioeconomic recovery and rehabilitation in coordination with IMF, other MDBs, and bilateral development agencies



# Case 1: Sri Lanka — Background

- Total external debt including public and publicly guaranteed debt continued to expand in the 2000s, alongside the corresponding increase in debt service payments
- To respond to Sri Lanka's attempt to restore macroeconomic stability, IMF provided a 3-year Extended Fund Facility (EFF) of \$1.5 billion in June 2016
- Since early 2022, Sri Lanka has been grappling with balance of payment and debt crises. Foreign exchange reserves have plummeted, inflation has soared, and the local currency has depreciated sharply
- In September 2022, Sri Lanka reached a staff-level agreement with IMF for an EFF Arrangement which was approved by the IMF Board in March 2023
- IMF Executive Board Completes the First Review Under the Extended Fund Facility Arrangement with Sri Lanka, December 12, 2023



# Pre-crisis ADB's support

- Supporting Sri Lanka's transition to the upper middle income country status
- Two strategic objectives: strengthen the drivers of growth by promoting diversification of economic activities and productivity enhancement and improve the quality of growth by promoting inclusiveness

## Sri Lanka: Cumulative Commitments<sup>a, b, c, d</sup>

Sector	No.	Total Amount (\$ million) <sup>e</sup>	% of Total Amount <sup>e</sup>
<b>Project and Technical Assistance</b>	<b>565</b>	<b>11,757.73</b>	<b>84.97</b>
Agriculture, Natural Resources, and Rural Development	135	1,446.67	10.45
Education	46	1,336.20	9.66
Energy	63	1,519.63	10.98
Finance	63	1,362.15	9.84
Health	20	361.97	2.62
Industry and Trade	30	251.45	1.82
Information and Communication Technology	-	0.38	0.00
Multisector	16	173.12	1.25
Public Sector Management	37	459.28	3.32
Transport	89	3,514.22	25.40
Water and Other Urban Infrastructure and Services	66	1,332.66	9.63
<b>Trade and Supply Chain Finance Program<sup>f</sup></b>	<b>3,082</b>	<b>2,079.96</b>	<b>15.03</b>
Finance	1,780	1,162.56	8.40
Industry and Trade	1,302	917.39	6.63
<b>Total</b>	<b>3,647</b>	<b>13,837.68</b>	<b>100.00</b>

- = nil, 0.00 = less than 0.005%, DMC = developing member country, TA = technical assistance.

<sup>a</sup> Grants and TA include ADB-administered cofinancing.

<sup>b</sup> Includes loans, grants, equity investments, TA, and private sector programs.

<sup>c</sup> Using primary sector in the reporting of commitments.

<sup>d</sup> From 2020, financing for TA projects with regional coverage is distributed to their specific DMCs where breakdown is available.

<sup>e</sup> Numbers may not sum precisely because of rounding.

<sup>f</sup> ADB-financed commitments from private sector programs of which \$2.06 billion is short term (with maturity of less than 365 days).





# ADB's response to debt crisis

- 2022 disbursement: \$784 million
- Emergency assistance of \$203 million committed (a \$200 million loan and a \$3 million grant from the Japan Fund for Prosperous and Resilient Asia and the Pacific), to address the immediate challenges from the economic crisis including the need for improving food security and for protecting the livelihoods of poor and vulnerable people across the country, with a focus on women and children
- Ongoing portfolio repurposed to provide working capital support to small and medium-sized enterprises and for essential imports, including food and agriculture products, fertilizer and chemicals, and medical equipment and pharmaceuticals
- Technical assistance commitments totaled \$1.8 million for new projects and \$3 million in supplementary financing for ongoing projects
- Trade and Supply Chain Finance Program supported 73 transactions valued at \$228 million in 2022, including support for essential imports. To address challenges associated with the implementation of ADB's sovereign projects in Sri Lanka, an emergency trade finance facility was also established.

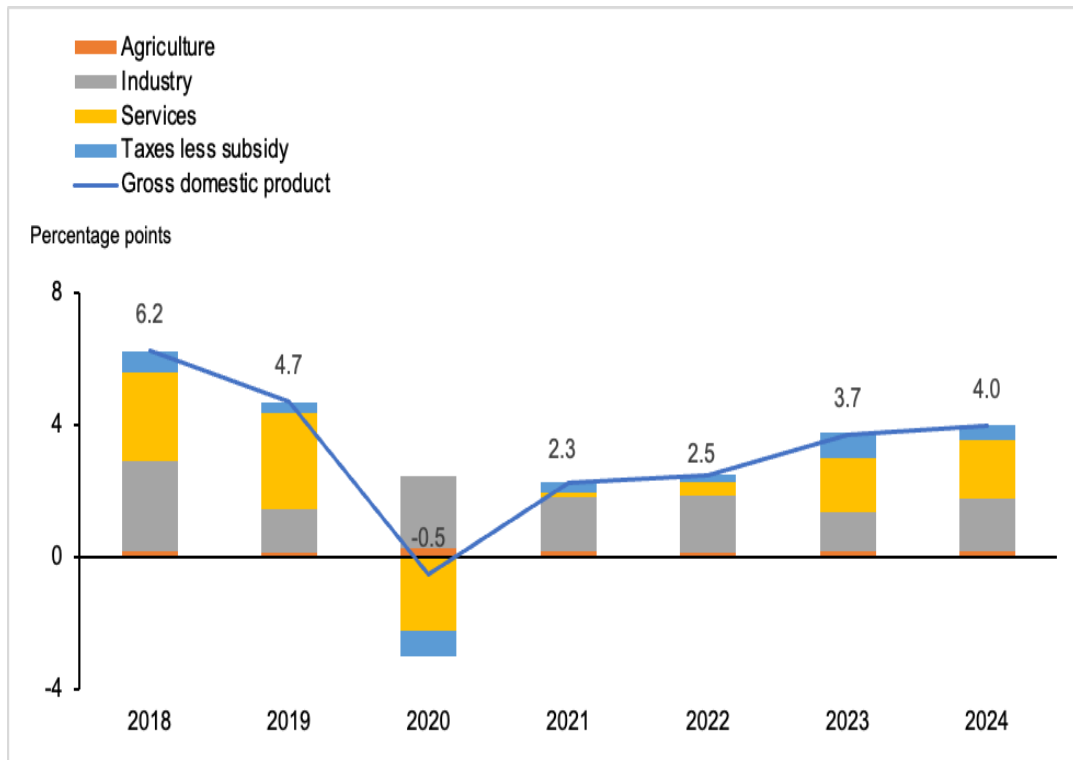


## Case 2: Lao PDR

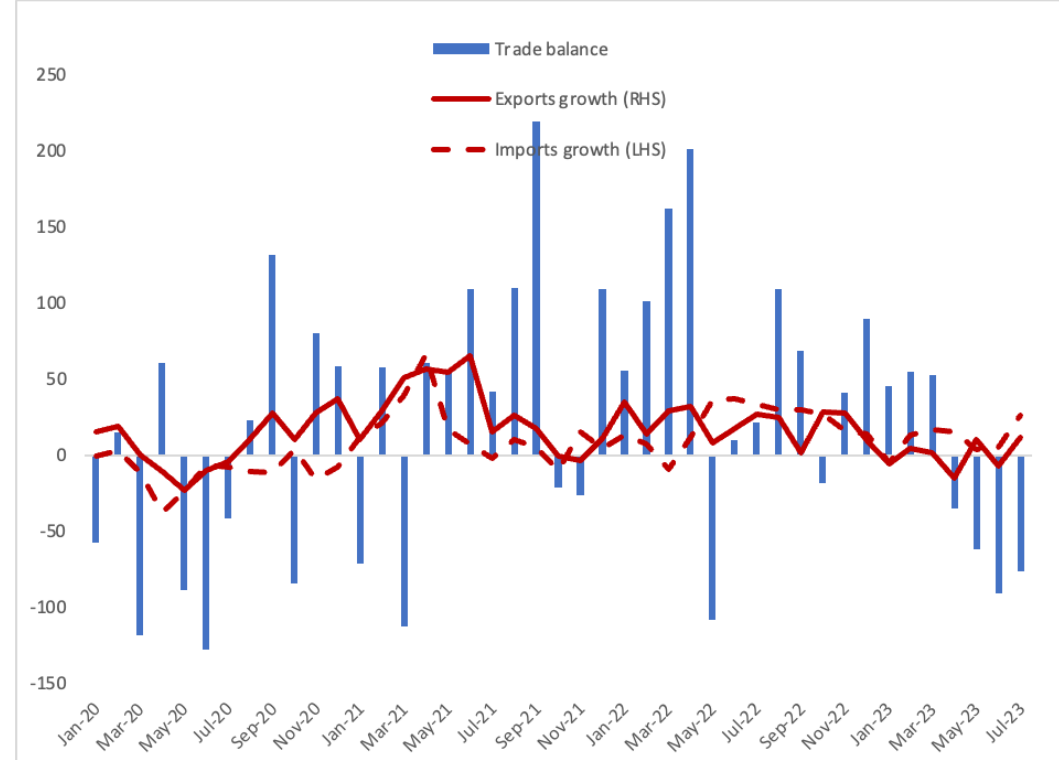
- Gradual post-COVID recovered in 2022, supported by the reopening of the country's borders and improved mobility after a 2-year closure
- Inflationary pressures, linked with currency depreciation and high public debt, impacting on consumption and domestic investment
- Endowed with rich natural resources and dynamic mining and hydropower industries, economic diversification is needed to expand private sector investment, generate employment in services and industry, and promote regional cooperation and integration
- ADB's support has focused on more inclusive and sustainable economic growth



# Economic performance in 2023 drove the country into a trade deficit



Economic recovery has been slow due to macroeconomic instability and high inflation. Growth has been driven by investment in clean energy, tourism and transport services



The country went to trade deficit of \$112 mil in the first seven months of 2023 compared to \$443 mil in the same period of 2022. There are large imports of fuel, machinery and construction materials for clean energy investment.

# Lao PDR Country Partnership Strategy (CPS) 2017–2022, its Final Review and Validation

*CPS 2017–2020 was extended to 2023 and assessed overall successful.*

*The validation rated the CPS as borderline successful.*

## CPS 2017–2020: More Inclusive and Sustainable Economic Growth

Strategic priority 1: Infrastructure & private sector development to support employment and income generation

Strategic priority 2: Enhanced human resource development

Strategic priority 3: Sustainable natural resource management and climate resilience

## CPS Extension to 2023

In the extended period, assistance supports recovery from the COVID–19 pandemic, transparent debt management, and socioeconomic resilience

## The CPS Final Review provided six recommendations

1. Continue focus on inclusive and sustainable economic growth and give greater emphasis to resilience.
2. Expand focus on governance, including through continuous policy dialogue.
3. Build strategies for project readiness and safeguard compliance.
4. Follow an integrated approach as a cross cutting priority.
5. Foster catalytic partnerships and explore cofinancing opportunities.
6. Deliver innovative and value adding solutions through One ADB structures.

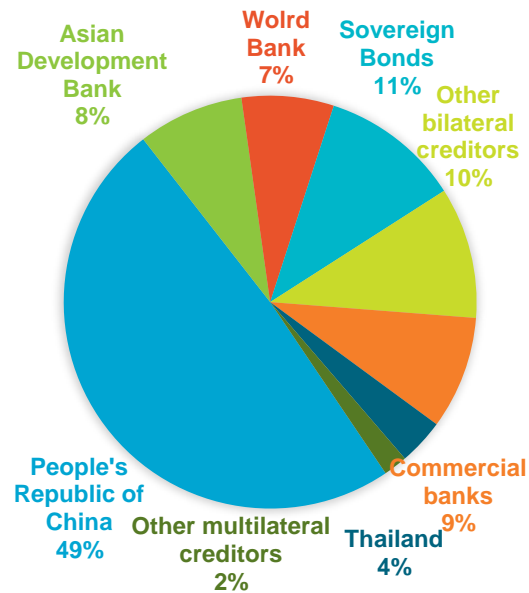
## IED's Validation provided a further three recommendations

1. Deepen policy dialogue and support for economic management and structural reform
2. Strengthen support for governance, transparency, and public financial management
3. Focus on long-term capacity building

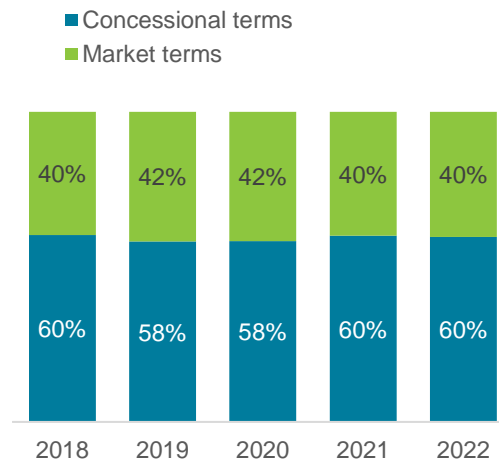
# LAO PDR: Public and Public Guaranteed Debt Characteristics

Both public debt and external debt service are high, but made more manageable by the relatively high share of concessionality in public debt

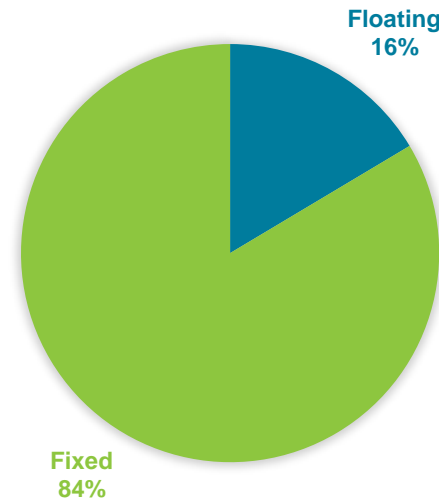
External Creditors



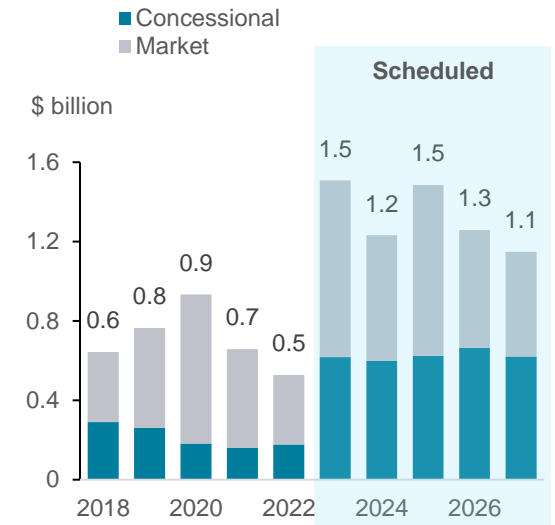
Debt Concessionality



Interest Rate Type



Debt Service



Public debt is largely external, with half held by creditors from PRC. More than half of public debt is on concessional terms at fixed interest rates...

... However, there are near-term liquidity pressures linked with loan service payments on market terms coming due, averaging \$1.3 billion per annum between 2023-2027.

# 參考資料



# 発展途上加盟国のグループ分け

- The country classification includes three categories:
  - Group A = concessional lending (COL) only, supplemented by Asian Development Fund (ADF)\* grants based on debt distress
  - Group B = blend with both concessional and non-concessional lending
  - Group C = near market-term ordinary capital resources (OCR) lending only
- Based on two criteria: gross national income (GNI) and creditworthiness
- Change in classification happens at two stages:
  - From Group B to Group C (no more concessional assistance)
  - No more regular assistance when lending operations cease (= graduation)

\* ADF grants are also provided for small island DMCs and conflict-affected countries



# ADBが提供する様々な融資や支援ツール（ソブリン）

- プロジェクト融資 (Project loan)
- セクター融資 (Sector loan)
- マルチトランシェ融資ファシリティ (MFF: Multitranche Financing Facility)
- 政策支援型融資 (PBL: Policy-based Lending)
- セクター開発プログラム (SDP: Sector Development Program)
- 成果連動型融資 (RBL: Results-based Lending)
- 緊急支援融資 (EAL: Emergency Assistance Loan)
- 金融仲介型融資 (FIL: Financial Intermediation Loan)
- プロジェクト準備融資 (PRF: Project Readiness Financing) と小規模支出融資ファシリティ (SEFF: Small Expenditure Financing Facility)
- 政治的リスクと信用リスクに対する信用補完 (Credit Enhancement for political risk and credit risk)
- 案件助言サービス (TAS: Transaction Advisory Services)





# グループごとの融資条件

## Concessional Lending (COL) for Group A

- Maturity of 32 years, including 8-year grace period
- Interest rate of 1% during grace period and 1.5% during amortization

## Concessional Lending for Group B

- Maturity of 25 years, including 5-year grace period
- Interest rate of 2% throughout loan period

## Ordinary Capital Resources (OCR)

- Flexible Loan Product (FLP) with a cost-base floating rate
- Secured Overnight Financing Rate (SOFR) and Tokyo Overnight Average Rate (TONA)
- Flexible options for maturity, interest rate, currency, and repayment