

**ADF-IX Mid-Term Review and First Meeting on the Consultations for the Tenth  
Replenishment of the African Development Fund (ADF-X)  
Geneva, Switzerland  
16-17 February, 2004**

*Chairman's Summary*

***Introduction***

1. The mid-term review of ADF-IX and the first meeting on the consultations for the Tenth Replenishment of the African Development Fund (ADF-X) were held in Geneva, Switzerland on 16 and 17 February 2004 under the chairmanship of Mr. Sven Sandström. At the opening of the meetings the President of the Bank Group, Mr. Omar Kabbaj, thanked the Government of Switzerland for kindly offering to host the meeting. He also expressed his appreciation to Deputies for having agreed to hold the first meeting on ADF-X at this time.
2. Mr. Kabbaj gave an overview of the progress that had been made by the Fund in fulfilling its undertakings under ADF-IX. With respect to the strategic orientation of Fund activities under ADF-X, the President recommended that the Fund's overarching objectives – that of poverty reduction and promoting sustainable economic growth should be maintained. He also suggested that the priority areas agreed for ADF-IX should be retained. In concluding, Mr. Kabbaj appealed to ADF donors to consider a significant increase in the level of replenishment for ADF-X in the light of the Fund's progress and the need for higher levels of resources by ADF countries. He also called on Deputies to conclude the negotiations by the end of the year to ensure a smooth transition to ADF-X.

***Review of Progress under ADF-IX***

3. *Implementation of Undertakings.* Deputies reviewed the progress the Fund had made under ADF-IX. For this purpose, staff presented the ADF-IX Policy Implementation Matrix, and reports on the Implementation of Operational Priorities, and Enhancing Development Effectiveness. Deputies commended the Fund on the quality of the papers and made the following observations.
4. Deputies agreed that the Fund had indeed made much progress in developing a comprehensive and coherent policy framework to guide its operations. They also welcomed the adherence of the Fund to the priority areas that had been agreed under ADF-IX and the fulfillment of the lending programs in 2002 and 2003, despite difficult circumstances. Deputies further commended the Fund's work to enhance its development effectiveness and establish a results measurement framework. They also welcomed the enhanced performance-based allocation (PBA) system for Fund operations but some cautioned against too wide a differentiation in per capita allocations. Deputies also asked the Fund to review the relative weight of poverty and governance in the PBA. The need for greater transparency and dialogue with countries was also stressed.
5. Deputies agreed that the major challenge facing the Fund now is *implementing its policies, projects and programs*, and urged the Fund to become more proactive in

the implementation process. In addition, they requested the Fund to: further enhance the quality of CSPs; assist countries assume more ownership of their PRSPs while aligning national budgets to these strategies; pay particular attention to the needs of low income countries under stress (LICUS); consider expanding the Fund's presence in regional member countries and delegating more authority; strengthen harmonization and coordination; address the skills gap and recruitment; and develop a coherent private sector development strategy.

6. *Status of ADF-IX Subscriptions and ADF Liquidity.* Management informed Deputies that of the 24 countries that had pledged support, four have yet to deposit their instruments of subscriptions. The Deputy for the United States informed the meeting that US would soon deposit its instruments of subscription. On liquidity levels, Management indicated that levels were satisfactory and comparable to those of IDA.
7. *Independent Evaluation of Undertakings under ADF VII-IX.* Management informed the Deputies that the independent evaluation is underway and that the final report would be ready by early July 2004. Deputies were also informed that a presentation on the preliminary findings would be made by the consultant at the second meeting of the consultations. The full report, together with management's response, would be presented at the third meeting in the fall.
8. *Use of Grants and Compensation for Loss of Reflows.* Deputies agreed that grant resources had been used in line with the agreement reached under ADF-IX. With respect to compensating the Fund for the loss of reflows due to the increase of grants under ADF-IX, a preference for compensating the Fund up front was expressed by a number of Deputies while others preferred the pay-as-you-go option. Final decision was deferred pending the outcome of discussions on the same matter in IDA. Deputies also requested that a technical paper be prepared on how such up front 'compensation funds' could be used for development purposes.
9. With respect to grants in the future, many Deputies felt that a more country focused approach may be pursued and that the issue may best be seen in the broader context of ensuring debt sustainability through increased concessionality. Some Deputies noted that the sector approach could, however, still retain its relevance in certain cases. Deputies agreed to take up the issues pertaining to grants, including levels, at the next meeting.

#### ***The Strategic Orientation of Fund Activities under ADF-X***

10. Deputies discussed Management's preliminary proposal for the strategic orientation of Fund activities under ADF-X. They supported the broad thrust of the proposal and agreed that poverty reduction and the promotion of sustainable economic growth would remain the overarching objectives of Fund operations. In addition, they agreed to retain the operational priority areas of ADF-IX. With respect to the proposal to give greater weight to certain operational areas, Deputies stressed the importance of selectivity and staying within the agreed priorities, and asked for further clarification in upcoming meetings and in the draft Deputies Report.

11. With respect to providing assistance to post conflict countries, Deputies welcomed the initiative and proactivity of the Fund on the matter. They requested Management to look further into several aspects, including: the moral hazard issue, unbundling arrears clearance and post-conflict assistance, and the links to the HIPC initiative. Many Deputies indicated their preference for moving close to a case-by-case approach within a clear framework. They also requested the Fund to provide further simulations and information on prospective beneficiary countries in order to clarify the initiative. They agreed to revisit the matter in the course of ADF-X consultations.

***Other Matters***

12. Deputies agreed that 1 April to 30 September 2004 would be the period over which the ADF-X exchange rates will be averaged. They also agreed that borrowers' representatives from the four sub-regions of the Fund (central, east, west, and south) would take part in the replenishment meetings. Consultations with NGO representatives will also be organized.
13. Deputies agreed that the next meeting of the ADF-X consultations would be held in Kampala on the 28<sup>th</sup> and 29<sup>th</sup> of May 2004 after the Annual Meetings. It was also agreed that the third meeting would be held in Tunis in September/October 2004 to be firmed up later, and the fourth and final meeting in Copenhagen in December 2004.
14. Deputies also agreed on the papers and subjects to be taken up at the subsequent meetings as per the attached Annex.
15. Deputies thanked the Government of Switzerland for hosting the meeting and the Government of Denmark for having kindly offered to host the final meeting.