



## Chair's Summary of Meeting of the Board of Directors

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26 September 2007

### R-Paper on Revising the Framework for Asian Development Fund Grants

1. The Board discussed and approved the proposed revision of the grant framework, linking ADF grant eligibility to a country's debt status and aligning the ADF grant framework with that of the International Development Association (IDA) 14. One Director, while supporting the revision, was critical of the paper's focus on alignment with IDA. Developing member countries have recommended allowing grant-eligible countries the option to take loans instead of grants to avoid the volume discount and allowing grant access to blend countries for exogenous shocks, postconflict needs, and specific global public goods initiatives. One Director abstained.
2. Most Directors supported limiting grant eligibility to countries that only have access to ADF funds, although a few Directors would have preferred also allowing access to vulnerable countries, particularly small island nations.
3. A few Directors noted that the issue of financing forgone reflows from grants is still not clear, since this was not resolved in the first ADF X replenishment meeting that was recently held in Sydney. They emphasized the importance of the issue and urged Management to discuss this in the second ADF X replenishment meeting. Some Directors emphasized the need for additional contributions from donors.
4. Most Directors supported directing the full 20% volume discount to a new hard-term ADF window in order to maximize the recovery of the foregone interest from grants. However, one Director stated that the R-paper had not made a sufficiently strong case to justify deviating from the IDA approach. Some directors enquired about the proportion of foregone interest reflows on account of grants that would be recovered through the hard-term window. A few Directors expressed concern about adverse impacts of the volume discount on ADB's assistance to poor and vulnerable countries.
5. Most Directors inquired about the developments on ADB's participation in the preparation of the debt sustainability analyses that are currently prepared by IMF and World Bank. Some Directors stressed the need for ADB to have sufficient staff capacity to support the debt sustainability analysis.
6. Most Directors supported ADB following IDA's approach in dealing with grant-recipient countries that accumulate nonconcessional debt.