

**ASIAN DEVELOPMENT FUND XI MIDTERM REVIEW**  
**12-13 November 2014      Manila, Philippines**

**Chair's Summary**

1. Asian Development Fund (ADF) deputies, representatives from ADF developing member 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 12-13 November 2014 for the midterm review of the 10<sup>th</sup> replenishment of the ADF.

2. In his opening remarks, ADB President Nakao highlighted the assistance ADB has been providing to ADF countries to address their development challenges, thanks to donors' generous contributions. This assistance has resulted in tangible results on the ground. He also highlighted the completion of the midterm review of ADB's Strategy 2020, and subsequent reforms to enhance ADB's efficiency and effectiveness. He thanked ADF donors for their broad support for the proposal to combine ADF lending operations with the OCR balance sheet, which will expand ADB's financial capacity to support poor countries.

**A. Overview of ADF XI at Midterm and Development Effectiveness of ADF**

3. Donors welcomed the performance of the ADF and the progress that has been made over the first two years of implementation of the ADF XI period. They appreciated the results that ADF operations are delivering in ADF countries. They also recognized the continued lead role the ADB has been playing in reporting on results. Donors welcomed the completion of the midterm review of Strategy 2020, and the reforms identified to make the ADB more effective and efficient. ADF DMCs expressed their appreciation for ADB's and ADF donors' continued support.

4. Broad concern was expressed over growing inequality and vulnerability in the region, and donors stressed the need for ADB to sustain efforts in further promoting inclusive growth. The progress in operations focusing on growth and creation of jobs and opportunities (pillar 1) was noted, while donors observed that more could be done for inclusive access to jobs and opportunities (pillar 2) and social protection (pillar 3). Several donors also inquired how ADB would ensure greater attention to inclusiveness in its infrastructure operations. ADB noted its commitment to strengthening operations in health, education, inclusive business and social protection.

5. Continued focus on environmentally sustainable growth by incorporating climate change adaptation, mitigation and resilience in its operations in ADF countries was also called for.

6. A number of donors highlighted the importance of regional economic integration. They supported ADB's approach of focusing on both soft and hard aspects of regional cooperation.

7. ADB's efforts to mainstream gender equity in its operations were welcomed. In addition to strengthening measurement of effectiveness of supporting gender equality, ADB was encouraged to continue focusing on gender outcomes and pay greater attention to projects with gender equality as a theme.

8. Donors appreciated the frank discussion on the challenging issue of governance. ADB stressed the importance of promoting anticorruption, as well as improving public sector management.

9. Attracting private capital is crucial for economic growth in the region, and ADB plays an important part in this. Clarification was sought on ADB's efforts in promoting private sector operations to achieve the target set for ADF countries. ADB highlighted its proposal to introduce a streamlined approach for small transactions. ADB also noted the establishment of the public-private partnership office to crowd in private investment.

10. Donors appreciated ADB's increased focus on supporting fragile and conflict affected situations, and increased allocations to the ADF-only countries. The introduction of a minimum allocation was commended. In the context of disaster risk management, assistance from the disaster response facility was considered crucial, including by ADF DMCs, while the importance of preparedness for natural disasters was also stressed.

11. Donors stressed the need to ensure the sustainability of ADB's infrastructure projects. The importance of further strengthening integration of crosscutting themes such as gender, climate change and safeguards in infrastructure operations was highlighted. ADB management was also asked to ensure that, and document the extent to which ADB-financed infrastructure projects contribute to inclusive growth and specifically benefit the poor.

12. In the area of internal reforms, efforts to speed up business processes were commended. Donors encouraged ADB to continue exploring measures to further improve operational efficiency and effectiveness.

13. ADB clarified its methodology to compute project success rates, which continue to improve. Also the performance of ADB's policy-based lending has been improving. The need to improve disbursement performance was stressed. Also cost and time overruns were noted as a recurring issue, as well as the need to focus on developing capacity to better implement projects. ADB clarified that it is focusing on improving project readiness and procurement practices to improve disbursement performance.

14. In the area of knowledge management, ADB highlighted the ongoing implementation of the knowledge management action plan, and the strengthening of sector and thematic groups.

## **B. Independent Evaluation Studies**

15. Donors welcomed the reports prepared by the Independent Evaluation Department. There was broad support for the recommendations made in the three studies presented. Some noted the importance of independent evaluation and interaction with ADB management as useful learning opportunities to improve performance.

16. With respect to the study on inclusive growth, the importance of making infrastructure operations more inclusive was reiterated. ADB highlighted the approach it has been taking to inclusive growth, and mentioned the improved monitoring mechanism that demonstrates a good balance of interventions between pillar 1 and pillar 2.

17. To promote good governance, policy dialogue at the country level, political economy analysis, institutional capacity building, control of corruption, and stronger engagement with civil society play an important role. ADB agreed to the need to improve success ratings of public sector management operations.

18. Donors noted the progress that ADB has made in implementing the safeguard policy statement. There was recognition that reaching for the highest standards may affect timely delivery, but it was also noted that ADB should continue to maintain the high standards it has set as part of delivering sustainable development outcomes, while concurrently seeking to improve efficiency. A number of donors encouraged ADB to continue working towards strengthening and working with country safeguards systems; as well as harmonizing safeguards policies with other multilateral institutions.

### **C. Enhancing ADB's Financial Capacity for Reducing Poverty in Asia and the Pacific**

19. Participants discussed the proposal to combine ADF lending operations with the OCR balance sheet. The purpose of the session was to respond to any further requests for clarification on the proposal. ADB presented the improvements made to address the key issues raised by the donors at the ADF donor consultation meeting in Astana, including (i) protecting assistance to ADF countries, (ii) preserving financial soundness, and (iii) avoiding a sudden, large drop in donor contributions. Donors recognized these improvements and also appreciated the reviews conducted by the various external experts.

20. Donors expressed broad support for the proposal. This was considered to be an innovative proposal to make more effective and efficient use of available financial resources to provide enhanced financial assistance to the poorest countries at a substantially reduced burden to donors. They appreciated the consultative and inclusive process followed in developing the proposal that involved all stakeholders and external reviewers. Some donors noted that the budget and human resource implications of the proposal on ADB would need to be carefully considered.

21. Two donors have already provided their consent. A number of donors expressed their readiness to provide consent to the proposal. There was broad recognition that the proposal should move forward based on the proposed timeframe.

22. In response to a number of questions for clarification on the scope of the proposal to be decided at this stage, as opposed to decisions to be taken at a later stage, ADB specified that the consent being sought from donors is limited to the termination of loan operations in the ADF window, the transfer of the loan and other assets of the ADF to the OCR balance sheet, and the amendments to the ADF Regulations. ADB further clarified that the issues related to the operational implementation of the proposal, options included in the paper to illustrate ways the ADF can be enhanced, as well as the draft outline of the concessional assistance policy would be discussed further at the next ADF replenishment negotiations within the overall framework of the proposal.

23. Several donors questioned whether alternative ways could be considered to further take into account their past ADF contributions, including whether those past contributions could be taken into account in the context of potential future ADB general capital increases. ADB Management described some of the legal, accounting, governance, and political challenges and explained why they were not workable in the context of the current proposal and consent process. However, ADB Management confirmed that with respect to a potential future general capital increase, such issues are not foreclosed from consideration by shareholders in the circumstances at that time. One donor also suggested that the valuation of donors' past contributions should continue to be adjusted after the transfer date to take account of the increasing valuation of ADB resulting from the transferred assets. ADB Management took note of the suggestion.

24. A number of donors sought assurance with respect to the governance arrangements and the continued influence of donors in the level and use of concessional assistance. Several donors expressed the view that the reform of the financing mechanism of ADB's grant and concessional lending operations needs to be complemented, in an adequately sequenced approach, by an alignment of the Bank's governance structure and business model to achieve the ultimate goal of a modernized Bank that efficiently serves the interests and needs of all its borrowing member countries. ADB clarified that the Board of Governors Resolution committed ADB to continue seeking consensus among donors on key issues related to concessional assistance, as well as the level and use of ADF grant and concessional OCR lending. Donors can ensure a continued focus on poverty reduction and the poorest countries through continued engagement with ADB on the level of concessional assistance, country eligibility, and key issues related to concessional assistance. A proposal was made on behalf of several donors to clarify these intentions in the Board of Governors' Resolution (attached). ADB took note of this proposal, will reflect on it and revert to the donors.

25. The question was raised if, in view of the shrinking volume of the ADF, the current level of ADB's capacity development technical assistance would be maintained and the recipients of concessional loans would be eligible for Technical Assistance Special Fund (TASF)-financed technical assistance. Management clarified that more detailed discussions on the TASF replenishment would take place during ADF XII discussions in view of the continued reliance on donor contributions as the primary funding source for technical assistance.

#### **D. Development Effectiveness of ADF Operations in Afghanistan**

26. Donors appreciated the results ADF assistance has been achieving in Afghanistan in a difficult environment. The importance of addressing gender, environmental sustainability and conflict sensitivity in operations was highlighted. ADB was also encouraged to consider a long-term perspective in the areas of operations and maintenance as well as capacity development. Donors also noted the important lessons from operating in Afghanistan that can be drawn for operating in other fragile and conflict-affected situations. The need to continue close collaboration with other development partners was also highlighted.

#### **E. ADF Operations in Myanmar**

27. Donors expressed their appreciation for the reengagement of ADB with Myanmar. They were pleased that ADB had built a strong collaboration and partnership with other development partners and civil society, and had taken a leadership role in various sector working groups. Donors pressed the ADB to continue close collaboration with other development partners in Myanmar. ADB's focus on adopting a conflict-sensitive approach was recognized. They also noted that ADB is in a unique position to promote regional connectivity and cooperation. It was noted that flexibility might be needed in future programming to address policy and institutional impediments to reform. A number of donors indicated that Myanmar warrants continued exceptional support going forward.

#### **F. Preparing for the ADF XII Replenishment**

28. ADB presented its initial thinking on the ADF XII replenishment discussions. Donors generally concurred with ADB's preliminary thinking. Referring to the ADF-OCR combination, several donors expressed the view that the forthcoming changes require a new approach to ADF replenishment and this needs to be reflected in the ADF12 replenishment negotiations.

More specifically, several donors urged ADB – given that donor contributions will significantly shrink, net income transfers gain in importance, and concessional lending operations become an integral part of the OCR operations – to explore further streamlining the replenishment process, and reduce the number of replenishment meetings to two. In addition, it was suggested – in order to reduce costs – that all meetings be held in Manila at the ADB HQ, although the benefits of holding meetings in ADF recipient countries were highlighted as well. Some indicated that the midterm review of Strategy 2020 already provided the broad strategic framework to guide concessional operations.

**RESOLUTIONS OF THE BOARD OF GOVERNORS OF THE ASIAN DEVELOPMENT BANK****ENHANCING ADB'S FINANCIAL CAPACITY FOR REDUCING POVERTY  
IN ASIA AND THE PACIFIC**

## WHEREAS:

- (A) The Asian Development Fund (ADF) was established in 1973 as a Special Fund of the Asian Development Bank (ADB) under the Agreement Establishing the Asian Development Bank (the Charter);
- (B) ADF was initially established to provide loans on concessional terms, and subsequently authorized to provide grants, to the least developed ADB member countries (ADF Countries);
- (C) The main source of funding for ADF's lending and grant operations has been contributions and replenishments made to ADB by ADF contributors, which funds have been owned and managed by ADB through ADF;
- (D) In a proposal paper dated September 2014, entitled *Enhancing ADB's Financial Capacity for Reducing Poverty in Asia and the Pacific* (the Proposal Paper), ADB has proposed to terminate ADF's lending operations and to combine ADF's lending operations with ADB's ordinary capital resources (OCR), effective on or about January 1, 2017 (the Proposal);
- (E) The purposes of the Proposal, as described in the Proposal Paper, are to enhance ADB's ability to continue to [reduce poverty in, and](#) to support ADF Countries, to manage more efficiently and effectively ADB's resources, including ADF contributors' contributions, and to strengthen OCR lending and ADB's risk-bearing capacities, [all in the context of the unique setting and circumstances of ADB and ADF](#);
- (F) Accordingly, the ADF contributors have consented (i) to the termination of the loan operations of ADF, and to continue the operations of ADF as grant operations only; (ii) to the transfer of the loan and certain other assets of ADF to OCR; and (iii) to the making by the Board of Directors of appropriate amendments to the Regulations of the Asian Development Fund dated 18 March 2013 (the ADF Regulations) to facilitate the foregoing and provide for the conduct of ADF as a grant-only operation on and after the Effective Date (as defined below);
- (G) The ADF contributors have provided the aforesaid consent on the statements in the Proposal Paper to the effect that:
  - (i) ADB will continue to lend on concessional terms to the developing member countries that are currently eligible for concessional loans from ADF in accordance with eligibility criteria, the terms and conditions, and allocation principles currently in effect; and for any amendment thereto, ADB shall seek consensus of the ADF contributors prior to the consideration and approval by the Board of Directors; and
  - (ii) ADB will continue to consult with the ADF contributors at the time of replenishments of ADF, in the middle of a replenishment period, and annually around the time of the annual meetings of ADB, as such consultations are described in the Proposal Paper [and as below](#);
- (H) The Board of Directors has submitted to the Board of Governors a report on the Proposal, and recommended that the Board of Governors approve the following:
  - (i) the termination of the loan operations of the ADF, and the continuation of the operations of ADF as grant operations only;
  - (ii) the transfer of the loan and certain other assets of ADF to OCR;

- (iii) the amendment of Resolutions Nos. 62, 67, 68, 92, 121, 154, 182, 214, 247, 276, 300, 333, and 357 to reflect the terms of the Proposal;
- (iv) the arrangements relating to the establishment and operation of concessional lending operations within the ordinary operations of ADB; and
- (v) the principles to be applied in the event of the contributor's withdrawal from ADB, or the termination of ADB's operations, as described herein and in the Proposal Paper.

NOW, THEREFORE, the Board of Governors

HEREBY RESOLVES AS FOLLOWS:

1. The report of the Board of Directors is hereby accepted, and ADB is hereby authorized to terminate the loan operations of ADF, effective on 1 January 2017 or such other date as ADB may determine (the Effective Date), and to continue the operations of ADF as grant operations only as from the Effective Date. ADB is further authorized to transfer the loan assets of ADF, resources originally set-aside from OCR and other ADF assets as may be determined by the Board of Directors, to OCR on the Effective Date. The corresponding income recognized in OCR shall be allocated to ordinary reserves after the Board of Governors approves the 2017 financial statements and the net income allocation in 2018.

2. Paragraph 5(a) of Resolution No. 62, as amended by Resolution Nos. 329 and 341, is hereby amended to read as follows:

“5.(a) Resources of the Fund shall be used for financing grants for projects of high developmental priority. The criteria to be applied in making such grants shall be as determined by the Board of Directors, in conformity with the purpose of the Fund.”

3. Resolutions Nos. 67, 68, 92, 121, 154, 182, 214, 247, 276, 300, 333, and 357 are hereby amended to authorize the use of the contributions provided under these resolutions for the purposes of ADF solely for making grants, to the extent such contributions are not transferred to OCR as part of the Proposal.

4. Following the Effective Date, ADB shall:

(a) consistent with the purpose [of helping to reduce poverty in ADF countries](#) for which the contributions were previously made by ADF contributors, continue to apply the general principles governing the provision of concessional assistance by ADB, as agreed with the ADF contributors in previous ADF replenishments, including the country eligibility criteria for grants and concessional loans, the terms and conditions for concessional loans, and the allocation principles, in each case, except where ADB has sought consensus of the contributors and approval of the Board of Directors for an amendment of these principles;

(b) [provide—maintain in real terms, taking into account possible graduations from concessional assistance, and leaving open the possibility of increasing.](#) loans on concessional terms from ADB's ordinary operations using the transferred assets as described in the Proposal Paper, and, in furtherance thereof, formulate a new policy on concessional assistance from ADB, along with the necessary amendments to the performance-based allocation policy, graduation policy, and the liquidity, currency management and other financial and accounting policies, in each case, as determined by the Board of Directors and thereafter amended from time to time with the approval of the Board of Directors;

(c) propose for the consideration and approval of the Board of Governors annually an allocation of an appropriate part of ADB's net income for transfer to ADF, after making appropriate provision for reserves and surplus;

(d) at the time of each ADF replenishment discussion, engage in consultations with ADF contributors on key issues relating to ADB's concessional assistance, including [policy priorities](#), and after taking into account all appropriate considerations, the level of projected ADF grant operations and the level of projected concessional lending from ADB's ordinary operations for the ensuing 4-year period, and thereafter record the outcome of the consultations with ADF contributors in a donors' report to be submitted by ADB to the Board of Directors (i) in the case of ADF grant operations, for its approval for incorporation in its report to the Board of Governors on the ADF replenishment, and (ii) in the case of concessional lending from ADB's ordinary operations, for its consideration and approval on the level of concessional lending; and

(e) engage in consultations with ADF contributors at ADF mid-term reviews and at annual meetings with ADF contributors, regarding the progress of the implementation of ADB's concessional assistance activities under ADF and its ordinary operations, and on such other [policy priorities](#) matters as may be appropriate in the circumstances.

5. ADB shall apply the following principles in the event of a withdrawal of an ADF contributor as a member of ADB pursuant to Article 41 of the Charter or in the event of the termination of the operations of ADB pursuant to Article 45 of the Charter, as described in paragraphs [ ] to [ ] of the Proposal Paper, respectively:

- (a) the value of the relevant portion of the paid-in contributions by an ADF contributor will be determined principally in accordance with Article 5(c) of the ADF Regulations, and applied for the purposes of computing the proportionate interest of each ADF contributor at the time of the transfer of assets on the Effective Date;
- (b) in the event of the withdrawal of an ADF contributor as a member of ADB pursuant to Article 41 of the Charter, the repurchase price of the shares of such ADF contributor in ADB shall be the value shown by the books of ADB on the date the member ceases to be a member, which value will take into account the proportionate interest of the ADF contributor in the transferred assets as of the Effective Date; conversely, in the event of the withdrawal of a member of ADB that is not an ADF contributor as of the Effective Date, the repurchase price of the shares of such member shall be the value shown by the books of ADB on the date the member ceases to be a member, which value will not take into account any part of the transferred assets; and
- (c) in the event of the termination of the operations of ADB pursuant to Article 45 of the Charter, and following the discharge of, or provision for, all liabilities of ADB as contemplated therein, the distribution of assets to the members of ADB in the proportion to the capital stock held by each member shall, solely in the case an ADF contributor, take into account the proportionate interest of each ADF contributor in the transferred assets.