



General Capital Increase V

UPDATE. The fifth general capital increase (GCI V) tripled ADB's capital base to about \$165 billion

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Why is GCI V needed?

Over 900 million people in Asia and the Pacific still live below the poverty line of \$1.25 a day. A resource gap estimated at \$53 billion a year compromises Asia's efforts to achieve the Millennium Development Goals. To support the priority investment needs of its developing member countries, particularly given the ongoing global economic crisis, a capital increase for ADB—the leading development bank based in the region—was essential.

“This substantial increase is a resounding vote of confidence from our shareholders for what we can achieve as a premier development partner in the Asia and Pacific region.”

—Haruhiko Kuroda, President and Chairman, Board of Directors, Asian Development Bank

ADB's Strategy 2020 meeting the needs of Asia and the Pacific

Strategic Direction

- Inclusive Economic Growth
- Environmentally Sustainable Growth
- Regional Integration

Drivers of Change

- Private Sector
- Good Governance
- Gender Equity
- Knowledge Solutions
- Partnerships

Read more at www.adb.org/Strategy2020/

The Asian Development Bank's (ADB) Board of Governors (www.adb.org/about/membership.asp) agreed in 2009 to triple ADB's capital base from \$55 billion to \$165 billion. This gave ADB the much-needed resources to respond to the global economic crisis, to pursue its longer-term development priorities in Asia and the Pacific, and to accelerate implementation of its long-term strategic framework for 2008–2020 (Strategy 2020).

Voting by ADB's 67 members on the GCI V closed on 29 April 2009, with the overwhelming majority of members endorsing it. The 200% increase is ADB's largest and the first since ADB increased its capital by 100% in 1994.

The 200% increase allowed ADB to substantially increase its support to countries affected by the global downturn and better positions ADB to prevent the reversal of hard-won gains in social and economic development and poverty reduction.

GCI V helps ADB respond to development needs

The need for ADB's first GCI in 14 years was evident well before the global economic crisis. We were running out of the financial headroom needed to respond to the vast investment and development needs of our region.

Before the crisis, our ordinary capital resources (OCR) borrowers faced an estimated resource gap of \$53 billion a year in their efforts to achieve the United Nations Millennium Development Goals (MDGs). Our research showed that OCR-borrowing countries are home to nearly 900 million people living below the poverty line of \$1.25 a day.

ADB responded to this challenge by more than doubling the level of OCR operations—from \$4.0 billion in 2004 to \$8.7 billion in 2008. OCR are a pool of funds available for ADB lending operations offered at near-market terms to lower- to middle-income countries. The crisis, however, demanded additional and immediate financial support.

Without a GCI, ADB would have had to reduce its OCR lending to \$4.0 billion a year in 2010, compared with \$8.7 billion in 2008.

With GCI V, ADB can advance its strategy and strengthen its role and capacity to serve as a trusted, tested, region-based development partner for its OCR borrowers and stakeholders.

Responding to the economic crisis

GCI V also allowed ADB's response to the global financial and economic crisis to be swift and proactive, protecting the poor and the most vulnerable.

ADB's crisis-related lending assistance amounted to \$8.78 billion for 2008–2010, including \$5.43 billion in project and program lending, grants, private sector loans, and guarantees; \$2.50 billion for the Countercyclical Support Facility; and \$850 million for the Trade Finance Facilitation Program. About \$7.63 billion (87%) of this amount was drawn from OCR, while the remaining \$1.15 billion was from the Asian Development Fund, resources available for ADB lending operations offered at concessional terms to the lowest-income developing member countries.

ADB's crisis response has focused on quick-disbursing budget support to help countries respond to the crisis, and on providing direct support to

public and private sector projects to help create demand, generate employment, strengthen social safety nets, rebuild private sector confidence, provide incentives for private sector investment, and facilitate trade financing.

Status of GCI V commitments

ADB is on track to meet its commitments under GCI V. Notable achievements and developments are

- the establishment of a detailed, time-bound Human Resources Action Plan in early 2009 and a human resources committee of the Board, leading to Our People Strategy in January 2010;
- approval of the Safeguard Policy Statement in July 2009 to govern the environmental and social safeguards of ADB's operations, following a lengthy review process that included wide-ranging internal and external consultations;
- upgrading of the Risk Management Unit to the Office of Risk Management in October 2009, and approval of a new exposure management policy for ADB's nonsovereign operations in October 2009 to ensure that growth in private sector operations envisaged under Strategy 2020 remains within ADB's risk-bearing capacity;
- separation of the Integrity Division from the Office of the Auditor General, leading to the establishment of the Office of Anticorruption and Integrity in October 2009, and the introduction of new provisions for whistleblower and witness protection in December 2009;
- review of ADB's existing approach to nondisclosure of its sanctions list, with the result that all ADB staff members, members of the Board of Directors, and partner institutions now have access to the sanctions list;
- ongoing review of principles for the selection of the outside auditor to make the selection process more transparent;
- the Operations Evaluation Department became the Independent Evaluation Department in January 2009 to enhance independence and effectiveness of ADB's evaluation work;
- continuing increased focus on results and completion of the 2009 Development Effectiveness Review to assess ADB's progress in achieving the goals of Strategy 2020;
- continued exploration of the use of fee-based services, particularly for knowledge products, in higher-income developing member countries; and
- establishment of new, streamlined business processes for country program strategies and loan delivery in January 2010 for more concise and streamlined documentation in product

delivery, and strengthened quality assurance processes.

Pursuing our Strategy 2020 goals

Before the global economic downturn, the region had made progress toward attaining the MDGs, but the momentum of poverty reduction is likely to be dented by the crisis. ADB estimates that the projected gross domestic product decline in the region may lead to an additional 54 million extreme poor in 2009, compared with a "without crisis" scenario.

ADB will continue to assist developing member countries in their recovery efforts through its regular program of loans, grants, guarantees, and technical assistance. MDG-related efforts and the broader development agenda will be integrated into efforts to boost growth and rebuild the global economy. Strategy 2020, with its emphasis on sectors and areas that are key to creating jobs, stimulating demand, and promoting regional cooperation and integration has proved timely in meeting the region's longer-term challenges and in building resilience to external shocks.

All members are encouraged to subscribe to GCI V at the earliest possible time to allow ADB to increase its lending. As of 25 April 2010, 15 members had subscribed: Bangladesh, Pakistan, Thailand, Tajikistan, Australia, the People's Republic of China, the United Kingdom, Finland, Indonesia, Nepal, Malaysia, Japan, Belgium, Sri Lanka, and Turkmenistan. With substantially higher capital, ADB's efforts will contribute to achieving the MDGs by 2015 and reducing poverty.

Leveraging funds for maximum results

Shareholders' paid-in contributions will be limited to 4% of the total capital increase. Governments can, therefore, expect high leveraging of their funds at limited budgetary cost. ADB has an excellent track record in leveraging development finance, historically providing \$15 of new lending for every \$1 of OCR paid-in capital.

The bulk of the new capital will be callable—although there has never been an occasion when capital has been called. ADB has a AAA credit rating and has never experienced default.

Given the recent economic crisis and the long-term needs of Asia and the Pacific, ADB is grateful for the funding increase provided by our shareholders.

We look forward to working together with our developing member countries and development partners in a continuing mission to reduce poverty in our region.

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Read more at
www.adb.org/GCI/

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