

AFRICAN DEVELOPMENT FUND



MID-TERM REVIEW REPORT

ADF - V

**ABIDJAN
CÔTE-D'IVOIRE**

**JANUARY
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CHAPTER 1

THE ADF-V MID-TERM REVIEW IN PERSPECTIVE

1.0 Introduction

1.0.1 At the conclusion of the consultative meetings on the Fifth General Replenishment of the Resources of the African Development Fund (ADF-V), Deputies agreed to a three-year programme of Fund Operations (1988-1990) requiring a funding level of FUA2.25 billion. To assist in the effective implementation of ADF-V policies, Deputies decided to undertake a mid-term review of Fund performance, in conformity with a number of specific directives issued in their final Report (ADF-V/CM-5/87/20/Rev.3).

1.0.2 This Mid-Term Review Report on ADF-V has been prepared in accordance with those directives. Since a good number of issues raised in the context of the ADF-V consultations were also raised with respect to the GCI-IV negotiations, this Report is, in many respects a companion document to the Mid-Term Review Report on GCI-IV (ADB/ZE/MTR-GCI-IV/89/01) and the Addendum (ADB/ZE/MTR-GCI-IV/89/01/ADD). In order to avoid repetition, the present report has been structured to be read along with the latter documents.

1.0.3 This chapter of the Report begins by briefly placing the current review in its historical context and then outlines the objectives of the current exercise. Chapter 2 examines the record of the Fund in complying with the directives of Deputies so far, while Chapter 3 indicates further actions required. The Report ends with a brief look at the challenges the Fund is likely to face in the coming years.

1.1 The Review in Historical Context

1.1.1 As noted in the introduction to the Mid-Term Review Report on GCI-IV, it has always been the general practice of the Bank Group to undertake periodic reviews of the institution's performance. Some of these reviews were undertaken on Management's own initiative, while others were undertaken at the request of Governors and Deputies.

1.1.2 In 1977, the Board of Directors of the African Development Fund established a Review Committee to evaluate the Fund's lending policies and procedures. In 1984, Management, on its own initiative, undertook a review of progress on the implementation of the First Five-Year Operational Programme (FYOP.1). In 1985, the President established a Reflection Committee, charged with the responsibility of recommending measures which might be adopted with a view to enhancing the Bank's contribution to development in Africa. Similarly, the Bank has now completed a mid-term review in accordance with directives issued by Governors at the end of negotiations on the Fourth General Capital Increase (GCI-IV).

1.1.3 The idea of a review is therefore not new to the Bank. Whether undertaken in response to specific directives or as a Management initiative, these exercises have been profoundly useful in sharpening the focus of the institution and guiding it towards fuller achievement of its overall mandate. The direct result of these reviews has been a significant and continuing improvement in the quality of the institution's operations and, hence, in the services rendered to regional member countries. Management therefore welcomes this opportunity to review the recent operations of the Fund and believes that through this process of self-examination and stock-taking, the Fund can continue to improve its performance and respond more efficiently and more effectively to the challenges posed on the African continent.

1.2 Objectives of the Review

1.2.1 The current review of ADF operations is, as noted earlier, undertaken at the request of Deputies, following the conclusion of the ADF-V consultative meetings. Its purpose is to assist in the evaluation of the performance of the Fund in implementing various guidelines and directives set out in the Deputies' final Report. These guidelines and directives relate to the Fund's performance in the area of operations, finance and administration, with a particular focus on operations. As this review of Fund performance is occurring at the end of the GCI-IV mid-term review, this report makes convenient summaries of and cross-references to issues that are of common concern to the two institutions.

CHAPTER 2

ADF-V DIRECTIVES: REVIEW OF IMPLEMENTATION

2.0 Introduction

2.0.1 This chapter reports on Management's efforts in implementing the directives issued by Deputies in their final Report, ADF-V/CM-5/87/20/Rev.3 (see Annex 1 for a list of relevant documents), at the conclusion of the consultations on the Fifth General Replenishment of the Resources of the African Development Fund (ADF-V). The record of actions undertaken by Management in response to these directives is presented in accordance with the specific guidelines (Annex 2) issued by Deputies at the end of the consultative meetings. Each directive is listed separately, as formulated in the Report issued by Deputies. These directives are sub-divided into three broad categories relating to operations, finance and administration. Actions so far undertaken in response to each directive are then identified and discussed. Since some of these directives directly parallel others issued by Governors at the conclusion of the GCI-IV negotiations, this chapter should be read in close reference to Chapter 3 of the Mid-Term Review Report on GCI-IV and its Addendum.

2.1 OPERATIONS

2.1.1 Country Eligibility

2.1.1.1 Directives (ADF-V/CM-5/87/20/Rev. 3, paras. 5-8)

The principal beneficiaries of Fund resources will continue to be the poorest countries. In this regard, the fundamental criterion of eligibility to receive resources will remain the per capita GNP which will be used to group member countries into the traditional categories A, B and C along the lines followed in the past by the Fund.

In the light of the foregoing, national accounts data for 1986 shall be used to group member countries as follows:

Category A

Sub-category A1 member countries with per capita GNP of US \$ 350 or less
Sub-category A2 member countries with per capita GNP of US \$ 351 to 510

Category B member countries with per capita GNP of between US \$ 551 and 990; and Category C member countries with per capita GNP of over US \$ 990.

Countries in category A will be given absolute priority in allocation of ADF resources; with the poorer A1 countries being accorded precedence over countries in category A2. Countries in category B will also be eligible for ADF-V resources.

2.1.1.2 Actions Undertaken

2.1.1.2.1 Action 1. As a first step in responding to this directive, Management, following Board approval, opted for actual rather than 'corrected' population estimates in computing the 1986 levels of per capita GNP in order to assign countries to the various categories as shown in Table 2.1. Those regional member countries not listed in the table (i.e Algeria, Congo, Gabon, Libya, Mauritius, Seychelles and Tunisia) were assigned to Category C, in accordance with their per capita GNP exceeding \$990.

2.1.1.2.2 Action 2. In accordance with this directive, pre-allocated ADF resources (i.e total replenishment less Technical Assistance and contingency) have been distributed, as is evident from the table, with absolute priority (90 per cent) given to Category A countries, (with the poorer A1 countries being accorded precedence over countries in category A2) and category B countries being allocated 10 per cent of available resources. This pattern of resource allocation is thus fully in accordance with the Deputies' directives on country eligibility. Moreover the actual deployment of these resources (Table 2.2) has, in practice, conformed to the requirements set by Deputies with regard to this directive. As indicated in the table, Category A countries have so far accounted for about 91 per cent of ADF loans, on average in 1988 and 1989; and over 80 per cent of ADF grants in 1989.

2.1.2 Resource Allocation Objectives

2.1.2.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para. 10)

Deputies affirmed that the Fund operations should aim at:

- **meeting the primary needs of the poorest sections of the population in low-income countries;**
- **fostering employment creation and increased incomes;**
- **eliciting or promoting the direct involvement of the ultimate beneficiaries, including women, in the design and implementation of projects and programmes;**
- **contributing to the improvement of the environment; and**
- **promoting economic policies which assure the most efficient distribution of resources, including market-based incentive systems and appropriate pricing policies.**

In order to monitor and assess progress made in respect of the above-mentioned objectives, Management will define a set of appropriate indicators for each of these objectives.

2.1.2.2 Actions Undertaken

2.1.2.2.1 Action 1. As noted in paragraph 2.1.1.2.2, ADF resources have been directed primarily to the low-income category A countries, with precedence given to category A1 countries. By definition, this means that the bulk of ADF resources have been used to improve the standards of living of the economically underprivileged and disadvantaged. Management has interpreted the broad objective of this directive to mean that in the application of Fund resources, both social and economic objectives have to be achieved. The former through the use of ADF funds for meeting the basic needs of the poorest sections of the population and the latter (see section 2.1.2.2.2. below) through employment creation and increased incomes. A number of projects that address directly the basic needs of the poorest segments of society were approved in 1988 and 1989. The Integrated Rural Development (Mono Province) Project in Benin and the North and South Ubagi Project in Zaire aim, inter alia, at improving the health and nutrition status of the inhabitants of the respective provinces. Similarly, the Education System Restructuring and Expansion Project in Cape Verde aims, in part, at the construction of 38 new basic education schools. For the health sector, especially basic health services, a project in Cameroon aims at rendering operational six health facilities of all grades (varying from Health Centre to Central Hospital). In Burkina Faso, the Bagre Dam project has as one of its main objectives to supply potable water to Ouagadougou and several urban centres, and included in the Bamfora-Gaona-Batie Road project is the provision for extending the supply of potable water to another 26 villages. Similarly, the fourth Education project of Botswana aims at ensuring that more of the youth population, especially in the rural areas acquire an adequate educational background. In Chad and Guinea-Bissau, similar Education projects aim at constructing and/or renovating primary schools. The Zambia Rural Health Services Project intends to improve the health conditions of the rural population through the development of sanitary installations. Other projects aiming at improving the nutrition standards are the National Livestock Project (Chad), the Inland Fisheries Project (Niger), The Fisheries Project (Mauritania) and the Mideno II Project (Cameroon). The above listed projects utilized 11.59 per cent of combined ADF lending in 1988 and 1989. Lending for basic needs increased in value by 57 per cent in 1989. Also, the ratio of ADF resources targeted at the objectives outlined in this directive would be higher if the value of other projects contributing towards these objectives (as opposed to having these objectives as primary goals) is also included. The number of projects aimed at meeting the basic needs of the poorest segment of the population in the poorest countries increased from 6 each in 1987 and 1988 to 8 in 1989.

2.1.2.2.2 Action 2 ADF resources have also been used to directly create employment opportunities and raise levels of income. The Bututsi Agro-pastoral project in Burundi aims at increasing the incomes of small-scale farmers and stock breeders. This is also true of similar projects in Chad (National Livestock), Djibouti (Djibouti Fishing Port), Cameroon (Midenso II Project), Zaire (North and South Ubagi Rural Development Project), Mauritania (Fisheries) and Malawi (National Livestock Development). In Ethiopia, the Finchaa Sugar Project will create 5,000 job opportunities and benefit a community of about 25,000 people in a relatively underdeveloped region of the country while the Ethiopian South-East Rangelands Project aims at directly raising the living standards of the pastoralist population. Additionally, the second Wush Wush Tea Project in the same country will create 2,500 new jobs. The Agricultural Project of Daye Region in Mali provides permanent employment to a sizeable proportion of the active population. Similarly, the Mafambisse Sugar Rehabilitation Project in Mozambique, guarantees the livelihood of some 25,000 employees and their dependants. Examples of other projects also aimed at directly increasing the incomes of peasants are the National Maize Production Project (Madagascar) and the Baguineda Irrigation Scheme Rehabilitation Project in Mali. The Inland Fisheries Management and Development Project in Niger will create jobs for over 6,000 families. The above listed projects utilized 22.56 per cent of combined ADF lending in 1988 and 1989. This type of lending increased by 18 per cent in 1989. Also, the ratio of ADF resources targeted at the objectives outlined in this directive (22.56 per cent) would probably be higher if the value of other projects contributing towards these objectives (as opposed to having these objectives as primary goals) is also included.

2.1.2.2.3 Action 3. In accordance with this directive, Fund operations have also sought to promote the direct involvement of the ultimate beneficiaries, including women, in the design and implementation of its projects and policies. To this end the Fund has increased its efforts aimed at soliciting from regional member countries proposals for funding projects specifically designed in whole or in part by women and for which the responsibility for implementation is actively shared by women. These efforts have had a positive result as evidenced by the number of countries responding to such activity since the Abuja conference in May 1989 that focused on national mechanisms for increasing and financing women's projects. The Fund is currently studying projects falling under this category from Mauritania, Mali, Tunisia, Cameroon, Cape Verde, Senegal, Burundi, Ghana, Sudan, Malawi and Sierra Leone.

2.1.2.2.4 Action 4. Concerns with respect to the environment have also figured increasingly in Fund operations. A description of the Fund's responses to this aspect of this directive is presented in section 2.1.8.

2.1.2.2.5 Action 5. In many respects, ADF interventions in the context of policy-based lending (see section 2.1.10) have been directed at promoting economic policies based on the goals outlined in this directive. In Mauritania, for instance, an ADF loan in 1988, co-financed *inter alia* with the World Bank, was used to undertake structural adjustment programming aimed at achieving budgetary and balance of payments equilibrium and as well to improve investment productivity. Similarly in Uganda, ADF resources were granted in 1988 to support stabilization and recovery programmes in the agricultural, industry and transport sectors. It is important to note that, in accordance with these directives, one of the principal features of ADF interventions in this regard has been policy reorientation aimed at productive efficiency and based on a greater reliance on market-driven structures. This has almost invariably meant Fund support for programmes aimed at streamlining public expenditures, subsidy reductions, more realistic agricultural pricing strategies, tariff reform and improvements to the institutional and managerial capabilities of various agencies in borrowing countries.

2.1.2.2.6 Action 6. In order to monitor and assess progress made by the Fund with respect to objectives outlined under this directive, Management is in the process of recruiting a consultant to propose criteria for the selection of appropriate indicators in order to measure such progress. The terms of reference have already been prepared and Management is currently negotiating (with USAID) for financing to undertake the project. In the interim, Management continues to direct its lending activity to ensure that the broad concerns of this directive are fully respected.

2.1.3 Country Programming

2.1.3.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.11)

In working towards these (resource-allocation) objectives, Deputies deemed it imperative that the Fund accord particular attention to the formulation of comprehensive country programmes. The elements to be included in these strategies should be those agreed to in the report accompanying the general capital increase resolution of the Bank. This will provide a needed opportunity for: an overall review of country constraints and possibilities, including the adequacy of country performance; formulating projects pipelines in light of country needs and Fund possibilities; and, also, for co-ordinating activities with donors. In this regard, Deputies welcomed the approach to country programming outlined in the paper presented at the Second Consultative Meeting (ADF-V/CM/87/03) and recommended it for implementation as expeditiously as possible. They also requested Management to ensure that loan proposals brought before the Board should be fully consistent with country programme for the borrower country. Deputies requested Management to put to the Board of Directors as soon as possible, a timetable for the preparation of the remaining country programmes to ensure that country programmes for the remaining A countries will be completed by the time of the mid-term Review.

2.1.3.2 Actions Undertaken

2.1.3.2.1 Summary of Actions. In section 3.1.1 of the Mid-Term Review Report on GCI-IV, Management has outlined those measures that have been taken with a view to improving country-programming. The measures include the adoption of specific guidelines and procedures for the processing of Economic Prospects and Country Programme Papers (EPCPs); checks to ensure that projects conform to the priorities outlined in the EPCP; weekly and monthly reviews of the lending programme; participation at Consultative Group meetings with other lending institutions; and top-level programming missions to borrowing countries to update and revise the lending programme, as necessary. With specific reference to the timetable for the preparation of EPCPs, the status of implementation is described in Table 2.3. In addition to the information provided in section 3.1.1 of the document cited above, additional related information is provided in Annex 5 which describes the criteria used for the inclusion of projects in the lending programme*. Management notes that while in practice these criteria are generally respected in the implementation of its lending programme, from time to time, projects included in the broad ideas of the project pipeline but not under the formal lending programme are brought to the Board for discussion. This assures Management some degree of flexibility with respect to the borrowing country's policies and priorities, Bank Group policies and priorities, the availability of resources and, most importantly, an official request for a loan. However, while Management attaches importance to some degree of flexibility, this is exercised within a clearly defined framework as outlined in the country programming papers.

2.1.4 Resource Allocation Modalities

2.1.4.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.12-14)

Out of the total resources under ADF-V, it was agreed that up to 10 per cent shall be earmarked for activities to be supported by technical assistance which, except for cases of funds given to countries in category C, will consist of grant funds.

Deputies came to a consensus on this issue after careful consideration of the relevant provisions of the agreement establishing the African Development Fund; and they determined that grants may be provided for technical assistance under Article 19.

90 per cent of the replenishment's remaining resources will be allocated to projects and programmes for countries in category A; the remaining 10 per cent will be for countries in category B. The allocation of resources in each category of eligible member countries will, in principle, be made on the basis of the following weights:

- per capita GNP 35 per cent

* While these criteria have been formally adopted as Bank Group policy in the Operations Manual, Management is already exploring ways in which the procedures outlined can be further refined.

- size of population 45 per cent; The Board of Directors will consider and adopt mechanisms to limit disproportionate allocation ensuing to countries with very large or very small populations;
- Fund presence in each eligible country through at least one project: 10 per cent;
- geographical isolation: 5 per cent;
- allocation for special situation: 5 per cent.*

For policy-based lending, in addition to the above-mentioned criteria, Management will propose to the Board a specific set of supplementary guidelines.

In addition, Deputies recognised that country performance on policies is a key factor in determining whether or not lending to a particular country can be successful. Therefore, they agreed that country economic performance would be among the factors considered by the Fund in its ongoing review of lending priorities within and among countries.

2.1.4.2 Actions Undertaken

2.1.4.2.1 Action 1. In line with this directive, 10 per cent of ADF resources were allocated to technical assistance activities of the Fund. With 5 per cent unallocated, as required by the directive (see footnote to para.2.1.4.1), 90 per cent of the remaining resources, or FUA 1731 million were allocated to Category A countries and FUA 192 million to Category B countries. Table 2.1 provided detailed data on these country allocations and the weights used in determining these allocations according to the criteria established by Deputies.

2.1.4.2.2 Action 2. In terms of the actual deployment of these allocated resources, ADF resources used for technical assistance though more than doubling between 1988 and 1989 (see Table 2.4) are still below the 10 per cent allocation called for by Deputies. As derived from the table, total ADF resource use stood at FUA 615.62 million in 1988 and FUA 811.45 million as at October 31, 1989, with technical assistance representing 3.5 per cent and 9.44 per cent respectively. As indicated in the table category A countries were the primary beneficiaries of ADF resources going to non-technical-assistance accounting for a share of about 90 per cent, compared to slightly under 10 per cent for Category B countries.

2.1.4.2.3 Action 3. In accordance with this directive Management has prepared and the Board has approved a set of guidelines for policy-based lending. These guidelines, fully outlined in Annex 8, cover project identification and preparation, review by a Senior Management Committee,

* "This represents a share of the Replenishment that will not be pre- allocated to specific countries and will be used, at the discretion of Management, in such situations as when a country's reform efforts stand in urgent need of resources additional to those established in country allocations; to support multinational projects; or to abate the consequences of natural calamities, etc.". (See footnote, ADF-V/CM-5/87/20/Rev.3, p.5).

appraisal, the preparation of loan documents, negotiations, Board presentation, programme monitoring, tranche releases and evaluation. The Operations Manual, introduced in mid-1989, formalizes this process.

2.1.4.2.4 Action 4. Country economic performance is systematically evaluated in the context of preparing EPCP's and in appraising policy-based programmes. It is also addressed in post-evaluation and other reports of the Bank. Performance on policies influences in particular the speed and effectiveness with which Fund resources are utilised. That way it also influences the aggregate policy-based resources available to any given country through co-financing with other multilateral financial institutions.

2.1.5 Technical Assistance Fund

2.1.5.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.22)

Technical Assistance will be made available on a grant basis to countries in category A and B. 85% of the assistance will be for countries in category A, with particular attention accorded to the priority entitlements of countries in category A1. 12% will be earmarked for countries in category B and 3% for countries in category C. Technical Assistance to countries in category C will be made available on a reimbursable basis on the same terms and conditions as for the Technical Assistance Account under ADF-IV. It was agreed that there would be a review of the system for technical assistance delivery with the aims of making it more effective in the generation of projects and programmes, and more efficient with respect to procedures. The review should analyse the impact and effectiveness of recent technical assistance activities and the extent to which new forms of delivery (e.g. programme assistance to completed projects) may be introduced in the ADF-V period.

2.1.5.2 Actions Undertaken

2.1.5.2.1 Action 1. In accordance with this directive, all technical assistance funds to countries in Categories A and B have been made on a strictly grant basis. Category C countries' access to the Technical Assistance Fund was restricted to loans and extended under the same terms and conditions as existed under the Technical Assistance Account of ADF-IV. The percentage distribution of technical assistance resources is shown in Table 2.4. As indicated in that table, the bulk of technical assistance resources has been directed at Category A countries, with priority given to those countries in Category A1. However, the use of technical assistance resources remained well below the 10 per cent target in 1988 before rising sharply in 1989.

2.1.5.2.2 Action 2. In Table 2.5. the technical assistance operations of the Fund for 1988 and 1989 are listed. These operations reflect the implementation of guidelines for the utilisation of Technical Assistance Fund resources as adopted by the Board of Directors in 1988. They, similarly, reflect operational guidelines for the preparation of technical assistance projects submitted to the Board of Directors in 1989. Both the guidelines and

operational directives were undertaken in response to the Deputies' directive that Management undertake a review of the system of delivery for technical assistance.

2.1.6 Blending of ADB/ADF Resources

2.1.6.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.8)

..... systematic work will be done to establish a policy on the blending of ADB/ADF resources for suitably creditworthy countries. This policy should be developed by the Board of Directors as soon as possible; and preferably before the entry into effect of ADF-V.

2.1.6.2 Actions Undertaken

2.1.6.2.1 Summary of Actions. In section 3.1.3 of the GCI-IV Mid-Term Review Report, Management has outlined its efforts to encourage the blending of ADB/ADF resources in its lending operations. As noted, 4 blended loans were approved during 1988 followed by a further 5 loans in 1989. These efforts reflect a continuation of previous practices regarding blending; a formal policy on blending as outlined in ADB Group Policy on Blending (ADB/BD/WP/89/30 - ADF/BD/WP/89/30) is still before the Board for consideration.

2.1.7 Aid Coordination

2.1.7.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.21)

Deputies discussed at length the need for the Fund and major donors to coordinate their lending with borrowing countries and among themselves. They also urged the Fund to come in at early stages, wherever possible, in discussions related to the preparation of Policy Framework Papers by the World Bank and to associate Fund policy-based lending with this process. Deputies noted with satisfaction measures proposed to strengthen Bank Group participation in Consultative Groups and issuance of operational guidelines for co-ordination with other donors, and looked forward to their implementation.

2.1.7.2 Actions Undertaken

2.1.7.2.1 Summary of Actions. In section 3.1.6 of the GCI-IV Mid-Term Review Report, Management has outlined those measures it has taken to coordinate its lending efforts with those of other donors. As noted in that Report, these measures include regular meetings with multilateral institutions such as UNDP, UNIDO and the World Bank, among others; collaboration with the World Bank on the harmonization of lending strategies and other interventions; regular participation in Consultative Group meetings; and the re-organisation of the Cooperation Department with a view to coordinating the efforts of the Bank Group with those of other international donor agencies.

2.1.8 Sectors of Operations

2.1.8.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para. 16-18)

The Fund shall continue to concentrate its lending in the following sectors: agriculture, health, education, transport and telecommunications, public utilities and energy.

The agriculture sector will continue to be given top priority in terms of the target set for the sectoral allocation of resources. Particular attention will be paid towards improving the Fund's performance in this crucial sector. Closer co-operation will be sought in this respect with FAO, IFAD, IBRD and other organizations involved in the sector. Also of concern is the cost-effectiveness of social sector lending. Approximately three quarters of Fund lending in the Health sector should be directed to primary health programmes, including improvements in management of public health care. In the education sector, projects should be increasingly targeted toward primary education. Fund lending to Health and Education shall be consistent with the respective Sector policy papers already approved by the Board. Education and health projects should continue to have about the same relative priority in terms of allocation of ADF resources. The Fund should also work in close collaboration with UNICEF, WHO, UNFPA and other appropriate organizations.

Deputies expressed positive interest in management proposals to expand Fund involvement in new areas of concern, notably those dealing with population, the role of women in development and the environment. Deputies strongly encouraged proposals to increase Fund activities in the environment by incorporating environmental considerations in all projects and programmes to be financed; by supporting projects and programmes that aim at arresting and reversing environmental deterioration; and by providing technical assistance to programmes that promote environmentally sustainable development. Actions in these areas are so important that deputies urged that these aspects be integrated into Fund regular operations and that the Fund, also, strive to assume a leadership role in undertaking and supporting initiatives in the areas.

2.1.8.2 Actions Undertaken

2.1.8.2.1 Action 1. The ADF-V lending policy was adopted in August, 1988. Top priority was assigned to the agricultural sector (in particular, the food-production sub-sector) and to the transport and social sectors. The policy also called for three quarters of Fund lending in the health sector to be directed to primary health programmes, including improvements in public health management. It further stated that in the education sub-sector, projects should be increasingly targeted to basic education and manpower development. These lending targets and the actual sectoral distribution of ADF lending in each sector are indicated in Table 2.6. As shown, the agricultural sector, is below target, but has accounted for the largest single share of ADF resources, in accordance with this directive. On the basis of total ADF lending undertaken so far and projected to the end of 1989, the distribution reflects an actual allocation for agriculture of 23.5 per cent; transport 22.44 per cent; public utilities 12.95 per cent; industry 7.55 per cent; education and health 15.74 per cent; and multisector loans 17.77 per cent.

2.1.8.2.2 Action 2. With respect to the intra-sectoral allocation guidelines of Deputies, Table 2.7 provides data for 1988 and 1989. As shown, in the agricultural sector about 50 per cent of Fund lending was directed to the food production sub-sector. Similarly in the health sector, about 20 per cent was directed to primary health programmes, with a stronger acceleration in favour of the latter in 1989. In education, over 80 per cent went to basic education and manpower development projects. However, basic education alone had a share of 22 per cent. Lending remains highly in favour of education.

2.1.8.2.3 Action 3. Cooperation with FAO, IFAD, IBRD and other international organizations has been intensified in the area of agriculture in 1988 and 1989 in accordance with this directive. Also coordination of activities in the health and education sectors with UNICEF, WHO and others has taken place. These efforts are perhaps more evident if examined within the context of cofinanced loans undertaken by ADF. ADF cofinanced loans rose from 15 in 1987 to 21 in each of 1988 and 1989. These projects cover 8 sectors and were undertaken with 2 sub-regional institutions, 13 multilateral institutions, and 17 bilateral institutions.

2.1.8.2.4 Action 4 The proposal by Management to expand Fund involvement in the new priority activity of women in development (WID) has materialised in the Bank Group establishing a WID unit which has now advanced on its work programme. Several actions have been taken to integrate WID concerns and issues into the normal operations of the Bank. These include regular participation by WID staff in Working Group and Loans Committee meetings and regular reviews of projects going to the Board. The unit also undertakes regular consultations with operational and planning departments, especially before missions depart from Abidjan to prepare and appraise projects in sectors where women play or can play important roles. The unit has also prepared a WID training proposal for staff of the Bank which started to be implemented in 1989. To assist operational staff and consultants to incorporate WID concerns in project design and appraisal a set of Checklists and Guidelines has been prepared and will be disseminated in early 1990. The staff of WID unit work closely with operations staff in programming, identification, preparation and appraisal missions for projects where women play important roles. To assist the Bank Group with data on WID, a databank on women in development has been established. A Policy Paper on WID is now under Board consideration. Other actions undertaken include the establishment of contacts and exchange of information with regional member countries and bilateral and multilateral institutions. As the important role of the borrowing countries is recognised in incorporating WID issues and concerns in project/programme proposals, sensitisation-cum-exploratory missions have been undertaken in these countries. An example of the projects funded through ADF resources aiming at directly benefiting women is the National

Livestock Development Project in Malawi which will contribute to raising incomes and the welfare of smallholder private producers involving over 60 per cent of the female population. Similarly, the Technical General Education Project in Zaire aims at, inter alia, strengthening nursery, primary and secondary education for girls in the rural areas. Additional examples of projects incorporating specific objectives and components directed at women are the Niger Fisheries project and the Somalia Livestock Project. Furthermore, a study to create appropriate mechanisms for improving the access of women to credit is underway.

2.1.8.2.5 Action 5. Within the new orientation given to environmental concerns in projects and programmes, in 1988, collaboration with the World Bank was initiated regarding the development of National Environmental Plans in regional member countries. In addition, an Environmental Position Paper adopted by the Board in 1988 elaborated on the need for development of environmental assessment procedures for utilization in the project cycle. An environmental policy issues study was also commissioned in 1988 and based upon this study an Environmental Policy for the Bank Group was submitted to the Board in November 1989. The objectives of the Policy Paper are to formalize and strengthen the process by which environmental concerns are incorporated in the planning, design and evaluation of projects financed by the Bank Group. The general and sectoral environmental policies of the Bank Group are shown in Annex 7. These policies formally establish the environmental procedures and methodologies to be followed particularly in the early stages of the project cycle. Projects are now more regularly reviewed by the Central Projects Department (CEPR) in order to assess their environmental impact (70% in 1988 and higher in 1989) and participation by environmental staff includes examination of projects at desk level and in the field as well as advice and support to project staff. The number of projects with an environmental element as the primary objective have increased from 3 to 5 to 12 for the years 1987, 1988 and 1989. Examples of such projects include water and sewerage projects in Zaire, Kenya, Guinea, Burundi, Congo, Ghana, Botswana and Guinea Bissau. Also, studies for water and sewerage projects were funded in Mauritius, Ethiopia, Seychelles, Madagascar and Zaire. The third Bilharzia Control project in Egypt was also approved in 1989. Similarly, other (agriculture, infrastructure ...etc.) projects with environmentally beneficial components (i.e. where secondary objective is to benefit the environment) were approved for Somalia, Madagascar, Mali, Nigeria, Burkina Faso, Ethiopia, Zaire, Benin, Botswana, Burundi, Zambia, Cameroon and Mali. The 14 projects falling under this category which were approved in 1988 and the 20 projects approved in 1989 for the countries listed above represent 25 per cent and 19 per cent of the total number of projects approved in 1988 and 1989.

2.1.8.2.6 Action 6. In support of the measures outlined above, Management has sought to sensitize staff on the importance of environmental issues in the day-to-day operations of the Fund and to this effect, organized the following seminars:

- (i) Economic Analysis and the Environment (June 1988);
- (ii) Staff Workshop on ADB Environmental Policy (December 1988)
- (iii) Hydro-power and the Environment, emphasizing energy conservation and efficiency for member countries (December 1988);
- (iv) Debt for Development with Special Reference to Conservation Financing (March 1989).

2.1.8.2.7 Action 7. Efforts have also been made to collaborate with individual national governments and international NGOs on natural resource restoration and conservation, in the context of Bank Group activity on debt alleviation in regional member countries.

2.1.8.2.8 Action 8 The Bank Group's thinking in the area of population is partly outlined in the Health Sector Policy Paper first published in 1987. The paper discusses the linkage between lower population growth rates and economic development, and lists lending for population as one of the priority areas for the Fund. On their part, African countries defined population development strategies during the Arusha Population Conference in 1984. Population related interventions by the Fund have so far been integrated in other programmes (especially with maternal and child health services). The Bank Group has also developed a programme (with USAID support) for staff training in demographic related issues. A full time demographer/population specialist has been appointed, and staff training and related computer programmes are being developed. In 1989 the Bank hosted and participated with IBRD, and other institutions in the first Population Advisory Committee Meeting which adopted an "Agenda for Action to Improve the Implementation of Population Programmes in Sub-Saharan Africa in the 1990s." One recent example of a project having a built-in population component is the Ruzizi Agriculture Study (1989) in Zaire which aims at a comprehensive study of the population (together with other activities) in the Ruzizi plain.

2.1.9 Multinational Projects and Regional Co-operation

2.1.9.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.15)

Although no particular share of ADF resources is being set aside for multinational projects, the Fund will make additional efforts to encourage regional co-operation projects and programmes.

2.1.9.2 Actions Undertaken

2.1.9.2.1 Action 1. In spite of the well-known difficulties encountered in securing multinational projects, the Fund has sought to promote such projects, within the context of the Bank Group's initiatives on economic integration. The regional distribution of ADF resources into national and multinational loans and grants is shown in Table 2.8. These ADF multinational loans and grants include a line of credit to ECOWAS, aimed at strengthening the financial capacity of the ECOWAS Fund; the RASCOM satellite study; the Liptako Gourma Health Study; and the OMVS Navigation study.

2.1.9.2.2 Action 2. In 1988, Management proposed to the Board a draft programme of Bank Group Assistance to Southern African Member States, (Doc. ADB/BD/WP/88/37-ADF/BD/WP/88/36). "The Role of the Bank in assisting Southern African member States under conditions of economic sanctions against South Africa". In the same year as well, a Cooperation Agreement was signed between the Bank and the Preferential Trade Area (PTA). The Bank also organised, in 1988, a Round Table on Regional Integration; a symposium on economic integration at the Bank Group Annual Meetings in Abuja (Nigeria), in May 1989; and economic integration was the main theme of the first annual issue of the African Development Report (1989). These actions form part of the Bank Group's continuing efforts to encourage economic integration in the region.

2.1.10 Lending Instruments and Policy-Based Lending

2.1.10.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.19-20)

Fund experience in project loans as well as the substantial needs in member countries for specific investments will continue to make project loans - in the form of specific investments, lines of credit to development banks, and sector investment and rehabilitation loans- by far the most important instrument of Fund lending operations during the ADF-V period.

The Fund will also increasingly respond to the requirements of member countries for policy-based lending by expanding the use of sector adjustment and structural adjustments loans. Up to 20% of available resources under ADF-V will be placed to such types of lending which, in the initial stages, will be done in close collaboration with multilateral development institutions.

2.1.10.2 Actions Undertaken

2.1.10.2.1 Action 1. Although the Fund has engaged in some policy-based lending, as it has been permitted, its overall operations have given preeminence to projects, lines of credit and to sectoral investments and rehabilitation. As illustrated in Table 2.9, ADF-V resources used for policy-based lending were well within the limits prescribed by Deputies. Policy-based operations projected to December, 1989 represent 19 per cent of ADF lending.

2.1.10.2.2 Action 2. In support of its policy-based lending operations, the Bank adopted a modus operandi governing collaboration between the ADB Group and the World Bank within the context of adjustment loans. This modus operandi is outlined in the memorandum of understanding contained in the document "Some Aspects of World Bank/African Development Bank Non-Project Aid Co-operation Programme (Policy-Based Operations)".

2.1.10.2.3 Action 3. The Bank has endeavoured to strengthen and enrich the practical experience of its economists and loan officers involved in adjustment loans, through participation in joint preparation and appraisal missions with the IBRD in the context of co-financed adjustment operations; and as observers in IBRD negotiations on co-financed operations.

2.1.11 Quality of Projects and Loan Portfolio

2.1.11.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.23)

The Deputies welcomed Management's concern to improve project quality and, in particular, the latter's intention to:

- apply more rigorous standards of project selection and preparation;
- make sure the projects will be consistent with the Fund's country-programme;
- intensify monitoring of project implementation through increased supervision and follow up missions;
- strengthen substantially the Bank Group's post-evaluation activities with a view to drawing lessons for incorporation in future design and implementation of projects; and
- review the role and number of country and regional offices.

Deputies were convinced that measures would go a long way towards improving the quality of the Fund's loan portfolio.

2.1.11.2 Actions Undertaken

2.1.11.2.1 Introduction

2.1.11.2.1.1 As noted in the Addendum to the Mid-Term Review Report on GCI-IV, as a basic underlying principle to its lending operations, all projects are evaluated against the following criteria:

- (i) conformity with policies, priorities and development objectives of the borrowing country;
- (ii) conformity with the Bank's policies and economic strategy objectives and priorities; and
- (iii) the project's technical (including environmental), economic and financial soundness.

These criteria, in addition to the countries' absorptive capacity, provide the fundamental basis governing the approval of projects; and once approved, all projects are subjected to normal supervision and post-evaluation.

2.1.11.2.1.2 Summary of Actions. The measures undertaken to ensure that these goals are met for the Bank Group as a whole are provided in Section 3.1.8 of the GCI-IV Mid-Term Review Report. The various instruments developed for strengthening project selection and preparation include project briefs aimed at justifying the inclusion of projects in the pipeline; an Operations Manual finalised in May 1989; a three-year rolling lending programme for improving activity follow-up and strengthening the pipeline; and trial sub-systems that will eventually lead to the introduction of a Financial Loans Administration System. With respect to ensuring consistency with EPCPs, this matter is now formally addressed in appraisal reports (also see Annex 5). Project and programme supervision and follow-up have been strengthened by developing "Guidelines for Project Supervision," that emphasize greater dialogue with borrowers, and aim at a supervision frequency of 2 projects per year. The Bank Group has also adopted the practice of mid-term reviews for complex projects, and greatly increased the number of supervision and follow-up missions (from 195 in 1988 to over 300 in 1989) as well as of project completion reports. The role of regional and country offices in the context of improving project quality has been examined in a study considered by the Board of Directors in 1988. While further thoughts have to be developed for implementation of the various proposals in this study, a representative office was opened in Lagos in 1989, after those in Addis Ababa and Conakry in 1986.

2.1.12 Feedback Process Of Ex-Post Evaluation Findings

2.1.12.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.24)

Given increasing demands on limited Fund resources, it is necessary to focus on the efficient use of these resources. Management should improve the feedback process of ex-post evaluation findings to help increase the cost-effectiveness and report on it at the mid-term review.

2.1.12.2 Actions Undertaken

2.1.12.2.1 Summary of Actions. Measures undertaken under this directive are provided in Section 3.1.7 of the GCI-IV Mid-Term Review Report. These include the establishment of a Committee by the President of the Bank to examine recommendations contained in project performance audit reports and initiate appropriate actions; the completion of a study covering 64 projects and synthesizing project performance results over the period 1982-87; the completion of another study on delays in project implementation; the instructions by the President requiring each Vice-President (Operations) to report to him twice a year on the results of the follow-up on the feedback mechanism; and the strengthening of a separate Operations Evaluation Office which now issues an annual report on operations evaluation activities (Annex 10) and prepares guidelines on project work (Annex 11) for use by Bank staff.

2.2 FINANCE

2.2.1 Level of Liquidity and Encashment of Notes

2.2.1.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.26)

Deputies agreed that, given the nature of the institution, there was no need to build up reserves by the creation of excess liquidity. Deputies agreed that the present high liquidity level should be brought down to a level consistent with the guidelines mentioned below. To move in this direction, it was agreed that the Fund will reduce its liquidity by FUA 30 million per annum during the next three years. Notes should be encashed on a pro-rata basis to meet projected operational expenditures over successive periods of three months; taking into account the need for reasonable opening and closing balances. No drawings should be made for investment purposes. The State participants indicated that they wished to receive, at the earliest possible opportunity, annual programmes for the encashment of notes in order to enable them to provide for the relevant budgetary appropriations.

2.2.1.2 Actions Undertaken

2.2.1.2.1 Action 1. For 1988 Management prepared a schedule of encashments of notes for an amount of FUA 352 million which, supplemented by the planned reduction in the Fund's liquidity of FUA 30 million as directed, would cover forecast disbursements for 1988 of FUA 382 million.

2.2.1.2.2 Action 2. Disbursement levels were reviewed by Management in mid-1988, following which it was concluded that the annual target would most likely be met. At the time disbursements were running at about 15% below target. It was however expected that the level of FUA 382 million for the year would be met with the anticipated disbursements on policy-based loans. On the basis of this forecast the third installment of notes for 1988 was encashed.

2.2.1.2.3 Action 3. By the time the encashment of the fourth installment was due it became clear that because ADF-V would become effective at a later date than was projected, the disbursements on policy-based loans would not take place as anticipated. Members of the Fund were therefore asked to hold back their fourth installment. Nevertheless, a total of FUA 56.20 million was still encashed. In addition, cash receipts totalling FUA 45.3 million representing payments of the first instalment of ADF V were received late in the fourth quarter of 1988. These receipts were not anticipated and as such, were not factored into the projected liquidity position. Consequently, the Fund's liquidity as at 31 December 1988 of FUA 497.73 million was 19.9% higher than the targetted level of FUA 415.20 million. Management therefore was unable to meet the directive to reduce the liquidity level in 1988.

2.2.1.2.4 Action 4 In preparing the 1989 encashment schedule, Management planned a reduction in the Fund's liquidity to a level of FUA 385.2 million by year end, to reflect a reduction in liquidity of FUA 60 million from the level at the end of 1987 of FUA 445.20 million, in order to meet the directives of the Deputies.

2.2.1.2.5 Action 5 In 1989 the first and second installments (for a total amount of FUA 165.9 million) were encashed in February and May respectively, while Management monitored the pace of disbursements. Following a mid-year evaluation of the Fund's liquidity it was decided not to encash the third and fourth installments due in August and October. One country however opted to encash its third and fourth instalments for an amount of FUA 5.38 million. Total encashments in 1989 amounted to FUA 171.27 million or 49.6% of the original estimate made at the beginning of the year. Liquidity at the end of 1989 is therefore estimated at FUA 360 million, or about 6.5% below the figure of FUA 385.2 million stipulated by the Deputies. The directive to reduce the Fund's liquidity will therefore be met at the end of 1989. Furthermore, a reduction of FUA 30 million has been taken into account in preparing the 1990 encashment schedule.

2.2.1.2.6 Action 6. With respect to the pro-rata draw-down of notes Management has ensured that in preparing the schedules of encashments, participants are made to share, on a pro-rata basis, the amount required for disbursements.

2.2.1.2.7 Action 7. No draw-downs are made solely for the purposes of investments. However, some proceeds are invested in short-term instruments or placed in call accounts until disbursed. Income generated from such investments goes to cover the Fund's operating costs*.

2.2.1.2.8 Action 8. Annual programmes for the encashment of notes are now provided for the following year in October in compliance with the directive given.

2.3. ADMINISTRATION

2.3.1 Recruitment of Non-Regional Staff

2.3.1.1 Directives (ADF-V/CM-5/87/20/Rev. 3, para.27)

Deputies examined a report on Bank Group efforts at recruiting non-regional staff and re-affirmed the positive contribution which a significant recruitment, at all levels, would make to the interests of the Bank Group. Deputies expressed willingness to assist in these efforts and exhorted Management to continue with and further strengthen the measures taken in this respect.

2.3.1.2 Actions Undertaken

2.3.1.2.1 Action 1. The Bank selected competent candidates with a view to giving some preference to those from under-represented countries, including most non-regional countries, although no specific guidelines were issued. This resulted in an increase in the number of professional staff from non-regional countries -- from 20 staff members from 12 countries in January 1987, to 32 from 13 countries in December 1989. The percentage of non-regional professional staff in the total number of professionals has consequently risen from 5.4 per cent to 7.5 per cent over the period. The Bank recruited 212 staff of all categories from 1987 to 1989; 48 (22.6 per cent) of these were from non-regional member countries. As a result the percentage of non-regional staff in the total has risen from 2.9 per cent to 4.4 per cent.

2.3.1.2.2 Action 2. Specific actions were taken to attract candidates from under-represented countries. These included recruitment missions to member countries and major international institutions, such as the World Bank, and increased use of advertising in major newspapers and international publications (International Herald Tribune, Economist, etc).

* The issue of the operating costs of the Fund is expected to be discussed in the context of the ADF-VI consultations with Deputies.

CHAPTER 3

FURTHER ACTIONS PLANNED: ISSUES AND PROSPECTS

3.0 Introduction

3.0.1 The previous chapter has reviewed the implementation record of the Fund with respect to the directives issued by Deputies at the conclusion of the consultations on the fifth replenishment of Fund resources. In the area of lending operations, it is Management's view that the Fund has made a deliberate effort to implement the Deputies directives as reflected, for example, in its adherence to the policy-based lending limits; the preparation of EPCPs; the improvements in country programming and the project cycle; and the effort at increasingly incorporating concerns regarding women in development, population and the environment into the project cycle. With respect to financial management, the Fund has adhered as faithfully as possible to the directive concerning the level of liquidity and the encashment of notes. Similarly, with regard to administrative matters, the Fund has actively sought to recruit, and has succeeded in employing, an increasing number of non-regional staff, as was directed.

3.0.2 Management has, therefore, taken the directives seriously and has made a determined effort in their implementation. The Fund has succeeded in meeting many of the objectives set for it by Deputies in 1987. The directives of Deputies and Management efforts at implementing them have greatly increased the breadth and depth of Fund operations. Even a quick comparison with operations under the last replenishment period* (ADF-IV) -- say, in the areas of country programming, policy-based lending, and the environment -- easily leads to this conclusion. Clearly, there are areas in which further effort is required. This chapter presents the various issues that have arisen in the course of implementing the Deputies' directives, and indicates further actions planned for fuller implementation of the directives. The chapter concludes with a brief forward look at the challenges which face the fund in the rest of the Fifth Replenishment period and beyond.

* See, for instance, African Development Fund, "A Proposal for the Fifth Replenishment of Resources" (ADF-V/CM/87/01; Abidjan, 1987), Chapters 2 and 3.

3.1 Resource Allocation Objectives

3.1.1. As was outlined in section 2.1.2, Deputies affirmed that the Fund operations should aim at meeting the primary needs of the poorest sections of the population in low income countries; fostering employment and income creation; promoting the participation of project beneficiaries, including women in project design and implementation; and supporting growth-promoting policies. Deputies asked Management to define appropriate indicators for monitoring progress on these fronts.

3.1.2 In spite of the actions taken to implement this directive, some difficulties remain. First, although it is relatively easy to identify poverty and basic needs issues, it is much more demanding to design policies, institutions and mechanisms for systematically channelling resources to poorer sections of the population. This problem is common to both policy-makers in the borrowing countries and the multilateral financial institutions. Thus, although allocation of ADF resources in favour of the lowest income countries has been in line with the directives, allocation in favour of meeting the primary needs of the poor within countries has not been as impressive. The examples cited in paragraph 2.1.2.2.1 and 2.1.2.2.2 while showing that a good beginning has been made, underline the need to move much more aggressively in the financing of such projects and, more importantly, in the formulation of policies, procedures, and mechanisms to support poverty alleviation programmes.

3.1.3. Second, there are similar difficulties in relation to promoting the participation of project beneficiaries, including women, in project design and implementation. Policies, institutions, and mechanisms for doing this remain weak both in borrowing countries and multilateral financial institutions. To some extent, this is a problem inherited from past development thinking -- which tended to approach development from 'top down'. However, as indicated in para 2.1.2.2.3 this situation is changing in the case of the Fund; over ten countries have, for instance, proposed projects likely to involve the active participation of women.

3.1.4. The development of appropriate indicators for monitoring and assessing progress in meeting the primary needs of the poor and in addressing related concerns has been slow partly because of the conceptual and technical difficulties in developing such indicators although, as has been demonstrated in Chapter 2, efforts have been made to explicitly address the needs of the poor. In a situation that is admittedly characterised by past weak policies and mechanisms (in relation to the needs of the very poor) both at the country policy-making level and in multilateral financing institutions generally, this process was bound to be slow. However, as indicated in the previous chapter, steps are under way to move quickly in this area.

3.1.5. Three main future actions are planned in order to implement more fully the directive of Deputies. First, the Bank Group's conceptual and institutional framework to increasingly address the primary needs of the poorest sections of population will be strengthened. This will partly be done by systematically bringing this concern to bear on the analysis of lending programmes. A short overview paper on poverty alleviation and multilateral development bank lending has also been developed by Bank staff; with further efforts, it is intended to extend it for eventual consideration by the Board of Directors in the course of 1990. Ideas developed within the Bank Group will be used in programming missions and in policy dialogue with countries borrowing from the Fund. Second, a policy paper on Women in Development has been submitted to the Board. A number of the concerns expressed by Deputies will be adequately addressed once the policy paper has been approved and guidelines to operations staff have been provided. Third, Management will develop the requisite monitoring and assessment indicators requested by Deputies.

3.2. Country Programming

3.2.1. The directive referring to this aspect of Fund Operations (section 2.1.3.) required the Fund to accord particular attention to the formulation of comprehensive country programmes, and to ensure that loan proposals brought before the Board were fully consistent with such programmes. Deputies also required complete coverage of Category A countries in respect of country programmes.

3.2.2. In terms of broad coverage as required under the directive, this is an area which is easily described as a success story; EPCPs for Category A countries have nearly been completed. However, improvements could be made with respect to depth of country and sectoral economic analyses, project consistency with country programmes, and internal processing of EPCPs.

3.2.3. Further actions are therefore planned to enrich the programming process. First, deeper country macroeconomic and sectoral analyses are required in order to enhance the efficiency of Fund intervention in borrowing countries. This calls for more staff time and specialised skills for country work. Therefore, priority will be given to strengthening country-programme and sectoral departments through internal staff movements and recruitment. Second, effort should now be increasingly directed at up-dating and revising existing EPCPs. EPCPs are initially costly exercises and should therefore be constantly up-dated to avoid major costs. As country economic conditions and priorities change, such revisions should help in assuring greater consistency between projects brought for Board consideration and the EPCPs. Third, a review of the EPCP preparation cycle will be undertaken in the first half of 1990 with a view to overcoming difficulties encountered with the current procedures for processing EPCPs.

3.3. Technical Assistance

3.3.1. Among other decisions on this subject, Deputies agreed to allocate 10 per cent of the replenishment to technical-assistance operations, with 85 per cent of the allocation going to Category A countries.

3.3.2. As was indicated earlier (section 2.1.5), progress has been made, especially in 1989, in moving toward the implementation of the directive. However, results were slow in 1988. Three main reasons explain this. First, there was a delay in regard to the date of effectiveness of ADF-V (May 1988). Second, guidelines and procedures for the utilisation of the Technical Assistance Fund had to be developed. These were issued by the Board of Directors in August 1988. Third, the Technical Assistance Fund (TAF) -- largely as grant resources -- was a new instrument to the beneficiary countries; it took time for the countries to familiarise themselves with the instrument and to develop appropriate demands on it. A more general reason tending to delay the utilisation of the TAF is that although many TAF projects are for small amounts, they require no less use of administrative resources as ordinary projects.

3.3.3. Given that the slow pace in utilising the TAF is partly associated with the problems of initially implementing ADF-V which are now more or less resolved, Management plans to address the last reason given in the preceeding paragraph. It is planned to take proposals to the Board of Directors requesting the Board to give some flexibility to Management in administering the TAF within some prescribed limits.

3.4. Blending of ADB/ADF Resources

3.4.1. Under this subject, Deputies called for systematic work to be done to establish a policy on the blending of ADB/ADF resources for suitably creditworthy countries (section 2.1.6).

3.4.2 The actions undertaken so far were outlined in section 2.1.6. But it should be said that, in practice, the greatest limitation to developing a blending policy for the Bank Group has been the very limited amount of concessional resources available to countries in Categories B and C (respectively, 10 % of ADF-V replenishment after earmarking technical assistance resources, and 3 % of technical assistance resources). The latest Management effort with respect to blending is the paper currently under the consideration of the Boards of Directors. It is argued in that paper that the seriously worsening debt and payments situation as well as the general economic deterioration in many of the countries in Categories B and C call for a significant increase in concessional resources to those countries. There are very limited concessional resources from all sources going to such countries. It is in this context that future Bank Group's blending policy is perceived. Against this background of the worsening economic situation in many African countries, the ADF-V Proposal had argued for an increased volume of blended resources for the higher-income countries for specific projects and in support of their difficult adjustment programmes.

3.4.3 The paper on blending under the consideration of the Boards of Directors notes, inter alia, that given both the debt servicing difficulties of African countries and the eligibility criteria established under ADF-V, resources currently available for blend-financing do not represent an adequate response to the external resource requirements of a significant number of African countries. It is, therefore, proposed in the paper that a comprehensive policy on blending should be presented in the context of ADF-VI negotiations. It would then be proposed that blend finance be extended to countries, apart from those in Category A, on the basis of considerations such as the debt burden, and external payments situation. This is a major planned action aimed at meaningfully extending the Bank Group's policy on blending.

3.5 Aid Coordination

3.5.1 As was summarised in section 2.1.7 the main objective of Deputies under this heading was to ensure that Fund lending is well coordinated with the other efforts of major donor agencies.

3.5.2 A good number of actions have been taken to put in place mechanisms that systematically reinforce the process of aid coordination on the part of the Bank Group. The various mechanisms have worked well so far, but there remains room for improvements and further actions. First, new procedures developed for aid coordination need more rigorous application and monitoring. Second, a clear follow-up is needed on the expanded role given to the Bank Group as demonstrated in the case of its relations with the Preferential Trade Area of Eastern and Southern Africa (PTA) -- for which the Bank Group accepted to coordinate all external aid and to assist in the implementation of the institution's programme. Third, regional and country offices will be reinforced in terms of functions and procedures in order to play a greater role in aid coordination at the country level. Fourth, a policy paper on collaboration between the Bank Group and non-governmental organisations (NGOs) will be developed, in the course of 1990, with a view to extending existing links between the Group and NGOs. Fifth, the study on aid coordination that is being co-financed by the Bank Group and the United Nations Development Programme will be finalised and presented to the Board also in 1990.

3.6. Sectors of Operation

3.6.1. In terms of sectors of operation, Deputies placed emphasis on agriculture and the social sector and encouraged Management to continue and strengthen its programmes in new areas of operation -- population, women in development, and the environment (section 2.1.8).

3.6.2. The actual allocation of resources by sector indicates a number of issues requiring further reflection and actions. As was seen in Chapter 2, the proportion of resources earmarked for the agricultural sector remained below target. Three points can be advanced in this regard. First, country priorities in the recent past, although still placing agriculture on top priority in terms of resource allocation, may have moved to favour supportive activities like transport. Second, mechanisms to direct resources to agriculture may still remain weak at the country level thereby maintaining a gap between intentions and practice. Third, programming within the Bank Group may not have adequately emphasized the Group's medium-term sectoral priorities on a country by country basis and in policy dialogue with countries. This would lead to weakness in identifying agricultural projects.

3.6.3. In the social sector, there has been a strong resource-allocation bias in favour of education. This bias is also, in many cases, noticeable at the country level where education takes more resources than health. Within the Bank Group, project identification has tended to be weak partly because of weak working relationships with external agencies operating in the health sector -- which could otherwise assist in identifying health projects in Africa, and partly because of staff constraints. Within total ADF lending for the health sector, primary health programmes have not received as much resources as was envisaged under the directive. This is a problem which is due to policy and institutional weaknesses at the country level as well as by shortcomings within the Bank Group.

3.6.4 There has been steady progress in the new areas of operation (population, women in development, the environment) -- at times referred to as the foundations for long-term development. These aspects of development which have also been underlined by the Committee of Ten eminent persons (to look at the present and future of ADB)* have required detailed policy and institutional preparation on the part of the Bank Group. Results are inherently slow, and close cooperation and coordination are needed for national and international agencies concerned in order to achieve results.

3.6.5. A number of actions are planned to improve on the Fund's sectors of operation in line with the directive of Deputies. First, every effort will be made in 1990 to increase the share of ADF lending to agriculture. The share for 1990 is now projected at 36 per cent in the 1990-92 lending programme -- a substantial increase from the 1989 share. This will partly be approached by appropriately strengthening Bank Group programming and project identification as well as by raising this concern in policy dialogue with borrowing countries. However, the evidence so far indicates the need for flexibility in setting sectoral shares. This is a matter that will be raised in consultations on ADF-VI replenishment. An agricultural sector policy paper for the Bank Group has also been submitted for Board consideration; it will help in systematically addressing many of the issues facing African agriculture.

3.6.6. With respect to expanding lending for health, steps are under way within the Bank Group to strengthen cooperation with the World Health Organisation. A draft cooperation agreement has been prepared and will be concluded early in 1990. In identifying and financing health projects, special efforts will be made to emphasize primary health programmes. The Technical Assistance Fund will be used to assist in this direction.

* See Africa and the African Development Bank : Current and Future Challenges, Report of the Committee of Ten, (Abidjan: ADB, 1989)

3.6.7. The progress already made in the areas of the environment and women in development is encouraging. What is now required is further action to enrich Fund operations in these areas. However, as was especially recognised in the case of the environment, these areas require coordination and cooperation at national and international levels as well as considerable concessional resources. Long-term sustained efforts are, therefore, called for. In the area of population, it is planned to develop a comprehensive policy paper in the course of 1990. The paper will define *inter alia*, further mechanisms through which the Fund can provide assistance to engage in dialogue with national governments. As its practical experience and its collaboration with other agencies expand, the Fund will begin to play an even greater role in all these long-term development issues of great importance to Africa.

3.7. Multinational Projects and Regional Cooperation

3.7.1 Under this heading, Deputies required the Fund to make additional efforts to encourage regional cooperation projects and programmes (section 2.1.9). A number of actions have been undertaken but more can and should be done. The weak results so far are largely a reflection of obstacles at the country level, but they also call for some improvements within the Bank Group.

3.7.2. The importance of regional integration to African economic integration has also been emphasized by the Committee of Ten*. The latter pointed out the world-wide tendency in that direction and the need for Africa to move quickly in search of production efficiency, investment and competitiveness. Apart from the on-going initiatives on economic integration outlined in section 2.1.9, Management has recommended in a paper under Board consideration, "Implementation of Committee of Ten Recommendations," (ADB/BD/WP/89/146), the establishment of a new organisational unit within the Bank Group to continually address operational and other issues related to African economic integration. That recommendation endorses the one by the Committee of Ten that sought the establishment of a new unit "to serve as a strong focal point for the promotion of regional economic integration and multinational projects". Apart from this possible organisational improvement, the Bank Group will emphasize integration from the grassroots -- by working closely with sub-regional and national agencies to identify and implement integration projects and programmes.

* See Africa and the African Development Bank : Current and Future Challenges, Report of the Committee of Ten, op cit

3.8 Lending Instruments and Policy-based lending

3.8.1 As was outlined in section 2.1.10, Deputies required the Fund to continue emphasizing project lending but also to move significantly in the relatively new area of policy-based lending. Broadly speaking, the Fund has moved as required by Deputies.

3.8.2 As is the case with country programming, what is needed here is to deepen policy-based operations of the Fund. More effort will, therefore, be made to strengthen the Bank Group's capacity to enrich policy-based lending operations. Collaboration with the World Bank on policy-based operations -- which, as was indicated earlier, has progressed well -- will be continued; and Management would actively consider devising mechanisms through which the effectiveness of such operations can be adequately monitored and evaluated.

3.9 Quality of Projects and Loan Portfolio

3.9.1 Improvement in project quality and the Fund's loan portfolio was an important concern of Deputies. An array of measures has been undertaken on this front (section 2.1.11); what is now called for largely is consolidation and follow-up.

3.9.2 First, a closer follow-up on guidelines and procedures outlined in the Operations Manual and elsewhere will be made. Second, the staff strength of operational departments -- through redeployment and recruitment -- should be increased with a view to improving downstream project supervision activity. Third, there will be a follow-up on the recommendations regarding the improved functioning for regional offices, particularly with respect to the project pipeline; quantitative targets on project quality; participation in supervision missions; and liaison with member countries on issues related to subscriptions and loan arrears. Fourth, efforts will be sustained for further development of the project implementation data base system leading to the full implementation of the Financial Loans Administration System. Fifth, post-evaluation activities will be further strengthened both in terms of staff skills and the feedback process based on post-evaluation findings.

3.10. Level of Liquidity and Encashment of Notes

3.10.1. The Deputies' directive under this heading was mainly aimed at ensuring the closest link between encashments and disbursements (section 2.2.). Although there were initial difficulties in 1988, these have been overcome in 1989 and no significant ones are foreseen in 1990.

3.10.2 There will, therefore, be careful monitoring of the Fund's liquidity level in 1990 to ensure continued compliance with the directive.

3.11. Recruitment of Non-Regional Staff

3.11.1 Deputies encouraged Management to continue with and further strengthen the measures taken to increase the recruitment of non-regional staff (section 2.3.1). As noted earlier, a number of actions taken have led to progress in this direction. It should be said, however, that the very limited number of new positions in the first two years of the ADF-V replenishment period has restricted action. Similarly, the Bank Group has at times lost good potential non-regional staff because its benefit package has not been sufficiently competitive.

3.11.2. The Bank Group will continue its efforts to attract and retain staff from non-regional member countries. Targeted advertising in newspapers and other publications in non-regional member countries will be undertaken. Executive Directors will be informed of all existing vacancies and requested to actively solicit candidates from their constituencies.

3.12. Conclusion

3.12.1 This chapter has presented some issues that have arisen in the course of implementing the various directives given by Deputies, and indicated actions planned for further implementation of the directives. As has been alluded to in a number of cases, some of the obstacles in implementing the directives -- for instance in certain areas of resource allocation -- are, outside the control of the Bank Group. They are to be addressed at the level of national policy-making, partly through policy dialogue with borrowing countries.

3.12.2 It is also true that some of the constraints are within the Bank; and a number of actions have to be taken in order to address more adequately the directives given by Deputies. In particular, further measures are called for in addressing more vigorously the primary needs of the poor (including the development of appropriate indicators), in devising effective debt reduction measures (including blending), in better integrating environment and WID issues in Fund Operations, and in increasing lending to the health sector -- with emphasis on primary health programmes. And, even in the face of the growing human-resource constraints, Management will pursue these measures.

3.12.3 On the whole, however, it can be said that the Fund has performed credibly in responding to the directives given by Deputies. Country programming, country eligibility and resource allocation, policy-based lending, and aid coordination are examples of the satisfactory implementation of directives. Even in regard to environment and Women in development when more effective integration in lending operations is required, action taken to date can be said to respond reasonably well to Deputies' directives. Also, there are initiatives which have been undertaken but whose full impact is yet to be felt. All in all, therefore it can be concluded from this mid-term review that Fund operations have been considerably expanded and have been enriched to increasingly address basic development policy issues. The Fund has become a major vehicle for concessional resource transfers to Africa and an important positive force for economic development. It is a unique instrument available for African policy-makers and their development partners to advance much needed change in the continent.

3.12.4 On the threshold of what promises to be an eventful decade and on the eve of the consultations on ADF-VI, an opportunity presents itself for exploring the most effective way of supporting Fund programmes in Africa over the period 1991-1993. Major developments now taking place on the world scene present a number of challenges to African governments and to the donor community : the challenge to sustain the momentum of reform under way in the great majority of African countries; the challenge to review existing strategies with a view to securing more direct, visible and tangible advancements in areas such as poverty alleviation, debt reduction, and economic integration; and finally the challenge of not despairing in the face of what might sometimes appear to be daunting problems.

STATISTICAL TABLES

Table 2.1

ADF-V - COUNTRY CATEGORIES AND ALLOCATIONS

-----ALLOCATION PER CRITERION-----						
	POP.	GNP PER CAP.	POP. (1)	GNP PER CAP. (2)	PRESENCE (3)	ISOLATION (4)
					ALLOC.	ALLOC. PER CAP.
<u>CATEGORY A.1</u>						
<u>Country</u>						
1. Benin	4.18	270.00	11.86	16.46	5.36	33.68
2. Burkina Faso	8.10	150.00	22.98	29.63	5.36	63.67
3. Burundi	4.83	240.00	13.71	18.52	5.36	43.26
4. Central African Rep.	2.65	290.00	7.52	15.33	5.36	33.90
5. Chad	5.15	140.00	14.61	31.75	5.36	57.41
6. Comoros	0.47	280.00	1.33	15.87	5.36	28.26
7. Djibouti	0.35	270.00	0.99	16.46	5.36	22.82
8. Equatorial Guinea	0.38	120.00	1.08	37.04	5.36	49.17
9. Ethiopia	43.50	120.00	123.43	37.04	5.36	165.83
10. Gambia	0.77	230.00	2.18	19.33	5.36	26.87
11. Guinea	6.32	320.00	17.93	13.89	5.36	37.18
12. Guinea Bissau	0.91	170.00	2.58	26.15	5.36	34.09
13. Kenya	21.23	300.00	60.24	14.82	5.36	80.42
14. Madagascar	10.55	230.00	29.94	19.33	5.36	60.31
15. Malawi	7.28	160.00	20.66	27.78	5.36	59.49
16. Mali	7.70	170.00	21.85	26.15	5.36	59.05
17. Mozambique	14.19	210.00	40.26	21.17	5.36	66.79
18. Niger	6.59	260.00	18.70	17.10	5.36	46.85
19. Rwanda	6.24	290.00	17.71	15.33	5.36	44.08
20. S.Tome and Principe	0.11	340.00	0.31	13.07	5.36	24.44
21. Sierra Leone	3.75	310.00	10.64	14.34	5.36	30.34
22. Somalia	5.55	280.00	15.75	15.87	5.36	36.98
23. Sudan	22.57	320.00	64.04	13.89	5.36	83.29
24. Tanzania	23.05	240.00	65.40	18.52	5.36	89.29
25. Togo	3.14	250.00	8.91	17.78	5.36	32.05
26. Uganda	15.16	220.00	43.02	20.20	5.36	74.27
27. Zaïre	31.51	160.00	89.41	27.78	5.36	122.55
28. Zambia	6.95	300.00	19.72	14.82	5.36	45.59
SUB-TOTAL	263.18		746.78	575.41	150.09	1551.93
					79.66	

Table 2.1 (Contd.)

ADF-V - COUNTRY CATEGORIES AND ALLOCATIONS

-----ALLOCATION PER CRITERION-----

		POP.	GNP PER CAP.	POP. (1)	GNP PER CAP. (2)	PRESENCE (3)	ISOLATION (4)	ALLOC.	ALLOC. PER CAP.
CATEGORY A.2									
Country									
1.	Cape Verde	0.34	460.00	0.96	9.66	5.36	5.69	21.68	63.76
2.	Ghana	13.13	390.00	37.26	11.40	5.36		54.01	4.11
3.	Lesotho	1.59	410.00	4.51	10.84	5.36	5.69	26.40	16.61
4.	Liberia	2.28	450.00	6.47	9.88	5.36		21.71	9.52
5.	Mauritania	1.74	440.00	4.94	10.10	5.36		20.40	11.72
6.	Senegal	6.77	420.00	19.21	10.58	5.36		35.15	5.19
	Total	289.03		820.13	637.88	182.25	91.04	1731.29	
CATEGORY B									
1.	Angola	9.00	600.00	3.80	8.88	2.25		14.93	1.66
2.	Botswana	1.11	840.00	0.47	6.34	2.25	3.37	12.43	11.20
3.	Cameroon	10.55	910.00	4.45	5.85	2.25		12.56	1.19
4.	Cote d'Ivoire	10.43	720.00	4.40	7.40	2.25		14.05	1.35
5.	Egypt	49.70	730.00	20.98	7.30	2.25		30.53	0.61
6.	Morocco	22.48	580.00	9.49	9.19	2.25		20.92	0.93
7.	Nigeria	103.15	620.00	43.54	8.59	2.25		54.39	0.53
8.	Swaziland	0.79	610.00	0.33	8.73	2.25	3.37	14.69	18.59
9.	Zimbabwe	8.71	520.00	3.68	8.52	2.25	3.37	17.89	2.05
	Total	215.92		91.15	70.87	20.25	10.11	192.39	

NOTES:

Weights:

1. Population = 45%
2. Per Capita Income = 35%
3. Presence = 10%
4. Isolation = 5%
5. Corrective Factor = 5%

TABLE 2.2

DISTRIBUTION OF ADF-V LOANS AND GRANTS BY COUNTRY CATEGORY
(per cent)

	<u>1988</u>	<u>1989</u>
LOANS		
Category A1	80.7	87.8
Category A2	13.1	1.9
Category B	2.5	8.1
Category C	0.2	0.4
Multinational	3.5	1.9
Total*	100.0	100.0
GRANTS		
Category A1	73.5	68.5
Category A2	0.0	12.1
Category B	0.0	12.3
Category C	0.0	0.0
Multinational	26.5	7.1
Total*	100.0	100.0

Notes: Totals may not add to 100.0 owing to rounding.

Table 2.3

**STATUS REPORT ON ECONOMIC PROSPECTS AND COUNTRY
PROGRAMMING PAPERS**

Country Category and Country	Status as at November 30, 1989
Category A1	
1. Benin	circulated to Board
2. Burkina Faso	circulated to Board
3. Burundi	circulated to Board
4. Central African Rep.	circulation in 1990
5. Chad	circulation in 1990
6. Comoros	circulation in 1990
7. Djibouti	circulated to Board
8. Equatorial Guinea	circulated to Board
9. Ethiopia	circulated to Board
10. Gambia	circulated to Board
11. Guinea	circulated to Board
12. Guinea Bissau	circulation in 1990
13. Kenya	circulated to Board
14. Madagascar	circulated to Board
15. Malawi	circulated to Board
16. Mali	circulated to Board
17. Mozambique	circulated to Board
18. Niger	circulation in 1990
19. Rwanda	circulated to Board
20. S. Tome and Principe	circulated to Board
21. Sierra Leone	circulated to Board
22. Somalia	circulation in 1990
23. Sudan	circulation in 1990
24. Tanzania	circulated to Board
25. Togo	circulated to Board
26. Uganda	circulated to Board
27. Zaïre	circulated to Board
28. Zambia	circulation in 1990

Country Category
and Country

Status as at November 30, 1989

Category A2

1. Cape Verde	circulated to Board
2. Ghana	circulated to Board
3. Lesotho	circulated to Board
4. Liberia	circulation in 1990
5. Mauritania	circulated to Board
6. Senegal	circulated to Board

CATEGORY B

1. Angola	circulation in 1990
2. Botswana	circulated to Board
3. Cameroon	circulation in 1990
4. Cote d'Ivoire	circulation in 1990
5. Egypt	circulated to Board
6. Morocco	circulation in 1990
7. Nigeria	circulated to Board
8. Swaziland	circulated to Board
9. Zimbabwe	circulation in 1990

CATEGORY C

1. Algeria	circulation in 1990
2. Congo	circulation in 1990
3. Gabon	circulation in 1990
4. Libya	not a borrower
5. Mauritius	circulation in 1990
6. Seychelles	circulation in 1990
7. Tunisia	circulation in 1990

Table 2.4

USE OF ADF RESOURCES
(FUA million and per cent)

Country Category	Projects		Technical Assistance	
	1988	1989	1988	1989
A1	480.31 (83.8)	647.69 (89.8)	14.93 (91.1)	50.54 (70.8)
A2	77.7 (13.6)	13.82 (1.9)	0 (0.0)	8.90 (12.5)
Total A	558.01 (97.4)	661.51 (91.7)	14.93 (91.1)	59.44 (83.8)
B	14.98 (2.6)	59.56 (8.3)	0 (0.0)	9.05 (12.7)
C	0.0 (0.0)	0.0 (0.0)	1.46 (8.9)	2.85 (4.0)
Sub-Total	572.99 100.0	721.07 100.0	16.39 100.0	71.34 100.0
Multinational	20.84 (3.5)	13.77 (1.9)	5.40 (24.8)	5.27 (6.9)
Total	<u>593.83</u> (100.0)	<u>734.84</u> (100.0)	<u>21.79</u> (100.0)	<u>76.61</u> (100.0)

Figures in brackets refer to percentages of amounts in each column. These percentages may not add to 100.0 owing to rounding.

TABLE 2.5

OPERATIONS OF TECHNICAL ASSISTANCE FUND OF ADF-V
(FUA million)

1988

<u>Country</u>	<u>Loans</u>	<u>Total Costs</u>	<u>ADF Share</u>	<u>Share in %</u>
Congo	Village Centres Study	2.76	1.46	52.9
	Sub-Total	2.76	1.46	52.9
	<u>Grants</u>			
C.A.R.	Health Study	2.57	1.87	72.9
Gambia	S.D.A. Technical Assistance	2.77	2.17	78.3
Guinea-Bissau	Institutional Support to Civil Aviation	3.00	1.30	43.3
Madagascar	Telear Flood Protection Study	1.90	1.66	87.4
Mali	Health Study	3.67	1.93	52.6
	University Education Study	0.62	0.59	95.0
Mozambique	BDP Inst. Support	0.24	0.22	95.3
	Beira-Machnipanda Road Rehabilitation Study	45.20	0.90	2.0
Zaire	Master Plan (2010)	4.60	4.28	93.1
<u>Multinational</u>				
ALG	Liptako-Gourma Heath Study	1.90	1.80	94.9
OMVS	Navigation Study on River Senegal	0.40	0.37	93.3
RASCOM	African Satellite Study	6.05	3.23	53.4
	Sub-Total	<u>72.91</u>	<u>20.33</u>	<u>27.9</u>
Total (1988)		<u>75.67</u>	<u>21.79</u>	<u>28.8</u>

TABLE 2.5 (continued)

OPERATIONS OF TECHNICAL ASSISTANCE FUND OF ADF-V
(FUA million)

1989

<u>Country</u>	<u>Loans</u>	<u>Total Costs</u>	<u>ADF Share</u>	<u>Share in %</u>
Algeria	Technical Education		0.66	
Mauritius	Waste Water Facilities Development Master Plan	1.10	0.99	90.0
Seychelles	Waste Water Disposals Study	1.33	1.20	90.2
	Sub-Total	2.43	2.85	90.1
	<u>Grants</u>			
Angola	Institutional Support to the NBA	1.56	1.48	95.0
	Health Study	1.83	1.65	90.0
	Cabinada Rural Development Study		0.74	
Cape Verde	Fisheries Studies	0.29	0.28	93.9
Burkina Faso	Ouagadougou-Ghana and Bobo-Dedougou Roads Studies updating	0.91	0.86	95.0
Burundi	Bujumbura Waste Water Drainage Study	0.48	0.45	95.0
	Super Phosphate Study	1.24	0.92	74.3
	Health Project		1.03	
Cameroon	Health Study	1.52	1.45	95.1
Chad	Hides and Leather Development	0.61	0.58	94.4
	Institutional Support to the BDT	1.91	1.82	95.0
Egypt	Rehabilitation of Secondary Technical Schools	48.77	0.73	1.5
Ethiopia	Five Centres Water Supply and Sanitation Study	2.00	1.77	88.6
	Water and Sewerage Master Plan Study	1.25	1.18	94.5
	Institutional Support to Ethiopian Valleys Development Authority	3.69	3.16	85.6
	Lega Dembi Gold Study		3.03	

<u>Country</u>	<u>Loans</u>	<u>Total Costs</u>	<u>ADF Share</u>	<u>Share in %</u>
Guinea	Economic Management Support (PAGEN II)	22.67	3.41	15.0
	Rehabilitation of the Public Pharmaceutical Sector	11.44	2.65	23.2
	S.D.A Technical Assistance	11.33	1.57	13.8
Guinea Bissau	Institutional Support to Ministry of Planning (TAF)	6.75	4.13	61.2
Lesotho	Institutional Support to The Transport Sector	3.42	2.81	82.2
Liberia	Debt Institutional Support		2.45	
Madagascar	Rural Infrastructure Institutional Support (TAF) Water Supply Study	6.54	2.45 0.93	37.5
Malawi	Karonga-Chipata Nakonde-Mpulungu Road Study		0.75	
Mali	Institutional Support to DN Genie Rural (TAF)	1.67	1.03	61.8
	Technical Assistance to to BDM (TAF)		1.05	
Rwanda	Nshili Kivu and Tea Sector Study		1.66	
Senegal	Study on Revival of Industrial Fisheries	0.76	0.72	95.0
	Cayor Canal Construction Study		2.64	
Sierra Leone	Health Study	1.23	1.18	95.6
Sudan	Desalination Project Study	0.96	0.90	93.9
	Port Sudan Suakin-Tokar Road Study	1.06	1.00	94.3
Swaziland	Roads Rehabilitation Project Study	10.81	0.59	5.5
Tanzania	Muhimbili Referral and Teaching Hospital Rehabilitation Study	0.67	0.64	95.8
Uganda	Study for the Establishment of an Agricultural Finance Institution		0.30	
	Wheat/Barley Production Studies		2.86	
Zaire	Ruzizi Agricultural Study	1.14	1.08	94.8
	Technical General Education Programme (TAF)	50.61	4.27	8.4

<u>Country</u>	<u>Loans</u>	<u>Total Costs</u>	<u>ADF Share</u>	<u>Share in %</u>
Zambia	Rural Health Services Projects (TAF)	10.01	0.56	5.6
	Kitwe Water Supply Study		1.46	
	Karonga-Chipata Nakonde- Mpulungu Road Study		1.85	
Zimbabwe	Gatshe-Gatshe and Dande Irrigation Study		2.41	
<u>Multinational</u>				
SHELTER-				
AFRIQUE	Study - Shelter-Afrique	0.27	0.27	99.9
ALG	Livestock Development Programme Study	0.54	0.51	94.8
OMVS	Macro-Economic Study	0.70	0.65	93.0
PTA	Institutional Support to Preferential Trade Area	2.80	2.65	94.6
C.I.E.H	Hydrological Studies in 42 African Countries	4.42	1.19	26.9
	Sub-Total	<u>215.85</u>	<u>73.76</u>	<u>23.4</u>
Total (1989)		218.28	76.61	35.1

TABLE 2.6

SECTORAL DISTRIBUTION OF ADF RESOURCES
(FUA million and per cent)

Sector	Target (%)	<u>ACTUAL LENDING</u>		1989	%
		1988	%		
Agriculture ^{1/}	40.0	198.1	40.8	173.5	25.2
Transport	25.0	144.5	29.8	173.2	25.2
Public Utilities	12.0	55.1	11.3	96.4	14.0
Industry ^{2/}	8.0	34.1	7.0	73.7	10.7
Education & Health	15.0	53.8	11.1	170.9	24.8
Sub-Total	100.0	485.6	100.0	687.8	100.0
Multisector		130.0	21.2	123.7	15.2
Total		615.6	100.0	811.5	100.0

Notes:

1/ Includes agricultural lines of credit.

2/ Includes industrial lines of credit.

Totals may not add owing to rounding.

TABLE 2.7

INTRA-SECTORAL DISTRIBUTION OF ADF LOANS
(FUA million and per cent)

Sector/Subsector	1988	%	1989	%
Agriculture	198.11		137.50	
of which				
Food Production	118.60	(59.9)	48.08	(35.0)
Health	12.93		38.42	
of which				
Primary Health Programs	1.22	(9.4)	8.61	(22.4)
Education	40.86		132.22	
of which				
Basic Education	11.10	(27.2)	26.50	(20.0)
and				
Manpower Development	15.30	(37.4)	91.90	(69.5)

Note:

The figures in brackets refer to the percentages of each sector's lending allocated to the particular sub-sector.

TABLE 2.8

ADF NATIONAL AND MULTINATIONAL LOANS AND GRANTS

(FUA million and per cent)

	1988	%	1989	%
National	589.38	95.7	792.41	97.7
Multinational of which	26.24	4.3	19.04	2.3
Project Loans	20.84	3.4	13.77	1.7
TAF Loans	0.00	0.0	0.00	0.0
TAF Grants	5.40	0.9	5.27	0.6
Total	615.62	100.0	811.5	100.0

TABLE 2.9

ADF LOAN AND GRANT APPROVALS BY LENDING INSTRUMENT

Lending Instrument	1988	%	1989	%
1. Project Lending				
Project Loans	382.9	62.2	570.1	70.3
Lines of Credit	25.8	4.2	19.8	2.4
Sector Investment or Emergency Rehabilitation ^{1/}	55.1	9.0	0.0	0.0
Sub-Total	463.8	75.4	589.8	72.7
2. Policy-Based Lending				
Sectoral Adjustment ^{2/}	50.0	8.1	35.0	4.3
Structural Adjustment ^{3/}	80.0	13.0	110.0	13.6
Sub-Total	130.0	21.1	145.0	17.9
3. Technical Assistance	21.8	3.5	76.6	9.4
Total	615.6	100.0	811.5	100.0

Notes:

Totals may not add owing to rounding.

- ^{1/} Investments aimed at strengthening or rehabilitating sector-specific planning, production or marketing capabilities; often used to finance imports of equipment or inputs for a sector.
- ^{2/} Loans aimed at supporting policy changes or institutional reforms in a specific sector.
- ^{3/} Loans aimed at overcoming specific macroeconomic problems or at supporting a programme of macroeconomic policy reforms.

ANNEXES

ANNEX 1MAJOR REFERENCE DOCUMENTS

<u>DOCUMENT</u>	<u>Reference No</u>
A. <u>GENERAL</u>	
1. Report on the Consultative Meetings on the Fifth General Replenishment of the Resources of the African Development Fund	ADF-V/CM-5/87/20/Rev.3 Annex
2. ADF-V Lending Policy	ADF/BD/WP/88/01/Rev.2
B. <u>OPERATIONS</u>	
1. Towards a More Systematic Approach to Country Programming	ADF-V/CM/87/03
2. ADB Group Policy on Blending	ADB/BD/WP/89/30 ADF/BD/WP/89/34
3. Guidelines and Procedures for the Utilisation of the Technical Assistance Fund	ADF/BD/WP/88/19/Rev.1
4. ADB Group Policy on Structural and Sectoral Adjustment Lending	ADB/BD/WP/88/95/Rev.1 ADF/BD/WP/88/101/Rev.1
5. Guidelines For Integrated Operations Evaluation Policies and Procedures	ADB/BD/WP/87/139/Rev.3 ADF/BD/WP/87/132/Rev/3
6. Half-Year Report on Training Activities	ADB/BD/IF/89/19 ADF/BD/IF/88/70
7. Policy-Based Lending Operations - Supplementary Guidelines and Procedures	ADB/BD/WP/88/164 ADF/BD/WP/88/154

8. Study on Regional and Representational Offices ADB/BD/WP/88/113
- C. FINANCE
 1. Proposal for the Establishment of an Active Funds Management Capacity at the Bank ADB/BD/WP/87/90
 2. Progress Report on the Trading Room Project ADB/BD/WP/88/14
 3. A Study on the Matching of Currencies of Borrowings and Disbursements ADB/BD/WP/88/25
 4. Foreign Exchange Risks on Loan Accounts and the Implications of Introducing an Exchange Risk Pooling System ADB/BD/87/137
 5. Methodology For An Exchange Risk Pooling System ADB/BD/89/WP/56
 6. Review of Loan Arrears and the Sanctions Policy of the Bank Group ADF/BD/WP/88/24
 7. ADB/ADF Disbursements to Consultants/Contractors for Goods and Services Supplied Before the Imposition of Sanctions on Loan Arrears ADB/BD/WP/88/121
 8. Introduction of an Accounting Policy for Non-Accrual of Interest on Non-Performing Loans, and a Review of our Approach to Establishing Loan Loss Provisions ADB/BD/WP/87/126
ADF/BD/WP/87/123

9. Provision for Loan Losses and
Other Receivables for the 1988
Financial Year

ADB/BD/WP/89/121

10. Methodology for the Variable
Lending Rate Determination

ADB/BD/WP/89/44

11. Co-financing with Commercial Banks

ADB/BD/WP/86/111

D. ADMINISTRATION

1. Recruitment Function: Objective,
Policies and Procedures

ADB/BD/88/89

ADB/BD/88/89/Rev.1

2. Improvement and Rationalization
of the General Structure
of Bank Services

ADB/BD/WP/86/73

3. Proposals for Improving Staff
and Institutional Performance

ADB/BD/WP/89/51

E. OTHER

1. ADB Strategy for the Promotion of
the Private Sector

ADB/BD/WP/89/34

ANNEX 2**GUIDELINES FOR THE MID-TERM REVIEW
OF ADF-V OPERATIONS*****Purpose and Scope**

1. During the Consultative Meetings on the Fifth General Replenishment of the African Development Fund, Deputies made several decisions to guide Fund operations during the ADF-V period. Deputies also believed that implementation of ADF-V would be facilitated by a Mid-Term Review of Operations.

Eligibility and Country Allocation

2. Management will report on:

- (i) the manner in which the eligibility criteria set out in the Report - in regard to both loan and technical assistance resources - have been affected in distributing ADF-V resources;
- (ii) the implementation of the policy of blending of ADB-ADF resources; and
- (iii) the allocation of resources to individual countries on the basis of the guidelines established in the Report.

Country Programming

3. Management will report on progress in the implementation of country programming in accordance with the approach agreed upon in this report; and also, progress towards preparing current country programme papers for all member countries. This will be assessed in the light of Management plans for preparing country programme papers for all Category A countries by the end of 1989.

* ADF-V/CM-5/87/20 Rev.3 Annex

Lending Priorities

4. Management will report on activities undertaken to respond to the importance attached to agriculture. An important objective of Fund operations has to do with meeting the primary needs of the poorest sections of the population in eligible countries. Management will therefore report on the volume of poverty-oriented lending in the various sectors and will develop evaluation measures to determine the extent to which the poorest groups benefit from lending. Analysis will also be made of the manner in which new areas of concern (environment, population, women in development, etc.) are addressed in Fund regular operations.

Lending Instruments

5. Management will report on the share of resources directed to project financing, lines of credit to development banks, sector investment and rehabilitation loans as well as policy-based operations comprising sector adjustment and structural adjustment loans. Information will be provided on the share of policy-based operations in total interventions and, also, on aid co-ordination with other multilateral and bilateral institutions.

Technical Assistance

6. Management will report on the progress of technical assistance activities under the replenishment.

Project Quality

There is concern among Deputies for enhancing the cost-effectiveness of Fund operations, including those in the social sector. Management will therefore report on project quality as set out in the Report.

Timing of Review

8. After considering various alternative timings for the Mid-Term Review, Deputies decided that the end of 1989 would be a convenient time. This should coincide with the initial stages of the consultations on ADF-VI.

ILLUSTRATIVE OUTLINE OF EPCPs**1. ANALYSIS OF CURRENT ECONOMIC SITUATION**

- Introduction
- Overview of Past Trends
- Key Problems of the Economy
- Development Programmes to Address these Problems
- Evaluation of Performance
- Future Trends

2. GROWTH PROSPECTS AND RESOURCE NEEDS

- Potentials for Growth
- Measures Required to Realise these Potentials
 - Policy Measures
 - Investment Programme: Resource Needs
 - Institutional Measures

3. THE ROLE OF EXTERNAL SUPPORT

- Multilateral Development Banks
- Bilateral Agencies

4. REVIEW OF ADB GROUP'S OPERATIONS

- Size and Sectoral Composition
- Implementation Experience
- Lessons for the Future

5. ADB GROUP'S MEDIUM-TERM PROGRAMME

- Objective, Size and Composition of the Programme
- Sectoral Focus
- Policy and Institutional Issues Requiring Analysis and Dialogue
- Co-ordination of Initiatives with other MDB's, bilateral agencies, NGO's and other private sources.

ANNEX 4**PROCEDURES FOR THE PREPARATION AND USE OF EPCP:**

- Step 1.** The initiation and preparation of the draft EPCP is done by the relevant Country Programmes Department.
- Step 2.** An internal Working Group chaired by a Division Chief (Country Economics) considers the first draft.
- Step 3.** Following the preparation of a second draft, cleared by the Head of the Country Programmes Department, a review is undertaken by an interdepartmental Working Group under the chairmanship of the Head of the Department and including staff from;
- The Central Projects Department,
 - The two Projects Departments in the Region,
 - The Development Research and Policy Department, and
 - The Disbursement Department.

The report, amended in light of the comments of the Interdepartmental Working Group, is sent for review to the Vice-President of the Region by the Chairman of the Interdepartmental Working Group.

- Step 4.** The report is then presented for review to a meeting of the three operations Vice-Presidents.
- Step 5.** The revised document is sent to the country with a proposal for a Bank mission to discuss the document with Government officials. A copy of the document is also sent to the relevant Regional Office. The mission which includes the Regional Office representation, discusses with the country representatives the Bank Group's appreciation of the priorities and its proposed response; issues relating to the general and sectoral policy framework as identified in the report, institutional bottlenecks, and the proposed sector emphasis. The mission also discusses with representatives of donor agencies in the country their expected assistance to the country and possibilities for co-financing.

- Step 6.** The document revised subsequent to the mission is presented to the three Vice-Presidents for final review and then transmitted to the President who authorizes its circulation to the Board.
- Step 7.** Following Board discussion, the President issues instructions to implement the agreed programme. This involves a review of the existing project pipeline to ascertain its consistency with the strategy, the identification of new projects for inclusion in the pipeline and the design of an overall work-plan for the realization of the programme. The work-plan is then approved by the Vice President for the region. All project proposals subsequently submitted for Board consideration are required to include indications of their consistency with the agreed strategy.

Annex 5

**PREPARATION AND MANAGEMENT OF THE BANK GROUP
LENDING PROGRAMME***

DEFINITIONS AND OBJECTIVES

1. The lending programme is the principal planning instrument used by the Bank Group to programme loans (and, for most technical assistance operations, grants) to meet the development needs of regional member countries. In the preparation of the lending programme, the Bank selects projects and schedules their processing in a manner that will maximize the efficient utilization of available resources. The lending programme is drawn up for the entire Bank Group: the ADB, the ADF (including the TAF), and the NTF.
2. The lending programme consists of lending objectives and a work programme drawn up to meet those objectives.
3. Annual and multi-annual lending objectives are established for each of the Bank's lending facilities (ADB, ADF, and NTF). Quantitative objectives are established for the distribution of resources by country, by sector, ^{1/} and by lending instrument ^{2/}. Qualitative objectives are determined in such areas as environmental management and women in development.

* See footnote to paragraph 2.1.3.2.1.

- ^{1/} The sectors that are currently approved for Bank lending are agriculture, industry, public utilities, transportation and the social sector. Loans attributed to these sectors include not just project loans, but sectoral investment, sectoral rehabilitation, and sectoral adjustment loans as well as lines of credit that are specifically for that sector. Some loans, such as structural adjustment loans or technical assistance operations to a Ministry of Planning, cannot be attributed to any one sector because they cut across sectors. These loans are attributed to a category called "multisector".
- ^{2/} The lending instruments approved for used by the Bank are project loans, lines of credit, sector investment and rehabilitation loans, sector adjustment loans, structural adjustment loans, technical assistance operations, and emergency loans. Operational definitions of these loans are provided in section 1.2 of the Operations Manual.

4. The lending programme objectives are derived from objectives that are established in the Bank Group's Five-Year Operational Programme (FYOP). The FYOP objectives are, in turn, derived from the guidelines negotiated during the periodic ADB capital increases and ADF replenishments. To date, the Bank has prepared two FYOPs: the first covered the period 1982-1986; the second covers the period 1987-1991.

5. The work programme consists of the projects that the Bank intends to prepare and appraise over the period of the lending programme. The projects that are included in the work programme are selected from the pipeline of projects with a view toward meeting the lending objectives. (See Chapters Three and Four of the Operations Manual). However, the number of projects in the work programme should be greater than needed to meet lending objectives because a certain number of projects will not make it through all the stages of the project processing required for approval by the Board of Directors.

6. The lending programme is prepared in the form of a planning document which is revised once each year. The programme is managed and monitored throughout the planning period with a view toward making adjustments necessary to keep the programme on track toward meeting its objectives.

THE PLANNING PERIOD

7. Before 1988, the Bank prepared its lending programme on a year-by-year basis. Once a year, the most mature projects in the pipeline were included in the annual lending programme; less mature projects remained in the pipeline.

8. Since 1988, the Bank has extended its planning period for the lending programme from one to three years. Each year a three-year "rolling" lending programme is prepared. The projects accepted into the first year of the three-year programme are those that are expected to be ready for presentation to the Board of Directors during that year. Projects included in the second and third years are projects that have been identified and are in various stages of preparation.

9. At the end of the first year, another three-year rolling programme is prepared. Projects that were included in the second year of the previous programme normally become the projects in the first year of the new programme. Projects that were included in the third year of the previous

projects are included in the third year, or possibly in the second year if preparation is sufficiently advanced. Occasionally, projects that were included in the second or third year of the previous year's programme may have to be maintained in the second or third year of the new programme if delays in preparation have occurred.

10. The change from a one-year to a three-year rolling lending programme means that most projects that have been identified and been found suitable for acceptance by the Bank can be included directly in one of the years of the three-year lending programme. A small number of projects however, will be maintained in the project pipeline without being included in the lending programme.

11. In principle, almost all projects should be included in one of the three years of the three-year lending programme because very few projects should take more than three years to move from identification through appraisal and Board presentation. In most cases, newly identified projects will be entered into the second or third year of the lending programme. In some cases, however, no plans may yet exist for the preparation of the project. In other cases, the sector or country allocation for the project may be depleted. In still other cases, the project is maintained in the pipeline until the circumstances change to justify its inclusion in the lending programme.

CRITERIA FOR INCLUSION OF PROJECTS IN THE LENDING PROGRAMME

12. To be accepted for inclusion in any year of the lending programme, a project must satisfy five minimum criteria.

- a) Conformity with the policies, priorities, and development plans of the member country. To demonstrate that this criterion has been satisfied, the project should be included in the country's formal development plan or development budget.
- b) Conformity with Bank policies and priorities. The project must fall into an economic sector that has been approved for Bank lending and should advance the Bank's development strategy for the member country as reflected in the EPCP prepared by the Bank on that country.

- c) Conceptual, technical, and economic soundness. Even at the identification stage, the Bank should make an initial judgement that the project makes sense, is technically feasible, environmentally sound, and economically worthwhile. As the project moves through preparation and appraisal, thus advancing into the second and first years of the lending programme, the project will, of course, be subjected to more exacting technical and economic analyses.
- d) Availability of financial resources. A reasonable estimate of project costs should be available. Under ADF replenishments specific allocations exist for each country eligible for project lending and technical assistance. No specific allocations exist for the use of ADB funds although the Bank maintains an indicative planning budget for each country. Before including a project in the lending programme, a check should be made that sufficient resources remain in the ADF allocation and/or the ADB planning budget. If the project is to be co-financed, a positive judgement should be made on the question of whether sufficient funding from the combination of Bank, member country, and other donor resources will be available to cover total estimated investment costs. The member country institution that will manage the project once the investment phase is completed should also be seen as having the financial capacity to cover the project's recurrent costs.
- e) Receipt of an official request for assistance. The request for assistance from the government should state that the government is committed to the project, has assigned a high priority to it, and is willing, in principle, to accept Bank financing for it.

13. Once the project satisfies these criteria, it may be included in the three-year lending programme. The decision as to which year of the lending programme the project should be placed depends primarily on its readiness for appraisal.

- To be entered into the first year of a three-year lending programme, appraisal should already have started or the project should be ready for appraisal within the next six months. This means that all feasibility studies have either been completed or will be completed and examined by the Bank within six months.

- Inclusion of a project in the second year of a three-year lending programme means that feasibility studies have begun or will soon begin and that completion of all studies required to complete project preparation can be expected within 18 months.
- A project entered into the third year of a three-year lending programme will be less advanced in preparation; however, design options should already have been discussed and a specific strategy for project preparation should have been established.
- If no specific preparation plans have been drawn up, if the project is in a sector with a surplus of projects, or is for a country that has depleted its planning period allocation, the project remains in the pipeline until the circumstances change justifying its inclusion in the lending programme.

PREPARATION OF THE LENDING PROGRAMME

14. Each year, a planning document is prepared containing the lending programme for the next three calendar years. The document, which is entitled Three-Year Indicative Lending Programme (19-- - 19--), is submitted to the Boards of Directors in November. The Boards are asked to approve the programme's objectives as well as the work programme for the first year; the projects included in the first year's work programme are accompanied by the project briefs. The list of projects in the second and third years of the three-year lending programme are not accompanied by project briefs and are presented for information only.

Responsibilities

15. According to Administrative Memorandum No. 03/87 Concerning the Functions and Responsibilities of the Organizational Units of the Bank, issued by the President on 3rd of March 1987, the responsibility for "proposing and planning, on an annual and tri-annual basis lending and technical assistance programmes for borrowing member countries" resides with the Country Programmes Departments". Memorandum No. 03/87 goes on to state that each of the two regional Country Programmes Departments "will prepare lending programmes on a country and regional basis as well as sector programmes and determine sectoral priorities".

16. Thus, it is clear that the responsibility for the preparation of the lending programme resides with the two Country Programmes Departments (NCPR and WCPR). However, after the 1987 reorganization divided the country programming responsibilities between two regions, there was a need to create special mechanisms for coordinating the planning objectives of the two regions. This coordinating function is carried out by the Central Projects Department (CEPR).

Process

17. The preparation of the next three-year lending programme begins in mid-year and continues throughout the second half of the year. In July of each year, CEPR prepares, in consultation with NCPR and WCPR, a set of guidelines and objectives for the preparation of the next three-year lending programme. NCPR and WCPR then prepare work programmes that respond to these guidelines. The two Programmes Departments also prepare updated project briefs on all projects that are to be included in the first year of the three-year lending programme ^{3/}.

18. CEPR puts the lists from the two departments together, analyzes the combined list in terms of the pre-established objectives, and examines the project briefs to ensure that projects included in the first year of the three-year lending programme have been appraised or are ready for appraisal. The results of CEPR's analysis are communicated to NCPR and WCPR. Revised lists are prepared and analyzed and this process continues until the projects to be included in the lending programme combine to attain, as closely as possible, the pre-established objectives. CEPR then drafts the lending programme document which is reviewed by all the operations departments, cleared by Management, and submitted to the Boards of Directors in November.

19. The document consists of five chapters and two annexes. Chapter One is the Introduction, which presents an overview of the document and notes important changes from the preceding year. Chapter Two presents the economic context that informs the overall lending strategy of the Bank. In the 1980s, for example, the external debt problems of regional member countries have led the Bank toward a greater emphasis on quick-disbursing forms of non-project lending.

^{3/} The Bank's project brief system is presented in detail in Chapter Four of the Operations Manual.

20. Chapter Three presents the guidelines and objectives that govern the choice of projects to be included in the lending programme. A quantitative lending objective for each facility (ADB, ADF and NTF) and for each year of the three-year programme is established. Also included are qualitative objectives in such areas as environmental management women in development, and private sector promotion.

21. Chapter Four presents the work programme for each year of the three-year lending period. The work programme consists of the projects that the Bank intends to prepare and appraise over the three-year lending period. The projects included in the work programme are selected on the basis of the criteria mentioned previously. The purpose of Chapter Four is to compare the work programme to the lending objectives presented in Chapter Three.

22. Not all of the projects included in the work programme will be presented to the Board of Directors. Experience shows that about 30 per cent of the projects included in the work programme will not be fully processed through the preparation and appraisal stages of the project cycle. For this reason the number of projects included in the work programme exceeds the number that is expected to be presented to the Board of Directors by about 30 per cent. If, in any one year the attrition rate is more than expected (i.e. more than 30 percent), the work programme for the next year is increased. If attrition is less than expected, a certain number of projects can be postponed until the following year and the work programme for that year can be reduced accordingly.

23. Chapter Four analyzes the work programme, for the first year and for the three years of the three-year lending period, in terms of sectoral, lending instrument and country category targets. Even though the work programme exceeds the overall lending objective by about 30 per cent, the distribution of projects within the work programme should, particularly for the first year, correspond closely to the sectoral, lending instrument and country category objectives when compared on the basis of a percentage share of the total. An assumption is made that attrition will occur evenly over the course of the year or in the following year by deciding which projects to retain and which to postpone or eliminate, or possibly to accelerate the processing of certain projects.

24. Chapter Five presents the conclusions derived from the analysis contained in the preceding chapters and recommends that the Boards of Directors approve the list of projects in the first year of the lending programme.

25. Annex A consists of a series of tables presenting the full list of projects in the three-year work programme. Table A1 presents the list of projects in the work programme for the first year of the three-year lending period arranged alphabetically by country. Tables A2-A4 present the same list of projects broken out by sector, lending instrument and country category, respectively. Tables A5 and A6 present the list of projects, presented alphabetically by country, for the second and third years, respectively, of the three-year lending programme.

26. Annex B consists of project briefs on all projects contained in the first year of the three-year lending period. These briefs should clearly demonstrate that all projects meet the criteria for inclusion in the first year. These criteria are described in Chapter Four of the Operations Manual.

Presentation to the Boards of Directors

27. The lending programme document is examined by the Board of Directors in November of each year. The document is amended to incorporate any changes requested by the Board and the document is re-submitted to the Board in December.

28. In approving the work programme in the first year of the three-year lending programme, the Board recognizes that the list of projects is subject to change. It should be expected that about 30 per cent of the projects in the first year's list will be postponed or dropped. Occasionally, project preparation can be accelerated so that second year projects can be moved up to the current year. However, the Board of Directors must be officially notified whenever any new projects are added to the first year of the three-year programme. This notification is done in conjunction with the submission of quarterly progress reports.

PROGRAMME IMPLEMENTATION AND MONITORING

29. The implementation of the annual lending programme constitutes the bulk of annual work load of the two operations vice-presidencies. The list of projects approved by the Board of

Directors is distributed between the two regions and the projects are assigned to the appropriate projects office for preparation and/or appraisal. The progress made as well as the problems encountered in the implementation of the lending programme are monitored continuously by each region with the assistance of the Central Projects Department.

30. At the beginning of the year, each Projects Department draws up a Projects Processing Schedule in which is included the projects approved by the Board of Directors for inclusion in the annual work programme that they have been assigned. For each project, the schedule presents a calendar with dates for the end of the appraisal mission, the completion of the appraisal report, the meeting of the working group, document translation, the meeting of the loans committee, negotiations with the borrower, and presentation of the Board of Directors. The Projects Department submit their schedules to the regional Country Programmes Department which produces a single schedule for the region.

31. The Projects Processing Schedule from each region is passed on to CEPR which produces for the two regions an overall Schedule of Projects for Board Presentation. This schedule lists the projects from the two regions combined by month of intended Board presentation. The schedule also provides data on loan amounts and on sector, lending instrument and country category designations for each project, as well as a monthly a cumulative total of commitments for each Bank facility.

32. Once a week, each region meets to review the implementation of the lending programme. The meeting is chaired by the Vice-President and is attended by the Director or Deputy Director of the three departments in each region. The meeting focuses on the schedule of projects for Board presentation in the next three months, but also modifies the schedule for future months as needed. CEPR is present at these meetings, and, on the basis of the decisions taken at these meetings, amends the combined calendar mentioned preceding paragraph.

33. Once a month, after receiving official notification of projects approved by the Boards of Directors, CEPR produces a report for the President on the status of the lending programme. The report includes the most current Schedule of Projects for Board Presentation and a table called Status of Lending and Distribution of Loans. This table compares the cumulative lending to date to the annual objectives for each facility and to the sector, lending instrument and country

category objectives. The report also includes a table presenting cumulative project lending by country under ADF replenishments and a table representing cumulative technical assistance operations under the ADF Technical Assistance Fund. A brief covering memo highlights salient points from these tables.

34. At the end of each quarter, a coordinating committee meeting of WOVP, NOVP and COVP is held. The purpose of the meeting is to discuss the status of the implementation of the lending programme and make any adjustments that are necessary in order to meet annual lending objectives. In preparation for this meeting, CEPR prepares, in addition to the tables mentioned in the previous paragraph, a similar series of tables projecting the results of lending for the next quarter.

35. CEPR also produce comprehensive reports on the mid-year progress and one the annual results of the lending programme. Briefer reports are produced at the end of the first and third quarters. These reports are presented to the Boards of Directors. Whenever a new project is added to the current (first) year of the lending programme, the justification for its inclusion, along with a project brief, is included in the quarterly or mid-year progress reports.

36. The monitoring documents and the progress reports described in the preceding paragraphs are used as tools by the operations departments to ensure that the lending programme remains on track toward attaining its annual objectives.

MONTHLY REPORT ON IMPLEMENTATION OF LENDING PROGRAMME

The Vice-President, Central Operations, submits a monthly report to the President (copied to the two Regional Vice-Presidents on the status of the lending programme). These monthly reports consist of several tables outlining the status of lending and the distribution of loans in the lending programme; commitments for project loans and for technical assistance (under ADF); and the monthly schedule of projects for Board presentation. Also included are one-month ahead projections of lending activity. With specific reference to ADB operations, the relevant tables are as follows:

- Table: Status of Lending and Distribution of Loans, by sector (agriculture, industry, public utilities, transport, social, multisector), lending instrument (project and policy-based) and country category (A1, A2, B, C).
- Table 2: Projected lending and Distribution of Loans by sector, lending instrument and country category.
- Table 7: Schedule of Projects for Board Presentation.

The Report also discusses current lending levels relative to annual targets, monitors the share of non-project lending and highlights other major developments which may warrant Management's special attention (e.g. lending in the agricultural sector relative to annual objectives).

ANNEX 7**GENERAL AND SECTORAL ENVIRONMENTAL POLICIES OF THE BANK GROUP ^{1/}****3.1 General Environmental Policies**

3.1.1 The ADB Group environmental policies are formulated to meet the following:

- 1) to incorporate environmental considerations into the policy formulation, project design and project implementation; and secondly,
- 2) to help Regional Member Countries improve their environment and sustain their natural resources.

3.1.2 The ADB Group will promote policies the maintain sustainability of development, productive capacities and availability of natural resources for the long-term needs of Regional Member Countries.

3.1.3 The ADB Group will ensure that adverse environmental effects are avoided in its investment programmes and projects in Regional Member Countries.

3.1.4 The ADB Group will ensure that environmental impact assessments are carried out for those projects that may:

- Adversely affect natural resources sustainability,
- Significantly affect human health,
- Lead to the loss of serious deterioration of living natural resources,
- Significantly affect the livelihood and subsistence of people.

3.1.5 The ADB Group will encourage Regional Member Countries to make environmental considerations an integral part of national development planning.

3.1.6 The ADB Group will support Regional Member Countries to develop and strengthen existing institutional and human resource capabilities to undertake environmentally sound management and sustainable development activities.

^{1/} Extracted from Environmental Policy Paper of the African Development Bank Group, ADF/BD/WP/89/108.

3.1.7 The ADB Group will coordinate its efforts with other multilateral institutions, international organizations and non-governmental organizations to foster both national and international initiatives in environmental and natural resource management matters.

3.1.8 Environmental policies must be often tailored to meet new and emerging environmental issues. They must be constantly evaluated and reviewed to remain relevant. The ADB Group will therefore periodically carry out broad-based reviews of its environmental policies to adjust to new requirements and recommended practices.

3.2 **Environmental Policies for Major Sectors of the ADB Group**

3.2.1 ADB Group environmental policies in the fields of agriculture, forestry, fisheries, transportation, industry, energy health, natural resources, water, technology, humans settlement, conservation, tourism and natural disasters are outlined below:

Agriculture

3.2.2 The ADB Group will:

- Promote environmentally sound agricultural development in rural areas to ensure the continued subsistence of the rural population.
- Help assure the sustainability of crops, livestock and forest production through the use of planned studies, ecologically appropriate production and management techniques, and appropriate institutional set-up for environmental.
- Promote agricultural projects that avoid the large-scale clearing of humid tropical forests.
- Promote agricultural projects that incorporate soil and water conservation measures, control of salinity, overgrazing and excessive use of fertilizers.
- Support the adherence of Regional Member Countries to the International Code of Conduct on the Distribution and Use of Pesticides (FAO, Rome, 1986).

- Support research in Regional Member Countries aimed at developing ecologically sound techniques and technologies for agricultural production including integrated pest management.
- Promote agricultural projects and agricultural lines of credit that will contain forestry and agro-forestry components.

Forestry

3.2.3 Recognizing the alarming rate at which deforestation is occurring, and, recognizing also the subsequential irreversible effects on the terrestrial ecosystem, the ADB Group will:

- Encourage Regional Member countries to develop guidelines for forestry protection, rehabilitation, management, as well as for the promotion of multiple use forestry such as agro-forestry, sylvo-pastoral forestry and social forestry.
- Make available Technical Assistance to promote forestry sector assessments and master plans for the sustainable management of national forestry resources.
- Support the sustainable use of natural forests only after environmental impact assessment and management plans have been developed.
- Support traditional or customary use of the forest resources only after social and environmental examination have been undertaken.
- Encourage the integration of afforestation or agro-forestry in rural development projects.
- Support agricultural lines of credit to promote forest nursery development, fuelwood plantations as well as polewood or construction wood plantations.
- Support projects that enhance the translation of forestry research findings for forestry development.

Fisheries

3.2.4 Recognizing that fish protein is an important source of food, the ADB Group will encourage the development and sound management of both inland and marine fisheries. In particular, the ADB Group will:

- Promote the use of selective catch technology to avoid further damage to regenerative stocks.
- Promote the sustainability of fishery development through the protection of marine and fresh-water bodies from pollution and sedimentation.
- Invest in institutions which can protect Regional Member Countries interests and improve their surveillance, monitoring and regulation of fisheries in territorial waters and the Exclusive Economic Zone. The subject of this policy is to permit Regional Member Countries to play a greater role in the development of sustained management of stocks and protection against reduction in catch and species diversity.

Transportation

3.2.5 The transportation needs in the form of roads, highways, railways, and ports cannot be underestimated. The ADB Group will support projects that consider in their early stages of planning and preparation, environmental aspects such as encroachment into natural forests and agricultural lands. Energy savings, energy efficiency and least polluting systems will also be encouraged. The ADB Group will:

- Support road development which avoids natural forests or other environmentally sensitive areas. If the proposed roads do traverse such areas, a comprehensive environmental assessment should be carried out. In the analysis of impacts, the ADB Group will take into account social and cultural effects, as well as effects on historical and archaeological sites.

Industry

3.2.6 Recognizing the need for industrial development in Regional Member Countries, and, equally recognizing the adverse environmental impacts which are associated with industrial development, the ADB Group will:

- Promote projects that take into account safeguards to minimize adverse effects on the environment and that utilize appropriate industrial guidelines.

3.2.7 Recognizing the importance of site location of industrial projects and the effects of waste disposal, the ADB Group will:

- Encourage Regional Member Countries to select sites that avoid adverse effects on natural resources and the environment.
- Give preference to projects that employ low waste industrial technologies and industrial processes.
- Support the rehabilitation of aged industrial plants to help increase energy efficiency and reduce waste.
- Promote projects that ensure the safe disposal of hazardous industrial wastes.

3.2.8 To help maintain the effectiveness of environmental measures, the ADB Group will ensure that environmental monitoring and staff training are adequately incorporated into the project design.

Energy

3.2.9 Because commercial energy is often prohibitive to the average household, especially in rural areas, the exploitation of forests for fuelwood energy is of growing concern. The ADB Group will:

- Encourage Regional Member Countries develop energy conservation measures and improve energy efficiency.
- Encourage the development of improved cooking stoves, and improved fish and crop drying techniques.
- Support development of village firewood lot programmes to meet rural energy needs.
- Encourage energy conservation and energy efficiency measures to energy utilization in the commercial and residential sectors of urban areas.

- Promote waste recycling in Regional Member Countries, specially organic wastes for composting and bio-gas production.
- Encourage Regional Member Countries to optimize their hydro-energy resources and initiate action towards the promotion of other renewable sources of energy.

Human Health

3.2.10 A clean environment is the first step in the reduction of environmental health and communicable diseases. The ADB Group will:

- Continue to assist Regional Member Countries in the development of piped water systems and adequate sanitation facilities to help attenuate environmental health problems both in urban and rural areas.
- Encourage Regional Member Countries to provide occupational health and safety measures for industrial employees.
- Encourage Regional Member Countries to promote surveys of the human environments in towns, cities and agricultural regions to assess the risks and consequences of environmentally related health problems.
- Ensure that the construction of hospitals and clinics are equipped with their own waste-disposal systems, to minimize the risk of environmental contamination by pathogens.

3.2.11 Recognizing the potential of human health hazards arising out of the release of toxic chemicals, toxic wastes and noxious gases into the environment, the ADB Group will:

- Support Regional Member Countries in the development of appropriate legislation, and strengthening of institutional and technological capabilities to control their release into the environment.

3.3 Environmental Policies for Cross-Cutting Issues of the ADB Group

Natural Resource Use

3.3.1 A poor physical resource base coupled with high population growth rate has social, economic and environmental implications and presents major barriers to development. One of the most urgent tasks of Regional Member Countries is to develop comprehensive natural policies and strategies to sustain their natural resource base and arrest resource depletion. The ADB Group will therefore:

- Support Regional Member Countries to carry out natural resource inventories, and develop national physical plans to help map the geology, the soils, the flora and fauna, the waterbodies, the wetlands, the arable lands, the forest lands, flood-prone areas and flood-plains. These plans will permit authorities frame sound development resource policies to help minimize conflicts between resource use, population and the environment.
- Encourage Regional Member Countries to consolidate legislation and institutions that deal with land-use rights, water-use rights, land tenure, town and country planning, and population planning.
- Encourage investment in environmental projects, as well as in projects that enhance the environment (agro-forestry, water management, biogas, soil conservation, social forestry and afforestation projects) in environmentally stressed areas.

Water Resource Use

3.3.2 Multiple water use or simple water use both require harnessing of the water and its appropriate utilization. The ADB Group will:

- Support environmentally sound water development/water management projects. Large dam and reservoir development in Regional Member Countries will receive ADB Group support only after comprehensive environmental assessment studies have done, in particular, regarding hazards such as pests and water-borne diseases, deforestation, sedimentation, soil loss, flooding, human displacement and loss in earning.

- Encourage the development of small and sub-surface dams in rural area.

Technology and the Environment

3.3.3 Technology brings about a high production output in industry, agriculture, forestry, mining and manufacturing; however, it also leaves behind serious adverse impacts, will support Regional Member Countries to utilize environmentally sound technologies. The ADB Group will:

- Encourage the application of low-cost and low-waste technologies that will fit the economic and environmental settings of Regional Member Countries.
- Encourage the development and application of low-cost and management-easy pollution control technologies.
- Encourage consideration of sound traditional technologies.
- Promote studies on the development of waste recycling technologies that lead to the creation of renewable energy (bio-gas, organic fertilizer) from urban and agro-industrial wastes.
- Support Regional Member Countries to strengthen their institutional capacities for environmentally sound technologies.

Human Settlements and the Environment

3.3.4 The need for sound shelter and basic sanitation facilities by a rapidly growing population and the deteriorating situation in environmental conditions in most of the towns and cities call for a thorough review of urban and regional planning strategies. The ADB Group will:

- Help Regional Member Countries incorporate environmental planning in town and city planning.
- Encourage Regional Member Countries to decentralize large cities, develop intermediate-sized towns and control scattering of villages in rural areas.
- Help Regional Member Countries strengthen their infrastructural and institutional capabilities for the establishment of environmentally sound human settlements.

Biological Diversity and Conservation

3.3.5 In view of the richness in flora and fauna of the tropical forests of the continent, and their economic and medicinal importance, tropical forest must be protected from irrational exploitation. The ADB Group will:

- Encourage the protection of flora and fauna as well as the management of natural parks and nature reserves, mangroves, reefs and lagoons.
- Help Regional Member Countries develop national conservation policies and strategies.
- Encourage and support the active participation of national non-governmental organizations in conservation projects.

Tourism and the Environment

3.3.6 A sound and healthy environment promotes tourism activities, and subsequently serves as an important source of foreign exchange. The ADB Group will:

- Encourage Regional Member Countries protect and manage aesthetic landscape, seascape, natural lakes and other areas for tourism development.
- Help Regional Member Countries strengthen their institutions that deal with environmental aspects associated with tourism.

Natural Disasters and the Environment

3.3.7 Floods, earthquakes, droughts and hurricanes have a direct effect on human life and the natural environment. It should be pointed out that the effects of natural disasters are often intensified by environmental degradation.

Recognizing that environmental damage often occurs following natural disasters, the ADB Group will therefore:

- Encourage Regional Member Countries to incorporate environmental considerations in rehabilitation and emergency operations.

- Promote projects that benefit the environment and reduce disaster risks.
- Help Regional Member Countries strengthen their capabilities for incorporating natural hazards data into the planning process, programmes and project designs.

3.4 Environmental Policies Related to Non-Project Lending

3.4.1 Structural adjustment lending and sector adjustment lending are important means of helping Regional Member Countries achieve stabilization and growth. Some activities arising out of these operations can have impacts on the environment and natural resources. The ADB Group will introduce environmental safeguards within these policy and structural reform tools during their design and implementation.

Policy Dialogue

3.4.2 In addition to developing its own approaches to policy dialogue concerning the environment and natural resources, the ADB Group will take advantage of the experience acquired in this field by other organizations.

The ADB Group, recognizing that subsidies, credits and other financial instruments are useful for economic and social development, will utilize them to promote the sound management of natural resources and the environment. The ADB Group will therefore:

- Assess environmentally related policies in country programming.
- Include environmental and natural resource concerns in policy dialogue.
- Evaluate the potential environmental impacts of policies that employ price controls and subsidies to stimulate production of goods and services.

Structural and Sectoral Adjustment Lending

3.4.3 Structural and sectoral adjustments can have direct or indirect impacts on the sustainability of land use and management of natural resources, especially when reforms seek to provide incentives for increased production. The ADB Group will assess the environmental impacts of structural adjustment loans and sectoral adjustment loans on natural resource use.

GUIDELINES AND PROCEDURES FOR PREPARING POLICY-BASED LENDING OPERATIONS^{1/}

1. The decision to undertake a policy-based lending operation rests with the Regional Vice President (NOVP or WOVP). It should normally be made within the framework of a detailed analysis of the Bank Group's country strategy objectives and priorities, and the most appropriate balance of the different lending instruments that will ensure their implementation. The Economic Prospects and Country Programming Papers (EPCPs) provide a good framework for this analysis. These papers, which are being prepared for all regional member countries for consideration by the Board of Directors after formal discussion with the concerned government, provide also an appropriate vehicle for the Board to give its guidance on the underlying macroeconomic analysis, on the proposed Bank Group lending programme, and on other activities designed to help address the issues identified.

2. As indicated in Section 1.2.2 of the Operations Manual, the successful implementation of an adjustment programme requires often a sustained effort over a period of six to eight years, and normally involves a series of three to four operations with specific and time-bound policy and institutional reform measures. This is an important feature and a key element to be taken into account in the determination by the Bank Group to be associated in a policy-based operation.

3. In line with their primary responsibility for preparing economic reports and studies and for initiating and coordinating policy and lending programme dialogue with regional member countries, the Country Programmes Departments are well designated as the focal point of Bank Group involvement in policy-based lending operations. Structural adjustments operations are formulated by the Country Programmes Departments (NCPR or WCPR) with the support of relevant sector specialists from the Projects Department, and sectoral adjustment operations by the Projects Departments (NARD/WARD or NISI/WISI) in association with Country Programmes Departments. In both cases, however, the overall responsibility for technical supervision and quality control rests with the Country Programmes Directors, with the Regional Chief Economist playing the role of principal adviser. The concerned Department Director is responsible for obtaining and integrating the views and advice of the relevant Bank units (CEPR, CDEP, FDIS, ALEG) and outside parties (e.g. cofinanciers, ...) involved in the proposed policy-based operations.

^{1/} Unless the text indicates otherwise, the term adjustment loan includes ADB and ADF-financed operations, and it refers to all policy-based lending instruments in use by the Bank Group.

4. The primary function of the Representational Offices (ROs) is to improve the Bank Group's information on and dialogue with member countries on economic policy and matters related to project design and implementation. With their overall country knowledge and perspective, and given their closer and more continuous contact with the government decision-makers and local representatives of other aid donors, the ROs should play a significant role in policy-based lending operations. In particular, they are in a better position to assess government commitment and to monitor implementation of the agreed policy measures and institutional reforms. To this end, Resident Representatives should serve as the principal channels of communication with government; otherwise, they should be informed and fully briefed. They should be given opportunity to provide guidance to headquarters missions, to participate in all key meetings, and to comment on the missions' findings and recommendations.

5. In accordance with the GCI-IV and ADF-V Guidelines, all Bank Group-supported adjustment programmes should be drawn up in close collaboration with the relevant bilateral and multilateral development finance institutions, particularly the World Bank. The ADB Group and the World Bank have established close and effective collaboration mechanisms for the design and implementation of policy-based operations, including joint missions for macroeconomic and sector analysis, public expenditures and investment reviews, and follow-up and supervision. In cases where this is not possible due to staff constraints, the two institutions keep each other fully briefed and supplied with all relevant documentation. The ADB Group participates also in negotiations held in Washington on those operations that it cofinances with the World Bank.

IDENTIFICATION

6. The Bank's macroeconomic sector studies provide, the background materials for the preparation of the EPCPs, and constitute the main vehicle for policy dialogue with the governments. Together with the regular programming missions carried out by the Country Programmes Departments, they provide the framework for generating ideas and exploring the need for policy reforms and for strengthening economic institutions.

7. Upon receipt of a request for Bank Group participation in an adjustment programme (from a government or co-financier) and having established that the request falls within the Bank Group's policies, priorities, and lending parameters, the Country Programmes Director prepares a brief memorandum to the Regional Vice President to indicate the justification of the Bank/Fund involvement in such an operation (or series of operations) and to request its inclusion in the lending programme. Following approval by the Regional Vice President, the responsible Department Director authorizes the sending of an identification mission.

8. The composition and terms of reference of the identification mission are determined by the Country Programmes Director (or in consultation with him and the Chief Economist in the case of sector adjustment operations), in light of the major economy-wide and sectoral problems outlined in the EPCP. These issues are examined and discussed with the relevant government officials based on the Bank Group's own economic and sector work, but also taking into account the results of the analyses carried out by the country's other aid donors. For the countries eligible for the IMF's Structural Adjustment Facility (SAF), the Policy Framework Papers (PEPs) prepared by the government in close collaboration with the World Bank and the IMF represent also a good source of information on the country's economic situation, medium-term development prospects and policy environment. Through its collaboration arrangements with the World Bank, the ADB Group should contribute to the preparation of the PFPs which trigger the involvement of the IMF and World Bank in the adjustment process. The participation of the ADB Group in these earlier phases of policy dialogue with government is essential to enhance its role in policy-based operations cofinanced with the World Bank and others, and to better serve the interests of borrowing member countries.

9. The purpose of the identification mission is to help the government assess major macroeconomic and sectoral constraints and to identify specific policy and institutional measures to be taken. Its findings and recommendations are presented in a detailed back-to-office report specifying inter alia the broad objectives and expected policy content of the proposed operation(s), the projected timetable and resource requirements for its processing as well as a preliminary assessment of the political commitment to undertake an adjustment programme. This report is transmitted by the Country Programmes Director to the Regional Vice President with a recommendation on whether or not the Bank Group should pursue its involvement in the proposed adjustment programme. Copies of the covering memorandum and back-to-office report should also be addressed to all members of the Senior Management Committee (see para. 14) for information. Subject to approval by the Regional Vice President, the responsible Department Director organizes a full preparation mission and clears its terms of reference with all relevant Bank Units. At this time a brief project write-up should also be placed in the Quarterly Operational Summary (QOS) for the information of the Executive Directors and outside parties.

PREPARATION

10. This is the most critical stage in the policy-based lending cycle. Specifically, the preparation mission should serve to ascertain the readiness and commitment of the government to implement a structural or sectoral adjustment programme; to review the government's technical capacity and institutional systems for developing and implementing the adjustment programme; and to determine the performance indicators to be used in monitoring implementation and measuring programme impact. Preparation work is normally the responsibility of the borrowing member country. However, the Bank Group and other external donors have a major role to play in helping the government to develop an effective and feasible package of policy measures and institutional reforms. Thus, the preparation mission should ensure itself that the government has formulated, or satisfactory efforts are underway to formulate, a sound macroeconomic management programme. It should actively participate in the public expenditures review discussions, not only to ensure that Bank Group-financed projects are given appropriate consideration, but also and more importantly to ascertain that the public sector investment programme is well adapted to the country's current economic situation and medium-term prospects. The preparation mission should also agree with government on its need for technical assistance to help in the formulation of the adjustment programme, and on the next processing activities.

11. Promptly after its return to headquarters, the preparation mission submits a back-to-office report summarizing its major findings and recommendations. The BTO report should be forwarded by the Country Programmes Director to the Regional Vice President, and copied for information to all relevant Bank units.

REVIEW BY SENIOR MANAGEMENT COMMITTEE

12. Taking into account comments and/or queries received (if any) on the BTO report, the mission prepares an Initiating Memorandum (10 pages maximum). The principal purpose of this document is to solicit the views and guidance of Senior Management on the proposed adjustment operation. To be fully effective in this regard, the Initiating Memorandum should address and formulate specific recommendations on the major issues listed above. Other key elements to be considered include:

- past implementation experience (if any) with previous adjustment operations;

- implications for future lending programme including complementary adjustment operations likely to be required to ensure the sustainability and success of the proposed policy and institutional reform measures;
- proposed conditionalities, their justification (i.e. consistency with Bank Group's policies and country strategy objectives) and specific measures envisaged to ensure their effective and timely implementation;
- financing requirements and the proposed Bank Group contribution;
- prospects for co-financing and the indicative timetable of potential co-financiers;
- procedures and special arrangements for procurement and disbursement (e.g. retroactive financing, special accounts,...), and for the use of counterpart funds; and
- analysis of the major risks that might impede programme implementation.

13. The Initiating Memorandum should clearly indicate the overall objectives of the government's adjustment programme, steps already taken (possibly under previous Bank Group-supported operations), the specific policy measures to be carried out under the proposed operation, their timing and performance indicators, and further action needed over the medium term.

14. Given the high visibility and complex nature of policy-based lending operations, it is necessary to secure Senior Management's views and decision on the key issues. This should help to strengthen the staff position in their dialogue with government and cofinanciers, and to speed up loan processing. Therefore, after appropriate internal clearance among the Regional staff and comments by the relevant Bank units, the Country Programmes Director submits the Initiating Memorandum for review and approval by a Senior Management Committee consisting of: the two Regional Vice Presidents (NOVP and WOVP), the Vice President for Central Operations (COVP), the Vice President for Finance (FNVP) and the Director of the Legal Department (ALEG). The Senior Management Committee is chaired by the concerned Regional Vice President, and the Country Programmes Director acts as Secretary. The Chairman may call on senior staff members to provide specific information or to elaborate on the Initiating Memorandum's proposals. In particular, it is expected that the Chief Economist, the team leader and the Projects Department Director in the case of sectoral adjustment operations, would attend the Senior Management Committee meetings and be ready to contribute as requested to these deliberations.

15. The Initiating Memorandum should be submitted to the Senior Management Committee at least five (5) working days before its meeting.

16. The purpose of the Senior Management review at this stage is to ascertain that each adjustment operation appropriately reflects (a) applicable policies and standards and (b) the full range of relevant Bank Group experience. The principal focus should be on the policy content (i.e. soundness of the underlying economic analysis and recommended policy measures), feasibility and special features of the proposed operation, as significant changes in programme design might be difficult, if not impossible, to introduce after the appraisal mission. The Senior Management Committee should also review the overall approach (i.e. phasing of the adjustment process) and conditionalities to be attached to the proposed operation, keeping in mind the need to ensure consistency between the different adjustment operations and between beneficiary countries. Finally, the Senior Management Committee should also examine the financial implications of the proposed operation or series of operations for the Bank Group itself and for the borrowing member country, including an assessment of the measures designed to strengthen the country's medium-term debt repayment capacity and to alleviate the adverse impact of new loans on debt service in the coming years.

17. Following the meeting, the Country Programmes Director issues a Decision Memorandum indicating: (a) the issues discussed, (b) the main conclusions and decisions reached by the Committee; and (c) any outstanding issues, and the modalities and timing agreed upon for their satisfactory resolution. The Decision Memorandum should be submitted to all Committee members for clearance (even if only on a "no-comment" basis) at least two (2) working days before it is finalized for distribution. Copy of the final text should be sent to all relevant Bank units for information and future reference. It should also be submitted by the Regional Vice President to the President, under a brief covering memorandum identifying any point on which his personal guidance or decision is needed.

APPRAISAL

18. Receipt of the formal request for Bank Group assistance is a prerequisite for the appraisal mission. The Country Programmes Director should also ascertain (or reconfirm) the readiness and commitment of the government to undertake the proposed adjustment programme, as demonstrated by completion of the agreed preparation activities and progress in implementing adjustment measures. When these conditions have been fulfilled, the Country Programmes Director submit a brief memorandum to the Regional Vice President to seek his authorization to field an appraisal mission.

19. The main purpose of the appraisal mission is to assist the government to prepare the Letter of Development or Sectoral Policy that specifies the programme objectives, the precise policy measures to be taken and the concomitant implementation schedule, and the indicators for monitoring programme implementation and impact. In carrying out its work the appraisal mission should be guided by decisions and recommendations of the Senior Management Committee. The mission should keep in close contact with the Country Programmes Director for further guidance as needed, as well as with the country's major aid donors on policy objectives and reform measures, so as to ensure a coordinated approach to the adjustment process.

20. The terms of reference of missions already carried out are distributed to the Executive Directors for information.

PREPARATION OF LOAN DOCUMENTS

21. Within ten (10) working days of its return to headquarters, the appraisal mission submits a back-to-office report to the responsible Department Director, with the same distribution as for the terms of reference. The BTO report summarizes the mission's major findings and recommendations. In case of significant changes in the programme design and/or policy content as compared with the Initiating Memorandum, these discrepancies should be immediately presented by the Country Programmes Director to the Regional Vice President for review and approval. Otherwise the mission proceeds directly to prepare the full Appraisal Report and President's Memorandum. These two documents, together with the Letter of Development or Sectoral Policy, should specify the major features and contractual arrangements to be reflected in the Loan Agreement as conditions of Board presentation, loan effectiveness and later tranche releases. The Loan Agreement should also specify the special remedial actions open to the Bank Group in case the government is unwilling or unable to implement the agreed reform measures.

22. The Appraisal Report and President's Memorandum should be concise and well-focused; they should not exceed twenty-five (25) and (10) pages single-spaced respectively. In this regard, it is important to avoid unnecessary duplication and possible inconsistent presentation between the two documents.

FINAL CLEARANCE PROCESS

23. The draft loan documents are reviewed at three levels: first, at a working level meeting among the Regional staff; second, by an Interdepartmental Working Group chaired by the Country Programmes Director; and finally by the Senior Management Committee. The first two review exercises should focus specifically on the technical aspects of the proposed adjustment programme and on ensuring its consistency with the earlier guidance provided to the staff by the Senior Management Committee.

24. In the covering memorandum submitting the draft documents to the Senior Management Committee, the Country Programmes Director should indicate any unresolved issues and issues which could arise during negotiations together with proposals on how to handle them. To allow adequate time for review and consultation, the draft documents should be delivered to the Committee members at least seven (7) working days prior to the review. Once the final review is satisfactorily completed, the Regional Vice President authorizes the Invitation to Negotiate.

NEGOTIATIONS

25. The Bank Group's negotiating team should be headed by the appraisal mission leader and should include, besides the Regional staff, representatives of FDIS, ALEG, and CEPR for procurement matters. Negotiations are held at headquarters; exceptionally they are held in the field when it is otherwise impossible to involve the relevant senior government officials. Prior approval by the Regional Vice President is required for any major changes in the loan documents during negotiations. Following negotiations, the mission leader prepares a memorandum to be submitted by the Country Programmes Director to the Regional Vice President with copies to all Senior Management Committee members, to record any modifications agreed upon with the government representatives. He should also prepare a notice of completion of negotiations, including a summary section on the programme design, policy content and conditionalities, to be distributed to the Executive Directors for information following approval by the Regional Vice President.

BOARD PRESENTATION

26. Following negotiations, the appraisal team and ALEG revise the loan documents, before they are submitted to: (a) the Country Programmes Director for final review, mainly for consistency among the three documents; (b) ALAD for editing of the original text, translation, proof-reading, reproduction and distribution to the Board. The Country Programmes Director is

responsible for ensuring that these final loan processing steps are carried out on time and in accordance with established procedures. He also introduces the proposed adjustment operation to the Board of Directors for its consideration, and takes a major responsibility in responding to questions of policy.

PROGRAMME MONITORING AND TRANCHE RELEASE

27. In line with the special efforts outlined above to improve the design and ensure the quality of Bank Group-supported adjustment operations, special and continuous attention should also be given to implementation monitoring. This involves strengthening the internal capacity for macroeconomic and sector work, close coordination with cofinanciers and in particular the World Bank, and an active policy dialogue with regional member countries.

28. Adjustment loans are designed to disburse quickly. It is therefore essential to link disbursements and programme implementation through tranching. In some cases it may also be possible or preferable to require fulfillment of the major conditionalities before Board presentation. Subsequent tranche releases after loan effectiveness provide a good opportunity to take stock of progress achieved. Prior to the tranche release, the responsible Projects or Country Programmes Department should undertake a comprehensive review of programme implementation in terms of both compliance with the agreed conditions and preliminary impact of the policy measures. The review team should include, besides the Regional staff, representatives of FDIS on disbursement matters. The terms of reference of the review mission should be distributed to the Executive Directors for information. The mission's report is submitted to the Regional Vice President under a covering memorandum by the Country Programmes Director with a recommendation on whether to release, delay or cancel the tranche. Copies of this memorandum and of the mission's report should also be sent to all members of the Senior Management Committee for their review and comments, at least five (5) working days prior to the release date. The decision to cancel a tranche should be taken in a formal meeting of the Committee convened by the Regional Vice President. The Committee's decision to release, delay or cancel a tranche should be communicated as soon as possible by the Regional Vice President to the concerned Executive Director. Formal notification to the Board is submitted in accordance with established procedures at its regularly scheduled meeting, in the form of a summary progress report on programme implementation since the previous tranche release.

EVALUATION

29. Completion reports on policy-based operations are prepared by the responsible Projects or Country Programmes Department. The purpose of these reports is to assess the achievements in implementing the agreed policy measures and institutional reforms, to evaluate their effects on the economy or the sector concerned, and to draw the lessons learned from Bank Group involvement in the operation.

30. When Bank Group assistance is intended to support a sustained effort over several years, completion reports will have to await completion of the whole series of adjustment operations. In assessing the effectiveness of the adjustment programme, it is important to adequately reflect the impact of exogenous factors (e.g. fluctuations in world commodity prices, international monetary instability, ...) on key macroeconomic variables. The reports should also examine the effectiveness of Bank Group involvement both in the formulation and implementation of the adjustment programme.

31. Since adjustment operations do not finance physical investments, the completion reports should normally be based on the review of information available in files (i.e. preparation reports, loan documents, correspondence with government, progress reports prepared for tranche releases). Where necessary they may involve field missions for consultation with relevant senior government officials. They should also be cleared with, and take into account the views of the relevant Bank units that were directly involved in the adjustment operation.

32. More importantly, the Operations Evaluation Office (OPEV) should, after a suitable lapse of time, undertake an impact assessment of policy-based operations on the economies of borrowing countries. This is essential partly because such operations are expected to have an impact on macro-economic and sectoral performance and partly because they represent a new lending instrument whose effectiveness has yet to be established.

ANNEX 9**STAFF PROCEDURES - CONSULTATIVE GROUP MEETINGS**

In September 1987, the President issued directives to all professional staff pertaining to Consultative Group meetings. The procedures outlined for Bank staff participation at such meetings were:

- i) As soon as the Bank agrees to attend a Consultative Group meeting, staff members concerned must undertake a thorough analysis of all reports (marcoeconomic, sectoral), as well as documents concerning the country, and the economic policy of the Government, and prepare a draft of the terms of reference of the Bank mission and the Bank's statement to the Consultative Group;
- ii) An interdepartmental meeting should be held to discuss these documents under the chairmanship of the Head of Country Programme Department;
- iii) At least one week prior to likely departure, the recommendations of that meeting will be submitted for approval of the Vice-President concerned with a copy to the President;
- iv) The Bank-to-Office Report must show clearly, among other things, the usefulness of Bank's attendance, and a review of the Bank Group's Lending Programme in the light of the conclusions of the Consultative Group.

REPORT ON OPERATIONS EVALUATION ACTIVITIES (1988)

1. SUMMARY RESULTS OF PROJECTS EVALUATED DURING 1988

Introduction

1.1 A total of 20 performance audit reports (PPARs) were produced in 1988, covering 9 projects in agricultural, 7 in public utilities, 2 in social, 1 in industry and 1 in the transport sectors. The main findings of these reports are detailed by sector in Chapter 2 through 6 and summarized below.

Project Identification, Preparation and Appraisal

1.2 The 20 projects under review attracted twenty-six Bank Group loans amounting to BUA 136.10 million, of which 93% was disbursed. Most of these loans (17) were approved during 1976-80, and the projects they supported were completed in progression -- 3 before 1980, 8 during 1981-85 and 9 after 1985.

1.3 A majority (18) of the projects were identified by borrowing member countries, assisted in most cases by specialized institutions such as the UNDP, FAO and IBRD. The preparation of the projects was consequently undertaken either directly by the institutions or through consultants funded from their resources. With the exception of 6 projects which necessitated joint missions with co-financiers, other projects were essentially appraised by the Bank Group.

1.4 The projects being examined were more or less adequately prepared. The design of 11 of them were based on feasibility, engineering, sector and such studies; others either originated from government policy strategies for development master plans (4 projects), or were an extension of on-going programmes based on studies conducted earlier.

Project Implementation

1.5 Thirteen out of the 20 projects were implemented with delays of between 1-3 years, most of which were encountered before loan effectiveness. These delays were manifested in three main forms.: late submission of the list of goods and services, tardiness in fulfillment of

loan conditions, and excessively long period taken for recruitment of key project staff or consultants. The immediate causes of these delays included the limited borrower's knowledge of the Bank's lending procedure and administrative constraints within the borrowing country.

1.6 Among the other causes of delays, particularly at the physical execution stage, the most important was inadequate preparation of projects which, in the cases reviewed had resulted in substantial modifications of the original designs and civil works programme, and therefore extended the time taken for finalizing detailed engineering studies, tendering and procurement. Apart from inadequate design, other indirect causes of delays were the limited implementation capacity of the project executing agency, lack of familiarity with the Bank's procurement procedure and budgetary constraints. It has been demonstrated also that management weaknesses and too frequent changes were also important causes of project implementation delays. And finally, factors such as untimely delivery of project input, bad weather and political disturbance have contributed to delays in a limited number (2) of projects evaluated.

Project Outcome

1.7 Out of the 20 projects which were implemented fully and had operated for sometime or are currently operational, only 16 (76%) of these were judged to be successful and therefore are worth their investment; on the basis of achieving all major objectives as originally defined and for generating benefits which were considered sustainable. The remaining 4 projects consist of those classified as marginally successful (Benin: Livestock Development, and Niger: Niamey Health Science School), because they revealed major shortcomings in meeting their original objectives, and those considered to have unsatisfactory outcome (Ghana: Nasia Rice, and Benin: Oueme Valley Irrigation).

1.8 The major factors contributing to the success of the first group of projects were the existence of adequate design, and sector and feasibility studies prior to appraisal, the procurement and delivery of project input on a timely basis and in sufficient quantities, the existence of appropriate institutional framework for the project being implemented or operated, and large support of government both in physical and financial resource terms.

1.9 Failure of projects on the other hand, or the situation whereby project's operational results were far below expectations was attributed to various factors, the most important of which are: i) inappropriate design, technology or marketing structure/framework (4 projects); and ii) financial constraints faced by the project's institution, due to country's budgetary limits (Somalia:

AFMET, Benin: Livestock, Ghana: Nasia Rice). The latter has dual effect on the projects; while the insufficient funds of the executing agencies inhibit their operational and financial capabilities on the one hand, budgetary difficulties of governments prevent the implementation of complementary investments that would enhance the success of projects financed, on the other.

1.10 In addition to the above, projects that were considered as total failure or that revealed major shortcomings share common characteristics that have been identified with other problem projects post evaluated earlier. These include inadequate studies, project design and preparation, persistence shortage of spare parts, inadequate maintenance, insufficient technical know-how and problem of finance, management and organization.

1.11 The operation of the agricultural projects evaluated was adversely affected by the absence of coherent sub-sector policy and inadequate producers' prices, as a result of which yields and production were far below target. Common problems facing public utilities projects included inadequate tariff structure, system losses/leakages, low demand for services and difficulties in recovering outstanding arrears. Projects in the education, health, transport and industry sectors were plagued by problems of recruitment or retaining skilled staff and technical assistance personnel, and of acquiring sufficient quantities of spare parts for maintenance purposes. All of these factors have contributed in a large measure to the poor management of most of the projects financed, poor operational results in some instances, and unsatisfactory financial performance in others.

Sustainability of Project Benefits

1.12 Issues of project sustainability were raised in nearly all of the reports prepared on the 20 projects. The following were emphasized as the most significant factors contributing to success of projects, and sustainability of their benefits: i) the existence of a strong and stable framework for project management and adequate institutional structure -- including proper attention to issues concerning pricing and tariff policy, training and extension services programmes, staff remuneration etc.; ii) the presence of active support of government including provision regularly of recurrent expenditure for the project; iii) implementation of allied investments required in the project's area of influence, or application of measures to guarantee projects positive results; and iv) the existence of an adequate framework for maintenance of both preventive and routine types.

Lessons

1.13 Among the principal lessons drawn from the projects' experience are: i) the necessity for adequate project preparation, good design and conclusion of relevant studies prior to appraisal, for smooth implementation and better operational results of projects financed; ii) the importance of having an adequate institutional framework, of proper training programmes and technical assistance support for more efficient management and operation of projects; iii) the need for a well streamlined tendering procedure to avoid delays during procurement; iv) the necessity for more frequent progress reporting and supervision of projects, for timely identification and solution of problems encountered during project implementation.

POST EVALUATION GUIDELINE DOCUMENTS

1. Guidelines for Integrated Operations
Evaluation Policies and Procedures
ADB/BD/WP/87/139 Rev.3
ADF/BD/WP/87/132 Rev.3
2. Guidelines for Preparation of Project
Performance Audit Reports Issues Paper
ADB/BD/IF/88/21
3. Guidelines for Preparation of Project
Performance Audit Reports
ADB/BD/IF/88/22
4. Guidelines for Preparation of Project Completion
Reports for Policy-based Lending (SAL/SECAL).
5. General Guidelines for Preparation of
Project Completion Reports.
6. Evaluation Methodologies and Preparation of
Guidelines.*

* Not yet finally approved as a Bank Policy; however, it was decided by the Operations Policies and Procedures Committee to test these guidelines for six months prior to their final adoption.

