

Chair's Summary of Meeting of the Board of Directors

3 October 2007

Review of the Financial Framework of the Asian Development Fund

1. The Board of Directors discussed the Review of the Financial Framework of the Asian Development Fund (ADF) and generally supported the proposals of the W-paper.
2. Many directors endorsed the holistic risk management approach through total ADF liquidity. They also supported the liquidity tranching approach for a more efficient investment and monitoring capability of ADF liquid assets. Many directors welcomed the potential increase in the commitment authority under the proposed framework, and requested regular monitoring of and updates on ADF's liquidity positions. Some directors commented that the review should have taken place earlier while others were pleased with the timing of the review in connection with the ADF replenishment.
3. Many directors sought clarification on the method of determining the prudential minimum liquidity. They requested staff to provide a scenario analysis to assess the level of prudential minimum liquidity, and to ensure the financial prudence of the framework. A few directors requested further analysis of the magnitude of shortfall in commitment authority due to exchange rate fluctuations during the last quarter of a replenishment period, and suggested putting a cap on such resource transfer.
4. Several directors inquired about the impact of grants and heavily indebted poor countries' initiative under the proposed framework, and emphasized the importance of the financial integrity of ADF. A few directors raised the issue of a possible alignment of ADF loan terms with those of the International Development Association. Several directors pointed out the narrowing spread of ADF loan income over administration cost.
5. A few directors urged the staff to explore the possibility of increasing the amount of net income transfer from the ordinary capital resources to ADF, while several others expressed reservations on the suggestion in terms of its necessity and justification. Some directors also called upon more innovative thinking in managing ADF resources, fundraising, and improving operational efficiency. They believed the demand for ADF resources would remain high, particularly in achieving the Millennium Development Goals for the ADF recipient countries by 2015. Some directors called for a demand analysis on ADF resources by ADB and more support for ADF X by major donors.
6. Staff responded to the major issues raised by the directors and agreed to incorporate these views in the R-paper as appropriate.