

ADF VIII MIDTERM REVIEW

CHAIRPERSON'S SUMMARY OF DISCUSSIONS

1. Donor members, Management and senior staff of the Asian Development Bank (ADB) met in Washington, D.C. on 14-15 April 2003 to undertake a Midterm Review of the Seventh Replenishment of the Asian Development Fund (i.e., ADF VIII). The objective of the meeting was to take stock of the ADB's progress made in implementing the recommendations set out by Donors in the ADF VIII Donors Report (November 2000).
2. Donors noted that in some important areas the ADB has performed well in implementing the ADF VIII program. They noted that the ADB is making concerted efforts to implement operations that reflect the priority interests of Donors in ADF VIII. However, Donors also concluded that, broadly, performance under the earlier ADF VI and VII programs, as well as ADF VIII to date, demonstrates that there are a number of significant challenges facing the ADB. They observed that these challenges need to be addressed on a priority basis in order for the ADB to achieve greater development effectiveness and to warrant continued Donor support. In this regard, Donors emphasized that ADB operations should be derived from the national poverty reduction strategies of borrowing countries, that there should be greater selectivity in ADF operations, and that higher priority should be given to supporting development programs for gender, the environment, water, and the role of the private sector.
3. Donors emphasized that the ADB should evolve into a results-based organization. Donors noted that ADB needs to make greater progress on improving its internal governance. Stronger emphasis should be given to transparency in decision-making, accountability, and clear and meaningful delegation of responsibilities and authority. Donors proposed that ADB's Operations Evaluation Department (OED) be made independent.
4. Donors considered the initial results of the implementation of ADB's Poverty Reduction Strategy in ADF borrowers. While recognizing that some important progress has been made, Donors suggested that in implementing its Poverty Reduction Strategy the ADB could work in partnership more effectively both with other multilateral and bilateral agencies as well as with governments in borrowing countries. Donors suggested that ADB should re-examine the purpose of Poverty Partnership Agreements in the context of Poverty Reduction Strategy Papers (PRSPs) and Country Strategy and Program. Donors emphasized that PRSPs are the key documents for planning ADB's assistance in poor countries. They asked that a comprehensive review of the implementation of the Poverty

Reduction Strategy be prepared with the aim of having the review available during the early stage of negotiations on a further replenishment of ADF.

5. Donors noted that the ADF facility has considerable potential to achieve results in the poor developing member countries (DMCs) drawing upon ADB's comparative advantages. In this context, they mentioned areas such as governance, regional cooperation, and working with smaller economies. Donors also noted that the ADB has a demonstrated effective capacity to be responsive to priority needs in poor DMCs emerging from crisis. They pointed to recent ADB activities in Afghanistan as an example of this capacity. Donors also noted ADB's significant support for improved governance in ADF borrowers. In this regard, Donors urged that greater priority be given to country governance assessments, and that these and other diagnostics be reflected more systematically in country strategies.
6. Donors noted the progress made on implementing performance-based allocation (PBA) of ADF resources. They agreed that there are some areas which need improvement including more systematic performance-based allocation going forward. Donors emphasized that it is important for the ADB to define an approach for engaging and assisting poor performers. Donors suggested that ADB establish a separate unit to oversee and ensure the integrity of PBA and to make recommendations to Management on ADF allocations. Donors looked forward to receiving the results of an early review of the implementation of PBA policy.
7. Donors noted that ADB has taken important initiatives to strengthen Resident Missions. Where it has done so, ADB is demonstrating improved partnerships both with DMC governments and with other multilateral and bilateral agencies and is achieving better development effectiveness. Donors recommended that the ADB should continue to plan for strengthening Resident Missions while taking into account the budgetary implications.
8. Donors noted that the current planned level of demand for ADF VIII resources may exceed total ADF VIII resource availability. In this regard, Donors requested that all contributors to ADF VIII should make best efforts to ensure that any outstanding Instruments of Contributions and installment payments are made available as soon as possible. Donors also noted that this was important for maintaining broad multilateral support for ADF. Donors expressed appreciation for Spain's additional contribution to ADF VIII. Donors expressed concern about the practice of carrying over conditionally approved loans and urged ADB to exercise greater control over planned levels of ADF operations. Donors look forward to the provision of a paper to the Board on OCR net-income transfers to ADF VIII, and noted that OCR net-income transfers reflect regional solidarity between higher-income DMCs and lower-income ADF borrowers. Donors suggested that the ADB examine means to improve currency risk management of ADF resources. Donors proposed that ADB prepare a report on the operation of the Expanded Advance Commitment Authority (EACA) scheme.
9. Donors requested that ADB Management consider carefully the understandings reached among Donors at the ADF VIII Midterm Review.