

**3rd ADF IX DONORS' MEETING  
9-11 March 2004, Lisbon, Portugal**

**CHAIRPERSON'S SUMMARY OF DISCUSSIONS**

1. Representatives from thirty one members of the Asian Development Bank (ADB) met in Lisbon during the period 9 to 11 March 2004 for further discussions on the eighth replenishment of the Asian Development Fund (ADF IX).<sup>1</sup> Delegations came from ADF donor countries, and included delegations from four ADF borrowing countries. President Chino, three Vice Presidents and members of ADB's Board of Directors also attended the meeting. Participants also met representatives of Civil Society Organizations (CSOs). This note summarizes the main understandings reached at the meeting.
2. Representatives expressed their gratitude and appreciation to Portugal for graciously hosting the meeting and for the excellent arrangements.
3. Representatives agreed with ADB's revised Action Plan to better manage for development results, and generally endorsed the direction of that Plan. In doing so, however, representatives emphasized the importance of a number of vital issues, namely increasing country ownership through improved alignment of ADB's operations to national poverty reduction strategies; strengthened capacity for results management; the central importance of the NPRS/PRSP process; the need for resident missions with sufficient staff and authority (together with its cost implications); the compelling need to link the Bank's new Human Resources Strategy (under preparation), including staff incentives, with the results management framework; and the role of sound performance indicators. A number of representatives stressed the importance of harmonizing ADB's indicators up to those of other multilateral development institutions. There was a strong sentiment that the Bank must now move deliberately to time-bound implementation of the Action Plan.
4. Representatives welcomed the report on the review of ADB's Poverty Reduction Strategy (PRS). There was broad support for the proposals contained in the paper. Among many comments made, representatives requested that ADB clearly recognize gender and environment as cross-cutting priorities, ensure that the 40% target be replaced by a credible system for monitoring poverty reduction, clarify the role of capacity development as a thematic priority and to better explain the complex relationships among the three pillars of the PRS framework (namely, sustainable economic growth, social development and good governance), and their relationship to the five thematic priorities. Representatives requested that the revised policy reflect these views, including a time-bound action plan for implementation.
5. Representatives engaged in a full discussion of the proposed enhancements to the Performance-Based Allocation (PBA) at ADB. Representatives focused specifically on aspects of implementation, such as the establishment of an appropriate PBA focal point in ADB; the methodology employed, including an appropriate weight given to governance and the formula weights on performance and on country size; the capping of allocations for regional cooperation; and the establishment of a roadmap towards full disclosure. A consensus emerged on important

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<sup>1</sup> This was the third ADF IX meeting. The first ADF IX meeting was held in Copenhagen during 9-10 October 2003, and the second ADF IX meeting was held in Tokyo during 9-11 December 2003.

revisions covering implementation, methodology and measurement, and on circumstances requiring special considerations, i.e. the situation of post-conflict countries. A revised set of agreed proposals will be included in the Donors' Report.

6. Representatives expressed their appreciation for Management's responsiveness to their request for a paper describing ADB's approach to weakly-performing countries. The main elements of the proposed approach were supported, in particular the emphasis on the need for continuing engagement with such countries. Representatives stressed the need for close alignment with the LICUS initiative<sup>2</sup>, recognition of the importance of partnerships and the need to differentiate the circumstances of weak performers on a case-by-case basis. Representatives proposed that a broader approach be adopted in the identification of weak performers, expressed strong reservations about the use of grants for countries in arrears, and urged the Bank to identify alternatives and innovative ways of engaging with such countries in circumstances where lending or financial assistance may not be the first, best or even appropriate response. It was agreed that this guidance be incorporated in a revised paper.

7. There was a wide-ranging discussion on the use of grants under ADF IX. Strong support emerged for a set of principles on the use of grants incorporating a strong country focus and debt sustainability considerations, with allocations for technical assistance and HIV/AIDS (and other communicable diseases). On this basis, representatives discussed the possible level of grants, requested additional information, and agreed to discuss this further. On the financial impact of grants, representatives strongly emphasized the need to maintain the financial strength of ADF.

8. Representatives welcomed the discussion on the expanded advance commitment authority (EACA) scheme and currency risk management. Representatives agreed to the proposed changes (i) to adopt a framework that incorporates periodic updated assumptions, (ii) to eliminate the apparent safety cushion of the projected investment income, and (iii) to denominate the EACA scheme in SDRs. In addition to their support on the improvement of ADF financial management, representatives emphasized the importance of efficiency in utilizing the ADF resources.

9. As an innovation for ADF discussions, the representatives had the opportunity to meet directly with four CSOs, from Bangladesh, Cambodia, Kyrgyz Republic and Pacific DMCs, which had previously participated in a series of national workshops on ADF organized by ADB. During this session, the CSOs presented to donors their views on key policy aspects of ADF IX and on aspects of cooperation among ADB, governments and civil society.

10. Representatives discussed the proposed replenishment framework and related arrangements for burden sharing. On a preliminary basis, there was some support for the base case and alternative 2 scenarios. But many representatives urged ADB to examine the scope for the utilization of internal resources including through greater mobilization of undisbursed loan commitments. Delegates observed that their final decision would rest on a variety of considerations including decisions to be taken about grant financing. Representatives agreed that historical burden shares of ADF VIII should be a guiding principle for ADF IX replenishment and several representatives called for equal burden sharing between regional and non-regional donors. Some representatives requested that additional options on the proposed accelerated notes encashment scheme be considered.

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<sup>2</sup> Relating to Low Income Countries Under Stress.