

Chair's Summary of Meeting of the Board Directors

25 August 2005

Policies on:

- Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach
- Pilot Financing Instruments and Modalities
- Introducing the Local Currency Loan Product

1. The Board approved the three proposals. In regard to the policy on Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing, one Director abstained. This Chair also voted against the policies on Pilot Financing Instruments and Modalities and on Introducing the Local Currency Loan Product.

2. Directors attached special importance to the linkage between the initiatives and ADB's strategic framework. Management was requested to expedite work on a new medium-term strategy for ADB. Directors highlighted the outcomes projected in the results frameworks accompanying the proposals and asked for an independent review before the pilot financing instruments are mainstreamed in ADB's operations. They also pointed out the need for capacity building in developing member countries, a review of resource implications, and effective reporting arrangements.

3. On cost sharing, Directors highlighted the need for (i) objective and transparent parameters determining country cost sharing ceilings, (ii) fiduciary oversight linked to the new eligible expenditure items, and (iii) an exit strategy for recurrent cost financing. Directors urged ADB to take a cautious approach to financing land acquisition.

4. Directors supported the multitranche financing facility and asked Management to closely oversee each tranche. The refinancing facility was supported, but Directors suggested tight eligibility criteria, including the need for (i) reforms, and (ii) adherence to the general strategic framework and prevailing ADB operating policies and procedures. The concept of subsovereign finance was generally supported, including the eligibility of state-owned enterprises (SOEs), although several Directors noted that loans should be provided to SOEs only in support of a comprehensive reform and/or privatization program. The syndication and risk sharing proposal was supported, although Directors expect this concept to be further refined in the context of a forthcoming strategy on cofinancing operations.



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5. With regard to the local currency loan product, Directors urged ADB not to crowd out other financial institutions and to avoid negative cost of carry.

6. Directors suggested that Management strengthen the skills mix by encouraging all members of the ADB team to work closely together, especially in relation to reforms and transaction structuring and risk mitigation. The Country Strategy and Program should be the framework for all operations. Directors favored a review of the current commitment fee structure.