

CHAIR'S SUMMARY
Asian Development Fund X First Donors' Meeting
Sydney, Australia, 13–14 September 2007

1. Asian Development Fund (ADF) deputies, representatives from ADF borrowing countries, Asian Development Bank (ADB) Management and staff, observers from other international development institutions and ADB board members met in Sydney, Australia on 13-14 September 2007 to discuss the ninth ADF replenishment (ADF X). The Hon. Chris Pearce M.P., Parliamentary Secretary to the Treasurer, Australia, welcomed participants. He noted that ADF contributions need to be justified to taxpayers and it is therefore appropriate that the three themes of ADF X relate to development effectiveness. He also said that institutional reform was essential. In his opening remarks, ADB President Kuroda highlighted the urgency for ADF countries to intensify poverty reduction efforts and urged donor support for an enlarged ADF.

2. Participants emphasized the importance of the fundamental link between the ADF X negotiations and the long term strategic framework (LTSF) review process. They recognized the difference in scope and timeframe of the two and the importance of ADB Board's guidance on the LTSF. Many noted the opportunity to ensure that ADB becomes a more flexible, responsive and focused organisation so as to be able to respond to the diverse challenges it faces. In his closing remarks, the President assured participants of consistency between the ADF and LTSF processes and clarified the envisaged timelines for these processes, noting that it is hoped that final Board approval will be possible by March 2008. In addition, the President emphasized that ADB will continue its institutional reform agenda, including improvement of human resources (HR) management.

3. Donors stressed that development effectiveness of ADF remained the central theme for the replenishment negotiations. Many acknowledged improvements in effectiveness. They welcomed the presentation about specific results on the ground delivered through ADF operations. Several participants, however, urged ADB to provide clearer evidence of improved development and institutional effectiveness. Many participants said that a reinvigoration of the reform agenda initiated under ADF IX was critical. They urged a more focused and outcome oriented implementation of the managing for development results agenda within ADB and improvements in HR management, staff performance assessments and adequate incentives to achieving results on the ground. Many donors repeated their suggestion made at the ADF IX mid-term review meeting in Frankfurt that the proposed staff engagement survey should be implemented at an earlier time than currently planned and that an external review of the HR management should be commissioned. Some donors expressed the view that the way that ADB manages its human resources should be increasingly professionalised and said that further institutional reforms in this area would be desirable. In his closing remarks, President Kuroda expressed his support for the survey and explained that ADB's decision to conduct the survey in early 2008 was to be able to complete the staff performance assessment process for 2007. He also indicated that HR issues would be discussed with shareholders in the context of LTSF review. While noting progress, many participants called for continued improvements in partnership commitments under the Paris Declaration on Aid Effectiveness. Many donors also emphasized that gender issues need continuing close attention within the ADF program.

4. In a discussion about the proposed role and priorities of ADF X, participants underlined the importance of poverty reduction as an overarching objective for ADF as well as for ADB. They supported the emphasis on accelerating inclusive and environmentally sustainable growth. Most participants agreed with the need for sharper selectivity in ADF operations so as to

contribute effectively to poverty reduction and endorsed the proposed sector focus on infrastructure—including rural and social infrastructure—and education. Some deputies noted that ADF priorities will need to be aligned with LTSF priorities given that the priority to be accorded to education in the LTSF approach is not yet clear. Other participants suggested that a shift of both resources and portfolio balances towards these priorities will be necessary and argued for a phase-out of sectors in which ADB does not have a comparative advantage. Activities in these other sectors, it was suggested, should be left to other development partners. In this context, delegates called on ADB to strengthen its cooperation with other development partners and to pace up the implementation of the Paris Declaration. Several participants, however, urged ADB to maintain flexibility in sector coverage to be able to respond to wide-ranging country needs so as to avoid becoming a niche player. Some requested further information on how ADB envisages either partnering with other institutions in sectors in which it plans to lessen its engagement or identifying other donors in the sectors in which it plans to phase out its activities. They noted that sector prioritization should also take into consideration assessments of ADB's strengths and weaknesses vis-à-vis other institutions at the country level. Many called for an explicit focus on climate change and its integration into infrastructure operations, particularly in energy, while others emphasized ADB must remember to focus on the poverty reduction mandate when engaging in global public goods activities. Mention was made by some deputies of references to different concepts such as strategic priorities, priority themes, priority sectors, core sectors, etc. in different documents, e.g., some sections of the recent Eminent Persons Group report, ADB's background note for LTSF consultations, and the papers prepared for this ADF X meeting. It was proposed that these need to be rationalized. Several participants stressed that private sector operations and ADF operations need to be coordinated to respond to countries' investment needs. Some participants asked for discussions on ADB's approach to weakly-performing countries (WPC) and said that they looked forward to a new paper on WPC policy implementation at the second ADF X meeting where further opportunities for discussion will be scheduled.

5. In reviewing ADF's long-term financing capacity and the current ADB liquidity situation, participants noted that there would be a significant increase in the amount of internal resources available for commitment authority as a result of the newly proposed framework. Some donors noted that in view of the comfortable level of internal resources, clear justification for any suggested significant levels of donor contributions would need to be provided. Many welcomed the proposed liquidity review, including the \$1.5 billion liquidity added to reflows during ADF X. It was noted by some donors that \$2.3 billion of available liquidity had been identified and that more funds should therefore be released to add to reflows under ADF X. Some participants observed that ADB has the capacity to fund HIPC debt relief and the grant framework through the use of internal resources while others expressed concern about transferring the cost of debt relief to other developing countries through the use of OCR funding. Some donors wished to see alternative scenarios for replenishment levels as well as more detailed projections on financial implications of grants, including how and to what extent the new hard-term financing facility will compensate for the foregone fees and charges resulting from the grant scheme and graduation, before deciding on their positions. In addition, several donors called for a discussion on possible financing scenarios for debt relief. ADB will present scenarios at the second ADF X meeting. Some donors noted the difference in lending terms since 1998 between IDA and ADF and raised the issue of whether the difference in terms should be reviewed.

6. Donor participants agreed to the ADB proposal for the exchange rates for use in determining currency equivalents of the contributions to ADF X. Pledges made in national currencies will be converted to standard drawing rights using the 6-month average of the

International Monetary Fund's daily exchange rates from 1 October 2007 to 31 March 2008. This is the same approach adopted for the ADF VIII and ADF IX replenishments.

7. In reviewing ADB's revised performance-based allocation (PBA) policy, most donors agreed that the formula and procedures are broadly appropriate to maximize ADF's total contribution towards alleviating poverty. A few participants suggested reviewing the weight given to governance but the majority of participants supported retaining the current formula. To address the declining ADF shares of the poorest countries, most participants supported the concept of caps on the shares of the largest blend countries without weakening incentives, and sought options for and more analysis of the proposal prior to making any decision on the proposal. One DMC participant argued against a cap on performance-based ADF allocation shares for the largest blend countries pointing to the small overall size of ADF, and the existence of set-asides in the use of funds. A few donors suggested considering earmarking shares for 'ADF only' countries. Donors supported proposals to review the portfolio performance measure and requested further analysis on this. Donors also supported aligning the phase-out period for post-conflict countries with that of IDA. Regarding the proposal to increase the share of ADF earmarked for the subregional pool, many participants supported the allocation of resources for regional cooperation so as to operationalize ADB's regional mandate while requesting further analysis on the effectiveness of past projects financed from this pool. A few donors wanted to know what is the total amount of resources that ADB now allocates to regional cooperation activities, and one donor cautioned that they would not like to see the share of PBA in ADF being eroded because of various set asides. A session on subregional cooperation programs will be scheduled for the second ADF X meeting. ADB staff will prepare detailed refinement proposals on PBA for consideration in the third ADF X meeting.

8. The meeting included a panel discussion with representatives from Pacific ADF borrowers. Ministers from Palau and Tonga and officials from Papua New Guinea, Samoa, and Solomon Islands made presentations on their countries' situations and the role of ADF.

9. Donors provided preliminary views on the draft outline of the ADF X Donors' Report. Some participants stressed that development effectiveness and institutional reforms be given more prominence. Others suggested that the Report begin with a review of the implementation of ADF IX commitments and a statement of development achievements during the ADF IX period. It was noted that the draft outline was only a preliminary document and would in no way limit discussions of the Donors' Report later in the ADF negotiations.

10. The Government of the Lao People's Democratic Republic has offered to host the second replenishment discussion in Vientiane. The meeting is scheduled for 26–28 November 2007. ADB indicated that the third meeting will be in Manila in March 2008.