

**ASIAN DEVELOPMENT FUND (ADF)  
ADF IX DONORS' MEETING  
Copenhagen, 9-10 October 2003**

**EXCHANGE RATES FOR USE IN THE  
EIGHTH REPLENISHMENT OF ADF**

**Asian Development Bank  
September 2003**

## ABBREVIATIONS

|     |   |                             |
|-----|---|-----------------------------|
| ADF | — | Asian Development Fund      |
| IMF | — | International Monetary Fund |
| SDR | — | Special Drawing Rights      |

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## I. INTRODUCTION

1. Most donors make their pledges for ADF replenishments in their national currencies. In order to make such pledges, they must know the required amounts in their national currencies. Thus, donors have agreed on a standard set of exchange rates to translate their national currency contributions into US dollars and/or SDRs in each replenishment. Table 1 shows the evolution of donor decision making during each ADF replenishment discussion.

**Table 1**  
**Evolution of Exchange Rate Determination**

| Replenishment | Negotiation Period   | Replenishment Period | Time of Decision on Exchange Rates | Exchange Rates Used      |
|---------------|----------------------|----------------------|------------------------------------|--------------------------|
| ADF I         | Sept 1972 – Oct 1973 | 1973 – 1975          | Oct 1973                           | Nov 1973                 |
| ADF II        | Apr 1975 – Sept 1975 | 1976 – 1978          | Sept 1975                          | 1 July – 30 Sept 1975    |
| ADF III       | Apr 1977 – Apr 1978  | 1979 – 1982          | Apr 1978                           | 1 Jan 1978               |
| ADF IV        | July 1981 – Apr 1982 | 1983 – 1986          | Apr 1982                           | 1 Jan – 31 Mar 1982      |
| ADF V         | Oct 1985 – Apr 1986  | 1987 – 1990          | Apr 1986                           | 1 Jan – 31 Mar 1986      |
| ADF VI        | May 1990 – Dec 1991  | 1992 – 1995          | Apr 1991                           | 1 Jan – 31 Mar 1991      |
| ADF VII       | Nov 1995 – Jan 1997  | 1997 - 2000          | Sept 1996                          | 1 Jan – 31 Mar 1996      |
| ADF VIII      | Oct 1999 – Sept 2000 | 2001 - 2004          | 14 Oct 1999                        | 1 Oct 1999 – 31 Mar 2000 |

2. There has been variation in the determination of exchange rates across various replenishment periods. Discussions of exchange rate determination have normally taken place toward the end of the replenishment discussion. The one exception was during the ADF VI negotiations, when donors decided on the exchange rate nine months before completing negotiations; however, in that case exchange rates were known in advance, with those rates being more favorable to some donors than to others. In ADF I and ADF III, exchange rates for a certain date were adopted; in other cases, average daily exchange rates over a quarter were used. The quarterly average method mitigated the effects of short-term currency fluctuations. In ADF IV, V, VI, and VII, the agreed exchange rates were average daily International Monetary Fund (IMF) exchange rates during the first quarter of the calendar year in which the replenishment was negotiated. During ADF VIII, a six-month average daily IMF exchange rate was used.

3. The complexity and possible pitfalls of the exchange rate issue are well illustrated in the case of ADF VII. Negotiations began in November 1995 and ended in January 1997. In September 1996, donors adopted the average daily IMF exchange rates for 1 January-31 March 1996 as the reference period. By September 1996, however, some currencies had appreciated considerably vis-à-vis the US dollar, while others had depreciated. At donor meetings in Copenhagen in October 1996, some donors wanted to reopen the issue given that ADF VII negotiations had extended well beyond the originally anticipated timeframe; they argued that more recent exchange rates should be used. This led to a difficult and contentious debate regarding the exchange rate issue.

4. Choosing the most appropriate and equitable exchange rate is essential to the success of ADF replenishments. During ADF IV through VII, donors agreed to use the average exchange rate during the first quarter of the relevant year. This led to disagreements related to the fact that some donors would gain if more recent exchange rates had been used. During ADF VIII the donors agreed to use the average exchange rate for six months ending 31 March 2000. This longer period allowed monthly fluctuations to be smoothed out. Nevertheless, in order to avoid later disagreements as exchange rates shift over time, it is recommended that donors agree on principles for setting exchange rates early in the replenishment cycle.

## **II. PRINCIPLES FOR ESTABLISHING ADF IX EXCHANGE RATES**

5. Based on lessons learned from past ADF negotiations, as well as on principles established in other multilateral replenishment negotiations,<sup>1</sup> exchange rate decisions should be transparent and simple. The following broad principles should guide the process of determining exchange rates for the ADF IX replenishment.

- (i) No donor should have any a priori advantage over any other donor. Decisions about exchange rates made at the start of negotiations would contribute to this principle.
- (ii) The exchange rates should be as current as possible in order to maximize the association between resources committed by donors and resources available to borrowing countries when the replenishment becomes effective.
- (iii) Donors should know in advance the amount of local currency required to meet their pledges.
- (iv) Average exchange rates should be used to minimize the impact of short-term currency fluctuations.

## **III. REQUEST FOR DONOR GUIDANCE**

6. These principles would be satisfied if delegates to the ADF IX meeting in Copenhagen on 9-10 October 2003 can agree on the appropriate future period over which exchange rates should be averaged. Given that ADF IX negotiations are expected to be completed by mid-2004, the relevant exchange rates should be established by 1 April 2004. Donors are requested to recommend that a six-month average of daily IMF exchange rates vis-à-vis the SDR be adopted, and that those dates be 1 October 2003 – 31 March 2004.

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<sup>1</sup> Particularly the experiences of the International Development Association (IDA) 12 and 13.