

# AFRICAN DEVELOPMENT FUND



Fifth Consultative Meeting on the  
Fifth General Replenishment of the Fund  
THE HAGUE, 3-5 NOVEMBER 1987

WORKING PAPERS FOR THE FIFTH  
CONSULTATIVE MEETING

SEPTEMBER 1987



AFRICAN DEVELOPMENT FUND

ADF-V/CM-4/87/20/Rev.

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DRAFT REPORT ON THE CONSULTATIVE MEETINGS ON THE  
FIFTH GENERAL REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND

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AFRICAN DEVELOPMENT FUND

Fifth General Replenishment of Resources  
Fifth Consultative Meeting  
The HAGUE, Netherlands, 3-5 November 1987

PROVISIONAL AGENDA

1. Adoption of the agenda
2. Adoption of the Provisional Summary  
Records of the Fourth Consultative  
Meeting ADF-V/CM-4/87/SR.
3. Consideration of substantive issues:
  - 3.1 Burden-sharing Formulae for  
ADF-V ADF-V/CM-4/87/19
  - 3.2 Draft Report on the Consultative  
Meetings on the Fifth General  
Replenishment of ADF ADF-V/CM-4/87/20/Rev.
  - 3.3\* Draft Resolution concerning  
additions to the Reserves of  
the Fund - Fifth General  
Replenishment ADF-V/CM-4/87/20 Annex/Rev.
4. Other Business.

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\* In view of the time required for this item, the Deputies may wish to consider the draft text simultaneously with item 3.1 by appointing a Drafting Committee at the beginning of the session.



DRAFT REPORT ON THE CONSULTATIVE MEETINGS  
ON THE FIFTH GENERAL REPLENISHMENT  
OF THE AFRICAN DEVELOPMENT FUND

A. INTRODUCTION

1. At the Thirteenth Annual Meeting of the African Development Fund held in Harare, Zimbabwe in May 1986, the Board of Governors passed Resolution F/BG/86/05 which called upon the President of the Fund, in close consultation with the Board of Directors, to take the necessary steps to determine the possibilities of mobilizing resources required to extend the operations of the Fund into a Fifth Replenishment; and, also, to organize consultations with donors with a view to obtaining such resources.

2. In response to the Resolution, the Management of the Fund prepared and submitted for the consideration of State Participants "A Proposal for the Fifth Replenishment of Resources" (ADF-V/CM/87/01) which set out its views about the principal concerns, objectives, and activities of Fund operations during the period of the Fifth Replenishment and the magnitude of resources that would be desirable to support the operations. The Proposal was reviewed by Deputies of State Participants at the First Consultative Meeting held in Rome during 5-6 March 1987 and at four subsequent meetings. At the request of Deputies, Management also prepared additional papers which amplified various issues relating to Bank Group operations; these papers were discussed successively at Consultative Meetings held in Paris (6-7 May), Cairo (11-12 June), Abidjan (1-2 September), and The Hague (3-5 November).

3. This Report summarizes the conclusions and decisions arrived at these Meetings.

B. GENERAL GUIDELINES ON LENDING POLICY

Country Eligibility

4. The principal beneficiaries of Fund resources will continue to be the poorest countries. In this regard, the fundamental criterion of eligibility to resources will remain the per capita GNP which will be used to group member

countries into the three traditional categories A, B and C along the lines followed in the past by the Fund.

5. 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 US\$ 510.

Category B - member countries with per capita GNP of between US\$ 511 and US\$ 990; and

Category C - member countries with per capita GNP of over US\$ 990.

6. Countries in Category A will be given absolute priority in allocation of ADF-V resources; with the poorer A1 countries being accorded precedence over countries in Category A2. Fund operations in Sub-Category A1 countries will be such that these countries can borrow primarily from the Fund.

7. Countries in Category B will also be eligible to ADF-V resources. Furthermore, systematic work will be done to establish a policy in regard to the blending of ADB/ADF resources for those 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.

8. The upper limit of eligibility will be a per capita GNP of US\$ 990. Category C countries will, therefore, not benefit from ADF-V resources except in cases of multinational projects involving at least one country of Category A or B or when support is given through Technical Assistance, where such technical assistance will be given in the form of credits having terms and conditions similar to those of the TAA credits under ADF-IV.



Resource-Allocation Objectives

9. Deputies affirmed that 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; and,
- contributing to the improvement of the environment;
- promoting economic policies which assure the most efficient distribution of resources, including market-based incentive systems and appropriate pricing policies.

10. In working towards these objectives, Deputies deemed it imperative that the Fund accord its most serious 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 project pipelines in light of country needs and Fund capabilities; and, also, for co-ordinating activities with major 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 commended it for implementation as expeditiously and as widely as possible. They also requested Management to ensure that loan proposals brought before the Board should be fully consistent with the country programme for the borrower country. Deputies requested Management to implement the schedule for the completion of the remaining country programmes as soon as possible, [and to ensure that country programmes for remaining AI countries will be completed by the time of the mid-term review].

Resource-Allocation Modalities

11. Out of the total resources under ADF-V, it was agreed that up to 10 percent 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 for the most part, of grant funds.

12. 90 percent of the Replenishment's remaining resources will be allocated to projects and programmes for countries in Category A; the balance will be for countries in Category B.

13. 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 percent;
- size of population - 35 percent, subject, however, to the adoption of mechanisms limiting a disproportionate allocation ensuing to countries with very large or very small populations;
- Fund presence in each eligible country through at least one project - 15 percent;
- geographical isolation - 10 percent;
- allocation for special situations - 5 percent.\*

In addition, Deputies recognized 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.

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\* 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.

### Sectors of Operation

14. The Fund shall maintain its policy of lending in the following sectors: agriculture, health, education, transport and telecommunications, public utilities and energy.

15. The agricultural sector should be given top priority in terms of the targets set for the sectoral allocation of resources. Putting strong and systematic effort to understand the main obstacles and prospects of agriculture in Africa will aid in ensuring that resources deployed will work towards satisfactory performance in this crucial sector. So will an active policy of wide-ranging co-operation 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 where cost-effectiveness is higher than in curative hospital based programmes. 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.] The minimum share for education and health projects should continue to be 15 per cent of ADF resources.

16. Deputies expressed positive interest in Management proposals to expand Fund engagements in new activities, notably those dealing with population, the role of women in development and those in 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 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.

### Lending Instruments

17. Fund experience in project loans as well as the substantial needs in member countries for specific investments in projects will 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.

18. 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 adjustment loans. Up to 20 percent 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.

#### Aid Co-ordination

19. 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, whenever 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 the issuance of operational guidelines for coordination with other donors, and looked forward to their implementation.

#### Technical Assistance

20. Technical assistance will be made available on a grant basis to countries in categories A and B. Eighty-five per cent of the assistance will be for countries in Category A, with sufficient attention accorded to the priority entitlements of countries in category A1. Twelve percent will be earmarked for countries in Category B and three percent for countries in Category C. Assistance to countries in Category C will be made available on ADV-IV terms. Deputies encouraged 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 also address the extent to which new forms of delivery (e.g., programme assistance and assistance to completed projects) may be introduced in the ADF-V period.

C. OTHER POLICY ISSUES

Financial Policy

21. Deputies examined a review of the existing practice with regard to the apportioning of administrative expenses between ADB and ADF. They did not recommend any change in the present practice.

22. Deputies agreed that given the nature of the institution, there was no need for a specific policy on the creation of reserves. [Other conclusions on related issues like liquidity, etc. to be considered at the next meeting.]

Project quality

23. The Deputies welcomed Management's concern to improve project quality. Projects financed should be consistent with a given country's medium-term development strategy. During the ADF-V Replenishment period, monitoring of project implementation would be intensified through increased supervision and follow-up missions as well as through reviewing the role and strength of regional offices. The number and role of country or field offices would also be reviewed especially in countries that require closer attention. Increased field contacts which are likely to result from such efforts should also facilitate greater project generation and disbursements which, in order to effectively assist borrowing countries, must go hand in hand with improvements in project quality. Post-evaluation activities would also be substantially strengthened with a view to drawing lessons for incorporation in future design and implementation of projects. These, together with more rigorous standards of projects selection and preparation, as well as the introduction of a financial loan administration system, should go a long way towards improving the Fund's loan portfolio.

Recruitment of Non-Regional Staff.

24. 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.

D. SUBSCRIPTIONS IN RESPECT OF ADF-V

25. On completion of the consultations initiated in March 1987, Deputies agreed on a Replenishment level of [FOA million] for the three-year period 1988-1990. This agreement was reached on the basis of Deputies' judgement regarding the absorptive capacity of the beneficiary countries; the technical and administrative capacity of the Bank and lending policies of the Bank Group; and the current budgetary constraints of the governments of State Participants. (Detailed arrangements and terms for the Replenishment are set forth in the Draft Resolution attached to the Report).

26. After thorough consideration of questions for which provision has to be made in the Resolution, Deputies laid down the terms and conditions for subscriptions in respect of the Fifth General Replenishment of Resources. The following points in particular should be emphasized:

- (a) the Replenishment will come into effect when the Fund has received instruments of subscription representing at least [... percent] of the subscriptions pledged, provided that any qualified subscription in respect of ADF-IV has effectively become unqualified beyond two-thirds of its total amount;
- (b) subscriptions may be qualified and State Participants intending to do so will notify the Fund to that effect;
- (c) terms of payment have been determined in such a way as to ensure that the Fund will have the resources it needs to operate in a satisfactory manner and to reflect the multilateral character of the Replenishment;
- (d) rules governing the commitment of each of the three subscription tranches have been formulated in such a way that they reflect at all times the multilateral character of the Replenishment and underscore its continuity between the Fourth and Fifth General Replenishments; it is the intention that the same continuity would be preserved between the Fifth and subsequent replenishments.

(e) subscription pledges listed in the Annex to the Resolution have been determined in Fund Units of Account and have been converted into units of obligation chosen by the individual participants on the basis of an average of daily exchange rates prevailing over a six-month period preceding the date on which agreement for the Replenishment is concluded;

(f) [payment modalities -----]

(g) subscriptions will not be subject to maintenance of value.

Done and approved by Deputies of State Participants at the ----- Consultative Meeting on the Fifth General Replenishment of the Fund, in -----

