LENDING AND GRANT POLICIES
(Concessional Assistance)

A. Sources of Concessional Assistance

1. Starting 1 January 2017, concessional assistance of the Asian Development Bank (ADB) to eligible developing member countries (DMCs) is provided in the form of concessional loans from ordinary capital resources (OCR) and grants from the Asian Development Fund (ADF) (endnote i).¹²

B. Eligible Recipients

2. Country eligibility for concessional resources is determined in accordance with ADB’s graduation policy. Under the policy, group A DMCs are eligible for concessional OCR loans (COL) and ADF grants, group B DMCs are eligible for COL and have access to regular OCR loans but are not eligible for ADF grants,³ and group C DMCs have access to regular OCR loans only (endnote ii).⁴

3. The Agreement Establishing the Asian Development Bank (the Charter) and the Regulations of the Asian Development Fund also allow ADB to provide loan or grant financing to (i) an agency, instrumentality, or political subdivision of a DMC; (ii) an entity or enterprise operating in the territory of a DMC; or (iii) an international, regional, or subregional agency or an entity concerned with development of the region served by ADB (endnotes iii and iv).

C. Allocation of Concessional Resources

4. The allocation of concessional resources and eligibility for COL and ADF grants is determined periodically in accordance with the performance-based allocation system and the ADF grant framework of ADB’s Concessional Assistance Policy (endnote v).⁵ The allocation also takes into account the special allocations agreed with ADF donors for a specific replenishment period, if any.

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¹ The ADF was established in 1973 as a Special Fund of ADB (ADB. 1966. Agreement Establishing the Asian Development Bank. Manila.). The ADF was originally established to provide loans on concessional terms, and subsequently authorized to provide grants, to the least developed ADB member countries. In April 2015, the Board of Governors of ADB approved the termination of ADF lending operations and the transfer of ADF loans and certain other assets to ADB’s OCR effective on 1 January 2017. Subsequently, ADF has become a grant-only operation.
² Concessional OCR loan was formerly called ADF loan.
³ All concessional assistance countries are eligible for regional health security grants on a pilot basis during the ADF 12 period.
⁴ OM section A1 (Classification and Graduation of Developing Member Countries).
⁵ OM section A3 (Allocation of Concessional Resources).
D. Currency of Concessional Assistance

1. Concessional Loans

5. ADB introduced the full-fledged special drawing right (SDR) approach to the ADF loans in 2006. Under this approach, loans were committed in SDR and borrowers’ obligations for repayment of principal and payment of interest charges were determined in SDR (endnote vi). However, starting 1 January 2017, DMCs eligible for COL have the option to select the liability currency for each COL up to the time of loan negotiations, after which it cannot be changed. In addition to SDR, the choice of currency is one that is available under ADB’s London interbank offered rate-based loan product and is also in the SDR basket, subject to the confirmation of availability of such currency by ADB.6 If any of euro, the pound sterling, SDR, or yen is chosen as the liability currency, exchange rates for the loans7 would be based on the ADB rate and determined during formal loan negotiations (endnote vii).

6. The currency of the principal repayment and the interest payment will be the selected liability currency of COL except for SDR loans. For SDR loans, a borrower shall choose one of the SDR currencies8 as the repayment currency of the loan during loan negotiations; it is changeable with advance notice to ADB (endnotes vi and vii).

2. Asian Development Fund Grants

7. ADF grants are committed in United States dollars (endnotes viii and ix).9

E. Terms of Concessional Ordinary Capital Resources Loans10

8. Group A Developing Member Countries. Project loans financed from concessional resources have a fixed-term, 32-year maturity including a grace period of 8 years, a 1.0% interest charge during the grace period and 1.5% during the amortization period, and equal amortization. Policy-based loans from concessional resources have a fixed-term, 24-year maturity including a grace period of 8 years, a 1.0% interest charge during the grace period and 1.5% during the amortization period, and equal amortization (endnote x).

9. Group B Developing Member Countries. Project loans and policy-based loans financed from concessional resources have a fixed-term, 25-year maturity including a grace period of 5 years, a 2.0% interest charge throughout the loan maturity, and equal amortization (endnote xi).11

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6 Presently, the additional currencies include euro, the pound sterling, United States dollar and yen.
7 For conversion of the loan amount in United States dollars (i.e., the currency that is used for preparing the project) into the selected liability currency.
8 Includes euro, the pound sterling, renminbi, United State dollar, and yen.
9 ADF grants have been committed in United States dollars since the introduction of grant financing in 2005.
10 This does not affect the lending terms of emergency assistance loans financed from concessional resources, which will carry a interest of 1% per year and a maturity of 40 years, including a grace period of 10 years, with repayment of principal at 2% a year for the first 10 years and 4% a year thereafter. The same terms applied to both group A and B DMCs.
11 The lending terms are applicable to loans for which formal loan negotiations completed on or after 1 January 2013.
10. The terms of COL may be adjusted to reflect changes in a DMC’s economic circumstances. (a) If ADB shall determine, after due consideration by ADB’s Board of Directors, that (i) the borrower’s gross national income per capita (per capital GNI) has exceeded ADB’s per capita GNI operational cutoff in respect of concessional loans from ADB’s OCR for 5 consecutive years; and (ii) the borrower has achieved the capacity for regular loans from ADB’s OCR, ADB may, by notice to the borrower, modify the terms of repayment of the loan by increasing by 100% the amount of each maturity due thereafter until the principal amount of the loan has been fully repaid. However, in lieu of such an increase in maturity amounts, ADB may, at the request of the borrower, charge interest, at an annual rate to be agreed between the borrower and ADB, on the principal amount of the loan withdrawn and outstanding from time to time in such a manner and to such extent as to yield the same grant element as would be obtained under the above-stated increase of maturity amounts. (b) If, after such a modification in the lending terms pursuant to para. 10 (a), a country’s economic condition has deteriorated significantly, at the request of the borrower and after the Board of Directors’ consideration, ADB may restore the original lending terms for the remaining amount of the loan withdrawn and outstanding (endnote xii).

F. Prepayment of Concessional OCR Loans

11. A borrower can repay all or part of the principal amount of a COL in advance of the maturity specified in the loan agreement by giving written notice to ADB no less than 45 days in advance and upon payment of all accrued interest charges (endnote xii).12

Basis:


ix ADB. 2017. Special Operations Grant Regulations. Manila (1 January) (Section 4.01).


xii ADB. 2017. Ordinary Operations (Concessional) Loan Regulations. Manila (1 January) (Section 3.05).

12 There is no premium on the prepayment of COL.