May 2021

Second Amendment to ADB’s Support to Enhance COVID-19 Vaccine Access

This is a redacted version of the document, which excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank
ABBREVIATIONS

ADB  –  Asian Development Bank
ADF  –  Asian Development Fund
APVAX – Asia Pacific Vaccine Access Facility
COVID-19  –  coronavirus disease
CPRO  –  COVID-19 Pandemic Response Option
CUR  –  capital utilization ratio
DMC  –  developing member country
OCR  –  ordinary capital resources
PIC  –  project investment component
RRC  –  rapid response component

NOTE

In this report, “$” refers to United States dollars, unless otherwise stated.

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
<th>Department/Division</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director General</td>
<td>Tomoyuki Kimura</td>
<td>Strategy, Policy and Partnerships Department (SPD)</td>
</tr>
<tr>
<td>Deputy Director General</td>
<td>Xinning Jia</td>
<td>SPD</td>
</tr>
<tr>
<td>Director</td>
<td>Jiro Tominaga</td>
<td>Strategy, Policy and Business Process Division (SPBP), SPD</td>
</tr>
<tr>
<td>Team leaders</td>
<td>Aaron Batten, Robert Boothe</td>
<td>Principal Planning and Policy Economist, Operations Planning and Coordination Division, SPD</td>
</tr>
<tr>
<td>Team members</td>
<td>Arlyn Orong, Patricia Rhee</td>
<td>Senior Strategy and Policy Assistant, SPBP, SPD</td>
</tr>
</tbody>
</table>

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
# CONTENTS

## I. BACKGROUND

<table>
<thead>
<tr>
<th>Subsection</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Rapid Response Component Country Ceilings and the Use of the Project</td>
<td>1</td>
</tr>
<tr>
<td>Investment Component for COVID-19 Vaccine Procurement</td>
<td></td>
</tr>
<tr>
<td>B. ADB’s Resource Availability</td>
<td>2</td>
</tr>
<tr>
<td>C. Existing Approach to Financing COVID-19 Vaccine Procurement under APVAX</td>
<td>2</td>
</tr>
</tbody>
</table>

## II. PROPOSED CLARIFICATIONS AND AMENDMENTS

<table>
<thead>
<tr>
<th>Subsection</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

## III. RECOMMENDATION

<table>
<thead>
<tr>
<th>Subsection</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6</td>
</tr>
</tbody>
</table>

## APPENDIX

Updated Loan Tenor and Pricing under the Rapid Response Component and the  
Project Investment Component 7
I. BACKGROUND

1. High levels of uncertainty and varied pandemic conditions faced by developing member countries (DMCs) call for the Asian Development Bank (ADB) to be more flexible in supporting DMCs’ access to safe and effective coronavirus disease (COVID-19) vaccines. In several cases, DMCs have requested vaccine procurement support that exceeds the rapid response component (RRC) country ceilings described in the paper on ADB’s Support to Enhance COVID-19 Vaccine Access.\(^1\) A range of factors are contributing to DMCs’ demand for additional vaccine procurement support, including higher-than-anticipated vaccine unit pricing, additional fiscal pressures created by worsening economic conditions, and constrained access to domestic and external financing sources. However, early experience in processing and implementing Asia Pacific Vaccine Access Facility (APVAX) proposals has revealed a need to clarify several related issues. They include: the role and function of RRC country ceilings described in the APVAX paper; the core differences between the RRC and the project investment component (PIC), particularly with respect to procurement of COVID-19 vaccines; whether ADB can accommodate requests for vaccine procurement support beyond the RRC country ceiling; and the appropriate framework to govern consideration of such requests. This paper addresses these issues and proposes clarifications to the APVAX policy to ensure that ADB can flexibly meet DMC demands for vaccine support under a transparent and systematic framework while also providing adequate resources for non-COVID-19 operations.

A. Rapid Response Component Country Ceilings and the Use of the Project Investment Component for COVID-19 Vaccine Procurement

2. Given DMCs’ significant and urgent demand for COVID-19 vaccines, APVAX was designed to provide a flexible platform for ADB’s COVID-19 vaccine support. Vaccine access represents the most important development issue for many of ADB’s DMCs, and effective vaccination campaigns generate high development impact. While it is important to maintain ADB’s focus on the medium- to long-term goals described in Strategy 2030\(^2\)—including climate change, green and resilient growth, gender and development, and quality infrastructure—the pandemic presents significant challenges for the preparation and implementation of projects to achieve these goals. Helping DMCs enhance access to COVID-19 vaccines represents ADB’s best opportunity to address the pandemic’s impact and achieve Strategy 2030’s goals.

3. There is strong demand from DMCs to access APVAX financing to procure safe and effective COVID-19 vaccines. In some cases, the requested amounts exceed the RRC country ceilings established in the APVAX paper, which were set to fairly and transparently allocate the $9.0 billion in resources provided under the APVAX facility (of which $8.8 billion were additional resources), and to prevent any “first-come, first-served” issues. The RRC country ceilings also enabled ADB to harden the lending terms of the additional headroom that would be used for COVID-19 vaccine purchases to mitigate the impact on ADB’s capital utilization ratio (CUR). The APVAX paper allows DMCs to access their regular country resource allocations to procure COVID-19 vaccines or invest in associated infrastructure for amounts that exceed their RRC country ceilings. Such additional support, including for the procurement of COVID-19 vaccines, brings financial and nonfinancial risks for ADB, as well as possible reprogramming of non-COVID-19 operations. Consequently, clear principles must govern the circumstances under which ADB may provide APVAX support above RRC country ceilings.

\(^1\) ADB. 2020. ADB’s Support to Enhance COVID-19 Vaccine Access. Manila.
B. ADB’s Resource Availability

4. As of 15 April 2021, 12 eligible DMCs had not used $2.85 billion in COVID-19 Pandemic Response Option (CPRO) headroom. Of this amount, $2.66 billion in regular ordinary capital resources (OCR) currently remains unused from the additional allocation made available as part of the policy paper.\(^3\)

5. ADB may draw on this unutilized CPRO headroom to mitigate the financial implications of DMCs’ requests to significantly exceed RRC country ceilings for vaccine procurement and to protect Strategy 2030 priorities. This will only be done under specific conditions outlined in para. 9(ii) of this paper.

6. Considering improvements in ADB’s resource availability and the expected scale of APVAX operations, ADB should be able to meet DMCs’ vaccine financing needs within the APVAX framework without affecting regular resource allocations to DMC’s for regular country operations.

C. Existing Approach to Financing COVID-19 Vaccine Procurement under APVAX

7. The APVAX paper describes various modalities tailored to meet DMCs’ different needs for vaccination support. The RRC is intended to provide flexible and timely financing for COVID-19 vaccine procurement and international logistics costs (para. 26 of the APVAX paper), while the PIC is primarily meant to support investments in systems for the successful distribution, delivery, and administration of vaccines along with capacity building and community outreach (para. 27 of the APVAX paper). Both the RRC and PIC have a “positive” list of eligible expenditures. The list of eligible expenditures under the RRC is more narrowly defined than that of the PIC, in keeping with streamlined preparation and documentation requirements. The PIC has a broader set of eligible expenditures and is more similar to a standard investment project. The PIC may also be used to procure vaccines under certain conditions (Appendix 4 of the APVAX paper, further elaborated in this paper). Because the APVAX paper makes an additional $9 billion of resources available for vaccine support, and considering the expected fast-disbursing nature of most vaccine procurement, lending terms for the RRC are established to manage the impact of these additional resources on ADB’s financial capacity. In addition, the total financing for a DMC under the RRC should not exceed the RRC country ceiling.

8. Based on the provisions of the APVAX paper, ADB applies the following principles when supporting DMCs to procure COVID-19 vaccines that meet the APVAX eligibility criteria.

(i) The RRC is the default option for financing COVID-19 vaccine procurement, up to the RRC country ceiling, except in the limited circumstances described in para. 8(iii). The RRC financing amount shall be capped at the RRC country ceiling (para. 36 of the APVAX paper).

(ii) ADB may provide APVAX financing support, including for procurement of COVID-19 vaccines, in an amount exceeding the RRC country ceiling. While APVAX makes available additional allocations to meet DMC demand, APVAX

---

\(^3\) A total of $110 million in concessional ordinary capital resources lending, and $80 million in Asian Development Fund (ADF) country ceilings also remain unutilized. Under the policy paper, concessional assistance ceilings were required to be financed from each DMC’s regular resource allocation and are not eligible for reallocation.
support beyond the RRC country ceiling may be financed from regular resource allocations or from savings and cancellations (paras. 47–49 of the APVAX paper). The PIC can provide financing support for the procurement of COVID-19 vaccines (Appendix 4, para. 4, and footnote 42 of the APVAX paper) and APVAX support above the RRC country ceiling can be mobilized from regular resource allocations or from savings and cancellations (paras. 36, 47–48 of the APVAX paper), except in the conditions described in para. 9(ii) of this paper. When DMCs elect to procure COVID-19 vaccines through the PIC, the vaccine eligibility criteria and any other requirements will remain the same as under the RRC (Appendix 4, footnote 2 of the APVAX paper).

(iii) Financing the purchase of COVID-19 vaccines using the PIC instead of first using the RRC up to RRC country ceilings may be considered under specific and limited circumstances. These include where ADB’s procurement and project implementation support are deemed to offer benefits; in-country capacity is constrained; or safeguards, procurement, and financial due diligence assessments identify high risks for financing under the RRC component (Appendix 4, paras. 4–5 of the APVAX paper).

(iv) The country context determines the appropriate burden sharing arrangement. To ensure equitable allocation of the additional resources provided under APVAX, ADB applied a population-based formula, with additional weight for groups A and B DMCs (para. 40 of the APVAX paper). However, these burden share amounts were intended to establish individual DMC’s RRC country ceilings for APVAX’s additional headroom (para. 41 of the APVAX paper). Given the diverse needs across DMCs, the APVAX paper states that ADB financing for an individual DMC’s APVAX operation should follow appropriate cost-sharing arrangements for that DMC (para. 41 of the APVAX paper). When determining the appropriate burden sharing arrangement for individual DMCs, ADB should consider the full range of health-sector strengthening support required to enhance vaccine access (including logistics, infrastructure, capacity development, and other support), rather than considering only vaccine procurement.

II. PROPOSED CLARIFICATIONS AND AMENDMENTS

9. The following clarifications are proposed to enhance the implementation of all future and existing ADB projects:

(i) The specific and limited circumstances under which DMCs can procure COVID-19 vaccines through the PIC, before exceeding their RRC country ceiling, shall be any of the following. To ensure equitable treatment across DMCs in accessing their RRC headroom, any financing for RRC-eligible items through the PIC will be counted as part of the RRC country ceiling:

(a) where projects are financed by grants from the Asian Development Fund (ADF), and where it is difficult to separate some portion of COVID-19 vaccine procurement from other costs that are not an eligible expenditure under the RRC;
(b) where projects are ADF grant-financed, and where safeguards, procurement, financial due diligence, and financial management capacity
assessments identify high risks for the advance-financing mechanisms envisaged under the RRC; and

(c) where the procurement of vaccines represents a small amount and a small share of total project expenditures, and the other project expenditures are not eligible expenditures under the RRC, or where a change in scope is applied to reprogram funds from an existing project for a small amount of vaccine procurement.4

(ii) Requests for additional vaccine financing exceeding a DMC’s RRC country ceiling, but not exceeding $300 million, or not more than 100% of a DMC’s RRC country ceiling (the lower of either amount cumulatively) will be accommodated using regular country resources based on the terms and conditions of the PIC, in line with the APVAX policy. Where individual DMC requests for vaccine procurement cumulatively exceed the RRC country ceiling by more than the aforementioned amount, to manage the impact on ADB’s CUR, ADB may supplement regular resources with a portion of unutilized CPRO headroom to support APVAX operations and other COVID-19 response needs.5 Individual requests for vaccine procurement financing from this additional headroom will follow the lending terms and conditions applied to the original CPRO instrument, which shall be applied to the full amount of the financing request (Appendix 1 provides a table of updated loan terms and pricing for APVAX).6 ADB Management shall retain the ability to flexibly allocate this reserve headroom based on specific country circumstances including demand, availability of alternative financing options, and the impact of the pandemic.7 To promote fair allocation of this reserve headroom across individual DMCs, reserve funds from the unallocated CPRO headroom will be made available using a staggered approach, with not more than $1 billion available in calendar year 2021.8 The amounts of allocation for subsequent years will be determined as part of the annual Work Program and Budget Framework. In any period, priority access for these reserves will be provided to DMCs that did not use reserves in the preceding period.9

(iii) The proposals for APVAX operations, which include support for procuring COVID-19 vaccines and other RRC-eligible items beyond the DMCs’ RRC country ceiling, shall include all of the following:

---

4 “Small share” is defined as not exceeding 20% of total project expenditures or reprogramming of not more than 20% of an existing project. A “small amount” is defined as $30 million. The lower of these two amounts will be applied.

5 A paper on the Review of ADB’s Comprehensive Response to the COVID-19 Pandemic will be circulated to the Board of Directors before July 2021. The review will present a final amount of unutilized CPRO headroom, which is currently estimated at $2.5 billion in regular OCR resources.

6 In cases where a request for vaccine financing exceeds the thresholds described in para. 9(ii), the total amount of that request will be funded from unutilized CPRO headroom and subject to CPRO lending terms and conditions. Regular country resources will not be impacted.

7 In line with ADB’s Comprehensive Response to the COVID-19 Pandemic policy, priority shall be placed on group B DMCs, small island developing states, and fragile and conflict-affected situations.

8 Unutilized reserves from the current year will be rolled over to the following year.

9 Both group B and group C DMCs are eligible for unutilized regular OCR CPRO headroom and will be subject to the respective CPRO terms and conditions for each country classification. If a DMC exceeds their RRC country ceilings for vaccine procurement, additional amounts shall continue to be financed from regular country allocations, up to a maximum of 100% of their original RRC country ceiling. ADB will pay close attention to the utilization of ADF resources for vaccine procurement. A review of utilization of regular country allocations and Expanded Disaster and Pandemic Response Facility (DRF+) resources will be conducted to support ADB 13 Midterm Review consultations.
(a) an up-to-date assessment of ADB’s risk bearing capacity with an accompanying confirmation that the operation will not substantially affect ADB’s CUR, paying due consideration to the quick-disbursing nature of vaccine procurement. In cases where the cumulative financing amount for vaccines exceeding the DMC’s RRC country ceiling is greater than $300 million, the analysis should include specific information on the impact of the operation on ADB’s CUR;

(b) confirmation from ADB Management that the amount exceeding the DMC’s RRC country ceiling may be financed from that DMC’s regular resource allocations without requiring significant reprogramming of planned projects and/or programs. In making this assessment, emphasis should be placed on prioritizing available resources for operations that will help DMCs achieve a green, resilient, and inclusive recovery and support the attainment of Strategy 2030 targets; and

(c) a clear assessment and justification of ADB’s burden share with other development partners and the DMC government.

10. The following amendments are proposed to enhance the implementation of all future and existing ADB projects:

(i) Para. 27 of the APVAX paper shall be amended as follows, to clarify that the PIC can be used to support the procurement of COVID-19 vaccines meeting the APVAX eligibility criteria:

“27. Project investment component. The project investment component (PIC) will support investments in systems for the successful distribution, delivery, and administration of vaccines along with associated investments in building capacity, community outreach, and surveillance. The PIC makes use of streamlined project preparation procedures while drawing on due diligence specific to vaccination support needs. The PIC may support physical infrastructure and civil works for vaccine delivery, including cold chain storage and transportation, vehicles, distribution, delivery infrastructure, processing facilities, and other physical investments. The PIC may also be used to support the expansion or establishment of manufacturing capacity for COVID-19 vaccines and other vaccines. In addition, DMCs may use the PIC for institutional or capacity strengthening activities, particularly where a medium-term investment is required. These may include providing training and capacity support for health workers, enhancing public communications and outreach to support vaccine programs, and developing surveillance systems to monitor and track implementation progress. While the RRC is the default component for COVID-19 vaccine procurement, the PIC may also be used to procure COVID-19 vaccines meeting the APVAX vaccine eligibility criteria and other RRC-eligible items, subject to the conditions set out in para. 9 of the Second Amendment to ADB’s Support to Enhance COVID-19 Vaccine Access. The PIC is structured as a standalone investment project. Due diligence requirements, including enhanced procurement support for the PIC, are discussed in Appendix 1.”

10 The Board of Directors should be provided a full explanation at an early stage of project processing, typically during an Informal Board Seminar.

(ii) Para. 42 of the APVAX paper shall be amended as follows, to clarify that APVAX can support the financing of COVID-19 vaccine procurement beyond RRC country ceilings:

"42. To ensure an equitable allocation of the $9.0 billion in resources made available through APVAX, ADB will establish minimum and maximum country limits for vaccine support amounts to be allocated to DMCs as the RRC country ceilings defined in para. 36."

(iii) Para. 53 of the APVAX paper shall be amended as follows, to clarify the use of unutilized headroom under RRC country ceilings. The policy states that where any amount of the additional headroom made available under APVAX is not used by an individual DMC, these unused amounts may be reallocated to provide additional headroom for PIC investments under the APVAX or to expand other COVID-19 response projects and programs. In such cases, should the additional headroom be used for vaccine procurement, the RRC should be the primary financing component:

"53. If any amount of the additional headroom made available under the APVAX is not used by an individual DMC, the unused amounts may be made available and, when necessary, reallocated to provide additional headroom for PIC investments under the APVAX or to expand other COVID-19 response projects and programs. Reallocations will be limited to 50% of the original country ceiling of the DMC under APVAX. Initial priority for reallocations will be given to DMCs with APVAX country ceilings that would be capped by the funding source maximum amounts established in Table 1. Concessional assistance countries, FCAS countries, and SIDS will also be prioritized, depending on eligible funding sources (Table 1)."

III. RECOMMENDATION

11. The President recommends that the Board approve the proposed amendments to the Asia Pacific Vaccine Access Facility, as described in para. 10 in this paper.
**UPDATED LOAN TENOR AND PRICING UNDER THE RAPID RESPONSE COMPONENT AND THE PROJECT INVESTMENT COMPONENT**

<table>
<thead>
<tr>
<th>Financing Source&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Modality</th>
<th>Grace Period</th>
<th>Term</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROCR (Group C)&lt;sup&gt;b&lt;/sup&gt;</strong></td>
<td>RRC/CPRO&lt;sup&gt;c&lt;/sup&gt; up to $500 million</td>
<td>3 years</td>
<td>10 years</td>
<td>LIBOR+50 bps contractual spread +surcharge or rebate</td>
</tr>
<tr>
<td></td>
<td>RRC/CPRO&lt;sup&gt;c&lt;/sup&gt; above $500 million</td>
<td>3 years</td>
<td>5 years</td>
<td>LIBOR+50 bps contractual spread +surcharge or rebate</td>
</tr>
<tr>
<td>PIC&lt;sup&gt;d&lt;/sup&gt;</td>
<td>Variable</td>
<td>Variable</td>
<td>LIBOR+50 bps contractual spread +surcharge or rebate</td>
<td></td>
</tr>
<tr>
<td><strong>ROCR (Group B)</strong></td>
<td>RRC/CPRO&lt;sup&gt;c&lt;/sup&gt;</td>
<td>3 years</td>
<td>15 years</td>
<td>LIBOR+50 bps contractual spread +surcharge/rebate</td>
</tr>
<tr>
<td>PIC&lt;sup&gt;d&lt;/sup&gt;</td>
<td>Variable</td>
<td>Variable</td>
<td>LIBOR+50 bps contractual spread +surcharge or rebate</td>
<td></td>
</tr>
<tr>
<td><strong>COL (Group B)&lt;sup&gt;e&lt;/sup&gt;</strong></td>
<td>RRC</td>
<td>5 years</td>
<td>25 years</td>
<td>2%</td>
</tr>
<tr>
<td>PIC&lt;sup&gt;d&lt;/sup&gt;</td>
<td>5 years</td>
<td>25 years</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td><strong>COL (Group A)</strong></td>
<td>RRC</td>
<td>8 years</td>
<td>24 years</td>
<td>1% during grace period; 1.5% after</td>
</tr>
<tr>
<td>PIC&lt;sup&gt;d&lt;/sup&gt;</td>
<td>8 years</td>
<td>32 years</td>
<td>1% during grace period; 1.5% after</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**
- **bps** = basis points, **COL** = concessional ordinary capital resources lending, **COVID-19** = coronavirus disease, **CPRO** = COVID-19 Pandemic Response Option, **LIBOR** = London interbank offered rate, **OCR** = ordinary capital resources, **PIC** = project investment component, **ROCR** = regular OCR, **RRC** = rapid response component.
- <sup>a</sup> Under the PIC modality, developing member countries may avail themselves of all regular pricing terms and conditions of ROCR-financed project lending. From 2021 onward, differentiated pricing approved under the Asian Development Bank’s Diversification of Financing Terms for ROCR sovereign lending operations under Strategy 2030 will be applicable.
- <sup>b</sup> Terms and conditions are equivalent to those for group C countries under the CPRO.
- <sup>c</sup> Terms and conditions will apply to the cumulative amount of both RRC and unused CPRO headroom financing. For vaccine financing above country ceilings but within amounts that can be financed from regular country resources, relevant PIC terms will apply.
- <sup>d</sup> Regular project investment terms and conditions apply.
- <sup>e</sup> Group B developing member countries would retain the option to utilize ROCR instead of COL, or a blend, if preferred.