ALLOCATION OF CONCESSIONAL RESOURCES

A. Scope

1. The Concessional Assistance Policy for the ADF 13 Period (endnote i) defines the principles and criteria for guiding allocations of Asian Development Fund (ADF) grants and concessional ordinary capital resources lending (COL) for eligible countries and presents the details of the resource allocation frameworks for ADF grants and COL under ADF 13 (2021–2024). The Concessional Assistance Policy for the ADF 13 Period and the ADF 13 Donors Report (endnote ii), which records the agreements made between ADB Management and ADF donors during the ADF 13 replenishment negotiations, will guide the implementation of ADF 13.

B. Policy

1. Eligibility for Concessional Resources

2. ADB’s Graduation Policy (endnote iii) and Concessional Assistance Policy for the ADF 13 Period guide the eligibility for concessional resources. According to the Graduation Policy, group A developing member countries (DMCs) are eligible for COL and/or ADF grants,1 group B DMCs are eligible for COL and have access to regular ordinary capital resources (OCR) lending but are not eligible for ADF grants,2 and group C DMCs have access only to regular OCR lending. ADF grant-recipient countries are generally restricted from public or publicly guaranteed regular OCR borrowing.3

3. Access by group A countries to ADF grants and COL for country allocations is determined by the classification of the risk of debt distress: (i) low: no grants, (ii) moderate: an ADF grant allocation equivalent to 50% of performance-based allocation (PBA) share, and (iii) high: 100% grants.

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1 International Development Association (IDA) gap countries are not eligible for ADF grants. They are group A countries (except SIDS) that have had gross national income per capita above the operational cutoff for IDA eligibility for more than 2 consecutive years and are assessed as a gap country by IDA. The operational cutoff is $1,255 (2021 prices). As of January 2023, the IDA gap countries among ADB’s DMCs were Bhutan, Cambodia, the Lao People’s Democratic Republic, and Myanmar.

2 Under the ADF 13 grant and COL frameworks, ADF and COL countries are eligible for grants from the single thematic pool (group B countries are eligible on a very exceptional basis) and through the Disaster and Pandemic Response Facility.

3 Under the Graduation Policy, ADB lending on regular OCR terms can be considered on a case-by-case basis for all group A DMCs for revenue-earning projects that generate net foreign exchange above the foreign debt service requirements and meet other ADB lending criteria. Regular OCR in group A countries can be used for guarantee operations with a sovereign counterindemnity if the project is not expected to undermine the country’s debt sustainability. The country should not be classified high risk of debt distress following this policy, and the proposed project should not be expected to change the country’s debt distress classification. ADB. 2018. Proposal for ADB’s New Products and Modalities (endnote iv). Manila.
4. Country debt distress risk classifications are reviewed by the start of each year, alongside country allocation updates, and are adjusted immediately following a downgrade of the rating of risk of debt distress for a group A country.4

2. Allocation of ADF Grants

5. Two-pillar resource allocation framework. The ADF 13 resource allocation framework adopts a two-pillar approach, consisting of country- and theme-based components. It also includes an ADF grant reserve for classification changes for risk of debt distress that is intended to finance the increased demand for ADF grants because of deteriorating debt distress situations in DMCs.

6. Country allocation. Country allocations are the sum of PBAs, economic vulnerability premiums (EVPs) for ADF grant-eligible small island developing states (SIDS), and the special allocation for Afghanistan.

(i) Performance-based allocation. The PBA system strengthens links between allocations, country needs, and country performances. The PBA formula is a weighted geometric function of the composite country performance rating (CCPR), per capita income (PCI),5 and population (POP). The formula is calibrated to ensure that total allocations equal total available resources. The allocation share for each country is determined by the following formula:

\[ S_i = C \times \sum \left( \frac{CCPR_i^{2.00} \times PCI_i^{-0.25} \times POP_i^{0.60}}{C} \right) \]

The scaling factor, C, is a constant term where

\[ C = 1 + \sum \left( CCPR_i^{2.00} \times PCI_i^{-0.25} \times POP_i^{0.60} \right) \]

The effect of squaring the CCPR on its component parts highlights the importance of the governance rating in the overall country allocation and is as follows:

\[ CCPR_i^{2.00} = \text{(policy and institutional rating)}^{1.40} \times \text{(governance rating)}^{2.00} \times \text{(portfolio performance rating)}^{0.60} \]

Each country’s indicative allocation is derived by applying its PBA share to the total resources available for PBAs.

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4 Following a downgrade of the rating of risk of debt distress within the year, COL allocations for that country will be converted to ADF grants for the remaining part of the year following the degree of the downgrade of the rating of risk of debt distress. The additional ADF grant resources will be provided from the debt distress reserve, depending on the availability of resources.

5 GNI per capita is measured based on the World Bank’s Atlas method, which smoothens exchange rate fluctuations by using a 3-year moving average, price-adjusted conversion factor.
(ii) **Economic vulnerability premium for small island developing states.** An EVP, calibrated based on the EVI, will complement the PBA. It will provide tailored support to ADF grant-eligible SIDS based on their degree of vulnerability in addition to their PBAs. Based on their EVI scores, ADF-eligible SIDS are assigned premium amounts.

(iii) **Special allocation for Afghanistan.** Afghanistan will continue to receive an equivalent amount for the special allocation under ADF 13 compared to ADF 12, as agreed with ADF donors.7

7. **Enhancing debt sustainability in group A and group B countries.** Support for debt sustainability in group A countries accessing ADF grant country allocations will be strengthened by aligning it with the principles of the Sustainable Development Finance Policy (SDFP) of the International Development Association (IDA).8 ADB will monitor IDA’s implementation of the SDFP for IDA gap countries (footnote 1), group A countries classified low risk of debt distress, and group B countries accessing COL. ADB will carry this out in close collaboration with governments, IDA, and the International Monetary Fund (IMF), which may trigger adjustments of COL country allocations. The SDFP has two pillars: (i) a debt sustainability enhancement program that creates additional incentives for countries to move toward sustainable development financing, and (ii) a creditor outreach program to facilitate information sharing and mitigate debt-related risks. Additional technical assistance from the Technical Assistance Special Fund will also be made available for ADF and COL countries to support debt sustainability during the ADF 13 period.9

8. **Debt sustainability enhancement program.** The first pillar of the SDFP will incentivize governments to move toward sustainable development financing. The pillar involves defining a set of policy actions to enhance debt sustainability and assessing the progress of their implementation.

9. The SDFP will be implemented in three main steps. First, for all group A countries accessing ADF grant country allocations, ADB will identify a set of policy actions with governments in close collaboration with other international financial institutions, such as IDA and the IMF. To a great extent, the policy actions for ADF countries are expected to fully align with IDA’s policy actions. Countries will implement policy actions starting from the first year of ADF 13 and over the full cycle.

10. Second, progress made by countries implementing their policy actions will be assessed at the end of each year of the ADF 13 period. Third, if progress is unsatisfactory, 20% of the next indicative annual grant country’s allocation will be set aside. The country can recover the set-
aside if policy actions are implemented before the beginning of the fourth year of the ADF 13 period. Otherwise, the remaining set-aside at the beginning of the fourth year of ADF 13 will be lost. In some cases (severe or repeated breaches of policy actions such as the non-concessional borrowing ceiling), concessional financing terms can be hardened and grants replaced with concessional lending. Countries that have satisfactorily implemented agreed policy actions will retain their full 4-year country grant allocation over the ADF 13 period. Policy actions will consider the capacity constraints of countries, particularly the specific challenges of countries classified fragile and conflict-affected situations and SIDS.

11. For countries with a borrowing ceiling agreed on by the World Bank and the IMF, policy actions will include the borrowing ceiling. Borrowing ceilings under the SDFP will primarily take the form of nominal limits on non-concessional external public debt and publicly guaranteed debt, which will ensure policy continuity and consistency with IMF’s revised debt limit policy.

12. **Creditor outreach program.** The second pillar of the SDFP will ease information sharing, dialogue, and coordination; increase transparency and communication with bilateral creditors on the SDFP; and promote dialogue on debt transparency with the Paris Club, non-Paris Club members, and private creditors. ADB will collaborate with the IMF, the World Bank, bilateral creditors (including non-Paris Club members), and emerging donors to improve regular dialogue and exchange information.

13. **Theme-based components.** The resources for theme-based components are allocated to projects that meet certain criteria.

   (i) **ADF 13 thematic pool.** The thematic pool provides ADF grants to incentivize governments to consider projects with strong national and regional positive externalities with a focus on the following strategic areas: (a) fostering regional cooperation and integration, including the provision of regional public goods; (b) supporting disaster risk reduction and climate adaptation; and (c) achieving the Sustainable Development Goal (SDG) 5 transformative gender agenda. The thematic pool supports projects in all group A countries, including IDA gap countries (footnote 1), and, on a very selective basis, group B countries. During the ADF cycle, the total amount of allocations to projects in group B countries or involving group B countries in the case of multi-country projects during a cycle is capped at 10% of the total thematic pool size. Allocations follow a project selection and prioritization process based on a scorecard.

   (ii) **Pilot private sector window.** The private sector window (PSW) grant resources will contribute to reducing some of the shared financing constraints that hinder private sector operations in group A countries. The PSW includes three solutions: local currency, blended finance, and loan guarantee. The allocation of resources will be flexible with no formal ceilings on country, sector, or other limits for any of the solutions proposed. The PSW will focus on transactions in newer sectors, particularly those with higher development impact, including health, education, agribusiness, tourism, and nontraditional energy infrastructure (e.g., water, urban sanitation, information communication and technology, and transport). In addition to the risk framework applied by ADB in assessing all private sector operations transactions, the PSW applies an eligibility assessment framework under the
review and guidance of the Blended Finance Committee to ensure that scarce
PSW resources are deployed in transactions that, among other things, are
consistent with ADB’s long-term strategic priorities and country priorities and
adhere to the blended concessional finance principles.

(iii) **Expanded Disaster and Pandemic Response Facility.** The expanded Disaster
and Pandemic Response Facility (DRF+) provides ADF grants for relief, early
recovery, and reconstruction following disasters and emergencies. Group A
countries can receive grant resources from the DRF+ in the case of disasters
triggered by natural hazards, large cross-border movements of displaced persons,\(^{10}\) and public health emergencies including epidemics and pandemics.\(^{11}\)
However, for a severe disaster or emergency with estimated damage and losses
exceeding 10% of gross domestic product, all group A countries are eligible for
ADF grants with a full grant share from the DRF+. ADF grant assistance may be
offered to group A and B countries when they accommodate significant cross-
border inflows of displaced people.

14. **Debt distress reserve.** Since grant demand can be volatile because of changes in DMCs’
debt distress classifications, a reserve has been established to protect the allocations of grant
recipients in case additional countries become eligible for grants.

3. **Allocation of Concessional Ordinary Capital Resources Lending**

15. **Allocation mechanism of concessional ordinary capital lending.** Under the ADF 13
period, ADF grants and COL will be allocated separately to increase the efficiency of the allocation
frameworks. The total COL allocation for an eligible country is the sum of the allocation from a
PBA-based component and from a need-based component (each accounting for 50% of the
overall resource allocation under ADF 13). COL will be allocated for the 4 years of the ADF 13
period with annual updates.

16. For the need-based component, country allocation shares (CAS) for eligible countries for
the next year are determined based on a 5-year horizon as an average of actual commitments of
the past two years, and rolling pipelines of lending products of the current and next two years,
following the most recent work program and budget framework (WPBF).\(^{12}\) For example, the 2021
CAS of country i, evaluated in 2020 is

\[
\text{CAS}_{i,2021} = \frac{FP_{2022} + FP_{2021} + CY_{2020} + AC_{2019} + AC_{2018}}{FP_{2022} + FP_{2021} + CY_{2020} + AC_{2019} + AC_{2018}}
\]

\(^{10}\) For cross-border displacement, DRF+ triggers follow the requirements under the IDA19 Window for Host
Communities and Refugees, which provides dedicated grant funding to help low-income countries host large
numbers of refugees.

\(^{11}\) The DRF+ will be triggered for health emergencies when a grant-eligible group A country has (i) declared a public
health emergency, and (ii) the World Health Organization has declared a public health emergency of international
concern under its global alert and response system.

\(^{12}\) The WPBF defines the parameters and main thrusts of ADB’s operations and provides the framework for preparing
the budget for the upcoming year.
where

\[
\begin{align*}
\text{AC} &= \text{actual commitments} \\
\text{CY} &= \text{current year’s pipeline} \\
\text{FP} &= \text{forward-looking pipeline taken from current year’s WPBF}
\end{align*}
\]

and

\[
\sum_{i=1}^{n} \text{CAS}_i = 100\%
\]

The CAS is then applied to the overall available resource envelope for the year to determine the indicative country allocation.

17. The effectiveness and efficiency of the allocation process will increase further with the expanded flexibility of regional departments—in cooperation with SPD—to reallocate country allocations to countries with additional needs from countries that are not in a position to fully utilize their allocations and to give access to the COL reserve to countries with higher development needs.\(^{13}\)

18. The need-based allocation mechanism will accommodate the changing needs for ADB assistance in eligible DMCs following shifts in country-specific circumstances, which are reflected in validated rolling pipelines. The need-based allocation mechanism ensures that countries with higher development needs, expeditious commitments, and higher absorptive capacity will receive higher COL allocations.\(^{14}\)

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**Bases**


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\(^{13}\) The overall COL envelope for ADF 13 will include a reserve of 5% of the overall amount in COL to accommodate additional demand by group A countries that are upgraded to a lower risk of debt distress, and support eligible countries to accommodate additional development needs, particularly those related to disaster and emergency responses.

\(^{14}\) Implementation of the SDFP for IDA gap countries (footnote 1), group A countries classified *low risk of debt distress*, and group B countries accessing COL is referred to in para 7.