

CHAIR'S SUMMARY
Asian Development Fund X Second Donors' Meeting
Vientiane, Lao People's Democratic Republic
26–27 November 2007

1. Asian Development Fund (ADF) deputies, representatives from ADF recipient countries, Asian Development Bank (ADB) Management and staff, observers from other international development institutions and ADB board members met in Vientiane, Lao People's Democratic Republic (PDR) on 26–27 November 2007 for the second discussion of the ADF X replenishment. H.E. Bouasone Bouphavanh, Prime Minister of Lao PDR, welcomed the participants. H.E. Somdy Douangdy, Minister of Finance of Lao PDR, briefed participants on ADF activities in Lao PDR. In his opening remarks, ADB President Kuroda highlighted the large demand for ADF X assistance and sought donor support. He reiterated the importance of ADB's institutional effectiveness and announced specific actions to strengthen human resource management.

2. In the discussion of the demand for ADF X, most participants supported the strategic priorities and sector focus, while stressing that ADF X priorities should be consistent with the priorities expected from the review of ADB's long-term strategic framework (LTSF). Emphasizing the need for selectivity, many questioned the planned level of assistance for agriculture. They encouraged ADB to cooperate with other institutions in providing support to the sector. Many donors asked about ADB's capacity to deliver the proposed level of assistance. Continued post-conflict support to Afghanistan was widely supported. A number of donors also called for a needs analysis to determine the appropriate level of ADF transfer to the technical assistance special fund and an update on the fund's operations. Many participants encouraged ADB to be active in climate change-related interventions, especially related to adaptation. They requested that a progress report on ADB's involvement in climate change be prepared for the ADF X midterm review. Separately, a special presentation was made reporting on the disaster in Bangladesh following cyclone Sidr in mid-November. Donors noted the need for ADB to support reconstruction following such disasters in the region.

3. ADB's Operations Evaluation Department (OED) presented the preliminary findings of its evaluation of ADF VIII and ADF IX. Many donors stressed the fundamental requirement for ADB to have an independent evaluation function and urged ADB to strengthen OED's independence. They also called for a better results-based monitoring framework for ADF X, as part of a streamlined performance monitoring system for the whole institution. Most participants supported OED recommendations to avoid goal congestion, sharpen sector focus, and improve donor harmonization. However, they expressed serious concerns about the suggested expansion of ADF country coverage and questioned the need for an extensive review of the performance-based allocation (PBA) system at this time. Donors emphasized the importance of the issue of governance indicators in the PBA system while keeping a balance with needs indicators, and the need to maintain the principle of performance-linked assistance that is embedded in PBA.

4. Presentations were made on ADB's regional cooperation activities and programs in the Greater Mekong Subregion and Central Asian Regional Economic Cooperation. The session included presentations by officials from the Kyrgyz Republic and Thailand. Many donors supported a proposed increase in the share of the ADF subregional pool and some called for a further increase to meet the financing gap and to maintain ADB's leading edge amongst the multilateral development banks. Most felt further justification of the increase and clarification on proposed operations was necessary. Some donors also cautioned against any reduction of the

PBA share in the total replenishment on account of earmarked allocation for the regional cooperation pool. The need for countries to demonstrate ownership of projects through contributing a required share of project cost was stressed. ADB will provide follow-up analysis of the development effectiveness of regional cooperation projects and further justification for an expanded regional cooperation program.

5. Participants discussed ADB's approach to weakly performing countries. Some would have liked to have seen stronger links between the paper and the Board-endorsed approach to weakly performing countries. Many participants welcomed collaboration with the World Bank in the Pacific and suggested partnering with the United Nations and the European Union. Many participants emphasized the need to enhance ADB's staff expertise and incentives in order to address the needs of weakly performing countries. While many agreed that increased technical assistance and capacity building is required, reception to the idea of a specific trust fund was mixed. Many donors called for a more detailed review of the implementation of the approach during the ADF X midterm review, based on performance indicators to measure progress. Some suggested that the term "weakly performing countries" should be revisited, and that the choice of the term should be harmonized with the other multilateral development banks.

6. In considering ADB's reform agenda, participants noted that ADB has changed in a tangible manner. In this context, participants welcomed the specific human resource actions mentioned in the President's opening remarks, and expect that some actions will have been taken before the third replenishment meeting. Several stressed the importance of using external experts and having close Board involvement in the review of the human resource strategy. Some participants felt that much still remains to be done and urged ADB to define further actions in the context of the new LTSF's implementation plan. In discussing responsiveness, many participants noted the importance of further streamlining of business processes, continued strengthening of resident missions, and decentralization of decision-making. Several donors emphasized the need for the ADF X results framework to clearly set out the next phase of implementation of reforms. A paper discussing further actions to consolidate ongoing reforms will be prepared for the third replenishment meeting.

7. In discussing financing for ADF X, most donors noted that it was too early to commit to a specific size for the ADF X replenishment. Many donors felt that further elaboration of the demand analysis and development impact are necessary to justify a large increase from ADF IX. Many donors questioned whether more excess ADF liquidity could be released during ADF X and asked about the size of the proposed OCR net income transfers. One donor expressed the view that OCR net income transfers should be discussed at the Board as an annual exercise and should not be part of the ADF replenishment exercise. While many donors felt the magnitude of lost reflows from debt relief and grants was small enough in ADF X for explicit earmarking to be unnecessary, several participants felt earmarking should be done as a matter of principle to set a firm precedent. Most donors reconfirmed that the forgone principal repayments resulting from a shift to grants can be financed on a pay-as-you-go basis to be discussed in future replenishments.

8. Donors reviewed the revised draft outline of the ADF X Donors' Report. Many reminded ADB to include a results framework in the Donors' Report. ADB will prepare an annotated outline for circulation in December 2007, followed by a first draft in January 2008. A second draft incorporating comments from donors will be prepared for discussion in the third replenishment meeting.

9. ADB will host the third ADF X replenishment meeting in Manila, Philippines. The meeting is tentatively scheduled in March 2008.