

CHAIR'S SUMMARY
First Asian Development Fund XI Replenishment Meeting
ADB Headquarters, Manila, 8–9 September 2011

1. Asian Development Fund (ADF) deputies, representatives from ADF recipient countries, Asian Development Bank (ADB) Management and staff, observers from other international development institutions and ADB's Board of Directors met in Manila, Philippines, on 8–9 September 2011 to begin negotiations on the tenth replenishment of the ADF (ADF XI). In his opening remarks, ADB President Kuroda highlighted the urgent need for ADF countries to intensify their efforts to achieve the Millennium Development Goals (MDG) and urged donors' continued support and generous contributions to ADF XI, as this will be the last replenishment before the MDG target date of 2015.

2. Deputies were encouraged by the good **performance of ADF** to date, as confirmed by ADB's Development Effectiveness Review report (DEfR), external assessments of ADB and feedback from ADF recipient countries. In particular, participants appreciated ADB's efforts on reforms and results achieved to date. Nevertheless, they stressed the continuous need to strengthen ADF effectiveness and consolidate results achieved. In particular, they were concerned by the recent shortcomings in terms of project outcomes highlighted in the 2010 DEfR and urged ADB to further analyze the gaps between outputs and outcomes. ADB indicated that an action plan for improving project outcomes would be finalized soon and shared with donors. Deputies noted that they look forward to the upcoming study on the effectiveness of ADF operations by ADB's Independent Evaluation Department (IED), which will be discussed during the second ADF XI replenishment meeting.

3. Participants recognized the **huge challenges in ADF countries** and the **continued need for ADF support**. Several deputies requested for a clearer link between the continued needs of ADF countries, demand for ADF resources during ADF XI, and clear targets on what ADF will seek to achieve. These points will be revisited in subsequent replenishment meetings. One deputy stressed the need to develop a longer term strategic vision for the ADF, reflecting Asia's rapid economic growth and adapting the fund structure to the economic and financial realities of today.

4. Deputies endorsed the **proposed priorities for ADF XI**, which are aligned with Strategy 2020, with special considerations given to gender, fragile and conflict affected situations (FCAS), and food security. They stressed the importance for ADF to remain well focused to maximize development impact. A few deputies suggested that ADF should perhaps be even more focused than ADB as a whole. One deputy requested more focus within ADF's sector engagement. Many deputies requested more details on how ADB is going to operationalize and measure its contribution to **inclusive growth**. ADB agreed to prepare a paper on this topic for the next replenishment meeting. Several deputies highlighted the importance of gender. This issue will also be discussed during the next replenishment meeting. One deputy stressed the importance of clearly articulating what is expected to be delivered in terms of improved results through a greater gender focus.

5. Several deputies highlighted the importance of **climate change** in the ADF context. They supported the general directions presented by ADB and further highlighted the importance of: (i) catalyzing private sector investment, (ii) mainstreaming climate change into all aspects of ADF operations, (iii) strengthening adaptive capacity at the country level, and (iv) closely coordinating with other sources of climate change financing. A few deputies highlighted the

importance of clean energy. One deputy suggested that ambitious targets for climate change adaptation and mitigation be included in the revised ADF results framework.

6. Many deputies emphasized the important role that ADF can play in **promoting private sector development and investment in ADF countries** and encouraged ADB to do more in this area. They requested opportunities to further discuss this issue at the next meeting. Several deputies highlighted the importance of **capacity development and governance** (including transparency and accountability) in the ADF context to ensure quality and sustainability of operations. Technical assistance (TA) resources are important in this context. The topic of TA is scheduled for discussion during the next replenishment meeting.

7. Participants supported ADB's comprehensive and integrated approach for **food security**. However, some deputies suggested that the link between food security and gender be further emphasized. A few deputies highlighted the important role that the private sector can play in this field. One deputy encouraged ADB to get involved in the cofinancing of private sector agricultural investment as part of its non sovereign operations, with a focus on ADF countries. Several deputies expressed the view that, in contributing to food security, ADB should remain focused on areas where it has a clear comparative advantage and seek to further strengthen partnerships with other development partners who have more expertise in this area (i.e., Food and Agriculture Organization and International Fund for Agricultural Development). One deputy urged ADB to do more to foster agricultural productivity and make agricultural development an integral part of ADB's inclusive growth strategy.

8. Deputies reconfirmed their support for ADB's approach to **FCAS**, including increased emphasis on political economy, strengthened field presence, and more flexible and innovative approaches to better adjust to specific country context. Sustaining long term engagement and capacity development are critical in these difficult contexts. Some deputies noted that the lessons learned from FCAS could also be applied in other recipient countries, in particular the importance of well resourced and empowered country offices and the use of conflict sensitivity analysis in countries that are not classified as FCAS but have elements of conflict in them.

9. Most deputies expressed skepticism about the need for a **Crisis Response Facility** but remained open to further debate on the issue. It was agreed that ADB would submit a new paper on the matter during the next replenishment meeting. Deputies requested that the paper clarify: (i) constraints to be addressed (i.e., specific impediments with current instruments that need to be overcome), (ii) views of ADF recipient countries, (iii) ADF's expertise and mandate for crisis response, and (iv) specific areas where ADF and such a facility can make a difference vis-à-vis existing mechanisms of other institutions. Deputies asked ADB to differentiate economic crises from natural disasters. Many deputies felt that a facility focused exclusively on natural disasters would be easier to justify, as other institutions like the International Monetary Fund (IMF) may be better placed to deal with economic crises. One deputy suggested that ADB further explore the diversification of its toolkit to enhance its countercyclical response capacity.

10. With respect to the **reference exchange rate to be used for ADF XI**, participants agreed to extend the reference period slightly, from 1 September 2011 to 10 January 2012.

11. Given the difficult **ADF financial situation**, increased efforts will be needed by everyone (i.e., ADB, regional and non-regional donors, and even recipient countries through the various enhancement options proposed) to maximize resources available for ADF XI. Several non-regional deputies expressed the expectation that regional donors significantly increase their share, as a sign of solidarity towards their ADF neighbors. Some highlighted the importance of

proposing realistic financing scenarios. A few expressed the view that the scenarios presented might be too optimistic. Others were of the view that we should not be too pessimistic too soon and donors should seek to stretch themselves given the demonstrated, and in some cases, growing needs. A few participants requested more explanations on the assumptions underlying the various scenarios proposed. Participants also emphasized the importance of further increasing the efficiency and operational effectiveness of ADF to maximize impact and results on the ground.

12. A few donors expressed disappointment that ordinary capital resources (OCR) net income transfers were not increased as part of the **options to enhance financial resources** and asked that this be explored further. Staff explained constraints on expanding OCR net income transfers. Others encouraged ADB to explore more innovative options, including for example private sector contributions and increased cofinancing.

13. Most deputies supported ADB's proposal to **exercise the acceleration clause for eligible ADF graduates**. However, they emphasized the importance of carefully analyzing the potential impact of such measures on the concerned countries before making a final decision on this issue. ADB should consult closely with those countries in the process.

14. Most deputies supported ADB's proposal to **harden loan terms to blend borrowers**, in line with the International Development Association's terms. Several deputies suggested that ADB should review its loan prices more broadly, including a possible increase in OCR loan terms. Similar to the issue of accelerated repayments, ADB should carefully analyze the potential impact of such a measure on recipient countries before making a final decision. Blend countries should also be consulted in the process.

15. The majority of deputies did not support a move away from the debt sustainability framework and the abolishment of grants altogether. However, several deputies supported the view that **grants** could be better targeted, within the multilaterally agreed debt sustainability framework. A few deputies noted that the IMF is planning to undertake a review of the debt sustainability framework soon.

16. Most deputies supported ADB's proposal to **discontinue the pro-rata system** under ADF XI, since it does not serve its intended purpose. One deputy cautioned about possible legal impediments to removing such a system in his country, this being a prerequisite for replenishment contributions. Several deputies requested ADB to explore alternative options to more meaningfully encourage donors with arrears to deliver on their commitments and to report on those during the next meeting. A few donors suggested temporary suspension of procurement eligibility. One deputy explicitly conditioned its support to the introduction of alternative measures. Another deputy cautioned about possible adverse reactions from implementation of such measures.

17. Overall, deputies expressed general satisfaction with the implementation of the Performance Based Allocation (PBA) system. Participants supported ADB's proposals to: (i) maintain the **Pacific set aside** at 4.5% of total PBA resources, (ii) continue to earmark 10% of ADF resources for the **Regional Cooperation and Integration set aside**, and (iii) bring forward the end of the **post-conflict phase-out for Timor-Leste** from 2014 to 2012.

18. Given the important role that ADB plays in **Afghanistan**, most deputies supported the more generous among the two options presented (i.e., Option 2 or resuming the post-conflict phase out in 2013 and extending it by 2 years until 2018), while some favored Option 1 (i.e.,

resuming the phase-out in 2013 and completing it by 2016). A few deputies expressed concerns about the country's absorptive capacity, uncertainty about long-term development outcomes, and the potential opportunity costs for other ADF countries. One deputy suggested waiting for the Bonn meeting in December, where the direction and level of support from the international community will be discussed, before making a final decision. Participants stressed the importance of flexibility, given the very volatile situation in the country, and to closely coordinate with other development partners. Staff highlighted the risk of underfunded mandate resulting from flexibility. One deputy suggested considering the creation of a separate fund for Afghanistan. Another deputy cautioned against the fragmentation of ADF for specific purposes, and strongly urged ADB to maintain an integrated package. Deputies proposed to revisit the issue in subsequent replenishment meetings, together with ADF XI's overall financial envelope.

19. The Government of Bangladesh has offered to host the **second replenishment meeting** in Dhaka. The meeting is scheduled for 5–6 December 2011, which conflicts with the 17th United Nations Convention on Climate Change to be held in Durban, South Africa, from 28 November to 9 December 2011 and the International Conference of Foreign Ministers on Afghanistan to be held in Bonn, Germany, on 5 December 2011. ADB Management consulted with ADF deputies on the possibility of changing the date of the second ADF XI meeting. It was agreed that the date will be maintained to 5–6 December 2011 for now.

20. The **list of topics/papers to be prepared for the second ADF XI meeting** includes: (i) gender, (ii) IED evaluations on ADF operations and Managing for Development Results, (iii) progress on institutional reforms (including issues related to transparency and accountability and directions for future reforms), (iv) procurement liberalization, (v) Technical Assistance Special Fund, (vi) demand for ADF XI financing, (vii) ADF XI financing framework, (viii) first draft of ADF XI donors' report, (ix) inclusive growth, (x) role of ADF in promoting private sector development, and (xi) follow-up on the Crisis Response Facility. One deputy requested for a preliminary results framework to be provided during the second replenishment meeting.