

CHAIR'S SUMMARY
Second Asian Development Fund XI Replenishment Meeting
Dhaka, Bangladesh
5–6 December 2011

1. Asian Development Fund (ADF) deputies, representatives from selected ADF recipient countries, Asian Development Bank (ADB) management and staff, observers from other international development institutions and ADB Board members met in Dhaka, Bangladesh, on 5–6 December 2011 for the second meeting of the ADF XI replenishment. Bangladesh Finance Minister and ADB Governor Abul Maal A. Muhith welcomed the participants and gave a presentation on ADF's role in Bangladesh. In his opening remarks, ADB President Kuroda highlighted the high demand for ADF XI assistance and sought continued support from the donors. He reiterated the importance of further strengthening the efficiency and effectiveness of ADF assistance and noted that further consolidation of the reform program would remain a top priority for ADB management over the ADF XI period. Closing remarks were given by Dr. Mashiur Rahman, Adviser for Economic Affairs to the Prime Minister of Bangladesh.

2. Deputies welcomed the **evaluations of ADF operations and managing for development results**, and the transparent and independent way in which the process has been conducted. A number of deputies noted that the ADB had undertaken substantial internal reforms, which had resulted in improved internal governance and a greater focus on results. However, as the evaluation study highlighted, a number of areas for improvement remain, including project sustainability and achievement of outcomes. One deputy suggested for the Independent Evaluation Department (IED) to compare and benchmark ADF with similar funds, such as the International Development Association.

3. ADB management committed to prepare a report for the next ADF XI replenishment meeting in March 2012, consolidating **reforms** that are being initiated and that are planned. It was also suggested that ADB include a set of monitorable actions in the donors' report, including institutional reforms and other commitments for action agreed in the replenishment negotiations. The importance of further strengthening the capacity and ability of resident missions to work effectively with governments and development partners was highlighted by several deputies. ADB management agreed to provide further details on progress in this regard as part of the reforms paper for the next replenishment meeting.

4. A number of deputies also expressed their preference for the discussion of the **ADF results framework** to be part of the replenishment negotiations process, but understood the time-intensive nature of the consultations to ensure ownership by ADF recipients and ADB staff. They acknowledged that this process had to be integrated with the review of the ADB-wide results framework, which is scheduled for 2012 as communicated to donors at the ADF X midterm review. ADB committed to providing a roadmap for the review process and to agreeing on those areas that require strengthened measurement, in the donors' report by the final replenishment meeting. ADB will also provide expected outputs for ADF projects reaching completion in 2013–2016 and initial indicative outputs for ADF projects to be approved during 2013–2016. A consultation process will be set up following this meeting that enables ADF donors to participate in the development of the ADF results framework. There was consensus that proliferation of indicators should be avoided. Some deputies recommended stronger harmonization on results frameworks between development institutions.

5. Deputies also acknowledged the challenges of working in ADF countries, and in particular the need to **enhance capacity** in these countries. In this context, a number of

deputies called for a strong replenishment of the Technical Assistance Special fund (TASF). One deputy suggested increasing the visibility of Country Performance Assessments and improving its indicators as a tool for identifying capacity gaps and helping ADF countries develop capacity.

6. Deputies stressed the importance of **inclusive growth and gender** in reducing poverty in ADF countries. A number of deputies emphasized the need to focus more on the quality and pattern of growth as well as on effectively operationalizing the inclusive growth strategy. A number of deputies also highlighted the role of good governance in contributing to inclusive growth. Some deputies asked ADB to prepare a short paper on governance for the next replenishment meeting. A few deputies also asked for programs and projects specifically targeted on women and girls.

7. Deputies welcomed the efforts made and results achieved by ADB in mainstreaming gender in its ADF operations. They appreciated ADB's commitment to review the robustness of existing gender indicators and include gender indicators at the output and outcome levels in the **results framework**, while a few deputies also asked for more ambitious gender targets and for gender-disaggregated data at the country level. Similarly, deputies requested that ADB include indicators in the results framework to measure ADF's contributions to inclusive growth. ADB committed to start working on suitable indicators and report back at the next replenishment meeting. A number of deputies also encouraged ADB to do more in the area of domestic revenue mobilization and reforming tax systems. A few deputies also indicated the importance of strengthening climate change indicators.

8. A number of deputies noted that the **demand for ADF XI** resources presented is reasonable in view of the many remaining challenges in ADF countries, the current operational program and ADB's capacity to deliver the program. A few deputies sought clarification on the concept of demand and confirmation that allocations may differ from demand, as the former are determined by the Performance Based Allocation mechanism. Deputies welcomed the greater focus of demand on the core sectors of Strategy 2020. However, several deputies expressed concern about the decline in projects focusing on governance and capacity development, in view of the needs in these areas in ADF countries. A number of deputies noted that infrastructure projects should be accompanied by capacity development and strengthening of regulatory frameworks, in partnerships with other development partners. One donor pointed to the need for an analysis of lowering dependency on concessional ADF funding, while another indicated that declining aid dependency can be observed across the region.

9. On **technical assistance**, deputies recognized the need for good quality technical assistance and a strong replenishment, and supported the replenishment proposal that the size of the TASF replenishment under ADF XI be 3% of the total size of ADF XI, with a few deputies also supporting a minimum size of at least the same as that under ADF X in real terms. A number of deputies suggested exploring alternative ways of dealing with scarce TASF resources such as offering technical assistance to OCR-only countries on a loan basis, and also suggested prioritizing TA resources for project preparation, in particular for regional infrastructure projects. A number of deputies suggested that ADB develop a strategy for TA. A few deputies sought clarification on the criteria for determining the choice of funding for TA between the core budget, TASF and other sources.

10. Deputies expressed broad support for the various financial **enhancement options**, including (i) seeking Board approval to exercise the accelerated repayment clause for outstanding loans to ADF graduates, except for the Cook Islands; (ii) hardening lending terms to

blend countries; and (iii) adjusting the prudential minimum liquidity to 81%. Several deputies, in addition, asked for an increase in OCR net income transfers to ADF to further increase internal resources, with a few deputies also suggesting an increase in OCR loan charges. Two deputies suggested exercising caution in adjusting the prudential minimum liquidity, but indicated readiness to join the consensus. Deputies also agreed to the adoption of the proposed tentative 9-year standard encashment schedule and the discount rate of 1.6% for the accelerated note encashment program. One deputy asked that a mechanism be set out to amend this program in the event that liquidity exceeded a maximum level. In addition, one deputy asked to look into options how ADF countries can be given improved access to OCR resources. Representative from an ADF recipient country raised concerns about increasing debt servicing burden due to hardening lending terms to blend countries.

11. There was broad consensus among deputies that **prorata rights** do not achieve their intended effect. However, views were mixed about alternative measures. Some deputies agreed to remove prorata rights without alternative measures, while other deputies felt that alternative measures had to be in place if prorata rights were to be eliminated. A few deputies supported procurement restriction as a practical alternative. The ADB clarified that of the three proposed measures, only procurement restrictions or a penalty could be put in place by January 2013. It further clarified that it would be extremely complex to operationalize procurement restrictions. One deputy referred to existing legal impediments in his country, putting the administration under a strict legal obligation to make use of the prorata provision in case of arrears. Further attempts to identify other alternatives, as well as further work on the existing alternatives were requested by a few deputies. A few deputies suggested that maintaining status quo should also be considered.

12. With respect to the range of **replenishment scenarios**, deputies recognized the need for continued support for ADF, as demonstrated by the demand. One deputy cautioned that Asia was not immune from the global economic crisis, and that a lower replenishment would send a negative signal and may undermine the sustainability of growth in ADF countries.

13. A number of deputies supported the different proposed scenarios 1–3, with some expressing readiness to contribute in line with the higher scenarios. However, other deputies indicated that under the proposed range of scenarios they would not be able to maintain their burden share, some of whom would be able to maintain their contributions from ADF X, while others would not be in a position to maintain their contributions from ADF X. Some underlined that the proposed scenarios were too ambitious since the lowest implied an increase in donor contributions by 13%. Other deputies were not yet ready to indicate their position. Some deputies indicated that the differentiation between the core ADF, compensation for grants, Afghanistan and HIPC relief was not material to their contributions or burden share and there was no consensus to adopt such an approach. A few deputies also noted that useable liquidity previously allocated to Afghanistan should not be assumed to be an add-on to the base. One deputy suggested that the burden share for compensation items be based on the shares prevailing at the time they were introduced.

14. It was noted that the **burden sharing** arrangement is an important tool for determining individual countries' contributions, but may not necessarily reflect the current economic situation. Some deputies stressed the importance of maintaining their burden share, while others expressed that flexibility in their burden share would be acceptable. Some indicated that they would pledge a fixed amount regardless of burden share. In view of Asia's rapid growth, several deputies called for emerging regional donors – existing donors as well as new ones – to make a significantly stronger contribution, which in turn would help them in making a stronger case in

their respective capitals. ADB management was encouraged to continue efforts to mobilize regional donors. Some deputies noted the importance of all donors – both regional and non-regional – playing their part to achieve a successful replenishment. In this context, one deputy highlighted the Cannes Summit Final Declaration, which called for a successful ADF replenishment.

15. It was agreed that ADB will prepare a **financial proposal** for ADF XI and consult with donors prior to the next replenishment meeting to work towards a proposal on which a consensus could be reached at the next meeting.

16. A few deputies stressed the need to develop a **longer 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 realities of today – and suggested to agree in the donors' report that discussion on this topic be continued beyond the ADF XI replenishment negotiations.

17. Deputies welcomed the clarifications on **Afghanistan** provided by ADB and the Afghanistan representative. Some deputies raised concerns about the sustainability of operations, and in particular operations and maintenance of infrastructure, which may be affected after 2014.

18. Deputies appreciated ADB's efforts in **developing the private sector** in ADF countries. One deputy highlighted the importance of financing private sector investments in agriculture. They supported ADB's proposal to conduct further due diligence on the use of ADF resources to issue partial risk and partial credit guarantees to catalyze private capital and other cofinancing resources. A number of deputies highlighted that due attention should be given to risk management considerations. One deputy requested for analysis of ADB's experience with guarantees using OCR resources.

19. On **disaster response** assistance no agreement was reached. Deputies appreciated the modifications made in the proposal responding to their suggestions. Several deputies recognized the need for a disaster response facility (DRF) and supported the proposal. They highlighted the vulnerability of ADF countries to natural disasters, and the limitations of the performance-based allocation (PBA) system in flexibly and expeditiously responding to disasters, as noted by IED's assessment. Some supporting deputies requested for a review of the experience with implementing the facility during the ADF XI midterm review. Several deputies expressed doubts but were prepared to go along with the proposal if there is a consensus. Concerns raised include the reduction of PBA resources for countries not accessing the facility, duplication with other development partners, moral hazard, and limited efficiency gains. A key consideration in adopting the DRF is the support expressed by the beneficiaries. In this respect, deputies requested that ADB consult again with ADF countries to ensure that they are fully knowledgeable about the proposed facility and the trade offs.

20. A number of deputies called for an increased focus on disaster risk reduction and innovative ways of disaster risk financing to reduce the impact of disasters. Some deputies requested ADB to report at the next replenishment meeting on ADB's capacity in terms of resources and lending instruments to respond to economic crises in ADF countries.

21. On the issue of **procurement liberalization**, among the different options presented, there was strongest preference for liberalization through removing restrictions from ADF regulations, followed by a preference for the continuation of case-by-case waivers. One deputy

preferred the use of blanket waivers. It was suggested that ADB would conduct further consultations and report back in the next replenishment meeting.

22. Deputies provided broad guidance on the first draft of the ADF **donors' report**. In terms of next steps, a second draft based on comments received and the outcomes of the second meeting would be circulated by 6 January 2012. Comments on the second draft would be requested by 20 January 2012. A revised third draft would be circulated by 16 February. Comments on the third draft submitted prior to the meeting will be incorporated to the extent possible. Consultation with civil society organizations would be conducted through posting of the draft donors' report on the ADB website and a related invitation to comment.

23. It was agreed that the **next meeting** would be held on 8–9 March 2012 (Thursday and Friday)¹ in ADB Headquarters in Manila. The **list of papers** to be prepared for the third meeting include: (i) a revised draft of the donors' report; (ii) an updated financing framework for ADF XI; (iii) the draft resolution of the Board of Governors; (iv) a paper on reforms; (v) a paper on governance; and (vi) a paper on ADB's capacity to respond to economic crises in ADF countries.

¹ The dates for the third meeting have been changed to 7–9 March 2012 (Wednesday to Friday) through subsequent consultation with donors. Thus, the third draft of the ADF XI Donors' Report and other papers would be circulated by 15 February.