

CHAIR'S SUMMARY
ADF IX Midterm Review Meeting
Frankfurt, Germany, 4–5 December 2006

1. Asian Development Fund (ADF) deputies, representatives from ADF borrowing members, and observers from other international development institutions met with Asian Development Bank (ADB) Management and staff to review progress on ADF IX implementation. The ADB team was headed by the two operational vice presidents. Participants noted the significant progress achieved in some aspects of the reform agenda, but pointed out weaknesses ADB should address and urged accelerating implementation of the reform agenda. They welcomed the quality of the documentation and staff presentations, though in some cases they felt more analysis was necessary. Deputies felt the participation of ADF borrowers augmented the discussions and suggested continuing this practice in the ADF X negotiations. Many discussants emphasized the need for ADB to continue its focus on poverty reduction, with greater effort to demonstrate a link between ADF operations and progress on poverty reduction in the region.

2. Participants supported aligning the ADF grant framework with that of IDA 14 in 2007, and they requested further review and analysis of the financial implications of the change to be provided prior to ADF X negotiations. Many participants encouraged ADB to participate in the joint debt sustainability analysis with the World Bank and IMF, and prepare a separate analysis only in countries where these institutions are not preparing one. Some participants voiced concern regarding extending grant eligibility for blend countries that are not currently accessing OCR. While supporting the introduction of the volume discount, some participants indicated that the redistribution of ADF resources generated by the volume discount should favor ADF-only countries. Some participants also urged ADB to consider introducing harder lending terms for some countries to offset the forgone interest reflows from grants. ADB will prepare a Board paper on the proposed changes to the ADF grant framework that will reflect the comments. The paper is expected to be ready within the first quarter of 2007.

3. Participants voiced strong support for the revised PBA policy and especially welcomed the increased transparency in the system. Participants appreciated the issues raised by ADB regarding the outcomes of the implementation of the new system, such as the shift of resources away from ADF-only countries and the volatility of allocations, and requested further analysis of the issues raised. Some urged that ADB propose options for addressing these problems, while others expressed caution about changes to the PBA system. One participant suggested increasing the ADF allocation for regional cooperation while another cautioned against set-asides. A borrower representative voiced concerns regarding the subjectivity of the scores of some performance indicators and that the system does not distinguish the initial conditions faced by each country when making allocations. Participants urged ADB to coordinate closely with IDA and the African Development Fund to address PBA implementation issues. ADB will present the analysis of the PBA-related issues to the donors during ADF X negotiations.

4. On the proposed approach to engagement with weakly performing countries, participants supported the general direction of the approach outlined in the background paper, but wanted more information on how ADB intended to operationalize it. Many participants emphasized the need for a clear champion leading this process within ADB, the need to consider carefully the appropriate level of staffing and other resources, the importance of partnerships, and the critical role for technical assistance. However, some participants cautioned against providing budgetary support to weakly performing countries and others voiced skepticism regarding the use of trust funds. ADB will revise the background paper into a Board paper to be submitted to the Board of Directors within the first quarter of 2007.

5. Participants felt the initial steps in mainstreaming managing for development results were positive. Many felt the groundwork was now in place, but some suggested that implementation to date has been too slow. They emphasized the importance of leadership in this effort and changes in staff incentives. They also encouraged ADB to support statistical capacity building at the country level. There is an expectation that ADB will press on with reforms and be ready to report on ADF development outcomes more clearly during ADF X negotiations. Many donors noted that effective reporting on these results would be critical to convincing their legislatures to support the next replenishment. Vice presidents acknowledged these concerns and will work to respond to them during further mainstreaming of managing for development results.

6. Participants supported the content of the human resources strategy. While noting some progress by ADB, they felt much more needed to be accomplished. Some participants raised concerns regarding the centralized administration of human resources and budget, emphasizing insufficient control and flexibility over these functions by the vice presidents and decisions that are not seen as transparent. Many participants called for the next staff engagement survey to be brought forward and suggested an independent progress review of the human resources strategy. Participants welcomed the changes on staff evaluations embodied in the performance and development plans. They urged greater effort to institute a merit-based system of staff selection and promotion at all levels. Participants pressed for greater efforts to achieve gender balance in ADB also at senior levels. ADB acknowledged the importance of these issues and will consider ways to address them.

7. There was a clear consensus among the participants that ADB should participate in HIPC debt relief if any ADF country becomes eligible, while reaffirming the need to maintain the financial viability of ADF and not to impair support for ADF countries. Some deputies questioned the desirability of MDRI debt relief for ADF countries. Donors noted their willingness to discuss additional donor funding for financing of HIPC debt relief—consistent with the treatment of debt relief by other multilateral development banks—during the ADF X negotiations. They stressed that ADB should maximize the use of its internal resources, but that any financing should not undermine the financial integrity of ADB. The vice presidents noted that, in light of donors' willingness to cover some of the cost of debt relief, ADB was willing to discuss burdensharing to cover those costs. Management will consider these issues and a Board paper will be prepared during the first quarter of 2007. The paper will provide further analysis of the financial implications of debt relief under various scenarios.

8. ADB noted that ADF IX resource mobilization has been smooth so far due to timely donor contributions. Participants endorsed the proposal to use the SDR composite discount rate to calculate credits for new donor participants in the accelerated note encashment program. They also endorsed the proposal to reduce Nauru's contribution to ADF. Participants also supported the preparation of an ADF liquidity management policy and investment guidelines, which ADB will prepare by end-2007.

9. Participants agreed to hold an informal meeting on the sidelines of the ADB Annual Meeting in May 2007 to plan for ADF X negotiations. Many also expressed a desire for dialogue with ADB's President on reforms and strategic issues in further ADF discussions. ADB will prepare a report updating further progress in ADF IX implementation and provide an initial estimate of the resource requirements for ADF X, including financing needs for debt relief and grants to ensure the continued financial sustainability of ADF. Participants agreed that the number of special themes for ADF X should be kept to a minimum, and they will communicate any views about specific themes to ADB in the coming weeks.