

CHAIR'S SUMMARY
Third Asian Development Fund XI Replenishment Meeting
Manila, Philippines
7–9 March 2012

1. Asian Development Fund (ADF) donors, representatives from selected ADF recipient countries, Asian Development Bank (ADB) management and staff, observers from other international development institutions and the ADB Board met in ADB Headquarters on 7–9 March 2012 for the third meeting of the ADF XI replenishment. In his opening remarks, the ADB President highlighted the need to maximize the resources for ADF countries in these difficult times. He assured donors that ADB would continue to pursue high levels of efficiency and effectiveness in ADB's assistance including ADF operations.

2. Donors noted that the ADB has made substantial progress on mainstreaming **reforms** in the ADB, however, it was agreed that further actions are needed. The region is changing continuously, and requires ADB to constantly adapt itself to remain relevant and responsive. Key reform areas highlighted by donors include: improving project performance; better measuring results; improving business processes; implementing safeguards policy; mobilizing private sector resources; transparency; cost consciousness; use of country systems; and gender balance in ADB staffing. In particular, to better monitor reforms, donors requested ADB to translate reform commitments into concrete steps and monitorable actions, monitor progress closely, and report progress regularly to them.

3. Donors expressed their strong appreciation for the leading role ADB continues to play in the area of results management through the **results framework** and the annual Development Effectiveness Review. Donors also appreciated the opportunity of providing online inputs to the review of the ADF results framework prior to the meeting. Various specific suggestions were made for indicators, as well as for strengthening the results chain to improve the output-outcome disconnect. Donors also encouraged ADB to harmonize its results framework with other development institutions where appropriate. ADB committed to continue consulting regularly and closely with ADF donors in further developing the results framework, completing the review within 2012 and adopting the new framework by January 2013.

4. Donors expressed their support for ADB's mainstreaming approach to **governance**, and welcomed ADB's commitment to better analyzing broader risks through political economy assessments. The importance of ensuring domestic accountability and financial transparency, and of cooperating closely with other organizations in identifying and mitigating risks was highlighted. Donors also emphasized the key role governance and effective institutions play in achieving inclusive growth. In view of the remaining governance agenda as identified by the independent evaluation of the ADF, donors recommended that sufficient ADF resources be allocated to addressing governance concerns. ADB agreed that while good results have been achieved, a more stretched approach is needed, supported by intensive policy dialogue. Donors welcomed the upcoming review of the Governance and Anticorruption Action Plan II approach in 2012.

5. Donors agreed on an extended postconflict phaseout period for **Afghanistan** that would resume the phaseout in 2013 and end it in 2018. ADB reiterated its commitment to paying particular attention to the sustainability of its operations. It was agreed that a progress report of development effectiveness of ADB operations in Afghanistan would be prepared for the ADF XI Midterm Review.

6. Donors agreed to reserve 3% of PBA resources to establish a **Disaster Response Facility** (DRF) on a pilot basis for the ADF XI period. It was also agreed that ADB would report its initial experience with the DRF at the ADF XI Midterm Review. The future of the DRF will be discussed during the ADF XII replenishment process. Donors also highlighted the need for a continued strong focus on disaster preparedness and disaster risk reduction.
7. Donors agreed to a partial **liberalization of procurement eligibility** through the introduction of a blanket waiver of member country procurement eligibility restrictions in cases of cofinancing for ADF-financed operations. While considering this as a first step, several donors expressed the desire for complete liberalization and suggested that ADB undertake a comprehensive review of its procurement policies and procedures.
8. On the issue of the **prorata provision**, donors agreed to maintain the status quo, and start discussions about possible replacement measures immediately after the ADF XI replenishment negotiation with the target adoption of a credible and viable alternative by ADF XII.
9. Donors adopted the updated standard **encashment** schedule and agreed to use the projected investment income from the accelerated note encashment program of ADF XI to pay for contribution arrears in past and current replenishments.
10. Concerns were raised with respect to **HIPC and grant compensation** and the potential financing gap that would occur in compensation for these items, as donors had committed in the past to compensate for these items. Some donors asked for clarification that the HIPC and grant compensation is an integral part of the current and future ADF contributions and the ADB would not ask for additional contributions. Management clarified that under the current replenishment, HIPC and grant compensation forms part of the individual donor contribution and that there are no additional contributions. Compensation for HIPC and grant is allocated from the individual donor contribution based on the donor's preference between ADF X burden shares or adjusted shares. If donors pledge a fixed amount without specifying a separate burden share for compensation, ADB applies the adjusted burden share for compensation items. For future replenishments, the burden share of HIPC and grant compensation and its structure related to individual donor contribution will be subject to discussion with donors at future replenishment negotiations.
11. Donors discussed the fourth draft of the **Donors' Report**, which was prepared reflecting comments received from donors and civil society on earlier drafts. Further comments were incorporated at the meeting and the fifth draft of the Donors' Report, including all appendices, was agreed upon. The draft **Resolution of the Board of Governors** was also agreed upon.
12. In view of the continued strong needs and demand for ADF XI resources in the region, donors agreed to adopt scenario 1 as the basis for **pledging**. While recognizing the rationale for scenario 1, some donors raised concerns about the increase in the financing gap, and the impact of the chosen scenario on the burden shares of certain donors (particularly those budgeting their contributions as a fixed amount), which may have a negative impact on future replenishments. Donors stressed the importance of ADB planning ADF XI operations on the basis of pledged contributions, excluding the structural gap. Several traditional donors called upon the regional emerging economies to take a larger financial burden share in financing ADF operations.

13. Donors also reconfirmed the need for developing a long-term strategic vision for the ADF, reflecting the political and economic changes of the past decades, and adapting the Fund's role, its mandate, and financing structure to the present realities. It was agreed that ADB, as a first step, would initiate immediately after the conclusion of the ADF XI replenishment negotiations a "scoping process" to identify the key issues to be covered.

14. While many donors pledged their contribution to ADF XI, several donors were unable to indicate their contribution during the meeting. In addition, ADB is still awaiting communication of the decisions from Indonesia and the Philippines with respect to their choice of the principal or interest option for accelerated repayment. Finally, there is also a possibility of some new donors joining the ADF. For these reasons, it was agreed to keep the replenishment process open until late April. ADB would regularly update the donors about the outcome of their discussions on these issues. Once clarity is reached on these issues, the replenishment process would be concluded and an announcement made.

15. Participants expressed their appreciation to the Chair for skillfully and effectively moderating the ADF XI replenishment negotiations, facilitating a conclusion in three rounds of negotiations and setting an example of cost-consciousness.